

OnePath Insurance Services (NZ) Limited Annual Report

For the year ended 30 September 2011

Annual Report

For the year ended 30 September 2011

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General Matters

The address for service for the Company is Level 27, ASB Centre, 135 Albert Street, Auckland, New Zealand.

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

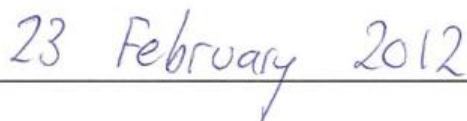
Accordingly, there is no information to be provided in this Annual Report other than the financial statements for the year to 30 September 2011 and the audit report on those financial statements.



Director



Director



Date of issue

Directors' Statement

The Financial Reporting Act 1993 requires the financial statements to be prepared for each financial year which give a true and fair view of the financial position of OnePath Insurance Services (NZ) Limited (the "Company") and of the financial performance for that period.

The directors believe that in preparing those financial statements, the officers of the Company have:

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

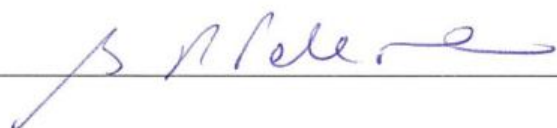
The directors confirm that accounting records have been kept that will at any time enable the financial position of the Company to be determined with reasonable accuracy and will enable the directors to ensure that the financial statements comply with the Financial Reporting Act 1993.

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

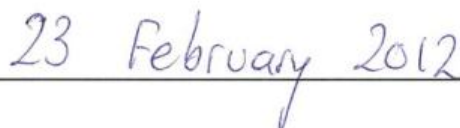
For and on behalf of the Board of Directors:



Director



Director



Date of issue

Statement of Comprehensive Income

\$ thousands	Note	Company	
		Year to 30/09/2011	Period to 30/09/2010
Premium revenue	5	72,364	51,421
Less reinsurance premium expense	5	(7,813)	(5,645)
Net premium revenue		64,551	45,776
Other operating income	6	8,369	7,977
Net revenue		72,920	53,753
Claims and surrenders	7	23,974	18,672
Less reinsurance recoveries	7	(3,379)	(6,038)
Net claims expense		20,595	12,634
Decrease in insurance contract liabilities	16	(21,289)	(7,961)
Increase in investment contract liabilities	16	558	823
Commissions and operating expenses	8	35,371	28,688
Profit before income tax		37,685	19,569
Income tax expense/(credit)	9	3,311	(139)
Profit after income tax attributable to shareholder	4	34,374	19,708
Total comprehensive income attributable to shareholder		34,374	19,708

Statement of Changes in Equity

\$ thousands	Note	Company	
		Year to 30/09/2011	Period to 30/09/2010
Ordinary share capital			
Balance at beginning of the period		1,500	1,500
Ordinary share capital issued during the period	18	-	-
Balance at end of the period	18	1,500	1,500
Retained earnings			
Balance at beginning of the period		23,196	28,488
Profit after income tax attributable to shareholder		34,374	19,708
Total available for appropriation		57,570	48,196
Dividend paid	18	(30,000)	(25,000)
Balance at end of the period		27,570	23,196
Total equity			
Balance at beginning of the period		24,696	29,988
Total comprehensive income for the year attributable to shareholder		34,374	19,708
Transactions with shareholder		(30,000)	(25,000)
Balance at end of the period		29,070	24,696

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



Balance Sheet

\$ thousands	Note	Company	
		30/09/2011	30/09/2010
Assets			
Cash and cash equivalents	10	23,550	26,611
Securities	11	58,292	66,560
Trade and other receivables	12	29,338	30,383
Current tax assets		38	483
Deferred acquisition costs		203	275
Intangible assets	13	18,093	21,360
Life insurance contract liabilities - reinsurance	16	2,149	4,187
Total assets		131,663	149,859
Liabilities			
Payables and other liabilities	14	47,097	44,421
Deferred tax liabilities	15	16,199	12,500
Life insurance contract liabilities	16	12,472	35,799
Life investment contract liabilities	16	26,825	32,443
Total liabilities		102,593	125,163
Net assets		29,070	24,696
Equity			
Ordinary share capital	18	1,500	1,500
Retained earnings		27,570	23,196
Total equity		29,070	24,696

Cash Flow Statement

		Company	
		Year to	Period to
\$ thousands	Note	30/09/2011	30/09/2010
Cash flows from operating activities			
Premium received		72,218	51,344
Reinsurance received		6,282	5,308
Commission received		4,620	3,616
Interest received		2,552	3,170
Taxes received		-	24
Claims, surrenders and maturities paid		(30,043)	(27,896)
Reinsurance paid		(7,765)	(5,605)
Commission paid		(18,130)	(16,512)
Operating expenses paid		(9,895)	(9,212)
Taxes paid		(1,517)	(878)
Net cash flows provided by operating activities	21	18,322	3,359
Cash flows from investing activities			
Proceeds from sale of investments		125,368	41,645
Purchase of investments		(116,751)	(26,229)
Net cash flows provided by investing activities		8,617	15,416
Cash flows from financing activities			
Dividends paid	18	(30,000)	(25,000)
Net cash flows used in financing activities		(30,000)	(25,000)
Net cash flows provided by operating activities		18,322	3,359
Net cash flows provided by investing activities		8,617	15,416
Net cash flows used in financing activities		(30,000)	(25,000)
Net decrease in cash and cash equivalents		(3,061)	(6,225)
Cash and cash equivalents at beginning of the period		26,611	32,836
Cash and cash equivalents at end of the period	10	23,550	26,611

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 Company's financial statements are for OnePath Insurance Services (NZ) Limited as a separate entity. The Company is an issuer for the purposes of the Financial Reporting Act 1993. The Company is incorporated and domiciled in New Zealand.

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

These financial statements have also been prepared in accordance with New Zealand Generally Accepted Accounting Practice. They comply with New Zealand equivalents to International Financial Reporting Standards ("NZ IFRS") and other applicable Financial Reporting Standards, as appropriate for profit-oriented entities. The financial statements comply with International Financial Reporting Standards ("IFRS"). The Company's registered address is Level 27, ASB Centre, 135 Albert Street, Auckland, New Zealand. The principal area of business of the Company is life insurance.

The principal accounting policies adopted in the preparation of these financial statements are set out below. These policies have been consistently applied to all periods presented in these financial statements.

(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. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable. Actual results may differ from these estimates.

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

(iii) Basis of measurement

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

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

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

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

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

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

(v) Rounding

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

(vi) Comparatives

Certain amounts in the comparative information have been reclassified to ensure consistency with the current year's presentation. Outstanding claims have been actuarially calculated in the current year and the balance of \$8,289,553 as at 30 September 2010 has been reclassified from payables and other liabilities to policyholder liabilities to ensure consistent presentation. The impact on the statement of comprehensive income has been a decrease of \$243,730 to both claims and surrenders and decrease in insurance contract liabilities. As these changes result in no amendment to net assets and there is no net impact to profit or loss, an opening balance sheet has not been presented.

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

(vii) Change in balance date

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

Notes to the Financial Statements

(viii) Foreign currency translation

a. Functional and presentation currency

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

b. Foreign currency transactions

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

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

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

B. Revenue recognition

Income is recognised to the extent that it is probable that economic benefits will flow to the Company 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 policyholder liabilities. For insurance contract business, all premiums are recognised as revenue.

a. Life insurance premiums

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

b. Life investment premiums

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

(ii) Fee income

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

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

(iii) Commission income

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

(iv) Reinsurance contracts

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

(v) Interest income

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

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

(vi) Dividend income

Dividends are recognised as revenue when the right to receive payment is established.

(vii) Realised and unrealised gains / (losses)

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

Notes to the Financial Statements

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 of the life insurance companies business, including costs of issuing new business, salaries and related costs and other operating expenses which include, for example, office accommodation costs.

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

Basis of expense apportionment

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

a. Acquisition expenses

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

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

b. Maintenance expenses

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

c. Investment management expenses

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

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

(iii) Interest expenses

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

(iv) Lease payments

Leases entered into by the Company 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

Notes to the Financial Statements

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, except when it relates to items credited directly to equity, in which case it is recorded in equity, or where it arises from the initial accounting for a business combination, in which case it is included in the determination of goodwill. Refer to Note 9 for changes to life insurance tax rules.

(ii) Current tax

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

(iii) Deferred tax

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

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

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

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

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

This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss at inception. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management. The Company's financial assets at fair value through profit or loss comprise cash and cash equivalents and securities in the balance sheet. Securities held to back policyholder 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. Refer to details in Note 20.

Notes to the Financial Statements

(ii) Loans and receivables

Loans and receivables are non derivative financial assets with fixed or determinable payments that are not quoted in an active market other than those the Company has designated as at fair value through profit or loss. The Company's loans and receivables comprise 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. The current value less impairment provision of trade and other receivables are assumed to approximate their fair value.

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

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

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

(iii) Derecognition

The Company 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 Company derecognises the asset if control over the asset is lost. In transfers where control over the asset is retained, the Company continues to recognise the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset. The rights and obligations retained or created in the transfer are recognised separately as assets and liabilities as appropriate.

Non-financial assets

(i) Other intangible assets

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

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

Management rights represent the contractual rights of the Company to have the first right of refusal in providing insurance products for the ANZ National Bank Limited and are initially measured at cost. As part of acquiring these rights, the Company 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". The remaining amortisation period is 3 – 12 years.

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

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

F. Policyholder assets / liabilities

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

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

All contracts that do not meet the definition of an insurance contract are referred to as life investment contracts. Life investment contract business relates to funds management products in which the Company issues a contract where the resulting liability to policyholders is linked to the performance and value of the assets that back those liabilities. Whilst the underlying assets are registered in the name of the Company and the policyholder has no direct access to the specific assets, the contractual arrangements are such that the policyholder bears the risks and rewards of the fund's investment

Notes to the Financial Statements

performance with the exception of guaranteed products where the policyholder is guaranteed a minimum return or asset value. The Company derives fee income from the administration of the underlying assets.

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

Determination of policyholder liabilities

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

(i) Life insurance liabilities

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

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

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

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

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

a. Planned margins of revenues over expenses

At the time of writing a policy and at each balance date, best estimate assumptions are used to determine all expected future payments and premiums. Where actual experience replicates best estimate assumptions, the expected profit margins will be released to profit over the life of the policy.

b. The difference between actual and assumed experience

Experience profits or losses are realised where actual experience differs from best estimate assumptions. Instances giving rise to experience profits or losses include variations in claims, expenses, mortality, discontinuance and investment returns. For example, an experience profit will emerge when the expenses of maintaining all in-force business in a period are lower than the best estimate assumption in respect of those expenses.

c. Changes to underlying assumptions

Assumptions used for measuring policyholder 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.

d. Investment earnings on assets in excess of policyholder liabilities

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

e. Term and other liabilities

Term and other liabilities are recognised in the balance 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.

(ii) Life investment liabilities

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

Notes to the Financial Statements

G. Reinsurance

As the reinsurance agreements provide for indemnification of the Company 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 payable by the Company is recognised separately from policyholder liabilities 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 Company 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

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

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

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

(ii) Other financial liabilities

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

(iii) Derecognition

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

Non-financial liabilities

(i) Employee benefits

a. Short-term employee benefits

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

b. Employee leave benefits

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

(ii) Provisions

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

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

I. Equity

(i) Shares

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

(ii) Dividends

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

Notes to the Financial Statements

J. Presentation

(i) Offsetting of income and expenses

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

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

(ii) Offsetting of financial assets and liabilities

Assets and liabilities are offset and the net amount reported in the balance 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) Cash flow statement

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

(iv) Goods and Services Tax

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

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

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

K. Other

(i) Contingent liabilities

Contingent liabilities acquired in a business combination are individually measured at fair value at the acquisition date. At subsequent reporting dates the value of such contingent liabilities is reassessed based on the estimate of expenditure required to settle the contingent liability.

Other contingent liabilities are not recognised in the balance sheet but disclosed in Note 24 unless it is considered remote that the Company will be liable to settle the possible obligation.

(ii) Accounting Standards not early adopted

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

Standards and amendments effective for periods commencing after 1 January 2013

NZ IFRS 9 Financial Instruments (2009 & 2010)

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

NZ IFRS 13 Fair value measurement

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

Other amendments

Improvements to New Zealand equivalents to International Financial Reporting Standards 2010

Is the International Accounting Standards Board's annual omnibus updates of standards.

Notes to the Financial Statements

2. Critical Estimates and Judgement Used in Applying Accounting Policies

These financial statements are prepared in accordance with NZ IFRS. However, there are a number of critical accounting treatments which include complex or subjective judgements and estimates that may affect the reported amounts of assets and liabilities in the financial statements. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

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

Critical accounting estimates and assumptions

Life Insurance Business

(i) Insurance contract liabilities

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

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

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

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

(ii) Fair value of investment contracts

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

(iii) Assets arising from reinsurance contracts

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

Critical judgements in applying the Company's accounting policies

(i) Management rights

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

(ii) Deferred tax

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

Where the expected tax outcomes of these matters is different from the amounts that were initially recorded, such differences will impact the reported profit or loss and current and deferred tax amounts in the period in which such determination is made. Given the complexity of life insurance tax legislation and assumptions involved, material adjustments to income tax expenses in future years may be required.

Notes to the Financial Statements

3. Summary of Significant Actuarial Methods and Assumptions

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

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

The key assumptions used in determining the policyholder liabilities are detailed below.

Profit carriers

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

Discount rates

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

Inflation

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

Future expenses and indexation

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

Asset mix

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

Asymmetric risks

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

Rates of taxation

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

Mortality and morbidity

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

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

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 rates of discontinuance are between 1% to 35% (2010: 1% to 35%).

Surrender values

Surrender values are based on the provisions specified in the policy contracts and include a recovery of policy establishment and maintenance costs. It is assumed that the current surrender value bases will be maintained.

Rates of growth in unit prices

Unit prices are assumed to grow at the assumed investment earnings rate for the relevant asset pool, less tax and applicable management charges.

Participating business

The Company does not issue participating business.

Solvency Requirement

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

Notes to the Financial Statements

The method and bases used for determining the solvency requirements are in accordance with the *New Zealand Society of Actuaries Professional Standard No. 5.01: Solvency Reserving for Life Insurance ("PS5.01")*.

Impact of changes in assumptions

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

	Company		
	Change in future profit margins	Change in insurance contract liabilities	Change in shareholder's profit & equity
\$ thousands			
30 September 2011			
Assumption change - increase/(decrease)			
Mortality and morbidity	(155)	172	(124)
Discontinuance rates	(4,162)	-	-
Maintenance expenses	8,287	1,554	(1,119)
Other assumptions	454	(502)	361
Total	4,424	1,224	(882)
30 September 2010			
Assumption change - increase/(decrease)			
Mortality and morbidity	5,354	-	-
Discontinuance rates	(1,842)	-	-
Maintenance expenses	(3,087)	-	-
Other assumptions	17,950	-	-
Total	18,375	-	-

4. Sources of Profit

	Company	
	Year to 30/09/2011	Period to 30/09/2010
\$ thousands		
Life Insurance		
Planned margins of revenues over expenses	23,618	20,000
Difference between actual and assumed experience	6,716	(2,125)
Loss recognition	(521)	-
Effects of changes in underlying assumptions	(832)	(3,320)
	28,981	14,555
Investment earnings on assets in excess of policy liabilities	2,281	3,094
Other movements		
Business valued on accumulation basis	1,842	1,364
Inwards commission	3,321	2,191
Amortisation of management rights	(2,051)	(1,496)
	3,112	2,059
Profit after taxation	34,374	19,708

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

Notes to the Financial Statements

5. Premium Revenue

\$ thousands	Note	Company	
		Year to 30/09/2011	Period to 30/09/2010
Single premiums		7,754	6,605
Regular premiums		64,636	44,842
Less savings component transferred to policyholder liabilities	16	(26)	(26)
Premium revenue disclosed in statement of comprehensive income		72,364	51,421
Reinsurance premium expense		(7,813)	(5,645)
Net premium revenue disclosed in statement of comprehensive income		64,551	45,776

6. Other Operating Income

\$ thousands	Note	Company	
		Year to 30/09/2011	Period to 30/09/2010
Debt securities		3,682	4,421
Interest income on cash and cash equivalents		74	54
Total investment revenue		3,756	4,475
Total interest income		3,781	3,216
Total realised and unrealised gains / (losses) on financial assets at fair value through profit or loss		(25)	1,259
		3,756	4,475
Commission income	17	4,613	3,502
Total other revenue		8,369	7,977

7. Claims and Surrenders

\$ thousands	Note	Company	
		Year to 30/09/2011	Period to 30/09/2010
Death and disability		21,278	15,859
Surrenders		8,898	12,049
Less savings component transferred from policyholder liabilities	16	(6,202)	(9,236)
Claims expense disclosed in statement of comprehensive income		23,974	18,672
Reinsurance recoveries		(3,379)	(6,038)
Net claims expense disclosed in statement of comprehensive income		20,595	12,634

Notes to the Financial Statements

8. Commissions and Operating Expenses

		Company	
		Year to	Period to
\$ thousands	Note	30/09/2011	30/09/2010
Acquisition costs			
Commissions		14,868	12,895
Operating expenses		4,706	3,132
Total acquisition costs		19,574	16,027
Maintenance costs			
Commissions		4,071	3,183
Operating expenses		9,093	6,054
Total maintenance costs		13,164	9,237
Investment management costs		106	120
Other operating expenses		2,527	3,304
Total Commissions and Operating Expenses		35,371	28,688
Operating expenses includes the following specific items:			
Wages and salaries		3,360	2,602
Head office recharges		5,784	3,763
Amortisation	13	3,267	2,488
Printing and stationery		928	119
Operating lease charges		271	232
Other		2,716	3,286
		16,326	12,490

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

\$ thousands	Company	
	Year to 30/09/2011	Period to 30/09/2010
Fees paid to principal auditors		
Audit of financial statements	127	127
Other audit-related services	7	8
Total auditors' remuneration	134	135
Other fees paid to other audit firms	55	(5)

It is the Company'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

9. Income Tax Expense / (Credit)

	Company	
	Year to 30/09/2011	Period to 30/09/2010
\$ thousands		
Reconciliation of the prima facie income tax payable on profit		
Profit before income tax	37,685	19,569
Prima facie income tax at 30%	11,306	5,871
Non-assessable policyholder income and expenses	569	(4,352)
Effect of new life tax regime	(7,663)	(2,020)
Effect of change in tax rate	(292)	(893)
Non-deductible expenses	148	1,255
	4,068	(139)
Income tax over provided in prior years	(757)	-
Total income tax expense / (credit)	3,311	(139)
Effective tax rate (%)	8.8%	-0.7%
Amounts recognised in the statement of comprehensive income		
Current income tax charge		
Current income tax credit	(39)	(482)
Adjustments recognised in the current year in relation to current tax of prior years	(349)	-
Deferred income tax		
Deferred tax expense relating to the origination and reversal of temporary differences	4,107	343
Adjustments recognised in the current year in relation to deferred tax of prior years	(408)	-
Total income tax expense / (credit) recognised in the statement of comprehensive income	3,311	(139)

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

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

Impact of life tax changes

(i) Taxation for life insurers

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

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

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

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

Notes to the Financial Statements

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

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

Policyholder tax base

Under the new life insurance tax regime, the policyholder tax base no longer exists and any policyholder tax base losses calculated under that base are forfeited as they are not able to be carried forward into the new regime. As at 30 June 2010 (the last date of the old life insurance tax regime), the Company had policyholder tax base losses of \$443.4 million.

Changes in tax legislation

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

10. Cash and Cash Equivalents

	Company	
	30/09/2011	30/09/2010
\$ thousands		
Cash	2,157	4,188
Short term deposits	21,393	22,423
	23,550	26,611

11. Securities

	Company	
	30/09/2011	30/09/2010
\$ thousands		
Financial assets held at fair value through profit or loss		
Debt securities		
New Zealand Government Stock	27,639	22,078
Corporate Debentures and Other Notes	30,653	44,482
Total financial assets at fair value through profit or loss	58,292	66,560
Maturity analysis of debt securities:		
- Less than one year	38,738	10,047
- One year to two years	1,225	29,511
- Two years to five years	12,457	16,580
- Later than five years	5,872	10,422
Total debt securities	58,292	66,560

A liquidity profile is presented as this reflects the contractual maturity of the debt securities held by the Company.

Of the total holdings in New Zealand Government Stock, \$1 million is held on the Company's behalf by the Public Trustee as authorised deposits under the Life Insurance Act 1908 and the Insurance Companies' Deposits Act 1953.

12. Trade and Other Receivables

		Company	
	Note	30/09/2011	30/09/2010
\$ thousands			
Receivables from related parties	17	1,168	-
Subordinated loan to Immediate Parent	17	25,000	25,000
Reinsurance recoverable		451	3,354
Outstanding premiums		1,420	1,491
Sundry debtors		437	531
Accrued interest		862	7
		29,338	30,383
Current		29,338	5,383
Non-current		-	25,000
		29,338	30,383

On 30 June 2009, the Company provided the Immediate Parent with a \$25m subordinated loan facility, this was drawn down in two instalments, \$15m on 30 June 2009 and \$10m on 30 September 2009. Interest is payable on the loan at an

Notes to the Financial Statements

applicable interest rate, only if demanded by the Company. The outstanding loan balance plus interest (if applicable) is repayable on demand, provided it would not cause the Immediate Parent to breach PS5.01. No interest has been charged during the current year (2010: nil). As at 30 September 2010, the Company did not expect to require repayment of this loan in the twelve months post year end and consequently this was classed as a non-current asset. As part of the transition to the new solvency requirements under the Insurance (Prudential Supervision) Act 2010, the Company and the Immediate Parent are considering options to ensure continued solvency under the new regime including replacing subordinated debt issued between the related parties with additional share capital and consequently the subordinated debt is now classed as a current asset.

There are currently no doubtful or impaired debtor balances and so the allowance account is currently nil (2010: nil). There are currently no material past due but not impaired balances (2010: not material).

13. Intangible Assets

\$ thousands	Note	Company	
		30/09/2011	30/09/2010
Management Rights			
At cost		30,559	30,559
Accumulated amortisation		(9,976)	(7,838)
Net balance at the beginning of the year		20,583	22,721
Amortisation	8	(2,850)	(2,138)
At cost		30,559	30,559
Accumulated amortisation		(12,826)	(9,976)
Net balance at the end of the year		17,733	20,583
Computer Software			
At cost		1,429	1,429
Accumulated amortisation		(652)	(302)
Net balance at the beginning of the year		777	1,127
Amortisation	8	(417)	(350)
At cost		1,429	1,429
Accumulated amortisation		(1,069)	(652)
Net balance at the end of the year		360	777
Capital work in progress			
Net balance at the beginning of the year - at cost		-	64
Disposals		-	(64)
Net balance at the end of the year		-	-
Total Intangible Assets		18,093	21,360

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

14. Payables and Other Liabilities

\$ thousands	Note	Company	
		30/09/2011	30/09/2010
Payables to related parties	17	43,858	42,069
Reinsurance payable		695	630
Premiums in advance		961	971
Accruals		784	538
Other payables		799	213
		47,097	44,421

Notes to the Financial Statements

15. Deferred Tax Assets and Liabilities

	Company	
	30/09/2011	30/09/2010
\$ thousands		
Deferred tax assets / (liabilities)		
Balance at beginning of the period	(12,500)	(12,157)
Credited to the statement of comprehensive income ¹	(3,699)	(343)
Balance at end of the period	(16,199)	(12,500)
Deferred tax assets / (liabilities) comprise the following temporary differences:		
Provisions and accruals	105	256
Carried forward losses	5,412	5,098
Other deferred tax assets	117	72
Policyholder liabilities	(16,867)	(12,070)
Management rights	(4,965)	(5,763)
Other deferred tax liabilities	(1)	(93)
Net deferred tax assets / (liabilities) ²	(16,199)	(12,500)
Deferred tax credited / (charged) to the statement of comprehensive income comprises the following temporary differences:		
Provisions and accruals	(162)	869
Carried forward losses	314	-
Other deferred tax assets	48	342
Policyholder liabilities	(5,143)	(2,987)
Management rights	853	641
Other deferred tax liabilities	99	(101)
Change in tax rate	292	893
	(3,699)	(343)

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

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

Notes to the Financial Statements

16. Policyholder Liabilities

\$ thousands	Company	
	30/09/2011	30/09/2010
Life insurance contract liabilities contain the following components:		
Future policy benefits	157,794	142,947
Future expenses	47,892	49,193
Planned margins of revenues over expenses	189,152	150,602
Future premiums	(384,515)	(311,130)
Total life insurance contract liabilities, net of reinsurance	10,323	31,612
Estimated discounted net cash inflows from insurance contract liabilities		
- Less than one year	(3,517)	(422)
- One year to five years	(2,338)	4,852
- Later than five years	16,178	27,182
Total insurance contract liabilities future net cash inflows	10,323	31,612

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

\$ thousands	Company	
	30/09/2011	30/09/2010
Reconciliation of movements in policy liabilities		
Insurance contract liabilities		
Opening insurance contract liabilities	35,799	42,023
Recognised in statement of comprehensive income	(23,327)	(6,224)
Closing insurance contract liabilities	12,472	35,799
Current	4,573	8,298
Non-current	7,899	27,501
	12,472	35,799
Liabilities ceded under reinsurance		
Opening insurance contract liabilities - reinsurance	(4,187)	(2,450)
Recognised in statement of comprehensive income	2,038	(1,737)
Closing insurance contract liabilities - reinsurance	(2,149)	(4,187)
Current	(34)	(384)
Non-current	(2,115)	(3,803)
	(2,149)	(4,187)
Investment contract liabilities		
Opening investment contract liabilities	32,443	40,983
Recognised in statement of comprehensive income	558	823
Deposit premiums recognised as a change in life investment contract liabilities	26	26
Claims recognised as a change in life investment contract liabilities	(6,202)	(9,236)
Decrease in asset deficiency	-	(153)
Closing investment contract liabilities	26,825	32,443
Current	26,825	32,443
Non-current	-	-
	26,825	32,443
Investment linked contracts - portion subject to investment performance guarantees	26,825	32,443

Notes to the Financial Statements

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

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

17. Related Party Transactions

	Company	
	Year to 30/09/2011	Period to 30/09/2010
\$ thousands		
Key management personnel		
Salaries and short-term employee benefits	290	180
Total compensation of key management personnel	290	180

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

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

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

Transactions with related parties

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

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

	Company	
	Year to 30/09/2011	Period to 30/09/2010
\$ thousands		
Operating income		
Interest received from ANZ National Bank Limited	138	426
Commissions received from ANZ National Bank Limited	4,608	3,498
Commissions received from Immediate Parent	5	4
Operating expenses		
Commissions paid to ANZ National Bank Limited	(18,904)	(15,980)
Bank charges paid to ANZ National Bank Limited	(343)	(236)
Operating expenses paid to ANZ National Bank Limited	(27)	(56)
Operating expenses paid to fellow subsidiaries in the New Zealand Consolidated Group	(6,232)	(4,106)
Other transactions		
Dividend paid to Immediate Parent	(30,000)	(25,000)
Tax loss offset received from fellow subsidiaries	832	-

Notes to the Financial Statements

Balances with related parties

\$ thousands	Company	
	30/09/2011	30/09/2010
Cash and cash equivalents held with ANZ National Bank Limited	9,442	9,105
Due from ANZ National Bank Limited	288	-
Due from fellow subsidiaries in the New Zealand Consolidated Group	880	17
Due from Immediate Parent	25,000	24,983
Total due from related parties	35,610	34,105
Due to ANZ National Bank Limited	(1,828)	(794)
Due to fellow subsidiaries in the New Zealand Consolidated Group	(32,940)	(32,196)
Due to Immediate Parent	(11)	-
Due to Intermediate Parent	(9,079)	(9,079)
Total due to related parties	(43,858)	(42,069)

Balances due from / to related parties are unsecured, payable on demand, interest free and settlement occurs in cash, with the exception of the receivable due from the Immediate Parent.

18. Ordinary Share Capital

Number of shares	Company	
	30/09/2011	30/09/2010
Ordinary shares at beginning of the year	1,500,000	1,500,000
Ordinary shares at end of the year	1,500,000	1,500,000
\$ thousands		
Ordinary share capital at beginning of the year	1,500	1,500
Ordinary share capital at end of the year	1,500	1,500

All shares are fully paid and share equally in dividends and any proceeds available to ordinary shareholders on winding up of the Company. 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.

A dividend of \$30,000,000 (2010: \$25,000,000) or \$20.00 per share (2010: \$16.67 per share) was paid in the year ended 30 September 2011.

19. Financial Risk Management

Strategy in using financial instruments

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

Market risk

Market risk is the risk to the Company'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 Company. The SIPO also contains the investment mandate which is used to establish asset classes and weightings that the investment portfolio is expected to hold. The investment manager is charged with the responsibility for maintaining investment holdings within these designated asset classes. The SIPO, including the investment mandate, is reviewed at least annually.

Price risk

Price risk arises from the Company's investments in equity securities. As at 30 September 2011 the Company holds no equity securities (2010: nil).

Notes to the Financial Statements

Currency risk

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

Interest rate risk

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

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

Interest rate sensitivity

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

	Company			
	30/09/2011		30/09/2010	
\$ thousands	+ 1%	- 1%	+ 1%	- 1%
Cash and cash equivalents	(35)	36	(17)	17
Debt securities	(572)	613	(492)	492
Life insurance contract liabilities, net of reinsurance	517	(480)	1,552	(1,618)

Credit risk

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

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

The Company manages its exposure to credit risk by investing and transacting with high credit quality financial institutions and sovereign bodies. The Company 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 Company 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 Company. The maximum exposure of the Company to credit risk at balance date is the carrying value of its trade and other receivables and fair values of debt securities shown in Note 20.

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

	Company	
	30/09/2011	30/09/2010
New Zealand Government Stock	25.2%	18.0%
OnePath Life (NZ) Limited	22.3%	20.4%
ANZ National Bank Limited	8.4%	7.4%
ASB Bank Limited	8.0%	6.9%
Westpac Banking Corporation Limited	3.7%	6.5%

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

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

Notes to the Financial Statements

Liquidity risk

The Company 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 Company's actuary to ensure that the Company continues to meet its solvency requirements. If required, The Company also receives injections of capital from its parent.

The maturity profile for the Company's insurance contract liabilities is shown within Note 16. The table below summarises the maturity profile for all other financial liabilities of the Company based on contractual undiscounted payments:

\$ thousands		Company			
		On demand	Less than 3 months	3 to 12 months	1 to 5 years
30 September 2011					
Payables and other liabilities	47,097	-	-	-	
Life investment contract liabilities	26,825	-	-	-	
30 September 2010					
Payables and other liabilities	44,421	-	-	-	
Life investment contract liabilities	32,443	-	-	-	

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 Company'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 Company's objectives in managing risks arising from the insurance business are:

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

Risk strategy

In compliance with contractual and regulatory requirements, a strategy is in place to meet the contractual terms of the policy whilst not adversely affecting the Company's ability to pay benefits and claims when due. The strategy involves the identification of risks by type, impact and likelihood, the implementation of processes and controls to mitigate the risks, and continuous monitoring and improvement of the procedures in place to minimise the chance of an adverse compliance or operational risk 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 Company's risk management strategy.

Methods to limit or transfer insurance risk exposures

In an effort to protect and enhance shareholder value, the Company actively manages its exposure to risks so that it can react in a timely manner to changes in financial markets 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 Company 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 Company's reinsurance programme to provide a central view of the Company'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 rating 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 Company's underwriting manual. Such procedures include limits to delegated authorities and signing powers.
- Claims management – Strict claims management procedures are in place to assist in the timely and correct payment of claims in accordance with policy conditions.
- Asset and liability management techniques – Assets are allocated to different classes of business using a risk based approach. Duration analysis is primarily used for interest-sensitive products and policies with long-term fixed payout patterns.

Notes to the Financial Statements

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 Company has minimal exposure to such arrangements.

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

	Company			
	As at 30/9/2011		As at 30/9/2010	
	Before reinsurance	After reinsurance	Before reinsurance	After reinsurance
Sum Assured (\$000)				
0 - 50	5.6%	8.0%	6.7%	10.0%
50 - 150	31.2%	35.5%	31.3%	34.6%
150 - 250	26.0%	29.2%	26.4%	29.1%
250 - 500	29.6%	24.4%	28.6%	23.8%
More than 500	7.6%	2.9%	7.0%	2.5%
	100.0%	100.0%	100.0%	100.0%

Terms and conditions of insurance contracts

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

Type of contract	Non-participating life insurance contracts with fixed and guaranteed terms (term life and disability)
Detail of contract terms and conditions	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.
Nature of compensation for claims	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.
Key variables that affect the timing and uncertainty of future cash flows	<ul style="list-style-type: none"> - 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:

	Change	Company			
		Profit/(loss) Before reinsurance	After reinsurance	Equity Before reinsurance	After reinsurance
30 September 2011					
Change in mortality and morbidity	+10%	(1,642)	(1,618)	(1,642)	(1,618)
	-10%	245	245	245	245
Change in lapse rates	+10%	(482)	(482)	(482)	(482)
	-10%	68	68	68	68
Change in expense assumption	+10%	(716)	(716)	(716)	(716)
	-10%	291	291	291	291
30 September 2010					
Change in mortality and morbidity	+10%	-	-	-	-
	-10%	-	-	-	-
Change in lapse rates	+10%	-	-	-	-
	-10%	-	-	-	-
Change in expense assumption	+10%	-	-	-	-
	-10%	-	-	-	-

Notes to the Financial Statements

Allocation of Capital

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

Capital management

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

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

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

Solvency

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

\$ thousands	Company	
	30/09/2011	30/09/2010
Equity retained for solvency purposes		
Equity of shareholder	29,070	24,696
Less: Equity retained for solvency purposes	(15,108)	(5,482)
Equity available for distribution	13,962	19,214

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

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

	Company	
	30/09/2011	30/09/2010
Mortality	10.0%	10.0%
Total and permanent disability	20.0%	20.0%
Trauma	30.0%	30.0%
Disability income future claims	50.0%	50.0%
Maintenance expenses	2.5%	2.5%
Voluntary discontinuance	25.0%	25.0%

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 carrying amounts, as reported in the balance sheet, and fair values of all financial assets and liabilities is set out below.

\$ thousands	Company		Total	Fair value
	At amortised cost	At fair value through profit or loss		
Carrying amount				
30 September 2011				
Cash and cash equivalents	-	23,550	23,550	23,550
Securities	-	58,292	58,292	58,292
Trade and other receivables	29,338	-	29,338	29,338
Total financial assets	29,338	81,842	111,180	111,180
Payables and other liabilities	47,097	-	47,097	47,097
Life investment contract liabilities	-	26,825	26,825	26,825
Total financial liabilities	47,097	26,825	73,922	73,922
30 September 2010				
Cash and cash equivalents	-	26,611	26,611	26,611
Securities	-	66,560	66,560	66,560
Trade and other receivables	30,383	-	30,383	30,383
Total financial assets	30,383	93,171	123,554	123,554
Payables and other liabilities	44,421	-	44,421	44,421
Life investment contract liabilities	-	32,443	32,443	32,443
Total financial liabilities	44,421	32,443	76,864	76,864

Estimation of fair value

(i) Securities

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

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

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

a) Broker quotes

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

b) Margin over swap

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

c) Floating Rate Note ("FRN") calculator

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

(ii) Other financial assets / liabilities

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

Notes to the Financial Statements

Valuation hierarchy

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

Valuation technique

\$ thousands	Company			
	Level 1	Level 2	Level 3	Total
30 September 2011				
Cash and cash equivalents	2,157	21,393	-	23,550
New Zealand Government Stock	27,639	-	-	27,639
Corporate Debentures and Other Notes	4,117	24,946	1,590	30,653
Total financial assets held at fair value	33,913	46,339	1,590	81,842
Life investment contract liabilities	-	26,825	-	26,825
Total financial liabilities held at fair value	-	26,825	-	26,825
30 September 2010				
Cash and cash equivalents	4,188	22,423	-	26,611
New Zealand Government Stock	22,078	-	-	22,078
Corporate Debentures and Other Notes	4,416	37,408	2,658	44,482
Total financial assets held at fair value	30,682	59,831	2,658	93,171
Life investment contract liabilities	-	32,443	-	32,443
Total financial liabilities held at fair value	-	32,443	-	32,443

Movements in level 3 valuations

\$ thousands	Company	
	30/09/2011	30/09/2010
Opening balance	2,658	2,999
Purchases	58	286
Revaluations	(65)	120
Sales	(1,061)	(747)
Closing balance	1,590	2,658

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

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

Notes to the Financial Statements

21. Notes to the Cash Flow Statements

\$ thousands	Note	Company	
		Year to 30/09/2011	Period to 30/09/2010
Reconciliation of profit after income tax to net cash flows provided by / (used in) operating activities			
Profit after income tax		34,374	19,708
Non-cash items:			
Amortisation of software and management rights	13	3,267	2,488
Amortisation of deferred acquisition costs		72	71
Unrealised gains on investments		(349)	(1,302)
Deferrals or accruals of past or future operating cash receipts or payments:			
Change in trade and other receivables		1,045	(875)
Change in payables and other liabilities		2,676	64
Change in intangible assets		-	64
Deposit premiums recognised as a change in life investment contract liabilities		26	26
Claims recognised as a change in life investment contract liabilities		(6,202)	(9,236)
Decrease in asset deficiency		-	(153)
Change in life insurance contract liabilities		(21,289)	(8,205)
Change in life investment contract liabilities		558	823
Change in income tax assets		4,144	(114)
Net cash flows used in operating activities		18,322	3,359

22. Disaggregated Information

\$ thousands	30/09/2011		Company			Total
	Investment-linked	Non-investment-linked	Total	Investment-linked	Non-investment-linked	
Investment assets	25,939	55,903	81,842	30,860	62,311	93,171
Other assets	1,047	46,625	47,672	1,511	50,990	52,501
Net policyholder liabilities	26,825	10,323	37,148	32,443	31,612	64,055
Liabilities other than policyholder liabilities	174	63,122	63,296	(72)	56,993	56,921
Retained profits, attributable to shareholder	-	27,570	27,570	-	23,196	23,196
Premium revenue	-	72,364	72,364	-	51,421	51,421
Investment revenue	1,684	2,072	3,756	1,408	3,067	4,475
Claims expense	-	23,974	23,974	-	18,672	18,672
Other operating expenses	-	35,371	35,371	7	28,681	28,688
Operating surplus / (deficit) before tax	353	37,332	37,685	(460)	20,029	19,569
Operating surplus / (deficit) after tax	(13)	34,387	34,374	-	19,708	19,708

Notes to the Financial Statements

23. Commitments

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

\$ thousands	Company	
	30/09/2011	30/09/2010
Less than one year	423	365
One year to five years	107	540
	530	905

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

The Company has no capital commitments at 30 September 2011 (2010: nil).

24. Contingent Liabilities

The Company has no contingent liabilities at 30 September 2011 (2010: nil).

25. Subsequent Events

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



Independent auditor's report

To the shareholder of OnePath Insurance Services (NZ) Limited

Report on the financial statements

We have audited the accompanying financial statements of OnePath Insurance Services (NZ) Limited ("the company") on pages 3 to 33. The financial statements comprise the statement of financial position as at 30 September 2011, the statements of comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' responsibility for the financial statements

The directors are responsible for the preparation of 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 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 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the 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's preparation of the financial statements that give a true and fair view of the matters to which they relate in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates, as well as evaluating the 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 in relation to other audit related services. Subject to certain restrictions, partners and employees of our firm may also deal with the company on normal terms within the ordinary course of trading activities of the business of the company. These matters have not impaired our independence as auditor of the company. The firm has no other relationship with, or interest in, the company.

Opinion

In our opinion the financial statements on pages 3 to 33:

- 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 as at 30 September 2011 and of its financial performance and cash flows 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 Insurance Services (NZ) Limited as far as appears from our examination of those records.



20 March 2012

Auckland