OnePath Life (NZ) Limited
Annual Report

For the year ended 30 September 2011

Annual Report
For the year ended 30 September 2011

Contents

General Matters

The address for service for the Parent is Level 3, 205 Wairau Road, Glenfield, Auckland, New Zealand.

Pursuant to section 211(3) of the Companies Act 1993 (the "Act"), the shareholder of the company has agreed that the Annual Report of the Parent and the Consolidated Group need not comply with any of the paragraphs (a), and (e) to (j) of subsection (1) and subsection (2) of section 211.

Accordingly, there is no information to be provided in this Annual Report other than the financial statements for the year to 30 September 2011 and the audit report on those financial statements.

____________________ Director

____________________ Director

23 February 2012 Date

Directors' Statement

The Financial Reporting Act 1993 requires the financial statements to be prepared for each financial year which give a true and fair view of the financial position of OnePath Life (NZ) Limited (the "Parent") and its controlled entities (together "the Consolidated Group") and of the financial performance for that period.

The directors believe that in preparing those financial statements, the officers of the Parent and the Consolidated Group have:

- selected suitable accounting policies that comply with New Zealand Generally Accepted Accounting Practice and applied them consistently;
- made judgements and estimates that are reasonable and prudent; and
- followed all applicable accounting standards, with no material departures.

The directors confirm that accounting records have been kept that will at any time enable the financial position of the Parent and the Consolidated Group to be determined with reasonable accuracy and will enable the directors to ensure that the financial statements comply with the Financial Reporting Act 1993.

Based on the above, the Board of Directors of the Parent approve these financial statements for the year ended 30 September 2011.

For and on behalf of the Board of Directors

Director

Director

23 February 2012

Date of issue

Statements of Comprehensive Income

$ thousands	Note	Consolidated Group Year to 30/09/2011	Consolidated Group Period to 30/09/2010	Parent Year to 30/09/2011	Parent Period to 30/09/2010
Premium revenue	5	**157,206**	102,440	**84,842**	51,018
Less reinsurance premium expense	5	**(23,011)**	(20,705)	**(15,198)**	(15,060)
Net premium revenue		**134,195**	81,735	**69,644**	35,958
Other operating income	6	**9,434**	8,371	**31,070**	25,399
Net revenue		**143,629**	90,106	**100,714**	61,357
Claims and surrenders	7	**59,102**	35,842	**35,128**	17,170
Less reinsurance recoveries	7	**(14,600)**	(12,184)	**(11,221)**	(6,146)
Net claims expense		**44,502**	23,658	**23,907**	11,024
Net decrease in insurance contract assets	18	**(65,072)**	(54,495)	**(43,783)**	(46,534)
Net increase/(decrease) in investment contract liabilities	18	**555**	877	**(4)**	54
Commissions and operating expenses	8	**123,265**	93,565	**74,359**	58,727
Profit before income tax		**40,379**	26,501	**46,235**	38,086
Income tax credit	9	**(227)**	(5,455)	**(1,210)**	(1,828)
Profit after income tax attributable to shareholder	4	**40,606**	31,956	**47,445**	39,914
Total comprehensive income attributable to shareholder		**40,606**	31,956	**47,445**	39,914

Statements of Changes in Equity

$ thousands	Note	Consolidated Group Year to 30/09/2011	Consolidated Group Period to 30/09/2010	Parent Year to 30/09/2011	Parent Period to 30/09/2010
Ordinary share capital					
Balance at beginning of the period		**126,701**	116,701	**126,701**	116,701
Ordinary share capital issued during the period	20	**-**	10,000	**-**	10,000
Balance at end of the period		**126,701**	126,701	**126,701**	126,701
Retained earnings					
Balance at beginning of the period		**50,736**	18,780	**43,308**	3,394
Profit after income tax attributable to shareholder		**40,606**	31,956	**47,445**	39,914
Total available for appropriation		**91,342**	50,736	**90,753**	43,308
Balance at end of the period		**91,342**	50,736	**90,753**	43,308
Total equity					
Balance at beginning of the period		**177,437**	135,481	**170,009**	120,095
Total comprehensive income for the year attributable to shareholder		**40,606**	31,956	**47,445**	39,914
Transactions with shareholder		**-**	10,000	**-**	10,000
Balance at end of the period		**218,043**	177,437	**217,454**	170,009

KPMG

Balance Sheets

$ thousands	Note	Consolidated Group 30/09/2011	Consolidated Group 30/09/2010	Parent 30/09/2011	Parent 30/09/2010
Assets					
Cash and cash equivalents	10	**48,308**	42,566	**24,754**	15,955
Securities	11	**64,313**	68,607	**6,021**	2,047
Trade and other receivables	12	**27,192**	13,790	**22,865**	8,776
Current tax assets		**38**	483	**-**	-
Shares in controlled entities	13	**-**	-	**152,079**	151,693
Deferred acquisition costs		**203**	275	**-**	-
Plant and equipment		**184**	451	**184**	451
Goodwill and other intangible assets	14	**162,716**	180,076	**375**	927
Total assets		**302,954**	306,248	**206,278**	179,849
Liabilities					
Payables and other liabilities	15	**71,592**	57,764	**24,501**	13,326
Subordinated loans	16	**152,079**	152,079	**177,079**	177,079
Deferred tax liabilities	17	**61,694**	48,587	**24,847**	13,109
Life insurance contract assets	18	**(288,556)**	(214,507)	**(301,028)**	(250,306)
Life investment contract liabilities	18	**28,796**	34,559	**1,970**	2,116
Life insurance contract liabilities - reinsurance	18	**59,306**	50,329	**61,455**	54,516
Total liabilities		**84,911**	128,811	**(11,176)**	9,840
Net assets		**218,043**	177,437	**217,454**	170,009
Equity					
Ordinary share capital	20	**126,701**	126,701	**126,701**	126,701
Retained earnings		**91,342**	50,736	**90,753**	43,308
Total equity		**218,043**	177,437	**217,454**	170,009

The notes to the financial statements form part of and should be read in conjunction with these financial statements.

KPMG

Cash Flow Statements

$ thousands	Note	Consolidated Group Year to 30/09/2011	Consolidated Group Period to 30/09/2010	Parent Year to 30/09/2011	Parent Period to 30/09/2010
Cash flows from operating activities					
Premium received		**155,329**	102,990	**83,110**	51,646
Reinsurance received		**15,452**	8,957	**9,170**	3,649
Commission received		**4,615**	3,616	**-**	-
Other income		**274**	-	**274**	-
Interest received		**3,312**	3,576	**761**	407
Taxes received		**184**	25	**184**	-
Claims, surrenders and maturities paid		**(65,531)**	(45,216)	**(35,489)**	(17,320)
Reinsurance paid		**(19,455)**	(17,610)	**(11,690)**	(12,005)
Commission paid		**(56,490)**	(48,135)	**(38,366)**	(31,627)
Operating expenses paid		**(34,915)**	(34,283)	**(25,022)**	(25,071)
Taxes paid		**(1,517)**	(878)	**-**	
Net cash flows provided by / (used in) operating activities	**23**	**1,258**	(26,958)	**(17,068)**	(30,321)
Cash flows from investing activities					
Proceeds from sale of investments		**125,368**	41,645	**-**	-
Purchase of investments		**(120,751)**	(26,229)	**(4,000)**	-
Purchase of intangible assets	**14**	**(88)**	(187)	**(88)**	(187)
Purchase of premises and equipment		**(45)**	(161)	**(45)**	(161)
Net cash flows provided by / (used in) investing activities		**4,484**	15,068	**(4,133)**	(348)
Cash flows from financing activities					
Change in due to subsidiary companies		**-**	-	**-**	9
Proceeds from share issue	**20**	**-**	10,000	**-**	10,000
Dividends received		**-**	-	**30,000**	25,000
Net cash flows provided by financing activities		**-**	10,000	**30,000**	35,009
Net cash flows provided by / (used in) operating activities		**1,258**	(26,958)	**(17,068)**	(30,321)
Net cash flows provided by / (used in) investing activities		**4,484**	15,068	**(4,133)**	(348)
Net cash flows provided by financing activities		**-**	10,000	**30,000**	35,009
Net increase / (decrease) in cash and cash equivalents		**5,742**	(1,890)	**8,799**	4,340
Cash and cash equivalents at beginning of the period		**42,566**	44,456	**15,955**	11,615
Cash and cash equivalents at end of the period	**10**	**48,308**	42,566	**24,754**	15,955

Notes to the Financial Statements

1. Significant Accounting Policies

A. Basis of preparation

(i) Statement of compliance

These financial statements have been prepared in accordance with the requirements of the Companies Act 1993 and the Financial Reporting Act 1993. The Parent is an issuer for the purposes of the Financial Reporting Act 1993. The Parent's financial statements are for OnePath Life (NZ) Limited as a separate entity and the Consolidated Group's financial statements are for the Parent's consolidated group, which includes its subsidiaries.

The Parent is a wholly owned subsidiary of OnePath Insurance Holdings (NZ) Limited (the "Immediate Parent") and the Ultimate Parent Company of the Consolidated Group is Australia and New Zealand Banking Group Limited, which is incorporated in Victoria, Australia.

These financial statements have also been prepared in accordance with New Zealand Generally Accepted Accounting Practice. They comply with New Zealand equivalents to International Financial Reporting Standards ("NZ IFRS") and other applicable Financial Reporting Standards, as appropriate for profit-oriented entities. The financial statements comply with International Financial Reporting Standards ("IFRS"). The Parent's registered address is Level 3, 205 Wairau Road, Glenfield, Auckland, New Zealand. The principal area of business of the Parent and the Consolidated Group is life insurance.

The principal accounting policies adopted in the preparation of these financial statements are set out below. These policies have been consistently applied by all members of the Consolidated Group and all controlled entities and to all periods presented in these financial statements.

(ii) Use of estimates and assumptions

The preparation of the financial statements requires the use of management judgement, estimates and assumptions that affect reported amounts and the application of policies. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable. Actual results may differ from these estimates.

Discussion of the critical accounting treatments, which include complex or subjective decisions or assessments, are covered in Note 2. Such estimates may require review in future periods.

(iii) Basis of measurement

The financial statements have been prepared on a going concern basis in accordance with historical cost concepts except that the following assets and liabilities are stated at their fair value:

- financial instruments designated at fair value through profit or loss;
- life investment contract liabilities; and
- life insurance contract liabilities measured using the Margin on Services ("MoS") principles.

(iv) Changes in accounting policies and application of new accounting statements

The accounting policies adopted by the Consolidated Group are consistent with those adopted and disclosed in the prior period with the exception that all new accounting standards and interpretations applicable to annual reporting periods beginning on or after 1 October 2010 have been applied by the Consolidated Group effective from the required date of application. Adoption of these standards and interpretations has not resulted in any material changes to the Consolidated Group's reported profit or financial position or required additional disclosures:

Improvements to New Zealand equivalents to International Financial Reporting Standards (various effective dates)
Are the International Accounting Standards Board's annual omnibus updates of standards.

There have been no other changes in accounting policies since the authorisation date of the previous annual financial statements on 28 February 2011.

(v) Rounding

The amounts contained in the financial statements have been rounded to the nearest thousand dollars, except where otherwise stated.

(vi) Comparatives

Certain amounts in the comparative information have been reclassified to ensure consistency with the current year's presentation.

Outstanding claims for OnePath Insurance Services (NZ) Limited have been actuarially calculated in the current year and the balance of $8,289,553 as at 30 September 2010 has been reclassified from payables and other liabilities to life insurance contract assets to ensure consistent presentation. The impact on the statements of comprehensive income of the Consolidated Group has been a decrease of $243,730 to both claims and surrenders and decrease in insurance contract liabilities. As these changes result in no amendment to net assets and no net impact to profit or loss, an opening balance sheet has not been presented.

In addition, future premiums for OnePath Insurance Services (NZ) Limited have been presented gross in the comparative balance sheet of the Consolidated Group, resulting in an increase in trade and other receivables and payables and other liabilities of $970,532 as at 30 September 2010. There is no impact on profit or loss or equity as a result of this reclassification and consequently no further disclosure is required.

KPMG

Notes to the Financial Statements

(vii) Change in balance date
The Consolidated Group changed its balance date from 31 December to 30 September during the prior year. The change in balance date was to align with the balance date of the Ultimate Parent Company, who acquired full ownership of OnePath Life (NZ) Limited on 30 November 2009. As a result of the change in balance date, the current period is for the 12 months ended 30 September 2011 while the prior period is for the 9 months ended 30 September 2010.

(viii) Principles of consolidation

a. Subsidiaries
The financial statements consolidate the financial statements of the Parent and all its subsidiaries where it is determined that there is capacity to control.

Where subsidiaries have been sold or acquired during the period, their operating results have been included to the date of disposal or from the date of acquisition.

Control means the power to govern, directly or indirectly, the financial and operating policies of an entity so as to obtain benefits from its activities. All of the facts of a particular situation are considered when determining whether control exists. Control is usually present when an entity has:

- power over more than one-half of the voting rights of the other entity;
- power to govern the financial and operating policies of the other entity;
- power to appoint or remove the majority of the members of the Board of Directors or equivalent governing body; or
- power to cast the majority of votes at meetings of the Board of Directors or equivalent governing body of the entity.

In addition, potential voting rights that are presently exercisable or convertible are taken into account in determining whether control exists.

Investments in subsidiaries are held at cost less accumulated impairment.

(ix) Foreign currency translation

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

b. Foreign currency transactions
Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions.

Monetary assets and liabilities resulting from foreign currency transactions are subsequently translated at the spot rate at reporting date.

Exchange differences arising on the settlement of monetary items or on translating monetary items at rates different to those at which they were initially recognised or included in a previous financial report, are recognised in the statements of comprehensive income in the period in which they arise.

B. Revenue recognition

Income is recognised to the extent that it is probable that economic benefits will flow to the Consolidated Group and that revenue can be reliably measured.

(i) Premium income
Life insurance premiums earned by providing services and bearing risks are treated as revenue. Life investment contract deposit premiums are recognised as an increase in policy liabilities. For insurance contract business, all premiums are recognised as revenue.

a. Life insurance premiums
Premiums with a regular due date are recognised as revenue on an accruals basis. Unpaid premiums are only recognised as revenue during the days of grace or where secured by the surrender value of the policy and are included as "Trade and other receivables" in the balance sheets.

b. Life investment premiums
There is no premium revenue in respect of investment contracts. Investment contract amounts received from policyholders in respect of investment contracts comprise a deposit component or origination fee and/or ongoing investment management fee or amounts directly credited to investment contract liabilities.

(ii) Fee income
Fees are charged to policyholders in connection with life investment contracts and are recognised when the service has been provided.

Notes to the Financial Statements

For assets subject to prepayment, expected life is determined on the basis of the historical behaviour of the particular asset portfolio, taking into account contractual obligations and prepayment experience assessed on a regular basis.

(iii) Commission income
Commission income is recognised on the completion of a significant event, which is usually the issuance of an insurance policy. Commission income clawback is recognised on an accruals basis.

(iv) Reinsurance contracts
Reinsurance premiums, commissions and claims settlements, as well as the reinsurance element of insurance contract liabilities, are accounted for on the same basis as the original contracts for which the reinsurance was purchased. Refer to Note 1G for the accounting policy for reinsurance recoveries.

(v) Interest income
Interest income is recognised as it accrues, using the effective interest method.

The effective interest method calculates the amortised cost of a financial asset or financial liability and allocates the interest income or interest expense, including any fees and directly related transaction costs that are an integral part of the effective interest rate, over the expected life of the financial asset or liability so as to achieve a constant yield on the financial asset or liability.

(vi) Dividend income
Dividends are recognised as revenue when the right to receive payment is established.

(vii) Realised and unrealised gains / (losses)
Refer to Note 1E for the recognition of realised and unrealised gains / (losses).

(viii) Gain or loss on disposal of plant and equipment
The gain or loss on the disposal of plant and equipment is determined as the difference between the carrying amount of the assets at the time of disposal and the proceeds of disposal, and is recognised as an item of other income in the period in which the significant risks and rewards of ownership are transferred to the buyer.

C. Expense recognition

Expenses are recognised in the statements of comprehensive income on an accruals basis.

(i) Claims and surrenders
Claims are recognised when the liability to the policyholder under the policy contract has been established or upon notification of the insured event depending on the type of claim. Claims are separated into their expense and liability components.

Claims incurred in respect of life investment contracts represent withdrawals and are recognised as a reduction in life investment contract liabilities.

Claims incurred that relate to the provision of services and bearing of insurance risks are treated as expenses and these are recognised on an accruals basis once the liability to the policyholder has been established under the terms of the contract.

Surrenders are recognised when requested by the policyholder.

(ii) Commission and operating expenses
Commission and operating expenses incorporate all other expenditure involved in running of the life insurance companies business, including costs of issuing new business, salaries and related costs and other management expenses which include, for example, office accommodation costs.

All life insurance and life investment contracts are categorised based on individual policy or products. Expenses for these products are allocated between acquisition, maintenance, investment management and other expenses.

Basis of expense apportionment
Expenses which are directly attributable to an individual policy or product are allocated directly to a particular expense category, class of business and product line as appropriate. Where expenses are not directly attributable to an individual policy or product they are appropriately apportioned based on a detailed expenses analysis having regard to the objective in incurring that expense and the outcome achieved.

a. Acquisition expenses
Acquisition expenses are the fixed and variable expenses of acquiring new business including commissions and similar distribution expenses, and expenses related to accepting, issuing and initially recording policies. They do not include general growth and development costs incurred by the life insurance companies.

Under MoS, where overall product profitability of new business written during the period is expected to support the recovery of acquisition expenses incurred in that period, these expenses are effectively deferred as an element of policyholder liabilities and amortised over the life of the policies written. Unamortised acquisition expenses are a component of the MoS policyholder liability. Acquisition expenses are recognised in the statements of comprehensive income as a component of "movement in policyholder liability" at the same time as profit margins are released.

KPMG

Notes to the Financial Statements

Acquisition expenses are allowed for when determining expected profit margins by setting standard expense allowances based on each policy type issued. Actual acquisition expenses in any one period may vary from standard for a number of reasons including new business volume, product mix, distribution mix, cost efficiency and new strategic initiatives.

As a result of these variances, acquisition expenses may, in total, be lesser or greater than standard expense allowances. In both cases the acquisition expense component of the policyholder liability is determined as the actual expenses incurred in the period so that neither a profit nor a loss arises on acquisition, subject to only the overriding constraint that the present value of future profit margins on new business written in the period is not negative.

b. Maintenance expenses
Maintenance expenses are the fixed and variable expenses of administering policies subsequent to sale and the fixed and variable operating and management expenses of maintaining the life insurance companies operations such that they are sufficient to service in-force policies. These include general growth and development expenses. Maintenance expenses include all operating expenses other than acquisition and investment management expenses.

c. Investment management expenses
Investment management expenses are the fixed and variable expenses of managing investment funds. As the life insurance companies contracts this function out to external fund managers they do not directly incur any investment management expenses. However, they do incur an investment management fee for this service.

Investment management and maintenance expenses are recognised in the statements of comprehensive income in the period to which they relate.

(iii) Interest expenses
Interest expense on financial liabilities measured at amortised cost is recognised in the statements of comprehensive income as it accrues using the effective interest method.

(iv) Lease payments
Leases entered into by the Consolidated Group as lessee are predominantly operating leases, and the operating lease payments are recognised as an expense on a straight-line basis over the lease term. Operating lease incentives are recognised as a liability when received and subsequently reduced by allocating lease payments between rental expense and reduction of the liability.

D. Income tax

(i) Income tax expense
Income tax on earnings for the period comprises current and deferred tax and is based on applicable tax law. It is recognised in the statements of comprehensive income as tax expense, except when it relates to items credited directly to equity, in which case it is recorded in equity, or where it arises from the initial accounting for a business combination, in which case it is included in the determination of goodwill. Refer to Note 9 for changes to life insurance tax rules.

(ii) Current tax
Current tax is the expected tax payable on taxable income for the period, based on tax rates and tax laws which are enacted or substantively enacted by the reporting date and including any adjustment for tax payable in previous periods. Current tax for current and prior periods is recognised as a liability (or asset) to the extent that it is unpaid (or refundable).

(iii) Deferred tax
Deferred tax is accounted for using the comprehensive tax balance sheet method. It is generated by providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax base.

Deferred tax assets, including those related to the tax effects of income tax losses and credits available to be carried forward, are recognised only to the extent that it is probable that future taxable profits will be available against which the deductible temporary differences or unused tax losses and credit can be utilised.

Deferred tax liabilities are recognised for all taxable temporary differences, other than those relating to taxable temporary differences arising from goodwill. They are also recognised for taxable temporary differences arising on investments in controlled entities, branches, associates and joint ventures, except where the Consolidated Group is able to control the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future. Deferred tax assets associated with these interests are recognised only to the extent that it is probable that the temporary difference will reverse in the foreseeable future and there will be sufficient taxable profits against which to utilise the benefits of the temporary difference.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period(s) when the asset and liability giving rise to them are realised or settled, based on tax rates and tax laws that have been enacted or substantively enacted by the reporting date. The measurement reflects the tax consequences that would follow from the manner in which the Consolidated Group, at the reporting date, recovers or settles the carrying amount of its assets and liabilities.

(iv) Offsetting
Current and deferred tax assets and liabilities are offset only to the extent that they relate to income taxes imposed by the same taxation authority, there is a legal right and intention to settle on a net basis and it is allowed under the tax law of the relevant jurisdiction.

Notes to the Financial Statements

E. Assets

Financial assets

The Consolidated Group classifies its financial assets in the following categories: financial assets at fair value through profit or loss and loans and receivables. The classification depends on the purpose for which the assets were acquired. Management determines the classification of its assets at initial recognition and re-evaluates this designation at every reporting date. Regular purchases and sales of financial assets are recognised on trade date – the date on which the Consolidated Group commits to purchase or sell the asset.

(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 at inception. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management. The Consolidated Group's financial assets at fair value through profit or loss comprise cash and cash equivalents and securities in the balance sheets. Securities held to back policyholder assets / liabilities are designated at fair value through profit or loss to avoid an accounting mismatch as the policyholder liabilities are at fair value.

Financial assets carried at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in the statements of comprehensive income. Gains and losses arising from changes in the fair value of financial assets at fair value through profit or loss are included in the statements of comprehensive income in the period in which they arise.

The fair values of investments that are actively traded in organised financial markets are determined by reference to quoted market bid prices at the close of business on the balance date. For investments with no active market, fair values are determined using valuation techniques, including: recent arm's length market transactions; reference to the current market value of another instrument that is substantially the same; and discounted cash flow analysis. Refer to details in Note 22.

(ii) Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market other than those the Consolidated Group has designated as at fair value through profit or loss. The Consolidated Group's loans and receivables comprise trade and other receivables in the balance sheets.

Loans and receivables are initially recognised at fair value plus transaction costs and are subsequently carried at amortised cost using the effective interest method. The current value less impairment provision of trade and other receivables are assumed to approximate their fair value.

The Consolidated Group assesses at each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. Financial difficulty of the debtor, default payments or debts more than 90 days overdue are considered objective evidence of impairment.

The amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The asset's carrying amount is reduced through the use of an allowance account and the amount of the loss is recognised in the statements of comprehensive income.

If in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in the statements of comprehensive income.

(iii) Derecognition
The Consolidated Group enters into transactions where it transfers financial assets recognised on its balance sheets yet retains either all the risks and rewards of the transferred assets or a portion of them. If all, or substantially all, the risks and rewards are retained, the transferred assets are not derecognised from the balance sheets.

In transactions where substantially all the risks and rewards of ownership of a financial asset are neither retained nor transferred, and the Consolidated Group derecognises the asset if control over the asset is lost. In transfers where control over the asset is retained, the Consolidated Group continues to recognise the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset. The rights and obligations retained or created in the transfer are recognised separately as assets and liabilities as appropriate.

Non-financial assets

(i) Goodwill
Goodwill represents the excess of the purchase consideration over the fair value of the identifiable net assets of a controlled entity at the date of gaining control. Goodwill is recognised as an asset and not amortised, but is assessed for impairment at least annually or more frequently if there is an indication that the goodwill may be impaired. Goodwill is allocated to cash generating units for the purpose of impairment testing. The recoverable amount is based on appraisal value basis calculations. These calculations use discounted expected future cash flow projections based on the in-force book of business sold post-acquisition (representing Value in Force) and future new business sales (representing Value of New Business). Cash flow projections are based on best estimate assumptions as used for the policyholder liability valuation. Where the assessment results in the goodwill balance exceeding the value of expected future benefits, the

KPMG

difference is charged to the statements of comprehensive income as an impairment expense and is recognised within "Commissions and operating expenses". Any impairment of goodwill may not be subsequently reversed.

(ii) Other intangible assets
Other intangible assets include costs incurred in acquiring and building software and computer systems ("software"), the value of business acquired in business combinations and management rights.

Software is a finite life intangible asset and is held at cost less accumulated amortisation and impairment. It is amortised using the straight-line method over its expected useful life to the Consolidated Group. The period of amortisation is between 3 and 5 years. Amortisation is recognised in the statements of comprehensive income within "Commissions and operating expenses".

Value of Business Acquired ("VOBA") is the value attributed to in-force insurance contracts acquired following business combinations. VOBA is initially measured at fair value by estimating the net present value of future cash flows from the contracts in-force at the date of acquisition. VOBA is subsequently carried at costs less accumulated amortisation and impairment. VOBA has been assessed as having a finite life and is amortised on a diminishing value basis over 20 years. Amortisation is recognised in the statements of comprehensive income within "Commissions and operating expenses". The estimated useful life is re-evaluated regularly.

Management rights represent the contractual rights of the Consolidated Group to have the first right of refusal in providing insurance products for ANZ National Bank Limited. As part of acquiring these rights, the Consolidated Group also earns a portion of commission income received from third party insurance providers. Management rights that have been assessed as having a definite useful life are amortised on a straight-line basis over the expected useful life, which is between 12 and 20 years. Amortisation is recognised in the statements of comprehensive income within "Commissions and operating expenses". The remaining amortisation period is 3 - 12 years.

At each reporting date, the software assets and other intangible assets are reviewed for impairment. If any such indication exists, the recoverable amount of the assets is estimated and compared against the existing carrying value. Where the existing carrying value exceeds the recoverable amount, the difference is charged to the statements of comprehensive income and is recognised within "Commissions and operating expenses".

Costs incurred in planning or evaluating software proposals, or in maintaining systems after implementation, are not capitalised.

(iii) Plant and equipment
Plant and equipment are carried at cost less accumulated depreciation and impairment.

Assets are depreciated at rates based upon their expected useful lives to the Parent and Consolidated Group, using either the diminishing value or straight-line method. The depreciation rates used for each class of asset are:

	Diminishing value	Straight-line
Computer equipment	20% - 60%	33%
Office furniture & equipment	9% - 60%	20%

Leasehold improvements are amortised on a straight-line basis over the shorter of their useful lives or remaining terms of the lease.

At each reporting date, the carrying amounts of plant and equipment are reviewed for impairment. If any such indication exists, the recoverable amount of the assets is estimated and compared against the existing carrying value. Where the existing carrying value exceeds the recoverable amount, the difference is charged to the statements of comprehensive income within "Commissions and operating expenses". If it is not possible to estimate the recoverable amount of an individual asset, the Parent and Consolidated Group estimates the recoverable amount of the cash generating unit to which the asset belongs.

A previously recognised impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount.

F. Policyholder assets / liabilities

Policyholder assets / liabilities include liabilities arising from investment contracts and assets / liabilities arising from life insurance contracts.

An insurance contract is a contract under which an insurer accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder if a specified uncertain future event adversely affects the policyholder.

All contracts that do not meet the definition of an insurance contract are referred to as life investment contracts. Life investment contract business relates to funds management products in which the Consolidated Group issues a contract where the resulting liability to policyholders is linked to the performance and value of the assets that back those liabilities. Whilst the underlying assets are registered in the name of the company and the policyholder has no direct access to the specific assets, the contractual arrangements are such that the policyholder bears the risks and rewards of the fund's investment performance with the exception of guaranteed products where the policyholder is guaranteed a minimum return or asset value. The Consolidated Group derives fee income from the administration of the underlying assets.

Notes to the Financial Statements

An outstanding claims reserve is held within policyholder assets / liabilities to provide for the estimated costs of all claims notified, but not settled at balance date, together with the estimated cost of claims incurred but not reported until after balance date.

Determination of policyholder liabilities
The amount of policyholder liabilities has been determined in accordance with methods and assumptions disclosed in this financial report and the requirements of the New Zealand Life Insurance Act 1908.

(i) Life insurance liabilities
Life insurance liabilities are calculated using the MoS methodology in accordance with Professional Standard 3: Determination of Life Insurance Policy Liabilities of the New Zealand Society of Actuaries.

Under the projection method, the liability is determined as the net present value of the expected future cash flows plus planned margins of revenues over expenses relating to services yet to be provided, discounted using a risk-free discount rate that reflects the nature and structure of the liabilities. Expected future cash flows include premiums, investment income, expenses, redemptions and benefit payments, including bonuses.

An accumulation method is used where the policyholder liabilities determined are not materially different from those determined under the projection method.

MoS is designed to recognise profits on life insurance contracts as services are provided to policyholders or when income is received. Profits are deferred and amortised over the life of policies, whereas losses are recognised immediately as they arise. Services used to determine profit recognition include premiums expected to be received from policyholders, the cost of expected claims, maintaining policies and investment management. Costs may only be deferred, however, to the extent that a contract is expected to be profitable.

Profits emerging under the MoS methodology can be categorised as follows:

a. 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. Where actual experience replicates best estimate assumptions, the expected profit margins will be released to profit over the life of the policy.

b. The difference between actual and assumed experience
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 period are lower than the best estimate assumption in respect of those expenses.

c. Changes to underlying assumptions
Assumptions used for measuring policyholder assets / liabilities are reviewed each period. Where the review leads to a change in assumptions the change is deemed to have occurred from the end of the financial period and the impact of the assumption change is absorbed within the future value of profit margins, provided sufficient profit margins exist.

The calculation of policyholder liabilities includes the use of risk free yields by duration. The changes in these yields are not treated the same as other actuarial assumption changes as changes in investment yields impact both the life policyholder liabilities and the asset values in the balance sheets and any change in relative value between the two is recognised during the reporting period.

The financial effect of changes to the assumptions underlying the measurement of policyholder liabilities made during the reporting period are recognised in the statements of comprehensive income over the future reporting periods during which services are provided to policyholders. However if, based on best estimate assumptions, written business for a group of related products is expected to be unprofitable, the whole expected loss for that related product group is recognised in the statements of comprehensive income immediately. When loss making business becomes profitable, it is necessary to reverse previously recognised losses.

d. Investment earnings on assets in excess of policyholder 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 will vary from period to period.

e. Term and other liabilities
Term and other liabilities are recognised in the balance sheets at the present value of future cash outflows to be incurred as a result of the life insurance company's obligations at balance date.

(ii) Life investment liabilities
Provisions for liabilities under investment contracts are measured at fair value. Fair value is directly linked to the performance and value of the assets that back them and is determined as the fair value of those assets plus a small insurance component.

KPMG

Notes to the Financial Statements

G. Reinsurance

As the reinsurance agreements provide for indemnification of the Consolidated Group against loss or liability, reinsurance income and expenses are recognised separately in the statements of comprehensive income when they become due and payable in accordance with the reinsurance agreements.

Reinsurance premiums payable are recognised in the statements of comprehensive income as part of reinsurance expenses, net of reinsurance commissions refunded. Outstanding reinsurance premiums payable are recognised within trade and other payables in the balance sheets. The present value of future reinsurance recoveries payable by the Consolidated Group is recognised separately from policyholder liabilities in the balance sheets.

Reinsurance recoveries on claims are recognised in the statements of comprehensive income as part of reinsurance income at the time the claim event is notified to the Consolidated Group if the corresponding policy is reinsured. The amount recognised is the present value of the recoverable amount based on the claim event date. Outstanding reinsurance recoverables are recognised within "Trade and other receivables" in the balance sheets.

H. Liabilities

Financial liabilities

The Consolidated Group classifies its financial liabilities in the following categories: financial liabilities at fair value through profit or loss or other financial liabilities.

(i) Financial liabilities at fair value through profit or loss
Liabilities in this category are measured at fair value. Gains and losses arising from the fair value re-measurement of financial liabilities at fair value through profit or loss are included in the statements of comprehensive income. Financial liabilities included within financial liabilities at fair value through profit or loss includes life investment contract liabilities.

(ii) Other financial liabilities
This category includes all financial liabilities other than those designated by the Consolidated Group as at fair value through profit or loss. Liabilities in this category are measured initially at fair value and subsequently at amortised cost using the effective interest method. Other financial liabilities include payables and other liabilities and subordinated loans. The current value less impairment provision of payables and other liabilities and subordinated loans are assumed to approximate their fair value.

(iii) Derecognition
Financial liabilities are derecognised when the obligation specified in the contract is discharged, cancelled or expires.

Non-financial liabilities

(i) Employee benefits

a. Short-term employee benefits
Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognised for the amount expected to be paid for salaries, holiday pay or short-term cash bonus schemes if the Consolidated Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably.

b. Employee leave benefits
The amounts expected to be paid in respect of employees' entitlements to annual leave are accrued at expected salary rates including on-costs. Liability for long service leave is calculated and accrued for in respect of all applicable employees (including on-costs) using an actuarial valuation. Expected future payments for long service leave are discounted using market yields at the reporting date on national government bonds with terms to maturity that match, as closely as possible, the estimated future cash outflows.

(ii) Provisions
The Consolidated Group recognises provisions when there is a present legal or constructive obligation as a result of past events, the future sacrifice of economic benefits is probable, and the amount of the provision can be measured reliably.

The amount recognised is the best estimate of the consideration required to settle the present obligation at the reporting date, taking into account the risks and uncertainties surrounding the obligation at the reporting date. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows. Any expected third party recoveries are recognised as an asset if it is virtually certain that recovery will be received and the amount of the receivable can be measured reliably.

I. Equity

(i) Shares
Issued shares are recognised at the amount paid per share net of directly attributable issue costs.

(ii) Dividends
Where a dividend is declared post reporting date, but prior to the date of issue of the financial statements, disclosure of the declaration is made in the notes to the financial statements but no liability is recognised in the balance sheets.

KPMG

Notes to the Financial Statements

J. Presentation

(i) Offsetting of income and expenses

Income and expenses are not offset unless required or permitted by an accounting standard. This generally arises in the following circumstances:

- where transaction costs form an integral part of the effective interest rate of a financial instrument which is measured at amortised cost, these are offset against the interest income generated by the financial instrument; or
- where gains and losses arise from a group of similar transactions, such as foreign exchange gains and losses.

(ii) Offsetting of financial assets and liabilities

Assets and liabilities are offset and the net amount reported in the balance sheets only where there is:

- a current enforceable legal right to offset the asset and liability; and
- an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously.

(iii) Cash flow statements

Cash and cash equivalents includes cash on hand, deposits held at call with other financial institutions, other short term, highly liquid investments with original terms of maturity of three months or less that are readily convertible to cash and which are subject to an insignificant risk of changes in value. Bank overdrafts that are repayable on demand and form an integral part of the Consolidated Group's cash management are included as a component of cash and cash equivalents for the purposes of the cash flow statements.

Dividends from subsidiaries have been classified as financing activities in the cash flow statements, as the receipt of these dividends enables the Parent to maintain the solvency requirement of *Professional Standard No. 5.01 ("PS5.01") of the New Zealand Society of Actuaries.*

(iv) Goods and services tax

Income, expenses and assets are recognised net of the amount of Goods and Services Tax ("GST") except where the amount of GST incurred is not recoverable from the Inland Revenue Department ("IRD"). In these circumstances, the GST is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated with the amount of GST included. The net amount of GST recoverable from, or payable to, the IRD is included as other assets or other liabilities in the balance sheets.

Cash flows are included in the Cash Flow Statements on a gross basis. The GST components of cash flows arising from investing and financing activities, which are recoverable from, or payable to, the IRD are classified as operating cash flows.

K. Other

(i) Contingent liabilities

A contingent liability is a possible or present obligation where it is less than probable there will be an outflow of resources or it is not possible to measure the amount of the obligation with sufficient reliability.

Liabilities are no longer contingent, and are recognised on the balance sheets, when the following requirements are met:

- the transaction is probable in that the contingency is likely to occur; and
- the contingency can be reasonably estimated.

Further disclosure is made within Note 26, where the above requirements are not met, but there is a possible obligation that is higher than remote. Specific details of the nature of the contingent liability are provided and, where practicable, an estimate of its financial effect. Alternatively, where no disclosure is made of its financial effect because it is not practicable to do so, a statement to that effect is provided.

(ii) Accounting Standards not early adopted

The following standards and amendments were available for early adoption but have not been applied by the Consolidated Group in these financial statements. The Consolidated Group currently does not intend to apply any of these pronouncements until their effective date and is assessing their impact on its financial statements.

Standards and amendments effective for periods commencing after 1 January 2013:

NZ IFRS 9 Financial Instruments (2009 & 2010)

Specifies a simpler methodology for classifying and measuring financial assets, with two primary measurement categories: amortised cost and fair value. Requires the amount of change in the fair value attributable to changes in credit risk of certain liabilities designated under the fair value option to be presented in other comprehensive income.

NZ IFRS 10 Consolidated Financial Statements

Establishes a new approach to determining which investees should be consolidated and provides a single model to be applied in the control analysis for all investors.

NZ IFRS 12 Disclosure of Interests in Other Entities

Provides a single, consistent approach for disclosures of all interests in subsidiaries, joint arrangements, associates and unconsolidated structured entities.

KPMG

NZ IFRS 13 Fair value measurement
Provides a single source of guidance on fair value measurement and requires certain disclosures regarding fair value.

Other amendments
Improvements to New Zealand equivalents to International Financial Reporting Standards 2010
Is the International Accounting Standards Board's annual omnibus updates of standards.

2. Critical Estimates and Judgement Used in Applying Accounting Policies

These financial statements are prepared in accordance with NZ IFRS. However, there are a number of critical accounting treatments which include complex or subjective judgements and estimates that may affect the reported amounts of assets and liabilities in the financial statements. 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.

An explanation of the judgements and estimates made by the Consolidated Group in the process of applying its accounting policies, that have the most significant effect on the amounts recognised in the financial statements are set out below.

Critical accounting estimates and assumptions

Life Insurance Business

(i) Insurance contract liabilities
Policyholder liabilities for life insurance contracts are computed using projection methods, effectively calculating an individual liability for each contract. The computations are made by suitably qualified personnel on the basis of recognised actuarial methods, with due regard to relevant actuarial principles and standards. The methodology takes into account the risks and uncertainties of the particular classes of life insurance business written. The value of deferred policy acquisition costs are connected with the measurement basis of life insurance liabilities and are equally sensitive to the factors that are considered in the liability measurement.

The key factors that affect the estimation of these liabilities and related assets are:

- the cost of providing the benefits and administering these insurance contracts;
- the mortality, morbidity, and medical experience assumptions, which affects the life insurance companies' ability to recover the cost of acquiring new business over the lives of the contracts;
- discontinuance rates, which affect the life insurance companies' ability to recover the cost of acquiring new business over the lives of the contracts; and
- other factors such as regulation, competition, interest rates, taxes, security market conditions and general economic conditions affect the level of these liabilities.

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

(ii) Fair value of investment contracts
The Consolidated Group has issued a number of investment contracts that are designated at fair value through profit or loss. The fair value of such liabilities is determined by the value of the financial assets backing the contracts.

(iii) Assets arising from reinsurance contracts
Assets arising from reinsurance contracts are also computed using the above methods. In addition, the recoverability of these assets is assessed on a periodic basis to ensure that the balance is reflective of the amounts that will ultimately be received, taking into consideration factors such as counterparty and credit risk. Impairment would be recognised where there is objective evidence that the life insurance companies may not receive amounts due to them and these amounts can be reliably measured.

Critical judgements in applying the Consolidated Group's accounting policies

(i) Goodwill
The carrying value of goodwill is subject to an impairment test to ensure that the current carrying value does not exceed its recoverable value at the balance sheet date. Any excess of carrying value over recoverable amount is taken to the Statement of Comprehensive Income as an impairment write down. Refer to Note 14 for details of goodwill.

Goodwill has been allocated for impairment purposes to the cash generating units at which the goodwill is monitored for internal reporting purposes. Only one cash generating unit is recognised, being OnePath Insurance Services (NZ) Limited.

Impairment testing of purchased goodwill is performed annually, or more frequently where there is an indication that the goodwill may be impaired, by comparing the recoverable value of the cash generating unit with the current carrying amount of its net assets, including goodwill.

The recoverable amount is based on value in use calculations. The appraisal value methodology employed in assessing excess market value over net tangible assets of the cash generating unit is deemed by management to be an appropriate proxy for determining value in use. These calculations use discounted expected future cash flow projections based on the in-force book of business sold post acquisition (representing Value in Force) and a multiplier for future new business sales

KPMG

Notes to the Financial Statements

(representing Value of New Business). Cash flow projections cover a maximum period of 70 years, so that they are consistent with the actuarial model and assumptions used for the policyholder liability valuation (refer Note 3). The multiplier for new business is based on management's view of the effectiveness of distribution channels, expected market growth and competitiveness.

These cash flow projections are discounted using a capital asset pricing model. As at 30 September 2011, a discount rate of 10.2% was applied (2010: 9.1%). The main variables in the calculation of the discount rate used are the risk free rate, the beta rate and the market risk premium. The risk free rate is based on the 10 year Government Bond Rate. The beta rate and the market risk premium are consistent with observable and comparative market rates applied in the regional insurance sector.

An impairment of $5.2 million has been recognised in the current year. The main factor which has led to this impairment has been the increase in the discount rate from 9.1% to 10.2%. As the fair value of goodwill has been written down to its recoverable amount, any further negative change to the assumptions used would result in the recoverable amount falling below the carrying amount resulting in further impairment.

(i) VOBA

VOBA is the difference between the fair value and the carrying amount of the insurance liabilities recognized when a portfolio of insurance contracts is acquired (directly from another insurance company or as part of a business combination).

Annual impairment testing is performed on the VOBA, however unlike goodwill, VOBA is amortised over a specified period.

The recoverable amount is based on appraisal value basis calculations. These calculations use discounted expected future cash flow projections based on the in-force book of business that was in-force at acquisition (representing Value in Force). Cash flow projections are based on best estimate assumptions as used for the policyholder liability valuation (refer Note 3).

These cash flow projections are discounted using a capital asset pricing model. As at 30 September 2011, a discount rate of 10.17% was applied (2010: 9.1%). The main variables in the calculation of the discount rate used are the risk free rate, the beta rate and the market risk premium. The risk free rate is based on the 10 year government bond rate. The beta rate and the market risk premium are consistent with observable and comparative market rates applied in the regional insurance sector.

Management believes any reasonable possible change in the key assumptions on which the recoverable amount is based would not cause the Consolidated Group's carrying amount to exceed its recoverable amount.

(ii) Management rights

The Consolidated Group performed an impairment test for management rights where the recoverable amount was based on value in use using cash flow projections and management budgets for a three year period. Key assumptions used in the calculation are the discount rate of 10% (2010: 11.5%), revenue growth rate of 3% (2010: 3%) and the cost to income ratio of 10% (2010: 10%). The discount rate is determined considering internal rates of return and changes in the government bond rate, while the cost to income ratio and growth rate principally consider past experience. The recoverable amount was greater than the book value for the management rights and no impairment has been recognised.

(iii) Fair value of investment contracts

The Parent has issued a number of investment contracts that are designated at fair value through profit or loss. The fair value of such liabilities is determined by the value of the financial assets backing the contracts.

(iv) Assets arising from reinsurance contracts

Assets arising from reinsurance contracts are also computed using the above methods. In addition, the recoverability of these assets is assessed on a periodic basis to ensure that the balance is reflective of the amounts that will ultimately be received, taking into consideration factors such as counterparty and credit risk. Impairment is recognised where there is objective evidence that the life insurance companies may not receive the amounts due and these amounts can be reliably measured.

(ii) Deferred tax

Significant judgement is required in determining the Consolidated Group's income tax liabilities and tax assets. In arriving at the deferred tax liability, the Consolidated Group has taken an assessment of anticipated tax liabilities and assets, based on estimates of when additional taxes will be due and benefits will arise.

Where the expected tax outcomes 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. Given the complexity of life insurance tax legislation and assumptions involved, material adjustments to income tax expenses in future years may be required.

Notes to the Financial Statements

3. Summary of Significant Actuarial Methods and Assumptions

The actuarial reports on policyholder assets / liabilities and solvency reserves for the current reporting period were prepared as at 30 September 2011. The actuary who prepared the reports for the Parent and the Consolidated Group was Michael Bartram, BSc. (Hons), FIAA, FNZSA., who is a Fellow of the Institute of Actuaries of Australia and a Fellow of the New Zealand Society of Actuaries.

The amount of policyholder liabilities has been determined in accordance with *Professional Standard 3: Determination of Life Insurance Policy Liabilities of the New Zealand Society of Actuaries*. After making appropriate checks, the actuary was satisfied as to the accuracy of the data from which the amount of the policyholder liabilities had been determined.

The Consolidated Group comprises two life companies, OnePath Life (NZ) Limited and OnePath Insurance Services Limited. The key assumptions used in determining the policyholder liabilities are detailed below. Unless otherwise stated, the assumptions given are for both life companies.

Profit carriers
Risk business has been valued using the projection method. The profit carrier for the risk business to achieve systematic release of planned margins is premiums. For investment contracts, including term deposit bonds, no profit carrier is used. For these policies, policy liabilities are valued on an accumulation basis.

Discount rates
The discount rates used to determine policyholder liabilities were determined from the inter-bank swap rate curve. These rates are then adjusted to remove the inherent credit risk margin and provide a risk free rate. The risk free rate (before tax) varied by duration between 2.2% to 5.6% (2010: 3.2% to 6.2%).

Inflation
The inflation assumption was determined on a basis consistent with the medium to long term RBNZ inflation target of between 1% to 3% (2010: 1% to 3%). The rate assumed is 2.5% pa (2010: 2.5% pa).

Future expenses and indexation
Future maintenance and investment expense assumptions were derived from an analysis of planned expenses for the coming year. The rates vary by premium payment type and are expressed as a unit cost per policy. Expense assumptions are assumed to increase each year by the inflation rate set out above. The Parent and the Consolidated Group are charged an investment management fee.

Asset mix
The assumptions regarding asset mix are based on the actual mix of assets.

Asymmetric risks
An asymmetric risk is characterised by a movement in an assumption that results in a significantly larger adjustment in one direction than it does in the other. Given the nature of the business no additional reserve is required for asymmetric risks (2010: no additional reserve).

Rates of taxation
The rates of taxation enacted or substantially enacted at the date of the valuation are assumed to continue into the future. The corporate tax rate used is 30%, other than for deferred tax expected to crystallise after 1 October 2011, where 28% is used (2010: 30%). Policyholder liabilities are calculated gross of tax with a separate liability being held for tax.

Mortality and morbidity

Onepath Life (NZ) Limited
Projected future rates of mortality for insured lives are based on a 70% proportion of the reinsurer tables (2010:70%). These are then adjusted by comparing the standard tables with the Parent's own experience. In addition, in the prior year, a case estimates method was used for certain pools of business. Assumptions are reviewed based on annual experience studies.

Future morbidity experience has been based on reinsurers' tables and internal investigations. Future morbidity termination rates have been based on the Parent's experience and on industry information. The current assumption is 100% IAD89-93 tables.

Onepath Insurance Services (NZ) Limited
Projected future rates of mortality for insured lives are based on a proportion of the NZ97 tables. These are then adjusted by comparing the standard tables with the company's own experience. The proportions of NZ97 adopted range from 35% to 180% (2010: 30% to 100%).

Assumed incidence rates are based on reinsurance risk premiums and investigation of the company's experience. The incidence assumptions adopted ranged from 0.6% to 0.9% (2010: 1.4% to 4.3%).

KPMG

Notes to the Financial Statements

Rates of discontinuance
Long-term discontinuance rates are based on recent company analysis and vary by product and duration in force, taking into account market conditions and internal strategies. The assumed rates of discontinuance are:

	2011	2010
OnePath Life (NZ) Limited	between 6% and 30%	between 9% and 25.5%
OnePath Insurance Serivces (NZ) Limited	between 1% and 35%	between 1% and 35%

Surrender values
Surrender values for the Parent, where applicable, are calculated on an accumulation basis.

Surrender values for OnePath Insurance Services (NZ) Limited are based on the provisions specified in the policy contracts and include a recovery of policy establishment and maintenance costs. It is assumed that the current surrender value bases will be maintained.

Rates of growth in unit prices
This assumption is not applicable for the Parent as surrender values are valued on an accumulation basis.

Unit prices for OnePath Insurance Services (NZ) Limited are assumed to grow at the assumed investment earnings rate for the relevant asset pool, less tax and applicable management charges.

Participating business
The Parent and the Consolidated Group do not issue participating business.

Solvency Requirement
Solvency reserves are amounts required to meet the actuarial standards to provide protection to policyholders against the impact of fluctuations in and unexpected adverse experience in the Parent's and the Consolidated Group's business.

The method and bases used for determining the solvency requirements are in accordance with PS5.01.

Impact of changes in assumptions
Changes in actuarial assumptions are recognised by adjusting the value of future profit margins in insurance contract liabilities. Future profit margins are released over future periods. Changes in actuarial assumptions do not include market related changes in discount rates such as changes in benchmark market yields caused by changes in investment markets and economic conditions. These are reflected in both insurance contract liabilities and asset values at the balance date. The impact on future profit margins of changes in actuarial assumptions in respect of insurance contracts (excluding new business contracts which are measured using assumptions at balance date) is as follows:

	Consolidated Group			Parent		
$ thousands	**Change in future profit margins**	**Change in insurance contract liabilities**	**Change in shareholder's profit & equity**	**Change in future profit margins**	**Change in insurance contract liabilities**	**Change in shareholder's profit & equity**
30 September 2011						
Assumption change - increase/(decrease)						
Mortality and morbidity	**607**	**172**	**(124)**	**762**	**-**	**-**
Discontinuance rates	**(29,342)**	**-**	**-**	**(25,180)**	**-**	**-**
Maintenance expenses	**2,564**	**1,024**	**(1,119)**	**(5,723)**	**(530)**	**-**
Other assumptions	**21,226**	**28**	**361**	**20,772**	**530**	**-**
Total	**(4,945)**	**1,224**	**(882)**	**(9,369)**	**-**	**-**
30 September 2010						
Assumption change - increase/(decrease)						
Mortality and morbidity	7,102	-	-	1,748	-	-
Discontinuance rates	(5,638)	-	-	(3,796)	-	-
Maintenance expenses	(4,748)	-	-	(1,661)	-	-
Other assumptions	47,027	-	-	29,077	-	-
Total	43,743	-	-	25,368	-	-

KPMG

Notes to the Financial Statements

4. Sources of Profit

	Consolidated Group		Parent	
	Year to	Period to	Year to	Period to
$ thousands	30/09/2011	30/09/2010	30/09/2011	30/09/2010
Life Insurance				
Planned margins of revenues over expenses	**41,031**	28,355	**17,413**	8,476
Difference between actual and assumed experience	**(778)**	(9,085)	**(7,494)**	(8,741)
Loss recognition	**(1,558)**	-	**(1,037)**	-
Effects of changes in underlying assumptions	**7,155**	11,461	**7,987**	14,782
	45,850	30,731	**16,869**	14,517
Investment earnings on assets in excess of policy liabilities	**2,857**	3,491	**576**	397
Other movements				
Dividend received from subsidiary	**-**	-	**30,000**	25,000
Business valued on accumulation basis	**1,842**	1,347	**-**	-
Inwards commission	**3,321**	2,191	**-**	-
Impairment of goodwill	**(5,226)**	-	**-**	-
Amortisation of VOBA	**(5,986)**	(4,308)	**-**	-
Amortisation of management rights	**(2,052)**	(1,496)	**-**	-
	(8,101)	(2,266)	**30,000**	25,000
Profit after taxation	**40,606**	31,956	**47,445**	39,914

The disclosure of the components of operating profit after income tax expense are required to be separated between policyholders' and shareholder's interests. Since policyholder profits are an expense of the Consolidated Group and not attributable to the shareholder, no separate disclosures are applicable.

5. Premium Revenue

		Consolidated Group		Parent	
		Year to	Period to	Year to	Period to
$ thousands	Note	30/09/2011	30/09/2010	30/09/2011	30/09/2010
Single premiums		**7,754**	6,699	**-**	94
Regular premiums		**149,697**	96,055	**85,061**	51,213
Less savings component transferred to policyholder liabilities	**18**	**(245)**	(314)	**(219)**	(289)
Premium revenue disclosed in statements of comprehensive income		**157,206**	102,440	**84,842**	51,018
Reinsurance premium expense		**(23,011)**	(15,140)	**(15,198)**	(9,495)
Commissions refunded		**-**	(5,565)	**-**	(5,565)
Net premium revenue disclosed in statements of comprehensive income		**134,195**	81,735	**69,644**	35,958

6. Other Operating Income

		Consolidated Group		Parent	
		Year to	Period to	Year to	Period to
$ thousands	Note	30/09/2011	30/09/2010	30/09/2011	30/09/2010
Equity securities		**91**	30	**91**	30
Debt securities		**3,682**	4,465	**60**	45
Interest income on cash and cash equivalents		**895**	374	**761**	320
Total investment revenue		**4,668**	4,869	**912**	395
Total interest income		**4,602**	3,580	**821**	365
Total realised and unrealised gain/(loss) on financial assets at fair value through profit or loss		**66**	1,289	**91**	30
Total investment revenue		**4,668**	4,869	**912**	395
Dividend received from subsidiary		**-**	-	**30,000**	25,000
Commission income	**19**	**4,609**	3,502	**-**	-
Other income		**157**	-	**158**	4
Total other revenue		**9,434**	8,371	**31,070**	25,399

Notes to the Financial Statements

7. Claims and Surrenders

		Consolidated Group		Parent	
		Year to	Period to	Year to	Period to
$ thousands	Note	30/09/2011	30/09/2010	30/09/2011	30/09/2010
Death and disability		**56,406**	33,029	**35,128**	17,170
Surrenders		**9,259**	12,400	**361**	351
Less savings component transferred from policy liabilities	18	**(6,563)**	(9,587)	**(361)**	(351)
Claims expense disclosed in statements of comprehensive income		**59,102**	35,842	**35,128**	17,170
Reinsurance recoveries		**(14,600)**	(12,184)	**(11,221)**	(6,146)
Net claims expense disclosed in statements of comprehensive income		**44,502**	23,658	**23,907**	11,024

8. Commissions and Operating Expenses

		Consolidated Group		Parent	
		Year to	Period to	Year to	Period to
$ thousands	Note	30/09/2011	30/09/2010	30/09/2011	30/09/2010
Acquisition costs					
Commissions		**47,093**	40,814	**32,229**	27,919
Operating expenses		**38,067**	23,385	**27,105**	20,253
Total acquisition costs		**85,160**	64,199	**59,334**	48,172
Maintenance costs					
Commissions		**10,181**	6,784	**6,110**	3,604
Operating expenses		**20,064**	19,158	**8,914**	6,951
Total maintenance costs		**30,245**	25,942	**15,024**	10,555
Investment management costs		**107**	120	**1**	-
Impairment of goodwill	14	**5,226**	-	-	-
Other operating expenses		**2,527**	3,304	-	-
Total commissions and operating expenses		**123,265**	93,565	**74,359**	58,727
Operating expenses includes the following specific items:					
Wages and salaries		**19,301**	13,734	**15,941**	11,067
Head office recharges		**15,803**	10,293	**10,019**	6,530
Operating lease charges		**1,309**	991	**1,038**	759
Depreciation		**312**	219	**312**	219
Amortisation	14	**12,222**	9,245	**640**	602
Travel and accomodation		**2,208**	2,462	**2,157**	2,423
Provision for doubtful advisor debts		-	535	-	535
Provision for doubtful outstanding premiums		**708**	-	**708**	-
Impairment of goodwill	14	**5,226**	-	-	-
Donations		**2**	7	**2**	7
Other operating expenses		**8,793**	8,514	**5,202**	5,062
Asset deficiency for guaranteed products		-	(153)	-	-
		65,884	45,847	**36,019**	27,204

A split of acquisition costs and maintenance costs between life insurance and life investment contracts has not been provided as all costs are allocated to life insurance contracts. Refer to Note 19 for details of related party expenditure.

Notes to the Financial Statements

$ thousands	Consolidated Group Year to 30/09/2011	Consolidated Group Period to 30/09/2010	Parent Year to 30/09/2011	Parent Period to 30/09/2010
Fees paid to principal auditors				
Audit of financial statements	**262**	245	**135**	119
Other audit-related services	**8**	8	**-**	-
Total auditors' remuneration	**270**	253	**135**	119
Audit fees paid to other audit firms	**55**	74	**-**	79

It is the Consolidated Group's policy that, subject to the approval of the Ultimate Parent Bank Audit Committee, KPMG can provide assurance and other audit-related services that, while outside the scope of the statutory audit, are consistent with the role of auditor. KPMG may not provide services that are perceived to be in conflict with the role of auditor. Services that are perceived to be in conflict with the role of auditor include consulting advice and subcontracting of operational activities normally undertaken by management, and engagements where the auditor may ultimately be required to express an opinion on its own work.

Other audit-related services include services for the audit or review of financial information other than financial reports including prospectus reviews and other audits required for local regulatory purposes.

9. Income tax credit

$ thousands	Consolidated Group Year to 30/09/2011	Consolidated Group Period to 30/09/2010	Parent Year to 30/09/2011	Parent Period to 30/09/2010
Reconciliation of the prima facie income tax payable on profit				
Profit before income tax	**40,379**	26,501	**46,235**	38,086
Prima facie income tax at 30%	**12,114**	7,950	**13,871**	11,426
Non-assssable policyholder income and expenses	**(69)**	(6,736)	**(638)**	(2,384)
Non-assessable dividend from subsidiary	**-**	-	**(9,000)**	(7,500)
Impairment of goodwill	**1,568**	-	**-**	-
Effect of new life tax regime	**(11,511)**	(3,032)	**(3,848)**	(1,012)
Effect of change in tax rate	**(1,103)**	(4,519)	**(977)**	(1,985)
Non-deductible expenses / (non-assessable income)	**294**	671	**145**	(584)
	1,293	(5,666)	**(447)**	(2,039)
Income tax under / (over) provided in prior years	**(1,520)**	211	**(763)**	211
Total income tax credit	**(227)**	(5,455)	**(1,210)**	(1,828)
Effective tax rate (%)	**-0.6%**	**-20.6%**	**-2.6%**	**-4.8%**
Amounts recognised in the statements of comprehensive income				
Current income tax charge				
Current income tax expense / (credit)	**12,997**	(483)	**10,296**	-
Adjustments recognised in the current year in relation to current tax of prior years	**(117)**	-	**232**	-
Deferred income tax				
Deferred tax expense income relating to the origination and reversal of temporary differences	**(11,704)**	(5,183)	**(10,743)**	(2,039)
Adjustments recognised in the current year in relation to deferred tax of prior years	**(1,403)**	211	**(995)**	211
Total income tax credit recognised in the statements of comprehensive income	**(227)**	(5,455)	**(1,210)**	(1,828)

Notes to the Financial Statements

$ millions	Australia & New Zealand Banking Group Limited Year to 30/09/2011	Year to 30/09/2010
Imputation Credit Account		
Balance at beginning of the year	**935**	645
Imputation credits attached to dividends received	**5**	31
Taxation paid	**187**	375
Imputation credits attached to dividends paid	**(145)**	(125)
Other	**3**	9
Balance at end of the year	**985**	935

The Consolidated Group formed an imputation credit account group with other members of the Australia & New Zealand Banking Group Limited group ("ICA Group"). The closing imputation credit account balances presented above represent the imputation credits available to all members of the ICA Group.

Impact of life tax changes
New legislation came into effect on the 1 July 2010 that changed the tax treatment for life insurance policies. Under the new rules, income and expenditure on life insurance policies (i.e. premiums, reinsurance premiums, claims and reinsurance recoveries) now form part of the assessable income of the Parent and the Consolidated Group.

The new regime is applicable for all life insurance policies, irrespective of when they were issued. However, the new regime offers a concessional tax treatment (known as a transition adjustment) for life insurance policies that were in force prior to 1 July 2010. The impact of the transition adjustment is that it effectively treats designated policies (known as grandfathered policies) as having income tax levied on a basis equivalent to the old tax regime.

Under the new rules, life insurance taxable income is calculated as premiums less claims plus investment income less expenses and changes in policyholder liabilities. Income and deductions are recognised using ordinary tax principles, with the addition of special rules to deal with the unique timing and allocation issues inherent with life insurance products.

For life insurance policies taxed under the old rules, taxable income is calculated as either under the life office base or under the policyholder base, which seeks to tax benefits as they accrue to policyholders under the policies in the form of claims, surrenders and maturity payments and increments in the value of policies.

In general, the grandfathered status of policies issued prior to 1 July 2010 lasts for 5 years. However, for certain policy types, namely level term policies, the grandfathered status is for the duration of the policy.

The life insurer pays tax on the higher of the two bases at the company rate of 30%. As the life insurer is taxed as a proxy for the policyholders, returns to policyholders are tax-exempt.

Policyholder tax base
Under the new life insurance tax regime, the policyholder tax base no longer exists and any policyholder tax base losses calculated under that base are forfeited as they are not able to be carried forward into the new regime. As at 30 June 2010 (the last date of the old life insurance tax regime), the Parent and the Consolidated Group had policyholder tax base losses of $59.8 million and $503.3 million respectively.

Changes in tax legislation
In May 2010 legislation was passed to reduce the New Zealand corporate tax rate from 30% to 28%, effective for the 2011-2012 income tax year.

10. Cash and Cash Equivalents

	Consolidated Group		Parent	
$ thousands	**30/09/2011**	30/09/2010	**30/09/2011**	30/09/2010
Cash	**9,415**	15,143	**7,254**	10,955
Short term deposits	**38,893**	27,423	**17,500**	5,000
	48,308	42,566	**24,754**	15,955

KPMG

Notes to the Financial Statements

11. Securities

$ thousands	Consolidated Group 30/09/2011	Consolidated Group 30/09/2010	Parent 30/09/2011	Parent 30/09/2010
Financial assets held at fair value through profit or loss				
Debt securities				
New Zealand Government Stock	**28,665**	23,129	**1,026**	1,051
Corporate debentures and Other Notes	**30,653**	44,482	**-**	-
Term deposits	**4,000**	-	**4,000**	-
	63,318	67,611	**5,026**	1,051
Equity securities				
Investments in unit trusts	**995**	996	**995**	996
	995	996	**995**	996
Total financial assets at fair value through profit or loss	**64,313**	68,607	**6,021**	2,047
Maturity analysis of debt securities:				
- Less than one year	**43,764**	11,098	**5,026**	1,051
- One year to two years	**1,225**	29,511	**-**	-
- Two years to five years	**12,457**	16,580	**-**	-
- Later than five years	**5,872**	10,422	**-**	-
Total debt securities	**63,318**	67,611	**5,026**	1,051

A liquidity profile is presented as this reflects the contractual maturity of the debt securities held by the Parent and Consolidated Group.

Of the total holdings in New Zealand Government Stock, $1 million is held on the Parent's behalf and $1 million on OnePath Insurance Services (NZ) Limited's behalf by the Public Trustee as authorised deposits under the Life Insurance Act 1908 and the Insurance Companies' Deposits Act 1953.

12. Trade and Other Receivables

$ thousands	Note	Consolidated Group 30/09/2011	Consolidated Group 30/09/2010	Parent 30/09/2011	Parent 30/09/2010
Sundry debtors and prepayments		**492**	657	**56**	126
Investment income receivables		**928**	12	**65**	5
Trade receivables					
- Amounts due from related parties	**19**	**14,225**	18	**13,056**	386
- Amounts due from controlled entities	**19**	**-**	-	**11**	-
- Amounts due from advisers		**1,353**	1,048	**1,353**	1,048
- Outstanding premiums		**1,693**	2,701	**273**	1,211
- Amounts due from reinsurers		**8,501**	9,354	**8,051**	6,000
		27,192	13,790	**22,865**	8,776

Trade and other receivables have an expected settlement date of less than 12 months and therefore all are current. Amounts due from advisers and outstanding premiums are stated net of provisions for doubtful debts. The table below shows the movement in these provisions:

	Consolidated Group and Parent			
	Adviser doubtful debts provision		Outstanding premiums debts provision	
$ thousands	30/09/2011	30/09/2010	30/09/2011	30/09/2010
Balance at beginning of the year	**1,000**	465	**250**	250
Arising during the period	**-**	535	**708**	-
Utilised	**(242)**	-	**-**	-
Balance at the end of the year	**758**	1,000	**958**	250

The Consolidated Group and the Parent held no material trade and other receivable balances which were past due and not impaired (2010: none material).

KPMG

Notes to the Financial Statements

13. Shares in Controlled Entities

$ thousands	Consolidated Group 30/09/2011	30/09/2010	Parent 30/09/2011	30/09/2010
Shares in OnePath Insurance Services (NZ) Limited	-	-	**152,079**	152,079
Shares in Silver Fern Life Brokers Limited	-	-	-	(386)
Total shares in controlled entities	-	-	**152,079**	151,693

The Parent owns 100% of OnePath Insurance Services (NZ) Limited, a company which provides life insurance and related products, and which has a balance date of 30 September. The Parent carries this investment at cost.

The Parent owns 100% of Silver Fern Life Brokers Limited, which has a balance date of 30 September. Silver Fern Life Brokers Limited is non-operating, other than for receipt of renewal commission on previously issued policies and payment of bank charges.

Notes to the Financial Statements

14. Goodwill and Other Intangible Assets

	Consolidated Group		Parent	
$ thousands	**30/09/2011**	30/09/2010	**30/09/2011**	30/09/2010
Goodwill				
At cost	**75,726**	75,726	-	-
Balance at the beginning of the year	**75,726**	75,726	-	-
Impairment	**(5,226)**	-	-	-
At cost	**75,726**	75,726	-	-
Accumulated impairment	**(5,226)**	-	-	-
Net balance at the end of the year	**70,500**	75,726	-	-
VOBA				
At cost	**93,000**	93,000	-	-
Accumulated amortisation	**(10,938)**	(4,784)	-	-
Balance at the beginning of the year	**82,062**	88,216	-	-
Amortisation	**(8,314)**	(6,154)	-	-
At cost	**93,000**	93,000	-	-
Accumulated amortisation	**(19,252)**	(10,938)	-	-
Net balance at the end of the year	**73,748**	82,062	-	-
Management Rights				
At cost	**30,559**	30,559	-	-
Accumulated amortisation	**(9,976)**	(7,838)	-	-
Balance at the beginning of the year	**20,583**	22,721	-	-
Amortisation	**(2,850)**	(2,138)	-	-
At cost	**30,559**	30,559	-	-
Accumulated amortisation	**(12,826)**	(9,976)	-	-
Net balance at the end of the year	**17,733**	20,583	-	-
Computer Software				
At cost	**7,700**	7,513	**6,270**	6,270
Accumulated amortisation	**(5,995)**	(5,042)	**(5,343)**	(4,741)
Balance at the beginning of the year	**1,705**	2,471	**927**	1,529
Additions	**88**	187	**88**	-
Amortisation	**(1,058)**	(953)	**(640)**	(602)
At cost	**7,788**	7,700	**6,358**	6,270
Accumulated amortisation	**(7,053)**	(5,995)	**(5,983)**	(5,343)
Balance at the end of the year	**735**	1,705	**375**	927
Total Intangible Assets	**162,716**	180,076	**375**	927

The goodwill balance above largely comprises the goodwill purchased on acquisition by the the Consolidated Group of OnePath Insurance Services (NZ) Limited. Refer Note 2 for discussion of impairment testing for this goodwill.

VOBA is the value attributed to in-force insurance contracts acquired following business combinations. Refer Note 2 for discussion of impairment testing for VOBA.

Refer Note 2 for discussion of impairment testing for management rights.

KPMG

Notes to the Financial Statements

15. Payables and Other Liabilities

		Consolidated Group		Parent	
$ thousands	Note	30/09/2011	30/09/2010	30/09/2011	30/09/2010
Expense creditors and accruals		**4,552**	6,009	**3,686**	5,555
Trade creditors					
- Amounts due to advisers		**51**	143	**-**	143
- Deposits held for unissued policies		**-**	729	**-**	709
- Policyholder premiums paid in advance		**1,106**	3,234	**82**	2,264
- Amounts due to reinsurers		**5,565**	1,992	**4,870**	1,362
Amounts due to other related parties	19	**57,187**	42,953	**13,335**	884
Employee entitlements		**3,131**	2,704	**2,528**	2,409
		71,592	57,764	**24,501**	13,326

Payables and other liabilities have an expected settlement date of less than 12 months and therefore are all current.

16. Subordinated Loans

		Consolidated Group		Parent	
$ thousands	Note	30/09/2011	30/09/2010	30/09/2011	30/09/2010
Subordinated loan from Immediate Parent	19	**152,079**	152,079	**152,079**	152,079
Subordinated loan from subsidiary	19	**-**	-	**25,000**	25,000
		152,079	152,079	**177,079**	177,079

Subordinated loan from Immediate Parent

On 30 June 2009, OnePath Insurance Holdings Limited provided the Parent with a $152.1 million subordinated loan facility. This loan was used to purchase all of the shares in OnePath Insurance Services Limited from OnePath Insurance Holdings Limited.

This loan is subordinated to the interests of the Parent's policyholders, is non-interest bearing and is payable on demand.

Subordinated loan from Subsidiary

On 30 June 2009, OnePath Insurance Services Limited provided the Parent with a $25 million subordinated loan facility, this was drawn down in two instalments, $15 million on 30 June 2009 and $10 million on 30 September 2009. Interest is payable on the loan at an applicable interest rate, only if demanded by the lender. The outstanding loan balance plus interest (if applicable) is repayable on demand, provided it would not cause the Parent to breach PS5.01. No interest was incurred during the year to 30 September 2011 (2010: nil). As part of the transition to the new solvency requirements under the Insurance (Prudential Supervision) Act 2010, the Company and OnePath Insurance Services Limited are considering options to ensure continued solvency under the new regime including replacing subordinated debt issued between the related parties with additional share capital.

Notes to the Financial Statements

17. Deferred Tax Assets and Liabilities

	Consolidated Group		Parent	
$ thousands	30/09/2011	30/09/2010	30/09/2011	30/09/2010
Deferred tax assets / (liabilities)				
Balance at beginning of the period	**(48,587)**	(53,559)	**(13,109)**	(14,937)
Credited / (charged) to statements of comprehensive income[1]	**(13,107)**	4,972	**(11,738)**	1,828
Balance at end of the period	**(61,694)**	(48,587)	**(24,847)**	(13,109)
Deferred tax assets / (liabilities) comprise the following temporary differences:				
Provisions and accruals	**1,003**	2,105	**898**	1,849
Carried forward losses	**51,666**	48,436	**46,254**	43,338
Other deferred tax assets	**663**	309	**546**	237
Policyholder liabilities	**(89,412)**	(70,603)	**(72,545)**	(58,533)
VOBA	**(20,648)**	(22,978)	**-**	-
Management rights	**(4,965)**	(5,763)	**-**	-
Other deferred tax liabilities	**(1)**	(93)	**-**	-
Net deferred tax assets / (liabilities)[2]	**(61,694)**	(48,587)	**(24,847)**	(13,109)
Deferred tax credited / (charged) to the statements of comprehensive income comprises the following temporary differences:				
Provisions and accruals	**(1,181)**	2,654	**(1,019)**	-
Carried forward losses	**3,460**	13,935	**3,124**	14,418
Other deferred tax assets	**379**	(794)	**331**	-
Policyholder liabilities	**(20,153)**	(17,188)	**(15,013)**	(14,179)
VOBA	**2,497**	1,846	**-**	-
Management rights	**854**	-	**-**	-
Other deferred tax liabilities	**99**	-	**-**	(396)
Change in tax rate	**938**	4,519	**839**	1,985
	(13,107)	4,972	**(11,738)**	1,828

1 Amounts (charged(/ credited to the statements of comprehensive income include deferred tax assets / (liabilities) which have crystallised and have been transferred to current tax assets / (liabilities). These transfers are accounted for by (charging) / crediting deferred income tax expense and crediting / (charging) current tax expense.

2 Deferred tax assets and liabilities are set-off where they relate to income tax levied by the same income tax authority on either the same taxable entity or different taxable entities within the same taxable group.

18. Policyholder (Assets) / Liabilities

	Consolidated Group		Parent	
$ thousands	30/09/2011	30/09/2010	30/09/2011	30/09/2010
Life insurance contract assets contain the following components:				
Future policy benefits	**448,532**	347,877	**290,738**	204,930
Future expenses	**223,958**	184,306	**176,066**	135,113
Planned margins of revenues over expenses	**297,284**	243,381	**108,132**	92,779
Future premiums	**(1,199,024)**	(939,742)	**(814,509)**	(628,612)
Total life insurance contract assets, net of reinsurance	**(229,250)**	(164,178)	**(239,573)**	(195,790)
Estimated discounted net cash inflows from insurance contract assets				
- Less than one year	**(26,770)**	(20,123)	**(23,253)**	(19,701)
- One year to five years	**(59,105)**	(45,598)	**(56,768)**	(50,450)
- Later than five years	**(143,375)**	(98,457)	**(159,553)**	(125,639)
Total insurance contract assets future net cash inflows	**(229,250)**	(164,178)	**(239,574)**	(195,790)

The table above shows the estimated timing of discounted future net cash flows resulting from life insurance contract liabilities. This includes estimated future surrenders, claims and maturity benefits and bonuses, offset by expected future premiums and reinsurance recoveries. All values are discounted to the reporting date using the risk free rate for each product.

KPMG

Notes to the Financial Statements

$ thousands	Consolidated Group 30/09/2011	Consolidated Group 30/09/2010	Parent 30/09/2011	Parent 30/09/2010
Reconciliation of movements in policyholder liabilities				
Insurance contract assets				
Opening insurance contract assets	**(214,507)**	(152,093)	**(250,306)**	(194,116)
Recognised in statements of comprehensive income	**(74,049)**	(62,414)	**(50,722)**	(56,190)
Closing insurance contract assets	**(288,556)**	(214,507)	**(301,028)**	(250,306)
Current	**(22,987)**	(15,213)	**(27,560)**	(23,511)
Non-current	**(265,569)**	(199,294)	**(273,468)**	(226,795)
	(288,556)	(214,507)	**(301,028)**	(250,306)
Liabilities / (assets) ceded under reinsurance				
Opening insurance contract liabilities - reinsurance	**50,329**	42,410	**54,516**	44,860
Recognised in statements of comprehensive income	**8,977**	7,919	**6,939**	9,656
Closing insurance contract liabilities - reinsurance	**59,306**	50,329	**61,455**	54,516
Current	**4,273**	3,426	**4,307**	3,810
Non-current	**55,033**	46,903	**57,148**	50,706
	59,306	50,329	**61,455**	54,516
Investment contract liabilities				
Opening investment contract liabilities	**34,559**	43,108	**2,116**	2,124
Recognised in statements of comprehensive income	**555**	877	**(4)**	54
Deposit premiums recognised as a change in life investment contract liabilities	**245**	314	**219**	289
Claims recognised as a change in life investment contract liabilities	**(6,563)**	(9,587)	**(361)**	(351)
Decrease in asset deficiency	**-**	(153)	**-**	-
Closing investment contract liabilities	**28,796**	34,559	**1,970**	2,116
Current	**28,796**	34,559	**1,970**	2,116
	28,796	34,559	**1,970**	2,116
Investment linked contracts - portion subject to investment performance guarantees	**27,574**	33,237	**749**	794

Movements in life investment contract valuations reflect deposit premiums, maturities, surrenders and claims experience and investment performance. The impact on the fair value of Life investment contracts due to changes in credit risk is Nil (2010: Nil), except to the extent that the market value of investments backing life investment contracts is affected by changes in credit risk. Any such credit risk impact is reflected in the movement of securities balances during the year.

The maturity value of these financial liabilities is determined by the fair value of the linked assets at maturity date.

19. Related Party Transactions

$ thousands	Consolidated Group Year to 30/09/2011	Consolidated Group Period to 30/09/2010	Parent Year to 30/09/2011	Parent Period to 30/09/2010
Key management personnel				
Salaries and short-term employee benefits	**1,018**	997	**728**	817
Total compensation of key management personnel	**1,018**	997	**728**	817

Key management personnel are defined as being directors and senior management of the Consolidated Group, those persons having authority and responsibility for planning, directing and controlling the activities of the entity. The information above relating to key management personnel includes transactions with those individuals, their close family members and their controlled entities.

All transactions with key management personnel (including personally related parties) are conducted on an arm's length basis in the ordinary course of business and on commercial terms and conditions.

From 1 April 2011, all key management personnel expenses of the Consolidated Group are paid by ANZ National Bank Limited, with the cost being recharged through intercompany.

Transactions with related parties

Notes to the Financial Statements

The Parent and the Consolidated Group undertake transactions with the Immediate Parent, ANZ National Bank Limited and other members of the ANZ Holdings (New Zealand) Limited consolidated group, excluding ANZ National Bank Limited, ("New Zealand Consolidated Group").

These transactions principally consist of commission income, commission expenses, funding transactions, reimbursement of operating expenses and technology and process support. Transactions with related parties outside of the Consolidated Group are conducted on an arm's length basis and on normal commercial terms. Operating expenses are principally salaries and wages, shared services, I.T. costs, and shared costs of senior management.

In addition the Parent undertakes similar transactions with controlled entities, which are eliminated in the consolidated the Consolidated Group financial statements. Included within the Parent's transactions with controlled entities is the provision of administrative functions to some controlled entities for which no payments have been made.

	Consolidated Group		**Parent**	
	Year to	Period to	**Year to**	Period to
$ thousands	**30/09/2011**	30/09/2010	**30/09/2011**	30/09/2010
Operating income				
Interest received from ANZ National Bank Limited	**337**	497	**199**	71
Expense reimbursements from fellow subsidiaries in the New Zealand Consolidated Group	**6,113**	35	**6,113**	35
Dividends received from subsidiaries	**-**	-	**30,000**	25,000
Commissions received from ANZ National Bank Limited	**4,608**	3,502	**-**	-
Operating expenses				
Commissions paid to ANZ National Bank Limited	**(19,562)**	(16,811)	**(658)**	(831)
Commissions paid to controlled entities	**-**	-	**(9)**	(4)
Bank charges paid to ANZ National Bank Limited	**(199)**	(335)	**(172)**	(99)
Operating expenses paid to ANZ National Bank Limited	**(27)**	(56)	**-**	-
Operating expenses paid to fellow subsidiaries in the Zealand Consolidated Group	**(24,535)**	(10,636)	**(18,303)**	(7,296)
Other transactions				
Issue of shares to Immediate Parent	**-**	10,000	**-**	10,000
Tax loss offset received from fellow subsidiaries	**13,779**	-	**12,947**	-

Balances with related parties

	Consolidated Group		**Parent**	
$ thousands	**30/09/2011**	30/09/2010	**30/09/2011**	30/09/2010
Cash and cash equivalents due from ANZ National Bank Limited	**16,695**	19,942	**7,253**	10,837
Due from ANZ National Bank Limited	**397**	-	**109**	-
Due from fellow subsidiaries in the New Zealand Consolidated Group	**13,828**	18	**12,947**	386
Due from controlled entities	**-**	-	**11**	-
Shares in controlled entities	**-**	-	**152,079**	151,693
Total due from related parties	**30,920**	19,960	**172,399**	162,910
Due to ANZ National Bank Limited	**(1,828)**	(794)	**-**	-
Due to fellow subsidiaries in the New Zealand Consolidated Group	**(46,281)**	(33,080)	**(13,335)**	(884)
Due to controlled entities	**-**	-	**(25,000)**	(25,000)
Due to Immediate Parent	**(161,157)**	(161,158)	**(152,079)**	(152,079)
Total due to related parties	**(209,266)**	(195,032)	**(190,414)**	(177,963)

Balances due from / to related parties are unsecured, payable on demand, interest free and settlement occurs in cash, with the exception of the subordinated loans entered into with OnePath Insurance Services (NZ) Limited. Refer to Note 16.

Notes to the Financial Statements

20. Ordinary Share Capital

Number of shares	Consolidated Group and Parent 30/09/2011	30/09/2010
Ordinary shares at beginning of the year	**87,685,311**	81,049,611
Ordinary shares issued during the year	**-**	6,635,700
Ordinary shares at end of the year	**87,685,311**	87,685,311
$ thousands		
Ordinary share capital at beginning of the year	**126,701**	116,701
Ordinary share capital issued during the year	**-**	10,000
Ordinary share capital at end of the year	**126,701**	126,701

All shares are fully paid and share equally in dividends and any proceeds available to ordinary shareholders on winding up of the Parent. On a show of hands every member who is present at a meeting in person or by proxy or by representative is entitled to one vote, and upon a poll every member shall have one vote for each share held.

21. Financial Risk Management

Strategy in using financial instruments
Financial instruments are fundamental to the Consolidated Group's business, constituting the core element of its operations. Accordingly, the risks associated with financial instruments are a significant component of the risks faced by the Consolidated Group. Financial instruments create, modify or reduce the credit, market (including traded or fair value risks and non-traded or interest and foreign currency related risks) and liquidity risks of the Consolidated Group's balance sheet. These risks and the Consolidated Group's policies and objectives for managing such risks are outlined below. The Consolidated Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Consolidated Group.

Market risk
Market risk is the risk to the Consolidated Group's earnings arising from changes in interest rates, currency exchange rates, or from fluctuations in prices of equity securities. Market risk arises when changes in market rates, prices and volatilities lead to a decline in the value of assets and liabilities. Market risk is generated through the investment and operating activities.

Market risks are effectively managed through the Statement of Investment Policy and Objectives (SIPO) which defines the investment strategy for the Consolidated Group. The SIPO also contains the investment mandate which is used to establish asset classes and weightings that the investment portfolio is expected to hold. The investment manager is charged with the responsibility for maintaining investment holdings within these designated asset classes. The SIPO, including the investment mandate, is reviewed at least annually.

Price risk
Price risk arises from the Parent and Consolidated Group's investments in equity securities. To limit this risk, the Parent and the Consolidated Group diversifies its portfolio in accordance with its investment mandate.

The Parent and Consolidated Group's exposure to price risk is minimal, and the impact of a reasonably possible shift in value to profit and loss or to equity is not considered material (2010: not material).

Currency risk
Foreign exchange risk arises as the value of monetary securities denominated in other currencies fluctuates due to changes in exchange rates. The Consolidated Group currently invests into NZ dollar denominated investments and as a result is not directly exposed to currency risk.

Interest rate risk
Interest rate risk arises from the effects of fluctuations in the prevailing levels of market interest rates on the fair value of financial assets and liabilities or cash flows. The Consolidated Group is exposed to interest rate risk through its investments in interest earning financial instruments and revaluations of its insurance contract liabilities.

The Consolidated Group has established limits on investments in interest-bearing assets, which are monitored on a daily basis. The Consolidated Group may use derivatives to hedge against unexpected fluctuations in interest rates.

The following table summarises the sensitivity of the Consolidated Group's cash and cash equivalents, securities and life insurance contract liabilities, net of reinsurance, to changes in interest rate movements at year end. The analysis is based on the assumptions that the relevant interest rate increased/decreased by 1% (2010: 1%), with all other variables held constant. This represents a best estimate of a reasonable shift in the interest rates, with regard to historical volatility of those rates. The balances shown provide the impact on both profit after tax and equity.

Notes to the Financial Statements

$ thousands	Consolidated Group 30/09/2011 + 1%	- 1%	30/09/2010 + 1%	- 1%
Cash and cash equivalents	**(64)**	**65**	17	17
Debt securities	**(587)**	**628**	(503)	503
Insurance contract liabilities, net of reinsurance	**(15,579)**	**18,615**	(15,296)	18,283

$ thousands	Parent 30/09/2011 + 1%	- 1%	30/09/2010 + 1%	- 1%
Cash and cash equivalents	**(29)**	**29**	-	-
Debt securities	**(15)**	**15**	(11)	11
Insurance contract liabilities, net of reinsurance	**(16,096)**	**19,155**	(16,848)	19,901

Credit risk
Credit risk is the risk of financial loss from counterparties being unable to fulfil their contractual obligations. The Consolidated Group assumes credit risk through the normal course of its operating and investment activities.

To the extent the Consolidated Group has a receivable from another party, there is an exposure to credit risk in the event of non-performance by that counterparty. The Consolidated Group is also exposed to credit risk through its investments in debt securities and cash and cash equivalents.

The Consolidated Group manages its exposure to credit risk by investing and transacting with high credit quality financial institutions and sovereign bodies. The Consolidated Group continuously monitors the credit quality of the institutions that it invests and transacts with, and does not expect a high level of non performance risk associated with these counterparties. The Consolidated Group further minimises its credit exposure by limiting the amount of funds placed in or invested with any one institution at any time.

No collateral exists for any of the securities held by the the Consolidated Group. The maximum exposure of the Consolidated Group to credit risk at balance date is the carrying value of its trade and other receivables and fair values of debt securities shown in Note 22.

Significant concentrations of credit risk for the Consolidated Group are shown as follows:

	Consolidated Group 30/09/2011	30/09/2010	Parent 30/09/2011	30/09/2010
New Zealand Government Stock	**20.8%**	18.7%	**1.9%**	3.9%
ANZ National Bank Limited	**11.9%**	16.1%	**13.6%**	40.5%
Bank of New Zealand Limited	**5.1%**	4.1%	**9.4%**	19.1%
ASB Bank Limited	**9.6%**	6.8%	**8.4%**	0.0%
Westpac Banking Corporation	**6.1%**	6.4%	**8.4%**	0.0%
ANZ Investment Services (New Zealand) Limited	**5.8%**	0.0%	**14.1%**	0.0%
Control Nominees Limited	**3.8%**	0.0%	**10.1%**	0.0%
Kiwibank	**5.3%**	0.0%	**14.0%**	0.0%

The Standard & Poors credit rating for the Consolidated Group's major reinsurers are:

	Company 30/09/2011	30/09/2010
SCOR Global Life SE	**A**	A
Global Life Reinsurance Company of Australia Pty Limited	**Unrated**	Unrated
Munich Reinsurance Company of Australasia Limited	**AA-**	AA-
General Reinsurance Life Australia Limited	**AA+**	AA+
Swiss Re Life & Health Australia Limited	**AA-**	A+
RGA Reinsurance Company	**AA-**	AA-
Hannover Life Re of Australasia Limited	**AA-**	AA-

Global Life Reinsurance Company of Australia Pty Limited is unrated as this company is now closed to new business.

Liquidity risk
The Consolidated Group manages its exposure to liquidity risk by investing in predominately short dated deposits and securities.

Demands for funds can usually be met through ongoing normal operations, receipt of premiums and use of reinsurance. Capital projections prepared by the Consolidated Group's actuary to ensure that the Consolidated Group continues to meet its solvency requirements. If required, the Company also receives injections of capital from its Parent.

Notes to the Financial Statements

The maturity profile for the Consolidated Group's insurance contract liabilities is shown within Note 18. The table below summarises the maturity profile for all other financial liabilities of the Consolidated Group based on contractual undiscounted payments:

	Consolidated Group			
$ thousands	On demand	Less than 3 months	3 to 12 months	1 to 5 years
30 September 2011				
Payables and other liabilities	**47,091**	**24,501**	-	-
Subordinated loans	**152,079**	-	-	-
Life investment contract liabilities	**28,796**	-	-	-
30 September 2010				
Payables and other liabilities	44,421	13,343	-	-
Subordinated loans	152,079	-	-	-
Life investment contract liabilities	34,559	-	-	-

	Parent			
	On demand	Less than 3 months	3 to 12 months	1 to 5 years
30 September 2011				
Payables and other liabilities	-	**24,501**	-	-
Subordinated loans	**177,079**	-	-	-
Life investment contract liabilities	**1,970**	-	-	-
30 September 2010				
Payables and other liabilities	-	13,326	-	-
Subordinated loans	177,079	-	-	-
Life investment contract liabilities	2,116	-	-	-

Insurance risk

Insurance risk may arise through the reassessment of the incidence of claims, the trend of future claims and the effect of unforeseen diseases or epidemics. In addition, in the case of morbidity, the time to recovery may be longer than assumed. Insurance risk is controlled by ensuring underwriting standards adequately identify potential risk, retaining the right to amend premiums on risk policies where appropriate and through the use of reinsurance. The experience of the Consolidated Group's life insurance business is reviewed regularly.

Variations in claim levels will affect reported profit and shareholder's equity. The impact may be magnified if the variation leads to a change in actuarial assumptions which cannot be absorbed within the present value of planned margins for a group of related products.

The Consolidated Group's objectives in managing risks arising from the insurance business are:
(i) To ensure risk appetite decisions are made within the context of corporate goals and governance structures.
(ii) To ensure that an appropriate return on capital is made in return for accepting insurance risk.
(iii) To ensure that strong internal controls embed underwriting for risk within the business.
(iv) To ensure that internal and external solvency and capital requirements are met.
(v) To use reinsurance as a component of insurance risk management strategy.

Risk strategy

In compliance with contractual and regulatory requirements, a strategy is in place to meet the contractual terms of the policy whilst not adversely affecting the Consolidated Group'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 event 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 Consolidated Group's risk management strategy.

Methods to limit or transfer insurance risk exposures

In an effort to protect and enhance shareholder value, the Consolidated Group actively manages its exposure to risks so that it can react in a timely manner to changes in financial markets and economic and political environments. Risk exposures are managed using various analysis and valuation techniques, such as asset-liability matching analysis to calculate the economic capital required to support adverse risk scenarios, along with other cash flow analysis, and prudent and diversified underwriting and investing.

The Consolidated Group reports monthly financial and operational results, and exposure for each portfolio of contracts (gross and net of reinsurance) to the Management Committee. This information is combined with the detail of the

Notes to the Financial Statements

Consolidated Group's reinsurance programme to provide a central view of the Consolidated Group's performance and its gross and net exposure.

- Reinsurance – The credit rating of all reinsurers is monitored on a monthly basis through the Asset and Liability Committee Insurance Forum and any changes in ratings from the previous month are brought to the committee's attention.
- Underwriting procedures – Strategic underwriting decisions are put into effect using the underwriting procedures detailed in the Consolidated Group's underwriting manual. Such procedures include limits to delegated authorities and signing powers.
- Claims management – Strict claims management procedures are in place to assist in the timely and correct payment of claims in accordance with policy conditions.
- Asset and liability management techniques – Assets are allocated to different classes of business using a risk based approach. Duration analysis is primarily used for interest-sensitive products and policies with long-term fixed payout patterns.

Concentrations of insurance risk
Concentrations of insurance risk arise due to:
- Large sums assured on certain individuals. The largest exposures all relate to mortality. However, this is minimised through the use of reinsurance.
- Geographic concentrations due to employee group schemes. However, the Consolidated Group has minimal exposure to such arrangements.

The table below illustrates the concentration of risk based on five bands of benefits for each life assured:

Consolidated Group	**30/09/2011** Before reinsurance	**30/09/2011** After reinsurance	30/09/2010 Before reinsurance	30/09/2010 After reinsurance
Sum Assured ($ thousands)				
0 - 50	**3.4%**	**5.6%**	4.1%	7.0%
50 - 150	**20.2%**	**26.5%**	20.9%	26.2%
150 - 250	**19.9%**	**26.1%**	20.7%	26.1%
250 - 500	**33.9%**	**32.2%**	33.5%	31.7%
More than 500	**22.6%**	**9.6%**	20.9%	8.9%
	100.0%	**100.0%**	100.0%	100.0%

Parent	**30/09/2011** Before reinsurance	**30/09/2011** After reinsurance	30/09/2010 Before reinsurance	30/09/2010 After reinsurance
Sum Assured ($ thousands)				
0 - 50	**0.7%**	**1.0%**	0.8%	1.2%
50 - 150	**6.8%**	**10.1%**	7.2%	10.2%
150 - 250	**12.6%**	**20.6%**	13.1%	20.4%
250 - 500	**39.1%**	**46.5%**	39.8%	47.0%
More than 500	**40.8%**	**21.8%**	39.1%	21.2%
	100.0%	**100.0%**	100.0%	100.0%

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

Type of contract	**Detail of contract terms and conditions**	**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, major medical)	Benefits paid on death, disability or ill health or that are fixed and guaranteed and not at the discretion of the issuer. Premiums may be guaranteed through the life of the contract, guaranteed for a specified term or variable at the insurer's discretion.	Benefits, defined by the insurance contract, are determined by the contract and are not directly affected by the performance of underlying assets or the performance of the contracts as a whole.	- Mortality - Morbidity - Discontinuance rates - Expenses - Market interest rates

Notes to the Financial Statements

Sensitivity to insurance risk
The table below illustrates the sensitivity of reported profit and loss to changes in assumptions that have a material effect on them:

		Consolidated Group			
		Profit/(loss)		Equity	
30 September 2011	Change	Before reinsurance	After reinsurance	Before reinsurance	After reinsurance
Change in mortality and morbidity	**+10%**	**(12,313)**	**(5,018)**	**(12,313)**	**(5,018)**
	-10%	**7,538**	**1,282**	**7,538**	**1,282**
Change in lapse rates	**+10%**	**(3,818)**	**(3,478)**	**(3,818)**	**(3,478)**
	-10%	**1,105**	**1,105**	**1,105**	**1,105**
Change in expense assumption	**+10%**	**(2,243)**	**(2,243)**	**(2,243)**	**(2,243)**
	-10%	**1,180**	**1,180**	**1,180**	**1,180**
30 September 2010					
Change in mortality and morbidity	+10%	-	-	-	-
	-10%	-	-	-	-
Change in lapse rates	+10%	-	-	-	-
	-10%	-	-	-	-
Change in expense assumption	+10%	-	-	-	-
	-10%	-	-	-	-

		Parent			
		Profit/(loss)		Equity	
30 September 2011	Change	Before reinsurance	After reinsurance	Before reinsurance	After reinsurance
Change in mortality and morbidity	**+10%**	**(10,671)**	**(3,400)**	**(10,671)**	**(3,400)**
	-10%	**7,293**	**1,037**	**7,293**	**1,037**
Change in lapse rates	**+10%**	**(3,336)**	**(2,996)**	**(3,336)**	**(2,996)**
	-10%	**1,037**	**1,037**	**1,037**	**1,037**
Change in expense assumption	**+10%**	**(1,527)**	**(1,527)**	**(1,527)**	**(1,527)**
	-10%	**889**	**889**	**889**	**889**
30 September 2010					
Change in mortality and morbidity	+10%	-	-	-	-
	-10%	-	-	-	-
Change in lapse rates	+10%	-	-	-	-
	-10%	-	-	-	-
Change in expense assumption	+10%	-	-	-	-
	-10%	-	-	-	-

Allocation of Capital
Capital is allocated by the Consolidated Group to portfolios of contracts with similar risks or is held in central reserve based on management's assessment of the risks to which each line of business is exposed and its view of the profitability of the products that are sold.

Capital management
The primary objective of the Consolidated Group in the management of capital is to comply at all times with the solvency requirement set out in PS5.01. Additional capital levels are maintained in excess of that required by PS5.01 to provide a buffer to these solvency requirements and cover the inherent risks of the business.

The Consolidated Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Consolidated Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes during the period.

The Consolidated Group will be transitioning to the new solvency requirements under the Insurance (Prudential Supervision) Act 2010 during the next twelve months. These new solvency requirements will be applicable from the date of issue of a provisional license to the Parent and to OnePath Insurance Services (NZ) Limited by the Reserve Bank of New Zealand.

Notes to the Financial Statements

Solvency

Solvency margin requirements established by the New Zealand actuarial standards are in place to reinforce safeguards for policyholders' interests, being primarily the ability to meet future claims payments. The solvency margins measure the excess of the value of the insurers' assets over the value of its solvency requirements, each element being determined in accordance with the applicable solvency rules. This margin must be maintained throughout the period, not just at the period end. These solvency requirements also take into account specific risks faced by the Consolidated Group.

	OnePath Life (NZ) Limited		**OnePath Insurance Services (NZ) Limited**	
$ thousands	**30/09/2011**	30/09/2010	**30/09/2011**	30/09/2010
Equity retained for solvency purposes				
Equity of shareholder	**217,454**	170,009	**29,070**	24,696
Less: Equity retained for solvency purposes	**(190,221)**	(150,018)	**(15,108)**	(5,482)
Equity available for distribution	**27,233**	19,991	**13,962**	19,214

Equity retained for solvency reserves has been calculated in accordance with PS5.01. The basis for determining solvency reserves was as follows:

For each related product group, a prudential liability was determined in the same manner as the best estimate policy liability, but with margins for adverse deviations from expected experience. The discount rates used were the risk free rates determined from the inter-bank swap rate curve (see Note 3). The solvency margins on other assumptions were as follows (all positive):

	Consolidated Group and Parent	
	30/09/2011	30/09/2010
Mortality	**10.0%**	10.0%
Total and permanent disability	**20.0%**	20.0%
Trauma	**30.0%**	30.0%
Major medical	**30.0%**	30.0%
Disability income future claims	**50.0%**	50.0%
Maintenance expenses	**2.5%**	2.5%
Voluntary discontinuance	**25.0%**	25.0%
Future expense inflation rate	**2.5%**	2.5%

KPMG

Notes to the Financial Statements

22. Fair Value of Financial Assets and Financial Liabilities

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

A comparison of the carrying amounts, as reported in the balance sheets, and fair values of all financial assets and liabilities are set out below.

	Consolidated Group			
$ thousands	At amortised cost	At fair value through profit or loss Designated on initial recognition	Total	Fair value
Carrying amount				
30 September 2011				
Cash and cash equivalents	**-**	**48,308**	**48,308**	**48,308**
Securities	**-**	**64,313**	**64,313**	**64,313**
Trade and other receivables	**27,192**	**-**	**27,192**	**27,192**
Total financial assets	**27,192**	**112,621**	**139,813**	**139,813**
Payables and other liabilities	**71,592**	**-**	**71,592**	**71,592**
Subordinated loans	**152,079**	**-**	**152,079**	**152,079**
Life investment contract liabilities	**-**	**28,796**	**28,796**	**28,796**
Total financial liabilities	**223,671**	**28,796**	**252,467**	**252,467**
30 September 2010				
Cash and cash equivalents	-	42,566	42,566	42,566
Securities	-	68,607	68,607	68,607
Trade and other receivables	13,790	-	13,790	13,790
Total financial assets	13,790	111,173	124,963	124,963
Payables and other liabilities	57,764	-	57,764	57,764
Subordinated loans	152,079	-	152,079	152,079
Life investment contract liabilities	-	34,559	34,559	34,559
Total financial liabilities	209,843	34,559	244,402	244,402

Notes to the Financial Statements

	Parent			
$ thousands	At amortised cost	At fair value through profit or loss Designated on initial recognition	Total	Fair value
Carrying amount				
30 September 2011				
Cash and cash equivalents	**-**	**24,754**	**24,754**	**24,754**
Securities	**-**	**6,021**	**6,021**	**6,021**
Trade and other receivables	**22,865**	**-**	**22,865**	**22,865**
Total financial assets	**22,865**	**30,775**	**53,640**	**53,640**
Payables and other liabilities	**24,501**	**-**	**24,501**	**24,501**
Subordinated loans	**177,079**	**-**	**177,079**	**177,079**
Life investment contract liabilities	**-**	**1,970**	**1,970**	**1,970**
Total financial liabilities	**201,580**	**1,970**	**203,550**	**203,550**
30 September 2010				
Cash and cash equivalents	-	15,955	15,955	15,955
Securities	-	2,047	2,047	2,047
Trade and other receivables	8,776	-	8,776	8,776
Total financial assets	8,776	18,002	26,778	26,778
Payables and other liabilities	13,326	-	13,326	13,326
Subordinated loans	177,079	-	177,079	177,079
Life investment contract liabilities	-	2,116	2,116	2,116
Total financial liabilities	190,405	2,116	192,521	192,521

Estimation of fair value

(i) Securities

Fair value is based on quoted market prices, broker or dealer price quotations, or modelled valuations using prices for securities with similar credit risk, maturity and yield characteristics.

The Consolidated Group holds mortgage backed securities with a total fair value of $378,367 at 30 September 2011 (2010: $1,259,256) and floating rate notes with a total fair value of $1,211,889 at 30 September 2011 (2010: $1,398,700) which are valued using inputs that are not based on observable market data.

As these investments do not operate in an active liquid market, the following valuation technique(s) have been adopted, and applied where appropriate, in order to determine the fair value of the individual investment:

a) Broker quotes
Broker quotes are indicative prices issued by the broker associated with the original issue of the underlying investment. Broker quotes are not offers to buy the investments, and may not be indicative of a price that can be achieved in the immediate future.

b) Margin over swap
Fair value is determined through the discounting of investments based on swap curves or par curves (including money market) plus an adequate credit spread.

c) Floating Rate Note ("FRN") calculator
The FRN calculator is a floating rate note pricing model using an applicable discount money market instrument and an annuity stream to maturity based on current market spread. Where the floating rate note is a mortgage backed security, the Fund Manager may choose to re-estimate the expected time of repayment for the said security.

Other financial assets / liabilities
Included in this category are accrued interest and fees receivable / payable. For these balances the carrying value is considered to approximate the fair values, as they are short term in nature or are receivable / payable on demand.

Valuation hierarchy
In determining the carrying amount of financial instruments held at fair value the Consolidated Group uses a valuation method within the following hierarchy:

"Level 1" - Quoted market price
Where an active market exists fair value is based on quoted market prices for identical financial instruments. The quoted market price is not adjusted for any potential impact that may be attributed to a large holding of the financial instrument.

Notes to the Financial Statements

"Level 2" - Valuation technique using observable inputs

In the event that there is no quoted market price for the instruments, fair values are based on present value estimates or other market accepted valuation techniques which include data from observable markets wherever possible.

"Level 3" - Valuation technique with significant non observable inputs

The majority of valuation techniques employ only observable market data. However, the Consolidated Group holds some investments in mortgage backed securities and floating rate notes which do not trade in an active market. For these instruments the fair value cannot be determined in whole with reference to current market transactions or valuation techniques whose variables only include data from observable markets. Where observable market data is not available, the fair value is determined using broker quotes or valuation techniques based on data derived and extrapolated from market data and tested against historic transactions and observed market trends.

Valuation technique	**Consolidated Group**				**Parent**			
$ thousands	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
30 September 2011								
Cash and cash equivalents	**9,415**	**38,893**	**-**	**48,308**	**7,254**	**17,500**	**-**	**24,754**
New Zealand Government Stock	**28,665**	**-**	**-**	**28,665**	**1,026**	**-**	**-**	**1,026**
Corporate Debentures and Other Notes	**4,117**	**24,946**	**1,590**	**30,653**	**-**	**-**	**-**	**-**
Term deposits	**-**	**4,000**	**-**	**4,000**	**-**	**4,000**	**-**	**4,000**
Investments in unit trusts	**-**	**995**	**-**	**995**	**-**	**995**	**-**	**995**
Total financial assets held at fair value	**42,197**	**68,834**	**1,590**	**112,621**	**8,280**	**22,495**	**-**	**30,775**
Life investment contract liabilities	**-**	**28,796**	**-**	**28,796**	**-**	**1,970**	**-**	**1,970**
Total financial liabilities held at fair value	**-**	**28,796**	**-**	**28,796**	**-**	**1,970**	**-**	**1,970**
30 September 2010								
Cash and cash equivalents	15,143	27,423	-	42,566	10,955	5,000	-	15,955
New Zealand Government Stock	23,129	-	-	23,129	1,051	-	-	1,051
Corporate Debentures and Other Notes	4,416	37,408	2,658	44,482	-	-	-	-
Investments in unit trusts	-	996	-	996	-	996	-	996
Total financial assets held at fair value	42,688	65,827	2,658	111,173	12,006	5,996	-	18,002
Life investment contract liabilities	-	34,559	-	34,559	-	2,116	-	2,116
Total financial liabilities held at fair value	-	34,559	-	34,559	-	2,116	-	2,116

Movements in level 3 valuations	**Consolidated Group**		**Parent**	
$ thousands	**30/09/2011**	30/09/2010	**30/09/2011**	30/09/2010
Opening balance	**2,658**	2,999	**-**	-
Purchases	**58**	286	**-**	-
Revaluations	**(65)**	120	**-**	-
Sales	**(1,061)**	(747)	**-**	-
Closing balance	**1,590**	2,658	**-**	-

The following table shows the impact on profit or loss and equity of the level 3 financial assets, should the value move 10% from the stated amount as at the end of the period:

	Consolidated Group			
	30/09/2011		30/09/2010	
	+ 10%	**- 10%**	+ 10%	- 10%
$ thousands				
Impact on profit or loss before tax	**159**	**(159)**	266	(266)
Impact on equity	**111**	**(111)**	186	(186)

Notes to the Financial Statements

23. Notes to the Cash Flow Statements

	Consolidated Group		Parent	
	Year to	Period to	Year to	Period to
$ thousands	30/09/2011	30/09/2010	30/09/2011	30/09/2010
Reconciliation of profit after income tax to net cash flows provided by / (used in) operating activities				
Profit after income tax	**40,413**	31,956	**47,252**	39,914
Non-cash items:				
Depreciation and amortisation	**12,534**	9,463	**952**	821
Amortisation of deferred acquisition costs	**72**	72	**-**	-
Impairment of goodwill	**5,226**	-	**-**	-
Unrealised gains on investments	**(322)**	(1,329)	**26**	(28)
Deferrals or accruals of past or future operating cash receipts or payments:				
Savings component of premium	**-**	314	**-**	289
Savings component of claims, surrenders and maturities	**-**	(9,586)	**-**	(351)
Asset deficiency	**-**	(153)	**-**	-
Change in trade receivables	**(16,340)**	(1,373)	**(17,389)**	(491)
Change in payables and other liabilities	**16,765**	2,512	**14,089**	2,837
Deposit premiums recognised as a change in life investment contract liabilities	**245**	-	**219**	-
Claims recognised as a change in life investment contract liabilities	**(6,563)**	-	**(361)**	-
Change in life insurance contract liabilities	**(65,072)**	(54,739)	**(43,783)**	(46,533)
Change in life investment contract liabilities	**555**	877	**(4)**	53
Change in income tax assets	**13,745**	(4,972)	**11,931**	(1,828)
Items classified as investing/financing:				
Distributions from subsidiary	**-**	-	**(30,000)**	(25,000)
Revalution of subsidiary	**-**	-	**-**	(4)
Net cash flows used in operating activities	**1,258**	(26,958)	**(17,068)**	(30,321)

24. Disaggregated Information

	Consolidated Group			Parent		
$ thousands	Investment-linked	Non-investment-linked	Total	Investment-linked	Non-investment-linked	Total
For the year ended 30 September 2011						
Investment assets	**27,909**	**84,712**	**112,621**	**1,970**	**28,805**	**30,775**
Other assets	**1,047**	**195,270**	**196,317**	**-**	**176,261**	**176,261**
Net policyholder liabilities	**28,795**	**(229,249)**	**(200,454)**	**1,970**	**(239,573)**	**(237,603)**
Liabilities other than policyholder liabilities	**174**	**286,142**	**286,316**	**-**	**227,378**	**227,378**
Retained profits, attributable to shareholder	**-**	**96,375**	**96,375**	**-**	**90,560**	**90,560**
Premium revenue	**-**	**157,206**	**157,206**	**-**	**84,842**	**84,842**
Investment revenue	**1,753**	**2,915**	**4,668**	**69**	**843**	**912**
Claims expense	**-**	**59,102**	**59,102**	**-**	**35,128**	**35,128**
Other operating expenses	**-**	**118,039**	**118,039**	**-**	**74,359**	**74,359**
Operating surplus / (deficit) before tax	**426**	**45,179**	**45,605**	**73**	**46,162**	**46,235**
Operating surplus / (deficit) after tax	**60**	**40,546**	**40,606**	**73**	**47,372**	**47,445**
For the period ended 30 September 2010						
Investment assets	32,976	78,197	111,173	2,116	15,886	18,002
Other assets	1,511	193,564	195,075	-	161,847	161,847
Net policyholder liabilities	34,559	(164,178)	(129,619)	2,116	(195,790)	(193,674)
Liabilities other than policyholder liabilities	(72)	258,502	258,430	-	203,514	203,514
Retained profits, attributable to shareholder	-	50,736	50,736	-	43,308	43,308
Premium revenue	-	102,440	102,440	-	51,018	51,018
Investment revenue	1,409	6,962	8,371	1	25,398	25,399
Claims expense	-	(36,086)	(36,086)	-	(17,170)	(17,521)
Other operating expenses	-	(93,565)	(93,565)	-	(58,727)	(58,727)
Operating surplus / (deficit) before tax	(512)	27,013	26,501	(51)	38,137	38,086
Operating surplus / (deficit) after tax	(52)	32,008	31,956	(51)	39,965	39,914

Notes to the Financial Statements

25. Commitments

Future minimum rentals payable under non-cancellable operating leases where the Parent is the lessee at the end of the year are as follows:

	Consolidated Group		Parent	
$ thousands	**30/09/2011**	30/09/2010	**30/09/2011**	30/09/2010
Less than one year	**1,260**	1,248	**837**	883
One year to five years	**932**	643	**825**	102
Later than five years	**4**	643	**4**	102
	2,196	1,891	**1,666**	985

The Parent leases various offices under non-cancellable operating lease agreements. The leases have varying terms, escalation clauses and renewal rights.

The Parent and the Consolidated Group have no capital commitments at 30 September 2011 (2010: nil).

26. Contingent Liabilities

The Parent and the Consolidated Group have no contingent liabilities at 30 September 2011 (2010: nil).

27. Subsequent Events

There are no events subsequent to the 30 September 2011 that have a material impact to the year then ended.

KPMG

Independent auditor's report

To the shareholder of OnePath Life (NZ) Limited

Report on the company and group financial statements

We have audited the accompanying financial statements of OnePath Life (NZ) Limited ("the company") and the group, comprising the company and its subsidiaries, on pages 3 to 40. The financial statements comprise the statements of financial position as at 30 September 2011, the statements of comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information, for both the company and the group.

Directors' responsibility for the company and group financial statements

The directors are responsible for the preparation of company and group financial statements in accordance with generally accepted accounting practice in New Zealand and International Financial Reporting Standards 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 company and group 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 these company and group financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing (New Zealand). Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the company and group financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the company and group financial statements. The procedures selected depend on the auditor's 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 auditor considers internal control relevant to the company and group'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 and 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 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.

Our firm has also provided other services to the company and group in relation to other audit related services. Subject to certain restrictions, partners and employees of our firm may also deal with the company and group on normal terms within the ordinary course of trading activities of the business of the company and group. These matters have not impaired our independence as auditor of the company and group. The firm has no other relationship with, or interest in, the company and group.

Opinion

In our opinion the financial statements on pages 3 to 40:

- comply with generally accepted accounting practice in New Zealand;
- comply with International Financial Reporting Standards;
- give a true and fair view of the financial position of the company and the group as at 30 September 2011 and of the financial performance and cash flows of the company and the group for the year then ended.

Report on other legal and regulatory requirements

In accordance with the requirements of sections 16(1)(d) and 16(1)(e) of the Financial Reporting Act 1993, we report that:

- we have obtained all the information and explanations that we have required; and
- in our opinion, proper accounting records have been kept by OnePath Life (NZ) Limited and its subsidiaries as far as appears from our examination of those records.

KPMG

20 March 2012

Auckland