BNZ Life Insurance Limited

STATEMENT OF COMPREHENSIVE INCOME
For the year ended 30 September 2012

	Note	2012 $'000	2011 $'000
Revenues			
Direct insurance premium revenue and policy fees	2	71,290	65,948
Less insurance premiums ceded to reinsurers	3	(13,229)	(12,464)
Net insurance premium revenue		58,061	53,484
Net investment revenue	4	3,547	1,354
Other revenue	5	-	14,901
Total revenue		61,608	69,739
Expenses			
Gross claims expense	6	29,686	25,481
Reinsurance recoveries revenue	3	(10,762)	(8,996)
Net claims expense		18,924	16,485
Change in net policy liabilities	20	1,601	440
Other expenses	7	25,580	29,704
Total expenses		46,105	46,629
Profit /(loss) before income tax		15,503	23,110
Income tax expense/(benefit)	8	(2,388)	(208)
Net profit after tax		17,891	23,318
Other comprehensive income		-	-
Total comprehensive income		17,891	23,318

The Statement of Comprehensive Income should be read in conjunction with the notes to the financial statements

BNZ Life Insurance Limited

STATEMENT OF FINANCIAL POSITION
As at 30 September 2012

	Note	2012 $'000	2011 $'000
Current Assets			
Cash and cash equivalents	9	5,368	4,624
Receivables	10	4,166	3,273
Current tax asset	11	2,775	(93)
Financial assets at fair value through profit and loss	12	-	1,020
Total current assets		12,309	8,824
Non-current assets			
Financial assets at fair value through profit and loss	12	56,170	67,085
Property, plant and equipment	15	-	24
Intangible assets	16	6,289	8,577
Total non-current assets		62,459	75,686
Total assets		74,768	84,510
Current Liabilities			
Payables	13	19,255	24,247
Employee benefit obligations	17	-	2,203
Total current liabilities		19,255	26,450
Non-current liabilities			
Deferred tax liability / (asset)	14	1,218	(200)
Policyholders' liabilities	20	(3,116)	(4,260)
Total non-current liabilities		(1,898)	(4,460)
Total liabilities		17,357	21,990
Net assets		57,411	62,520
Equity			
Contributed equity	21	11,000	11,000
Retained profits		46,411	51,520
Total equity		57,411	62,520

The Statement of Financial Position should be read in conjunction with the notes to the financial statements
These financial statements were authorised by the Board for issue on 11 February 2013

Director
BNZ Life Insurance Limited
Date 11.2.13

Director
BNZ Life Insurance Limited
Date 11.2.13

BNZ Life Insurance Limited

STATEMENT OF CHANGES IN EQUITY
for the year ended 30 September 2012

	Note	Contributed Equity $'000	Retained Earnings $'000	Total $'000
As at 1 October 2010		11,000	44,440	55,440
Movements in Equity for the year		-	-	-
Net profit after tax		-	23,318	23,318
Other comprehensive income		-	-	-
Total Comprehensive Income for the year		-	23,318	23,318
Dividends Paid	30	-	(16,238)	(16,238)
As at 30 September 2011		**11,000**	**51,520**	**62,520**
As at 1 October 2011		**11,000**	**51,520**	**62,520**
Movements in Equity for the year		-	-	-
Net profit after tax		-	17,891	17,891
Other comprehensive income		-	-	-
Total Comprehensive Income for the year		-	17,891	17,891
Dividends Paid	30	-	(23,000)	(23,000)
As at 30 September 2012		**11,000**	**46,411**	**57,411**

The Statement of Changes in Equity should be read in conjunction with the notes to the financial statements

BNZ Life Insurance Limited

STATEMENT OF CASHFLOWS
for the year ended 30 September 2012

	Note	2012 $'000	2011 $'000
Cash flows from operating activities			
Premiums and deposits received from policyholders		71,115	65,902
Interest received		1,882	1,926
Reinsurance claims recoveries		10,044	8,853
Other cash received in the course of operations		-	14,888
Income tax refunds		938	1,427
Payments in the course of operations		(31,385)	(24,623)
Reinsurance premiums paid		(12,904)	(12,198)
Claims paid		(30,143)	(24,811)
Net cash provided by / (used in) operating activities	24	9,547	31,364
Cash flows from investing activities			
Proceeds from disposal of financial assets		75,916	33,114
Payments for financial assets		(62,316)	(42,600)
Proceeds from / (payments for) property, plant and equipment		24	(7)
Proceeds from / (payments for) intangible assets		573	(7,409)
Net cash provided by / (used in) investing activities		14,197	(16,902)
Cash flows from financing activities			
Dividends paid		(23,000)	(16,238)
Net cash provided by / (used in) financing activities		(23,000)	(16,238)
Net increase/(decrease) in cash held		744	(1,776)
Cash at the beginning of the year		4,624	6,400
Cash at the end of the year	24	5,368	4,624

The Statement of Cash Flows should be read in conjunction with the notes to the financial statements

1. SIGNIFICANT ACCOUNTING POLICIES

Corporate Information

BNZ Life Insurance Limited is incorporated in New Zealand and registered under the Companies Act 1993. The principal place of business is 60 Waterloo Quay, Wellington, New Zealand.

BNZ Life Insurance Limited is a wholly owned subsidiary of National Wealth Management New Zealand Holdings Limited. National Australia Bank Limited in turn ultimately owns National Wealth Management New Zealand Holdings Limited.

BNZ Life Insurance Limited offers life insurance products to customers. All operations are performed in New Zealand within the insurance industry.

The Reserve Bank of New Zealand issued BNZ Life Insurance Limited with a provisional licence under the Insurance (Prudential Supervision) Act 2010 on 10 October 2011. The full licencing process requires BNZ Life Insurance Limited to separate non life business from life business and operate the life business from a statutory fund. Effective 1 October 2011, BNZ Life Insurance Limited transferred its non life business to a new service company, BNZ Insurance Services Limited, a wholly owned subsidiary of National Wealth Management New Zealand Holdings Limited.

The significant accounting policies that have been adopted in the preparation of this financial report are:

Basis of Preparation

These financial statements have been prepared in accordance with New Zealand Generally Accepted Accounting Practice ("NZ GAAP") and the requirements of the Companies Act 1993 and the Financial Reporting Act 1993. NZ GAAP comprises New Zealand equivalents to International Financial Reporting Standards ("NZ IFRS") and other applicable Financial Reporting Standards and Interpretations as appropriate for profit-oriented entities. The financial statements have also been prepared on a historical cost basis, except for financial assets and liabilities that have been measured at fair value and the actuarial quantification of the policyholder liability.

The financial statements are presented in New Zealand dollars and all values are rounded to the nearest thousand dollars ($'000). The functional currency is New Zealand dollars.

Statement of Compliance

The financial statements have been prepared in accordance with NZ GAAP. They comply with New Zealand equivalents to International Financial Reporting Standards, and other applicable Financial Reporting Standards, as appropriate for profit-oriented entities. The financial statements comply with International Financial Reporting Standards ("IFRS").

Significant Accounting Judgements, Estimates and Assumptions

In applying the accounting policies of the company, management continually evaluates judgements, estimates and assumptions based on experience and other factors, including expectations of future events that may have an impact on the company.

In determining the policyholder liability at year end, significant assumptions have been made as documented in Note 25.

Deferred tax assets are recognised for tax loss carry forwards and unused tax credits only to the extent that the realisation of the related tax benefit is probable. The uncertainty of the recoverability of the tax losses and tax credits is taken into consideration.

Applicable Standards or Interpretations that have not been adopted

The following new standards, amendments to standards or interpretation have been issued but not yet effective for the period ended 30 September 2012, and have not been applied in preparing these financial statements:

NZ IFRS 9 Financial Instruments. This standard is part of the IASB's project to replace IAS 39 *Financial Instruments: Recognition and Measurement* in three phases.
The standard requires all financial assets to be classified on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial asset. Financial assets are initially measured at fair value plus, in the case of a financial asset not at fair value through the profit and loss, particular transaction costs and subsequently measured at amortised cost or fair value.

1. SIGNIFICANT ACCOUNTING POLICIES

The standard retains the existing requirements of NZ IAS 39 for the classification of financial liabilities and the ability to use fair value. However the change in fair value is accounted for in two parts; change relating to credit risk is presented in other comprehensive income, any remaining change is presented in profit and loss.
In February 2012 the mandatory effective date of NZIFRS 9 was extended changing the applicable date to periods beginning on or after 1 January 2015. The adoption of this standard is expected to have an impact on disclosures only.

NZ IFRS 13 Fair Value Measurement was issued in June 2011 and is effective for periods beginning on or after 1 January 2013. It explains how to measure fair value of assets and liabilities and expands the disclosure requirements for all assets and liabilities carried at fair value. The adoption of this standard is expected to have an impact on disclosures only.

Changes in Accounting Policy

The accounting policies adopted are consistent with those of the previous period.

The financial statements were authorised for issue by the Directors on 11 February 2013.

Revenue Recognition

Premium Revenue Recognition

Premiums receivable on all insurance policies are recognised as revenue on an accruals basis.

Investment Revenue Recognition

Dividends on listed, ordinary and preference shares are recognised when the shares cease to be quoted "cum div".

Investment revenue includes both realised and unrealised profits and losses which represent changes in the measurement of financial assets.

All other investment income is recognised on an accruals basis.

Other Revenue Recognition

All other operating revenue, including commissions, is recognised as revenue on an accruals basis with the exception of reinsurance rebates which are recognised on a cash basis due to the subjectivity of calculation.

Reinsurance

Reinsurance agreements provide for indemnification of the company by the reinsurer against loss or liability. Reinsurance income and expense are recognised separately in the Statement of Comprehensive Income when they become due and payable in accordance with the reinsurance agreement.

Claims Recognition

Claims incurred that relate to insurance contracts, providing services and bearing risks including protection business, are treated as expenses. Claims are recognised when the liability to the policyowner under the policy contract has been established, or upon notification of the insured event depending on the type of claim.

Financial Assets

Financial assets, excluding cash and receivables, are classified at fair value through profit or loss in accordance with NZIAS 39. Financial assets are therefore initially recognised at cost in the Statement of Financial Position and subsequent remeasurement is at fair value. Purchases and sales of financial assets are accounted for at trade date. Unrealised profits and losses on subsequent remeasurement to fair value will be recognised in the Statement of Comprehensive Income. Details of fair value for the different types of financial assets are listed below.

- *Cash assets* are carried at face value of the amounts deposited. The carrying amounts of cash assets approximate to their fair value. For the purposes of the statements of cash flows, cash includes cash on hand, deposits held at call with banks and investments in money market instruments.

1. SIGNIFICANT ACCOUNTING POLICIES

- *Trade receivables* are accounted for as loans and receivables and are generally settled within 60 days and are carried at amounts due. The collectability of debts is assessed at reporting date and specific provision is made for any doubtful accounts. The carrying amount of receivables approximates to their fair value.
- *Shares, fixed interest securities, options and units listed on stock exchanges trusts* are initially recognised at cost and the subsequent fair value is taken as the quoted price of the instrument at the Statement of Financial Position date.
- *Unlisted fixed interest securities* are recorded at amounts based on valuations using rates of interest equivalent to the yields obtainable on comparable investments at balance date.
- *Unlisted unit trusts* are recorded at fund managers' valuation.

Depreciation

All tangible non-current assets are depreciated by taking the depreciable amount and spreading this cost over the useful economic life of the asset on a straight-line basis. The depreciable amount represents the initial recognised cost at the date of acquisition, or that at the date when it becomes ready for use in the case of internally constructed assets, less any residual value.

Depreciation rates and methods are reviewed annually for appropriateness. Changes to depreciation rates and methods are reflected prospectively in current and future periods only. Depreciation is expensed through the Statement of Comprehensive Income.

The depreciation rates used for each class of asset are as follows:

Office equipment	5 years
Data processing equipment	3 or 5 years

Intangible Assets

The costs of developing and enhancing internal use software are expensed as incurred. Costs that are directly associated with the production of identifiable and unique software products controlled by the Company, and that will probably generate economic benefits exceeding costs beyond one year, are recognised as intangible assets. Direct costs include software development employee costs and an appropriate portion of relevant overheads.

Computer software development costs recognised as assets are amortised using the straight-line method over their useful lives of 3 or 5 years.

Sale of Non-Current Assets

The gain or loss on disposal of non-current tangible assets is recognised at the date that the risks and benefits of ownership of the asset passes to the buyer, usually when an unconditional contract of sale is signed. The gain or loss on disposal is calculated as the difference between the carrying amount of the asset at the time of disposal and the net proceeds on disposal.

Leased Assets

Operating Leases
Leases are classified as operating leases when the lessor retains substantially all of the risks and benefits of ownership of the underlying asset. Payments made under operating leases are expensed on a straight-line basis over the term of the lease, except where an alternative basis would be more representative of the pattern of benefits to be derived from the leased property.

The underlying asset is not recognised on the Statement of Financial Position.

Impairment

If there is an indication that the carrying value of any asset exceeds its recoverable amount, an impairment review is performed to determine the deficit. Any resultant write-down is recognised as an expense in the reporting period in which it occurs unless the asset had previously been revalued, in which case the previous revaluation is written back with any excess being expensed.

Where a group of assets working together supports the generation of cash inflows, the recoverable amount is assessed in relation to that group of assets.

In assessing the value-in-use of non-current assets the relevant cash flows have been discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or group of assets.

1. SIGNIFICANT ACCOUNTING POLICIES

Provisions

A provision is recognised when, as a result of a past event, there is a legal, equitable or constructive obligation, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made.

The amount of provision recognised is determined by discounting the expected future cash flows (adjusted for expected future risks) required to settle the obligation. The pre-tax discount rate used is one that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is treated as a finance cost.

Payables

These amounts represent liabilities for goods and services provided to the Company to the end of the financial year and which are unpaid.

Employee Benefit Expenses

No personnel are employed directly by BNZ Life Insurance Limited, but seconded via BNZ Insurance Services Limited, from related party Bank of New Zealand Limited. This arrangement with BNZ Insurance Services Limited commenced 1 October 2011. From this date forward all personnel related costs are presented as employee benefit expenses and liabilities in BNZ Insurance Services Limited's financial statements. BNZ Life Insurance Limited pays BNZ Insurance Services Limited a management fee for the services they receive in relation to personnel employed.

Liabilities

Policy liabilities are measured at net present values of estimated future cash flows or, where the result would not be materially different, as the accumulated benefits available to policyholders. Other liabilities are measured at net present values and changes in their net present values arising from changes in the measurement of net present values are recognised in the Statement of Comprehensive Income as revenues or expenses in the financial year in which the changes occur.

Policyholders' Liabilities

Provision for Policy Liabilities

New Zealand Equivalent to International Financial Reporting Standard No. 4 – Insurance Contracts (NZ IFRS4) sets out the methodology for measuring policyholder liabilities.

The provision for policy liabilities has been calculated using the New Zealand Margin on Services (MoS) method as set out in New Zealand Society of Actuaries Professional Standard No. 3 "Determination of Life Insurance Policy Liabilities".

The MoS policy liabilities represent the amount, which together with future premiums and investment earnings, will:

(a) meet the expected payments of future benefits and expenses, and
(b) provide for the systematic release of profit as policy services are provided and income is received or recognised.

The amount of equity retained as solvency reserves (see Note 27) has been determined in accordance with the Reserve Bank of New Zealand Solvency Standard for Life Insurance Business.

Provision for Incurred Claims

Provision has been made for estimated liabilities that arise from claims notified but not settled at balance date. Inclusion of a particular claim in this provision does not signify an admission of liability.

Income Tax

BNZ Life Insurance Limited is subject to the life insurance tax regime. From 1 July 2010 there have been significant changes to the taxation of life insurance businesses. Prior to this change the tax regime required a life office base and a policyholder base to be maintained. The life office base is subject to tax on investment revenue less expenses plus underwriting income. The policyholder base seeks to tax benefits as they accrue to policyholders and the company is taxed as a proxy for the policyholder. The life insurer pays tax on the higher of

1. SIGNIFICANT ACCOUNTING POLICIES

the two bases at the company rate of 28% (2011: 30%). From 1 July 2010 a shareholder base and a policyholder base are required to be maintained. The shareholder base taxes term insurance business on actual profits as other businesses are taxed, removing what was generally considered to be favourable tax provisions. Transitional rules exist for term insurance business sold before 1 July 2010.

The income tax expense or revenue for the period is the tax payable on the current period's taxable income adjusted by changes in deferred tax assets and liabilities attributable to amounts recognised as assets or liabilities, and to unused tax losses.

Deferred tax assets and liabilities are recognised for temporary differences between the carrying amount of assets and liabilities for accounting purposes and the tax bases of those assets and liabilities, and for unused tax losses. The tax rates expected to apply when the assets are recovered or liabilities are settled, based on those tax rates which are enacted or substantively enacted for each jurisdiction, are applied to the cumulative amounts of deductible and assessable temporary differences to measure the deferred tax asset or liability.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax balances attributable to amounts recognised directly in equity are also recognised directly in equity.

The tax-related amounts arising from deferred tax balances are determined using the balance sheet method which calculates temporary differences based on the carrying amounts of an entity's assets and liabilities in the Statement of Financial Position and their associated tax bases. In addition, current and deferred taxes attributable to amounts recognised directly in equity are also recognised directly in equity.

GST

Where a transaction is subject to GST the amount recorded in the Statement of Comprehensive Income is net of the recoverable portion.

Dividends

A provision for dividends payable is recognised in the reporting period in which the dividends are declared, for the entire undistributed amount, regardless of the extent to which they will be paid in cash.

Contributed Equity

The company has only one type of authorised share capital, ordinary shares.

Holders of ordinary shares receive dividends as declared at the discretion of the company and are entitled to one vote per share at shareholder meetings. In the event of winding up of the company ordinary shareholders rank after creditors and are fully entitled to any surplus proceeds of liquidation.

2 Premium Revenue	2012 $'000	2011 $'000
Life insurance contract premiums	71,290	65,948
Total premiums received or receivable	71,290	65,948

3 **Reinsurance**

In the current and previous year BNZ Life Insurance Ltd has entered into reinsurance agreements with Munich Re, Hannover Life Re, Swiss Re, CIGNA and RGA.

Reinsurance Revenue	2012 $'000	2011 $'000
Reinsurance portfolio revenue	1,567	1,287
Reinsurance recoveries on claims	9,195	7,709
	10,762	8,996

Reinsurance Expense	2012 $'000	2011 $'000
Reinsurance premiums	13,229	12,464
	13,229	12,464

4 Investment Revenue	2012 $'000	2011 $'000
Revenue from :		
- Equity securities	1,665	(572)
- Debt securities	1,747	1,756
Represented by:		
- Interest income	1,747	1,756
Net realised and unrealised gains/(losses) on financial assets held as fair value through profit or loss		
- Realised gains/(losses)	(95)	(127)
- Unrealised gains/(losses)	1,760	(445)
Call interest income	135	170
Total investment revenue	3,547	1,354

5 Other revenue	2012 $'000	2011 $'000
Commission revenue	-	14,901
Other	-	-
	-	14,901

6 Claims expense	2012 $'000	2011 $'000
Death & disability	29,686	25,481
Total claims paid or payable	29,686	25,481

7 Other Expenses	Note	2012 $'000	2011 $'000
Indirect personnel expenses paid to related party			
Share based payments		-	93
Directors Fees		-	-
Salaries and other staff expenses		-	7,274
		-	7,367
Other expenses			
Management fees		11,200	1,750
Marketing expense		773	802
Commission		11,658	16,512
Operating lease payments		-	744
Depreciation - Office equipment		-	1
Depreciation - Data processing equipment		-	10
Amortisation - Intangible assets		1,715	457
Software development and licensing expense		-	478
Equipment expense		-	7
Audit fees	19	-	65
Communication		-	229
Stationery		-	169
Outside services		34	218
Medical fees		183	227
Travel		-	211
Bank fees		16	353
Other		1	106
		25,580	22,337
Total other expenses		25,580	29,704
Policy acquisition costs			
Commission		2,323	3,355
Other acquisition costs		7,071	6,455
Total policy acquisition costs		9,394	9,810
Policy maintenance costs			
Commission		9,335	13,156
Other maintenance costs		6,722	6,609
Total policy maintenance costs		16,057	19,765
Investment management expenses		129	129
Total other expenses		25,580	29,704

Investment Management expenses are as charged. Expenses are apportioned between policy acquisition and policy maintenance on the basis of time / cost analysis.

8 Income Tax Expense/(Benefit)	2012 $'000	2011 $'000
Total income tax charged to Statement of Comprehensive Income		
Current tax	(3,468)	(906)
Deferred tax	1,080	698
Total income tax expense/(benefit)	(2,388)	(208)

The tax on the company profit before tax differs from the theoretical amount that would arise using the basic company tax rate of 28% (2011: 30%) as follows:

Reconciliation of income tax expense/(benefit) shown in the Statement of Comprehensive Income with prima facie tax payable on the pre-tax accounting profit		
Profit /(loss) before income tax	15,503	23,110
Prima facie income tax at 28%	4,341	6,933
Add/deduct: Tax effect of amounts which are non-deductible or non-assessable:		
Non assessable and tax paid income	(9,302)	(13,297)
Non deductible expenses	2,524	6,243
Under/(over) provision in prior years	67	(101)
Rate Adjustment 30% to 28%	(18)	14
Total income tax expense/(benefit)	(2,388)	(208)

9 Cash and Cash Equivalents	2012 $'000	2011 $'000
Cash at bank - Commonly controlled entities	5,368	4,624
	5,368	4,624

Cash at bank 2011 included $1,479,000 which was collected on behalf of other insurers and restricted in its use to being held or invested in accordance with the Trustee Act 1956.

10 Receivables	2012 $'000	2011 $'000
Reinsurance claims recoverable	3,775	3,057
Life insurance premiums receivable	153	133
Other	238	83
Receivable within 12 months	4,166	3,273

At 30 September 2012 there were $nil (2011: $nil) past due or impaired receivables.

11 Current Tax Assets and Liabilities	2012 $'000	2011 $'000
Opening balance	(93)	428
Under/(over) provision in prior years	210	760
Tax payments/(refunds)	(601)	(1,427)
Current year tax (expense)/benefit	3,259	146
Closing balance - current tax asset/(liability)	2,775	(93)

Any tax losses and unused tax credits are reflected as a current tax asset as the tax losses and unused tax credits are offset against taxable income of the BNZ group. The BNZ group compensates the Company for any benefit received from using tax losses and excess credits. A current tax liability of the Company is also met by the BNZ group, and the Company will compensate the BNZ group for meeting its tax liability.

The tax calculations reflect the changes introduced in the Taxation (International Taxation, Life Insurance, and Remedial Matters) Act 2009. The tax rules relating to the life insurance business have been updated to ensure that term insurance business is taxed on actual profits, as other businesses are taxed. These changes generally took effect from 1 July 2010, with term insurance products sold before that date subject to transitional rules.

12 Financial Assets at Fair Value through Profit and Loss	2012 $'000	2011 $'000
Current financial assets - Expected to be realised within 12 months	-	1,020
Non-current financial assets - Expected to be realised in more than 12 months	56,170	67,085
	56,170	68,105

The determination of fair value by level of the fair value hierarchy defined in NZ IAS 39 and IFRS 7 is as follows:

30 September 2012	Level 1	Level 2	Level 3	Total Fair Value
Equity securities				
- Unit Trusts	-	13,186	-	13,186
Subtotal Equity securities	-	13,186	-	13,186
Debt securities				
- National Government - NZ Government securities	1,124	-	-	1,124
- Unit Trusts	-	41,662	-	41,662
- Other - Mortgage Income Fund	-	-	198	198
Subtotal debt securities	1,124	41,662	198	42,984
Total Financial Assets at Fair Value through Profit and Loss	1,124	54,848	198	56,170

30 September 2011	Level 1	Level 2	Level 3	Total Fair Value
Equity securities				
- Unit Trusts	-	10,669	-	10,669
Subtotal Equity securities	-	10,669	-	10,669
Debt securities				
- National Government - NZ Government securities	1,020	-	-	1,020
- Unit Trusts	-	56,123	-	56,123
- Other - Mortgage Income Fund	-	-	293	293
Subtotal debt securities	1,020	56,123	293	57,436
Total Financial Assets at Fair Value through Profit and Loss	1,020	66,792	293	68,105

Reconciliation of movements in Level 3 financial assets measured at fair value

	2012 $'000	2011 $'000
Debt securities - Mortgage Income Fund		
Carrying amount at beginning of year	293	1,298
Total gains/(losses) in Statement of Comprehensive Income	(4)	(7)
Purchases	-	-
Sales	(91)	(998)
Carrying amount at end of year	198	293

Included in the Level 1 category are the financial instruments that are measured in whole or in part by reference to published quotes in an active market.

Included in the Level 2 category are inputs other than quoted prices included in Level 1 that are observable, either directly (as prices) or indirectly (derived from prices)

Included in the Level 3 category are inputs that are not based on observable market data but instead in whole or in part using a valuation technique (model) based on assumptions that are neither supported by prices from observable current market transactions in the same instrument nor are they based on available market data. The only asset class in this category is the Mortgage Income Fund because it is closed to new business. This investment continues to be valued and priced on a daily basis taking into account movements in interest earned and management/trustee fees incurred.

The Mortgage Income Fund (MIF) has been suspended since October 2008 and is being formally wound up. A small percentage of the MIF is held in cash investments with the remainder in mortgage related investments through units in the Mortgage Distribution Fund (MDF), which invests in first mortgages. The MDF is also being formally wound up. Capital is being returned pro rata as units in the MDF are repaid. The exact timing of these distributions will depend on how quickly loans made by the MDF mature and are repaid or, in some circumstances, are sold. As at 30 September 2012 capital distributions received totalled 94%, including 2% received during the year ended 30 September 2012.

13 Payables	2012 $'000	2011 $'000
Reinsurance premiums payable	2,691	2,366
Accrued operating expenses	409	2,336
Other payables - related parties		
- commonly controlled entities	16,155	19,545
Payable within one year	19,255	24,247

14 Deferred Tax Asset / (Liability)	2012 $'000	2011 $'000
Deferred Tax Asset / (Liability)		
Balance at beginning of period	200	897
Opening balance disposal	(338)	-
Restated opening balance	(138)	897
Tax Expense recognised in Statement of Comprehensive Income	(1,080)	(697)
Balance at end of period - deferred tax asset / (liability)	(1,218)	200
Deferred tax asset is attributable to the following items:		
Employee entitlements	-	375
Life Reserves	(409)	(260)
Depreciation	(809)	85
Total deferred tax assets / (liability)	(1,218)	200

The deferred tax charge in the Statement of Comprehensive Income comprises the following temporary differences.

	2012 $'000	2011 $'000
Accelerated tax depreciation	(556)	(132)
Other provisions	(375)	(273)
Investments	-	-
Life Reserves	(149)	(278)
Deferred tax arising from changes in the tax rate	-	(14)
Recognition of tax credits	-	-
Total temporary differences included in deferred tax charge Statement of Comprehensive Income	(1,080)	(697)

Deferred tax assets

Deferred tax assets are recognised for tax loss carry forwards and unused tax credits only to the extent that the realisation of the related tax benefits is probable. The uncertainty of the recoverability of the tax losses and tax credits is taken into consideration. Tax losses to carry forward and unused tax credits are recognised as part of current tax because losses and tax credits are utilised in the year generated by the BNZ Tax group and compensation received.

All deferred tax assets and deferred tax liabilities have been taken into account in the Statement of Financial Position.

15 Property, plant and equipment

	2012 $'000	2011 $'000
Office equipment		
At cost	-	8
Accumulated depreciation	-	(6)
	-	2
Data processing equipment		
At cost	-	159
Accumulated depreciation	-	(137)
	-	22
Total property, plant & equipment	-	24

Reconciliations

Reconciliations of the carrying amounts for each class of office equipment, data processing equipment and software are set out below:

	2012 $'000	2011 $'000
Office Equipment		
Carrying amount at beginning of year	2	-
Additions	-	3
Disposals	(2)	-
Depreciation	-	(1)
Impairment losses recognised in Statement of Comprehensive Income under NZIAS36	-	-
Impairment losses reversed in Statement of Comprehensive Income under NZIAS36	-	-
Carrying amount at end of year	-	2
Data processing equipment		
Carrying amount at beginning of year	22	29
Additions	-	3
Disposals	(22)	(23)
Depreciation	-	13
Impairment losses recognised in Statement of Comprehensive Income under NZIAS36	-	-
Impairment losses reversed in Statement of Comprehensive Income under NZIAS36	-	-
Carrying amount at end of year	-	22

16 Intangible Assets

	2012 $'000	2011 $'000
Internally Generated Software		
At cost	8,004	11,173
Accumulated amortisation	(1,715)	(2,596)
	6,289	8,577
Software		
At cost	-	1,082
Accumulated amortisation	-	(1,082)
	-	0
Total Intangible Assets	6,289	8,577

	2012 $'000	2011 $'000
Internally Generated Software		
Carrying amount at beginning of year	8,577	1,619
Additions	-	7,409
Disposals	(573)	-
Amortisation	(1,715)	(451)
Impairment losses recognised in Statement of Comprehensive Income under NZIAS36	-	-
Impairment losses reversed in Statement of Comprehensive Income under NZIAS36	-	-
Carrying amount at end of year	6,289	8,577
Software		
Carrying amount at beginning of year	-	5
Additions	-	-
Disposals	-	-
Amortisation	-	(5)
Impairment losses recognised in Statement of Comprehensive Income under NZIAS36	-	-
Impairment losses reversed in Statement of Comprehensive Income under NZIAS36	-	-
Carrying amount at end of year	-	-

17 Employee benefit obligations payable to related party

	2012 $'000	2011 $'000
Current	-	-
Accruals	-	2,203
	-	2,203

18 Obligations under operating lease payments		2012 $'000	2011 $'000
Total payments due			
Less than one year		-	116
Between one and five years		-	107
More than five years		-	-
		-	223

19 Auditors Remuneration		2012 $'000	2011 $'000
Total fees payable to Ernst & Young as auditors of the company for:			
Audit of the financial statements		-	62
Audit of the regulatory returns		-	3
		-	65

All auditors remuneration is now paid by a related party (BNZ Insurance Services Limited).

20 Policyholders' Liabilities		2012 $'000	2011 $'000
Gross insurance contract liabilities at 1 October		(4,822)	(5,017)
Acquired insurance contract policy liabilities		-	-
Increase/ (decrease) in insurance contract policy liabilities reflected in the Statement of Comprehensive Income	(i)	1,718	195
Gross insurance contract liabilities / (assets) at 30 September		(3,104)	(4,822)
Liabilities ceded under reinsurance			
Opening balance at 1 October		(6,111)	(6,356)
Increase/ (decrease) in reinsurance assets reflected in the Statement of Comprehensive Income	(ii)	(117)	245
Closing balance 30 September		(6,228)	(6,111)
Provision for incurred claims		6,216	6,673
Net policy liabilities / (assets) at 30 September		(3,116)	(4,260)
Expected to be realised within 12 months		6,216	6,673
Expected to be realised in more than 12 months		-	-
(i) + (ii) = increase/(decrease) in net policy liabilities as disclosed in the Statement of Comprehensive Income		1,601	440
Components of life insurance contract liabilities / (assets)			
Future policy benefits		346,934	308,608
Future expenses		363,115	292,642
Planned margins over future expenses		360,951	309,380
Balance of future revenues		(1,080,332)	(919,561)
Total life insurance contract policy liabilities / (assets)		(9,332)	(10,933)

21 Contributed equity	2012 $'000	2011 $'000
Issued share capital		
20,000,000 $1.00 ordinary shares paid up to $0.55 each	11,000	11,000

All shares have equal voting rights and share equally in dividends and surplus on winding up of the company
There were no movements in ordinary share capital during the current and prior financial years.

When managing capital, management's objective is to ensure the entity continues as a going concern as well as obtaining optimal returns to the shareholder and benefits for other stakeholders.

22 Related parties

Directors

The names of each person holding the position of director of the company during the financial year were:

Andrew G Thorburn	(resigned 18 June 2012)
Richard L Morath	
Glenn R Patrick	
Craig M Brant	(resigned 14 June 2012)
Lea A Hatton	(resigned 14 June 2012)
Prudence M Flacks	(appointed 15 June 2012)
Peeyush Gupta	(appointed 15 June 2012)
Stephen J Moir	(appointed 15 June 2012)
Andrew D Symons	(appointed 15 June 2012)

Total income paid or payable or otherwise made available to directors of the company directly or indirectly by the company or any related party consists of the following:

	2012 $'000	2011 $'000
Short-term employee benefits	28	-
Post-employment benefits	-	-
Other long-term benefits	-	-
Termination benefits	-	-
Share-based payment	-	-
Total remuneration	28	-

Apart from the details disclosed in this note, no director has entered into a material contract with the company since the end of the previous financial year and there were no material contracts involving directors' interests existing at reporting date

Key management personnel

The following employees are defined as key management personnel:

Campbell Chambers	Chief Operating Officer
Tony Gaskin	Head of Business Services
Julie Powell	Head of Strategy, Products & Implementation
Craig Berridge	Head of Customer Solutions

The aggregate amounts payable to these key management personnel during the period were:	2012 $'000	2011 $'000
Short-term employee benefits	-	886
Post-employment benefits	-	-
Other long-term benefits	-	-
Termination benefits	-	-
Share-based payment	-	21
Total remuneration	-	907

Other related parties

Immediate and Ultimate parent entity

The immediate parent entity of the company is National Wealth Management New Zealand Holdings Limited, a company incorporated in New Zealand. The ultimate parent entity is National Australia Bank Limited ('the National').

Commonly controlled entities

Bank of New Zealand Limited
BNZ Insurance Services Limited

Transactions

All transactions, including banking transactions with Bank of New Zealand Group entities, have been entered into at arm's length on normal commercial terms and conditions except that amounts due from group entities are interest free. Outstanding balances at 30 September 2012 and 2011 are unsecured and settlement occurs in cash.

Transaction 1

BNZ Life Insurance Limited is a related company to Bank of New Zealand. Bank of New Zealand incurs various expenses and overheads on behalf of BNZ Life Insurance Limited which are on-charged to BNZ Life Insurance Limited.

Transaction 2

BNZ Life Insurance Limited is a related company to BNZ Insurance Services Limited. BNZ Insurance Services Limited incurs various expenses and overheads on behalf of BNZ Life Insurance Limited which are on-charged to BNZ Life Insurance Limited.

Transaction 3

BNZ Life Insurance Limited pays commissions to Bank of New Zealand and its subsidiary companies in respect of the company's products

Transaction 4

BNZ Life Insurance Limited also acquires and disposes of investments with the Bank of New Zealand being the counterparty. At 30 September 2012 cash and call deposits were held at the Bank of New Zealand.

Transaction 5

BNZ Life Insurance Limited holds a payable to BNZ Insurance Services Limited and Bank of New Zealand at balance date This is in respect of, management fees incurred, commission accruals and payments made on BNZ Life Insurance Limited's behalf Payments made on BNZ Life Insurance Limited's behalf are repaid six months following Bank of New Zealand invoice date

Transaction 6

Effective 1 October 2011, BNZ Life Insurance Limited transferred its non life business to BNZ Insurance Services Limited. This included cash consideration for the transfer of the non life assets and liabilities as at 30 September 2011 from BNZ Life Insurance Limited to BNZ Insurance Services Limited There were no outstanding balances as at 30 September 2012

The aggregate amounts included in the Statement of Financial Position and the profit from ordinary activities before income tax expense that resulted from transactions with other related parties are

	2012 $'000	2011 $'000
Transaction 1		
Commonly controlled entities - expenses and overheads incurred	-	1,750
Transaction 2		
Commonly controlled entities - management fee incurred	11,200	-
Transaction 3		
Commonly controlled entities - Commissions	11,658	16,512
Transaction 4		
Commonly controlled entities - Cash and call deposits	5,368	4,624
Transaction 5		
Commonly controlled entities - Payables at balance date	16,155	19,545
Commonly controlled entities - Employee accruals at balance date	-	2,203
Transaction 6		
Commonly controlled entities - Cash consideration for transfer of non life assets and liabilities from BNZ Life Insurance Limited to BNZ Insurance Services Limited	21,102	-

23 Financial Instruments and Risk Management Disclosures

The financial condition and operating results of the Company are affected by a number of key financial and non-financial risks Financial risks include market risk (including interest rate risk, currency risk, equity price risk and investment risk), liquidity risk and credit risk The non-financial risks are insurance risk, compliance risk and operational risk The Company's objectives and policies in respect of managing these risks are set out in the remainder of this section.

(a) Classification of Financial Instruments

The carrying amounts of financial instruments have been classified into the following categories defined in NZ IAS 39

30 September 2012	Loans and Receivables	Designated at Fair Value through Profit and Loss	Amortised Cost	Fair Value
Cash and cash equivalents	5,368			5,368
Receivables	4,166			4,166
Financial assets at fair value through profit and loss		56,170		56,170
Payables			(19,255)	(19,255)
Total Financial Assets / (Liabilities)	9,534	56,170	(19,255)	46,449
30 September 2011				
Cash and cash equivalents	4,624			4,624
Receivables	3,273			3,273
Financial assets at fair value through profit and loss		68,105		68,105
Payables			(24,247)	(24,247)
Total Financial Assets / (Liabilities)	7,897	68,105	(24,247)	51,755

(b) Market risk

Market risk is the risk of loss arising from movements in market variables including observable variables such as interest rates, exchange rates and equity markets, and indirectly observable variables such as volatilities and correlations. Market risk in the Company primarily arises from the management of insurance contracts and from non-trading market risk positions arising from balance sheet and capital management activities.

(i) Interest rate risk

Interest rate risk represents the exposure to the effects of movements in prevailing interest rates.

Investment assets of the Company comprise cash, equity securities and debt securities. All debt securities are subject to market risk in the event of changes in interest rates. The maturity profile of financial instruments is set out below together with the effective yields.

2012	Due within 1 year $000	Due within 1 to 5 years $000	Non -Interest Bearing $000	Floating Interest $000	Total $000	Yield %
Cash and cash equivalents	-	-	-	5,368	5,368	2.50%
Receivables	-	-	4,166	-	4,166	
Financial assets at fair value through profit and loss						
- Equity securities						
Unit trusts	-	-	13,156	-	13,156	
- Debt securities						
National Government - NZ Government securities	-	1,124	-	-	1,124	3.08%
Unit Trusts	-	-	41,662	-	41,662	
Other - Mortgage Investment Fund	-	-	198	-	198	
	-	1,124	59,212	5,368	65,704	

2011	Due within 1 year $000	Due within 1 to 5 years $000	Non -Interest Bearing $000	Floating Interest $000	Total $000	Yield %
Cash and cash equivalents	-	-	-	4,624	4,624	2.50%
Receivables	-	-	3,273	-	3,273	
Financial assets at fair value through profit and loss					-	
- Equity securities					-	
Unit Trusts	-	-	10,669	-	10,669	
- Debt securities						
National Government - NZ Government securities	1,020	-	-	-	1,020	4.20%
Unit Trusts	-	-	56,123	-	56,123	
Other - Mortgage Investment Fund	-	-	293	-	293	
	1,020	-	70,358	4,624	76,002	

Debt securities are actively managed and therefore part or all of the Company's portfolio of such securities may not be held to maturity.

Interest rate risk sensitivity analysis

The following table demonstrates the impact of a reasonably possible change in New Zealand and International interest rates, with all other variables held constant, on the Company's profit before tax. It is assumed that the relevant change occurs as at the Statement of Financial Position date (30 September 2012 and 2011).

The interest rate risk disclosure has been prepared on the basis of the Company's investment in Unit Trusts that have direct holdings in cash and cash equivalents, and debt securities.

Sensitivity analysis on changes in fair value of investments

The sensitivity analysis for changes in the fair value of debt securities has been based on ten year volatility rates. Volatility rates are calculated using historical returns for industry recognized indices for each asset class. The sensitivity range is based on a one standard deviation event for each Unit Trust. The effect on profit or loss due to reasonably possible changes in market factors, as represented by historical price volatilities, with all other variables held constant is detailed below.

	10 Year Volatility Rates	
Sector volatility	30-Sep-12	30-Sep-11
NZ Cash	0.50%	0.50%
NZ Fixed Interest	3.00%	3.00%
Global Fixed Interest	3.00%	3.00%

	Impact on profit before tax		Impact on profit before tax	
	2012	2012	2011	2011
Sector	Sensitivity +(ve) $000's	Sensitivity -(ve) $000's	Sensitivity +(ve) $000's	Sensitivity -(ve) $000's
	$'000	$'000	$'000	$'000
NZ Cash	183	(183)	247	(247)
NZ Fixed Interest	37	(37)	33	(33)
Global Fixed Interest	180	(180)	159	(159)
	400	(400)	439	(439)

Sensitivity analysis on interest income and interest expense

The sensitivity analysis for interest income and interest expense has been based on a one percent movement in the interest rate. The effect on profit or loss due to reasonably possible changes in market factors, with all other variables held constant is detailed below.

	Impact on profit before tax			Impact on profit before tax		
	2012	2012	2012	2011	2011	2011
	Carrying amount at floating rate	+(ve) Movement in interest rate	-(ve)% Movement in interest rate	Carrying amount at floating rate	+(ve) Movement in interest rate	-(ve)% Movement in interest rate
	$'000	$'000	$'000	$'000	$'000	$'000
Cash and cash equivalents	5,368	54	(54)	4,624	46	(46)
Financial assets held at fair value through profit or loss	41,662	417	(417)	56,123	561	(561)
Total assets subject to interest rate risk	47,030	471	(471)	60,747	607	(607)

The risks faced and methods used for deriving sensitivity information and significant variables did not change from the previous period

(ii) Currency risk

Currency, or foreign exchange, risk is the risk of loss resulting from changes in exchange rates. Losses in value may result from translating the Company's overseas investments into New Zealand dollars (translation risk) or from adverse foreign currency exchange rate movements on specific cash flow transactions (transaction risk).

A proportion of the Company's investments comprise units in a unit trust that invests principally in offshore equities. The market value of the unit trust is affected by movements in the New Zealand dollar relative to other currencies, although the units in the unit trust are themselves New Zealand dollar denominated

Currency risk sensitivity analysis

The foreign exchange risk disclosure has been prepared on the basis of the Unit Trust's direct currency exposures. The Unit Trusts did not hold any direct investments denominated in a foreign currency at balance date

(iii) Equity price risk

Equity price risk is the risk that the fair value of equities will decrease as a result of changes in levels of equity indices and the value of individual stocks. The Company holds all of its equities at fair value through profit and loss

Equity investments are actively managed and monitored on a daily basis

Equity price risk sensitivity analysis

The following table demonstrates the impact of a reasonably possible movement in the fair value of equities, with all other variables held constant, on the Company's profit before tax. It is assumed that the relevant change occurs as at the Statement of Financial Position date (30 September 2012 and 2011).

The sensitivity analysis for equity investments has been based on ten year volatility rates. Volatility rates are calculated using historical returns for industry recognized indices for each asset class and the sensitivity range is based on a one standard deviation event for each Unit Trust. The effect on profit or loss due to reasonably possible changes in market factors, as represented by historical price volatilities, with all other variables held constant is detailed below

	10 Year Volatility Rates	
Sector volatility	30-Sep-12	30-Sep-11
New Zealand Equities	12.20%	10.00%
International Equities	15.70%	15.00%

	Impact on profit before tax		Impact on profit before tax	
	2012	2012	2011	2011
Sector	Sensitivity +(ve) $000's	Sensitivity -(ve) $000's	Sensitivity +(ve) $000's	Sensitivity -(ve) $000's
	$'000	$'000	$'000	$'000
New Zealand Equities	426	(426)	46	(46)
International Equities	1,344	(1,344)	1,536	(1,536)
	1,770	(1,770)	1,582	(1,582)

The risks faced and methods used for deriving sensitivity information and significant variables did not change from the previous period

(iv) Investment risk

Investment risk is the risk of volatility in the Company's net investment earnings and value that result in a reduced ability to implement corporate strategy. Investment earnings arise from the Company's investment of shareholder capital. Investment classes include equities and interest bearings instruments, so the management of investment risk encompasses equity price risk and interest rate risk

For the purposes of the risk management policies and procedures, investment risk management involves decisions made regarding the allocation of investment assets across asset classes and/or markets and includes the management of risks within these asset classes. Investment risk management relates to the investment allocation decisions made by the Company in relation to the investment of shareholder capital.

(c) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its debt obligations, or other cash outflows, as they fall due, because of a lack of liquid assets or difficulty in either realising assets or otherwise raising adequate funding on acceptable terms. The risk management guidelines adopted the Company are designed to minimise liquidity risk through

- ensuring that there is no significant exposure to illiquid or thinly traded financial instruments, and
- applying limits to ensure there is no concentration of liquidity risk to a particular counterparty or market.

(f) Risk management objectives and policies for mitigating insurance risk

The Company's objective is to satisfactorily manage these risks in line with the Company's Risk Management Statement which is approved by the Board. Various procedures are put in place to control and mitigate the risks faced by the Company depending on the nature of the risk. The Company's exposure to all risks is monitored by the Head of Business Services and this exposure is regularly reported to the Board

Insurance risks are controlled through the use of underwriting procedures, adequate premium rates and policy charges and sufficient reinsurance arrangements. Tight controls are also maintained over claims management practices to ensure the correct and timely payment of insurance claims.

Compliance risk and operational risk are both monitored by the Leadership Team which reports regularly to the Board.

(ii) Strategy for managing insurance risk
Portfolio of risks

The Company issues predominately term life insurance contracts and some small total and permanent disability and disability business. The performance of the Company and its continuing ability to write business depends on its ability to pre-empt and control risks. The Company has a risk strategy which has been approved by the Board. It summarises the Company's approach to risk and risk management.

Risk strategy

In compliance with contractual and regulatory requirements, a strategy is in place to ensure that the risks underwritten will not adversely affect the Company's ability to pay benefits and claims when due. The strategy involves the identification of risks by type, impact and likelihood, the implementation of processes and controls to mitigate the risks, and continuous monitoring and improvement of the procedures in place to minimise the chance of an adverse compliance or operational risk occurring. Included in this strategy is the process for underwriting and product pricing to ensure products are appropriately priced. Capital management is also a key aspect of the Company's risk management strategy. Capital requirements are measured using a risk based capital model and all of the various regulatory reporting requirements to which the Company is subject.

The Company has a provisional insurance licence from the Reserve Bank of New Zealand ("the Bank"). It is a condition for all licensed insurers to maintain minimum capital requirements to meet the solvency standard tests as determined by the Bank. The Company is required to comply with minimum capital requirements by 31 December 2012. As at 30 September 2012 the entity had capital in excess of that required by legislation.

(iii) Methods to monitor and assess insurance risk exposures
Exposure to risk

In an effort to protect and enhance shareholder value, the Company actively manages its exposure to risks so that it can react in a timely manner to changes in financial markets, insurance cycles and economic and political environments. Risk exposures are managed using various analysis and valuation techniques and prudent and diversified underwriting.

Management reporting

The Company reports monthly financial and operational results, claims experience, claims frequency and severity to the Leadership Team and Board. This information is combined with the detail of the Company's reinsurance programme to provide a central view of the Company's performance and its gross and net exposure. The information, the process by which it is gathered and the controls over the process are reviewed on a quarterly basis by the Leadership Team which reports regularly to the Board.

(iv) Methods to limit or transfer insurance risk exposures
Reinsurance

All reinsurance treaties are analysed to assess the impact on the Company's exposure to risk and to ensure the achievement of the optimal choice of type of reinsurance and retention levels.

Claims management

Strict claims management procedures ensure the timely and correct payment of claims in accordance with policy conditions.

Asset and liability management techniques
Assets are allocated in a way to ensure an appropriate matching to the longer term liabilities in the business.

(v) Concentration of insurance risk
Insurance risks associated with human life events

The age profile and mix of sexes within the population of policyholders is deemed sufficiently spread so that the risk concentration in relation to any particular age group is minimal.

(vi) Terms and conditions of insurance contracts

The nature of the terms of the insurance contracts written is such that certain external variables can be identified on which related cash flows for claim payments depend. The table below provides an overview of the key variables upon which the amount of related cash flows are dependent.

Type of contract	Detail of contract workings	Nature of compensation for claims	Key variables that affect the timing and uncertainty of future cash flows
Non-participating life insurance contracts with fixed and guaranteed terms (Term Life and Disability)	Guaranteed benefits paid on death or ill health (total and permanent disability) that are fixed and guaranteed and not at the discretion of the issuer	Benefits, defined by the insurance contract, are determined by the contract and are not directly affected by the performance of the contracts as a whole.	Mortality, Morbidity, Market earning rates, Interest rates, Discontinuance rates, Expenses.

(d) Credit risk

Credit risk is the risk of loss that arises from a counterparty failing to meet their contractual commitments in full and on time, or from losses arising from the change in value of a financial instrument as a result of changes in credit risk on that instrument.

Credit risk in relation to the Company's insurance operations is the risk that policyholders, reinsurers, or third parties which have a contractual liability to the Company, default on their financial obligations. A number of key policies are in place to mitigate this credit risk through:

- all life insurance proposals being subject to normal underwriting procedures before acceptance of risk, and
- the Company entering into reinsurance contracts whereby some or all of the risk associated with life insurance underwriting is ceded to third party reinsurers, and
- the use of standard credit control techniques which ensure that premium payments are made within a reasonable timeframe or cover and hence exposure to claim, cancelled, and
- the monitoring of a reinsurer credit risk rating to control exposure to reinsurance counterparty default.

Credit risk in relation to the investment portfolio consists principally of cash and short term domestic securities and deposits, and indirectly, investments in unitised products which invest in domestic and international fixed interest securities and international and Australasian equities. No collateral exists for any of the investments held by the Company. The maximum credit risk exposure is the carrying amount of the individual investments. However, as investments are made in credit-worthy financial institutions, credit deficits are considered, at this time, unlikely to occur.
The investment portfolio in part backs the insurance operations and in part supports share capital and retained earnings. Investment mandates have been structured accordingly and are formalised by way of a Board approved Statement of Investment Policy and Objectives (SIPO). The Board has set exposure limits (or benchmarks) for each asset class to ensure there are no specific concentrations of credit risk across asset classes, countries, currencies, industries, durations and securities. Compliance with the SIPO is monitored through the Company and reported to Board.

Credit exposure by credit rating

The actual spread of New Zealand cash and fixed interest and Global fixed interest investments at Statement of Financial Position date is shown in the table below:

Rating range	2012 %	2011 %
AAA	3%	49%
AA	56%	25%
A	10%	8%
BBB	5%	0%
BB	0%	0%
Below BB	0%	0%
No credit rating	26%	18%
	100%	100%

Credit exposure by investment sector

The table below provides information regarding the credit risk exposure of the Company at Statement of Financial Position date by investment sector.

Investment Sector	2012 %	2011 %
NZ Cash	65%	75%
NZ Fixed Interest	2%	2%
Global Fixed Interest	10%	8%
NZ Property	1%	1%
Global Property	1%	1%
NZ Equities	6%	3%
International Equities	11%	7%
Emerging Markets	2%	1%
Global Infrastructure	1%	1%
Commodities	1%	1%
	100%	100%

24 Notes to the statement of cash flows

(a) Reconciliation of cash	2012 $'000	2011 $'000

For the purposes of the statement of cash flows, cash includes cash on hand and at bank and short-term deposits at call, net of outstanding bank overdrafts. Cash as at the end of the financial year as shown in the Statement of Cash Flows is reconciled to the related items in the Statement of Financial Position as follows:

	2012	2011
Cash at bank - Commonly controlled entities	5,368	4,624
Call deposits with bank - Commonly controlled entities	-	-
	5,368	4,624

(b) Reconciliation of profit from ordinary activities after income tax to net cash provided by operating activities	2012 $'000	2011 $'000
Profit from ordinary activities after income tax	17,891	23,318
Adjustments for items classified as investing/financing activities		
Realised (gains)/losses from financial assets at fair value through profit and loss	95	127
Adjustments for non-cash movements		
Unrealised (gains)/losses from financial assets at fair value through profit and loss	(1,760)	445
Depreciation and amortisation	1,715	468
Change in assets and liabilities during the financial year		
(Increase)/Decrease in receivables	(693)	(202)
(Increase)/Decrease in current tax assets	(2,868)	521
Increase/(decrease) in policyholders' liabilities	1,144	1,111
(Increase)/Decrease in deferred tax assets	1,418	697
(Decrease)/Increase in payables and employee benefit obligations	(7,165)	4,879
Net cash provided by/(used in) operating activities	9,547	31,364

25 Actuarial Information

The effective date of the actuarial report on the policy liabilities and solvency reserves for BNZ Life Insurance Limited is as at 30 September 2012 and covers the 12 month period ending on that date

The policy liabilities and solvency reserves report is prepared by Hamish Farrar, BSc, FIAA, Fellow of the New Zealand Society of Actuaries

Policy liabilities have been determined in accordance with the New Zealand Society of Actuaries' Professional Standard No 3 and solvency reserves have been determined in accordance with the Reserve Bank of New Zealand Solvency Standard for Life Insurance Business

Summary of the best estimate assumptions used in determining policy liabilities.

Risk Free Discount Rates

Year	Discount Rate %
1	3.4
2	3.4
3	3 4
4	3 4
5	3.4
6	3 4
7	3.4
8	3 4
9	3 4
10+	3 4

These rates are gross of tax and were derived by reference to NZ Government Stock yields

Inflation Rate

The inflation rate is based on the assumption that the long term inflation rate is measured by the increase in the Consumer Price Index will be 2% per annum The inflation rate is used to determine expected future policy increases in respect of those policies where there is an option for the policy holder to increase the level of sum insured each year according to the growth in Consumer Price Index

Profit Carriers and Valuation Methods

The methods and profit carriers for particular policy types are as follows

Product	Method	Profit Carrier
SecurityLife	Projection	Premiums
AutoLife	Projection	Premiums
LifeCare	Projection	Premiums
EasyCover	Projection	Premiums
Business LifeCare	Projection	Premiums
LoanCare	Accumulation	n/a
Personal Loan Insurance	Projection	Premiums
Direct Marketing Products	Projection	Premiums or claims
Group Insurances	Unexpired Risk	n/a

Future Maintenance and Investment Management Expenses

The future expenses range from $9 66 to $48 30 per policy per annum, depending on the product Allowance is also made for claims expenses and discontinuance expenses

Expenses are assumed to inflate at a rate of 2% per annum

In addition, proper allowances have been made for future commission payments according to rates of commission appropriate for each product.

Rate of Taxation

A tax rate of 28 cents in the dollar has been assumed With the enactment of legislation revising the taxation basis for life insurance, allowances have been made within projections of future payments due under the new basis along with changes to the pricing basis of products.

Mortality and Morbidity

The main mortality table used is one derived from the NZ07 Mortality Table (term insurances) modified for smoker / non smoker mortality and adjusted for the Company's experience Morbidity rates used for various disability and trauma benefits are based on various published tables reflecting experience in Australia and New Zealand

Rate of Discontinuance

Rates of discontinuance have been determined by reference to actual experience and range from 1% to 30%, depending on the product and, for some products, on duration

Sensitivity to Key Assumptions
The table below illustrates the change in present value of future profit margins if claim rates, lapses and expenses are changed

Assumption	Change in present value of future profit margins	
	($million)	(%)
claims increased by 10%	-34	-10%
claims decreased by 10%	34	10%
lapse increased by 10%	-28	-7%
lapse decreased by 10%	28	7%
maintenance expenses (including commission) increased by 10%	-17	-5%
maintenance expenses (including commission) decreased by 10%	17	5%

Analysis of Change in Assumptions
The table below illustrates the significant changes in present value of future profit margins at 30 September 2012 due to the change in assumptions from 2011 to 2012. The change in assumptions has no effect on the policy liabilities.

Valuation Movement	Change in present value of future profit margins ($million)
2011 Valuation	309
Change in discount rate and policy movements	32
Change in expense assumptions	-23
Change in morbidity and mortality assumptions	15
Change in lapse assumptions	32
Other assumption changes	-4
2012 Valuation	361

Basis of Calculating Surrender Values
No BNZ Life Insurance Limited products attract surrender values

Rates of Growth of Unit Prices in Respect of Unit Policies
BNZ Life Insurance Limited has not issued any unit linked contracts

Rates of Future Supportable Participating Benefits
BNZ Life Insurance Limited does not have any participating products

Crediting Policy Adopted in Determining Future Supportable Participating Benefits
BNZ Life Insurance Limited does not have any participating products

26 Operating profit

	2012 $'000	2011 $'000
Profit related to movements in policyholders' liabilities:		
Planned margins of revenues over expenses	18,272	17,295
Difference between actual and assumed experience	(2,266)	260
The effects of changes to underlying assumptions	(955)	(797)
Investment earnings on assets in excess of policyholders' liabilities	2,860	1,226
Other income	-	5,334
per Statement of Comprehensive Income	17,891	23,318

27 Regulatory Capital

The solvency reserves have been determined on the basis of the Solvency Standard for Life Insurers as promulgated by the Reserve Bank of New Zealand in terms of the Insurance (Prudential Supervision) Act 2010. In the previous year the solvency reserves were determined on the basis of Professional Standard No 5 of the New Zealand Society of Actuaries. The solvency margin for the Company is $21,590,458 (2011: $23,594,741)

28 Commitments and contingencies

The Directors are not aware of any capital commitments or contingent liabilities at balance date (30 September 2011: nil)

29 Subsequent events

Subsequent to the 30 September 2012 balance date, BNZ Life Insurance Limited have been advised of a receivable of $762,000 from Munich Reinsurance in relation to profit sharing on the LifeCare and LoanCare treaties for the year ending 31 March 2012 (2011: $1,567,000). In accordance with the accounting policies of BNZ Life Insurance Limited, this amount has not been recognised in the financial statements.

30 Dividends

	2012 $'000	2011 $'000
Declared and paid during the year (2012: 115.00 cents, 2011: 81.19 cents)	(23,000)	(16,238)
Total dividends recognised in the financial statements	(23,000)	(16,238)

31 Imputation Credit Account

	2012 $'000	2011 $'000
Balance at beginning of period	1,792	1,792
Transfers from other group companies	-	-
Imputation credits attaching to dividends received during the period	-	-
Imputation credits attaching to dividends paid during the period	-	-
Income tax payments during the period net of refunds	-	-
Adjustment for change in group structure	-	-
Balance at end of period	1,792	1,792

No Dividend Withholding Payment account is maintained by the Company.

Policyholder credit account	nil	nil

Ernst & Young

Chartered Accountants

Independent Auditor's Report

To the Shareholders of BNZ Life Insurance Limited

Report on the Financial Statements

We have audited the financial statements of BNZ Life Insurance Limited (the 'company') on pages 1 to 24, which comprise the statement of financial position of BNZ Life Insurance Limited as at 30 September 2012, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

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

Directors' Responsibility for the Financial Statements

The directors are responsible for the preparation of the 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 control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing (New Zealand). These auditing 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 our 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, we have considered the internal control relevant to the company's preparation of the 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'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 we have obtained sufficient and appropriate audit evidence to provide a basis for our audit opinion.

We provide agreed upon procedures services to BNZ Life Insurance Limited.

Partners and employees of our firm may deal with the company on normal terms within the ordinary course of trading activities of the business of the company.

Opinion

In our opinion, the financial statements on pages 1 to 24:

- comply with generally accepted accounting practice in New Zealand;
- comply with International Financial Reporting Standards; and
- give a true and fair view of the financial position of BNZ Life Insurance Limited as at 30 September 2012 and its financial performance and cash flows for the year then ended.

Report on Other Legal and Regulatory Requirements

In accordance with the Financial Reporting Act 1993, we report that:

- We have obtained all the information and explanations that we have required.
- In our opinion proper accounting records have been kept by BNZ Life Insurance Limited as far as appears from our examination of those records.

Ernst & Young

11 February 2013
Wellington

BNZ Life Insurance Limited – Appointed Actuary's Report for the Year Ended 30th September 2012

This report has been prepared in accordance with s78 of the Insurance (Prudential Supervision) Act 2010.

I have reviewed the actuarial information contained in the financial statements of BNZ Life Insurance Limited (BNZ Life) for the year ended 30 September 2012.

This review has encompassed:

- Checking the underlying policy data for reasonableness.
- Checking the accounting data for reasonableness.
- The assumptions underlying the projected policy liabilities.
- The calculation of non-projected reserves.
- The notes containing actuarial information in the financial statements.
- The calculation of the solvency reserves

This review has not included a detailed review of the accounting data as I have relied on the external audit to highlight any material issues in this data.

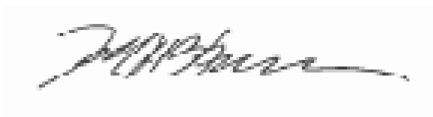
Aside from my relationship as Appointed Actuary of BNZ Life I have no other interests in BNZ Life or its subsidiaries. I do hold directly a number of shares in NAB, the ultimate parent of BNZ Life.

I have obtained from BNZ Life all the information and explanations that I required to complete this review.

The actuarial information contained in the financial statements has been appropriately included in those financial statements. The actuarial information used in the preparation of the financial statements has been used appropriately.

In my opinion BNZ Life is maintaining the required solvency margin that applies under its license.

BNZ Life does not operate a statutory fund as at the 30th September 2012 so there is no solvency margin to comply with in regards to statutory fund regulations.



Hamish Farrar, FNZSA

Appointed Actuary, BNZ Life Insurance Limited

5th March 2013