







#### LISTENING & RESPONDING

WE ENGAGE IN DIALOGUE TO CREATE VALUE THROUGH OUF RELATIONSHIPS



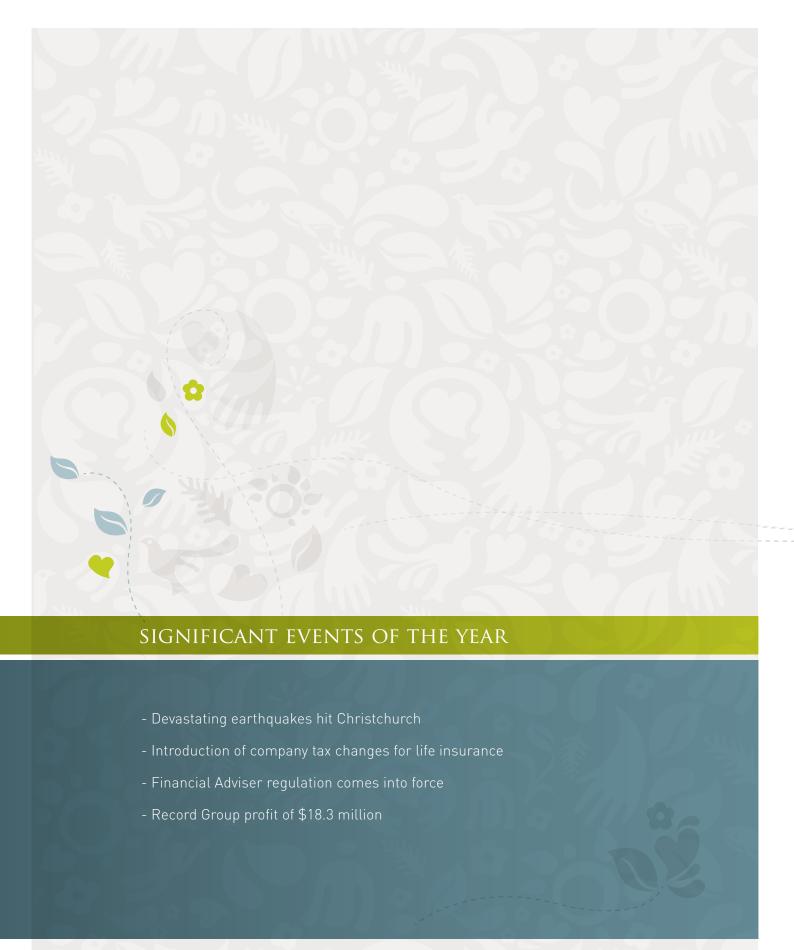
WE RETAIN OUR ORIGINAL FOCUS T 'KEEP FAITH' IN TIMES OF NEED

### STEWARDSHIP

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

#### ANNUAL REPORT 2011

The information in this report is current as at 30 June 2011. All amounts are in New Zealand dollars, unless otherwise specified





On behalf of the Board of Directors, I am very pleased to announce a record profit of \$18.3m for the year ended 30 June 2011, up 8% on the previous year.

This year has been characterised by a number of challenges that have greatly affected our industry and New Zealand as a whole. The tragic events in Christchurch have given us all a different perspective on life and what we consider important; as well as reminding us of the importance of protecting loved ones and property. Within life insurance, the last year has seen a number of significant changes including financial adviser and company regulation, a new tax regime and increased competition. I believe our results demonstrate Fidelity Life's ability to continue delivering strong results in uncertain times.

#### Financial results

The results for the year ended 30 June 2011 reflect a very satisfying performance, with the overall Group profit increasing 8% from \$16.9m to \$18.3m. Net insurance income before tax was consistent with 2010 at \$18.7m and net non-insurance income before tax reduced due to a loss of \$0.4m

arising from adjustments in Fidelity Capital Guaranteed Bond Limited.

Gross insurance revenue from in-force policies increased 7% to \$86.7m, with net new business premium generated during the year increasing by 6% to \$14.6m. This was pleasing considering the fact that 2010 production included a large volume of one-off level-term contracts qualifying for indefinite "grand-fathering" under the old tax regime; and in 2011 there was disruption to the South Island broker force, preparation for and implementation of regulatory changes and increased market competition.

Premiums paid to reinsurers increased by 2% to \$29.8m. However, whilst amounts passed on to reinsurers increased in total, it decreased as a percentage of total premiums, reflecting higher retentions across a number of business lines.

Investment income from insurance business of \$36.8m was a marginal

improvement on 2010, reflecting a relatively steady return from the equity and fixed interest markets during the financial year. However, this turned out to be a period of calm before the storm. Shortly after year end, severe market turbulence caused some investment policyholders to suffer losses. Fortunately the impact on shareholders was mitigated because of non-linked funds being defensively invested.

The Fidelity KiwiSaver Scheme consolidated its growth during the year; funds under management increased by \$90m or 78% to \$206m on 30 June 2011 and membership increased by 10,000 to 71,000. Although the Fidelity KiwiSaver Scheme is not included in the Fidelity Life results, these increases will generate improved fee revenue in the future.

Net claims expense after recoveries from reinsurers increased 26%, from \$7.7m to \$9.8m and includes an amount for latent stress related claims in Christchurch. The net claims ratio of 17% is slightly higher than 15% in 2010 but is in line with expectation.

The growth in the life insurance book led to a marginal increase in acquisition commission expenses to \$18.3m, and a 22% increase in policy maintenance commission costs to \$8.3m. The movement of costs towards maintenance reflects the Fidelity Life spread commission model, which rewards advisers in the medium term for the persistency of business written. Other expenses increased 8% to \$18.4m partly in response to tax and regulatory compliance. There was increased headcount across a number of departments to handle increased business volume as well as the added regulatory requirements.

We continue to invest in upgrading our IT systems to deliver service improvement for advisers and policyholders. During the year we capitalised \$1.2m of software development costs to match these costs to the period in which the Company benefits from the software; and to better align our accounting and tax treatments

Soon after balance date, in the first half of August 2011, investment markets around the globe suffered from major volatility and there were unexpected movements in US bond yields. This arose from the uncertainty surrounding the Euro and the US debt ceiling; and the downgrade of US debt. The Fund utilised by our subsidiary, Fidelity Capital Guaranteed Bond Limited, stopped actively trading options in August due to a Close Out Event, As a result the financial accounts for the subsidiary and amounts included in the Group results have been prepared on a realisable value basis. Accordingly, this year's surplus excludes the \$7.2m of gains made during the twelve months to 30 June 2011. The Bond close-out was a big disappointment to us. However, bondholders were protected by the design of the product, which gives them a capital guarantee, in addition to having received all senior debt interest paid up to the last coupon date on 15 July 2011.

As reported last year, a new set of tax rules for life assurance companies became operational from the beginning of the financial year under review.

Transitional rules, which will operate over a five year period for existing life assurance contracts, have mitigated our tax charge. This year's tax result has seen a significant improvement over the prior year with one-off charges incurred in the 2010 financial year not being offset by the changes under the new regime.

# Balance Sheet and Financial Strength

Excluding Fidelity Capital Guaranteed Bond Limited and the Fidelity KiwiSaver Scheme, total assets have grown 4% to \$464.4m and financial assets under management have grown 4% to \$351.8m. Shareholders' funds grew by \$16.4m to \$129.1m, while policyholder liabilities reduced marginally from \$290.4m to \$289.9m. Shareholders' funds as a percentage of policyholders' funds is now 45% (2010: 39%) reflecting our focus over the last few years on risk rather than savings business.

In January 2011 A.M. Best reaffirmed Fidelity Life's A-(Excellent) Financial Strength Rating for the 15th consecutive year, with a stable outlook.

Our solvency margin calculated on the New Zealand Society of Actuaries basis is \$14.1m, up from \$12.3m last year. On 5 August 2011, the Reserve Bank of New Zealand published a new solvency standard with more stringent requirements. Our solvency margin at 30 June 2011 on the new standard is \$11.7m. Although our margin is less under the new standard, we have a defensive asset-mix for non-linked assets, low retention for insurance risks and catastrophe reinsurance cover to safeguard all stakeholders.

#### Dividend

As mentioned at our last Annual General Meeting and in my letter detailing the interim financial results, the Board has undertaken to review our dividend policy. Following this review the Board is delighted that this year's results allow us to distribute a higher dividend to our loyal shareholders; with the base tax-paid dividend increasing by 29% from \$1.32 to \$1.70 per share. In addition, in recognition of the record profit achieved this year, we will be distributing a special tax paid dividend of \$0.30 per share. The total dividend of \$2.00 reflects a 36% increase on total dividends paid last year.

We have to balance the need to retain adequate solvency for prudential purposes, with the understandable desire from shareholders for increased dividends. The Board reaffirms its desire to maintain real increases in the dividend. We will be looking to add to this new base level with a 10-15% per annum compound increase over a rolling five year period. However, the actual growth in dividend in any one year will depend upon growth of profit, solvency requirements and tax.

#### Significant Events

This year has been over-shadowed by the tragic events that have taken place in Christchurch and the Canterbury region. Although the earthquakes have had a limited financial impact on Fidelity Life, we have all been affected by the extent of devastation in the region.



#### WHERE OUR FOCUS LIES

Since inception, the Fidelity Life focus has been on keeping families strong. Our founder Gordon Watson's mantra in 1973 was "providing protection and security for widows, orphans and superannuitants".

That focus on providing certainty in uncertain times for families has been carried through the years and is integral to our core values of listening and responding, stewardship and fidelity. These underpin the relationships of all stakeholders within our business, and allow for our continued success and growth.

Our founding philosophy of supporting advisers who were not tied to any one company, but free to offer the best products in the market, continues today. We remain committed to listening and responding to our advisers, creating value through our relationships with them. We continue to develop products and technology that help advisers drive their businesses and deliver the best possible service and products to clients.

As a company, we understand the importance of keeping businesses strong. We appreciate the total dedication and hard work that is needed from staff to build a successful company, and how quickly it could be lost in the absence of these people. By providing support for businesses and their clients, they in return will help ensure the success of our business.

As the Company grows larger, the investment of shareholders in providing our current and future capital has increased in importance. They play a fundamental role in the financing, operations and governance of the Company and in return it is important for us to be good stewards of their investments. Our shareholders remain important and loyal members of the Fidelity Life family.

The original vision for the Company was one where the people doing the work had an input into the running of the Company. As we grow, it is important to us that we continue to develop and grow a loyal and committed staff. We believe this enables higher levels of productivity, increased innovation and creativity, larger profits and a strong reputation within the market.

While the Company has come a long way since we started 38 years ago, the focus remains much the same – keeping all our stakeholders strong. The continued success of Fidelity Life depends on our ability to understand the interrelation of these relationships, balance their various needs, and ensure that we have honest and open communication with them.

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We were thankful that our staff members, shareholders, adviser network and their respective families survived the earthquakes and their aftershocks. The Board of Directors has been extremely grateful for the resilience they have shown in getting the Fidelity Life business operational so soon after the major earthquakes. Sadly, our office on Victoria Street did not fare so well and had to be demolished. However, it gave me great pleasure to travel to the city on 29 July 2011 to open the new Fidelity Life office on Cashel Street. I would like to re-emphasise Fidelity Life's commitment to Christchurch and the South Island and we look forward to a successful future in the area

In October 2010, Fidelity Life received an unsolicited takeover offer from Tower Limited. There was significant shareholder communication at the time and the offer was discussed in detail at the Annual General Meeting in November 2010. The takeover notice was subsequently withdrawn. We were grateful for the speed and nature of the response of our major shareholders and their effective support of the Company's vision and growth strategy for the future. The Company's strategic direction, to which the Board is fully committed, continues to focus on our relationships with advisers and strong organic growth in market share coupled with growth of shareholder value.

During the year, the long awaited financial adviser legislation became fully effective and advisers are now regulated by the Financial Markets Authority. As such, we have provided extensive support during the year to many of our advisers. While we welcome the legislation as a long term measure to improve standards and investor confidence, in the short term it has come at a cost of time and other resources, and has had an impact on our income generation this year.

#### Outlook

2012 will be as equally challenging as the past year. High levels of competition in the life insurance sector make it a testing environment in which to operate. New business generation for the first quarter of the new financial year is down on last year and we are working hard to reverse this trend.

Investment markets will continue to fluctuate widely with global economic uncertainty. Fidelity KiwiSaver Scheme membership started to level off during the second half of 2011 and this trend is likely to continue through 2012; however, funds contributed should steadily grow. The Government has signalled changes to KiwiSaver and after the election we will look at any opportunities that may enable us to increase membership and funds under management.

Along with other insurance companies, Fidelity Life has filed an application for a provisional license with the Reserve Bank of New Zealand, the body that is now responsible for the prudential governance of our industry. This required significant work, including the further enhancement and documentation of our governance policies. Licensing and compliance work will continue during 2012, as we work towards securing our full license well before the deadline of September 2013.

#### Acknowledgements

I would like to express my appreciation to our policyholders, Fidelity KiwiSaver Scheme members and to our financial advisers for their loyalty and commitment to the Fidelity Life brand. I would also like to thank our other business partners including fund managers, trustees, reinsurers and professional consultants.

The Board and I wish to acknowledge our Chief Executive Officer Milton Jennings, who has now been with the Company for 25 years. The Company has come a long

way since he joined the eleven other staff in the rented office in Wakefield Street in 1986. During the past 25 years, Milton has worked tirelessly with the likes of Gordon Watson and Klaas Kuipers to significantly enhance the Company's brand and to deliver shareholder value. In that time annual insurance premiums have grown from \$4 million to \$87 million. shareholders' funds have increased from less than \$1 million to \$129 million and the share price has increased from \$3 per share to \$94.64 per share at the last valuation. We would also like to acknowledge the wonderful support Milton has had from his wife Eileen and their three children

In particular I would like to thank Milton for his experienced leadership of the Company during the year under review. I also extend my thanks to his management team and the rest of the Fidelity Life staff, who at times were put under significant pressure this year and who again responded with their usual hard work and dedication.

On behalf of the Board, I would like to thank David Whyte, who resigned as a director in September 2010 to take up an appointment with an industry dealer group; and Rowan Hill, Company Secretary and head of the Finance department for 12 years who resigned late last year; for their significant contributions, both operationally, and around the board table.

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

Lan Evalurk

IAN BRADDOCK

CHAIRMAN







## KEEPING NEW ZEALAND

FAMILIES STRONG AT CLAIM TIME

• • • • • • • • • •

Only three months after giving birth to her first child, Helen\* was devastated to hear that she had been diagnosed with breast cancer.

As a single mother with only one household income, Helen was forced to consider how she would provide for herself and her daughter whilst taking time off work for her chemotherapy treatment.

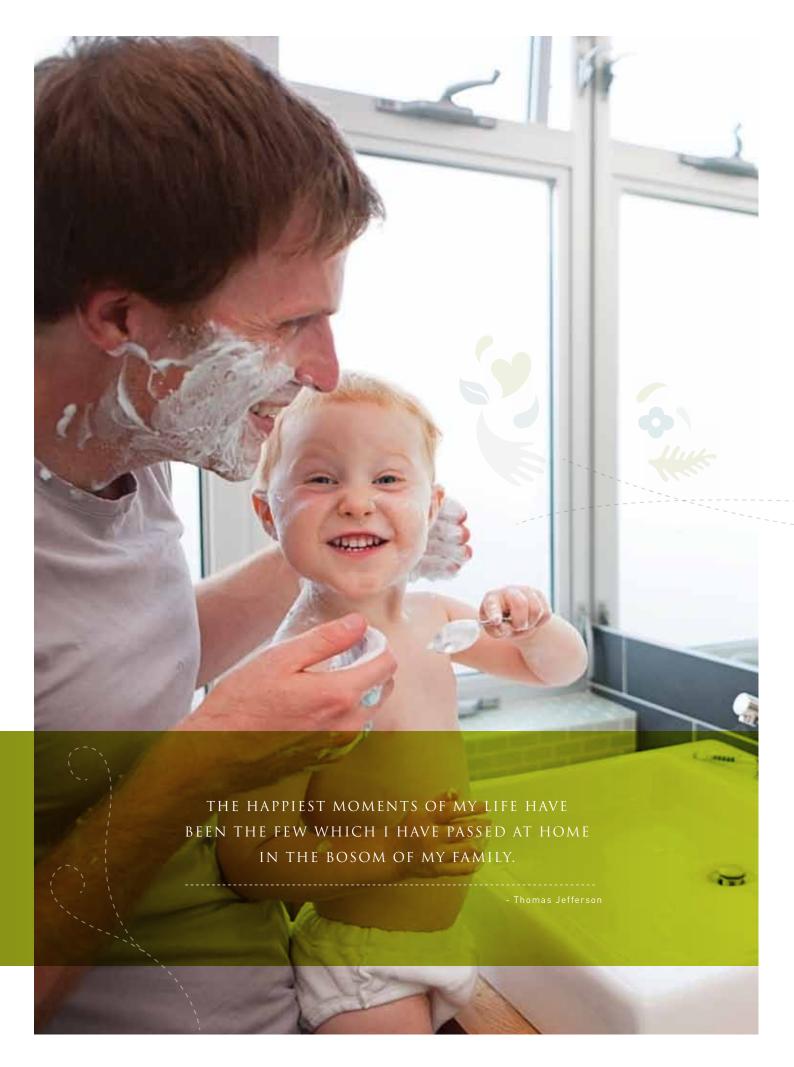
Fortunately, Helen had bought a Fidelity Life Income Protection policy. As such, once the claim had been accepted, she continued to receive a portion of her income. Helen also had a Critical Care benefit on her policy which meant that she also received a lump sum payment. These payments proved to be invaluable to Helen's improvement in health, reducing her financial worries in an already stressful time. A year later, Helen's cancer had receded enough for her to be able to return to work on a part time basis.

However, four months after her return to work Helen was advised that the cancer had spread. Her chemotherapy treatment continued, but it was discovered that Helen needed an operation to remove a tumour in her brain. The operation left Helen wheelchair bound and also caused the loss of her left field vision, leaving her unable to take care of her daughter on her own.

At that time, Helen did not know that she had further cover in place. However, her claims assessor alerted her to the fact she could also now put in a claim for Total and Permanent Disablement (TPD) benefit.

When her claims assessor called to tell Helen that her claim had been accepted, she was overwhelmed. Helen received an additional \$83,000 under her TPD cover, which she wasn't aware she even had. The additional finances allowed her to pay off her mortgage, and build security around her daughter's future.

\*This is a real-life claim, but names and personal information have been changed to protect privacy.





I am pleased that 2011 has seen another record profit for Fidelity Life, despite a number of difficult and unique environmental factors.

This year has been one of the most challenging we have had at Fidelity Life, due to a number of circumstances we have had to contend with. These include the necessity for price increases resulting from taxation changes, pressure on advisers and staff to complete their Authorised Financial Adviser (AFA) qualifications. a takeover bid, increased competition and devastating earthquakes which have rattled the Christchurch community. Given these circumstances we are pleased with our progress and another record result. The year ahead will present its own challenges and in particular we remain mindful of weaknesses in the world economy and the effect this will have on the New Zealand operating environment.

#### Revenue

The completion of a number of level term policies at the start of the year contributed to a 6% growth in new

business. Environmental factors caused our growth to slow towards the end of the year, but the Company is now poised to regain market share with product and pricing enhancements. Underwriting standards across the market appear to have become more relaxed, and product wordings have widened over the past year. This will, in turn, put pressure on industry profit margins. While we respond to these changes we will not lose sight of the principle that prudent underwriting is key for any successful life insurance company.

Despite our reluctance to increase premiums on policies, the new tax regime means that we are faced with additional expenses on new business. We have tried to share this burden through modest premium increases and cost reductions. This had an impact on people's ability to afford policies, particularly those affected by the Christchurch earthquakes.

We are pleased we have been able to support Christchurch policyholders with premium holidays. Despite these issues our total risk premium has grown during the year by 7% to \$86.7m. This is a pleasing result and is an effective way of building long-term value within the Company.

#### Fidelity KiwiSaver Scheme/ Investments

The Fidelity KiwiSaver Scheme funds under management have grown 78% in the latest year to \$206m, with 71,000 members at 30 June 2011, an increase of 16% on the previous June. Outside of bank deposits, about \$9 out of every \$10 saved by New Zealanders is put into KiwiSaver schemes. As such, we see KiwiSaver as the future of savings in New Zealand. Going forward, the new regulatory regime for financial advisers means that only appropriately authorised AFAs and Qualified Financial



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Entities (QFE) are able to give advice on KiwiSaver. To some extent this will restrict our ability to grow at the levels we have seen in the past. Nevertheless, we believe our product offering provides a very good alternative to what is offered by banks and other providers.

Whilst risk remains the biggest driver of profit for us, investments and KiwiSaver are still important parts of the business. Having a portfolio of investment products gives us diversification of earnings and helps advisers service their clients.

#### Products

Our very successful risk product range PlatinumPlus continues to be the backbone of our growth. It continues to be rated as one of the best product ranges in the New Zealand market by independent rating agencies. Accordingly, it has received extremely good support from advisers as they trust us to keep it at the forefront of the industry.

#### Distribution

Our key distribution channel remains our loyal network of non-tied advisers, who continue to show us strong support and commitment. Our focus remains on developing our relationships with them, tailoring our systems and processes for them, and supporting them in growing their businesses. It has however been a tough year for advisers, who have had to work hard to meet the requirements of the recently introduced Financial Advisers Act while still running their businesses. It has been particularly hard for advisers in the Christchurch region, where the community is struggling to get their lives back on track and life insurance is not yet at the forefront of their minds. We have provided financial support to those advisers affected, in order to assist them through this difficult time.

In further support of advisers, we have an extensive network of Business Development Managers. They are invaluable in developing and nurturing relationships with our advisers and acting as an intermediary with our other departments. To further widen this network, we have now opened an office in Hamilton to complement the office opened in Tauranga in 2008 and to help us continue growing in the region.

We continue to receive strong support for our spread commission model, which we see as the way forward. It helps advisers build the value of their business into a significant asset for the future. Furthermore, it also results in a higher level of renewal income, providing the right type of incentive and allowing good client service in a regulated world.

We again thank our advisers for their loyal support and their belief in what we are trying to achieve at Fidelity Life.

#### Technology

There are increasing costs for both Fidelity Life and advisers operating in the new regulatory environment. Also it is imperative in the financial services industry to keep up to date with the latest in technology, so as to bring productivity gains to our advisers and the Company.

The launch of our new Apollo quote system has been extremely successful. It is the most sophisticated and up to date quoting system in the market, and its functionality allows us to make product and premium changes with minimal disruption to advisers.

The other major project in development this year is the electronic application and underwriting engine. This project is nearing completion and is currently being tested. Amongst other benefits, this tool is expected to bring enormous

efficiencies to the current manual paper process. In many instances advisers will be able to confirm our acceptance of cover at the point of sale, rather than waiting for the Company to load the application and underwrite the case

Some changes have been made to the commission system and the policy and benefit administration, which have also been well received by advisers and staff. The size of the technology team has been reduced to lower costs, but there is still a strong commitment by the Company to stay ahead of our competitors.

#### People

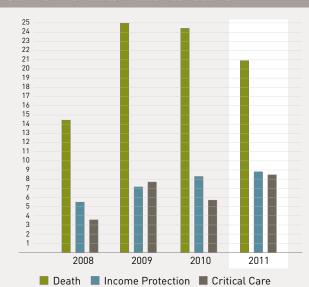
As our technology improvements continue to come on line, the growth in staff numbers over recent years has slowed somewhat, helping keep costs down. However, with the changes in industry regulation we have invested in additional legal and compliance staff.

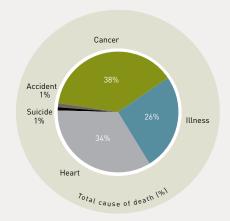
We have also put more resource into up-skilling our existing staff than we have ever done before. We have a very loyal team, and it is important to us that their potential is fulfilled. Our leadership programme for managers is now into its second year, and it continues to develop improved performance and communication. A number of other staff within the Company also attended peak performance courses. Furthermore, some senior members have trained to become Authorised Financial Advisers. much of which has had to be conducted outside of normal working hours.

November 2010 saw the resignation of our very loyal and hardworking CFO, Rowan Hill, whom I would like to thank for his contribution through a period of significant growth for Fidelity Life.

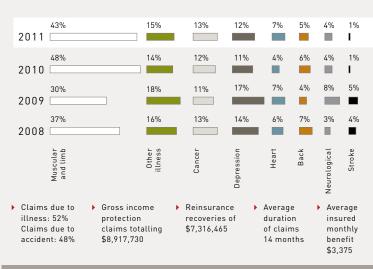
## 2011 CLAIM STATISTICS

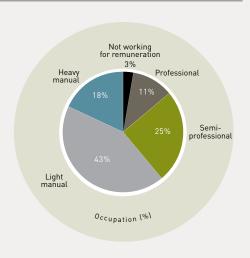
for the years ended 30 June





- 234 Death and Terminal Illness claims totalling \$20,999,686 Reinsurance recoveries of \$15,902,383
- Youngest claimant: 18
- Oldest claimant: 93
- Average age of claimant: 49







- 147 Critical Care claims totalling \$8,562,598
- Reinsurance recoveries of \$5,470,346
- Youngest claimant: 27
- Oldest claimant: 66
- Average age of claimant: 46

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We were fortunate to find a very good replacement for him in Ed Eadie, and welcome Ed to the senior management team.

It was sad to lose during the last year, two of our advisers who had received the Fidelity Life Shield, Alan Murray and Bruce Coe. Also, Jim Matheson the son of Shirley Watson passed away in July. We again pass on our condolences to their families.

#### Community and Environment

Fidelity Life has always seen itself as being a part of the wider community of New Zealand. Therefore an important part of our business culture is our continued support of a number of charities. The main charity that we support is the Leukaemia and Blood

Foundation, and this year staff members were active in participating in a number of their fundraisers. This included the Shave for a Cure, Golf Marrowthon 100 Hole Challenge and Sky Tower challenge fundraising activities. We also continue to support the Multiple Sclerosis Society, and several staff members have signed up to support young people of New Zealand through the Foundation for Youth Development.

#### Looking Ahead

Many of the challenges of 2011 are now behind us, and we look forward to a positive 2012. The current market environment will certainly make it difficult but we will continue to build on our existing strengths and look to deliver strong results for all our stakeholders.

We will continue to work hard to attract and retain quality non-tied advisers who value our offering of product quality, modern technology, a track record of consistent support and dedicated, friendly staff. This gives us the confidence that we will continue to grow and succeed into the future.



MILTON JENNINGS CHIEF EXECUTIVE OFFICER

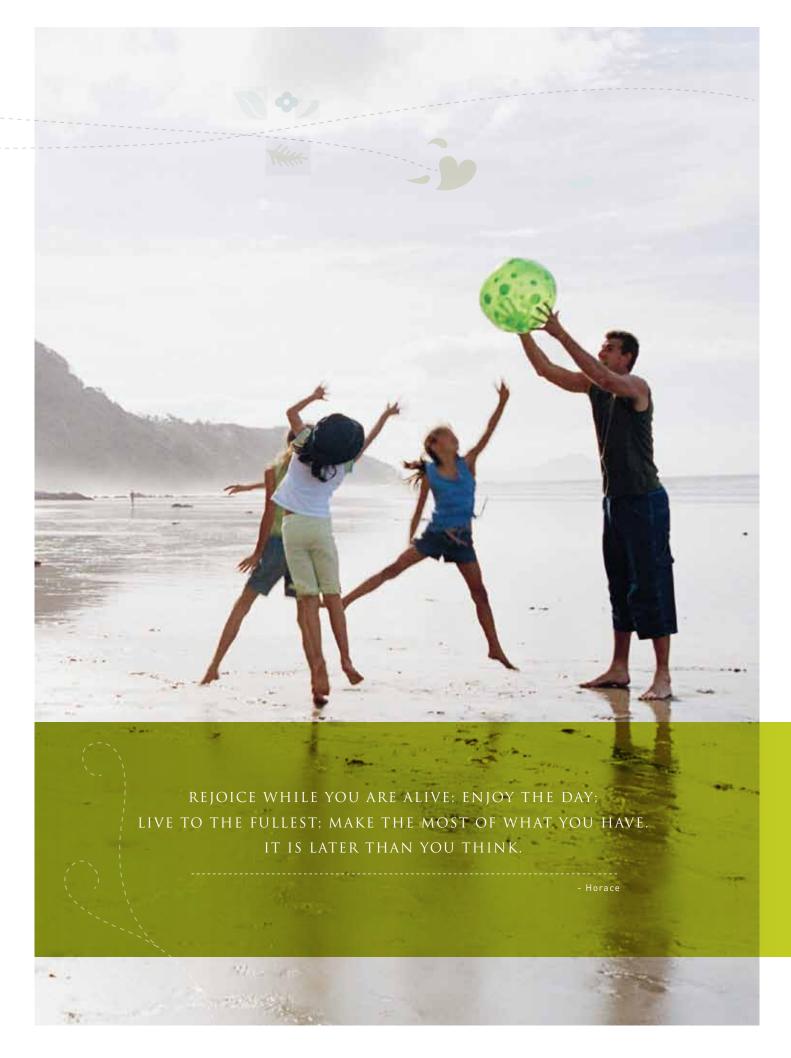
#### 2011 Financial Summary

For the years ended 30 June

Dollars in thousands	2011	2010	2009	2008	2007	
Ordinary risk premium *	86,746	80,716	75,417	68,377	57,791	
Investment income **	45,128	54,398	2,590	20,387	14,613	
Claims expense	38,480	38,534	40,233	26,828	22,906	
Net surplus after taxation	18,314	16,916	10,350	15,523	12,932	
Ordinary dividend per share	\$1.70	\$1.32	\$1.00	\$1.00	\$0.75	
Special dividend per share	\$0.30	\$0.15	-	-	-	
Earnings per share (year-end)	\$12.73	\$11.76	\$7.19	\$10.79	\$7.71	
Shareholders' equity	129,089	112,661	96,845	87,955	73,058	
Policyholder liabilities	289,851	290,377	272,575	330,002	340,014	
Total assets **	531,130	529,948	493,345	528,805	606,978	
Shares on issue	1,439	1,439	1,439	1,439	1,429	

<sup>\* 2009</sup> and previous years have been adjusted from published financial statements to reflect a reclassification of a portion of premium from risk to savings.

<sup>\*\*</sup> In 2011 amounts relating to Fidelity Capital Guaranteed Bond Limited and consolidated in the Group have been prepared on a realisable value basis.



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### STATUTORY AND OTHER DISCLOSURES

FOR THE YEAR ENDED 30 JUNE 2011

	Years on board	Direct shareholdings		Indirect beneficial shareholdings		Total remuneration and other benefits
Director		As at 30 June 2011	Increase/ (decrease) during the year	As at 30 June 2011	Increase/ (decrease) during the year	
lan Braddock Chairman Director	11 years 17 years	531	-	9,933	-	137,910
<b>Colin Wise</b> Director	20 years	500	-	8,354	-	68,995
<b>Jeff Meltzer</b> Director	16 years	517	-	10,342	-	68,955
Carole Durbin Director	8 years	3,750	100	-	-	68,995
David Whyte Director (Resigned)	1 year	-	(500)	-	-	15,802

# Information on directors of the parent company

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

Jeff Meltzer is a trustee of the Fidelity Family Trust, which holds 788,370 (2010: 764,947) shares in Fidelity Life.

Ian Braddock is a trustee of the Fidelity Life Employee Share Purchase Scheme which holds 43,383 (2010: 50,733) shares in Fidelity Life.

David Whyte resigned as a director on 30 September 2010.

#### Director's 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

	lan Braddock	Colin Wise	Jeff Meltzer
Fidelity Fund Management Limited		•	•
Fidelity Capital Guaranteed Bond Limited	•	•	•
Fidelity Securities Limited	•		•

No subsidiary company director received in his capacity as such, directors' fees nor 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			
	2011	2010		
\$530,000-\$540,000	0	1		
\$480,000-\$490,000	1	0		
\$390,000-\$400,000	1	0		
\$320,000-\$330,000	0	1		
\$310,000-\$320,000	1	0		
\$300,000-\$310,000	0	1		
\$270,000-\$280,000	0	1		
\$260,000-\$270,000	1	0		
\$250,000-\$260,000	1	0		
\$240,000-\$250,000	1	0		
\$230,000-\$240,000	0	1		
\$220,000-\$230,000	1	3		
\$210,000-\$220,000	0	2		
\$200,000-\$210,000	3	1		
\$190,000-\$200,000	2	1		
\$180,000-\$190,000	3	5		
\$170,000-\$180,000	1	2		
\$160,000-\$170,000	4	0		
\$150,000-\$160,000	4	1		
\$140,000-\$150,000	2	4		
\$130,000-\$140,000	2	1		
\$120,000-\$130,000	1	0		
\$110,000-\$120,000	8	7		
\$100,000-\$110,000	9	6		

#### 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 nor 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 2011.

Shareholders	Shares held
1. Whale M J & Meltzer J P	788,370
2. Burgess G A J & Burgess M S	245,209
3. Farmers' Mutual Group	155,455
4. Braddock I L & Jennings M J	43,383
5. Trotter K & Childs P & Hughes C	23,996
6. Alison D J & Alison K H	13,636
7. Reddiford J W & Reddiford J E	10,730
8. Meltzer J P & Porus J L	10,342
9. Alison K H & Alison D J & Webber J	E 9,958
10. Braddock I L & Braddock F M & Clark	ke J C 9,933



#### STATEMENT OF CORPORATE GOVERNANCE

FOR THE YEAR ENDED 30 JUNE 2011

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

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

#### Board membership

At 30 June 2011 the board comprised four 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 2010 to 30 June 2011 was as follows:

#### Board attendance

lan Braddock	12
Colin Wise	12
Jeff Meltzer	12
Carole Durbin	12
David Whyte	2

Board members also attended a number of unscheduled meetings during the year.

#### Delegational framework

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.

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

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

#### Ethics

The board has adopted the Code of Proper Practice for Directors of the New Zealand Institute of Directors. The board acknowledges the need for the continued maintenance of a high standard of corporate governance practices and ethical conduct by all directors and employees of Fidelity Life Assurance Company Limited.



#### Internal Controls

The Group has in place an integrated framework of controls designed to safeguard the Group's assets and interests and to ensure the integrity of its reporting. The overall framework has been developed and guidelines formulated for risk management structures and processes in areas 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 reviews financial statements and reports findings to the board before publication and reports to the board on accounting systems and internal controls and audit performance. Committee membership is reviewed 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 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; and must refrain from trading at any time if they have market sensitive information. The same restrictions are imposed upon senior management.

#### Directors' fees

The level of non-executive directors' fees was last approved at the shareholders meeting on 12 November 2010 as \$60,000 per director and \$120,000 for the chairman.

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.





lan Braddock BCom CA MinstD Chairman 11 years Director 17 years



Colin Wise FNZIM FInstD Director 20 years



Jeff Meltzer
JP BCom FCA MInstD
AAMINZ
Director 16 years



Carole Durbin BCom LLB(Hons) FInstD FAMINZ Director 8 years



Milton Jennings BCom CA Chief Executive Officer 25 years



John Smith MSc FIAA FNZSA Appointed Actuary 11 years



Ed Eadie BSc (Hons) Chief Financial Officer 1 year



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INCOME STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

		Gro	oup	Parent		
	Note	<b>2011</b> \$'000	2010 \$'000	<b>2011</b> \$'000	2010 \$'000	
INSURANCE BUSINESS						
Revenue						
Insurance premium revenue		86,746	80,716	86,746	80,716	
Insurance premium ceded to reinsurers	8	(29,829)	(29,132)	(29,829)	(29,132)	
Fee and commission income	9	3,451	2,327	3,751	2,627	
Investment income	10	36,763	36,254	36,388	36,629	
Investment property income	11	1,121	1,117	1,121	913	
Other income		28	192	28	192	
TOTAL INSURANCE REVENUE		98,280	91,474	98,205	91,945	
Expenses						
Claims expense	12	38,480	38,534	38,480	38,534	
Reinsurance revenue	13	(28,689)	(30,790)	(28,689)	(30,790)	
Net change in life insurance contract liabilities	32	(7,079)	(4,907)	(7,079)	(4,907)	
Net change in life investment contract liabilities	33	17,971	15,588	17,971	15,588	
Commission and management expenses	14	40,908	37,364	40,908	37,364	
Other expenses	15	18,016	16,994	18,425	17,094	
TOTAL INSURANCE EXPENSES		79,607	72,783	80,016	72,883	
NET INSURANCE INCOME BEFORE TAX		18,673	18,691	18,189	19,062	
Income tax (credit)/expense	19	(124)	3,022	(125)	3,021	
NET INSURANCE INCOME AFTER TAX		18,797	15,669	18,314	16,041	
DISCONTINUED OPERATIONS						
Revenue						
Investment income	16	8,365	18,144	-	-	
TOTAL REVENUE		8,365	18,144	-	-	
Expenses						
Finance costs and other expenses	17	8,810	16,634	-	-	
TOTAL EXPENSES		8,810	16,634	-	-	
NET DISCONTINUED OPERATIONS INCOME BEFORE T	AX	(445)	1,510	-	-	
Income tax expense from discontinued operations	18	38	263	-	-	
NET DISCONTINUED OPERATIONS (LOSS)/INCOME AF	TER TAX	(483)	1,247	-	-	
PROFIT FOR THE YEAR ATTRIBUTABLE TO THE OWNERS OF THE COMPANY AND GROUP		18,314	16,916	18,314	16,041	
Basic and diluted earnings per share						
From continuing operations	50	13.06	10.89			
From discontinued operations	50	(0.33)	0.87			

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

## STATEMENTS OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 30 JUNE 2011

		Gro	oup	Par	Parent	
	Note	2011 \$'000	2010 \$'000	2011 \$'000	2010 \$'000	
Profit/(loss) for the year						
Continuing operations		18,797	15,669	18,314	16,041	
Discontinued operations		(483)	1,247	-	-	
		18,314	16,916	18,314	16,041	
Other comprehensive income						
Revaluations, net of tax	38	145	227	145	227	
Employee share purchase plan expense	37	82	88	82	88	
Gain on amalgamation	30	-	-	-	3,629	
Other comprehensive income for the year, net of tax		227	315	227	3,944	
TOTAL COMPREHENSIVE INCOME FOR THE YEAR ATTRIBUTABLE TO THE OWNERS OF THE COMPANY AND GROUP		18,541	17,231	18,541	19,985	

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 2011

		Share capital	Retained earnings	Reserves	Total
	Note	\$'000	\$'000	\$'000	\$'000
GROUP					
Balance at 1 July 2009		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 realised on amalgamation		-	1,271	(1,271)	-
Total other comprehensive income/(loss) for the	year	88	1,271	(1,044)	315
Total comprehensive income/(loss) for the year		88	18,187	(1,044)	17,231
Transactions with owners					
Share capital vested from Trust	37	86	-	-	86
Dividends	39	-	(1,501)	-	(1,501)
Total transactions with owners		86	(1,501)	-	(1,415)
BALANCE AT 30 JUNE 2010		12,401	100,033	227	112,661
Balance at 1 July 2010		12,401	100,033	227	112,661
Profit for the year		-	18,314	-	18,314
Other comprehensive income					
Revaluations, net of tax	38	-	-	145	145
Employee share purchase plan expense	37	82	-	-	82
Total other comprehensive income for the year		82	-	145	227
Total comprehensive income for the year		82	18,314	145	18,541
Transactions with owners					
Share capital vested from Trust	37	98	-	-	98
Dividends	39	-	(2,211)	-	(2,211)
Total transactions with owners		98	(2,211)	-	(2,113)
BALANCE AT 30 JUNE 2011		12,581	116,136	372	129,089

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



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# STATEMENTS OF CHANGES IN EQUITY (CONTINUED) FOR THE YEAR ENDED 30 JUNE 2011

		Share capital	Retained earnings	Reserves	Total
	Note	\$'000	\$'000	\$'000	\$'000
PARENT					
Balance at 1 July 2009		12,227	81,862	-	94,089
Profit for the year		-	16,041	-	16,041
Other comprehensive income					
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
Transactions with owners					
Share capital vested from Trust	37	86	-	-	86
Dividends	39	-	(1,501)	-	(1,501)
Total transactions with owners		86	(1,501)	-	(1,415)
BALANCE AT 30 JUNE 2010		12,401	100,031	227	112,659
D-1		12 /01	100.021	227	440 / 50
Balance at 1 July 2010		12,401	100,031	227	112,659
Profit for the year		-	18,314	-	18,314
Other comprehensive income					
Revaluations, net of tax	38	-	-	145	145
Employee share purchase plan expense	37	82	-	-	82
Total other comprehensive income for the year		82	-	145	227
Total comprehensive income for the year		82	18,314	145	18,541
Transactions with owners					
Share capital vested from Trust	37	98	-	-	98
Dividends	39	-	(2,211)	-	(2,211)
Total transactions with owners		98	(2,211)	-	(2,113)
BALANCE AT 30 JUNE 2011		12,581	116,134	372	129,087

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



## STATEMENTS OF FINANCIAL POSITION

AS AT 30 JUNE 2011

		Gro	oup	Par	ent
	Note	2011 \$'000	2010 \$'000	2011 \$'000	2010 \$'000
ASSETS					
Financial assets					
Cash and cash equivalents	20	31,905	27,534	27,468	23,117
Loans and other receivables	21	35,220	33,372	34,590	33,767
Other financial assets at fair value through profit or loss	5 22	413,362	416,525	351,752	338,277
Derivative financial instruments	23	3,374	2,625	3,348	2,625
Income tax assets		1,321	414	1,321	414
Deferred acquisition costs – investment	24	2,130	2,302	2,130	2,302
Assets arising from reinsurance contracts	25	6,983	13,378	6,983	13,378
Investment property	28	8,798	8,480	8,798	8,480
Property, plant and equipment	26	8,992	8,765	8,992	8,765
Intangible assets	27	4,868	4,305	4,868	4,305
Deferred tax assets	36	14,177	12,248	14,177	11,993
Investment in subsidiaries	29	-	-	8	8
TOTAL ASSETS		531,130	529,948	464,435	447,431
LIABILITIES					
Life insurance contract liabilities	32	(17,813)	(10,734)	(17,813)	(10,734)
Life investment contract liabilities	33	307,664	301,111	307,664	301,111
Deferred tax liabilities	36	22,322	20,419	22,322	20,419
Payables and other financial liabilities	35	26,570	26,772	22,484	23,186
Derivative financial instruments	23	2,346	4,719	691	790
Interest bearing liabilities	34	60,952	75,000	-	-
TOTAL LIABILITIES		402,041	417,287	335,348	334,772
NET ASSETS		129,089	112,661	129,087	112,659
EQUITY					
Share capital	37	12,581	12,401	12,581	12,401
Retained earnings	38	116,136	100,033	116,134	100,031
Revaluation reserve	38	372	227	372	227
TOTAL EQUITY		129,089	112,661	129,087	112,659

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

For and on behalf of the board 20 September 2011

IAN BRADDOCK Chairman JEFF MELTZER Director



# STATEMENTS OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2011





		Group		Parent	
1	Note	2011 \$'000	2010 \$'000	2011 \$'000	2010 \$'000
CASH FLOWS FROM OPERATING ACTIVITIES					
Premiums from life insurance contracts		86,639	80,548	86,639	80,548
Deposits from life investment contracts		41,810	47,179	41,810	47,179
Reinsurance received		35,084	31,038	35,084	31,038
Interest received		7,319	7,397	6,136	6,687
Dividends		68	944	68	944
Distributions from unitised investments		8,315	4,584	8,315	4,584
Other investment income		6,541	1,103	6,841	1,563
Benefits paid under life insurance contracts		(40,188)	(42,077)	(40,188)	(42,077)
Benefits paid under life investment contracts		(53,229)	(40,057)	(53,229)	(40,057)
Reinsurance paid		(29,568)	(24,165)	(29,568)	(24,165)
Commission paid		(30,325)	(28,969)	(30,325)	(28,969)
Payments to suppliers and employees		(28,661)	(25,059)	(27,272)	(24,123)
Income tax paid		(933)	(355)	(933)	(357)
NET CASH FROM OPERATING ACTIVITIES	40	2,872	12,111	3,378	12,795
CASH FLOWS FROM INVESTING ACTIVITIES					
Purchases of intangible assets		(1,330)	(256)	(1,330)	(256)
Purchases of financial assets		(280,416)	(171,509)	(280,416)	(171,509)
Purchases of property, plant and equipment		(515)	(411)	(515)	(411)
Proceeds from sale of financial assets		293,223	184,589	285,384	172,537
Proceeds on sale of property, plant and equipment		61	24	61	24
Proceeds on amalgamation of subsidiary		-	-	-	215
NET CASH FROM INVESTING ACTIVITIES		11,023	12,437	3,184	600
CASH FLOWS FROM FINANCING ACTIVITIES					
Interest paid on borrowings		(7,313)	(10,895)	_	_
Ordinary dividends paid		(2,211)	(1,500)	(2,211)	(1,500)
NET CASH FROM FINANCING ACTIVITIES		(9,524)	(12,395)	(2,211)	(1,500)
NET INCREASE IN CASH AND CASH EQUIVALENTS		4,371	12,153	4,351	11,895
Cash and cash equivalents at 1 July		27,534	15,381	23,117	11,222
CASH AND CASH EQUIVALENTS AT 30 JUNE	20	31,905	27,534	27,468	23,117
		01,700	27,004	27,400	

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 2011

#### GENERAL INFORMATION

Fidelity Life Assurance Company Limited (the 'Company' or 'Parent') and its subsidiaries (together called 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 Level 1, 81 Carlton Gore Road, Newmarket, Auckland, New Zealand.

These consolidated financial statements have been approved for issue by the Board of Directors on 20 September 2011. The Company'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 a separate legal entity (the 'Parent') and the consolidated entity (the 'Group') consisting of the Company and its subsidiaries.

#### STATUTORY BASE

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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

With the exception of the information relating to the Parent's 100% owned subsidiary Fidelity Capital Guaranteed Bond Limited ('FCGBL') 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.

Due to the events occurring after the balance date, detailed in note 47, the financial statements of FCGBL have been prepared, and consolidated into the Group accounts, on a realisable value basis.



FOR THE YEAR ENDED 30 JUNE 2011

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

#### (B) PRINCIPLES OF CONSOLIDATION

#### SUBSIDIARIES

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of the Company as at 30 June 2011 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. Acquisition related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

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

#### (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

An operating 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 operating segments. Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker ('CODM') who reviews the operating results on a regular basis and makes decisions on resource allocation and assessing performance.

#### (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.

FOR THE YEAR ENDED 30 JUNE 2011

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

#### (F) INVESTMENT INCOME

#### INTEREST INCOME

Interest income is recognised on an effective interest method.

#### **DIVIDEND AND DISTRIBUTIONS**

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

#### FAIR VALUE GAINS AND LOSSES

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

#### (G) FEE AND COMMISSION INCOME

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

#### (H) CLAIMS EXPENSE

#### LIFE INSURANCE CONTRACTS

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

#### LIFE INVESTMENT CONTRACTS

Claims under life investment contracts represent withdrawals and surrenders of investment deposits and are recognised as a reduction in the liability for investment contracts.

#### (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 statement of financial position as a Deferred Acquisition Cost ('DAC').

#### **ACQUISITION COSTS - 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.

#### ACQUISITION COSTS - 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 statement of financial position.

#### 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.

FOR THE YEAR ENDED 30 JUNE 2011

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

#### (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.

#### (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 where possible so that the deposit component of the contract is treated as a life investment contract and the insurance component of the contract is treated as an insurance contract.

#### LIFE INSURANCE CONTRACT LIABILITIES

Life insurance liabilities (policyholder liabilities) in the statement of financial position and the increase or decrease in policyholder liabilities in the income statement have been calculated in accordance with the New Zealand Society of Actuaries 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.

FOR THE YEAR ENDED 30 JUNE 2011

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

#### (L) LIFE INSURANCE BUSINESS (CONTINUED)

#### 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.

#### 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 are credited to revaluation reserves in other comprehensive income. Decreases that offset previous increases of the same asset are charged against revaluation reserves directly in other comprehensive income; 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 statement of financial position are carried at historical cost less accumulated depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

FOR THE YEAR ENDED 30 JUNE 2011

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

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#### (N) PROPERTY AND EQUIPMENT (CONTINUED)

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

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

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

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

#### (0) 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. Employee and contractor costs associated with developing significant, identifiable and unique software products controlled and utilised by the Company and Group are capitalised and treated as Intangible Assets. These costs are amortised over their estimated useful lives (three to five years).

The amortisation expense, costs associated with minor software development and costs associated with 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).

FOR THE YEAR ENDED 30 JUNE 2011

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

#### (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 statement of financial position.

#### 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.

#### (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 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 date which are classified as non current assets. Loans and other receivables are included in receivables in the statement of financial position.

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.



FOR THE YEAR ENDED 30 JUNE 2011

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

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

#### 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 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 arms length transactions, involving the same instruments or other instruments that are substantially the same, discounted cash flow analysis, and option pricing models refined to reflect the issuer's specific circumstances.

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

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

#### **DERIVATIVES**

Derivative financial instruments include foreign exchange contracts, interest rate futures, currency and interest rate swaps, 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 trade receivables is 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 customer's 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 statement of financial position when: the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow or resources will be required to settle the obligation; and a reliable estimate can be made of the amount of the obligation. Provisions are not recognised for future operating losses.

#### (U) CONTINGENT LIABILITY

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



FOR THE YEAR ENDED 30 JUNE 2011

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

#### (V) EMPLOYEE BENEFITS

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

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

#### (ii) Superannuation obligations

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

#### (iii) Employee Share Ownership Scheme

From time to time 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

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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 statement of financial position 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.

FOR THE YEAR ENDED 30 JUNE 2011



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

### (Z) INCOME TAX (CONTINUED)

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.

### LIFE INSURANCE TAX

From 1 July 2010 taxation is 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 (1 July 2010 – 30 June 2015) there are concessions which allow certain policies to continue being taxed similar to that incurred under the old regime as explained below.

Prior to 1 July 2010 Life Insurers were subject to a special tax regime. Two tax bases were 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 paid tax on the higher of the two bases at the company tax rate of 30%. As the life insurer was taxed as proxy for the policyholder, returns to policyholders were tax exempt.

#### (AA) TRADE AND OTHER PAYABLES

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

### (AB) BORROWINGS

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

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance 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 statement of financial position 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 Group has not early adopted any New Zealand Equivalents to International Financial Reporting Standards.

FOR THE YEAR ENDED 30 JUNE 2011

### 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 2010 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: 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.
- NZ IAS 7 Statement of Cash Flows: The amendments clarify that only expenditure which results in a recognised asset can be classified as cash flow from investing activities.
- NZ IAS 32 Financial Statement Presentation: The amendments clarify the classification of rights issues.

### (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 standards.

- 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.
  - A further amendment to the standard was issued in October 2010 and is mandatory for the Group's financial statements for the year beginning 1 July 2013. The amendment provides an additional presentational requirement for liabilities designated at fair value through profit and loss. Where such a designation is made, the liability will be recorded on the statement of financial position at its full value. However, the fair value movement taken to the income statement excludes the effect of credit risk; this is recorded in other comprehensive income (unless recognising own credit in other comprehensive income creates an accounting mismatch). There will be no subsequent reclassification of the amounts in other comprehensive income to profit or loss. The impact of this amendment on the financial statements of the Group has not yet been determined.
- NZ IFRS 10 Consolidated Financial Statements This standard was issued in May 2011 and replaces all of the guidance on control and consolidation in NZ IAS 27 Consolidated and separate financial statements, and NZ SIC-12 Consolidation special purpose entities. The standard will be mandatory for the Group's financial statements for the year beginning 1 July 2013. The core principle that a consolidated entity presents a parent and its subsidiaries as if they are a single economic entity remains unchanged, as do the mechanics of consolidation. However, the standard introduces a single definition of control that applies to all entities. It focuses on the need to have both power and rights or exposure to variable returns before control is present. Power is the current ability to direct the activities that significantly influence returns. Returns must vary and can be positive, negative or both. There is also new guidance on participating and protective rights and on agent/principal relationships. While the Group does not expect the new standard to have a significant impact on its composition, it has yet to perform a detailed analysis of the new guidance in the context of its various investees that may or may not be controlled under the new rules.
- NZ IFRS 12 Disclosure of Interests in other Entities The standard was issued in May 2011 and sets out the required disclosures for entities reporting under the two new standards, IFRS 10 Consolidated Financial Statements and IFRS 11 Joint Arrangements, and replaces the disclosure requirements currently found in IAS 28. The standard will be mandatory for the Group's financial statements for the year beginning 1 July 2013. Application of this standard by the Group will not affect any of the amounts recognised in the financial statements, but may impact the type of information disclosed in relation to the Group's investments.
- NZ IFRS 13 Fair Value Measurement The standard was released in May 2011 and explains how to measure fair value and aims to enhance fair value disclosures. The Group has yet to determine which, if any, of its current measurement techniques will have to change as a result of the new guidance. It is, therefore, not possible to state the impact, if any, of the new rules on any of the amounts recognised in the financial statements. However, application of the new standard will impact the type of information disclosed in the notes to the financial statements. The Group does not intend to adopt the new standard before its operative date, which means that it would be first applied in the annual reporting period ending 30 June 2014.



FOR THE YEAR ENDED 30 JUNE 2011

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

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

- NZ IAS 1 Presentation of financial statements In June 2011, the IASB made an amendment to IAS 1 Presentation of Financial Statements which is applicable to the Group in the 2012 financial year. The External Reporting Board (XRB) is expected to make equivalent changes to NZ IAS 1 shortly. The amendment requires entities to separate items presented in other comprehensive income into two groups, based on whether they may be recycled to profit or loss in the future.
- 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 12 Income taxes Amendments to the standard were issued in December 2010 and are applicable to the Group in the 2013 financial year. The amendments provide a practical approach for measuring deferred tax liabilities and deferred tax assets when investment property is measured using the fair value model. IAS 12 requires the measurement of deferred tax assets or liabilities to reflect the tax consequences that would follow from the way management expects to recover or settle the carrying of the relevant assets or liabilities, that is through use or through sale. The amendment introduces a rebuttable presumption that investment property which is measured at fair value is recovered entirely by sale. The impact of this standard on the financial statements of the Group has not yet been determined.

### (AI) CHANGE IN ACCOUNTING ESTIMATE

### INTEREST BEARING LIABILITIES

The carrying value of the interest bearing liabilities of Fidelity Capital Guaranteed Bond Limited ('FCGBL') have been estimated on a realisable value basis (2010: effective interest method).

FCGBL was formed to provide investors with a capital secure fixed rate bond. FCGBL, through Tyndall Investment Management New Zealand Limited ('Tyndall'), invested the proceeds received from the issue of the Bonds in investments authorised in Supplemental Trust Deed (No.1) (the 'Fund'). Major losses were incurred in the FCGBL's Active Portfolio managed by Tyndall. The Fund's Net Asset Value fell below the Bond Floor, triggering an Event of Default leading to Westpac Banking Corporation – New Zealand Branch (the Capital Guarantor) issuing a Close Out Notice on 11 August 2011 and assuming control and direction of the Fund. Open position Active Portfolio Assets were closed out and the resulting proceeds were invested in Fixed Portfolio Assets during August 2011. This action was taken in accordance with the Supplemental Trust Deed (No. 1). Due to the Close Out of the Fund resulting in no surplus, coupon payments are discharged and cancelled.

A realisable value adjustment to the carrying value of the Capital Guaranteed Bonds has been made. The ability of FCGBL to meet the principal repayment of the Bonds is limited to the value of the assets invested in the Fixed Portfolio. On 24 August 2011, the Fixed Portfolio comprised a \$60,789,255 zero coupon bond and \$162,826 of cash and accrued interest. As a result the estimated carrying value of the Capital Guaranteed Bonds has been reduced to \$60,952,081 by an adjustment of \$14,047,919 to recognise the difference between the Fund value as at 24 August 2011 and the principal amount of the \$75.0 million Capital Guaranteed Bonds. On maturity of the Capital Guaranteed Bonds on 15 July 2013 the Trustee is entitled to make a demand to the Capital Guarantor under the Guarantee for the difference between the principal amount of the outstanding senior bonds and the liquidated proceeds from the Fixed Portfolio. Given the face value of the purchased zero coupon bond and the cash balance in the Fixed Portfolio, the estimated offset at the Maturity Date will be approximately \$9.1 million.

The difference between the value of the Fund at the Maturity Date and the principal amount held by the holders of Capital Guaranteed Bonds will prevent the repayment of any Subordinated Bond principal, so all balances recognised by the Parent at 30 June 2011 have been written off.

Refer to note 47 for more information.

(2010: In the 2010 financial 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. 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.)

FOR THE YEAR ENDED 30 JUNE 2011

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

## (AJ) COMPARATIVE INFORMATION

## RECLASSIFICATION OF PRIOR YEAR BALANCES

On review of the financial statements it has been identified that for certain information more relevant information would be presented with a change in presentation. This identification process has resulted in the following changes to the comparative information within the financial statements. The changes are presentational only.

	Reason for reclassification			Disclosure more appropriate as investments not held directly by Group and Company but via unitised products.	Disclosure more appropriate as investments not held directly by Group and Company but via unitised products.	Fidelity Life Properties Limited	was amalgamated in 2009 (refer note 30). Property is held on behalf of policyholders and therefore forms part of the insurance business.	Disclosure more appropriate as investments not held	directly by Group and Company but via unitised products.		Gross up balances to expand	disclosures	Extend disclosure to give more meaningful information	
Parent	mount of each item or class of items that is reclassified	Increase/(Decrease)	\$.000	(8,132) (11,426) 19,558	[5,943] 5,943	[913]	913	[11,284]	(76,526)	87,810	1,891	(3,732)	22,123	(20,282)
Group	Amount of each item or class of items that is reclassified	Increase/[	\$.000	(8,132) (11,426) 19,558	[5,943] 5,943	(1,117)	1,117	(11,284)	(76,526)	87,810	1,891	(3,732)	22,123	(20,282)
ı				Equity securities Debt securities Unit Trusts/PIEs	Dividend income Distributions from unitised investments	Non insurance business –	revenue – other income Insurance business – revenue – investment property income	Equity securities – corporate – New Zealand	Equity securities – corporate – non New Zealand	Unitised funds	Contributions received	Fees deducted from account balances	Investment return credited to policyholders	Other movements
ı	Nature of reclassification			Reclassification of income between equity securities, debt securities and unit trusts/PIEs.	Reclassification of income between dividend income and distribution income.	Reclassification from non	insurance business revenue (other income) within the income statements to insurance business revenue (investment property income).	Reclassification between equity securities and	unitised funds backed by equity securities.		Gross up of movements		Reclassifiction to allow for information in the note to be	expanded
	Title			Investment income	Investment income	Investment property income	Other non insurance income	Other financial assets at fair value through profit or loss			Life investment contract	liabilities		
	Note			10	10	1	91	22			33			

Where applicable balances in note 5 (Risk management) and note 41 (Financial instruments by category) have also been updated to reflect the changes detailed above.

FOR THE YEAR ENDED 30 JUNE 2011

### 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, competition, 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 4.5% (2010: 13.4%) over the remainder of 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.

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 and Company's income tax liabilities and tax assets.

	Gro	up	Parent		
	2011 \$'000	2010 \$'000	2011 \$'000	2010 \$'000	
Deferred tax liabilities	22,322	20,419	22,322	20,419	
Deferred tax assets	14,177	12,248	14,177	11,993	

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

### (D) DEFERRED TAX (CONTINUED)

In arriving at the deferred tax liabilities and assets the Group and Company 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 2010 and 30 June 2011 were prepared by the Appointed Actuary John Smith MSc FNZSA FIAA and peer reviewed by the Consulting Actuary Peter Davies BBus Sc FNZSA FIAA of Davies Financial and Actuarial Limited.

The results incorporate legacy direct mail policies based on data supplied by a third-party administrator and accounting information maintained by the Company.

The value of the policyholder liabilities has been determined in accordance with the New Zealand Society of Actuaries Professional Standard Number 3 ('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 policyholder 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 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 2011 was 5.04% (2010: 5.35%). For the year ended 30 June 2011 a gross discount rate of 5.0% was used.

A gross interest rate of 5.0% was used to value discounted cash flows on renewable risk plans where the policy reserve is negative (2010: 4.5% net of tax). The impact of moving from a net to gross discount rate was eliminated from the 2011 results.

A gross rate of interest of 5.00% was used to value claim reserves and Gold Medal maturity guarantees (2010: 3.85% net).

Whole of life and endowment assurances were valued at 4.50% (2010: 3.85%). Annuities were valued at 3.60% (2010: 3.85%).

For former Farmers Mutual Life plans, a valuation rate of 4.8% was used for participating business (2010: 4.8%) and 5.0% gross for non-participating business (2010: 4.5% net).

The solvency reserves are valued in accordance with PS5.01. The discount rate for reliance reserving was 4.00% derived from the 5 year NZ government bond yield (2010: 3.35%) as a proxy for the mid-swap index.

Under the Insurance (Prudential Supervision) Act 2010 the Reserve Bank of New Zealand ('RBNZ') has issued a new solvency standard 'Solvency Standard for Life Insurance Business'. Under this standard, the yield allowing for the resilience shock is 3.25% or 1.75% below the best estimate (gross of tax on the assumption that level term would incur tax losses under the scenario with adverse deviations). The solvency reserve calculation under the new solvency standard 'Solvency Standard for Life Insurance Business' has not been audited.

**Taxation:** Tax is 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. The assumed long-run rate is 28% (2010: 28%).

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

Inflation rates: A rate of 2.5% was used where applicable (2010: 2.5%).

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FOR THE YEAR ENDED 30 JUNE 2011

### 4. ACTUARIAL METHODS AND POLICIES (CONTINUED)

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% (2010: 100%) was assumed in accordance with the actual selection rebate set out in reinsurance treaties.

For guaranteed acceptance plans mortality is assumed to be 500% of standard mortality for the first five years, falling to 200% of standard from the 10th year.

For former Farmers Mutual Life plans the mortality assumptions 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.

For limited premium guaranteed acceptance plans mortality is assumed to be 200% of standard throughout.

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 10 years of age to nil from age 95 (2010: age reduction 5 years to age 55, falling 1 year every 5 years).

**Morbidity:** Morbidity was based on the net reinsurance rates. A selection rebate of 100% (2010: 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 from year 6 onwards (2010: 11.0%). The assumed discontinuance rate in the first year varies between 7% and 11% depending on the level of compulsory spreading. The discontinuance rate during years 2 to 5 of the policy life time is assumed to be between 11% and 15.5% depending on the minimum proportion of initial commission that is spread (2010: 12.5% to 15.5%).

The ultimate discontinuance rate for stand-alone Critical Care and stand-alone TPD was 13.0% for policies in force from year 6 onwards (2010: 13.0%). The assumed discontinuance rate in the first year varies between 7.5% and 12.0% depending on the level of compulsory spreading. The discontinuance rate during years 2 to 5 of the policy life time is assumed to be between 13.0% 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 from year six onwards (2010: 15.0%). The assumed discontinuance rate in the first year varies between 8.5% and 13.0% depending on the level of compulsory spreading. The discontinuance rate during years 2 to 5 of the policy life time is assumed to be between 14.0% and 19.5% depending on the minimum proportion of initial commission that is spread (2010: 16.5% to 19.5%).

The discontinuance rate for traditional whole of life and endowment assurances was assumed to be 5.0%, the same as last year.

Discontinuance rates for the former Farmers Mutual Life plans were based on 2010 experience. Those rates vary by product and duration in force.

Surrender values: The surrender value of whole of life and endowment assurances, issued by the former Farmers Mutual Life, is the net premium reserve with double Zillmer calculated using NZ97(5) mortality table discounted at 4.80%, ignoring any terminal bonus (same as last year). For legacy assurances issued by Fidelity Life the surrender value is based on the A49/52 ultimate mortality table discounted at 4.5%.

There is no exit charge on bonds and power saver (same as last year).

The exit charge on Gold Medal is 5.0%, reducing by 1.0% each year from the policy anniversary four years preceding maturity (same as last year). Policies issued after July 2009 do not have an exit charge.

FOR THE YEAR ENDED 30 JUNE 2011

### 4. ACTUARIAL METHODS AND POLICIES (CONTINUED)



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 10% of premiums paid.

For former Farmers Mutual Life plans the supportable bonus rate is 1.2% of the sum assured and reversionary bonus (2010: 1.12%). The current bonus declaration was 1.20% (2010:1.12%).

It is assumed that the policyholder's share of the surplus on the participating pool is 83.3% (2010: 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 in the year that a new policy is issued.

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

The impact of changes to demographic assumptions and changing from a net to gross discount rate were eliminated by recalibrating future planned profit margins. The change in gross discount rate is shown in Note 7.

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

## Life investment contracts – Group and Parent

2011

	Change in Assumption	Effect on Future Margins	Effect on Policy Liability	Effect on Profit
		\$'000	\$'000	\$'000
Lapses Expenses	Decrease by 10% Increase by \$1 million		- -	(67) (1,000)

## 2010

Change in Assumption	Effect on Future Margins	Effect on Policy Liability	Effect on Profit
	\$'000	\$'000	\$'000
Decrease by 10%	-	-	(64) (1,000)
	Assumption	Change in Assumption Future Margins \$'000	Change in Assumption Future Margins Liability  \$'000 \$'000  Decrease by 10%

FOR THE YEAR ENDED 30 JUNE 2011

### 4. ACTUARIAL METHODS AND POLICIES (CONTINUED)

### ASSETS BACKING LIFE INSURANCE AND LIFE INVESTMENT 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. At 30 June 2011 the value of the subordinated debt issued by FCGBL on a realisable basis is \$nil (2010: \$nil).

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

### PARENT

	Life Inve	estment	Life Insurance		
	2011 \$'000	2010 \$'000	2011 \$'000	2010 \$'000	
Loans	18,523	19,069	12,149	10,926	
Debt securities Equity securities	91,436 100,232	82,693 95,703	6,452 -	19,909 1,102	
Other investments	71,244	90,013	82,388	48,857	
Cash and cash equivalents	26,229	13,633	1,239	9,484	
TOTAL ASSETS BACKING	307,664	301,111	102,228	90,278	

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 Appointed 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.

FOR THE YEAR ENDED 30 JUNE 2011

### 5. RISK MANAGEMENT (CONTINUED)

Risk is categorised as follows:

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

### RISK ASSESSMENTS

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

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

The control environment will meet all new statutory requirements, including the recent enactments for prudential supervision and adviser regulation.

Distributors will need to be Authorised Financial Advisers to sell KiwiSaver and other Fidelity Life investment products. Distributors will need to be Registered Financial Advisers or a member of a Qualifying Financial Entity to sell Fidelity Life insurance products. Fidelity Life will not accept business that is submitted via advisers who are not appropriately registered or authorised.

The Company is a member of the ISO dispute resolution scheme. The Company has documented its fit and proper persons policy and risk management framework in support of its application for a full license under the Insurance (Prudential Supervision) Act 2010 from the Reserve Bank of New Zealand ('RBNZ'). The Company adheres to the New Zealand Society of Actuaries ('NZSA') solvency standard ('PS5') and has also calculated solvency on the new RBNZ solvency standard issued in August 2011. The Company already has a stable A- (Excellent) credit rating from AM Best an approved credit rating agency.

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 modeling 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 99.9% of Monte-Carlo stochastic simulations (2010: 99.4%). Any shortfall in excess of the prudential provision is a charge against the capital not retained for solvency.

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### 5. RISK MANAGEMENT (CONTINUED)

### A. MARKET RISK (CONTINUED)

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 PS5.

### (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 quarter to determine the appropriate levels of forward currency to enter into. These contracts are implemented by the Bank of New Zealand ('BNZ').

The forward foreign currency contracts are accounted for at fair value through profit or loss as the Group does not apply hedge accounting.

### Concentrations

The following table shows the assets of the Group denominated in foreign currency:

	Gr	oup	Parent		
	2011 \$'000	2010 \$'000	2011 \$'000	2010 \$'000	
ASSETS Australian Dollars	102,052	93,496	102,052	93,496	
Great Britain Pounds Sterling US Dollars	16,765 23,048	16,728 26,159	16,765 23,048	16,728 23,757	
TOTAL ASSETS IN FOREIGN CURRENCY	141,865	136,383	141,865	133,981	
PERCENTAGE OF TOTAL ASSETS	26.7%	25.8%	30.5%	30.0%	

Subsequent to the events detailed in note 47, by 24 August 2011 all investments held by Fidelity Capital Guaranteed Bond Limited ('FCGBL'), a 100% owned subsidiary of the Company, were denominated in New Zealand dollars and therefore the balances as at 30 June 2011 for FCGBL have been excluded from the table above (2010: FCGBL denominated in New Zealand and US dollars and included within the table above).

FOR THE YEAR ENDED 30 JUNE 2011

### 5. RISK MANAGEMENT (CONTINUED)

### A. MARKET RISK (CONTINUED)

### 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 Impact on post tax profit Impact on equity			–10% change in foreign exchange rates Impact on post tax profit Impact on equity				
	2011 \$'000	2010 \$'000	2011 \$'000	2010	2011 \$'000	2010 \$'000	2011 \$'000	2010
AUD GBP US	123 66 92	151 64 172	123 66 92	151 64 172	(101) (55) (75)	(123) (53) (104)	(101) (55) (75)	(123) (53) (104)
	281	387	281	387	(231)	(280)	(231)	(280)

Subsequent to the events detailed in note 47, by 24 August 2011 all investments held by Fidelity Capital Guaranteed Bond Limited ('FCGBL'), a 100% owned subsidiary of the Company, were denominated in New Zealand dollars, therefore the balances as at 30 June 2011 for FCGBL have been excluded from the table above (2010: FCGBL denominated in New Zealand and US dollars and included within the table above).

### PARENT

		change in for ost tax profit	eign exchang Impact o		–10% c Impact on po		ign exchange rates Impact on equity	
	2011 \$'000	2010 \$'000	2011 \$'000	2010	2011 \$'000	2010 \$'000	2011 \$'000	2010
AUD GBP US	123 66 92	151 64 125	123 66 92	151 64 125	(101) (55) (75)	(123) (53) (102)	(101) (55) (75)	(123) (53) (102)
	281	340	281	340	(231)	(278)	(231)	(278)

## (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.

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



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## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 30 JUNE 2011

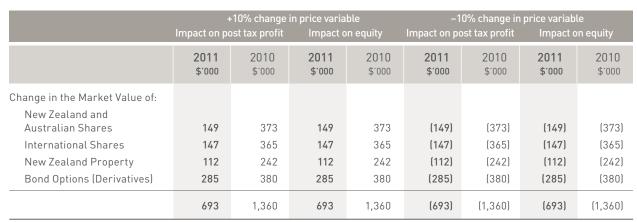
### 5. RISK MANAGEMENT (CONTINUED)

### A. MARKET RISK (CONTINUED)

### 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  $\pm$ 10%:

### GROUP



### **PARENT**

		+10% change in price variable Impact on post tax profit Impact on equity			–10% change in price variable Impact on post tax profit Impact on equity			
	impact on po	impact on post tax pront		or equity	impact on pe	ost tax pront	impact on equity	
	<b>2011</b> \$'000	2010 \$'000	2011 \$'000	2010 \$'000	<b>2011</b> \$'000	2010 \$'000	<b>2011</b> \$'000	2010 \$'000
Change in the Market Value of:								
New Zealand and								
Australian Shares	149	373	149	373	(149)	(373)	(149)	(373)
International Shares	147	365	147	365	(147)	(365)	(147)	(365)
New Zealand Property	112	242	112	242	(112)	(242)	(112)	(242)
Bond Options (Derivatives)	285	380	285	380	(285)	(380)	(285)	(380)
	693	1,360	693	1,360	(693)	(1,360)	(693)	(1,360)

### (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.

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

At 30 June 2011, in respect of liabilities the Group had an interest rate risk in relation to Fidelity Capital Guaranteed Bond Limited. However, subsequent to the events detailed in note 47, these risks have since been eliminated.



FOR THE YEAR ENDED 30 JUNE 2011

### 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 Impact on post tax profit Impact on equity			–1% change in interest rates Impact on post tax profit Impact on equity			
	2011 \$'000	2010 \$'000	2011 \$'000	2010 \$'000	2011 \$'000	2010 \$'000	2011 \$'000	2010 \$'000
Cash and Cash Equivalents	34	97	34	97	(34)	(97)	(34)	(97)
Loans	82	76	82	76	(82)	(76)	(82)	(76)
NZ Debt Securities	(1,673)	(2,535)	(1,673)	(2,535)	1,691	2,582	1,691	2,582
International Debt Securities	(48)	(245)	(48)	(245)	51	261	51	261
US Put and Call options	(27,735)	(20,833)	(27,735)	(20,833)	27,735	20,833	27,735	20,833
	(29,340)	(23,440)	(29,340)	(23,440)	29,361	23,503	29,361	23,503

The interest rate sensitivity presented above is based on the asset mix at 30 June. Subsequent to the events detailed in note 47, by 24 August 2011 the assets of FCGBL comprised a zero coupon bond and cash balances totalling \$337,000. From 24 August 2011 FCGBL is subject only to interest rate fluctuations on the cash balances.

### PARENT

	+1% change in interest rate Impact on post tax profit Impact o				–1% change in interest rates Impact on post tax profit Impact on ec			
	2011 \$'000	2010 \$'000	<b>2011</b> \$'000	2010 \$'000	2011 \$'000	2010 \$'000	2011 \$'000	2010 \$'000
Cash and Cash Equivalents Loans NZ Debt Securities International Debt Securities	3 82 (497) (48)	66 76 (1,012) (245)	3 82 (497) (48)	66 76 (1,012) (245)	(3) (82) 515 51	(66) (76) 1,059 261	(3) (82) 515 51	(66) (76) 1,059 261
	(460)	(1,115)	(460)	(1,115)	481	1,178	481	1,178

## 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 Appointed 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 claims is controlled by setting rates based on actuarial research undertaken by international reinsurance companies to derive pure risk premium rates.

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

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

FOR THE YEAR ENDED 30 JUNE 2011

## 5. RISK MANAGEMENT (CONTINUED)

## B. INSURANCE RISK (CONTINUED)

## Sensitivity analysis

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

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

## 2011

		Future Margins	Policy Liability	Profit
		\$'000	\$'000	\$'000
Discount rate/inflation rate	Increase by 0.25% Decrease by 0.25%	-	55 (114)	(55) 114
Mortality/Morbidity	Increase by 10% Decrease by 10%	(40,930) 41,393	(892) 1,118	892 (1,118)
Lapses	Increase by 10% Decrease by 10%	(7,271) 8,356	-	-
Expenses	Increase by 10% Decrease by 10%	(17,197) 17,220	-	-
Terminations	Increase by 10% Decrease by 10%		(368) 388	368 (388)

## 2010

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

Variable	Impact of a movement in the underlying variable
Mortality risk	For insurance contracts providing death benefits, greater mortality rates would lead to higher levels of claims, increasing associated claims cost and therefore reducing profit and shareholders' equity.
Morbidity risk	The cost of 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.
Expense risk	An increase in the level or inflationary growth of expenses over assumed levels will decrease 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.



FOR THE YEAR ENDED 30 JUNE 2011

### 5. RISK MANAGEMENT (CONTINUED)

### 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 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.

### Maturity analysis

With the exception of the year ended 30 June 2011 information relating to the Parent's 100% owned subsidiary Fidelity Capital Guaranteed Bond Limited ('FCGBL'), 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.

In relation to FCGBL the inputs for the year ended 30 June 2011 have been prepared on the basis of expected cash flow maturities post the Close Out of the Fund (2010: contractual undiscounted cash flows). For further information on the Close Out of the Fund refer to note 47.



FOR THE YEAR ENDED 30 JUNE 2011

## 5. RISK MANAGEMENT (CONTINUED)

## C. LIQUIDITY RISK (CONTINUED)

## GROUP 2011

	Less than 1 year	Between 1 & 2 years	Between 2 & 5 years	Over 5 years	Total	Carrying amount
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Financial assets:						
Cash and cash equivalents	31,905	-	-	-	31,905	31,905
Loans and other receivables	10,977	2,098	7,594	32,230	52,899	34,165
Financial assets at fair value						
through profit or loss	275,971	18,017	113,040	27,303	434,331	413,362
Derivative financial instruments	16,097	-	-	-	16,097	3,374
Assets arising from reinsurance contracts	6,983	-	-	-	6,983	6,983
	341,933	20,115	120,634	59,533	542,215	489,789
Financial liabilities:						
Policyholder liabilities – investment (non-participating) contracts	124,300	9,384	28,741	145,239	307,664	307,664
Policyholder liabilities – insurance contracts	8,737	2,480	11,833	31,378	54,428	(17,813)
Payables and other financial liabilities	18,878	61	17	-	18,956	22,867
Derivative financial instruments	13,440	-	-	-	13,440	2,346
Interest bearing liabilities	-	-	65,863	-	65,863	60,952
	165,355	11,925	106,454	176,617	460,351	376,016

## GROUP 2010

	Less than 1 year	Between 1 & 2 years	Between 2 & 5 years	Over 5 years	Total	Carrying amount
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Financial assets:						
Cash and cash equivalents	27,534	-	-	-	27,534	27,534
Loans and other receivables	11,298	3,667	8,375	30,651	53,991	32,833
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	492,895
Financial liabilities:						
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	26,863	6,938	13,875	-	47,676	23,080
Derivative financial instruments	4,719	-	-	-	4,719	4,719
Interest bearing liabilities	-	-	75,000	-	75,000	75,000
	169,195	17,391	121,581	148,433	456,600	393,176

for the year ended 30 June 2011

## 5. RISK MANAGEMENT (CONTINUED)

## C. LIQUIDITY RISK (CONTINUED)

## PARENT 2011

	Less than 1 year	Between 1 & 2 years	Between 2 & 5 years	Over 5 years	Total	Carrying amount
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Financial assets:						
Cash and cash equivalents	27,468	-	_	-	27,468	27,468
Loans and other receivables	11,142	2,098	7,594	32,230	53,064	33,535
Financial assets at fair value through profit or loss	275,971	18,017	47,340	27,303	368,631	351,752
Derivative financial instruments	16,097	-	-	-	16,097	3,348
Assets arising from reinsurance contracts	6,983	-	-	-	6,983	6,983
	337,661	20,115	54,934	59,533	472,243	423,086
Financial liabilities:						
Policyholder liabilities – investment (non-participating) contracts	124,300	9,384	28,741	145,239	307,664	307,664
Policyholder liabilities – insurance contracts	8,737	2,480	11,833	31,378	54,428	(17,813)
Payables and other financial liabilities	18,781	-	-	-	18,781	18,781
Derivative financial instruments	13,440	-	-	-	13,440	691
	165,258	11,864	40,574	176,617	394,313	309,323

## PARENT 2010

	Less than 1 year	Between 1 & 2 years	Between 2 & 5 years	Over 5 years	Total	Carrying amount
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Financial assets:						
Cash and cash equivalents	23,117	-	_	_	23,117	23,117
Loans and other receivables	11,694	3,667	8,375	30,651	54,387	33,228
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
	298,775	29,784	67,921	60,669	457,149	410,625
Financial liabilities:						
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	19,494	-	-	-	19,494	19,494
Derivative financial instruments	790	-			790	790
	157,897	10,453	32,706	148,433	349,489	310,661

FOR THE YEAR ENDED 30 JUNE 2011

### 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 2011**

	AAA+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to C	Unrated	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Cash and cash equivalents Debt securities	27,468 62,522	- 19,441	-		- 15,925	27,468 97,888
	89,990	19,441	-	-	15,925	125,356

## **GROUP 2010**

	AAA+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to C	Unrated	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$.000
Cash and cash equivalents Debt securities	27,533 148,423	- 18,890	344	-	1 13,193	27,534 180,850
	175,956	18,890	344	-	13,194	208,384

Included in the statement of financial position is unitised funds of \$153,632,000 (2010: \$138,870,000). Unitised products are invested within the guidelines of the Group's Statement of Investment Policy Objectives (SIPO). SIPO requires investments to be well diversified, outlines minimum credit rating applicable dependent on type of asset and the maximum exposure to class of investment.

Further to the events detailed in note 47, by 24 August 2011 all FCGBL's deposits are held by Westpac in New Zealand who have an AA credit rating. Funds held by FCGBL have not been included in the above tables for the year ended 30 June 2011.

## PARENT 2011

	AAA+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to C	Unrated	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Cash and cash equivalents	27,468	-	-	-	-	27,468
Debt securities	62,522	19,441	-	-	15,925	97,888
	89,990	19,441	-	-	15,925	125,356

### PARENT 2010

	AAA+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to C	Unrated	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Cash and cash equivalents	23,116	-	-	-	1	23,117
Debt securities	70,175	18,890	344	-	13,193	102,602
	93,291	18,890	344	-	13,194	125,719

Included in the statement of financial position is unitised funds of \$153,632,000 (2010: \$138,870,000). Unitised products are invested within the guidelines of the Group's Statement of Investment Policy Objectives (SIPO). SIPO requires investments to be well diversified, outlines minimum credit rating applicable dependent on type of asset and the maximum exposure to class of investment.

FOR THE YEAR ENDED 30 JUNE 2011

## 5. RISK MANAGEMENT (CONTINUED)

### D. CREDIT RISK (CONTINUED)

### **CONCENTRATION OF CREDIT RISK**

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

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

#### ASSET QUALITY

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

	Gro	oup	Parent		
	2011 \$'000	2010 \$'000	2011 \$'000	2010 \$'000	
Current	20,286	21,883	20,286	21,883	
Less than three months	4,861	3,862	4,861	3,862	
Between three and six months	3,219	2,623	3,219	2,623	
Greater than six months past due	841	1,301	841	1,301	
Impaired	1,945	1,028	1,945	1,028	
TOTAL PAST DUE	31,152	30,697	31,152	30,697	

As at 30 June 2011 \$2.1 million (2010: \$1.9 million) of loans receivable 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 2011 or 2010.

## Provision for impairment of receivables

	Gro	oup	Parent		
	2011 \$'000	2010 \$'000	2011 \$'000	2010	
Carrying amount at the beginning of the year Provisions recognised during the year	200 336	- 200	200 336	- 200	
CARRYING AMOUNT AT THE END OF THE YEAR	536	200	536	200	

The provisions above are all made against specific loans and receivables where it is considered there has been events making full repayment unlikely.

FOR THE YEAR ENDED 30 JUNE 2011

### 5. RISK MANAGEMENT (CONTINUED)

### D. CREDIT RISK (CONTINUED)

There have been no collective provisions included.

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.

### 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).
- (liii) 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 2011, 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 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.

## F. CAPITAL MANAGEMENT

Capital Risk is managed by the Board with reference to the Financial Condition Report ('FCR') presented by the Appointed 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 Appointed Actuary makes recommendations on items that may have a bearing on future solvency or maintenance of the Company's credit rating.

Further to note 47, for the Company's 100% owned subsidiary Fidelity Capital Guaranteed Bond Limited ('FCGBL') prior to receipt of a Close Out Notice, funds were invested within the Active Portfolio which were used to generate investment income and used as collateral to generate option income as set out in FCGBL's Investment Statement and Supplemental Trust Deed.

Subsequent to 24 August 2011 the assets of FCGBL comprise cash balances and a zero coupon bond that will be held to the Maturity Date of 15 July 2013.



FOR THE YEAR ENDED 30 JUNE 2011

### 5. RISK MANAGEMENT (CONTINUED)

### F. CAPITAL MANAGEMENT (CONTINUED)

### PRIORITY OF CREDITORS CLAIMS

Following the receipt of a Close Out Notice on 11 August 2011 and the investment of the Fund in a Fixed Portfolio, the Fund was in a deficit position. As there was no Surplus on Close Out of the Fund, future interest is discharged and cancelled. As a result there will be no payments to bondholders other than settlement by the Trustee of the Senior Bondholder principal amount of \$75.0 million on the Maturity Date of 15 July 2013.

In addition to invested assets, FCGBL has a bank account for Ongoing Expenses which will be used to meet contemplated expenses for auditor fees, legal fees, registrar's fees, listing fees and trustee's fees. It is anticipated that there will be no surplus on this account.

### COLLATERAL

FCGBL's debt securities with registered banks were used as collateral on the derivative trading that was undertaken by Tyndall Investment Management as investment manager for FCGBL. Derivative trading ceased on the Close Out of the Fund in August 2011 (refer Note 47).

### **GUARANTEES**

FCGBL entered in to a Reimbursement Agreement dated 7 February 2007 with Westpac who have guaranteed payment of the Principal Amount at maturity of the Capital Guaranteed Bonds to the extent that the Principal Amount is not paid in full by FCGBL from the Liquidated Proceeds of the Fund.

### SOLVENCY

The solvency position of the Group and Company is determined in accordance with New Zealand Society of Actuaries Professional Standard No 5.01 ('PS5.01') – solvency reserving for life insurance business.

	Group		Parent	
	2011 \$'000	2010 \$'000	2011 \$'000	2010 \$'000
Equity of shareholder Minimum solvency capital	129,089 114,978	112,661 100,312	129,087 114,976	112,659 100,310
SOLVENCY MARGIN	14,111	12,349	14,111	12,349
Equity as a multiple of minimum solvency capital	1.123	1.123	1.123	1.123
Solvency margin as proportion of policy liabilities	4.87%	4.25%	4.87%	4.25%

The solvency margin is calculated after allowing for payment of a dividend of \$2.00 per share (2010: \$1.47).

Under the Insurance (Prudential Supervision) Act 2010, the Reserve Bank of New Zealand ('RBNZ') licenses Insurance Companies. On 5 August 2011, RBNZ issued a "Solvency Standard for Life Insurance Business". The date of implementation will be set by provisional license conditions. Under this standard the Group's and Parent's solvency margin at 30 June 2011 would be \$11,658,000 (unaudited).

FOR THE YEAR ENDED 30 JUNE 2011

### 6. SEGMENT INFORMATION

NZ IFRS 8 Operating Segments requires disclosure which reflects information that the chief operational decision makers utilise to make decisions.

The basis used in identifying segment categories 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.

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:

- Continuing Operations 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.
- Discontinued Operations Capital Guaranteed Bond, income is derived from the trading of investment securities from New Zealand and the 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 statement of financial position 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.



FOR THE YEAR ENDED 30 JUNE 2011

## 6. SEGMENT INFORMATION (CONTINUED)

2011

	Continuing operations Life Insurance Segment	Discontinued operations Capital Guaranteed Bond Segment	Reconciling Items	Group
	\$'000	\$'000	\$'000	\$'000
Revenues/Income				
Revenues from external customers Insurance premium ceded to reinsurers Interest revenue Other investment income Investment property income	128,556 (29,829) 8,798 27,590 1,873	- 831 7,534	(41,810) - 375 - (752)	86,746 (29,829) 10,004 35,124 1,121
Other income	3,780	-	(301)	3,479
Total segment revenue/income	140,768	8,365	(42,488)	106,645
Expenses				
Payments to policyholders Reinsurance revenue	91,709 (28,689)	-	(53,229)	38,480 (28,689)
Commission and other management expenses Interest expense	58,815	1,559 7,251	(1,290)	59,084 7,251
Depreciation Amortisation	664 605	-	(32) 162	632 767
	123,104	8,810	(54,389)	77,525
BOARD REPORTING SURPLUS/(DEFICIT)	17,664	(445)	11,901	29,120
Movement in policyholder liabilities Income tax (credit)/expense	(124)	38	-	(10,892) (86)
NET PROFIT/(LOSS) AFTER TAXATION	17,788	(483)	11,901	18,314
TOTAL ASSETS	464,435	65,213	1,482	531,130

Per note 47 the financial statements of FCGBL have been prepared on a realisable value basis. As a result, trading losses subsequent to 30 June 2011 are included in the Group results in the current year. Refer to note 47 for more information.



FOR THE YEAR ENDED 30 JUNE 2011

### 6. SEGMENT INFORMATION (CONTINUED)

2010

	Continuing operations	Discontinued operations Capital		
	Life Insurance Segment	Guaranteed Bond Segment	Reconciling Items	Group
	\$'000	\$'000	\$'000	\$'000
Revenues/Income				
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	18,144	(914)	45,107
Investment property income	-	-	1,117	1,117
Other income	2,819	-	(300)	2,519
Total segment revenue/income	138,212	18,144	(46,738)	109,618
Expenses				
Payments to policyholders	78,591	-	(40,057)	38,534
Reinsurance Revenue	(30,790)	-	-	(30,790)
Commission and other management expenses	53,346	1,425	(462)	54,309
Interest expense	-	15,209	-	15,209
Depreciation	738	-	(36)	702
Amortisation	605	-	167	772
	102,490	16,634	(40,388)	78,736
BOARD REPORTING SURPLUS/(DEFICIT)	35,722	1,510	(6,350)	30,882
Movement in policyholder liabilities				(10,681)
Income tax	3,022	263	-	3,285
NET PROFIT AFTER TAXATION	32,700	1,247	(6,350)	16,916
TOTAL ASSETS	447,431	79,778	2,739	529,948

## (B) REVENUES ATTRIBUTABLE TO FOREIGN COUNTRIES:

All revenues received by the life insurance segment are attributable to New Zealand. Of the revenues received by the Capital Guaranteed Bond segment \$6,735,000 (2010: \$6,598,000) are attributable to New Zealand and losses of \$12,418,000 (2010: revenues of \$11,545,000) are attributable to the United States of America.

Further to note 47 the financial statements of FCGBL have been prepared on a realisable value basis. As a result trading losses subsequent to 30 June 2011 are included in the Group results in the current year. Refer to note 47 for more information.

## (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.



FOR THE YEAR ENDED 30 JUNE 2011

## 7. PROFIT AFTER TAXATION

	Group		Parent	
	2011 \$'000	2010 \$'000	2011 \$'000	2010 \$'000
Profit after taxation arose from				
Life insurance contracts				
Planned margins of revenues over expenses	8,101	11,889	8,101	11,889
Difference between actual and assumed experience	2,835	(11,646)	2,835	[11,646]
Effects of changes in underlying assumptions	(1,015)	174	(1,015)	174
Investment earnings on assets in excess of life insurance liabilities	2,767	3,266	2,767	3,266
	12,688	3,683	12,688	3,683
Life investment contracts				
Difference between actual and assumed experience	196	(478)	196	(215)
Effects of changes in underlying assumptions	(91)	[69]	(91)	(69)
Investment earnings on assets in excess of investment contract liabilities	5,521	13,780	5,521	12,642
	5,626	13,233	5,626	12,358
PROFIT AFTER TAXATION	18,314	16,916	18,314	16,041

## 8. INSURANCE PREMIUM CEDED TO REINSURERS

	Group		Parent	
	2011 \$'000	2010 \$'000	2011 \$'000	2010 \$'000
Life insurance contracts	[29,829]	(29,132)	(29,829)	[29,132]
TOTAL PREMIUM CEDED TO REINSURERS	(29,829)	(29,132)	(29,829)	(29,132)

## 9. FEE AND COMMISSION INCOME

	Group		Parent	
	2011 \$'000	2010 \$'000	2011 \$'000	2010 \$'000
Fees from fiduciary activities:				
Administration fees	2,278	1,565	2,278	1,565
Management fees	774	445	774	445
Other administration fees	399	317	699	617
TOTAL FEE AND COMMISSION INCOME	3,451	2,327	3,751	2,627



FOR THE YEAR ENDED 30 JUNE 2011

## 10. INVESTMENT INCOME

	Gr	oup	Par	Parent		
	2011 \$'000	2010 \$'000	2011 \$'000	2010 \$'000		
Financial instruments designated at fair value through profit or loss						
Equity securities	1,387	2,491	1,387	2,491		
Debt securities	6,523	8,902	6,148	9,277		
Unit Trusts/PIEs	25,200	20,509	25,200	20,509		
Other	5	3	5	3		
	33,115	31,905	32,740	32,280		
Financial instruments at amortised cost						
Loans	1,934	1,892	1,934	1,892		
	1,934	1,892	1,934	1,892		
Fair value movement from financial instruments held for trading						
Derivative financial instruments	2,595	3,886	2,595	3,886		
	2,595	3,886	2,595	3,886		
Net exchange losses on financial instruments at amortised cost	(881)	(1,429)	(881)	[1,429]		
	(881)	(1,429)	(881)	(1,429)		
	36,763	36,254	36,388	36,629		
Summary of net investment income						
Interest and similar income	9,173	8,378	8,798	8,753		
Dividend income	70	125	70	125		
Distributions from unitised investments	8,315	5,943	8,315	5,943		
Net fair value gains on financial assets at fair value through profit or loss	19,205	21,808	19,205	21,808		
NET INVESTMENT INCOME	36,763	36,254	36,388	36,629		
Allocation of net investment income						
Life insurance contracts	6,607	6,246	6,232	6,246		
Life investment contracts	30,156	30,008	30,156	30,383		
NET INVESTMENT INCOME	36,763	36,254	36,388	36,629		



FOR THE YEAR ENDED 30 JUNE 2011

## 11. INVESTMENT PROPERTY INCOME

	Group		Parent	
	2011	2010	2011	2010
	\$'000	\$'000	\$'000	\$'000
Increase in fair value of investment property (note 28) Rental income from investment property	318	318	318	318
	803	799	803	595
TOTAL INVESTMENT PROPERTY INCOME	1,121	1,117	1,121	913

# 12. CLAIMS EXPENSE

	Group		Parent	
	2011 \$'000	2010 \$'000	2011 \$'000	2010 \$'000
Life Insurance Contracts Claims paid to policyholders under life insurance contracts				
Claims paid on death or critical illness	38,480	38,534	38,480	38,534
TOTAL LIFE INSURANCE CLAIMS AND BENEFITS PAID	38,480	38,534	38,480	38,534

## 13. REINSURANCE RECOVERIES

	Group		Parent	
	2011 \$'000	2010 \$'000	2011 \$'000	2010 \$'000
Life insurance contracts	(28,689)	(30,790)	(28,689)	(30,790)
TOTAL REINSURANCE RECOVERIES	(28,689)	(30,790)	(28,689)	(30,790)

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# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 30 JUNE 2011

## 14. COMMISSIONS AND MANAGEMENT EXPENSES

	Gro	oup	Parent	
	2011 \$'000	2010 \$'000	2011 \$'000	2010 \$'000
Life insurance contracts				
Acquisition costs				
Commissions	18,341	18,281	18,341	18,281
Other expenses	8,722	7,659	8,722	7,659
Maintenance costs				
Commissions	8,261	6,762	8,261	6,762
Other management expenses	736	1,721	736	1,721
	36,060	34,423	36,060	34,423
Life investment contracts				
Acquisition costs				
Commissions	852	677	852	677
Movement in deferred acquisition cost	172	(1,245)	172	(1,245)
Other expenses	6	76	6	76
Maintenance costs				
Commissions	2,486	2,653	2,486	2,653
Other expenses	311	(296)	311	(296)
Investment management expenses	1,021	1,076	1,021	1,076
	4,848	2,941	4,848	2,941
TOTAL COMMISSIONS AND MANAGEMENT EXPENSES	40,908	37,364	40,908	37,364





FOR THE YEAR ENDED 30 JUNE 2011

## 15. OTHER EXPENSES

	Gro	oup	Parent	
	2011 \$'000	2010	2011 \$'000	2010 \$'000
Other expenses include:				
Employee benefit expense				
Wages and salaries and other short term benefits	14,248	13,362	14,248	13,362
Contribution to superannuation schemes	963	884	963	884
Employee share purchase scheme expense (note 37)	82	88	82	88
	15,293	14,334	15,293	14,334
Remuneration of auditors				
Audit services	119	169	119	169
Other services	19	26	19	26
Tax services				
– Compliance	54	58	54	58
– Consultancy	100	59	100	59
	292	312	292	312
Depreciation (note 26)	632	702	632	670
Revaluation of property, plant and equipment (note 26)	(205)	(87)	(205)	(55)
	427	615	427	615
Amortisation				
Acquired in-force business (note 27)	605	605	605	605
Software (note 27)	162	167	162	167
	767	772	767	772
Directors' fees	314	330	314	330
Operating lease costs	114	116	114	289
Direct rental property expenses (note 28)	279	302	279	229
Bad and doubtful debts expense	530	213	939	213
TOTAL OTHER EXPENSES PER INCOME STATEMENT	18,016	16,994	18,425	17,094

During the normal course of business, management have written off receivables from agents' commission accounts where the agencies have been terminated. In addition, as disclosed under note 21, the Company has increased its provision for impairment of receivables and doubtful debts by \$280,000 (2010: \$200,000).

The Parent Company has written off an intercompany balance of \$409,000 with a subsidiary where the chances of recoverability of the balance were deemed remote.



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# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 30 JUNE 2011

## 16. INVESTMENT INCOME FROM DISCONTINUED OPERATIONS

	Gro	oup	Parent	
	2011 \$'000	2010 \$'000	2011 \$'000	2010 \$'000
Financial instruments designated at fair value through profit or loss				
Debt securities	(57,432)	(33,680)	-	-
	(57,432)	(33,680)	-	-
Fair value movement from financial instruments held for trading				
Derivative financial instruments	75,927	51,824	-	-
	75,927	51,824	-	-
Trading losses on active portfolio to close out – realisation basis	(24,178)	-	-	-
Reduction in funds attributable to Bondholders	14,048	-	-	-
	8,365	18,144	-	-
Summary of net investment income				
Interest and similar income	831	913	-	-
Net fair value gains on financial assets at fair value through profit or loss	7,534	17,231	-	_
NET INVESTMENT INCOME FROM DISCONTINUED OPERATIONS	8,365	18,144	-	-

Per note 47 the financial statements of FCGBL have been prepared on a realisable value basis. As a result trading losses subsequent to 30 June 2011 are included in the Group results in the current year. Refer to note 47 for more information.

## 17. FINANCE COSTS AND OTHER EXPENSES FROM DISCONTINUED OPERATIONS

	Group		Par	ent
	2011 \$'000	2010 \$'000	2011 \$'000	2010 \$'000
Remuneration of auditors				
Audit services	47	21	-	-
Other services	-	20	-	-
	47	41	-	-
Other expenses				
Investment management expenses	1,304	1,326	-	-
Other expenses	208	58	-	-
	1,512	1,384	-	-
Finance costs				
Interest expense on:				
Capital Guaranteed Bonds	7,251	15,209	-	-
	7,251	15,209	-	-
TOTAL FINANCE COSTS AND OTHER EXPENSES				
FROM DISCONTINUED OPERATIONS	8,810	16,634	-	-

FOR THE YEAR ENDED 30 JUNE 2011

## 17. FINANCE COSTS AND OTHER EXPENSES FROM DISCONTINUED OPERATIONS (continued)

Per note 47 the financial statements of Fidelity Capital Guaranteed Bond Limited ('FCGBL') have been prepared on a realisable value basis. As a result qualifying on-going expenses subsequent to 30 June 2011 are included in the Group results in the current year. Refer to note 47 for more information.

In accordance with FCGBL's 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.

As disclosed under note 47, events subsequent to the balance date have resulted in the financial statements of FCGBL being prepared on a realisable value basis. The above finance costs include all amounts paid as part of the coupon payment to Senior Bondholders on 15 July 2011.

[2010: 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.)

### 18. INCOME TAXATION FROM DISCONTINUED OPERATIONS

	Group		Par	ent
	2011 \$'000	2010 \$'000	2011 \$'000	2010 \$'000
(A) INCOME TAX EXPENSE				
Current tax	-	164	-	-
Deferred tax	38	99	-	-
	38	263	-	-
(B) NUMERICAL RECONCILIATION OF INCOME TAX EXPENSE TO PRIMA FACIE TAX PAYABLE				
(Loss)/profit before income tax expense	(445)	1,510	-	-
Tax at the New Zealand tax rate of 30%	(134)	453	-	-
Tax effect of non-taxable/non-deductible amounts	168	(203)	-	-
Effect of change in the tax rate on deferred tax	4	12	-	-
Prior period adjustment	-	1	-	-
INCOME TAX EXPENSE FROM DISCONTINUED OPERATIONS	38	263	-	-



FOR THE YEAR ENDED 30 JUNE 2011

## 19. INCOME TAX (CREDIT)/EXPENSE

	Group		Parent	
	2011 \$'000	2010 \$'000	2011 \$'000	2010 \$'000
(A) INCOME TAX (CREDIT)/EXPENSE				
Current tax	-	2,205	-	2,205
Deferred tax	(124)	817	(125)	816
	(124)	3,022	(125)	3,021
(B) NUMERICAL RECONCILIATION OF INCOME TAX (CREDIT)/EXPENSE TO PRIMA FACIE TAX PAYABLE				
Profit before income tax expense	18,673	18,691	18,189	19,062
Tax at the New Zealand tax rate of 30%	5,602	5,607	5,457	5,719
Tax effect of non-taxable/non-deductible amounts	(5,830)	(2,134)	(5,686)	(2,300)
Tax losses transferred to group company	-	-	-	67
Effect of change in the tax rate on deferred tax	9	(667)	9	(667)
Prior period adjustment	95	216	95	202
INCOME TAX (CREDIT)/EXPENSE	(124)	3,022	(125)	3,021

Income tax expense includes both tax on shareholder profits and on returns attributed to policyholders.

## (C) IMPUTATION CREDIT ACCOUNT

	Group		Parent	
	2011 \$'000	2010 \$'000	2011 \$'000	2010 \$'000
Balance at beginning of year	-	-	-	-
Imputation credits attached to dividends paid during the year	(947)	[644]	(947)	[644]
Tax payments, net of refunds	900	350	900	350
Imputation credits attached to dividends received during the year	12	197	12	197
Transfer from policyholder credit account	10	97	10	97
Prior year tax adjustment	141	-	141	-
BALANCE AT END OF YEAR	116	-	116	-

## (D) POLICYHOLDER CREDIT ACCOUNT

	Gr	oup	Parent	
	2011	2010	2011	2010
	\$'000	\$'000	\$'000	\$'000
Balance at the beginning of the period  Transfer (to)/from imputation credit account	10	107	10	107
	(10)	(97)	(10)	(97)
BALANCE AT THE END OF YEAR	-	10	-	10

The Taxation (International Taxation, Life Insurance and Remedial Matters) Act 2009 was passed on 6 October 2009. This Act results in policyholder tax liabilities arising on or after 1 July 2010 being met by the Company directly by payment of tax, rather than using Policyholder Credits. Accordingly, the balance of the policyholder credit account has been transferred to the Imputation Credit Account on cessation as at 30 June 2010.

FOR THE YEAR ENDED 30 JUNE 2011

## 19. INCOME TAX EXPENSE (CONTINUED)

## (E) TAX (CHARGE)/CREDIT RELATING TO COMPONENTS OF OTHER COMPREHENSIVE INCOME

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

## GROUP

	Before tax	Tax charge	After tax	Before tax	Tax charge	After tax
	\$'000	<b>2011</b> \$'000	\$'000	\$'000	2010 \$'000	\$'000
Fair value gains/(losses) on revaluation – land and building Employee share purchase plan expense	207 82	(62) -	145 82	324 88	(97) -	227 88
	289	(62)	227	412	(97)	315

## PARENT

	Before tax	Tax charge	After tax	Before tax	Tax charge	After tax
	\$'000	<b>2011</b> \$'000	\$'000	\$'000	2010 \$'000	\$'000
Fair value gains/(losses) on revaluation – land and building Employee share purchase plan expense	207 82	(62) -	145 82	324 88	(97) -	227 88
Revaluation reserves realised on amalgamation	-	-	-	3,629	-	3,629
	289	(62)	227	4,041	(97)	3,944

## 20. CASH AND CASH EQUIVALENTS

	Group		Par	ent
	2011	2010	2011	2010
	\$'000	\$'000	\$'000	\$'000
Cash at bank and in hand Bank balances Deposits at call	12,170	5,738	11,985	5,454
	19,735	21,796	15,483	17,663
TOTAL CASH AND CASH EQUIVALENTS	31,905	27,534	27,468	23,117



FOR THE YEAR ENDED 30 JUNE 2011

## 21. LOANS AND OTHER RECEIVABLES

	Gro	oup	Parent	
	2011 \$'000	2010 \$'000	2011 \$'000	2010 \$'000
Mortgage and agents' loans	29,745	29,381	29,745	29,381
Policy loans	209	247	209	247
Other loans	1,198	1,069	1,198	1,069
Total loans	31,152	30,697	31,152	30,697
Less provision for impairment on loans	(480)	(200)	(480)	(200)
Net loans receivable	30,672	30,497	30,672	30,497
Other receivables				
Proceeds due from sale of investments	822	832	27	45
Outstanding premiums	969	821	969	821
Prepayments	1,055	539	1,055	539
Interest due on loans	577	452	577	452
Receivable from subsidiary	-	-	165	1,182
Sundry receivables	1,181	231	1,181	231
Total other receivables	4,604	2,875	3,974	3,270
Less provision for doubtful debts on other receivables	(56)	-	(56)	-
Net other receivables	4,548	2,875	3,918	3,270
TOTAL LOANS AND OTHER RECEIVABLES	35,220	33,372	34,590	33,767
Expected maturity				
Within 12 months	11,324	8,469	10,694	8,864
Later than 12 months	23,896	24,903	23,896	24,903
	35,220	33,372	34,590	33,767

The provisions above are all made against specific loans and receivables where it is considered there has been events making full repayment unlikely.

There have been no collective provisions included.

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.

Refer to note 5(D) for reconciliation of impairment provision.

FOR THE YEAR ENDED 30 JUNE 2011

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

	Group		Parent	
	2011 \$'000	2010 \$'000	2011 \$'000	2010 \$'000
Financial assets designated at fair value through profit or loss				
Debt securities				
Local Authority	11,499	13,445	11,499	13,445
New Zealand Government	9,560	8,319	8,483	8,319
Corporate – New Zealand	162,617	159,086	77,906	80,838
Unitised Funds	153,632	138,870	153,632	138,870
TOTAL DEBT SECURITIES	337,308	319,720	251,520	241,472
Equity securities				
Corporate – non-New Zealand	9,606	8,995	9,606	8,995
Unitised Funds	90,626	87,810	90,626	87,810
TOTAL EQUITY SECURITIES	100,232	96,805	100,232	96,805
Trading losses in FCGBL prior to close-out	(24,178)	-	-	-
TOTAL FINANCIAL ASSETS DESIGNATED AT				
FAIR VALUE THROUGH PROFIT OR LOSS	413,362	416,525	351,752	338,277
Expected maturity				
Within 12 months	270,641	241,558	270,641	241,342
Later than 12 months	142,721	174,967	81,111	96,935
	413,362	416,525	351,752	338,277

Per note 47 the financial statements of FCGBL have been prepared on a realisable value basis. As a result trading losses subsequent to 30 June 2011 are included in the Group results in the current year. Refer to note 47 for more information.

## 23. DERIVATIVE FINANCIAL INSTRUMENTS

	Group		Par	ent
	2011 \$'000	2010 \$'000	2011 \$'000	2010 \$'000
Assets				
Forward currency	3,374	2,625	3,348	2,625
TOTAL CURRENT PORTION OF DERIVATIVE ASSETS	3,374	2,625	3,348	2,625
Liabilities				
Forward currency	684	573	684	496
Put options	1,609	45	2	-
Call options	53	4,101	5	294
TOTAL CURRENT PORTION OF DERIVATIVE LIABILITIES	2,346	4,719	691	790

FOR THE YEAR ENDED 30 JUNE 2011

### 24. DEFERRED ACQUISITION COSTS - INVESTMENT

	Gro	Group		Parent		
	2011	2010	2011	2010		
	\$'000	\$'000	\$'000	\$'000		
Carrying amount at 1 July Acquisition costs deferred during the year Amortisation	2,302	1,057	2,302	1,057		
	1,083	1,988	1,083	1,988		
	(1,255)	(743)	(1,255)	(743)		
CARRYING AMOUNT AT 30 JUNE	2,130	2,302	2,130	2,302		

### 25. ASSETS ARISING FROM REINSURANCE CONTRACTS

	Group		Par	ent
	2011 \$'000	2010 \$'000	2011 \$'000	2010 \$'000
Assets arising from reinsurance contracts comprise:				
Life insurance contracts	6,983	13,378	6,983	13,378
	6,983	13,378	6,983	13,378
Life insurance contracts reinsurance assets				
Carrying amount at 1 July	13,378	13,626	13,378	13,626
Reinsurance claims made to reinsurers	28,278	29,983	28,278	29,983
Payments received from reinsurers	(34,673)	(30,231)	(34,673)	(30,231)
CARRYING AMOUNT AT 30 JUNE	6,983	13,378	6,983	13,378
Expected maturity				
Within 12 months	6,983	13,378	6,983	13,378
	6,983	13,378	6,983	13,378



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### 26. PROPERTY, PLANT AND EQUIPMENT

### GROUP

	Land	Buildings	Building fit out	Leasehold improve- ments	Motor vehicles	Computer equipment	Furniture and office equipment	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
AT 1 JULY 2009								
Cost	2,289	4,949	902	28	388	991	630	10,177
Accumulated depreciation	-	-	(399)	(13)	(155)	(549)	(393)	(1,509)
NET BOOK AMOUNT	2,289	4,949	503	15	233	442	237	8,668
YEAR ENDED 30 JUNE 2010								
Opening net book amount	2,289	4,949	503	15	233	442	237	8,668
Additions	-	-	-	49	107	227	28	411
Revaluation	324	87	-	-	-	-	-	411
Depreciation	-	(129)	(113)	(9)	(79)	(271)	(101)	(702)
Disposals	-	-	-	-	(22)	-	(1)	(23)
CLOSING NET BOOK AMOUNT	2,613	4,907	390	55	239	398	163	8,765
AT 1 JULY 2010								
Cost	2,613	4,907	902	77	432	1,218	653	10,802
Accumulated depreciation	-	-	(512)	[22]	(193)	(820)	(490)	(2,037)
NET BOOK AMOUNT	2,613	4,907	390	55	239	398	163	8,765
YEAR ENDED 30 JUNE 2011								
Opening net book amount	2,613	4,907	390	55	239	398	163	8,765
Additions	-	-	70	-	225	167	53	515
Revaluation	207	205	-	-	-	-	-	412
Depreciation	-	(130)	(116)	(8)	(86)	(201)	(91)	(632)
Disposals	-	-	-	(1)	(65)	(2)	-	(68)
CLOSING NET BOOK AMOUNT	2,820	4,982	344	46	313	362	125	8,992
AT 30 JUNE 2011								
Cost	2,820	4,982	972	67	515	1,376	692	11,424
Accumulated depreciation	-	-	(628)	(21)	(202)	(1,014)	(567)	(2,432)
NET BOOK AMOUNT	2,820	4,982	344	46	313	362	125	8,992



FOR THE YEAR ENDED 30 JUNE 2011







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

#### PARENT

	Land	Buildings	Building fit out	Leasehold improve- ments	Motor vehicles	Computer equipment	Furniture and office equipment	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
AT 1 JULY 2009								
Cost	-	-	902	28	388	991	630	2,939
Accumulated depreciation	-	-	(399)	(13)	(155)	(549)	(393)	(1,509)
NET BOOK AMOUNT	-	-	503	15	233	442	237	1,430
YEAR ENDED 30 JUNE 2010								
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
Revaluation	324	55	-	-	-	-	-	379
Depreciation	-	(97)	(113)	(9)	(79)	(271)	(101)	(670
Disposals	-	-	-	-	(22)	-	(1)	(23
CLOSING NET BOOK AMOUNT	2,613	4,907	390	55	239	398	163	8,765
AT 1 JULY 2010								
Cost	2,613	4,907	902	77	432	1,218	653	10,802
Accumulated depreciation	-	-	(512)	(22)	(193)	(820)	(490)	(2,037
NET BOOK AMOUNT	2,613	4,907	390	55	239	398	163	8,765
YEAR ENDED 30 JUNE 2011								
Opening net book amount	2,613	4,907	390	55	239	398	163	8,765
Additions	-	-	70	-	225	167	53	515
Additions on amalgamation	-	-	-	-	-	-	-	-
Revaluation	207	205	-	-	-	-	-	412
Depreciation	-	(130)	(116)	(8)	(86)	(201)	(91)	(632
Disposals	-	-	-	(1)	(65)	(2)	-	(68
CLOSING NET BOOK AMOUNT	2,820	4,982	344	46	313	362	125	8,992
AT 30 JUNE 2011								
Cost	2,820	4,982	972	67	515	1,376	692	11,424
Accumulated depreciation	-	-	(628)	(21)	(202)	(1,014)	(567)	(2,432
NET BOOK AMOUNT	2,820	4,982	344	46	313	362	125	8,992

### GROUP AND PARENT

### (a) Owner-occupied properties

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 Limited on 30 June 2011. For further information on the valuation refer to note 28(b).

FOR THE YEAR ENDED 30 JUNE 2011

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

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

	<b>2011</b> \$'000	2010 \$'000
Cost Accumulated depreciation	6,917 (978)	6,917 (848)
NET BOOK AMOUNT	5,939	6,069

### 27. INTANGIBLE ASSETS

### GROUP AND PARENT

	Software	AVIF	Total
	\$'000	\$'000	\$'000
AT 1 JULY 2009			
Cost	614	6,054	6,668
Accumulated amortisation	(435)	(1,412)	(1,847)
NET BOOK AMOUNT	179	4,642	4,821
YEAR ENDED 30 JUNE 2010			
Opening net book amount	179	4,642	4,821
Additions	256	-	256
Amortisation	(167)	(605)	(772)
CLOSING NET BOOK AMOUNT	268	4,037	4,305
AT 1 JULY 2010			
Cost	870	6,054	6,924
Accumulated amortisation	(602)	(2,017)	(2,619)
NET BOOK AMOUNT	268	4,037	4,305
YEAR ENDED 30 JUNE 2011			
Opening net book amount	268	4,037	4,305
Additions	1,330	-	1,330
Amortisation	(162)	(605)	(767)
CLOSING NET BOOK AMOUNT	1,436	3,432	4,868
AS AT 30 JUNE 2011			
Cost	2,200	6,054	8,254
Accumulated amortisation	(764)	(2,622)	(3,386)
NET BOOK AMOUNT	1,436	3,432	4,868



FOR THE YEAR ENDED 30 JUNE 2011

#### 27. INTANGIBLE ASSETS (CONTINUED)

#### **ACQUIRED VALUE OF IN-FORCE BUSINESS**

The acquired value of in-force business (AVIF) from the acquisition of Farmers' Mutual Life Limited has been determined by an actuarial valuation and relates to the future anticipated profits emerging from the life insurance contracts.

The AVIF has a life expectancy of 10 years from 1 March 2007 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.

At a discount rate of 11% (2010: 12%) the estimated net worth at 30 June 2011 was \$6,615,000 (2010: \$5,578,000) which exceeds the AVIF and therefore no impairment was required.

#### INTERNALLY DEVELOPED SOFTWARE

Software includes internally developed software. This relates to the development of significant, identifiable and unique software utilised by the Company and Group. Employee and contractor costs associated with developing the software is capitalised and amortised over the estimated useful life of 3 – 5 years. All amounts capitalised in the year relate to work in progress. No amortisation will be applied until the software is put into production.

An impairment review is undertaken annually to determine if any impairment has occurred on the outstanding unamortised amount. No impairment loss has been recognised in 2011.

#### 28. INVESTMENT PROPERTY

	Group		Parent	
	2011 \$'000	2010 \$'000	2011 \$'000	2010 \$'000
At fair value				
Opening balance	8,480	8,162	8,480	-
Acquisitions through business combinations (note 30)	-	-	-	8,162
Net gain from fair value adjustment	318	318	318	318
CLOSING BALANCE	8,798	8,480	8,798	8,480

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

	Group		Parent		
	2011 \$'000	2010 \$'000	2011 \$'000	2010 \$'000	
That generated rental income during the period	279	302	279	229	
	279	302	279	229	

#### (B) VALUATION BASIS

Investment property includes commercial office buildings based in Auckland.

Investment property was valued on 30 June 2011 at \$16.6m (2010: \$16.0m), 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 (2010: nil).

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#### 29. INVESTMENT IN SUBSIDIARIES

The Parent holds the following interests in subsidiaries

Company	Nature of activities	Class of Shares	Owne	rship
			2011	2010
Fidelity Capital Guaranteed Bond Limited Fidelity Fund Management Limited Fidelity Securities Limited	Investment Non-trading Trustee Company Fund Manager	Ordinary Ordinary Ordinary	100% 100% 100%	100% 100% 100%

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

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

#### 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
	2010 \$'000
Assets and liabilities amalgamated	
Bank balances	215
Other assets	24
Investment property	15,400
Other liabilities	(5,990)
Carrying amount of shares in amalgamated subsidiary	(6,020)
BALANCE RECOGNISED IN THE STATEMENT OF CHANGES IN EQUITY	3,629

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.



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### 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 shareholders' funds for certain categories as shown below. Non-investment linked business includes shareholders' funds.

#### **GROUP 2011**

	Investment linked	Non investment linked	Total
	\$'000	\$'000	\$'000
Investment assets Other assets	299,862 7,802	122,300 101,168	422,162 108,970
Policy liabilities	307,664	(17,813)	289,851
Liabilities other than policy liabilities	-	112,190	112,190
Shareholders' retained earnings	-	116,136	116,136
Premium revenue	41,810	86,746	128,556
Investment revenue	30,156	14,972	45,128
Claims expense	53,229	38,480	91,709
Other operating expenses	22,030	38,455	60,485
Interest expense	-	7,251	7,251
Investment revenues paid or allocated to policyholders	19,268	440	19,708
Operating profit before tax	6,266	11,962	18,228
Operating profit after tax	5,625	12,689	18,314

### GROUP 2010

	Investment linked	Non investment linked	Total
	tilikeu	tilikeu	Totat
	\$'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

for the year ended 30 June 2011

### 32. LIFE INSURANCE CONTRACT LIABILITIES

	Group		Par	ent
	2011 \$'000	2010 \$'000	2011 \$'000	2010 \$'000
Opening balance at 1 July	(10,734)	(5,827)	(10,734)	(5,827)
Premiums received	85,014	78,825	85,014	78,825
Liabilities released for payments on death, surrender				
and other terminations in the year	(41,084)	(38,534)	(41,084)	(38,534)
Other movements	(51,009)	(45,198)	(51,009)	(45,198)
CLOSING BALANCE AT 30 JUNE	(17,813)	(10,734)	(17,813)	(10,734)
Expected maturity				
Within 12 months	8,737	9,661	8,737	9,661
Later than 12 months	(26,550)	(20,395)	(26,550)	(20,395)
	(17,813)	(10,734)	(17,813)	(10,734)
Life insurance contracts with a discretionary				
participation feature that have a guaranteed element	32,367	32,171	32,367	32,171
Life insurance contract liabilities contain the following components				
Future policy benefits	492,264	455,820	492,264	455,820
Future expenses	175,558	155,074	175,558	155,074
Planned margins of revenues over expenses	97,806	81,027	97,806	81,027
Future revenues	(783,441)	(702,655)	(783,441)	(702,655)
	(17,813)	(10,734)	(17,813)	(10,734)



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### 33. LIFE INVESTMENT CONTRACT LIABILITIES

	Group		Par	ent
	<b>2011</b> \$'000	2010 \$'000	2011 \$'000	2010 \$'000
Participating contracts				
Guaranteed element	194,026	188,999	194,026	188,999
	194,026	188,999	194,026	188,999
Non-participating contracts designated at fair value through profit or loss	113,638	112,112	113,638	112,112
Non-participating contracts at amortised cost	-	-	-	-
	307,664	301,111	307,664	301,111
Movement in life investment contract liabilities				
Opening balance at 1 July	301,111	278,402	301,111	278,402
Contributions received	43,542	49,070	43,542	49,070
Fees deducted from account balances	(1,732)	(1,841)	(1,732)	(1,841)
Liabilities released for payments on death, surrender and other terminations in the year	(53,229)	(40,133)	(53,229)	(40,133)
Investment return credited to policyholders	19,268	22,123	19,268	22,123
Other movements	(1,296)	(6,510)	(1,296)	(6,510)
CLOSING BALANCE AT 30 JUNE	307,664	301,111	307,664	301,111
Expected maturity				
Within 12 months	124,299	131,044	124,299	131,044
Later than 12 months	183,365	170,067	183,365	170,067
	307,664	301,111	307,664	301,111

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#### 34. INTEREST BEARING LIABILITIES

	Gro	oup	Parent		
	2011 \$'000	2010 \$'000	2011 \$'000	2010 \$'000	
Capital guaranteed bonds	60,952	75,000	-	-	
TOTAL INTEREST BEARING LIABILITIES	60,952	75,000	-	-	
Expected maturity					
Within 12 months	-	-	-	-	
Later than 12 months	60,952	75,000	-	-	
	60,952	75,000	-	-	

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

In accordance with the FCGBL's Supplemental 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 2011 reflects the market value of the underlying investment portfolio on a realisable value basis. At the maturity of the bonds on 15 July 2013 the Trustee is permitted, in accordance with the Supplemental Trust Deed and Guarantee to make demand to Westpac as Guarantor for any difference between the principal amount of the outstanding Senior Bonds and the liquidated proceeds from the Fixed Portfolio.

Due to the Close Out of the Fund resulting in no surplus, coupon payments are discharged and cancelled.

Cash flow projections indicate that there will be insufficient cash flows to meet the payment of the \$5,000,000 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 \$nil (2010: \$375,000).

### 35. PAYABLES AND OTHER FINANCIAL LIABILITIES

	Group		Parent	
	2011 \$'000	2010 \$'000	2011 \$'000	2010 \$'000
Creditors and accruals	4,324	3,403	3,707	2,972
Claims notified	7,112	8,820	7,112	8,820
Accrued interest	3,469	3,155	-	-
Premiums in advance	442	401	442	401
Reinsurance liabilities	7,962	7,702	7,962	7,702
Employee entitlements	1,994	1,926	1,994	1,926
Employee share purchase plan provision 48	1,267	1,365	1,267	1,365
	26,570	26,772	22,484	23,186
Expected maturity				
Within 12 months	26,570	26,772	22,484	23,186
Later than 12 months	-	-	-	-
TOTAL PAYABLES AND OTHER FINANCIAL LIABILITIES	26,570	26,772	22,484	23,186

As disclosed under note 47, events subsequent to the balance date have resulted in the financial statements of FCGBL being prepared on a realisable value basis. The above accrued interest includes all amounts paid as part of the coupon payment to Senior Bondholders on 15 July 2011. See note 47 for further information.

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### 36. DEFERRED TAX

(A) THE BALANCE COMPRISES TEMPORARY DIFFERENCES ATTRIBUTABLE TO:

2011

Deferred tax liabilities	Fixed assets	Provisions	Investments	Deferred acquisition costs	Unused tax losses	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
GROUP						
Balance at beginning of year	-	-	-	20,419	-	20,419
Movement through profit or loss	168	884	-	851	-	1,903
BALANCE AT END OF THE YEAR	168	884	-	21,270	-	22,322
PARENT						
Balance at beginning of year	-	-	-	20,419	-	20,419
Movement through profit or loss	168	884	-	851	-	1,903
BALANCE AT END OF THE YEAR	168	884	-	21,270	-	22,322

Deferred tax assets	Fixed assets	Provisions	Investments	Deferred acquisition costs	Unused tax losses	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
GROUP						
Balance at beginning of year	17	1,167	-	-	11,064	12,248
Movement through profit or loss	596	(290)	-	-	1,623	1,929
BALANCE AT END OF THE YEAR	613	877	-	-	12,687	14,177
PARENT						
Balance at beginning of year	17	912	-	-	11,064	11,993
Movement through profit or loss	596	(35)	-	-	1,623	2,184
BALANCE AT END OF THE YEAR	613	877	-	-	12,687	14,177

	Fixed assets	Provisions	Investments	Deferred acquisition costs	Unused tax losses	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
GROUP  Net deferred tax (asset)/liability	(445)	7	-	21,270	(12,687)	8,145
PARENT	(//5)			04.050	(40 (05)	0.4/5
Net deferred tax (asset)/liability	(445)	7	-	21,270	(12,687)	8,145



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### 36. DEFERRED TAX (CONTINUED)

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

2010

2010						
Deferred tax liabilities	Fixed assets	Provisions	Investments	Deferred acquisition costs	Unused tax losses	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
GROUP						
Balance at beginning of year	-	-	579	19,595	-	20,174
Movement through profit or loss	-	-	(579)	824		245
BALANCE AT END OF THE YEAR	-	-	-	20,419	-	20,419
PARENT						
Balance at beginning of year	-	-	579	19,595	-	20,174
Movement through profit or loss	-	-	(579)	824	-	245
BALANCE AT END OF THE YEAR	-	-	-	20,419	-	20,419
Deferred tax assets	Fixed assets	Provisions	Investments	Deferred acquisition costs	Unused tax losses	Total

Deferred tax assets	Fixed assets	Provisions	Investments	Deferred acquisition costs	Unused tax losses	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
GROUP						
Balance at beginning of year	18	976	-	-	14,389	15,383
Movement through profit or loss	(1)	191	-	-	(3,325)	(3,135)
BALANCE AT END OF THE YEAR	17	1,167	-	-	11,064	12,248
PARENT						
Balance at beginning of year	18	622	-	-	14,389	15,029
Movement through profit or loss	(1)	290	-	-	(3,325)	(3,036)
BALANCE AT END OF THE YEAR	17	912	-	-	11,064	11,993

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







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### 36. DEFERRED TAX (CONTINUED)

#### (B) MOVEMENTS:

	Group		Par	ent
	2011	2010	2011	2010
	\$'000	\$'000	\$'000	\$'000
Opening balance 1 July (Credited)/charged to the income statement	8,171	4,791	8,426	5,145
	(26)	3,380	(281)	3,281
CLOSING BALANCE AT 30 JUNE	8,145	8,171	8,145	8,426

	Group		Parent	
	2011 \$'000	2010 \$'000	2011 \$'000	2010 \$'000
Deferred tax liabilities  Deferred tax liability to be recovered after more than 12 months  Deferred tax liability to be recovered within 12 months	22,322	20,419	22,322	20,419
	22,322	20,419	22,322	20,419
Deferred tax assets  Deferred tax asset to be recovered after more than 12 months  Deferred tax asset to be recovered within 12 months	14,177 -	12,248	14,177 -	11,993 -
	14,177	12,248	14,177	11,993
DEFERRED TAX LIABILITIES (NET)	8,145	8,171	8,145	8,426

### 37. SHARE CAPITAL

### GROUP AND PARENT

2011	2010	2011	2010
Shares	Shares	\$'000	\$'000
1,438,582	1,438,582	12,581	12,401
1,438,582	1,438,582	12,401	12,227
-	-	98	86
-	-	82	88
1,438,582	1,438,582	12,581	12,401
1,395,199	1,387,849		
43,383	50,733		
1,438,582	1,438,582		
	1,438,582  1,438,582  1,438,582  1,395,199 43,383	Shares     Shares       1,438,582     1,438,582       1,438,582     1,438,582       -     -       1,438,582     1,438,582       1,395,199     1,387,849       43,383     50,733	Shares         \$'000           1,438,582         1,438,582         12,581           1,438,582         1,438,582         12,401           -         -         98           -         -         82           1,438,582         1,438,582         12,581           1,395,199         1,387,849           43,383         50,733

### (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.

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#### 38. RETAINED EARNINGS AND RESERVES

#### (A) REVALUATION RESERVE

	Gro	oup	Par	ent
	2011 \$'000	2010 \$'000	2011 \$'000	2010 \$'000
Movements in the revaluation reserve were as follows:				
Balance at 1 July	227	1,271	227	-
Owner occupied land revaluation, net of tax	145	227	145	227
Revaluation reserves transferred on amalgamation	-	(1,271)	-	-
BALANCE 30 JUNE	372	227	372	227

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

#### (B) RETAINED EARNINGS

	Group		Parent	
	2011 \$'000	2010 \$'000	2011 \$'000	2010 \$'000
Movements in Retained Earnings were as follows:				
Balance 1 July	100,033	83,347	100,031	81,862
Profit for the year	18,314	16,916	18,314	16,041
Dividends	(2,211)	(1,501)	(2,211)	(1,501)
Gain on amalgamation	-	-	-	3,629
Revaluation reserves transferred	-	1,271	-	-
BALANCE AT 30 JUNE	116,136	100,033	116,134	100,031

#### 39. DIVIDENDS

#### **GROUP AND PARENT**

	2011	2010	2011	2010
	Per share	Per share	\$'000	\$'000
Ordinary shares				
Final dividend	1.54	1.04	2,211	1,501
TOTAL DIVIDEND PAID	1.54	1.04	2,211	1,501

The dividends are fully imputed.

On 20 September 2011 the Company declared an ordinary dividend of \$1.70 (net of tax) per share issued amounting to \$2,445,589 (net of tax) and a special dividend of \$0.30 (net of tax) per share issued amounting to \$431,575 (net of tax). This dividend is not recognised in the financial statements, as it is a post balance sheet declaration with no liability attaching at 30 June 2011.

(2010: On 30 September 2010 the Company declared a ordinary dividend of \$1.32 (net of tax) per share issued amounting to \$1,898,928 (net of tax) and a special dividend of \$0.15 (net of tax) per share issued amounting to \$215,787 (net of tax).)

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

	Gro	oup	Par	ent
	2011 \$'000	2010 \$'000	2011 \$'000	2010 \$'000
Net profit after taxation	18,314	16,916	18,314	16,041
Loss on sale of property and equipment	7	-	7	-
Fair value gains on investment property	(318)	(318)	(318)	(318)
Fair value gains on investments	(32,648)	(29,361)	(17,270)	(21,426)
Fair value gains on owner occupied property	(205)	(87)	(205)	(55)
Depreciation of property and equipment	632	702	632	670
Equity compensation plans, equity settled expense	82	88	82	88
Taxation	(1,205)	2,765	(1,243)	2,665
Amortisation of acquired value of in-force business and intangibles	767	772	767	772
Trading losses incurred to close out (FCGBL)	24,178	-	-	-
Realisation adjustment to Senior Bonds	(14,048)	_	-	-
Provision for future on-going expenses	176	-	-	-
	(4,268)	(8,523)	766	(1,563)
Changes in working capital				
Decrease in reinsurance assets	6,395	248	6,395	248
Decrease/(increase) in deferred acquisition costs	172	(1,245)	172	(1,245)
(Decrease)/increase in insurance liabilities				
and investment contracts	(526)	17,802	(526)	17,802
(Increase)/decrease in other assets	(2,399)	(262)	(2,391)	334
Increase/(decrease) in other liabilities	934	(1,291)	975	1,537
(Increase) in derivatives	(4,313)	(2,317)	(2,013)	(4,318)
Increase in accrued interest payable	314	-	-	-
Items classed as financing activities				
Interest paid	6,563	7,699	-	-
CASH GENERATED FROM OPERATIONS	2,872	12,111	3,378	12,795



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### 41. FINANCIAL INSTRUMENTS BY CATEGORY

### ASSETS AS PER STATEMENT OF FINANCIAL POSITION

	Assets at fair value through profit or loss	Loans and other receivables	Total
	\$'000	\$'000	\$'000
GROUP			
Year ended 30 June 2011			
Assets at fair value through profit or loss	411,733	-	411,733
Derivative financial instruments	3,348	-	3,348
Loans and other receivables	-	34,165	34,165
Cash and cash equivalents	-	31,905	31,905
Assets arising from reinsurance contracts	-	6,983	6,983
	415,081	73,053	488,134
Year ended 30 June 2010			
Assets at fair value through profit or loss	416,525	-	416,525
Derivative financial instruments	2,625	-	2,625
Loans and other receivables	-	32,833	32,833
Cash and cash equivalents	-	27,534	27,534
Assets arising from reinsurance contracts	-	13,378	13,378
	419,150	73,745	492,895

In relation to FCGBL the inputs for the year ended 30 June 2011 in the table above have been restated to reflect the realisable values due to the Close Out Notice referred to in note 47. For further information refer to note 47.

PARENT			
Year ended 30 June 2011			
Assets at fair value through profit or loss	351,752	-	351,752
Derivative financial instruments	3,348	-	3,348
Loans and other receivables	-	33,535	33,535
Cash and cash equivalents	-	27,468	27,468
Assets arising from reinsurance contracts	-	6,983	6,983
	355,100	67,986	423,086
/ear ended 30 June 2010			
	338,277	-	338,277
Assets at fair value through profit or loss	338,277 2,625	-	•
Year ended 30 June 2010 Assets at fair value through profit or loss Derivative financial instruments Loans and other receivables	•	- - 33,228	338,277 2,625 33,228
Assets at fair value through profit or loss Derivative financial instruments	2,625	- - 33,228 23,117	2,625
Assets at fair value through profit or loss Derivative financial instruments Loans and other receivables	2,625	•	2,625 33,228

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### 41. FINANCIAL INSTRUMENTS BY CATEGORY (CONTINUED)

LIABILITIES AS PER STATEMENT OF FINANCIAL POSITION

	Liabilities at fair value through profit or loss	Measured at amortised cost	Total
	\$'000	\$'000	\$'000
GROUP			
Year ended 30 June 2011			
Life insurance contract liabilities	(17,813)	-	(17,813)
Life investment contract liabilities	307,664	-	307,664
Derivative financial instruments	691	-	691
Payables and other financial liabilities	-	22,867	22,867
Interest bearing liabilities	-	60,952	60,952
	290,542	83,819	374,361
Year ended 30 June 2010			
Life insurance contract liabilities	(10,734)	_	(10,734)
Life investment contract liabilities	301,111	-	301,111
Derivative financial instruments	4,719	-	4,719
Payables and other financial liabilities	-	23,080	23,080
Interest bearing liabilities	-	75,000	75,000
	295,096	98,080	393,176

In relation to FCGBL the inputs for the year ended 30 June 2011 in the table above have been restated to reflect the realisable values due to the Close Out Notice referred to in note 47. For further information refer to note 47.

PARENT			
Year ended 30 June 2011			
Life insurance contract liabilities	(17,813)	-	(17,813)
Life investment contract liabilities	307,664	-	307,664
Derivative financial instruments	691	-	691
Payables and other financial liabilities	-	18,781	18,781
	290,542	18,781	309,323
Year ended 30 June 2010			
Life insurance contract liabilities	(10,734)	-	(10,734)
Life investment contract liabilities	301,111	-	301,111
Derivative financial instruments	790	-	790
Payables and other financial liabilities	-	19,494	19,494
	291,167	19,494	310,661



FOR THE YEAR ENDED 30 JUNE 2011

#### 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 (resigned 30 September 2010).

#### (C) KEY MANAGEMENT PERSONNEL COMPENSATION

Key management personnel compensation for the year ended 30 June 2011 and the year ended 30 June 2010 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.

	2011	2010
	\$'000	\$'000
Short term benefits	2,731	2,537
TOTAL	2,731	2,537

#### (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.

	Gro	oup	Par	ent
	2011 \$'000	2010 \$'000	2011 \$'000	2010 \$'000
Loans to key management personnel, or entities related to them, comprise:				
Unsecured loans:				
Unsecured loans at 1 July	100	32	100	32
Unsecured loans advanced during the year	-	100	-	100
Loan repayments received – unsecured loans	(100)	(32)	(100)	(32)
UNSECURED LOANS AT 30 JUNE	-	100	-	100
Secured loans:				
Secured loans at 1 July	-	-	-	-
Secured loans advanced during the year	1,223	-	1,223	-
Loan repayments received – secured loans	(2)	-	(2)	-
SECURED LOANS AT 30 JUNE	1,221	-	1,221	-
INTEREST REVENUE FROM SECURED AND UNSECURED LOANS	27	4	27	4

All transactions are at arms length.



FOR THE YEAR ENDED 30 JUNE 2011

#### 42. RELATED PARTY TRANSACTIONS (CONTINUED)

#### (E) TRANSACTIONS WITH RELATED PARTIES

The following transactions occurred with related parties:

	Gro	oup	Par	ent
	2011 \$'000	2010 \$'000	2011 \$'000	2010 \$'000
Interest revenue from subsidiaries	-	-	(375)	375
Reimbursement of transaction costs from subsidiaries	-	-	-	21
Administration and management fees from subsidiaries	-	-	300	300
Tax receivable from other Group companies through tax offsets	-	-	(625)	625
Commissions paid to shareholders who hold agency agreements with the Company	2,323	2,121	2,323	2,121

All transactions are at arms length.

#### (F) OUTSTANDING BALANCES

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

	Group		Parent	
	2011	2010	2011	2010
	\$'000	\$'000	\$'000	\$'000
Fidelity Capital Guaranteed Bonds Limited Fidelity Funds Management Limited Fidelity Securities Limited	-	-	173	1,190
	-	-	(7)	(7)
	-	-	-	-
Loans made to shareholders	3,111	2,254	3,111	2,254

#### (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 6.15% per annum, and are secured by first mortgages over individuals' residences or investment properties.

### Unsecured loans

The unsecured loans were made for a period of between 1 month 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. All unsecured loans have been settled during the year.

### 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. Outstanding balances are unsecured, do not bear interest and are repayable in cash

#### Loans made to shareholders

Loans secured by mortgages over properties or other assets are made to shareholders during the normal course of business and at arms length. In the year the average annual interest rate was 5.8% (2010: 6.0%) on a mixture of fixed and floating rates. The loans are for periods of up to 25 years.

FOR THE YEAR ENDED 30 JUNE 2011

#### 43. GUARANTEES

#### FIDELITY KIWISAVER SCHEME - CAPITAL GUARANTEED KIWI FUND

The Company provides a guarantee to Guardian Trust Superannuation Trustees Limited ('the Trustee') on behalf of members who hold Units in the Capital Guaranteed Kiwi Fund ('CGK Fund'). The guarantee is given by the Company in its capacity as the investment and administration manager of the Fidelity KiwiSaver Scheme ('Scheme'). Under the guarantee the Company guarantees that on 31 March 2012 the Unit Value of the CGK Fund will be not less than \$2.283422. The Company further guarantees that the Unit Value of the CGK Fund on 31 March in each subsequent year will be no less than the Unit Value of the CGK Fund on the preceding 31 March. The Company is required to give effect to its obligations under the guarantee by transferring into the Scheme for the CGK Fund investment assets of a value sufficient to ensure the Unit Value of the CGK Fund meets the guaranteed value as at the relevant 31 March. The investment assets transferred must be authorised investments for the CGK Fund and are valued in accordance with the valuation methodology set out in the Schemes Trust Deed.

The guarantee is conditional upon the Company's continued appointment as investment and administration manager of the Scheme.

The Company's obligation to pay under the guarantee is at all times subordinated to its obligation to pay all life insurance policyholder liabilities of the Company. This means that in a liquidation of the Company or otherwise, the Company will only be required to meet its obligations under the guarantee after all life insurance policyholder liabilities have been paid in full. The Company's obligations under the guarantee are also unsecured and will rank behind all secured and preferential creditors of the Company and equally with all other unsecured creditors. There are no restrictions on the amount of insurance policyholder liabilities or secured or unsecured creditors that the Company may incur during the term of the guarantee.

The Company has a provision within policyholder liabilities for this guarantee.

#### FIDELITY KIWISAVER SCHEME

The Company provides a death benefit to members of the Fidelity KiwiSaver Scheme ('Scheme'). If a member dies while they are a member of the Scheme, on application by the member's personal representatives, the member's estate will be paid the death benefit "top up" if the member is eligible.

If the member's death is the result of an accident, and the value of the Member's Accumulation is less than \$10,000, the Company will "top up" the death benefit payment to \$10,000. This "top up" is only available if, at the date of the member's death, the member is making regular contributions and at the date of death was under the age of eligibility for NZ Superannuation but aged at least 10 years. If the member is under the age of 10 years Fidelity Life will top up any payment to \$2,000. The value of any top up will be reduced by the total of any payments already made on hardship or disability grounds, or first home subsidy.

The Company has a provision within policyholder liabilities for this death benefit.

#### 44. CONTINGENCIES

As at 30 June 2011 the Group had no contingent liabilities or assets (2010: nil).

### 45. COMMITMENTS

### (A) CAPITAL COMMITMENTS

There were no material capital commitments at balance date other than those disclosed elsewhere in the financial statements (2010: nil).



FOR THE YEAR ENDED 30 JUNE 2011

#### 45. COMMITMENTS (CONTINUED)

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

#### Leases are for:

- commercial office space in Tauranga, Wellington, Christchurch and Hamilton;
- photocopier rental.

	Group		Par	ent
	2011 \$'000	2010 \$'000	2011 \$'000	2010 \$'000
Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:		400		400
Within one year	157	122	157	122
Later than one year but not later than five years	274	25	274	25
Later than five years	-	-	-	-
	431	147	431	147

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 June 2014 right of renewal for a further non-cancellable lease to 31 May 2017

#### Lease D (Hamilton):

• On 15 July 2011 a lease was entered into in Hamilton for a non-cancellable lease to 14 July 2012.

#### (C) OPERATING LEASES: GROUP AND PARENT AS LESSOR

Leases are for commercial office space in Auckland.

	Group		Par	ent
	2011 \$'000	2010 \$'000	2011 \$'000	2010 \$'000
Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:				
Within one year	809	799	809	799
Later than one year but not later than five years	718	1,503	718	1,503
Later than five years	-	-	-	-
	1,527	2,302	1,527	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.

FOR THE YEAR ENDED 30 JUNE 2011

#### 46. FIDUCIARY ACTIVITIES

Fidelity Fund Management Limited, a wholly owned subsidiary, acts as a trustee for a number of superannuation funds. The parent company manages \$154,049,000 (2010: \$152,317,000) on behalf of this subsidiary.

	Group		Parent	
	2011	2010	2011	2010
	\$'000	\$'000	\$'000	\$'000
Funds managed by Fidelity Life Assurance Company Limited	363,567	270,541	363,567	270,541
Funds managed by Fidelity Securities Limited	64,065	22,126	64,065	22,126
TOTAL FIDUCIARY BALANCES	427,632	292,667	427,632	292,667

#### 47. EVENTS OCCURRING AFTER BALANCE DATE

#### CLOSE OUT OF FIDELITY CAPITAL GUARANTEED BOND

Subsequent to the balance date, there was significant volatility in investment markets during August 2011. Fidelity Capital Guaranteed Bond Limited ('FCGBL') is a 100% subsidiary of the Company. It was formed to provide investors with a capital secure fixed rate bond. FCGBL, through Tyndall Investment Management New Zealand Limited, invested the Fund in accordance with the provisions of the Trust Deed. The Fund incurred significant losses during the first two weeks of August. The Fund's Net Asset Value fell below the Bond Floor, triggering an Event of Default leading to Westpac Banking Corporation New Zealand Branch (the Capital Guarantor) issuing a Close Out Notice and assuming control and direction of the Fund ('Close Out of the Fund').

Open position Active Portfolio Assets were closed out in accordance with Supplemental Trust Deed (No. 1) during August 2011. The Liquidated Value is invested in a zero coupon bond and a bank account (the 'Fixed Portfolio').

The impact of the Close Out of the Fund on the bondholders will be as follows:

- Capital Guaranteed (Senior) Bondholders will receive full repayment of the principal (\$75.0 million) on 15 July 2013, but no further coupons will be paid.
- The Company is the Subordinated Bondholder. It will not receive repayment of the principal (\$5.0 million) and no coupons will be paid.

The Capital Guaranteed Bonds have a Maturity Date of 15 July 2013. Ten days prior to the Maturity Date, FCGBL will liquidate the non-cash assets and transfer the proceeds to the Bank Account to which the Trustee is an authorised signatory. Under the terms of the Guarantee, New Zealand Guardian Trust Company Limited as Trustee is permitted to make a demand to Westpac as Guarantor for any difference between the liquidated proceeds transferred to the Bank Account and the Senior Bondholder principal amount of \$75.0 million. On 24 August 2011 the Fixed Portfolio comprised a \$60.8 million zero coupon bond with a face value of \$65.7 million and maturity date of 15 July 2013; and \$163,000 of cash and accrued interest.

FOR THE YEAR ENDED 30 JUNE 2011

#### 47. EVENTS OCCURRING AFTER BALANCE DATE (CONTINUED)

CLOSE OUT OF FIDELITY CAPITAL GUARANTEED BOND (CONTINUED)

#### IMPACT ON ACCOUNTING TREATMENT

There has been a change in accounting basis used in preparing the financial statements of FCGBL at 30 June 2011 to realisable value. This is considered the most appropriate basis given that the Fund is fully invested in Fixed Portfolio Assets, and the shortfall in the Fund compared to the Principal Amount of the Senior Bonds with a Maturity Date of 15 July 2013.

The following adjustments have been made to restate the results and financial position of FCGBL at 30 June 2011 to reflect the impact of the Close Out of the Fund in August 2011:

#### a) Trading losses to Close Out of the Fund

The financial statements include a \$24.2 million adjustment for the pre-tax impact of the substantial trading losses made just prior to Close Out of the Fund in August 2011. The Active Portfolio had a value of \$89.2 million as at 30 June 2011, but after payment of the Senior coupon and other Fund costs on 15 July 2011, the Close Out of the Fund on 11 August 2011 and the subsequent investment in the Fixed Portfolio, the value of the Fund at 24 August 2011 had decreased to \$61.0 million.

#### b) Realisable value adjustment to the Senior Bonds

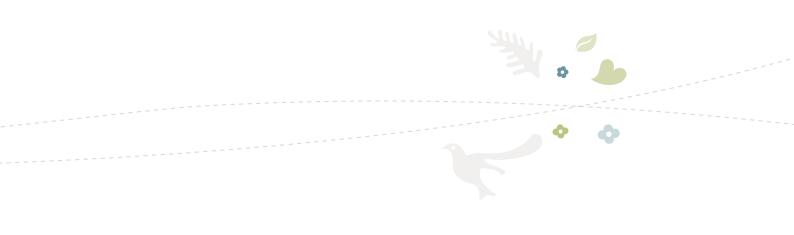
A realisable value adjustment to the carrying value of the Capital Guaranteed Bonds has been made. The carrying value of Senior Bonds has been offset by an adjustment of \$14.0 million to recognise the difference between the Fund value as at 24 August 2011 and the principal amount of the Senior Bonds, which is \$75.0 million. Given the face value of the purchased zero coupon bond and the cash balance in the Fixed Portfolio, the estimated shortfall at the Maturity Date will be approximately \$9.1 million. On maturity of the Capital Guaranteed Bonds the Trustee is entitled to make a demand under the Guarantee for the difference between the principal amount of the outstanding Senior Bonds and the liquidated proceeds from the Fixed Portfolio.

#### c) Realisable value adjustment to the Subordinated Bonds

The Company is the subordinated bondholder. Due to the Close Out of the Fund resulting in no Surplus, coupon payments to the subordinated bondholder are discharged and cancelled. In addition, the difference between the estimated value of the Fund at the Maturity Date and the principal amount held by Senior Bondholders prevents the repayment of any subordinated bond principal, so all subordinated bondholder balances recognised at 30 June 2011 have been written off.

#### d) Provision for on-going operating expenses

The On-going Expenses Fund shall be applied to meet certain contemplated expenses incurred prior to the Maturity Date of 15 July 2013, including auditor fees, legal fees, registrar fees, listing fees and trustee fees. These future on-going expenses, estimated at \$0.2 million, will be met from the On-going Expenses Fund operating bank account maintained by FCGBL.



FOR THE YEAR ENDED 30 JUNE 2011

### 47. EVENTS OCCURRING AFTER BALANCE DATE (CONTINUED)

CLOSE OUT OF FIDELITY CAPITAL GUARANTEED BOND (CONTINUED)

### IMPACT ON ACCOUNTING TREATMENT (CONTINUED)

#### e) Other adjustments

Other adjustments required to reflect realisable values have been the transfer of FCGBL's deferred tax asset balance to the Company and the write-off of intercompany balances between FCGBL and the Company which had resulted from prior years' Group tax loss offsets.

### Effect of realisation adjustments on Group and Parent financial statements

		Group			Parent	
	30-Jun-11 \$'000	Realisation Adjustments \$'000	As Reported \$'000	30-Jun-11 \$'000	Realisation Adjustments \$'000	As Reported \$'000
INCOME STATEMENT						
Insurance Business Investment income Other revenue Expenses	36,763 61,517 (80,221)	- - 614	36,763 61,517 (79,607)	45,848 61,817 (80,222)	(9,460) - 206	36,388 61,817 (80,016)
Non-insurance Business Investment income Expenses Finance costs	18,495 (1,383) (6,937)	(10,130) (176) (314)	8,365 (1,559) (7,251)	- - -	-	- - -
Profit before tax Income tax expense/(credit)	28,234 2,696	(10,006) (2,782)	18,228 (86)	27,443 2,529	(9,254) (2,654)	18,189 (125)
PROFIT AFTER TAX	25,538	(7,224)	18,314	24,914	(6,600)	18,314
STATEMENT OF FINANCIAL POSITION						
Assets Loans and other receivables Other financial assets Deferred tax assets Investment in subsidiaries Other assets	35,220 469,445 14,344 - 36,466	- (24,178) (167) - -	35,220 445,267 14,177 - 36,466	35,215 356,839 13,960 1,849 36,440	(625) (7,619) 217 (1,841) -	34,590 379,220 14,177 8 36,440
Total Assets	555,475	(24,345)	531,130	474,303	(9,868)	464,435
Liabilities Current tax liabilities Payables and other financial liabilities Interest bearing liabilities Other liabilities	2,949 26,694 75,000 314,519	[2,949] [124] [14,048]	- 26,570 60,952 314,519	2,654 23,098 - 312,864	(2,654) (614) - -	- 22,484 - 312,864
Total Liabilities	419,162	(17,121)	402,041	338,616	(3,268)	335,348
NET ASSETS	136,313	(7,224)	129,089	135,687	(6,600)	129,087

FOR THE YEAR ENDED 30 JUNE 2011

#### 47. EVENTS OCCURRING AFTER BALANCE DATE (CONTINUED)

The cash flows from discontinued operations in FCGBL were as follows:

	2011	2010
	\$'000	\$'000
FCGBL		
Cash flows from operating activities	19	272
Cash flows from investing activities	-	-
Cash flows from financing activities	-	-
TOTAL CASH FLOWS	19	272

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

(2010: 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.)

(2010: 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.)

(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.)



FOR THE YEAR ENDED 30 JUNE 2011

#### 48. 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. From time to time 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 15 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 arms length trading undertaken.

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

	2011	2010	2011	2010
	Number	Number	\$'000	\$'000
Held by Trust at 1 July Shares vested from Trust	50,733 (7,350)	57,383 (6,650)	1,365 (98)	1,451 (86)
BALANCE AT 30 JUNE	43,383	50,733	1,267	1,365

At 30 June 2011, shares held in employee trust unvested were as follows:

	Year of Grant	Number of shares	Market Price	Grant Price
Fidelity Life Employee Share Purchase Scheme				
	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.

FOR THE YEAR ENDED 30 JUNE 2011

#### 49. RESTRICTIONS ON ASSETS

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

In 2010 Government Bonds of \$1,750,000 were held in custody with the Public Trust as required by the Life Insurance Act 1908 and the Insurance Companies Deposits Act 1953. With the introduction of the Insurance (Prudential Supervision) Act these deposits no longer need to be held, and as such have been released by the Public Trust.

### 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.

	2011	2010
	\$'000	\$'000
Profit attributable to equity holders of the Company	18,797	15,669
Profit from discontinued operation attributable to equity holders of the Company	(483)	1,247
Weighted average number of ordinary shares in issue	1,439	1,439

	2011	2010
	\$	\$
Basic earnings per share		
From continuing operations	13.06	10.89
From discontinued operations	(0.33)	0.87

#### (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, as all shares are currently issued.



### AUDITORS' REPORT

FOR THE YEAR ENDED 30 JUNE 2011



# Independent Auditors' Report

to the shareholders of Fidelity Life Assurance Company Limited

### Report on the Financial Statements

We have audited the financial statements of Fidelity Life Assurance Company Limited (the "Company") on pages 20 to 97, which comprise the statements of financial position as at 30 June 2011, the income statements, statements of comprehensive income, statements of changes in equity and statements of cash flows for the year then ended, and the notes to the financial statements that include a summary of significant accounting policies and other explanatory information for both the Company and the Group. The Group comprises the Company and the entities it controlled at 30 June 2011 or from time to time during the financial year.

### Directors' Responsibility for the Financial Statements

The Directors are responsible for the preparation of these financial statements in accordance with generally accepted accounting practice in New Zealand and that give a true and fair view of the matters to which they relate and for such internal controls as the Directors determine are necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

#### Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing (New Zealand) and International Standards on Auditing. These standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider the internal controls relevant to the Company and the Group's preparation of financial statements that give a true and fair view of the matters to which they relate, in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company and the Group's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates, as well as evaluating the overall presentation of the financial statements.

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

We have no relationship with, or interests in, Fidelity Life Assurance Company Limited or any of its subsidiaries other than in our capacities as auditors, tax advisors and providers of other assurance related and financial advisory services. These services have not impaired our independence as auditors of the Company and the Group.

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

# AUDITORS' REPORT

FOR THE YEAR ENDED 30 JUNE 2011



# Independent Auditors' Report

Fidelity Life Assurance Company Limited

### **Opinion**

In our opinion, the financial statements on pages 20 to 97:

- (i) comply with generally accepted accounting practice in New Zealand; and
- (ii) comply with International Financial Reporting Standards; and
- (iii) give a true and fair view of the financial position of the Company and the Group as at 30 June 2011 and their financial performance and cash flows for the year then ended.

#### **Emphasis of Matter**

Without modifying our opinion, we draw attention to note 2(a) of the financial statements which describes the basis of accounting applied for the Company's subsidiary Fidelity Capital Guaranteed Bond Limited. The financial results and position of Fidelity Capital Guaranteed Bond Limited for the year ended 30 June 2011 as consolidated into the Group's financial statements have been prepared on a realisation basis and presented as a discontinued operation. As disclosed in notes 2(a) and 47 of the Company's financial statements, significant volatility in the investment market during August 2011 resulted in trading losses. An Event of Default occurred and the Guarantor provided a Close Out Notice in accordance with the Supplemental Trust Deed.

### Report on Other Legal and Regulatory Requirements

We also report in accordance with Sections 16(1)(d) and 16(1)(e) of the Financial Reporting Act 1993. In relation to our audit of the financial statements for the year ended 30 June 2011:

- (i) we have obtained all the information and explanations that we have required; and
- (i) in our opinion, proper accounting records have been kept by the Company and the Group as far as appears from an examination of those records.

#### Restriction on Distribution or Use

Price watchouse Coopers

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 work has been undertaken so that we might state to the Company's shareholders those matters which 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 opinions we have formed.

Chartered Accountants 20 September 2011 Auckland

# DIRECTORY/EXTERNAL SERVICES

#### **Board of Directors**

Ian L Braddock

BCom CA MInstD

Chairman

Auckland

**Chartered Accountant** 

Chair: Rouse Holdings Limited & Group

Jeff Meltzer

JP BCom FCA MInstD AAMINZ

Auckland

**Chartered Accountant** 

Partner: Meltzer Mason Heath

Colin G O Wise

FNZIM FInstD

Auckland

Carole Durbin

BCom LLB(Hons) FInstD FAMINZ

Auckland

Chair: Damwatch Services Limited

Director/Trustee: Southern Cross

Healthcare Group

Consultant: Simpson Grierson

#### Company Officers

**Chief Executive Officer**Milton Jennings BCom CA

**Chief Financial Officer** 

Ed Eadie BSc(Hons)

**Appointed Actuary** 

John Smith MSc FNZSA FIAA

#### Consulting Actuary

Peter Davies

BBus Sc FNZSA FIAA

#### Solicitors

**DLA Phillips Fox** 

Simpson Grierson

#### Bankers

The National Bank of New Zealand Limited

#### Auditors

PricewaterhouseCoopers

#### **Investment Adviser**

MCA NZ Ltd

#### **Investment Managers**

AMP Capital Investors (New Zealand) Limited

Blackrock Inc.

Devon Funds Management Limited

New Zealand

**Grosvenor Financial Services** 

**Group 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 Limited

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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#### Wellington Office

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### **Christchurch Office**

Level 1 324 Cashel Street Christchurch 8011 **Telephone** 03 377 2323 **Facsimile** 03 379 2818

### Tauranga Office

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#### **Hamilton Office**

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