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Westpac Life- NZ- Limited

Financial statements

For the year ended 30 September 2010

Westpac Life-NZ-Limited

Contents

This financial report covers Westpac Life-NZ-Limited ("the Company") 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 Directors of the Company at the date of this financial report are:

Name	Principal activity outside the Company
George Frazis	Chief Executive, Westpac New Zealand Limited
Richard Jamieson	Chief Financial Officer, Westpac New Zealand Limited
David McLean	GM Private Wealth and WIB
Ian New	Head of Product Risk Management and Chief Actuary
Mark Smith	General Manager Insurance, BT Financial Group

The financial report was authorised for issue by the directors on 28 February 2011

The Company has the power to amend and reissue the financial report.

Westpac Life-NZ-Limited

Directors' statement

Each Director of 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 27 give a true and fair view of the Company's financial position as at 30 September 2010;

(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 27 with the Financial Reporting Act 1993; and

(iii) there are reasonable grounds to believe that the Company 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 section 211 (1) of the Act.

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

Director

Director

Date: 28 February 2011

Westpac Life-NZ-Limited

Statement of comprehensive income for the year ended 30 September 2010

	Note	2010 $'000	2009 $'000
Insurance premium revenue	5	97,945	85,395
Outwards reinsurance premium expense		(8,231)	(9,097)
Net premium revenue		89,714	76,298
Investment income	5	4,998	5,264
Fee income and other income	5	9,923	12,132
Net revenue		104,635	93,694
Insurance claims and rebate expense		(40,177)	(35,545)
Reinsurance recoveries revenue	5	6,613	6,145
Net claims expenses		(33,564)	(29,400)
Changes in policy liabilities	11	3,063	4,686
Other operating expenses	6	(35,681)	(35,762)
Net claims and expenses		(66,182)	(60,476)
Profit before income tax expense		38,453	33,218
Income tax expense	7	(1,813)	(1,792)
Profit after income tax expense		36,640	31,426
Other comprehensive income, net of tax		-	-
Total comprehensive income for the year net of tax		36,640	31,426
Profit after income tax expense and total comprehensive income attributable to:			
Owners of the Company		36,640	31,426
Profit after income tax expense and total comprehensive income		36,640	31,426

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

Westpac Life-NZ-Limited

Statement of changes in equity for the year ended 30 September 2010

	Note	Attributable to the owners of the Company		
		Share Capital	Retained Profits	Total
		$'000	$'000	$'000
As at 1 October 2008		54,680	20,522	75,202
Year ended 30 September 2009				
Profit after income tax expense		-	31,426	31,426
Total comprehensive income for the year ended 30 September 2009		-	31,426	31,426
Transactions with owners:				
Ordinary share capital issued	14	20,520	-	20,520
Dividends paid on ordinary shares	15	-	(30,520)	(30,520)
As at 30 September 2009		75,200	21,428	96,628
Year ended 30 September 2010				
Profit after income tax expense		-	36,640	36,640
Total comprehensive income for the year ended 30 September 2010		-	36,640	36,640
Transactions with owners:				
Dividends paid on ordinary shares	15	-	(20,000)	(20,000)
As at 30 September 2010		75,200	38,068	113,268

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 2010

	Note	2010 $'000	2009 $'000
Assets			
Cash and cash equivalents with related entities	16	4,652	2,968
Financial assets at fair value through profit or loss	9	113,654	98,751
Due from related entities	16	30	27
Reinsurance recoveries receivable		4,998	5,674
Other assets		1,378	1,175
Property, plant and equipment	10	18	25
Total assets		124,730	108,620
Liabilities			
Claims reserve		19,241	18,283
Due to related entities	16	3,465	4,702
Derivative financial instruments		1,219	-
Policy liabilities	11	(28,978)	(25,915)
Current tax liabilities		1,970	126
Other liabilities	12	1,194	1,758
Deferred tax liabilities	13	13,351	13,038
Total liabilities		11,462	11,992
Net assets		113,268	96,628
Equity			
Share capital	14	75,200	75,200
Retained profits	14	38,068	21,428
Total equity attributable to owners of the Company		113,268	96,628

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

Westpac Life-NZ-Limited

Statement of cash flows for the year ended 30 September 2010

	2010 $'000	2009 $'000
Cash flows from operating activities		
Interest received	2,414	3,070
Premiums received	97,945	85,395
Other income received	9,717	12,788
Reinsurance income	7,289	6,587
Claims payments	(39,219)	(35,932)
Reinsurance payments	(8,348)	(9,097)
Other non-interest expenses paid	(36,139)	(34,076)
Income taxes received/(paid)	344	(1,129)
Net cash provided by operating activities	34,003	27,606
Cash flows from investing activities		
Sale of investments	56,219	47,705
Purchase of investments	(68,538)	(62,741)
Sale of fixed assets	-	5
Purchase of fixed assets	-	(23)
Net cash used in investing activities	(12,319)	(15,054)
Cash flows from financing activities		
Dividends paid	(20,000)	(10,000)
Net cash used in financing activities	(20,000)	(10,000)
Net increase in cash and cash equivalents	1,684	2,552
Cash and cash equivalents at the beginning of the year	2,968	416
Cash and cash equivalents at the end of the year	4,652	2,968
Cash and cash equivalents comprise:		
Cash - due from related entities	4,652	2,968
Cash and cash equivalents at the end of the year	4,652	2,968
Reconciliation of profit after income tax expense to net cash provided by operating activities		
Profit after income tax expense for the year	36,640	31,426
Adjustments:		
Depreciation/amortisation	7	13
Unrealised/realised gains	(2,584)	(2,194)
Movement in claims reserve (net of reinsurance recoveries)	1,634	55
Movement in policy liabilities	(3,063)	(4,686)
Movement in other assets	(203)	664
Movement in amounts due to and due from related entities	(1,240)	1,616
Movement in income tax provisions	2,157	663
Movement in other liabilities	(564)	49
Movement in derivative financial instruments	1,219	-
Net cash provided by operating activities	34,003	27,606

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

Notes to the financial statements

Note 1. Summary of significant accounting policies

a. General Information

These financial statements were authorised for issue by the Board of Directors of the Company (the 'Board') on 28 February 2011. The Board has the power to amend the financial statements after they are authorised for issue.

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.

b. Statutory base

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**'), as issued by the International Accounting Standards Board.

c. Basis of preparation

The financial statements are based on the general principles of historical cost accounting, as modified by the fair value accounting for 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 2009, except as amended for changes required due to the adoption of the new and revised accounting standards as explained in Note 1 (h) Changes in accounting policies.

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 2.

d. Rounding of amounts

Amounts in this financial report have been rounded to the nearest thousand.

e. Foreign currency

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

Foreign currency monetary assets and liabilities have been translated into New Zealand dollars at the spot rate of foreign exchange prevailing as at the 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 statement of comprehensive income, except where deferred in equity as qualifying cash flow hedges.

f. Particular accounting policies

Revenue recognition

Premium revenue

Premiums relating to policy liabilities with a regular due date are recognised as revenue in the statement of comprehensive income when they become payable by the contract holders. Premiums 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. Recoveries receivable are measured as the present value of the expected future receipts, calculated on the same basis as the liability for outstanding claims.

Interest income

Interest income for all instruments measured at amortised cost is recognised in the statement of comprehensive income using the effective interest method. Interest income for instruments measured at fair value through profit or loss is also recognised using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument, or where appropriate, a shorter period, to the net carrying amount of the financial asset or liability. When calculating the effective interest rate, cash flows are estimated based upon contractual terms and behavioural aspects of the financial instrument (e.g. prepayment options), but do not consider future credit losses. The calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Interest relating to impaired loans is recognised using the loans' original effective interest rate based on the net carrying value of the impaired loan after giving effect to any impairment losses. This rate is also used to discount the future cash flows for the purpose of measuring the impairment charges. For loans that have been impaired, this method results in cash receipts being apportioned between interest and principal.

Fee and commission income

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

Dividend income

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

Notes to the financial statements (continued)

Note 1. Summary of significant accounting policies (continued)

Financial assets at fair value through profit or loss

Realised gains and losses, and unrealised gains and losses arising from changes in the fair value of financial assets at fair value through profit or loss are recognised as investment income in the statement of comprehensive income in the period in which they arise except for recognition of day-one profits and losses which are deferred where certain inputs are unobservable. Interest income on financial assets at fair value through profit or loss is recognised as part of investment income.

Expense recognition

Claims expenses

All incurred insurance claims are recognised as expenses in the statement of comprehensive income. Claims are recognised in the statement of comprehensive income 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.

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.

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.

Current and deferred tax attributable to amounts recognised directly in other comprehensive income are also recognised directly in other comprehensive income.

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 either fair value through profit or loss or as loans and receivables. The Company's assets 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.

- ***Loans and receivables***

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Company provides money, goods or services directly to a debtor with no intention of trading the receivable.

Notes to the financial statements (continued)

Note 1. Summary of significant accounting policies (continued)

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. All other financial assets are recognised initially at fair value plus directly attributable transaction costs.

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 statement of comprehensive income 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 equivalents include cash and liquid assets. They are brought to account at the face value of the outstanding balance, where appropriate.

(ii) Fixed interest securities

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

(iii) Derivative financial instruments

Derivative financial instruments, including forwards, futures, swaps and options, are recognised in the balance sheet at fair value.

Fair values are obtained from quoted market prices, dealer price quotations, discounted cash flow models and option pricing models, which incorporate current market and contractual prices for the underlying instrument, time to expiry, yield curves and volatility of the underlying instrument. Derivatives are carried as assets or liabilities when the fair value is positive or negative.

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.

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-though' arrangement and cannot sell or repledge the asset other than to the transferee; and
- either the Company has transferred substantially all the risks and rewards of the asset, or 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.

Impairment of financial assets

The following accounting policy applies to the impairment of financial assets:

Assets carried at amortised cost

The Company assesses as at each balance date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a '**loss event**') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. Objective evidence that a financial asset or group of assets is impaired includes observable data that comes to the attention of the Company about the following loss events:

(i) significant financial difficulty of the issuer or obligor;

(ii) a breach of contract, such as a default or delinquency in interest or principal payments;

(iii) the Company granting to the borrower, for economic or legal reasons relating to the borrower's financial difficulty, a concession that the Company would not otherwise consider;

(iv) it becoming probable that the borrower will enter bankruptcy or other financial reorganisation;

(v) the disappearance of an active market for that financial asset because of financial difficulties; or

(vi) observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group, including:

   (a) adverse changes in the payment status of borrowers in the group; or

   (b) national or local economic conditions that correlate with defaults on the assets in the group.

The Company first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If the Company determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

Westpac Life-NZ-Limited

Notes to the financial statements (continued)

Note 1. Summary of significant accounting policies (continued)

If there is objective evidence that an impairment charge on loans carried at amortised cost has been incurred, the amount of the charge is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of a provision account and the amount of the loss is recognised in the statement of comprehensive income. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

For the purposes of a collective assessment of impairment, financial assets are grouped on the basis of similar credit risk characteristics (i.e. on the basis of the Company's grading process that considers asset type, industry, geographical location, past due status and other relevant factors). Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being assessed. Future cash flows in a group of financial assets that are collectively assessed for impairment are estimated on the basis of the contractual cash flows of the assets in the Company and historical loss experience for assets with credit risk characteristics similar to those in the Company. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently.

Estimates of changes in future cash flows for groups of assets should reflect and be directionally consistent with changes in related observable data from period to period (e.g. changes in unemployment rates, property prices, payment status, or other factors indicative of changes in the probability of losses in the group and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Company to reduce any differences between loss estimates and actual loss experience. When a loan is uncollectible, it is written off against the related provision for loan impairment. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off decrease the charge for loan impairment in the statement of comprehensive income. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment charge is reversed by adjusting the provision account. The amount of the reversal is recognised in the statement of comprehensive income.

Due from related entities

Due from related entities includes accrued income receivable and balances due from other related entities controlled by Westpac Banking Corporation ('WBC').

Property, plant and equipment

Property, plant and equipment are 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 statement of comprehensive income as an expense as incurred. Impairment losses are recognised as other operating expense in the statement of comprehensive income.

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 statement of comprehensive income.

Impairment of non- financial assets

The carrying amount of the Company's non-financial assets, other than deferred tax assets, 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 statement of comprehensive income.

The recoverable amount of an asset is the greater of its fair value less costs to sell 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.

Other assets

This amount includes commissions receivable under the company's fire and general insurance agency agreement.

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 statement of comprehensive income in the reporting period in which the assessment is made.

Westpac Life-NZ-Limited

Notes to the financial statements (continued)

Note 1. Summary of significant accounting policies (continued)

Due to related entities

This amount includes amounts due to other entities controlled by the ultimate parent company. Due to related entities includes accrual expense balances due to other related entities. They are measured at amortised cost.

Employee entitlements

(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.

(ii) 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.

Equity and reserves

Ordinary shares

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

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.

Netting of cash flows

Certain cash flows have been netted in order to provide more meaningful disclosure, as many of the cash flows are received and disbursed on behalf of customers and reflect the activities of those customers rather than the Company.

g. 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.

h. Changes in accounting policies

As a result of the new and revised accounting standards which became operative for the annual reporting period commencing 1 October 2009 the following standards, interpretations and amendments have been adopted with effect from 1 October 2009 in the preparation of these financial statements:

- NZ IFRS 7 *Financial Instruments: Disclosures* - The amendments require additional disclosures on fair value and liquidity risk.
- NZ IAS 1 *Presentation of Financial Statements* (revised) - The amendments affect the presentation of owner changes in equity and of comprehensive income, but do not change the recognition, measurement or disclosure of specific transactions and events required by other standards.

The only material change to accounting policies in the year ended 30 September 2010 is the separation of deferred taxation embedded in policy liabilities. This component is now disclosed within deferred tax liabilities in the balance sheet. Comparative figures have been restated resulting in the following changes to the following balance sheet items; Deferred tax assets reduced by ($102,000) to $nil, Policy liabilities reduced by ($13,140,000) to ($25,915,000), Deferred tax liabilities increased by $13,038,000 to $13,038,000. All other policies have been applied on a basis consistent with that used in the year ended 30 September 2009.

Notes to the financial statements (continued)

Note 1. Summary of significant accounting policies (continued)

l. Future accounting developments

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

- NZ IFRS 9 *Financial Instruments:* If this 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:
  - It replaces the multiple classification and measurement models in NZ IAS 39 *Financial Instruments: Recognition and Measurement* with a single model that has two classification categories: amortised cost and fair value;
  - 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 assets 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 separation of an embedded derivative where the host is a financial asset;
  - 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 and loss; and
  - 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 the tranche compared with the underlying portfolio. If an entity is unable to look through, then the tranche must be measured at fair value.
  - The standard will impact the classification and measurement of the Company's financial assets.
- NZ IAS 1 *Presentation of Financial Statements* - The amendments to the standard were issued in April 2009 and are applicable to the Company in the 2011 financial year. The amendments clarify that the terms of a liability, which could be settled at any time by the issuance of equity instruments at the option of the counterparty, do not affect its classification. It is not expected to have a material impact on the Company.
- NZ IAS 7 *Statement of Cash Flows* - Amendments to the standard were issued in April 2009 and are applicable to the Company in the 2011 financial year. The amendments clarify that only expenditure which results in a recognised asset can be classified as cash flow from investing activities. It is not expected to have a material impact on the Company.
- NZ IAS 24 *Related Party Disclosures* - The revised standard was approved in November 2009 and is applicable to the Company in the 2012 financial year. The main changes to the standard simplify the definition of a related party and clarify its intended meaning. It is not expected to have a material impact on the Company.
- NZ IAS 32 *Financial Instruments: Presentation* - Amendments to the standard were issued in October 2009 and are applicable to the Company in the 2011 financial year. The amendments clarify the classification of rights issues. It is not expected to have a material impact on the Company.

Note 2. Critical accounting estimates, judgments and estimates

The application of the Company's accounting policies necessarily requires the use of judgment, estimates and assumptions. Should different estimates, judgments or assumptions 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 3 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. Income taxes

The Company is subject to income taxes in New Zealand. Significant judgement is required in determining the provision for income taxes. There are many transactions and calculations undertaken during the ordinary course of business for which the ultimate tax determination is uncertain. The Company estimates its tax liabilities based on the Company's understanding of the tax law.

Notes to the financial statements (continued)

Note 2. Critical accounting estimates, judgments and estimates (continued)

Where the final outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred tax provisions in the period where such determination is made.

d. Fair value of financial instruments

Financial instruments classified as fair value through profit or loss 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 through profit or loss.

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 9.

Note 3. 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 2010. 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 Chief 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:

	2010	2009
Loan Cover	3.00%	2.70%
Mortgage Insurance and Flexicover Insurance	3.54%	4.40%
Other Major Products	4.46%	5.40%

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, excluding Ex-Trust Bank 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

Westpac Life-NZ-Limited

Notes to the financial statements (continued)

Note 3. Actuarial assumptions and methods (continued)

Maintenance Expenses

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

Product	Maintenance Expense 2010	Maintenance Expense 2009
Term Cover	$22.68 per annum per policy	$28.44 per annum per policy
Gold Term Cover	$28.44 per annum per policy	$31.56 per annum per policy
Simplicity Life	$25.20 per annum per policy	$31.56 per annum per policy
Disability Income Insurance	$28.44 per annum per policy	$31.56 per annum per policy
Gold Disability Income Insurance	$28.44 per annum per policy	$31.56 per annum per policy
Flexicover Insurance	5.2% of premiums	5.8% of premiums
Mortgage Insurance	8.0% of original single premium spread over the term	10% of original single premium spread over the term
Loan Cover	8.0% of original single premium spread over the term	10% of original single premium spread over the term
Bill Protection Insurance	$28.44 per annum per policy	$31.56 per annum per policy
Lifetime Guarantee and Kiwilife Senior	$25.20 per annum per policy	$31.56 per annum per policy
Kiwilife, Kiwicover and Kiwiguard	$25.20 per annum per policy	$31.56 per annum per policy
Accident Cover	$25.20 per annum per policy	$31.56 per annum per policy
Ex-Trust Bank Mortgage Insurance	5.2% of premiums	$31.56 per annum per policy

Inflation and automatic indexation of benefits

Maintenance expenses are assumed to increase at 2.5% per annum (2009: 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 (2009: 2.5% per annum).

Taxation

For the purposes of the actuarial calculations a taxation rate of 28% (2009: 30%) 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 apply, with allowance for the transitional tax arrangements provided under that Act.

A GST taxation rate of 15% (2009: 12.5%) has been assumed throughout.

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 2010	Mortality/Morbidity 2009
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 and Gold Disability Income Insurance.	Adjusted CIDA 85	Adjusted 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, Bill Protection Insurance and Loan Cover	Adjusted CIDA 85	Adjusted CIDA 85
Kiwicover, Kiwiguard and Accident Cover	Adjusted NZ 95/97	Adjusted NZ 95/97

Notes to the financial statements (continued)

Note 3. Actuarial assumptions and methods (continued)

Rates of Discontinuance

Projected rates of discontinuance of policies are as follows:

Product	Rate of Discontinuance 2010	Rate of Discontinuance 2009
Term Cover	11% 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	9% per annum	10% per annum
Gold Disability Income Insurance	14% per annum	15% 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
Bill Protection Insurance	25% per annum	25% per annum
Lifetime Guarantee	2.5% 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	15% per annum	18% 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 2009 to 2010 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 $6,135,000. The primary contributors to this impact were $25,856,000 arising from the changes to projected rates of discontinuance and $4,655,000 arising from the changes to projected non-commission maintenance expenses, offset by ($24,376,000) arising from the combined effects of changes to the life insurance tax regime, changes to rates of company tax and GST, and increases to premium rates in response to these tax changes.

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%	-13.1%
	-10%	+13.1%
Change in lapse rate	+10%	-11.2%
	-10%	+11.2%
Change of non-commission policy maintenance expenses	+10%	-0.7%
	-10%	+0.7%
Changes in discount rates	+0.1%	-0.6%
	-0.1%	+0.6%

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

Note 4. 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 are the requirements to:

- Protect the capital base;
- Ensure decision making is based on sound investment analysis;

Notes to the financial statements (continued)

Note 4. Risk management policies and procedures (continued)

- Ensure there is no excessive concentration of risk and portfolios remain well diversified; and
- 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.

This system of management assurance assists the 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.
- 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 3.

(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 changes in the value of financial instruments 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 risk that the Company will not be able to fund assets and meet obligations as they come due, without incurring unacceptable losses.

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

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.

Financial assets which potentially subject the Company to concentrations of credit risk consist of investments, reinsurance recoveries receivable and receivables owing by related parties.

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;

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Notes to the financial statements (continued)

Note 4. Risk management policies and procedures (continued)

- 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 recognised 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.
- 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 are actively monitored.

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 2010

	Neither past due nor impaired					Past due but not impaired $'000	Total $'000
	AAA $'000	AA $'000	A $'000	Not rated[1] $'000	Total $'000		
Cash and cash equivalents with related entities	-	4,652	-	-	4,652	-	4,652
Financial assets at fair value through profit or loss	23,733	-	-	89,921	113,654	-	113,654
Due from related entities	-	30	-	-	30	-	30
Reinsurance recoveries receivable	-	4,921	77	-	4,998	-	4,998
Other assets	-	-	1,331	47	1,378	-	1,378

30 September 2009

	Neither past due nor impaired					Past due but not impaired $'000	Total $'000
	AAA $'000	AA $'000	A $'000	Not rated[1] $'000	Total $'000		
Cash and cash equivalents with related entities	-	2,968	-	-	2,968	-	2,968
Financial assets at fair value through profit or loss	20,956	-	-	77,795	98,751	-	98,751
Due from related entities	-	27	-	-	27	-	27
Reinsurance recoveries receivable	-	5,284	390	-	5,674	-	5,674
Other assets	-	-	1,128	47	1,175	-	1,175

[1] 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 managed by 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 as at balance date.

Market risk

Market risk is the risk to earnings valuation from changes in market factors such as foreign exchange rates, interest rates, commodity prices and equity prices.

The main market risk that the Company faces is interest rate risk. This reflects the underlying nature of its investments and liabilities.

To manage market risk arising from policy liabilities the Company uses derivatives to manage interest rate risk.

To mitigate market risk arising from financial assets at fair value through profit or loss, the Company's investment manager 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 exist for all trading activities; and
- Models are used to determine risk and profit/loss.

In addition to these controls, the Company's investment manager uses derivatives to:

Westpac Life-NZ-Limited

Notes to the financial statements (continued)

Note 4. Risk management policies and procedures (continued)

- 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; or
- Manage the exposure within a portfolio to fluctuations in interest rates and foreign currency exchange 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 potential loss arising from the changes in the value of financial instruments due to changes in market interest rates or their implied volatilities.

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 a mix of fixed and variable rate instruments that management considers appropriate. 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 3.

Foreign currency risk

The Company is indirectly exposed to foreign currency movements in that future foreign currency movements will affect the market value of assets held within unit trusts. The unit trusts use derivative financial instruments to manage their foreign currency exposure.

Liquidity and cash flow risk

Liquidity risk is the risk that the Company will not be able to fund assets and meet obligations as they come due, without incurring unacceptable losses.

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.

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 balances in the tables below may not agree to the balance sheet as the tables incorporate 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 30 September 2010 is as follows:

30 September 2010	Up to 1 year[1] $'000	1 to 5 years $'000	Over 5 years $'000	No specific maturity	Total $'000
Financial assets					
Cash and cash equivalents with related entities	4,652	-	-	-	4,652
Financial assets at fair value through profit or loss	23,733		-	89,921	113,654
Due from related entities	30	-	-	-	30
Reinsurance recoveries receivable	4,998	-	-	-	4,998
Other assets	1,378	-	-	-	1,378
Total financial assets	34,791	-	-	89,921	124,712
Financial liabilities					
Due to related entities	3,465	-	-	-	3,465
Other liabilities	1,033	-	-	-	1,033
Derivative financial instruments	1,219	-	-	-	1,219
Total financial liabilities	5,717	-	-	-	5,717

[1] "Up to one year" are all commitments which are either contractually due within the timeframe or payable on demand.

Notes to the financial statements (continued)

Note 4. Risk management policies and procedures (continued)

	30 September 2009				
	Up to 1 year[1] $'000	1 to 5 years $'000	Over 5 years $'000	No specific maturity	Total $'000
Financial assets					
Cash and cash equivalents with related entities	2,968	-	-	-	2,968
Financial assets at fair value through profit or loss	20,956	-	-	77,795	98,751
Due from related entities	27	-	-	-	27
Reinsurance recoveries receivable	5,674	-	-	-	5,674
Other assets	1,175	-	-	-	1,175
Total financial assets	30,800	-	-	77,795	108,595
Financial liabilities					
Due to related entities	4,702	-	-	-	4,702
Other liabilities	1,658	-	-	-	1,658
Total financial liabilities	6,360	-	-	-	6,360

[1] "Up to one year" are all commitments which are either contractually due within the timeframe or payable on demand.

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.

Executive Risk and Audit Committee (ERAC) 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 action plans. Material matters are escalated to the Ultimate Parent Board Risk Management Committee, the Ultimate Parent Bank Board Audit Committee and the CEO of the Ultimate Parent Bank.

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 (Westpac Banking Corporation ("WBC")) 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.

Solvency reserves maintained by the Company are disclosed in Note 19.

Westpac Life-NZ-Limited

Notes to the financial statements (continued)

Note 5. Revenue and other income

	2010 $'000	2009 $'000
Insurance premium revenue	97,945	85,395
Investment income:		
Deposits with other financial institutions - interest income	32	511
Fixed rate notes - interest income	712	174
Realised and unrealised gains	4,254	4,579
Total investment income	4,998	5,264
Fees income and other income:		
Non risk fees	11,954	11,048
Other	448	1,084
Fair value gains / (losses) on derivative financial instruments	(2,479)	-
Total fee income and other income	9,923	12,132
Reinsurance recoveries revenue	6,613	6,145
Total revenue and other income	119,479	108,936

Note 6. Other operating expenses

	2010 $'000	2009 $'000
Salaries and other staff expenses	2,375	1,694
Depreciation:		
Leasehold improvements	-	5
Equipment	7	8
Equipment expenses	13	2
Lease and rental expenses	2	3
Policy expenses - to related entities	27,046	25,634
Policy expenses - other	346	324
Management fees to related entities	1,214	2,198
Other	4,615	5,894
Purchased services	63	-
Total operating expenses	35,681	35,762
Components of other operating expenses:		
Investment management expenses	422	342
Policy acquisition expenses:		
Commissions	12,059	12,083
Other	1,790	2,556
Policy maintenance expenses:		
Commissions	17,743	16,201
Other	3,667	4,580
Total operating expenses	35,681	35,762

The audit fees for the current year and the prior year have been borne by Westpac New Zealand Limited "WNZL".

Westpac Life-NZ-Limited

Notes to the financial statements (continued)

Note 7. Income tax expense

	2010 $'000	2009 $'000
Income tax expense		
Current income tax	1,976	1,110
Deferred income tax	313	47
Adjustments for prior year (over)/under provision	(476)	635
Total income tax expense	1,813	1,792
Reconciliation of income tax expense to profit before income tax expense		
Profit before income tax expense	38,453	33,218
Tax calculated at tax rate of 30% (2009: 30%)	11,536	9,965
Tax effect of amounts which are not deductible (assessable) in calculating taxable income:		
Imputation credits	-	(27)
Income not subject to tax	(16,842)	(17,255)
Expenses not deductible for tax purposes	7,591	8,474
Adjustments for prior year (over)/under provision	(476)	635
Impact of change in tax rate on deferred tax	5	-
Total income tax expense	1,813	1,792

The balance of the dividend withholding payment account as at 30 September 2010 was $nil (30 September 2009: $nil) and there was no movement during the year ended 30 September 2010 (30 September 2009: nil).

In May 2010 the New Zealand Government enacted a reduction in company tax rates from 30% to 28%, which will apply to the Company from 1 October 2011. Accordingly, the deferred taxes have been remeasured at 28% to the extent the underlying temporary differences are expected to reverse from 1 October 2011 onwards. As a result of this change in tax rate, the Company has recorded additional deferred tax expense of $5,471 in the statement of comprehensive income.

Imputation credit account

	2010 $'000	2009 $'000
Balance at beginning of the year	553	1,006
Withholding payments and imputation credits received	69	39
Income tax transfers	-	(492)
Balance at end of the year	622	553

The availability of these imputation credits is contingent on the Ultimate Parent Bank (the worldwide activities of Westpac Banking Corporation excluding its controlled entities) meeting the shareholder continuity rules. As a result of the merger of the Ultimate Parent Bank with St. George Bank Limited during the year ended 30 September 2009, it is possible that imputation credits of approximately $515,000 for the Company have been forfeited. The Ultimate Parent Bank Group (the worldwide activities of Westpac Banking Corporation including its controlled entities) is currently in discussions with the New Zealand Commissioner of Inland Revenue concerning this issue. If the imputation credits are forfeited there should be no financial impact on the Company.

Note 8. Margin on services profit

	2010 $'000	2009 $'000
Profit after income tax for the year arose from:		
Planned margins of revenues over expenses	28,097	26,465
Difference between actual and assumed experience	3,613	360
Loss recognition on groups of related products	-	-
Investment earnings on assets in excess of policy liabilities	2,652	3,352
Net commission on fire and general agency	1,685	1,887
Adjustments for prior year over / (under) provision	592	(635)
Other sources	1	(3)
Profit after income tax for the year	36,640	31,426

Westpac Life-NZ-Limited

Notes to the financial statements (continued)

Note 9. Financial assets at fair value through profit or loss

	2010 $'000	2009 $'000
Deposits with Public Trustee[1]	557	561
New Zealand Government securities	23,176	20,395
Unit trusts managed by related entities	89,921	77,795
Total financial assets at fair value through profit or loss	113,654	98,751
Amounts expected to be recovered within 12 months	23,176	20,395
Amounts expected to be recovered after 12 months	90,478	78,356
Total financial assets at fair value through profit or loss	113,654	98,751

[1]Life companies are legally required to keep a minimum of $500,000 on deposit with the Public Trustee.

Note 10. Property, plant and equipment

	2010 $'000	2009 $'000
Leasehold improvements		
Cost	1214	1214
Accumulated depreciation and impairment losses	(1214)	(1214)
Net carrying amount of leasehold improvements	-	-
Equipment		
Cost	1027	1027
Accumulated depreciation and impairment losses	(1012)	(1005)
Net carrying amount of equipment	15	22
Furniture and fittings		
Cost	256	256
Accumulated depreciation and impairment losses	(253)	(253)
Net carrying amount of furniture and fittings	3	3
Total net carrying amount of property, plant and equipment	18	25
Leasehold improvements		
Balance at beginning of the year	-	5
Depreciation	-	(5)
Balance at end of the year	-	-
Equipment		
Balance at beginning of the year	22	12
Additions	-	23
Disposals	-	(5)
Depreciation	(7)	(8)
Balance at end of the year	15	22
Furniture and fittings		
Balance at beginning of the year	3	3
Balance at end of the year	3	3
Total property, plant and equipment	18	25

Westpac Life-NZ-Limited

Notes to the financial statements (continued)

Note 11. Policy liabilities

	2010 $'000	2009 $'000
Balance at the beginning of the year	(25,915)	(21,229)
Movement in policy liabilities	(3,063)	(4,686)
Balance at the end of the year	(28,978)	(25,915)
Components of policy liabilities:		
Future policy benefits	387,937	309,223
Balance of future expenses	159,071	98,332
Planned margins of revenues over expenses	239,074	202,292
Future charges for acquisition costs	-	-
Balance of future revenues	(802,324)	(622,622)
Policy liabilities at the end of the year	(16,242)	(12,775)
Deferred tax liability element of policy liabilites	(12,736)	(13,140)
Balance at the end of the year	(28,978)	(25,915)
Amounts expected to be settled within 12 months	4,796	4,445
Amounts expected to be settled after 12 months	(21,038)	(17,220)
Total policy liabilities	(16,242)	(12,775)

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. This new tax basis applies to the Company from 1 July 2010. The Company is now using the transitional tax arrangements for its existing business, as provided for under that Act.

Note 12. Other liabilities

	2010 $'000	2009 $'000
Accrued expenses	807	1,433
Other liabilities	226	225
Provision for annual leave and other staff benefits	156	95
Provision for long service leave	5	5
Total other liabilities	1,194	1,758
Amounts expected to be settled within 12 months	1,189	1,753
Amounts expected to be settled after 12 months	5	5
Total other liabilities	1,194	1,758

Note 13. Deferred tax liabilities

	2010 $'000	2009 $'000
Deferred tax liabilities attributable to the following:		
Accrued expenses and provisions	(35)	(23)
PIE income	750	-
Depreciable and amortisable assets		
Property plant and equipment	(100)	(79)
Deferred tax on policy liabilities	12,736	13,140
Balance at the end of the year	13,351	13,038
Amounts expected to be settled within 12 months	692	(40)
Amounts expected to be settled after 12 months	12,659	13,078
Balance at the end of the year	13,351	13,038
Deferred tax movements		
Balance at the beginning of the year	13,038	12,937
Current period temporary differences	536	453
Prior year adjustments	(121)	(352)
Other adjustments	(102)	-
Balance at the end of the year	13,351	13,038

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 statement of comprehensive income over the period services are provided to policyholders.

Westpac Life-NZ-Limited

Notes to the financial statements (continued)

Note 14. Equity

	2010 $'000	2009 $'000
Issued and paid up capital		
73,520,000 ordinary shares - fully paid	73,520	73,520
6,000,000 ordinary shares - partly paid	1,680	1,680
Total share capital	75,200	75,200

	2010 $'000	2009 $'000
Ordinary shares		
Ordinary shares at the beginning of the year	75,200	54,680
Shares issued during the year[1]	-	20,520
Ordinary shares at the end of the year	75,200	75,200

	2010 Number of Issued Shares	2009 Number of Issued Shares
Number of ordinary shares at the beginning of the year	79,520,000	59,000,000
Number of shares issued during the year[1]	-	20,520,000
Number of ordinary shares at the end of the year	79,520,000	79,520,000

	2010 $'000	2009 $'000
Retained profits		
Retained profits at the beginning of the year	21,428	20,522
Profit after income tax attributable to owners of the Company	36,640	31,426
Dividends paid	(20,000)	(30,520)
Retained profits at the end of the year	38,068	21,428

[1] The bonus shares of $20,520,000 were issued fully paid up from the retained profits of the Company in the prior year pursuant to clause 2.5 of the Constitution of Company and sections 42 and 48 of the Companies Act 1993 ('Act'). Those retained profits of the Company were deemed to have been allocated, pro-rata, to the bonus shares.

Terms and conditions

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. The shares have no par value, as per section 38 of the Companies Act 1993.

Note 15. Dividends

The dividends distribution for the year ended 30 September 2010 of $20,000,000 equates to 27.20 cents per paid ordinary share (2009: $30,520,000 at 41.81 cents per paid ordinary share).

Notes to the financial statements (continued)

Note 16. Related entities

Ultimate Holding Company

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

Due from related entities

	2010 $'000	2009 $'000
Cash and cash equivalents	4,652	2,968
Accrued income	14	14
Trade debtors	16	13
Total due from related entities	4,682	2,995

Due to related entities

	2010 $'000	2009 $'000
Creditors	3,075	4,186
Accrued expenses	390	516
Total due to related entities	3,465	4,702

Nature of Transactions

Current account banking facilities and other financial products are provided by Westpac New Zealand Limited ("WNZL") to the Company on normal commercial terms. WNZL is a member of the NZ Banking Group to which the Company is related as a fellow subsidiary of Westpac Banking Corporation.

Derivative transactions are carried out between WBC NZ Branch and the Company on normal commercial terms.

Management fees of $788,000 (2009: $1,775,000) are paid by the Company to WNZL for certain operating costs incurred by WNZL. These are included in other operating expenses.

Life insurance products are sold on behalf of the Company by WNZL and The Warehouse Financial Services Limited. Commission of $27,100,000 (2009: $25,600,000) has been paid to these entities by the Company and these are included as policy expenses in the statement of comprehensive income.

Premium income of $389,000 (2009: $416,000) was received from WNZL and this is included in insurance premium revenue in the statement of comprehensive income.

Cash and cash at bank due from related entities comprised $4,652,000 (2009: $2,968,000) held with WNZL. Of this balance $4,096,000 (2009: $2,426,000) is managed by BT Funds Management Limited on the Company's behalf.

All investments held by the Company are managed by BT Funds Management (NZ) Limited ("BTNZ"). Total investment income recognised on these investments for the year was $4,997,000 (2009: $5,264,000). The balance of the unit trust managed by BTNZ is as disclosed in note 9.

Investment management fees paid by the Company to BTNZ were $398,000 in 2010 (2009: $326,000). The balances outstanding at year end were $35,000 in 2010 (2009:$30,000).

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

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.

The audit fees for the current year and the prior year have been borne by WNZL.

Note 17. Contingent assets, contingent liabilities and commitments

There were no contingent assets, contingent liabilities or unrecognised contractual commitments as at 30 September 2010 (2009: Nil)

Note 18. Fair value of financial instruments

Financial assets and financial liabilities are measured on an ongoing basis either at fair value or at amortised cost in the balance sheet. However, NZ IFRS 7 requires the disclosure of the fair value of those financial instruments not already carried at fair value in the balance sheet. The fair value is the amount for which an asset could be exchanged, or a liability settled, in an arm's-length transaction between knowledgeable, willing parties. The fair value disclosure does not cover those instruments that are not considered financial instruments from an accounting perspective such as income taxes and intangible assets.

Quoted market prices, when available, are used as the measure of fair values. Where quoted market prices do not exist, fair values are derived using present value or other market accepted valuation techniques. These techniques involve uncertainties and are affected by the assumptions used and judgments made regarding risk characteristics of various financial instruments, discount rates, estimates of future cash flows, future expected loss experience and other factors. Changes in assumptions could significantly affect these estimates and the resulting fair values.

Unit prices provided by the fund manager are used to determine the fair value of investments in unlisted unit trusts.

The fair value estimates were determined by application of the methods and assumptions described below.

Other financial assets and liabilities

The carrying amount of these items is a reasonable approximation of fair value as they are either predominantly short-term in nature or reprice frequently and are of a high credit rating.

Notes to the financial statements (continued)

Note 18. Fair value of financial instruments (continued)

The tables below summarise the categories of financial instruments and the carrying value and fair value of all financial instruments of the Company.

30 September 2010

	Classified at Fair Value through profit or loss				2010 $'000	2010 $'000
	Held for Trading $'000	Designated upon Initial Recognition $'000	Loans and Receivable $'000	Financial Liabilities at Amortised Cost $'000	Total Carrying Amount $'000	Estimated Fair Value $'000
Financial assets						
Cash and cash equivalents with related entities	-	-	4,652	-	4,652	4,652
Financial assets at fair value through profit or loss	113,654	-	-	-	113,654	113,654
Due from related entities	-	-	30	-	30	30
Reinsurance recoveries receivable	-	-	4,998	-	4,998	4,998
Other assets	-	-	1,378	-	1,378	1,378
Total financial assets	113,654	-	11,058	-	124,712	124,712
Financial liabilities						
Other liabilities	-	-	-	1,033	1,033	1,033
Due to related entities	-	-	-	3,465	3,465	3,465
Derivative financial instruments	1,219	-	-	-	1,219	1,219
Total financial liabilities	1,219	-	-	4,498	5,717	5,717

30 September 2009

	Classified at Fair Value through profit or loss				2009 $'000	2009 $'000
	Held for Trading $'000	Designated upon Initial Recognition $'000	Loans and receivable $'000	Financial Liabilities at Amortised Cost $'000	Carrying Amount $'000	Total Estimated Fair Value $'000
Financial assets						
Cash and cash equivalents with related entities	-	-	2,968	-	2,968	2,968
Financial assets at fair value through profit or loss	98,751	-	-	-	98,751	98,751
Due from related entities	-	-	27	-	27	27
Reinsurance recoveries receivable	-	-	5,674	-	5,674	5,674
Other assets	-	-	1,175	-	1,175	1,175
Total financial assets	98,751	-	9,844	-	108,595	108,595
Financial liabilities						
Other liabilities	-	-	-	1,658	1,658	1,658
Due to related entities	-	-	-	4,702	4,702	4,702
Total financial liabilities	-	-	-	6,360	6,360	6,360

Westpac Life-NZ-Limited

Notes to the financial statements (continued)

Note 18. Fair value of financial instruments (continued)

Fair value hierarchy

The Company categorises all fair value measurements according to the following fair value hierarchy:

Quoted market price (Level 1)

This valuation technique uses recent unadjusted quoted prices for identical assets or liabilities in active markets where the price represents actual and regularly occurring market transactions on an arm's length basis.

Valuation technique using observable inputs (Level 2)

This valuation technique is used for financial instruments where quoted market prices are not available so prices are derived from standard valuation models, and inputs to these models are directly observable. The valuation techniques include the use of discounted cash flow analysis, option pricing models and other valuation techniques widely used and accepted by market participants.

Valuation technique with significant non- observable inputs (Level 3)

This valuation technique is used where at least one significant input is not observable and reliance is placed on reasonable assumptions based on market conditions. These estimates are calibrated against industry standards, economic models and observable transaction prices where possible. Financial instruments included in this category show illiquidity in the market. Some valuations rely on estimation from related markets or proxies.

The Company did not hold any financial instruments in the Level 3 category as at 30 September 2010 (30 September 2009: nil).

Due to the number of different valuation models used and the underlying assumptions made regarding inputs selected, such as timing and amounts of future cash flows, discount rates, credit risk and volatility, it is often difficult to compare the fair value information disclosed here, against the fair value information disclosed by other financial entities.

There have been no transfers between Levels 1 and 2 during the year ended 30 September 2010 (30 September 2009: nil).

	30 September 2010				30 September 2009			
	Quoted Market Prices	**Valuation Techniques (Market Observable)**	**Valuation Techniques (Non-Market Observable)**	**Total**	Quoted Market Prices	Valuation Techniques (Market Observable)	Valuation Techniques (Non-Market Observable)	Total
	$'000	**$'000**	**$'000**	**$'000**	$'000	$'000	$'000	$'000
Financial Assets								
Financial assets at fair value through profit or loss	-	113,654	-	113,654	-	98,751	-	98,751
Total financial assets carried at fair value	-	113,654	-	113,654	-	98,751	-	98,751
Financial Liabilities								
Derivative financial instruments	-	1,219	-	1,219	-	-	-	-
Total financial liabilities carried at fair value	-	1,219	-	1,219	-	-	-	-

Note 19. Solvency reserves

Based on actuarial advice the Directors have determined that as at 30 September 2010 $45,716,000 (2009: $33,526,000) 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 20. Key management personnel remuneration

No compensation was paid by the Company to its key management personnel during 2010 (2009: nil).

Westpac Life-NZ-Limited

Independent audit report to the shareholder of Westpac Life- NZ- Limited

PWC TO COMPILE

Independent Auditors' Report
to the shareholder of Westpac Life-NZ-Limited

Report on the Financial Statements
We have audited the financial statements of Westpac Life-NZ-Limited on pages 3 to 27, which comprise the balance sheet as at 30 September 2010, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' Responsibility for the Financial Statements
The Directors are responsible for the preparation of these financial statements in accordance with generally accepted accounting practice in New Zealand and that give a true and fair view of the matters to which they relate and for such internal controls as the Directors determine are necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility
Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing (New Zealand) and International Standards on Auditing. These standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers the internal controls relevant to the entity's preparation of financial statements that give a true and fair view of the matters to which they relate, in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

We have no relationship with, or interests in, Westpac Life-NZ-Limited other than in our capacities as auditor and tax advisors. These matters have not impaired our independence as auditors of the Company.

pwc

Independent Auditors' Report

Westpac Life-NZ-Limited

Opinion

In our opinion, the financial statements on pages 3 to 27:

(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 2010, and its financial performance and cash flows for the year then ended.

Report on Other Legal and Regulatory Requirements

We also report in accordance with Sections 16(1)(d) and 16(1)(e) of the Financial Reporting Act 1993. In relation to our audit of the financial statements for the year ended 30 September 2010:

(i) we have obtained all the information and explanations that we have required; and

(ii) in our opinion, proper accounting records have been kept by the Company as far as appears from an examination of those records.

Restriction on Distribution or Use

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

PricewaterhouseCoopers

Chartered Accountants
28 February 2011

Auckland