OnePath

a company of ANZ

OnePath Life (NZ) Limited
Annual Report

FOR THE YEAR ENDED 30 SEPTEMBER 2013

Annual Report
For the year ended 30 September 2013

Contents

Annual Report

The address for service for OnePath Life (NZ) Limited (the "Parent") is Level 3, 205 Wairau Road, Glenfield, Auckland, New Zealand. The principal activity of the Parent is the provision of life insurance.

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

Signed for and on behalf of the Board of Directors:

Director
13 February 2014

Director
13 February 2014

Financial Strength Rating Information

As at 13 February 2014 the Parent has an "AA– Outlook Stable" Insurer Financial Strength rating given by Standard and Poor's. The following table describes the rating grades available. Plus (+) or minus (-) following ratings from AA to CCC show relative standings within the major rating categories:

The following grades display long-term insurer financial strength grade characteristics:

	Standard & Poor's
Extremely strong capacity to meet its financial commitments. This is the highest insurer financial strength category.	**AAA**
Very strong capacity to meet its financial commitments.	**AA**
Strong capacity to meet its financial commitments although somewhat susceptible to the adverse effects of changes in circumstances and economic conditions.	**A**
Adequate capacity to meet its financial commitments. More vulnerable to adverse changes.	**BBB**
Significant uncertainties exist which could lead to insufficient ability to meet its financial commitments.	**BB**
Greater vulnerability and therefore greater likelihood of impairing the ability to meet its financial commitments.	**B**
Likelihood of not meeting financial commitments now considered high. Timely settlement of financial commitments is dependent on favourable financial conditions.	**CCC**
Extremely weak financial security and is likely not able to meet some of its financial commitments.	**CC**
Under regulatory supervision.	**R**

Governance Statement

The Parent adheres to the mandatory requirements of the Reserve Bank of New Zealand ("RBNZ") Governance Guidelines (the "Guidelines") for licensed insurers issued under the Insurance (Prudential Supervision) Act 2010 and endeavours to embrace non-mandatory governance guidelines or recommendations of the RBNZ and other relevant bodies.

Board of Directors

The Parent is governed by a Board of Directors, who have effective oversight of the Parent's activities through the implementation of the Guidelines.

In accordance with the Guidelines, all current directors have been assessed by the Board in accordance with the Parent's Fit and Proper Policy to have the appropriate fitness and propriety to properly discharge their responsibilities as a director and have been certified as meeting the RBNZ's Fit and Proper Standard for directors of Licensed Insurers. The Board is considered to operate independently in that no less than half the current directors are free from any associations that could materially interfere with the exercise of independent judgement.

Board members as at 13 February 2014 are:

John Geddes Errington

BSc, FIA, FIAA, FNZSA
Independent Non-Executive Director and Chairman

Mr Errington is an actuary with extensive experience as a senior manager in the actuarial, consultancy and insurance industries. He has also held a range of governance roles including past president of the New Zealand Society of Actuaries.

Anne June Urlwin

BCom, CA, F InstD, FNZIM, ACIS
Independent Non-Executive Director and Audit and Risk Committee Chairman

Ms Urlwin has over 20 years' governance experience in sectors including energy, health, construction, regulatory services, internet infrastructure, research, banking, forestry and the primary sector as well as education, sports administration and the arts.

Gavin Murray Pearce

BSc, FIA
Non-Executive Director

Mr Pearce is Deputy Managing Director, Global Wealth, Australia and New Zealand Banking Group Limited. Mr Pearce's career has spanned over 30 years including senior management roles across a number of insurance and financial services companies in Australia and New Zealand.

John Robert Body

BA (Eco), Dip. Banking, MBS
Executive Director

Mr Body is Managing Director, ANZ Wealth, ANZ Bank New Zealand Limited, and is responsible for managing and building ANZ's Wealth business in New Zealand. Mr Body's experience includes working for ANZ's markets business for over 20 years and he has held a range of senior positions in Singapore, Melbourne and New Zealand.

Board Role and Charter

The Board operates in accordance with applicable law, the Parent's Constitution and its Board Charter. The Board Charter describes the Board's role, powers, responsibilities and relationship with management.

The Board meets formally on a regular scheduled basis and holds additional meetings as required. The Board reviews its own performance annually, incorporating the performance of its established Committees.

Committees

The Board has established an Audit and Risk Committee which has its own charter approved by the Board and which reports directly to the Board. The Audit and Risk Committee's purpose is to review, monitor and assess the effectiveness of the Parent's financial reporting, internal audit and risk management framework thereby assisting the Board to discharge its responsibilities in relation to financial, risk and compliance matters, including internal and external audit functions.

Statement of Comprehensive Income

$ thousands	Note	Group Year to 30/09/2013	Group Year to 30/09/2012	Parent Year to 30/09/2013	Parent Year to 30/09/2012
Revenue					
Premium revenue	5	**181,657**	173,657	**93,957**	91,488
Less reinsurance premium expense		**(28,586)**	(27,848)	**(18,298)**	(17,844)
Net premium revenue		**153,071**	145,809	**75,659**	73,644
Investment income	6	**6,643**	5,070	**3,268**	2,052
Other operating income	7	**6,434**	7,050	**1,010**	141
Total revenue		**166,148**	157,929	**79,937**	75,837
Expenses					
Claims and surrenders	8	**63,325**	64,700	**37,851**	39,523
Less reinsurance recoveries		**(20,829)**	(22,618)	**(14,531)**	(16,283)
Net claims expense		**42,496**	42,082	**23,320**	23,240
Change in insurance contract assets:					
- Effect of changes in discount rates		**34,712**	(34,403)	**33,052**	(34,904)
- Other changes in insurance contract assets		**(31,675)**	(38,734)	**(16,540)**	(24,744)
Net decrease / (increase) in insurance contract assets	15	**3,037**	(73,137)	**16,512**	(59,648)
Net increase in investment contract liabilities	15	**304**	430	**304**	279
Commissions and operating expenses	9	**102,978**	102,796	**59,246**	60,085
Total expenses		**148,815**	72,171	**99,382**	23,956
Profit / (loss) before income tax		**17,333**	85,758	**(19,445)**	51,881
Income tax expense / (credit)	10	**(7,606)**	16,086	**(8,422)**	11,746
Profit / (loss) after income tax	4	**24,939**	69,672	**(11,023)**	40,135
Other comprehensive income		**-**	-	**-**	-
Total comprehensive income for the year		**24,939**	69,672	**(11,023)**	40,135

Statement of Changes in Equity

$ thousands	Note	Group Share capital	Group Retained earnings	Group Total equity	Parent Share capital	Parent Retained earnings	Parent Total equity
As at 1 October 2011		126,701	91,342	218,043	126,701	90,753	217,454
Profit after income tax		-	69,672	69,672	-	40,135	40,135
Ordinary shares issued	17	242,000	-	242,000	242,000	-	242,000
As at 30 September 2012		368,701	161,014	529,715	368,701	130,888	499,589
Profit / (loss) after income tax		**-**	**24,939**	**24,939**	**-**	**(11,023)**	**(11,023)**
As at 30 September 2013		**368,701**	**185,953**	**554,654**	**368,701**	**119,865**	**488,566**

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

Balance Sheet

$ thousands	Note	Group 30/09/2013	Group 30/09/2012	Parent 30/09/2013	Parent 30/09/2012
Assets					
Cash at bank		**11,593**	8,077	**6,986**	6,424
Securities	**11**	**221,070**	178,139	**101,582**	89,043
Trade and other receivables	**12**	**4,185**	16,074	**3,467**	12,563
Current tax asset		**2,098**	3,606	**5,604**	6,460
Investments in subsidiaries	**16**	**-**	-	**167,079**	167,079
Office furniture and equipment		**35**	83	**35**	83
Goodwill and other intangible assets	**13**	**141,147**	151,338	**22**	71
Life insurance contract assets	**15**	**398,842**	408,298	**363,876**	393,172
Total assets		**778,970**	765,615	**648,651**	674,895
Liabilities					
Payables and other liabilities	**14**	**14,355**	11,925	**9,246**	6,962
Deferred tax liability	**10**	**110,469**	116,545	**69,672**	72,874
Life investment contract liabilities	**15**	**-**	1,519	**-**	1,519
Life insurance contract liabilities - reinsurance	**15**	**99,492**	105,911	**81,167**	93,951
Total liabilities		**224,316**	235,900	**160,085**	175,306
Net assets		**554,654**	529,715	**488,566**	499,589
Equity					
Ordinary share capital	**17**	**368,701**	368,701	**368,701**	368,701
Retained earnings		**185,953**	161,014	**119,865**	130,888
Total equity		**554,654**	529,715	**488,566**	499,589

For and on behalf of the Board of Directors:

Director
13 February 2014

Director
13 February 2014

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

Cash Flow Statement

$ thousands	Note	Group Year to 30/09/2013	Group Year to 30/09/2012	Parent Year to 30/09/2013	Parent Year to 30/09/2012
Cash flows from operating activities					
Premium received		**182,727**	172,957	**94,859**	90,975
Reinsurance premiums paid		**(28,051)**	(30,474)	**(17,763)**	(20,449)
Interest received		**6,273**	5,146	**2,932**	1,156
Commission received		**5,040**	4,709	**-**	-
Other income		**1,010**	2,963	**1,010**	1,158
Claims, surrenders and maturities paid		**(65,148)**	(92,407)	**(39,674)**	(40,253)
Reinsurance recoveries received		**24,504**	25,027	**18,206**	18,408
Commission paid		**(43,036)**	(40,755)	**(24,716)**	(22,966)
Operating expenses paid		**(40,665)**	(72,803)	**(28,550)**	(55,999)
Tax loss offset received	**16**	**5,912**	48,976	**6,076**	42,769
Income tax paid		**(2,874)**	-	**-**	-
Net cash flows provided by operating activities	**21**	**45,692**	23,339	**12,380**	14,799
Cash flows from investing activities					
Net purchases of securities		**(42,561)**	(113,826)	**(12,203)**	(83,022)
Purchase of shares in subsidiary		**-**	-	**-**	(15,000)
Purchase of office furniture and equipment		**-**	(28)	**-**	(28)
Proceeds from sale of office furniture and equipment		**1**	-	**1**	-
Net cash flows used in investing activities		**(42,560)**	(113,854)	**(12,202)**	(98,050)
Cash flows from financing activities					
Proceeds from share issue		**-**	242,000	**-**	242,000
Repayment of amounts due from related parties		**384**	-	**384**	-
Repayment of subordinated loans		**-**	(152,079)	**-**	(177,079)
Payment of amounts due to related parties		**-**	(39,637)	**-**	-
Net cash flows provided by financing activities		**384**	50,284	**384**	64,921
Net increase / (decrease) in cash and cash equivalents		**3,516**	(40,231)	**562**	(18,330)
Cash and cash equivalents at beginning of the year		**8,077**	48,308	**6,424**	24,754
Cash and cash equivalents at end of the year		**11,593**	8,077	**6,986**	6,424

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

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's financial statements are for OnePath Life (NZ) Limited as a separate entity and the Group's financial statements are for the Parent's consolidated group, which includes its subsidiaries.

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

These financial statements have 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 principal accounting policies adopted in the preparation of these financial statements are set out below.

(ii) Use of estimates and assumptions

Preparation of the financial statements requires the use of management judgement, estimates and assumptions that affect reported amounts and the application of policies. Actual results may differ from these estimates.

Discussion of the critical accounting estimates, which include complex or subjective decisions or assessments, is included in Note 2. Such estimates will 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 Margin on Services ("MoS") principles.

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

The accounting policies adopted by the Group are consistent with those adopted and disclosed in the prior period. The Group has applied, where relevant, all new or revised NZ IFRSs and NZ IFRS Interpretations applicable to annual reporting periods commencing on or before 1 October 2012. The initial application of the standards and interpretations has only resulted in changes to disclosures.

(v) Presentation currency and rounding

The amounts contained in the financial statements have been presented in thousands of New Zealand Dollars unless otherwise stated.

(vi) Comparatives

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

- Decreasing premium income and reinsurance expense for the Group by $2,809,000; and
- Decreasing claims and surrenders and reinsurance income for the Group by $148,000.

This change was made to reflect the relationship between the Group and the reinsurer. The comparative figures in the cash flow statement and notes to the financial statements relating to these items have been reclassified accordingly.

(vii) Principles of consolidation

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.

The effect of all transactions between entities in the Group is eliminated.

In the event that control is lost, the assets and liabilities of the affected subsidiaries are derecognised on the date when control is lost. The gain or loss on sale recognised in the statement of comprehensive income is calculated as the fair value of the consideration received less the carrying amounts of the assets and liabilities as at the date of sale relating to the subsidiaries sold.

In the Parent's financial statements investments in subsidiaries are held at cost less accumulated impairment.

(b) Income recognition

Income is recognised to the extent that it is earned 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.

Notes to the Financial Statements

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 sheet.

(ii) Other income, including fees and commissions

Other income that relates to the execution of a significant act (for example, commission income received on the issuance of an insurance policy by another insurer, or commission payments clawed back on the cancellation of a policy issued by the Parent or the Group) is recognised when the significant act has been completed.

Other income for providing ongoing services (for example, fees received in connection to life investment contracts) is recognised as income over the period the service is provided.

(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.

(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.

(c) Expense recognition

Expenses are recognised in the statement 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 the Group.

All life insurance and life investment contracts are categorised based on individual policy or products. Expenses for these products are allocated between acquisition, maintenance 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 expense analysis having regard to the objective in incurring that expense and the outcome achieved.

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 statement of comprehensive income as a component of "movement in policyholder liability" at the same time as profit margins are released.

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.

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 expenses and amortisation of management rights and are recognised in the statement of comprehensive income in the period they relate to.

Notes to the Financial Statements

(iii) Lease payments

Leases entered into by the 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 statement of comprehensive income as tax expense.

(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.

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 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.

(e) Assets

Financial assets

The 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 Group commits to purchase or sell the asset.

(i) Financial assets at fair value through profit or loss

The Group's financial assets at fair value through profit or loss comprise securities in the balance sheet. All financial assets 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 statement 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 statement 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.

(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. The Group's loans and receivables comprise cash at bank and trade and other receivables in the balance sheet.

Loans and receivables are initially recognised at fair value plus transaction costs and are subsequently carried at amortised cost using the effective interest method.

Impairment of loans and receivables

The Group assesses at each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. Financial difficulties 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 statement of comprehensive income.

When a receivable is uncollectible, either partially or in full, it is written off against the related provision for doubtful debts. Amounts receivable are normally written-off when they become 180 days past due or earlier if there is a legal release from the obligation.

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 statement of comprehensive income.

Notes to the Financial Statements

(iii) Derecognition

The Group enters into transactions where it transfers financial assets recognised on its balance sheet 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 sheet.

In transactions where substantially all the risks and rewards of ownership of a financial asset are neither retained nor transferred, and the Group derecognises the asset if control over the asset is lost. In transfers where control over the asset is retained, the 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

(iv) Goodwill

Goodwill represents the excess of the purchase consideration over the fair value of the identifiable net assets of a subsidiary 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. Where the assessment results in the goodwill balance exceeding the value of expected future benefits, the difference is charged to the statement of comprehensive income. Any impairment of goodwill may not be subsequently reversed.

(v) 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.

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 cost less accumulated amortisation and impairment. VOBA has been assessed as having a finite life and is amortised based on the expected pattern of consumption of the future economic benefits from the VOBA, using actuarial methods consistent with the calculation of life insurance liabilities, over a maximum period of 20 years. The estimated useful life is re-evaluated regularly.

Management rights represent the contractual rights of the Group to have the first right of refusal in providing insurance products for ANZ Bank New Zealand Limited ("ANZ Bank"). As part of acquiring these rights, the 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 statement of comprehensive income within "Commissions and operating expenses".

At each reporting date, 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 statement of comprehensive income and is recognised within "Commissions and operating expenses".

(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.

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

(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 may be 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 and maintaining policies. 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:

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.

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

Notes to the Financial Statements

of maintaining all in-force business in a period are lower than the best estimate assumption in respect of those expenses.

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 sheet 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 statement 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 statement of comprehensive income immediately. When loss making business becomes profitable, it is necessary to reverse previously recognised losses.

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.

Term and other liabilities

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

(g) Reinsurance

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

Reinsurance premiums payable are recognised in the statement 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 sheet. The present value of future reinsurance recoveries receivable and reinsurance premium payable by the Group is recognised separately from policyholder liabilities / assets in the balance sheet.

Reinsurance recoveries on claims are recognised in the statement of comprehensive income as part of reinsurance income at the time the claim event is notified to the 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 sheet.

(h) Liabilities

Financial liabilities

Financial liabilities are measured initially at fair value and subsequently at amortised cost using the effective interest method, and are derecognised when the obligation specified in the contract is discharged, cancelled or expires.

Non-financial liabilities

(i) 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.

(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 sheet.

(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 sheet 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) 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.

Notes to the Financial Statements

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 sheet.

Cash flows are included in the cash flow statement on a net basis, with the net amount of GST paid to or received from the IRD included in operating expenses paid. 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) Accounting Standards not early adopted

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

Standards and amendments effective for periods commencing after 1 January 2013

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.

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

NZ IAS 27 (2011) Separate Financial Statements
Carries forward the existing accounting and disclosure requirements for separate financial statements.

Standards and amendments effective for periods commencing after 1 January 2015

NZ IFRS 9 Financial Instruments
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.

Notes to the Financial Statements

2. Critical Estimates and Judgements 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 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

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.

Refer to note 3 for discussion of the significant actuarial methods and assumptions. The uncertainties surrounding these assumptions mean that it is likely that the actual experience will vary from that assumed in the liability estimated at the balance date.

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 amounts due may not be received and these amounts can be reliably measured.

Critical judgements in applying the Group's accounting policies

Deferred tax

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

Where the expected tax 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.

Management rights

The 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 12% (2012: 9.2%), revenue growth rate of 3% (2012: 3%) and the cost to income ratio of 32.5% (2012: 26%). 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.

The sensitivity of the recoverable amount to changes in assumptions has been tested, including: increasing the discount rate by 20% (to 14%); decreasing the revenue growth rate to 0%; and increasing the cost to income ratio by 20% (to 39%). None of these individual changes to assumptions would cause the recoverable amount to be less than the carrying value.

Goodwill

Refer to Note 13 for details of goodwill held by the Group.

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.

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 by comparing the recoverable value of OnePath Insurance Services (NZ) Limited 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 (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 2013, a discount rate of 10.3% was applied (2012: 9.2%). 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

Notes to the Financial Statements

beta rate and the market risk premium are consistent with observable and comparative market rates applied in the regional insurance sector.

The sensitivity of the recoverable amount to changes in assumptions has been tested by increasing the discount rate by 20% (to 12%) and decreasing the new business multipliers by 20%. The combined effect of these changes would not cause the recoverable amount to be less than the carrying value.

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 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 2013, a discount rate of 10.3% was applied (2012: 9.2%). 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.

The sensitivity of the recoverable amount to changes in assumptions has been tested by increasing the discount rate by 20% (to 12%). This change would not cause the recoverable amount to be less than the carrying value.

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 2013. The actuary who prepared the reports for the Parent 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 ("NZSA"). 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 key assumptions used in determining the policyholder liabilities are detailed below.

The Group comprises two life companies, OnePath Life (NZ) Limited and OnePath Insurance Services Limited. 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 primarily premiums, except for single premium risk business which uses claims. The exception to this is Credit Card Repayment Insurance business, which is valued on an accumulation basis and thus does not use profit carriers. This is due to the frequently varying nature of the sum insured as credit card balances move.

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 3.2% to 5.7% (2012: 2.1% to 4.3%).

Inflation

The long-term inflation assumption was determined on a basis consistent with the medium to long term RBNZ inflation target of between 1% to 3% (2012: 1% to 3%). The rate assumed is 2% pa (2012: 2% 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.

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 (2012: 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 28%. 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 range from 55% to 250% (2012: 55% to 275%) of the NZ07 term mortality tables. These adjustments are determined by comparing the standard tables with the Company's own experience.

Future morbidity (Total Permanent Disability and Trauma) experience incidence rates are based on reinsurers' tables and internal investigations.

Future morbidity incidence and termination rates (Replacement Income) have been based on the Parent's experience and on IAD89-93 tables.

OnePath Insurance Services (NZ) Limited

Projected future rates of mortality for insured lives range from 65% to 540% (2012: 75% to 450%) of the NZ07 term mortality tables. These adjustments are determined by comparing the standard tables with the Company's own experience.

Future morbidity (Total Permanent Disability and Trauma) experience incidence rates are based on reinsurers' tables and internal investigations.

Assumed incidence rates, durations and loss ratios (Replacement Income) are based on investigation of the Company's experience.

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 between 6% and 30% for the Parent and between 1% and 35% (2012: between 1% and 40%) for OnePath Insurance Services (NZ) Limited.

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.

Participating business

The Parent and Group do not issue participating business.

Solvency requirement

Solvency reserves are amounts required to meet the regulatory actuarial standards to provide protection to policyholders against the impact of fluctuations in and unexpected adverse experience in the Parent's and Group's business. The regulatory standards are imposed by the Reserve Bank of New Zealand under the Insurance (Prudential Supervision) Act 2010 ("IPSA").

Notes to the Financial Statements

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:

Impact of changes in assumptions - increase / (decrease)

	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
30/09/2013						
Mortality and morbidity	**7,848**	**2,016**	**(1,452)**	**(99)**	**2,016**	**(1,452)**
Discontinuance rates	**(5,379)**	**60**	**(43)**	**(9,920)**	**60**	**(43)**
Maintenance expenses	**(7,049)**	**(97)**	**70**	**(6,231)**	**(97)**	**70**
Other assumptions	**2,395**	**(1,936)**	**1,394**	**4,151**	**(1,936)**	**1,394**
Total	**(2,185)**	**43**	**(31)**	**(12,099)**	**43**	**(31)**
30/09/2012						
Mortality and morbidity	44,240	1,495	(1,077)	5,513	287	(207)
Discontinuance rates	(20,494)	(3,358)	2,418	(44,259)	(3,235)	2,329
Maintenance expenses	(8,549)	952	(685)	(9,537)	2,379	(1,713)
Other assumptions	6,132	943	(679)	8,880	1,324	(953)
Total	21,329	32	(23)	(39,403)	755	(544)

4. Sources of Profit

	Group		Parent	
$ thousands	Year to 30/09/2013	Year to 30/09/2012	Year to 30/09/2013	Year to 30/09/2012
Life Insurance				
Planned margins of revenues over expenses	**51,366**	39,615	**12,651**	14,276
Difference between actual and assumed experience	**(6,372)**	4,989	**(4,069)**	259
Loss recognition	**1,435**	123	**1,435**	(398)
Effects of changes in underlying assumptions	**(23,920)**	24,158	**(23,393)**	24,519
	22,509	68,885	**(13,376)**	38,656
Investment earnings on assets in excess of policy liabilities	**5,055**	3,338	**2,353**	1,479
Other revenue / expenses				
Business valued on accumulation basis	**1,012**	1,812	**-**	-
Inwards commission	**3,628**	3,387	**-**	-
Amortisation of VOBA	**(5,213)**	(5,583)	**-**	-
Amortisation of management rights	**(2,052)**	(2,167)	**-**	-
	(2,625)	(2,551)	**-**	-
Profit after income tax	**24,939**	69,672	**(11,023)**	40,135

The disclosure of the components of operating profit after income tax expense are required to be separated between policyholders' and shareholder's interests. Parent and Group do not write participating policies with all operating profit after income tax attributable to the shareholder, therefore separate disclosures for policyholders' interests are not applicable.

Notes to the Financial Statements

5. Premium Revenue

	Group		Parent	
$ thousands	**Year to 30/09/2013**	Year to 30/09/2012	**Year to 30/09/2013**	Year to 30/09/2012
Single premiums	**5,784**	5,828	**-**	-
Regular premiums	**175,873**	167,829	**93,957**	91,488
Total premium revenue	**181,657**	173,657	**93,957**	91,488

6. Investment Income

	Group		Parent	
$ thousands	**Year to 30/09/2013**	Year to 30/09/2012	**Year to 30/09/2013**	Year to 30/09/2012
Interest income from:				
- Cash at bank	**379**	199	**256**	101
- Debt securities and bank deposits at fair value through profit or loss	**5,894**	4,019	**2,676**	990
Total interest income	**6,273**	4,218	**2,932**	1,091
Net gain on financial assets at fair value through profit or loss	**370**	852	**336**	961
Total investment income	**6,643**	5,070	**3,268**	2,052

7. Other Operating Income

	Group		Parent	
$ thousands	**Year to 30/09/2013**	Year to 30/09/2012	**Year to 30/09/2013**	Year to 30/09/2012
Commission income	**5,040**	4,709	**-**	-
Gain on termination of reinsurance arrangement	**1,010**	2,200	**1,010**	-
Gain on disposal of subsidiary	**384**	-	**-**	-
Other	**-**	141	**-**	141
Total other operating income	**6,434**	7,050	**1,010**	141

8. Claims and Surrenders

		Group		Parent	
$ thousands	**Note**	**Year to 30/09/2013**	Year to 30/09/2012	**Year to 30/09/2013**	Year to 30/09/2012
Death and disability		**60,741**	62,541	**37,851**	39,524
Surrenders		**4,407**	29,866	**1,823**	729
Less savings component transferred from policy liabilities	**15**	**(1,823)**	(27,707)	**(1,823)**	(730)
Claims and surrenders		**63,325**	64,700	**37,851**	39,523

Notes to the Financial Statements

9. Commissions and Operating Expenses

$ thousands	Note	Group Year to 30/09/2013	Group Year to 30/09/2012	Parent Year to 30/09/2013	Parent Year to 30/09/2012
Acquisition costs					
Commissions		**28,984**	27,953	**16,582**	15,895
Operating expenses		**35,643**	38,256	**20,726**	24,819
Total acquisition costs		**64,627**	66,209	**37,308**	40,714
Maintenance costs					
Commissions		**14,311**	13,679	**8,504**	7,685
Operating expenses		**21,190**	19,859	**13,818**	11,679
Total maintenance costs		**35,501**	33,538	**22,322**	19,364
Investment management costs		**-**	39	**-**	7
Other operating expenses		**2,850**	3,010	**(384)**	-
Total commissions and operating expenses		**102,978**	102,796	**59,246**	60,085
Operating expenses includes the following specific items:					
Wages and salaries		**16,257**	16,598	**12,470**	12,906
Operating expenses recharged by related parties	**16**	**26,897**	22,615	**17,436**	16,010
Operating lease charges		**28**	1,403	**19**	1,054
Depreciation		**47**	129	**47**	129
Amortisation	**13**	**10,191**	11,378	**49**	304
Travel and accommodation		**526**	1,585	**413**	1,490
Provision for doubtful debts	**12**	**(177)**	130	**(665)**	108
Printing, postage and stationery		**1,245**	1,307	**731**	847
Other operating expenses		**4,669**	5,980	**3,660**	3,650
		59,683	61,125	**34,160**	36,498

A split of acquisition costs and maintenance costs between life insurance and life investment contracts has not been provided as all costs are associated with life insurance contracts.

$ thousands	Group Year to 30/09/2013	Group Year to 30/09/2012	Parent Year to 30/09/2013	Parent Year to 30/09/2012
Fees paid to principal auditors (KPMG New Zealand)				
Audit of financial statements	**313**	449	**156**	269
Other audit-related services	**183**	-	**110**	-
Total auditors' remuneration	**496**	449	**266**	269

It is the 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.

Notes to the Financial Statements

10. Income Tax

$ thousands	Group Year to 30/09/2013	Group Year to 30/09/2012	Parent Year to 30/09/2013	Parent Year to 30/09/2012
Reconciliation of the prima facie income tax payable on profit				
Profit before income tax	**17,333**	85,758	**(19,445)**	51,881
Prima facie income tax at 28%	**4,853**	24,012	**(5,445)**	14,527
Non-deductible / (non-assessable) movements in policyholder liabilities	**(4,195)**	1,366	**(812)**	325
Effect of 2010 life tax regime	**(8,784)**	(9,284)	**(2,684)**	(3,110)
Non-assessable income and non-deductible expenses	**36**	(211)	**35**	(178)
Income tax under / (over) provided in prior years	**484**	203	**484**	182
Total income tax expense / (credit)	**(7,606)**	16,086	**(8,422)**	11,746
Current income tax charge				
Current income tax credit	**(1,929)**	(39,099)	**(5,803)**	(36,537)
Prior period adjustment	**399**	334	**583**	256
Deferred income tax				
Deferred income tax expense / (credit)	**(6,161)**	54,982	**(3,103)**	48,101
Prior period adjustment	**85**	(131)	**(99)**	(74)
Total income tax expense / (credit)	**(7,606)**	16,086	**(8,422)**	11,746

	30/09/2013	30/09/2012	30/09/2013	30/09/2012
Deferred tax assets / (liabilities) comprise the following temporary differences:				
Provisions and accruals	**1,018**	1,152	**903**	1,065
Carried forward losses[1]	**15,592**	15,807	**15,592**	15,807
Other deferred tax assets	**953**	600	**634**	460
Policyholder liabilities	**(108,258)**	(111,503)	**(86,801)**	(90,206)
VOBA	**(16,450)**	(18,479)	**-**	-
Management rights	**(3,324)**	(4,122)	**-**	-
Net deferred tax liability[2]	**(110,469)**	(116,545)	**(69,672)**	(72,874)

[1] Utilisation of carried forward losses is dependent on future taxable profits and the reversal of taxable temporary differences.
[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.

The Group is part of a wholly owned group of companies and may receive the benefit of tax losses by way of a tax loss offset, for which compensation will be paid to another member of the ANZ Holdings (New Zealand) Limited group.

The Parent and its subsidiaries are members of an imputation group and can access imputation credits of $1,725 million (2012: $1,336 million) of the imputation group.

The life insurer pays tax at the company rate of 28%. As the life insurer is taxed as a proxy for the policyholders, returns to policyholders are tax-exempt.

Impact of 2010 life tax changes

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 assessable income.

Under the rules, life insurance taxable income is calculated as premiums less claims plus investment income less expenses and changes in certain prescribed reserves. 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.

The 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 transitional adjustment) for life insurance policies that were in force prior to 1 July 2010. The impact of the transitional adjustment is that it effectively treats designated policies (known as grandparented policies) as having income tax levied on a basis equivalent to the life office base under the old tax regime.

In general, grandparented status lasts for 5 years from 1 July 2010. However, for certain policy types, namely level term policies, the grandparented status can be for the duration of the policy.

Notes to the Financial Statements

11. Securities

$ thousands	Group 30/09/2013	Group 30/09/2012	Parent 30/09/2013	Parent 30/09/2012
Bank deposits	**218,472**	173,595	**100,510**	86,824
New Zealand Government bonds	**2,598**	2,642	**1,072**	1,114
Investments in unit trusts	**-**	1,105	**-**	1,105
Corporate debentures and other bonds and notes	**-**	797	**-**	-
Total securities	**221,070**	178,139	**101,582**	89,043
Maturity analysis:				
- Less than one year	**218,472**	174,824	**100,510**	86,824
- Two years to five years	**2,598**	2,062	**1,072**	1,114
- Later than five years	**-**	148	**-**	-
- No maturity (unit trust investments)	**-**	1,105	**-**	1,105
Total securities	**221,070**	178,139	**101,582**	89,043

12. Trade and Other Receivables

$ thousands	Note	Group 30/09/2013	Group 30/09/2012	Parent 30/09/2013	Parent 30/09/2012
Outstanding premiums		**1,127**	2,224	**664**	1,566
Amounts due from advisers		**912**	1,304	**912**	1,304
Amounts due from reinsurers		**2,417**	6,092	**2,251**	5,926
Due from related parties	**16**	**25**	7,157	**-**	5,554
Sundry debtors		**952**	722	**762**	-
Provision for doubtful debts		**(1,248)**	(1,425)	**(1,122)**	(1,787)
Total trade and other receivables		**4,185**	16,074	**3,467**	12,563

The Parent and the Group held no material trade and other receivables that were past due and not impaired (2012: none material). The Parent's provision for doubtful debts for 2012 includes $384,000 in respect of a receivable from a subsidiary.

Notes to the Financial Statements

13. Goodwill and Other Intangible Assets

$ thousands	Note	Goodwill	VOBA	Management rights	Computer software	Total
			Group			
As at 1 October 2011						
Cost		75,726	93,000	30,559	7,787	207,072
Accumulated amortisation and impairment		(5,226)	(19,252)	(12,826)	(7,052)	(44,356)
Net balance at 1 October 2011		70,500	73,748	17,733	735	162,716
Amortisation	9	-	(7,752)	(3,010)	(616)	(11,378)
Net balance at 30 September 2012		70,500	65,996	14,723	119	151,338
Amortisation	9	**-**	**(7,244)**	**(2,850)**	**(97)**	**(10,191)**
Net balance at 30 September 2013		**70,500**	**58,752**	**11,873**	**22**	**141,147**
30/09/2012						
Cost		75,726	93,000	30,559	7,787	207,072
Accumulated amortisation and impairment		(5,226)	(27,004)	(15,836)	(7,668)	(55,734)
Net balance at 30 September 2012		70,500	65,996	14,723	119	151,338
30/09/2013						
Cost		**75,726**	**93,000**	**30,559**	**7,787**	**207,072**
Accumulated amortisation and impairment		**(5,226)**	**(34,248)**	**(18,686)**	**(7,765)**	**(65,925)**
Net balance at 30 September 2013		**70,500**	**58,752**	**11,873**	**22**	**141,147**

Goodwill largely relates to the acquisition of OnePath Insurance Services (NZ) Limited. Refer to note 2 for details of impairment testing of goodwill, VOBA and management rights. The remaining amortisation period of VOBA is 15 years (2012: 16 years), and 8.5 years (2012: 9.5 years) for management rights.

14. Payables and Other Liabilities

$ thousands	Note	Group 30/09/2013	Group 30/09/2012	Parent 30/09/2013	Parent 30/09/2012
Creditors		**359**	469	**148**	321
Due to reinsurers		**3,474**	2,939	**2,800**	2,265
Due to related parties	**16**	**6,739**	2,384	**3,507**	10
Accrued charges		**2,375**	4,270	**1,764**	3,404
Employee annual and long service leave		**1,164**	1,013	**915**	760
Other liabilities		**244**	850	**112**	202
Total payables and other liabilities		**14,355**	11,925	**9,246**	6,962

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

Notes to the Financial Statements

15. Life Insurance and Life Investment Contract Assets / (Liabilities)

	Group		Parent	
$ thousands	**30/09/2013**	30/09/2012	**30/09/2013**	30/09/2012
Life insurance contract assets contain the following components:				
Future premiums	**1,454,818**	1,424,683	**892,935**	897,600
Future policy benefits	**(509,289)**	(484,547)	**(329,010)**	(307,602)
Future expenses	**(254,191)**	(261,559)	**(202,778)**	(210,208)
Planned margins of revenues over expenses	**(391,988)**	(376,190)	**(78,438)**	(80,569)
Total life insurance contract assets, net of reinsurance	**299,350**	302,387	**282,709**	299,221
Estimated discounted net cash inflows from insurance contract assets:				
- Less than one year	**19,828**	26,410	**18,800**	23,303
- One year to five years	**62,707**	73,886	**57,998**	67,036
- Later than five years	**216,815**	202,091	**205,911**	208,882
Total insurance contract assets future net cash inflows	**299,350**	302,387	**282,709**	299,221

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, maturity benefits, bonuses and expenses offset by expected future premiums and reinsurance recoveries. All values are discounted to the reporting date using the risk free rate for each product.

	Group		Parent	
$ thousands	**30/09/2013**	30/09/2012	**30/09/2013**	30/09/2012
Reconciliation of movements in policyholder assets and liabilities				
Insurance contract assets				
Opening insurance contract assets	**408,298**	288,556	**393,172**	301,028
Recognised in statement of comprehensive income	**(9,456)**	119,742	**(29,296)**	92,144
Closing insurance contract assets	**398,842**	408,298	**363,876**	393,172
Of which:				
Current	**24,650**	25,349	**22,414**	29,295
Non-current	**374,192**	382,949	**341,462**	363,877
Insurance contract liabilities - reinsurance				
Opening insurance contract liabilities - reinsurance	**105,911**	59,306	**93,951**	61,455
Recognised in statement of comprehensive income	**(6,419)**	46,605	**(12,784)**	32,496
Closing insurance contract liabilities - reinsurance	**99,492**	105,911	**81,167**	93,951
Of which:				
Current	**4,822**	6,789	**3,614**	5,992
Non-current	**94,670**	99,122	**77,553**	87,959
Investment contract liabilities				
Opening investment contract liabilities	**1,519**	28,796	**1,519**	1,970
Recognised in statement of comprehensive income	**304**	430	**304**	279
Claims and surrenders, including repayments of investments	**(1,823)**	(27,707)	**(1,823)**	(730)
Closing investment contract liabilities	**-**	1,519	**-**	1,519
Of which:				
Current	**-**	1,519	**-**	1,519

Notes to the Financial Statements

16. Related Party Transactions

Key management personnel

$ thousands	Group Year to 30/09/2013	Group Year to 30/09/2012	Parent Year to 30/09/2013	Parent Year to 30/09/2012
Salaries and short-term employee benefits	**426**	902	**426**	585
Directors' fees [1]	**83**	-	**83**	-
Post-employment benefits	**14**	34	**14**	22
Other long-term benefits	**6**	7	**6**	6
Termination benefits	**62**	-	**62**	-
Share-based payments expense	**6**	7	**6**	6
Total compensation of key management personnel	**597**	950	**597**	619

1 Directors' fees are for independent directors only, who were appointed on 27 September 2012.

Key management personnel include directors and senior management, being 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, where those key management personnel are paid for by the Group. Other key management personnel include employees of ANZ Bank, fellow subsidiaries of ANZ Bank and the Ultimate Parent Bank, who are paid by those entities and a portion of their remuneration is allocated back to the Group as part of the operating expenses paid to those entities. As of 1 October 2012, no key management personnel of the Parent's subsidiaries are paid directly by the Group.

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

Transactions with related parties

The Parent and Group undertake transactions with the Immediate Parent, ANZ Bank and other members of the ANZ Holdings (New Zealand) Limited consolidated group ("the ANZ NZ Group"). These transactions principally consist of commission income, commission expenses, funding transactions, reimbursement of operating expenses and technology and process support.

Transactions with members of the ANZ NZ Group are conducted on an arm's length basis and on normal commercial terms. Operating expenses are principally salaries and wages, shared services, office rent, I.T. costs, and shared costs of senior management.

Operating expenses paid to non-related parties through the ANZ NZ Group's shared payroll and accounts payable functions and commissions collected on behalf of ANZ Bank are not included in the table below.

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

$ thousands	Group Year to 30/09/2013	Group Year to 30/09/2012	Parent Year to 30/09/2013	Parent Year to 30/09/2012
Income and expenses				
Interest income received from ANZ Bank	**1,728**	838	**897**	434
Commissions paid to ANZ Bank	**(18,183)**	(20,508)	**-**	(2,580)
Operating expenses				
- Paid to ANZ Bank	**(10,072)**	(1,984)	**(6,952)**	(1,395)
- Paid to other ANZ Bank subsidiaries	**(16,825)**	(21,269)	**(10,484)**	(14,977)
Other transactions				
Issue of shares to Immediate Parent	**-**	242,000	**-**	242,000
Tax losses utilised by subsidiary	**-**	-	**164**	-
Tax losses utilised by other ANZ Bank subsidiaries[1]	**5,912**	35,197	**5,912**	29,822

1 Payment for the tax loss offsets transferred for 2011 and 2012 was received in 2012.

Notes to the Financial Statements

Balances with related parties

$ thousands	Group 30/09/2013	Group 30/09/2012	Parent 30/09/2013	Parent 30/09/2012
Cash at bank due from ANZ Bank	**11,593**	8,077	**6,986**	6,424
Bank deposits due from ANZ Bank	**49,104**	35,844	**23,283**	17,844
Other amounts due from ANZ Bank	**-**	7,141	**-**	5,156
Due from other ANZ Bank subsidiaries	**25**	16	**-**	14
Investment in subsidiary	**-**	-	**167,079**	167,079
Total due from related parties	**60,722**	51,078	**197,348**	196,517
Due to ANZ Bank	**4,629**	2,338	**2,201**	4
Due to other ANZ Bank subsidiaries	**2,110**	46	**1,257**	-
Due to subsidiary	**-**	-	**49**	6
Total due to related parties	**6,739**	2,384	**3,507**	10

Balances due from / to related parties are unsecured, payable on demand and settlement occurs in cash.

On 29 March 2012 the Parent issued 242 million shares to the Immediate Parent at $1 per share for a total of $242 million. The proceeds from this share issue were used to repay debt, purchase new shares in a subsidiary (OnePath Insurance Services (NZ) Limited) and purchase securities.

Shares in subsidiary

The Parent owns 100% of the share capital of OnePath Insurance Services (NZ) Limited, an insurance company with a balance date of 30 September.

Silver Fern Life Brokers Limited ("Silver Fern") was a subsidiary of the Parent until 31 July 2013 when it amalgamated with Alos Holdings Limited, a fellow subsidiary of ANZ Bank. At 30 September 2012, the Parent had fully provided for a receivable of $384,000 from Silver Fern. This provision was reversed and the balance repaid in full immediately following the amalgamation.

17. Ordinary Share Capital

Number of shares	Note	Group and Parent 30/09/2013	Group and Parent 30/09/2012
Ordinary shares at beginning of the year		**329,685,311**	87,685,311
Ordinary shares issued during the year	**16**	**-**	242,000,000
Ordinary shares at end of the year		**329,685,311**	329,685,311

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.

Notes to the Financial Statements

18. Capital Management Policies

The Group's capital management objectives are to maintain a strong capital base to protect policyholders' and creditors' interests, and to meet regulatory requirements, whilst still creating shareholder value.

Under the IPSA solvency requirements, the Parent and its subsidiary OnePath Insurance Services (NZ) Limited are required to maintain a solvency margin, in accordance with the "Solvency Standard for Life Insurance Business", of at least $0 for each life fund, and each of these companies is required to have at least $5 million of actual solvency capital.

During the year ended 30 September 2013, the Parent and Group have complied with all externally imposed capital requirements.

The Group has a risk management framework that includes the adequacy of capital as a key risk. Continuous reporting on current and forecast capital requirements is undertaken to monitor this risk. The 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 Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. In addition, the Group analyses and optimises its product and asset mix, reinsurance programme, insurance risk exposure and investment strategy, in order to maintain adequate capital.

Solvency under RBNZ's Solvency Standard for Life Insurance Business

Under the RBNZ's Solvency Standard for Life Insurance Business, life insurers must maintain a solvency margin which is calculated as the difference between actual solvency capital and minimum solvency capital, as shown below.

Statutory funds

A life insurer is required to have at least one statutory fund in respect of its life insurance business from 1 October 2012. The purpose of a statutory fund is to ensure that the funds received and paid out in respect of life insurance policies are separately identifiable as being part of the statutory fund. The assets of the statutory fund enjoy certain protections under the Act which are designed to ensure that the interests of holders of life insurance policies are given priority over the interests of other parties, such as unsecured creditors.

The following tables show the assets, liabilities, equity, profit and solvency of the Parent and Group by fund.

	Group				
$ thousands	OnePath Life (NZ) Ltd statutory fund 30/09/2013	OnePath Insurance Services Ltd statutory fund 30/09/2013	Non-statutory fund 30/09/2013	Total 30/09/2013	Total 30/09/2012
Total assets	**466,122**	**155,321**	**157,527**	**778,970**	765,615
Total liabilities	**157,544**	**47,262**	**19,510**	**224,316**	235,900
Total equity	**308,578**	**108,059**	**138,017**	**554,654**	529,715
Profit / (loss) after income tax	**(13,348)**	**40,406**	**(2,119)**	**24,939**	69,672
Actual solvency capital	**286,228**	**47,625**	**36,262**	**370,115**	376,959
Minimum solvency capital	**229,292**	**36,718**	**9,413**	**275,423**	269,597
Solvency margin	**56,936**	**10,907**	**26,849**	**94,692**	107,362

	Parent			
	Statutory fund 30/09/2013	Non-statutory fund 30/09/2013	Total 30/09/2013	Total 30/09/2012
Total assets	**466,122**	**182,529**	**648,651**	674,895
Total liabilities	**157,544**	**2,541**	**160,085**	175,306
Total equity	**308,578**	**179,988**	**488,566**	499,589
Profit / (loss) after income tax	**(13,348)**	**2,325**	**(11,023)**	40,135
Actual solvency capital	**286,228**	**12,504**	**298,732**	308,647
Minimum solvency capital	**229,292**	**9,266**	**238,558**	246,571
Solvency margin	**56,936**	**3,238**	**60,174**	62,076

The shareholder's access to the retained profits and shareholder's capital in the statutory fund is restricted by the IPSA.

The Parent and its subsidiary declared dividends on 13 February 2014 (Note 24). The Appointed Actuary has provided written advice to the Directors of the consequences of the dividend payment in compliance with the IPSA, and certified that the Parent and its subsidiary continue to meet the IPSA solvency requirements, as shown above.

Notes to the Financial Statements

19. Financial Risk Management

Strategy in using financial instruments

Financial instruments are fundamental to the 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 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 Group's balance sheet. These risks and the Group's policies and objectives for managing such risks are outlined below. The 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 Group.

Credit risk

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

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

The Group manages its exposure to credit risk by investing and transacting with high credit quality financial institutions and sovereign bodies. The 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 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 Group. The maximum exposure of the Group to credit risk at balance date is the carrying value of its trade and other receivables and fair values of debt securities.

The credit ratings shown in the table below are from Standard & Poor's for the counterparty's New Zealand short term unsecured obligations.

	Credit Rating		Group		Parent	
Concentrations of credit risk	**30/09/2013**	30/09/2012	**30/09/2013**	30/09/2012	**30/09/2013**	30/09/2012
ANZ Bank New Zealand Limited	**A-1+**	A-1+	**25.6%**	25.2%	**27.2%**	27.2%
ASB Bank Limited	**A-1+**	A-1+	**13.0%**	13.8%	**11.8%**	13.4%
Bank of New Zealand Limited	**A-1+**	A-1+	**15.6%**	14.0%	**14.1%**	13.8%
Hong Kong Shanghai Banking Corporation	**A-1+**	A-1+	**5.5%**	4.4%	**6.4%**	8.3%
Kiwibank Limited	**A-1**	A-1+	**7.4%**	13.6%	**7.0%**	12.3%
New Zealand Government	**A-1+**	A-1+	**1.1%**	1.3%	**1.0%**	1.0%
Rabobank New Zealand Limited	**A-1+**	A-1+	**13.5%**	9.4%	**12.5%**	4.6%
Westpac New Zealand Limited	**A-1+**	A-1+	**16.6%**	12.9%	**17.6%**	11.4%

The financial strength ratings for the Group's major reinsurers are shown in the table below. The rating for Cigna Life Insurance New Zealand Limited is from A.M. Best; all other ratings are from Standard & Poor's.

	30/09/2013	30/09/2012
Cigna Life Insurance New Zealand Limited	A-	A-
General Reinsurance Life Australia Limited	AA+	AA+
Hannover Life Re of Australasia Limited	AA-	AA-
Munich Reinsurance Company of Australasia Limited	AA-	AA-
RGA Reinsurance Company	AA-	AA-
SCOR Global Life SE	A+	A+
Swiss Re Life & Health Australia Limited	AA-	AA-

Market risk

Market risk is the risk to the 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 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.

Currency risk

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

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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 Group is exposed to interest rate risk through its investments in interest earning financial instruments and revaluations of its insurance contract liabilities.

The Group has established limits on investments in interest-bearing assets, which are monitored on a daily basis. The Group may use derivatives to hedge against unexpected fluctuations in interest rates. The following table summarises the sensitivity of the Group's 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% (2012: 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.

	Group			
	30/09/2013		30/09/2012	
$ thousands	**+ 1%**	**- 1%**	+ 1%	- 1%
Securities	**(459)**	**514**	(446)	472
Insurance contract liabilities / assets, net of reinsurance	**(19,173)**	**23,796**	(19,403)	23,517

	Parent			
	30/09/2013		30/09/2012	
$ thousands	**+ 1%**	**- 1%**	+ 1%	- 1%
Securities	**(217)**	**238**	(220)	239
Insurance contract liabilities / assets, net of reinsurance	**(18,349)**	**22,767**	(20,163)	24,390

Price risk

As at 30 September 2013, the Parent and Group is not exposed to price risk as it does not hold any equity investments. The Parent and Group's exposure to price risk as at 30 September 2012 was not considered material.

Liquidity risk

The 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 are prepared by the Group's actuary to ensure that the Group continues to meet its solvency requirements.

The maturity profile for the Group's insurance contract liabilities is shown within Note 15. The table below summarises the maturity profile for all other financial liabilities of the Group based on contractual undiscounted payments:

	Group		Parent	
$ thousands	**On demand**	**Less than 3 months**	**On demand**	**Less than 3 months**
30/09/2013				
Payables and other liabilities	**-**	**13,191**	**-**	**8,331**
30/09/2012				
Payables and other liabilities	-	10,406	-	6,072
Life investment contract liabilities	1,519	-	1,519	-

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 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 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; and

(v) To use reinsurance as a component of insurance risk management strategy.

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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 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 Group's risk management strategy.

Methods to limit or transfer insurance risk exposures

In an effort to protect and enhance shareholder value, the 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 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 Group's reinsurance programme to provide a central view of the 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 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.

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 Group has minimal exposure to such arrangements.

The following table illustrates concentrations of insurance risk according to benefit types and the extent to which this risk is mitigated by reinsurance.

	30/09/2013		30/09/2012	
Group	**Sum Insured**	**Sum Reinsured**	Sum Insured	Sum Reinsured
Aggregate Sums Assured ($ millions)				
Life[1]	**37,767**	**17,161**	35,262	16,681
Trauma/Total Permanent Disablement [1]	**6,327**	**2,121**	6,004	2,257
Total Temporary Disablement/Redundancy[2]	**3,266**	**1,984**	4,100	1,879
Other income cover [2]	**183**	**96**	2,179	1,165
Total	**47,543**	**21,362**	47,545	21,982

	30/09/2013		30/09/2012	
Parent	**Sum Insured**	**Sum Reinsured**	Sum Insured	Sum Reinsured
Aggregate Sums Assured ($ millions)				
Life[1]	**17,836**	**10,360**	17,193	10,132
Trauma/Total Permanent Disablement [1]	**3,281**	**1,635**	3,276	1,691
Total Temporary Disablement/Redundancy[2]	**3,159**	**1,984**	2,967	1,879
Other income cover [2]	**183**	**96**	2,179	1,165
Total	**24,459**	**14,075**	25,615	14,867

[1] Aggregate sum insured is the aggregate of all lump sums payable under this benefit category.
[2] Aggregate sum insured is the aggregate of the annual benefits payable under replacement income benefit categories.

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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 insurance contracts with fixed and guaranteed terms. Benefit types include life, trauma, disability, other income cover and 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

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:

		Group			
		Profit / (loss) after tax		Equity	
	Change	Before reinsurance	After reinsurance	Before reinsurance	After reinsurance
30/09/2013					
Change in mortality and morbidity	**+10%**	**(4,616)**	**(3,779)**	**(4,616)**	**(3,779)**
	-10%	**-**	**-**	**-**	**-**
Change in lapse rates	**+10%**	**(40,842)**	**(17,910)**	**(40,842)**	**(17,910)**
	-10%	**-**	**-**	**-**	**-**
Change in expense assumption	**+10%**	**-**	**-**	**-**	**-**
	-10%	**-**	**-**	**-**	**-**
30/09/2012					
Change in mortality and morbidity	+10%	(3,593)	(3,593)	(3,593)	(3,593)
	-10%	1,435	1,435	1,435	1,435
Change in lapse rates	+10%	(26,523)	(15,568)	(26,523)	(15,568)
	-10%	1,435	1,435	1,435	1,435
Change in expense assumption	+10%	(616)	(616)	(616)	(616)
	-10%	616	616	616	616

		Parent			
		Profit / (loss) after tax		Equity	
	Change	Before reinsurance	After reinsurance	Before reinsurance	After reinsurance
30/09/2013					
Change in mortality and morbidity	**+10%**	**(3,908)**	**(3,071)**	**(3,908)**	**(3,071)**
	-10%	**-**	**-**	**-**	**-**
Change in lapse rates	**+10%**	**(40,842)**	**(17,910)**	**(40,842)**	**(17,910)**
	-10%	**-**	**-**	**-**	**-**
Change in expense assumption	**+10%**	**-**	**-**	**-**	**-**
	-10%	**-**	**-**	**-**	**-**
30/09/2012					
Change in mortality and morbidity	+10%	(3,014)	(3,014)	(3,014)	(3,014)
	-10%	1,435	1,435	1,435	1,435
Change in lapse rates	+10%	(26,523)	(15,568)	(26,523)	(15,568)
	-10%	1,435	1,435	1,435	1,435
Change in expense assumption	+10%	(616)	(616)	(616)	(616)
	-10%	616	616	616	616

Notes to the Financial Statements

20. 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 reported carrying amounts and fair values of all financial assets and liabilities is set out below.

	Group			
$ thousands	At amortised cost	At fair value through profit or loss	Total carrying amount	Fair value
30/09/2013				
Cash at bank	**11,593**	**-**	**11,593**	**11,593**
Securities	**-**	**221,070**	**221,070**	**221,070**
Trade and other receivables	**4,034**	**-**	**4,034**	**4,034**
Total financial assets	**15,627**	**221,070**	**236,697**	**236,697**
Payables and other liabilities	**13,191**	**-**	**13,191**	**13,191**
Total financial liabilities	**13,191**	**-**	**13,191**	**13,191**
30/09/2012				
Cash at bank	8,077	-	8,077	8,077
Securities	-	178,139	178,139	178,139
Trade and other receivables	16,074	-	16,074	16,074
Total financial assets	24,151	178,139	202,290	202,290
Payables and other liabilities	10,406	-	10,406	10,406
Life investment contract liabilities	-	1,519	1,519	1,519
Total financial liabilities	10,406	1,519	11,925	11,925

	Parent			
$ thousands	At amortised cost	At fair value through profit or loss	Total carrying amount	Fair value
30/09/2013				
Cash at bank	**6,986**	**-**	**6,986**	**6,986**
Securities	**-**	**101,582**	**101,582**	**101,582**
Trade and other receivables	**2,705**	**-**	**2,705**	**2,705**
Total financial assets	**9,691**	**101,582**	**111,273**	**111,273**
Payables and other liabilities	**8,331**	**-**	**8,331**	**8,331**
Total financial liabilities	**8,331**	**-**	**8,331**	**8,331**
30/09/2012				
Cash at bank	6,424	-	6,424	6,424
Securities	-	89,043	89,043	89,043
Trade and other receivables	12,563	-	12,563	12,563
Total financial assets	18,987	89,043	108,030	108,030
Payables and other liabilities	6,072	-	6,072	6,072
Life investment contract liabilities	-	1,519	1,519	1,519
Total financial liabilities	6,072	1,519	7,591	7,591

Notes to the Financial Statements

Estimation of fair value

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.

At 30 September 2012, the Group held mortgage backed securities with a total fair value of $392,054 and floating rate notes with a total fair value of $136,616 which were valued using inputs that were not based on observable market data. As these investments did not operate in an active liquid market, the following valuation technique(s) were adopted, and applied where appropriate, in order to determine the fair value of the individual investment:

- 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.
- 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.
- 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

For other financial assets / liabilities, which includes cash and cash equivalents, trade and other receivables and payables and other liabilities, 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 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.

"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 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 hierarchy	**Group**				**Parent**			
$ thousands	**Level 1**	**Level 2**	**Level 3**	**Total**	**Level 1**	**Level 2**	**Level 3**	**Total**
30/09/2013								
Bank deposits	**126,348**	**92,124**	**-**	**218,472**	**55,727**	**44,783**	**-**	**100,510**
New Zealand Government stock	**2,598**	**-**	**-**	**2,598**	**1,072**	**-**	**-**	**1,072**
Total financial assets held at fair value	**128,946**	**92,124**	**-**	**221,070**	**56,799**	**44,783**	**-**	**101,582**
30/09/2012								
Bank deposits[1]	106,799	66,796	-	173,595	48,930	37,894	-	86,824
New Zealand Government stock	2,642	-	-	2,642	1,114	-	-	1,114
Investments in unit trusts	-	1,105	-	1,105	-	1,105	-	1,105
Corporate debentures and other notes	-	268	529	797	-	-	-	-
Total financial assets held at fair value	109,441	68,169	529	178,139	50,044	38,999	-	89,043
Life investment contract liabilities	-	1,519	-	1,519	-	1,519	-	1,519
Total financial liabilities held at fair value	-	1,519	-	1,519	-	1,519	-	1,519

[1] Bank deposits of $106,799,000 in the Group and $48,930,000 in the Parent have been reclassified from Level 2 to Level 1 because they were Registered Certificates of Deposit (RCD) valued using quoted market prices.

Notes to the Financial Statements

Movements in level 3 valuations

$ thousands	Group 30/09/2013	30/09/2012
Opening Balance	**529**	1,590
Purchases	**-**	34
Revaluations	**116**	3
Sales	**(645)**	(1,098)
Closing balance	**-**	529

The impact on profit or loss and equity of a 10% movement in the value of the level 3 financial assets would not be material.

21. Notes to the Cash Flow Statement

$ thousands	Note	Group Year to 30/09/2013	Year to 30/09/2012	Parent Year to 30/09/2013	Year to 30/09/2012
Reconciliation of profit / (loss) after income tax to net cash flows provided by operating activities					
Profit after income tax		**24,939**	69,672	**(11,023)**	40,135
Non-cash items:					
Depreciation and amortisation	**9**	**10,238**	11,506	**96**	433
Amortisation of deferred acquisition costs		**-**	203	**-**	-
Unrealised gains / (losses) on securities		**(370)**	430	**(336)**	279
Deferrals or accruals of past or future operating cash receipts or payments:					
Change in trade and other receivables		**11,889**	11,119	**9,096**	10,302
Change in payables and other liabilities		**2,430**	(20,030)	**2,284**	(17,539)
Change in life insurance contract liabilities		**3,037**	(73,137)	**16,512**	(59,648)
Change in life investment contract liabilities		**(1,519)**	(27,707)	**(1,519)**	(730)
Change in income tax assets		**(4,568)**	51,283	**(2,346)**	41,567
Items classified as investing / financing:					
Repayment of amounts due from subsidiary	**16**	**(384)**	-	**(384)**	-
Net cash flows provided by operating activities		**45,692**	23,339	**12,380**	14,799

Notes to the Financial Statements

22. Disaggregated Information

$ thousands	30/09/2013 Investment-linked	30/09/2013 Non-investment-linked	30/09/2013 Total	30/09/2012 Investment-linked	30/09/2012 Non-investment-linked	30/09/2012 Total
Group						
Cash & securities	-	**232,663**	**232,663**	1,519	184,697	186,216
Other assets	-	**147,465**	**147,465**	-	171,101	171,101
Net policyholder assets / (liabilities)	-	**299,350**	**299,350**	(1,519)	302,387	300,868
Liabilities other than policyholder liabilities	-	**124,824**	**124,824**	-	128,470	128,470
Retained profits, attributable to shareholder	-	**185,953**	**185,953**	-	161,014	161,014
Premium revenue	-	**181,657**	**181,657**	-	173,657	173,657
Investment revenue	**304**	**6,339**	**6,643**	1,103	3,967	5,070
Claims expense	-	**63,325**	**63,325**	-	64,700	64,700
Other operating expenses	-	**102,978**	**102,978**	-	102,796	102,796
Profit before income tax	-	**17,333**	**17,333**	240	85,518	85,758
Profit after income tax	-	**24,939**	**24,939**	-	69,672	69,672
Parent						
Cash & securities	-	**108,568**	**108,568**	1,519	93,948	95,467
Other assets	-	**176,207**	**176,207**	-	186,256	186,256
Net policyholder assets / (liabilities)	-	**282,709**	**282,709**	(1,519)	299,221	297,702
Liabilities other than policyholder liabilities	-	**78,918**	**78,918**	-	79,836	79,836
Retained profits, attributable to shareholder	-	**119,865**	**119,865**	-	130,888	130,888
Premium revenue	-	**93,957**	**93,957**	-	91,488	91,488
Investment revenue	**304**	**2,964**	**3,268**	279	1,773	2,052
Claims expense	-	**37,851**	**37,851**	-	39,523	39,523
Other operating expenses	-	**59,246**	**59,246**	-	60,085	60,085
Profit before income tax	-	**(19,445)**	**(19,445)**	-	51,881	51,881
Profit after income tax	-	**(11,023)**	**(11,023)**	-	40,135	40,135

23. Commitments

As at 30 September 2012, the Parent and Group leased various offices under non-cancellable operating lease agreements with future minimum rentals payable, all within one year, of $655,000. The leases had varying terms, escalation clauses and renewal rights.

All operating leases were transferred to Arawata Assets Limited, a fellow subsidiary of ANZ Bank, on 1 October 2012. Rentals are now recovered through inter-company recharges.

24. Subsequent Events

On 13 February 2014 the Parent's Board resolved to pay an ordinary dividend of $40 million.

Appointed Actuary's Report

To the Directors of OnePath Life (NZ) Limited

This Appointed Actuary's report under Section 78 of the Insurance (Prudential Supervision) Act 2010 ("the Act") is prepared in respect of the financial statements of OnePath Life (NZ) Limited ("the Company") for the year ended 30 September 2013.

I have undertaken a review of the actuarial information (as defined in section 77(4) of the Act) contained in, and used in the preparation of, the financial statements of the Company ("the Financial Statements") as required under section 77(1) of the Act.

My review has been carried out in accordance with the *Solvency Standard for Life Insurance Businesses* issued by the Reserve Bank of New Zealand under section 55 of the Act ("the Life Solvency Standard") and with the New Zealand Society of Actuaries' Professional Standards.

In respect of my review, I confirm as follows:

(a) I, Michael Bartram FNZSA, am the Appointed Actuary for the Company under section 76(1) of the Act, and that I have prepared this report.

(b) The work that I have done to review the actuarial information contained in, or used in the preparation of the Financial Statements, includes a review of:

- (i) Information relating to the Company's calculations of premiums, claims, reserves, dividends, insurance rates, and technical provisions;
- (ii) Information relating to assessments of the probability of uncertain future events occurring and the financial implications for the Company if those events do occur;
- (iii) The Company's Policy Liability, as defined in the Life Solvency Standard;
- (iv) Reinsurance assets relevant to the Policy Liability;
- (v) The deferred tax assets or liabilities relevant to the Policy Liability;
- (vi) The deferred acquisition cost or revenue relevant to the Policy Liability;
- (vii) The analysis of the Company's profit;
- (viii) Any additional assumptions used in the calculation of the Policy Liability;
- (ix) The consistency between the New Zealand Society of Actuaries *Professional Standard 3 "Determination of Life Insurance Policy Liabilities"* and the calculated Policy liability; and
- (x) The Company's checks and controls over data and valuation processes.

(c) Other than my relationship as appointed actuary, I am an employee and customer of ANZ Bank New Zealand Limited, of which the Company is a subsidiary. I do not have any other relationship with, or interests in, the Group.

(d) I have obtained all information and explanations that I have required in order to conduct my review under section 77 of the Act.

(e) I consider that in my opinion and from an actuarial perspective:

- (i) The actuarial information contained in the Financial Statements has been appropriately included in the Financial Statements.
- (ii) The actuarial information used in the preparation of the Financial Statements has been used appropriately.

(f) I consider that in my opinion and from an actuarial perspective, the Company, as at 30 September 2013, is maintaining a solvency margin that complies with that required under the Life Solvency Standard for the purposes of section 21(2)(b) of the Act.

(g) I consider that in my opinion and from an actuarial perspective as at 30 September 2013, the Company is maintaining solvency margins that comply with those required under the Life Solvency Standard for the purposes of section 21(2)(c).

I have prepared, dated and signed this report solely in my capacity as the Company's Appointed Actuary under section 76(1) of the Act. To the fullest extent permitted by law, I do not accept responsibility to anyone other than the Reserve Bank of New Zealand, the Company, its board and shareholder for the contents of this report.

Michael Bartram
Appointed Actuary
OnePath Life (NZ) Limited
Auckland
13 February 2014

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 subsidiary, on pages 3 to 32. The financial statements comprise the statements of financial position as at 30 September 2013, 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 limited assurance services on regulatory reporting. 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 32:

- 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 2013 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 as far as appears from our examination of those records.

KPMG

13 February 2014
Auckland