

**BNZ Life Insurance Limited**

**STATEMENT OF COMPREHENSIVE INCOME**  
**For the year ended 30 September 2014**

	Note	2014 \$'000	2013 \$'000
<b>Revenues</b>			
Direct insurance premium revenue and policy fees	2	82,114	77,121
Less insurance premiums ceded to reinsurers	3	(16,224)	(15,128)
Net insurance premium revenue		65,890	61,993
Net investment revenue	4	4,400	4,076
<b>Total revenue</b>		<b>70,290</b>	<b>66,069</b>
<b>Expenses</b>			
Gross claims expense	5	39,962	32,634
Reinsurance recoveries revenue	3	(17,061)	(9,763)
Net claims expense		22,901	22,871
Change in net policy liabilities	15	131	(253)
Other expenses	6	25,761	24,518
<b>Total expenses</b>		<b>48,793</b>	<b>47,136</b>
<b>Profit /(loss) before income tax</b>		<b>21,497</b>	<b>18,933</b>
Income tax expense/(benefit)	7	(925)	(1,594)
<b>Net profit after tax</b>		<b>22,422</b>	<b>20,527</b>
Other comprehensive income		-	-
<b>Total comprehensive income</b>		<b>22,422</b>	<b>20,527</b>

*The Statement of Comprehensive Income should be read in conjunction with the notes to the financial statements.*

**BNZ Life Insurance Limited**

**STATEMENT OF FINANCIAL POSITION**

**As at 30 September 2014**

	Note	2014 \$'000	2013 \$'000
<b>Current Assets</b>			
Cash and cash equivalents	8	5,570	2,518
Receivables	9	5,363	3,754
Current tax asset	10	253	1,226
Financial assets at fair value through profit and loss	11	1,305	-
<b>Total current assets</b>		<b>12,491</b>	<b>7,498</b>
<b>Non-current assets</b>			
Financial assets at fair value through profit and loss	11	70,468	73,565
Intangible assets	14	2,859	4,574
<b>Total non-current assets</b>		<b>73,327</b>	<b>78,139</b>
<b>Total assets</b>		<b>85,818</b>	<b>85,637</b>
<b>Current Liabilities</b>			
Payables	12	13,285	12,909
<b>Total current liabilities</b>		<b>13,285</b>	<b>12,909</b>
<b>Non-current liabilities</b>			
Deferred tax liability	13	968	1,092
Policyholders' liabilities	15	1,082	(1,702)
<b>Total non-current liabilities</b>		<b>2,050</b>	<b>(610)</b>
<b>Total liabilities</b>		<b>15,335</b>	<b>12,299</b>
<b>Net assets</b>		<b>70,483</b>	<b>73,338</b>
<b>Equity</b>			
Contributed equity	16	11,000	11,000
Retained profits		59,483	62,338
<b>Total equity</b>	<b>22</b>	<b>70,483</b>	<b>73,338</b>

*The Statement of Financial Position should be read in conjunction with the notes to the financial statements.  
These financial statements were authorised by the Board for issue on 15 December 2014.*

Director  
BNZ Life Insurance Limited  
Date 15.12.14

Director  
BNZ Life Insurance Limited  
Date 15.12.14

**STATEMENT OF CHANGES IN EQUITY**  
**For the year ended 30 September 2014**

	Note	Contributed Equity \$'000	Retained Earnings \$'000	Total \$'000
<b>As at 1 October 2012</b>		<b>11,000</b>	<b>46,411</b>	<b>57,411</b>
Movements in Equity for the year		-	-	-
Net profit after tax		-	20,527	20,527
Other comprehensive income		-	-	-
Total Comprehensive Income for the year		-	20,527	20,527
Dividends Paid	25	-	(4,600)	(4,600)
<b>As at 30 September 2013</b>		<b>11,000</b>	<b>62,338</b>	<b>73,338</b>
<b>As at 1 October 2013</b>		<b>11,000</b>	<b>62,338</b>	<b>73,338</b>
Movements in Equity for the year		-	-	-
Net profit after tax		-	22,422	22,422
Other comprehensive income		-	-	-
Total Comprehensive Income for the year		-	22,422	22,422
Dividends Paid	25	-	(25,277)	(25,277)
<b>As at 30 September 2014</b>		<b>11,000</b>	<b>59,483</b>	<b>70,483</b>

*The Statement of Changes in Equity should be read in conjunction with the notes to the financial statements.*

**BNZ Life Insurance Limited**

**STATEMENT OF CASHFLOWS**

**For the year ended 30 September 2014**

	<b>Note</b>	<b>2014 \$'000</b>	<b>2013 \$'000</b>
<b>Cash flows from operating activities</b>			
Premiums and deposits received from policyholders		82,352	77,189
Interest received		134	134
Reinsurance claims recoveries		15,214	10,108
Income tax refunds		1,773	3,017
Payments in the course of operations		(24,187)	(29,405)
Reinsurance premiums paid		(15,706)	(14,872)
Claims paid		(37,309)	(30,968)
<b>Net cash provided by / (used in) operating activities</b>	<b>19</b>	<b>22,271</b>	<b>15,203</b>
<b>Cash flows from investing activities</b>			
Proceeds from disposal of financial assets		41,066	11,915
Payments for financial assets		(35,008)	(25,368)
<b>Net cash provided by / (used in) investing activities</b>		<b>6,058</b>	<b>(13,453)</b>
<b>Cash flows from financing activities</b>			
Dividends paid		(25,277)	(4,600)
<b>Net cash provided by / (used in) financing activities</b>		<b>(25,277)</b>	<b>(4,600)</b>
<b>Net increase/(decrease) in cash held</b>		<b>3,052</b>	<b>(2,850)</b>
Cash at the beginning of the period		2,518	5,368
<b>Cash at the end of the period</b>	<b>19</b>	<b>5,570</b>	<b>2,518</b>

*The Statement of Cashflows should be read in conjunction with the notes to the financial statements.*

## **BNZ LIFE INSURANCE LIMITED**

### **NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS** for the year ended 30 September 2014

#### **1. SIGNIFICANT ACCOUNTING POLICIES**

##### **Corporate Information**

BNZ Life Insurance Limited is incorporated in New Zealand and registered under the Companies Act 1993. The principal place of business is 60 Waterloo Quay, Wellington, New Zealand.

BNZ Life Insurance Limited is a wholly owned subsidiary of National Wealth Management New Zealand Holdings Limited. National Australia Bank Limited in turn ultimately owns National Wealth Management New Zealand Holdings Limited.

BNZ Life Insurance Limited offers life insurance products to customers. All operations are performed in New Zealand within the insurance industry.

The Reserve Bank of New Zealand issued BNZ Life Insurance Limited with a full licence under the Insurance (Prudential Supervision) Act 2010 on 18 April 2013. The full licensing process required BNZ Life Insurance Limited to separate non life business from life business and operate the life business from a statutory fund. Effective 1 October 2011, BNZ Life Insurance Limited transferred its non life business to a new service company, BNZ Insurance Services Limited, a wholly owned subsidiary of National Wealth Management New Zealand Holdings Limited.

The significant accounting policies that have been adopted in the preparation of this financial report are:

##### **Basis of Preparation**

These financial statements have been prepared in accordance with New Zealand Generally Accepted Accounting Practice ("NZ GAAP") and the requirements of the Companies Act 1993 and the Financial Reporting Act 1993. NZ GAAP comprises New Zealand equivalents to International Financial Reporting Standards ("NZ IFRS") and other applicable Financial Reporting Standards and Interpretations as appropriate for profit-oriented entities. The financial statements have also been prepared on a historical cost basis, except for financial assets and liabilities that have been measured at fair value and the actuarial quantification of the policyholder liability.

The financial statements are presented in New Zealand dollars and all values are rounded to the nearest thousand dollars (\$'000). The functional currency is New Zealand dollars.

##### **Statement of Compliance**

The financial statements have been prepared in accordance with NZ GAAP. They comply with New Zealand equivalents to International Financial Reporting Standards, and other applicable Financial Reporting Standards, as appropriate for profit-oriented entities. The financial statements comply with International Financial Reporting Standards ("IFRS").

##### **Significant Accounting Judgements, Estimates and Assumptions**

In applying the accounting policies of the company, management continually evaluates judgements, estimates and assumptions based on experience and other factors, including expectations of future events that may have an impact on the company.

In determining the policyholder liability at year end, significant assumptions have been made as documented in Note 20.

Deferred tax assets are recognised for tax loss carry forwards and unused tax credits only to the extent that the realisation of the related tax benefit is probable. The uncertainty of the recoverability of the tax losses and tax credits is taken into consideration.

##### **Applicable Standards or Interpretations that have not been adopted**

The following new standards, amendments to standards or interpretation have been issued but not yet effective for the period ended 30 September 2014, and have not been applied in preparing these financial statements:

NZ IFRS 9 Financial Instruments. This standard is part of the IASB's project to replace IAS 39 *Financial Instruments: Recognition and Measurement* in three phases.

The standard requires all financial assets to be classified on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial asset. Financial assets are initially measured at fair value plus, in the case of a financial asset not at fair value through the profit and loss, particular transaction costs and subsequently measured at amortised cost or fair value.

## **BNZ LIFE INSURANCE LIMITED**

### **NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS**

for the year ended 30 September 2014

#### **1. SIGNIFICANT ACCOUNTING POLICIES**

The standard retains the existing requirements of NZ IAS 39 for the classification of financial liabilities and the ability to use fair value. However the change in fair value is accounted for in two parts; change relating to credit risk is presented in other comprehensive income, any remaining change is presented in profit and loss.

The mandatory effective date of the final version of NZ IFRS 9 (2014) was extended to periods beginning on or after 1 January 2018. The adoption of this standard is expected to have an impact on disclosures only.

#### **Changes in Accounting Policy**

The accounting policies adopted are consistent with those of the previous period except as follows:

NZ IFRS 4 Insurance Contracts (amendments to Appendix C) was issued 1 July 2014 and is effective for periods beginning on or after 1 October 2014. The amendments require disclosure of information about solvency margins for life insurance funds, aligning with the requirements of the Reserve Bank's solvency standards for Life Insurers. BNZ Life Insurance Limited included these disclosures in this set of Financial Statements, and therefore no further disclosures will be required.

The financial statements were authorised for issue by the Directors on 15 December 2014.

#### **Revenue Recognition**

##### **Premium Revenue Recognition**

Premiums receivable on all insurance policies are recognised as revenue on an accruals basis.

##### **Investment Revenue Recognition**

Investment revenue includes both realised and unrealised profits and losses which represent changes in the measurement of financial assets.

All other investment income is recognised on an accruals basis.

##### **Other Revenue Recognition**

All other operating revenue is recognised as revenue on an accruals basis with the exception of reinsurance rebates which are recognised on a cash basis due to the subjectivity of the calculation.

#### **Reinsurance**

Reinsurance agreements provide for indemnification of the company by the reinsurer against loss or liability. Reinsurance income and expense are recognised separately in the Statement of Comprehensive Income when they become due and payable in accordance with the reinsurance agreement.

#### **Claims Recognition**

Claims incurred that relate to insurance contracts, providing services and bearing risks including protection business, are treated as expenses. Claims are recognised when the liability to the policyowner under the policy contract has been established, or upon notification of the insured event depending on the type of claim.

#### **Financial Assets**

Financial assets, excluding cash and receivables, are classified at fair value through profit or loss in accordance with NZ IAS 39. Financial assets are therefore initially recognised at cost in the Statement of Financial Position and subsequent remeasurement is at fair value. Purchases and sales of financial assets are accounted for at trade date. Unrealised profits and losses on subsequent remeasurement to fair value will be recognised in the Statement of Comprehensive Income. Details of fair value for the different types of financial assets are listed below.

- *Cash assets* are carried at face value of the amounts deposited. The carrying amounts of cash assets approximate to their fair value. For the purposes of the statements of cash flows, cash includes cash on hand, deposits held at call with banks and investments in money market instruments.
- *Trade receivables* are accounted for as loans and receivables and are generally settled within 60 days and are carried at amounts due. The collectability of debts is assessed at reporting date and specific provision is made for any doubtful accounts. The carrying amount of receivables approximates to their fair value.

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS**

for the year ended 30 September 2014

**1. SIGNIFICANT ACCOUNTING POLICIES**

- *Shares, fixed interest securities, options and units listed on stock exchanges trusts* are initially recognised at cost and the subsequent fair value is taken as the quoted price of the instrument at the Statement of Financial Position date.
- *Unlisted fixed interest securities* are recorded at amounts based on valuations using rates of interest equivalent to the yields obtainable on comparable investments at balance date.
- *Unlisted unit trusts* are recorded at fund managers' valuation.

**Depreciation**

All tangible non-current assets are depreciated by taking the depreciable amount and spreading this cost over the useful economic life of the asset on a straight-line basis. The depreciable amount represents the initial recognised cost at the date of acquisition, or that at the date when it becomes ready for use in the case of internally constructed assets, less any residual value.

Depreciation rates and methods are reviewed annually for appropriateness. Changes to depreciation rates and methods are reflected prospectively in current and future periods only. Depreciation is expensed through the Statement of Comprehensive Income.

The depreciation rates used for each class of asset are as follows:

Office equipment	5 years
Data processing equipment	3 or 5 years

**Intangible Assets**

The costs of developing and enhancing internal use software are expensed as incurred. Costs that are directly associated with the production of identifiable and unique software products controlled by the Company, and that will probably generate economic benefits exceeding costs beyond one year, are recognised as intangible assets. Direct costs include software development employee costs and an appropriate portion of relevant overheads.

Computer software development costs recognised as assets are amortised using the straight-line method over their useful lives of 3 or 5 years.

**Sale of Non-Current Assets**

The gain or loss on disposal of non-current tangible assets is recognised at the date that the risks and benefits of ownership of the asset passes to the buyer, usually when an unconditional contract of sale is signed. The gain or loss on disposal is calculated as the difference between the carrying amount of the asset at the time of disposal and the net proceeds on disposal.

**Impairment**

If there is an indication that the carrying value of any asset exceeds its recoverable amount, an impairment review is performed to determine the deficit. Any resultant write-down is recognised as an expense in the reporting period in which it occurs unless the asset had previously been revalued, in which case the previous revaluation is written back with any excess being expensed.

Where a group of assets working together supports the generation of cash inflows, the recoverable amount is assessed in relation to that group of assets.

In assessing the value-in-use of non-current assets the relevant cash flows have been 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 or group of assets.

**Provisions**

A provision is recognised when, as a result of a past event, there is a legal, equitable or constructive obligation, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made.

The amount of provision recognised is determined by discounting the expected future cash flows (adjusted for expected future risks) required to settle the obligation. The pre-tax discount rate used is one that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is treated as a finance cost.

## **BNZ LIFE INSURANCE LIMITED**

### **NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS** for the year ended 30 September 2014

#### **1. SIGNIFICANT ACCOUNTING POLICIES**

##### **Payables**

These amounts represent liabilities for goods and services provided to the Company to the end of the financial year and which are unpaid.

##### **Employee Benefit Expenses**

No personnel are employed directly by BNZ Life Insurance Limited, but seconded via BNZ Insurance Services Limited, from related party Bank of New Zealand Limited. All personnel related costs are presented as employee benefit expenses and liabilities in BNZ Insurance Services Limited's financial statements. BNZ Life Insurance Limited pays BNZ Insurance Services Limited a management fee for the services they receive in relation to personnel employed.

##### **Liabilities**

Policy liabilities are measured at net present values of estimated future cash flows or, where the result would not be materially different, as the accumulated benefits available to policyholders. Other liabilities are measured at net present values and changes in their net present values arising from changes in the measurement of net present values are recognised in the Statement of Comprehensive Income as revenues or expenses in the financial year in which the changes occur.

##### **Policyholders' Liabilities**

###### ***Provision for Policy Liabilities***

New Zealand Equivalent to International Financial Reporting Standard No. 4 – Insurance Contracts (NZ IFRS4) sets out the methodology for measuring policyholder liabilities.

The provision for policy liabilities has been calculated using the New Zealand Margin on Services (MoS) method as set out in New Zealand Society of Actuaries Professional Standard No. 3 "Determination of Life Insurance Policy Liabilities".

The MoS policy liabilities represent the amount, which together with future premiums and investment earnings, will:

- (a) meet the expected payments of future benefits and expenses, and
- (b) provide for the systematic release of profit as policy services are provided and income is received or recognised.

The amount of equity retained as solvency reserves (see Note 22) has been determined in accordance with the Reserve Bank of New Zealand Solvency Standard for Life Insurance Business.

###### ***Provision for Incurred Claims***

Provision has been made for estimated liabilities that arise from claims notified but not settled at balance date. Inclusion of a particular claim in this provision does not signify an admission of liability.

##### **Income Tax**

BNZ Life Insurance Limited is subject to the life insurance tax regime. From 1 July 2010 there have been significant changes to the taxation of life insurance businesses. Prior to this change the tax regime required a life office base and a policyholder base to be maintained. The life office base is subject to tax on investment revenue less expenses plus underwriting income. The policyholder base seeks to tax benefits as they accrue to policyholders and the company is taxed as a proxy for the policyholder. The life insurer pays tax on the higher of the two bases at the company rate of 28%. From 1 July 2010 a shareholder base and a policyholder base are required to be maintained. The shareholder base taxes term insurance business on actual profits as other businesses are taxed, removing what was generally considered to be favourable tax provisions. Transitional rules exist for term insurance business sold before 1 July 2010.

The income tax expense or revenue for the period is the tax payable on the current period's taxable income adjusted by changes in deferred tax assets and liabilities attributable to amounts recognised as assets or liabilities, and to unused tax losses.

Deferred tax assets and liabilities are recognised for temporary differences between the carrying amount of assets and liabilities for accounting purposes and the tax bases of those assets and liabilities, and for unused tax losses. The tax rates expected to apply when the assets are recovered or liabilities are settled, based on those



**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS**

for the year ended 30 September 2014

**1. SIGNIFICANT ACCOUNTING POLICIES**

tax rates which are enacted or substantively enacted for each jurisdiction, are applied to the cumulative amounts of deductible and assessable temporary differences to measure the deferred tax asset or liability.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax balances attributable to amounts recognised directly in equity are also recognised directly in equity.

The tax-related amounts arising from deferred tax balances are determined using the balance sheet method which calculates temporary differences based on the carrying amounts of an entity's assets and liabilities in the Statement of Financial Position and their associated tax bases. In addition, current and deferred taxes attributable to amounts recognised directly in equity are also recognised directly in equity.

**GST**

Where a transaction is subject to GST the amount recorded in the Statement of Comprehensive Income is net of the recoverable portion.

**Dividends**

A provision for dividends payable is recognised in the reporting period in which the dividends are declared, for the entire undistributed amount, regardless of the extent to which they will be paid in cash.

**Contributed Equity**

The company has only one type of authorised share capital, ordinary shares.

Holders of ordinary shares receive dividends as declared at the discretion of the company and are entitled to one vote per share at shareholder meetings. In the event of winding up of the company ordinary shareholders rank after creditors and are fully entitled to any surplus proceeds of liquidation.



	2014	2013
	\$'000	\$'000
<b>2 Premium Revenue</b>		
Life insurance contract premiums	82,114	77,121
<b>Total premiums received or receivable</b>	<b>82,114</b>	<b>77,121</b>
<b>3 Reinsurance</b>	<b>2014</b>	<b>2013</b>
	<b>\$'000</b>	<b>\$'000</b>
In the current and previous year BNZ Life Insurance Ltd has entered into reinsurance agreements with Munich Re, Hannover Life Re, Swiss Re, CIGNA and RGA.		
<b>Reinsurance Revenue</b>		
Reinsurance portfolio revenue	2,567	762
Reinsurance recoveries on claims	14,494	9,001
	<b>17,061</b>	<b>9,763</b>
<b>Reinsurance Expense</b>		
Reinsurance premiums	16,224	15,128
	<b>16,224</b>	<b>15,128</b>
<b>4 Investment Revenue</b>	<b>2014</b>	<b>2013</b>
	<b>\$'000</b>	<b>\$'000</b>
Revenue from :		
- Equity securities	2,073	2,412
- Debt securities	2,193	1,530
Represented by:		
- Interest income	2,193	1,530
- Realised gains/(losses) on financial assets held as fair value through profit or loss	(185)	(175)
- Unrealised gains/(losses) on financial assets held as fair value through profit or loss	2,258	2,587
Call interest income - commonly controlled entities	134	134
<b>Total investment revenue</b>	<b>4,400</b>	<b>4,076</b>
<b>5 Claims expense</b>	<b>2014</b>	<b>2013</b>
	<b>\$'000</b>	<b>\$'000</b>
Death & disability	39,962	32,634
<b>Total claims paid or payable</b>	<b>39,962</b>	<b>32,634</b>

	2014 \$'000	2013 \$'000
<b>6 Other Expenses</b>		
Management fees	9,931	9,164
Marketing expense	695	695
Commission	13,142	12,521
Amortisation - Intangible assets	1,715	1,715
Audit fees	-	-
Outside services	14	192
Medical fees	248	214
Bank fees	16	17
<b>Total other expenses</b>	<b>25,761</b>	<b>24,518</b>
<b>Policy acquisition costs</b>		
Commission	3,188	2,948
Other acquisition costs	5,555	5,285
<b>Total policy acquisition costs</b>	<b>8,743</b>	<b>8,233</b>
<b>Policy maintenance costs</b>		
Commission	9,954	9,573
Other maintenance costs	6,879	6,550
<b>Total policy maintenance costs</b>	<b>16,833</b>	<b>16,123</b>
<b>Investment management expenses</b>	<b>185</b>	<b>162</b>
<b>Total other expenses</b>	<b>25,761</b>	<b>24,518</b>

Investment Management expenses are as charged. Expenses are apportioned between policy acquisition and policy maintenance on the basis of time / cost analysis.

BNZ Insurance Services Limited paid audit fees of \$72,000 for audit services, and \$17,000 for limited assurance services in relation to the solvency return, on behalf of National Wealth Management New Zealand Holdings Limited (the Group) which includes BNZ Life Insurance Limited.

	2014 \$'000	2013 \$'000
<b>7 Income Tax Expense/(Benefit)</b>		
<b>Total income tax charged to Statement of Comprehensive Income</b>		
Current tax	(801)	(1,510)
Deferred tax	(124)	(84)
<b>Total income tax expense/(benefit)</b>	<b>(925)</b>	<b>(1,594)</b>

The tax on the company profit before tax differs from the theoretical amount that would arise using the basic company tax rate of 28% as follows:

**Reconciliation of income tax expense/(benefit) shown in the Statement of Comprehensive Income with prima facie tax payable on the pre-tax accounting profit**

Profit/(loss) before income tax	21,497	18,933
Prima facie income tax at 28%	6,019	5,301
<b>Add/deduct: Tax effect of amounts which are non-deductible or non-assessable:</b>		
Non assessable and tax paid income	(8,489)	(8,901)
Non deductible expenses	1,541	1,962
<b>Under/(over) provision in prior years</b>	<b>4</b>	<b>44</b>
<b>Total income tax expense/(benefit)</b>	<b>(925)</b>	<b>(1,594)</b>

	2014 \$'000	2013 \$'000
<b>8 Cash and Cash Equivalents</b>		
Cash at bank - Commonly controlled entities	5,570	2,518
	<b>5,570</b>	<b>2,518</b>

	2014 \$'000	2013 \$'000
<b>9 Receivables</b>		
Reinsurance claims recoverable	5,278	3,431
Life insurance premiums receivable	77	173
Other	8	150
Receivable within 12 months	5,363	3,754

At 30 September 2014 there were \$nil (2013: \$nil) past due or impaired receivables.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS (continued)  
for the year ended 30 September 2014

	2014 \$'000	2013 \$'000
<b>10 Current Tax Assets and Liabilities</b>		
Opening balance	1,226	2,775
Under / (over) provision in prior years	62	(199)
Tax payments/(refunds)	(1,773)	(3,059)
Current year tax (expense)/benefit	738	1,709
Closing balance - current tax asset/(liability)	253	1,226

Any tax losses and unused tax credits are reflected as a current tax asset as the tax losses and unused tax credits are offset against taxable income of the BNZ group. The BNZ group compensates the Company for any benefit received from using tax losses and excess credits. A current tax liability of the Company is also met by the BNZ group, and the Company will compensate the BNZ group for meeting its tax liability.

The tax calculations reflect the changes introduced in the Taxation (International Taxation, Life Insurance, and Remedial Matters) Act 2009. The tax rules relating to the life insurance business have been updated to ensure that term insurance business is taxed on actual profits, as other businesses are taxed. These changes generally took effect from 1 July 2010, with term insurance products sold before that date subject to transitional rules which end 30 June 2015.

	2014 \$'000	2013 \$'000
<b>11 Financial Assets at Fair Value through Profit and Loss</b>		
Current financial assets - Expected to be realised within 12 months	1,305	-
Non-current financial assets - Expected to be realised in more than 12 months	70,468	73,565
	71,773	73,565

The majority of our financial assets have been classified as non current to meet the requirements of NZ IAS 1 (*Presentation of Financial Statements*) which refers to the expectation or intention of realisation. While these financial assets are of a long term nature and not expected to be realised within 12 months, over 75% of these financial assets have a contractual maturity of less than 12 months and therefore could be realised within two business days to meet any short term commitments.

The determination of fair value by level of the fair value hierarchy defined in NZ IAS 39 and IFRS 7 is as follows:

30 September 2014	Level 1	Level 2	Level 3	Total Fair Value
Equity securities				
- Unit Trusts	-	16,119	-	16,119
Subtotal Equity securities	-	16,119	-	16,119
Debt securities				
- National Government - NZ Government securities	1,125	-	-	1,125
- Unit Trusts	-	54,349	-	54,349
- Other - Mortgage Income Fund	-	-	180	180
Subtotal debt securities	1,125	54,349	180	55,654
Total Financial Assets at Fair Value through Profit and Loss	1,125	70,468	180	71,773
<b>30 September 2013</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total Fair Value</b>
Equity securities				
- Unit Trusts	-	14,938	-	14,938
Subtotal Equity securities	-	14,938	-	14,938
Debt securities				
- National Government - NZ Government securities	1,124	-	-	1,124
- Unit Trusts	-	57,304	-	57,304
- Other - Mortgage Income Fund	-	-	199	199
Subtotal debt securities	1,124	57,304	199	58,627
Total Financial Assets at Fair Value through Profit and Loss	1,124	72,242	199	73,565

Reconciliation of movements in Level 3 financial assets measured at fair value:

	2014 \$'000	2013 \$'000
Debt securities - Mortgage Income Fund		
Carrying amount at beginning of year	199	198
Total gains/(losses) in Statement of Comprehensive Income	(19)	1
Purchases	-	-
Sales	-	-
Carrying amount at end of year	180	199

Included in the Level 1 category are the financial instruments that are measured in whole or in part by reference to published quotes in an active market.

Included in the Level 2 category are inputs other than quoted prices included in Level 1 that are observable, either directly (as prices) or indirectly (derived from prices).

Included in the Level 3 category are inputs that are not based on observable market data but instead in whole or in part using a valuation technique (model) based on assumptions that are neither supported by prices from observable current market transactions in the same instrument nor are they based on available market data. The only asset class in this category is the Mortgage Income Fund because it is closed to new business. This investment continues to be valued and priced on a daily basis taking into account movements in interest earned and management/trustee fees incurred.

The Mortgage Income Fund (MIF) has been suspended since October 2008 and is being formally wound up. A small percentage of the MIF is held in cash investments with the remainder in mortgage related investments through units in the Mortgage Distribution Fund (MDF), which invests in first mortgages. The MDF is also being formally wound up. As at 30 September 2014 capital distributions received totalled 94% and we are expecting the final capital payment for the MIF to be received before January 2015, taking the total capital repaid for our original investment in MIF to 99%. The recovery value of the loans remaining in MDF have been adjusted down to reflect a total capital repayment of less than 100% and this has resulted in a loss being recognised in the Statement of Comprehensive Income for the year ended 30 September 2014.

No transfers between levels of the fair value hierarchy were made during the period.

	2014 \$'000	2013 \$'000
<b>12 Payables</b>		
Reinsurance premiums payable	3,465	2,947
Accrued operating expenses	303	454
Other payables - related parties - commonly controlled entities	9,517	9,508
Payable within one year	13,285	12,909

	2014 \$'000	2013 \$'000
<b>13 Deferred Tax Asset / (Liability)</b>		
<b>Deferred Tax Asset / (Liability)</b>		
Balance at beginning of period	(1,092)	(1,218)
Acquisition / (disposal)	-	42
Tax Expense recognised in Statement of Comprehensive Income	190	(71)
Tax Expense recognised in Statement of Comprehensive Income - over / (under) provision in prior years	(66)	155
Balance at end of period - deferred tax asset / (liability)	(968)	(1,092)
<b>Deferred tax asset is attributable to the following items:</b>		
Life Reserves	(432)	(340)
Intangible Assets	(536)	(752)
Total deferred tax assets / (liability)	(968)	(1,092)

The deferred tax charge in the Statement of Comprehensive Income comprises the following temporary differences:

Accelerated tax amortisation	216	15
Life Reserves	(92)	69
Total temporary differences included in deferred tax charge Statement of Comprehensive Income	124	84

#### Deferred tax assets

Deferred tax assets are recognised for tax loss carry forwards and unused tax credits only to the extent that the realisation of the related tax benefits is probable. The uncertainty of the recoverability of the tax losses and tax credits is taken into consideration. Tax losses to carry forward and unused tax credits are recognised as part of current tax because losses and tax credits are utilised in the year generated by the BNZ Tax group and compensation received.

All deferred tax assets and deferred tax liabilities have been taken into account in the Statement of Financial Position.

	2014 \$'000	2013 \$'000
<b>14 Intangible Assets</b>		
<b>Internally Generated Software</b>		
At cost	8,004	8,004
Accumulated amortisation	(5,145)	(3,430)
Total Intangible Assets	2,859	4,574

#### Reconciliations

Reconciliations of the carrying amounts for each class of office equipment, data processing equipment and software are set out below:

	2014 \$'000	2013 \$'000
<b>Internally Generated Software</b>		
Carrying amount at beginning of year	4,574	6,289
Additions	-	-
Disposals	-	-
Amortisation	(1,715)	(1,715)
Impairment losses recognised in Statement of Comprehensive Income under NZIAS36	-	-
Impairment losses reversed in Statement of Comprehensive Income under NZIAS36	-	-
Carrying amount at end of year	2,859	4,574

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS (continued)  
for the year ended 30 September 2014

	2014 \$'000	2013 \$'000
<b>15 Policyholders' Liabilities</b>		
Gross insurance contract liabilities / (assets) at 1 October	(3,714)	(3,104)
Acquired insurance contract policy liabilities	-	-
Increase/ (decrease) in insurance contract policy liabilities reflected in the Statement of Comprehensive Income (i)	(19)	(610)
Gross insurance contract liabilities / (assets) at 30 September	(3,733)	(3,714)
<b>Liabilities ceded under reinsurance</b>		
Opening balance at 1 October	(5,871)	(6,228)
Increase/ (decrease) in reinsurance assets reflected in the Statement of Comprehensive Income (ii)	150	357
Closing balance 30 September	(5,721)	(5,871)
Provision for incurred claims	10,536	7,883
<b>Net policy liabilities / (assets) at 30 September</b>	<b>1,082</b>	<b>(1,702)</b>
Expected to be realised within 12 months	10,536	7,883
Expected to be realised in more than 12 months	-	-
(i) + (ii) = increase/(decrease) in net policy liabilities as disclosed in the Statement of Comprehensive Income	131	(253)
<b>Components of life insurance contract liabilities / (assets)</b>		
Future policy benefits	373,910	331,911
Future expenses	378,187	352,769
Planned margins over future expenses	375,568	367,239
Balance of future revenues	(1,137,119)	(1,061,504)
<b>Total life insurance contract policy liabilities / (assets)</b>	<b>(9,454)</b>	<b>(9,585)</b>

	2014 \$'000	2013 \$'000
<b>16 Contributed equity</b>		
<i>Issued share capital</i>		
20,000,000 \$1.00 ordinary shares paid up to \$0.55 each.	11,000	11,000

All shares have equal voting rights and share equally in dividends and surplus on winding up of the company.  
There were no movements in ordinary share capital during the current and prior financial years.

When managing capital, management's objective is to ensure the entity continues as a going concern as well as obtaining optimal returns to the shareholder and benefits for other stakeholders.

**17 Related parties****Directors**

The names of each person holding the position of director of the company during the financial year were:

Richard L Morath  
Peeyush Gupta  
Stephen J Moir  
Andrew D Symons  
Abigail K Foote  
Campbell L Parker

Director fees paid during the year ended 30 September 2014 was \$127,000 (2013 : \$110,687)

Apart from the details disclosed in this note, no director has entered into a material contract with the company since the end of the previous financial year and there were no material contracts involving directors' interests existing at reporting date.

**Other related parties***Immediate and Ultimate parent entity*

The immediate parent entity of the company is National Wealth Management New Zealand Holdings Limited, a company incorporated in New Zealand. The ultimate parent entity is National Australia Bank Limited ('the National').

*Commonly controlled entities*

Bank of New Zealand Limited  
BNZ Insurance Services Limited

**Transactions**

All transactions, including banking transactions with Bank of New Zealand Group entities, have been entered into at arm's length on normal commercial terms and conditions except that amounts due from group entities are interest free. Outstanding balances are unsecured and settlement occurs in cash.

*Transaction 1*

BNZ Life Insurance Limited is a related company to BNZ Insurance Services Limited. BNZ Insurance Services Limited incurs various expenses and overheads on behalf of BNZ Life Insurance Limited which are on-charged to BNZ Life Insurance Limited.

*Transaction 2*

BNZ Life Insurance Limited pays commissions to Bank of New Zealand and its subsidiary companies in respect of the company's products.

*Transaction 3*

BNZ Life Insurance Limited acquires and disposes of investments with the Bank of New Zealand being the counterparty. At 30 September 2014 cash and call deposits were held at the Bank of New Zealand.

*Transaction 4*

BNZ Life Insurance Limited holds a payable to BNZ Insurance Services Limited and Bank of New Zealand at balance date. This is in respect of; management fees incurred, commission accruals and payments made on BNZ Life Insurance Limited's behalf. Payments made on BNZ Life Insurance Limited's behalf are repaid six months following Bank of New Zealand invoice date.

The aggregate amounts included in the Statement of Financial Position and the profit from ordinary activities before income tax expense that resulted from transactions with other related parties are:

	For the year ended 30 September 2014 \$'000	For the year ended 30 September 2013 \$'000	As at 30 September 2014 \$'000	As at 30 September 2013 \$'000
<i>Transaction 1</i>				
Commonly controlled entities - management fee incurred	9,931	9,164		
<i>Transaction 2</i>				
Commonly controlled entities - Commissions	13,142	12,521		
<i>Transaction 3</i>				
Commonly controlled entities - Cash and call deposits			5,570	2,518
<i>Transaction 4</i>				
Commonly controlled entities - Payables at balance date			9,517	9,508



**18 Financial Instruments and Risk Management Disclosures**

The financial condition and operating results of the Company are affected by a number of key financial and non-financial risks. Financial risks include market risk (including interest rate risk, currency risk, equity price risk and investment risk), liquidity risk and credit risk. The non-financial risks are insurance risk, compliance risk and operational risk. The Company's objectives and policies in respect of managing these risks are set out in the remainder of this section.

**(a) Classification of Financial Instruments**

The carrying amounts of financial instruments have been classified into the following categories defined in NZ IAS 39:

	Loans and Receivables	Designated at Fair Value through Profit and Loss	Amortised Cost	Fair Value
<b>30 September 2014</b>				
Cash and cash equivalents	5,570			5,570
Receivables	5,363			5,363
Financial assets at fair value through profit and loss		71,773		71,773
Payables			(13,285)	(13,285)
<b>Total Financial Assets / (Liabilities)</b>	<b>10,933</b>	<b>71,773</b>	<b>(13,285)</b>	<b>69,421</b>
<b>30 September 2013</b>				
Cash and cash equivalents	2,518			2,518
Receivables	3,754			3,754
Financial assets at fair value through profit and loss		73,565		73,565
Payables			(12,909)	(12,909)
<b>Total Financial Assets / (Liabilities)</b>	<b>6,272</b>	<b>73,565</b>	<b>(12,909)</b>	<b>66,928</b>

**(b) Market risk**

Market risk is the risk of loss arising from movements in market variables including observable variables such as interest rates, exchange rates and equity markets, and indirectly observable variables such as volatilities and correlations. Market risk in the Company primarily arises from the management of insurance contracts and from non-trading market risk positions arising from balance sheet and capital management activities.

*(i) Interest rate risk*

Interest rate risk represents the exposure to the effects of movements in prevailing interest rates.

Investment assets of the Company comprise cash, equity securities and debt securities. All debt securities are subject to market risk in the event of changes in interest rates. The maturity profile of financial instruments is set out below together with the effective yields.

2014	Due within 1 year \$000	Due within 1 to 5 years \$000	Non -Interest Bearing \$000	Floating Interest \$000	Total \$000	Yield %
Cash and cash equivalents	-	-	-	5,570	5,570	3.50%
Receivables	-	-	5,363	-	5,363	
Financial assets at fair value through profit and loss						
- Equity securities						
Unit trusts	-	-	16,119	-	16,119	
- Debt securities						
National Government - NZ Government securities	1,125	-	-	-	1,125	3.08%
Unit Trusts	-	-	54,349	-	54,349	
Other - Mortgage Investment Fund	-	-	180	-	180	
	<b>1,125</b>	<b>-</b>	<b>76,011</b>	<b>5,570</b>	<b>82,706</b>	
<b>2013</b>						
	Due within 1 year \$000	Due within 1 to 5 years \$000	Non -Interest Bearing \$000	Floating Interest \$000	Total \$000	Yield %
Cash and cash equivalents	-	-	-	2,518	2,518	2.50%
Receivables	-	-	3,754	-	3,754	
Financial assets at fair value through profit and loss						
- Equity securities						
Unit Trusts	-	-	14,938	-	14,938	
- Debt securities						
National Government - NZ Government securities	-	1,124	-	-	1,124	3.08%
Unit Trusts	-	-	57,304	-	57,304	
Other - Mortgage Investment Fund	-	-	199	-	199	
	<b>-</b>	<b>1,124</b>	<b>76,195</b>	<b>2,518</b>	<b>79,837</b>	

Debt securities are actively managed and therefore part or all of the Company's portfolio of such securities may not be held to maturity.

**Interest rate risk sensitivity analysis**

The following table demonstrates the impact of a reasonably possible change in New Zealand and International interest rates, with all other variables held constant, on the Company's profit before tax. It is assumed that the relevant change occurs as at the Statement of Financial Position date (30 September 2014 and 2013).

The interest rate risk disclosure has been prepared on the basis of the Company's investment in Unit Trusts that have direct holdings in cash and cash equivalents, and debt securities.

**Sensitivity analysis on changes in fair value of investments**

The sensitivity analysis for changes in the fair value of debt securities has been based on ten year volatility rates. Volatility rates are calculated using historical returns for industry recognized indices for each asset class. The sensitivity range is based on a one standard deviation event for each Unit Trust. The effect on profit or loss due to reasonably possible changes in market factors, as represented by historical price volatilities, with all other variables held constant is detailed below.

Sector	10 Year Volatility Rates		Impact on profit before tax		Impact on profit before tax	
	30-Sep-14	30-Sep-13	2014	2014	2013	2013
			Sensitivity + (ve) \$'000's	Sensitivity - (ve) \$'000's	Sensitivity + (ve) \$'000's	Sensitivity - (ve) \$'000's
			\$'000	\$'000	\$'000	\$'000
NZ Cash	0.71%	0.69%	341	(341)	347	(347)
NZ Fixed Interest	3.16%	3.23%	103	(103)	31	(31)
Global Fixed Interest	2.63%	2.69%	84	(84)	162	(162)
			528	(528)	540	(540)

**Sensitivity analysis on interest income and interest expense**

The sensitivity analysis for interest income and interest expense has been based on a one percent movement in the interest rate. The effect on profit or loss due to reasonably possible changes in market factors, with all other variables held constant is detailed below.

	Impact on profit before tax			Impact on profit before tax		
	2014	2014	2014	2013	2013	2013
	Carrying amount at floating rate	+ (ve) Movement in interest rate	- (ve) % Movement in interest rate	Carrying amount at floating rate	+ (ve) Movement in interest rate	- (ve) % Movement in interest rate
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Cash and cash equivalents	5,570	56	(56)	2,518	25	(25)
<b>Total assets subject to interest rate risk</b>	<b>5,570</b>	<b>56</b>	<b>(56)</b>	<b>2,518</b>	<b>25</b>	<b>(25)</b>

The risks faced and methods used for deriving sensitivity information and significant variables did not change from the previous period.

**(ii) Currency risk**

Currency, or foreign exchange, risk is the risk of loss resulting from changes in exchange rates. Losses in value may result from translating the Company's overseas investments into New Zealand dollars (translation risk) or from adverse foreign currency exchange rate movements on specific cash flow transactions (transaction risk).

A proportion of the Company's investments comprise units in a unit trust that invests principally in offshore equities. The market value of the unit trust is affected by movements in the New Zealand dollar relative to other currencies, although the units in the unit trust are themselves New Zealand dollar denominated.

**Currency risk sensitivity analysis**

The foreign exchange risk disclosure has been prepared on the basis of the Unit Trust's direct currency exposures. The Unit Trusts did not hold any direct investments denominated in a foreign currency at balance date.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS (continued)  
for the year ended 30 September 2014

(iii) *Equity price risk*

Equity price risk is the risk that the fair value of equities will decrease as a result of changes in levels of equity indices and the value of individual stocks. The Company holds all of its equities at fair value through profit and loss.

Equity investments are actively managed and monitored on a daily basis.

**Equity price risk sensitivity analysis**

The following table demonstrates the impact of a reasonably possible movement in the fair value of equities, with all other variables held constant, on the Company's profit before tax. It is assumed that the relevant change occurs as at the Statement of Financial Position date (30 September 2014 and 2013).

The sensitivity analysis for equity investments has been based on ten year volatility rates. Volatility rates are calculated using historical returns for industry recognized indices for each asset class and the sensitivity range is based on a one standard deviation event for each Unit Trust. The effect on profit or loss due to reasonably possible changes in market factors, as represented by historical price volatilities, with all other variables held constant is detailed below.

Sector volatility	10 Year Volatility Rates			
	30-Sep-14	30-Sep-13		
New Zealand Equities	11.81%	12.00%		
International Equities	16.09%	15.75%		

Sector	Impact on profit before tax		Impact on profit before tax	
	2014	2014	2013	2013
	Sensitivity + (ve) \$'000's	Sensitivity - (ve) \$'000's	Sensitivity + (ve) \$'000's	Sensitivity - (ve) \$'000's
	\$'000	\$'000	\$'000	\$'000
New Zealand Equities	610	(610)	487	(487)
International Equities	1,718	(1,718)	1,677	(1,677)
	2,328	(2,328)	2,164	(2,164)

The risks faced and methods used for deriving sensitivity information and significant variables did not change from the previous period.

(iii) *Investment risk*

Investment risk is the risk of volatility in the Company's net investment earnings and value that result in a reduced ability to implement corporate strategy. Investment earnings arise from the Company's investment of shareholder capital. Investment classes include equities and interest bearing instruments, so the management of investment risk encompasses equity price risk and interest rate risk.

For the purposes of the risk management policies and procedures, investment risk management involves decisions made regarding the allocation of investment assets across asset classes and/or markets and includes the management of risks within these asset classes. Investment risk management relates to the investment allocation decisions made by the Company in relation to the investment of shareholder capital.

(c) *Liquidity risk*

Liquidity risk is the risk that the Company will not be able to meet its debt obligations, or other cash outflows, as they fall due, because of a lack of liquid assets or difficulty in either realising assets or otherwise raising adequate funding on acceptable terms. The risk management guidelines adopted by the Company are designed to minimise liquidity risk through:

- ensuring that there is no significant exposure to illiquid or thinly traded financial instruments, and
- applying limits to ensure there is no concentration of liquidity risk to a particular counterparty or market.

**(i) Risk management objectives and policies for mitigating insurance risk**

The Company's objective is to satisfactorily manage these risks in line with the Company's Risk Management Programme which is approved by the Board. Various procedures are put in place to control and mitigate the risks faced by the Company depending on the nature of the risk. The Company's exposure to all risks is monitored by the Head of Business Services and this exposure is regularly reported to the Board.

Insurance risks are controlled through the use of underwriting procedures, adequate premium rates and policy charges and sufficient reinsurance arrangements. Tight controls are also maintained over claims management practices to ensure the correct and timely payment of insurance claims.

Compliance risk and operational risk are both monitored by the Leadership Team which reports regularly to the Board.

**(ii) Strategy for managing insurance risk***Portfolio of risks*

The Company issues predominately term life insurance contracts and some small total and permanent disability, temporary disability and income protection business. The performance of the Company and its continuing ability to write business depends on its ability to pre-empt and control risks. The Company has a risk strategy which has been approved by the Board. It summarises the Company's approach to risk and risk management.

*Risk strategy*

In compliance with contractual and regulatory requirements, a strategy is in place to ensure that the risks underwritten will not adversely affect 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 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. Capital requirements are measured using a risk based capital model and all of the various regulatory reporting requirements to which the Company is subject.

The Reserve Bank of New Zealand issued the Company with a full licence under the Insurance (Prudential Supervision) Act 2010 on 18 April 2013. It is a condition for all licensed insurers to maintain minimum capital requirements to meet the solvency standard tests as determined by the Bank. The board has put in place a target surplus capital policy which determines the capital to be held in addition to the minimum capital requirements of the Bank. As at 30 September 2014 and 2013 the entity had capital in excess of that required by legislation and the Board.

**(iii) Methods to monitor and assess insurance risk exposures***Exposure to risk*

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, insurance cycles and economic and political environments. Risk exposures are managed using various analysis and valuation techniques and prudent and diversified underwriting.

*Management reporting*

The Company reports monthly financial and operational results, claims experience, claims frequency and severity to the Leadership Team and Board. 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. The information, the process by which it is gathered and the controls over the process are reviewed on a quarterly basis by the Leadership Team which reports regularly to the Board.

**(iv) Methods to limit or transfer insurance risk exposures****Reinsurance**

All reinsurance treaties are analysed to assess the impact on the Company's exposure to risk and to ensure the achievement of the optimal choice of type of reinsurance and retention levels.

**Claims management**

Strict claims management procedures ensure the timely and correct payment of claims in accordance with policy conditions.

**Asset and liability management techniques**

Assets are allocated in a way to ensure an appropriate matching to the longer term liabilities in the business.

**(v) Concentration of insurance risk****Insurance risks associated with human life events**

The age profile and mix of sexes within the population of policyholders is deemed sufficiently spread so that the risk concentration in relation to any particular age group is minimal.

**(vi) Terms and conditions of insurance contracts**

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

Type of contract	Detail of contract workings	Nature of compensation for claims	Key variables that affect the timing and uncertainty of future cash flows
Non-participating life insurance contracts with fixed and guaranteed terms (Term Life and Disability).	Guaranteed benefits paid on death or ill health (total and permanent disability) that are fixed and guaranteed and not at the discretion of the issuer.	Benefits, defined by the insurance contract, are determined by the contract and are not directly affected by the performance of the contracts as a whole.	Mortality, Morbidity, Market earning rates, Interest rates, Discontinuance rates, Expenses.

**(d) Credit risk**

Credit risk is the risk of loss that arises from a counterparty failing to meet their contractual commitments in full and on time, or from losses arising from the change in value of a financial instrument as a result of changes in credit risk on that instrument.

Credit risk in relation to the Company's insurance operations is the risk that policyholders, reinsurers, or third parties which have a contractual liability to the Company, default on their financial obligations. A number of key policies are in place to mitigate this credit risk through:

- all life insurance proposals being subject to normal underwriting procedures before acceptance of risk, and
- the Company entering into reinsurance contracts whereby some or all of the risk associated with life insurance underwriting is ceded to third party reinsurers, and
- the use of standard credit control techniques which ensure that premium payments are made within a reasonable timeframe or cover and hence exposure to claim, cancelled, and
- the monitoring of a reinsurer credit risk rating to control exposure to reinsurance counterparty default.

Credit risk in relation to the investment portfolio consists principally of cash and short term domestic securities and deposits, and indirectly, investments in unlisted products which invest in domestic and international fixed interest securities and international and Australasian equities. No collateral exists for any of the investments held by the Company. The maximum credit risk exposure is the carrying amount of the individual investments. However, as investments are made in credit-worthy financial institutions, credit defaults are considered, at this time, unlikely to occur. The investment portfolio in part backs the insurance operations and in part supports share capital and retained earnings. Investment mandates have been structured accordingly and are formalised by way of a Board approved Statement of Investment Policy and Objectives (SIPO). The Board has set exposure limits (or benchmarks) for each asset class to ensure there are no specific concentrations of credit risk across asset classes, countries, currencies, industries, durations and securities. Compliance with the SIPO is monitored through the Company and reported to Board.

**Credit exposure by credit rating**

The actual spread of New Zealand cash and fixed interest and Global fixed interest investments at Statement of Financial Position date is shown in the table below:

Rating range	2014 %	2013 %
AAA	3%	5%
AA	79%	70%
A	15%	23%
BBB	3%	2%
BB	0%	0%
Below BB	0%	0%
No credit rating	0%	0%
	<b>100%</b>	<b>100%</b>

**Credit exposure by investment sector**

The table below provides information regarding the credit risk exposure of the Company at Statement of Financial Position date by investment sector:

Investment Sector	2014 %	2013 %
NZ Cash	69%	70%
NZ Fixed Interest	5%	1%
Global Fixed Interest	4%	8%
NZ Property	1%	1%
Global Property	2%	1%
NZ Equities	6%	5%
International Equities	8%	10%
Emerging Markets	3%	2%
Global Infrastructure	1%	1%
Commodities	1%	1%
	<b>100%</b>	<b>100%</b>

	2014	2013
	\$'000	\$'000

## 19 Notes to the statement of cash flows

## (a) Reconciliation of cash

For the purposes of the statement of cash flows, cash includes cash on hand and at bank and short-term deposits at call, net of outstanding bank overdrafts. Cash as at the end of the financial year as shown in the Statement of Cash Flows is reconciled to the related items in the Statement of Financial Position as follows:

Cash at bank - Commonly controlled entities	5,570	2,518
	5,570	2,518

## (b) Reconciliation of profit from ordinary activities after income tax to net cash provided by operating activities

Profit from ordinary activities after income tax	22,422	20,527
<i>Adjustments for items classified as investing/financing activities</i>		
Realised (gains)/losses from financial assets at fair value through profit and loss	185	175
Interest income from financial assets at fair value through profit and loss	(2,193)	(1,530)
<i>Adjustments for non-cash movements</i>		
Unrealised (gains)/losses from financial assets at fair value through profit and loss	(2,258)	(2,587)
Depreciation and amortisation	1,715	1,715
<i>Change in assets and liabilities during the financial year:</i>		
(Increase)/decrease in receivables	(1,609)	412
(Increase)/decrease in current tax assets	973	1,549
Increase/(decrease) in policyholders' liabilities	2,784	1,414
Increase/(decrease) in deferred tax liabilities	(124)	(126)
Increase/(decrease) in payables	376	(6,346)
Net cash provided by/(used in) operating activities	22,271	15,203

## 20 Actuarial information

The effective date of the actuarial report on the policy liabilities and solvency reserves for BNZ Life Insurance Limited is as at 30 September 2014 and covers the 12 month period ending on that date.

The policy liabilities and solvency reserves report is prepared by the Appointed Actuary, Hamish Farrar, BSc, FIAA, Fellow of the New Zealand Society of Actuaries.

Policy liabilities have been determined in accordance with the New Zealand Society of Actuaries' Professional Standard No. 3 and solvency reserves have been determined in accordance with the Reserve Bank of New Zealand Solvency Standard for Life Insurance Business. The Appointed Actuary is satisfied as to the accuracy of the data from which the amounts are determined.

Summary of the best estimate assumptions used in determining policy liabilities:

## Risk Free Discount Rates

The risk free discount rate is based on 10 Year government bond yields with an allowance for investment expenses. For 2014 the rate used was 4.03% (2013: 4.50%). These rates are gross of tax and were derived by reference to NZ Government Stock yields.

## Inflation Rate

The inflation rate is based on the assumption that the long term inflation rate is measured by the increase in the Consumer Price Index will be 2% (2013: 2%) per annum. The inflation rate is used to determine expected future policy increases in respect of those policies where there is an option for the policy holder to increase the level of sum insured each year according to the growth in Consumer Price Index.

## Profit Carriers and Valuation Methods

The methods and profit carriers for particular policy types are as follows:

Product	Method	Profit Carrier
SecurityLife	Projection	Premiums
AutoLife	Projection	Premiums
LifeCare	Projection	Premiums
EasyCover	Projection	Premiums
Business LifeCare	Projection	Premiums
LoanCare	Accumulation	n/a
Personal Loan Insurance	Projection	Premiums
Direct Marketing Products	Projection	Premiums or claims
Group Insurances	Unexpired Risk	n/a

## Future Maintenance and Investment Management Expenses

The future expenses range from \$7.28 to \$76.31 per policy per annum, depending on the product. Allowance is also made for claims expenses and discontinuance expenses.

Expenses are assumed to inflate at a rate of 2% (2013: 2%) per annum.

In addition, proper allowances have been made for future commission payments according to rates of commission appropriate for each product.

**Rate of Taxation**

A tax rate of 28 cents in the dollar has been assumed. With the enactment of legislation revising the taxation basis for life insurance, allowances have been made within projections of future payments due under the new basis along with changes to the pricing basis of products.

**Mortality and Morbidity**

The main mortality table used is one derived from the NZ07 Mortality Table (term insurances) modified for smoker / non smoker mortality and adjusted for the Company's experience. Morbidity rates used for various disability and trauma benefits are based on various published tables reflecting experience in Australia and New Zealand.

**Rate of Discontinuance**

Rates of discontinuance have been determined by reference to actual experience and range from 1% to 31%, depending on the product and, for some products, on duration.

**Sensitivity to Key Assumptions**

The table below illustrates the change in present value of future profit margins if claim rates, lapses and expenses are changed.

Assumption	Change in present value of future profit margins	
	(\$million)	(%)
claims increased by 10%	-37	-10%
claims decreased by 10%	37	10%
lapse increased by 10%	-35	-9%
lapse decreased by 10%	31	8%
maintenance expenses (including commission) increased by 10%	-17	-4%
maintenance expenses (including commission) decreased by 10%	17	4%

**Analysis of Change in Assumptions**

The table below illustrates the significant changes in present value of future profit margins at 30 September 2014 due to the change in assumptions from 2013 to 2014. The change in assumptions has no effect on the policy liabilities.

Valuation Movement	Change in present value of future profit margins (\$million)
2013 Valuation	367
Change in discount rate and policy movements	36
Change in expense assumptions	-
Change in morbidity and mortality assumptions	-15
Change in lapse assumptions	-13
Other assumption changes	-
2014 Valuation	376

**Basis of Calculating Surrender Values**

No BNZ Life Insurance Limited products attract surrender values.

**Rates of Growth of Unit Prices in Respect of Unit Policies**

BNZ Life Insurance Limited has not issued any unit linked contracts.

**Rates of Future Supportable Participating Benefits**

BNZ Life Insurance Limited does not have any participating products.

**Crediting Policy Adopted in Determining Future Supportable Participating Benefits**

BNZ Life Insurance Limited does not have any participating products.

	2014 \$'000	2013 \$'000
<b>21 Operating profit</b>		
Profit related to movements in policyholders' liabilities:		
Planned margins of revenues over expenses	21,694	19,893
Difference between actual and assumed experience	(2,631)	(3,293)
The effects of changes to underlying assumptions	(104)	678
Investment earnings on assets in excess of policyholders' liabilities	3,463	3,249
per Statement of Comprehensive Income	22,422	20,527

22 Regulatory Capital	2014 \$'000	2013 \$'000
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The Company is required to comply with solvency standards for life insurance business issued under the Insurance (Prudential Supervision) Act 2010.

BNZ Life Insurance Limited established the BNZ Life Limited Statutory Fund No. 1 (the Statutory Fund) on 28 February 2013. All of the business in BNZ Life Insurance Limited is held in the one statutory fund. The solvency requirements and capital composition below represent the Statutory Fund in its entirety.

**Solvency requirements and capital composition:**

Paid share capital	11,000	11,000
Retained earnings	59,483	62,338
<b>Capital</b>	<b>70,483</b>	<b>73,338</b>
<b>Less deductions:</b>		
Intangible assets	(2,859)	(4,574)
Deferred tax asset	-	-
<b>Actual solvency capital</b>	<b>67,624</b>	<b>68,764</b>
<b>Insurance risk capital charge</b>	<b>22,342</b>	<b>20,579</b>
<b>Catastrophe risk capital charge</b>	<b>13,952</b>	<b>13,737</b>
<b>Asset risk capital charge</b>	<b>8,047</b>	<b>7,974</b>
<b>Policy liabilities plus Other liabilities</b>	<b>(10,056)</b>	<b>(12,299)</b>
<b>Minimum solvency capital</b>	<b>34,285</b>	<b>29,991</b>
<b>Solvency margin</b>	<b>33,339</b>	<b>38,773</b>
<b>Solvency margin ratio</b>	<b>197%</b>	<b>229%</b>

The policy liability figure for solvency purposes in 2014 has been adjusted to allow for reinsurance recoveries outstanding, therefore is different from the policy liability figure contained in the Statement of Financial Position.

**23 Commitments and contingencies**

The Directors are not aware of any capital commitments or contingent liabilities at balance date. (30 September 2013: nil)

**24 Subsequent events**

No items, transactions or events of a material and unusual nature have arisen between the end of the financial year and the date of this report, which is likely, in the opinion of the directors, to affect significantly the operations of the company, the results of those operations, or the state of affairs of the company in future financial years.

25 Dividends	2014 \$'000	2013 \$'000
Declared and paid during the year (2014: 126 cents ; 2013: 23.00 cents)	(25,277)	(4,600)
<b>Total dividends recognised in the financial statements</b>	<b>(25,277)</b>	<b>(4,600)</b>

26 Imputation Credit Account - BNZ Life Insurance Limited Consolidated Group	2014 \$'000	2013 \$'000
Balance at beginning of period	1,863	1,792
Imputation credits attaching to dividends received during the period	129	71
Income tax payments during the period net of refunds	2,989	-
<b>Balance at end of period</b>	<b>4,981</b>	<b>1,863</b>

No Dividend Withholding Payment account is maintained by the Company.

Policyholder credit account	nil	nil
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## **Independent Auditor's Report**

### **To the Shareholders of BNZ Life Insurance Limited**

#### **Report on the Financial Statements**

We have audited the financial statements of BNZ Life Insurance Limited (the 'company') on pages 1 to 22, which comprise the statement of financial position of BNZ Life Insurance Limited as at 30 September 2014, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

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 has been undertaken so that we might state to the company's shareholders those matters we are required to state to them in an 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 and the company's shareholders as a body, for our audit work, for this report, or for the opinions we have formed.

#### **Directors' Responsibility for the Financial Statements**

The directors are responsible for the preparation of the 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 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 the financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing (New Zealand). These auditing 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 our 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, we have considered the internal control relevant to the company's preparation of the 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 we have obtained sufficient and appropriate audit evidence to provide a basis for our audit opinion.

Other than in our capacity as auditor we have no relationship with, or interest in BNZ Life Insurance Limited.

#### **Opinion**

In our opinion, the financial statements on pages 1 to 22:

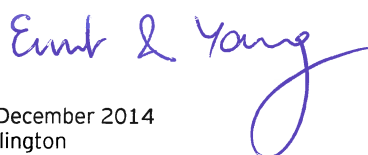
- ▶ comply with generally accepted accounting practice in New Zealand;
- ▶ comply with International Financial Reporting Standards; and
- ▶ give a true and fair view of the financial position of BNZ Life Insurance Limited as at 30 September 2014 and its financial performance and cash flows for the year then ended.

#### **Report on Other Legal and Regulatory Requirements**

In accordance with the Financial Reporting Act 1993, we report that:

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

In our opinion proper accounting records have been kept by BNZ Life Insurance Limited as far as appears from our examination of those records.



15 December 2014  
Wellington



**BNZ Life Insurance Limited – Appointed Actuary's Report for the Year Ended 30<sup>th</sup> September 2014**

This report has been prepared in accordance with s78 of the Insurance (Prudential Supervision) Act 2010.

I have reviewed the actuarial information contained in the financial statements of BNZ Life Insurance Limited (BNZ Life) for the year ended 30 September 2014.

This review has encompassed:

- Checking the underlying policy data for reasonableness.
- Checking the accounting data for reasonableness.
- The assumptions underlying the projected policy liabilities.
- The calculation of non-projected reserves.
- The notes containing actuarial information in the financial statements.
- The calculation of the solvency reserves

This review has not included a detailed review of the accounting data as I have relied on the external audit to highlight any material issues in this data.

Aside from my relationship as Appointed Actuary of BNZ Life I have no other interests in BNZ Life or its subsidiaries. I do hold directly a number of shares in NAB, the ultimate parent of BNZ Life.

I have obtained from BNZ Life all the information and explanations that I required to complete this review.

The actuarial information contained in the financial statements has been appropriately included in those financial statements. The actuarial information used in the preparation of the financial statements has been used appropriately.

In my opinion BNZ Life is maintaining the required solvency margin that applies under its license.

In my opinion the sole statutory fund operated by BNZ Life is maintaining the required solvency margin.



Hamish Farrar, FNZSA

Appointed Actuary, BNZ Life Insurance Limited

1st December 2014