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Westpac Life-NZ-Limited

Financial statements

For the year ended 30 September 2012

NRC# 07
- 1 MAR 2013

Westpac Life-NZ-Limited

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These financial statements cover Westpac Life-NZ-Limited as an individual entity.

Westpac Life-NZ-Limited is a company limited by shares, incorporated and domiciled in New Zealand. Its registered office is:

Westpac on Takutai Square
16 Takutai Square
Auckland

Westpac Life-NZ-Limited

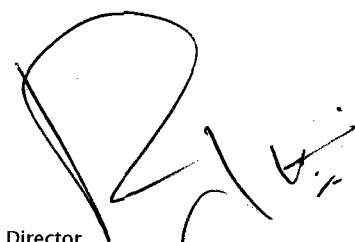
Directors' report

The Board of Directors ('Board') has pleasure in presenting the financial statements of Westpac Life-NZ-Limited ('Company') and the independent auditors' report for the year ended 30 September 2012.

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

The Board authorised these financial statements on 14 February 2013.

For and on behalf of the Board.



Director

Date: 14/2/13



Director

Date: 14.2.13

Westpac Life-NZ-Limited

Statement of comprehensive income for the year ended 30 September

	Note	2012 \$'000	2011 \$'000
Insurance premium revenue	5	119,002	107,634
Outwards reinsurance premium expense		(9,473)	(8,673)
Net premium revenue		109,529	98,961
Investment income	5	8,078	5,830
Fee income and other income	5	11,199	12,259
Net revenue		128,806	117,050
Insurance claims and rebate expense		(47,568)	(48,545)
Reinsurance recoveries revenue	5	7,484	7,629
Net claims expenses		(40,084)	(40,916)
Changes in policy liabilities	12	12,636	6,951
Other operating expenses	6	(46,178)	(40,876)
Net claims and expenses		(73,627)	(74,841)
Profit before income tax expense		55,179	42,209
Income tax expense	7	(7,233)	(2,526)
Profit after income tax expense		47,946	39,683
Other comprehensive income		-	-
Total comprehensive income, net of tax		47,946	39,683
Profit after income tax expense and total comprehensive income, net of tax, attributable to:			
Owners of the Company		47,946	39,683
		47,946	39,683

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

	Note	Attributable to owners of the Company		Total
		Share Capital	Retained Profits	
		\$'000	\$'000	\$'000
As at 1 October 2010		75,200	38,068	113,268
Year ended 30 September 2011				
Profit after income tax expense		-	39,683	39,683
Total comprehensive income for the year ended 30 September 2011		-	39,683	39,683
As at 30 September 2011		75,200	77,751	152,951
Year ended 30 September 2012				
Profit after income tax expense		-	47,946	47,946
Total comprehensive income for the year ended 30 September 2012		-	47,946	47,946
As at 30 September 2012		75,200	125,697	200,897

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

	Note	2012 \$'000	2011 \$'000
Assets			
Cash and cash equivalents	16	8,119	11,065
Financial assets at fair value through profit or loss	10	189,017	142,855
Due from related entities	16	-	1
Reinsurance recoveries receivable		5,963	5,705
Property, plant and equipment	11	27	19
Other assets		1,430	1,069
Total assets		204,556	160,714
Liabilities			
Derivative financial instruments	16	807	1,864
Current tax liabilities		2,717	1,580
Due to related entities	16	6,593	4,503
Claims reserve		20,233	18,359
Policy liabilities	12	(48,564)	(35,929)
Deferred tax liabilities	13	20,563	16,150
Other liabilities	14	1,310	1,236
Total liabilities		3,659	7,763
Net assets		200,897	152,951
Equity			
Share capital	15	75,200	75,200
Retained profits		125,697	77,751
Total equity attributable to owners of the Company		200,897	152,951

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

	2012 \$'000	2011 \$'000
Cash flows from operating activities		
Interest received	727	896
Premiums received	119,002	107,634
Other income received	9,782	13,242
Reinsurance income received	7,226	6,922
Claims payments	(45,694)	(49,427)
Reinsurance payments	(9,473)	(8,673)
Other operating expenses paid	(44,002)	(39,783)
Income taxes (paid)/received	(1,683)	(117)
Net cash provided by operating activities	35,885	30,694
Cash flows from investing activities		
Sale of investments	48,358	46,137
Purchase of investments	(87,169)	(70,404)
Sale of property, plant and equipment	-	3
Purchase of property, plant and equipment	(20)	(17)
Net cash used in investing activities	(38,831)	(24,281)
Net (decrease)/increase in cash and cash equivalents	(2,946)	6,413
Cash and cash equivalents at the beginning of the year	11,065	4,652
Cash and cash equivalents at the end of the year	8,119	11,065
Reconciliation of profit after income tax expense to net cash provided by operating activities		
Profit after income tax expense	47,946	39,683
Adjustments:		
Depreciation	12	13
Fair value gains on financial assets at fair value through profit or loss	(7,351)	(4,934)
Movement in amounts due from and due to related entities	2,091	1,067
Movement in other assets	(361)	309
Movement in derivative financial instruments	(1,057)	645
Movement in current tax liabilities and deferred tax liabilities	5,550	2,409
Movement in claims reserve (net of reinsurance recoveries receivable)	1,616	(1,589)
Movement in policy liabilities	(12,635)	(6,951)
Movement in other liabilities	74	42
Net cash provided by operating activities	35,885	30,694

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

Westpac Life-NZ-Limited

Notes to the financial statements

Note 1. General Information

These financial statements were authorised for issue by the Board on 14 February 2013. 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 some insurance agency arrangements.

Note 2. Summary of significant accounting policies

a. 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 New Zealand Generally Accepted Accounting Practice, applicable New Zealand equivalents to International Financial Reporting Standards ('NZ IFRS') and other authoritative pronouncements of the External Reporting 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. The Company is carrying on insurance business in New Zealand and is therefore subject to the requirements set out in the Insurance (Prudential Supervision) Act 2010 ("the Act"), including licensing and supervision by the Reserve Bank of New Zealand. The Company was granted a provisional licence by the Reserve Bank of New Zealand on 22 February 2012, subject to standard conditions which include a requirement to prepare and file financial statements in accordance with the Act for the financial year ending 30 September 2012, and subsequent periods. Accordingly, these financial statements have also been prepared in accordance with the Act.

b. Basis of preparation

The financial statements are based on the general principles of historical cost accounting, as modified by fair value accounting for financial assets and financial liabilities at fair value through profit or loss, including 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 and methods of computation have been followed in preparing these financial statements that were used in preparing the financial statements for the year ended 30 September 2011, except as amended for changes required due to the adoption of the new and revised accounting standards as explained in Note 2(g).

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

The preparation of financial statements in conformity with NZ IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Company's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 2(i).

c. Rounding of amounts

Amounts in these financial statements have been rounded to the nearest thousand dollars unless otherwise stated.

d. Foreign currency

Items included in the financial statements 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 rate of foreign exchange prevailing as at the balance 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.

e. 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 interest earning financial assets including those at fair value is recognised in the statement of comprehensive income 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 of 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 to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, cash flows are estimated based upon all contractual terms of the financial instrument (e.g. prepayment options) but do not consider future credit losses. The calculation includes all fees and other amounts 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.

Westpac Life-NZ-Limited

Notes to the financial statements

Note 2. Summary of significant accounting policies (continued)

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 during which the services are performed.

Gain or loss on financial assets at fair value through profit or loss

Realised gains or losses, and unrealised gains or 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. Interest income on financial assets at fair value through profit or loss is recognised as part of interest income.

Gain or loss on sale of property, plant and equipment

The gain or loss arising on the disposal or retirement of property, plant and equipment is determined as the difference between the sale proceeds less costs of disposal and the carrying amount of the respective asset and is recognised in the statement of comprehensive income as other 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 year comprises current tax and movement in deferred tax balances.

Current tax is the expected tax payable on the taxable income for the financial year, 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 years.

Deferred tax is accounted for 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.

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. 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 financial assets either as financial assets at fair value through profit or loss or as loans and receivables. Management determines the classification of its financial assets at initial recognition.

Westpac Life-NZ-Limited

Notes to the financial statements

Note 2. Summary of significant accounting policies (continued)

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

This category has two sub-categories: first, financial assets held for trading and second, those designated at fair value through profit or loss at inception. A financial asset is classified in this category if acquired principally for the purpose of selling it in the near term, if it is part of a portfolio of 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 contains an embedded derivative, it is managed on a fair value basis in accordance with a documented risk management strategy or if designating it at fair value reduces 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.

Recognition and measurement 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. Loans and receivables are recognised when the Company becomes a party to the contractual provision of the instrument. Financial assets at fair value through profit or loss are recognised at fair value. Loans and receivables 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. Loans and receivables are subsequently carried at amortised cost using the effective interest method. Realised and unrealised gains or 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.

Derecognition of financial assets

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or where the Company has transferred all the risks and rewards of ownership.

Cash and cash equivalents

Cash and cash equivalents include cash at bank, at call money market deposits and other investments in highly liquid assets. Cash and cash equivalents are brought to account at the face value or the gross value of the outstanding balance, where appropriate. They are accounted for as loans and receivables.

Fixed income securities

Fixed income securities are stated at fair value which is the market price of individual securities held at balance date.

Shares in listed companies and units held in unit trusts or managed funds

Shares in listed companies and units held in unit trusts or managed funds are stated at net market value based on the end-of-day price quoted by the stock exchange or fund manager.

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, independent 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.

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'), the Ultimate Parent Bank.

Other assets

Other assets include commissions receivable under insurance agency arrangements.

Westpac Life-NZ-Limited

Notes to the financial statements

Note 2. Summary of significant accounting policies (continued)

Impairment of financial assets

The following accounting policy applies to the impairment of financial assets carried at amortised cost.

The Company assesses 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 charges are recognised 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 recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the Company, including:
 - (a) adverse changes in the payment status of borrowers in the Company; or
 - (b) national or local economic conditions that correlate with defaults on the assets in the Company.

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.

If there is objective evidence that an impairment on loans and receivables 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 is the current effective interest rate determined under the contract.

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 costs of assets less any residual value over their estimated useful lives, as follows:

- | | |
|--------------------------|---------------|
| • Equipment | Up to 4 years |
| • Furniture and fittings | 4 to 10 years |

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 sheet date to determine whether there is any indication of impairment. If such an indication exists, the asset's recoverable amount is estimated. An impairment charge is recognised whenever the carrying amount of an asset or its cash generating unit ('CGU') exceeds its recoverable amount. Where an impairment charge subsequently reverses, the carrying amount of the asset (or CGU) 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 charge been recognised for the asset (or CGU) in prior years. Impairment charges and reversals of impairment charges 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. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the CGU to which the asset belongs.

Liabilities

Financial liabilities

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

- **Financial liabilities at fair value through profit or loss**

This category has two sub-categories: first, financial liabilities held for trading and second, those designated at fair value through profit or loss at inception. A financial liability is classified in this category if incurred principally for repurchasing it in the near term, if it is part of a portfolio of financial liabilities 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 initial recognition by management. This designation may only be made if the financial liability contains an embedded derivative, it is managed on a fair value basis in accordance with a documented risk management strategy or if designating it at fair value reduces an accounting mismatch.

Westpac Life-NZ-Limited

Notes to the financial statements

Note 2. Summary of significant accounting policies (continued)

- **Financial liabilities at amortised cost**

This category includes all financial liabilities other than those at fair value through profit or loss. Liabilities in this category are measured at amortised cost.

Due to related entities

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

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.

Employee entitlements

The following accounting policies relate to wages and salaries, annual leave, sick leave, long service leave and superannuation obligations. All employees are employed by other entities controlled by WBC, rather than by the Company. These entities pay these expenses to the employees and are then reimbursed by the Company.

- **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 liabilities 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.

- **Long service leave**

Liabilities for long service leave expected to be settled within 12 months of the balance date are recognised in other liabilities 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 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 as at the balance date on government bonds with terms that match as closely as possible to the estimated timing of future cash flows.

- **Superannuation obligations**

Obligations for contributions to the defined contribution superannuation scheme are recognised as operating expense in the statement of comprehensive income as incurred.

Equity

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 New Zealand equivalent to International Accounting Standards ('NZ IAS') 7 *Statement of Cash Flows*.

Cash and cash equivalents

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

f. 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.

Westpac Life-NZ-Limited

Notes to the financial statements

Note 2. Summary of significant accounting policies (continued)

g. Changes in accounting policies

As a result of the new and revised accounting standards which became effective for the annual reporting period commencing 1 October 2011 the following standards, interpretations and amendments have been adopted with effect from 1 October 2011 in the preparation of these financial statements:

- **NZ IFRS 7 *Financial Instruments: Disclosures* ('NZ IFRS 7')** – The amendments add an explicit statement that qualitative disclosure should be made in the context of the quantitative disclosures to better enable users to evaluate an entity's exposure to risks arising from financial instruments. In addition, certain disclosure requirements have been amended and removed.
- **NZ IAS 24 *Related Party Disclosures*** – The main changes to the standard simplify the definition of a related party and clarify its intended meaning.
- ***Amendments to NZ IFRSs to Harmonise with IFRS and Australian Accounting Standards*** – The amendments remove certain New Zealand-specific disclosures and relocated certain disclosure requirements to a new standard.
- **Financial Reporting Standard 44 *New Zealand Additional Disclosures*** – This new standard is applicable only to New Zealand and is a consequence of the joint Trans-Tasman Convergence project of the Australian Accounting Standards Board and Financial Reporting Standards Board. This standard relocates certain New Zealand specific disclosures from other NZ IFRS and also revises certain disclosures.

Adoption of the revised accounting standards has not resulted in any material change to the Company's reported result or financial position.

h. 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 2016 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 instrument 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 or loss; and
 - if an entity holds an investment in asset-backed securities it must determine the classification of that investment by looking through to the underlying assets and assess the credit quality of the investment compared with the underlying portfolio of assets. If an entity is unable to look through, then the investment must be measured at fair value.

The reissued version of the standard in December 2010 included the requirements for classification and measurement of financial instruments including both financial assets and financial liabilities as well as recognition and derecognition requirements for financial instruments. The main additional change as a result of the reissued version relates to the measurement of financial liabilities. Specifically, the portion of a change of fair value relating to the entity's own credit risk for financial liabilities measured at fair value utilising the fair value option is presented in other comprehensive income, except when that would create an accounting mismatch. If such a mismatch would be created or enlarged, the entity is required to present all changes in fair value (including the effects of changes in the credit risk of the liability) in profit or loss.

The standard will impact the classification and measurement of the Company's financial instruments.

- **NZ IFRS 13 *Fair Value Measurement*** – The new standard was issued in June 2011 and is applicable to the Company in the 2014 financial year. The new standard establishes a single source of guidance under NZ IFRSs for determining the fair value of assets and liabilities. The new standard does not change when an entity is required to use fair value, but rather, provides guidance on how to determine fair value under NZ IFRS when fair value is required or permitted by that NZ IFRS. It is not expected to have a material impact on the Company.
- ***Disclosures – Offsetting Financial Assets and Financial Liabilities* (Amendments to NZ IFRS 7)** was issued in February 2012 and will be effective to the Company in the 2014 financial year. The amendment requires disclosure of information that will enable users to evaluate the effect or potential effect of netting arrangements, including rights of set-off associated with recognised financial assets and liabilities on the Company's financial position. The amendment is not expected to have a material impact on the Company.

Westpac Life-NZ-Limited

Notes to the financial statements

Note 2. Summary of significant accounting policies (continued)

- *Offsetting Financial Assets and Financial Liabilities* (Amendments to NZ IAS 32 Financial Instruments: Presentation ('NZ IAS 32')) was issued in February 2012 and will be effective to the Company in the 2015 financial year. The amendment provides application guidance to addressing inconsistencies applied to offsetting criteria provided in NZ IAS 32, including clarifying the meaning of current legal enforceable right of set-off and that some gross settlement systems may be considered as the equivalent to net settlement. The amendment is not expected to have a material impact on the Company.

i. Critical accounting estimates, judgment and assumptions

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

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; and
- 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.

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.

Assets arising from reinsurance contracts are recognised in the balance sheet as reinsurance recoveries receivable.

Income taxes

The Company is subject to income taxes in New Zealand. Significant judgment 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. Where the final outcome of these matters is different from the amounts initially recorded, such differences will impact the current and deferred tax provisions in the period when such determinations are made.

Fair value of financial instruments

Financial instruments classified as held for trading or designated at fair value through profit or loss are recognised in the financial statements at fair value. All derivatives are measured and recognised at fair value.

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

Financial instruments are either priced with reference to a quoted market price for that instrument or by using a valuation model. Where the fair value is calculated using a valuation model, the methodology used is to calculate the expected cash flows under the terms of each specific contract and then discount these values back to the present value. 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 18.

Westpac Life-NZ-Limited

Notes to the financial statements

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 solvency reserving requirement is 30 September 2012. The actuarial valuation for the Company was prepared by Ian New, who is the Appointed Actuary of the Company and a Fellow of the New Zealand Society of Actuaries. 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 expenses, 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 Appointed 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 Appointed Actuary of the Company 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.

(i) Discount rates

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

	2012	2011
Loan Cover	2.225%	2.575%
Mortgage Insurance and Flexicover Insurance	2.465%	2.985%
Other Major Products	3.330%	4.160%

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

(ii) Profit carriers

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

Product type	Method	Profit Carrier
Term Cover	Projection	Premium
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

(iii) Maintenance expenses

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

Product	2012 Maintenance Expense	2011 Maintenance Expense
Term Cover (\$ per annum per policy)	\$20.88	\$20.88
Gold Term Cover (\$ per annum per policy)	\$29.16	\$29.16
Simplicity Life (\$ per annum per policy)	\$23.28	\$23.28
Disability Income Insurance (\$ per annum per policy)	\$29.16	\$29.16
Gold Disability Income Insurance (\$ per annum per policy)	\$29.16	\$29.16
Flexicover Insurance (% of premiums)	5.2%	5.2%
Mortgage Insurance (% of original single premium spread over the term)	8.0%	8.0%
Loan Cover (% of original single premium spread over the term)	8.0%	8.0%
Bill Protection Insurance (\$ per annum per policy)	\$29.16	\$29.16
Lifetime Guarantee and Kiwilife Senior (\$ per annum per policy)	\$23.28	\$23.28
Kiwilife, Kiwicover and Kiwiguard (\$ per annum per policy)	\$23.28	\$23.28
Accident Cover (\$ per annum per policy)	\$23.28	\$23.28
Ex-Trust Bank Mortgage Insurance (% of premiums)	5.2%	5.2%

Westpac Life-NZ-Limited

Notes to the financial statements

Note 3. Actuarial assumptions and methods (continued)

(iv) Inflation and automatic indexation of benefits

Maintenance expenses are assumed to increase at 2.5% per annum (30 September 2011: 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 (30 September 2011: 2.5% per annum).

(v) Taxation

For the purposes of the actuarial calculations, a taxation rate of 28% (30 September 2011: 28%) has been assumed throughout. The taxation basis that applies post enactment of the Taxation (International Taxation, Life Insurance and Remedial Matters) Act ('Taxation Act') has been assumed to apply, with allowance for the transitional tax arrangements provided under that Taxation Act.

A GST taxation rate of 15% (30 September 2011: 15%) has been assumed throughout.

(vi) Rebate values

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

(vii) Unit-linked business

The Company has no unit-linked business.

(viii) Participating business

The Company has no participating business.

(ix) 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	2012	2011
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

(x) Rates of discontinuance

Projected rates of discontinuance of policies were as follows:

Product	2012	2011
Term Cover (% per annum)	10.0%	10.0%
Gold Term Cover (% per annum)	7.0%	7.0%
Simplicity Life (% per annum)	10.0%	10.0%
Disability Income Insurance (% per annum)	8.0%	9.0%
Gold Disability Income Insurance (% per annum)	12.0%	13.0%
Mortgage Insurance (% per annum)	15.0%	15.0%
Flexicover Insurance (% per annum)	18.0%	20.0%
Loan Cover (% per annum)	35.0%	35.0%
Bill Protection Insurance (% per annum)	20.0%	20.0%
Lifetime Guarantee (% per annum)	1.5%	2.0%
Kiwilife (% per annum)	10.0%	10.0%
Kiwilife Senior (% per annum)	3.0%	3.0%
Kiwicover, Kiwiguard (% per annum)	10.0%	10.0%
Accident Cover (% per annum)	7.0%	7.0%
Ex-Trust Bank Mortgage Insurance (% per annum)	15.0%	15.0%

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

Westpac Life-NZ-Limited

Notes to financial statements

Note 3. Actuarial assumptions and methods (continued)

(xi) Effect of changes in actuarial assumptions

The changes in actuarial assumptions from 2011 to 2012 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 (from 2010 to 2011: nil). Aside from the changes in discount rates, the changes in actuarial assumptions had the effect of decreasing the present value of future planned profit margins by \$(14,720,000) (30 September 2011: increasing by \$64,874,000). The primary contributors to this impact were:

- \$1,755,000 (30 September 2011: \$42,507,000) arising from the changes to projected rates of discontinuance;
- \$499,000 (30 September 2011: \$1,714,000) arising from the changes to projected non-commission maintenance expenses;
- \$49,000 (30 September 2011: \$(7,078,000)) arising from changes to projected rates of incidence of morbidity claims (30 September 2011: morbidity and redundancy claims); and
- \$(17,023,000) arising from changes to premium rates (30 September 2011: \$27,731,000).

Other modelling changes had the effect of increasing the present value of future planned profit margins by \$1,831,000 (30 September 2011: \$547,000).

(xii) 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 discontinuances. 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.

	2012		2011	
	Change in Variable	Impact on Future Planned Profit	Change in Variable	Impact on Future Planned Profit
Change in mortality and morbidity	+10%	-13.3%	+10%	-12.7%
	-10%	+13.3%	-10%	+12.7%
Change in discontinuance rate	+10%	-11.8%	+10%	-11.1%
	-10%	+11.8%	-10%	+11.1%
Change of non-commission policy maintenance expense	+10%	-0.6%	+10%	-0.6%
	-10%	+0.6%	-10%	+0.6%
Changes in discount rates	+0.1%	-0.7%	+0.1%	-0.7%
	-0.1%	+0.7%	-0.1%	+0.7%

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

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;
- 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 lives insured. 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.

Westpac Life-NZ-Limited

Notes to the financial statements

Note 4. Risk management policies and procedures (continued)

c. Categories of risks

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 gender 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 its financial obligations to the Company;
- Market risk - 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:
 - Interest rate risk - the potential loss arising from changes in the value of financial instruments due to changes in market interest rates or their implied volatilities;
 - Currency risk - the potential loss arising from changes in the value of financial instruments due to changes in foreign exchange rates or their implied volatilities;
 - Equity price risk - the potential loss arising from decline in value of equity instruments due to changes in their quoted market value or implied volatilities; and
- 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 the above financial risks are set out below.

Credit risk

Credit risk is the potential for financial loss where a counterparty fails to meet its financial obligations to 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 entities.

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

- Exposures to counterparties are monitored and controlled to ensure significant deterioration in credit quality is identified, credit risk management information is accurate and complete and excessive concentrations of credit risk are identified and controlled;
- Credit risk limits for investment assets are defined within a 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; and
- 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 amounts recoverable from reinsurers expose the Company to credit risk. Exposure to and the credit quality of reinsurance counterparties are actively monitored.

Westpac Life-NZ-Limited

Notes to the financial statements

Note 4. Risk management policies and procedures (continued)

The following table provides information regarding the credit risk exposure of the Company. The credit quality of these 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 2012							
	Neither past due nor impaired				Subtotal	Past Due But not impaired	Total
	AAA	AA	A	Not Rated			
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Financial assets subject to credit risk							
Cash and cash equivalents	-	8,119	-	-	8,119	-	8,119
Financial assets at fair value through profit or loss ¹	-	31,109	-	-	31,109	-	31,109
Due from related entities	-	-	-	-	-	-	-
Reinsurance recoveries receivable	-	5,963	-	-	5,963	-	5,963
Other assets	-	-	1,364	66	1,430	-	1,430
Total maximum exposure to credit risk	-	45,191	1,364	66	46,621	-	46,621

30 September 2011							
	Neither past due nor impaired				Subtotal	Past Due But not impaired	Total
	AAA	AA	A	Not Rated			
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Financial assets subject to credit risk							
Cash and cash equivalents	-	11,065	-	-	11,065	-	11,065
Financial assets at fair value through profit or loss ¹	-	24,398	-	-	24,398	-	24,398
Due from related entities	-	1	-	-	1	-	1
Reinsurance recoveries receivable	-	5,566	139	-	5,705	-	5,705
Other assets	-	-	1,028	41	1,069	-	1,069
Total maximum exposure to credit risk	-	41,030	1,167	41	42,238	-	42,238

¹ The amount excludes investments in unit trusts as they are treated as investments in equity instruments and hence they are not regarded as being exposed to credit risk for the purpose of this disclosure.

Market risk

Market risk is the risk of an adverse impact on earnings resulting 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 the risk and impact on profit or loss.

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

- protect an asset or portfolio against a fluctuation in market value;
- reduce the transaction costs of achieving a desired market exposure;
- immediately adjust the asset exposure within the established strategy;
- adjust the duration of fixed interest portfolios; 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 changes in the value of financial instruments due to changes in market interest rates or their implied volatilities.

Westpac Life-NZ-Limited

Notes to the financial statements

Note 4. Risk management policies and procedures (continued)

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 does not have a direct exposure to foreign currency risk as it does not have foreign currency denominated financial instruments. However, it may be indirectly exposed to foreign currency risk from the underlying investments in unit trusts (refer to related discussions on equity price risk below).

Equity price risk

The Company is exposed to equity price risk arising from its investments in unit trusts. The underlying investments of these unit trusts indirectly expose the Company to various risks such as interest rate risk, foreign currency risk and credit risk. However, these risks are assumed to be captured by equity price risk given that these investments are considered to be equity instruments.

The following table provides the after tax impact on profit or loss and equity for a reasonably possible change in equity prices:

	2012 \$'000	2011 \$'000
0.25% decrease in unit trust prices	(284)	(213)
0.25% increase in unit trust prices	284	213

Liquidity 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 policy holder obligations.

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 profiles for financial assets and liabilities are as follows:

30 September 2012					
	Up to 1 Year ¹ \$'000	1 to 5 Years \$'000	Over 5 Years \$'000	No Specific Maturity ² \$'000	Total \$'000
Financial assets					
Cash and cash equivalents	8,119	-	-	-	8,119
Financial assets at fair value through profit or loss	31,109	-	-	157,908	189,017
Due from related entities	-	-	-	-	-
Reinsurance recoveries receivable	4,290	901	772	-	5,963
Other assets	1,430	-	-	-	1,430
Total financial assets	44,948	901	772	157,908	204,529
Financial liabilities					
Derivative financial instruments	807	-	-	-	807
Due to related entities	6,593	-	-	-	6,593
Claims reserve	18,244	1,091	898	-	20,233
Other liabilities	1,100	-	-	-	1,100
Total financial liabilities	26,744	1,091	898	-	28,733

¹ Amounts classified under 'Up to 1 Year' refer to all commitments which are either contractually due within the timeframe or payable on demand.

² Amounts classified under 'No Specific Maturity' refer to investments in unit trusts.

Westpac Life-NZ-Limited

Notes to the financial statements

Note 4. Risk management policies and procedures (continued)

	30 September 2011				Total \$'000
	Up to 1Year ¹	1to 5 Years	Over 5 Years	No Specific Maturity ²	
	\$'000	\$'000	\$'000	\$'000	
Financial assets					
Cash and cash equivalents	11,065	-	-	-	11,065
Financial assets at fair value through profit or loss	24,398	-	-	18,457	42,855
Due from related entities	1	-	-	-	1
Reinsurance recoveries receivable	4,503	581	621	-	5,705
Other assets	1,069	-	-	-	1,069
Total financial assets	41,036	581	621	18,457	60,695
Financial liabilities					
Derivative financial instruments	1,864	-	-	-	1,864
Due to related entities	4,503	-	-	-	4,503
Claims reserve	16,781	800	778	-	18,359
Other liabilities	1,054	-	-	-	1,054
Total financial liabilities	24,202	800	778	-	25,780

¹ Amounts classified under 'Up to 1 Year' refer to all commitments which are either contractually due within the timeframe or payable on demand.

² Amounts classified under 'No Specific Maturity' refer to investments in unit trusts.

(iii) Compliance risk

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

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

Executive Risk and Audit Committee of Westpac New Zealand Limited ('WNZL ERAC') meets quarterly and is responsible for overseeing the effectiveness and implementation of the Operational Risk and Compliance Frameworks. WNZL ERAC 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.

(iv) Operational risk

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

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

A tangible benefit of the Ultimate Parent Bank Group Operational 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.

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

Westpac Life-NZ-Limited

Notes to the financial statements

Note 5. Revenue and other income

	Year Ended 30 September 2012 \$'000	Year Ended 30 September 2011 \$'000
Insurance premium revenue	119,002	107,634
Investment income:		
Deposits with other financial institutions - interest income	44	32
Fixed rate notes - interest income	683	864
Fair value gains on financial assets at fair value through profit or loss	7,351	4,934
Total investment income	8,078	5,830
Fees income and other income:		
Non risk fees	15,255	12,438
Other	(10)	1,940
Fair value losses on derivative financial instruments	(4,046)	(2,119)
Total fee income and other income	11,199	12,259
Rinsurance recoveries revenue	7,484	7,629
Total revenue and other income	146,763	133,352

Westpac Life-NZ-Limited

Notes to the financial statements

Note 6. Other operating expenses

	Year Ended 30 September 2012 \$'000	Year Ended 30 September 2011 \$'000
Salaries and other staff expenses		
Salaries and wages	3,082	2,695
Employee entitlements	27	44
Defined contribution plans	245	191
Restructuring costs	5	-
Other staff expenses	62	24
Total salaries and other staff expenses	3,421	2,954
Equipment and occupancy expenses		
Depreciation:		
Equipment	12	10
Furniture and fittings	-	3
Equipment repairs and maintenance	3	-
Lease and rental expenses	5	10
Other equipment and occupancy expenses	8	9
Total equipment and occupancy expenses	28	32
Other expenses		
Advertising	18	10
Management fees - related entities	2,208	2,086
Policy expenses - related entities	35,014	29,947
Policy expenses - other	228	319
Postage and freight	151	456
Purchased services	655	413
Stationery	200	136
Training	14	33
Travel	175	139
Other	4,066	4,351
Total other expenses	42,729	37,890
Total other operating expenses	46,178	40,876
Components of other operating expenses:		
Investment management expenses	611	531
Policy acquisition expenses:		
Commissions	15,754	14,016
Other	2,793	2,555
Policy maintenance expenses:		
Commissions	22,071	19,390
Other	4,949	4,384
Total other operating expenses	46,178	40,876

Westpac Life-NZ-Limited

Notes to the financial statements

Note 7. Income tax expense

	Year Ended 30 September 2012 \$'000	Year Ended 30 September 2011 \$'000
Income tax expense		
Current tax		
- Current year	2,717	1,702
- Prior year adjustments	103	(1,975)
Deferred tax		
- Current year - impact of change in tax rate	-	(67)
- Current year - other	4,413	2,866
Total income tax expense	7,233	2,526
Reconciliation of income tax expense to profit before income tax expense		
Profit before income tax expense	55,179	42,209
Tax calculated at tax rate of 28% (30 September 2011: 30%)	15,460	12,663
Tax effect of amounts which are not deductible/(assessable) in calculating taxable income:		
Income not subject to tax	(8,359)	(8,354)
Expenses not deductible for tax purposes	39	259
Prior year adjustments	103	(1,975)
Impact of change in tax rate on deferred tax	-	(67)
Total income tax expense	7,233	2,526

In May 2010 the New Zealand Government enacted a reduction in company tax rates from 30% to 28%, which applies 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. No deferred tax expense was recorded as a result of the change in tax rate (30 September 2011: reduced by \$67,000).

Note 8. Imputation credit account

	Year Ended 30 September 2012 \$'000	Year Ended 30 September 2011 \$'000
Balance at beginning of the year	738	622
Imputation credit attached to distributions received	230	116
Balance at end of the year	968	738

Note 9. Margin on services profit

	Year Ended 30 September 2012 \$'000	Year Ended 30 September 2011 \$'000
Profit after income tax expense arose from:		
Planned margins of revenues over expenses	38,924	34,028
Difference between actual and assumed experience	804	(2,557)
Investment earnings on assets in excess of policy liabilities	6,090	4,019
Net commission on fire and general agency	2,231	2,208
Adjustments for prior year (under)/over provision	(103)	1,975
Other sources	-	10
Profit after income tax expense	47,946	39,683

Westpac Life-NZ-Limited

Notes to the financial statements

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

	2012 \$'000	2011 \$'000
Deposits with Public Trustee ¹	557	544
New Zealand Government securities	30,552	23,854
Unit trusts managed by related entities	157,908	18,457
Total financial assets at fair value through profit or loss	189,017	142,855
Amounts expected to be recovered within 12 months	188,460	142,311
Amounts expected to be recovered after 12 months	557	544
Total financial assets at fair value through profit or loss	189,017	142,855

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

Note 11. Property, plant and equipment

	2012 \$'000	2011 \$'000
Equipment		
Cost	58	38
Accumulated depreciation and impairment losses	(31)	(19)
Net carrying amount of equipment	27	19
Furniture and fittings		
Cost	4	4
Accumulated depreciation and impairment losses	(4)	(4)
Net carrying amount of furniture and fittings	-	-
Total net carrying amount of property, plant and equipment	27	19
Equipment		
Balance at beginning of the year	19	15
Additions	20	17
Disposals	-	(3)
Depreciation	(12)	(10)
Balance at end of the year	27	19
Furniture and fittings		
Balance at beginning of the year	-	3
Depreciation	-	(3)
Balance at end of the year	-	-
Total property, plant and equipment	27	19

Westpac Life-NZ-Limited

Notes to the financial statements

Note 12. Policy liabilities

	2012 \$'000	2011 \$'000
Balance at the beginning of the year	(35,929)	(28,978)
Changes in policy liabilities	(12,635)	(6,951)
Balance at the end of the year	(48,564)	(35,929)
Components of policy liabilities:		
Future policy benefits	588,511	503,089
Balance of future expenses	250,214	210,597
Future charges for acquisition costs	-	-
Planned margins of revenues over expenses	337,840	310,637
Balance of future revenues	(1,205,489)	(1,044,968)
Policy liabilities at the end of the year	(28,924)	(20,645)
Deferred tax liability element of policy liabilities (refer to Note 13)	(19,640)	(15,284)
Balance at the end of the year	(48,564)	(35,929)
Policy liabilities excluding deferred tax liability:		
Amounts expected to be settled within 12 months	4,627	5,519
Amounts expected to be settled after 12 months	(33,551)	(26,164)
Total policy liabilities	(28,924)	(20,645)

Note 13. Deferred tax liabilities

	2012 \$'000	2011 \$'000
Deferred tax liabilities attributable to the following:		
Accrued expenses and provisions	(38)	(34)
PIE income	967	919
Property, plant and equipment	(6)	(19)
Policy liabilities	19,640	15,284
Balance at the end of the year	20,563	16,150
Amounts expected to be settled within 12 months	1,935	837
Amounts expected to be settled after 12 months	18,628	15,313
Balance at the end of the year	20,563	16,150
Movements		
Balance at the beginning of the year	16,150	13,351
Charged to the income statement	4,413	2,799
Balance at the end of the year	20,563	16,150

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 policy holders.

Note 14. Other liabilities

	2012 \$'000	2011 \$'000
Accrued expenses	1,064	1,050
Other liabilities	36	4
Provision for annual leave and other staff benefits	210	182
Total other liabilities	1,310	1,236
Amounts expected to be settled within 12 months	1,310	1,236
Amounts expected to be settled after 12 months	-	-
Total other liabilities	1,310	1,236

Westpac Life-NZ-Limited

Notes to the financial statements

Note 15. Equity

	2012 Number of Issued Shares	2011 Number of Issued Shares
Balance at the beginning of the year	79,520,000	79,520,000
Transactions during the year	-	-
Balance at the end of the year¹	79,520,000	79,520,000

¹ Of the 79,520,000 ordinary shares issued, 6,000,000 ordinary shares are partially paid.

Ordinary shares

Subject to the constitution of the Company each ordinary share confers on its holder the right to one vote on a poll at meetings of shareholders, the right to an equal share in dividends authorised by the Board and the right to an equal share in the distribution of the surplus assets of the Company in the event of liquidation.

The 6,000,000 partially paid ordinary shares originally issued for \$1.00 are paid up to \$0.28 per share. These partially paid ordinary shares carry no voting rights and do not participate in dividends. The unpaid 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.

Dividends paid

In 2012, the Company paid dividends to ordinary shareholders amounting to nil (30 September 2011: nil). The amount of dividends per share is nil (30 September 2011: nil).

Note 16. Related entities

Ultimate holding company

The Company is a wholly-owned subsidiary of Westpac Financial Services Group-NZ-Limited. The ultimate parent company is WBC, which is incorporated in Australia and whose financial statements are available, free of charge, at www.westpac.com.au.

Nature of transactions

Current account banking facilities and other financial products are provided by the Westpac Banking Corporation - New Zealand Branch ('NZ Branch') to the Company on normal commercial terms.

Premium income of \$337,000 (30 September 2011: \$364,000) was received from WNZL and is included in insurance premium revenue in the statement of comprehensive income.

All investments held by the Company are managed by BT Funds Management (NZ) Limited ('BTFMNZL'). BTFMNZL is an indirectly wholly owned subsidiary of WBC. Total investment income recognised on these investments for the year was \$8,078,000 (30 September 2011: \$5,830,000). The balance of the unit trusts managed by BTFMNZL is disclosed in Note 10.

Life insurance products are sold on behalf of the Company by WNZL and have previously been sold by The Warehouse Financial Services Limited ('TWFSL'). TWFSL is a controlled entity of WNZL. Commissions of \$35,014,000 (30 September 2011: \$29,947,000) were paid to these entities by the Company and these are included as other operating expenses in the statement of comprehensive income.

Salaries and other staff expenses amounting to \$3,421,000 (30 September 2011: \$2,954,000) were reimbursed by the Company to entities controlled by WBC. Under existing employment agreements, these salaries and other staff expenses relate to employees who are employed by other entities controlled by WBC.

Management fees of \$1,639,000 (30 September 2011: \$1,600,000) were paid by the Company to WNZL for certain operating costs incurred by WNZL. These are included in other operating expenses.

Investment management fees paid by the Company to BTFMNZL were \$569,000 (30 September 2011: \$486,000). They are included in other operating expenses.

Tax loss offsets are made between the Company and members of the WBC New Zealand Banking Group (New Zealand operations of WBC Group).

The audit fees amounting to \$45,000 (30 September 2011: \$45,000) have been borne by WNZL.

Except for cash and derivative financial instruments, amounts owing to and by related entities are normally settled within 90 days.

Balances with related entities are disclosed below.

Westpac Life-NZ-Limited

Notes to the financial statements

Note 16. Related entities (continued)

Due from and to related entities

	2012 \$'000	2011 \$'000
Due from related entities		
Trade debtors - WNZL	-	1
Total due from related entities	-	1
Amounts expected to be recovered within 12 months	-	1
Amounts expected to be recovered after 12 months	-	-
Total due from related entities	-	1
Due to related entities		
Accrued expenses - WNZL	2,889	4,022
Sundry creditors - WNZL	3,704	435
Sundry creditors - BTFMNZL	-	46
Total due to related entities	6,593	4,503
Amounts expected to be recovered within 12 months	6,593	4,503
Amounts expected to be recovered after 12 months	-	-
Total due to related entities	6,593	4,503

Cash and cash equivalents amounting to nil (30 September 2011: \$10,441,000) were deposited with WNZL and managed by BTFMNZL on the Company's behalf.

Cash and cash equivalents amounting to \$4,423,000 (30 September 2011: nil) were deposited with NZ Branch and managed by BTFMNZL on the Company's behalf.

Cash and cash equivalents amounting to \$3,696,000 (30 September 2011: \$624,000) were deposited with the NZ Branch.

Derivative transactions are carried out between the NZ Branch and the Company on normal commercial terms. The notional amount of the derivative financial instruments was \$1,434,000,000 (30 September 2011: \$961,185,000). The fair value is disclosed in the balance sheet.

Note 17. Key management personnel

In accordance with the Board Charter, at least half of the directors of the Company are to be independent non-executive directors. The Company currently has a target board composition of six directors. During the year the Company appointed three independent non-executive directors. The Board is currently chaired by one of the independent non-executive directors.

The Board has adopted a number of governance policies in accordance with the Reserve Bank of New Zealand Governance Guidelines. Non-executive directors appointed to the Board are considered by the WBC Nominations Committee. An assessment of fitness and propriety of directors and senior management is conducted in accordance with the Company's Fit and Proper Policy.

Key management personnel are defined as being Directors and senior management of the Company. The Company paid no compensation to its non-independent key management personnel during the year (30 September 2011: nil) as any compensation is paid by other entities controlled by WBC and, where appropriate, is reimbursed by the Company as agreed with the relevant employee entity. However the Company paid compensation to its independent key management personnel during the year amounting to \$48,000 (30 September 2011: 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. NZ IFRS 7 requires the disclosure of the fair value of financial instruments not already carried at fair value in the balance sheet. Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. 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 presented are estimates derived by reference to actual cash flows implicit in observable market prices or through modelling cash flows using appropriate financial markets pricing models. 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.

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

Investment in unit trusts

Unit prices provided by the fund manager were used to determine the fair value of investments in unlisted unit trusts. The carrying value represents the fair value.

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.

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

Westpac Life-NZ-Limited

Notes to the financial statements

Note 18. Fair value of financial instruments (continued)

30 September 2012					
	Classified at Fair Value Through Profit or Loss				
	Held for Trading	Loans and Receivables	Financial Liabilities at Amortised Cost	Total Carrying Amount	Estimated Fair Value
	\$'000	\$'000	\$'000	\$'000	\$'000
Financial assets					
Cash and cash equivalents	-	8,119	-	8,119	8,119
Financial assets at fair value through profit or loss	189,017	-	-	189,017	189,017
Due from related entities	-	-	-	-	-
Reinsurance recoveries receivable	-	5,963	-	5,963	5,963
Other assets	-	1,430	-	1,430	1,430
Total financial assets	189,017	15,512	-	204,529	204,529
Financial liabilities					
Derivative financial instruments	807	-	-	807	807
Due to related entities	-	-	6,593	6,593	6,593
Other liabilities	-	-	1,100	1,100	1,100
Total financial liabilities	807	-	7,693	8,500	8,500

30 September 2011					
	Classified at fair Value Through Profit or Loss				
	Held for Trading	Loans and Receivables	Financial Liabilities at Amortised Cost	Total Carrying Amount	Estimated Fair Value
	\$'000	\$'000	\$'000	\$'000	\$'000
Financial assets					
Cash and cash equivalents with related entities	-	11,065	-	11,065	11,065
Financial assets at fair value through profit or loss	142,855	-	-	142,855	142,855
Due from related entities	-	1	-	1	1
Reinsurance recoveries receivable	-	5,705	-	5,705	5,705
Other assets	-	1,069	-	1,069	1,069
Total financial assets	142,855	17,840	-	160,695	160,695
Financial liabilities					
Derivative financial instruments	1,864	-	-	1,864	1,864
Due to related entities	-	-	4,503	4,503	4,503
Other liabilities	-	-	1,054	1,054	1,054
Total financial liabilities	1,864	-	5,557	7,421	7,421

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.

Westpac Life-NZ-Limited

Notes to the financial statements

Note 18. Fair value of financial instruments (continued)

All amounts reported as financial assets at fair value through profit or loss and derivative financial instruments are carried at fair value. Fair value is determined using Level 2 in the fair value hierarchy.

The Company did not hold any financial instruments in the Level 3 category as at 30 September 2012 (30 September 2011: nil).

There have been no transfers between Levels 1 and 2 during the year ended 30 September 2012 (30 September 2011: nil).

There have also been no transfers into or out of Level 3 during the year ended 30 September 2012 (30 September 2011: 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.

Note 19. Solvency reserves

The Board's policy is to maintain a strong capital base to protect policyholders' and creditors' interests and meet the regulatory requirements. It is a condition of the Company's provisional licence that the Company complies at all times with the Solvency Standard for Life Insurance Business ("Solvency Standard") issued by the Reserve Bank of New Zealand. The Directors have adopted a policy of holding a buffer amount of free capital over and above the minimum level of capital required by the Solvency Standard.

As at 30 September 2012, the minimum solvency capital required to be held by the Company under the Solvency Standard was \$84,621,000 (30 September 2011: \$76,787,000). The actual solvency capital held by the Company as at 30 September 2012 was \$199,217,000 (30 September 2011: \$174,467,000), representing 235% (30 September 2011: 227%) of the minimum level of capital required. These solvency calculations have been applied across the Company's total business in aggregate, as the Company had not established a statutory fund as at 30 September 2012. Note that the amounts disclosed in this note as at 30 September 2011 are unaudited.

Note 20. Contingent assets, contingent liabilities and commitments

There were no contingent assets, contingent liabilities or unrecognised contractual commitments as at 30 September 2012 (30 September 2011: nil).

Note 21. Events after the balance date

It is a condition of the Company's provisional licence that the Company establish a statutory fund which effectively separates life insurance assets and policy liabilities from any other business carried out by the Company. The statutory fund was established by the Company on 1 October 2012 and will be disclosed in the Company's first set of interim financial statements for the six months ending 31 March 2013.

Prior to 1 October 2012, Life Insurance companies were legally required to keep a minimum of \$500,000 on deposit with the Public Trustee. This amount will be refunded when a full licence is granted under the Act.



Independent Auditors' Report

to the shareholders 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 29 which comprise the balance sheet as at 30 September 2012, the statement of comprehensive income, the statement of changes in equity and statement of cash flows for the year then ended, and the notes to the financial statements that include 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 auditors consider the internal controls relevant to the Company'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 Company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates, as well as evaluating the 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 auditors and tax advisors. These services have not impaired our independence as auditors of the Company.



Independent Auditors' Report

Westpac Life-NZ-Limited

Opinion

In our opinion, the financial statements on pages 3 to 29:

- (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 2012, 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 2012:

- (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.

A handwritten signature in black ink, reading 'PricewaterhouseCoopers', with a horizontal line drawn underneath it.

Chartered Accountants
14 February 2013

Auckland

14 February 2013

The Directors
Westpac Life-NZ-Limited
Westpac on Takutai Square
16 Takutai Square
Auckland 1010

Appointed Actuary's Report

This report has been prepared for Westpac Life-NZ-Limited ("Westpac Life") under section 78 of the Insurance (Prudential Supervision) Act 2010 ("the Act").

In my capacity as Appointed Actuary to Westpac Life, I have reviewed the actuarial information contained in, or used in the preparation of, the financial statements of Westpac Life for the year ended 30 September 2012 ("the financial statements"). For the purposes of this report "actuarial information" has the meaning given to it in section 77(4) of the Act, supplemented by paragraph 144 of the Solvency Standard for Life Insurance Business issued by the Reserve Bank of New Zealand ("the Solvency Standard").

My review has included the review and resetting of the best estimate assumptions which are used for valuation purposes, the review of the valuation results as at 30 September 2012, and the review of the solvency calculations and solvency return for Westpac Life as at 30 September 2012. It is Westpac Life's established policy to seek my advice in respect of actuarial information and to adopt that advice in Westpac Life's financial statements.

My review has been carried out in accordance with the relevant Professional Standards issued by the New Zealand Society of Actuaries, and the Solvency Standard.

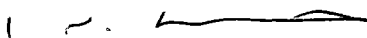
I have obtained all the information and explanations that I have required from Westpac Life in relation to my review. My review is dependent upon the accuracy of the policy data upon which the policy valuations have been based. Whilst there are a small number of individual policies with erroneous data, in my opinion the policy data as at 30 September 2012 is satisfactory for the purposes of valuing Westpac Life's policy liabilities.

In my opinion, and from an actuarial perspective:

- (i) the actuarial information contained in the financial statements has been appropriately included in those statements;
- (ii) the actuarial information used in the preparation of the financial statements has been used appropriately; and
- (iii) as at 30 September 2012, Westpac Life was maintaining a solvency margin that would comply under the Solvency Standard. It should be noted that the solvency margin calculated as at 30 September 2012 was at a total entity level and not at a statutory fund level due to Westpac Life establishing its statutory fund effective 1 October 2012.

In my role as Appointed Actuary to Westpac Life, I am an employee of Westpac New Zealand Limited, a sister company of Westpac Life. My remuneration and employee benefits are paid by Westpac New Zealand Limited and then reimbursed by Westpac Life. I was a director of Westpac Life until 31 July 2012 and I am currently a director of Westpac Life's appointed investment manager, BT Funds Management (NZ) Limited. I hold shares and options in Westpac Banking Corporation, the ultimate holding company of Westpac Life. I am a Westpac appointed trustee of the Westpac New Zealand Staff Superannuation Scheme, the trustees of which hold a group life insurance policy with Westpac Life. I maintain certain personal life insurance policies directly with Westpac Life, and certain personal general insurance policies with Lumley General Insurance (NZ) Limited through an agency managed by Westpac Life.

This report is provided solely in my capacity as Westpac Life's Appointed Actuary. To the fullest extent permitted by law, I do not accept responsibility to anyone for the contents of this report, other than the Reserve Bank of New Zealand, Westpac Life, its directors and shareholder.



Ian New
Fellow of the New Zealand Society of Actuaries
Appointed Actuary, Westpac Life-NZ-Limited