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# Westpac Life-NZ-Limited

## Financial statements

For the year ended 30 September 2009

NPC# 09

16 MAR 2010

# Westpac Life-NZ-Limited

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This financial report covers Westpac Life-NZ-Limited as an individual entity. The financial report is presented in New Zealand dollars.  
Westpac Life-NZ-Limited is a company limited by shares, incorporated and domiciled in New Zealand. Its registered office is:

Level 15  
PwC Tower  
188 Quay Street  
Auckland

The financial report was authorised for issue by the directors on 23 February 2010.

# Westpac Life-NZ-Limited

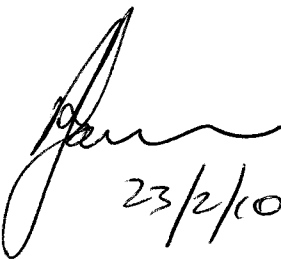
## Directors' statement

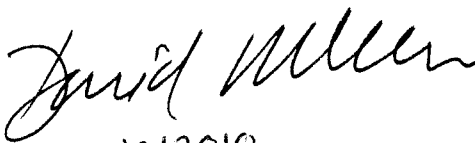
Each Director of Westpac Life-NZ-Limited ("the Company") believes, after due enquiry that, as at the date on which this set of financial statements is signed:

- (i) the financial statements and notes set out on pages 3 to 25 give a true and fair view of Westpac Life-NZ-Limited's financial position as at 30 September 2009;
  - (ii) proper accounting records have been kept which enable, with reasonable accuracy, the determination of the financial position and financial performance of the Company and facilitate compliance of the financial statements and notes set out on pages 3 to 25 with the Financial Reporting Act 1993; and
  - (iii) there are reasonable grounds to believe that Westpac Life-NZ-Limited will be able to pay its debts as and when they become due and payable.
- This statement is made in accordance with a resolution of the Directors.

The shareholders of the Company have exercised their rights under section 211(3) of the Companies Act 1993 and unanimously agreed that the annual report need not comply with any of the paragraphs (a) and (e) to (j) of subsection (1) of section 211 of the Act.

This Directors' Statement has been signed by two of the Directors:

Director  23/2/10.

Director   
Date: 23/2/2010

# Westpac Life-NZ-Limited

**Income statement** for the year ended 30 September 2009

	Note	2009 \$'000	2008 \$'000
Insurance premium revenue	6	85,395	79,004
Outwards reinsurance premium expense		(9,097)	(8,205)
<b>Net premium revenue</b>		76,298	70,799
Investment income	6	5,264	4,290
Fee income and other income	6	12,132	9,820
<b>Net revenue</b>		93,694	84,909
Insurance claims and rebate expense		(35,545)	(32,883)
Reinsurance recoveries revenue	6	6,145	5,860
<b>Net claims expenses</b>		(29,400)	(27,023)
Changes in policy liabilities	13	4,686	6,465
Other operating expenses	7	(35,762)	(34,542)
<b>Net claims and expenses</b>		(60,476)	(55,100)
<b>Profit before income tax</b>		33,218	29,809
Income tax expense	8	(1,792)	(324)
<b>Profit after income tax for the year</b>		31,426	29,485
<b>Attributable to:</b>			
Shareholders of the Company		31,426	29,485
<b>Profit for the year</b>		31,426	29,485

The above income statement should be read in conjunction with the accompanying notes.

# Westpac Life-NZ-Limited

## Statement of changes in equity for the year ended 30 September 2009

	Note	2009 \$'000	2008 \$'000
Total equity at the beginning of the year		75,202	67,717
Profit after income tax for the year		31,426	29,485
<b>Total recognised income and expense for the year</b>		<b>31,426</b>	<b>29,485</b>
Share issued	17	20,520	-
Dividends paid	18	(30,520)	(22,000)
<b>Total equity at the end of the year</b>		<b>96,628</b>	<b>75,202</b>

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

# Westpac Life-NZ-Limited

**Balance sheet** as at 30 September 2009

	Note	2009 \$'000	2008 \$'000
<b>Assets</b>			
Cash and cash equivalents with related entities		593	416
Financial assets at fair value through profit or loss	10	101,126	81,521
Due from related entities	19	27	19
Reinsurance recoveries receivable		5,674	6,116
Current tax assets		-	842
Deferred tax assets	11	102	-
Other assets		1,175	1,839
Property, plant and equipment	12	25	20
<b>Total assets</b>		<b>108,722</b>	<b>90,773</b>
<b>Liabilities</b>			
Claims reserve		18,283	18,670
Due to related entities	19	4,702	3,078
Policy liabilities	13	(12,775)	(8,089)
Current tax liabilities		126	-
Other liabilities	14	1,758	1,709
Deferred tax liabilities	15	-	203
<b>Total liabilities</b>		<b>12,094</b>	<b>15,571</b>
<b>Net assets</b>		<b>96,628</b>	<b>75,202</b>
<b>Equity</b>			
Share capital	17	75,200	54,680
Retained earnings	17	21,428	20,522
<b>Total equity</b>		<b>96,628</b>	<b>75,202</b>

The above balance sheet should be read in conjunction with the accompanying notes.

# Westpac Life-NZ-Limited

**Cash flow statement** for the year ended 30 September 2009

	2009 \$'000	2008 \$'000
<b>Cash flows from operating activities</b>		
Interest received	695	1,284
Premiums received	85,395	79,004
Other income received	12,788	7,512
Reinsurance income	6,587	4,535
Claims payments	(35,932)	(30,705)
Reinsurance payments	(9,097)	(8,205)
Other non-interest expenses paid	(34,076)	(32,004)
Income taxes paid	(1,129)	(492)
<b>Net cash inflow from operating activities</b>	<b>25,231</b>	<b>20,929</b>
<b>Cash flows from investing activities</b>		
Sale of investments	47,705	55,769
Purchase of investments	(62,741)	(54,976)
Sale of fixed assets	5	10
Purchase of fixed assets	(23)	(13)
<b>Net cash (outflow)/inflow from investing activities</b>	<b>(15,054)</b>	<b>790</b>
<b>Cash flows from financing activities</b>		
Dividends paid	(10,000)	(22,000)
<b>Net cash outflow from financing activities</b>	<b>(10,000)</b>	<b>(22,000)</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>177</b>	<b>(281)</b>
Cash and cash equivalents at the beginning of the year	416	697
<b>Cash and cash equivalents at the end of the year</b>	<b>593</b>	<b>416</b>
<b>Cash and cash equivalents comprise:</b>		
Cash - due from related entities	593	416
<b>Cash and cash equivalents at end of the year</b>	<b>593</b>	<b>416</b>
<b>Reconciliation of profit after income tax to net cash flow from operating activities:</b>		
Profit after income tax for the year	31,426	29,485
<i>Adjustments:</i>		
Depreciation/amortisation	13	72
Unrealised/realised gains	(4,569)	(3,006)
Movement in claims reserve (net of reinsurance recoveries)	55	853
Movement in policy liabilities	(4,686)	(6,465)
Movement in accrued assets	664	(1,125)
Movement in amounts due to and due from related entities	1,616	1,102
Movement in income tax provisions	663	(168)
Movement in accrued liabilities	49	181
<b>Net cash inflow from operating activities</b>	<b>25,231</b>	<b>20,929</b>

The above cash flow statement should be read in conjunction with the accompanying notes.

# Westpac Life-NZ-Limited

## Notes to the financial statements

### Note 1. General information

These financial statements were authorised for issue by the Board of Directors of the Company (Board) on 23 February 2010.

The Company's primary activities are the development, underwriting and management of products under life insurance legislation providing insurance cover against the risks of death, disability, redundancy and bankruptcy. The Company also manages a fire and general insurance agency agreement.

### Note 2. Summary of significant accounting policies

#### a. Basis of accounting

These financial statements have been prepared and presented in accordance with the Financial Reporting Act 1993 (New Zealand) and the Companies Act 1993 (New Zealand). These financial statements have also been prepared in accordance with the Generally Accepted Accounting Practice in New Zealand ('NZ GAAP'), applicable New Zealand equivalents to International Financial Reporting Standards ('NZ IFRS') and other authoritative pronouncements of the Accounting Standards Review Board, as appropriate for profit-oriented entities. These financial statements comply with International Financial Reporting Standards ('IFRS'). Compliance with NZ IFRS ensures that the financial report comprising the financial statements and accompanying notes, complies with IFRS and interpretations issued by the International Accounting Standards Board.

The financial statements are based on the general principles of historical cost accounting, as modified by the fair value accounting for available-for-sale financial assets, financial assets and financial liabilities at fair value through profit or loss and all derivative contracts. The going concern concept and the accrual basis of accounting have been adopted. All amounts are expressed in New Zealand dollars unless otherwise stated.

The same accounting policies have been followed in preparing these financial statements that were used in preparing the financial statements for the year ended 30 September 2008.

Certain comparative figures have been restated to ensure consistent treatment with the current reporting period. Where there has been a material restatement of comparative figures the nature of, and the reason for, the restatement is disclosed in the relevant note.

The preparation of financial statements in conformity with NZ IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Company's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 3.

#### b. Foreign currency translation

##### (i) Functional and presentation currency

Items included in the financial statements are measured using the currency of the primary economic environment in which the entity operates (the functional currency).

The financial statements are presented in New Zealand Dollars, which is the Company's functional and presentation currency. All values have been rounded off to the nearest thousand dollars (\$000) unless otherwise stated.

##### (ii) Transactions and balances

Foreign currency monetary assets and liabilities have been translated into the functional currency at the rate of foreign exchange ruling as at balance sheet date.

Transactions denominated in a foreign currency are converted to New Zealand dollars at the exchange rates in effect at the date of the transaction. Foreign exchange differences relating to monetary items and gains and losses arising from foreign exchange dealings by the Company have been included in the income statement.

#### c. Particular accounting policies

##### Revenue recognition

###### Premium revenue

Premiums relating to policy liabilities with a regular due date are recognised as revenue in the income statement when they become payable by the contract holders. Premium with no due date are recognised as revenue on cash received basis. Premiums are shown before deduction of commission. There is no material deposit component.

###### Reinsurance premium and recoveries

Premium ceded to reinsurers is recognised as an expense in accordance with the pattern of reinsurance service received. Reinsurance recoveries are recognised as revenue for claims incurred. Recoveries receivable are measured as the present value of the expected future receipts, calculated on the same basis as the liability for outstanding claims.

###### Investment income and other income

Investment and other income are recognised in the income statement on an accrual basis.

###### Fee income

Fee income which arises from commissions received on general insurance business and refunds received in relation to reinsurance arrangements are recognised as revenue on an accrual basis over the period which the services is performed.

###### Dividend income

Dividend income is recognised in the income statement when the Company's right to receive payment is established.

##### Expense recognition

###### Claims expenses

All incurred insurance claims are recognised as expenses in the income statement. Claims are recognised in the income statement when the liability to the policy holder under the policy contract has been established, or upon notification of the insured event depending on the type of claim. There is no material deposit component.



# Westpac Life-NZ-Limited

## Notes to the financial statements (continued)

### Note 2. Summary of significant accounting policies (continued)

#### *Policy acquisition expenses*

Policy acquisition expenses are the expenses of acquiring new business including commissions and similar distribution expenses, expenses of accepting, issuing and initially recording policies.

#### *Policy maintenance expenses*

Policy maintenance expenses are the expenses of administering policies subsequent to sale and maintaining operations such that they are sufficient to service existing policies. These include general growth and development expenses and all operating and management expenses other than policy acquisition and investment management expenses.

#### *Investment management expenses*

Investment management expenses are the expenses of managing investment funds and are recognised on an accruals basis.

## Taxation

### *Income tax*

Income tax expense on the profit for the reporting periods comprises current tax and movements in deferred tax balances.

Current tax is the expected tax payable on the taxable income for the period, using tax rates that have been enacted or substantively enacted as at the balance date, and any adjustment to tax payable in respect of previous periods.

Deferred tax is provided using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding amounts used for taxation purposes. Deferred tax assets and liabilities are not recognised if the temporary difference arises from the initial recognition of assets and liabilities that affect neither accounting nor taxable profit. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates that have been enacted or substantively enacted as at the balance date that are expected to apply when the liability is settled or the asset is realised. Deferred tax assets are recognised only to the extent that their realisation is probable.

Current and deferred tax attributable to amounts recognised directly in equity are also recognised directly in equity.

Except as noted above, deferred tax liabilities are recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which the asset can be utilised.

For presentation purposes deferred tax assets and deferred tax liabilities have been offset where they relate to income taxes levied by the same taxation authority on the Company.

### *Goods and services tax*

Revenue, expenses and assets are recognised net of goods and services tax ('GST') except to the extent that GST is not recoverable from the Inland Revenue Department. In these circumstances, the GST is recognised as part of the expense or the cost of the asset.

## Assets

### *Financial assets*

The Company classifies its investments in financial assets at fair value through profit or loss. Management classifies its financial assets at initial recognition. The Company's assets comprise the life insurance fund and can only be used within the restrictions imposed under the Life Insurance Act 1908.

#### *Financial assets at fair value through profit or loss*

This category has two sub-categories: financial assets held for trading and those designated as fair value through profit or loss at inception. A financial asset is classified in this category if acquired or incurred principally for selling it in the near term, if it is part of a portfolio of identified financial assets that are managed together and for which there is evidence of a recent pattern of short-term profit taking, if it is a derivative that is not a designated hedging instrument, or if so designated on acquisition by management.

This designation may only be made if the financial asset either contains an embedded derivative, or it will be managed on a fair value basis in accordance with a documented risk management strategy or designating it at fair value will reduce an accounting mismatch.

#### *Recognition of financial assets*

Purchases and sales of financial assets at fair value through profit or loss are recognised on trade-date, being the date on which the Company commits to purchase or sell the asset. Financial assets at fair value through profit or loss are recognised at fair value. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or where the Company has transferred substantially all the risks and rewards of ownership.

Financial assets at fair value through profit or loss are subsequently carried at fair value. Realised and unrealised gains and losses arising from changes in the fair value of financial assets at fair value through profit or loss are included in the income statement in the period in which they arise.

The fair values of quoted investments in active markets are based on current bid prices. If the market for a financial asset is not active the Company establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants.

#### *(i) Cash and cash equivalents*

Cash and cash deposits includes cash at branches and deposits. They are brought to account at the face value or the gross value of the outstanding balance, where appropriate.

#### *(ii) Fixed interest securities*

These securities are stated at fair value which equates to the market yield of individual securities held at balance date.

#### *(iii) Shares in listed companies and units held in unit trusts or managed funds*

These assets are stated at net market value based on the last sale price quoted by the stock exchange or fund manager.

# Westpac Life-NZ-Limited

## Notes to the financial statements (continued)

### Note 2. Summary of significant accounting policies (continued)

#### *Derecognition of financial assets*

A financial asset (or, where applicable a part of a financial asset or group of similar financial assets) is derecognised where:

- the rights to receive cash flows from the asset have expired; or
- the entity has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flow in full without material delay to a third party under a 'pass-through' arrangement and cannot sell or repledge the asset other than to the transferee; and
- either (a) the Company has transferred substantially all the risks and rewards of the asset, or (b) the Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

A situation may arise where the Company transfers its rights to receive cash flow from an asset or has entered into a pass-through arrangement. In some cases the Company would neither have transferred nor retained substantially all the risks and rewards of the asset nor transferred control of these assets. Should this occur to the extent that the Company has continuing involvement in the asset, the asset continues to be recognised on the balance sheet.

#### *Assets and liabilities arising under reinsurance contracts*

The benefits to which the Company is entitled under its reinsurance contracts held, are recognised as reinsurance assets. These assets consist of short term balances due from reinsurers, as well as longer term receivables that are dependent on the expected claims and benefits arising under the related insured insurance contracts. Amounts recoverable from or due to reinsurers are measured consistently with the amounts associated with the reinsured insurance contracts and in accordance with the terms of each reinsurance contract. Reinsurance liabilities are primarily premiums payable for reinsurance contracts and are recognised as an expense when due.

#### *Property, plant and equipment*

Property, plant and equipment is carried at cost less accumulated depreciation and impairment losses. Cost is the fair value of the consideration provided plus incidental costs directly attributable to the acquisition. Other subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the item of property, plant and equipment. All other expenditure is recognised in the income statement as an expense as incurred. Impairment losses are recognised as a non-interest expense in the income statement.

Depreciation is calculated using the straight-line method to allocate the cost of assets less any residual value over their estimated useful lives, as follows:

- |                                     |                |
|-------------------------------------|----------------|
| ▪ Leasehold improvements            | Up to 10 years |
| ▪ Equipment, furniture and fittings | 3 - 15 years   |

Gains and losses on the disposal of property, plant and equipment are determined by reference to their carrying value and are included in the income statement.

#### *Impairment of non-financial assets*

The carrying amount of the Company's non-financial assets, other than deferred tax assets and assets arising from employee benefits, are reviewed as at each balance date to determine whether there is any indication of impairment. If such an indication exists, the asset's recoverable amount is estimated. An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount. Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, such that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior periods. Impairment losses and reversals of impairment losses are recognised in the income statement.

The recoverable amount of an asset is the greater of its net selling price and value-in-use. In assessing value-in-use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

## Liabilities

#### *Claims reserve*

Provision has been made for liabilities in respect of insurance claims notified but not settled at balance date, together with an allowance for incurred but not reported insurance claims.

#### *Policy liabilities*

Policy liabilities, arising from insurance contracts are calculated by using the margin on service methodology in accordance with New Zealand Society of Actuaries Professional Standard 3 "Determination of Life Insurance Policy Liabilities". Under this methodology, planned profit margins and an estimate of future liabilities are calculated separately for each major product line using applied assumptions at each reporting date. Profit margins are released over each financial period in line with the service that has been provided. The net impact of reinsurance on Policy liabilities has been assessed to be immaterial.

#### *Liability adequacy test*

Expected future cash flows are reviewed to establish the present value of the estimated future expenses for the group of related products against the present value of estimated future revenues. Where there is a shortfall in the liabilities, a loss is recognised in the income statement in the reporting period in which the assessment is made.

## Employee benefits

#### *(i) Wages and salaries, annual leave and sick leave*

Liabilities for wages and salaries, including non-monetary benefits and annual leave expected to be settled within 12 months of the balance date are recognised in other provisions in respect of employees' services and are measured at the amounts expected to be paid when the liabilities are settled.

No provision is made for non-vesting sick leave as the pattern of sick leave taken indicates that no additional liability will arise for non-vesting sick leave.

# Westpac Life-NZ-Limited

## Notes to the financial statements (continued)

### Note 2. Summary of significant accounting policies (continued)

#### (iii) Long service leave

Liabilities for long service leave expected to be settled within 12 months of the balance date are recognised in the provision for long service leave and are measured at the amounts expected to be paid when the liabilities are settled.

Liabilities for long service leave and other deferred employee benefits expected to be settled more than 12 months from the balance date are recognised in the provision for long service leave and are measured at the present value of expected future payments expected to be made in respect of services provided by employees up to the balance date. Consideration is given to expected future wage and salary levels, experience of employee departure and periods of service.

Expected future payments are discounted to their net present value using market yields at the reporting date on government bonds with terms that match as closely as possible the estimated timing of future cash flows.

## Share capital

### Ordinary shares

Ordinary shares are recognised at the amount paid up per ordinary share, net of directly attributable issue costs.

## Offsetting

Financial assets and financial liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to set-off the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously.

## Segment reporting

A segment is a distinguishable component of the Company that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), that is subject to risks and returns of other business or geographical segments.

The primary lines of business written by the Company comprise pure risk long-term insurance contracts with guaranteed renewability and premium rates that the Company can review upon notice to policy holders. The Company has operations in New Zealand solely.

## Statement of cash flows

### Basis of presentation

The statement of cash flows has been presented in accordance with NZ IAS 7 *Cash Flow Statements* with the netting of certain items as disclosed below.

### Cash and cash equivalents

Cash and cash equivalents reflect the balance of cash and liquid assets used in the day-to-day management of the Company, which are readily convertible at the Company's option.

### d. Changes in accounting policies

There were no changes in accounting policies for the year ended 30 September 2009.

### e. Future accounting developments

The following new standards and interpretations have been issued, but are not yet effective and have not been early adopted by the Company:

- (i) NZ IFRS 8: *Operating Segments* was issued by the Financial Reporting Standards Board of the New Zealand Institute of Chartered Accountants and will apply to the Company for the financial period commencing on 1 October 2009. NZ IFRS 8 will impact the disclosure of financial and descriptive information about reportable segments, if any, but will not impact the Company's reported results or financial position.
- (ii) A revised NZ IFRS 3: *Business Combinations* and amended NZ IAS 27: *Consolidated and Separate Financial Statements* were issued by the Financial Reporting Standards Board of the New Zealand Institute of Chartered Accountants in February 2008. The revisions to the standards apply prospectively to business combinations and will be effective for the 30 September 2010 financial year end. The main changes under the standards are that:
  - acquisition related costs are recognised as an expense in the income statement in the period they are incurred;
  - earn-outs and contingent considerations will be measured at fair value at the acquisition date; however, remeasurement in the future will be recognised in the income statement;
  - step acquisitions, impacting equity interests held prior to control being obtained, are remeasured to fair value, with gains and losses being recognised in the income statement. Similarly where control is lost, any difference between the fair value of the residual holding and its carrying value is recognised in the income statement; and
  - while control is retained, transactions with minority interests would be treated as equity transactions.
- (iii) NZ IAS 1: *Presentation of Financial Statements* is a revised standard applicable to annual reporting periods beginning on or after 1 January 2009. The amendments affect the presentation of owner changes in equity and of comprehensive income. They do not change the recognition, measurement or disclosure of specific transactions and events required by other standards.
- (iv) Amendments to NZ IAS 32 *Financial Instruments: Presentation* and NZ IAS 1, approved in November 2007, require some puttable financial instruments, and some financial instruments which impose on the entity an obligation to deliver another party a pro rata share of the net assets only on liquidation, to be classified as equity. The amendment is applicable to the Company from 1 October 2009 and is not expected to have a material impact.
- (v) Amendments to NZ IFRS 7 *Financial Instruments: Disclosures*, approved in March 2009, require additional disclosures on fair value and liquidity risk. The amendments are applicable to the Company from 1 October 2009.
- (vi) IFRS 9 'Financial Instruments' was issued by the International Accounting Standards Board ("IASB") in November 2009. If the standard is not early adopted it will be effective for the 30 September 2014 financial year end. The major changes under the standard are that:
  - IFRS 9 replaces the multiple classification and measurement models in NZ IAS 39 with a single model that has two classification categories: amortised cost and fair value.

# Westpac Life-NZ-Limited

## Notes to the financial statements (continued)

### Note 2. Summary of significant accounting policies (continued)

- A financial asset is measured at amortised cost if two criteria are met: a) the objective of the business model is to hold the financial asset for the collection of the contractual cash flows, and b) the contractual cash flows under the instrument solely represent the payment of principal and interest.
- If a financial asset is eligible for amortised cost measurement, an entity can elect to measure it at fair value if it eliminates or significantly reduces an accounting mismatch.
- There will be no bifurcation of an embedded derivative where the host is a financial asset.
- Unquoted equity instruments must be measured at fair value however, an entity can elect on initial recognition to present the fair value changes on an equity investment directly in other comprehensive income. There is no subsequent recycling of fair value gains and losses to profit or loss; however dividends from such investments will continue to be recognised in profit or loss.
- If an entity holds a tranche in a waterfall structure it must determine the classification of that tranche by looking through to the assets ultimately underlying that portfolio and assess the credit quality of that tranche compared with the underlying portfolio. If an entity is unable to look through, then the tranche must be measured at fair value.

### Note 3. Critical accounting judgements and estimates

The application of the Company's accounting policies necessarily requires the use of judgment, estimates and assumptions. Should different assumptions or estimates be applied, the resulting values would change, impacting the net assets and income of the Company. The Company makes estimates and assumptions that affect the reported amount of assets and liabilities at year end.

Estimates and judgments are regularly evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The nature of assumptions and estimates used and the value of the resulting asset and liability balances are included in the policies below.

#### a. Uncertainty over valuation of life insurance policy liabilities

Policy liabilities arising from life insurance contracts are computed at each reporting date using statistical and mathematical methods. The valuations are prepared by suitably qualified personnel on the basis of recognised actuarial methods and with due regard to the actuarial principles laid down in actuarial standards and guidance. The methodology takes into account the risks and uncertainties of the particular classes of business written.

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

- The cost of providing benefits and administering these insurance contracts;
- Mortality and morbidity experience on life insurance products;
- Persistency experience, which affects the Company's ability to recover the cost of acquiring new business over the lives of the contracts.

In addition, factors such as regulation, competition, interest rates, taxes, the performance of the capital markets 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 reporting date.

See note 4 for more detail on the valuation of the policy liabilities and the assumptions applied.

#### b. Assets arising from reinsurance contracts

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

#### c. Fair value of financial instruments

Financial instruments are classified as either held-for-trading or designated at fair value through profit or loss. All derivatives are measured and recognised at fair value.

The fair value of a financial instrument is the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

Financial instruments are either priced with reference to a quoted market price for that instrument or by using a valuation model. Where the fair value is calculated using a valuation technique, the expected cash flows for each instrument is determined either directly by reference to actual cash flows implicit in observable market prices or through modelling cash flows using appropriate financial market pricing models. These models use as their basis independently sourced market parameters including, for example, interest rate yield curves, equities and commodities prices, option volatilities and currency rates. Most market parameters are either directly observable or are implied from instrument prices. However, profits or losses are recognised upon initial recognition only when such profits can be measured solely by reference to observable current market transactions or valuation techniques based solely on observable market inputs. In the event that inputs into valuation techniques are non-market observable any day one profit or loss is amortised over the life of the transaction.

The calculation of fair value for any financial instrument may also require adjustment of the quoted price or model value to reflect the cost of credit risk (where not embedded in underlying models or prices used) or to reflect hedging costs not captured in pricing models (to the extent they would be taken into account by a market participant in determining a price). The process of calculating fair value on illiquid instruments or from a valuation model may require estimation of certain pricing parameters, assumptions or model characteristics.

These estimates are calibrated against industry standards, economic models and observed transaction prices.

The fair value of financial instruments is provided in note 10.

# Westpac Life-NZ-Limited

## Notes to the financial statements (continued)

### Note 4. Actuarial assumptions and methods

#### a. Actuarial policies and methods for the Company

The effective date of the actuarial valuation of policy liabilities and prudential reserving requirement is 30 September 2009. The actuarial valuation for the Company was prepared by Ian New, who is Chief Actuary of the Company and a Fellow of the New Zealand Society of Actuaries ("FNZSA").

Policy liabilities for life insurance contracts are amounts which, when taken together with future premiums and investment earnings:

- are required to meet the payment of future benefits; and
- incorporate profit margins on existing business to be released when earned in future periods.

#### b. Disclosure of assumptions

The valuations included in the reported results are calculated using assumptions about certain key underlying variables. The assumptions are determined by the Chief Actuary of the Company based on results of annual investigations into the experience of the Company's in force business, industry experience data and data provided by the Company's reinsurers.

After making appropriate checks, the actuary was satisfied as to the accuracy of the data from which the amount of insurance policy liabilities has been determined.

The key assumptions used in determining policy liabilities for the major products are disclosed below.

#### Discount Rates

The discount rates used to determine policyholder liabilities were as follows:

	2009	2008
Loan Cover	2.7%	5.5%
Mortgage Insurance and Flexicover Insurance	4.4%	5.2%
Other Major Products	5.4%	5.3%

These assumed discount rates are gross of tax and net of investment management expenses.

#### Profit Carriers

The profit carriers for the products which were valued on a projection basis are as follows:

Product Type	Method	Profit Carrier
Term Cover and Gold Term Cover	Projection	Premium
Simplicity Life	Projection	Premium
Disability Income Insurance	Projection	Premium
Gold Disability Income Insurance	Projection	Premium
Flexicover Insurance	Projection	Premium
Mortgage Insurance	Projection	Claims
Loan Cover	Projection	Claims
Bill Protection Insurance	Projection	Premium
Lifetime Guarantee and Kiwilife Senior	Projection	Claims
Kiwilife, Kiwicover and Kiwiguard	Projection	Premium
Accident Cover	Projection	Premium
Ex-Trust Bank Mortgage Insurance	Projection	Premium

#### Maintenance Expenses

The non-commission maintenance expenses allowances assumed were as follows:

Product	Maintenance Expense 2009	Maintenance Expense 2008
Term Cover	\$28.44 per annum per policy	\$30.84 per annum per policy
Gold Term Cover	\$31.56 per annum per policy	\$30.84 per annum per policy
Simplicity Life	\$31.56 per annum per policy	\$30.84 per annum per policy
Disability Income Insurance	\$31.56 per annum per policy	6.8% of premiums
Flexicover Insurance	5.8% of premiums	6.8% of premiums
Mortgage Insurance	10% of original single premium spread over the term	10% of original single premium spread over the term
Loan Cover	10% of original single premium spread over the term	10% of original single premium spread over the term
Lifetime Guarantee and Kiwilife Senior	\$31.56 per annum per policy	\$30.84 per annum per policy
Kiwilife, Kiwicover and Kiwiguard	\$31.56 per annum per policy	\$30.84 per annum per policy
Accident Cover	\$31.56 per annum per policy	\$30.84 per annum per policy
Ex-Trust Bank Mortgage Insurance	\$31.56 per annum per policy	\$30.84 per annum per policy

#### Inflation and automatic indexation of benefits

Maintenance expenses are assumed to increase at 2.5% per annum (2008: 2.5% per annum). Term cover policies and disability income insurances with automatic inflation linked indexation of benefits are assumed to have benefit increases of 2.5% per annum (2008: 2.5% per annum).

# Westpac Life-NZ-Limited

## Notes to the financial statements (continued)

### Note 4. Actuarial assumptions and methods (continued)

#### Taxation

A taxation rate of 30% (2008: 33%) has been assumed throughout. The taxation basis that applied prior to enactment of the Taxation (International Taxation, Life Insurance and Remedial Matters) Act has been assumed to continue for the purposes of the policy liability figures in these financial statements. However, the new tax legislation is expected to have a material financial impact in the future. Additional information on the impact is provided in note 13.

#### Rebate Values

Future policy rebate values are projected on the basis of the Company's current practice.

#### Unit-Linked Business

The Company has no unit-linked business.

#### Participating Business

The Company has no participating business.

#### Mortality and Morbidity

The projected rates of claims reflect industry experience in New Zealand and Australia together with the Company's experience where appropriate. The tables used as a basis for mortality and morbidity assumptions were as follows:

Product	Mortality/Morbidity 2009	Mortality/Morbidity 2008
Term Cover and Gold Term Cover	91% of NZ04 males/females with adjustments for smoker status and selection	91% of NZ04 males/females with adjustments for smoker status and selection
Disability Income Insurance	85% of CIDA 85	85% of CIDA 85
Simplicity Life, Kiwilife, life components of Mortgage Insurance, Flexicover Insurance, Ex-Trust Bank Mortgage Insurance and Loan Cover	Adjusted NZ04	Adjusted NZ04
Lifetime Guarantee and Kiwilife Senior	Adjusted NZ 95/97	Adjusted NZ 95/97
Disability components of Mortgage Insurance, Flexicover Insurance, Ex-Trust Bank Mortgage Insurance and Loan Cover	Adjusted CIDA 85	Adjusted CIDA 85
Kiwicover, Kiwiguard and Accident Cover	Adjusted NZ 95/97	Adjusted NZ 95/97

#### Rates of Discontinuance

Projected rates of discontinuance of policies are as follows:

Product	Rate of Discontinuance 2009	Rate of Discontinuance 2008
Term Cover	12% per annum	12% per annum
Gold Term Cover	8% per annum	8% per annum
Simplicity Life	10% per annum	10% per annum
Disability Income Insurance	10% per annum	10% per annum
Mortgage Insurance	15% per annum	15% per annum
Flexicover Insurance	20% per annum	20% per annum
Loan Cover	35% per annum	35% per annum
Lifetime Guarantee	3% per annum	3% per annum
Kiwilife	10% per annum	10% per annum
Kiwilife Senior	3% per annum	3% per annum
Kiwicover, Kiwiguard	10% per annum	10% per annum
Accident Cover	8% per annum	8% per annum
Ex-Trust Bank Mortgage Insurance	18% per annum	22.5% per annum

In each case, a flat rate of discontinuance is assumed, independent of duration.

#### Effect of changes in actuarial assumptions

The changes in actuarial assumptions from 2008 to 2009 set out above had no impact upon the Company's policy liabilities as none of the Company's related product groups is in loss recognition. Aside from the changes to discount rates, the changes in actuarial assumptions had the effect of increasing the present value of future planned profit margins by \$2,152,000. Of this impact \$2,179,000 arose from the changes to projected non-commission maintenance expenses, offset by \$(27,000) arising from the changes to projected rates of discontinuance.

# Westpac Life-NZ-Limited

## Notes to the financial statements (continued)

### Note 4. Actuarial assumptions and methods (continued)

#### c. Sensitivity analysis

The Company conducts sensitivity analysis to quantify exposure to risk of changes in the key underlying variables such as discount rates, maintenance expenses, mortality, morbidity and lapses. The valuations included in the reported results and the Company's best estimates of future performance are calculated using certain assumptions about these variables. The movement in any key variable will impact the performance and net assets of the Company and as such represent a risk.

The table below illustrates how changes in key assumptions would impact the reported profit of the Company.

Variable	Change in variable	Impact on future planned profits
Change in mortality & morbidity	+10%	-15.1%
	-10%	+15.1%
Change in lapse rate	+10%	-12.1%
	-10%	+12.1%
Change of non-commission policy maintenance expenses	+10%	-0.9%
	-10%	+0.9%
Changes in discount rates	+0.1%	-0.5%
	-0.1%	+0.5%

None of the Company's groups of related products is in loss recognition and none would move into loss recognition upon the changes in variables set out in the above table, where the changes are applied individually.

### Note 5. Risk management policies and procedures

#### a. The Company's risk management framework and governance

The Company's financial condition and operating activities are affected by a number of key financial risks (insurance risk, credit risk, market risk and liquidity risk) as well as non-financial risks (compliance risk and operational risk).

The Board determines the Company's overall risk appetite and approves the management strategies, policies and practices to ensure that risks, including compliance risks, are identified and managed within the context of this appetite.

Inherent in the investment process is the requirement to:

- Protect the capital base
- Ensure decision making is based on sound investment analysis
- Ensure there is no excessive concentration of risk and portfolios remain well diversified
- Create value via ensuring risks are more than compensated for by expected returns

Executive management is responsible for implementing and assessing the effectiveness of risk management strategies and internal controls of the Company in accordance with risk management policies and procedures covering risk identification, rating, assessment, treatment and ongoing management (including reporting).

The life insurance activities of the Company are concerned with the pricing, acceptance and management of the mortality and morbidity risks of policyholders. The risks underwritten by the Company are actively managed to ensure they do not adversely affect the Company's ability to pay benefits and claims when due. Compliance and operational risks are controlled and monitored to maintain the efficiency of the Company as well as to manage the risk of non-compliance.

#### b. Management assurance programme

The Company has a quarterly management assurance programme designed to identify the key risks to the business, the controls in place to mitigate those risks and to obtain assurance that those controls have continued to operate effectively.

This programme allows senior management to affirm their satisfaction with the quality of the process under their responsibility and with the effectiveness of the controls that support that assurance.

For operational and compliance risks, this is attained through the provision of consolidated representations by senior management to the General Manager Risk Management of Westpac New Zealand. The results of this process are reported to Westpac's New Zealand Operational Risk & Compliance Committee ('NZOPCO'), chaired by the Chief Executive Officer ('CEO') of Westpac New Zealand.

In addition, a quarterly Enterprise Risk Management report is presented to the Board, on which the CEO of Westpac New Zealand also sits. This report provides the Board with an insight into the whole spectrum of existing and emerging risks the Company faces and how they are being managed.

The CEO then provides management assurance to the Ultimate Parent Bank Board Risk Management Committee ('BRMC'), the Ultimate Parent Bank Board Audit Committee ('BAC') and the CEO of the Ultimate Parent Bank.

This system of management assurance assists the Ultimate Parent Bank's Board in satisfying itself that the Company's risk management systems are adequate, that they operate effectively and that any deficiencies have been identified and are being addressed.

#### c. Categories of risk

The key risks that the Company is subject to are specific insurance risks and risks arising from the general business environment.

The risk management framework identifies four broad categories of risk:

- Insurance risk: the possibility that the insured event occurs and the uncertainty of the amount of the resulting claim.
- Other Financial risks (credit risk, market risk and liquidity risk): the potential loss arising from open positions in interest rate and equity products, which are exposed to general and specific market movements.
- Compliance risk: the risk of failing to comply with all applicable legal and regulatory requirements and industry codes of practice, and of failing to meet the Company's own ethical standards.

# Westpac Life-NZ-Limited

## Notes to the financial statements (continued)

### Note 5. Risk management policies and procedures (continued)

- Operational risk: the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. This includes compliance risk – the risk of legal or regulatory sanction, financial or reputation loss arising from the failure to apply the regulatory standards.

Additional details surrounding the risk management activities relating to the management of these risks follows.

#### (i) Insurance risk

The type and nature of life insurance risk accepted is determined by reference to underwriting procedures that include limits to delegated authority and signing powers.

To manage the insurance risk, the Company has various risk mitigation systems in place.

Under the Company's internal reporting system the financial and operating results, mortality and morbidity experience and expenses are monitored quarterly against budget projections. In addition, detailed annual actuarial investigations are performed into the mortality, morbidity and persistency experience of the life insurance products. Concentrations of risk based on individual lives are managed through the use of surplus reinsurance arrangements whereby the Company's maximum exposure to any individual life is capped. A product pricing process ensures that profitability is not materially impacted by changes to the age and sex profile of the in-force business. The Company conducts sensitivity analysis to quantify exposure to risk changes in the key underlying variables and further detail is provided in note 4.

#### (ii) Other Financial risks

The Company is exposed to a range of financial risks through its financial assets, reinsurance assets and insurance liabilities. The key components of financial risk are as follows:

- Credit risk: the potential for financial loss where a counterparty fails to meet their financial obligations to the Company.
- Market risk: the risk to earnings valuation from changes in market factors. These risks are monitored daily against a comprehensive limit framework based on longer term risk/return objectives. The principal risk components of this monitoring process are:
  - Currency risk: the potential loss arising from the decline in the value of a financial instrument due to changes in foreign exchange rates or their implied volatilities.
  - Interest rate risk: the potential loss arising from the changes in the value of financial instruments due to changes in market interest rates or their implied volatilities.
  - Equity risk: the potential loss arising from decline in the value of equity instruments due to changes in their quoted market value or implied volatilities.
- Liquidity risk: the potential loss arising from cash outflows exceeding cash inflows over a given period.

The Company's policies for managing financial risks are set out below.

#### a. Credit risk

Credit risk is the potential risk of financial loss resulting from the failure of business counterparties to honour fully the terms and conditions of a contract with the Company. It arises primarily from the Company's insurance activities. Claims management procedures ensure the timely and correct payment of claims in accordance with policy conditions.

Financial assets which potentially subject the Company to concentrations of credit risk consist of investments, taxation, reinsurance recoveries receivable and receivables owing by related parties. Their carrying value as shown in the balance sheet is considered a reasonable estimate of fair value.

The Company continuously monitors the credit quality of major financial institutions that are counterparties to financial instruments, and does not anticipate non-performance by counterparties.

The following policies and procedures are in place to mitigate the Company's exposure to credit risk:

- Exposures to counterparties are monitored and controlled to ensure:
  - Significant deterioration in credit quality is identified;
  - Credit risk management information is accurate and complete; and
  - Excessive concentrations of credit risk are identified and controlled.
- Credit risk limits for investment assets are defined within a recognized rating scale and managed for the Company by the appointed investment portfolio managers. The framework also sets out acceptable credit quality ratings for investments that may be held. Compliance with these limits is monitored and reported to the BTNZ Investment Committee.
- Credit risk in respect of customer balances is actively monitored and losses incurred on non-payment of premiums or contributions will only persist during the grace period specified in the policy document until expiry, when the policy is terminated.

As part of its overall risk management strategy the Company cedes a proportion of its insurance risk. While these cessions mitigate insurance risk, the recoverables from reinsurers expose the Company to credit risk. Exposure to reinsurance counterparties and the credit quality of those counterparties is actively monitored.



# Westpac Life-NZ-Limited

## Notes to the financial statements (continued)

### Note 5. Risk management policies and procedures (continued)

#### *Credit quality of financial assets that are neither past due nor impaired*

The following table provides information regarding the credit risk exposure of the Company. The credit quality of those financial assets that are neither past due nor impaired is shown by classifying those assets according to Standard & Poor's counterparty credit ratings. AAA is the highest possible rating.

30 September 2009

	Neither past due nor impaired					Past due but not impaired \$'000	Total \$'000
	AAA \$'000	AA \$'000	A \$'000	Not rated <sup>1</sup> \$'000	Total \$'000		
Cash and cash equivalents with related entities	-	593	-	-	593	-	593
Financial assets at fair value through profit or loss	20,956	2,426	-	77,744	101,126	-	101,126
Due from related entities	-	27	-	-	27	-	27
Reinsurance recoveries receivable	-	5,284	390	-	5,674	-	5,674
Other assets	-	-	1,175	-	1,175	-	1,175

30 September 2008

	Neither past due nor impaired					Past due but not impaired \$'000	Total \$'000
	AAA \$'000	AA \$'000	A \$'000	Not rated <sup>1</sup> \$'000	Total \$'000		
Cash and cash equivalents with related entities	-	416	-	-	416	-	416
Financial assets at fair value through profit or loss	17,442	881	-	63,198	81,521	-	81,521
Due from related entities	-	19	-	-	19	-	19
Reinsurance recoveries receivable	-	6,116	-	-	6,116	-	6,116
Other assets	-	-	1,839	-	1,839	-	1,839

<sup>1</sup> Not rated - Unrated financial assets at fair value through profit or loss comprise investments in units in managed schemes (unit trusts). The investments in unit trusts are predominantly held with BT Financial Group, part of Westpac Banking Corporation.

#### *Past due but not impaired financial assets*

The Company does not have any financial assets that are past due but not impaired at the balance date.

#### **b. Market risk**

Market risk is the potential for losses arising from adverse movements in the level and volatility of market factors such as foreign exchange rates, interest rates, commodity prices and equity prices.

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices such as foreign exchange rates (currency risk), interest rates (interest rate risk) and market prices (price risk).

The main risk that the Company faces due to the nature of its investments and liabilities is interest rate risk.

The Company is subject to the WBC Market & Liquidity Risk Management Framework. This framework defines what constitutes market risk for the Company and provides the Company with a framework for managing its market risk. Within this framework the BTFG Product and Investment Committee defines acceptable market risk exposures for the Company by placing limits on concentration in investments by single issuers and certain asset classes.

To mitigate its market risk, the Company has implemented the following controls:

- Trading authorities and responsibilities are clearly delineated at all levels to ensure accountability;
- A structured system of limits and reporting of exposures against these exists for all trading activities; and
- Models are used to determine risk and profit/loss.

In addition to these controls, the Company uses derivatives to:

- Protect an asset or portfolio against a fluctuation in market value;
- Reduce the transaction costs of achieving a desired market exposure;
- Immediately adjust the asset exposure within the established strategy;
- Adjust the duration of fixed interest portfolios; and
- Manage the exposure within a portfolio to fluctuations in interest rates.

#### *Interest Rate Risk*

The Company is exposed to interest rate risk in that future interest rate movements will affect cash flows, the market value of fixed interest assets, and the market value of unit trusts which hold fixed interest assets.

Interest rate risk is the risk of loss resulting from changes in interest rates, including changes in the shapes of yield curves.

Financial instruments with floating rate interest expose the Company to cash flow interest rate risk, whereas financial instruments with fixed rate interest expose the Company to fair value interest rate risk. The Company manages its investment portfolios by maintaining an appropriate mix of

# Westpac Life-NZ-Limited

## Notes to the financial statements (continued)

### Note 5. Risk management policies and procedures (continued)

fixed and variable rate instruments. The Company invests in floating rate cash deposits, fixed interest government securities and units in managed investment schemes which hold fixed interest assets, having regard to the durations of the underlying liabilities.

The Company is also exposed to interest rate risk on obligations arising from its life insurance contracts. A sensitivity analysis in key variables is disclosed in note 4.

The table below summarises the Company's exposure to interest rate risk. It includes the Company's financial instruments at carrying amounts, categorised by the earlier of contractual repricing or maturity dates. The effective interest rate and interest repricing of financial instruments are as follows:

	30 September 2009							
	Less than 1 month \$'000	Over 1 month to 3 months \$'000	Over 3 months to 1 year \$'000	Over 1 year to 5 years \$'000	Over 5 years \$'000	Non- Interest bearing \$'000	Total \$'000	Weighted Average Interest Rate %
Financial assets exposed to fair value interest rate risk:								
Cash	593	-	-	-	-	-	593	3.00
Deposits at call	2,426	-	-	-	-	-	2,426	3.00
Deposits with Public Trustee	561	-	-	-	-	-	561	6.00
New Zealand Government securities	20,395	-	-	-	-	-	20,395	2.60
	23,975	-	-	-	-	-	23,975	
Weighted average interest rate %	2.70							
Financial assets not directly exposed to interest rate risk:								
Due from related entities	-	-	-	-	-	27	27	-
Unit trusts	-	-	-	-	-	77,744	77,744	-
Reinsurance recoveries receivable	-	-	-	-	-	5,674	5,674	-
Other assets	-	-	-	-	-	1,175	1,175	-
	-	-	-	-	-	84,620	84,620	-
Total financial assets	23,975	-	-	-	-	84,620	108,595	
Financial liabilities not directly exposed to interest rate risk:								
Due to related entities	-	-	-	-	-	4,702	4,702	-
Other liabilities	-	-	-	-	-	1,758	1,758	-
Total financial liabilities	-	-	-	-	-	6,460	6,460	

	30 September 2008							
	Less than 1 month \$'000	Over 1 month to 3 months \$'000	Over 3 months to 1 year \$'000	Over 1 year to 5 years \$'000	Over 5 years \$'000	Non- Interest bearing \$'000	Total \$'000	Weighted Average Interest Rate %
Financial assets exposed to fair value interest rate risk:								
Cash	416	-	-	-	-	-	416	7.73
Deposits at call	881	-	-	-	-	-	881	7.60
Deposits with Public Trustee	549	-	-	-	-	-	549	6.00
New Zealand Government securities	16,893	-	-	-	-	-	16,893	6.40
	18,739	-	-	-	-	-	18,739	
Weighted average interest rate %	6.47							
Financial assets not directly exposed to interest rate risk:								
Due fom related entities	-	-	-	-	-	19	19	-
Unit trusts	-	-	-	-	-	63,198	63,198	-
Reinsurance recoveries receivable	-	-	-	-	-	6,116	6,116	-
Other assets	-	-	-	-	-	1,839	1,839	-
	-	-	-	-	-	71,172	71,172	-
Total financial assets	18,739	-	-	-	-	71,172	89,911	
Financial liabilities not directly exposed to interest rate risk:								
Due to related entities	-	-	-	-	-	3,078	3,078	-
Other liabilities	-	-	-	-	-	1,709	1,709	-
Total financial liabilities	-	-	-	-	-	4,787	4,787	

# Westpac Life-NZ-Limited

## Notes to the financial statements (continued)

### Note 5. Risk management policies and procedures (continued)

#### Foreign currency risk

The Company is exposed to foreign currency movements in that future foreign currency movements will affect the market value of unit trusts which hold unhedged overseas assets.

#### c. Liquidity and cash flow risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations associated with financial liabilities, because of lack of liquid assets or access to adequate funding on acceptable terms.

The liquidity of both physical and derivative positions is factored into the investment decision making process. Considerations include market depth, possible market disruptions and standard settlement times.

The liquidity position of the Company is monitored regularly and funds backing life insurance contracts are significantly invested in readily realisable assets such as cash, short term securities and unit trust investments. Minimum cash balances, required to be held, are established, to ensure that sufficient funds are available to meet all potential policyholder obligations. Investments are made through recognised exchange markets.

#### Maturity profiles

The following liquidity analysis of financial assets and liabilities presents the contractual undiscounted cash flows receivable and payable, and is based on the remaining period as at balance date to the contractual maturity.

The tables below are prepared on the basis of contractual profile. The balances in the tables may not agree to the balance sheet as the table incorporates all cash flows on an undiscounted basis, including both principal and associated future interest income/expense accruals.

The Company's undiscounted maturity profile for financial assets and liabilities as at September 2009 is as follows:

30 September 2009				
	Up to 1 year <sup>1</sup> \$'000	1 to 5 years \$'000	Over 5 years \$'000	Total \$'000
<b>Financial Assets</b>				
Cash and cash equivalents with related entities	593	-	-	593
Due from related entities	27	-	-	27
Financial assets at fair value through profit or loss	100,565	561	-	101,126
Reinsurance recoveries receivable	5,674	-	-	5,674
Other assets	1,175	-	-	1,175
<b>Total financial assets</b>	<b>108,034</b>	<b>561</b>	<b>-</b>	<b>108,595</b>
<b>Financial liabilities</b>				
Due to related entities	4,702	-	-	4,702
Other liabilities	1,758	-	-	1,758
<b>Total financial liabilities</b>	<b>6,460</b>	<b>-</b>	<b>-</b>	<b>6,460</b>

30 September 2008				
	Up to 1 year <sup>1</sup> \$'000	1 to 5 years \$'000	Over 5 years \$'000	Total \$'000
<b>Financial Assets</b>				
Cash and cash equivalents with related entities	416	-	-	416
Due from related entities	19	-	-	19
Financial assets at fair value through profit or loss	80,972	549	-	81,521
Reinsurance recoveries receivable	6,116	-	-	6,116
Other assets	1,839	-	-	1,839
<b>Total financial assets</b>	<b>89,362</b>	<b>549</b>	<b>-</b>	<b>89,911</b>
<b>Financial liabilities</b>				
Due to related entities	3,078	-	-	3,078
Other liabilities	1,709	-	-	1,709
<b>Total financial liabilities</b>	<b>4,787</b>	<b>-</b>	<b>-</b>	<b>4,787</b>

<sup>1</sup> "Up to one year" are all commitments which are either contractually due within the timeframe or payable on demand.

#### (iii) Compliance risk

The Company is subject to regulation and regulatory oversight. Any significant regulatory developments could have an adverse effect on how business is conducted and on results of operations. Business and earnings are also affected by the fiscal or other policies that are adopted by various regulatory authorities of the New Zealand Government, foreign governments and international agencies. The nature and impact of future changes in such policies are not predictable and are beyond the Company's control.

Regulatory responsibilities have increased significantly and, in order to manage existing and new requirements in a more effective way, the development of the ability to provide early detection monitoring of these responsibilities to the business has been accelerated. Effective compliance risk management enables the Company to identify emerging issues and where necessary put in place preventative measures. The Company has a dedicated Operational Risk and Compliance function.

New Zealand Operational Risk and Compliance Committee (NZOPCO) meets quarterly and is responsible for overseeing the effectiveness and implementation of the Operational Risk and Compliance Frameworks. The committee monitors the business unit operational risk profiles and the

# Westpac Life-NZ-Limited

## Notes to the financial statements (continued)

### Note 5. Risk management policies and procedures (continued)

action plans, and is required to escalate material matters to the Board, Group Operational Risk and Compliance Committee (OPCO) and the BRMC, where material.

#### (iv) Operational risk

Operational risk arises from inadequate or failed internal processes, people and systems or from external events. Operational risk has the potential, as a result of the way business objectives are pursued, to negatively impact the organisation's financial performance, customer service and/or reputation in the community or cause other damage to the business.

The Company uses the Ultimate Parent Bank Group Operational Risk Management Framework as a tool to assist its business units in the achievement of its objectives through assisting the business to understand and manage those risks that could hinder progress. This framework outlines the business requirements for managing Operational Risk with respect to Governance, Risk and Control Assessments, Incident Management, Operational Risk in Change, Reporting and Monitoring and Operational Risk Capital Allocation.

A tangible benefit of the Ultimate Parent Bank Group Risk Framework is to ensure compliance with relevant legislative and regulatory requirements.

#### Capital and Regulatory Risk

The Company holds capital to protect customers, creditors and shareholders against unexpected losses to a level consistent with the Company's risk appetite, as approved by the Board of Directors.

On the basis of the New Zealand Society of Actuaries Professional Standard 5.01 "Solvency Reserving for Life Insurance Business", the minimum solvency reserve for the Company as at 30 September 2009 was \$33,526,000 (2008: \$32,692,000) of equity. Based on actuarial advice, the Directors retain this amount as solvency reserves and in addition hold a buffer of capital above this requirement.

### Note 6. Revenue and other income

	2009 \$'000	2008 \$'000
Insurance premium revenue	85,395	79,004
Reinsurance recoveries revenue	6,145	5,860
Fees income and other income:		
Non risk fees	11,048	9,511
Other	1,084	309
Total fee income and other income	12,132	9,820
Investment income:		
Deposits with other financial institutions - interest income	511	1,637
Fixed rate notes - interest income	174	502
Realised and unrealised gains	4,579	2,151
Total investment income	5,264	4,290
<b>Total revenue and other income</b>	<b>108,936</b>	<b>98,974</b>

### Note 7. Other operating expenses

	2009 \$'000	2008 \$'000
Salaries and other staff expenses	1,694	1,527
Depreciation:		
Leasehold improvements	5	57
Equipment	8	14
Furniture and fittings	-	1
Equipment expenses	2	-
Audit fees <sup>1</sup>	-	-
Lease and rental expenses	3	5
Policy and investment expenses - to related entities	25,634	24,764
Policy and investment expenses - other	324	297
Management fees to related entities	2,198	1,920
Other	5,894	5,957
<b>Total operating expenses</b>	<b>35,762</b>	<b>34,542</b>
<i>Components of other operating expenses:</i>		
Investment management expenses	342	351
<b>Policy acquisition expenses:</b>		
Commissions	12,083	12,388
Other	2,556	2,314
<b>Policy maintenance expenses:</b>		
Commissions	16,201	14,133
Other	4,580	5,356
<b>Total operating expenses</b>	<b>35,762</b>	<b>34,542</b>

<sup>1</sup> Audit fees for 2009 and 2008 have been borne by Westpac New Zealand Limited.

# Westpac Life-NZ-Limited

## Notes to the financial statements (continued)

### Note 8. Income tax expense

	2009 \$'000	2008 \$'000
<b>Income tax expense</b>		
Current income tax	1,110	634
Deferred income tax	47	170
Adjustments for prior year under/(over) provision	635	(462)
Other adjustments	-	(18)
<b>Total income tax expense</b>	<b>1,792</b>	<b>324</b>
<b>Reconciliation of income tax expense to profit before income tax</b>		
Profit for the year before income tax	33,218	29,809
Prima facie income tax expense at 30 percent (2008: 33%)	9,965	9,837
<b>Tax effect of amounts which are not deductible (assessable) in calculating taxable income:</b>		
Imputation credits	(27)	(44)
Income not subject to tax	(17,255)	(18,277)
Expenses not deductible for tax purposes	8,474	9,288
Adjustments for prior year under/(over) provision	635	(462)
Other adjustments	-	(18)
<b>Total income tax expense</b>	<b>1,792</b>	<b>324</b>

### Note 9. Margin on services profit

	2009 \$'000	2008 \$'000
<i>Profit after income tax for the year arose from:</i>		
Planned margins of revenues over expenses	26,465	23,272
Difference between actual and assumed experience	360	1,309
Loss recognition on groups of related products	-	-
Investment earnings on assets in excess of policy liabilities	3,352	2,901
Net commission on fire and general agency	1,887	1,364
Adjustments for prior year (over)/under provision for tax	(635)	462
Other sources	(3)	177
<b>Profit after income tax for the year</b>	<b>31,426</b>	<b>29,485</b>

### Note 10. Financial assets at fair value through profit or loss

	2009 \$'000	2008 \$'000
Deposits at call	2,426	881
Deposits with Public Trustee <sup>1</sup>	561	549
New Zealand Government securities	20,395	16,893
Unit trusts	77,744	63,198
<b>Total financial assets at fair value through profit or loss</b>	<b>101,126</b>	<b>81,521</b>

<sup>1</sup> Life companies are legally required to keep a minimum of \$500,000 on deposit with the Public Trustee.

### Note 11. Deferred tax assets

	2009 \$'000	2008 \$'000
<b>Deferred tax assets attributable to the following:</b>		
Accrued expenses and provisions	23	-
Depreciable and amortisable assets	79	-
<b>Balance at the end of the year</b>	<b>102</b>	<b>-</b>
<b>Deferred tax movements</b>		
Balance at the beginning of the year	-	-
Current period temporary differences	(250)	-
Prior year adjustments	352	-
<b>Balance at the end of the year</b>	<b>102</b>	<b>-</b>

# Westpac Life-NZ-Limited

## Notes to the financial statements (continued)

### Note 12. Property, plant and equipment

	2009 \$'000	2008 \$'000
<b>Leasehold improvements</b>		
Cost	1,214	1,214
Accumulated depreciation and impairment losses	(1,214)	(1,209)
Net carrying amount of leasehold improvements	-	5
<b>Equipment</b>		
Cost	1,027	1,059
Accumulated depreciation and impairment losses	(1,005)	(1,047)
Net carrying amount of equipment	22	12
<b>Furniture and fittings</b>		
Cost	256	256
Accumulated depreciation and impairment losses	(253)	(253)
Net carrying amount of furniture and fittings	3	3
<b>Total net carrying amount of property, plant and equipment</b>	<b>25</b>	<b>20</b>
<b>Movement during the year</b>		
<b>Leasehold improvements</b>		
Balance at beginning of the year	5	64
Disposals	-	(2)
Depreciation	(5)	(57)
Balance at end of the year	-	5
<b>Equipment</b>		
Balance at beginning of the year	12	21
Additions	23	13
Disposals	(5)	(8)
Depreciation	(8)	(14)
Balance at end of the year	22	12
<b>Furniture and fittings</b>		
Balance at beginning of the year	3	4
Depreciation	-	(1)
Balance at end of the year	3	3
<b>Total property, plant and equipment</b>	<b>25</b>	<b>20</b>

### Note 13. Policy liabilities

	2009 \$'000	2008 \$'000
Balance at the beginning of the year	(8,089)	(1,624)
Movement in policy liabilities	(4,686)	(6,465)
<b>Balance at the end of the year</b>	<b>(12,775)</b>	<b>(8,089)</b>
<i>Components of policy liabilities:</i>		
Future policy benefits	309,223	273,982
Balance of future expenses	98,332	86,687
Planned margins of revenues over expenses	202,292	182,280
Future charges for acquisition costs	-	-
Balance of future revenues	(622,622)	(551,038)
<b>Balance at the end of the year</b>	<b>(12,775)</b>	<b>(8,089)</b>

The Taxation (International Taxation, Life Insurance and Remedial Matters) Act received Royal Assent on 6 October 2009, enacting a new tax basis for life insurance business in New Zealand. It is anticipated that this new tax basis will apply to the Company from 1 July 2010. The Company plans to utilise the transitional tax arrangements for its existing business, as provided for under that Act.

The current intention is that the Company will alter its approach for reporting the value of policy liabilities in future years, and will allow for the tax payable under the new tax legislation. It is intended that the transitional tax arrangements will not be included in the calculations, so that any difference in tax liabilities arising from the transitional tax arrangements during the transitional period will emerge as experience profits or losses. The balance of the Company's policy liabilities has been calculated to be \$(25,915,000) as at 30 September 2009 on the basis of the revised approach, allowing for immediate application of the new tax regime from 1 October 2009, but without allowance for transitional tax arrangements. In relation to the policy liabilities, there would be a deferred tax liability of \$13,140,000. The present value as at 30 September 2009 of future planned margins of revenues over expenses net of tax is \$147,864,000 on this revised basis. It is foreseeable that these calculations of amounts as at 30 September 2009 could change as the revised approach is refined, and therefore re-stated in the financial statements for the year ending 30 September 2010. No allowance has been made in the revised calculation approach for possible business responses to the tax changes, such as potential future increases to premium rates.

# Westpac Life-NZ-Limited

## Notes to the financial statements (continued)

### Note 14. Other liabilities

	2009 \$'000	2008 \$'000
Accrued expenses	1,433	1,218
Other liabilities	225	395
Provision for annual leave and other staff benefits	95	96
Provision for long service leave	5	-
<b>Total other liabilities</b>	<b>1,758</b>	<b>1,709</b>

### Note 15. Deferred tax liabilities

	2009 \$'000	2008 \$'000
<b>Deferred tax liabilities attributable to the following:</b>		
Accrued expenses and provisions	-	(26)
Unrealised gains on investments	-	349
Depreciable and amortisable assets	-	(83)
Other adjustments	-	(37)
<b>Balance at the end of the year</b>	<b>-</b>	<b>203</b>
<b>Deferred tax movements</b>		
Balance at the beginning of the year	203	110
Current period temporary differences	(203)	152
Prior year adjustments	-	(59)
<b>Balance at the end of the year</b>	<b>-</b>	<b>203</b>

#### Deferred tax on policy liabilities

Life insurance policy liabilities represent the net present value of estimated future cash flows and planned profit margins. Using the margin on services methodology, planned after tax profit margins are recognised in the income statement over the period services are provided to policyholders.

### Note 16. Imputation credit account

	2009 \$'000	2008 \$'000
Balance at the beginning of the year	1,006	948
Imputation credit on dividends paid	-	(477)
Income tax payments during the year	-	491
Withholding payments and imputation credits received	39	44
Tax transfer	(492)	-
<b>Balance at the end of the year</b>	<b>553</b>	<b>1,006</b>

The availability of these imputation credits is contingent on the Overseas Banking Group (the total worldwide business of Westpac Banking Corporation including its controlled entities) meeting the shareholder continuity rules. As a result of the acquisition of St George Bank Limited and its subsidiaries during the period, it is possible that a number of imputation credits have been forfeited. Westpac is currently in discussions with the Inland Revenue Department concerning this issue. If the credits are forfeited there should be no financial impact on the Company.

### Note 17. Equity & Retained earnings

	2009 \$'000	2008 \$'000
<b>Issued and paid up capital</b>		
73 520 000 ordinary shares - fully paid (2008: 53 000 000)	73,520	53,000
6 000 000 ordinary shares - partly paid	1,680	1,680
<b>Balance at the end of the year</b>	<b>75,200</b>	<b>54,680</b>
	<b>2009 \$'000</b>	<b>2008 \$'000</b>
<b>Ordinary shares</b>		
Ordinary shares at the beginning of the year	54,680	54,680
Shares issued during the year <sup>1</sup>	20,520	-
<b>Ordinary shares at the end of the year</b>	<b>75,200</b>	<b>54,680</b>

# Westpac Life-NZ-Limited

## Notes to the financial statements (continued)

### Note 17. Equity & Retained earnings (continued)

	2009 Number of Issued Shares	2008 Number of Issued Shares
Number of ordinary shares at the beginning of the year	59,000,000	59,000,000
Number of shares issued during the year <sup>1</sup>	20,520,000	-
Number of ordinary shares at the end of the year	79,520,000	59,000,000
	2009 \$'000	2008 \$'000
<b>Movements in retained earnings</b>		
Retained earnings at the beginning of the year	20,522	13,037
Profit after income tax attributable to shareholders	31,426	29,485
Dividends paid	(30,520)	(22,000)
Retained earnings at the end of the year	21,428	20,522

<sup>1</sup> The bonus shares of \$20,520,000 were issued fully paid up from the retained earnings of the Company on 19 December 2008 pursuant to clause 2.5 of the Constitution of Company and section 42 and 48 of the Companies Act 1993 ('Act'). Those retained earnings of the Company were deemed to have been allocated, pro-rata, to the bonus shares.

All shares rank equally for voting and dividend rights and rights to any surplus on winding up of the Company. Each fully paid ordinary share is entitled to one vote. The partly paid \$1 shares were paid to \$0.28. They carry no voting rights and do not participate in dividends. The balance can be called at any time by the Board. All shares have no par value.

### Note 18. Dividends

The dividends distribution for the year ended 30 September 2009 of \$30,520,000 equates to 57.58 cents per paid ordinary share (2008: \$22,000,000 at 41.51 cents per paid ordinary share).

### Note 19. Related entities

#### Ultimate Holding Company

The Company is a wholly owned subsidiary of Westpac Financial Services Group-NZ-Limited and the ultimate parent Company is Westpac Banking Corporation, which is incorporated in Australia and whose financial statements are available for public use at [www.westpac.com.au](http://www.westpac.com.au).

#### NZ Banking Group

The NZ Banking Group consists of the New Zealand operations of Westpac Banking Corporation, BLE Capital (NZ) Limited, Hastings Forestry Investments Limited, Tasman Funding No. 1 Limited, Tasman Funding No. 2 Limited and their jointly owned subsidiary PF No. 2, Westpac NZ Funding Limited, BT Financial Group (NZ) Limited and its subsidiaries, Westpac Group Investment-NZ-Limited and its subsidiaries, Westpac Financial Services Group-NZ-Limited and its subsidiaries, Westpac New Zealand Group Limited and its subsidiaries, St.George New Zealand Limited and St.George Financial Investment New Zealand Limited.

The Company is related to members of the NZ Banking Group as a fellow subsidiary of Westpac Banking Corporation.

Westpac Group Investment-NZ-Limited's sole subsidiary is Westpac Holdings-NZ-Limited, which in turn has its subsidiaries listed below:

Name of Subsidiary	Principal Activity	Notes
Augusta (1962) Limited	Non-trading company	
TBNZ Limited	Holding company	
TBNZ Capital Limited	Finance company	
TBNZ Developments Limited	Holding company	
TBNZ Investments Limited	Finance company	
TBNZ Equity Limited	Finance company	
TBNZ Investments (UK) Limited	Finance company	
Westpac Capital-NZ-Limited	Finance and holding company	
Aotearoa Financial Services Limited	Non-trading company	
Westpac Lease Discounting - NZ - Limited	Finance company	
Westpac Operations Integrated Limited	Finance company	
Westpac Financial Synergy Limited	Finance company	
Westpac Overseas Investments Limited	Finance company	
Westpac Equity Investments NZ Limited	Finance company	
Westpac Finance Limited	Finance company	
WestpacTrust Securities NZ Limited	Funding company	

The subsidiaries of BT Financial Group (NZ) Limited are listed below:

Name of Subsidiary	Principal Activity	Notes
Agri Private Capital Management Limited	Funds management company	
BT Funds Management NZ Limited	Funds management company	



# Westpac Life-NZ-Limited

## Notes to the financial statements (continued)

### Note 19. Related entities (continued)

The subsidiaries of Westpac Financial Services Group-NZ-Limited are listed below:

Name of Subsidiary	Principal Activity	Notes
Westpac Life-NZ-Limited	Life insurance company	
Westpac Nominees-NZ-Limited	Nominee company	
Westpac Superannuation Nominees-NZ-Limited	Nominee company	

The subsidiaries of Westpac New Zealand Group Limited are listed below:

Name of Subsidiary/Controlled Entity	Principal Activity	Notes
Westpac New Zealand Limited	Registered bank	
Westpac NZ Operations Limited	Holding company	
The Home Mortgage Company Limited	Residential mortgage company	
The Warehouse Financial Services Limited	Financial services company	51% owned
Westpac (NZ) Investments Limited	Property owning and capital funding company	
Westpac Securities NZ Limited	Funding company	
Westpac NZ Securitisation Holdings Limited	Holding company	Incorporated 14 October 2008, 9.5% owned
Westpac NZ Securitisation Limited	Investment company	Incorporated 14 October 2008
Westpac Term PIE Fund	Unit Trust	Established 20 July 2009

The NZ Banking Group has consolidated the following special purpose vehicles, used for the securitisation of the NZ Banking Group's own and customers' assets:

- Waratah Receivables Corporation (NZ) Limited;
- Waratah Securities Australia Limited (NZ Branch);
- WST - Funding Trust New Zealand (NZ Branch); and
- WST - NZ Warehouse Trust #1.

NZ Banking Group together with its subsidiaries provide retail, corporate and investment banking services.

All entities in the NZ Banking Group are 100% owned unless otherwise stated. All entities within the NZ Banking Group have a balance date of 30 September and are incorporated and domiciled in New Zealand, except TBNZ Investments (UK) Limited which is incorporated and domiciled in the United Kingdom and Waratah Securities Australia Limited which is incorporated and domiciled in Australia.

The NZ Banking Group has investments in a number of New Zealand industry-based initiatives as listed below:

- Mondex New Zealand Limited;
- Paymark Limited (previously Electronic Transaction Services Limited); and
- Interchange and Settlement Limited.

The NZ Banking Group does not have significant influence over these entities and therefore they are not classified as associates.

In addition to the above entities, the principal related parties of the NZ Banking Group are other significant divisions of the Overseas Banking Group, based in London, Hong Kong, Sydney, New York and Singapore.

Westpac NZ Securitisation Holdings Limited ('WNZSHL') and its wholly-owned subsidiary company, Westpac NZ Securitisation Limited ('WNZSL'), were incorporated on 14 October 2008. The NZ Banking Group, through two of its subsidiaries, has a qualifying interest of 19% in WNZSHL. Through contractual arrangements put in place, the NZ Banking Group is deemed to control both WNZSHL and WNZSL.

The Westpac Term PIE Fund ('Term PIE') was established on 20 July 2009 as a unit trust under the Unit Trusts Act 1960. Term PIE is a portfolio investment entity ('PIE'), where BT Funds Management (NZ) Limited is the manager and issuer of Term PIE. The manager has appointed Westpac New Zealand to perform all customer management and account administration for Term PIE. Westpac New Zealand is the fund's registrar and administration manager. Westpac New Zealand is considered to control Term PIE based on contractual arrangements put in place, and as such Term PIE is consolidated in the financial statements of the NZ Banking Group.

### Nature of Transactions

Loan finance, current account banking facilities and other financial products are provided by Westpac New Zealand Limited to the Company on normal commercial terms.

Management fees are paid by the Company to Westpac New Zealand Limited for certain operating costs incurred by Westpac New Zealand Limited.

Life insurance products are sold on behalf of the Company by other entities in the NZ Banking Group. Commission of \$25.6 million (2008: \$24.8 million) has been paid to these entities by the Company and these are included as policy expenses in the income statement.

Premium income of \$416,000 (2008: \$449,000) was received from related entities and this is included in premium income in the income statement.

The carrying amount of deposits with the NZ Branch is shown in note 10.

All investments held by the Company are managed by BT Funds Management (NZ) Limited. Total investment income recognised on these investments for the year was \$5,264,000 (2008: \$4,290,000).

Tax loss offsets are made between the Company and members of the NZ Banking Group.

The audit fee was paid by Westpac New Zealand Limited, and no audit fee was paid by the Company.

Revenue and expenses in relation to these related parties are arranged on an arms' length basis.

Amounts owing to and by related parties are normally settled within 90 days.

Transactions with related parties are disclosed separately in these financial statements.

# Westpac Life-NZ-Limited

## Notes to the financial statements (continued)

### Note 20. Priority of financial liabilities in the event of liquidation

	2009 \$'000	2008 \$'000
Other liabilities	1,758	1,709
Due to related entities	4,702	3,078
<b>Total financial liabilities</b>	<b>6,460</b>	<b>4,787</b>

### Note 21. Contingent liabilities and commitments

The Company has no contingent liabilities or commitments as at 30 September 2009 (2008: nil).

### Note 22. Solvency reserves

Based on actuarial advice the Directors have determined that as at 30 September 2009 \$33,526,000 (2008: \$32,692,000) of equity is to be retained as solvency reserves. The solvency reserve was determined in accordance with the New Zealand Society of Actuaries Professional Standard 5.01 "Solvency Reserving for Life Insurance Business".

### Note 23. Key management personnel remuneration

Key management personnel are defined as being Directors and senior management of the Company. The information relating to the key management personnel disclosed includes transactions with those individuals, their close family members and their controlled entities.

All Key management personnel are employed by the Company or entities controlled by the ultimate parent, Westpac Banking Corporation. Compensation for the key management personnel is borne by the Company's related entities, and forms part of the results of these entities.

	2009 \$'000	2008 \$'000
Salaries and other short-term benefits	4,546	4,728
Post-employment benefits	329	291
Other termination benefits	295	-
Share-based payments	2,865	1,182
<b>Total key management compensation</b>	<b>8,035</b>	<b>6,201</b>

### Note 24. Events occurring after the balance sheet date

The Directors are not aware of any significant events since the reporting date.

## **Auditors' Report**

To the shareholders of Westpac Life - NZ - Limited

We have audited the financial statements on pages 3 to 25. The financial statements provide information about the past financial performance and cash flows of the Company for the year ended 30 September 2009 and its financial position as at that date. This information is stated in accordance with the accounting policies set out on pages 7 to 11.

### **Directors' Responsibilities**

The Company's Directors are responsible for the preparation and presentation of the financial statements which give a true and fair view of the financial position of the Company as at 30 September 2009 and its financial performance and cash flows for the year ended on that date.

### **Auditors' Responsibilities**

We are responsible for expressing an independent opinion on the financial statements presented by the Directors and reporting our opinion to you.

### **Basis of Opinion**

An audit includes examining, on a test basis, evidence relevant to the amounts and disclosures in the financial statements. It also includes assessing:

- (a) the significant estimates and judgements made by the Directors in the preparation of the financial statements; and
- (b) whether the accounting policies are appropriate to the circumstances of the Company, consistently applied and adequately disclosed.

We conducted our audit in accordance with generally accepted auditing standards in New Zealand. We planned and performed our audit so as to obtain all the information and explanations which we considered necessary to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatements, whether caused by fraud or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

We have no relationship with or interests in the Company other than in our capacities as auditors and tax advisors.

**Auditors' Report**

To the shareholders of Westpac Life - NZ - Limited


**Unqualified Opinion**

We have obtained all the information and explanations we have required.

In our opinion:

- (a) proper accounting records have been kept by the Company as far as appears from our examination of those records; and
- (b) the financial statements on pages 3 to 25:
  - (i) comply with generally accepted accounting practice in New Zealand;
  - (ii) comply with International Financial Reporting Standards; and
  - (iii) give a true and fair view of the financial position of the Company as at 30 September 2009 and its financial performance and cash flows for the year ended on that date.

Our audit was completed on 24 February 2010 and our unqualified opinion is expressed as at that date.



Chartered Accountants

Auckland