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Westpac Life-NZ- Limited
Financial statements
For the year ended 30 September 2013

Westpac Life-NZ- Limited

Contents

Directors' report.....	2
Statement of comprehensive income.....	3
Statement of changes in equity.....	4
Balance sheet.....	5
Statement of cash flows.....	6
Notes to the financial statements.....	7
Independent auditors' report.....	30

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

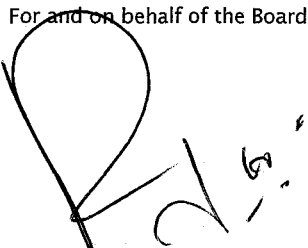
Directors' report

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 2013.

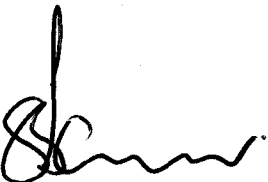
The shareholders of the Company have exercised their rights under section 211(3) of the Companies Act 1993 and unanimously agreed that these financial statements need not comply with any of the paragraphs (a) and (e) to (j) of section 211(1) of the Companies Act 1993.

The Board authorised these financial statements on 29 January 2014.

For and on behalf of the Board.



Director
Date: 29/1/14



Director
Date: 29/1/14.

Westpac Life-NZ- Limited

Statement of comprehensive income for the year ended 30 September

	Note	2013 \$'000	2012 \$'000
Insurance premium revenue	5	126,748	119,002
Outwards reinsurance premium expense		(10,019)	(9,473)
Net premium revenue		116,729	109,529
Investment income	5	7,107	8,078
Fee income and other income	5	20,029	11,199
Net revenue		143,865	128,806
Insurance claims and rebate expense		(47,921)	(47,568)
Reinsurance recoveries revenue	5	7,102	7,484
Net claims expenses		(40,819)	(40,084)
Changes in policy liabilities	12	2,900	2,635
Other operating expenses	6	(49,036)	(46,178)
Net claims and expenses		(86,955)	(73,627)
Profit before income tax expense		56,910	55,179
Income tax expense	7	(6,812)	(7,233)
Profit after income tax expense		50,098	47,946
Other comprehensive income		-	-
Total comprehensive income, net of tax		50,098	47,946
Profit after income tax expense and total comprehensive income, net of tax, attributable to:			
Owners of the Company		50,098	47,946
		50,098	47,946

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 \$'000
		Share Capital \$'000	Retained Profits \$'000	
As at 1 October 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
Year ended 30 September 2013				
Profit after income tax expense		-	50,098	50,098
Total comprehensive income for the year ended 30 September 2013		-	50,098	50,098
As at 30 September 2013		75,200	175,795	250,995

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	2013 \$'000	2012 \$'000
Assets			
Cash and cash equivalents	16	12,120	8,119
Derivative financial instruments	16	1,018	-
Financial assets at fair value through profit or loss	10	237,185	189,017
Reinsurance recoveries receivable		5,990	5,963
Property, plant and equipment	11	6	27
Other assets		1,565	1,430
Total assets		257,884	204,556
Liabilities			
Derivative financial instruments	16	-	807
Current tax liabilities		7,240	2,717
Due to related entities	16	6,080	6,593
Claims reserve		22,735	20,233
Policy liabilities	12	(51,464)	(48,564)
Deferred tax liabilities	13	20,715	20,563
Other liabilities	14	1,583	1,310
Total liabilities		6,889	3,659
Net assets		250,995	200,897
Equity			
Share capital	15	75,200	75,200
Retained profits		175,795	125,697
Total equity attributable to owners of the Company		250,995	200,897

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

	2013 \$'000	2012 \$'000
Cash flows from operating activities		
Interest received	1,075	727
Premiums received	126,748	119,002
Other income received	18,069	9,782
Reinsurance income received	7,075	7,226
Claims and rebates payments	(45,419)	(45,694)
Reinsurance payments	(10,019)	(9,473)
Other operating expenses paid	(49,267)	(44,002)
Income taxes paid	(2,137)	(1,683)
Net cash provided by operating activities	46,125	35,885
Cash flows from investing activities		
Sale of investments	80,611	48,358
Purchase of investments	(122,747)	(87,169)
Sale of property, plant and equipment	12	-
Purchase of property, plant and equipment	-	(20)
Net cash used in investing activities	(42,124)	(38,831)
Net increase/(decrease) in cash and cash equivalents	4,001	(2,946)
Cash and cash equivalents at the beginning of the year	8,119	11,065
Cash and cash equivalents at the end of the year	12,120	8,119
Reconciliation of profit after income tax expense to net cash provided by operating activities		
Profit after income tax expense	50,098	47,946
Adjustments:		
Depreciation	9	12
Fair value gains on financial assets at fair value through profit or loss	(6,032)	(7,351)
Movement in due to related entities	(513)	2,091
Movement in other assets	(135)	(361)
Movement in derivative financial instruments	(1,825)	(1,057)
Movement in current tax liabilities and deferred tax liabilities	4,675	5,550
Movement in claims reserve (net of reinsurance recoveries receivable)	2,475	161
Movement in policy liabilities	(2,900)	(2,635)
Movement in other liabilities	273	74
Net cash provided by operating activities	46,125	35,885

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 29 January 2014. 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 ('RBNZ'). The Company was granted a full licence by the RBNZ on 1 May 2013 which replaces the provisional licence the Company had been operating under since 22 February 2012.

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 2012.

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(h).

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

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

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. 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.
- ***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.

h. 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:

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

Westpac Life-NZ- Limited

Notes to the financial statements

Note 2. Summary of significant accounting policies (continued)

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.

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 2013. 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:

	2013	2012
Loan Cover	2.557%	2.225%
Mortgage Insurance and Flexicover Insurance	3.485%	2.465%
Bill Protection Insurance	3.485%	3.330%
Other Major Products	4.507%	3.330%

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

Westpac Life-NZ- Limited

Notes to the financial statements

Note 3. Actuarial assumptions and methods (continued)

(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	2013 Maintenance Expense	2012 Maintenance Expense
Term Cover (\$ per annum per policy)	\$25.32	\$20.88
Gold Term Cover (\$ per annum per policy)	\$25.32	\$29.16
Simplicity Life (\$ per annum per policy)	\$24.48	\$23.28
Disability Income Insurance (\$ per annum per policy)	\$25.32	\$29.16
Gold Disability Income Insurance (\$ per annum per policy)	\$25.32	\$29.16
Flexicover Insurance (% of premiums)	5.2%	5.2%
Mortgage Insurance (% of original single premium spread over the term)	10.0%	8.0%
Loan Cover (% of original single premium spread over the term)	10.0%	8.0%
Bill Protection Insurance (\$ per annum per policy)	\$34.80	\$29.16
Lifetime Guarantee and Kiwilife Senior (\$ per annum per policy)	\$34.80	\$23.28
Kiwilife, Kiwicover and Kiwiguard (\$ per annum per policy)	\$24.48	\$23.28
Accident Cover (\$ per annum per policy)	\$24.48	\$23.28
Ex-Trust Bank Mortgage Insurance (% of premiums)	5.2%	5.2%

(iv) Inflation and automatic index of benefits

Maintenance expenses are assumed to increase at 2.5% per annum (30 September 2012: 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 2012: 2.5% per annum).

(v) Taxation

For the purposes of the actuarial calculations, a taxation rate of 28% (30 September 2012: 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 2012: 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.

Westpac Life-NZ- Limited

Notes to the financial statements

Note 3. Actuarial assumptions and methods (continued)

(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	2013	2012
Term Cover and Gold Term Cover	88% 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	2013	2012
Term Cover (% per annum)	7.0% to 18.0%	10.0%
Gold Term Cover (% per annum)	7.0% to 8.0%	7.0%
Simplicity Life (% per annum)	10.0%	10.0%
Disability Income Insurance (% per annum)	7.0%	8.0%
Gold Disability Income Insurance (% per annum)	10.0%	12.0%
Mortgage Insurance (% per annum)	15.0%	15.0%
Flexicover Insurance (% per annum)	12.0% to 21.0%	18.0%
Loan Cover (% per annum)	26.0% to 60.0%	35.0%
Bill Protection Insurance (% per annum)	18.0%	20.0%
Lifetime Guarantee (% per annum)	1.5%	1.5%
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%

Where a range of discontinuance rates is assumed for a product, the assumption varies by the duration in force of the policy. Where a flat rate of discontinuance is assumed for a product, the assumption is independent of duration.

(xi) Effect of changes in actuarial assumptions

The changes in actuarial assumptions from 2012 to 2013 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 2011 to 2012: nil). Aside from the changes in discount rates, the changes in actuarial assumptions had the effect of increasing the present value of future planned profit margins by \$145,821,000 (30 September 2012: decreasing by (\$14,720,000)). The primary contributors to this impact were:

- \$138,727,000 arising from the changes to projected rates of discontinuance (30 September 2012: \$1,755,000);
- (\$2,927,000) arising from the changes to projected non-commission maintenance expenses (30 September 2012: \$499,000);
- \$14,230,000 arising from changes to projected rates of incidence of mortality claims (30 September 2012: \$49,000); and
- (\$4,209,000) arising from changes to premium rates (30 September 2012: (\$17,023,000)).

Other modelling changes had the effect of decreasing the present value of future planned profit margins by (\$1,331,000) (30 September 2012: increasing by \$1,831,000).

Westpac Life-NZ- Limited

Notes to financial statements

Note 3. Actuarial assumptions and methods (continued)

(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 represents a risk.

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

	2013		2012	
	Change in Variable	Impact on Future Planned Profit	Change in Variable	Impact on Future Planned Profit
Change in mortality and morbidity	+10%	-12.4%	+10%	-13.3%
	-10%	+12.4%	-10%	+13.3%
Change in discontinuance rate	+10%	-13.1%	+10%	-11.8%
	-10%	+13.1%	-10%	+11.8%
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%	-0.8%	+0.1%	-0.7%
	-0.1%	+0.8%	-0.1%	+0.7%

None of the Company's groups of related products are 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, Risk Management Programme, 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 the overarching Risk Management Programme, 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.

The Company maintains a Risk Management Programme in accordance with regulatory requirements, which is reviewed regularly.

The Company's Risk Oversight Committee ('WLL ROC') meets quarterly and is responsible for overseeing the effectiveness and implementation of the Risk Management Programme. The WLL ROC monitors Westpac Life's risk profile and the action plans. Material matters are escalated to the Westpac Life Board, the WBC NZ Executive Risk Committee, the Ultimate Parent Board Risk Management Committee, the Ultimate Parent Bank Board Audit Committee and the CEO of the Ultimate Parent Bank.

b. Management assurance programme

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

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

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

c. Categories of 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.

Westpac Life-NZ- Limited

Notes to the financial statements

Note 4. Risk management policies and procedures (continued)

- 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;
- The financial strength ratings of reinsurers are monitored and the company seeks to maintain reinsurance providers above agreed minimum financial strength ratings;
- 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 2013							
	Neither past due nor impaired				Subtotal	Past Due But not Impaired	Total
	AAA \$'000	AA \$'000	A \$'000	Not Rated \$'000		\$'000	
Financial assets subject to credit risk							
Cash and cash equivalents	-	12,120	-	-	12,120	-	12,120
Financial assets at fair value through profit or loss ¹	-	26,380	-	-	26,380	-	26,380
Reinsurance recoveries receivable	-	5,990	-	-	5,990	-	5,990
Other assets	-	-	1,310	255	1,565	-	1,565
Total maximum exposure to credit risk	-	44,490	1,310	255	46,055	-	46,055

30 September 2012							
	Neither past due nor impaired				Subtotal	Past Due But not Impaired	Total
	AAA \$'000	AA \$'000	A \$'000	Not Rated \$'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
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

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:

	2013 \$'000	2012 \$'000
0.75% decrease in unit trust prices (2012: 0.25%)	(1,138)	(284)
0.75% increase in unit trust prices (2012: 0.25%)	1,138	284

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 2013					
	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	12,120	-	-	-	12,120
Derivative financial instruments	1,018	-	-	-	1,018
Financial assets at fair value through profit or loss	26,380	-	-	210,805	237,185
Reinsurance recoveries receivable	3,938	827	1,225	-	5,990
Other assets	1,565	-	-	-	1,565
Total financial assets	45,021	827	1,225	210,805	257,878
Financial liabilities					
Due to related entities	6,080	-	-	-	6,080
Claims reserve	20,387	939	1,409	-	22,735
Other liabilities	1,183	-	-	-	1,183
Total financial liabilities	27,650	939	1,409	-	29,998

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 2012				
	Up to 1Year ¹	1to 5 Years	Over 5 Years	No Specific Maturity ²	Total
	\$'000	\$'000	\$'000	\$'000	\$'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

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

²Amounts 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.

(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's Risk Management Programme applies the principles of the Ultimate Parent Bank's Group Operational Risk Management Framework. This framework outlines the overall approach to 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.

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 20.

Westpac Life-NZ- Limited

Notes to the financial statements

Note 5. Revenue and other income

	Year Ended 30 September 2013 \$'000	Year Ended 30 September 2012 \$'000
Insurance premium revenue	126,748	119,002
Investment income:		
Deposits with other financial institutions - interest income	371	44
Fixed rate notes - interest income	704	683
Fair value gains on financial assets at fair value through profit or loss	6,032	7,351
Total investment income	7,107	8,078
Fees income and other income:		
Non risk fees	16,339	15,255
Other	234	(10)
Fair value gains/(losses) on derivative financial instruments	3,456	(4,046)
Total fee income and other income	20,029	11,199
Reinsurance recoveries revenue	7,102	7,484
Total revenue and other income	160,986	145,763

Westpac Life-NZ- Limited

Notes to the financial statements

Note 6. Other operating expenses

	Year Ended 30 September 2013 \$'000	Year Ended 30 September 2012 \$'000
Salaries and other staff expenses		
Salaries and wages	4,032	3,082
Movement in employee entitlements	(123)	27
Defined contribution plans	279	245
Restructuring costs	10	5
Other staff expenses	119	62
Total salaries and other staff expenses	4,317	3,421
Equipment and occupancy expenses		
Depreciation:		
Equipment	9	12
Equipment repairs and maintenance	-	3
Lease and rental expenses	4	5
Other equipment and occupancy expenses	6	8
Total equipment and occupancy expenses	19	28
Other expenses		
Advertising	-	18
Audit fees		
Audit	48	-
Other assurance	5	-
Management fees - related entities	2,223	2,208
Policy expenses - related entities	37,479	35,014
Policy expenses - other	145	228
Postage and freight	77	151
Purchased services	575	655
Stationery	151	200
Training	21	14
Travel	90	175
Other	3,886	4,066
Total other expenses	44,700	42,729
Total other operating expenses	49,036	46,178
Components of other operating expenses:		
Investment management expenses	648	611
Policy acquisition expenses:		
Commissions	16,933	15,754
Other	3,269	2,793
Policy maintenance expenses:		
Commissions	23,173	22,071
Other	5,013	4,949
Total other operating expenses	49,036	46,178

The audit fees for the prior period were borne by Westpac New Zealand Limited ('WNZL').

Westpac Life-NZ- Limited

Notes to the financial statements

Note 7. Income tax expense

	Year Ended 30 September 2013 \$'000	Year Ended 30 September 2012 \$'000
Income tax expense		
Current tax		
- Current year	7,240	2,717
- Prior year adjustments	(580)	103
Deferred tax		
- Current year - other	51	4,413
- Prior year adjustments	101	-
Total income tax expense	6,812	7,233
Reconciliation of income tax expense to profit before income tax expense		
Profit before income tax expense	56,910	55,179
Tax calculated at tax rate of 28% (30 September 2012: 28%)	15,935	15,450
Tax effect of amounts which are not deductible/(assessable) in calculating taxable income:		
Income not subject to tax	(8,647)	(8,359)
Expenses not deductible for tax purposes	3	39
Prior year adjustments	(479)	103
Total income tax expense	6,812	7,233

Note 8. Imputation credit account

	Year Ended 30 September 2013 \$'000	Year Ended 30 September 2012 \$'000
Imputation credits available for use in subsequent reporting periods	1,145	968

Note 9. Margin on services profit

	Year Ended 30 September 2013 \$'000	Year Ended 30 September 2012 \$'000
Profit after income tax expense arose from:		
Planned margins of revenues over expenses	39,864	38,924
Difference between actual and assumed experience	1,375	804
Investment earnings on assets in excess of policy liabilities	5,167	6,090
Net commission on fire and general agency	2,412	2,231
Adjustments for prior year over/(under) provision	1,290	(103)
Other sources	(10)	-
Profit after income tax expense	50,098	47,946

Westpac Life-NZ- Limited

Notes to the financial statements

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

	2013 \$'000	2012 \$'000
Deposits with Public Trustee ¹	-	557
New Zealand Government securities	26,380	30,552
Unit trusts managed by related entities	210,805	157,908
Total financial assets at fair value through profit or loss	237,185	189,017
Amounts expected to be recovered within 12 months	237,185	188,460
Amounts expected to be recovered after 12 months	-	557
Total financial assets at fair value through profit or loss	237,185	189,017

¹ Under the Insurance Companies' Deposit Act 1953 ('CDA'), life companies were legally required to keep a minimum of \$500,000 on deposit with the Public Trust. Subsequent to the Company receiving its full licence on 1 May 2013, the deposit was returned to the Company on 11 July 2013 under the provisions of the CDA.

Note 11. Property, plant and equipment

	2013 \$'000	2012 \$'000
Equipment		
Cost	11	58
Accumulated depreciation and impairment losses	(5)	(31)
Net carrying amount of equipment	6	27
Furniture and fittings		
Cost	-	4
Accumulated depreciation and impairment losses	-	(4)
Net carrying amount of furniture and fittings	-	-
Total net carrying amount of property, plant and equipment	6	27

Equipment		
Balance at beginning of the year	27	19
Additions	-	20
Disposals	(12)	-
Depreciation	(9)	(12)
Balance at end of the year	6	27
Furniture and fittings		
Balance at beginning of the year	-	-
Depreciation	-	-
Balance at end of the year	-	-
Total property, plant and equipment	6	27

Note 12. Policy liabilities

	2013 \$'000	2012 \$'000
Balance at the beginning of the year	(48,564)	(35,929)
Changes in policy liabilities	(2,900)	(12,635)
Balance at the end of the year	(51,464)	(48,564)
Components of policy liabilities:		
Future policy benefits	725,842	588,511
Balance of future expenses	331,344	250,214
Future charges for acquisition costs	-	-
Planned margins of revenues over expenses	437,950	337,840
Balance of future revenues	(1,526,108)	(1,205,489)
Policy liabilities at the end of the year	(30,972)	(28,924)
Less deferred tax liability element of policy liabilities (refer to Note 13)	(20,492)	(19,640)
Balance at the end of the year	(51,464)	(48,564)
Policy liabilities excluding deferred tax liability:		
Amounts expected to be settled within 12 months	4,707	3,645
Amounts expected to be settled after 12 months	(56,171)	(52,209)
Total policy liabilities	(51,464)	(48,564)

Westpac Life-NZ- Limited

Notes to the financial statements

Note 13. Deferred tax liabilities

	2013 \$'000	2012 \$'000
Deferred tax liabilities attributable to the following:		
Accrued expenses and provisions	-	(38)
PIE income	226	967
Property, plant and equipment	(3)	(6)
Policy liabilities	20,492	19,640
Balance at the end of the year	20,715	20,563
Amounts expected to be settled within 12 months	1,249	1,935
Amounts expected to be settled after 12 months	19,466	18,628
Balance at the end of the year	20,715	20,563
Movements		
Balance at the beginning of the year	20,563	16,150
Charged to the income statement	152	4,413
Balance at the end of the year	20,715	20,563

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

	2013 \$'000	2012 \$'000
Accrued expenses	1,147	1,064
Other liabilities	36	36
Provision for annual leave and other staff benefits	400	210
Total other liabilities	1,583	1,310
Amounts expected to be settled within 12 months	1,583	1,310
Amounts expected to be settled after 12 months	-	-
Total other liabilities	1,583	1,310

Note 15. Equity

	2013 Number of Issued Shares	2012 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 2013, the Company paid dividends to ordinary shareholders amounting to nil (30 September 2012: nil). The amount of dividends per share is nil (30 September 2012: nil).

Westpac Life-NZ- Limited

Notes to the financial statements

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 \$300,000 (30 September 2012: \$337,000) was received from WNZL and is included in insurance premium revenue in the statement of comprehensive income.

Investment management services in respect of the Statutory Fund and Shareholder Fund are carried out by BT Funds Management (NZ) Limited ('BTFMNZL'). Total investment income recognised on these investments for the year was \$7,107,000 (30 September 2012: \$8,078,000). 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 \$37,479,000 (30 September 2012: \$35,014,000) 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 \$4,317,000 (30 September 2012: \$3,421,000) 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. Transactions in relation to these related parties are arranged on a cost recovery basis.

Fees for support services of \$1,621,000 (30 September 2012: \$1,639,000) were paid by the Company to WNZL for certain operating costs incurred by WNZL. These are included in other operating expenses. These transactions are arranged on a cost recovery basis.

Investment management fees paid by the Company to BTFMNZL were \$602,000 (30 September 2012: \$569,000). 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 for the prior period were 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.

Due to related entities

	2013 \$'000	2012 \$'000
Due to related entities		
Accrued expenses - VNZL	3,074	2,889
Sundry creditors - VNZL	3,006	3,704
Total due to related entities	6,080	6,593
Amounts expected to be recovered within 12 months	6,080	6,593
Amounts expected to be recovered after 12 months	-	-
Total due to related entities	6,080	6,593

Cash and cash equivalents amounting to \$11,298,000 (30 September 2012: \$7,379,000) were deposited with NZ Branch and managed by BTFMNZL on the Company's behalf.

Cash and cash equivalents amounting to \$822,000 (30 September 2012: \$740,000) 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 \$1,516,000,000 (30 September 2012: \$1,434,000,000). 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.

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 2012: 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 (Independent Directors) during the year amounting to \$165,000 (30 September 2012: \$48,000).

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

Westpac Life-NZ- Limited

Notes to the financial statements

Note 18. Fair value of financial instruments (continued)

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.

30 September 2013					
	Classified at Fair Value Through Profit or Loss				
	Held for Trading \$'000	Loans and Receivables \$'000	Financial Liabilities at Amortised Cost \$'000	Total Carrying Amount \$'000	Estimated Fair Value \$'000
Financial assets					
Cash and cash equivalents	-	12,120	-	12,120	12,120
Derivative financial instruments	1,018	-	-	1,018	1,018
Financial assets at fair value through profit or loss	237,185	-	-	237,185	237,185
Reinsurance recoveries receivable	-	5,990	-	5,990	5,990
Other assets	-	1,565	-	1,565	1,565
Total financial assets	238,203	19,675	-	257,878	257,878
Financial liabilities					
Due to related entities	-	-	6,080	6,080	6,080
Other liabilities	-	-	1,183	1,183	1,183
Total financial liabilities	-	-	7,263	7,263	7,263

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 \$'000	Loans and Receivables \$'000	Financial Liabilities at Amortised Cost \$'000	Total Carrying Amount \$'000	Estimated Fair Value \$'000
Financial assets					
Cash and cash equivalents with related entities	-	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

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.

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 2013 (30 September 2012: nil).

There have been no transfers between Levels 1 and 2 during the year ended 30 September 2013 (30 September 2012: nil).

There have also been no transfers into or out of Level 3 during the year ended 30 September 2013 (30 September 2012: 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. Statutory Fund

It is a requirement of the Act that a life insurer must have at least one statutory fund in respect of its life insurance business. It was a condition of the Company's provisional licence that the Company must establish a statutory fund and the Westpac Life-NZ- Limited Statutory Fund No.1 was established by the Company on 1 October 2012.

Westpac Life-NZ- Limited

Notes to the financial statements

Note 19. Statutory Fund (continued)

	Statutory Fund No. 1 \$'000	Shareholder Fund \$'000	Total All Funds \$'000
Balance Sheet as at 30 September 2013:			
Cash and cash equivalents	11634	486	12,120
Derivative financial instruments	1018	-	1,018
Financial assets at fair value through profit or loss	173,523	63,662	237,185
Reinsurance recoveries receivable	5,990	-	5,990
Property, plant and equipment	6	-	6
Other assets	255	130	1,565
Total assets	192,426	65,458	257,884
Current tax liabilities	6,200	1,040	7,240
Due to related entities	5,047	1,033	6,080
Claims reserve	22,735	-	22,735
Policy liabilities	(51,464)	-	(51,464)
Deferred tax liabilities	20,715	-	20,715
Other liabilities	1,583	-	1,583
Total liabilities	4,815	2,073	6,889
Equity	187,610	63,385	250,995
Statement of comprehensive income for the year ended 30 September 2013:			
Net premium revenue	116,729	-	116,729
Investment income	5,245	1,862	7,107
Fee income and other income	3,688	16,341	20,029
Net claims and expenses	(74,177)	(12,778)	(86,955)
Profit before income tax expense	51,485	5,425	56,910
Profit after income tax expense	45,711	4,387	50,098

Note 20. Solvency reserves

The Board's policy is to maintain a strong capital base to meet the regulatory requirements. The Act requires the Company to comply at all times with the Solvency Standard for Life Insurance Business ("Solvency Standard") issued by the RBNZ. 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.

The Act requires disclosure of the solvency margins for the Statutory fund, the business and assets outside the Statutory fund and for the Company as a whole. These solvency margins as at 30 September 2013 are shown in the following table. The solvency calculations for 30 September 2012 were only undertaken for the Company as a whole, as the Company had not established a statutory fund as at 30 September 2012.

	Statutory Fund No. 1 as at 30 September 2013 \$'000	Shareholder Fund as at 30 September 2013 \$'000	Aggregate for all Funds as at 30 September 2013 \$'000	Company as a whole as at 30 September 2012 \$'000
Actual Solvency Capital	185,930	63,385	249,315	199,217
Minimum Solvency Capital	78,450	2,249	80,699	84,621
Solvency Margin	107,480	61,136	168,616	114,596

Note 21. Contingent assets, contingent liabilities and commitments

There were no contingent assets, contingent liabilities or unrecognised contractual commitments as at 30 September 2013 (30 September 2012: nil).



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 2013, the statement of comprehensive income, the statement of changes in equity and the 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.

Other than in our capacity as auditors we have no relationship with, or interests in, Westpac Life-NZ- Limited other than in our capacities as auditors, tax advisors and providers of other assurance related services. 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 2013, 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 2013:

- (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 dark ink, appearing to read 'Price Waterhouse Coopers', with a horizontal line underneath.

Chartered Accountants
29 January 2014

Auckland

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 2013 ("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 2013, and the review of the solvency calculations and solvency return for Westpac Life as at 30 September 2013. 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 2013 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 2013, Westpac Life was maintaining a solvency margin within each of the Statutory Fund No. 1 and the Shareholder Fund, and for Westpac Life as a whole, that would comply under the Solvency Standard.

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 member and 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

29 January 2014