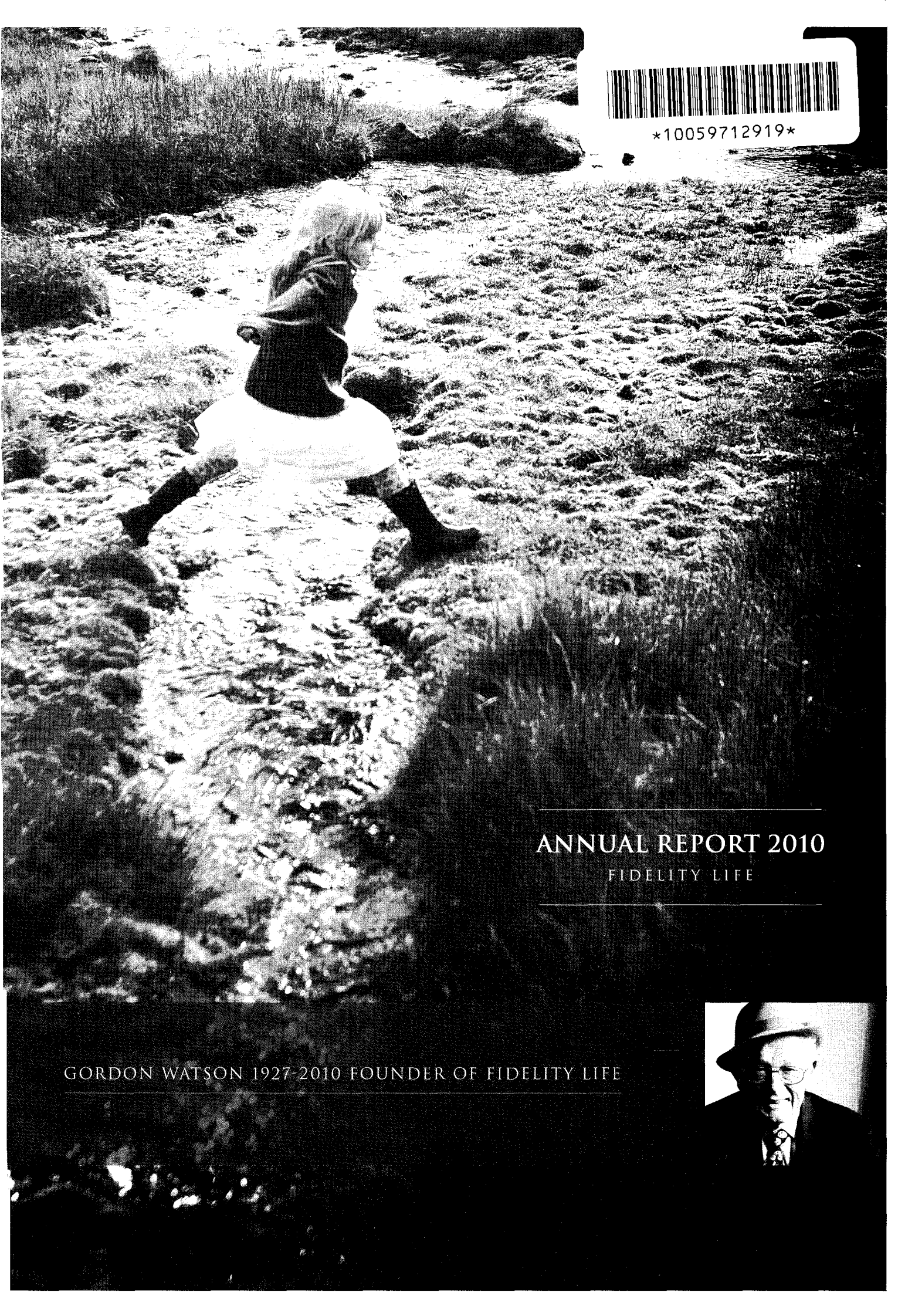




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ANNUAL REPORT 2010  
FIDELITY LIFE

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GORDON WATSON 1927-2010 FOUNDER OF FIDELITY LIFE

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# KEEPING FAMILIES STRONG

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BY PROVIDING INSURANCE AND SAVINGS SOLUTIONS  
FOR NEW ZEALANDERS, FIDELITY LIFE HELPS KEEP  
KIWI FAMILIES STRONG TODAY AND TOMORROW.

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CHECKED

NATIONAL PROCESSING  
CENTRE

- 8 NOV 2010

RECEIVED

## FIDELITY LIFE ANNUAL REPORT 2010



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### ANNUAL REPORT 2010

The information in this report is current as at 30 June 2010, unless otherwise specified. All amounts are in New Zealand dollars, unless otherwise specified.

01

KEEPING FAMILIES STRONG

#### 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.







## SIGNIFICANT EVENTS OF THE YEAR

- GORDON WATSON, FIDELITY LIFE'S FOUNDER, PASSED AWAY
- RECORD GROUP PROFIT OF \$16.9 MILLION
- A RECORD \$13.7 MILLION NEW PREMIUMS WRITTEN
- LAUNCH OF PLATINUM*PLUS* RISK PRODUCT RANGE
- FIDELITY KIWISAVER SCHEME FASTEST GROWING IN NEW ZEALAND





# CHAIRMAN'S REPORT

IAN BRADDOCK

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ON BEHALF OF THE BOARD OF DIRECTORS, I AM DELIGHTED TO REPORT A RECORD NET PROFIT AFTER TAX OF \$16.9M, A 63% INCREASE ON THE 2009 YEAR.

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## Financial results

The year to 30 June 2010 stands in marked contrast to the previous year. Twelve months ago my report to shareholders dealt with the effects of the aftermath of international financial market turbulence on the financial services sector in New Zealand. The outcome for Fidelity Life shareholders was depressed investment revenue and a reduced profit. This year has seen the turbulence recede, with prices and yields steadying and investment returns recovering. This, coupled with a positive return on the underwriting business, has produced a very positive result for shareholders. On behalf of the board of directors, I am delighted to report a record net profit after tax of \$16.9m, a 63% increase on the 2009 year.

Group investment revenue from both the insurance and non-insurance business is \$54m for the current year, compared with \$3m for the 2009 year. The revenue comprises \$36m from the life insurance business and \$18m from Fidelity Capital Guaranteed Bond Limited (FCGBL). After expenses, FCGBL delivered a net profit after tax of \$0.5m, a pleasing turnaround from the \$0.3m loss of last year. This

profit was the residual surplus after having paid all interest due on the guaranteed bonds during the year – all arrears of interest, penalty interest accumulated on those arrears, and the coupon interest that fell due during the 2010 year.

The life insurance investment revenue of \$36m resulted from significant improvements in the equity and fixed interest markets, with a small contribution from property. Our building in Newmarket increased in value over the year, and with full occupancy, delivered positive rental income. The impact on profit of the growth in overseas markets was much greater, with indexes climbing sharply. This was tempered to some extent by the continuing strength of the New Zealand dollar.

Our other significant investment activity, Fidelity KiwiSaver, grew rapidly during the year. KiwiSaver is a trust scheme, and therefore is not included in the Fidelity Life group figures. However, I can advise that we significantly increased the number of members in our KiwiSaver schemes during the year, and grew the funds under management from \$46m to \$116m. While we are still recovering the initial establishment costs related to KiwiSaver, fee

revenue is strong and growing, and we anticipate it will provide a significant component of our investment related revenue in future.

Ordinary risk insurance premium for the year was \$80.7m, an increase of 7% over the previous year. The amount of premium passed on to reinsurers increased as we transferred a greater proportion of the claims risk to the reinsurers.

Net claims expenses after recovery from reinsurers fell 25%, from \$10.3m to \$7.7m. I note that last year we experienced an increase in claims or "spike", which has not reoccurred this year, with claims reflecting a steadier progressive trend. Underwriting activities overall have contributed positively to the profit this year, although on a smaller scale than the investment side of the business.

The costs of acquiring new business and operating the company increased by 14% over last year. Commissions increased as new business (including KiwiSaver) was taken onto the books. Management expenses increased predominantly as a result of a growth in head count – we added staff to handle the processing of increased volumes of both the insurance and KiwiSaver businesses. During the final quarter of the financial year we, and the life industry generally, experienced a rapid uptake of level-term contracts, as policyholders sought to lock in prices prior to anticipated premium increases in response to pending income tax changes. In addition, KiwiSaver membership numbers doubled during the year. We also committed more resources to our IT area in order to speed up the delivery of key projects.

#### **Balance sheet and financial strength**

Total assets grew by 7% to \$529m as investment valuations improved, and policyholder surrenders and withdrawals returned to more normal levels. This figure does not include \$116m funds under management in our KiwiSaver scheme. Shareholders' funds grew from \$97m to \$113m, and policyholder liabilities from \$273m to \$290m. Shareholders' funds as a percentage of policyholders' funds is now 39%, up from 35% last year. This changing ratio reflects

our focus on risk rather than savings business over the last few years.

Our rating agency A.M. Best reaffirmed our A-(Excellent) rating which we have held for 14 consecutive years.

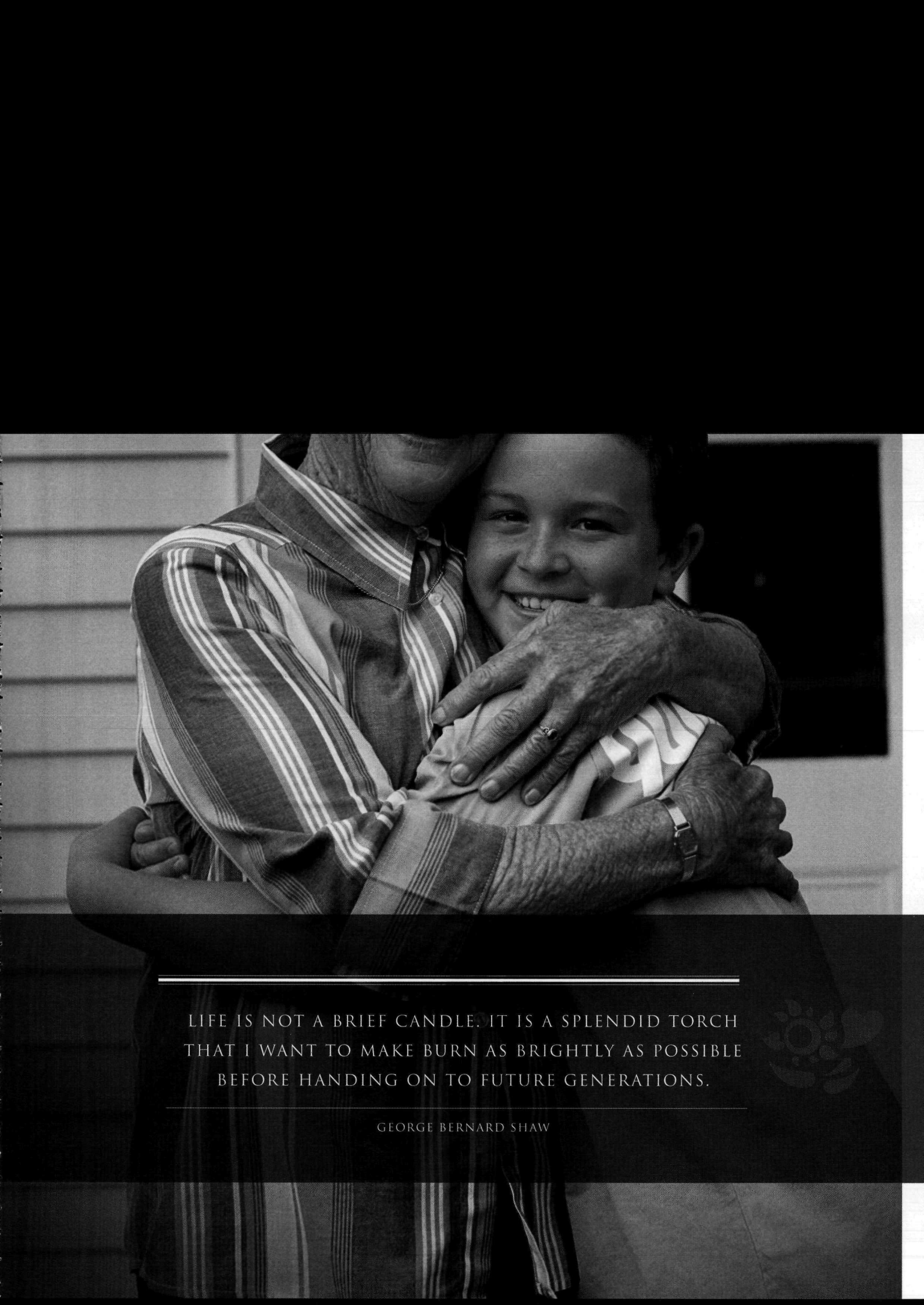
The solvency margin is \$12.3m, up from \$11.4m last year – this is the surplus by which Fidelity Life exceeds the minimum level required by the New Zealand Society of Actuaries Professional Standard No. 5.

#### **Dividend**

Last year the directors held the annual dividend at \$1.00 per share, the same as the 2008 dividend. That was in response to the reduced profit and difficult year experienced by the financial services industry. We have a stated policy of aiming for a 15% increase in the dividend per year over a rolling five year period, and I am pleased to advise that circumstances have improved sufficiently to restore the dividend to the level anticipated by this policy. The directors have authorised a normal dividend for the 2010 year of \$1.32 per share. This represents a 15% compounded increase on the two years since the 2008 dividend. In addition, directors have authorised a one-off special dividend of \$0.15 per share to be paid along with the normal dividend. This represents a "catch up" of the foregone increase in 2009. The \$1.47 will be net of tax – a combination of imputation credits and resident withholding tax credits will be distributed along with it, ensuring that the cash payment is \$1.47 per share. We believe shareholders appreciate the need to adjust the dividend from time to time in accordance with market conditions, and we are delighted to be able to restore the 2010 dividend to the growth trend envisaged by our policy.

#### **Outlook**

While this year's surplus represents an exceptional bounce back from the lower result of last year, I remind shareholders that our industry faces a fundamental change in the coming year – the new life insurance income tax legislation came into effect on 1 July 2010. I referred to the challenges posed by the new tax rules in my report last year. The separation



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LIFE IS NOT A BRIEF CANDLE. IT IS A SPLENDID TORCH  
THAT I WANT TO MAKE BURN AS BRIGHTLY AS POSSIBLE  
BEFORE HANDING ON TO FUTURE GENERATIONS.

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GEORGE BERNARD SHAW



of the business from a tax perspective into its investment and underwriting limbs will mean a significant increase in the tax impost. This will need to be covered by a combination of increasing prices and revenues and decreasing expenses. The challenge will be to get the balance right and continue to grow the business while delivering acceptable returns to shareholders.

We are currently subject to more legislative changes than at any other time in the history of the company. Our industry is currently addressing income tax changes, prudential supervision rules, financial adviser regulation and new laws dealing with the financing of terrorism and money laundering. The GST rate changes will also have an impact, albeit to a lesser degree than other changes. Compliance costs are increasing and directors and management must spread their time over a greater range of issues than ever before. 2011 will be a year of change.

Financial markets have steadied over the past year and the extreme volatility of 2008/2009 has subsided. However, recent high profile finance company problems suggest we are not completely out of the woods, and there may be further distress in the financial services industry. On a positive note, investment returns are currently steady and positive. Should the New Zealand dollar fall this year, our offshore investments will benefit in local currency terms.

KiwiSaver membership numbers across the entire industry have reached levels that suggest market saturation is approaching. We anticipate a leveling off of KiwiSaver applications over the coming year. As this occurs, and the value of funds grows, we will divert resources from increasing member numbers, to increasing funds under management.

At the time of writing we are nearing the end of the first quarter of the 2011 financial year. Risk sales remain strong and there has been no apparent drop off since 30 June, despite the expiry of the tax driven incentive to buy life insurance before prices began to increase. We have increased staff numbers in the sales team, and plan to promote the risk

area heavily this year, with a particular focus on distribution opportunities through a number of large adviser groups.

My message to shareholders is that the current year's excellent profit is unlikely to be repeated in 2011, the key constraint being the taxation changes. However, we are working hard to reduce costs and increase revenues wherever practical, and we are well placed to take advantage of both sales opportunities and investment market growth. We look forward to 2011 with enthusiasm, and believe we are well positioned to meet these challenges.

#### Acknowledgements

I would like to express my appreciation to our policyholders and KiwiSaver members, and to our financial advisers for their loyalty and commitment.

I would also like to thank our other business partners including fund managers, trustees, reinsurers and professional consultants.

During the year our founder and past director and chairman, Gordon Watson, passed away. Our sympathy is extended to his family. An acknowledgement of the significant role played by Gordon in the development and success of the company is included in this annual report.

I am grateful to Chief Executive Officer Milton Jennings for his experienced leadership of the company during the year. I also extend my thanks to Milton's management team and staff, who were put under some extraordinary pressure this year and who responded with their usual hard work and dedication.

Finally, I thank my fellow directors for their collective contribution and ongoing commitment to Fidelity Life.



Ian Braddock  
Chairman



## SUPPORTING THE LEUKAEMIA & BLOOD FOUNDATION IS IN OUR BLOOD

Fidelity Life is proud to continue supporting the Leukaemia & Blood Foundation. During the past six years, we have contributed over \$300,000 towards their work.

This year, Milton Jennings, Fidelity Life CEO joined over 400 fire fighters for the seventh annual Firefighter Sky Tower Challenge in support of the Leukaemia & Blood Foundation on 22 May.

They raced up 51 flights – or 1,103 Sky Tower steps – wearing full firefighting kit and breathing apparatus weighing up to 25kg.

And in March all of the Fidelity Life staff got behind Lian Wong's Shave for a Cure, and raised over \$3,000, which the company matched.

"The significant contributions that Fidelity Life and its staff make to the Leukaemia & Blood Foundation enable us to continue to provide vital support to patients and families with blood cancers and conditions. We are so very appreciative of the dedicated and ongoing support," says Pru Etcheverry, LBF Executive Director.

*From above left:  
Dave Howard, Tony  
Gollin (Chief Operating  
Officer Aeronautical,  
Auckland Airport), Milton  
Jennings (Fidelity Life  
CEO), Pru Etcheverry  
(LBF Executive Director),  
Mike Clarke, Hilary  
Barry (TV Personality).*





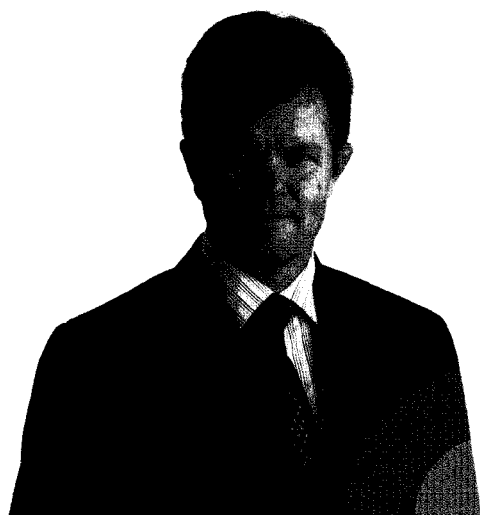
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ONE WAY TO GET THE MOST OUT OF LIFE IS TO LOOK  
UPON IT AS AN ADVENTURE.

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WILLIAM FEATHER





## CEO'S REVIEW

MILTON JENNINGS




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I AM DELIGHTED THAT 2010 HAS BEEN A RECORD PROFIT YEAR FOR FIDELITY LIFE. THIS IS PARTICULARLY PLEASING, COMING IN THE WAKE OF THE GLOBAL FINANCIAL CRISIS.

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The global economic recession eased during the 2010 financial year, producing an improvement in the performance of international financial markets. This in turn, led to substantially increased investment revenue for Fidelity Life. While this is encouraging, there are significant new challenges on the horizon for the life insurance and investment industry. The new life insurance taxation regime took effect from 1 July 2010, bringing with it premium increases across the industry as insurance providers seek to maintain shareholder returns. The financial adviser regulation rules will improve the overall quality of advisers in the longer term, but initially we expect some pressure on sales targets as some advisers choose to exit the industry rather than go through the qualification process. The GST rate increase on 1 October will also impact our income protection and trauma policyholders. However, we are in a strong position, with good sales momentum, and we are well prepared for the year ahead.

### Operating environment

The international financial markets' crisis eased in the 2010 year. While the USA has seen further deterioration in the banking and financial institutions sector, the direct impact on New Zealand has been relatively moderate. Debt problems continue to plague several European countries, Greece being the most fragile. All indicators suggest that world economic recovery will be a long slow process. Here in New Zealand the economy has shown promising signs of recovery over the past year.

### Products

In the 2010 financial year we made what were probably the most wide-reaching changes to our product range for many years. We consolidated our risk product range into a single suite called *PlatinumPlus*, streamlining the old diverse range of products and adding new features and enhancements. Financial advisers have been

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## GROWTH IN THE FIDELITY KIWISAVER SCHEME HAS EXCEEDED TARGETS AND EXPECTATIONS. AS AT 30 JUNE 2010, WE HAD 61,000 MEMBERS – AN INCREASE OF OVER 30,000 DURING THE YEAR.

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enthusiastic about the changes. 2010 also saw the introduction of a new commission structure, designed to encourage business persistency. This new commission structure will help advisers develop a more long-term and sustainable business model, by spreading commission payments over the life of the policies, rather than producing a once-only payment at the beginning of the contract. The introduction of this model across the board was made easier through our having a core group of professional advisers who had already embraced the concept. This group assisted us in establishing a model which is unique in the market, and the envy of our competitors.

### Revenue

If there is a silver lining to the cloud of an economic recession, it is that people are refocused on ensuring the protection of their assets and the welfare of their families. Another factor is the diversion of many advisers from the related mortgage and investment industries into the insurance advisory market. This occurred as mortgage and investment business waned during the recession. These factors, combined with the product and pricing changes made, enabled us to write \$13.7m of new risk premium in the year, representing a 14% increase over the previous year.

Nearly 25% of our new insurance sales this year were for "level-term" contracts, compared to 3% last year. We ran a very successful campaign towards the end of the year encouraging conversion from existing yearly renewable policies to level term. The structure of the 1 July 2010 insurance tax changes meant that policyholders were able to lock in relatively low premiums by making sure their contracts were in place by 30 June 2010.

In the June 2010 quarter, we grew our market share to 8.68%, retaining our sixth place in the market rankings for new risk business. We are currently positioned just behind two of our competitors, and are well placed to improve our ranking to fourth place.

### KiwiSaver/ Investments

Growth in the Fidelity KiwiSaver Scheme has exceeded targets and expectations. As at 30 June 2010, we had 61,000 members – an increase of over 30,000 during the year.

We expect the rate of growth in member numbers to flatten off over the coming year. We will be redirecting our energy towards improving communications with our existing members. The focus will be on the retention of existing clients, by highlighting our positive investment returns and added member benefits.

Towards the end of the financial year we split the administration and sales functions between risk and investment. The primary purpose was to give more focus to the investment area and allow risk to specialise in its established successful domain. This meant the appointment of a new head of sales and marketing for the investment side of the business. Our investment division allows us to diversify our income, thereby reducing the risks that arise from having too many eggs in one basket. The changes to the income tax rules have had a significant impact on the profitability of the investment side of the business. With the reduction in margins, the focus for the future will be on increasing the volume of funds under management.

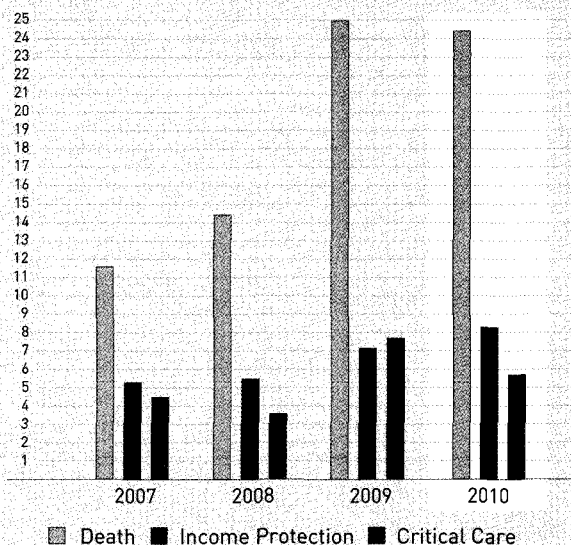
### Distribution

We are grateful for the ongoing strong support and loyalty we receive from our independent financial adviser network. The new spread commission model introduced this year was recognised as the way of the future, and advisers have welcomed it and adapted quickly to the concept of linking the timing of their income stream to that of the company. The independent adviser network remains our only distribution channel, and we are acutely aware that their success is our success. We work closely with them to create mutual efficiencies, enabling them to deliver as much value as possible to their clients.

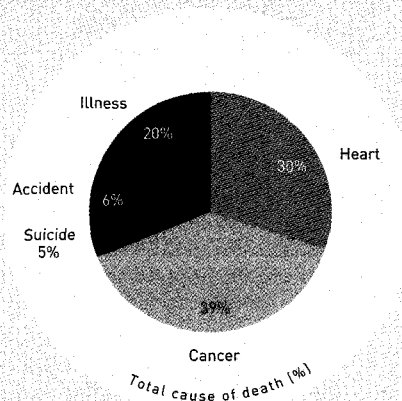
# 2010 CLAIM STATISTICS

FOR THE YEAR ENDED 30 JUNE 2010

## Claims profile (\$millions) 2007-2010

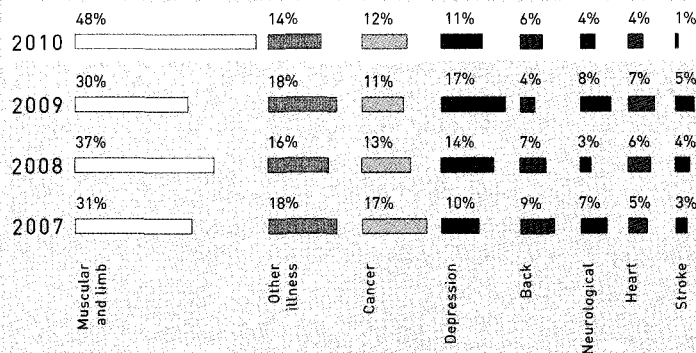


## Death and Terminal Illness claims 2010

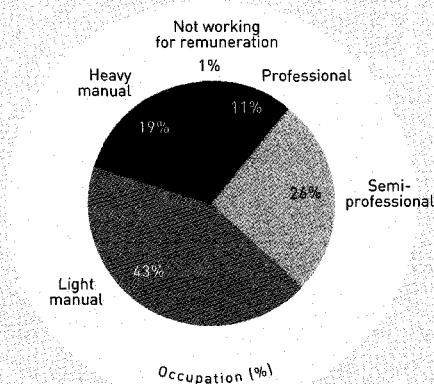


- ▶ 176 Death and Terminal illness claims totalling \$24,449,311
- ▶ Reinsurance recoveries of \$19,689,333
- ▶ Youngest claimant: 24
- ▶ Oldest claimant: 90
- ▶ Average age of claimant: 56

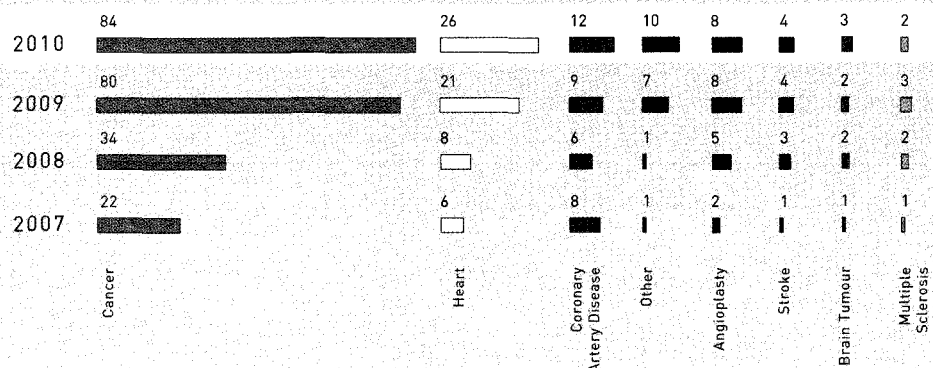
## Income Protection claims 2007-2010



- ▶ Claims due to illness: 51%
- ▶ Claims due to accident: 49%
- ▶ Gross income protection claims totalling \$8,271,402
- ▶ Reinsurance recoveries of \$6,638,912
- ▶ Average duration of claims 15 months
- ▶ Average insured monthly benefit \$3,102



## Critical Care claims 2007-2010



- ▶ 149 Critical Care claims totalling \$5,811,479
- ▶ Reinsurance recoveries of \$3,583,430
- ▶ Youngest claimant: 29
- ▶ Oldest claimant: 63
- ▶ Average age of claimant: 47



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## FIDELITY LIFE HAS GROWN DURING 2010 FROM 142 TO 157 STAFF. INCREASING SALES VOLUME HAS BEEN THE DRIVER FOR THE RECRUITMENT OF MORE STAFF IN THE NEW BUSINESS, CLIENT SERVICES AND KIWISAVER DEPARTMENTS.

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Relationships with key adviser groups have been strengthened with the establishment of a national sales manager role, and the appointment of a key account manager. We recently recruited two new business development managers with backgrounds at ACC – their experience will be invaluable in the developing and nurturing of existing and new business relationships. We are pleased to again rank second in the annual Beaton review, which surveys financial advisers' impressions of industry service standards. We were particularly strong in the relationship, product and IT areas. This is gratifying, since these are the key focuses of the company.

### Technology

Keeping up with developments in information technology and utilising its capabilities to improve the efficiency of our operations continues to be an important part of our business strategy. Ongoing investment in this area is necessary to enable Fidelity Life's complex computer systems to be streamlined and simplified. We need to ensure we keep up with the continually rising expectations of the market to deliver accurate information instantly and efficiently. The 2011 financial year will see the delivery of some key new software to our sales and administration teams. The main projects are a new quotation tool, an electronic application and the conversion of our *Gold Medal investment platform* to a more tax efficient Portfolio Investment Entity (PIE). We intend to deliver these enhancements with the minimum of additional costs.

### Our people

Fidelity Life has grown during 2010 from 142 to 157 staff. Increasing sales volume has been the driver for the recruitment of more staff in the new business, client services and KiwiSaver departments. We have continued with our focus on IT projects and appointed several additional

contractors in that area. We expect to begin scaling back the resources in the IT area in the latter half of 2011 when we decommission our old HP database.

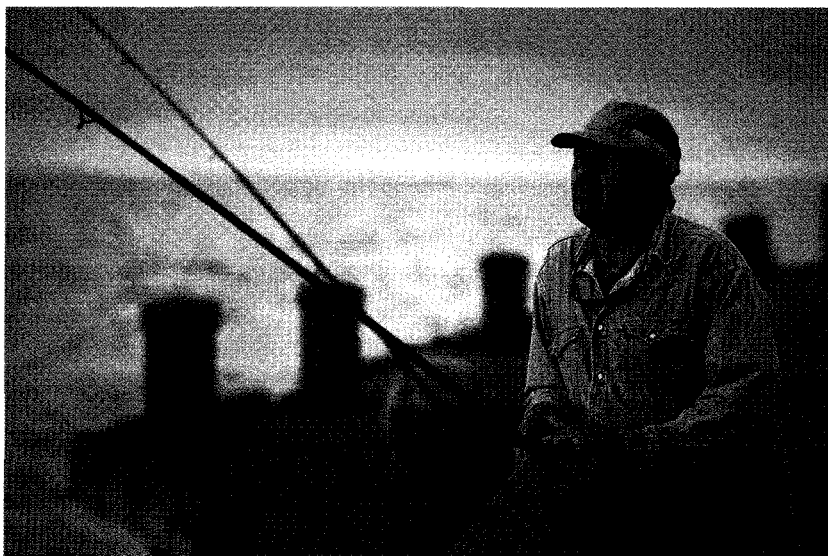
The calibre of Fidelity Life staff is very high, and our people have worked determinedly and tirelessly with management to bring the company through the difficult times of the last few years. We are proud of the caring "family" culture at the company – the resulting high staff retention rate enables us to maintain continuity over much longer periods than the industry average.

My review of 2010 would not be complete without acknowledging the loss of our company founder, Gordon Watson. I feel very blessed to have known Gordon for over 20 years. He was one of a kind, and a true pioneer of the New Zealand insurance industry. I feel privileged to carry on Gordon's dream of a New Zealand life company that cares for "widows, orphans and superannuitants" and listens and responds to the financial advisers.

### Community and environment

An important aspect of Fidelity Life's business culture is our on-going support of charities and sustainable business practices. Over the last few years it was necessary to reduce our financial assistance to charities, in response to the global financial crisis. However we intend to build contributions in the coming year back up to previous levels.

We continue with our long-term support of the Leukaemia and Blood Foundation and Multiple Sclerosis Society. We have also commenced supporting the Foundation for Youth Development, which engages with and works to encourage at risk New Zealand youth. While we do not traditionally engage directly in sporting sponsorships, we are very proud to have a current member of the New Zealand women's Black Sticks hockey



CASE

## AN ADVISER'S POINT OF VIEW

I have held a Life & Life Care policy with Fidelity Life since 2006.

Towards the end of 2008 I went to my doctor because I was experiencing tightness and pains in my chest. After an Exercise Tolerance Test & ECG, it was recommended to me that I have an angiogram. It revealed that I had an 80% blockage in one of my arteries, which I had stented. At this time I received a maximum lump sum payment of \$25,000.

I was okay until late June 2010 when the chest pain and tightness returned. This time I was getting short of breath if I exerted myself at all. I had another angiogram, but this time there were three blockages that needed stents. I went in for the procedure on Friday July 9. On the Monday (July 13) I filled in the claim forms and scanned and emailed them off for consideration. Later that afternoon, I received notification that I would get a full payout of my Life Care benefit which was direct credited to my bank account on Tuesday July 14. I was surprised and impressed by the speed that my claim was accepted, demonstrating that when needed, Fidelity Life sure do backup the talk with action.

Fidelity Life has been very prompt and efficient in claim paying. This week alone, my brokerage has had two death claims (one for over \$1 million and another for \$365,000), and a Life Care claim of \$42,000 accepted without issue.

team on our staff, and we are looking forward to watching Natasha FitzSimons progress at the Commonwealth Games.

### Looking ahead

Fidelity Life has weathered the global credit crisis well, and we are in a strong position. Our risk sales and KiwiSaver memberships are growing and we are well placed to further build our funds under management.

Our major focus this year will be the completion of some IT projects which will deliver efficiencies from the 2012 year.

While the 2010 year has produced a pleasing profit, we are cautious about prospects for the 2011 after tax result. As the chairman indicated, the tax changes introduced on 1 July will have a significant impact on profitability.

To mitigate this we are implementing a range of strategies including price increases, efficiency gains and cost cutting. However I am confident that with the ongoing efforts and commitment of our staff, and the continued support of the loyal financial adviser network, we will continue to produce superior results.



Milton Jennings  
Chief Executive Officer

## 2010 FINANCIAL SUMMARY

FOR THE YEARS ENDED 30 JUNE

(Dollars in thousands)	2010	2009	2008	2007	2006
Ordinary risk premium*	80,716	75,417	68,377	57,791	48,581
Investment income	54,398	2,590	20,387	14,613	42,445
Claims expense	38,534	40,233	26,828	22,906	21,609
Net surplus after taxation	16,916	10,350	15,523	12,932	13,098
Ordinary dividend per share	\$1.32	\$1.00	\$1.00	\$0.75	\$0.40
Special dividend per share	\$0.15	-	-	-	\$1.00
Earnings per share (year-end)	\$11.76	\$7.19	\$10.79	\$7.71	\$10.08
Shareholders' equity	112,661	96,845	87,955	73,058	56,817
Policyholder liabilities	290,377	272,575	330,002	340,014	251,840
Total assets	529,391	493,345	528,805	606,978	320,171
Shares on issue (000s)	1,439	1,439	1,439	1,429	1,300

\* Prior period figures have been adjusted to reflect a reclassification of a portion of premium from risk to savings.





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THERE ARE ONLY TWO WAYS TO LIVE YOUR LIFE.  
ONE IS AS THOUGH NOTHING IS A MIRACLE.  
THE OTHER IS AS THOUGH EVERYTHING IS A MIRACLE.

---

ALBERT EINSTEIN







His salesmanship and communication skills are legendary, and he excelled at relationship building. He had no trouble engaging others in his dream, and founding shareholders were happy to hitch their financial wagons to Gordon's. Those founding shareholders have seen their original investments make extraordinary returns over the life of the company.

Gordon believed in playing to his strengths, and concentrated on selling Fidelity Life's insurance and superannuation products, leaving management of the company to others. He influenced direction and strategy from his position on the board of directors, serving for a number of years as chairman. While he was capable of being hard-nosed when business called for it, Gordon was by nature collegial, and he instilled a spirit of co-operation, teamwork and loyalty in the staff of the company. He appointed like-minded people to the board and key management positions, ensuring his principles and ethos would become embedded in the culture of the company. He referred to the staff as the "Fidelity family".

Many of the current staff and directors began working with the company when Gordon was still a driving force, and we have fond memories of him visiting the office wearing one of his trademark hats, enthusiastically illustrating his ideas on an old fashioned flip chart, or strolling into meetings unannounced just to catch up with what was going on.

Gordon was a proud Kiwi – a husband, father, step-father, grandfather and great-grandfather. He was also an accomplished businessman, passionate about the value of life insurance, and a master salesman. And he was an employer, mentor and friend to us at Fidelity Life.

We at Fidelity Life were saddened at Gordon's passing, but we will keep his dream alive – a dream of a New Zealand life insurance company, forming partnerships with the independent adviser market, providing protection and security for ordinary Kiwis. A dream worth keeping alive.

RIP Gordon.

# STATUTORY AND OTHER DISCLOSURES

FOR THE YEAR ENDED 30 JUNE 2010



Director	Years on board	Direct shareholdings		Indirect beneficial shareholdings		Total remuneration and other benefits
		As at 30 June 2010	Increase/ (decrease) during the year	As at 30 June 2010	Increase/ (decrease) during the year	
<b>Ian Braddock</b> Chairman Director	10 years 16 years	531	-	9,933	-	126,418
<b>Colin Wise</b> Director	19 years	500	(8,354)	8,354	8,354	63,209
<b>Jeff Meltzer</b> Director	15 years	517	-	10,342	-	63,209
<b>Carole Durbin</b> Director	7 years	3,650	-	-	-	63,209
<b>David Whyte</b> Director	1 year	500	-	-	-	63,209

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STATUTORY AND OTHER DISCLOSURES

## Information on directors of the parent company

In accordance with the company's constitution, Colin Wise and Jeff Meltzer retire by rotation at the AGM and being eligible, offer themselves for re-election.

Jeff Meltzer is a trustee of the Fidelity Family Trust, which holds 764,947 (2009: 763,647) shares in Fidelity Life.

Ian Braddock is a trustee of the Fidelity staff share purchase scheme which holds 50,733 (2009: 57,383) 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	Jeff Meltzer
Fidelity Fund Management Limited		•	•
Fidelity Capital Guaranteed Bond Limited	•	•	•
Fidelity Life Properties Limited (amalgamated 2 October 2009)	•	•	
Fidelity Securities Limited	•		•

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

### 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	
	2010	2009
\$530,000-\$540,000	1	0
\$430,000-\$440,000	0	1
\$320,000-\$330,000	1	0
\$300,000-\$310,000	1	1
\$270,000-\$280,000	1	0
\$250,000-\$260,000	0	1
\$240,000-\$250,000	0	1
\$230,000-\$240,000	1	0
\$220,000-\$230,000	3	1
\$210,000-\$220,000	2	1
\$200,000-\$210,000	1	2
\$190,000-\$200,000	1	2
\$180,000-\$190,000	5	0
\$170,000-\$180,000	2	2
\$150,000-\$160,000	1	5
\$140,000-\$150,000	4	2
\$130,000-\$140,000	1	3
\$110,000-\$120,000	7	2
\$100,000-\$110,000	6	4

### 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 2010.

Shareholders	Shares held
1. Whale M J & Meltzer J P	764,947
2. Burgess G A J & Burgess M S	241,729
3. Farmers' Mutual Group	155,455
4. Braddock I L & Jennings M J	50,733
5. Watson G J (estate)	23,423
6. Trotter K & Childs P & Hughes C	23,096
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 2010

## 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 Commission's "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 12 scheduled board meetings for the period 1 July 2009 to 30 June 2010 was as follows:

### Board attendance

Ian Braddock	12
Colin Wise	10
Jeff Meltzer	12
Carole Durbin	11
David Whyte	11

## Delegational framework

The board has 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.

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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.

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## THE BOARDROOM



Ian Braddock  
BCom CA MinstD

Chairman 10 years  
Director 16 years



Colin Wise  
FNZIM FinstD

Director 19 years



Jeff Meltzer  
JP BCom FCA MinstD  
AAMINZ

Director 15 years



Carole Durbin  
BCom LLB(Hons)  
FInstD FAMINZ

Director 7 years



David Whyte  
MA (Hons) DipBusAdmin MMgt

Director 1 year



Milton Jennings  
BCom CA

Chief Executive Officer  
24 years



Rowan Hill  
BBus CA

Chief Financial Officer  
12 years



John Smith  
MSc FIA FNZSA

Company Actuary  
10 years

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THE BOARD HAS FORMALLY CONSTITUTED THREE BOARD COMMITTEES: THE AUDIT COMMITTEE, THE REMUNERATION COMMITTEE AND THE NOMINATION COMMITTEE.

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### 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 additional to 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 review 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 annually.

**Members:** Jeff Meltzer (Chairman), Carole Durbin and Ian Braddock.

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

Members – Colin Wise, David Whyte 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 27 November 2009 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.

# FINANCIALS



## CONTENTS FINANCIALS

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## INCOME STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2010

		Group		Parent	
	Note	2010 \$'000s	2009 \$'000s	2010 \$'000s	2009 \$'000s
INSURANCE BUSINESS					
Revenue					
Insurance premium revenue		80,716	81,395	80,716	81,395
Insurance premium ceded to reinsurers	8	(29,132)	(20,014)	(29,132)	(20,014)
Fee and commission income	9	2,327	961	2,627	1,268
Investment income	10	36,254	5,914	36,629	(2,239)
Other income		192	84	192	84
TOTAL INSURANCE REVENUE		90,357	68,340	91,032	60,494
Expenses					
Claims expense	11	38,534	40,233	38,534	40,233
Reinsurance revenue	12	(30,790)	(29,894)	(30,790)	(29,894)
Net change in life insurance contract liabilities	32	(4,907)	(9,842)	(4,907)	(9,842)
Net change in life investment contract liabilities	33	15,588	5,993	15,588	5,993
Commission and management expenses	13	37,364	32,845	37,364	32,985
Other expenses	14	16,650	14,691	16,823	15,361
TOTAL INSURANCE EXPENSES		72,439	54,026	72,612	54,836
NET INSURANCE INCOME		17,918	14,314	18,420	5,658
NON INSURANCE BUSINESS					
Revenue					
Investment income	15	18,144	(3,324)	–	–
Other income	16	1,117	(60)	913	–
TOTAL NON INSURANCE REVENUE		19,261	(3,384)	913	–
Expenses					
Expenses	17	1,769	1,457	271	–
Finance costs	18	15,209	1,003	–	–
TOTAL NON INSURANCE EXPENSES		16,978	2,460	271	–
NET NON INSURANCE INCOME		2,283	(5,844)	642	–
PROFIT BEFORE INCOME TAX		20,201	8,470	19,062	5,658
Income tax expense/(credit)	19	3,285	(1,880)	3,021	(2,101)
PROFIT FOR THE YEAR ATTRIBUTABLE TO THE OWNERS OF THE COMPANY AND GROUP		16,916	10,350	16,041	7,759
Basic earnings per share (dollars)	50	11.76	7.19		
Diluted earnings per share (dollars)	50	11.76	7.19		

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

# STATEMENTS OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 30 JUNE 2010

	Note	Group		Parent	
		2010 \$'000s	2009 \$'000s	2010 \$'000s	2009 \$'000s
Profit for the year		16,916	10,350	16,041	7,759
Other comprehensive income					
Revaluations, net of tax	38	227	(167)	227	-
Employee share purchase plan expense	37	88	91	88	91
Gain on amalgamation	30	-	-	3,629	-
Other comprehensive income for the year, net of tax		315	(76)	3,944	91
<b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR ATTRIBUTABLE TO THE OWNERS OF THE COMPANY AND GROUP</b>		<b>17,231</b>	<b>10,274</b>	<b>19,985</b>	<b>7,850</b>

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

# STATEMENTS OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 JUNE 2010

		Share capital	Retained earnings	Reserves	Total
		\$'000s	\$'000s	\$'000s	\$'000s
<b>GROUP</b>					
Balance at 1 July 2008					
Total comprehensive income for the year		12,081	74,436	1,438	87,955
Profit for the year		-	10,350	-	10,350
Other comprehensive income		-	-	-	-
Revaluations, net of tax	38	-	-	-	-
Employee share purchase plan expense	37	91	-	(167)	(167)
Total other comprehensive income for the year		91	-	-	91
Total comprehensive income for the year		91	-	(167)	(76)
Transactions with owners		91	10,350	(167)	10,274
Share capital vested from Trust	37	-	-	-	-
Dividends	39	55	-	-	55
Total transactions with owners		-	(1,439)	-	(1,439)
BALANCE AT 30 JUNE 2009		55	(1,439)	-	(1,384)
Balance at 1 July 2009		12,227	83,347	1,271	96,845
Total comprehensive income for the year		12,227	83,347	1,271	96,845
Profit for the year		-	16,916	-	16,916
Other comprehensive income		-	-	-	-
Revaluations, net of tax	38	-	-	227	227
Employee share purchase plan expense	37	88	-	-	88
Revaluation reserves transferred on amalgamation	38	-	1,271	(1,271)	-
Total other comprehensive income for the year		88	1,271	(1,044)	315
Total comprehensive income for the year		88	18,187	(1,044)	17,231
Transactions with owners		88	-	-	86
Share capital vested from Trust	37	-	(1,501)	-	(1,501)
Dividends	39	-	-	-	-
Total transactions with owners		86	(1,501)	-	(1,415)
BALANCE AT 30 JUNE 2010		12,401	100,033	227	112,661

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

# STATEMENTS OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 JUNE 2010

		Share capital	Retained earnings	Reserves	Total
	Note	\$'000s	\$'000s	\$'000s	\$'000s
<b>PARENT</b>					
Balance at 1 July 2008		12,081	75,542	-	87,623
Total comprehensive income for the year					
Profit for the year		-	7,759	-	7,759
<b>Other comprehensive income</b>					
Employee share purchase plan expense	37	91	-	-	91
Total other comprehensive income for the year		91	-	-	91
Total comprehensive income for the year		91	7,759	-	7,850
<b>Transactions with owners</b>					
Share capital vested from Trust	37	55	-	-	55
Dividends	39	-	(1,439)	-	(1,439)
Total transactions with owners		55	(1,439)	-	(1,384)
<b>BALANCE AT 30 JUNE 2009</b>		<b>12,227</b>	<b>81,862</b>	<b>-</b>	<b>94,089</b>
Balance at 1 July 2009		12,227	81,862	-	94,089
Total comprehensive income for the year					
Profit for the year		-	16,041	-	16,041
<b>Other comprehensive income</b>					
Revaluations, net of tax	38	-	-	227	227
Employee share purchase plan expense	37	88	-	-	88
Gain on amalgamation	30	-	3,629	-	3,629
Total other comprehensive income for the year		88	3,629	227	3,944
Total comprehensive income for the year		88	19,670	227	19,985
<b>Transactions with owners</b>					
Share capital vested from Trust	37	86	-	-	86
Dividends	39	-	(1,501)	-	(1,501)
Total transactions with owners		86	(1,501)	-	(1,415)
<b>BALANCE AT 30 JUNE 2010</b>		<b>12,401</b>	<b>100,031</b>	<b>227</b>	<b>112,659</b>

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

## STATEMENTS OF FINANCIAL POSITION

AS AT 30 JUNE 2010

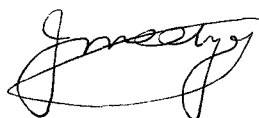
		Group		Parent	
	Note	2010 \$'000s	2009 \$'000s	2010 \$'000s	2009 \$'000s
<b>ASSETS</b>					
Financial assets					
Cash and cash equivalents	20	27,534	15,381	23,117	11,222
Loans and other receivables	21	32,832	29,574	33,227	36,067
Other financial assets at fair value through profit or loss	22	416,525	388,290	338,277	316,819
Derivative financial instruments	23	2,625	8,350	2,625	8,171
Current tax assets		414	51	414	51
Deferred acquisition costs	24	2,302	1,057	2,302	1,057
Assets arising from reinsurance contracts	25	13,378	13,626	13,378	13,626
Investment property	28	8,480	8,162	8,480	-
Property, plant and equipment	26	8,765	8,668	8,765	1,430
Intangible assets	27	4,305	4,821	4,305	4,821
Deferred tax assets	36	12,231	15,365	11,976	15,011
Investment in subsidiaries	29	-	-	8	6,028
<b>TOTAL ASSETS</b>		<b>529,391</b>	<b>493,345</b>	<b>446,874</b>	<b>414,303</b>
<b>LIABILITIES</b>					
Life insurance contract liabilities	32	(10,734)	(5,827)	(10,734)	(5,827)
Life investment contract liabilities	33	301,111	278,402	301,111	278,402
Deferred tax liabilities	36	20,402	20,156	20,402	20,156
Payables and other financial liabilities	35	26,232	21,234	22,646	20,895
Derivative financial instruments	23	4,719	8,694	790	6,588
Interest bearing liabilities	34	75,000	73,841	-	-
<b>TOTAL LIABILITIES</b>		<b>416,730</b>	<b>396,500</b>	<b>334,215</b>	<b>320,214</b>
<b>NET ASSETS</b>		<b>112,661</b>	<b>96,845</b>	<b>112,659</b>	<b>94,089</b>
<b>EQUITY</b>					
Share capital	37	12,401	12,227	12,401	12,227
Retained earnings	38	100,033	83,347	100,031	81,862
Revaluation reserve	38	227	1,271	227	-
<b>TOTAL EQUITY</b>		<b>112,661</b>	<b>96,845</b>	<b>112,659</b>	<b>94,089</b>

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

For and on behalf of the board  
1 October 2010



**IAN BRADDOCK**  
CHAIRMAN



**JEFF MELTZER**  
DIRECTOR



# STATEMENTS OF CASH FLOWS

FOR THE YEAR ENDED 30 JUNE 2010

		Group		Parent	
	Note	2010 \$'000s	2009 \$'000s	2010 \$'000s	2009 \$'000s
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>					
Premiums from life insurance contracts		80,548	81,782	80,548	81,782
Deposits from life investment contracts		47,179	46,268	47,179	46,268
Reinsurance received		31,038	23,932	31,038	23,932
Interest received		7,397	13,176	6,687	8,314
Dividends		5,528	5,292	5,528	5,292
Other investment income		1,103	3,817	1,563	2,629
Benefits paid under life insurance contracts		(42,077)	(35,567)	(42,077)	(35,568)
Benefits paid under life investment contracts		(40,057)	(99,846)	(40,057)	(99,846)
Reinsurance paid		(24,165)	(22,510)	(24,165)	(22,510)
Commission paid		(28,969)	(23,871)	(28,969)	(23,871)
Payments to suppliers and employees		(25,059)	(27,991)	(24,123)	(25,108)
Income tax paid		(355)	(46)	(357)	(46)
<b>NET CASH FROM OPERATING ACTIVITIES</b>	40	12,111	(35,564)	12,795	(38,732)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>					
Purchases of intangible assets		(256)	(131)	(256)	(131)
Purchases of financial assets		(171,509)	(224,351)	(171,509)	(224,351)
Purchases of property, plant and equipment		(411)	(314)	(411)	(314)
Proceeds from sale of financial assets		184,589	267,116	172,537	261,658
Proceeds on sale of property, plant and equipment		24	41	24	41
Proceeds on amalgamation of subsidiary		-	-	215	-
<b>NET CASH FROM INVESTING ACTIVITIES</b>		12,437	42,361	600	36,903
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>					
Interest paid on borrowings		(10,895)	(7,098)	-	-
Ordinary dividends paid		(1,500)	(1,438)	(1,500)	(1,438)
<b>NET CASH FROM FINANCING ACTIVITIES</b>		(12,395)	(8,536)	(1,500)	(1,438)
<b>NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS</b>					
		12,153	(1,739)	11,895	(3,267)
Cash and cash equivalents at 1 July		15,381	17,120	11,222	14,489
<b>CASH AND CASH EQUIVALENTS AT 30 JUNE</b>	20	27,534	15,381	23,117	11,222

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

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2010

## 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 1 October 2010. 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 Limited 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 2010 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.

# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 30 JUNE 2010

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### (B) PRINCIPLES OF CONSOLIDATION (continued)

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.

### (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.

# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 30 JUNE 2010

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### (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.

### (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

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

#### Life investment contracts

Commission that varies with and is directly related to securing new contracts is capitalised as a deferred acquisition cost asset along with an administration and marketing allowance. All other acquisition costs are recognised as expenses in the income statement when incurred. The deferred acquisition cost asset is subsequently amortised over the life of the contracts and is recognised in the income statement. Unamortised acquisition costs are recorded in deferred acquisition costs on the balance sheet.

### Maintenance and Investment Management Expenses

Maintenance costs are the fixed and variable costs of administering policies subsequent to sale. These include general growth and development costs. Maintenance costs include all operating costs other than acquisition and investment management costs. Investment management costs are the fixed and variable costs of managing investment funds. Maintenance and investment management costs are recognised in the income statement on an accrual basis.

### (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.

# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 30 JUNE 2010

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### (L) LIFE INSURANCE BUSINESS (continued)

#### 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.

#### 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 income statement 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 policies

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.



# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 30 JUNE 2010

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### (L) LIFE INSURANCE BUSINESS (continued)

#### 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 amount 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.

### (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 revaluation reserves in shareholders' equity. Decreases that offset previous increases of the same asset are charged against revaluation 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 revaluation 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 |

# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 30 JUNE 2010

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### (N) PROPERTY AND EQUIPMENT (continued)

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.

#### (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 statement of cash flows, 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 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 Group.

# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 30 JUNE 2010

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### (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.

#### (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.

# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 30 JUNE 2010

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### (S) INVESTMENTS AND OTHER FINANCIAL ASSETS (continued)

#### Derivatives

Derivative financial instruments include foreign exchange contracts, interest rate futures, currency and interest rate swaps, and 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 2y.

#### 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.

### (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 of 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.

# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 30 JUNE 2010

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### (V) EMPLOYEE BENEFITS (continued)

#### (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.

### (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 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.



# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 30 JUNE 2010

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### (Z) INCOME TAX (continued)

#### 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.

From 1 July 2010 the taxation basis has changed. Tax will be payable on investment income allocated to policyholders and on shareholder cash flows (investment income, premiums less claims, less expenses). For the first five years of the new tax regime there are concessions which allow certain policies to continue being taxed under the old regime as explained above.

### (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.

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.

# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 30 JUNE 2010

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### (AG) STANDARDS, AMENDMENTS AND INTERPRETATIONS ADOPTED DURING YEAR

The following new accounting standards and amendments to standards relevant to the Group have been adopted from 1 July 2009 and have been applied in the preparation of these financial statements. Adoption of the standards has not resulted in any changes to the Group's reported profit or financial position.

- **NZ IAS 1** *Presentation of Financial Statements (revised)* has resulted in the presentation of a Statement of Comprehensive Income and a Statement of Changes in Equity. These statements have replaced the original Statement of Changes in Equity.
- **NZ IFRS 7** *Financial Instruments: Disclosures (revised)* has resulted in changes to the financial and descriptive information disclosed about the Group's financial instruments.
- **NZ IFRS 8** *Operating Segments (amended)* has resulted in the financial and descriptive information disclosed about the Group's reportable segments being disclosed in line with the way management monitor the business.

### (AH) STANDARDS, AMENDMENTS AND INTERPRETATIONS TO EXISTING STANDARDS THAT ARE NOT YET EFFECTIVE

The following new accounting standards and amendments to standards relevant to the Group are not yet effective and have not yet been applied in preparing the financial statements.

- **NZ IFRS 9** *Financial Instruments* replaces part of NZ IAS 39 *Financial Instruments* and will be mandatory for the Group's financial statements for the year beginning 1 July 2013. It establishes two primary measurement categories for financial assets: amortised cost and fair value, with classification depending on an entity's business model and the contractual cash flow characteristics of the financial asset. The impact of this standard on the financial statements of the Group has not yet been determined.
- **NZ IAS 1** *Presentation of Financial Statements* – The amendments to the standard were issued in April 2009 and are applicable to the Group in the 2011 financial year. The amendments clarify that the terms of a liability, which could be settled at any time by the issuance of equity instruments at the option of the counterparty, do not affect its classification. This standard is not expected to have a financial impact on the Group, but may result in disclosures being amended.
- **NZ IAS 7** *Statement of Cash Flows* – Amendments to the standard were issued in April 2009 and are applicable to the Group in the 2011 financial year. The amendments clarify that only expenditure which results in a recognised asset can be classified as cash flow from investing activities. This standard is not expected to have a financial impact on the Group, but may result in disclosures being amended.
- **NZ IAS 24** *Related Party Disclosures* – The revised standard was approved in November 2009, and is applicable to the Group in the 2012 year. The main changes to the standard simplify the definition of a related party and clarify its intended meaning. This standard is not expected to have a financial impact on the Group, but may result in disclosures being amended.
- **NZ IAS 32** *Financial Instrument: Presentation* – Amendments to the standard were issued in October 2009, and are applicable to the Group in the 2011 financial year. The amendments clarify the classification of rights issues. This standard is not expected to have a financial impact on the Group, but may result in disclosures being amended.

### (AI) CHANGES IN ACCOUNTING POLICIES

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

### (AJ) 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 2010. 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.

# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 30 JUNE 2010

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### (AJ) CHANGE IN ACCOUNTING ESTIMATE (continued)

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.

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.

### (AK) 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% (2009: 10.55%) 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, namely put and call options, are determined by using valuation techniques provided by independent third parties.

# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 30 JUNE 2010

## 3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

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

For put and call options - daily valuations are provided by ANZ National Bank Limited (ANZ). ANZ use the Black and Scholes option pricing model, the main inputs into which are -

- length of time to the option expiry
- observed volatility of the underlying asset - 10 year US Government bonds
- the difference between the current market yield on the US Government bonds at the time of valuation to the strike price of the option
- the risk free rate until the expiry date of the option.

### (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 \$8,171,000 at 30 June 2010 (2009: deferred tax liability of \$4,791,000), 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.

## 4. ACTUARIAL METHODS AND POLICIES

The actuarial reports on policyholder liabilities and solvency reserves for the years ended 30 June 2009 and 30 June 2010 were prepared by the Company Actuary John Smith MSc FNZSA FIA 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 the Company.

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 the Company and appropriateness of assuming that the current experience continues.

**Discount Rates:** The 10 year NZ bond rate at 30 June 2010 was 5.35% (2009: 5.93%). Allowing for tax at 28% (2009: 30%) gives an expected long-run investment return of 3.85% (2009: 4.00%). Last year, the discount rate used was 4.00% based on swap rates and an allowance for investment management costs.

Whole of life and endowment assurances, annuities, claim reserves and Gold Medal maturity guarantees were valued at 3.85% (2009: 4.00%).

The solvency reserves, valued in accordance with PS5.01, used an interest rate of 3.35% derived from the 5 year government bond yield as a proxy for the mid-swap index (2009: 3.50%).

# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 30 JUNE 2010

## 4. ACTUARIAL METHODS AND POLICIES (continued)

A net interest rate of 4.50% was used to value discounted cash flows on renewable risk plans where the policy reserves are negative (2009: 5.00%).

An average rate of tax of 16% 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 (2009: 15%).

For former Farmers Mutual Life plans, a valuation rate of 4.8% was used for participating business (2009: 4.8%) and 4.5% for non-participating business (2009: 4.0%).

**Taxation:** Tax is payable on investment income including capital gains and underwriting income less expenses. The assumed long-run rate is 28% (2009: 30%).

From 1 July 2010 the taxation basis has changed. Tax will be payable on investment income allocated to policyholders and on shareholder cash flows (investment income, premiums less claims, less expenses). This change has been incorporated into the valuation methodology.

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

**Inflation rates:** A rate of 2.5% was used were applicable (2009: 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.

**Mortality:** Mortality was based on the net reinsurance rates. A selection rebate of 100% (2009: 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% (2009: 100%) was assumed in accordance with the actual selection rebate agreed with reinsurers.

**Rates of discontinuance:** The ultimate discontinuance rates used for Life and accelerated critical care and accelerated TPD was 11.0% for policies in force for 5 or more years (2009: 12.50% for all durations). The assumed discontinuance rate in the first year varies between 5% and 11% depending on the level of compulsory spreading. The discontinuance rate during years 2 to 4 of the policy life time is assumed to be between 12.5% and 15.5% depending on the minimum proportion of initial commission that is spread.

The ultimate discontinuance rate for stand-alone Critical Care and stand-alone TPD was 13.0% for policies in force for 5 or more years (2009: 15.00% for all durations). The assumed discontinuance rate in the first year varies between 6% and 12% depending on the level of compulsory spreading. The discontinuance rate during years 2 to 4 of the policy life time is assumed to be between 14.5% and 17.5% depending on the minimum proportion of initial commission that is spread.

The ultimate discontinuance rate for Income Protection was 15.0% for policies in force for 5 or more years (2009: 15.00% for all durations). The assumed discontinuance rate in the first year varies between 7% and 13% depending on the level of compulsory spreading. The discontinuance rate during years 2 to 4 of the policy life time is assumed to be between 16.5% and 19.5% depending on the minimum proportion of initial commission that is spread.

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

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



# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 30 JUNE 2010

## 4. ACTUARIAL METHODS AND POLICIES (continued)

**Surrender values:** The surrender value of whole of life and endowment assurances, including those issued by the former Farmers 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 former Farmers Mutual Life plans the supportable bonus rate is 1.12% of the sum assured and reversionary bonus (2009: 0.94%). The current bonus declaration was 1.2% (2009: 0.9%).

It is assumed that the policyholder's share of the surplus on the participating pool is 83.3% (2009: 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 demographic assumptions and rates used in the projection. However, changes to economic and financial assumptions are capitalised.

## 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

#### Life insurance contracts

For impact on Life insurance contracts refer to the sensitivity analysis under Note 5 (B).

#### Life investments contracts

	Change in assumption	Effect on Future Margins	Effect on Policy Liability	Effect on Profit
		\$ '000s	\$ '000s	\$ '000s
Lapses	Decrease by 10%	-	-	{64}
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 primarily 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 valued at the amount shown in the audited financial statements of Fidelity Capital Guaranteed Bond Limited.

# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 30 JUNE 2010

## 4. ACTUARIAL METHODS AND POLICIES (continued)

### ASSETS BACKING LIFE INSURANCE AND INVESTMENT INSURANCE BUSINESS (continued)

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

	Life Investment		Life Insurance	
	2010 \$'000s	2009 \$'000s	2010 \$'000s	2009 \$'000s
Loans	19,069	17,980	10,926	8,779
Debt securities	82,693	75,218	19,909	8,062
Equity securities	95,703	99,839	1,102	1,859
Other investments	90,013	79,387	48,857	52,455
Cash and cash equivalents	13,633	5,921	9,484	5,301
<b>TOTAL ASSETS BACKING</b>	<b>301,111</b>	<b>278,345</b>	<b>90,278</b>	<b>76,456</b>

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.

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

# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 30 JUNE 2010

## 5. RISK MANAGEMENT (continued)

### 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 can be classified into (i) distribution and promotion, (ii) solvency capital, (iii) governance and prudential oversight, (iv) investment performance and fiduciary duties. Recent legislation will involve licencing of both distributors and insurers that are contingent upon meeting regulatory requirements.

Distributors will need to be authorised or registered. The Company will submit its Adviser Business Statement in support of its application for internal staff to be covered under a Qualifying Financial Entity. The Company is a member of the ISO dispute resolution scheme. The Company will document its fit and proper persons policy and risk management framework in support of its application for a full license from RBNZ. The Company adheres to the NZSA solvency standard (PS5). The RBNZ solvency standard is not expected to cause any significant change to our solvency strength. The Company already has a stable A- (Excellent) credit rating from AM Best an approved credit rating agency.

The control environment should be able to meet all new statutory requirements, including the recent enactments for prudential supervision and adviser regulation. 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 99.4% of Monte-Carlo stochastic simulations (2009: 98.5%). 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.

#### (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 profit or loss as the Group does not apply hedge accounting.

# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 30 JUNE 2010

## 5. RISK MANAGEMENT (continued)

### A. MARKET RISK (continued)

#### Concentrations

The following table shows the assets denominated in foreign currency.

	Group		Parent	
	2010 NZ\$ '000s	2009 NZ\$ '000s	2010 NZ\$ '000s	2009 NZ\$ '000s
<b>ASSETS</b>				
Australian Dollars	93,496	79,236	93,496	79,236
Great Britain Pounds Sterling	16,728	5,573	16,728	5,573
US Dollars	26,159	37,781	23,757	37,781
<b>TOTAL ASSETS IN FOREIGN CURRENCY</b>	<b>136,383</b>	<b>122,590</b>	<b>133,981</b>	<b>122,590</b>
<b>Percentage of total assets</b>	<b>25.76%</b>	<b>24.85%</b>	<b>29.98%</b>	<b>29.59%</b>

#### Sensitivity analysis

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

#### GROUP

	+10% change in foreign exchange rates				-10% change in foreign exchange rates			
	Impact on post tax profit		Impact on equity		Impact on post tax profit		Impact on equity	
	2010 \$ '000s	2009 \$ '000s	2010 \$ '000s	2009 \$ '000s	2010 \$ '000s	2009 \$ '000s	2010 \$ '000s	2009 \$ '000s
AUD	34	2	34	2	(28)	(2)	(28)	(2)
Euro	-	108	-	108	-	(88)	-	(88)
Yen	-	6	-	6	-	(5)	-	(5)
GBP	64	32	64	32	(53)	(26)	(53)	(26)
US	305	448	305	381	(209)	(520)	(209)	(414)
	<b>403</b>	<b>596</b>	<b>403</b>	<b>529</b>	<b>(290)</b>	<b>(641)</b>	<b>(290)</b>	<b>(535)</b>

#### PARENT

	+10% change in foreign exchange rates				-10% change in foreign exchange rates			
	Impact on post tax profit		Impact on equity		Impact on post tax profit		Impact on equity	
	2010 \$ '000s	2009 \$ '000s	2010 \$ '000s	2009 \$ '000s	2010 \$ '000s	2009 \$ '000s	2010 \$ '000s	2009 \$ '000s
AUD	34	2	34	2	(28)	(2)	(28)	(2)
Euro	-	108	-	108	-	(88)	-	(88)
Yen	-	6	-	6	-	(5)	-	(5)
GBP	64	32	64	32	(53)	(26)	(53)	(26)
US	258	203	258	203	(211)	(166)	(211)	(166)
	<b>356</b>	<b>351</b>	<b>356</b>	<b>351</b>	<b>(292)</b>	<b>(287)</b>	<b>(292)</b>	<b>(287)</b>

# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 30 JUNE 2010

## 5. RISK MANAGEMENT (continued)

### A. MARKET RISK (continued)

#### (ii) Price risk

Price risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate 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 managers.

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 and the 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	
	2010 \$'000s	2009 \$'000s	2010 \$'000s	2009 \$'000s	2010 \$'000s	2009 \$'000s	2010 \$'000s	2009 \$'000s
Change in the Market Value of:								
New Zealand and Australian shares	373	171	373	171	(373)	(171)	(373)	(171)
International Shares	365	206	365	206	(365)	(206)	(365)	(206)
New Zealand Property	242	131	242	131	(242)	(131)	(242)	(131)
Bond Options (Derivatives)	380	535	380	535	(380)	(535)	(380)	(535)

#### 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	
	2010 \$'000s	2009 \$'000s	2010 \$'000s	2009 \$'000s	2010 \$'000s	2009 \$'000s	2010 \$'000s	2009 \$'000s
Change in the Market Value of:								
New Zealand and Australian shares	373	171	373	171	(373)	(171)	(373)	(171)
International Shares	365	206	365	206	(365)	(206)	(365)	(206)
New Zealand Property	242	131	242	131	(242)	(131)	(242)	(131)
Bond Options (Derivatives)	380	535	380	535	(380)	(535)	(380)	(535)

# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 30 JUNE 2010

## 5. RISK MANAGEMENT (continued)

### A. MARKET RISK (continued)

#### (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 2010

## 5. RISK MANAGEMENT (continued)

### A. MARKET RISK (continued)

#### Sensitivity analysis

The following table shows the change in profit and the effect on equity if 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	
	2010 \$'000s	2009 \$'000s	2010 \$'000s	2009 \$'000s	2010 \$'000s	2009 \$'000s	2010 \$'000s	2009 \$'000s
Cash and Cash Equivalents	97	66	97	66	(97)	(66)	(97)	(66)
Loans	76	61	76	61	(76)	(61)	(76)	(61)
NZ Debt Securities	(2,535)	(2,189)	(2,535)	(2,189)	2,582	2,214	2,582	2,214
International Debt Securities	(245)	(88)	(245)	(88)	261	94	261	94
US put and call options	(20,833)	(16,399)	(20,833)	(16,399)	20,833	16,399	20,833	16,399

#### PARENT

	+1% in interest rates				-1% change in interest rates			
	Impact on post tax profit		Impact on equity		Impact on post tax profit		Impact on equity	
	2010 \$'000s	2009 \$'000s	2010 \$'000s	2009 \$'000s	2010 \$'000s	2009 \$'000s	2010 \$'000s	2009 \$'000s
Cash and Cash Equivalents	66	37	66	37	(66)	(37)	(66)	(37)
Loans	76	61	76	61	(76)	(61)	(76)	(61)
NZ Debt Securities	(1,012)	(524)	(1,012)	(524)	1,059	549	1,059	549
International Debt Securities	(245)	(88)	(245)	(88)	261	94	261	94

# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 30 JUNE 2010

## 5. RISK MANAGEMENT (continued)

### A. MARKET RISK (continued)

#### 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 Fidelity Capital Guaranteed Bond Limited which is deemed to be a financial institution, and therefore subject to these disclosures.

#### FIDELITY CAPITAL GUARANTEED BOND LIMITED 2010

	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
<b>Financial assets:</b>						
Financial assets at fair value through profit or loss	5.46%	216	3,336	74,696	-	78,248
Cash and cash equivalents	2.75%	4,417	-	-	-	4,417
<b>Financial liabilities:</b>						
Capital guaranteed bonds	9.25%	-	-	75,000	-	75,000
Subordinated bonds	12.35%	-	-	-	-	-

#### FIDELITY CAPITAL GUARANTEED BOND LIMITED 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
<b>Financial assets:</b>						
Financial assets at fair value through profit or loss	6.73%	2,491	10,724	58,256	-	71,471
Cash and cash equivalents	2.01%	4,145	-	-	-	4,145
<b>Financial liabilities:</b>						
Capital guaranteed bonds	9.25%	-	-	73,841	-	73,841
Subordinated bonds	12.35%	-	-	-	-	-

### 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.

# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 30 JUNE 2010

## 5. RISK MANAGEMENT (continued)

### B. INSURANCE RISK (continued)

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 2010 if there were an increase or decrease of 10%:

#### 2010

		Future Margins	Policy Liability	Profit
		\$'000s	\$'000s	\$'000s
Discount rate/inflation rate	Increase by 0.25%	-	814	(814)
	Decrease by 0.25%	-	(817)	817
Mortality/Morbidity	Increase by 10%	(35,786)	(2,886)	2,886
	Decrease by 10%	36,042	3,077	(3,077)
Lapses	Increase by 10%	(6,150)	-	-
	Decrease by 10%	7,010	-	-
Expenses	Increase by 10%	(14,621)	-	-
	Decrease by 10%	14,621	-	-
Terminations	Increase by 10%	-	(142)	142
	Decrease by 10%	-	144	(144)

#### 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%	-	(143)	143
	Decrease by 10%	-	128	(128)

# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 30 JUNE 2010

## 5. RISK MANAGEMENT (continued)

### B. INSURANCE RISK (continued)

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

Investment durations are matched with the expected timeframes 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 2010

## 5. RISK MANAGEMENT (continued)

## C. LIQUIDITY RISK (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 counterparty 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 2010

	Less than 1 year	Between 1 & 2 years	Between 2 & 5 years	Over 5 years	Total	Carrying amount
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
<b>Financial assets:</b>						
Cash and cash equivalents	27,534	–	–	–	27,534	27,534
Loans and other receivables	11,298	3,667	8,375	30,651	53,991	32,832
Financial assets at fair value through profit or loss	248,171	29,277	145,146	30,018	452,612	416,525
Derivative financial instruments	2,625	–	–	–	2,625	2,625
Assets arising from reinsurance contracts	13,378	–	–	–	13,378	13,378
	303,006	32,944	153,521	60,669	550,140	492,894
<b>Financial liabilities:</b>						
Policyholder liabilities – investment (non-participating) contracts	131,044	8,330	27,424	134,313	301,111	301,111
Policyholder liabilities – insurance contracts	6,569	2,123	5,282	14,120	28,094	(10,734)
Payables and other financial liabilities	26,232	–	–	–	26,232	26,232
Derivative financial instruments	4,719	–	–	–	4,719	4,719
Interest bearing liabilities	–	–	75,000	–	75,000	75,000
Interest on interest bearing liabilities	6,938	6,938	13,875	–	27,751	3,155
	175,502	17,391	121,581	148,433	462,907	399,483

## 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
<b>Financial assets:</b>						
Cash and cash equivalents	15,381	–	–	–	15,381	15,381
Loans and other receivables	9,684	4,070	7,140	27,840	48,734	29,574
Financial assets at fair value through profit or loss	317,134	15,071	58,447	38,867	429,519	388,290
Derivative financial instruments	2,339	–	–	6,000	8,339	8,350
Assets arising from reinsurance contracts	13,626	–	–	–	13,626	13,626
	358,164	19,141	65,587	72,707	515,599	455,221
<b>Financial liabilities:</b>						
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
Interest on interest bearing liabilities	6,938	6,938	20,958	–	34,834	6,782
	128,122	16,235	128,238	169,429	442,024	383,126

# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 30 JUNE 2010

## 5. RISK MANAGEMENT (continued)

### C. LIQUIDITY RISK (continued)

#### PARENT 2010

	Less than 1 year	Between 1 & 2 years	Between 2 & 5 years	Over 5 years	Total	Carrying amount
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
<b>Financial assets:</b>						
Cash and cash equivalents	23,117	-	-	-	23,117	23,117
Loans and other receivables	11,693	3,667	8,375	30,651	54,386	33,227
Financial assets at fair value through profit or loss	247,961	26,117	59,546	30,018	363,642	338,277
Derivative financial instruments	2,625	-	-	-	2,625	2,625
Assets arising from reinsurance contracts	13,378	-	-	-	13,378	13,378
	<b>298,774</b>	<b>29,784</b>	<b>67,921</b>	<b>60,669</b>	<b>457,148</b>	<b>410,624</b>
<b>Financial liabilities:</b>						
Policyholder liabilities – investment (non-participating) contracts	131,044	8,330	27,424	134,313	301,111	301,111
Policyholder liabilities – insurance contracts	6,569	2,123	5,282	14,120	28,094	(10,734)
Payables and other financial liabilities	22,646	-	-	-	22,646	22,646
Derivative financial instruments	790	-	-	-	790	790
	<b>161,049</b>	<b>10,453</b>	<b>32,706</b>	<b>148,433</b>	<b>352,641</b>	<b>313,813</b>

#### 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
<b>Financial assets:</b>						
Cash and cash equivalents	11,222	-	-	-	11,222	11,222
Loans and other receivables	16,177	4,070	7,140	27,840	55,227	36,067
Financial assets at fair value through profit or loss	245,662	15,071	58,447	38,867	358,047	316,819
Derivative financial instruments	2,160	-	-	6,000	8,160	8,171
Assets arising from reinsurance contracts	13,626	-	-	-	13,626	13,626
	<b>288,847</b>	<b>19,141</b>	<b>65,587</b>	<b>72,707</b>	<b>446,282</b>	<b>385,905</b>
<b>Financial liabilities:</b>						
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
	<b>118,739</b>	<b>9,297</b>	<b>32,280</b>	<b>169,429</b>	<b>329,745</b>	<b>300,058</b>



# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 30 JUNE 2010

## 5. RISK MANAGEMENT (continued)

### D. CREDIT RISK

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

In respect of Group assets, the Group manages credit risk by monitoring exposures entered into by the fund managers and assets held directly by the Group.

Financial assets are not to fall outside of a preset range.

The following table provides information regarding the aggregated credit risk exposure, for financial assets with external credit ratings.

#### GROUP 2010

	AAA+ to A-	BBB+ to BBB-	BB+ to B-	CCC-	Unrated	Total
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
Cash and cash equivalents	27,533	-	-	-	1	27,534
Debt securities	271,269	23,484	344	-	24,623	319,720

#### 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

#### PARENT 2010

	AAA+ to A-	BBB+ to BBB-	BB+ to B-	CCC-	Unrated	Total
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
Cash and cash equivalents	23,116	-	-	-	1	23,117
Debt securities	193,021	23,484	344	-	24,623	241,472

#### 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

#### 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.

# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 30 JUNE 2010

## 5. RISK MANAGEMENT (continued)

### D. CREDIT RISK (continued)

#### Asset quality

An ageing analysis of loans receivables is shown below. All loans are deemed not to be impaired unless specifically disclosed as such:

	Group		Parent	
	2010 \$'000s	2009 \$'000s	2010 \$'000s	2009 \$'000s
Current	21,752	21,743	21,752	21,743
Less than three months	3,196	2,231	3,196	2,231
Between three and six months	2,253	1,228	2,253	1,228
Greater than six months past due	1,966	1,557	1,966	1,557
Impaired	1,028	-	1,028	-
<b>TOTAL PAST DUE</b>	<b>30,195</b>	<b>26,759</b>	<b>30,195</b>	<b>26,759</b>

As at 30 June 2010 \$269,298 (2009: \$269,846) of receivables would have been past due at balance date, however their terms were re-negotiated.

#### 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 2010 or 2009.

#### Provision for impairment of receivables

	Group		Parent	
	2010 \$'000s	2009 \$'000s	2010 \$'000s	2009 \$'000s
Carrying amount at the beginning of the year	-	-	-	-
Provisions recognised during the year	200	-	200	-
<b>CARRYING AMOUNT AT THE END OF THE YEAR</b>	<b>200</b>	<b>-</b>	<b>200</b>	<b>-</b>

The creation and release of the provision for impaired receivables has been included in 'other expenses' in the income statement. Amounts charged to the allowance account are generally written off when there is no expectation of recovering additional cash.

# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 30 JUNE 2010

## 5. RISK MANAGEMENT (continued)

### D. CREDIT RISK (continued)

#### Concentrations of funding

The table below identifies the concentration of funding for Fidelity Capital Guaranteed Bond Limited which is deemed to be a financial institution.

Funding is from retail bonds issued to the public via the NZDX.

Fidelity Capital Guaranteed Bond Limited		
	2010 \$'000s	2009 \$'000s
<b>CONCENTRATIONS WITH RESPECT TO NEW ZEALAND</b>		
North Island	64,588	64,045
South Island	9,737	10,275
	<b>74,325</b>	<b>74,320</b>

Fidelity Capital Guaranteed Bond Limited		
	2010 \$'000s	2009 \$'000s
<b>CONCENTRATIONS WITH RESPECT TO OTHER COUNTRIES</b>		
Australia	280	280
Brunei Darussalam	5	5
China	50	-
French Polynesia	20	20
Hong Kong	120	120
Japan	10	10
Thailand	50	50
U.S.A.	20	20
United Kingdom	120	175
	<b>675</b>	<b>680</b>

Fidelity Capital Guaranteed Bond Limited		
	2010 \$'000s	2009 \$'000s
<b>CUSTOMER/INDUSTRY OR ECONOMIC CONCENTRATION</b>		
Company and Incorporated Bodies	37,280	36,442
Individuals	36,140	34,046
Other	1,580	4,512
	<b>75,000</b>	<b>75,000</b>

#### Counterparty risk

Fidelity Capital Guaranteed Bond Limited		
	2010	2009
<b>INDIVIDUAL COUNTER PARTY CREDIT RISK EXPOSURE</b>		
100% or greater than equity of the subsidiary	5	3

# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 30 JUNE 2010

## 5. RISK MANAGEMENT (continued)

### E. FAIR VALUES

The Group has adopted NZ IFRS 7 (amended) from 1 July 2009. This requires the Group to classify fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

- (i) Quoted prices (unadjusted in active markets for identical assets or liabilities) (level 1).
- (ii) Inputs other than quoted prices included within level 1 that are observable for the assets or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- (iii) Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

The level in the fair value hierarchy within which the fair value measurement is categorised is determined on the basis of the lowest level input that is significant to the fair value measurement in its entirety. For this purpose, the significance of an input is assessed against the fair value measurement in its entirety. If a fair value measurement uses observable inputs that require significant adjustment based on unobservable inputs, that measurement is a level 3 measurement. Assessing the significance of a particular input to the fair value measurement in its entirety requires judgement, considering factors specific to the asset or liability.

As at 30 June 2010, the Group's financial instruments held at fair value through profit or loss have been classified as level 2 in the fair value hierarchy. These instruments comprise debt securities, unitised funds, equities of corporate New Zealand and non-New Zealand entities and derivative financial instruments comprising forward exchange contracts, put and call options on United States Treasury stock, forward currency contracts and interest rate swaps. These financial instruments are priced daily with reference to secondary market pricing.

The fair value of the Capital Guaranteed Bonds at 30 June 2010 was \$ 73,044,000 (2009: \$ 51,887,000). The fair value of the Capital Guaranteed Bonds is derived from the market yield of the Bonds as published by NZDX on the 30 June 2010 of 12.0% (2009: 18.5%).

The carrying value of cash, receivables and other financial assets and payables and other financial liabilities are assumed to approximate their fair value due to their short term nature. 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.

### 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 5 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 the Company's 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;

# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 30 JUNE 2010

## 5. RISK MANAGEMENT (continued)

### F. CAPITAL MANAGEMENT (continued)

- 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.

### Collateral

Fidelity Capital Guaranteed Bond Limited's (FCGBL) debt securities with registered banks are used as collateral on the derivative trading that is undertaken by Tyndall Investment Management on FCGBL's behalf.

### Guarantees

Fidelity Capital Guaranteed Bond Limited entered in to a Reimbursement Agreement dated 7 February 2007 in accordance with the Master Trust Deed dated 7 February 2007 with Westpac Banking Corporation, New Zealand branch (the 'Capital Guarantor') who have guaranteed the capital value of the Capital Guaranteed Bonds.

### 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	
	2010 \$'000s	2009 \$'000s	2010 \$'000s	2009 \$'000s
Equity of shareholder	112,661	96,845	112,659	94,089
Minimum solvency capital	100,312	85,493	100,310	82,737
<b>SOLVENCY MARGIN</b>	<b>12,349</b>	<b>11,352</b>	<b>12,349</b>	<b>11,352</b>
Equity as a multiple of minimum solvency capital	1.123	1.133	1.123	1.137
Solvency margin as proportion of policy liabilities	4.25%	4.16%	4.25%	4.16%

The solvency margin is calculated after allowing for payment of an dividend of \$ 1.47 per share (2009: \$ 1.00).

## 6. SEGMENT INFORMATION

With the adoption of NZ IFRS 8 Operating Segments, the basis used in identifying segment categories has been changed from previous reporting periods. The basis used in the current reporting period reflects the key revenue earning sectors that the Group operates in and aligns with internal reporting to the Board of Directors (the Board).

The basis of segment reporting reflects the management of the business, rather than the legal structure of the Group. The operating segment results have been presented on a management reporting basis and consequently internal charges have been reflected in the performance of each operating segment. Each segment reports to the Board on a different basis.

# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 30 JUNE 2010

## 6. SEGMENT INFORMATION (continued)

The operating segments are defined by the method that income is earned. The Board view the Group as two operating segments for decision making purposes:

- Life insurance, provider of life insurance policies. Management reporting for the Life Insurance segment is based on cash flows that are received from or paid out to policyholders and investment income earned and expenses incurred on an accrual basis. Movements in policyholder liabilities or taxation are not reported. For financial reporting any cash flows that are deemed to relate to an investment based policy are removed from the profit and loss account. All operations are conducted in and revenues derived from New Zealand.
- Capital Guaranteed Bond, income is derived from the trading of investment securities from New Zealand and United States of America. There is no difference in accounting measurement between management reporting and financial reporting for this segment.

The Group does not rely on a major customer for its revenue basis.

Reconciling items represent:

- non-material segments that do not meet the definition of reportable segments under NZ IFRS 8 *Operating Segments*
- elimination entries on consolidation of the results
- reclassification of entries that relate to investment based products that are taken through the balance sheet under International Financial Reporting Standards rather than through Surplus/Deficit for management reporting
- entries that relate to the financial reports which are not included in the internal reporting.

The comparative information has been prepared based on the requirements of the NZ IFRS 8 *Operating Segments*.

## 2010

	Life Insurance Segment	Capital Guaranteed Bond Segment	Reconciling Items	Group
	\$'000s	\$'000s	\$'000s	\$'000s
<b>Revenues/Income</b>				
Revenues from external customers	127,895	-	(47,179)	80,716
Insurance premium ceded to reinsurers	(29,132)	-	-	(29,132)
Interest revenue	8,753	-	538	9,291
Other investment income	27,877	18,143	(913)	45,107
Other income	2,819	-	817	3,636
<b>TOTAL SEGMENT REVENUE/INCOME</b>	<b>138,212</b>	<b>18,143</b>	<b>(46,737)</b>	<b>109,618</b>
<b>Expenses</b>				
Payments to policyholders	78,591	-	(40,057)	38,534
Reinsurance revenue	(30,790)	-	-	(30,790)
Commission and other management expenses	53,346	1,725	(762)	54,309
Interest expense	-	15,584	(375)	15,209
Depreciation	738	-	(36)	702
Amortisation	605	-	167	772
	<b>102,490</b>	<b>17,309</b>	<b>(41,063)</b>	<b>78,736</b>
Board reporting surplus/(deficit)	35,722	834	(5,674)	30,882
Movement in policyholder liabilities				(10,681)
Income tax expense				3,285
<b>NET PROFIT AFTER TAXATION</b>				<b>16,916</b>
<b>TOTAL ASSETS</b>	<b>446,874</b>	<b>83,707</b>	<b>(1,190)</b>	<b>529,391</b>



# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 30 JUNE 2010

## 6. SEGMENT INFORMATION (continued)

### 2009

	Life Insurance Segment	Capital Guaranteed Bond Segment	Reconciling Items	Group
	\$'000s	\$'000s	\$'000s	\$'000s
<b>Revenues/Income</b>				
Revenues from external customers	127,663	–	(46,268)	81,395
Insurance premium ceded to RI	(20,014)	–	–	(20,014)
Interest revenue	7,452	–	7,178	14,630
Other investment income	(9,179)	(3,323)	462	(12,040)
Other income	1,352	–	(367)	985
<b>TOTAL SEGMENT REVENUE/INCOME</b>	<b>107,274</b>	<b>(3,323)</b>	<b>(38,995)</b>	<b>64,956</b>
<b>Expenses</b>				
Payments to policyholders	140,080	–	(99,847)	40,233
Reinsurance Revenue	(29,894)	–	–	(29,894)
Commission and other management expenses	47,052	1,478	(963)	47,567
Interest expense	–	(4,765)	5,768	1,003
Depreciation	690	–	(44)	646
Amortisation	605	–	175	780
	<b>158,533</b>	<b>(3,287)</b>	<b>(94,911)</b>	<b>60,335</b>
Board reporting surplus/(deficit)	(51,259)	(36)	55,916	4,621
Movement in policyholder liabilities				3,849
Income tax credit				(1,880)
<b>NET PROFIT AFTER TAXATION</b>				<b>10,350</b>
<b>TOTAL ASSETS</b>	<b>414,303</b>	<b>76,154</b>	<b>2,888</b>	<b>493,345</b>

### (B) REVENUES ATTRIBUTABLE TO FOREIGN COUNTRIES:

All revenues received by the life insurance segment are attributable to New Zealand.

The revenues received by the Capital Guaranteed Bond Segment are attributable as follows:

	2010 \$'000s	2009 \$'000s
New Zealand	6,598	5,823
United States of America	11,545	(9,146)
	<b>18,143</b>	<b>(3,323)</b>

### (C) NON-CURRENT ASSETS

All non current (non financial instrument) assets held in the Life Insurance segment are located in New Zealand.

All assets under the Capital Guaranteed Bond segment are deemed to be current in nature.

# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 30 JUNE 2010

## 7. PROFIT AFTER TAXATION

	Group		Parent	
	2010 \$'000s	2009 \$'000s	2010 \$'000s	2009 \$'000s
Profit after taxation arose from:				
<b>Life insurance contracts</b>				
Planned margins of revenues over expenses	11,889	10,279	11,889	10,279
Difference between actual and assumed experience	(11,646)	(3,208)	(11,646)	(3,208)
Effects of changes in underlying assumptions	174	1,129	174	1,129
Investment earnings on assets in excess of life insurance liabilities	3,266	3,054	3,266	3,054
	3,683	11,254	3,683	11,254
<b>Life investment contracts</b>				
Difference between actual and assumed experience	(478)	(728)	(215)	(2,399)
Effects of changes in underlying assumptions	(69)	(1,080)	(69)	(1,080)
Investment earnings on assets in excess of investment contract liabilities	13,780	904	12,642	(16)
	13,233	(904)	12,358	(3,495)
<b>PROFIT AFTER TAXATION</b>	<b>16,916</b>	<b>10,350</b>	<b>16,041</b>	<b>7,759</b>

## 8. INSURANCE PREMIUM CEDED TO REINSURERS

	Group		Parent	
	2010 \$'000s	2009 \$'000s	2010 \$'000s	2009 \$'000s
Life insurance contracts	(29,132)	(20,014)	(29,132)	(20,014)
<b>TOTAL PREMIUM CEDED TO REINSURERS</b>	<b>(29,132)</b>	<b>(20,014)</b>	<b>(29,132)</b>	<b>(20,014)</b>

## 9. FEE AND COMMISSION INCOME

	Group		Parent	
	2010 \$'000s	2009 \$'000s	2010 \$'000s	2009 \$'000s
Fees from fiduciary activities:				
Administration fees	1,565	675	1,565	675
Management fees	445	128	445	128
Other administration fees	317	158	617	465
<b>TOTAL FEE AND COMMISSION INCOME</b>	<b>2,327</b>	<b>961</b>	<b>2,627</b>	<b>1,268</b>

# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 30 JUNE 2010

## 10. INVESTMENT INCOME

	Group		Parent	
	2010 \$'000s	2009 \$'000s	2010 \$'000s	2009 \$'000s
Financial instruments designated at fair value through profit and loss				
Equity securities	10,623	(9,680)	10,623	(9,680)
Debt securities	20,328	9,142	20,703	1,500
Fixed interest securities	951	4,481	951	4,481
Other	3	4	3	4
	31,905	3,947	32,280	(3,695)
From financial instruments at amortised cost				
Loans	1,892	2,107	1,892	2,107
Other	-	1,060	-	1,060
	1,892	3,167	1,892	3,167
Fair value movement from financial instruments held for trading:				
Derivative financial instruments	139	925	139	925
Forward currency exchange contracts	-	-	-	-
Other	3,747	(2,213)	3,747	(2,213)
	3,886	(1,288)	3,886	(1,288)
Net exchange differences on items other than financial instruments measured at fair value	(1,429)	88	(1,429)	88
	(1,429)	88	(1,429)	88
Movement in financial assets designated at net market value				
Investment in subsidiaries	-	-	-	(511)
	-	-	-	(511)
	36,254	5,914	36,629	(2,239)
<b>SUMMARY OF NET INVESTMENT INCOME</b>				
Interest and similar income	8,378	8,220	8,753	7,452
Dividend income	6,068	5,207	6,068	5,207
Realised (losses)/gains	(1,335)	(2,851)	(1,335)	(2,851)
Unrealised losses	23,143	(4,662)	23,143	(12,047)
<b>NET INVESTMENT INCOME</b>	36,254	5,914	36,629	(2,239)
<b>Allocation of net investment income</b>				
Life insurance contracts	6,246	1,647	6,246	1,647
Life investment contracts	30,008	4,267	30,383	(3,886)
<b>NET INVESTMENT INCOME</b>	36,254	5,914	36,629	(2,239)

# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 30 JUNE 2010

## 11. CLAIMS EXPENSE

	Group		Parent	
	2010 \$'000s	2009 \$'000s	2010 \$'000s	2009 \$'000s
<b>Life Insurance Contracts</b>				
Claims paid to policyholders under life insurance contracts				
Claims paid on death or critical illness	38,534	40,233	38,534	40,233
<b>LIFE INSURANCE CLAIMS AND BENEFITS PAID</b>	<b>38,534</b>	<b>40,233</b>	<b>38,534</b>	<b>40,233</b>

## 12. REINSURANCE RECOVERIES

	Group		Parent	
	2010 \$'000s	2009 \$'000s	2010 \$'000s	2009 \$'000s
Life insurance contracts	(30,790)	(29,894)	(30,790)	(29,894)
<b>TOTAL REINSURANCE RECOVERIES</b>	<b>(30,790)</b>	<b>(29,894)</b>	<b>(30,790)</b>	<b>(29,894)</b>

## 13. COMMISSIONS AND MANAGEMENT EXPENSES

	Group		Parent	
	2010 \$'000s	2009 \$'000s	2010 \$'000s	2009 \$'000s
<b>Life insurance contracts</b>				
Acquisition costs				
Commissions	18,281	16,198	18,281	16,198
Other expenses	7,659	6,810	7,659	6,810
Maintenance costs				
Commission	6,762	5,376	6,762	5,376
Other management expenses	1,721	94	1,721	94
	<b>34,423</b>	<b>28,478</b>	<b>34,423</b>	<b>28,478</b>
<b>Life investment contracts</b>				
Acquisition costs				
Commissions	677	520	677	520
Deferred acquisition cost amortisation	(1,245)	(947)	(1,245)	(947)
Other expenses	76	76	76	76
Maintenance costs				
Commissions	2,653	2,456	2,653	2,456
Other expenses	(296)	1,380	(296)	1,520
Investment management expenses	1,076	882	1,076	882
	<b>2,941</b>	<b>4,367</b>	<b>2,941</b>	<b>4,507</b>
	<b>37,364</b>	<b>32,845</b>	<b>37,364</b>	<b>32,985</b>

# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 30 JUNE 2010

## 14. OTHER EXPENSES

	Group		Parent	
	2010 \$'000s	2009 \$'000s	2010 \$'000s	2009 \$'000s
<b>Other expenses include</b>				
Employee benefit expense				
Wages and salaries and other short term benefits	13,362	11,485	13,362	11,485
Contribution to superannuation schemes	884	688	884	688
Employee share purchase scheme expense	88	91	88	91
	14,334	12,264	14,334	12,264
Remuneration of auditors				
Audit services	169	180	169	180
Other services	26	76	26	76
Tax services	117	134	117	134
	312	390	312	390
Depreciation (note 26)	573	517	573	517
Revaluation of property, plant and equipment (note 26)	-	-	-	-
	573	517	573	517
Amortisation				
Acquired in-force business (note 27)	605	605	605	605
Software (note 27)	167	175	167	175
	772	780	772	780
Directors' fees	330	289	330	289
Operating lease costs	116	97	289	767
Loss on disposal of property, plant and equipment	-	12	-	12
Bad and doubtful debts expense	213	342	213	342
<b>TOTAL OTHER EXPENSES PER INCOME STATEMENT</b>	<b>16,650</b>	<b>14,691</b>	<b>16,823</b>	<b>15,361</b>

# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 30 JUNE 2010

## 15. INVESTMENT INCOME FROM NON INSURANCE BUSINESS

	Group		Parent	
	2010 \$'000s	2009 \$'000s	2010 \$'000s	2009 \$'000s
Financial instruments designated at fair value through profit or loss				
Debt securities	(33,748)	(70,347)	-	-
Fixed interest securities	68	291	-	-
	(33,680)	(70,056)	-	-
Fair value movement from financial instruments held for trading				
Derivative financial instruments	52,068	66,550	-	-
Forward currency exchange contracts	(244)	182	-	-
	51,824	66,732	-	-
	18,144	(3,324)	-	-
<b>SUMMARY OF NET INVESTMENT INCOME</b>				
Interest and similar income	913	6,410	-	-
Dividend income	-	-	-	-
Realised gains/(losses)	14,767	(10,968)	-	-
Unrealised gains/(losses)	2,464	1,234	-	-
<b>NET INVESTMENT INCOME</b>	<b>18,144</b>	<b>(3,324)</b>	<b>-</b>	<b>-</b>

## 16. OTHER NON INSURANCE INCOME

	Group		Parent	
	2010 \$'000s	2009 \$'000s	2010 \$'000s	2009 \$'000s
(Decrease)/increase in fair value of investment property (note 28)	318	(904)	318	-
Rental income from investment property	799	844	595	-
	1,117	(60)	913	-



# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 30 JUNE 2010

## 17. NON INSURANCE EXPENSES

	Group		Parent	
	2010 \$'000s	2009 \$'000s	2010 \$'000s	2009 \$'000s
Other expenses include				
Remuneration of auditors				
Audit services	21	21	-	-
Other services	20	-	-	-
	41	21	-	-
Depreciation (note 26)	129	129	97	-
Revaluation of property, plant and equipment (note 26)	(87)	(100)	(55)	-
	42	29	42	-
Direct rental property expenses (note 28)	302	257	229	-
Investment management expenses	1,326	1,096	-	-
Other expenses	58	54	-	-
<b>TOTAL OTHER EXPENSES PER INCOME STATEMENT</b>	<b>1,769</b>	<b>1,457</b>	<b>271</b>	<b>-</b>

## 18. FINANCE COSTS

	Group		Parent	
	2010 \$'000s	2009 \$'000s	2010 \$'000s	2009 \$'000s
Interest expense on:				
Capital Guaranteed Bonds	15,209	1,003	-	-
<b>TOTAL FINANCE COSTS PER INCOME STATEMENT</b>	<b>15,209</b>	<b>1,003</b>	<b>-</b>	<b>-</b>

In accordance with the Fidelity Capital Guaranteed Bond Limited's (FCGBL) Trust Deed, the market value of FCGBL's net assets must meet a required threshold before payment of interest can be made. If a coupon interest payment is suspended, interest is accrued on the suspended amount. All coupon interest and suspended interest amounts owing to the holders of the Capital Guaranteed Bonds have priority over all interest amounts owing to the Subordinated bond holder.

On 15 July 2009, the market value of FCGBL's net assets was insufficient for a coupon to be paid. This suspension was the second consecutive coupon date where interest was delayed as the January 2009 coupon had also been suspended. To compensate bondholders for the interest suspension, in accordance with FCGBL's Trust Deed interest on the suspended amounts was accrued until the next coupon date, 15 January 2010.

On 15 January 2010, the market value of FCGBL's net assets was sufficient for the two outstanding coupons, the one current coupon, and the suspended interest to be paid to bondholders. Coupon interest of \$10,406,250 was paid, along with \$488,708 of suspended interest.

# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 30 JUNE 2010

## 19. INCOME TAX EXPENSE

	Group		Parent	
	2010 \$'000s	2009 \$'000s	2010 \$'000s	2009 \$'000s
<b>(A) INCOME TAX EXPENSE/(CREDIT)</b>				
Current tax	2,370	(3,443)	2,205	(4,041)
Deferred tax	915	1,563	816	1,940
	3,285	(1,880)	3,021	(2,101)
<b>(B) NUMERICAL RECONCILIATION OF INCOME TAX EXPENSE/(CREDIT) TO PRIMA FACIE TAX PAYABLE</b>				
Profit before income tax expense	20,201	8,470	19,062	5,658
Tax at the New Zealand tax rate of 30%	6,060	2,541	5,719	1,697
Tax effect of non-taxable/non-deductible amounts	(4,491)	(6,153)	(4,467)	(6,018)
Tax losses transferred to group company	-	-	67	280
Effect of change in the tax rate on deferred tax	(667)	-	(667)	-
Deferred tax offset by current tax benefit	2,411	2,167	2,398	2,879
Prior period adjustment	(28)	(435)	(29)	(939)
<b>INCOME TAX EXPENSE/(CREDIT)</b>	3,285	(1,880)	3,021	(2,101)
<b>(C) IMPUTATION CREDIT ACCOUNT</b>				
Balance at beginning of year	-	-	-	-
Imputation credits attached to dividends paid during the year	(644)	(709)	(644)	(709)
Tax payments, net of refunds	350	-	350	-
Imputation credits attached to dividends received during the year	197	294	197	294
Transfer (to)/from policyholder credit account	97	415	97	415
<b>BALANCE AT END OF YEAR</b>	-	-	-	-

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 30 JUNE 2010

## 19. INCOME TAX EXPENSE (continued)

The tax (charge)/credit relating to components of other comprehensive income is as follows:

	Before tax	Tax charge	After tax	Before tax	Tax charge	After tax
	\$'000s	2010 \$'000s	\$'000s	\$'000s	2009 \$'000s	\$'000s
<b>GROUP</b>						
Fair value gains/(losses) on revaluation – land and building	324	(97)	227	(239)	72	(167)
Employee share purchase plan expense	88	–	88	91	–	91
	412	(97)	315	(148)	72	(76)

	Before tax	Tax charge	After tax	Before tax	Tax charge	After tax
	\$'000s	2010 \$'000s	\$'000s	\$'000s	2009 \$'000s	\$'000s
<b>PARENT</b>						
Fair value gains/(losses) on revaluation – land and building	324	(97)	227	(239)	72	(167)
Employee share purchase plan expense	88	–	88	91	–	91
Revaluation reserves realised on amalgamation	3,629	–	3,629	–	–	–
	4,041	(97)	3,944	(148)	72	(76)

## 20. CASH AND CASH EQUIVALENTS

	Group		Parent	
	2010 \$'000s	2009 \$'000s	2010 \$'000s	2009 \$'000s
Cash at bank and in hand				
Bank balances	5,454	4,127	5,454	4,114
Deposits at call	22,080	11,254	17,663	7,108
<b>CASH AND CASH EQUIVALENTS</b>	<b>27,534</b>	<b>15,381</b>	<b>23,117</b>	<b>11,222</b>

# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 30 JUNE 2010

## 21. LOANS AND OTHER RECEIVABLES

	Group		Parent	
	2010 \$'000s	2009 \$'000s	2010 \$'000s	2009 \$'000s
Mortgage and agents' loans	29,381	25,938	29,381	25,938
Policy loans	247	327	247	327
Other loans	567	494	567	494
<b>Total loans</b>	<b>30,195</b>	<b>26,759</b>	<b>30,195</b>	<b>26,759</b>
Less provision for impairment on loans	(200)	-	(200)	-
<b>Net loans receivable</b>	<b>29,995</b>	<b>26,759</b>	<b>29,995</b>	<b>26,759</b>
Other receivables				
Proceeds due from sale of investments	832	207	45	26
Outstanding premiums	821	742	821	742
Prepayments	539	1,198	539	1,198
Interest due on loans	452	288	452	288
Receivable from subsidiary	-	-	1,182	6,709
Sundry receivables	193	380	193	345
<b>Total other receivables</b>	<b>2,837</b>	<b>2,815</b>	<b>3,232</b>	<b>9,308</b>
Less provision for doubtful debts on other receivables	-	-	-	-
<b>Net other receivables</b>	<b>2,837</b>	<b>2,815</b>	<b>3,232</b>	<b>9,308</b>
<b>TOTAL LOANS AND OTHER RECEIVABLES</b>	<b>32,832</b>	<b>29,574</b>	<b>33,227</b>	<b>36,067</b>
Expected maturity				
Within 12 months	7,929	5,398	8,324	11,891
Later than 12 months	24,903	24,176	24,903	24,176
	<b>32,832</b>	<b>29,574</b>	<b>33,227</b>	<b>36,067</b>

# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 30 JUNE 2010

## 22. OTHER FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	Group		Parent	
	2010 \$'000s	2009 \$'000s	2010 \$'000s	2009 \$'000s
<b>FINANCIAL ASSETS DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS</b>				
Debt securities				
Local Authority	13,445	8,721	13,445	8,721
New Zealand Government	8,319	3,732	8,319	3,732
Corporate – New Zealand	159,086	142,298	80,838	70,827
Unitised Funds	138,870	131,842	138,870	131,842
Total debt securities	319,720	286,593	241,472	215,122
Equity securities				
Corporate – New Zealand	11,284	14,905	11,284	14,905
Corporate – Non-New Zealand	85,521	86,792	85,521	86,792
Total equity securities	96,805	101,697	96,805	101,697
<b>TOTAL FINANCIAL ASSETS DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS</b>	<b>416,525</b>	<b>388,290</b>	<b>338,277</b>	<b>316,819</b>
Expected maturity				
Within 12 months	241,558	310,541	241,342	239,070
Later than 12 months	174,967	77,749	96,935	77,749
	416,525	388,290	338,277	316,819

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 30 JUNE 2010

## 23. DERIVATIVE FINANCIAL INSTRUMENTS

	Group		Parent	
	2010 \$'000s	2009 \$'000s	2010 \$'000s	2009 \$'000s
<b>ASSETS</b>				
Forward currency	2,625	2,339	2,625	2,160
Interest rate swaps	-	6,011	-	6,011
<b>TOTAL DERIVATIVE ASSETS</b>	<b>2,625</b>	<b>8,350</b>	<b>2,625</b>	<b>8,171</b>
Less non-current portion				
Interest rate swaps	-	6,011	-	6,011
<b>CURRENT PORTION OF DERIVATIVE ASSETS</b>	<b>2,625</b>	<b>2,339</b>	<b>2,625</b>	<b>2,160</b>
<b>LIABILITIES</b>				
Forward currency	573	653	496	473
Interest rate swaps	-	6,115	-	6,115
Put options	45	138	-	-
Call options	4,101	1,788	294	-
<b>TOTAL DERIVATIVE LIABILITIES</b>	<b>4,719</b>	<b>8,694</b>	<b>790</b>	<b>6,588</b>
Less non-current portion				
Interest rate swaps	-	6,004	-	6,004
<b>CURRENT PORTION OF DERIVATIVE LIABILITIES</b>	<b>4,719</b>	<b>2,690</b>	<b>790</b>	<b>584</b>

# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 30 JUNE 2010

## 24. DEFERRED ACQUISITION COSTS

	Group		Parent	
	2010 \$'000s	2009 \$'000s	2010 \$'000s	2009 \$'000s
Carrying amount at 1 July	1,057	110	1,057	110
Acquisition costs deferred during the year	1,988	1,420	1,988	1,420
Amortisation	(743)	(473)	(743)	(473)
<b>CARRYING AMOUNT AT 30 JUNE</b>	<b>2,302</b>	<b>1,057</b>	<b>2,302</b>	<b>1,057</b>

## 25. ASSETS ARISING FROM REINSURANCE CONTRACTS

	Group		Parent	
	2010 \$'000s	2009 \$'000s	2010 \$'000s	2009 \$'000s
Assets arising from reinsurance contracts comprise:				
Life insurance contracts	13,378	13,626	13,378	13,626
	13,378	13,626	13,378	13,626
<b>LIFE INSURANCE CONTRACTS REINSURANCE ASSETS</b>				
Carrying amount at 1 July	13,626	7,664	13,626	7,664
Reinsurance claims made to reinsurers	29,983	27,412	29,983	27,412
Payments received from reinsurers	(30,231)	(21,450)	(30,231)	(21,450)
<b>CARRYING AMOUNT AT 30 JUNE</b>	<b>13,378</b>	<b>13,626</b>	<b>13,378</b>	<b>13,626</b>
Expected maturity				
Within 12 months	13,378	13,626	13,378	13,626
	13,378	13,626	13,378	13,626



# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 30 JUNE 2010

## 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
<b>AT 1 JULY 2008</b>								
Cost	2,137	4,298	902	23	458	894	599	9,311
Accumulated depreciation	-	-	(286)	(10)	(172)	(411)	(310)	(1,189)
<b>NET BOOK AMOUNT</b>	<b>2,137</b>	<b>4,298</b>	<b>616</b>	<b>13</b>	<b>286</b>	<b>483</b>	<b>289</b>	<b>8,122</b>
<b>YEAR ENDED 30 JUNE 2009</b>								
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)
<b>CLOSING NET BOOK AMOUNT</b>	<b>2,289</b>	<b>4,949</b>	<b>503</b>	<b>15</b>	<b>233</b>	<b>442</b>	<b>237</b>	<b>8,668</b>
<b>AT 1 JULY 2009</b>								
Cost	2,289	4,949	902	28	388	991	630	10,177
Accumulated depreciation	-	-	(399)	(13)	(155)	(549)	(393)	(1,509)
<b>NET BOOK AMOUNT</b>	<b>2,289</b>	<b>4,949</b>	<b>503</b>	<b>15</b>	<b>233</b>	<b>442</b>	<b>237</b>	<b>8,668</b>
<b>YEAR ENDED 30 JUNE 2010</b>								
Opening net book amount	2,289	4,949	503	15	233	442	237	8,668
Additions	-	-	-	49	107	227	28	411
Transfer from/(to) investment property	-	-	-	-	-	-	-	-
Revaluation	324	87	-	-	-	-	-	411
Depreciation	-	(129)	(113)	(9)	(79)	(271)	(101)	(702)
Disposals	-	-	-	-	(22)	-	(1)	(23)
<b>CLOSING NET BOOK AMOUNT</b>	<b>2,613</b>	<b>4,907</b>	<b>390</b>	<b>55</b>	<b>239</b>	<b>398</b>	<b>163</b>	<b>8,765</b>
<b>AT 30 JUNE 2010</b>								
Cost	2,613	4,907	902	77	432	1,218	653	10,802
Accumulated depreciation	-	-	(512)	(22)	(193)	(820)	(490)	(2,037)
<b>NET BOOK AMOUNT</b>	<b>2,613</b>	<b>4,907</b>	<b>390</b>	<b>55</b>	<b>239</b>	<b>398</b>	<b>163</b>	<b>8,765</b>

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 Barratt-Boyes Jefferies Lawton Ltd on the 30 June 2010. For further information on the valuation refer to note 28(b).

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 30 JUNE 2010

## 26. PROPERTY, PLANT AND EQUIPMENT (continued)

(A) IF LAND AND BUILDINGS WERE STATED ON THE HISTORICAL COST BASIS, THE AMOUNTS WOULD BE AS FOLLOWS:

	2010 \$'000s	2009 \$'000s
Cost	6,917	6,917
Accumulated depreciation	(848)	(719)
<b>NET BOOK AMOUNT</b>	<b>6,069</b>	<b>6,198</b>

## PARENT

	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
<b>AT 1 JULY 2008</b>								
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
<b>YEAR ENDED 30 JUNE 2009</b>								
Opening net book amount	-	-	616	13	286	483	289	1,687
Additions	-	-	-	5	71	181	57	314
Transfer from/(to) investment property	-	-	-	-	-	-	-	-
Revaluation	-	-	-	-	-	-	-	-
Depreciation	-	-	(113)	(3)	(70)	(222)	(109)	(517)
Disposals	-	-	-	-	(54)	-	-	(54)
<b>CLOSING NET BOOK AMOUNT</b>	<b>-</b>	<b>-</b>	<b>503</b>	<b>15</b>	<b>233</b>	<b>442</b>	<b>237</b>	<b>1,430</b>
<b>AT 1 JULY 2009</b>								
Cost	-	-	902	28	388	991	630	2,939
Accumulated depreciation	-	-	(399)	(13)	(155)	(549)	(393)	(1,509)
<b>NET BOOK AMOUNT</b>	<b>-</b>	<b>-</b>	<b>503</b>	<b>15</b>	<b>233</b>	<b>442</b>	<b>237</b>	<b>1,430</b>
<b>YEAR ENDED 30 JUNE 2010</b>								
Opening net book amount	-	-	503	15	233	442	237	1,430
Additions	-	-	-	49	107	227	28	411
Additions on amalgamation	2,289	4,949	-	-	-	-	-	7,238
Transfer from/(to) investment property	-	-	-	-	-	-	-	-
Revaluation	324	55	-	-	-	-	-	379
Depreciation	-	(97)	(113)	(9)	(79)	(271)	(101)	(670)
Disposals	-	-	-	-	(22)	-	(1)	(23)
<b>CLOSING NET BOOK AMOUNT</b>	<b>2,613</b>	<b>4,907</b>	<b>390</b>	<b>55</b>	<b>239</b>	<b>398</b>	<b>163</b>	<b>8,765</b>
<b>AT 30 JUNE 2010</b>								
Cost	2,613	4,907	902	77	432	1,218	653	10,802
Accumulated depreciation	-	-	(512)	(22)	(193)	(820)	(490)	(2,037)
<b>NET BOOK AMOUNT</b>	<b>2,613</b>	<b>4,907</b>	<b>390</b>	<b>55</b>	<b>239</b>	<b>398</b>	<b>163</b>	<b>8,765</b>

# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 30 JUNE 2010

## 27. INTANGIBLE ASSETS

### GROUP

	Software	AVIF	Total
	\$'000s	\$'000s	\$'000s
<b>AT 1 JULY 2008</b>			
Cost	671	6,054	6,725
Accumulated amortisation	(448)	(807)	(1,255)
<b>NET BOOK AMOUNT</b>	<b>223</b>	<b>5,247</b>	<b>5,470</b>
<b>YEAR ENDED 30 JUNE 2009</b>			
Opening net book amount	223	5,247	5,470
Additions	131	-	131
Disposals	-	-	-
Amortisation	(175)	(605)	(780)
<b>CLOSING NET BOOK AMOUNT</b>	<b>179</b>	<b>4,642</b>	<b>4,821</b>
<b>AT 1 JULY 2009</b>			
Cost	614	6,054	6,668
Accumulated amortisation	(435)	(1,412)	(1,847)
<b>NET BOOK AMOUNT</b>	<b>179</b>	<b>4,642</b>	<b>4,821</b>
<b>YEAR ENDED 30 JUNE 2010</b>			
Opening net book amount	179	4,642	4,821
Additions	256	-	256
Disposals	-	-	-
Amortisation	(167)	(605)	(772)
<b>CLOSING NET BOOK AMOUNT</b>	<b>268</b>	<b>4,037</b>	<b>4,305</b>
<b>AS AT 30 JUNE 2010</b>			
Cost	870	6,054	6,924
Accumulated amortisation	(602)	(2,017)	(2,619)
<b>NET BOOK AMOUNT</b>	<b>268</b>	<b>4,037</b>	<b>4,305</b>

The acquired value of in-force business (AVIF) from the acquisition of Farmers' Mutual Life Limited has been determined by an 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% (2009: 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 2010 was \$5,578,000 (2009: \$5,737,000) which exceeds the AVIF and therefore no impairment was required.

# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 30 JUNE 2010

## 27. INTANGIBLE ASSETS (continued)

### PARENT

	Software	AVIF	Total
	\$'000s	\$'000s	\$'000s
<b>AT 1 JULY 2008</b>			
Cost	671	6,054	6,725
Accumulated amortisation	(448)	(807)	(1,255)
<b>NET BOOK AMOUNT</b>	<b>223</b>	<b>5,247</b>	<b>5,470</b>
<b>YEAR ENDED 30 JUNE 2009</b>			
Opening net book amount	223	5,247	5,470
Additions	131	–	131
Disposals	–	–	–
Amortisation	(175)	(605)	(780)
<b>CLOSING NET BOOK AMOUNT</b>	<b>179</b>	<b>4,642</b>	<b>4,821</b>
<b>AT 1 JULY 2009</b>			
Cost	614	6,054	6,668
Accumulated amortisation	(435)	(1,412)	(1,847)
<b>NET BOOK AMOUNT</b>	<b>179</b>	<b>4,642</b>	<b>4,821</b>
<b>YEAR ENDED 30 JUNE 2010</b>			
Opening net book amount	179	4,642	4,821
Additions	256	–	256
Disposals	–	–	–
Amortisation	(167)	(605)	(772)
<b>CLOSING NET BOOK AMOUNT</b>	<b>268</b>	<b>4,037</b>	<b>4,305</b>
<b>AS AT 30 JUNE 2010</b>			
Cost	870	6,054	6,924
Accumulated amortisation	(602)	(2,017)	(2,619)
<b>NET BOOK AMOUNT</b>	<b>268</b>	<b>4,037</b>	<b>4,305</b>

# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 30 JUNE 2010

## 28. INVESTMENT PROPERTY

	Group		Parent	
	2010 \$'000s	2009 \$'000s	2010 \$'000s	2009 \$'000s
<b>AT FAIR VALUE</b>				
Opening balance	8,162	10,065	-	-
Acquisitions through business combinations (note 30)	-	-	8,162	-
Transfers to owner-occupied property (note 26)	-	(999)	-	-
Net gain/(loss) from fair value adjustment	318	(904)	318	-
<b>CLOSING BALANCE</b>	<b>8,480</b>	<b>8,162</b>	<b>8,480</b>	<b>-</b>

### (A) DIRECT OPERATING EXPENSES FROM INVESTMENT PROPERTY

	Group		Parent	
	2010 \$'000s	2009 \$'000s	2010 \$'000s	2009 \$'000s
That generated rental income during the period	302	257	229	-
That did not generate rental income during the period	-	-	-	-
	<b>302</b>	<b>257</b>	<b>229</b>	<b>-</b>

### (B) VALUATION BASIS

Investment property includes commercial office buildings based in Auckland.

Investment property was valued on 30 June 2010 at \$16.0m (2009: \$15.4m), by P R Amesbury an independent registered valuer in the firm of Barratt-Boyes Jefferies Lawton 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 (2009: Nil).

## 29. INVESTMENT IN SUBSIDIARIES

The Parent holds the following interests in subsidiaries.

	Nature of activities	Class of Shares	Ownership	
			2010	2009
<b>COMPANY</b>				
Fidelity Capital Guaranteed Bond Limited	Investment	Ordinary	100%	100%
Fidelity Life Properties Limited	Property	Ordinary	-	100%
Fidelity Fund Management Limited	Non-trading Trustee Company	Ordinary	100%	100%
Fidelity Securities Limited	Fund Manager	Ordinary	100%	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 17 October 2008.

Fidelity Life Properties Limited was amalgamated on 2 October 2009 into Fidelity Life Assurance Company Limited (the Parent).

# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 30 JUNE 2010

## 30. BUSINESS AMALGAMATION

On 2 October 2009 Fidelity Life Properties Limited was amalgamated into Fidelity Life Assurance Company Limited (the Parent). Until the date of amalgamation, Fidelity Life Properties Limited was a wholly owned subsidiary of the Parent. Under the amalgamation, the Parent took control of all the assets of Fidelity Life Properties Limited and assumed responsibility for its liabilities. Fidelity Life Properties Limited has been removed from the New Zealand register of companies.

Summary of the effect of the amalgamation of Fidelity Life Properties Limited:

	Parent
<b>ASSETS AND LIABILITIES AMALGAMATED</b>	
Bank balances	215
Other assets	24
Investment property	15,400
Other liabilities	(5,990)
Carrying amount of shares in amalgamated subsidiary	(6,020)
<b>BALANCE RECOGNISED IN THE STATEMENT OF CHANGES IN EQUITY</b>	<b>3,629</b>

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

The operating results of Fidelity Life Properties Limited after the amalgamation has been included in the statement of comprehensive income of the Parent since 3 October 2009. 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.

2010

	Investment linked	Non investment linked	Total
	\$'000	\$'000	\$'000
Investment assets	257,217	201,692	458,909
Other assets	43,894	26,588	70,482
Policy liabilities	301,111	(10,734)	290,377
Liabilities other than policy liabilities	-	126,353	126,353
Shareholders retained earnings	-	100,033	100,033
Premium revenue	47,179	80,716	127,895
Investment revenue	30,383	24,015	54,398
Claims expense	40,133	38,534	78,667
Other operating expenses	20,586	35,197	55,783
Interest expense	-	15,209	15,209
Investment revenues paid or allocated to policyholders	22,536	-	22,536
Operating profit before tax	17,679	2,522	20,201
Operating profit after tax	13,233	3,683	16,916

# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 30 JUNE 2010

## 31. INVESTMENT AND NON-INVESTMENT LINKED (continued)

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 profit before tax	(904)	9,374	8,470
Operating profit after tax	(904)	11,254	10,350

## 32. LIFE INSURANCE CONTRACT LIABILITIES

	Group		Parent	
	2010 \$'000s	2009 \$'000s	2010 \$'000s	2009 \$'000s
<b>OPENING BALANCE AT 1 JULY</b>	(5,827)	4,015	(5,827)	4,015
Premiums received	78,825	75,524	78,825	75,524
Liabilities released for payments on death, surrender and other terminations in the year	(38,534)	(40,233)	(38,534)	(40,233)
Other movements	(45,198)	(45,133)	(45,198)	(45,133)
<b>CLOSING BALANCE AT 30 JUNE</b>	(10,734)	(5,827)	(10,734)	(5,827)
<b>Expected maturity</b>				
Within 12 months	9,661	6,737	9,661	6,737
Later than 12 months	(20,395)	(12,564)	(20,395)	(12,564)
	(10,734)	(5,827)	(10,734)	(5,827)
<b>Life insurance contracts with a discretionary participation feature that have a guaranteed element</b>	32,171	30,959	32,171	30,959
<b>Life insurance contract liabilities contain the following components</b>				
Future policy benefits	455,820	361,068	455,820	361,068
Future expenses	155,074	133,240	155,074	133,240
Planned margins of revenues over expenses	81,027	112,566	81,027	112,566
Future revenues	(702,655)	(612,701)	(702,655)	(612,701)
	(10,734)	(5,827)	(10,734)	(5,827)

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# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 30 JUNE 2010

## 33. LIFE INVESTMENT CONTRACT LIABILITIES

	Group		Parent	
	2010 \$'000s	2009 \$'000s	2010 \$'000s	2009 \$'000s
Participating contracts				
Guaranteed element	188,999	187,232	188,999	187,232
	188,999	187,232	188,999	187,232
Non-participating contracts designated at fair value through profit or loss	112,112	91,170	112,112	91,170
Non-participating contracts at amortised cost	-	-	-	-
	301,111	278,402	301,111	278,402
Movement in life investment contract liabilities				
<b>OPENING BALANCE AT 1 JULY</b>	<b>278,402</b>	<b>325,987</b>	<b>278,402</b>	<b>325,987</b>
Premiums received	47,179	52,140	47,179	52,140
Fees deducted from account balances	1,891	5,872	1,891	5,872
Liabilities released for payments on death, surrender and other terminations in the year	(40,133)	(99,846)	(40,133)	(99,846)
Other movements	13,772	(5,751)	13,772	(5,751)
<b>CLOSING BALANCE AT 30 JUNE</b>	<b>301,111</b>	<b>278,402</b>	<b>301,111</b>	<b>278,402</b>
Expected maturity				
Within 12 months	131,044	90,502	131,044	90,502
Later than 12 months	170,067	187,900	170,067	187,900
	301,111	278,402	301,111	278,402

## 34. INTEREST BEARING LIABILITIES

	Group		Parent	
	2010 \$'000s	2009 \$'000s	2010 \$'000s	2009 \$'000s
Capital guaranteed bonds	75,000	73,841	-	-
<b>TOTAL INTEREST BEARING LIABILITIES</b>	<b>75,000</b>	<b>73,841</b>	<b>-</b>	<b>-</b>
Expected maturity				
Within 12 months	-	-	-	-
Later than 12 months	75,000	73,841	-	-
	75,000	73,841	-	-

# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 30 JUNE 2010

## 34. INTEREST BEARING LIABILITIES (continued)

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

In accordance with the Company's Trust Deed the principal and interest amounts owing to the holders of the Capital Guaranteed Bonds rank ahead of all amounts owing to the Subordinated bondholder.

The carrying value of the Capital Guaranteed Bonds at 30 June 2010 of principal and accrued interest is based on the most recent assessment of the market value of the underlying investment portfolio and the repayment of the principal of \$75,000,000 on the maturity date of 15 July 2013. This was sufficient to meet the next scheduled payment of coupon interest on 15 July 2010. This was announced to the NZDX on 12 July 2010.

Cash flow projections indicate that there will be insufficient cash flows to meet the full payment of the amount owing to the subordinated bond holders. This is reflected in the value of the liability owing to the Subordinated bondholder, which after the effective interest adjustment is \$374,996 (2009: \$nil).

The final settlement date to repay the principal borrowings for both the Capital Guaranteed Bonds and Subordinated Bonds is 15 July 2013.

## 35. PAYABLES AND OTHER FINANCIAL LIABILITIES

	Note	Group		Parent	
		2010 \$'000s	2009 \$'000s	2010 \$'000s	2009 \$'000s
Creditors and accruals		2,863	2,855	2,432	2,516
Claims approved for settlement		8,820	12,361	8,820	12,361
Accrued interest		3,155	-	-	-
Premiums in advance		401	490	401	490
Reinsurance liabilities		7,702	2,735	7,702	2,735
Employee entitlements		1,926	1,342	1,926	1,342
Employee share purchase plan refund provision	47	1,365	1,451	1,365	1,451
		<b>26,232</b>	<b>21,234</b>	<b>22,646</b>	<b>20,895</b>
Expected maturity					
Within 12 months		26,232	21,234	22,646	20,895
Later than 12 months		-	-	-	-
		<b>26,232</b>	<b>21,234</b>	<b>22,646</b>	<b>20,895</b>

# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 30 JUNE 2010

## 36. DEFERRED TAX

(A) THE BALANCE COMPRISES TEMPORARY DIFFERENCES ATTRIBUTABLE TO:

2010

Deferred tax liabilities	Fixed Assets	Provisions	Investments	Deferred acquisition costs	Unused tax losses	Total
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
<b>GROUP</b>						
Balance at beginning of year	(18)	-	579	19,595	-	20,156
Movement through profit and loss	1	-	(579)	824	-	246
Balance at end of the year	(17)	-	-	20,419	-	20,402
<b>PARENT</b>						
Balance at beginning of year	(18)	-	579	19,595	-	20,156
Movement through profit and loss	1	-	(579)	824	-	246
Balance at end of the year	(17)	-	-	20,419	-	20,402

Deferred tax assets	Fixed Assets	Provisions	Investments	Deferred acquisition costs	Unused tax losses	Total
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
<b>GROUP</b>						
Balance at beginning of year	-	976	-	-	14,389	15,365
Movement through profit and loss	-	191	-	-	(3,325)	(3,134)
Balance at end of the year	-	1,167	-	-	11,064	12,231
<b>PARENT</b>						
Balance at beginning of year	-	622	-	-	14,389	15,011
Movement through profit and loss	-	290	-	-	(3,325)	(3,035)
Balance at end of the year	-	912	-	-	11,064	11,976

	Fixed Assets	Provisions	Investments	Deferred acquisition costs	Unused tax losses	Total
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
<b>GROUP</b>						
Net deferred tax liability/(asset)	(17)	(1,167)	-	20,419	(11,064)	8,171
<b>PARENT</b>						
Net deferred tax liability/(asset)	(17)	(912)	-	20,419	(11,064)	8,426

# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 30 JUNE 2010

## 36. DEFERRED TAX (continued)

(A) THE BALANCE COMPRISES TEMPORARY DIFFERENCES ATTRIBUTABLE TO: (continued)

2009

Deferred tax liabilities	Fixed Assets	Provisions	Investments	Deferred acquisition costs	Unused tax losses	Total
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s

**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
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
Balance at end of the year	(18)	-	579	19,595	-	20,156

Deferred tax assets	Fixed Assets	Provisions	Investments	Deferred acquisition costs	Unused tax losses	Total
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s

**GROUP**

Balance at beginning of year	-	644	-	-	10,109	10,753
Movement through profit and loss	-	332	-	-	4,280	4,612
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
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
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**PARENT**

Net deferred tax liability/(asset)	(18)	(622)	579	19,595	(14,389)	5,145
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# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 30 JUNE 2010

## 36. DEFERRED TAX (continued)

### (B) MOVEMENTS:

	Group		Parent	
	2010 \$'000s	2009 \$'000s	2010 \$'000s	2009 \$'000s
Opening balance 1 July	4,791	6,663	5,145	6,641
Charged/(credited) to the income statement	3,380	(1,872)	3,281	(1,496)
<b>CLOSING BALANCE AT 30 JUNE</b>	<b>8,171</b>	<b>4,791</b>	<b>8,426</b>	<b>5,145</b>

	Group		Parent	
	2010 \$'000s	2009 \$'000s	2010 \$'000s	2009 \$'000s
<b>DEFERRED TAX LIABILITIES</b>				
Deferred tax liability to be recovered after more than 12 months	20,402	20,156	20,402	20,156
Deferred tax liability to be recovered within 12 months	-	-	-	-
	<b>20,402</b>	<b>20,156</b>	<b>20,402</b>	<b>20,156</b>
<b>DEFERRED TAX ASSETS</b>				
Deferred tax asset to be recovered after more than 12 months	11,064	15,365	11,064	15,011
Deferred tax asset to be recovered within 12 months	1,167	-	912	-
	<b>12,231</b>	<b>15,365</b>	<b>11,976</b>	<b>15,011</b>
<b>DEFERRED TAX LIABILITIES (NET)</b>	<b>8,171</b>	<b>4,791</b>	<b>8,426</b>	<b>5,145</b>

# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 30 JUNE 2010

## 37. SHARE CAPITAL

### GROUP AND PARENT

	2010 Shares	2009 Shares	2010 \$ 000s	2009 \$ 000s
<b>(A) AUTHORISED SHARE CAPITAL</b>				
Ordinary shares – fully paid. No par value	1,438,582	1,438,582	12,401	12,227
<b>(B) MOVEMENTS</b>				
Opening balance of ordinary shares issued	1,438,582	1,438,582	12,227	12,081
Employee share purchase plan fully vested shares	-	-	86	55
Employee share purchase plan expense	-	-	88	91
<b>CLOSING BALANCE OF ORDINARY SHARES ISSUED</b>	<b>1,438,582</b>	<b>1,438,582</b>	<b>12,401</b>	<b>12,227</b>
Held:				
Directly	1,387,849	1,381,199		
Employee share purchase plan trust	50,733	57,383		
<b>TOTAL BALANCE OF ORDINARY SHARES HELD</b>	<b>1,438,582</b>	<b>1,438,582</b>		

### (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

	Group		Parent	
	2010 \$ 000s	2009 \$ 000s	2010 \$ 000s	2009 \$ 000s
<b>(A) REVALUATION RESERVE</b>				
Movements in the revaluation reserve were as follows:				
<b>BALANCE 1 JULY</b>	<b>1,271</b>	<b>1,438</b>	<b>-</b>	<b>-</b>
Owner occupied land revaluation, net of tax	227	[167]	227	-
Revaluation reserves transferred on amalgamation	[1,271]	-	-	-
<b>BALANCE 30 JUNE</b>	<b>227</b>	<b>1,271</b>	<b>227</b>	<b>-</b>

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

	Group		Parent	
	2010 \$ 000s	2009 \$ 000s	2010 \$ 000s	2009 \$ 000s
<b>(B) RETAINED EARNINGS</b>				
Movements in Retained Earnings were as follows:				
<b>BALANCE 1 JULY</b>	<b>83,347</b>	<b>74,436</b>	<b>81,862</b>	<b>75,542</b>
Profit for the year	16,916	10,350	16,041	7,759
Dividends	[1,501]	[1,439]	[1,501]	[1,439]
Gain on amalgamation	-	-	3,629	-
Revaluation reserves transferred	1,271	-	-	-
<b>BALANCE 30 JUNE</b>	<b>100,033</b>	<b>83,347</b>	<b>100,031</b>	<b>81,862</b>

# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 30 JUNE 2010

## 39. DIVIDENDS

### GROUP AND PARENT

	2010 Per share	2009 Per share	2010 \$ 000s	2009 \$ 000s
Ordinary shares				
Final dividend	1.04	1.00	1,501	1,439
<b>TOTAL DIVIDEND PAID</b>	<b>1.04</b>	<b>1.00</b>	<b>1,501</b>	<b>1,439</b>

The dividends are fully imputed.

On 27 August 2010 the Company declared a ordinary dividend of \$1.32 (net of tax) per share issued amounting to \$1,898,928 and a special dividend of \$0.15 (net of tax) per share issued amounting to \$215,787. This dividend is not recognised in the financial statements, as it is a post balance sheet declaration with no liability attaching at 30 June 2010.

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

	Group		Parent	
	2010 \$ 000s	2009 \$ 000s	2010 \$ 000s	2009 \$ 000s
<b>Net profit after taxation</b>	<b>16,916</b>	<b>10,350</b>	<b>16,041</b>	<b>7,759</b>
(Profit)/loss on sale of property and equipment	-	(13)	-	(13)
(Profit)/loss on sale of investments	(417)	5,422	1,849	(1,520)
Fair value (gains)/losses on investment property	(318)	393	(318)	-
Fair value (gains)/losses on investments	(28,944)	16,275	(23,275)	14,304
Fair value gains on owner occupied property	(87)	196	(55)	-
Depreciation of property and equipment	702	671	670	541
Equity compensation plans, equity settled expense	88	91	88	91
Taxation	2,765	(1,703)	2,665	(1,548)
Amortisation of acquired value of in-force business and intangibles	772	780	772	780
	<b>(8,523)</b>	<b>32,462</b>	<b>(1,563)</b>	<b>20,394</b>
<b>Changes in working capital</b>				
(Increase)/decrease in reinsurance assets	248	(5,962)	248	(5,962)
(Increase)/decrease in deferred acquisition costs	(1,245)	(947)	(1,245)	(947)
Increase/(decrease) in insurance liabilities and investment contracts	17,802	(57,428)	17,802	(57,428)
(Increase)/decrease in other assets	(262)	24	334	(46)
Increase/(decrease) in other liabilities	(1,291)	(5,882)	1,537	3,044
Increase/(decrease) in derivatives	(2,317)	2,880	(4,318)	2,213
<b>Changes in working capital related to financing activities</b>				
Interest paid	7,699	(711)	-	-
<b>CASH GENERATED FROM OPERATIONS</b>	<b>12,111</b>	<b>(35,564)</b>	<b>12,795</b>	<b>(38,732)</b>



# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 30 JUNE 2010

## 41. FINANCIAL INSTRUMENTS BY CATEGORY

	Assets at fair value through profit or loss	Loans and other receivables	Total
	\$'000s	\$'000s	\$'000s

### GROUP

<b>YEAR ENDED 30 JUNE 2010</b>			
Assets at fair value through profit or loss	416,525	-	416,525
Derivative financial instruments	2,625	-	2,625
Loans and other receivables	-	32,293	32,293
Cash and cash equivalents	-	27,534	27,534
	419,150	59,827	478,977
<b>YEAR ENDED 30 JUNE 2009</b>			
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

### PARENT

<b>YEAR ENDED 30 JUNE 2010</b>			
Assets at fair value through profit or loss	338,277	-	338,277
Derivative financial instruments	2,625	-	2,625
Loans and other receivables	-	32,688	32,688
Cash and cash equivalents	-	23,117	23,117
	340,902	55,805	396,707
<b>YEAR ENDED 30 JUNE 2009</b>			
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

# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 30 JUNE 2010

## 41. FINANCIAL INSTRUMENTS BY CATEGORY (continued)

### LIABILITIES AS PER BALANCE SHEET

	Liabilities at fair value through profit or loss	Measured at amortised cost	Total
	\$'000s	\$'000s	\$'000s
<b>GROUP</b>			
<b>YEAR ENDED 30 JUNE 2010</b>			
Derivative financial instruments	4,719	-	4,719
Payables and other financial liabilities	-	24,466	24,466
Interest bearing liabilities	-	75,000	75,000
	4,719	99,466	104,185
<b>YEAR ENDED 30 JUNE 2009</b>			
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
<b>PARENT</b>			
<b>YEAR ENDED 30 JUNE 2010</b>			
Derivative financial instruments	790	-	790
Payables and other financial liabilities	-	20,880	20,880
	790	20,880	21,670
<b>YEAR ENDED 30 JUNE 2009</b>			
Derivative financial instruments	6,588	-	6,588
Payables and other financial liabilities	-	18,954	18,954
	6,588	18,954	25,542

## 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; Jeff Meltzer; Carole Durbin; Colin Wise; David Whyte.

# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 30 JUNE 2010

## 42. RELATED PARTY TRANSACTIONS (continued)

### (C) KEY MANAGEMENT PERSONNEL COMPENSATION

Key management personnel compensation for the year ended 30 June 2010 and the year ended 30 June 2009 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.

	2010 \$'000s	2009 \$'000s
Short term benefits	2,537	2,143
<b>TOTAL</b>	<b>2,537</b>	<b>2,143</b>

### (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	
	2010 \$'000s	2009 \$'000s	2010 \$'000s	2009 \$'000s
Loans to key management personnel comprise:				
Unsecured loans:				
Unsecured loans at 1 July	32	11	32	11
Unsecured loans advanced during the year	100	42	100	42
Loan repayments received – unsecured loans	(32)	(21)	(32)	(21)
<b>UNSECURED LOANS AT 30 JUNE</b>	<b>100</b>	<b>32</b>	<b>100</b>	<b>32</b>
<b>SECURED LOANS AT 30 JUNE</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>INTEREST REVENUE FROM LOANS</b>	<b>4</b>	<b>1</b>	<b>4</b>	<b>1</b>

All loans outstanding to key management personnel at 30 June 2010 have been subsequently repaid.

### (E) TRANSACTIONS WITH RELATED PARTIES

The following transactions occurred with related parties:

All transactions are at arms length.

	Group		Parent	
	2010 \$'000s	2009 \$'000s	2010 \$'000s	2009 \$'000s
Interest revenue due from subsidiaries	-	-	375	-
Reimbursement of transaction costs due from subsidiaries	-	-	21	-
Administration and management fees due from subsidiaries	-	-	169	-
Tax receivable from other group companies through tax offsets	-	-	625	462
Commissions paid to shareholders who hold agency agreements with the Company	2,121	1,867	2,121	1,867

All transactions are at arms length.

# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 30 JUNE 2010

## 42. RELATED PARTY TRANSACTIONS (continued)

### (F) OUTSTANDING BALANCES

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

	Group		Parent	
	2010 \$'000s	2009 \$'000s	2010 \$'000s	2009 \$'000s
Fidelity Capital Guaranteed Bonds Limited	-	-	1,190	638
Fidelity Funds Management Limited	-	-	(7)	(7)
Fidelity Life Properties Limited	-	-	-	6,077
Fidelity Securities Limited	-	-	-	-
Loans made to shareholders	2,254	4,532	2,254	4,532

### (G) TERMS AND CONDITIONS

#### Secured loans

The secured loans are for periods of up to 25 years repayable in cash, at interest rates ranging from 5.7% to 6.35% per annum, and are secured by first mortgages over the individuals' residences.

#### Unsecured loans

The unsecured loans were made for a period of between 2 months and 2 years 2 months, repayable in cash in full. Interest is payable at the prescribed Inland Revenue Department (IRD) fringe benefit tax rate or higher.

#### 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

Subsidiary 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 5.95% (2009: 6.13%)

## 43. CONTINGENCIES

As at 30 June 2010 the Group had no contingent liabilities or assets (2009: nil).

Fidelity Capital Guaranteed Bond Limited (FCGBL) entered into a guarantee with Westpac Banking Corporation, New Zealand branch to cover the \$75m Capital Guaranteed Bond on 7 February 2007. This guarantee is deemed a contingent asset available to the capital Guaranteed Bondholders to reimburse them for the original capital invested (\$75m) if insufficient funds arise either at close out or at maturity. This guarantee confers no rights to non paid interest on the Capital Guaranteed Bonds.

## 44. COMMITMENTS

### (A) CAPITAL COMMITMENTS

There were no material capital commitments at balance date other than those disclosed elsewhere in the financial statements (2009: nil).

# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 30 JUNE 2010

## 44. COMMITMENTS (continued)

### (B) OPERATING LEASE COMMITMENTS : GROUP AND PARENT AS LESSEE

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

	Group		Parent	
	2010 \$'000s	2009 \$'000s	2010 \$'000s	2009 \$'000s
Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:				
Within one year	122	122	122	122
Later than one year but not later than five years	25	100	25	100
Later than five years	-	-	-	-
	147	222	147	222

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

#### Lease A (Tauranga):

- 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

#### Lease C (Christchurch):

- 1 September 2011 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	
	2010 \$'000s	2009 \$'000s	2010 \$'000s	2009 \$'000s
Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:				
Within one year	799	799	799	-
Later than one year but not later than five years	1,503	1,617	1,503	-
Later than five years	-	-	-	-
	2,302	2,416	2,302	-

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 2013 right of renewal for a further non-cancellable lease to 29 November 2016; and
- 30 November 2016 right of renewal for a further non-cancellable lease to 29 February 2019.

# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 30 JUNE 2010

## 45. FIDUCIARY ACTIVITIES

Fidelity Fund Management Limited, a wholly owned subsidiary, acts as a trustee for a number of superannuation funds. The Company manages \$152,317,000 (2009: \$124,201,000) on behalf of this subsidiary.

	Group		Parent	
	2010 \$'000s	2009 \$'000s	2010 \$'000s	2009 \$'000s
Funds managed by Fidelity Life Assurance Company Limited	270,541	178,862	270,541	178,862
Funds managed by Fidelity Securities Limited	22,126	10,800	22,126	10,800
<b>TOTAL FIDUCIARY BALANCES</b>	<b>292,667</b>	<b>189,662</b>	<b>292,667</b>	<b>189,662</b>

## 46. EVENTS OCCURRING AFTER THE BALANCE SHEET DATE

On 4 September 2010 Canterbury New Zealand suffered a severe earthquake which caused significant damage to buildings and the infrastructure of the region. At the date of completion of these accounts there has been insufficient information to determine if there will be any financial effect on the Company or Group from this event.

Fidelity Capital Guaranteed Limited (FCGBL) – Payment of coupon 15 July 2010 – On the basis that the market value of the FCGBL's net assets exceeded the required threshold, FCGBL paid its six-monthly coupon of \$3,468,750 to bondholders on 15 July 2010.

On 1 October 2010 Tower Limited advised the Company of its intention to make an offer under the Takeovers Code to acquire all the shares in Fidelity Life Assurance Company Limited. At the date of completion of these accounts there has been insufficient information to determine if there will be any financial effect on the Company or Group from this event.

There were no other events requiring adjustment to or disclosure in the financial statements other than those disclosed elsewhere.

(2009: 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.)

## 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 employee trusts comprise:

	2010 Number	2009 Number	2010 \$'000s	2009 \$'000s
Held by Trust at 1 July	57,383	57,383	1,451	1,506
Shares issued during year	-	-	-	-
Shares vested from Trust	(6,650)	-	(86)	(55)
<b>BALANCE AT 30 JUNE</b>	<b>50,733</b>	<b>57,383</b>	<b>1,365</b>	<b>1,451</b>

# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 30 JUNE 2010

## 47. SHARE BASED COMPENSATION (continued)

At 30 June 2010, shares held in employee trust unvested were as follows:

### FIDELITY LIFE EMPLOYEE SHARE PURCHASE SCHEME

	Year of Grant	Number of shares	Market Price	Grant Price
	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.

## 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 \$1,750,000 (2009: \$2,300,000) 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	
	2010 \$'000s	2009 \$'000s	2010 \$'000s	2009 \$'000s
Balance at the beginning of the period	107	212	107	212
Transfer (to)/from imputation credit account	(97)	(415)	(97)	(415)
Prior year tax adjustment	-	310	-	310
<b>BALANCE AT THE END OF THE PERIOD</b>	<b>10</b>	<b>107</b>	<b>10</b>	<b>107</b>

## 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.

	2010	2009
Profit attributable to equity holders of the Company (thousands)	16,916	10,350
Weighted average number of ordinary shares in issue (thousands)	1,439	1,439
Basic earnings per share (dollars)	11.76	7.19

### (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 24 to 95. The financial statements provide information about the past financial performance and cash flows of the Company and Group for the year ended 30 June 2010 and their financial position as at that date. This information is stated in accordance with the accounting policies set out on pages 30 to 41.

This report is made solely to the Company's shareholders, as a body, in accordance with Section 205 (1) of the Companies Act 1993. Our audit has been undertaken so that we might state to the Company's shareholders those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's shareholders, as a body, for our audit work, for this report or for the opinion we have formed.

**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 2010 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.

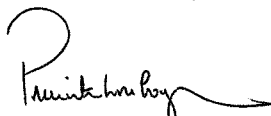
**Unqualified Opinion**

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 24 to 95:
  - (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 2010 and their financial performance and cash flows for the year ended on that date.

Our audit was completed on 1 October 2010 and our unqualified opinion is expressed as at that date.

  
 Chartered Accountants

Auckland

# DIRECTORY/EXTERNAL SERVICES

## Board of Directors

**Ian L Braddock**  
BCom CA MInstD  
Chairman  
Auckland  
Chartered Accountant  
Principal: Adsett & Braddock Group  
Chair: Rouse Holdings Limited & Group

**Jeff Meltzer**  
JP BCom FCA MInstD AAMINZ  
Auckland  
Chartered Accountant  
Partner: Meltzer Mason Heath

**Colin G O Wise**  
FNZIM FlInstD  
Auckland  
Director: New Zealand Food Innovation  
(Manukau) Limited

**Carole Durbin**  
BCom LLB(Hons) FlInstD FAMINZ  
Auckland  
Chair: Damwatch Services Limited  
Director/Trustee: Southern Cross  
Healthcare Group  
Consultant: Simpson Grierson

**David Whyte**  
MA (Hons) DipBusAdmin MMgt  
Auckland  
Company Director  
Business Coach Leader – Auckland:  
Shirlaws New Zealand Limited

## Company Officers

**Chief Executive Officer**  
Milton Jennings BCom CA

**Chief Financial Officer**  
Rowan Hill BBus CA

**Company Actuary**  
John Smith MSc FIA FNZSA

**Consulting Actuary**  
Peter Davies  
BBus SC FIA FNZSA AIA AIAA

**Solicitors**  
DLA Phillips Fox

**Bankers**  
The National Bank of  
New Zealand Limited

**Auditors**  
PricewaterhouseCoopers

**Investment Adviser**  
MCA NZ Ltd

**Investment Managers**  
AMP Capital Investors  
(New Zealand) Limited  
Barclays Global Fund Advisors  
Grosvenor Financial Services  
Group Limited  
ING (NZ) Limited  
State Street International  
(Ireland) Limited

State Street Global Advisors,  
Australia, Limited  
Stewart Financial Group Limited  
Tyndall Investment Management  
New Zealand Limited  
Vanguard Investments  
Australia Limited

**Currency Adviser**  
Bancorp Treasury Services Limited

**Reinsurers**  
General Reinsurance Life  
Australia Limited  
Global Life Reinsurance Company  
of Australia Pty Ltd  
Hannover Life Re of  
Australasia Limited  
Munich Reinsurance Company of  
Australasia Limited  
RGA Reinsurance Company of  
Australia Limited  
Swiss Re Life and Health  
Australia Limited

## Registered Office

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Newmarket  
Auckland 1023  
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**Facsimile** 09 308 9953

## Wellington Office

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Lower Hutt, Wellington 5045  
**Telephone** 04 920 7477  
**Facsimile** 04 586 8733

## Christchurch Office

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Christchurch 8013  
**Telephone** 03 377 2323  
**Facsimile** 03 379 2818

## Tauranga Office

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**Telephone** 0800 434335  
**Facsimile** 07 579 5370



**FidelityLife**  
THE NEW ZEALAND LIFE COMPANY

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