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FIDELITY LIFE

THE NEW ZEALAND LIFE COMPANY

CERTIFICATE

in terms of
Section 18(3) of the Financial Reporting Act 1993

We hereby declare that the attached financial statements of Fidelity Life Assurance Company Limited and Group are a true and correct copy.

17 November 2009

Director

Director

BUSINESS & REGISTRIES BRANCH, AUCKLAND
19 NOV 2009
RECEIVED

Ref: 6966

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FIDELITY LIFE

contents

2009 Report

LISTENING & RESPONDING

WE ENGAGE IN DIALOGUE TO CREATE VALUE THROUGH OUR RELATIONSHIPS.

100% NZ OWNED

WE RETAIN OUR ORIGINAL FOCUS TO 'KEEP FAITH' AND CARE IN TIMES OF NEED.

STEWARDSHIP

WE MAKE WISE AND PRUDENT USE OF THE RESOURCES ENTRUSTED TO US FOR SAFE KEEPING.

Celebrating life

FIDELITY LIFE HAS BEEN IN THE BUSINESS OF KEEPING FAMILIES STRONG SINCE 1973.

Much of modern life hinges on being able to pay your way. If the money stops coming in because you can't work, then your life, how you live it and how you enjoy it is threatened.

Fidelity Life's risk and investment products give you and your family options in the event of sickness, ill health or accident.

Fidelity Life, helping you to celebrate life and take care of the people you care about and everything you've worked hard for.

In 2009 we paid $40 million in claims.

WHAT WE DO

- Personal protection and business insurance
- Life assurance
- Disability products including income protection, critical care (trauma), total and permanent disability and mortgage protection
- Regular savings and lump-sum investments: managed funds and investment sector funds
- Retirement planning: KiwiSaver, personal superannuation and immediate annuities
- Children's education planning.

Last year we undertook to reduce our electricity consumption. Our building in Newmarket (including all tenants) used 1,077,423 kwH last year, and 1,084,617 this year. The increase of 0.67% on 2008 is possibly due to a cold winter and increased head count in the building.

In 2007 we used 3,652 reams of photocopy paper and we reduced our usage in 2008 to 2440 reams. In the 2009 financial year, our paper consumption increased to 3040 reams. We attribute this increase to growth in staff numbers over the year.

Between ourselves and our tenants, we sent 112 wheelie bins of paper into recycling and we diverted 10.19 tonnes of plastic, glass and tins into recycling.

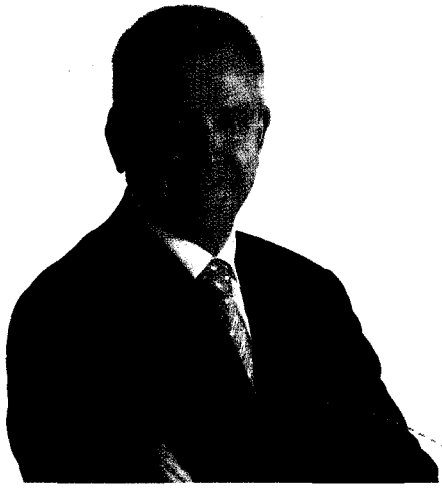
09 highlights

- 15,677 people enrolled in the Fidelity KiwiSaver Scheme, greatly exceeding our target
- Gross new risk premium grew by 17% to $12.1 million
- The in-force annual premium grew 15% from $64.8 million to $74.7 million

2009 Financial Summary

YEAR ENDED 30 JUNE 2009

Dollars in thousands	2009	2008	2007	2006	2005
Ordinary risk premium	81,395	76,078	66,482	53,429	47,063
Investment income	2,590	20,387	14,613	42,445	17,186
Claims expense	40,233	26,828	22,906	21,609	17,239
Net surplus after taxation	10,350	15,523	12,932	13,098	7,379
Ordinary dividend per share	$1.00	$1.00	75c	40c	33c
Special dividend per share	-	-	-	$1.00	-
Earnings per share (year-end)	$7.19	$10.79	$7.71	$10.08	$5.73
Shareholders' equity	96,845	87,955	73,058	56,817	43,753
Policyholder liabilities	272,575	330,002	340,014	251,840	198,609
Total assets	493,345	528,805	606,978	320,171	254,041
Shares on issue	1,439	1,439	1,429	1,300	1,288



IAN BRADDOCK

CHAIRMAN'S REPORT

ON BEHALF OF THE BOARD I AM PLEASED TO REPORT ON WHAT HAS BEEN A DIFFICULT YET SATISFACTORY YEAR.

Financial results

On behalf of the board I am pleased to report on what has been a difficult yet satisfactory year. Difficult because the financial services sector was severely impacted by the world-wide aftershocks following the collapse of US financial institutions in late 2008, and satisfactory because despite challenging conditions, we were able to both grow our book of business and produce an after tax profit of $ 10.4m. While falling short of last year's profit of $15.5m, the 2009 figure is very pleasing under the circumstances.

Our focus has for some time been moving away from the traditional savings products and towards pure risk insurance and this year ordinary risk premium revenue grew to $81.4m from $76.1m in 2008. In a year when many performance indicators went into retreat, we are pleased with this 7% increase. Our KiwiSaver funds are steadily replacing our more traditional Gold Medal and PowerSaver products as the standard choice of investment vehicle. KiwiSaver is a trust-based investment product, and is therefore not included in the Fidelity Life group figures.

Performance of our wholly-owned subsidiary Fidelity Capital Guaranteed Bond Limited was mixed. The unprecedented volatility in US interest rates following the sudden collapse of Lehman Bros in September 2008 led to large losses on open options contracts. These losses were partially recovered in the second half of the financial year when volatility subsided, presenting opportunities to earn greater premiums. The fund was substantially below the level required to pay the January 2009 interest coupon which under the terms of the Trust Deed was suspended. Although the fund had made good recoveries by the next interest date in July 2009, it remained below the level required to pay a coupon. Since July the fund has continued to grow, and at the time of writing the fund value is over $80m which would be sufficient to meet an interest payment were one due. Both the January 2009 and July 2009 coupons remain payable at the next interest date (January 2010) should the fund recover sufficiently. Fidelity Capital Guaranteed Bond Limited, a wholly owned subsidiary, made an after-tax loss of $258k for the year ended 30 June 2009. During the year Fidelity Life wrote off the remaining $3.1m of its $5.0m subordinated debt invested in the subsidiary. However the subordinated debt remains repayable at maturity if the fund value is sufficient at that time.

In a variation to the presentation of last year's financial statements we have shown insurance business and non-insurance business separately on the face of the income statement. Investment revenue was impacted by the decline in world equity and property markets, and by the performance of the capital guaranteed bond. The bond produced a net investment loss of $3.3m compared with income last year of $13m. Fidelity Life Properties Limited wrote down the value of the Carlton Gore Road building by $900k. There were also substantial losses in equities over the year, although it's pleasing to note that the recovery in equity markets which hit a low point in March 2009, has continued since balance date. Total investment revenue for 2009 was $2.6m compared with $20.4m in 2008.

Gross claims increased significantly to $40.2m in 2009, up from $26.8m in 2008. The main area of increase was in death and trauma claims, with income protection remaining relatively static. There was of course a concomitant increase in recoveries from our reinsurers, which means the net cost of claims rose 6% on 2008. Our analysis of claims suggests the marked increase in claims in 2009 is not the result of anything systemic but rather a spike, which can occur from time to time over the years.

Acquisition costs, management and other expenses were up 13% with increased commissions and staffing costs the main contributors. Commissions increased in line with new business taken on to the books. We have expanded our KiwiSaver administration department to handle the upsurge in applications, and have also added resources in the IT area to improve delivery of key IT projects. We anticipate a levelling off of IT related expenditure in the coming year as some major projects are finalised.

Financial strength

Shareholders' funds increased by 10% to $97m. Total assets reduced by $46m as valuations declined and investors withdrew or switched to our KiwiSaver funds. Policyholder liabilities reduced accordingly from $330m to $273m. Shareholders' funds as a percentage of policyholder liabilities increased from 26% to 35%.

For the 13th consecutive year AM Best reaffirmed our A-(Excellent) credit rating.

Solvency capital, that surplus over and above the minimum solvency level required under the New Zealand Society of Actuaries Standard No. 5, fell slightly from $12.2m to $11.4m.

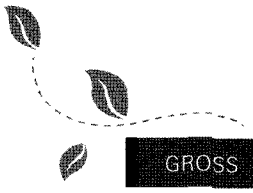
Dividend

The directors have authorised an ordinary dividend to be paid in December 2009 of $1.00 per share – the same as in 2008. Despite the difficult environment in 2009 and the reduced profit compared with 2008, we believe that holding the dividend at last year's level is appropriate. We are keen to increase the dividend as and when possible, and our policy is to aim for a 15% increase per year over a rolling 5 year period. We believe shareholders will appreciate that 2009 was not a good year for the financial services industry, and under the circumstances we are pleased to be in a position where we can maintain the dividend at last year's level. The dividend will be fully imputed for tax purposes.

Outlook

In my report to shareholders last year, I commented that the 2009 financial year would present hurdles. As it turned out, some of the hurdles were more challenging than envisaged, severely impacting our investment returns.

There are some signs, however, that the worst may be behind us. US stock markets, while



GROSS CLAIMS

YEAR 2009	YEAR 2008	
40.2 $ MILLIONS	26.8 $ MILLIONS	Gross claims increased by 50% from $26.8 million to $40.2 million.

nowhere near their previous highs, recorded gains of some 60% in the six months since March. Interest rates are showing signs of returning to relative stability, and business and consumer confidence is cautiously increasing. On the other hand, the strong NZ dollar is continuing to offset some of the overseas gains from a New Zealand perspective, and currency hedging can only help so much. Overall, providing this trend continues we are expecting an improved investment result this coming year.

As for the life insurance side of our business, we anticipate a continuation of the intense competition for new business that we have experienced over the last couple of years. We believe that we are well placed to participate in the market with a strong sales team and a loyal and committed distribution force. The coming taxation changes will present a challenge for the entire industry and profits will be under pressure which will lead in turn to premium pricing and commission pressure. We have been planning for several years our response to the tax changes, and will be increasing premiums by 2.5% per year for 5 years to lessen the impact on profitability.

The past eighteen months have reminded us that nothing can be taken for granted, but on balance, we think 2010 will be a better year for the industry and ourselves and we approach it with enthusiasm and an increasing confidence.

Acknowledgements

In April this year the board appointed David Whyte a director. Under the constitution David will retire and offer himself for re-election at the forthcoming AGM. David's experience includes senior management positions in the life and financial services industry, particularly in New Zealand and Australia.

On behalf of my fellow directors I welcome David to the board and look forward to his continuing contribution.

I take the opportunity to thank our policyholders and advisers for their ongoing support of and commitment to the company, and also other key stakeholders including reinsurers, fund managers and other professional advisers.

I wish to record my appreciation to our staff and management. In particular I am grateful to Chief Executive Officer Milton Jennings for steering Fidelity Life steadily through one of the most turbulent periods in the company's history.

I also thank my fellow directors for their energy, expertise and continued commitment during the year.

Ian Braddock
CHAIRMAN

YVONNE WILLIAMS MANAGES OUR INCREDIBLY BUSY FIDELITY KIWISAVER SCHEME TEAM. IT'S BEEN A BUSY TIME FOR THEM, PROCESSING THOUSANDS OF TRANSFERS AND REGISTRATIONS EACH MONTH. IN 2009 THE FIDELITY KIWISAVER TEAM GREW FROM FIVE TO NINE PEOPLE.

CASE STUDY

Stepping up

"In July 2007, when KiwiSaver started there was only the two of us", says Yvonne.

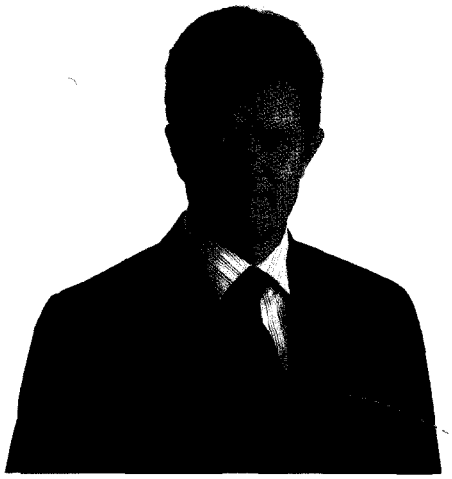
"The team continues to grow, and we have seen a massive increase in people moving to the Fidelity KiwiSaver Scheme. We've got a lot of checking to do, to make sure that all the money is transferred correctly.

"We all work together as a team. Staff from IT, Marketing, Sales and right across the business are involved with KiwiSaver, The IRD has also been part of the success of Fidelity Life's KiwiSaver."

Yvonne really enjoys the family environment at Fidelity Life, which is also very supportive of the staff. So why has she stayed with the company for 12 years? It's because there's been a number of challenges to step up to. During her career at Fidelity Life, Yvonne has done several different jobs. She's worked as a new business manager, then she was involved in new business training, and she helped with opening Fidelity Life's

Wellington office. Yvonne has been living with diabetes for the last 11 years, so her idea of celebrating life isn't about food and drink. "Escaping to the countryside with a good book and forgetting about KiwiSaver, is my idea of celebrating life," she says.

"But I thrive on challenges, which is probably why I've stayed with Fidelity Life."



MILTON JENNINGS

CEO'S REVIEW

RECENT EVENTS IN INTERNATIONAL MARKETS HAVE CHANGED THE ECONOMIC LANDSCAPE AND CREATED FUNDAMENTAL CHANGE IN THE FINANCIAL SERVICES INDUSTRY.

2009 has been one of the most difficult years in Fidelity Life's history. We have seen negative investment income, record claims payments and high numbers of policy cancellations.

On a positive note we have had record risk business growth and a dramatic increase in new KiwiSaver accounts. Against this background we are pleased to have generated a profit of $10.4m.

Operating environment

One of the most pervasive influences on our business over the last year has been the state of the world economy. Recent events in international markets have changed the economic landscape and created fundamental change in the financial services industry. The New Zealand economy has itself been in decline for the past 18 months, although indications are that we have now turned a corner, and that a gradual recovery has begun.

While optimistic about the future, we are mindful that New Zealand's situation is inextricably linked to the world economy. A significant obstacle to delivering strong investment returns from a New Zealand perspective has been the continued weakening of the US dollar. A reversal of this trend looks to be still some way off.

The collapse of major banks and insurance companies in the US and Europe, coupled with major economic crises, has shifted the focus of governments to a more prescriptive regulatory approach in the sector. The New Zealand life insurance industry is facing its biggest transformation in 100 years in terms of regulation. The Financial Advisers Act is introducing new layers of compliance and regulation that will reshape the way financial services are delivered to consumers. New prudential regulation will bring life insurers under the supervision of the Reserve Bank, and changes to income tax law will increase the tax impost, and inevitably result in changes to pricing models. Against this backdrop, we must ensure that Fidelity Life controls the costs of operating in the new environment, while remaining positioned to take advantage of competitive opportunities.

ON THE SAVINGS FRONT, WE SIGNIFICANTLY EXCEEDED OUR TARGET, AND ADDED 15,677 KIWISAVER MEMBERS TO OUR REGISTER.

Sales revenue

New premium revenue is the "life blood" of a life insurance company. Much of our effort goes into ensuring that our strategic and tactical approach to business is consistent with the objective of continually increasing our supply of this life blood.

This year our sales team faced significant hurdles presented by the economic recession and the slump in consumer confidence – household budgets tightened and priorities changed.

On the other hand, risk insurance is to some extent a product that performs in a counter cyclical relationship to the economy, as consumers become more acutely risk conscious. We wrote $12.1m of new risk business during the year (against a budget of $12m) and held our market share reasonably constant at 6.7% for the first 9 months of the financial year. We achieved this while up against some vigorous and determined competition. In the June quarter our market share increased to 7.2%, placing us third in the market for new business.

On the savings front, we significantly exceeded our target, and added 15,677 KiwiSaver members to our register. We have concentrated our efforts on agencies whose sole focus is the distribution of our KiwiSaver product, and this approach has been very successful. During the first quarter of the new financial year we have been adding 2,000 to 3,000 members per month. We presently have the third highest number of KiwiSaver members outside of the default providers.

Distribution

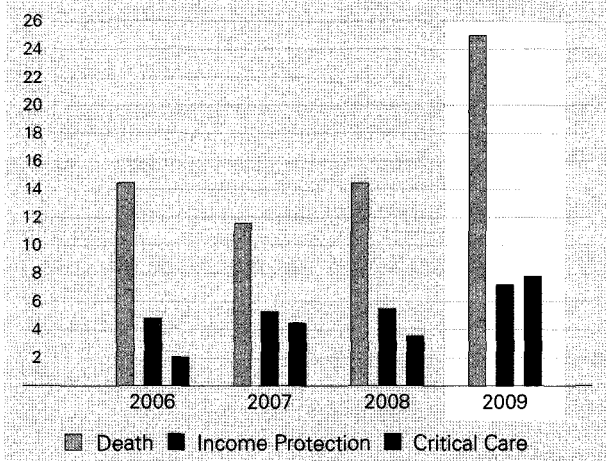
Our key distribution strategy is to be the provider of choice for independent financial advisers. We are the only company in New Zealand to distribute exclusively via this channel. Our efforts remain focused on building strong relationships with these advisers, and assisting them to grow their businesses. By partnering our advisers in this way, we have been able to engender a level of support and loyalty in both directions between ourselves and our distribution force. Like most businesses, ours is all about relationships, and in 2009 we established several very promising new agencies, and worked hard on retaining and improving existing connections.

PROFIT AFTER TAX

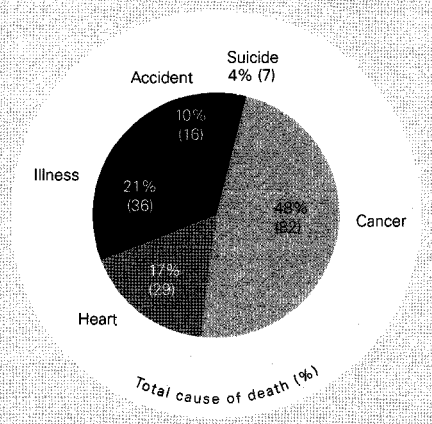
YEAR 2009	YEAR 2008	
10.4 $ MILLIONS	15.5 $ MILLIONS	The profit after tax for the period ended 30 June 2009 of $10.4 million.

2009 claim statistics

Claims profile ($millions) 2006-2009

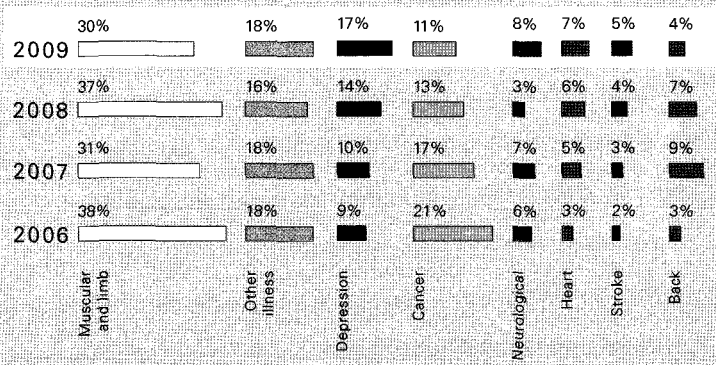


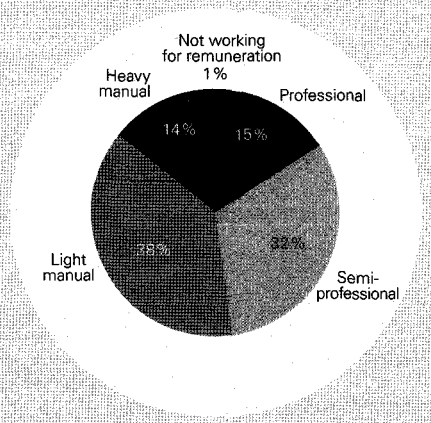
Death and Terminal Illness claims 2009



- 170 Death and Terminal Illness claims totalling $24,968,435
- Reinsurance recoveries of $17,856,910
- *Youngest claimant:* 17
- Oldest claimant: 87
- Average age of claimant: 54

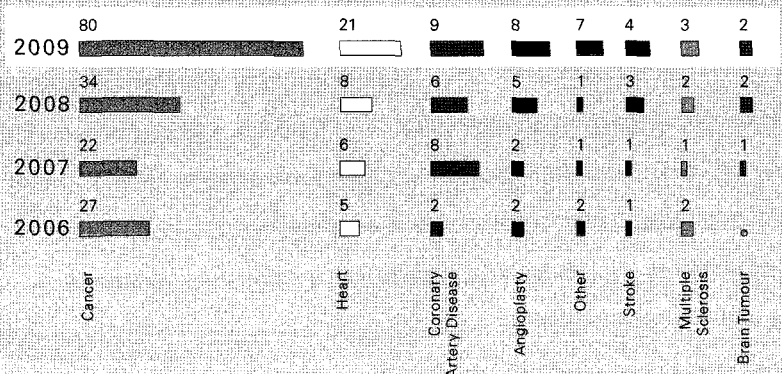
Income Protection claims 2006-2009





- Claims due to illness: 62%
  Claims due to *accident: 38%*
- Gross income protection claims totalling $7,188,902
- Reinsurance recoveries of $6,124,080
- Average duration of claims *16 months*
- Average insured monthly *benefit* $3,285

Critical Care claims 2006-2009



- 134 Critical Care claims totalling $7,824,263
- Reinsurance recoveries of $3,676,067
- Youngest claimant: 29
- Oldest claimant: 69
- Average age of claimant: 49

WE ARE HAPPY TO NOTE THAT OUR EFFORTS IN THE ADVISER MARKET HAVE NOT GONE UNNOTICED. THIS YEAR'S TAYLOR SURVEY, WHICH IS THE ACCEPTED INDUSTRY INDICATOR OF ADVISER SATISFACTION WITH LIFE COMPANIES, HAS FIDELITY LIFE IN SECOND PLACE, THE HIGHEST RESULT WE HAVE EVER ACHIEVED.

In particular, we worked closely with several large adviser groups, assisting them in developing franchise models which enabled them to standardise their business approach throughout the country and realise significant gains in efficiency. We also appointed two new support managers to our staff – one to help advisers negotiate and adapt to the new regulatory regime and another to work with advisers on developing their client management systems and other technology platforms. There will be an ongoing need for the company to provide training and other forms of support as the financial adviser industry transitions to the new regulatory framework. Inevitably some advisers will choose to leave the industry, and this will create openings and opportunities for those who remain.

We have resisted employing some of the short term strategies observed in the market over the past two years, such as the use of excessive commission packages to attract business. Our experience has always been that steady growth over the long term is more sustainable than rapid growth over the short term, which, we have observed, can be followed by an equally rapid decline, as resources and support from overseas parent companies wanes.

The market remains intensely competitive, and relatively high upfront commission terms which encourage the "churning" of business continue to be a feature of the industry. We believe this model is unsustainable, and we have been reshaping our remuneration structures to better encourage the retention of business on our books. This approach best serves the interests of the company, the advisers and policyholders.

We are happy to note that our efforts in the adviser market have not gone unnoticed. This year's Taylor survey, which is the accepted industry indicator of adviser satisfaction with life companies, has Fidelity Life in overall second place, the highest result we have ever achieved.

My thanks go to our loyal advisers for their continued support and belief in what Fidelity is striving to achieve.

WE DON'T FORCE PEOPLE TO GO BACK TO WORK BEFORE THEY ARE READY. AT TIMES PEOPLE NEED SOME POSITIVE HELP FROM AN OCCUPATIONAL THERAPIST, SOCIAL WORKER OR OTHER EXPERT IN ORDER FOR THEM TO GET ENOUGH CONFIDENCE TO RETURN TO WORK.

CASE STUDY

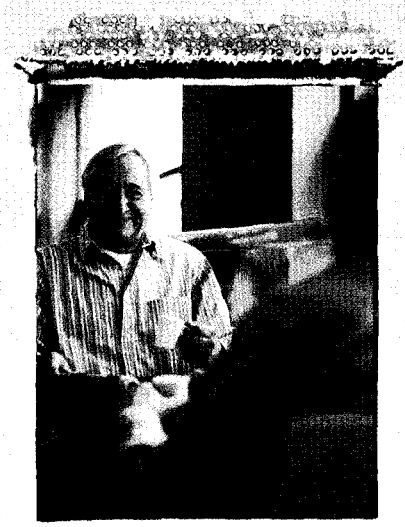
Third party expertise helps claims

Fidelity Life is here to pay all valid claims. First of all we validate the policy, and assess our liability under the claim. Sometimes, we call upon specialists, like ErgoWorks, to help clients return to work.

We don't force people to go back to work before they are ready. At times people need some positive help from an occupational therapist, social worker or other expert in order for them to gain enough confidence.

For example, one of our clients was claiming for depression. He was finding it difficult to maintain a sense of routine in his life. So ErgoWorks visited the client, to offer support and advise on how he could start to get his life on track (at no extra cost to the claimant).

Eventually, with the help of ErgoWorks, the client was trialled at a new job, which eventually became a permanent position. With the third party help, the client regained his confidence and got back on his feet, enjoying quality of life once more.



THE COMPANY IS FORTUNATE TO HAVE A DILIGENT, COMMITTED AND LOYAL WORKFORCE, AND I TAKE THE OPPORTUNITY TO THANK ALL STAFF FOR THEIR EFFORTS DURING A DIFFICULT PERIOD.

Regulatory environment

Life insurers will soon join banks, coming under the prudential supervision of the Reserve Bank, which is currently reviewing the adequacy of solvency standards in life insurance. We are well positioned as we move into the new regulatory regime. The governance structure we have established over the years means that we should be subject to only minimal change going forward. We believe that our solvency position compares very well with other companies competing in our market, and we expect to face fewer difficulties than some of our competitors meeting the standards of the new regime.

The new taxation legislation will have a significant impact on our profit. Fidelity Life has had significant input into the development of the pending regime. I have been fortunate to work closely with the ISI in this area, chairing the tax sub-committee in the negotiations with the IRD and government officials. Fidelity Life has experienced nearly 20 years of accumulating substantial tax losses, while generating accounting profits, under the special tax rules applying to life insurance companies. This scenario will change from 1 July 2010 when the new tax rules come into force. Last year we capitalised the benefit of the accumulated tax losses, while simultaneously providing for the future tax charge on deferred acquisition costs. As indicated earlier, we are planning to increase premiums on all policies for the next five years to mitigate the extra taxation burden.

Underwriting and claims

This year we began working with an industry partner on improving the speed and efficiency of our underwriting process by moving to electronic retrieval of medical records. This will allow us to process new applications significantly faster, and to minimise the number of queries requiring manual resolution. We are in the final stages of developing this process and plan to go live with it shortly.

Our claims department was audited this year by two of our reinsurance partners. Both auditors gave us a "100% rating" and commented favourably on our claims handling process. This is particularly pleasing in a year when we handled a record number of claims.

TOTAL PREMIUMS IN FORCE

YEAR 2009	YEAR 2008	
74.7 $ MILLIONS	64.8 $ MILLIONS	Total in force premiums were $74.7 million.

Technology

In 2009 we continued to put considerable investment into the information technology area. Like many financial services organisations, we operate a diverse and complex range of computer applications, and we are constantly striving to streamline processes, eliminate overlap between systems and improve functionality. We made significant inroads this year. We have now completed our KiwiSaver system development, this being the biggest project carried out by the company. We intend to transfer all our investment products onto this new system. Changes were also made during the year to our general ledger, customer records, commission program, and premium tables. We also developed and launched a simple web-based quotation tool for members of the public to use.

Our staff

We took a stringent approach to recruitment this year as cost management became even more critical than usual. We held numbers down in most departments, which put considerable pressure on staff to cope with increasing workloads. However, it was not possible to avoid increasing staff in some areas. We added 19 new staff, increasing the total count to 142 over the year. Most new resourcing went into the KiwiSaver administration area to cope with the substantial increase in new KiwiSaver members, and the IT area to speed up the development of key projects.

Senior managers' salaries were frozen during the year, following the downturn in results for the first six months to 31 December 2008.

The company is fortunate to have a diligent, committed and loyal workforce, and I take the opportunity to thank all staff for their efforts during a difficult period.

Community and the environment

Supporting charities and operating our business in an environmentally conscious way continues to be important to Fidelity Life. Prudence dictated that we reduce our charitable contributions this year but we will restore our budget in this area as and when earnings growth returns to previous levels. I note that many of our staff involved themselves in company-sponsored charitable fund raising events this year, giving up their own time to assist several charitable causes.

NEVILLE SAYS THAT HE WAS INCREDIBLY IMPRESSED BY HOW EFFICIENTLY HIS CLAIM WAS PROCESSED BY FIDELITY LIFE.

CASE STUDY

Altered perspectives

Twenty years in the insurance industry has given Neville Johnson a wealth of experience.

But it wasn't until Neville was faced with his own crisis that he found out how Fidelity Life's approach to claims stands us ahead of the pack.

Neville started getting pains in his chest that were not going away. When he was out with friends and the pains were worsening, it was time to go to hospital.

Turns out that Neville had a heart attack. Surgery to insert a stent into one of his arteries was successful and he was fortunate to be home in a week.

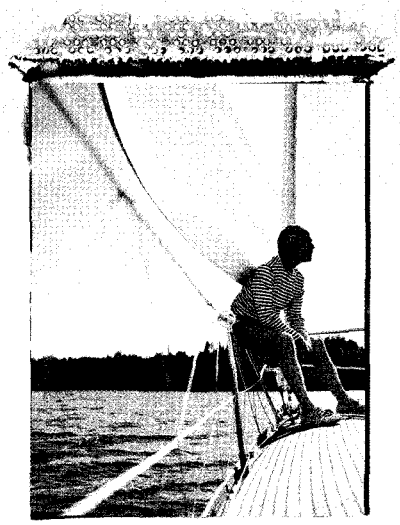
Neville says that he was incredibly impressed by how efficiently his claim was processed by Fidelity Life.

"I couldn't speak any higher of Fidelity Life's claims process," says Neville.

"The whole experience has changed my impression of the claims process.

"You sometimes hear a view that insurance companies do their best to wriggle out of paying a claim for any reason whatsoever," he says.

"But this is totally not the case. My life care and income protection payments were made within a few days."



FIDELITY LIFE HAS A NICHE POSITION IN THE MARKET. OUR NEW ZEALAND OWNERSHIP HAS ENABLED THE CULTIVATION OF A STRONG "FAMILY" CULTURE, AND WE HAVE VERY LOYAL AND DEDICATED STAFF.

NEW RISK PREMIUMS WRITTEN		
YEAR 2009	YEAR 2008	
12.1 $ MILLIONS	10.3 $ MILLIONS	Total risk new premiums written were $12.1 million

Looking ahead

I am cautiously optimistic looking forward. We have strong momentum with our risk product sales and KiwiSaver applications. Our relationship with our advisers is stronger than ever, as evidenced by the Taylor survey results. Our investment funds are now performing well and FundSource has allocated a number of them a Recommend (A) rating.

Fidelity Life has a distinctive niche position in the market.Our New Zealand ownership has enabled the cultivation of a strong people-centric culture, and we have very committed staff. Our Platinum product is rated the best in the market as is our website by independent research. The launch of our new Platinum Plus product in December 2009 will represent the biggest revamp of our product range in the last 15 years. While the pending changes to the tax regime will introduce new challenges, I remain confident that Fidelity Life is well positioned, and I look forward to the coming year with enthusiasm.

Milton Jennings
CHIEF EXECUTIVE OFFICER

Celebrating our community

FIDELITY LIFE'S COMMUNITY EXTENDS BEYOND OUR IMMEDIATE FAMILY OF POLICYHOLDERS, ADVISERS, EMPLOYEES, SUPPLIERS AND GOVERNMENT TO INCLUDE CHARITIES AND THE ENVIRONMENT.

Our long-standing relationship with the Leukaemia and Blood Foundation is woven into the fabric of Fidelity Life. This is a natural relationship for us because cancer affects one in three New Zealanders and is our biggest source of claims. We also enjoy supporting the Multiple Sclerosis Society, the Cancer Society and the Hearing House.

Statutory and other disclosures

FOR THE YEAR ENDED 30 JUNE 2009

	Years on board	Direct shareholding		Indirect beneficial holdings		Total remuneration and other benefits
DIRECTOR		As at 30 June 2009	Increase/ (decrease) during the year	As at 30 June 2009	Increase/ (decrease) during the year	
Ian Braddock						
Chairman	9 years					
Director	15 years	531	-	9,933	-	126,418
Colin Wise						
Director	18 years	8,854	-	-	-	63,209
Jeffrey Meltzer						
Director	14 years	517	-	10,342	-	63,209
Carole Durbin						
Director	6 years	3,650	-	-	-	63,209
David Whyte						
Director	3 months	500	500	-	-	15,802

INFORMATION ON DIRECTORS OF THE PARENT COMPANY

In accordance with the company's constitution, Ian Braddock and Carole Durbin retire by rotation at the AGM and being eligible, offer themselves for re-election.

David Whyte was appointed a director on 1 April 2009. Under the terms of the constitution he retires at the AGM and, being eligible, offers himself for re-election.

Jeffrey Meltzer is a trustee of the Fidelity Family Trust, which holds 763,647 (2008: 763,647) shares in Fidelity Life.

Ian Braddock is a trustee of the Fidelity staff share purchase scheme which holds 57,383 (2008: 67,391) shares in Fidelity Life.

DIRECTORS' INSURANCE

In accordance with the constitution, Fidelity Life Assurance Company Limited and its subsidiaries have arranged policies of directors' and employees' liability insurance which, together with a deed of indemnity, ensure that directors will incur no monetary loss as a result of actions undertaken by them as directors provided they operate within the law. The directors certified that the premium was fair and reasonable to the company.

SUBSIDIARY COMPANY DIRECTORS

	Ian Braddock	Colin Wise	Jeffrey Meltzer
Fidelity Fund Management Limited		•	•
Progressive Brokers Corporation Limited (wound up 17/10/08)		•	•
Farmers' Mutual Life Limited	•		•
Fidelity Capital Guaranteed Bond Limited	•	•	•
Fidelity Life Properties Limited	•	•	
Fidelity Securities Limited	•		•

No subsidiary company director received in his capacity as such, directors' fees or other such benefits from the subsidiaries.

EMPLOYEE REMUNERATION

Details of total remuneration packages including grossed-up benefits for employees of the parent company are set out below.

Remuneration ranges	Number of employees in each band	
	2009	2008
$430,000 – $440,000	1	0
$410,000 – $420,000	0	1
$300,000 – $310,000	1	0
$280,000 – $290,000	0	1
$250,000 – $260,000	1	1
$240,000 – $250,000	1	0
$230,000 – $240,000	0	1
$220,000 – $230,000	1	0
$210,000 – $220,000	1	0
$200,000 – $210,000	2	1
$190,000 – $200,000	2	1
$180,000 – $190,000	0	1
$170,000 – $180,000	2	4
$160,000 – $170,000	0	1
$150,000 – $160,000	5	0
$140,000 – $150,000	2	3
$130,000 – $140,000	3	1
$120,000 – $130,000	0	2
$110,000 – $120,000	2	1
$100,000 – $110,000	4	1

AUDITORS

PricewaterhouseCoopers have indicated their willingness to continue as auditors of the group.

USE OF COMPANY INFORMATION

No notices were received from directors regarding the use of company information that would not have been available to them other than in their capacity as directors.

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 the attached financial statements that has significantly affected the operations of Fidelity Life Assurance Company Limited.

SHAREHOLDERS

The following table shows the names and holdings of the ten largest shareholders of the company as at 30 June 2009.

Shareholders	Shares held
1. Whale M J & Meltzer J P	763,647
2. Burgess G A J & Burgess M S	243,929
3. Farmers' Mutual Insurance Association	155,455
4. Braddock I L & Jennings M J	57,383
5. Watson G J	24,723
6. Trotter K & Childs P & Hughes C	22,846
7. Alison D J & Alison K H	13,636
8. Meltzer J P & Porus J L	10,342
9. Alison K H & Bawden S G	9,958
10. Braddock I L & F M, Clarke J C	9,933

Statement of corporate governance

FOR THE YEAR ENDED 30 JUNE 2009

THE BOARD

The board of directors controls and monitors the business of Fidelity Life Assurance Company Limited and subsidiary companies on behalf of the shareholders. The directors are elected by the shareholders and are accountable for the performance of the group and compliance by the group with laws and standards. The board has adopted the Securities Commissions "Principles and Guidelines of Corporate Governance" as a framework against which the board monitors and reviews its corporate governance.

BOARD MEMBERSHIP

The board comprises five non-executive directors, including a non-executive chairman. Their qualifications and experience are set out at the end of this report.

Attendance at the eleven board meetings for the period 1 July 2008 to 30 June 2009 was as follows:

Board attendance	
Ian Braddock	11
Colin Wise	10
Jeffrey Meltzer	10
Carole Durbin	11
David Whyte	3

DELEGATIONAL FRAMEWORK

The board had formally delegated to the Chief Executive Officer the day-to-day management of the group. The Chief Executive Office recommends to the board changes in the business, performance, goals, strategies and plans of the group.

Comprehensive formal delegations of financial authority to management are in place, as are agreed policy frameworks with respect to the principal operational aspects of the group.

Annual budgets and longer term strategic financial plans are agreed by the board, which in turn monitors management's performance relative to the goals and plans.

ETHICS

The board has adopted the Code of Proper Practice for Directors of the New Zealand Institute of 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 Fidelity Life Assurance Company Limited.

INTERNAL CONTROLS

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 other than financial risk.

COMMITTEES

The board has formally constituted three board committees: the Audit Committee, the Remuneration Committee and the Nomination Committee.

Audit Committee: Provides a link between the board and external auditors. It reviews financial statements and reports findings to the board before publication and reports to the board on accounting systems and internal controls and audit performance. Committee membership is reviewed at three-yearly intervals.

Members – Jeffrey Meltzer (Chairman), Carole Durbin and Ian Braddock.

Statement of corporate governance

FOR THE YEAR ENDED 30 JUNE 2009

Remuneration Committee: Reviews the remuneration of directors and senior management and makes recommendations to the board on these matters.

Members – Colin Wise, Carole Durbin and Ian Braddock.

Nomination Committee: Responsible for nominating new directors.

Members – all directors.

BUSINESS RISKS

All 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 at least annually.

DIRECTORS' SHAREHOLDINGS

Directors are required to hold at least 500 shares. They must refrain from dealing in the company's shares for their personal benefit except for the periods from the announcement of annual results till 30 November, and the announcement of half-year results till 30 April. The same restraint is imposed upon senior management with access to market-sensitive information.

DIRECTORS' FEES

The level of non-executive directors' fees was last approved at the shareholders' meeting on 28 November 2008 as $55,000 per director and $110,000 for the chairman, a total of $330,000.

No additional fees are paid for attendance at board committee meetings.

NON-EXECUTIVE DIRECTORS' SUPERANNUATION FUND

The current policy of the company is to pay an additional 10% of directors' fees into a superannuation fund for directors' retirement. Distribution of the proceeds is at the discretion of the trustees of the fund.

Income statements

FOR THE YEAR ENDED 30 JUNE 2009

	Notes	Group 2009 $'000s	Group 2008 $'000s	Parent 2009 $'000s	Parent 2008 $'000s
INSURANCE BUSINESS					
Revenue					
Insurance premium revenue		81,395	76,078	81,395	72,056
Insurance premium ceded to reinsurers	8	(20,014)	(21,165)	(20,014)	(19,854)
Fee and commission income	9	961	219	1,268	1,027
Investment income	10	5,914	7,247	(2,239)	8,911
Other income		84	-	84	-
TOTAL INSURANCE REVENUE		68,340	62,379	60,494	62,140
Expenses					
Claims expense	11	40,233	26,828	40,233	23,565
Reinsurance revenue	12	(29,894)	(17,049)	(29,894)	(15,958)
Net change in life insurance contract liabilities	32	(9,842)	(3,333)	(9,842)	(3,333)
Net change in life investment contract liabilities	33	5,993	1,030	5,993	1,884
Commission and management expenses	13	32,845	29,159	32,985	29,069
Other expenses	14	14,691	12,826	15,361	12,221
TOTAL INSURANCE EXPENSES		54,026	49,461	54,836	47,448
NET INSURANCE INCOME		14,314	12,918	5,658	14,692
NON-INSURANCE BUSINESS					
Revenue					
Investment income	15	(3,324)	13,140	-	-
Other income	16	(60)	1,359	-	-
TOTAL NON-INSURANCE REVENUE		(3,384)	14,499	-	-
Expenses					
Expenses	17	1,457	2,100	-	-
Finance costs	18	1,003	7,452	-	-
TOTAL NON-INSURANCE EXPENSES		2,460	9,552	-	-
NET NON-INSURANCE INCOME		(5,844)	4,947	-	-
PROFIT BEFORE INCOME TAX		8,470	17,865	5,658	14,692
Income tax expense	19	(1,880)	2,342	(2,101)	1,589
PROFIT FOR THE YEAR ATTRIBUTABLE TO THE EQUITY HOLDERS OF THE COMPANY AND GROUP		10,350	15,523	7,759	13,103
Basic earnings per share (dollars)	50	7.19	11.35		
Diluted earnings per share (dollars)	50	7.19	11.35		

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

Statements of changes in equity

FOR THE YEAR ENDED 30 JUNE 2009

	Notes	Share capital $'000s	Retained earnings $'000s	Reserves $'000s	Total $'000s
GROUP					
Balance at 1 July 2007		11,550	59,985	1,523	73,058
Revaluations - net of tax	38	-	-	(85)	(85)
Employee share purchase plan expense	37	88	-	-	88
Total income recognised directly in equity		88	-	(85)	3
Profit for the year		-	15,523	-	15,523
Total recognised income and expense		88	15,523	(85)	15,526
Dividends	39	-	(1,072)	-	(1,072)
Share capital vested from Trust	37	53	-	-	53
Ordinary shares issued	37	390	-	-	390
BALANCE AT 30 JUNE 2008		12,081	74,436	1,438	87,955
Balance at 1 July 2008		**12,081**	**74,436**	**1,438**	**87,955**
Revaluations - net of tax	38	-	-	(167)	(167)
Employee share purchase plan expense	37	91	-	-	91
Total income recognised directly in equity		**91**	-	**(167)**	**(76)**
Profit for the year		-	**10,350**	-	**10,350**
Total recognised income and expense		**91**	**10,350**	**(167)**	**10,274**
Dividends	39	-	**(1,439)**	-	**(1,439)**
Share capital vested from Trust	37	**55**	-	-	**55**
Ordinary shares issued	37	-	-	-	-
BALANCE AT 30 JUNE 2009		**12,227**	**83,347**	**1,271**	**96,845**
PARENT					
Balance at 1 July 2007		11,550	60,033	-	71,583
Employee share purchase plan expense	37	88	-	-	88
Gain on amalgamation	30	-	3,478	-	3,478
Total income recognised directly in equity		88	3,478	-	3,566
Profit for the year		-	13,103	-	13,103
Total recognised income and expense		88	16,581	-	16,669
Dividends	39	-	(1,072)	-	(1,072)
Share capital vested from Trust	37	53	-	-	53
Ordinary shares issued	37	390	-	-	390
BALANCE AT 30 JUNE 2008		12,081	75,542	-	87,623
Balance at 1 July 2008		**12,081**	**75,542**	-	**87,623**
Employee share purchase plan expense	37	91	-	-	91
Gain on amalgamation	30	-	-	-	-
Total income recognised directly in equity		**91**	-	-	**91**
Profit for the year		-	**7,759**	-	**7,759**
Total recognised income and expense		**91**	**7,759**	-	**7,850**
Dividends	39	-	**(1,439)**	-	**(1,439)**
Share capital vested from Trust	37	**55**	-	-	**55**
Ordinary shares issued	37	-	-	-	-
BALANCE AT 30 JUNE 2009		**12,227**	**81,862**	-	**94,089**

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

Balance sheets

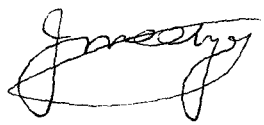
AS AT 30 JUNE 2009

	Notes	Group 2009 $'000s	Group 2008 $'000s	Parent 2009 $'000s	Parent 2008 $'000s
ASSETS					
Financial assets					
Cash and cash equivalents	20	15,381	17,120	11,222	14,489
Loans and other receivables	21	29,574	65,234	36,067	73,286
Other financial assets at fair value through profit or loss	22	388,290	415,020	316,819	335,533
Derivative financial instruments	23	8,350	-	8,171	-
Current tax assets		51	-	51	-
Deferred acquisition costs	24	1,057	110	1,057	110
Assets arising from reinsurance contracts	25	13,626	7,664	13,626	7,664
Investment property	28	8,162	10,065	-	-
Property, plant and equipment	26	8,668	8,122	1,430	1,687
Intangible assets	27	4,821	5,470	4,821	5,470
Deferred tax assets	36	15,365	10,753	15,011	10,753
Investment in subsidiaries	29	-	-	6,028	6,540
TOTAL ASSETS		493,345	539,558	414,303	455,532
LIABILITIES					
Life insurance contract liabilities	32	(5,827)	4,015	(5,827)	4,015
Life investment contract liabilities	33	278,402	325,987	278,402	325,987
Deferred tax liabilities	36	20,156	17,416	20,156	17,394
Payables and other financial liabilities	35	21,234	26,875	20,895	19,463
Derivative financial instruments	23	8,694	2,310	6,588	1,050
Interest bearing liabilities	34	73,841	75,000	-	-
TOTAL LIABILITIES		396,500	451,603	320,214	367,909
NET ASSETS		96,845	87,955	94,089	87,623
EQUITY					
Share capital	37	12,227	12,081	12,227	12,081
Retained earnings	38	83,347	74,436	81,862	75,542
Revaluation reserve	38	1,271	1,438	-	-
TOTAL EQUITY		96,845	87,955	94,089	87,623

The above balance sheets should be read in conjunction with the accompanying notes.

For and on behalf of the board
16 October 2009

IAN BRADDOCK
CHAIRMAN



JEFFREY MELTZER
DIRECTOR

Cash flow statements

FOR THE YEAR ENDED 30 JUNE 2009

	Notes	Group 2009 $'000s	Group 2008 $'000s	Parent 2009 $'000s	Parent 2008 $'000s
CASH FLOWS FROM OPERATING ACTIVITIES					
Premiums from life insurance contracts		81,782	76,064	81,782	72,063
Deposits from life investment contracts		46,268	53,310	46,268	53,310
Reinsurance received		23,932	15,378	23,932	14,435
Interest received		13,176	23,594	8,314	18,411
Dividends		5,292	3,426	5,292	3,426
Other investment income		3,817	2,045	2,629	604
Benefits paid under life insurance contracts		(35,567)	(23,994)	(35,568)	(21,592)
Benefits paid under life investment contracts		(99,846)	(62,583)	(99,846)	(62,583)
Reinsurance paid		(22,510)	(20,878)	(22,510)	(19,184)
Commission paid		(23,871)	(20,363)	(23,871)	(20,363)
Payments to suppliers and employees		(27,991)	(25,962)	(25,108)	(22,555)
Income tax paid		(46)	-	(46)	-
NET CASH FROM OPERATING ACTIVITIES	40	(35,564)	20,037	(38,732)	15,972
CASH FLOWS FROM INVESTING ACTIVITIES					
Purchases of intangible assets		(131)	(112)	(131)	(112)
Purchases of financial assets		(5,369,749)	(3,700,998)	(224,351)	(195,886)
Purchases of property, plant and equipment		(314)	(538)	(314)	(538)
Proceeds from sale of financial assets		5,412,514	3,694,112	261,658	189,527
Proceeds on sale of property, plant and equipment		41	31	41	31
Proceeds on amalgamation of subsidiary		-	-	-	528
NET CASH USED IN INVESTING ACTIVITIES		42,361	(7,505)	36,903	(6,450)
CASH FLOWS FROM FINANCING ACTIVITIES					
Proceeds from issue of ordinary shares, net of transaction costs		-	647	-	647
Interest paid on borrowings		(7,098)	(2,169)	-	-
Ordinary dividends paid		(1,438)	(1,072)	(1,438)	(1,072)
NET CASH FROM FINANCING ACTIVITIES		(8,536)	(2,594)	(1,438)	(425)
NET INCREASE IN CASH AND CASH EQUIVALENTS		(1,739)	9,938	(3,267)	9,097
Cash and cash equivalents at 1 July		17,120	7,182	14,489	5,392
CASH AND CASH EQUIVALENTS AT 30 JUNE	20	15,381	17,120	11,222	14,489

The above cash flow statements should be read in conjunction with the accompanying notes.

Notes to the financial statements

FOR THE YEAR ENDED 30 JUNE 2009

1. GENERAL INFORMATION

Fidelity Life Assurance Company Limited (the Company or Parent) and its subsidiaries (together the Group) are financial services companies that provide insurance and investment management services. The Company and its subsidiaries are profit oriented 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 on 16 October 2009. The entity's owners do not have the power to amend these financial statements after issue.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

(A) BASIS OF PREPARATION

The financial statements have been prepared in accordance with New Zealand Generally Accepted Accounting Practice (NZ GAAP). They comply fully with New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS), and comply with International Financial Reporting Standards (IFRS), as appropriate for profit oriented entities.

Entities reporting

The financial statements include separate financial statements for Fidelity Life Assurance Company as separate legal entity (the "Parent") and the consolidated entity (the "Group") consisting of the Company and its subsidiaries.

Statutory base

The Company is registered under the Companies Act 1993 and is an issuer in terms of the Securities Act 1978. The financial statements have been prepared in accordance with the requirements of the Financial Reporting Act 1993 and the Companies Act 1993.

Historical cost convention

These financial statements have been prepared under the historical cost convention, as modified by the revaluation of certain assets and liabilities as stated in specific accounting policies below.

(B) PRINCIPLES OF CONSOLIDATION

Subsidiaries

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of the Company as at 30 June 2009 and the results of all subsidiaries for the year then ended. The Company and its subsidiaries together are referred to in these financial statements as the Group or the consolidated entity.

Subsidiaries are all those entities over which the Group has the power to govern the financial and operating policies, generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given and equity instruments issued and liabilities incurred or assumed at the date of exchange. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the Income Statement.

Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Notes to the financial statements (continued)

FOR THE YEAR ENDED 30 JUNE 2009

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(C) FOREIGN CURRENCY TRANSLATION

(i) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated and parent financial statements are presented in New Zealand dollars, which is the Company's functional currency and the Group's presentation currency.

(ii) Transactions and balances

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

(D) SEGMENT REPORTING

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different to those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment and is subject to risks and returns that are different from those of segments operating in other economic environments.

(E) PREMIUM REVENUE

Life insurance contracts

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

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 Investment Contracts.

(F) INVESTMENT INCOME

Interest income

Interest income is recognised on an effective interest method.

Dividend and distributions

Revenue 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

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

(G) FEE AND COMMISSION INCOME

Fee revenue on investment contracts is recognised when the service is provided. To the extent that the service will be provided in future periods, this amount is deferred to the Liability for Investment Contracts and amortised as the services are provided. Commission revenue for which no future service is required is recognised on trade date.

(H) CLAIMS EXPENSE

Life insurance contracts

Claims are recognised when the liability to a policyholder has been established or upon notification of the insured event.

Life investment contracts

Claims under Life Investment Contracts represent withdrawals and surrenders of investment deposits and are recognised as a reduction in the Liability for Investment Contracts.

Notes to the financial statements (continued)

FOR THE YEAR ENDED 30 JUNE 2009

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(I) EXPENSES

All operating expenses in respect of life insurance or life investment contracts have been apportioned between policy acquisitions, policy maintenance and investment management expenses with regard to the objective when incurring the expense and the outcome achieved.

(J) POLICY 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. Acquisition costs are initially recorded in the income statement, with any amounts to be deferred capitalised on the balance sheet as a Deferred Acquisition Cost (DAC).

Life insurance contracts

The Liability for Insurance Contracts takes account of the deferral and future recovery of acquisition costs which are capitalised by way of movement in the Liability for Insurance Contracts, then amortised over the period in which they will be recoverable.

Life investment contracts

Incremental acquisition costs incurred in acquiring a life investment contract are deferred, as an asset on the balance sheet, and amortised over the periods of expected future benefit.

(K) OUTWARDS REINSURANCE

Premiums ceded to reinsurers under reinsurance contracts are recorded as an outwards reinsurance expense and are recognised over the period of indemnity of the reinsurance contract. Accordingly, a portion of outwards reinsurance premium is treated at balance date as a prepayment.

(L) LIFE INSURANCE BUSINESS

Classification

Life insurance contracts are those contracts that transfer significant insurance risk. Life investment contracts are those contracts with no significant insurance risk, but which give rise to a financial asset and/or liability.

A contract with a discretionary participation feature is unbundled so that the deposit component of the contract is treated as a life investment contract and the insurance component of the contract is treated as an insurance contract.

Life insurance contract liabilities

Life insurance liabilities (policyholder liabilities) in the balance sheet and the increase or decrease in policyholder liabilities in the income statement have been calculated in accordance with the Actuarial Professional Standard No 3 – Determination of Life Insurance Policy Liabilities (PS3) which prescribes the Margin on Services ('MoS') basis.

MoS is designed to recognise profits on life insurance policies as services are provided to policyholders and income is received. Profits are deferred and amortised over the life of the policy, whereas losses are recognised immediately. Policy services provided over the lifetime of a contract include the costs of expected claims, maintaining policies and investment management. Profit margins relating to the expected income from providing policy services for each of the major product groupings are used to defer and amortise the profit over the life of the policies. Typically renewal premiums are used as a 'profit carrier' to release profits as services are provided. Policy 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, except in the case of some investment business where policyholder liabilities are determined as the accumulated benefits to policyholders. Profit margins for participating business are set in relation to the value of supporting assets.

MoS profit comprises the following components:

Planned margins of revenues over expenses

At the time of writing a policy and at each balance date, best estimate assumptions are used to determine all expected future payments and premiums.

Notes to the financial statements (continued)

FOR THE YEAR ENDED 30 JUNE 2009

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(L) LIFE INSURANCE BUSINESS (continued)

The difference between actual and assumed experience

Where actual experience replicates best estimate assumptions, the expected profit margin will be released to profit over the life of the policy. Experience profits or losses are realised where actual experience differs from best estimate assumptions. Instances giving rise to experience profits or losses include variations in claims, expenses, mortality, discontinuance and investment returns. For example, an experience profit will emerge when the expenses of maintaining all in-force business in a year are lower than the best estimate assumption in respect of those expenses.

Changes to underlying assumptions

Assumptions used for measuring policy liabilities are reviewed each year. Where the review leads to a change in assumptions, the change is deemed to have occurred from the end of the year, except for changes in discount rates which are recognised in the year that the rates are changed. The financial effect of all other changes to the assumptions underlying the measurement of policyholder liabilities made during the reporting period, is recognised in the income statement over the future reporting periods during which services are provided to policyholders.

Loss recognition on groups of related products

If, based on best estimate assumptions, written business for a group of related products is expected to be unprofitable, the total expected loss for that related product group is recognised in the statement of financial performance immediately. When loss making business becomes profitable previously recognised losses are reversed.

Investment earnings on assets in excess of policy liabilities

Profits are generated from investment assets which are in excess of those required to meet policyholder liabilities. Investment earnings are directly influenced by market conditions and as such this component of MoS profit will vary from year to year.

Participating polices

Policyholder liabilities attributable to participating policies include the value of future planned shareholder profit margins and an allowance for future supportable bonuses. The value of supportable bonuses and planned shareholder profit margins account for all profit on a policy based on best estimate assumptions. Under MoS methodology, the value of supportable bonuses and the shareholder profit margin relating to a reporting year will emerge as expected profit in that year.

Life Investment Contract Liabilities

Life investment contracts are determined to be either participating or non-participating. A participating contract is eligible for a share of the profits of the returns of the underlying funds invested in.

Participating

A small amount of life investment contract liabilities are participating investment contracts. The Group establishes a liability equal to the future benefit entitlement to be paid out to the contract holders.

Non-participating

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

There are a small number of non-participating contracts that are non-linked and are measured at amortised cost. This is calculated by determining the present value of future expected cash flows payable discounted at the risk free rate of return appropriate to the contract.

(M) INVESTMENT PROPERTY

Investment property is property that is held for long-term rental yields and is not occupied by the Group. These properties are partly accounted for as property, plant and equipment where partly occupied by the Group (refer to policy below). Investment property is carried at its fair value, which is supported by market evidence, as assessed by qualified external valuers. Fair value is based on active market prices, adjusted, if necessary, for any difference in the nature, location or condition of the specific asset. Changes in fair values are recorded in the income statement in other income.

Notes to the financial statements (continued)

FOR THE YEAR ENDED 30 JUNE 2009

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(N) PROPERTY AND EQUIPMENT

Owner-occupied properties are held by the Group for use in the supply of services or for its own administrative purposes. These properties are partly accounted for as investment property, to the extent they are occupied by third parties (refer to investment property policy above).

Owner-occupied land and buildings are carried at fair value, based on periodic, but at least triennial, valuations by external independent valuers, less annual subsequent depreciation for buildings. Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset, and the net amount is restated to the revalued amount of the asset.

Increases in the carrying amount arising on revaluation of land and buildings are credited to other reserves in shareholders' equity. Decreases that offset previous increases of the same asset are charged against other reserves directly in equity; all other decreases are charged to the income statement. Each year the difference between depreciation based on the revalued carrying amount of the asset charged to the income statement and depreciation based on the asset's original cost is transferred from 'other reserves' to 'retained earnings'.

All other items classed as property and equipment within the balance sheet are carried at historical cost less accumulated depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial year in which they are incurred.

Depreciation is calculated on the straight-line method to write down the cost of other assets to their residual values over their estimated useful lives as follows:

- Properties building component 50 years
- Motor vehicles 5 years
- Computer equipment 4 years
- Other assets 5 to 8 years.

Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount. Gains and losses on disposal of property and equipment are determined by comparing the proceeds with the carrying amount and are recognised within other income. Repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

(O) INTANGIBLE ASSETS

(i) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Company's share of the net identifiable assets of the acquired business or associate at the date of acquisition. Goodwill on acquisitions of businesses is included in intangible assets. Goodwill acquired in business combinations is not amortised. Instead, goodwill is tested for impairment annually, or more frequently if events or changes in circumstances indicate that it might be impaired, and is carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

(ii) Software

Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives (three to five years). The amortisation expense and costs associated with developing or maintaining computer software programmes are recognised as an expense in the income statement as incurred.

Notes to the financial statements (continued)

FOR THE YEAR ENDED 30 JUNE 2009

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(O) INTANGIBLE ASSETS (continued)

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

The present value of future profits on a portfolio of life insurance and investment contracts, acquired either directly or through the purchase of a subsidiary, is recognised as an asset. In most cases, this is classified as AVIF but, for non-participating investment contracts, it is included within intangibles. In all cases, the AVIF is amortised over the useful lifetime of the related contracts in the portfolio on a systematic basis. The rate of amortisation is chosen by considering the profile of the additional value of in-force business acquired and the expected depletion in its value. The value of the acquired in-force long-term business is reviewed annually for any impairment in value and any reductions are charged as expenses in the income statement. Details of the methodology and assumptions are included in note 27.

(P) IMPAIRMENT OF NON-FINANCIAL ASSETS

Assets with definite useful lives are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment irrespective of whether any circumstances identifying a possible impairment have been identified. 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. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units).

(Q) CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of cash at banks and in hand, deposits held at call with banks, treasury bills and other short-term highly liquid investments with less than 90 days' maturity from the date of acquisition. For the purposes of the cash flow statement, cash and cash equivalents also include bank overdrafts, which are included in payables and other financial liabilities on the balance sheet.

Statement of cash flows

The following are the definitions of the terms used in the 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 that activities relating to the acquisition, holding and disposal of property, plant and equipment and of investments.

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

(R) LEASES

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

(S) INVESTMENTS AND OTHER FINANCIAL ASSETS

The Group classifies its investments in the following categories: financial assets at fair value through profit or loss and loans and other receivables. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and re-evaluates this designation at each reporting date.

(i) Financial assets at fair value through profit or loss

This category has two sub categories: financial assets held for trading, and those designated at fair value through profit or loss on initial recognition. A financial asset is classified as held for trading if acquired principally for the purpose of selling in the short term. Derivatives are also categorised as held for trading. Assets are designated at fair value through profit or loss if a group of financial assets is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented investment strategy, and information about the group of assets is provided internally on that basis to key management personnel. Assets in this category are classified as current assets if they are either held for trading or are expected to be realised within 12 months of the balance sheet date.

Notes to the financial statements (continued)

FOR THE YEAR ENDED 30 JUNE 2009

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(S) INVESTMENTS AND OTHER FINANCIAL ASSETS (continued)

(ii) Loans and other receivables

Loans and other receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of selling the receivable. They are included in current assets, except for those with maturities greater than 12 months after the balance sheet date which are classified as non-current assets. Loans and other receivables are included in receivables in the balance sheet.

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

Loans and other receivables are carried at amortised cost using the effective interest method. Realised and unrealised gains and losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category, interest and dividends are included in the income statement in the period in which they arise.

Fair values of financial instruments

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement or for disclosure purposes.

The fair value of financial instruments traded in active markets (such as publicly traded derivatives, and trading and available for sale securities) is based on quoted market prices at the balance sheet date. The quoted market price used for financial assets held by the company is the current bid price; the appropriate quoted market price for financial liabilities is the current ask price.

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Group establishes fair value by using valuation techniques. These include reference to the fair values of recent arm's length transactions, involving the same instruments or other instruments that are substantially the same, discounted cash flow analysis, and option pricing models refined to reflect the issuer's specific circumstances.

Gains or losses arising from changes in the fair value of financial instruments at fair value through profit or loss excludes dividend and interest income.

The carrying value less estimated credit adjustments of trade receivables and payables are assumed to approximate their fair values due to their short term nature. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

Derivatives

Derivative financial instruments include foreign exchange contracts, interest rate futures, currency and interest rate swaps, currency and interest rate options.

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value.

Fair values are obtained from quoted market prices or, if these are not available, by using valuation techniques such as discounted cash flow models or option pricing models.

Changes in the fair value of any derivative instrument are recognised in the income statement.

Impairment

The Group assesses at each balance date whether there is objective evidence that a financial asset or group of financial assets is impaired.

If the carrying value of an investment is greater than the recoverable amount, the carrying value is reduced through a charge to the income statement in the period of impairment.

Impairment for loans and other receivables are covered in note 2(Y).

Restructured financial assets

Where concessionary terms and conditions on an asset have been formally granted to a customer because of the customers financial difficulties, and the return on the asset following restructuring is such that a loss is not expected to be incurred, then the asset is to be regarded as a restructured asset.

Notes to the financial statements (continued)

FOR THE YEAR ENDED 30 JUNE 2009

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(T) PROVISIONS

A provision is recognised in the balance sheet when: the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow or resources will be required to settle the obligation; and a reliable estimate can be made of the amount of the obligation. Provisions are not recognised for future operating losses.

(U) CONTINGENT LIABILITY

The Group discloses a contingent liability when it has a possible obligation arising from past events, that will be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the Group's control. A contingent liability is disclosed when a present obligation is not recognised because it is not probable that an outflow of resources will be required to settle an obligation, or the amount of the obligation cannot be measured with sufficient reliability.

(V) EMPLOYEE BENEFITS

(i) Wages and salaries, annual leave and sick leave

Liabilities for wages and salaries, including non-monetary benefits, annual leave and accumulating sick leave expected to be settled within 12 months of the reporting date are recognised in other payables in respect of employees' services up to the reporting date and are measured at the amounts expected to be paid when the liabilities are settled. Liabilities for non-accumulating sick leave are recognised when the leave is taken and measured at the rates paid or payable.

(ii) Superannuation obligations

The Group pays contributions into administered superannuation funds including KiwiSaver. Once the contributions have been paid, the Group, as employer, has no further payment obligations. The Group's contributions are charged to the income statement in the year to which they relate and are included in employee benefit expenses.

(iii) Employee Share Ownership Scheme

The Group operates an equity-settled share based compensation plan in which the Group offers employees the right to purchase shares at a discount in return for employee services. The discount granted to employees is recognised as an expense over the vesting period with a corresponding increase in equity. At any time during the vesting period the employee has an option to require the Group to re-purchase the shares at the lower of cost or fair value. Therefore, the Group recognises a liability at balance date for the amount that the Group can be required to pay to repurchase the shares. Once the vesting period is complete the Group extinguishes the liability and recognises a corresponding increase in equity.

(W) SHARE CAPITAL

Ordinary shares are classified as equity.

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.

(X) DIVIDENDS

Provision is made for the amount of any dividend declared on or before the end of the financial year but not distributed at balance date.

(Y) TRADE RECEIVABLES

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost, less provision for doubtful debts. Trade receivables are due for settlement no more than 30 days from the date of recognition.

A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the income statement within 'other expenses'. When a trade receivable is uncollectible, it is written off against an allowance account for trade receivables.

Notes to the financial statements (continued)

FOR THE YEAR ENDED 30 JUNE 2009

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(Z) INCOME TAX

The income tax expense comprises both current and deferred tax. Income tax expense is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to the tax payable in respect of previous years. Deferred tax is recognised using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities in a transaction that is not a business combination and that affects neither accounting or taxable profit, and differences relating to investments in subsidiaries to the extent that they probably will not reverse in the foreseeable future.

Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

A deferred tax asset is recognised to the extent for the carry forward of unused tax losses and unused tax credits to the extent that it is probable that future taxable profit will be available against which the unused tax losses and unused tax credits can be utilised.

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

Life insurance tax

Life insurers are subject to a special tax regime. Two tax bases are maintained; the life insurer base where tax is calculated on investment income less expenses plus underwriting income, and the policyholder base which seeks to tax benefits as they accrue to policyholders under the policies in the form of claim, surrender and maturity payments and increments in the value of policies. The life insurer pays tax on the higher of the two bases at the company tax rate of 30%. As the life insurer is taxed as proxy for the policyholder, returns to policyholders are tax exempt.

(AA) TRADE AND OTHER PAYABLES

These amounts represent liabilities for goods and services provided to the Group prior to the end of financial year which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition.

(AB) BORROWINGS

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in the income statement over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date

(AC) BORROWING COSTS

Borrowing costs are expensed as incurred.

(AD) FIDUCIARY ACTIVITIES

Assets and income arising from fiduciary activities, together with related undertakings to return such assets to customers, are excluded from these financial statements where the Group has no contractual rights in the assets.

(AE) DERECOGNITION AND OFFSET OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- The rights to receive cash flows from the asset have expired;
- The Group retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third-party under a "pass-through" arrangement; or
- The Group has transferred its rights to receive cash flows from the asset and has either transferred substantially all the risks and rewards of the asset, or has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Notes to the financial statements (continued)

FOR THE YEAR ENDED 30 JUNE 2009

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(AE) DERECOGNITION AND OFFSET OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

(AF) EARLY ADOPTION OF NEW ZEALAND EQUIVALENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS.

The Company has not early adopted any New Zealand Equivalents to International Financial Reporting Standards.

(AG) STANDARDS, AMENDMENTS AND INTERPRETATIONS TO EXISTING STANDARDS THAT ARE NOT YET EFFECTIVE.

- NZ IFRS 3 (Amendment) 'Business Combinations' (effective from 1 July 2009). The amendment includes a number of updates including the requirement that all costs relating to a business combination must be expensed and subsequent remeasurement of the business combination must be put through the profit and loss. This standard will not have an effect on the current financial statements.
- NZ IFRS 7 (Amendment) 'Financial Instruments: Disclosures' (effective for annual periods beginning on or after 1 January 2009). The amended NZ IFRS 7 introduces a three level hierarchy for fair value measurement disclosures and requires entities to provide additional disclosures about the relative reliability of fair value measurements. In addition, the amendments clarify and enhance the existing requirements for the disclosure of liquidity risk. This amendment is not expected to have a material impact on the *financial statements of Fidelity Life Assurance Company Limited.*
- NZ IFRS 8 'Operating segments' (effective from 1 January 2009) NZ IFRS 8 replaces IAS 14. The new standard requires a 'management approach', under which segment information is presented on the same basis as that used for internal reporting purposes. Application of this standard may result in changes to the disclosure of segmental information in the financial statements.
- NZ IAS 1 (Amendment) 'Presentation of Financial Statements' (effective from 1 January 2009). The amendment requires a number of changes to the presentation and disclosures in financial statements. Application of this standard may result in changes to the format and disclosures in the financial statements.
- NZ IAS 23 (Amendment) 'Borrowing costs' (effective from 1 January 2009). The amendment requires an entity to capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as a part of that asset. The option of immediately expensing those borrowing costs will be removed. This standard is not expected to have any impact on the financial statements of Fidelity Life Assurance Company Limited.
- NZ IFRIC 11 'IFRS 2 – Group and treasury based share transactions' (effective from 1 March 2007) provides guidance on whether share based transactions involving treasury shares or involving group entities (for example, options over a parent's shares) should be accounted for as equity-settled or cash-settled share based payment transactions in the stand-alone accounts of the parent or group companies. This standard is not expected to have any impact on the financial statements of Fidelity Life Assurance Company Limited.

(AH) CHANGES IN ACCOUNTING POLICIES

There have been no changes in accounting policies during the year.

(AI) CHANGE IN ACCOUNTING ESTIMATE

Interest bearing liabilities

In the current year, the Group has adjusted its accounting estimate in relation to the expected future interest payments on the Capital Guaranteed and Subordinated Bonds (together the 'Bonds') on issue at 30 June 2009. The Bonds are accounted for using the effective interest method which uses the rate calculated at the inception of the Bonds that exactly discounted the estimated future cash payments at the inception over the expected life of the instrument to the net carrying amount of the financial liability. As the amounts payable on the Bonds is based on the performance of the investment portfolio, the Group has re-estimated the expected future cash flows payable based on the performance to date.

Notes to the financial statements (continued)

FOR THE YEAR ENDED 30 JUNE 2009

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The Group notes that the change in accounting estimate does not affect the notional amount of the Bonds or the legal rights of the Bondholders. As such, the Group confirms that the guarantee attaching to the principal amount of the Capital Guaranteed Bonds is unaffected by this change in estimate. The Group expects that the future cash flows on the Bonds will be re-estimated in future periods, but due to the uncertainty of the performance of the investment portfolio it is impracticable to estimate the effect of the change in accounting estimate on future periods.

(AJ) COMPARATIVE INFORMATION

Where necessary, certain comparative information has been reclassified in order to conform with changes in presentation in the current year.

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities and profit within the next financial year are discussed below.

(A) INSURANCE LIABILITIES – EFFECT OF CHANGES AND ASSUMPTIONS

Policy liabilities arising from life insurance and life investment contracts are calculated at each reporting date using mathematical and statistical models. The valuations are prepared by appropriately qualified and experienced members of the New Zealand Society of Actuaries on the basis of internationally recognised 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 estimation of these liabilities are:

- The cost of providing benefits and administering these contracts;
- Mortality and morbidity experience on life insurance products;
- Persistency experience, which affects the entity's ability to recover the cost of acquiring new business over the lives of the contracts;
- Other factors such as regulation, competitions, interest rates, the performance of the capital markets and general economic conditions affect the level of these liabilities.

The uncertainties surrounding these assumptions means that it is likely that the actual observed claims incidence will vary from the liability estimated at the reporting date.

Refer to note 4 for more detail on the valuation of the policy liabilities and the assumptions applied.

(B) YIELD PERFORMANCE OF FUNDS UNDER MANAGEMENT

Yield performance of the FCGBL funds under management is estimated at a net 13.4% over the term of the bonds.

(C) FAIR VALUE OF FINANCIAL INSTRUMENTS NOT TRADED IN AN ACTIVE MARKET

The fair value of financial instruments that are not traded in an active market (for example, over-the counter derivatives) is determined by using valuation techniques. The Group uses its judgment to select a variety of methods and make assumptions that are mainly based on market conditions existing at each balance sheet date.

(D) DEFERRED TAX

Significant judgement is required in determining the Group's income tax liabilities and tax assets. In arriving at the deferred tax liability of $4,791m at 30 June 2009 (2008: deferred tax liability of $6,663m), the Group has taken an assessment of anticipated tax liabilities, and assets based on estimates of when additional taxes will be due and benefits will arise.

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

Notes to the financial statements (continued)

FOR THE YEAR ENDED 30 JUNE 2009

4. ACTUARIAL METHODS AND POLICIES

The actuarial reports on policyholder liabilities and solvency reserves for the years ended 30 June 2008 and 30 June 2009 were prepared by the Company Actuary John Smith MSc FIA FNZSA and peer reviewed by the Consulting Actuary Peter Davies BBusSc AIAA FIA FNZSA of Davies Financial and Actuarial Limited.

The results incorporate former Farmers Mutual Life policies that were valued by an independent consulting actuary Linda Caradus BA FIA FNZSA based on data supplied by a third-party administrator and accounting and policy information maintained by Fidelity Life.

The value of the policy liabilities has been determined in accordance with PS3.

The actuaries have examined the information used for the determination of the liabilities and have satisfied themselves as to the accuracy of the data from which the policy liabilities has been determined, and that all policies have been valued accurately.

The accumulation method to determine liabilities has been used for all investment contracts (Gold Medal type policies, group superannuation deposits, power saver and bonds). There is no allowance in the policyholder liabilities for deferred acquisition charges on investment contracts. A prospective reserve is held for the potential shortfall if the market value of assets backing Gold Medal policies is insufficient to cover guaranteed maturity benefits.

Assurances, annuities, disability claims in payment and risk contracts have been valued using the projection method as in previous years.

The value of supporting assets for participating policies issued by Farmers Mutual Life Limited is valued as the fund value transferred on 28 February 2007 rolled up with subsequent cash flow and interest, adjusted by any difference between the actual and MoS supportable bonuses at each year end.

The valuation assumptions are based on best estimates for each component in terms of PS3. To determine the best estimates, the actuaries examined observable market data and recent experience of Fidelity Life and appropriateness of assuming that the current experience continues.

Discount rates: The 10 year swap rate at 30 June 2009 was 5.99% (2008: 7.30%). Allowing for investment management costs of 0.28% (2008: 0.16%) and tax at 30% (2008: 30%) gives an expected long-run investment return of 4.00% (2007: 5.00%).

Whole of life and endowment assurances, annuities, claim reserves and Gold Medal maturity guarantees were valued at 4.00% (2008: 5.00%, except for assurances valued at 4.00%).

The solvency reserves, valued in accordance with PS5.01, used an interest rate of 3.50% derived from the mid-swap index (2008: 5.00%).

A net interest rate of 5.00% was used to value discounted cash flows on renewable risk plans where the policy reserves are negative (2008: 6.00%).

An average rate of tax of 15% is used to approximate the average rate of tax payable over a policy lifetime, and assumes that there is no tax on existing life insurance contracts until 2015.

For former Farmers Mutual Life plans, a valuation rate of 4.8% was used for participating business (2008: 4.8%) and 4.0% for non-participating business (2008: 5.0%).

Taxation: Tax is payable on investment income including capital gains and underwriting income less expenses. The assumed long-run rate is 30%, the same as last year.

Asset mix: The current asset mix was assumed to continue into the future.

Inflation rates: A rate of 2.5% was used were applicable (2008: 2.5%).

Profit carriers (where valued on the projection method):

- Interest earnings for traditional policies
- Claims for mortgage repayment insurance
- Premiums for other policies

Investment and maintenance expenses: The 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.

Notes to the financial statements (continued)

FOR THE YEAR ENDED 30 JUNE 2009

4. ACTUARIAL METHODS AND POLICIES (continued)

Mortality: Mortality was based on the net reinsurance rates. A selection rebate of 100% was assumed in accordance with the actual selection rebate set out in reinsurance treaties.

The mortality assumptions for former Farmers Mutual Life plans were unchanged:

- 100% of NZ97(5) select for participating business
- 65% of NZ97(5) select for term insurance
- Adjusted reinsurance valuation table for direct mail business

Annuitant mortality: The mortality of annuitants is assumed to follow the IMA92C20 and IFA92C20 standard tables with a reduction in attained age of 5 up to age 55 falling by 1 year for every 5 years of age to nil from age 80. This is the same assumption as last year.

Morbidity: Morbidity was based on the net reinsurance rates. A selection rebate of 100% was assumed in accordance with the actual selection rebate agreed with reinsurers.

Rates of discontinuance: The discontinuance rates used for Life and accelerated critical care and accelerated TPD was 13.0% for all durations (2008: 11.5%).

The discontinuance rate for stand-alone Critical Care, stand-alone TPD and Income Protection was 15.0% for all durations (2008: 13.5%).

The discontinuance rate for traditional whole of life and endowment assurances was assumed to be 5%, the same as last year.

Discontinuance rates for Farmers Mutual Life plans were determined by Linda Caradus based on experience. Those rates vary by product and duration in force.

Surrender values: The surrender value of whole of life and endowment assurances, including those issued by Framers Mutual Life, is the net premium reserve with double Zillmer calculated using A49/52 ultimate mortality table (+ 2 years males, - 1 year females) discounted at 4.5%, ignoring any terminal bonus (same as last year).

There is no exit charge on bonds and Power Saver (same as last year).

The exit charge on Gold Medal is 5% reducing by 1% each year from the policy anniversary 4 years preceding maturity (same as last year).

Participating business: For Fidelity Life with-profit assurances it was assumed that the current bonus allocation will continue indefinitely, equal to conservative portfolio return on cash deposits plus a cash bonus of 25% of premiums paid.

For Farmers Mutual Life Limited the supportable bonus rate is 0.94% of the sum assured and reversionary bonus (2008: 1.31%). The current bonus declaration was 0.9% (2008:1.5%).

It is assumed that the policyholder's share of the surplus on the participating pool is 83.3%, which matches the value of supportable assets at date of transfer from Farmers Mutual Group to Fidelity Life.

Profit margins: Profit Margins have been incorporated for existing product categories to release those profits arising in future which are not in relation to the provision of the original acquisition cost as and when those profits are released.

The margins released in the year of acquisition do not exceed the acquisition costs incurred, thus preventing the capitalisation of future profits.

Profit margins were adjusted to ensure that there was no capitalisation of future profits arising from changes to assumptions and rates used in the projection.

Notes to the financial statements (continued)

FOR THE YEAR ENDED 30 JUNE 2009

4. ACTUARIAL METHODS AND POLICIES (continued)

IMPACT OF CHANGES IN LIFE INSURANCE ASSUMPTIONS

The following table shows the impact on profit margins and liabilities if the above discussed assumptions are changed.

ASSUMPTIONS

	Change in assumption	Effect on Future Margins	Effect on Policy Liability	Effect on Profit
		$'000s	$'000s	$'000s
Life investments contracts				
For impact on life insurance contracts refer to the sensitivity analysis under note 5(B).				
Lapses	Decrease by 10%	-	-	14
Expenses	Increase by $1 million	-	-	(1,000)

ASSETS BACKING LIFE INSURANCE AND INVESTMENT INSURANCE BUSINESS

All assets in wholesale unit trusts and segregated mandates are marked to market by external wholesale fund managers that only invest in investment grade listed securities.

Directly held investments comprise Property, Mortgages and subordinated debt issued by Fidelity Capital Guaranteed Bond Limited. Property is valued annually by an independent chartered surveyor. Mortgages are valued at outstanding balance less provision for bad debts. The subordinated debt is marked to a market consistent model.

The carrying value of the assets backing life insurance and life investment contracts is as follows:

	Life Investment		Life Insurance	
	2009 $'000s	2008 $'000s	2009 $'000s	2008 $'000s
Loans	17,980	17,244	8,779	19,072
Debt securities	75,218	154,502	8,062	58,039
Equity securities	99,839	105,209	1,859	9,883
Other investments	79,387	46,803	52,455	12,027
Reinsurance assets	-	-	-	7,664
Cash and cash equivalents	5,921	2,120	5,301	12,369
TOTAL ASSETS BACKING	278,345	325,878	76,456	119,054

The asset portfolios linked to life investment contracts are determined by policyholders, who stipulate the respective portfolio funds to invest in at the time of investment, and subsequent transfers between portfolios.

5. RISK MANAGEMENT

RISK MANAGEMENT FRAMEWORK

The Board of Directors (the "Board") has adopted the Securities Commission's "Principles and Guidelines of Corporate Governance" as a framework against which the Board monitors and reviews its corporate governance.

The Board has formally delegated to the Chief Executive Officer the day-to-day management of the Group. The Chief Executive Officer recommends to the Board changes in the business, performance, goals, strategies and plans of the Group.

The Board 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 Board has constituted three board committees whose duties have been developed to allow the Board to identify and manage business risks faced by the Group.

The Board has also appointed an investment management committee to oversee the investments in line with the Statement of Investment Policy and Objectives (SIPO) that is approved by the Board.

Notes to the financial statements (continued)

FOR THE YEAR ENDED 30 JUNE 2009

5. RISK MANAGEMENT (continued)

The Chief Financial Officer submits an annual assessment of business risks to the Board based on the Australian New Zealand Standard for Risk Management AS/NZ 4360. The business risk assessment estimates the potential loss from adverse events and the likelihood that such adverse event occurs. The effectiveness of measures to mitigate the impact of adverse events or reduce the chance of adverse events is assessed against market norms and best practice. The controls for all identified risks are deemed to be at least adequate.

The Company Actuary submits an annual Financial Condition Report (FCR) to the Board based on the New Zealand Society of Actuaries Professional Standard No. 1. The FCR examines all matters material to the financial condition of the company and makes recommendations to maintain and enhance the Company's financial strength. The Board has approved and implemented all the actions recommended in the FCR.

Risk is categorised as follows:

- Market
- Insurance
- Liquidity
- Credit
- Fair values
- Capital management.

RISK ASSESSMENTS

The board committees monitor aggregate risk data and make overall risk management decisions. The two risks with potentially the most serious outcomes are counter-party failure or inadequate capital funding. Both are deemed to be unlikely. Counter-party risks and adequacy of capital under different scenarios are covered in the FCR. Internal controls are considered excellent.

Political and regulatory risk is always possible. The control environment should be able to meet all new statutory requirements. The strategy to mitigate the impact of higher taxation is deemed to be adequate.

A. Market risk

Market risk is the risk of changes in the fair value of financial instruments from fluctuations in foreign exchange rates (currency risk), market interest rates (interest rate risk) and market prices (price risk), whether such a change in price is caused by factors specific to an individual financial instrument or to its issuer, or to factors affecting all financial instruments traded in a market.

The Company has established a policy on market risk which sets out the principles that are adopted in respect of management of the key market risks to which the Company is exposed.

For each of the major components of market risk, the Company has put in place additional policies and 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 Investment Committee which is responsible for managing market risk, and a number of investment related risks.

Most investment contracts are linked to the underlying performance of asset portfolios. The Investment Committee oversees the selection of wholesale managers, construction of wholesale mandates and asset allocation within the permitted guidelines of the SIPO. The financial impact from changes in market risk is managed by the fund managers, however, market risk is borne by the policyholder.

There is a maturity guarantee provided under the Gold Medal range of policies. The Company is liable to make good any shortfall between the market value of assets and the minimum rate of return at maturity. Asset-liability modelling is used to determine the provision to meet the expected shortfall. The amount retained for solvency includes a prudential provision that is more than adequate in over 75% of Monte-Carlo stochastic simulations. Any shortfall in excess of the prudential provision is a charge against the capital not retained for solvency.

The assets that are not required to meet linked liabilities are invested defensively. However, each investment portfolio has a small proportion of non-linked funds to provide immediate liquidity for any policyholder that wishes to withdraw or switch. A resilience reserve is maintained to meet currency, interest rate and price risks defined in the New Zealand Society of Actuaries Professional Standard No. 5.

Notes to the financial statements (continued)

FOR THE YEAR ENDED 30 JUNE 2009

5. RISK MANAGEMENT (continued)

(i) Currency risk

Currency risk is the risk of changes in the fair value of financial instruments from fluctuations in exchange rates. Foreign currency risk arises as the parent and its subsidiaries have assets invested in foreign currencies.

The Group's foreign exchange policy requires that the respective fund manager maintains sufficient assets to meet currency liabilities. Therefore, the Group limits its exposures regardless of foreign currency movements.

The Investment Committee meets with the currency adviser every month to determine the appropriate levels of forward currency to enter into. These contracts are implemented by ING (NZ) Limited. The forward foreign currency contracts are accounted for at fair value through P&L as the Group does not apply hedge accounting.

Concentrations

The following table shows the assets of Fidelity Life Group denominated in foreign currency.

	Group		Parent	
	2009 NZ$'000s	2008 NZ$'000s	2009 NZ$'000s	2008 NZ$'000s
ASSETS				
Australian Dollars	79,236	65,152	79,236	65,152
Euros	5,573	13,963	5,573	13,963
US Dollars	37,781	49,237	37,781	49,237
TOTAL ASSETS IN FOREIGN CURRENCY	122,590	128,352	122,590	128,352
Percentage of total assets	24.85%	24.27%	29.59%	28.86%

Sensitivity analysis

The following table shows the change in profit after tax for the Company and Group and effect on equity if there was an increase/decrease in the foreign exchange rates of 10%

GROUP

	+10% change in foreign currency				-10% change in foreign currency			
	Impact on post tax profit		Impact on equity		Impact on post tax profit		Impact on equity	
	2009 $'000s	2008 $'000s	2009 $'000s	2008 $'000s	2009 $'000s	2008 $'000s	2009 $'000s	2008 $'000s
AUD	2	24	2	24	(2)	(19)	(2)	(19)
Euro	108	17	108	17	(88)	(14)	(88)	(14)
Yen	6	10	6	10	(5)	(8)	(5)	(8)
GBP	32	14	32	14	(26)	(11)	(26)	(11)
US	448	300	381	262	(520)	(12)	(414)	(58)
	596	365	529	327	(641)	(64)	(535)	(110)

Notes to the financial statements (continued)

FOR THE YEAR ENDED 30 JUNE 2009

5. RISK MANAGEMENT (continued)

PARENT

	+10% change in foreign currency				-10% change in foreign currency			
	Impact on post tax profit		Impact on equity		Impact on post tax profit		Impact on equity	
	2009 $'000s	2008 $'000s	2009 $'000s	2008 $'000s	2009 $'000s	2008 $'000s	2009 $'000s	2008 $'000s
AUD	2	24	2	24	(2)	(19)	(2)	(19)
Euro	108	17	108	17	(88)	(14)	(88)	(14)
Yen	6	10	6	10	(5)	(8)	(5)	(8)
GBP	32	14	32	14	(26)	(11)	(26)	(11)
US	203	185	203	185	(166)	(152)	(166)	(152)
	351	250	351	250	(287)	(204)	(287)	(204)

(ii) Price risk

Price risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices.

Price risk is incurred for directly held securities and exchange traded funds. Price risk also exists for wholesale unit-trusts, common trust funds and wholesale investment mandates or Portfolio Investment Entities based on movements in the underlying securities within the wholesale vehicles.

The Investment Committee delegates active monitoring of its investments owned directly by the Company. Concentrations of specific holdings are also managed and monitored by the Company's fund manager.

Most price risk is borne by policyholders who have selected the investment portfolio that invests in a particular mix of assets. The unit-price of investment portfolios includes the full and immediate change in market values of underlying investments.

Shareholder funds provide security to meet adverse fluctuations in insurance risks rather than investment market risks. Thus, shareholder funds are invested defensively to minimise price risk.

Sensitivity analysis

The following table shows the change in profit after tax for the Company and Group and effect on equity if there was an increase/decrease in the market value of investments of +/- 10%.

GROUP

	+10% change in price variable				-10% change in price variable			
	Impact on post tax profit		Impact on equity		Impact on post tax profit		Impact on equity	
	2009 $'000s	2008 $'000s	2009 $'000s	2008 $'000s	2009 $'000s	2008 $'000s	2009 $'000s	2008 $'000s
Change in the Market Value of:								
New Zealand and Australian shares	171	201	171	201	(171)	(201)	(171)	(201)
International Shares	206	327	206	327	(206)	(327)	(206)	(327)
New Zealand Property	131	237	131	237	(131)	(237)	(131)	(237)
Bond Options (Derivatives)	535	424	535	424	(535)	(424)	(535)	(424)

Notes to the financial statements (continued)

FOR THE YEAR ENDED 30 JUNE 2009

5. RISK MANAGEMENT (continued)

PARENT

	+10% change in price variable				-10% change in price variable			
	Impact on post tax profit		Impact on equity		Impact on post tax profit		Impact on equity	
	2009 $'000s	2008 $'000s	2009 $'000s	2008 $'000s	2009 $'000s	2008 $'000s	2009 $'000s	2008 $'000s
Change in the Market Value of:								
New Zealand and Australian shares	171	201	171	201	(171)	(201)	(171)	(201)
International Shares	206	327	206	327	(206)	(327)	(206)	(327)
New Zealand Property	131	237	131	237	(131)	(237)	(131)	(237)
Bond Options (Derivatives)	535	424	535	424	(535)	(424)	(535)	(424)

(iii) Interest rate risk

Interest rate risk is the risk of loss to the Group arising from adverse changes in interest rates.

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.

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.

The consolidated entities investments that are subject to fair value interest rate risk includes fixed interest securities and put and call options that are taken out against overseas interest rates.

Investments held in mortgages and policy loans are subject to cash flow interest rate risk.

Most interest rate risk is borne by policyholders who have selected the investment portfolio that invests in a particular mix of assets. The unit-price of investment portfolios includes the full and immediate change in market values of underlying investments.

Shareholder funds provide security to meet adverse fluctuations in insurance risks rather than investment market risks. Thus, shareholder funds are invested defensively to minimise interest rate risk.

In respect of liabilities the Group has interest rate risk in relation to the Fidelity Capital Guaranteed Bond. This exposure is monitored through several measures that include position limits and asset and liability matching using measures such as duration.

Notes to the financial statements (continued)

FOR THE YEAR ENDED 30 JUNE 2009

5. RISK MANAGEMENT (continued)

Sensitivity analysis

The following table shows the change in profit for the Group and Company and effect on equity where there was an increase/ decrease in interest rates of 1%.

GROUP

	+1% change in interest rates				-1% change in interest rates			
	Impact on post tax profit		Impact on equity		Impact on post tax profit		Impact on equity	
	2009 $'000s	2008 $'000s	2009 $'000s	2008 $'000s	2009 $'000s	2008 $'000s	2009 $'000s	2008 $'000s
NZ Debt Securities	(294)	(625)	(363)	(647)	319	666	319	666
International Debt Securities	(88)	(205)	(88)	(205)	94	219	94	219
US put and call options	(234,277)	(29,815)	(234,277)	(29,815)	234,277	29,815	227,248	19,976

PARENT

	+1% change in interest rates				-1% change in interest rates			
	Impact on post tax profit		Impact on equity		Impact on post tax profit		Impact on equity	
	2009 $'000s	2008 $'000s	2009 $'000s	2008 $'000s	2009 $'000s	2008 $'000s	2009 $'000s	2008 $'000s
NZ Debt Securities	(524)	(694)	(524)	(694)	549	724	549	724
International Debt Securities	(88)	(205)	(88)	(205)	94	219	94	219

Interest rate repricing:

The table below identifies the period in which interest rates are subject to review on interest bearing financial assets and liabilities for only those subsidiaries that are deemed to be a financial institution.

GROUP 2009

	Weighted average interest rate	Less than 1 year	Between 1 & 2 years	Between 2 & 5 years	Over 5 years	Total
		$'000s	$'000s	$'000s	$'000s	$'000s
Financial assets:						
Financial assets at fair value through profit or loss	6.73%	71,471	-	-	-	71,471
Cash and cash equivalents	2.01%	4,145	-	-	-	4,145
Financial liabilities:						
Interest bearing liabilities	9.25%	-	-	73,745	-	73,745

GROUP 2008

	Weighted average interest rate	Less than 1 year	Between 1 & 2 years	Between 2 & 5 years	Over 5 years	Total
		$'000s	$'000s	$'000s	$'000s	$'000s
Financial assets:						
Financial assets at fair value through profit or loss	8.96%	84,485	-	-	-	84,485
Cash and cash equivalents	5.50%	2,476	-	-	-	2,476
Financial liabilities:						
Interest bearing liabilities	9.25%	-	-	-	75,000	75,000

Notes to the financial statements (continued)

FOR THE YEAR ENDED 30 JUNE 2009

5. RISK MANAGEMENT (continued)

B. Insurance Risk

Insurance exists to provide peace of mind to people who will be compensated for part or all of a financial loss that is relatively infrequent, strikes at random and is potentially devastating for an individual or their family.

The Company pools the risks of tens of thousands of policyholders, each of whom pays a relatively modest premium for their insurance cover. The relatively few claims are met from the many premiums paid into the insurance pool.

The Company Actuary sets premium rates based on the expected incidence of claims, costs of running the insurance pool (including commission to sales intermediaries) and contingency margin to cover the variability risk and cost of capital that provides solvency support for the insurance pool.

The exposure of the Company to variation in the incidence of claims and concentration of risk is controlled through the use of reinsurance that caps the total amount payable on each claim to a predefined amount of risk retained on each individual person.

The Company actively manages its exposure under its retention agreements with its reinsurers. Levels of retained risk are increased or decreased to reflect changes in the company's retention risk appetite.

The exposure of the Company to mis-estimation of the expected incidence of claim is controlled by setting rates based on actuarial research undertaken by international reinsurance companies to derive pure risk premium rates.

Most premium rates are adjustable every year so any systemic strain can be rectified. Premium rates are not adjusted for random fluctuations.

The analysis of recent experience for each component in the insurance premiums is included in the annual Financial Condition Report and half-yearly actuarial valuation reports. Profitability is estimated from monthly management accounts.

Sensitivity analysis

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

The following table shows the changes in the value of future planned margins (assuming no compensating changes in future premiums), policy liability (including future profit margins) and surplus at 30 June 2009 if there were an increase or decrease of 10%:

2009

		Future Margins	Policy Liability	Profit
		($'000s)	($'000s)	($'000s)
Discount rate/inflation rate	Increase by 0.25%	-	769	(769)
	Decrease by 0.25%	-	(769)	769
Mortality/Morbidity	Increase by 10%	(30,344)	(774)	774
	Decrease by 10%	30,015	700	(700)
Lapses	Increase by 10%	(2,252)	-	-
	Decrease by 10%	1,976	-	-
Expenses	Increase by 10%	(10,613)	-	-
	Decrease by 10%	10,613	-	-
Terminations	Increase by 10%	-	(1,431)	1,431
	Decrease by 10%	-	1,278	(1,278)

Notes to the financial statements (continued)

FOR THE YEAR ENDED 30 JUNE 2009

5. RISK MANAGEMENT (continued)

2008

		Future Margins	Policy Liability	Profit
		($'000s)	($'000s)	($'000s)
Discount rate/inflation rate	Increase by 0.25%	(738)	(738)	738
	Decrease by 0.25%	738	738	(738)
Mortality/Morbidity	Increase by 10%	(30,493)	(281)	281
	Decrease by 10%	30,162	254	(254)
Lapses	Increase by 10%	(10,184)	-	-
	Decrease by 10%	8,936	-	-
Expenses	Increase by 10%	(9,555)	-	-
	Decrease by 10%	9,555	-	-
Terminations	Increase by 10%	-	(356)	356
	Decrease by 10%	-	318	(318)

Variable	Impact of a movement in the underlying variable
Expense risk	An increase in the level or inflationary growth of expenses over assumed levels will decrease profit and shareholder equity.
Mortality risk	For insurance contracts providing death benefits, greater mortality rates would lead to higher levels of claims, increasing associated claims cost and therefore reducing profit and shareholder equity.
Morbidity risk	The cost of claims related to health depends on both the incidence of policyholders being diagnosed with a critical illness or becoming temporarily or permanently disabled and the duration 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.
Termination risk	The impact of the termination 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 and Company have the ability to meet their financial obligations as they fall due at a reasonable cost.

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 consolidated entity seeks to maintain sufficient resources to meet its obligations as they fall due.

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.

Notes to the financial statements (continued)

FOR THE YEAR ENDED 30 JUNE 2009

5. RISK MANAGEMENT (continued)

Maturity analysis

The below table shows the maturity of the contractual undiscounted cash flows of the Group and Company's financial assets and liabilities. Where the counter-party has discretion in requesting payment, 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.

GROUP 2009

	Less than 1 year	Between 1 & 2 years	Between 2 & 5 years	Over 5 years	Total	Carrying amount
	$'000s	$'000s	$'000s	$'000s	$'000s	$'000s
Financial assets:						
Cash and cash equivalents	15,381	-	-	-	15,381	15,381
Loans and other receivables	29,574	-	-	-	29,574	29,574
Financial assets at fair value through profit or loss	310,655	8,824	44,712	30,091	394,282	388,290
Derivative financial instruments	2,339	-	-	6,000	8,339	8,350
Assets arising from reinsurance contracts	13,626	-	-	-	13,626	13,626
	371,575	8,824	44,712	36,091	461,202	455,221
Financial liabilities:						
Policyholder liabilities – investment (non-participating) contracts	90,502	8,313	28,764	150,823	278,402	278,402
Policyholder liabilities – insurance contracts	6,758	984	3,516	12,606	23,864	(5,827)
Payables and other financial liabilities	21,234	-	-	-	21,234	21,234
Derivative financial instruments	2,690	-	-	6,000	8,690	8,694
Interest bearing liabilities	-	-	75,000	-	75,000	73,841
	121,184	9,297	107,280	169,429	407,190	376,344

GROUP 2008

	Less than 1 year	Between 1 & 2 years	Between 2 & 5 years	Over 5 years	Total	Carrying amount
	$'000s	$'000s	$'000s	$'000s	$'000s	$'000s
Financial assets:						
Cash and cash equivalents	17,120	-	-	-	17,120	17,120
Loans and other receivables	64,450	-	-	-	64,450	64,450
Financial assets at fair value through profit or loss	367,279	7,140	30,678	18,351	423,448	415,020
Assets arising from reinsurance contracts	7,664	-	-	-	7,664	7,664
	456,513	7,140	30,678	18,351	512,682	504,254
Financial liabilities:						
Policyholder liabilities - investment (non-participating) contracts	174,311	7,134	25,220	156,610	363,275	363,489
Payables and other financial liabilities	26,545	-	-	-	26,545	26,545
Derivative financial instruments	2,310	-	-	-	2,310	2,310
Interest bearing liabilities	-	-	-	75,000	75,000	75,000
	203,166	7,134	25,220	231,610	467,130	467,344

Notes to the financial statements (continued)

FOR THE YEAR ENDED 30 JUNE 2009

5. RISK MANAGEMENT (continued)

PARENT 2009

	Less than 1 year	Between 1 & 2 years	Between 2 & 5 years	Over 5 years	Total	Carrying amount
	$'000s	$'000s	$'000s	$'000s	$'000s	$'000s
Financial assets:						
Cash and cash equivalents	11,222	-	-	-	11,222	11,222
Loans and other receivables	36,067	-	-	-	36,067	36,067
Financial assets at fair value through profit or loss	239,184	8,824	44,712	30,091	322,811	316,819
Derivative financial instruments	2,160	-	-	6,000	8,160	8,171
Assets arising from reinsurance contracts	13,626	-	-	-	13,626	13,626
	302,259	8,824	44,712	36,091	391,886	385,905
Financial liabilities:						
Policyholder liabilities – investment (non-participating) contracts	90,502	8,313	28,764	150,823	278,402	278,402
Policyholder liabilities – insurance contracts	6,758	984	3,516	12,606	23,864	(5,827)
Payables and other financial liabilities	20,895	-	-	-	20,895	20,895
Derivative financial instruments	584	-	-	6,000	6,584	6,588
	118,739	9,297	32,280	169,429	329,745	300,058

PARENT 2008

	Less than 1 year	Between 1 & 2 years	Between 2 & 5 years	Over 5 years	Total	Carrying amount
	$'000s	$'000s	$'000s	$'000s	$'000s	$'000s
Financial assets:						
Cash and cash equivalents	14,489	-	-	-	14,489	14,489
Loans and other receivables	72,638	-	-	-	72,638	72,638
Financial assets at fair value through profit or loss	287,792	7,140	30,678	18,351	343,961	335,533
Assets arising from reinsurance contracts	7,664	-	-	-	7,664	7,664
	382,583	7,140	30,678	18,351	438,752	430,324
Financial liabilities:						
Policyholder liabilities – investment (non-participating) contracts	174,311	7,134	25,220	156,610	363,275	363,489
Payables and other financial liabilities	19,134	-	-	-	19,134	19,134
Derivative financial instruments	1,050	-	-	-	1,050	1,050
	194,495	7,134	25,220	156,610	383,459	383,673

D. Credit risk

Credit risk is the risk of loss in the value of financial assets due to counter-parties failing to meet all or part of their obligations.

In respect of funds under management, the Group manages credit risk by monitoring exposures entered into by the fund manager. Financial assets are not to fall outside of a preset range.

Notes to the financial statements (continued)

FOR THE YEAR ENDED 30 JUNE 2009

5. RISK MANAGEMENT (continued)

The following table provides information regarding the aggregated credit risk exposure, for financial assets with external credit ratings, of the Group and Company at 30 June 2009:

GROUP 2009

	AAA+ to A-	BBB+ to BBB-	BB+ to B-	CCC-	Unrated	Total
	$'000s	$'000s	$'000s	$'000s	$'000s	$'000s
Cash and cash equivalents	15,380	-	-	-	1	15,381
Debt securities	268,500	15,604	982	-	941	286,027

GROUP 2008

	AAA+ to A-	BBB+ to BBB-	BB+ to B-	CCC-	Unrated	Total
	$'000s	$'000s	$'000s	$'000s	$'000s	$'000s
Cash and cash equivalents	17,000	-	-	-	120	17,120
Debt securities	283,286	6,949	356	-	9,337	299,928

PARENT 2009

	AAA+ to A-	BBB+ to BBB-	BB+ to B-	CCC-	Unrated	Total
	$'000s	$'000s	$'000s	$'000s	$'000s	$'000s
Cash and cash equivalents	11,221	-	-	-	1	11,222
Debt securities	197,029	15,604	982	566	941	215,122

PARENT 2008

	AAA+ to A-	BBB+ to BBB-	BB+ to B-	CCC-	Unrated	Total
	$'000s	$'000s	$'000s	$'000s	$'000s	$'000s
Cash and cash equivalents	14,369	-	-	-	120	14,489
Debt securities	198,799	6,949	356	-	14,337	220,441

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 are generally the carrying amount, net of any provisions for doubtful debts. The Group does not expect any investment or reinsurance counterparties to fail to meet their obligations given their high credit ratings.

Asset quality

The following receivables are past due at balance date but not impaired.

	Group		Parent	
	2009 $'000s	2008 $'000s	2009 $'000s	2008 $'000s
Less than three months	2,231	4,111	2,231	4,111
Between three and six months	1,228	575	1,228	575
Assets 90 days past due	1,557	936	1,557	936
TOTAL PAST DUE	5,016	5,622	5,016	5,622

As at 30 June 2009 $269,846 (2008: $3,361,000) of receivables would have been past due at balance date, however their terms were re-negotiated.

Notes to the financial statements (continued)

FOR THE YEAR ENDED 30 JUNE 2009

5. RISK MANAGEMENT (continued)

Impaired receivables

There were no receivables determined to be impaired at balance date. Refer to the accounting policies for factors utilised to determine whether receivables are impaired.

Maximum exposure to credit risk

The maximum exposure relating to each class of financial asset is its carrying value.

Collateral held as security

The Group holds collateral in the form of liens or charges over properties and, in the case of policy loans, the underlying policy for the majority of the loan balances above. In the event of a default, the Group is able to sell or repledge the collateral. The estimate of fair value of collateral is impracticable.

Collateral taken possession of

The Group did not hold any collateral which it was permitted to sell or repledge in the absence of default, at the end of either 2009 or 2008.

Concentrations of funding

The table below identifies the concentration of funding for those subsidiaries that are deemed to be a financial institution.

	Group	
	2009 $'000s	2008 $'000s
CONCENTRATION WITHIN NEW ZEALAND		
North Island	64,045	63,957
South Island	10,275	10,448
	74,320	74,405

	Group	
	2009 $'000s	2008 $'000s
CONCENTRATIONS WITH RESPECT TO OTHER COUNTRIES		
Australia	280	280
Brunei Darussalam	5	5
French Polynesia	20	20
Hong Kong	120	120
Japan	10	-
Thailand	50	50
U.S.A.	20	70
United Kingdom	175	50
	680	595

Notes to the financial statements (continued)

FOR THE YEAR ENDED 30 JUNE 2009

5. RISK MANAGEMENT (continued)

	Group	
	2009 $'000s	2008 $'000s
CUSTOMER/INDUSTRY OR ECONOMIC CONCENTRATION		
Company and Incorporated Bodies	**36,442**	36,017
Individuals	**34,046**	34,077
Other	**4,512**	4,906
	75,000	75,000

Counter-party risk

	2009	2008
Individual counter-party credit risk exposure		
100% or greater than equity of the subsidiary	**3**	5

E. Fair values

The fair value of financial assets and financial liabilities that are not carried at fair value on the balance sheet are as follows:

	Group		Parent	
	Carrying amount $'000s	Fair value $'000s	Carrying amount $'000s	Fair value $'000s
2009				
Interest bearing liabilities	**73,841**	**51,887**	-	-

	Group		Parent	
	Carrying amount $'000s	Fair value $'000s	Carrying amount $'000s	Fair value $'000s
2008				
Interest bearing liabilities	75,000	71,654	-	-

The carrying value of balances due within 12 months is considered as a reasonable estimation of the fair value as the impact of discounting is not significant.

The fair value of loans on mortgage and policy loans is the outstanding loan balance and accrued interest. The fair value of investment in subsidiaries is the latest valuation less any outstanding loans or balances due to the parent.

Notes to the financial statements (continued)

FOR THE YEAR ENDED 30 JUNE 2009

5. RISK MANAGEMENT (continued)

F. Capital management

Capital Risk is managed by the Board with reference to the Financial Condition Report (FCR) presented by the Company Actuary which includes projections of the solvency margin over the next five years for a central basis and various scenarios that would create a bigger solvency strain than the central basis. On the basis of the projections, the Company Actuary makes recommendations on items that may have a bearing on future solvency or maintenance of our credit rating.

Priority of creditors' claims

As only Fidelity Capital Guaranteed Bond Limited which sits within the Group is considered to be a financial institution the following disclosure only relates to that entity.

The following is an extract from the Trust Deed, refer to the Trust Deed for reference to definitions used:

In the event that a Close Out Notice (as defined by the Trust Deed) has been delivered the Surplus (if any) will be applied by the Issuer in the following order:

- First, to the extent not paid from or provided for in the Ongoing Expenses Fund,
  - (i) in payment of all Expenses (including without limitation any accrued and unpaid Guarantee Fee, Registrar's fees, Administration Fee and management fees) that are due and payable at that time and;
  - (ii) all Ongoing Expenses that are necessary or desirable to be provided for at that time in order to ensure the efficient ongoing administration of the Issuer, the Fund and the Capital Guaranteed Bonds for the remainder of the term of the Capital Guaranteed Bonds;
- Second, in payment pari passu and rateably of amounts due to Bondholders in respect of:
  - (a) accrued and unpaid interest on the Capital Guaranteed Bonds;
  - (b) interest on the Capital Guaranteed Bonds suspended in relation to a previous Interest Payment Date; and
  - (c) interest on the Capital Guaranteed Bonds accelerated following a Close Out Notice;
- Third, in payment pari passu and rateably of amounts due to holders of Subordinated in respect of:
  - (a) accrued and unpaid interest on the Subordinated Bonds;
  - (b) interest on the Subordinated Bonds suspended in relation to a previous Interest Payment Date in accordance with sections 7.16; and
  - (c) interest on the Subordinated Bonds accelerated following a Close Out Notice;
- Fourth, in repayment pari passu and rateably to the holders of Subordinated Bonds of the principal amount of the Subordinated Bonds; and
- Fifth, the residue of the Surplus will be invested in Fixed Portfolio Assets.

Solvency

The solvency position of the company is determined in accordance with New Zealand Society of Actuaries Professional Standard no 5.01 – solvency reserving for life insurance business.

	Group		Parent	
	2009 $'000s	2008 $'000s	2009 $'000s	2008 $'000s
Equity of shareholder	96,845	87,955	94,089	87,623
Minimum solvency capital	85,493	75,712	82,737	75,380
SOLVENCY MARGIN	11,352	12,243	11,352	12,243
Equity as a multiple of minimum solvency capital	1.133	1.162	1.137	1.162
Solvency margin as proportion of policy liabilities	4.16%	3.71%	4.16%	3.71%

The solvency margin is calculated after allowing for payment of an ordinary dividend of $ 1.00 per share (2008: $ 1.00).

Notes to the financial statements *(continued)*

FOR THE YEAR ENDED 30 JUNE 2009

6. SEGMENT INFORMATION

(A) DESCRIPTION OF SEGMENTS

The Group operates in two main segments being the:

- life insurance industry
- investment of funds in investment property and non-life subsidaries (refer note 42)

All inter-segment transactions are at arms length pricing.

(B) PRIMARY REPORTING FORMAT – INDUSTRY SEGMENTS

2009

	Insurance	Investment of funds	Other non allocated	Consolidated
	$'000s	$'000s	$'000s	$'000s
Sales to external customers	61,381	-	-	61,381
Intersegment sales	-	-	-	-
Total sales revenue	61,381	-	-	61,381
Investment revenue/income	5,914	(3,324)	-	2,590
Other revenue/income	1,045	(60)		985
Unallocated revenue	-	-	-	-
Total segment revenue/income	68,340	(3,384)	-	64,956
Segment result	14,314	(5,844)	-	8,470
Unallocated revenue less unallocated expenses	-	-	-	-
Profit before income tax	14,314	(5,844)	-	8,470
Income tax (benefit) / expense	(2,101)	221	-	(1,880)
PROFIT FOR THE YEAR	16,415	(6,065)	-	10,350
Segment assets	414,303	79,042	-	493,345
Unallocated assets	-	-	-	-
Total assets	414,303	79,042	-	493,345
Segment liabilities	320,214	76,286	-	396,500
Unallocated liabilities	-	-	-	-
Total liabilities	320,214	76,286	-	396,500
Depreciation and amortisation expense	1,296	129	-	1,425
Change in fair value of property, plant and equipment	(67)	-	-	(67)

2009

	Insurance	Investment of funds	Other non allocated	Consolidated
	$'000s	$'000s	$'000s	$'000s
Cash flow information				
Net cash inflow from operating activities	(38,732)	3,168	-	(35,564)
Net cash (outflow) from investing activities	36,903	5,458	-	42,361
Net cash inflow from financing activities	(1,438)	(7,098)	-	(8,536)

Notes to the financial statements (continued)

FOR THE YEAR ENDED 30 JUNE 2009

6. SEGMENT INFORMATION (continued)

2008

	Insurance	Investment of funds	Other non allocated	Consolidated
	$'000s	$'000s	$'000s	$'000s
Sales to external customers	54,913	-	-	54,913
Intersegment sales	-	-	-	-
Total sales revenue	54,913	-	-	54,913
Investment revenue/income	6,365	14,022	-	20,387
Other revenue/income	732	846	-	1,578
Unallocated revenue	-	-	-	-
Total segment revenue/income	62,010	14,868	-	76,878
Segment result	14,444	3,421	-	17,865
Unallocated revenue less unallocated expenses	-	-	-	-
Profit before income tax	14,444	3,421	-	17,865
Income tax (benefit)/expense	2,819	(477)	-	2,342
PROFIT/(LOSS) FOR THE YEAR	11,625	3,898	-	15,523
Segment assets	424,903	103,902	-	528,805
Unallocated assets	-	-	-	-
Total assets	424,903	103,902	-	528,805
Segment liabilities	354,217	86,633	-	440,850
Unallocated liabilities	-	-	-	-
Total liabilities	354,217	86,633	-	440,850
Depreciation and amortisation expense	1,445	-	-	1,445
Change in fair value of property, plant and equipment	(94)	-	-	(94)

2008

	Insurance	Investment of funds	Other non allocated	Consolidated
	$'000	$'000	$'000	$'000
Cash flow information				
Net cash inflow/(outflow) from operating activities	16,503	3,534	-	20,037
Net cash (outflow) from investing activities	(7,413)	(92)	-	(7,505)
Net cash inflow from financing activities	(425)	(2,169)	-	(2,594)

(C) SECONDARY REPORTING FORMAT – GEOGRAPHICAL SEGMENTS

All operations are conducted in New Zealand.

Notes to the financial statements (continued)

FOR THE YEAR ENDED 30 JUNE 2009

7. SURPLUS AFTER TAXATION

	Group		Parent	
	2009 $'000s	2008 $'000s	2009 $'000s	2008 $'000s
Surplus after taxation arose from				
Life insurance contracts				
Planned margins of revenues over expenses	10,279	9,520	10,279	9,520
Difference between actual and assumed experience	(3,208)	(6,334)	(3,208)	(6,334)
Effects of changes in underlying assumptions	1,129	(565)	1,129	(565)
Investment earnings on assets in excess of life insurance liabilities	3,054	2,940	3,054	2,940
	11,254	5,561	11,254	5,561
Life investment contracts				
Difference between actual and assumed experience	(728)	(1,738)	(2,399)	(1,738)
Effects of changes in underlying assumptions	(1,080)	(173)	(1,080)	(173)
Investment earnings on assets in excess of investment contract liabilities	904	11,873	(16)	9,453
	(904)	9,962	(3,495)	7,542
SURPLUS AFTER TAXATION	10,350	15,523	7,759	13,103

8. INSURANCE PREMIUM CEDED TO REINSURERS

	Group		Parent	
	2009 $'000s	2008 $'000s	2009 $'000s	2008 $'000s
Life insurance contracts	(20,014)	(21,165)	(20,014)	(19,854)
TOTAL PREMIUM CEDED TO REINSURERS	(20,014)	(21,165)	(20,014)	(19,854)

9. FEE AND COMMISSION INCOME

	Group		Parent	
	2009 $'000s	2008 $'000s	2009 $'000s	2008 $'000s
Fees from fiduciary activities:				
Administration fees	675	196	675	196
Management fees	128	23	128	23
Other administration fees	158	-	465	808
TOTAL FEE AND COMMISSION INCOME	961	219	1,268	1,027

Notes to the financial statements (continued)

FOR THE YEAR ENDED 30 JUNE 2009

10. INVESTMENT INCOME

	Group		Parent	
	2009 $'000s	2008 $'000s	2009 $'000s	2008 $'000s
Financial instruments designated at fair value through profit and loss				
Equity securities	(9,680)	(11,072)	(9,680)	(11,072)
Debt securities	9,142	6,468	1,500	6,892
Fixed interest securities	4,481	2,077	4,481	2,077
Other	4	10	4	10
	3,947	(2,517)	(3,695)	(2,093)
From financial instruments at amortised cost				
Loans	2,107	2,274	2,107	2,274
Other	1,060	6,115	1,060	6,115
	3,167	8,389	3,167	8,389
Fair value movement from financial instruments held for trading:				
Derivative financial instruments	925	2,956	925	2,956
Forward currency exchange contracts	-	(504)	-	(504)
Other	(2,213)	(1,077)	(2,213)	(1,079)
	(1,288)	1,375	(1,288)	1,373
Net exchange differences on items other than financial instruments measured at fair value	88	-	88	-
	88	-	88	-
Movement in financial assets designated at net market value				
Investment in subsidiaries	-	-	(511)	1,242
	-	-	(511)	1,242
	5,914	7,247	(2,239)	8,911
SUMMARY OF NET INVESTMENT INCOME				
Interest and similar income	8,220	18,550	7,452	18,466
Dividend income	5,207	3,426	5,207	3,426
Realised (losses)/gains	(2,851)	511	(2,851)	1,321
Unrealised losses	(4,662)	(15,240)	(12,047)	(14,302)
NET INVESTMENT INCOME	5,914	7,247	(2,239)	8,911
Allocation of net investment income				
Life insurance contracts	1,647	2,940	1,647	2,940
Life investment contracts	4,267	4,307	(3,886)	5,971
NET INVESTMENT INCOME	5,914	7,247	(2,239)	8,911

Notes to the financial statements (continued)

FOR THE YEAR ENDED 30 JUNE 2009

11. CLAIMS EXPENSE

	Group		Parent	
	2009 $'000s	2008 $'000s	2009 $'000s	2008 $'000s
LIFE INSURANCE CONTRACTS				
Claims paid to policyholders under life insurance contracts				
Claims paid on death or critical illness	40,233	25,011	40,233	23,565
Maturities	-	898	-	-
Surrenders	-	919	-	-
LIFE INSURANCE CLAIMS AND BENEFITS PAID	40,233	26,828	40,233	23,565

12. REINSURANCE RECOVERIES

	Group		Parent	
	2009 $'000s	2008 $'000s	2009 $'000s	2008 $'000s
Life insurance contracts	(29,894)	(17,049)	(29,894)	(15,958)
TOTAL REINSURANCE RECOVERIES	(29,894)	(17,049)	(29,894)	(15,958)

13. COMMISSIONS AND MANAGEMENT EXPENSE

	Group		Parent	
	2009 $'000s	2008 $'000s	2009 $'000s	2008 $'000s
LIFE INSURANCE CONTRACTS				
Acquisition costs				
Commissions	16,198	11,904	16,198	11,904
Other expenses	6,810	4,366	6,810	4,366
Maintenance costs				
Commission	5,376	5,380	5,376	5,033
Other management expenses	94	2,661	94	2,789
	28,478	24,311	28,478	24,092
LIFE INVESTMENT CONTRACTS				
Acquisition costs				
Commissions	520	2,267	520	2,267
Deferred acquisition cost amortisation	(947)	341	(947)	341
Other expenses	76	491	76	491
Maintenance costs				
Commissions	2,456	959	2,456	959
Other expenses	1,380	532	1,520	532
Investment management expenses	882	258	882	387
	4,367	4,848	4,507	4,977
	32,845	29,159	32,985	29,069

Notes to the financial statements (continued)

FOR THE YEAR ENDED 30 JUNE 2009

14. OTHER EXPENSES

	Group		Parent	
	2009 $'000s	2008 $'000s	2009 $'000s	2008 $'000s
Other expenses include				
Employee benefits expense				
Wages and salaries and other short term benefits	11,485	9,325	11,485	9,325
Contribution to superannuation schemes	688	653	688	653
Employee share purchase scheme expense	91	88	91	88
	12,264	10,066	12,264	10,066
Audit costs				
Audit services	180	308	180	308
Other services	76	53	76	53
Tax services	134	132	134	132
	390	493	390	493
Depreciation (note 26)	516	463	516	463
Revaluation of property, plant and equipment (note 26)	-	-	-	-
	516	463	516	463
Amortisation				
Acquired in-force business (note 27)	605	605	605	-
Software (note 27)	175	151	175	151
	780	756	780	151
Directors fees	289	300	289	300
Operating lease costs	98	706	768	706
Loss on disposal of property, plant and equipment	12	-	12	-
Bad and doubtful debts expense	342	42	342	42
TOTAL OTHER EXPENSES PER INCOME STATEMENT	14,691	12,826	15,361	12,221

Notes to the financial statements (continued)

FOR THE YEAR ENDED 30 JUNE 2009

15. INVESTMENT INCOME FROM NON-INSURANCE BUSINESS

	Group		Parent	
	2009 $'000s	2008 $'000s	2009 $'000s	2008 $'000s
Financial instruments designated at fair value through profit and loss				
Debt securities	(70,347)	(17,634)	-	-
Fixed interest securities	291	165	-	-
	(70,056)	(17,469)	-	-
Fair value movement from financial instruments held for trading:				
Derivative financial instruments	66,550	30,670	-	-
Forward currency exchange contracts	182	(61)	-	-
	66,732	30,609	-	-
	(3,324)	13,140	-	-
SUMMARY OF NET INVESTMENT INCOME				
Interest and similar income	6,410	5,105	-	-
Dividend income	-	-	-	-
Realised gains/(losses)	(10,968)	7,187	-	-
Unrealised gains/(losses)	1,234	848	-	-
NET INVESTMENT INCOME	(3,324)	13,140	-	-

16. OTHER NON-INSURANCE INCOME

	Group		Parent	
	2009 $'000s	2008 $'000s	2009 $'000s	2008 $'000s
(Decrease)/Increase in fair value of investment property	(904)	507	-	-
Rental income from investment property	844	884	-	-
Other income	-	(32)	-	-
	(60)	1,359	-	-

Notes to the financial statements (continued)

FOR THE YEAR ENDED 30 JUNE 2009

17. NON-INSURANCE EXPENSES

	Group		Parent	
	2009 $'000s	2008 $'000s	2009 $'000s	2008 $'000s
Other expenses include				
Audit costs				
Audit services	21	16	-	-
	21	16	-	-
Depreciation (note 26)	129	113	-	-
Revaluation of property, plant and equipment (note 26)	(100)	9	-	-
	29	122	-	-
Direct rental property expenses (note 28)	257	274	-	-
Investment management expenses	1,096	1,549	-	-
Other expenses	54	139	-	-
TOTAL OTHER EXPENSES PER INCOME STATEMENT	1,457	2,100	-	-

18. FINANCE COSTS

	Group		Parent	
	2009 $'000s	2008 $'000s	2009 $'000s	2008 $'000s
Interest expense on:				
Capital Guaranteed Bonds	1,003	7,452	-	-
TOTAL FINANCE COSTS PER INCOME STATEMENT	1,003	7,452	-	-

Notes to the financial statements (continued)

FOR THE YEAR ENDED 30 JUNE 2009

19. INCOME TAX EXPENSE

	Group		Parent	
	2009 $'000s	2008 $'000s	2009 $'000s	2008 $'000s
(A) INCOME TAX EXPENSE				
Current tax	(3,443)	(1,051)	(4,041)	(916)
Deferred tax	1,563	3,393	1,940	2,505
	(1,880)	2,342	(2,101)	1,589
(B) NUMERICAL RECONCILIATION OF INCOME TAX EXPENSE TO PRIMA FACIE TAX PAYABLE				
Profit before income tax expense	8,470	17,865	5,658	14,692
Tax at the New Zealand tax rate of 30% (2008: 33%)	2,541	5,895	1,697	4,848
Tax effect of non-taxable / non-deductible amounts	(6,153)	(4,717)	(6,018)	(4,912)
Tax losses used to offset current tax charge	-	(2,229)	-	-
Tax losses transferred to group company	-	-	280	(944)
Effect of change in the tax rate on deferred tax	-	(666)	-	(664)
Deferred tax not previously recognised	-	4,059	-	3,169
Deferred tax offset by current tax benefit	2,167	-	2,879	-
Prior Peroid Adjustment	(435)	-	(939)	92
INCOME TAX EXPENSE	(1,880)	2,342	(2,101)	1,589
(C) IMPUTATION CREDIT ACCOUNT				
Balance at beginning of year	-	-	-	-
Imputation credits attached to dividends paid during the year	(709)	(528)	(709)	(528)
Imputation credits attached to dividends received during the year	294	365	294	365
Transfer (to) / from policyholder credit account	415	163	415	163
BALANCE AT END OF YEAR	-	-	-	-

20. CASH AND CASH EQUIVALENTS

	Group		Parent	
	2009 $'000s	2008 $'000s	2009 $'000s	2008 $'000s
Cash at bank and in hand				
Bank balances	4,127	5,414	4,114	5,259
Deposits at call	11,254	11,706	7,108	9,230
Cash and cash equivalents in the balance sheet	15,381	17,120	11,222	14,489
CASH AND CASH EQUIVALENTS IN THE CASH FLOW STATEMENT	15,381	17,120	11,222	14,489

Notes to the financial statements (continued)

FOR THE YEAR ENDED 30 JUNE 2009

21. LOANS AND OTHER RECEIVABLES

	Group		Parent	
	2009 $'000s	2008 $'000s	2009 $'000s	2008 $'000s
Mortgage and agents' loans	25,938	23,370	25,938	23,370
Policy loans	327	579	327	579
Other loans	494	679	494	679
Total loans	26,759	24,628	26,759	24,628
Less provision for impairment on loans	-	(85)	-	(85)
NET LOANS RECEIVABLE	26,759	24,543	26,759	24,543
Other receivables				
Deposits with financial institutions	-	37,106	-	37,106
Proceeds due from sale of investments	207	708	26	567
Outstanding premiums	742	970	742	970
Prepayments	1,198	784	1,198	784
Interest due on loans	288	353	288	353
Receivable from subsidiary	-	-	6,709	8,251
Sundry receivables	380	770	345	712
Total other receivables	2,815	40,691	9,308	48,743
Less provision for doubtful debts on other receivables	-	-	-	-
NET OTHER RECEIVABLES	2,815	40,691	9,308	48,743
TOTAL LOANS AND OTHER RECEIVABLES	29,574	65,234	36,067	73,286
Expected maturity				
Within 12 months	29,574	65,234	36,067	73,286
	29,574	65,234	36,067	73,286

Notes to the financial statements (continued)

FOR THE YEAR ENDED 30 JUNE 2009

22. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT AND LOSS

	Group		Parent	
	2009 $'000s	2008 $'000s	**2009** $'000s	2008 $'000s
FINANCIAL ASSETS DESIGNATED AT FAIR VALUE THROUGH PROFIT AND LOSS				
Debt securities				
Local Authority	**8,721**	6,502	**8,721**	6,502
New Zealand Government	**3,732**	3,797	**3,732**	3,797
Corporate – New Zealand	**142,298**	133,178	**70,827**	53,691
Unitised Funds	**131,842**	151,978	**131,842**	151,978
Other Fixed Interest	**-**	4,473	**-**	4,473
TOTAL DEBT SECURITIES	**286,593**	299,928	**215,122**	220,441
Equity securities				
Corporate – New Zealand	**14,905**	22,305	**14,905**	22,305
Corporate – Non-New Zealand	**86,792**	92,787	**86,792**	92,787
TOTAL EQUITY SECURITIES	**101,697**	115,092	**101,697**	115,092
TOTAL FINANCIAL ASSETS DESIGNATED AT FAIR VALUE THROUGH PROFIT AND LOSS	**388,290**	415,020	**316,819**	335,533
Expected maturity				
Within 12 months	**310,541**	367,279	**239,070**	287,792
Later than 12 months	**77,749**	47,741	**77,749**	47,741
	388,290	415,020	**316,819**	335,533

Notes to the financial statements (continued)

FOR THE YEAR ENDED 30 JUNE 2009

23. DERIVATIVE FINANCIAL INSTRUMENTS

	Group		Parent	
	2009 $'000s	2008 $'000s	2009 $'000s	2008 $'000s
ASSETS				
Forward currency	2,339	-	2,160	-
Interest rate swaps	6,011	-	6,011	-
TOTAL DERIVATIVE ASSETS	8,350	-	8,171	-
Less non-current portion				
Interest rate swaps	6,011	-	6,011	-
CURRENT PORTION OF DERIVATIVE ASSETS	2,339	-	2,160	-
LIABILITIES				
Forward currency	653	992	473	992
Interest rate swaps	6,115	-	6,115	-
Put options	138	131	-	58
Call options	1,788	1,187	-	-
TOTAL DERIVATIVE LIABILITIES	8,694	2,310	6,588	1,050
Less non-current portion				
Interest rate swaps	6,004	-	6,004	-
CURRENT PORTION OF DERIVATIVE LIABILITIES	2,690	2,310	584	1,050

Notes to the financial statements (continued)

FOR THE YEAR ENDED 30 JUNE 2009

24. DEFERRED ACQUISITION COSTS – INVESTMENT BUSINESS

	Group		Parent	
	2009 $'000s	2008 $'000s	**2009 $'000s**	2008 $'000s
Carrying amount at 1 July	**110**	451	**110**	451
Acquisition costs deferred during the year	**1,420**	418	**1,420**	418
Amortisation	**(473)**	(759)	**(473)**	(759)
CARRYING AMOUNT AT 30 JUNE	**1,057**	110	**1,057**	110

25. ASSETS ARISING FROM REINSURANCE CONTRACTS

	Group		Parent	
	2009 $'000s	2008 $'000s	**2009 $'000s**	2008 $'000s
Assets arising from reinsurance contracts comprise:				
Life insurance contracts	**13,626**	7,664	**13,626**	7,664
	13,626	7,664	**13,626**	7,664
LIFE INSURANCE CONTRACTS REINSURANCE ASSETS				
Carrying amount at 1 July	**7,664**	5,047	**7,664**	5,047
Reinsurance claims made to reinsurers	**27,412**	16,982	**27,412**	16,982
Payments received from reinsurers	**(21,450)**	(15,279)	**(21,450)**	(15,279)
Other movements	**-**	914	**-**	914
CARRYING AMOUNT AT 30 JUNE	**13,626**	7,664	**13,626**	7,664
Expected maturity				
Within 12 months	**13,626**	7,664	**13,626**	7,664
	13,626	7,664	**13,626**	7,664

Notes to the financial statements (continued)

FOR THE YEAR ENDED 30 JUNE 2009

26. PROPERTY, PLANT AND EQUIPMENT

GROUP

	Land	Buildings	Building fit out	Leasehold improve-ments	Motor vehicles	Computer equipment	Furniture and office equipment	Total
	$'000s	$'000s	$'000s	$'000s	$'000s	$'000s	$'000s	$'000s
AT 1 JULY 2007								
Cost	2,222	4,420	902	19	352	635	498	9,048
Accumulated depreciation	-	-	(173)	(7)	(137)	(234)	(212)	(763)
NET BOOK AMOUNT	2,222	4,420	729	12	215	401	286	8,285
YEAR ENDED 30 JUNE 2008								
Opening net book amount	2,222	4,420	729	12	215	401	286	8,285
Additions	-	-	-	4	176	258	100	538
Revaluation	(85)	(9)	-	-	-	-	-	(94)
Depreciation	-	(113)	(113)	(3)	(74)	(176)	(97)	(576)
Disposals	-	-	-	-	(31)	-	-	(31)
CLOSING NET BOOK AMOUNT	2,137	4,298	616	13	286	483	289	8,122
AT 1 JULY 2008								
Cost	2,137	4,298	902	23	458	894	599	9,311
Accumulated depreciation	-	-	(286)	(10)	(172)	(411)	(310)	(1,189)
NET BOOK AMOUNT	2,137	4,298	616	13	286	483	289	8,122
YEAR ENDED 30 JUNE 2009								
Opening net book amount	2,137	4,298	616	13	286	483	289	8,122
Additions	-	-	-	5	71	181	57	314
Transfer from/(to) investment property	319	680	-	-	-	-	-	999
Revaluation	(167)	100	-	-	-	-	-	(67)
Depreciation	-	(129)	(113)	(3)	(70)	(222)	(109)	(646)
Disposals	-	-	-	-	(54)	-	-	(54)
CLOSING NET BOOK AMOUNT	2,289	4,949	503	15	233	442	237	8,668
AT 30 JUNE 2009								
Cost	2,289	4,949	902	28	388	991	630	10,177
Accumulated depreciation	-	-	(399)	(13)	(155)	(549)	(393)	(1,509)
NET BOOK AMOUNT	2,289	4,949	503	15	233	442	237	8,668

Owner-occupied properties are stated at their revalued amounts as assessed by qualified external valuers. Values are calculated on the basis of existing use, being the estimated arms-length value at which the properties could be exchanged with vacant possession and without allowing for alternatives to their current use. The most recent valuation was undertaken by P R Amesbury a registered valuer in the firm of Barrat-Boyes Jeffries Ltd on the 30 June 2009. For further information on the valuation refer to note 28(b).

Notes to the financial statements (continued)

FOR THE YEAR ENDED 30 JUNE 2009

26. PROPERTY, PLANT AND EQUIPMENT (continued)

(a) If land and buildings were stated on the historical cost basis, the amounts would be as follows:

	2009	2008
	$'000s	$'000s
Cost	6,917	5,919
Accumulated depreciation	(719)	(589)
NET BOOK AMOUNT	6,198	5,330

PARENT

	Building fit out	Leasehold improve-ments	Motor vehicles	Computer equipment	Furniture and office equipment	Total
	$'000s	$'000s	$'000s	$'000s	$'000s	$'000s
AT 1 JULY 2007						
Cost	902	19	352	635	498	2,406
Accumulated depreciation	(173)	(7)	(137)	(234)	(212)	(763)
NET BOOK AMOUNT	729	12	215	401	286	1,643
YEAR ENDED 30 JUNE 2008						
Opening net book amount	729	12	215	401	286	1,643
Additions	-	4	176	258	100	538
Depreciation	(113)	(3)	(74)	(176)	(97)	(463)
Disposals	-	-	(31)	-	-	(31)
CLOSING NET BOOK AMOUNT	616	13	286	483	289	1,687
AT 1 JULY 2008						
Cost	902	23	458	894	599	2,876
Accumulated depreciation	(286)	(10)	(172)	(411)	(310)	(1,189)
NET BOOK AMOUNT	616	13	286	483	289	1,687
YEAR ENDED 30 JUNE 2009						
Opening net book amount	616	13	286	483	289	1,687
Additions	-	5	71	181	57	314
Depreciation	(113)	(3)	(70)	(222)	(109)	(517)
Disposals	-	-	(54)	-	-	(54)
CLOSING NET BOOK AMOUNT	503	15	233	442	237	1,430
AT 30 JUNE 2009						
Cost	902	28	388	991	630	2,939
Accumulated depreciation	(399)	(13)	(155)	(549)	(393)	(1,509)
NET BOOK AMOUNT	503	15	233	442	237	1,430

Notes to the financial statements (continued)

FOR THE YEAR ENDED 30 JUNE 2009

27. INTANGIBLE ASSETS

GROUP

	Software	AVIF	Total
	$'000s	$'000s	$'000s
AT 1 JULY 2007			
Cost	559	6,054	6,613
Accumulated amortisation	(297)	(202)	(499)
NET BOOK AMOUNT	262	5,852	6,114
YEAR ENDED 30 JUNE 2008			
Opening net book amount	262	5,852	6,114
Additions	112	-	112
Disposals	-	-	-
Amortisation	(151)	(605)	(756)
CLOSING NET BOOK AMOUNT	223	5,247	5,470
AT 1 JULY 2008			
Cost	671	6,054	6,725
Accumulated amortisation	(448)	(807)	(1,255)
NET BOOK AMOUNT	223	5,247	5,470
YEAR ENDED 30 JUNE 2009			
Opening net book amount	223	5,247	5,470
Additions	131	-	131
Disposals	-	-	-
Amortisation	(175)	(605)	(780)
CLOSING NET BOOK AMOUNT	179	4,642	4,821
AS AT 30 JUNE 2009			
Cost	614	6,054	6,668
Accumulated amortisation	(435)	(1,412)	(1,847)
NET BOOK AMOUNT	179	4,642	4,821

The acquired value of in-force business (AVIF) from the acquisition of Farmers' Mutual Life Limited has been determined by independent actuarial valuation and relates to the future anticipated profits emerging from the life insurance contracts. This was valued at a risk discount rate of 12% (2008:12%).

The AVIF has a life expectancy of 10 years being the estimated life of the outstanding life insurance contracts. The AVIF is amortised over 10 years. An impairment review is undertaken annually to determine if any impairment has occurred on the outstanding unamortised amount.

The estimated net worth at 30 June 2009 was $5,737k (2008:$5,877k) which exceeds the AVIF and therefore no impairment was required.

Notes to the financial statements (continued)

FOR THE YEAR ENDED 30 JUNE 2009

27. INTANGIBLE ASSETS (continued)

PARENT

	Software	AVIF	Total
	$'000s	$'000s	$'000s
AT 1 JULY 2007			
Cost	559	-	559
Accumulated amortisation	(297)	-	(297)
NET BOOK AMOUNT	262	-	262
YEAR ENDED 30 JUNE 2008			
Opening net book amount	262	-	262
Additions	112	5,247	5,359
Disposals	-	-	-
Amortisation	(151)	-	(151)
CLOSING NET BOOK AMOUNT	223	5,247	5,470
AT 1 JULY 2008			
Cost	671	6,054	6,725
Accumulated amortisation	(448)	(807)	(1,255)
NET BOOK AMOUNT	223	5,247	5,470
YEAR ENDED 30 JUNE 2009			
Opening net book amount	223	5,247	5,470
Additions	131	-	131
Disposals	-	-	-
Amortisation	(175)	(605)	(780)
CLOSING NET BOOK AMOUNT	179	4,642	4,821
AS AT 30 JUNE 2009			
Cost	614	6,054	6,668
Accumulated amortisation	(435)	(1,412)	(1,847)
NET BOOK AMOUNT	179	4,642	4,821

Notes to the financial statements (continued)

FOR THE YEAR ENDED 30 JUNE 2009

28. INVESTMENT PROPERTY

	Group		Parent	
	2009 $'000s	2008 $'000s	2009 $'000s	2008 $'000s
AT FAIR VALUE				
Opening balance	10,065	9,558	-	-
Transfers to owner-occupied property (note 26)	(999)	-	-	-
Net gain/(loss) from fair value adjustment	(904)	507	-	-
CLOSING BALANCE	8,162	10,065	-	-

(a) Direct operating expenses from investment property

	Group		Parent	
	2009 $'000s	2008 $'000s	2009 $'000s	2008 $'000s
That generated rental income during the period	257	274	-	-
	257	274	-	-

(b) Valuation basis

Investment property includes commercial office buildings based in Auckland.

Investment property was valued on 30 June 2009 at $15.4m (2008: $16.5m), by P R Amesbury an independent registered valuer in the firm of Barratt-Boyes Jefferies Limited, associates of the New Zealand Institute of Valuers.

The fair values are based on active market prices calculated on capitalisation rates derived from sales of comparable properties, adjusted, if necessary, for any difference in the nature, location or condition of the specific assets.

(c) Contractual obligations

There are no contractual obligations to purchase, construct or develop investment property or for repairs, maintenance or enhancements.

29. INVESTMENT IN SUBSIDIARIES

The Parent holds the following interests in subsidiaries

	Nature of activities	Class of Shares	Ownership	
			2009	2008
COMPANY				
Fidelity Capital Guaranteed Bond Limited	Investment	Ordinary	100%	100%
Fidelity Life Properties Limited	Property	Ordinary	100%	100%
Fidelity Fund Management Limited	Non-trading Trustee Company	Ordinary	100%	100%
Fidelity Securities Limited	Fund Manager	Ordinary	100%	100%
Progressive Brokers Corporation Limited	Ceased 2009	Ordinary	-	100%

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

Progressive Brokers Corporation Limited, previously a dormant Company, was wound up on the 17th October 2008.

Notes to the financial statements (continued)

FOR THE YEAR ENDED 30 JUNE 2009

30. BUSINESS AMALGAMATION

On 30 June 2008 Farmers' Mutual Life Limited was amalgamated into Fidelity Life Assurance Company Limited (the Parent). Until the date of amalgamation, Farmers' Mutual Life Limited was a wholly owned subsidiary of the Parent. Under the amalgamation, the Parent took control of all of the assets of Farmers' Mutual Life Limited and assumed responsibility for its liabilities. Farmers' Mutual Life Limited has been removed from the New Zealand register of companies.

Summary of the effect of the amalgamation of Farmers' Mutual Life Limited:

	Parent
	2008 $'000s
ASSETS AND LIABILITIES AMALGAMATED	
Bank balances	528
Other assets	3,242
Investments	33,596
Other liabilities	(666)
Policyholder liabilities	(32,724)
Carrying amount of shares in amalgamated subsidiary	(498)
BALANCE RECOGNISED IN THE STATEMENT OF MOVEMENTS IN EQUITY	3,478

The assets and liabilities have been brought into the Parent's financial statements at their fair value.

The operating results of Farmers' Mutual Life Limited after the amalgamation has been included in the income statement of the Parent since 30 June 2008. The balance on amalgamation has been recognised in the equity of the Parent. The comparatives for the Parent have not been adjusted for the amalgamation.

31. INVESTMENT AND NON-INVESTMENT LINKED

IFRS 4 requires disclosure of disaggregated information in respect of amounts relating to investment linked business, non investment linked business and shareholder funds for certain categories as shown below. Non-investment linked business includes shareholder funds.

2009

	Investment linked	Non investment linked	Total
	$'000s	$'000s	$'000s
Investment assets	272,424	150,976	423,400
Other assets	29,347	40,598	69,945
Policy liabilities	278,402	(5,827)	272,575
Liabilities other than policy liabilities	-	123,925	123,925
Shareholders retained earnings	-	83,347	83,347
Premium revenue	46,268	81,395	127,663
Investment revenue	(463)	3,054	2,591
Claims expense	99,846	40,233	140,079
Other operating expenses	18,120	31,877	49,997
Investment revenues paid or allocated to policyholders	(3,133)	-	(3,133)
Operating surplus before tax	(904)	9,374	8,470
Operating surplus after tax	(904)	11,254	10,350

Notes to the financial statements (continued)

FOR THE YEAR ENDED 30 JUNE 2009

31. INVESTMENT AND NON-INVESTMENT LINKED (continued)

2008

	Investment linked	Non investment linked	Total
	$'000s	$'000s	$'000s
Investment assets	259,808	176,851	436,659
Other assets	66,180	22,788	88,968
Policy liabilities	325,987	4,015	330,002
Liabilities other than policy liabilities	-	108,537	108,537
Shareholders retained earnings	-	82,537	82,537
Premium revenue	59,584	69,804	129,388
Investment revenue	17,447	2,940	20,387
Claims expense	64,401	29,127	93,528
Other operating expenses	27,754	23,784	51,538
Investment revenues paid or allocated to policyholders	(3,804)	-	(3,804)
Operating surplus before tax	9,962	7,903	17,865
Operating surplus after tax	9,962	5,561	15,523

32. LIFE INSURANCE CONTRACT LIABILITIES

	Group		Parent	
	2009 $'000s	2008 $'000s	2009 $'000s	2008 $'000s
Opening balance at 1 July	4,015	7,348	4,015	(31,330)
Premiums received	75,524	69,804	75,524	65,781
Liabilities released for payments on death, surrender and other terminations in the year	(40,233)	(30,849)	(40,233)	(27,365)
Other movements	(45,133)	(42,288)	(45,133)	(3,071)
CLOSING BALANCE AT 30 JUNE	(5,827)	4,015	(5,827)	4,015
Expected maturity				
Within 12 months	6,737	118	6,737	118
Later than 12 months	(12,564)	3,897	(12,564)	3,897
	(5,827)	4,015	(5,827)	4,015
Life insurance contracts with a discretionary participation feature that have a guaranteed element.	30,959	34,283	30,959	34,283
Life insurance contract liabilities contain the following components				
Future policy benefits	361,068	357,973	361,068	357,973
Future expenses	133,240	101,793	133,240	101,793
Planned margins of revenues over expenses	112,566	96,786	112,566	96,786
Future revenues	(612,701)	(552,537)	(612,701)	(552,537)
	(5,827)	4,015	(5,827)	4,015

Notes to the financial statements (continued)

FOR THE YEAR ENDED 30 JUNE 2009

33. LIFE INVESTMENT CONTRACT LIABILITIES

	Group		Parent	
	2009 $'000s	2008 $'000s	2009 $'000s	2008 $'000s
Participating contracts				
Guaranteed element	187,232	202,763	187,232	202,763
Total	187,232	202,763	187,232	202,763
Non-participating contracts designated at fair value through profit and loss	91,170	123,224	91,170	123,224
Non-participating contracts at amortised cost	-	-	-	-
	278,402	325,987	278,402	325,987
Movement in life investment contract liabilities				
OPENING BALANCE AT 1 JULY	325,987	332,666	325,987	384,149
Premiums received	52,140	59,584	52,140	59,584
Fees deducted from account balances	5,872	(6,274)	5,872	(6,274)
Liabilities released for payments on death, surrender and other terminations in the year	(99,846)	(62,819)	(99,846)	(62,819)
Other movements	(5,751)	2,830	(5,751)	(48,653)
CLOSING BALANCE AT 30 JUNE	278,402	325,987	278,402	325,987
Expected maturity				
Within 12 months	90,502	136,809	90,502	136,809
Later than 12 months	187,900	189,178	187,900	189,178
	278,402	325,987	278,402	325,987

34. INTEREST BEARING LIABILITIES

	Group		Parent	
	2009 $'000s	2008 $'000s	2009 $'000s	2008 $'000s
Capital guaranteed bonds	73,841	75,000	-	-
TOTAL INTEREST BEARING LIABILITIES	73,841	75,000	-	-
Expected maturity				
Within 12 months	-	-	-	-
Later than 12 months	73,841	75,000	-	-
	73,841	75,000	-	-

The Capital Guaranteed Bond is listed on the New Zealand Debt Exchange (NZDX) offering capital guaranteed bonds.

Interest was suspended on 15 January 2008 under the terms of the Trust Deed as the Net Asset Value was below the threshold for payment. The suspended interest earns interest at the respective bond rate until paid. Interest including suspended interest on the Capital Guaranteed Bonds was paid on 15 July 2008, as the value of funds exceeded the thresholds. The assets of the fund at the 15 January 2009 fell again below the threshold and interest was suspended. This was also the same at 15 July 2009 when insufficient funds resulted in a further suspension of interest. Projections of cash flows indicate that funds may not be available to meet all interest payments on the Capital Guaranteed Bonds. Interest is only contractually due where sufficient funds are available. These values have been reflected in effective interest rate adjustment (refer note 2 (ai) Interest bearing liabilities). The fair value of the Capital Guaranteed Bonds at the 30 June 2009 based on the reported yield on the NZDX was $51,886,728 (2008:$71,653,871). The final settlement date to repay the principal borrowings for both the Capital Guaranteed Bonds and Subordinated Bonds are 15 July 2013. The interest suspended does not impact on the going concern assumption, rather it is related to the performance of the Capital Guaranteed Bonds.

Notes to the financial statements (continued)

FOR THE YEAR ENDED 30 JUNE 2009

35. PAYABLES AND OTHER FINANCIAL LIABILITIES

		Group		Parent	
		2009 $'000s	2008 $'000s	2009 $'000s	2008 $'000s
Creditors and accruals		2,855	11,069	2,516	3,658
Claims approved for settlement		12,361	7,695	12,361	7,695
Premiums in advance		490	330	490	329
Reinsurance liabilities		2,735	5,231	2,735	5,231
Employee entitlements		1,342	1,044	1,342	1,044
Employee share purchase plan refund provision	47	1,451	1,506	1,451	1,506
		21,234	26,875	20,895	19,463
Expected maturity					
Within 12 months		21,234	26,875	20,895	19,463
Later than 12 months		-	-	-	-
		21,234	26,875	20,895	19,463

36. DEFERRED TAX

(a) The balance comprises temporary differences attributable to:

2009

	Fixed Assets	Provisions	Investments	Deferred acquisition costs	Unused tax losses	Total
	$'000s	$'000s	$'000s	$'000s	$'000s	$'000s
Deferred tax liabilities						
GROUP						
Balance at beginning of year	30	22	903	16,461	-	17,416
Movement through profit and loss	(48)	(22)	(324)	3,134	-	2,740
Movement through equity	-	-	-	-	-	-
Balance at end of the year	(18)	-	579	19,595	-	20,156
PARENT						
Balance at beginning of year	30	-	903	16,461	-	17,394
Movement through profit and loss	(48)	-	(324)	3,134	-	2,762
Movement through equity	-	-	-	-	-	-
Balance at end of the year	(18)	-	579	19,595	-	20,156

Notes to the financial statements (continued)

FOR THE YEAR ENDED 30 JUNE 2009

36. DEFERRED TAX (continued)

	Fixed Assets	Provisions	Investments	Deferred acquisition costs	Unused tax losses	Total
	$'000s	$'000s	$'000s	$'000s	$'000s	$'000s
Deferred tax assets						
GROUP						
Balance at beginning of year	-	644	-	-	10,109	10,753
Movement through profit and loss		332	-	-	4,280	4,612
Movement through equity	-	-	-	-	-	-
Balance at end of the year	-	976	-	-	14,389	15,365
PARENT						
Balance at beginning of year	-	644	-	-	10,109	10,753
Movement through profit and loss	-	(22)	-	-	4,280	4,258
Movement through equity	-	-	-	-	-	-
Balance at end of the year		622	-	-	14,389	15,011

	Fixed Assets	Provisions	Investments	Deferred acquisition costs	Unused tax losses	Total
	$'000s	$'000s	$'000s	$'000s	$'000s	$'000s
GROUP						
Net deferred tax liability/(asset)	(18)	(976)	579	19,595	(14,389)	4,791
PARENT						
Net deferred tax liability/(asset)	(18)	(622)	579	19,595	(14,389)	5,145

2008

	Fixed Assets	Provisions	Investments	Deferred acquisition costs	Unused tax losses	Total
	$'000s	$'000s	$'000s	$'000s	$'000s	$'000s
Deferred tax liabilities						
GROUP						
Balance at beginning of year	30	-	1,996	15,009	-	17,035
Movement through profit and loss	-	22	(1,093)	1,452	-	381
Movement through equity	-	-	-	-	-	-
Balance at end of the year	30	22	903	16,461	-	17,416
PARENT						
Balance at beginning of year	30	-	1,996	15,009	-	17,035
Movement through profit and loss	-	-	(1,093)	1,452	-	359
Movement through equity	-	-	-	-	-	-
Balance at end of the year	30	-	903	16,461	-	17,394

Notes to the financial statements (continued)

FOR THE YEAR ENDED 30 JUNE 2009

36. DEFERRED TAX (continued)

	Fixed Assets	Provisions	Investments	Deferred acquisition costs	Unused tax losses	Total
	$'000s	$'000s	$'000s	$'000s	$'000s	$'000s
Deferred tax assets						
GROUP						
Balance at beginning of year	-	729	-	-	13,036	13,765
Movement through profit and loss	-	(85)	-	-	(2,927)	(3,012)
Movement through equity	-	-	-	-	-	-
Balance at end of the year	-	644	-	-	10,109	10,753
PARENT						
Balance at beginning of year	-	729	-	-	12,170	12,899
Movement through profit and loss	-	(85)	-	-	(2,061)	(2,146)
Movement through equity	-	-	-	-	-	-
Balance at end of the year	-	644	-	-	10,109	10,753

	Fixed Assets	Provisions	Investments	Deferred acquisition costs	Unused tax losses	Total
	$'000s	$'000s	$'000s	$'000s	$'000s	$'000s
GROUP						
Net deferred tax liability/(asset)	30	(622)	903	16,461	(10,109)	6,663
PARENT						
Net deferred tax liability/(asset)	30	(644)	903	16,461	(10,109)	6,641

(b) Movements:

	Group		Parent	
	2009 $'000s	2008 $'000s	2009 $'000s	2008 $'000s
Opening balance 1 July	6,663	3,270	6,641	4,136
Charged/(credited) to the income statement	(1,872)	3,393	(1,496)	2,505
CLOSING BALANCE AT 30 JUNE	4,791	6,663	5,145	6,641

	Group		Parent	
	2009 $'000s	2008 $'000s	2009 $'000s	2008 $'000s
Deferred tax liabilities				
Deferred tax liability to be recovered after more than 12 months	20,156	17,416	20,156	17,394
Deferred tax liability to be recovered within 12 months	-	-	-	-
	20,156	17,416	20,156	17,394
Deferred tax assets				
Deferred tax asset to be recovered after more than 12 months	15,365	10,753	15,011	10,753
Deferred tax asset to be recovered within 12 months	-	-	-	-
	15,365	10,753	15,011	10,753
DEFERRED TAX LIABILITIES (NET)	4,791	6,663	5,145	6,641

Notes to the financial statements (continued)

FOR THE YEAR ENDED 30 JUNE 2009

37. SHARE CAPITAL

GROUP AND PARENT

	2009 Shares	2008 Shares	2009 $'000s	2008 $'000s
(a) Authorised share capital				
Ordinary shares – fully paid. No par value	1,438,582	1,438,582	12,227	12,081
(b) Movements				
Opening balance of ordinary shares issued	1,438,582	1,429,111	12,081	11,550
Issues of ordinary shares during the year	-	5,885	-	390
Issues of shares under employee share scheme	-	3,586	-	-
Employee share purchase plan fully vested shares	-	-	55	53
Employee share purchase plan expense	-	-	91	88
CLOSING BALANCE OF ORDINARY SHARES ISSUED	1,438,582	1,438,582	12,227	12,081
Held:				
Directly	1,381,199	1,381,199		
Employee share purchase plan trust	57,383	57,383		
TOTAL BALANCE OF ORDINARY SHARES HELD	1,438,582	1,438,582		

(c) Ordinary shares

Ordinary shares entitle the holder to participate in dividends and the proceeds on winding up of the Company in proportion to the number of and amounts paid on the shares held.

38. RETAINED EARNINGS AND RESERVES

(a) Revaluation reserve

	Group		Parent	
	2009 $'000s	2008 $'000s	2009 $'000s	2008 $'000s
Movements in the revaluation reserve were as follows:				
BALANCE AT 1 JULY	1,438	1,523	-	-
Owner occupied land revaluation	(167)	(85)	-	-
BALANCE 30 JUNE	1,271	1,438	-	-

The asset revaluation reserve is used to record increments and decrements on the revaluation of the investment property.

(b) Retained earnings

	Group		Parent	
	2009 $'000s	2008 $'000s	2009 $'000s	2008 $'000s
Movements in Retained Earnings were as follows:				
BALANCE 1 JULY	74,436	59,985	75,542	60,033
Net profit for the year	10,350	15,523	7,759	13,103
Dividends	(1,439)	(1,072)	(1,439)	(1,072)
Gain on amalgamation	-	-	-	3,478
BALANCE AT 30 JUNE	83,347	74,436	81,862	75,542

Notes to the financial statements (continued)

FOR THE YEAR ENDED 30 JUNE 2009

39. DIVIDENDS

GROUP AND PARENT

	2009	2008	2009	2008
	Per share	Per share	$'000s	$'000s
ORDINARY SHARES				
Final dividend	1.00	0.75	1,439	1,072
TOTAL DIVIDEND PAID	1.00	0.75	1,439	1,072

The dividends are fully imputed.

On 29 September 2009 the Company declared a dividend of $1 per share issued amounting to $1,438,582. This dividend is not recognised in the financial statements, as it is a post balance sheet declaration with no liability attaching at 30 June 2009.

40. RECONCILIATION OF NET PROFIT AFTER TAXATION TO CASH FLOWS FROM OPERATING ACTIVITIES

	Group		Parent	
	2009 $'000s	2008 $'000s	2009 $'000s	2008 $'000s
Net profit after taxation	10,350	15,523	7,759	13,103
(Profit)/loss on sale of property and equipment	(13)	(31)	(13)	(31)
(Profit)/loss on sale of investments	5,422	(7,698)	(1,520)	(1,321)
Fair value (gains)/losses on investment property	393	9	-	-
Fair value (gains)/losses on investments	16,275	14,392	14,304	14,302
Fair value gains on owner occupied property	196	507	-	-
Depreciation of property and equipment	671	576	541	463
Equity compensation plans, equity settled expense	91	88	91	88
Taxation	(1,703)	2,342	(1,548)	1,589
Amortisation of acquired value of in-force business and intangibles	780	756	780	151
	32,462	26,464	20,394	28,344
Changes in working capital				
(Increase)/decrease in reinsurance assets	(5,962)	(2,617)	(5,962)	(2,617)
(Increase)/decrease in deferred acquisition costs	(947)	341	(947)	341
(Increase)/decrease in insurance liabilities and investment contracts	(57,428)	(10,012)	(57,428)	(22,817)
(Increase)/decrease in other assets	24	89,311	(46)	25,246
(Increase)/decrease in derivative assets	2,034	8,859	2,213	8,859
Increase/(decrease) in other liabilities	(5,882)	(82,061)	3,044	(30,668)
Increase/(decrease) in derivative liabilities	846	(4,390)	-	(5,094)
Changes in working capital related to investing activities				
Amalgamation of subsidiary	-	-	-	3,478
Transfer to investment purchases/sales	-	(8,027)	-	10,900
Changes in working capital related to financing activities				
Interest paid	(711)	2,169	-	-
CASH GENERATED FROM OPERATIONS	(35,564)	20,037	(38,732)	15,972

Notes to the financial statements (continued)

FOR THE YEAR ENDED 30 JUNE 2009

41. FINANCIAL INSTRUMENTS BY CATEGORY

ASSETS AS PER BALANCE SHEET

	Assets at fair value through profit or loss	Loans and other receivables	Total
	$'000	$'000	$'000
GROUP			
Year ended 30 June 2009			
Assets at fair value through profit or loss	388,290	-	388,290
Derivative financial instruments	8,350	-	8,350
Loans and other receivables	-	28,376	28,376
Cash and cash equivalents	-	15,381	15,381
	396,640	43,757	440,397
Year ended 30 June 2008			
Assets at fair value through profit or loss	415,020	-	415,020
Derivative financial instruments	-	-	-
Loans and other receivables	-	64,535	64,535
Cash and cash equivalents	-	17,120	17,120
	415,020	81,655	496,675
PARENT			
Year ended 30 June 2009			
Assets at fair value through profit or loss	316,819	-	316,819
Derivative financial instruments	8,171	-	8,171
Loans and other receivables	-	34,869	34,869
Cash and cash equivalents	-	11,222	11,222
	324,990	46,091	371,081
Year ended 30 June 2008			
Assets at fair value through profit or loss	335,533	-	335,533
Derivative financial instruments	-	-	-
Loans and other receivables	-	72,587	72,587
Cash and cash equivalents	-	14,489	14,489
	335,533	87,076	422,609

Notes to the financial statements (continued)

FOR THE YEAR ENDED 30 JUNE 2009

41. FINANCIAL INSTRUMENTS BY CATEGORY (continued)

LIABILITIES AS PER BALANCE SHEET

	Liabilities at fair value through profit or loss	Measured at amortised cost	Total
	$'000	$'000	$'000
GROUP			
Year ended 30 June 2009			
Derivative financial instruments	8,694	-	8,694
Payables and other financial liabilities	-	19,293	19,293
Interest bearing liabilities	-	73,841	73,841
	8,694	93,134	101,828
Year ended 30 June 2008			
Derivative financial instruments	2,310	-	2,310
Payables and other financial liabilities	-	25,039	25,039
Interest bearing liabilities	-	75,000	75,000
	2,310	100,039	102,349
PARENT			
Year ended 30 June 2009			
Derivative financial instruments	6,588	-	6,588
Payables and other financial liabilities	-	18,954	18,954
	6,588	18,954	25,542
Year ended 30 June 2008			
Derivative financial instruments	1,050	-	1,050
Payables and other financial liabilities	-	17,628	17,628
	1,050	17,628	18,678

42. RELATED PARTY TRANSACTIONS

(a) Parent entities

The ultimate parent entity within the Group is Fidelity Life Assurance Company Limited.

(b) Directors

The names of persons who were Directors of the Company at any time during the financial year are as follows: Ian Braddock; Jeffrey Meltzer; Carole Durbin; Colin Wise; David Whyte (appointed 1 April 2009).

(c) Key management personnel compensation

Key management personnel compensation for the year ended 30 June 2009 and the year ended 30 June 2008 is set out below. 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.

	2009	2008
	$'000s	$'000s
Short term benefits	2,143	2,117
Employee share purchase scheme benefit	-	36
TOTAL	2,143	2,153

Notes to the financial statements (continued)

FOR THE YEAR ENDED 30 JUNE 2009

42. RELATED PARTY TRANSACTIONS (continued)

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

Information on transactions with key management personnel or entities related to them, other than compensation, are set out below.

	Group		Parent	
	2009 $'000s	2008 $'000s	2009 $'000s	2008 $'000s
Loans to key management personnel comprise:				
Unsecured loans:				
Unsecured loans at 1 July	11	29	11	29
Unsecured loans advanced during the year	42	3	42	3
Loan repayments received – unsecured loans	(21)	(21)	(21)	(21)
UNSECURED LOANS AT 30 JUNE	32	11	32	11
SECURED LOANS AT 30 JUNE	-	-	-	-
	32	11	32	11
INTEREST REVENUE FROM LOANS	1	2	1	2

(e) Transactions with related parties

The following transactions occurred with related parties:

	Group		Parent	
	2009 $'000s	2008 $'000s	2009 $'000s	2008 $'000s
Interest revenue due from subsidiaries	-	-	-	647
Reimbursement of transaction costs due from subsidiaries	-	-	-	-
Administration and management fees due from subsidiaries	-	-	-	838
Policy maintenance expenses due from subsidiaries	-	-	-	-
Rent expense due to subsidiaries	-	-	-	610
Commissions paid to shareholders who hold agency agreements with the Company	1,867	2,247	1,867	2,247

All transactions are at arm's length.

(f) Outstanding balances

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

	Group		Parent	
	2009 $'000s	2008 $'000s	2009 $'000s	2008 $'000s
Fidelity Capital Guaranteed Bonds Limited	-	-	638	5,810
Fidelity Funds Management Limited	-	-	(7)	(7)
Fidelity Life Properties Limited	-	-	6,077	7,443
Fidelity Securities Limited	-	-	-	-
Loans made to shareholders	4,532	1,470	4,532	1,470

Notes to the financial statements (continued)

FOR THE YEAR ENDED 30 JUNE 2009

42. RELATED PARTY TRANSACTIONS (continued)

(g) Terms and conditions

Secured loans

The secured loans are for periods of two years repayable in cash, at interest rates ranging from 5.8% to 7.35% per annum, and are secured by first mortgages over the individuals' residences.

Unsecured loans

The unsecured loans were made for a period of between three months and three years three months, repayable in cash in full. Interest is payable at the prescribed Inland Revenue Department (IRD) fringe benefit tax rate.

Commissions paid to shareholders

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

Outstanding balances with related parties

Subisidary advances are payable on demand, with the exception of the subordinated bond in FCGBL that has a maturity date of 13 July 2013. Outstanding balances are unsecured, do not bear interest and are repayable in cash.

Loans made to shareholders

Loans made to shareholders are secured by mortgages over property or other assets. The average annual interest rate was approximately 6.13% (2008: 8.98%)

43. CONTINGENCIES

As at 30 June 2009 the Group had no contingent liabilities or assets (2008: nil).

44. COMMITMENTS

(a) Capital commitments

There were no material capital commitments at balance date other than those disclosed elsewhere in the financial statements (2008: nil).

(b) Operating lease commitments: Group and Parent as lessee

Leases are for commercial office space in Auckland, Tauranga, Wellington and Christchurch.

	Group		Parent	
	2009 $'000s	2008 $'000s	2009 $'000s	2008 $'000s
Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:				
Within one year	122	101	122	101
Later than one year but not later than five years	100	154	100	154
Later than five years	-	-	-	
	222	255	222	255

The Group has entered into lease agreements the right of renewal/extension of lease terms (being the conditional portion of the lease) as follows:

Lease A (Tauranga):

- 1 July 2010 right of renewal for a further non-cancellable lease to 30 June 2011.
- 1 July 2011 right of renewal for a further non-cancellable lease to 30 June 2012.

Lease B (Wellington):

- 1 October 2011 right of renewal for a further non-cancellable lease to 30 September 2014.

Notes to the financial statements (continued)

FOR THE YEAR ENDED 30 JUNE 2009

44. COMMITMENTS (continued)

Lease C (Christchurch):

- 1 September 2010 right of renewal for a further non-cancellable lease to 31 August 2013.

(c) Operating leases: Group and Parent as lessor

Leases are for commercial office space in Auckland.

	Group		Parent	
	2009 $'000s	2008 $'000s	2009 $'000s	2008 $'000s
Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:				
Within one year	799	832	-	-
Later than one year but not later than five years	1,617	704	-	-
Later than five years	-	-	-	-
	2,416	1,536	-	-

The Group has entered into lease agreements with tenants for the right of renewal/extension of lease terms (being the conditional portion of the lease) as follows:

Tenant A:

- 1 March 2013 right of renewal for a further non-cancellable lease to 28 February 2016.

Tenant B:

- 30 November 2010 right of renewal for a further non-cancellable lease to 29 November 2013; and
- 29 November 2013 right of renewal for a further non-cancellable lease to 28 February 2016.

45. FIDUCIARY ACTIVITIES

Fidelity Fund Management Limited, a wholly owned subsidiary, acts as a trustee for a number of superannuation funds. The parent company manages $124,201m (2008: $110,344m) on behalf of this subsidiary.

	Group		Parent	
	2009 $'000s	2008 $'000s	2009 $'000s	2008 $'000s
Funds managed by Fidelity Life Assurance Company Limited	178,862	113,642	178,862	113,642
Funds managed by third parties	10,800	10,639	10,800	10,639
TOTAL FIDUCIARY BALANCES	189,662	124,281	189,662	124,281

46. EVENTS OCCURRING AFTER THE BALANCE SHEET DATE

In October 2009 Parliament enacted new legislation which will change the way the life insurance industry is taxed. The effect will be to increase the tax cost to life insurers, with a concomitant reduction in net profits. The life insurance industry is expected to meet this, to some extent, by increasing premium prices. Fidelity Life intends to increase premium prices by 2.5% per year for the next 5 years to partially mitigate the effect of the tax changes. There were no other events requiring adjustment to or disclosure in the financial statements other than those disclosed elsewhere (2008:nil).

Notes to the financial statements (continued)

FOR THE YEAR ENDED 30 JUNE 2009

47. SHARE BASED COMPENSATION

The Fidelity Life Employee Share Purchase Scheme (the scheme) was established by the Company in 1988 to assist employees to become shareholders. Employees who have been with the Company for a period of at least one year are entitled to participate in the scheme. Shares are issued to the scheme at an issue price based on the fair value of the shares at the date of issue. Fair value is determined by the board of directors by reference to a combination of recent trading activity and an independent valuer's report. Allocated shares participate in dividends, but voting rights are held by the trustees of the scheme. Neither the company nor its related parties have rights with respect to the shares issued by the scheme.

Ian Braddock, the chairman of the company, and Milton Jennings, CEO, are trustees of the scheme. As such, they have non-beneficial control of any shares in the scheme not yet allocated to employees. The Trustees are appointed by the company's board of directors. Other key management personnel are also included within the scheme.

Shares are held in trust for employees and vest eight years from the end of the income tax year in which the shares were purchased.

The Scheme entitles employees to purchase shares in Fidelity Life Assurance Company Limited at a discount. This discount is recorded by the Company and Group as an employee benefit expense. Refer to note 14 for the expense incurred by the Company and Group for the year.

The fair value of the shares has been determined in reference to the latest arm's length trading undertaken.

Movements in the carrying value of shares held by the employee trust comprise:

	2009			
	Number	Notional Value $000s	Reported Value $000s	Total $000s
Held by Trust at 1 July	**57,383**	**1,506**	**(66)**	**1,440**
Shares issued during year	**-**	**-**	**-**	**-**
Shares vested from Trust	**-**	**(55)**	**-**	**(55)**
BALANCE AT 30 JUNE	**57,383**	**1,451**	**(66)**	**1,385**

	2008			
	Number	Notional Value $000s	Reported Value $000s	Total $000s
Held by Trust at 1 July	61,667	1,302	(13)	1,289
Shares issued during year	3,586	204	-	204
Shares vested from Trust	(7,870)	-	(53)	(53)
BALANCE AT 30 JUNE	57,383	1,506	(66)	1,440

At 30 June 2009, shares held in employee trust unvested were as follows:

	Year of Grant	Number of shares	Market Price	Grant Price
FIDELITY LIFE EMPLOYEE SHARE PURCHASE SCHEME				
	pre 2002	6,650	19.50	13.00
	2002	7,350	20.00	13.33
	2003	14,000	26.63	17.75
	2004	7,903	31.17	20.78
	2005	8,540	43.70	29.13
	2006	9,285	64.76	43.18
	2007	3,655	83.75	55.84

At any time during the vesting period the employee has an option to require the Group to re-purchase the shares at the lower of cost or fair value. Refer to note 35.

Notes to the financial statements (continued)

FOR THE YEAR ENDED 30 JUNE 2009

48. RESTRICTIONS ON ASSETS

There are no restrictions on the use of assets invested for policyholder benefits, nor any restrictions on legal titles to assets. Assets are not restricted in their use or disposal, other than $2.3m (2008: $2.3m) of government bonds held in custody with the Public Trust as required by the Life Insurance Act 1908 and the Insurance Companies Deposits Act 1953.

49. POLICYHOLDER CREDIT ACCOUNT

	Group		Parent	
	2009 $'000s	2008 $'000s	2009 $'000s	2008 $'000s
Balance at the beginning of the period	212	756	212	756
Transfer (to)/from imputation credit account	(415)	(528)	(415)	(528)
Prior year tax adjustment	310	(16)	310	(16)
BALANCE AT THE END OF THE PERIOD	107	212	107	212

50. EARNINGS PER SHARE

(i) BASIC

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the year, excluding ordinary shares purchased by the Company and held as treasury shares.

	2009	2008
Profit attributable to equity holders of the Company (thousands)	10,350	15,523
Weighted average number of ordinary shares in issue (thousands)	1,439	1,436
Basic earnings per share (dollars)	7.19	11.35

(ii) DILUTED

There is no dilution in the earnings per share as the employee share purchase plan is recognised within the basic earnings per share.

Auditors' report

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Auditors' Report

To the shareholders of Fidelity Life Assurance Company Limited

We have audited the financial statements on pages 28 to 91. The financial statements provide information about the past financial performance and cash flows of the Company and Group for the year ended 30 June 2009 and their financial position as at that date. This information is stated in accordance with the accounting policies set out on pages 32 to 42.

Directors' Responsibilities

The Company's Directors are responsible for the preparation and presentation of the financial statements which give a true and fair view of the financial position of the Company and Group as at 30 June 2009 and their financial performance and cash flows for the year ended on that date.

Auditors' Responsibilities

We are responsible for expressing an independent opinion on the financial statements presented by the Directors and reporting our opinion to you.

Basis of Opinion

An audit includes examining, on a test basis, evidence relevant to the amounts and disclosures in the financial statements. It also includes assessing:

(a) the significant estimates and judgements made by the Directors in the preparation of the financial statements; and

(b) whether the accounting policies are appropriate to the circumstances of the Company and Group, consistently applied and adequately disclosed.

We conducted our audit in accordance with generally accepted auditing standards in New Zealand. We planned and performed our audit so as to obtain all the information and explanations which we considered necessary to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatements, whether caused by fraud or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

We have no relationship with or interests in the Company or any of its subsidiaries other than in our capacities as auditors, tax advisors and providers of other assurance related and financial advisory services.

Unqualified Opinion

We have obtained all the information and explanations we have required.

In our opinion:

(a) proper accounting records have been kept by the Company as far as appears from our examination of those records; and

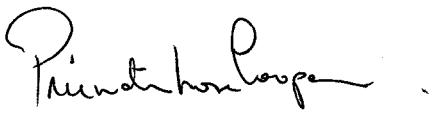
(b) the financial statements on pages 28 to 91:

  (i) comply with generally accepted accounting practice in New Zealand;

  (ii) comply with International Financial Reporting Standards; and

  (iii) give a true and fair view of the financial position of the Company and Group as at 30 June 2009 and their financial performance and cash flows for the year ended on that date.

Our audit was completed on 16 October 2009 and our unqualified opinion is expressed as at that date.



Chartered Accountants Auckland