ONEPATH LIFE (NZ) LIMITED
ANNUAL REPORT

FOR THE YEAR ENDED 30 SEPTEMBER 2016

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ANNUAL REPORT

The address for service for OnePath Life (NZ) Limited (the Company) is Ground Floor, ANZ Centre, 23-29 Albert Street, Auckland 1010, New Zealand. The principal activity of the Company is the provision of life insurance.

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

Accordingly, there is no information to be provided in this Annual Report other than the financial statements for the year ended 30 September 2016 and the audit report on those financial statements.

Signed for and on behalf of the Board of Directors:

Director
22 December 2016

Director
22 December 2016

Financial Strength Rating Information

As at 22 December 2016 the Company has an "A+" Insurer Financial Strength rating given by Standard and Poor's. The following table describes the rating grades available. Plus (+) or minus (-) following ratings from AA to CCC show relative standings within the major rating categories:

The following grades display long-term insurer financial strength grade characteristics:

	Standard & Poor's
Extremely strong capacity to meet its financial commitments. This is the highest insurer financial strength category.	**AAA**
Very strong capacity to meet its financial commitments.	**AA**
Strong capacity to meet its financial commitments although somewhat susceptible to the adverse effects of changes in circumstances and economic conditions.	**A**
Adequate capacity to meet its financial commitments. More vulnerable to adverse changes.	**BBB**
Significant uncertainties exist which could lead to insufficient ability to meet its financial commitments.	**BB**
Greater vulnerability and therefore greater likelihood of impairing the ability to meet its financial commitments.	**B**
Likelihood of not meeting financial commitments now considered high. Timely settlement of financial commitments is dependent on favourable financial conditions.	**CCC**
Extremely weak financial security and is likely not able to meet some of its financial commitments.	**CC**
Under regulatory supervision.	**R**

GOVERNANCE STATEMENT

The Company adheres to the mandatory requirements of the Reserve Bank of New Zealand (RBNZ) Governance Guidelines (the Guidelines) for licensed insurers issued under the Insurance (Prudential Supervision) Act 2010 and endeavours to embrace non-mandatory governance guidelines or recommendations of the RBNZ and other relevant bodies.

Board of Directors

The Company is governed by a Board of Directors, who have effective oversight of the Company‵s activities through the implementation of the Guidelines.

In accordance with the Guidelines, all current directors have been assessed by the Board in accordance with the Company's Fit and Proper Policy to have the appropriate fitness and propriety to properly discharge their responsibilities as a director and have been certified as meeting the RBNZ's Fit and Proper Standard for directors of Licensed Insurers. The Board is considered to operate independently in that no less than half the current directors are free from any associations that could materially interfere with the exercise of independent judgement.

Board members as at 22 December 2016 are:

Anne June Urlwin

BCom, CA, F InstD, FNZIM, ACIS
Independent Non-Executive Director and Audit and Risk Committee Chairman

Ms Urlwin has over 20 years' governance experience in sectors including energy, health, construction, regulatory services, internet infrastructure, research, banking, forestry and the primary sector as well as education, sports administration and the arts.

Gavin Murray Pearce

BSc, FIA
Non-Executive Director

Mr Pearce is Managing Director, Insurance, Australia and New Zealand Banking Group Limited. Mr Pearce's career has spanned over 30 years including senior management roles across a number of insurance and financial services companies in Australia and New Zealand.

John Robert Body

BA (Eco), Dip. Banking, MBS
Managing Director, Retail & Business Banking & Wealth

Mr Body is responsible for ANZ Bank New Zealand Limited's (ANZ Bank) Retail & Business Banking & Wealth teams. Mr Body's experience includes working for ANZ Bank's markets business for over 20 years and he has held a range of senior positions in Singapore, Melbourne and New Zealand.

Board Role and Charter

The Board operates in accordance with applicable law, the Company's Constitution and its Board Charter. The Board Charter describes the Board's role, powers, responsibilities and relationship with management.

The Board meets formally on a regular scheduled basis and holds additional meetings as required. The Board reviews its own performance annually, incorporating the performance of its established Committees.

Committees

The Board has established an Audit and Risk Committee which has its own charter approved by the Board and which reports directly to the Board. The Audit and Risk Committee's purpose is to review, monitor and assess the effectiveness of the Company's financial reporting, internal audit and risk management framework thereby assisting the Board to discharge its responsibilities in relation to financial, risk and compliance matters, including internal and external audit functions.

STATEMENT OF COMPREHENSIVE INCOME

	Note	Year to 30/09/2016 $000	Year to 30/09/2015 $000
Revenue			
Premium revenue	5	202,454	197,851
Less reinsurance premium expense		(33,985)	(30,229)
Net premium revenue		168,469	167,622
Investment income	6	6,313	8,737
Commission income		7,847	6,118
Total revenue		182,629	182,477
Expenses			
Claims and surrenders	7	67,688	77,485
Less reinsurance recoveries		(22,094)	(27,267)
Net claims expense		45,594	50,218
Change in life insurance contract assets:			
- Effect of changes in discount rates		(59,723)	(45,222)
- Other changes in life insurance contract assets		(26,769)	(28,754)
Net increase in life insurance contract assets	14	(86,492)	(73,976)
Commissions and operating expenses	8	85,512	89,118
Loss on sale of medical insurance policies	14	9,208	-
Total expenses		53,822	65,360
Profit before income tax		128,807	117,117
Income tax expense	9	25,832	27,206
Profit after income tax	4	102,975	89,911

There are no items of other comprehensive income.

STATEMENT OF CHANGES IN EQUITY

	Note	Share capital $000	Retained earnings $000	Total equity $000
As at 1 October 2014		368,701	176,721	545,422
Profit after income tax		-	89,911	89,911
Amalgamation adjustment		-	58,083	58,083
Dividends paid	15	-	(100,000)	(100,000)
As at 30 September 2015		368,701	224,715	593,416
Profit after income tax		-	102,975	102,975
Dividends paid	15	-	(100,000)	(100,000)
As at 30 September 2016		368,701	227,690	596,391

BALANCE SHEET

	Note	30/09/2016 $000	30/09/2015 $000
Assets			
Cash at bank	20	17,301	7,299
Investments backing insurance contract liabilities	10	154,314	188,775
Trade and other receivables	11	6,988	11,307
Life insurance contract assets	14	630,190	552,265
Office furniture and equipment		1	120
Goodwill and other intangible assets	12	117,190	124,455
Total assets		925,984	884,221
Liabilities			
Payables and other liabilities	13	14,114	13,920
Provisions		1,387	-
Current tax liability		15,729	9,037
Life insurance contract liabilities - reinsurance	14	127,774	107,452
Deferred tax liability	9	170,589	160,396
Total liabilities		329,593	290,805
Net assets		596,391	593,416
Equity			
Ordinary share capital	15	368,701	368,701
Retained earnings		227,690	224,715
Total equity		596,391	593,416

For and on behalf of the Board of Directors:

Director
22 December 2016

Director
22 December 2016

CASH FLOW STATEMENT

	Note	Year to 30/09/2016 $000	Year to 30/09/2015 $000
Cash flows from operating activities			
Premium received		202,648	197,769
Reinsurance premiums paid		(33,923)	(30,212)
Interest received		6,532	8,596
Commission received		7,847	6,118
Claims, surrenders and maturities paid		(67,688)	(77,485)
Reinsurance recoveries received		26,632	23,890
Commission paid		(28,244)	(33,188)
Operating expenses paid		(52,197)	(50,556)
Income taxes refunded / (paid)		(8,947)	2,800
Net cash flows provided by operating activities		52,660	47,732
Cash flows from investing activities			
Change in investments backing insurance contract liabilities		34,242	49,768
Proceeds from sale of medical insurance policies	14	23,100	-
Purchase of office furniture and equipment		-	(119)
Net cash flows provided by investing activities		57,342	49,649
Cash flows from financing activities			
Cash transferred on amalgamation		-	4,590
Dividends paid		(100,000)	(100,000)
Net cash flows used in financing activities		(100,000)	(95,410)
Net increase in cash and cash equivalents		10,002	1,971
Cash and cash equivalents at beginning of the year		7,299	5,328
Cash and cash equivalents at end of the year		17,301	7,299

Reconciliation of profit after income tax to net cash flows provided by operating activities

	Note	Year to 30/09/2016 $000	Year to 30/09/2015 $000
Profit after income tax		102,975	89,911
Non-cash items:			
Depreciation and amortisation	8	7,384	6,465
Fair value losses / (gains)		3	(141)
Deferrals or accruals of past or future operating cash receipts or payments:			
Change in trade and other receivables		4,319	(3,953)
Change in payables and other liabilities		1,581	(580)
Change in life insurance contract assets, net of reinsurance		(57,603)	(73,976)
Change in income tax assets and liabilities		16,885	30,006
Change in accrued interest receivable on investments backing insurance contract liabilities		216	-
Items classified as investing / financing:			
Proceeds from sale of medical insurance policies		(23,100)	-
Net cash flows provided by operating activities		52,660	47,732

NOTES TO THE FINANCIAL STATEMENTS

1. SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of preparation

(i) Statement of compliance

These financial statements have been prepared in accordance with the requirements of the Financial Markets Conduct Act 2013, and comply with:

- New Zealand Generally Accepted Accounting Practice, as defined in the Financial Reporting Act 2013
- New Zealand equivalents to International Financial Reporting Standards (NZ IFRS) and other applicable Financial Reporting Standards, as appropriate for publicly accountable profit-oriented entities
- International Financial Reporting Standards (IFRS).

The Company is incorporated and domiciled in New Zealand, and is a wholly owned subsidiary of ANZ Wealth New Zealand Limited (the Immediate Parent). The Ultimate Parent Company of the Company is Australia and New Zealand Banking Group Limited, which is incorporated in Victoria, Australia.

The principal accounting policies adopted in the preparation of these financial statements are set out below.

(ii) Use of estimates and assumptions

Preparation of the financial statements requires the use of management judgement, estimates and assumptions that affect reported amounts and the application of policies. Actual results may differ from these estimates.

Discussion of the critical accounting estimates, which include complex or subjective decisions or assessments, is included in note 2. Such estimates will require review in future periods.

(iii) Basis of measurement

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

- financial instruments designated at fair value through profit or loss
- life insurance contract assets and liabilities measured using Margin on Services (MoS) principles.

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

There have been no changes in accounting policies or early adoption of accounting standards in the preparation and presentation of the financial statements.

(v) Presentation currency and rounding

The amounts contained in the financial statements have been presented in thousands of New Zealand dollars unless otherwise stated. The functional currency of the Company is New Zealand dollars.

(b) Income recognition

Income is recognised to the extent that it is earned and that revenue can be reliably measured.

(i) Premium income

Life insurance premiums earned by providing services and bearing risks are treated as revenue.

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

(ii) Other income, including fees and commissions

Other income that relates to the execution of a significant act (for example, commission income received on the issuance of an insurance policy by another insurer, or commission payments clawed back on the cancellation of a policy issued by the Company) is recognised when the significant act has been completed.

(iii) Commission income

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

(iv) Reinsurance contracts

Reinsurance premiums, commissions and claims settlements, as well as the reinsurance element of insurance contract liabilities, are accounted for on the same basis as the original contracts for which the reinsurance was purchased.

(v) Interest income

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

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

(c) Expense recognition

Expenses are recognised in the statement of comprehensive income on an accruals basis.

(i) Claims and surrenders

Claims are recognised when the liability to the policyholder under the policy contract has been established or upon notification of the insured event depending on the type of claim. Claims are separated into their expense and liability components.

Claims incurred that relate to the provision of services and bearing of insurance risks are treated as expenses and these are recognised on an accruals basis once the liability to the policyholder has been established under the terms of the contract.

Surrenders are recognised when requested by the policyholder.

NOTES TO THE FINANCIAL STATEMENTS

(ii) Commission and operating expenses

Commission and operating expenses incorporate all other expenditure involved in running the Company.

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

Basis of expense apportionment

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

Acquisition expenses

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

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

Acquisition expenses are allowed for when determining expected profit margins by setting standard expense allowances based on each policy type issued. Actual acquisition expenses in any one period may vary from standard for a number of reasons including new business volume, product mix, distribution mix, cost efficiency and new strategic initiatives.

As a result of these variances, acquisition expenses may, in total, be lesser or greater than standard expense allowances. In both cases the acquisition expense component of the policyholder liability is determined as the actual expenses incurred in the period so that neither a profit nor a loss arises on acquisition, subject to only the overriding constraint that the present value of future profit margins on new business written in the period is not negative.

Maintenance expenses

Maintenance expenses are the fixed and variable expenses of administering policies subsequent to sale and the fixed and variable operating and management expenses of servicing in-force policies. These include general growth and development expenses. Maintenance expenses include all operating expenses other than acquisition expenses and amortisation of management rights and Value of Business Acquired (VOBA) and are recognised in the statement of comprehensive income in the period they relate to.

(d) Income tax

(i) Income tax expense

Income tax on earnings for the period comprises current and deferred tax and is based on applicable tax law. It is recognised in the statement of comprehensive income as tax expense.

(ii) Current tax

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

(iii) Deferred tax

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

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

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

(iv) Offsetting

Current and deferred tax assets and liabilities are offset only to the extent that they relate to income taxes imposed by the same taxation authority, there is a legal right and intention to settle on a net basis and it is allowed under the tax law of the relevant jurisdiction.

(e) Assets

Financial assets

(i) Investments backing insurance contract assets

Investments backing insurance contract assets are initially recognised at fair value, with gains and losses arising from subsequent changes in the fair value included in the statement of comprehensive income in the period in which they arise.

(ii)

NOTES TO THE FINANCIAL STATEMENTS

Other financial assets

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. The Company's loans and receivables comprise cash at bank and trade and other receivables in the balance sheet.

Cash at bank and trade and other receivables are initially recognised at fair value and are subsequently carried at amortised cost using the effective interest method.

Non-financial assets

(iii) Goodwill

Goodwill represents the excess of the purchase consideration over the fair value of the identifiable net assets of a subsidiary at the date of gaining control. Goodwill is recognised as an asset and not amortised, but is assessed for impairment at least annually or more frequently if there is an indication that the goodwill may be impaired. Where the assessment results in the goodwill balance exceeding the value of expected future benefits, the difference is charged to the statement of comprehensive income. Any impairment of goodwill may not be subsequently reversed.

(iv) Other intangible assets

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

VOBA is the value attributed to in-force life insurance contracts acquired following business combinations. VOBA is initially measured at fair value by estimating the net present value of future cash flows from the contracts in-force at the date of acquisition. VOBA is subsequently carried at cost less accumulated amortisation and impairment. VOBA has been assessed as having a finite life and is amortised based on the expected pattern of consumption of the future economic benefits from the VOBA, using actuarial methods consistent with the calculation of life insurance contract assets, over a maximum period of 20 years. The estimated useful life is re-evaluated regularly.

Management rights represent the contractual rights of the Company to have the first right of refusal in providing insurance products for ANZ Bank. As part of acquiring these rights, the Company also earns a portion of commission income received from third party insurance providers. Management rights that have been assessed as having a definite useful life are amortised on a straight-line basis over the expected useful life, which is between 12 and 20 years.

Amortisation is recognised in the statement of comprehensive income within Commissions and operating expenses.

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

(f) Life insurance contract assets

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

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

Determination of life insurance contract assets

Life insurance contract assets are calculated using the MoS methodology in accordance with *Professional Standard 20: Determination of Life Insurance Policy Liabilities* (PS20) of the New Zealand Society of Actuaries (NZSA), except that amounts have been calculated gross of tax with a separate liability held for the effects of associated deferred tax in accordance with NZ IAS 12 *Income Taxes*.

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

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

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

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

Planned margins of revenues over expenses

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

The difference between actual and assumed experience

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

NOTES TO THE FINANCIAL STATEMENTS

Changes to underlying assumptions

Assumptions used for measuring life insurance contract assets are reviewed each period. Where the review leads to a change in assumptions the change is deemed to have occurred from the end of the financial period and the impact of the assumption change is absorbed within the future value of profit margins, provided sufficient profit margins exist.

The calculation of life insurance contract assets includes the use of risk free yields by duration. The changes in these yields are not absorbed within the future value of profit margins, but, instead, recognised during the reporting period.

The financial effect of changes to the assumptions underlying the measurement of life insurance contract assets made during the reporting period are recognised in the statement of comprehensive income over the future reporting periods during which services are provided to policyholders. However if, based on best estimate assumptions, written business for a group of related products is expected to be unprofitable, the whole expected loss for that related product group is recognised in the statement of comprehensive income immediately. When loss making business becomes profitable, it is necessary to reverse previously recognised losses.

Investment earnings on assets in excess of policyholder liabilities

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

Term and other liabilities

Term and other liabilities are recognised in the balance sheet as the present value of future cash outflows plus planned profit margin.

(g) Reinsurance

As the reinsurance agreements provide for indemnification of the Company against loss or liability, reinsurance income and expenses are recognised separately in the statement of comprehensive income when they become due and payable in accordance with the reinsurance agreements.

Reinsurance premiums payable are recognised in the statement of comprehensive income as part of reinsurance expenses, net of reinsurance commissions refunded. Outstanding reinsurance premiums payable are recognised within trade and other payables in the balance sheet. The present value of future reinsurance recoveries receivable and reinsurance premium payable by the Company is recognised separately from life insurance contract assets in the balance sheet.

Reinsurance recoveries on claims are recognised in the statement of comprehensive income as part of reinsurance income at the time the claim event is notified to the Company if the corresponding policy is reinsured. The amount recognised is the present value of the recoverable amount based on the claim event date. Outstanding reinsurance recoverables are recognised within Trade and other receivables in the balance sheet.

(h) Liabilities

Financial liabilities

Financial liabilities are measured initially at fair value and subsequently at amortised cost using the effective interest method.

(i) Equity

(i) Shares

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

(ii) Dividends

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

(j) Presentation

(i) Offsetting of income and expenses

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

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

(ii) Offsetting of financial assets and liabilities

Assets and liabilities are offset and the net amount reported in the balance sheet only where there is:

- a current enforceable legal right to offset the asset and liability
- an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously.

(iii) Goods and services tax

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

2. CRITICAL ESTIMATES AND JUDGEMENTS USED IN APPLYING ACCOUNTING POLICIES

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

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

Critical accounting estimates and assumptions

Life insurance contract assets

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

Refer to note 3 for discussion of the significant actuarial methods and assumptions. The uncertainties surrounding these assumptions mean that it is likely that the actual experience will vary from that assumed in the liability estimated at the balance date.

Assets arising from reinsurance contracts

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

Critical judgements in applying the Company's accounting policies

Deferred tax

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

Where the expected tax outcomes of these matters is different from the amounts that were initially recorded, such differences will impact the reported profit or loss and current and deferred tax amounts in the period in which such determination is made.

Given the complexity of life insurance tax legislation and assumptions involved, material adjustments to income tax expenses in future years may be required.

Management rights

The Company performed an impairment test for management rights where the recoverable amount was based on value in use using cash flow projections and management budgets for a three year period. Key assumptions used in the calculation are the discount rate of 11.4%, long term revenue growth rate of 3% and the cost to income ratio of 40%. The discount rate is determined considering internal rates of return and changes in the government bond rate, while the cost to income ratio and growth rate principally consider past experience. The recoverable amount was greater than the book value for the management rights and no impairment has been recognised.

The sensitivity of the recoverable amount to changes in assumptions has been tested, including: increasing the discount rate to 15%; decreasing the revenue growth rate to 0%; and increasing the cost to income ratio to 50%. None of these individual changes to assumptions would cause the recoverable amount to be less than the carrying value.

Goodwill

Refer to note 12 for details of goodwill held by the Company.

The carrying value of goodwill is subject to an impairment test to ensure that the current carrying value does not exceed its recoverable value at the balance sheet date. Any excess of carrying value over recoverable amount is taken to the Statement of Comprehensive Income as an impairment write down.

Goodwill has been allocated for impairment purposes to the cash generating units at which the goodwill is monitored for internal reporting purposes. Impairment testing of purchased goodwill is performed by comparing the recoverable value of the cash generating unit with the current carrying amount of its net assets, including goodwill.

The recoverable amount is based on value in use calculations. The appraisal value methodology employed in assessing excess market value over net tangible assets of the cash generating unit is deemed by management to be an appropriate proxy for determining value in use. These calculations use discounted expected future cash flow projections based on the in-force book of business sold post acquisition (representing Value in Force) and a multiplier for future new business sales (representing Value of New Business). Cash flow projections cover a maximum period of 70 years, so that they are consistent with the actuarial model and assumptions used for the policyholder liability valuation (refer to note 3). The multiplier for new business is based on management's view of the effectiveness of distribution channels, expected market growth and competitiveness.

These cash flow projections are discounted using a capital asset pricing model. As at 30 September 2016, a discount rate of 8.0% was applied. The main variables in the calculation of the discount rate used

NOTES TO THE FINANCIAL STATEMENTS

are the risk free rate, the beta rate and the market risk premium. The risk free rate is based on the 10 year Government Bond Rate. The beta rate and the market risk premium are consistent with observable and comparative market rates applied in the regional insurance sector.

The sensitivity of the recoverable amount to changes in assumptions has been tested by increasing the discount rate by 1% to 5%. This change would not cause the recoverable amount to be less than the carrying value.

VOBA

VOBA is the difference between the fair value and the carrying amount of the insurance liabilities recognised when a portfolio of insurance contracts is acquired (directly from another insurance company or as part of a business combination).

Annual impairment testing is performed on the VOBA, however unlike goodwill, VOBA is amortised over a specified period.

The recoverable amount is based on appraisal value basis calculations. These calculations use discounted expected future cash flow projections based on the book of business that was in-force at acquisition (representing Value in Force). Cash flow projections are based on best estimate assumptions as used for the policyholder liability valuation (refer to note 3).

These cash flow projections are discounted using a capital asset pricing model. As at 30 September 2016, a discount rate of 8.0% was applied. The main variables in the calculation of the discount rate used are the risk free rate, the beta rate and the market risk premium. The risk free rate is based on the 10 year government bond rate. The beta rate and the market risk premium are consistent with observable and comparative market rates applied in the regional insurance sector.

The sensitivity of the recoverable amount to changes in assumptions has been tested by increasing the discount rate by 1% to 5%. This change would not cause the recoverable amount to be less than the carrying value.

3. SUMMARY OF SIGNIFICANT ACTUARIAL METHODS AND ASSUMPTIONS

The actuarial reports on life insurance contract assets / liabilities and solvency reserves for the current reporting period were prepared as at 30 September 2016. The actuary who prepared the reports for the Company was Michael Bartram, BSc. (Hons), FIAA, FNZSA, who is a Fellow of the Institute of Actuaries of Australia and a Fellow of the NZSA.

The amount of life insurance contract assets / liabilities has been determined in accordance with PS20 of the NZSA, except that amounts have been calculated gross of tax with a separate liability held for the effects of associated deferred tax in accordance with NZ IAS 12 *Income Taxes* while noting that PS20 is currently being reviewed by the NZSA. After making appropriate checks, the actuary was satisfied as to the accuracy of the data from which the amount of the life insurance contract assets / liabilities had been determined.

The key assumptions used in determining the life insurance contract assets / liabilities are detailed below.

Profit carriers

Risk business has been valued using the projection method. The profit carrier for the risk business to achieve systematic release of planned margins is primarily premiums, except for single premium risk business which uses claims. The exception to this is Credit Card Repayment Insurance business, which is valued on an accumulation basis and thus does not use profit carriers. This is due to the frequently varying nature of the sum insured as credit card balances move.

Discount rates

The discount rates used to determine policyholder liabilities were determined from the inter-bank swap rate curve. These rates are then adjusted to remove the inherent credit risk margin and provide a risk free rate. The risk free rate (before tax) varied by duration between 1.8% to 3.4% (2015: 2.4% to 4.2%).

Inflation

The long-term inflation assumption was determined on a basis consistent with the medium to long term RBNZ inflation target of between 1% to 3% (2015: 1% to 3%). The rate assumed is 2% pa (2015: 2% pa).

Future expenses and indexation

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

Asset mix

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

Asymmetric risks

An asymmetric risk is characterised by a movement in an assumption that results in a significantly larger adjustment in one direction than it does in the other. Given the nature of the business no additional reserve is required for asymmetric risks (2015: no additional reserve).

Rates of taxation

The rates of taxation enacted or substantially enacted at the date of the valuation are assumed to continue into the future. The corporate tax rate used is 28%. Life insurance contract assets / liabilities are calculated gross of tax with a separate liability being held for tax.

Mortality and morbidity

Projected future rates of mortality for insured lives range from 65% to 650% (2015: 60% to 650%) of the NZ07 term mortality tables. These adjustments are determined by comparing the standard tables with the Company’s own experience.

NOTES TO THE FINANCIAL STATEMENTS

Future morbidity (Total Permanent Disability and Trauma) experience incidence rates are based on reinsurers' tables and internal investigations.

Future morbidity incidence and termination rates (Replacement Income) have been based on IAD89-93 tables, entity and industry experience.

Rates of discontinuance

Long-term discontinuance rates are based on recent company analysis and vary by product, duration in force and age of insured, taking into account market conditions and internal strategies. The assumed rates of discontinuance are between 2% and 40% (2015: between 2% and 56%).

Surrender values

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

Participating business

The Company does not issue participating business.

Solvency requirement

Solvency reserves are amounts required to meet the regulatory actuarial standards to provide protection to policyholders against the impact of fluctuations in and unexpected adverse experience in the Company's business. The regulatory standards are imposed by the RBNZ under the Insurance (Prudential Supervision) Act 2010 (IPSA).

Impact of changes in assumptions

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

Impact of changes in assumptions increase / (decrease)	**Change in future profit margins $000**	**Change in insurance contract liabilities $000**	**Change in shareholder's profit & equity $000**
30/09/2016			
Mortality and morbidity	(6,948)	-	-
Discontinuance rates	(53,742)	-	-
Maintenance expenses	1,974	-	-
Other assumptions	78,231	-	-
Total	19,515	-	-
30/09/2015			
Mortality and morbidity	4,580	-	-
Discontinuance rates	(120,735)	-	-
Maintenance expenses	(15,181)	-	-
Other assumptions	277,378	-	-
Total	146,042	-	-

NOTES TO THE FINANCIAL STATEMENTS

4. SOURCES OF PROFIT

	Note	Year to 30/09/2016 $000	Year to 30/09/2015 $000
Life Insurance			
Planned margins of revenues over expenses		47,114	41,093
Difference between actual and assumed experience		7,891	9,723
Effects of changes in underlying assumptions		42,087	31,805
		97,092	82,621
Investment earnings on assets in excess of policy liabilities		4,545	6,290
Other revenue / (expenses)			
Business valued on accumulation basis		1,230	1,241
Inwards commission		5,650	4,405
Amortisation of management rights and VOBA		(5,284)	(4,646)
Loss on sale of medical insurance policies	14	(258)	-
		1,338	1,000
Profit after income tax		102,975	89,911

All profit after income tax is attributable to the shareholder as the Company does not write participating policies.

5. PREMIUM REVENUE

	Year to 30/09/2016 $000	Year to 30/09/2015 $000
Regular premiums	199,369	193,260
Single premiums	3,085	4,591
Total premium revenue	202,454	197,851

6. INVESTMENT INCOME

	Year to 30/09/2016 $000	Year to 30/09/2015 $000
Interest income from:		
- Cash at bank	272	356
- Debt securities and bank deposits at fair value through profit or loss	6,043	8,239
- IRD use of money interest	1	1
Total interest income	6,316	8,596
Net gain / (loss) on financial assets at fair value through profit or loss	(3)	141
Total investment income	6,313	8,737

7. CLAIMS AND SURRENDERS

	Year to 30/09/2016 $000	Year to 30/09/2015 $000
Death and disability	65,782	75,475
Surrenders	1,906	2,010
Claims and surrenders	67,688	77,485

NOTES TO THE FINANCIAL STATEMENTS

8. COMMISSIONS AND OPERATING EXPENSES

	Note	Year to 30/09/2016 $000	Year to 30/09/2015 $000
Acquisition costs			
Commissions		16,956	19,327
Operating expenses		27,879	29,509
Total acquisition costs		44,835	48,836
Maintenance costs			
Commissions		11,434	14,156
Operating expenses		21,905	19,673
Total maintenance costs		33,339	33,829
Amortisation of management rights and VOBA		7,338	6,453
Total commissions and operating expenses		85,512	89,118
Operating expenses includes the following specific items:			
Personnel costs		429	560
Operating expenses recharged by related parties	20	47,700	43,326
Depreciation		-	12
Amortisation of intangible assets	12	7,384	6,453
Travel and accommodation		151	238
Printing, postage and stationery		841	1,262
Other operating expenses		617	3,784
		57,122	55,635

All costs are associated with life insurance contracts.

	Year to 30/09/2016 $000	Year to 30/09/2015 $000
Fees paid to principal auditor (KPMG New Zealand)		
Audit of financial statements	382	339
Other services - review of solvency returns	38	37
Other services - agreed upon procedures	-	10
Total fees paid to auditor	420	386

It is the Company's policy that, subject to the approval of the Ultimate Parent Company Audit Committee, KPMG can provide assurance and other audit-related services that, while outside the scope of the statutory audit, are consistent with the role of auditor. KPMG may not provide services that are perceived to be in conflict with the role of auditor. Services that are perceived to be in conflict with the role of auditor include consulting advice and subcontracting of operational activities normally undertaken by management, and engagements where the auditor may ultimately be required to express an opinion on its own work.

NOTES TO THE FINANCIAL STATEMENTS

9. INCOME TAX

	Year to 30/09/2016 $000	Year to 30/09/2015 $000
Reconciliation of the prima facie income tax payable on profit		
Profit before income tax	128,807	117,117
Prima facie income tax at 28%	36,066	32,793
Non-deductible / (non-assessable) policyholder income and expenses	(2,486)	(1,054)
Non-deductible expenses and deferred tax release associated with sale of medical insurance policies	(6,388)	-
Effect of pre - 2010 life tax regime	(1,061)	(4,651)
Other non-deductible expenses	127	115
Income tax (over) / under provided in prior years	(426)	3
Total income tax expense	25,832	27,206
Total income tax expense comprises:		
Current tax	15,729	8,098
Prior period adjustment - current tax	(90)	(6,490)
Deferred tax	10,193	25,598
Total income tax expense	25,832	27,206

	30/09/2016 $000	30/09/2015 $000
Deferred tax liability comprises the following temporary differences		
Life insurance contract assets, net of reinsurance	159,505	146,415
VOBA	11,164	12,804
Management rights	1,889	2,303
Provisions and accruals	(631)	(352)
Other deferred tax assets	(1,338)	(774)
Net deferred tax liability[1]	170,589	160,396

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

The Company is part of a wholly owned group of companies and may receive the benefit of tax losses by way of a tax loss offset, for which compensation will be paid to another member of the ANZ Holdings (New Zealand) Limited group. The Company is a member of an imputation group and can access imputation credits of $3,465 million (2015: $2,882 million) of the imputation group.

The life insurer pays tax at the company rate of 28%. As the life insurer is taxed as a proxy for the policyholders, returns to policyholders are tax-exempt.

Impact of 2010 life tax changes

From 1 July 2010, life insurers have been subject to a new tax regime which applies to all life insurance policies, irrespective of when they were issued. However, the new regime offered a concessional tax treatment (known as a transitional adjustment) for life insurance policies that were in force prior to 1 July 2010. The impact of the transitional adjustment is that it effectively treats designated policies (known as grandparented policies) as having income tax levied on a basis equivalent to the life office base under the old tax regime.

In general, grandparented status lasted for 5 years from 1 July 2010. However, for certain policy types, namely level term and single premium policies, the grandparented status can be for the duration of the policy.

NOTES TO THE FINANCIAL STATEMENTS

10. INVESTMENTS BACKING INSURANCE CONTRACT LIABILITIES

	30/09/2016 $000	30/09/2015 $000
Bank deposits	139,791	181,536
New Zealand Government securities	4,634	2,521
Corporate bonds	9,889	4,718
Total investments backing insurance contract liabilities	154,314	188,775
Maturity analysis:		
Up to one year	139,791	184,046
Over one year	14,523	4,729
Total investments backing insurance contract liabilities	154,314	188,775

11. TRADE AND OTHER RECEIVABLES

	30/09/2016 $000	30/09/2015 $000
Outstanding premiums	1,439	1,633
Amounts due from reinsurers	3,927	8,465
Other receivables	2,153	2,258
Provision for doubtful debts	(531)	(1,049)
Total trade and other receivables	6,988	11,307

12. GOODWILL AND OTHER INTANGIBLE ASSETS

	30/09/2016			30/09/2015		
	Cost $000	Accumulated amortisation and impairment $000	Carrying amount $000	Cost $000	Accumulated amortisation and impairment $000	Carrying amount $000
Goodwill	75,726	(5,226)	70,500	75,726	(5,226)	70,500
VOBA	93,000	(53,129)	39,871	93,000	(47,271)	45,729
Management rights	20,861	(14,115)	6,746	20,861	(12,635)	8,226
Computer software	7,902	(7,829)	73	7,783	(7,783)	-
Total goodwill and other intangible assets	197,489	(80,299)	117,190	197,370	(72,915)	124,455

Refer to note 2 for details of impairment testing of goodwill, VOBA and management rights. The remaining amortisation period of VOBA is 12 years (2015: 13 years), and 5.5 years (2015: 6.5 years) for management rights.

13. PAYABLES AND OTHER LIABILITIES

	Note	30/09/2016 $000	30/09/2015 $000
Creditors		1,188	1,313
Due to reinsurers		3,301	3,239
Due to related parties	20	7,392	7,443
Accrued charges		1,123	1,156
Employee annual and long service leave		8	9
Other liabilities		1,102	760
Total payables and other liabilities		14,114	13,920

Payables and other liabilities have an expected settlement date of less than 12 months and therefore are all current.

NOTES TO THE FINANCIAL STATEMENTS

14. LIFE INSURANCE CONTRACT ASSETS / (LIABILITIES)

Net life insurance contract assets contain the following components:

	30/09/2016 $000	30/09/2015 $000
Future premiums	2,291,177	2,283,931
Future policy benefits	(738,624)	(829,554)
Future expenses	(213,468)	(283,897)
Planned margins of revenues over expenses	(836,669)	(725,667)
Total life insurance contract assets, net of reinsurance	502,416	444,813

Estimated discounted net cash inflows from life insurance contract assets:		
- Less than one year	34,511	28,520
- One year to five years	102,214	85,132
- Later than five years	365,691	331,161
Total net life insurance contract assets future net cash inflows	502,416	444,813

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

Reconciliation of movements in life insurance contract assets and liabilities

	Note	30/09/2016 $000	30/09/2015 $000
Life insurance contract assets			
Opening balance		552,265	415,860
Transferred in on amalgamation		-	60,241
Medical insurance policies sold		(28,889)	-
Recognised in statement of comprehensive income		106,814	76,164
Closing balance		630,190	552,265
Of which:			
Current		41,856	33,127
Non-current		588,334	519,138
Life insurance contract liabilities - reinsurance			
Opening balance		107,452	86,013
Transferred in on amalgamation		-	19,251
Recognised in statement of comprehensive income		20,322	2,188
Closing balance		127,774	107,452
Of which:			
Current		7,345	4,607
Non-current		120,429	102,845

Sale of medical insurance policies

The Company sold its medical insurance business on 1 December 2015. This business comprised life insurance contract assets of $29 million, which were considered to be held for sale as at 30 September 2015. The Company recognised a loss after tax of $0.3 million from this sale. The calculation of the loss on sale included a provision of $1.7 million for costs associated with transferring the affected policies to the purchaser, of which $0.6 million remained as at 30 September 2016.

15. ORDINARY SHARE CAPITAL

The Company's share capital comprises 329,685,311 (2015: 329,685,311) fully paid ordinary shares that have rights and powers prescribed by section 36 of the Companies Act 1993.

Dividends paid during the year amounted to $0.30 (2015: $0.30) per share.

NOTES TO THE FINANCIAL STATEMENTS

16. INSURANCE RISK

Insurance risk may arise through the reassessment of the incidence of claims, the trend of future claims and the effect of unforeseen diseases or epidemics. In addition, in the case of morbidity, the time to recovery may be longer than assumed. Insurance risk is controlled by ensuring underwriting standards adequately identify potential risk, retaining the right to amend premiums on risk policies where appropriate and through the use of reinsurance. The experience of the Company's life insurance business is reviewed regularly.

Variations in claim levels will affect reported profit and shareholder's equity. The impact may be magnified if the variation leads to a change in actuarial assumptions which cannot be absorbed within the present value of planned margins for a group of related products.

Insurance risk management strategy

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

(i) To ensure risk appetite decisions are made within the context of corporate goals and governance structures

(ii) To ensure that an appropriate return on capital is made in return for accepting insurance risk

(iii) To ensure that strong internal controls embed underwriting for risk within the business

(iv) To ensure that internal and external solvency and capital requirements are met

(v) To use reinsurance as a component of insurance risk management strategy.

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

Included in this strategy is the process for underwriting and product pricing to ensure products are appropriately priced. Capital management is also a key aspect of the Company's risk management strategy.

Methods to limit or transfer insurance risk exposures

In an effort to protect and enhance shareholder value, the Company actively manages its exposure to risks so that it can react in a timely manner to changes in financial markets and economic and political environments. Risk exposures are managed using various analysis and valuation techniques, such as asset-liability matching analysis to calculate the economic capital required to support adverse risk scenarios, along with other cash flow analysis, and prudent and diversified underwriting and investing.

The Company reports monthly financial and operational results, and exposure for each portfolio of contracts (gross and net of reinsurance) to the Management Committee. This information is combined with the detail of the Company's reinsurance programme to provide a central view of the Company's performance and its gross and net exposure.

- Reinsurance - The credit rating of all reinsurers is monitored on a monthly basis through the Asset and Liability Committee Insurance Forum and any changes in ratings from the previous month are brought to the committee's attention.

- Underwriting procedures – Strategic underwriting decisions are put into effect using the underwriting procedures detailed in the Company's underwriting manual. Such procedures include limits to delegated authorities and signing powers.

- Claims management – Strict claims management procedures are in place to assist in the timely and correct payment of claims in accordance with policy conditions.

NOTES TO THE FINANCIAL STATEMENTS

Concentrations of insurance risk

Concentrations of insurance risk arise due to:

- Large sums assured on certain individuals. The largest exposures all relate to mortality. However, this is minimised through the use of reinsurance.
- Geographic concentrations due to employee group schemes. However, the Company has minimal exposure to such arrangements.

The following table illustrates concentrations of insurance risk according to benefit types and the extent to which this risk is mitigated by reinsurance.

	30/09/2016		30/09/2015	
Aggregate Sums Assured	**Sum Insured $m**	**Sum Reinsured $m**	**Sum Insured $m**	**Sum Reinsured $m**
Life[1]	44,901	19,692	43,110	18,979
Trauma / Total Permanent Disablement[1]	10,834	4,327	10,499	4,322
Other income[2]	315	77	297	84
Total	56,050	24,096	53,906	23,385

1 Aggregate sum insured is the aggregate of all lump sums payable under this benefit category.
2 Aggregate sum insured is the aggregate of the monthly benefits payable under replacement income benefit categories.

Terms and conditions of insurance contracts

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

Type of contract	Detail of contract terms and conditions	Nature of compensation for claims	Key variables that affect the timing and uncertainty of future cash flows
Non-participating insurance contracts with fixed and guaranteed terms. Benefit types include life, trauma, disability and other income cover.	Benefits paid on death, disability or ill health or that are fixed and guaranteed and not at the discretion of the issuer. Premiums may be guaranteed through the life of the contract, guaranteed for a specified term or variable at the insurer's discretion.	Benefits, defined by the insurance contract, are determined by the contract and are not directly affected by the performance of underlying assets or the performance of the contracts as a whole.	- Mortality - Morbidity - Discontinuance rates - Expenses - Market interest rates

Sensitivity to insurance risk

A 10% increase or decrease in mortality and morbidity, lapse rates or expense assumptions would not have a material effect (2015: no material effect) on profit after tax or equity.

17. CAPITAL MANAGEMENT

Capital management policies

The Company's capital management objectives are to maintain a strong capital base to protect policyholders' and creditors' interests, and to meet regulatory requirements, whilst still creating shareholder value.

During the year ended 30 September 2016, the Company has complied with all externally imposed capital requirements.

The Company has a risk management framework that includes the adequacy of capital as a key risk. Continuous reporting on current and forecast capital requirements is undertaken to monitor this risk. The Company manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Company may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. In addition, the Company analyses and optimises its product and asset mix, reinsurance programme, insurance risk exposure and investment strategy, in order to maintain adequate capital.

NOTES TO THE FINANCIAL STATEMENTS

Solvency requirements and statutory funds

A life insurer is required to have at least one statutory fund in respect of its life insurance business. The purpose of a statutory fund is to ensure that the funds received and paid out in respect of life insurance policies are separately identifiable as being part of the statutory fund. The assets of the statutory fund enjoy certain protections under IPSA, which are designed to ensure that the interests of holders of life insurance policies are given priority over the interests of other parties, such as unsecured creditors.

Under IPSA solvency requirements, the Company is required to maintain a positive solvency margin for each life fund calculated in accordance with *Solvency Standard for Life Insurance Business 2014* issued by the RBNZ, and the Company is required to have at least $5 million of actual solvency capital.

The Immediate Parent's access to the retained earnings and ordinary share capital in the statutory fund is restricted by IPSA.

The following tables show the assets, liabilities, equity, profit and solvency of the Company by fund.

	30/09/2016			30/09/2015		
	Statutory fund	Non-statutory fund	Total	Statutory fund	Non-statutory fund	Total
	$000	$000	$000	$000	$000	$000
Summary Income Statement information						
Premium revenue	200,991	1,463	202,454	188,795	9,056	197,851
Investment revenue	5,658	655	6,313	7,294	1,443	8,737
Claims expense	(66,623)	(1,065)	(67,688)	(71,594)	(5,891)	(77,485)
All other net expense	(7,444)	(4,828)	(12,272)	(9,239)	(2,747)	(11,986)
Profit before income tax	132,582	(3,775)	128,807	115,256	1,861	117,117
Profit after income tax	103,550	(575)	102,975	88,573	1,338	89,911
Summary Balance Sheet information						
Assets						
Investments backing insurance contract liabilities	154,314	-	154,314	168,950	19,825	188,775
Life insurance contract assets	630,190	-	630,190	541,371	10,894	552,265
All other assets	16,770	124,710	141,480	18,159	125,022	143,181
Total assets	801,274	124,710	925,984	728,480	155,741	884,221
Liabilities						
Life insurance contract liabilities - reinsurance	127,774	-	127,774	107,452	-	107,452
All other liabilities	186,739	15,080	201,819	161,817	21,536	183,353
Total liabilities	314,513	15,080	329,593	269,269	21,536	290,805
Equity						
Share capital	191,134	177,567	368,701	191,134	177,567	368,701
Retained earnings	295,627	(67,937)	227,690	268,077	(43,362)	224,715
Total equity	486,761	109,630	596,391	459,211	134,205	593,416
Other items						
Dividends paid	(76,000)	(24,000)	(100,000)	(75,000)	(25,000)	(100,000)
Net assets / (liabilities) transferred on amalgamation	-	-	-	103,230	(45,147)	58,083
Solvency						
Actual Solvency Capital	484,494	5,567	490,061	458,085	24,858	482,943
Minimum Solvency Capital	428,738	307	429,045	384,296	11,427	395,723
Solvency Margin	55,756	5,260	61,016	73,789	13,431	87,220
Solvency Ratio	113%	1813%	114%	119%	218%	122%

NOTES TO THE FINANCIAL STATEMENTS

18. FINANCIAL RISK MANAGEMENT

Strategy in using financial instruments

Financial instruments are fundamental to the Company's business, constituting the core element of its operations. Accordingly, the risks associated with financial instruments are a significant component of the risks faced by the Company. Financial instruments create, modify or reduce the credit, market (including traded or fair value risks and non-traded or interest and foreign currency related risks) and liquidity risks of the Company's balance sheet. These risks and the Company's policies and objectives for managing such risks are outlined below. The Company's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Company.

Financial assets comprise cash at bank, investments backing insurance contract liabilities and trade and other receivables. Financial liabilities comprise creditors, due to reinsurers, due to related parties and other liabilities.

Credit risk

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

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

The Company manages its exposure to credit risk by investing and transacting with high credit quality financial institutions and sovereign bodies. The Company continuously monitors the credit quality of the institutions that it invests and transacts with, and does not expect a high level of non performance risk associated with these counterparties. The Company further minimises its credit exposure by limiting the amount of funds placed in or invested with any one institution at any time.

No collateral exists for any of the securities held by the Company. The maximum exposure of the Company to credit risk at balance date is the carrying amount of cash at bank, investments backing insurance contract liabilities and trade and other receivables.

The credit ratings shown in the table below are from Standard & Poor's for the counterparty's New Zealand short term unsecured obligations.

Concentrations of credit risk

	Credit Rating	30/09/2016	30/09/2015
ANZ Bank New Zealand Limited	A-1+	29.5%	21.5%
ASB Bank Limited	A-1+	15.4%	14.1%
Bank of New Zealand Limited	A-1+	15.4%	14.4%
The Hongkong and Shanghai Banking Corporation Limited	A-1+	0.9%	9.7%
Kiwibank Limited	A-1	7.4%	8.4%
New Zealand Government	A-1+	2.6%	1.2%
Rabobank New Zealand Limited	A-1	9.4%	8.1%
Westpac New Zealand Limited	A-1+	15.4%	14.6%

The financial strength ratings for the Company's major reinsurers are shown in the table below. The rating for Cigna Life Insurance New Zealand Limited is from A.M. Best; all other ratings are from Standard & Poor's.

	30/09/2016	30/09/2015
Cigna Life Insurance New Zealand Limited	A-	A-
General Reinsurance Life Australia Limited	AA+	AA+
Hannover Life Re of Australasia Limited	AA-	AA-
Munich Reinsurance Company of Australasia Limited	AA-	AA-
RGA Reinsurance Company of Australia Limited	AA-	AA-
SCOR Global Life SE	AA-	AA-
Swiss Re Life & Health Australia Limited	AA-	AA-

NOTES TO THE FINANCIAL STATEMENTS

Market risk

Market risk is the risk of earnings changes arising from changes in interest rates, currency exchange rates and prices of equity securities. The Company is not exposed to price risk or currency risk as it does not hold equity securities or have any assets or liabilities denominated in foreign currencies.

Market risks are effectively managed through the Statement of Investment Policy and Objectives (SIPO) which defines the investment strategy for the Company. The SIPO also contains the investment mandate which is used to establish asset classes and weightings that the investment portfolio is expected to hold. The investment manager is charged with the responsibility for maintaining investment holdings within these designated asset classes. The SIPO, including the investment mandate, is reviewed at least annually.

Interest rate risk

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

The Company has established limits on investments in interest-bearing assets, which are monitored on a daily basis. The following table summarises the sensitivity of the Company's life insurance contract assets, net of reinsurance, to changes in interest rate movements at year end. The analysis is based on the assumptions that the relevant interest rate increased/decreased by 1% (2015: 1%), with all other variables held constant. This represents a best estimate of a reasonable shift in the interest rates, with regard to historical volatility of those rates. The balances shown provide the impact on both profit after tax and equity. The effect of a similar movement in interest rates on investments backing insurance contract liabilities is not material.

	30/09/2016		30/09/2015	
	+ 1%	- 1%	+ 1%	- 1%
	$000	$000	$000	$000
Life insurance contract assets, net of reinsurance	(43,150)	55,640	(38,282)	48,639

Liquidity risk

The Company manages its exposure to liquidity risk by investing in predominately short dated deposits and securities. Demands for funds can usually be met through ongoing normal operations, receipt of premiums and use of reinsurance. Solvency capital projections are prepared by the Company's actuary to ensure that the Company continues to meet its solvency requirements.

The maturity profile for the Company's insurance contract liabilities is shown in note 14. Payables and other liabilities are payable within three months.

19. FAIR VALUE MEASUREMENTS

Investments backing insurance contract liabilities are carried at fair value. All other financial assets and financial liabilities are carried at amortised cost, and their carrying value is considered to approximate the fair values as they are short term in nature or are receivable / payable on demand.

Valuation methodologies

- New Zealand Government securities are valued using quoted yields for the specific securities (Level 1).
- Bank deposits and corporate bonds are valued using discounted techniques, where contractual future cash flows of the instrument are discounted using term deposit rates appropriate for the remaining term to maturity (Level 2).

NOTES TO THE FINANCIAL STATEMENTS

20. RELATED PARTY TRANSACTIONS

Key management personnel compensation

	Year to 30/09/2016 $000	Year to 30/09/2015 $000
Directors' fees	136	98
Total compensation of key management personnel	136	98

Key management personnel include directors and senior management, being those persons having authority and responsibility for planning, directing and controlling the activities of the entity. The key management personnel compensation details above comprise amounts paid by the Company only. One director of the Company is employed by the Ultimate Parent Company, and the Company does not pay any fees in respect of this director. All other key management personnel of the Company are contracted to, and paid by, ANZ Bank.

A management charge, shown in the transactions with related parties table below, includes a recharge of personnel, premises, technology and other costs borne by ANZ Bank on behalf of the Company; however this charge does not include a separately identifiable amount for key management personnel compensation and does not give rise to any operating lease commitments for the use of premises and equipment provided by ANZ Bank.

Other transactions with related parties

The Company undertakes transactions with the Immediate Parent, its subsidiary, ANZ Bank and other subsidiaries of ANZ Bank.

	Year to 30/09/2016 $000	Year to 30/09/2015 $000
ANZ Bank		
Interest income	1,726	1,648
Commission expense	11,539	10,537
Operating expenses	47,700	43,326
Immediate Parent		
Dividend paid	100,000	100,000

Balances with related parties

	30/09/2016 $000	30/09/2015 $000
ANZ Bank		
Cash at bank	17,301	7,299
Investments backing insurance contract liabilities	35,390	37,283
Total due from related parties	52,691	44,582
Due to ANZ Bank	6,395	6,229
Due to other ANZ Bank subsidiaries	997	1,214
Total due to related parties	7,392	7,443

Balances due from / to related parties are unsecured, payable on demand and settlement occurs in cash.

APPOINTED ACTUARY'S REPORT

TO THE DIRECTORS OF ONEPATH LIFE (NZ) LIMITED

This Appointed Actuary's report under Section 78 of the Insurance (Prudential Supervision) Act 2010 (IPSA) is prepared in respect of the financial statements of OnePath Life (NZ) Limited (the Company) for the year ended 30 September 2016.

I have undertaken a review of the actuarial information (as defined in section 77(4) of IPSA) contained in, and used in the preparation of, the financial statements of the Company (the Financial Statements) as required under section 77(1) of IPSA.

My review has been carried out in accordance with the *Solvency Standard for Life Insurance Businesses 2014* issued by the Reserve Bank of New Zealand (the Solvency Standard), which is the solvency standard applicable to the Company under section 55 of IPSA, and with the New Zealand Society of Actuaries' Professional Standards.

In respect of my review, I confirm as follows:

(a) I, Michael Bartram FNZSA, am the Appointed Actuary for the Company under section 76(1) of IPSA, and that I have prepared this report.

(b) The work that I have done to review the actuarial information contained in, or used in the preparation of the Financial Statements, includes a review of:

- (i) Information relating to the Company's calculations of premiums, claims, reserves, dividends, insurance rates, and technical provisions (annuity rates and unvested policyholder benefits liability are not applicable to the Company);
- (ii) Information relating to assessments of the probability of uncertain future events occurring and the financial implications for the Company if those events do occur;
- (iii) The Company's Policy Liability, as defined in the Solvency Standard;
- (iv) Risk management policies including reinsurance exposures and reinsurance assets relevant to the Policy Liability;
- (v) The deferred tax assets or liabilities relevant to the Policy Liability;
- (vi) The deferred acquisition cost relevant to the Policy Liability;
- (vii) The analysis of the Company's profit;
- (viii) Any additional assumptions used in the calculation of the Policy Liability;
- (ix) The consistency between the New Zealand Society of Actuaries *Professional Standard 20 "Determination of Life Insurance Policy Liabilities"* and the calculated Policy liability;
- (x) The consistency between the Solvency Standard and the calculated Solvency Margin; and
- (xi) The Company's checks and controls over data and valuation processes.

(c) Other than my relationship as Appointed Actuary, I am an employee and customer of ANZ Bank New Zealand Limited (ANZ Bank), of which the Company is a subsidiary. I have a small number of shares in ANZ Bank, as part of an employee share scheme.

(d) I have obtained all information and explanations that I have required in order to conduct my review under section 77 of IPSA. There were no limitations in the scope of my review.

(e) I consider that in my opinion and from an actuarial perspective:

- (i) The actuarial information contained in the Financial Statements has been appropriately included in the Financial Statements.
- (ii) The actuarial information used in the preparation of the Financial Statements has been used appropriately.

(f) I consider that in my opinion and from an actuarial perspective, the Company, as at 30 September 2016, is maintaining a solvency margin that complies with that required under the Solvency Standard for the purposes of section 21(2)(b) of IPSA.

(g) I consider that in my opinion and from an actuarial perspective as at 30 September 2016, the Company is maintaining solvency margins that comply with those required under the Solvency Standard for the purposes of section 21(2)(c) of IPSA.

I have prepared, dated and signed this report solely in my capacity as the Company's Appointed Actuary under section 76(1) of IPSA. To the fullest extent permitted by law, I do not accept responsibility to anyone other than the Reserve Bank of New Zealand, the Company, its board and shareholder for the contents of this report.

Michael Bartram
Appointed Actuary
OnePath Life (NZ) Limited
Auckland
22 December 2016

Independent auditor's report

To the shareholder of OnePath Life (NZ) Limited

We have audited the accompanying financial statements of OnePath Life (NZ) Limited ("the Company") on pages 3 to 23. The financial statements comprise the balance sheet as at 30 September 2016, the statements of comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

This report is made solely to the shareholder as a body. Our audit work has been undertaken so that we might state to the Company's shareholder those matters we are required to state to them in the auditor's 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's shareholder as a body, for our audit work, this report or any of the opinions we have formed.

Directors' responsibility for the financial statements

The directors are responsible on behalf of the Company for the preparation and fair presentation of the financial statements in accordance with generally accepted accounting practice in New Zealand (being New Zealand Equivalents to International Financial Reporting Standards) and International Financial Reporting Standards, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement whether due to fraud or error.

Auditor's responsibility

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

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

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

Our firm has also provided other services to the Company in relation to limited assurance services on the annual solvency return. Subject to certain restrictions, partners and employees of our firm may also deal with the Company on normal terms within the ordinary course of trading activities of the business of the Company. These matters have not impaired our independence as auditor of the Company. The firm has no other relationship with, or interests in, the Company.

Opinion

In our opinion, the financial statements on pages 3 to 23 comply with generally accepted accounting practice in New Zealand and present fairly, in all material respects, the financial position of OnePath Life (NZ) Limited as at 30 September 2016 and its financial performance and cash flows for the year then ended in accordance with New Zealand Equivalents to International Financial Reporting Standards and International Financial Reporting Standards.

KPMG

22 December 2016
Auckland