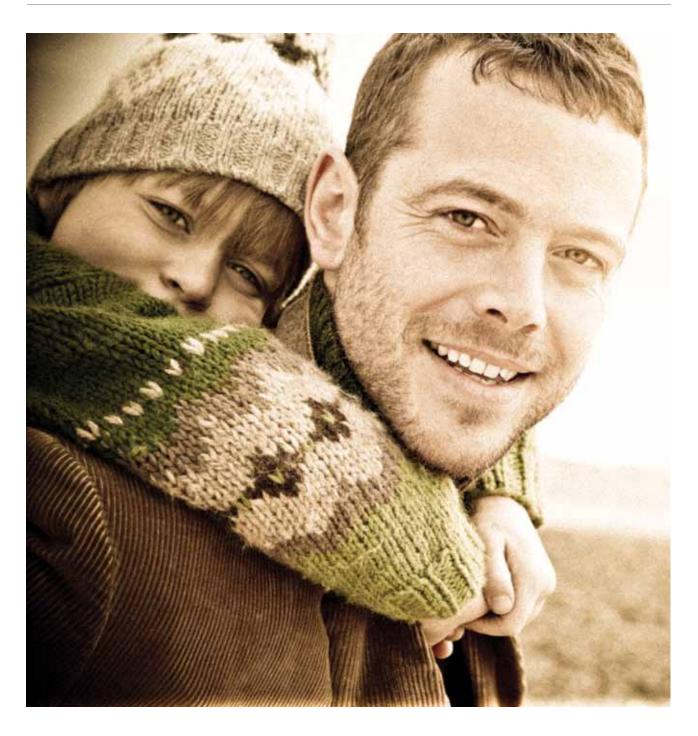
FIDELITY LIFE ANNUAL REPORT 2012



KEEPING FAMILIES STRONG



KEEPING FAMILIES STRONG

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



LISTENING & RESPONDING

WE ENGAGE IN DIALOGUE TO CREATE VALUE THROUGH OUR RELATIONSHIPS



FIDELITY

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



STEWARDSHIP

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

ANNUAL REPORT 2012

The information in this report is current as at 30 June 2012.
All amounts are in New Zealand dollars, unless otherwise specified.







CHAIRMAN'S REPORT

A STRONGER PERFORMANCE IN THE SECOND HALF OF THE YEAR HELPED THE COMPANY ACHIEVE A PROFIT OF \$13.6M FOR 2012.



n behalf of the Board of Directors, I am able to announce a profit for Fidelity Life for the year ended 30 June 2012 of \$13.6m after tax. This is below the record level we achieved in 2011 and in large part reflects the impact of global investment markets, and the fall in long-term interest rates.

In March I reported a disappointing \$4.6m profit for the first six months. However, I am pleased to advise that we have made good progress since then. Profit for the second half of the year at \$9.0m was in line with the previous year. Continuing on this performance leaves us well placed to deliver an improved result in 2013.

Investment markets are showing some slight improvement and our in-force book of business continues to expand, underpinned by a lift in new business which has come back well after the impact of increased competitive activity experienced earlier in the year.

Financial results

The effect of the fall in overall investment returns was substantially offset by a movement in policyholder balances, where funds are invested in accordance with the policyholders' choices. However, investment gains on assets in excess of policy liabilities, which do impact on the overall result, reduced from \$5.5m to \$1.5m.

Under New Zealand International Financial Reporting Standards, we are required to revalue our policyholder liabilities to reflect the fall in the risk free rate of return. During the period, New Zealand long-term interest rates fell from 5.0% in June 2011 to 3.4% in June 2012. The \$4.2m loss from this adjustment was the major component in the fall in overall profit for the year. We do however note that a future increase in interest rates would reverse this downward movement.

As disclosed in detail in our last Annual Report, our wholly owned subsidiary Fidelity Capital Guaranteed Bond Limited (FCGBL) suffered a Close-Out Event in August 2011. The investment losses in the first half of the year had already been adjusted for in 2011, meaning that the Group's profit in the year includes no contribution from FCGBL. Due to the structure of FCGBL, a guarantee is provided and senior bondholders will receive their full capital repayment in July 2013.

Despite tough conditions, our insurance revenue from in-force policies increased 10% to \$95.0m. Net new business premium generated during the year reached \$11.0m, with the second half of the year significantly better than the first. I am pleased to note that this recovery in production seems to be continuing this year.



New business commission expense for life insurance contracts was down 6% to \$17.3m reflecting slower sales. However, maintenance commissions were up 18% to \$9.8m, due to the continued growth in the in-force renewal premium coupled with our spread commission model that rewards loyal advisers. Commissions on life investment contracts fell 13% to \$2.9m reflecting a drop in investment deposits received in the year. Other management expenses, excluding investment management fees, have decreased 5% to \$26.3m, as management held the headcount and contained variable expenditure.

Premiums paid to reinsurers increased by 13% to \$33.8m. The amounts passed on to reinsurers as a percentage of total premiums were broadly in line with 2011, reflecting stable retentions.

Gross claims increased 13% to \$44.6m, primarily as a result of several large trauma claims. Gross death and income protection claims were similar to prior year. Net claims expense, after recoveries from reinsurers, increased 2%, from \$10.9m to \$11.1m. However, the net claims ratio of 18% was slightly lower than the 19% in 2011.

During the year, we continued to invest in upgrading our technology to deliver service improvement for advisers, shareholders and policyholders. In line with last year, we capitalised \$1.2m of software development to align costs to the period in which the Company benefits from the software.

The transitional rules for the new life insurance tax regime helped to mitigate our tax charge in the year. However, investment earnings are now separated between the shareholder and policyholder bases, resulting in significantly fewer imputation credits available to frank our own dividend payments. This requires us to prepay income tax in order to fully impute dividends with this asset being inadmissible for solvency purposes.

Balance sheet and financial strength

Excluding the Capital Guaranteed Bond and the Fidelity KiwiSaver Scheme, total assets increased 3% to \$476.6m, with financial assets under management, including derivatives, growing 6% to \$376.5m.

Shareholders' funds grew \$11.3m to \$140.4m, while policyholder liabilities reduced 3%, from \$289.9m to \$281.9m. Shareholders' funds as a percentage of policyholders' funds is now 50% (2011: 45%) reflecting our focus in recent years on risk rather than investments business.

A.M. Best reaffirmed our A-(Excellent) financial strength rating with a stable outlook for the 16th consecutive year.

In 2012, we changed the basis of our calculation of the solvency margin to the Reserve Bank of New Zealand's standard. Our solvency margin at 30 June 2012 on the new standard is \$22.2m compared to \$18.6m on an equivalent basis in 2011. This increase has been driven partly by the recapture of the reinsurance of the Farmers Mutual Life Direct Mail portfolio and improved management of our unsecured loans portfolio.

Dividenc

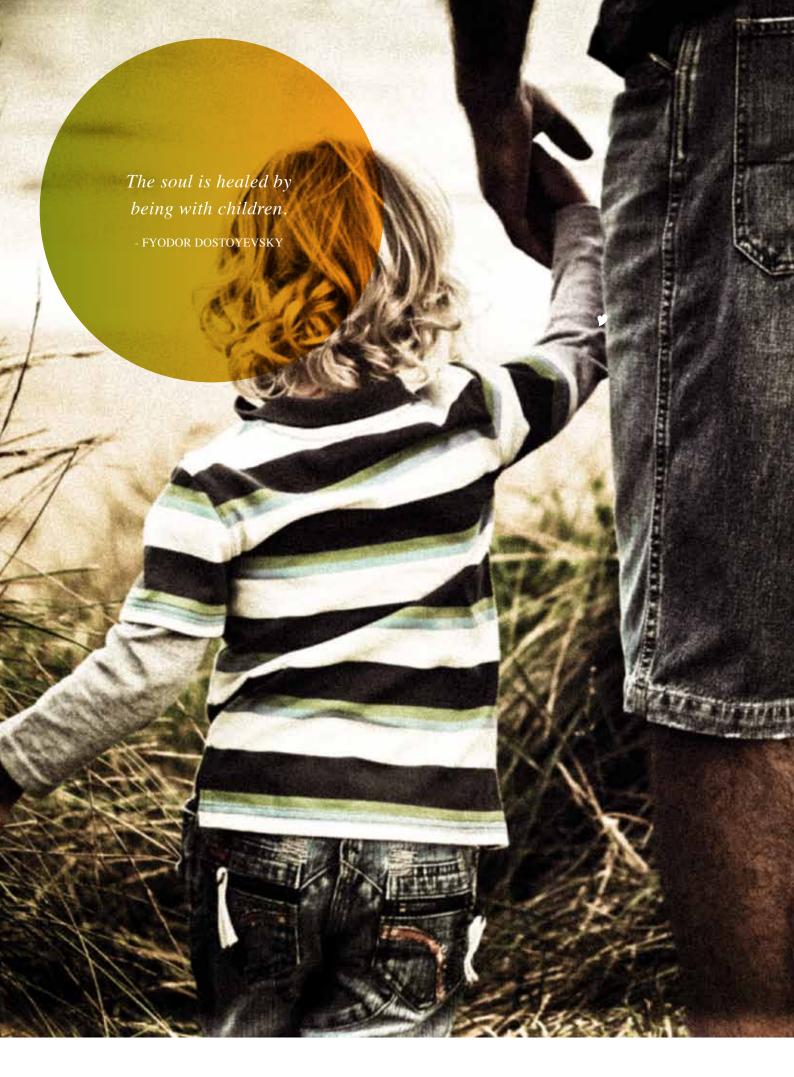
Despite the fall in profit, fundamentals remain strong, including an improved solvency position. The Board has declared a tax-paid ordinary dividend of \$2.20 per share. This is an increase of \$0.50 per share over the ordinary dividend of \$1.70 last year; and 10% more than the total dividend paid in 2011. The dividend will be paid before the Annual General Meeting on 9 November 2012.

The Board's intention is to maintain real increases in the dividend; targeting a 10-15% per annum compound increase over a rolling five year period. However, the actual growth in dividend in any one year is subject to maintaining a strong solvency margin and an excellent credit rating. The Board wishes to notify shareholders that due to the new tax regime, it may not be possible to provide imputation credits on dividends in future years.

Outlook

In the last Annual Report I stated that 2012 would be a challenging year, with the emergence of new competition and continuing uncertainty around global investment markets. Both themes will continue throughout 2013, but at the time of writing trading conditions are better than they were 12 months ago. To this end, I am happy to report that management are delivering on a number of initiatives aimed at continuing the improvements seen in the second half of 2012. Advisers have reacted favourably to improved service, product enhancements and our continued technological innovation.

Towards the end of 2012, Her Majesty's Revenue and Customs in the UK changed the rules around the transfer of pensions held in the UK to approved qualifying pension schemes in New Zealand. I am delighted that Fidelity Life's scheme has achieved qualifying status and as a result we are confident that investment deposits from this source will increase sharply in the next year.





On 1 December 2011 the Company was granted its provisional insurance license by the Reserve Bank of New Zealand to operate as a life insurer under the new prudential supervision regime. This was the first step towards gaining a full license which needs to be achieved by 7 September 2013. The full licensing requirements are wide ranging, covering aspects such as corporate governance, risk management and financial condition. The licensing process requires significant input from the Board and senior management; and in certain areas will require changes to the way the Company operates. As a Company we fully support the goals of the Reserve Bank and we remain committed to investing the time and resources required to ensure full compliance.

The Board remains optimistic for the Company's future. Although the profit is down on the record level achieved in 2011, the performance in the second half of the year and the continuing increase in new business production means we are entering the new financial year better positioned than we were 12 months ago.

Acknowledgements

I would like to express my appreciation to our policyholders, investors and 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.

I wish to acknowledge the hard work and dedication shown by our Chief Executive Officer Milton Jennings, his senior management team and all the staff at Fidelity Life; and to thank them for their huge efforts during a somewhat difficult year.

Finally, I wish to thank my fellow directors for their collective contribution and on-going commitment to the Company.

Lan Braddock
CHAIRMAN





UNEXPECTED COVER IN A TIME OF NEED

SOON AFTER MOVING TO NEW ZEALAND WITH HIS FAMILY, MIKE BROWN* WAS DIAGNOSED WITH A RARE DISEASE WHICH CAUSES INFLAMMATION IN THE LYMPH NODES, AND OTHER ORGANS OF THE BODY.



At the time, Mike had medical insurance but had not taken out any life cover. Whilst his medical bills were covered, the resulting time that both Mike and his wife Sarah had to take off work was not, which meant that the family struggled to make ends meet.

After a couple of years of treatment, Mike's health had improved enough for him to return to work full time.

Mike and Sarah made the decision to take out both Life and Trauma insurance through Fidelity Life, realising the importance of these products in providing for their family should anything similar happen to them again in the future.

Only two years later the family would be hit by tragedy again. This time their sixteen year old daughter Amanda was diagnosed with thyroid cancer. The family sank further into debt and used up all of their holidays, days in lieu and sick leave supporting Amanda through her appointments. Out of desperation Sarah emailed her adviser, asking her to check if they had any cover in place that they could possibly use to assist them.

Their adviser looked through the details of Sarah's Life and Trauma cover with Fidelity Life and was thrilled to inform them that her Trauma cover had a special clause, which meant that a percentage of the benefit was paid in the event of their children being diagnosed with a major illness.

The family was overwhelmed by the good news which meant that they could take the much needed time off work to support their daughter through her treatment, and still being able to meet their financial obligations. Additionally, it meant that they were able to use the extra funds to give Amanda every possible chance of a better and speedier recovery, as they could now afford private treatment. Amanda who was a promising sportswoman before her diagnosis is thriving and post treatment has now gone on to achieve a National title.

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



CEO'S REVIEW MILTON JENNINGS

2012 HAS BEEN A CHALLENGING YEAR BUT WE ARE ENTERING 2013 WITH NEW BUSINESS BUILDING AND NEW TECHNOLOGY FOR ADVISERS.



he Chairman has noted some of the macro-economic factors that have challenged us over the past year and highlighted the gradual improvement that we were able to achieve as the year progressed.

It is worth reiterating that traditionally a life business generates profit from investment returns and via prudent underwriting. We continue to believe that sustained profitability requires good underwriting decisions and standards, and that these provide the basis of a sound competitive position for future years.

Premium Revenue

Our total in-force annualised premium increased to \$105m. Annualised premium income from new business was \$3.5m below the record we achieved in 2011, with most of the shortfall coming in the first four months of the year. Two factors impacted. First, in 2011 we were able to write significant level term business, but the removal of tax advantages for this activity meant that the business did not continue. Second, an aggressive new market entrant, into a relatively static market, meant that all suppliers were competing harder and shares across the board were squeezed.

It is pleasing to note that after a slow first quarter we recovered strongly and have seen that pattern carry forward into the first quarter of this year.

Underwriting

This remained a key focus for us during the year. We are well aware that financial advisers see real value in fast turnaround when submitting policy applications. This must not be at the expense of underwriting standards. During the year we have managed to implement process improvements while maintaining our discipline. We restructured our underwriting teams to provide a more personalised service and also put more resources into ensuring the elimination of any frustrating backlogs. These changes significantly improved our offering and I am pleased to say that this has been recognised by advisers. We are continuing to focus on this area and have a number of enhancements planned for this year.

Advisers

We are acutely aware that all advisers are free agents and that we need to continually earn their loyalty. To this end it was very pleasing to note that in a recent independent survey across advisers we scored highly and showed good improvement in adviser recognition in most categories. Changing dynamics



have seen a big shift in adviser support across the industry. Fidelity Life thanks the advisers for their loyalty and support, which is so critical to our business.

A number of years ago a large base of advisers bought into the concept of building a business based on a spread commission model, rather than continually trying to survive on upfront commission. The benefit of this structure for advisers has been very apparent in the Christchurch region where this concept has assisted advisers in continuing their businesses through this tough period.

A new era of adviser regulation has been in effect during the year, which has meant changes in process and compliance for some advisers. The new regulations make the advice process stronger and good momentum is starting to build, especially in the South Island.

One of our key strategies is to have an extensive network of Business Development Managers ('BDM'). The BDM role is to offer expert advice, support advisers and to act as a connection into the rest of our business. Following the successful opening of our offices in Tauranga and Hamilton, during the year we opened an office in Dunedin with the aim of building even stronger ties in that region.

Earlier this year we learnt of the passing away of Cyril Chaplin. Cyril was a colourful character and full of ideas. He first took an agency out with Fidelity Life in 1976. He qualified for GMC, our top performers group, on no fewer than 21 occasions; won the Chairman's Cup and was also awarded the Fidelity Life Honours Shield. He was the key driver in the formation and development of the Life Brokers Association. We thank Cyril and Lorraine for all the support that they gave us over the 36 years that he held an agency.

Technology

During the year we continued to invest in upgrading our technology to deliver service improvement for advisers, shareholders and policyholders. The introduction of the new general ledger, the commission system and the electronic application were three major projects we completed this year. We also delivered on a number of smaller projects which collectively have helped us lift productivity. We have been able to control staff numbers in both client services and new business as processes have become more automated despite increased service demands.

The electronic application is especially significant in that it was the first successful launch of an electronic underwriting engine for non-aligned advisers in the New Zealand market. We are the first company in Australasia to implement Swiss Re's 'Magnum' system, which is currently used by 40 entities around the world. It is already bringing enormous efficiencies to the current manual paper process. Advisers are able to inform some clients that Fidelity Life has accepted cover at the point of sale, rather than waiting for the company to manually underwrite the case. Technology is shaping all our lives and to keep ahead of our competitors it is essential that we can offer these improved processes to advisers and policyholders.

Fidelity KiwiSaver Scheme

Fidelity KiwiSaver Scheme funds under management have grown by \$43.5m to \$250.4m and we now have 68,000 members enrolled in the Fidelity KiwiSaver Scheme. The new regulatory regime for financial advisers has led to a slow-down in growth and we have also had some increased incursion by the banks. The Financial Markets Authority has recently circulated proposals, which under certain circumstances could allow Registered Financial Advisers ('RFA') to seek new members. This may become a significant development for us as a large proportion of our advisers are RFAs.

It was pleasing to be recognised as the KiwiSaver Scheme Manager of the Year by FundSource in December 2011*.

People

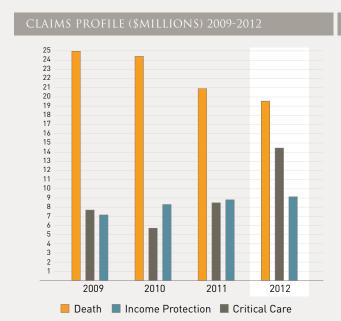
Productivity is always important but never more than when market growth is constrained. This year we were able to hold staff numbers at prior year levels. This helped to reduce overall costs by 5%. This is particularly significant when it is noted that we were required to absorb considerable cost as a result of the dramatic lift in compliance requirements as we move towards full Reserve Bank registration. During the last year this has also required significant input from the Board and senior management, a trend that is likely to continue into 2013 and beyond.

At Fidelity Life we are committed to providing our staff with a great place to work. We focus hard on the working environment, run a popular "Fit and Well" programme and there is an active social club. Staff morale remains high and our retention rates are very strong.

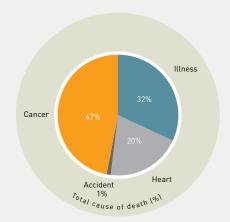
^{*} The award was announced on 15 December 2011 by FundSource, the investment strategy and research company. This award should not be read as a recommendation by FundSource. For further advice on the relevance of this award to your personal situation, consult your authorised financial adviser or visit www.fundsource.co.nz.

2012 CLAIM STATISTICS

for the years ended 30 June

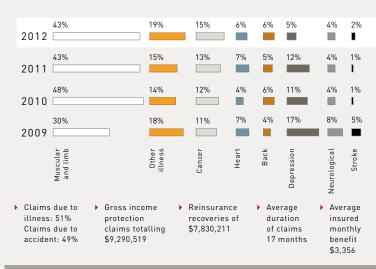


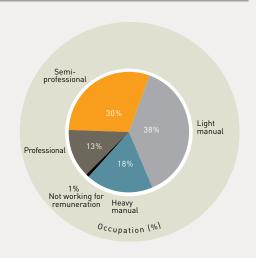
DEATH AND TERMINAL HINESS CLAIMS 2012



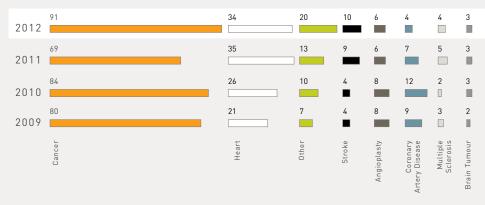
- > 204 Death and Terminal Illness claims totalling \$19,573,546
- Reinsurance recoveries of \$14,235,941
- Youngest claimant: 23
- Oldest claimant: 91
- Average age of claimant: 60

INCOME PROTECTION CLAIMS 2009-2012





CRITICAL CARE CLAIMS 2009-2012



- 172 Critical Care claims totalling \$14,501,354
- ▶ Reinsurance recoveries of \$11,117,281
- Youngest claimant: 30
- Oldest claimant: 65
- Average age of claimant: 50



It was a sad day in December when we heard of the sudden death of our South Island Manager, Warren Day. Warren had worked in the Christchurch office for 17 years. He was a very popular figure within the Company and across the industry, making a huge contribution to the development of Fidelity Life. The turnout at his funeral was testament to him. On a personal level, it was great to see Darron Connelly, a close friend of Warren's, win the Warren Day Memorial Trophy, for the Company's top performing BDM, in its inaugural year.

We also wish Graham Lucas (18 years) and Toni Chopping (14 years) all the best in their retirements and thank them for their contribution during their time with the Company.

Community and Environment

Fidelity Life continues to give its support to the community of New Zealand. Once again staff supported Leukaemia and Blood Cancer NZ, participating in their "Shave for a Cure", the "Golf Marrowthon" and the "Sky Tower Challenge" fundraising activities. We also supported the Multiple Sclerosis Society and several staff members have signed up to support the young people of New Zealand through the Foundation for Youth Development.

Looking Ahead

2012 was undoubtedly a challenging year. Pressure on investment returns, significantly increased competition in a sluggish market and a substantial lift in compliance requirements all combined to impact profitability. However I am buoyed by the ability of our team to respond and was pleased to see the gradual but continuing improvement in performance after a slow start. I am pleased to note that we have entered 2013 with a lift on last year and I look forward to the year ahead.

Finally, thank you to everyone who has contributed to keeping Fidelity Life and its stakeholders strong through 2012.



FINANCIAL SUMMARY

for the years ended 30 June

Dollars in thousands	2012	2011	2010	2009	2008
Ordinary risk premium *	95,048	86,746	80,716	75,417	68,377
Investment income **	3,391	45,128	54,398	2,590	20,387
Claims expense	44,649	39,549	38,534	40,233	26,828
Net surplus after taxation	13,644	18,314	16,916	10,350	15,523
Ordinary dividend per share	\$2.20	\$1.70	\$1.32	\$1.00	\$1.00
Special dividend per share	-	\$0.30	\$0.15	-	-
Earnings per share (year-end)	\$9.48	\$12.73	\$11.76	\$7.19	\$10.79
Shareholders' equity	140,401	129,089	112,661	96,845	87,955
Policyholder liabilities	281,895	289,851	290,377	272,575	330,002
Total assets **	540,293	531,130	529,948	493,345	528,805
Shares on issue	1,439	1,439	1,439	1,439	1,439

^{* 2009} and previous years have been adjusted from published financial statements to reflect a reclassification of a portion of premium from risk to savings.

^{**} In 2012 and 2011 amounts relating to Fidelity Capital Guaranteed Bond Limited and consolidated in the Group have been prepared on a realisable value basis.





STATUTORY AND OTHER DISCLOSURES

for the year ended 30 June 2012

	Direct shareholdings			beneficial noldings	Total remuneration and other benefits
Director	As at 30 June 2012	Increase/ (decrease) during the year	As at 30 June 2012	Increase/ (decrease) during the year	
lan Braddock Chairman	531	-	9,933	-	137,910
Colin Wise Director	500	-	8,354	-	68,995
Jeff Meltzer Director	517	-	10,342	-	68,995
Carole Durbin Director	3,750	-	-	-	68,995
Anne Blackburn Director	500	500	-	-	46,890

Information on directors of the parent company

In accordance with the Company's constitution, Jeff Meltzer and Colin Wise 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 (2011: 788,370) shares in Fidelity Life.

Ian Braddock is a trustee of the Fidelity Life Employee Share Purchase Scheme which holds 29,383 (2011: 43,383) shares in Fidelity Life.

Anne Blackburn was appointed as a director on 27 October 2011.

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			
	2012	2011		
\$480,000-\$490,000	0	1		
\$420,000-\$430,000	1	0		
\$390,000-\$400,000	0	1		
\$370,000-\$380,000	1	0		
\$310,000-\$320,000	0	1		
\$270,000-\$280,000	1	1		
\$250,000-\$260,000	0	1		
\$240,000 \$250,000	1	1		
\$220,000-\$230,000	0	1		
\$210,000-\$220,000	1	0		
\$200,000-\$210,000	2	3		
\$190,000-\$200,000	1	2		
\$180,000-\$190,000	2	3		
\$170,000-\$180,000	3	1		
\$160,000-\$170,000	1	4		
\$150,000-\$160,000	4	4		
\$140,000-\$150,000	5	2		
\$130,000-\$140,000	4	2		
\$120,000-\$130,000	6	1		
\$110,000-\$120,000	6	8		
\$100,000-\$110,000	9	9		

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 2012.

Shareholders	Shares held
1. Whale M J & Meltzer J P	788,370
2. Burgess G A J & Burgess M S	257,566
3. Farmers' Mutual Group	166,185
4. Braddock I L & Jennings M J	29,383
5. Trotter K & Childs P & Hughes C	23,996
6. Alison D J & Alison K H	13,636
7. Meltzer J P & Porus J L	10,342
8. Alison K H & Alison D J & Webber	JE 9,958
9. Braddock I L & Braddock F M & Cla	rke J C 9,933
10. Hamilton Y D & Vanderwee J C & Hamilton R B & Hamilton G R	9,471



STATEMENT OF CORPORATE GOVERNANCE

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 2012 the board comprised five non-executive directors, including a non-executive chairman. Their qualifications and experience are set out at the end of this report.

Attendance at the 11 scheduled board meetings for the period 1 July 2011 to 30 June 2012 was as follows:

Board attendance

Ian Braddock 11 Colin Wise 10 Jeff Meltzer Carole Durbin 11 Anne Blackburn 9 (appointed 27 October 2011)

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 & Risk Committee, the Remuneration Committee and the Nomination Committee.

Audit & Risk Committee: Established as a link between the board and external auditors. Provides independent oversight of the effectiveness of the Company's financial reporting and risk management processes. Committee membership is reviewed annually.

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

Remuneration Committee: Established to assist the board with the remuneration structures for the Company's Chief Executive Officer and senior executives.

Members: Colin Wise (Chairman), Ian Braddock and Anne Blackburn

Nomination Committee: Established to assist in the planning of the board's composition and the appointment of 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 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 to 30 November, and the announcement of half year results to 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 11 November 2011 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.

THE BOARDROOM



Ian Braddock BCom CA MInstD



Colin Wise



Jeff Meltzer JP BCom FCA MInstD AAMINZ



Carole Durbin BCom LLB(Hons) FInstD



Anne Blackburn MA



Milton Jennings BCom CA



John Smith MSc FNZSA FIAA



Ed Eadie BSc (Hons)



STATEMENTS OF COMPREHENSIVE INCOME

for the year ended 30 June 2012

		Grou	ıp	Parent	
	Note	2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000
INSURANCE BUSINESS					
Revenue					
Insurance premium revenue		95,048	86,746	95,048	86,746
Insurance premium ceded to reinsurers	8	(33,787)	(29,829)	(33,787)	(29,829)
Fee and commission income	9	4,163	3,451	4,163	3,751
Investment income	10	3,388	36,763	3,388	36,388
Investment property income	11	1,285	1,121	1,285	1,121
Other income	12	6,603	28	6,603	28
TOTAL INSURANCE REVENUE		76,700	98,280	76,700	98,205
Expenses					
Claims expense	13	44,649	39,549	44,649	39,549
Reinsurance recoveries	14	(33,550)	(28,689)	(33,550)	(28,689)
Net change in life insurance contract liabilities	31	759	(7,079)	759	(7,079)
Net change in life investment contract liabilities	32	(7,053)	16,902	(7,053)	16,902
Commission and management expenses	15	58,175	58,924	58,175	59,333
TOTAL INSURANCE EXPENSES		62,980	79,607	62,980	80,016
NET INSURANCE INCOME BEFORE TAX		13,720	18,673	13,720	18,189
Income tax expense / (credit)	16	76	[124]	76	(125)
NET INSURANCE INCOME AFTER TAX		13,644	18,797	13,644	18,314
NET DISCONTINUED OPERATIONS LOSS AFTER TAX	17	-	(483)	-	-
PROFIT FOR THE YEAR ATTRIBUTABLE TO THE OWNERS OF THE COMPANY AND GROUP	7	13,644	18,314	13,644	18,314
Other comprehensive income					
Revaluations movement, net of tax	34	397	145	397	145
Employee share purchase plan	33	71	82	71	82
Other comprehensive income for the year, net of tax		468	227	468	227
TOTAL COMPREHENSIVE INCOME FOR THE YEAR ATTRIBUTABLE TO THE OWNERS OF THE COMPANY AND GROUP		14,112	18,541	14,112	18,541
Basic and diluted earnings per share					
From continuing operations	36	9.48	13.06	5.	, o
From discontinued operations	36	-	(0.33)		

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

STATEMENTS OF FINANCIAL POSITION

as at 30 June 2012

	Group			Pare	nt
	Note	2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000
ASSETS					
Cash and cash equivalents	18	15,543	31,905	15,296	27,468
Assets arising from reinsurance contracts	19	10,347	6,983	10,347	6,983
Financial assets at fair value through profit or loss	20	437,228	413,362	373,734	351,752
Derivative financial instruments	21	2,721	3,374	2,721	3,348
Loans and other receivables	22	32,446	35,220	32,446	34,590
Investment property	23	9,275	8,798	9,275	8,798
Property, plant and equipment	24	9,282	8,992	9,282	8,992
Investment in subsidiaries	25	-	-	8	8
Income tax asset	16	2,560	1,321	2,560	1,321
Deferred tax assets	26	15,102	14,177	15,102	14,177
Deferred acquisition costs - investment	27	867	2,130	867	2,130
Intangible assets	28	4,922	4,868	4,922	4,868
TOTAL ASSETS		540,293	531,130	476,560	464,435
LIABILITIES					
Payables and other financial liabilities	29	30,652	26,570	30,581	22,484
Derivative financial instruments	21	173	2,346	173	691
Deferred tax liabilities	26	23,512	22,322	23,512	22,322
Interest bearing liabilities	30	63,660	60,952	-	-
Life insurance contract liabilities	31	(17,054)	(17,813)	(17,054)	(17,813)
Life investment contract liabilities	32	298,949	307,664	298,949	307,664
TOTAL LIABILITIES		399,892	402,041	336,161	335,348
NET ASSETS		140,401	129,089	140,399	129,087
EQUITY					
Share capital	33	12,946	12,581	12,946	12,581
Retained earnings	34	126,686	116,136	126,684	116,134
Revaluation reserve	34	769	372	769	372
TOTAL EQUITY		140,401	129,089	140,399	129,087

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

For and on behalf of the board

14 September 2012

lan Braddock **Chairman** Jeff Meltzer
Director

STATEMENTS OF CHANGES IN EQUITY for the year ended 30 June 2012

		Share capital	Retained earnings	Reserves	Total
	Note	\$'000	\$'000	\$'000	\$'000
GROUP					
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	34	-	-	145	145
Employee share purchase plan	33	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	33	98	-	-	98
Dividends	35	-	(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
Balance at 1 July 2011		12,581	116,136	372	129,089
Profit for the year		-	13,644	-	13,644
Other comprehensive income					
Revaluations, net of tax	34	-	-	397	397
Employee share purchase plan	33	71	-	-	71
Total other comprehensive income for the year		71	-	397	468
Total comprehensive income for the year		71	13,644	397	14,112
Transactions with owners					
Ordinary shares issued	33	45	-	-	45
Share capital vested from Trust	33	249	-	-	249
Dividends	35	-	(3,094)	-	(3,094)
Total transactions with owners		294	(3,094)	-	(2,800)
BALANCE AT 30 JUNE 2012		12,946	126,686	769	140,401

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



STATEMENTS OF CHANGES IN EQUITY for the year ended 30 June 2012

		Share capital	Retained earnings	Reserves	Total
	Note	\$'000	\$'000	\$'000	\$'000
PARENT					
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	34	-	-	145	145
Employee share purchase plan	33	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	33	98	-	-	98
Dividends	35	-	(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
Balance at 1 July 2011		12,581	116,134	372	129,087
Profit for the year		_	13,644	_	13,644
Other comprehensive income			ŕ		ŕ
Revaluations, net of tax	34	-	-	397	397
Employee share purchase plan	33	71	-	-	71
Total other comprehensive income for the year		71	-	397	468
Total comprehensive income for the year		71	13,644	397	14,112
Transactions with owners					
Ordinary shares issued	33	45	-	-	45
Share capital vested from Trust	33	249	-	-	249
Dividends	35	-	(3,094)	-	(3,094)
Total transactions with owners		294	(3,094)	-	(2,800)
BALANCE AT 30 JUNE 2012		12,946	126,684	769	140,399

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



STATEMENTS OF CASH FLOWS

for the year ended 30 June 2012 $\,$

	Group		Pare	ent
Note	2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000
CASH FLOWS FROM OPERATING ACTIVITIES				
Premiums from life insurance contracts	97,678	86,639	97,678	86,639
Deposits from life investment contracts	43,795	41,810	43,795	41,810
Reinsurance received	30,186	35,084	30,186	35,084
Interest received	7,121	7,319	7,118	6,136
Dividends	175	68	175	68
Distributions from unitised investments	8,442	8,315	8,442	8,315
Other investment income	9,797	6,541	9,797	6,841
Proceeds from reinsurance treaty recapture	6,500	-	6,500	-
Benefits paid under life insurance contracts	(40,375)	(40,188)	(40,375)	(40,188)
Benefits paid under life investment contracts	(45,457)	(52,159)	(45,457)	(52,159)
Reinsurance paid	(33,787)	(29,568)	(33,787)	(29,568)
Commission paid	(29,253)	(30,325)	(29,253)	(30,325)
Payments to suppliers and employees	(24,791)	(29,731)	(24,067)	(28,342)
Income tax paid	(1,200)	(933)	(1,200)	(933)
NET CASH FROM OPERATING ACTIVITIES 37	28,831	2,872	29,552	3,378
CASH FLOWS FROM INVESTING ACTIVITIES				
Purchases of intangible assets	(1,455)	(1,330)	(1,455)	(1,330)
Purchases of financial assets	(342,783)	(280,416)	(342,783)	(280,416)
Purchases of property, plant and equipment	(390)	(515)	(390)	(515)
Proceeds from sale of financial assets	304,015	293,223	304,015	285,384
Proceeds from related companies	1,913	-	1,913	-
Proceeds on sale of property, plant and equipment	25	61	25	61
NET CASH (TO)/FROM INVESTING ACTIVITIES	(38,675)	11,023	(38,675)	3,184
OACH ELOWS EDOM EINMANOING ACTIVITIES				
CASH FLOWS FROM FINANCING ACTIVITIES				
Proceeds from issue of ordinary shares, net of transaction costs	45	-	45	-
Interest paid on borrowings	(3,469)	(7,313)	-	-
Ordinary dividends paid	(3,094)	(2,211)	(3,094)	(2,211)
NET CASH FROM FINANCING ACTIVITIES	(6,518)	(9,524)	(3,049)	(2,211)
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS	(16,362)	4,371	(12,172)	4,351
Cash and cash equivalents at 1 July	31,905	27,534	27,468	23,117
CASH AND CASH EQUIVALENTS AT 30 JUNE 18	15,543	31,905	15,296	27,468

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

for the year ended 30 June 2012

1. GENERAL INFORMATION

Fidelity Life Assurance Company Limited ('Fidelity Life') (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 14 September 2012. 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

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 in August 2011, detailed in note 17, the financial statements of FCGBL have been prepared, and consolidated into the Group accounts, on a realisable value basis.

(B) PRINCIPLES OF CONSOLIDATION

SUBSIDIARIES

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of the Company as at 30 June 2012 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 profit and loss component of the statements of comprehensive income.

for the year ended 30 June 2012

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(B) PRINCIPLES OF CONSOLIDATION (CONTINUED)

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

(C) FOREIGN CURRENCY TRANSLATION

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.

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 profit and loss component of the statements of comprehensive income.

(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.

(F) INVESTMENT INCOME

INTEREST INCOME

Interest income is recognised using the 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 profit and loss component of the statements of comprehensive income.

(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.

for the year ended 30 June 2012

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(H) CLAIMS EXPENSE

LIFE INSURANCE CONTRACTS

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

LIFE INVESTMENT CONTRACTS

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

(I) EXPENSES

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

(J) POLICY ACQUISITION COSTS

Policy acquisition costs comprise the costs of acquiring new business, including commission, advertising, policy issue and underwriting costs, agency expenses and other sales costs. Acquisition costs are initially recorded in the profit and loss component of the statements of comprehensive income, with any amounts to be deferred capitalised on the statements of financial positions as a Deferred Acquisition Costs ('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 profit and loss component of the statements of comprehensive income 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 profit and loss component of the statements of comprehensive income when incurred. The deferred acquisition cost asset is subsequently amortised over the life of the contracts and is recognised in the profit and loss component of the statements of comprehensive income. Unamortised acquisition costs are recorded in deferred acquisition costs on the statements 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 profit and loss component of the statements of comprehensive income on an accrual basis.

(K) OUTWARDS REINSURANCE

Premiums ceded to reinsurers under reinsurance contracts are recorded as an outwards reinsurance expense and are recognised over the period of indemnity of the reinsurance contract.

(L) REINSURANCE RECOVERIES

Reinsurance assets consist of amounts receivable in respect of ceded insurance liabilities and are recognised as revenue. Amounts recoverable from reinsurers are estimated in accordance with the relevant reinsurance contract and in a manner consistent with the outstanding claims.

(M) 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.

for the year ended 30 June 2012

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(M) LIFE INSURANCE BUSINESS (CONTINUED)

LIFE INSURANCE CONTRACT LIABILITIES

Life insurance liabilities ('policyholder liabilities') in the statements of financial position and the increase or decrease in policyholder liabilities in the profit and loss component of the statements of comprehensive income 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 profit and loss component of the statements of comprehensive income 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 profit and loss component of the statements of comprehensive income immediately. When loss making business becomes profitable previously recognised losses are reversed.

INVESTMENT EARNINGS ON ASSETS IN EXCESS OF POLICY LIABILITIES

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

PARTICIPATING POLICIES

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

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.

for the year ended 30 June 2012

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(M) LIFE INSURANCE BUSINESS (CONTINUED)

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.

(N) 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 profit and loss component of the statements of comprehensive income in other income.

(0) 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 profit and loss component of the statements of comprehensive income. Each year the difference between depreciation based on the revalued carrying amount of the asset charged to the profit and loss component of the statements of comprehensive income 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 statements 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.

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 profit and loss component of the statements of comprehensive income 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
 Building fit out
 Leasehold improvements
 Motor vehicles
 Computer equipment
 Furniture and office equipment
 50 years
 years
 years
 Furniture and office equipment



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 profit and loss component of the statements of comprehensive income during the financial period in which they are incurred.

for the year ended 30 June 2012

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(P) 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 profit and loss component of the statements of comprehensive income 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 profit and loss component of the statements of comprehensive income. Details of the methodology and assumptions are included in note 28.

(Q) 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).

(R) 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 statements of cash flows, cash and cash equivalents also include bank overdrafts, which are included in payables and other financial liabilities on the statements of financial position.

STATEMENT OF CASH FLOWS

The following are the definitions of the terms used in the statements 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.

(S) 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 profit and loss component of the statements of comprehensive income on a straight line basis over the period of the lease.

for the year ended 30 June 2012

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(T) 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. The Group's loans and other receivables comprise receivables and cash and cash equivalents in the statements 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 profit and loss component of the statements of comprehensive income in the period in which they arise.

FAIR VALUES OF FINANCIAL INSTRUMENTS

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

The fair values of financial instruments traded in active markets (such as publicly traded derivatives, and trading securities) are 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.

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 profit and loss component of the statements of comprehensive income.

for the year ended 30 June 2012

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

[T] INVESTMENTS AND OTHER FINANCIAL ASSETS (CONTINUED)

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 profit and loss component of the statements of comprehensive income in the period of impairment.

Impairment for trade receivables is covered in note 2(Z).

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.

(U) PROVISIONS

A provision is recognised in the statements 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.

(V) 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.

(W) 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 profit and loss component of the statements of comprehensive income in the year to which they relate and are included in employee benefit expenses.

(iii) Employee Share Ownership Scheme

Historically the Group operated an equity-settled share based compensation plan in which the Group offered 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.

(X) 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.

(Y) 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

for the year ended 30 June 2012

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(Z) 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 profit and loss component of the statements of comprehensive income within other expenses. When a trade receivable is uncollectible, it is written off against an allowance account for trade receivables.

(AA) INCOME TAX

The income tax expense comprises both current and deferred tax. Income tax expense is recognised in the profit and loss component of the statements of comprehensive income 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 statements 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.

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

A new income tax regime was introduced for Life Insurers from 1 July 2010. Tax 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 most legacy 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.

(AB) 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.

(AC) 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 profit and loss component of the statements of comprehensive income 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.

(AD) BORROWING COSTS

Borrowing costs are expensed as incurred.



for the year ended 30 June 2012

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(AE) 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.

(AF) 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.

(AG) 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.

(AH) 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 2011 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 24 Related party disclosures (revised) The main changes to the standard simplify the definition of a related party and clarify its intended meaning. The adoption of this amendment has not resulted in any additional disclosures or impacted on the Company's or Group's reported result or financial position.
- FRS 44 New Zealand additional disclosures and harmonisation amendments The standard sets out New Zealand specific disclosures for entities that apply NZ IFRSs. These disclosures have been relocated from NZ IFRSs to clarify that these disclosures are additional to those required by IFRSs. The adoption of this standard has not resulted in any additional disclosures or impacted on the Company's or Group's reported result or financial position.

(AI) 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 2015. 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 2015. The amendment provides an additional presentational requirement for liabilities designated at fair value through profit or loss. Where such a designation is made, the liability will be recorded on the statements of financial position at its full value. However, the fair value movement taken to the profit and loss component of the statements of comprehensive income 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.

for the year ended 30 June 2012

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

- 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.
- NZ IAS 1 Presentation of financial statements Amendments to the standard were issued in August 2012 and are applicable to the Group for the year beginning 1 July 2012. 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. This will not affect the measurement of any of the items recognised in the statements of financial position or the profit or loss in the current period, however, they change the way items of other comprehensive income are presented. The Group intends to adopt the new standard from 1 July 2012.
- 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.

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 experienced Fellows of the New Zealand Society of Actuaries on the basis of actuarial methods set out in Professional Standards issued by the New Zealand Society of Actuaries, a full member of the International Actuarial Association. The methodology takes into account the risks and uncertainties of the particular classes of business written.

for the year ended 30 June 2012

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)

[A] INSURANCE LIABILITIES - EFFECT OF CHANGES AND ASSUMPTIONS (CONTINUED)

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) ACQUIRED VALUE OF IN-FORCE BUSINESS

The balance of acquired value of in-force business ('AVIF') is reviewed for impairment at each reporting period by the Appointed Actuary.

The key factors that affect the estimation of the valuation are:

- The life expectancy of the outstanding life insurance contracts,
- The value of planned profit margins, discounted at a risk adjusted rate of return;
- The discount rate to use for assessing the value of economic capital.

Where the outcome of the valuation differs adversely against the book value of the AVIF there is an impact to the profit and loss component of the statements of comprehensive income and the AVIF intangible balance recognised on the statements of financial position.

(C) YIELD PERFORMANCE OF FUNDS UNDER MANAGEMENT

Yield performance of the FCGBL funds under management is estimated at a net 4.5% (2011: 4.5%) over the remainder of the term of the bonds.

(D) 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.

(E) DEFERRED TAX

Significant judgements relating to the calculation of policyholder liabilities (note 3(A)) also impact the Group and Company's deferred tax assets and liabilities. The Group and Company has taken an assessment of anticipated tax assets and liabilities 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.



for the year ended 30 June 2012

4. ACTUARIAL METHODS AND POLICIES

The actuarial reports on policyholder liabilities and solvency reserves for the years ended 30 June 2011 and 30 June 2012 were prepared by the Appointed Actuary, John Smith MSc FNZSA FIAA, and peer reviewed by the Consulting Actuary, Peter Davies BBusSc 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 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 have 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 2012 was 3.4% (2011: 5.0%). For the year ended 30 June 2012 a gross discount rate of 3.4% was used (2011: 5.0%).

A gross interest rate of 3.4% was used to value discounted cash flows on renewable risk plans where the policy reserve is negative and level premium risk plans where the policy reserve is positive (2011: 5.0%).

A net rate of interest of 2.5% was used to value non-participating assurances (2011: 4.2%).

A gross rate of interest of 3.4% was used to value claim reserves and provisions for investment guarantees (2011: 5.0%).

Annuities were valued at 2.5% net of tax (2011: 3.6%).

For former Farmers Mutual Life Limited ('FMLL'') participating plans, a valuation rate of 4.0% was used (2011: 4.8%). This is derived from expected after-tax return on the assets backing the participating fund.

The solvency reserves are valued in accordance with the Solvency Standard for Life Insurance Business issued by the Reserve Bank of New Zealand, in August 2011. The discount rate was 1.6% (3.4% risk-free rate less 1.8% prescribed margin) as this gave a larger minimum solvency capital than 5.2% (3.4% risk-free rate plus 1.8%). Participating plans were valued using the adjusted risk free rate (not a higher expected yield on assets). All contracts except annuities, participating business and traditional assurances were valued on a gross basis, assuming no tax charge would arise if the prescribed adverse yield applied. Annuities, participating business and traditional assurances were valued on a net basis.

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 for annuities and participating contracts which were valued on a net basis (2011: gross basis). The assumed long-run rate is 28% (2011: 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 (2011: 2.5%).

for the year ended 30 June 2012

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% (2011: 100%) was assumed in accordance with the actual selection rebate set out in reinsurance treaties. Standard mortality is the reinsurance rates for underwritten business.

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 FMLL 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 (2011: age reduction 5 years to age 55, falling 1 year every 10 years of age to nil from age 95).

Morbidity: Morbidity was based on the net reinsurance rates. A selection rebate of 100% (2011: 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 (2011: 11.0%). The assumed discontinuance rate in the first year varies between 7.0% and 11.0% 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 11.0% and 15.5% depending on the minimum proportion of initial commission that is spread (2011: 11.0% 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 (2011: 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 [2011: 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 [2011: 14.0% 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 FMLL 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 FMLL, is 90% of the net premium reserve with double Zillmer calculated using NZ97(5) mortality table discounted at 4.8%, ignoring any terminal bonus (2011: 4.8%). For legacy assurances issued by Fidelity Life the surrender value is based on the A49/52 ultimate mortality table discounted at 4.5% (same as last year).

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

The exit charge on Gold Medal is 5.0%, 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 2012

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. The bonus is equal to conservative portfolio return on cash deposits plus a cash bonus of 10% of premiums paid.

For former FMLL plans the supportable bonus rate is 0.57% of the sum assured and reversionary bonus (2011: 1.20%). The current bonus declaration was 0.57% (2011:1.20%).

It is assumed that the policyholder's share of the surplus on the participating pool is 83.3% (2011: 83.3%), which matches the value of supportable assets at date of transfer from Farmers Mutual Group Limited 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 actuarial changes in assumptions: Under MoS, for life insurance contracts valuations using the projection method, changes in actuarial assumptions are recognised by adjusting the value of future profit margins in life insurance contract liabilities. Future profit margins are released over future periods.

The impact of the assumption changes in the current period on future profit margins in respect of life insurance contracts (excluding new business contracts which are measured using assumptions at the valuation date) are shown below:

GROUP AND PARENT

	Effect on Future Profit Margins	Effect on Life Insurance Contract Liabilities
Assumption change	\$'000	\$'000
Discontinuance rates	5,749	-
Premium rates	[4,896]	-
Renewal expenses	202	-
Discount rate	10,828	1,862

Sensitivity analysis of life investment contracts

The following table shows the changes in the value of future margins, policy liability and profit at 30 June if actuarial assumptions change as follows:

GROUP AND PARENT

2012

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

2011

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

for the year ended 30 June 2012

4. ACTUARIAL METHODS AND POLICIES (CONTINUED)

Sensitivity analysis of life insurance contracts

Refer to note 5(B) for sensitivity analysis for life insurance contracts.

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 2012 the value of the subordinated debt issued by FCGBL on a realisable basis is \$nil (2011: \$nil).

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

PARENT

	Life Investment		Life Insurance	
	2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000
Loans	17,794	18,523	11,606	12,149
Debt securities	90,369	91,436	12,780	6,452
Equity securities	93,830	100,232	-	-
Other investments	75,931	71,244	103,545	82,388
Investment property	8,531	-	744	-
Property, plant and equipment	6,728	-	2,554	-
Cash and cash equivalents	5,766	26,229	9,530	1,239
TOTAL ASSETS BACKING	298,949	307,664	140,759	102,228

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 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. Counterparty risks and adequacy of capital under different scenarios are covered in the Financial Condition Report ('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 involves the licensing of both distributors and insurers that are contingent upon meeting regulatory requirements.

for the year ended 30 June 2012

5. RISK MANAGEMENT (CONTINUED)

Under Reserve Bank of New Zealand ('RBNZ') requirements all insurers who wish to continue to operate in New Zealand are required to have a full licence prior to 7 September 2013. After an initial submission the Company was granted a provisional licence on 1 December 2011. As part of the application process the Company is reviewing its corporate governance processes, has documented its risk management framework and adheres to the RBNZ solvency standard for Life Insurance business issued in August 2011. The Company has a stable A- (Excellent) credit rating from A.M. Best, an approved credit rating agency.

Fidelity Life has developed a formalised risk management programme. The Company's risk management programme is supported by four key components:

- i. The risk management policy states the objectives of the risk management framework and strategy; and identifies who is responsible for the various risk management activities, including oversight, implementation and assessment of effectiveness.
- ii. The risk management framework details how the company ensures effective risk management is real and reflected in the operational activities of the Company.
- iii. The risk management strategy forms part of the annual strategic and business planning documents, identifying the key risks to achieving strategic objectives and the risk management initiatives that need to be planned and budgeted for. The risk management strategy is updated annually, ensuring that the Company continues to focus on relevant and current risks.
- iv. The risk register allows Board and senior management to critically evaluate if the risk management process is effectively identifying and addressing exposures. The risk register continuously evolves as risks are identified, monitored and treated.

The aim of these components is to ensure that Fidelity Life has a risk management process that is appropriate to the operations of the Company as required by the Insurance (Prudential Supervision) Act 2010 ('IPSA'). Each part of the proposed risk management process is periodically reviewed to ensure the effectiveness of the overall risk management programme.

The business risk assessment estimates the consequences from adverse events and the likelihood that such adverse events might occur. 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 Board has also appointed an Investment Committee to oversee the investments in line with the Statement of Investment Policy and Objectives ('SIPO') that is approved by the Board.

The Appointed Actuary submits an annual FCR to the Board that encompasses the items specified in section 6.3 of the Reserve Bank of New Zealand's 'Solvency Standard for Life Insurance Business' as well as 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.

Under recent legislation, distributors need to be Authorised Financial Advisers to provide personalised advice on KiwiSaver and other investment products. Distributors need to be Registered Financial Advisers to provide advice on insurance products. Fidelity Life does not accept business that is submitted via advisers who are not permitted to provide such advice under the legislation. The Company is a member of the Insurance & Savings Ombudsman Scheme Inc. (ISO) dispute resolution scheme.

Risk is categorised as follows:

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

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.

For each of the major components of market risk, the Company has put in place procedures to set out how each risk should be managed and monitored, and the approach to setting an appropriate risk appetite. The management of market risk is undertaken by the Investment Committee which is responsible for managing market risk, and a number of investment related risks



for the year ended 30 June 2012

5. RISK MANAGEMENT (CONTINUED)

A. MARKET RISK (CONTINUED)

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. The solvency reserve allows for a one-off shock to asset values (consistent with credit, equity and property ('CEP') risk capital charges defined in the RBNZ solvency standard) and long-term risk-free yield.

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. Prescribed asset risk capital charges are maintained to meet currency, interest rate and price risks defined in the RBNZ solvency standard for life insurance business.

(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 SIPO policy requires that the fund managers maintain 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:

	Grou	nb	Parent	
	2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000
ASSETS				
Australian Dollars	108,355	102,052	108,355	102,052
Great British Pounds	17,034	16,765	17,034	16,765
US Dollars	15,696	23,048	15,696	23,048
TOTAL ASSETS IN FOREIGN CURRENCY	141,085	141,865	141,085	141,865
PERCENTAGE OF TOTAL ASSETS	26.1%	26.7%	29.6%	30.5%



for the year ended 30 June 2012

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% with all other variables assumed unchanged:

GROUP AND PARENT

	+10% change in foreign exchange rates					change in fore	ign exchange ra	tes
	Impact on po	n post tax profit Impact on equity		Impact on po	ost tax profit	Impact o	Impact on equity	
	2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000
AUD	204	123	204	123	(167)	(101)	(167)	(101)
GBP	75	66	75	66	(61)	(55)	(61)	(55)
US	99	92	99	92	(81)	(75)	(81)	(75)
	378	281	378	281	(309)	(231)	(309)	(231)

(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 ('PIE') 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.

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% with all other variables assumed unchanged:

+10% change in price variable				-10%	6 change in	price variab	le	
	Impact on post tax profit		Impact on equity		Impact on post tax profit		Impact on equity	
	2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000
Change in the Market Value of:								
New Zealand and Australian Shares	184	149	184	149	(184)	(149)	(184)	[149]
International Shares	237	147	237	147	(237)	(147)	(237)	(147)
New Zealand Property	139	112	139	112	(139)	(112)	(139)	(112)
Bond Options (Derivatives)	375	285	375	285	(375)	(285)	(375)	(285)
	935	693	935	693	(935)	(693)	(935)	(693)

(iii) Interest rate risk

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

for the year ended 30 June 2012

5. RISK MANAGEMENT (CONTINUED)

A. MARKET RISK (CONTINUED)

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 Group's 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.

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% with all other variables assumed unchanged:

GROUP

+1% change in interest rates				-19	% change in i	interest rates	5	
	Impact on post tax profit		Impact on equity		Impact on post tax profit		Impact on equity	
	2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000
Cash and Cash Equivalents	70	40	70	40	(70)	(40)	(70)	(40)
Loans	84	82	84	82	(84)	(82)	(84)	(82)
NZ Debt Securities	(1,705)	(1,673)	(1,705)	(1,673)	1,853	1,691	1,853	1,691
International Debt Securities	(369)	(48)	(369)	(48)	393	51	393	51
US put and call options	-	(27,735)	-	(27,735)	-	27,735	-	27,735
	(1,920)	(29,334)	(1,920)	(29,334)	2,092	29,355	2,092	29,355

PARENT

	+19	% change in i	interest rate	S	-19	% change in i	interest rates	5
	Impact on post tax profit		·		Impact on post tax profit		Impact on equity	
	2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000
Cash and Cash Equivalents	68	9	68	9	(68)	(9)	(68)	(9)
Loans	84	82	84	82	(84)	(82)	(84)	(82)
NZ Debt Securities	(1,705)	(497)	(1,705)	(497)	1,853	515	1,853	515
International Debt Securities	(369)	(48)	(369)	(48)	393	51	393	51
	(1,922)	(454)	(1,922)	(454)	2,094	475	2,094	475

for the year ended 30 June 2012

5. RISK MANAGEMENT (CONTINUED)

B. INSURANCE RISK

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

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

The 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 FCR and half-yearly actuarial valuation reports. Profitability is estimated from monthly management accounts.

Sensitivity analysis

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

The following table shows the changes in the value of future planned margins (assuming no compensating changes in future premiums), policy liability (including future profit margins) and surplus at 30 June if actuarial assumptions change as follows:

2012

		Future Margins	Policy Liability	Profit
		\$'000	\$'000	\$'000
Discount rate / inflation rate	Increase by 0.25% Decrease by 0.25%	-	865 (1,089)	(865) 1,089
Mortality / Morbidity	Increase by 10% Decrease by 10%	(51,221) 51,833	(445) 469	445 (469)
Lapses	Increase by 10% Decrease by 10%	(11,471) 14,242	-	-
Expenses	Increase by 10% Decrease by 10%	(21,480) 21,725	-	-
Terminations	Increase by 10% Decrease by 10%	-	(333) 354	333 (354)



for the year ended 30 June 2012

5. RISK MANAGEMENT (CONTINUED)

B. INSURANCE RISK (CONTINUED)

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)

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.

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

The table below 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 (included in Group figures) the inputs have been prepared on the basis of expected cash flow maturities post the Close Out of Fund.

5. RISK MANAGEMENT (CONTINUED)

C. LIQUIDITY RISK (CONTINUED)

GROUP 2012

	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	15,543	-	-	-	15,543	15,543
Loans and other receivables	7,207	2,697	10,798	29,332	50,034	31,435
Financial assets at fair value through profit or loss	284,570	84,652	62,766	26,529	458,517	437,228
Derivative financial instruments	2,721	-	-	-	2,721	2,721
Assets arising from reinsurance contracts	10,347	-	-	-	10,347	10,347
	320,388	87,349	73,564	55,861	537,162	497,274
Financial liabilities:						
Policyholder liabilities – investment (non-participating) contracts	119,011	12,373	28,911	138,654	298,949	298,949
Policyholder liabilities – insurance contracts	6,344	2,538	4,328	12,309	25,519	(17,054)
Payables and other financial liabilities	27,708	17	-	-	27,725	27,714
Derivative financial instruments	173	-	-	-	173	173
Interest bearing liabilities	-	-	65,865	-	65,865	63,660
	153,236	14,928	99,104	150,963	418,231	373,442

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

for the year ended 30 June 2012

5. RISK MANAGEMENT (CONTINUED)

C. LIQUIDITY RISK (CONTINUED)

PARENT 2012

	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	15,296	-	-	-	15,296	15,296
Loans and other receivables	7,207	2,697	10,798	29,332	50,034	31,435
Financial assets at fair value through profit or loss	284,570	18,952	62,766	26,529	392,817	373,734
Derivative financial instruments	2,721	-	-	-	2,721	2,721
Assets arising from reinsurance contracts	10,347	-	-	-	10,347	10,347
	320,141	21,649	73,564	55,861	471,215	433,533
Financial liabilities:						
Policyholder liabilities – investment (non-participating) contracts	119,011	12,373	28,911	138,654	298,949	298,949
Policyholder liabilities – insurance contracts	6,344	2,538	4,328	12,309	25,519	(17,054)
Payables and other financial liabilities	27,643	-	-	-	27,643	27,643
Derivative financial instruments	173	-	-	-	173	173
	153,171	14,911	33,239	150,963	352,284	309,711

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

for the year ended 30 June 2012

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 2012

	AAA+ to A-	BBB+ to BBB-	BB+ to B-	Unrated	Total
	\$'000	\$'000	\$'000	\$'000	\$'000
Cash and cash equivalents	15,543	-	-	-	15,543
Assets arising from reinsurance contracts	10,347	-	-	-	10,347
Debt securities	131,036	22,998	1,275	11,334	166,643
Loans	-	-	-	30,174	30,174
	156,926	22,998	1,275	41,508	222,707

GROUP 2011

	AAA+ to A-	BBB+ to BBB-	BB+ to B-	Unrated	Total
	\$'000	\$'000	\$'000	\$'000	\$'000
Cash and cash equivalents	31,905	-	-	-	31,905
Assets arising from reinsurance contracts	6,713	-	-	270	6,983
Debt securities	148,310	19,441	-	15,925	183,676
Loans	-	-	-	31,152	31,152
	186,928	19,441	-	47,347	253,716

Included in the statement of financial position is unitised funds of \$176,755,000 (2011: \$153,632,000). Unitised products are invested within the guidelines of the Group's SIPO. The 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 17, all FCGBL's deposits are held by Westpac in New Zealand.

PARENT 2012

	AAA+ to A-	BBB+ to BBB-	BB+ to B-	Unrated	Total
	\$'000	\$'000	\$'000	\$'000	\$'000
Cash and cash equivalents	15,296	-	-	-	15,296
Assets arising from reinsurance contracts	10,347	-	-	-	10,347
Debt securities	67,542	22,998	1,275	11,334	103,149
Loans	-	-	-	30,174	30,174
	93,185	22,998	1,275	41,508	158,966



for the year ended 30 June 2012

5. RISK MANAGEMENT (CONTINUED)

D. CREDIT RISK (CONTINUED)

PARENT 2011

	AAA+ to A-	BBB+ to BBB-	BB+ to B-	Unrated	Total
	\$'000	\$'000	\$'000	\$'000	\$'000
Cash and cash equivalents	27,468	-	-	-	27,468
Assets arising from reinsurance contracts	6,713	-	-	270	6,983
Debt securities	62,522	19,441	-	15,925	97,888
Loans	-	-	-	31,152	31,152
	96,703	19,441	-	47,347	163,491

Included in the statement of financial position is unitised funds of \$176,755,000 (2011: \$153,632,000). Unitised products are invested within the guidelines of the Group's SIPO. The 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 17, all FCGBL's deposits are held by Westpac in New Zealand.

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:

	Group		Parent	
	2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000
Current	17,933	20,286	17,933	20,286
Less than three months	3,917	4,861	3,917	4,861
Between three and six months	2,933	3,219	2,933	3,219
Greater than six months past due	2,253	841	2,253	841
Impaired	3,138	1,945	3,138	1,945
TOTAL DUE	30,174	31,152	30,174	31,152

As at 30 June 2012 \$2.8 million (2011: \$2.1 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

Where appropriate the Group holds collateral in the form of liens or charges over properties and, in the case of policy loans, the underlying policy. In the event of a default, the Group is able to sell or repledge the collateral. The Company policy is for a maximum loan to value ratio of less than 75%. If the outstanding loan exceeds this level it is actively managed to reduce the Group's exposure. At present the fair value of all security across the entire portfolio is not calculated.

for the year ended 30 June 2012

5. RISK MANAGEMENT (CONTINUED)

D. CREDIT RISK (CONTINUED)

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 2012 or 2011.

	Group		Parent	
	2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000
Carrying amount at the beginning of the year	536	200	536	200
Provisions recognised during the year	353	336	353	336
Balances written off during the year	(31)	-	(31)	-
Unused amounts reversed	(84)	-	(84)	-
CARRYING AMOUNT AT THE END OF THE YEAR	774	536	774	536

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

There have been no collective provisions included (2011: nil).

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

E. FAIR VALUES

The Group classifies fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

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

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

As at 30 June 2012, the Group's financial instruments held at fair value through profit or loss have been classified as level 2 [2011: level 2] in the fair value hierarchy, apart from specific instruments relating to the Company's 100% owned subsidiary, FCGBL, as disclosed below. 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. These financial instruments are priced daily with reference to active stock market pricing.

As at 30 June 2012, FCGBL's financial assets held at fair value through profit or loss have been classified as level 3 in the fair value hierarchy. These assets comprise a zero coupon bond debt security issued by a New Zealand registered bank. The discount on the face value of the bond of \$65.7 million (2011: \$65.7 million) is currently being amortised on a market yield basis to maturity.

The fair value of the Capital Guaranteed Bonds has been classified as level 3 in the fair value hierarchy. The fair value of the Capital Guaranteed Bonds at 30 June 2012 was \$63,660,000 (2011: \$60,952,000). The fair value of the Capital Guaranteed Bonds are the estimated realisable values being the outstanding principal owed on the Senior Bonds adjusted for the shortfall of total recognised assets compared to total recognised liabilities held by FCGBL at 30 June.

for the year ended 30 June 2012

5. RISK MANAGEMENT (CONTINUED)

E. FAIR VALUES (CONTINUED)

The fair value of the Subordinated Bonds has been classified as level 3 in the fair value hierarchy. The fair value was derived from a re-estimation of future expected cash flows by FCGBL management discounted by the original effective interest rate of 12.35%. At 30 June 2012 fair value was \$nil (2011: \$nil).

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 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.

Prior to receipt of a Close Out Notice (refer note 17), funds held by FCGBL 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. All assets are now held with the Capital Guarantor.

Priority of creditors claims

Following the receipt of a Close Out Notice on 11 August 2011 by FCGBL (refer note 17), 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, suspended and future interest payable was 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 million on the Maturity Date of 15 July 2013.

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.

Guarantees

FCGBL entered in to a Reimbursement Agreement dated 7 February 2007 with Westpac Banking Corporation, New Zealand Branch 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 Company's capital management goals are to maintain a strong capital base to protect policyholders; to maintain an excellent credit rating; and to support its dividend policy.

From 1 December 2011, the Company has operated under a provisional licence issued by the RBNZ, under the provisions of the IPSA.

One of the ongoing licensing requirements is to comply with the Solvency Standard for Life Insurance Business issued by RBNZ (the 'Solvency Standard'). It is a requirement that the actual solvency capital must at all times exceed the higher of \$5 million and the minimum solvency capital.

During the year ended 30 June 2012, the Company complied with all capital and other licensing requirements. The Appointed Actuary continuously monitors the capital position of the Company and updates the Board of Directors of the solvency position on a monthly basis.

The Audit and Risk Committee reviews the annual and interim financial statements and receives an actuarial review by independent consulting actuary as well as an audit management report on the annual financial statements. From 30 June 2012, the Company is required to obtain a report from the auditor on the solvency return.

The Board of Directors considers an annual FCR prepared by the Appointed Actuary in accordance with both professional standards issued by the New Zealand Society of Actuaries and the solvency standard. The FCR identifies and describes all material risks (of which it is reasonable to expect the Appointed Actuary to be aware) and steps taken or proposed to address such risks. The FCR includes consideration of: related entities; assets, investment policy and matching; investment guarantees; tax; bonuses; dividend policy and capital requirements; risk assessment, controls and operational risk; unit-pricing; persistency; counter-party risks; product pricing, cost of sales and planned growth; and compliance with new and proposed legislation.

for the year ended 30 June 2012

5. RISK MANAGEMENT (CONTINUED)

F. CAPITAL MANAGEMENT (CONTINUED)

The Company manages its capital by considering the return on capital reported under NZ IFRS and projections of solvency margin. Regulatory capital is made up of two components, actual solvency capital and minimum solvency capital. This is calculated as follows for Fidelity Life Assurance Company Limited as the Life Insurer of the Group:

	Pare	ent
	2012 \$'000	2011 \$'000 (unaudited)
Equity		
Share capital	12,946	12,581
Retained earnings	126,684	116,134
Revaluation reserves	769	372
Total Equity	140,399	129,087
Less deductions:		
Intangible assets		
Software	2,759	1,436
Acquired value of in-force business	2,163	3,432
Deferred tax assets	13,320	14,177
Investment in subsidiaries	8	8
Dividend (grossed up)	3,402	2,877
Total deductions	21,652	21,930
ACTUAL SOLVENCY CAPITAL	118,747	107,157
Risk Capital Charges		
Insurance	400,501	394,376
Catastrophe	4,223	3,404
Asset	28,029	26,159
Solvency requirement	432,753	423,939
Less total liabilities	336,161	335,348
MINIMUM SOLVENCY CAPITAL	96,592	88,591
SOLVENCY MARGIN	22,155	18,566
SOLVENCY RATIO	122.9%	121.0%

Explanation of Risk Capital Charges included in the solvency disclosure:

Insurance Risk Capital Charge

This takes into account the risks pertaining to each element in respect of which an assumption is required to set a value on Policy Liabilities. The risks pertaining to each element include the risk of mis-estimation, the risk of deterioration of the assumptions, the risk of adverse statistical fluctuations and the risk of the unexpected changes in the underlying distribution of experience.

Catastrophe Risk Capital Charge

This is intended to reflect the exposure of a licensed insurer to large claims or large numbers of claims arising from extreme events, for example a pandemic or natural disaster.

for the year ended 30 June 2012

5. RISK MANAGEMENT (CONTINUED)

F. CAPITAL MANAGEMENT (CONTINUED)

Asset Risk Capital Charge

This charge is made up of three components:

1. Resilience Risk Capital Charge

This charge is intended to reflect the potential exposure of a licensed insurer to adverse changes in the value of assets relative to the value of liabilities due to adverse credit events or other economic or financial market shocks. Shocks may manifest as changes in interest rates, exchange rates and other market or non-market prices that affect the economic value of the licensed insurer.

2. Asset Concentration Risk Capital Charge

This is a separate charge for concentrated exposure to counterparties.

3. Reinsurance Risk Capital Charge

This reflect the exposure of a licensed insurer to losses arising from the failure to fully recover on reinsurance contracts (including catastrophe reinsurance contracts), including losses due to reinsurer failure and contract dispute.

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') who are considered to be the chief operating decision maker.

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. 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 (NZ IFRS 4) rather than through Surplus / Deficit for management reporting
- entries that relate to the financial reports which are not included in the internal reporting.



6. SEGMENT INFORMATION (CONTINUED)

2012

	Continuing operations Life Insurance Segment	Discontinued operations Capital Guaranteed Bond Segment	Total Reconciling Items	Group
	\$'000	\$'000	\$'000	\$'000
Revenues / Income				
Revenues from external customers	138,850	-	(43,802)	95,048
Insurance premium ceded to reinsurers	(33,787)	-	-	(33,787)
Interest revenue	9,103	3	-	9,106
Other investment income	(5,715)	-	-	(5,715)
Investment property income	1,962	-	(677)	1,285
Other income	10,766	-	-	10,766
Total segment revenue / income	121,179	3	(44,479)	76,703
Expenses				
Payments to policyholders	92,420	-	(47,771)	44,649
Reinsurance revenue	(33,550)	-	-	(33,550)
Commission and other management expenses	56,818	3	(677)	56,144
Interest expense	-	-	-	-
Depreciation	765	-	(139)	626
Amortisation	605	-	139	744
Impairment	664	-	-	664
	117,722	3	(48,448)	69,277
BOARD REPORTING SURPLUS	3,457	-	3,969	7,426
Movement in policyholder liabilities	-	-	6,294	6,294
Income tax expense	76	-	-	76
NET PROFIT AFTER TAXATION	3,381	-	10,263	13,644
TOTAL ASSETS	476,560	63,741	(8)	540,293

As per note 17 the instrument related to FCGBL has been measured on a realisable value basis (2011: realisable value basis).



for the year ended 30 June 2012

6. SEGMENT INFORMATION (CONTINUED)

2011

	Continuing	Discontinued operations		
	operations Life Insurance Segment	Capital Guaranteed Bond Segment	Total Reconciling Items	Group
	\$'000	\$'000	\$'000	\$'000
Revenues / Income				
Revenues from external customers	128,556	-	(41,810)	86,746
Insurance premium ceded to reinsurers	[29,829]	-	-	(29,829)
Interest revenue	8,798	831	375	10,004
Other investment income	27,590	7,534	-	35,124
Investment property income	1,873	-	(752)	1,121
Otherincome	3,780	-	(301)	3,479
Total segment revenue / income	140,768	8,365	(42,488)	106,645
Expenses				
Payments to policyholders	91,709	-	(53,229)	38,480
Reinsurance revenue	(28,689)	-	-	(28,689)
Commission and other management expenses	58,815	1,559	(1,290)	59,084
Interest expense	-	7,251	-	7,251
Depreciation	664	-	(32)	632
Amortisation	605	-	162	767
Impairment	-	-	-	-
	123,104	8,810	(54,389)	77,525
BOARD REPORTING SURPLUS / (DEFICIT)	17,664	(445)	11,901	29,120
Movement in policyholder liabilities	-	-	(10,892)	(10,892)
Income tax	(124)	38	-	(86)
NET PROFIT AFTER TAXATION	17,788	[483]	1,009	18,314
TOTAL ASSETS	464,435	65,213	1,482	531,130

(B) REVENUES ATTRIBUTABLE TO FOREIGN COUNTRIES:

All revenues received by the life insurance segment are attributable to New Zealand. Subsequent to the close out notice (refer note 17) all revenues received by the Capital Guaranteed Bond segment are attributable to New Zealand totalling \$2,710,000 (2011: \$6,735,000). There is no income or losses attributable to the United States of America (2011: losses of \$12,418,000).

As per note 17 the instrument related to FCGBL has been measured on a realisable value basis (2011: realisable value basis).

(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 2012

7. PROFIT AFTER TAXATION

	Group		Pare	ent
	2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000
Profit after taxation arose from				
Life insurance contracts				
Planned margins of revenues over expenses	9,761	8,101	9,761	8,101
Difference between actual and assumed experience	2,568	2,835	2,568	2,835
Effects of changes in underlying assumptions	(3,749)	(1,015)	(3,749)	(1,015)
Investment earnings on assets in excess of life insurance liabilities	3,809	2,767	3,809	2,767
	12,389	12,688	12,389	12,688
Life investment contracts				
Difference between actual and assumed experience	222	196	222	196
Effects of changes in underlying assumptions	(467)	(91)	(467)	(91)
	(245)	105	(245)	105
Investment earnings on assets in excess of policy liabilities	1,500	5,521	1,500	5,521
PROFIT AFTER TAXATION	13,644	18,314	13,644	18,314

8. INSURANCE PREMIUM CEDED TO REINSURERS

Insurance premiums ceded to reinsurers on life insurance contracts was \$33,787,000 (2011: \$29,829,000) for the Group and Parent.

Reinsurance contracts were held with the following reinsurers during 2012: Swiss Re Life and Health Australia Limited, Munich Reinsurance Company of Australia Limited, RGA Reinsurance Company of Australia Limited, Hannover Life Re of Australasia Limited, General Reinsurance Life Australia Limited and Global Life Reinsurance Company of Australia Pty Limited (2011: no change).

9. FEE AND COMMISSION INCOME

	Group		Pare	nt
	2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000
Fees from fiduciary activities:				
Administration fees	2,452	2,278	2,452	2,278
Management fees	1,236	774	1,236	774
Other administration fees	475	399	475	699
TOTAL FEE AND COMMISSION INCOME	4,163	3,451	4,163	3,751



for the year ended 30 June 2012

10. INVESTMENT INCOME

	Gro	up	Pare	ent
	2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000
Financial instruments designated at fair value through profit or loss				
Equity securities	(1,122)	1,387	(1,122)	1,387
Debt securities	5,464	6,523	5,464	6,148
Unit Trusts / PIEs	(6,033)	25,200	(6,033)	25,200
Other	3	5	3	5
	(1,688)	33,115	(1,688)	32,740
Financial instruments at amortised cost				
Loans	2,007	1,934	2,007	1,934
	2,007	1,934	2,007	1,934
Fair value movement from financial instruments held for trading				
Derivative financial instruments	3,545	2,595	3,545	2,595
	3,545	2,595	3,545	2,595
Net exchange losses on financial instruments at amortised cost	(476)	(881)	(476)	(881)
	(476)	(881)	(476)	(881)
	3,388	36,763	3,388	36,388
Summary of investment income				
Interest and similar income	9,103	9,173	9,103	8,798
Dividend income	175	70	175	70
Distributions from unitised investments	8,442	8,315	8,442	8,315
Net fair value (losses) / gains on financial assets at fair value through profit or loss	(17,877)	16,610	(17,877)	16,610
Net fair value gains on financial assets held for trading	3,545	2,595	3,545	2,595
NET INVESTMENT INCOME	3,388	36,763	3,388	36,388



for the year ended 30 June 2012

11. INVESTMENT PROPERTY INCOME

	Group		Pare	nt
	2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000
Increase in fair value of investment property (note 23)	477	318	477	318
Rental income from investment property	808	803	808	803
TOTAL INVESTMENT PROPERTY INCOME	1,285	1,121	1,285	1,121

12. OTHER INCOME

	Gro	Group		ent
	2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000
Reinsurance treaty recapture	6,500	-	6,500	-
Other income	103	28	103	28
TOTAL OTHER INCOME	6,603	28	6,603	28

In June 2012 \$6.5m was received for the recapture of the reinsurance contract relating to the Direct Mail book, which was purchased as part of the acquisition of Farmers Mutual Life Limited in February 2007.

13. CLAIMS EXPENSE

	Group		Parent	
	2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000
Life insurance contracts				
Claims paid to policyholders under life insurance contracts				
Claims paid on death or critical illness	44,649	39,549	44,649	39,549
TOTAL LIFE INSURANCE CLAIMS AND BENEFITS PAID	44,649	39,549	44,649	39,549

14. REINSURANCE RECOVERIES

Reinsurance recoveries received for the year on life insurance contracts was \$33,550,000 (2011: \$28,689,000) for the Group and Parent.



NOTES TO THE FINANCIAL STATEMENTS for the year ended 30 June 2012 $\,$

15. COMMISSION AND MANAGEMENT EXPENSES

	Gro	Group		ent
	2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000
Life insurance contracts				
Acquisition costs				
Commissions	17,304	18,341	17,304	18,341
Other expenses	12,469	14,477	12,469	14,477
Maintenance costs				
Commissions	9,765	8,261	9,765	8,261
Other expenses	13,698	12,997	13,698	13,406
	53,236	54,076	53,236	54,485
Life investment contracts				
Acquisition costs				
Commissions	533	852	533	852
Movement in deferred acquisition cost	1,263	172	1,263	172
Other expenses	10	6	10	6
Maintenance costs				
Commissions	2,361	2,486	2,361	2,486
Other expenses	155	311	155	311
Investment management expenses	617	1,021	617	1,021
	4,939	4,848	4,939	4,848
TOTAL COMMISSION AND MANAGEMENT EXPENSES	58,175	58,924	58,175	59,333



15. COMMISSION AND MANAGEMENT EXPENSES (CONTINUED)

	Group		Pare	ent
	2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000
Total commission and management expenses include the following:				
Employee benefit expense				
Wages and salaries and other short term benefits	13,273	14,248	13,273	14,248
Contribution to superannuation schemes	924	963	924	963
Employee share purchase scheme (note 33)	71	82	71	82
Remuneration of auditors (appointed auditor: PricewaterhouseCoopers)				
Audit services	137	119	137	119
Advisory services	19	19	19	19
Tax services				
- Compliance	39	54	39	54
- Advisory	83	100	83	100
Depreciation (note 24)	626	632	626	632
Revaluation of property, plant and equipment (note 24)	-	(205)	-	(205)
Amortisation				
Acquired in-force business (note 28)	605	605	605	605
Software (note 28)	139	162	139	162
Impairment				
Acquired in-force business (note 28)	664	-	664	-
Directors' fees	392	360	392	360
Operating lease costs	145	114	145	114
Direct rental property expenses (note 23)	284	279	284	279
Bad and doubtful debts expense	325	530	325	939

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 22, the Company has increased its provision for impairment of the mortgages and loans portfolio by \$294,000 (2011: \$280,000). These amounts are included in bad and doubtful debts expense.



for the year ended 30 June 2012

16. INCOME TAX EXPENSE / (CREDIT)

	Gro	пb	Pare	ent
	2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000
(A) INCOME TAX EXPENSE / (CREDIT)				
Current tax	(34)	-	(34)	-
Deferred tax	562	(124)	562	(125)
Adjustment to prior period deferred tax	(452)	-	(452)	-
	76	[124]	76	(125)
(B) NUMERICAL RECONCILIATION OF INCOME TAX EXPENSE / (CREDIT) TO PRIMA FACIE TAX PAYABLE				
Profit before income tax expense	13,720	18,673	13,720	18,189
Tax at the New Zealand tax rate of 28% (2011:30%)	3,842	5,602	3,842	5,457
Tax effect of non-taxable income	(8,004)	(12,174)	(8,004)	(12,030)
Tax effect of non-deductible expenses	5,100	6,344	5,100	6,344
Subsidiary tax losses transferred to parent company	(111)	-	(111)	-
Effect of change in the tax rate on deferred tax	-	9	-	9
Benefit of imputation credits received	(243)	-	(243)	-
Prior period adjustment	(508)	95	(508)	95
INCOME TAX EXPENSE / (CREDIT)	76	[124]	76	(125)

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

(C) IMPUTATION CREDIT ACCOUNT

	Group		Parent	
	2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000
Imputation credits available for use in subsequent reporting periods	109	102	109	102

(D) TAX CHARGE RELATING TO COMPONENTS OF OTHER COMPREHENSIVE INCOME

The tax charge relating to components of other comprehensive income is as follows:

			Group and	d Parent		
	Before tax 2012 \$'000	Deferred Tax charge 2012 \$'000	After tax 2012 \$'000	Before tax 2011 \$'000	Deferred Tax charge 2011 \$'000	After tax 2011 \$'000
Fair value gains/(losses) on revaluation – land and buildings	552	(155)	397	207	[62]	145
Employee share purchase plan expense	71	-	71	82	-	82
	623	(155)	468	289	(62)	227

(E) INCOME TAX ASSET

An income tax asset of \$2,560,000 (2011: \$1,321,000) is recognised on the statements of financial position of the Company at 30 June 2012. The income tax will be utilised to meet the Company's future shareholder income tax liabilities once tax losses carried forward have been exhausted. The Company cannot request a refund of the income tax paid due to insufficient imputation credits available.

for the year ended 30 June 2012

17. DISCONTINUED OPERATIONS

	Gro	ир
	2012 \$'000	2011 \$'000
Investment income		
Financial instruments designated at fair value through profit or loss – Debt securities	2,711	(57,432)
Fair value movement from financial instruments held for trading – derivative financial instruments	-	75,927
Trading losses incurred prior to close out	-	(24,178)
[Increase] / reduction in funds attributable to Bondholders	(2,708)	14,048
INVESTMENT INCOME	3	8,365
Expenses		
Auditors' fees	32	47
Investment management expenses	-	1,304
Other expenses	74	32
Movement in provision for future on-going operating expenses	(103)	176
TOTAL OPERATING EXPENSES	3	1,559
Finance costs		
Interest expense on:		
Capital Guaranteed Bonds	-	7,251
TOTAL FINANCE COSTS	-	7,251
NET DISCONTINUED OPERATIONS LOSS BEFORE TAX	-	(445)
Income tax expense from discontinued operations	-	(38)
NET DISCONTINUED OPERATIONS LOSS AFTER TAX	-	(483)

In August 2011 there was significant volatility in investment markets. Major losses were incurred by the Company's wholly owned subsidiary, Fidelity Capital Guaranteed Bond Limited. The net asset value of the investments (the 'Fund'), managed by Tyndall Investment Management Limited, fell below the Bond Floor on 10 August 2011, triggering an Event of Default. This led to the Capital Guarantor, Westpac Banking Corporation, New Zealand Branch, issuing a Close Out Notice and assuming control and direction of the Fund. Open position Active Portfolio Assets were closed out and, in accordance with the Supplemental Trust Deed (No. 1), the resulting proceeds were invested in Fixed Portfolio Assets during August 2011. The resulting proceeds were invested in a zero coupon bond and cash. No future interest coupons will be paid and interest is no longer expensed or accrued.

Following these events in the 2011 financial statements FCGBL was deemed to be a discontinuing operation and the financial statements for the subsidiary are based on a realisable value basis. FCGBL continues to be accounted for on realisable value basis.

In the current year, interest income and net changes in financial assets at fair value through profit and loss on investments have been offset by a realisable value adjustment to the senior bond liability. In addition the provision for on-going expenses has been adjusted to reflect actual expenses incurred in the year and future expected cash flows. The net impact is that profit before tax is nil.

for the year ended 30 June 2012

17. DISCONTINUED OPERATIONS (CONTINUED)

Assets and liabilities for 30 June 2012 and 30 June 2011 are carried at net realisable values. As at 30 June 2012, all assets were held with the Capital Guarantor and comprised a \$63.5 million zero coupon bond (2011: \$60.8 million) with a face value of \$65.7 million (2011: \$65.7 million) on the maturity date of 15 July 2013; and \$0.2 million (2011: \$0.2 million) of cash and accrued interest in a money market bank account. In addition at 30 June 2012 the Company had \$0.1 million (2011: \$0.2 million) in a separate operating bank account to cover on-going expenses accrued and expected to be incurred prior to the maturity date of 15 July 2013.

The Capital Guarantor guarantees the payment of the principal amount at maturity of the \$75 million Capital Guaranteed Bonds to the extent that the principal amount of the bonds is not paid in full by FCGBL from the liquidated proceeds of the Fund. As at 30 June 2012 this is estimated to be \$9.1 million (2011: \$9.1 million).

Investment income consists of:

	Group		
	2012 \$'000	2011 \$'000	
Interest and similar income	3	831	
Net fair value gains on financial assets at fair value through profit or loss	-	7,534	
NET INVESTMENT INCOME FROM DISCONTINUED OPERATIONS	3	8,365	

Income taxation from discontinued operations consists of:

	Gro	ıp
	2012 \$'000	2011 \$'000
(A) INCOME TAX EXPENSE		
Current tax	-	-
Deferred tax	-	38
	-	38
(B) NUMERICAL RECONCILIATION OF INCOME TAX EXPENSE TO PRIMA FACIE TAX PAYABLE		
Loss before income tax expense	-	(445)
Tax at the New Zealand tax rate of 28% (2011: 30%)	-	(134)
Tax effect of non-taxable / non-deductible amounts	-	168
Effect of change in the tax rate on deferred tax	-	4
INCOME TAX EXPENSE FROM DISCONTINUED OPERATIONS	-	38

for the year ended 30 June 2012

18. CASH AND CASH EQUIVALENTS

	Gro	up	Parent		
	2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000	
Cash at bank and in hand					
Bank balances	15,441	12,170	15,194	11,985	
Deposits at call	102	19,735	102	15,483	
TOTAL CASH AND CASH EQUIVALENTS	15,543	31,905	15,296	27,468	

19. ASSETS ARISING FROM REINSURANCE CONTRACTS

	Gro	up	Pare	nt
	2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000
Assets arising from reinsurance contracts comprise:				
Life insurance contracts	10,347	6,983	10,347	6,983
	10,347	6,983	10,347	6,983
Life insurance contracts reinsurance assets				
Carrying amount at 1 July	6,983	13,378	6,983	13,378
Reinsurance claims made to reinsurers	33,112	28,278	33,112	28,278
Payments received from reinsurers	(29,748)	(34,673)	(29,748)	(34,673)
CARRYING AMOUNT AT 30 JUNE	10,347	6,983	10,347	6,983
Expected maturity				
Within 12 months	10,347	6,983	10,347	6,983
	10,347	6,983	10,347	6,983



for the year ended 30 June 2012

20. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	Gro	nb	Parent		
	2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000	
Financial assets designated at fair value through profit or loss					
Debt securities					
Local Authority	11,021	11,499	11,021	11,499	
New Zealand Government	11,216	9,560	11,216	8,483	
Corporate – New Zealand	144,406	162,617	80,912	77,906	
Unitised Funds	176,755	153,632	176,755	153,632	
TOTAL DEBT SECURITIES	343,398	337,308	279,904	251,520	
Equity securities					
Corporate – non-New Zealand	8,309	9,606	8,309	9,606	
Unitised Funds	85,521	90,626	85,521	90,626	
TOTAL EQUITY SECURITIES	93,830	100,232	93,830	100,232	
Trading losses in FCGBL prior to close-out	-	(24,178)	-	-	
TOTAL FINANCIAL ASSETS DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS	437,228	413,362	373,734	351,752	
Expected maturity					
Within 12 months	278,910	270,641	278,910	270,641	
Later than 12 months	158,318	142,721	94,824	81,111	
	437,228	413,362	373,734	351,752	

As per note 17 the instrument related to FCGBL has been measured on a realisable value basis (2011: realisable value basis).

21. DERIVATIVE FINANCIAL INSTRUMENTS

	Gro	up	Pare	ent
	2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000
Assets				
Forward currency	2,721	3,374	2,721	3,348
TOTAL CURRENT PORTION OF DERIVATIVE ASSETS	2,721	3,374	2,721	3,348
Liabilities				
Forward currency	166	684	166	684
Put options	-	1,609	-	2
Call options	7	53	7	5
TOTAL CURRENT PORTION OF DERIVATIVE LIABILITIES	173	2,346	173	691

22. LOANS AND OTHER RECEIVABLES

Group		Parent	
2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000
29,473	29,745	29,473	29,745
143	209	143	209
558	1,198	558	1,198
30,174	31,152	30,174	31,152
(774)	(480)	(774)	(480)
29,400	30,672	29,400	30,672
21/	822	21/	27
			969
			1,055
ŕ	·	ŕ	577
-	-	-	165
196	1 181	196	1,181
3,046	4,604	3,046	3,974
-	(56)	-	(56)
3,046	4,548	3,046	3,918
32,446	35,220	32,446	34,590
/ //0	11 007	/ //0	10 /0/
			10,694
		<u> </u>	23,896
	2012 \$'000 29,473 143 558 30,174 (774) 29,400 214 928 1,011 697 - 196 3,046	2012 \$'000 29,473 29,745 143 209 558 1,198 30,174 31,152 (774) (480) 29,400 30,672 214 822 928 969 1,011 1,055 697 577 196 1,181 3,046 4,604 - (56) 3,046 4,548 32,446 35,220	2012 \$'000 2011 \$'000 2012 \$'000 29,473 29,745 29,473 143 209 143 558 1,198 558 30,174 31,152 30,174 (774) (480) (774) 29,400 30,672 29,400 214 822 214 928 969 928 1,011 1,055 1,011 697 577 697 - - - 196 1,181 196 3,046 4,604 3,046 - (56) - 3,046 4,548 3,046 32,446 35,220 32,446 6,469 11,324 6,469 25,977 23,896 25,977

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 profit and loss component of the statements of comprehensive income. 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 2012

23. INVESTMENT PROPERTY

	Gro	Group		ent
	2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000
At fair value				
Opening balance	8,798	8,480	8,798	8,480
Net gain from fair value adjustment	477	318	477	318
CLOSING BALANCE	9,275	8,798	9,275	8,798

(A) DIRECT OPERATING EXPENSES FROM INVESTMENT PROPERTY

	Grou	Group		nt
	2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000
That generated rental income during the period	284	279	284	279
That did not generate rental income during the period	-	-	-	-
	284	279	284	279

(B) VALUATION BASIS

Investment property includes commercial office buildings based in Auckland.

Investment property was valued on 30 June 2012 at \$17.5m (2011: \$16.6m), 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 any other repairs, maintenance or enhancements (2011: nil).



24. PROPERTY, PLANT AND EQUIPMENT

	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 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 1 JULY 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
YEAR ENDED 30 JUNE 2012								
Opening net book amount	2,820	4,982	344	46	313	362	125	8,992
Additions	_	_	13	12	_	324	34	383
Revaluation	94	458	_	-	-	_	_	552
Depreciation	_	(130)	(121)	(10)	(80)	(226)	(59)	(626)
Disposals	-	_	-	-	(19)	-	-	(19)
CLOSING NET BOOK AMOUNT	2,914	5,310	236	48	214	460	100	9,282
AT 30 JUNE 2012								40
Cost	2,914	5,310	985	79	445	1,673	748	12,154
Accumulated depreciation	-	-	(749)	(31)	(231)	(1,213)	(648)	(2,872)
NET BOOK AMOUNT	2,914	5,310	236	48	214	460	100	9,282

for the year ended 30 June 2012

24. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

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 2012. For further information on the valuation refer to note 23(B).

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

	Group and Parent		
	2012 \$'000	2011 \$'000	
Cost	6,917	6,917	
Accumulated depreciation	(1,108)	(978)	
NET BOOK AMOUNT	5,809	5,939	

25. INVESTMENT IN SUBSIDIARIES

The Parent holds the following interests in subsidiaries

Company	Nature of activities	Class of Shares	Ownership	
			2012	2011
Fidelity Capital Guaranteed Bond Limited	Investment (Discontinued Operations)	Ordinary	100%	100%
Fidelity Fund Management Limited	Non-trading Trustee Company	Ordinary	100%	100%
Fidelity Securities Limited	Fund Manager	Ordinary	100%	100%

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



26. DEFERRED TAX

(A) THE BALANCE COMPRISES TEMPORARY DIFFERENCES ATTRIBUTABLE TO:

Deferred tax assets	Fixed assets	Provisions	Unused tax losses	Total
	\$'000	\$'000	\$'000	\$'000
GROUP				
Balance at 30 June 2010	17	1,167	11,064	12,248
Movement through profit or loss	596	(290)	1,623	1,929
Movement through other comprehensive income	-	-	-	-
Balance at 30 June 2011	613	877	12,687	14,177
Movement through profit or loss	(157)	249	833	925
Movement through other comprehensive income	-	-	-	-
BALANCE AT 30 JUNE 2012	456	1,126	13,520	15,102
PARENT				
Balance at 30 June 2010	17	912	11,064	11,993
Movement through profit or loss	596	(35)	1,623	2,184
Movement through other comprehensive income	-	-	-	-
Balance at 30 June 2011	613	877	12,687	14,177
Movement through profit or loss	(157)	249	833	925
Movement through other comprehensive income	-	-	-	-
BALANCE AT 30 JUNE 2012	456	1,126	13,520	15,102

	Group		Parent	
	2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000
Deferred tax assets to be recovered:				
Later than 12 months	11,452	14,177	11,452	14,177
Within 12 months	3,650	-	3,650	-
	15,102	14,177	15,102	14,177



for the year ended 30 June 2012

26. DEFERRED TAX (CONTINUED)

Deferred tax liabilities	Investment property	Insurance reserves	Deferred acquisition costs	Total
	\$'000	\$'000	\$'000	\$'000
GROUP				
Balance at 30 June 2010	-	-	20,419	20,419
Movement through profit or loss	106	884	851	1,841
Movement through other comprehensive income	62	-	-	62
Balance at 30 June 2011	168	884	21,270	22,322
Movement through profit or loss	97	478	460	1,035
Movement through other comprehensive income	155	-	-	155
BALANCE AT 30 JUNE 2012	420	1,362	21,730	23,512
PARENT				
Balance at 30 June 2010	-	-	20,419	20,419
Movement through profit or loss	106	884	851	1,841
Movement through other comprehensive income	62	-	-	62
Balance at 30 June 2011	168	884	21,270	22,322
Movement through profit or loss	97	478	460	1,035
Movement through other comprehensive income	155	-	-	155
BALANCE AT 30 JUNE 2012	420	1,362	21,730	23,512

	Group		Parent	
	2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000
Deferred tax liabilities to be settled:				
Later than 12 months	23,512	22,322	23,512	22,322
Within 12 months	-	-	-	-
	23,512	22,322	23,512	22,322

27. DEFERRED ACQUISITION COSTS - INVESTMENT

	Group		Parent	
	2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000
Carrying amount at 1 July	2,130	2,302	2,130	2,302
Acquisition costs deferred during the year	6	1,083	6	1,083
Amortisation	(1,269)	(1,255)	(1,269)	(1,255)
CARRYING AMOUNT AT 30 JUNE	867	2,130	867	2,130

28. INTANGIBLE ASSETS

GROUP AND PARENT

		Internally		
	Software	developed software	AVIF	Total
	\$'000	\$'000	\$'000	\$'000
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	108	1,222	-	1,330
Amortisation	(162)	-	(605)	(767)
CLOSING NET BOOK AMOUNT	214	1,222	3,432	4,868
AT 1 JULY 2011				
Cost	978	1,222	6,054	8,254
Accumulated amortisation	(764)	-	(2,622)	(3,386)
NET BOOK AMOUNT	214	1,222	3,432	4,868
YEAR ENDED 30 JUNE 2012				
Opening net book amount	214	1,222	3,432	4,868
Additions	218	1,244	-	1,462
Amortisation	(139)	-	(605)	(744)
Impairment charge	-	-	(664)	(664)
CLOSING NET BOOK AMOUNT	293	2,466	2,163	4,922
AS AT 30 JUNE 2012				
Cost	1,201	2,466	6,054	9,721
Accumulated amortisation	(908)	-	(3,891)	(4,799)
NET BOOK AMOUNT	293	2,466	2,163	4,922

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 2012 (2011: nil).

for the year ended 30 June 2012

28. 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 ('FMLL') has been determined by an actuarial valuation and relates to the future anticipated profits emerging from the life insurance contracts. On 1 March 2007 the AVIF was valued at \$6,054,000, which, it was determined, should be amortised over 10 years, being the life expectancy of the outstanding life insurance contracts. An impairment review is undertaken annually at the balance date to determine if any impairment has occurred on the unamortised amount.

At 30 June 2012 the unamortised amount was \$2,827,000. Using a discount rate of 10% (2011: 11%) the AVIF was valued at \$2,163,000 (2011: \$6,615,000). This has given rise to an impairment charge of \$664,000 in the year to 30 June 2012, with a total charge for the year of \$1,269,000 (2011: \$605,000).

The fall in AVIF is due to a reduction in the value of planned profit margins on the FMLL book, resulting from the application of a uniform planned margin in 2012 (2011: variable planned margins). The technical change in the AVIF accords with the underlying change in value of economic capital. In addition, due to the change in the solvency margin calculation methodology (see note 5(F)) the AVIF valuation in 2012 includes a charge for solvency capital.

29. PAYABLES AND OTHER FINANCIAL LIABILITIES

		Group		Parent	
	Note	2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000
Creditors and accruals		5,029	4,324	4,951	3,707
Claims notified		11,376	7,112	11,376	7,112
Accrued interest		-	3,469	-	-
Premiums in advance		392	442	392	442
Reinsurance liabilities		9,396	7,962	9,396	7,962
Employee entitlements		1,528	1,994	1,528	1,994
Payable to subsidiary		-	-	7	-
Payable to related entity	40	1,913	-	1,913	-
Employee share purchase plan provision	47	1,018	1,267	1,018	1,267
		30,652	26,570	30,581	22,484
Expected maturity					
Within 12 months		30,652	26,570	30,581	22,484
Later than 12 months		-	-	-	-
TOTAL PAYABLES AND OTHER FINANCIAL LIABILITY	ES	30,652	26,570	30,581	22,484



30. INTEREST BEARING LIABILITIES

	Gro	Group		ent
	2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000
Capital guaranteed bonds	63,660	60,952	-	-
TOTAL INTEREST BEARING LIABILITIES	63,660	60,952	-	-
Expected maturity				
Within 12 months	-	-	-	-
Later than 12 months	63,660	60,952	-	-
	63,660	60,952	-	-

FCGBL 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 2012 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, as described in note 17, coupon payments are discharged and cancelled.

31. LIFE INSURANCE CONTRACT LIABILITIES

	Group		Parent	
	2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000
Opening balance at 1 July	(17,813)	(10,734)	(17,813)	(10,734)
Premiums received	93,534	85,014	93,534	85,014
Liabilities released for payments on death, surrender and other terminations in the year	(44,649)	(39,549)	(44,649)	(39,549)
Net cost of reinsurance	(237)	(1,140)	(237)	(1,140)
Non-investment commission	(27,069)	(26,602)	(27,069)	(26,602)
Expenses other than commission	(26,167)	(27,474)	(26,167)	(27,883)
Other movements	5,347	2,672	5,347	3,081
CLOSING BALANCE AT 30 JUNE	(17,054)	(17,813)	(17,054)	(17,813)
Expected maturity				
Within 12 months	6,344	8,737	6,344	8,737
Later than 12 months	(23,398)	(26,550)	(23,398)	(26,550)
	(17,054)	(17,813)	(17,054)	(17,813)
Life insurance contracts with a discretionary participation feature that have a guaranteed element	31,835	32,367	31,835	32,367
$Life\ insurance\ contract\ liabilities\ contain\ the\ following\ components$				
Future policy benefits	620,586	492,264	620,586	492,264
Future expenses	219,573	175,558	219,573	175,558
Planned margins of revenues over expenses	112,237	97,806	112,237	97,806
Future revenues	(969,450)	(783,441)	(969,450)	(783,441)
	(17,054)	(17,813)	(17,054)	(17,813)

NOTES TO THE FINANCIAL STATEMENTS for the year ended 30 June 2012 $\,$

32. LIFE INVESTMENT CONTRACT LIABILITIES

	Gro	Group		Parent	
	2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000	
Participating contracts					
Guaranteed element	185,054	194,026	185,054	194,026	
	185,054	194,026	185,054	194,026	
Non-participating contracts designated at fair value through profit or loss	113,895	113,638	113,895	113,638	
Non-participating contracts at amortised cost	-	-	-	-	
	298,949	307,664	298,949	307,664	
Movement in life investment contract liabilities					
Opening balance at 1 July	307,664	301,111	307,664	301,111	
Contributions received	45,309	43,542	45,309	43,542	
Fees deducted from account balances	(1,514)	(1,732)	(1,514)	(1,732)	
Liabilities released for payments on death, surrender and other terminations in the year	(45,457)	(52,159)	(45,457)	(52,159)	
Investment return credited to policyholders	(4,243)	19,268	(4,243)	19,268	
Other movements	(2,810)	(2,366)	(2,810)	(2,366)	
CLOSING BALANCE AT 30 JUNE	298,949	307,664	298,949	307,664	
Expected maturity					
Within 12 months	119,011	124,299	119,011	124,299	
Later than 12 months	179,938	183,365	179,938	183,365	
	298,949	307,664	298,949	307,664	



for the year ended 30 June 2012

33. SHARE CAPITAL

		Group and	d Parent	
	2012 Shares	2011 Shares	2012 \$'000	2011 \$'000
(A) AUTHORISED SHARE CAPITAL				
Ordinary shares – fully paid. No par value	1,439,082	1,438,582	12,946	12,581
(B) MOVEMENTS				
Opening balance of ordinary shares issued	1,438,582	1,438,582	12,581	12,401
Issues of ordinary shares during the year	500	-	45	-
Employee share purchase plan fully vested shares	-	-	249	98
Employee share purchase plan expense	-	-	71	82
CLOSING BALANCE OF ORDINARY SHARES ISSUED	1,439,082	1,438,582	12,946	12,581
Held:				
Directly	1,409,699	1,395,199		
Employee share purchase plan trust	29,383	43,383	_	
TOTAL BALANCE OF ORDINARY SHARES HELD	1,439,082	1,438,582		

(C) ORDINARY SHARES

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

The Group issued 500 shares on 10 November 2011 (0.0% of the total ordinary shares issued) at a consideration of \$90.33. The ordinary shares issued have the same rights as other shares in issue.

for the year ended 30 June 2012

34. RETAINED EARNINGS AND RESERVES

(A) REVALUATION RESERVE

	Group		Parent	
	2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000
Movements in the revaluation reserve were as follows:				
Balance at 1 July	372	227	372	227
Owner occupied land and buildings revaluation, net of tax	397	145	397	145
BALANCE 30 JUNE	769	372	769	372

The asset revaluation reserve is used to record increments and decrements on the revaluation of the owner occupied land and buildings.

(B) RETAINED EARNINGS

	Group		Parent	
	2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000
Movements in Retained Earnings were as follows:				
Balance 1 July	116,136	100,033	116,134	100,031
Profit for the year	13,644	18,314	13,644	18,314
Dividends (note 35)	(3,094)	(2,211)	(3,094)	(2,211)
BALANCE AT 30 JUNE	126,686	116,136	126,684	116,134



for the year ended 30 June 2012

35. DIVIDENDS

	Group and Parent			
	2012 Per share	2011 Per share	2012 \$'000	2011 \$'000
Ordinary shares				
Final dividend	2.15	1.54	3,094	2,211
TOTAL DIVIDEND PAID	2.15	1.54	3,094	2,211

The dividends are fully imputed.

On 14 September 2012 the Company declared an ordinary dividend of \$2.20 (net of tax) per share issued amounting to \$3,166,000 (net of tax). This dividend is not recognised in the financial statements, as it is a post balance date declaration with no liability attaching at 30 June 2012. Withholding taxes of \$236,000 will be paid on behalf of the shareholders.

(2011: On 20 September 2011 the Company declared an ordinary dividend of \$1.70 (net of tax) per share issued amounting to \$2,446,000 (net of tax) and a special dividend of \$0.30 (net of tax) per share issued amounting to \$432,000 (net of tax). The full payment of \$3,094,000 included withholding taxes of \$216,000 paid on behalf of the shareholders.)

36. 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.

	2012	2011
	\$'000	\$'000
Profit attributable to equity holders of the Company	13,644	18,797
Loss from discontinued operation attributable to equity holders of the Company	-	(483)
Weighted average number of ordinary shares in issue	1,439	1,439

	2012	2011
	\$	\$
Basic earnings per share		
From continuing operations	9.48	13.06
From discontinued operations	-	(0.33)

(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.

for the year ended 30 June 2012

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

	Gro	ир	Pare	ent
	2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000
Net profit after taxation	13,644	18,314	13,644	18,314
Non cash items				
(Gains) / losses on sale of property and equipment	(7)	7	(7)	7
Fair value gains on investment property	(477)	(318)	(477)	(318)
Fair value losses / (gains) on investments	15,990	(32,648)	17,874	(17,270)
Fair value gains on owner occupied property	-	(205)	-	(205)
Depreciation of property and equipment	626	632	626	632
Equity compensation plans, equity settled expense	71	82	71	82
Taxation	(1,128)	(1,205)	(1,128)	[1,243]
Amortisation of acquired value of in-force business and intangibles	744	767	744	767
Impairment of acquired value of in-force business	664	-	664	-
Trading losses incurred to close out (FCGBL)	-	24,178	-	-
Realisation adjustment to Senior Bonds	2,708	(14,048)	-	-
Movement in provision for future on-going expenses	(103)	176	-	-
	32,732	[4,268]	32,011	766
Changes in working capital				
(Increase) / decrease in reinsurance assets	(3,364)	6,395	(3,364)	6,395
Decrease in deferred acquisition costs	1,263	172	1,263	172
Decrease in insurance liabilities and investment contracts	(7,956)	(526)	(7,956)	(526)
Decrease / (increase) in other assets	1,690	(2,399)	895	(2,391)
Increase in other liabilities	5,986	934	6,594	975
(Increase) / decrease in derivatives	(1,520)	(4,313)	109	(2,013)
[Decrease] / increase in accrued interest payable	(3,469)	314	-	-
Items classified as financing activities				
Interest paid	3,469	6,563	-	-
CASH GENERATED FROM OPERATIONS	28,831	2,872	29,552	3,378



for the year ended 30 June 2012

38. INVESTMENT AND NON-INVESTMENT LINKED

NZ 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

	Investment linked	Non investment linked	Total
	\$'000	\$'000	\$'000
2012			
Investment assets	292,221	157,003	449,224
Other assets	6,728	84,341	91,069
Policy liabilities	298,949	(17,054)	281,895
Liabilities other than policy liabilities	-	117,997	117,997
Shareholders' retained earnings	-	126,686	126,686
Premium revenue	43,795	95,048	138,843
Investment revenue	1,056	3,620	4,676
Claims expense	45,457	44,649	90,106
Other operating expenses	4,939	53,239	58,178
Interest expense	-	-	-
Investment revenues paid or allocated to policyholders	4,243	-	4,243
Operating profit before tax	1,913	11,807	13,720
Operating profit after tax	(245)	13,889	13,644

GROUP

	Investment linked	Non investment linked	Total
	\$'000	\$'000	\$'000
2011			
Investment assets	299,862	125,672	425,534
Other assets	7,802	97,794	105,596
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	16,093	46,249
Claims expense	53,229	39,549	92,778
Other operating expenses	4,848	55,635	60,483
Interest expense	-	7,251	7,251
Investment revenues paid or allocated to policyholders	19,268	440	19,708
Operating profit before tax	3,173	15,154	18,327
Operating profit after tax	105	18,209	18,314

for the year ended 30 June 2012

39. FINANCIAL INSTRUMENTS BY CATEGORY

Assets as per statement of financial position

GROUP

	Assets at fair value through profit or loss	Loans and other receivables	Total
	\$'000	\$'000	\$'000
Year ended 30 June 2012			
Financial assets at fair value through profit or loss	437,228	-	437,228
Derivative financial instruments	2,721	-	2,721
Loans and other receivables	-	31,435	31,435
Cash and cash equivalents	-	15,543	15,543
Assets arising from reinsurance contracts	-	10,347	10,347
	439,949	57,325	497,274
Year ended 30 June 2011			
Financial assets at fair value through profit or loss	413,362	-	413,362
Derivative financial instruments	3,374	-	3,374
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
	416,736	73,053	489,789

As per note 17 the instrument related to FCGBL has been measured on a realisable value basis (2011: realisable value basis).



for the year ended 30 June 2012

39. FINANCIAL INSTRUMENTS BY CATEGORY (CONTINUED)

PARENT

	Assets at fair value through profit or	Loans and other	
	loss	receivables	Total
	\$'000	\$'000	\$'000
Year ended 30 June 2012			
Financial assets at fair value through profit or loss	373,734	-	373,734
Derivative financial instruments	2,721	-	2,721
Loans and other receivables	-	31,435	31,435
Cash and cash equivalents	-	15,296	15,296
Assets arising from reinsurance contracts	-	10,347	10,347
	376,455	57,078	433,533
Year ended 30 June 2011			
Financial 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



for the year ended 30 June 2012

39. FINANCIAL INSTRUMENTS BY CATEGORY (CONTINUED)

GROUP

	Liabilities at fair value through profit or loss	Measured at amortised cost	Total
	\$'000	\$'000	\$'000
Year ended 30 June 2012			
Life insurance contract liabilities	(17,054)	-	(17,054)
Life investment contract liabilities	298,949	-	298,949
Derivative financial instruments	173	-	173
Payables and other financial liabilities	-	27,714	27,714
Interest bearing liabilities	-	63,660	63,660
	282,068	91,374	373,442
Year ended 30 June 2011			
Life insurance contract liabilities	(17,813)	-	(17,813)
Life investment contract liabilities	307,664	-	307,664
Derivative financial instruments	2,346	-	2,346
Payables and other financial liabilities	-	22,867	22,867
Interest bearing liabilities	-	60,952	60,952
	292,197	83,819	376,016

As per note 17 the instrument related to FCGBL has been measured on a realisable value basis (2011: realisable value basis).

PARENT

	Liabilities at fair value through profit or loss	Measured at amortised cost	Total
	\$'000	\$'000	\$'000
Year ended 30 June 2012			
Life insurance contract liabilities	(17,054)	-	(17,054)
Life investment contract liabilities	298,949	-	298,949
Derivative financial instruments	173	-	173
Payables and other financial liabilities	-	27,643	27,643
	282,068	27,643	309,711
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

for the year ended 30 June 2012

40. 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; Anne Blackburn (appointed October 2011).

(C) KEY MANAGEMENT PERSONNEL COMPENSATION

Key management personnel compensation for the year ended 30 June 2012 and the year ended 30 June 2011 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.

	2012	2011
	\$'000	\$'000
Short term benefits	2,518	2,731
TOTAL	2,518	2,731

(D) OTHER TRANSACTIONS WITH KEY MANAGEMENT PERSONNEL OR ENTITIES RELATED TO THEM

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

	Group		Parent	
	2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000
Loans to key management personnel, or entities related to them, comprise:				
Secured loans:				
Secured loans at 1 July	1,844	707	1,844	707
Secured loans advanced during the year	119	1,223	119	1,223
Loan repayments received - secured loans	(17)	(86)	(17)	(86)
SECURED LOANS AT 30 JUNE	1,946	1,844	1,946	1,844
Unsecured loans:				
Unsecured loans at 1 July	-	141	-	141
Unsecured loans advanced during the year	-	-	-	-
Loan repayments received - unsecured loans	-	(141)	-	(141)
UNSECURED LOANS AT 30 JUNE	-	-	-	-
INTEREST REVENUE FROM SECURED AND UNSECURED LOANS	105	65	105	65

All transactions are at arms length.

for the year ended 30 June 2012

40. RELATED PARTY TRANSACTIONS (CONTINUED)

(E) TRANSACTIONS WITH RELATED PARTIES

The following transactions occurred with related parties:

	Group		Parent	
	2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000
Interest revenue from subsidiaries	-	-	-	(375)
Administration and management fees from subsidiaries	-	-	-	300
Tax receivable from other Group companies through tax offsets	-	-	-	(625)
Commissions paid in the year to shareholders as at 30 June who held agency agreements with the Company	2,129	2,236	2,129	2,236

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	
	2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000
Fidelity Capital Guaranteed Bonds Limited	-	-	-	173
Fidelity Funds Management Limited	-	-	(7)	(7)
Fidelity Securities Limited	-	-	-	-
Fidelity Global Shares Fund	(1,913)	-	(1,913)	-
Loans made to shareholders	3,409	3,111	3,409	3,111
Agency accounts with shareholders				
Due to Fidelity Life	-	51	-	51
Due to Shareholder	(92)	(69)	(92)	(69)

At 30 June 2012 the Group and Company held money on deposit in an Australian denominated bank account on behalf of Fidelity Global Shares Fund. This was held to help facilitate the purchase of units in an Australian managed fund, and is disclosed above as a related party payable of \$1,913,000 (2011: nil). This payable balance was settled in cash to Fidelity Global Shares Fund in July 2012.

(G) TERMS AND CONDITIONS

Secured loans

The secured loans are for periods of up to 25 years repayable in cash, at interest rates of 5.7% per annum (2011: 5.7% to 6.15% per annum), and are secured by first mortgages over individuals' residences or investment properties.

Unsecured loans

No unsecured loans were made to key management personnel or entities related to them during the year (2011: nil). In the event of a unsecured loan interest is payable at the prescribed Inland Revenue Department Fringe Benefit Tax rate or higher.

Commissions paid to shareholders

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

for the year ended 30 June 2012

40. RELATED PARTY TRANSACTIONS (CONTINUED)

(G) TERMS AND CONDITIONS (CONTINUED)

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 5.7% (2011: 5.8%) on a mixture of fixed and floating rates. The loans are for periods of up to 25 years.

41. GUARANTEES

FIDELITY KIWISAVER SCHEME - CAPITAL GUARANTEED KIWI FUND

The Company provides a guarantee to 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 manager of the Fidelity KiwiSaver Scheme ('Scheme'). Under the guarantee the Company guarantees that on 31 March 2013 the Unit Value of the CGK Fund will be not less than \$2.352740. 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 Scheme's 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 of \$448,000 (2011: \$396,000).

FIDELITY KIWISAVER SCHEME

The Company provides a death benefit to members of the 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 the Company 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 withdrawal.

The Company has a provision within policyholder liabilities for this death benefit of \$52,000 (2011: \$188,000).



for the year ended 30 June 2012

42. CONTINGENCIES

In relation to the Company's wholly owned subsidiary, Fidelity Capital Guaranteed Bond Limited ('FCGBL'), The New Zealand Guardian Trust Company Limited (the 'Trustee') entered into a guarantee with Westpac Banking Corporation, New Zealand Branch (the 'Capital Guarantor') on 7 February 2007 to cover payment of the principal amount at maturity of the Capital Guaranteed Bonds to the extent that the principal amount of \$75m is not paid in full by FCGBL from the liquidated proceeds of the investments. This guarantee is deemed a contingent asset available to the capital guaranteed bondholders to reimburse them for the original capital invested (\$75m) if insufficient funds arise at the guarantee payment date, being the later of the maturity date of 15 July 2013 or the date at which the investments are liquidated in accordance with the transaction documents. Payment of interest is not guaranteed by the Capital Guarantor or any other person. The fair value of the guarantee has not been recognised in these financial statements.

In addition FCGBL has included in the provision for ongoing expenses an allowance for ongoing operating expenses. There is a contingent liability to the extent that additional expenses or liabilities are incurred. It is not considered practicable to estimate the financial effect or timing of any outflows as these expenses or liabilities are yet to be incurred, however any amounts are not expected to be significant.

The Group had no further contingent liabilities or assets as at 30 June 2012 (2011:nil).

43. COMMITMENTS

(A) CAPITAL COMMITMENTS

There were no material capital commitments at balance date other than those disclosed elsewhere in the financial statements (2011: nil).

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

Leases are for:

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

	Group		Parent	
	2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000
Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:				
Within one year	204	157	204	157
Later than one year but not later than five years	397	274	397	274
Later than five years	5	-	5	-
	606	431	606	431

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 (CHRISTCHURCH):

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

LEASE B (DUNEDIN):

- 1 July 2015 right of renewal for a further non-cancellable lease to 30 June 2018



for the year ended 30 June 2012

43. **COMMITMENTS** (CONTINUED)

(C) OPERATING LEASES: GROUP AND PARENT AS LESSOR

Leases are for commercial office space in Auckland.

	Group		Parent	
	2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000
Commitments for minimum lease payments in relation to non-cancellable operating leases are receivable as follows:				
Within one year	809	809	809	809
Later than one year but not later than five years	242	718	242	718
Later than five years	-	-	-	-
	1,051	1,527	1,051	1,527

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 October 2013 right of renewal for a further non-cancellable lease to 30 September 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.

44. RESTRICTIONS ON ASSETS

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

45. FIDUCIARY ACTIVITIES

Fidelity Fund Management Limited, a wholly owned subsidiary, acts as a trustee for a number of superannuation funds. The Company manages \$156,235,000 (2011: \$154,049,000) on behalf of this subsidiary.

	Group		Parent	
	2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000
Funds managed by Fidelity Life Assurance Company Limited directly or indirectly on Fiduciary basis	407,197	363,567	407,197	363,567

46. EVENTS OCCURRING AFTER BALANCE DATE

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

for the year ended 30 June 2012

47. SHARE BASED COMPENSATION

The Fidelity Life Employee Share Purchase Scheme (the 'Scheme') was established by the Company in 1988 to assist employees to become shareholders. No shares have been allocated since 2007. From time to time employees who had been with the Company for a period of at least one year were entitled to participate in the Scheme. Shares were issued to the Scheme at an issue price based on the fair value of the shares at the date of issue. Fair value was 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 trust comprise:

	2012	2011	2012	2011
	Number	Number	\$'000	\$'000
Held by Trust at 1 July	43,383	50,733	1,267	1,365
Shares vested from Trust	(14,000)	(7,350)	(249)	(98)
BALANCE AT 30 JUNE	29,383	43,383	1,018	1,267

At 30 June 2012, 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				
	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 29.



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 90, which comprise the statements of financial position as at 30 June 2012, the 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 2012 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 advisory services. These services have not impaired our independence as auditors of the Company and the Group.

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Independent Auditors' Report

Fidelity Life Assurance Company Limited

Opinion

In our opinion, the financial statements on pages 20 to 90:

- (i) comply with generally accepted accounting practice in New Zealand;
- (ii) comply with International Financial Reporting Standards; and
- (iii) give a true and fair view of the financial position of the Company and the Group as at 30 June 2012 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 as consolidated into the Group's financial statements for the periods presented have been prepared on a realisation basis and presented as a discontinued operation. As disclosed in note 17 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 2012:

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

Restriction on Distribution or Use

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 14 September 2012

Price Northouse Coopers

Auckland

DIRECTORY/EXTERNAL SERVICES

Board of Directors

lan L Braddock

BCom CA MInstD

Chairman

Auckland

Chartered Accountant

Colin G O Wise

Auckland

Jeff Meltzer

JP BCom FCA MInstD AAMINZ

Auckland

Chartered Accountant

Partner: Meltzer Mason Heath

Carole Durbin

BCom LLB(Hons) FInstD

Auckland

Director/Trustee: Southern Cross

Healthcare Group

Consultant: Simpson Grierson

Anne Blackburn

МΔ

Auckland

Director: Forsyth Barr Limited, TSB Bank Limited

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

Wilson Harle

McVeigh Fleming

Bankers

The National Bank of

New Zealand Limited

Auditors

PricewaterhouseCoopers

Investment Adviser

MCA NZ Limited

Investment Managers

AMP Capital Investors (New Zealand) Limited

Barclays Global Fund Advisors

Blackrock Inc.

Devon Funds Management Limited

New Zealand

Grosvenor Financial Services

Group 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

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

Fidelity House

Telephone 09 373 4914

Facsimile 09 308 9953

Wellington Office

Fidelity House

Level 1

191 High Street

Telephone 04 920 7477

Facsimile 04 586 8733

Christchurch Office

Telephone 03 377 2323

Facsimile 03 379 2818

Tauranga Office

Telephone 0800 434 335

Facsimile 07 579 5370

Hamilton Office

Telephone 07 929 4840

Facsimile 07 929 4841

Dunedin Office

Telephone 0508 566 726

www.fidelitylife.co.nz





FideLityLife



Appointed Actuary's review of Fidelity Life Assurance Company Limited at 30 June 2012

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

In relation to Financial Statements for Fidelity Life Assurance Company Limited for both the insurer and group for the year ended 30 June 2012 and as that date, I confirm the following:

Appointed Actuary:

John Laurence Smith

Work undertaken:

The review of the actuarial information contained in, or used in the preparation of, financial statements of the insurer and group was conducted in accordance with the Solvency Standard for Life Insurance Business (RBNZ, August 2011).

Scope and limitations:

The actuarial information reviewed was: (a) information relating to an insurer's calculations of premiums, claims, reserves, dividends, insurance and annuity rates, and technical provisions; and (b) information relating to assessments of the probability of uncertain future events occurring and the financial implications for the insurer if those events do occur; and (c) information specified in the Solvency Standard for life Insurance Business as actuarial information for the purposes of this review.

There were no restrictions on the scope of my investigation.

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

Relationship with insurer:

I am a permanent employee of Fidelity Life Assurance Company Limited. I also own 2,650 shares (value: \$251,750) of which 1,900 are owned directly and 750 are beneficially held on my behalf.

Information:

I obtained all information and explanations that I required.

Actuarial Opinion:

In my actuarial opinion and from an actuarial perspective:

- the actuarial information contained in the insurer and group financial statements at and in the year to 30 June 2012 has been appropriately included in those statements;
- (ii) the actuarial information used in the preparation of the insurer and group financial statements at and in the year to 30 June 2012 has been used appropriately.

Solvency margin:

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

Statutory Funds:

In my actuarial opinion and from an actuarial perspective: Fidelity Life Assurance Company Limited (licensed insurer) after establishing a statutory fund will maintain the solvency margin in respect of the statutory fund calculated under the solvency standard for life insurance business (IPSA 21(2)(c))

John Loite

John Smith Appointed Actuary 15 October 2012