BNZ LIFE INSURANCE LIMITED

Directors Report
for the Year Ended 30 September 2018

The Board of Directors presents the Directors' report together with the financial report of BNZ Life Insurance Limited (the Company) for the financial year ended 30 September 2018.

Directors

The following persons were directors of the Company at any time during the financial year and up to the date of this report:

Richard L Morath
Peeyush Gupta
Louis A Hawke (Appointed 2 August 2018)
Donna Nicolof
Richard G Bowman
Bruce Hassall (Resigned 2 August 2018)
Fiona Oliver

Directors' remuneration, interests and employee remuneration

Director and employee remuneration is paid for by BNZ Insurance Services Limited. Directors were in office for the entire period unless otherwise stated above. 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.

Registered office

80 Queen Street, Auckland

Auditor

Ernst & Young

BNZ Insurance Services Limited paid for audit services and limited assurance services in relation to the solvency return on behalf of the company.

Principal Activities

The principal activities of the company during the financial year were:

Offering Life Insurance products to customers

No significant change in the nature of these activities occurred during the year.

Operating Result

The net profit after tax of the company for the financial year amounted to $25.5m.

Review of Operations

A review of the company's operations during the financial year, and the results of those operations, is as follows:

The company's operations during the year performed as expected in the opinion of the directors.

Significant Changes in the State of Affairs

No significant changes in the company's state of affairs occurred during the financial year.

Dividends

Dividends paid or declared since the start of the financial year are as follows:

a) there were dividends of $17.3m paid during the year.

Subsequent Events

No matters or circumstances have arisen since the end of the financial year which significantly affected, or may significantly affect, the operations of the company, the results of those operations, or the state of affairs of the company in future financial years.

Likely developments in the operations of the company, and the expected results of those operations in future financial years, have not been included in this report as the inclusion of such information is likely to result in unreasonable prejudice to the company.

Signed in accordance with a resolution of the Director:

....

Director
BNZ Life Insurance Limited

Dated this....14th....day of....DECEMBER.... 20 18

....

Director
BNZ Life Insurance Limited

Dated this....14th....day of....DECEMBER.... 20 18

BNZ Life Insurance Limited

STATEMENT OF COMPREHENSIVE INCOME
For the year ended 30 September 2018

	Note	2018 $'000	2017 $'000
Revenues			
Direct insurance premium revenue and policy fees	2	104,227	98,212
Less insurance premiums ceded to reinsurers	3	(21,307)	(19,224)
Net insurance premium revenue		82,920	78,988
Net investment revenue	4	3,896	3,575
Total revenue		86,816	82,563
Expenses			
Gross claims expense	5	48,739	41,795
Reinsurance recoveries revenue	3	(21,172)	(14,994)
Net claims expense		27,567	26,801
Change in net policy liabilities	15	(2,889)	(3,303)
Other expenses	6	28,792	27,800
Total expenses		53,470	51,298
Profit /(loss) before income tax		33,346	31,265
Income tax expense/(benefit)	7	7,872	7,520
Net profit after tax		25,474	23,745
Other comprehensive income		-	-
Total comprehensive income		25,474	23,745

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

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BNZ Life Insurance Limited

STATEMENT OF FINANCIAL POSITION
As at 30 September 2018

	Note	2018 $'000	2017 $'000
Current Assets			
Cash and cash equivalents	8	**1,483**	4,240
Receivables	9	**10,409**	7,190
Total current assets		**11,892**	11,430
Non-current assets			
Financial assets at fair value through profit and loss	11	**106,546**	93,939
Intangible assets	14	**514**	752
Total non-current assets		**107,060**	94,691
Total assets		**118,952**	106,121
Current Liabilities			
Current tax liability	10	**8,064**	7,456
Payables	12	**16,625**	15,729
Total current liabilities		**24,689**	23,185
Non-current liabilities			
Deferred tax liability	13	**1,298**	1,180
Policyholders' liabilities	15	**(2,763)**	(5,798)
Total non-current liabilities		**(1,465)**	(4,618)
Total liabilities		**23,224**	18,567
Net assets		**95,728**	87,554
Equity			
Contributed equity	16	**11,000**	11,000
Retained profits		**84,728**	76,554
Total equity	22	**95,728**	87,554

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 14 December 2018.

Director
BNZ Life Insurance Limited
Date 14.12.18

Director
BNZ Life Insurance Limited
Date 14.12.18

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BNZ Life Insurance Limited

STATEMENT OF CHANGES IN EQUITY
For the year ended 30 September 2018

	Note	Contributed Equity $'000	Retained Earnings $'000	Total $'000
As at 1 October 2016		**11,000**	**71,212**	**82,212**
Net profit after tax		-	23,745	23,745
Other comprehensive income		-	-	-
Total Comprehensive Income for the year		-	23,745	23,745
Dividends Paid	**25**	-	(18,403)	(18,403)
As at 30 September 2017		**11,000**	**76,554**	**87,554**
As at 1 October 2017		**11,000**	**76,554**	**87,554**
Net profit after tax		-	25,474	25,474
Other comprehensive income		-	-	-
Total Comprehensive Income for the year		-	25,474	25,474
Dividends Paid	**25**	-	(17,300)	(17,300)
As at 30 September 2018		**11,000**	**84,728**	**95,728**

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

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BNZ Life Insurance Limited

STATEMENT OF CASHFLOWS
For the year ended 30 September 2018

	Note	2018 $'000	2017 $'000
Cash flows from operating activities			
Premiums and deposits received from policyholders		**104,213**	98,229
Interest received		**92**	87
Reinsurance claims recoveries		**17,902**	15,193
Income Tax (paid) / refund		**(7,146)**	(7,474)
Payments in the course of operations		**(28,067)**	(28,991)
Reinsurance premiums paid		**(20,836)**	(18,823)
Claims paid		**(42,816)**	(37,324)
Net cash provided by / (used in) operating activities	19	**23,342**	**20,897**
Cash flows from investing activities			
Proceeds from disposal of financial assets		**29,355**	38,798
Payments for financial assets		**(38,154)**	(38,798)
Net cash provided by / (used in) investing activities		**(8,799)**	-
Cash flows from financing activities			
Dividends paid		**(17,300)**	(18,403)
Net cash provided by / (used in) financing activities		**(17,300)**	**(18,403)**
Net increase/(decrease) in cash held		**(2,757)**	2,494
Cash at the beginning of the period		**4,240**	1,746
Cash at the end of the period	8 & 19	**1,483**	**4,240**

The Statement of Cash Flows should be read in conjunction with the notes to the financial statements

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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 1 Victoria Street, 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. As a consequence of being a licensed insurer, BNZ Life Insurance Limited is deemed to be a financial markets conduct reporting entity under Part 7 of the Financial Markets Conduct Act 2013.

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 Financial Markets Conduct Act 2013. 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 2018, and have not been applied in preparing these financial statements:

1. SIGNIFICANT ACCOUNTING POLICIES

NZ IFRS 9 Financial Instruments.

The final version of NZ IFRS 9 Financial Instruments brings together the classification and measurement, impairment and hedge accounting phases of the International Accounting Standards Board's project. The standard will replace NZ IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of NZ IFRS 9. The mandatory effective date of the final version of NZ IFRS 9 (2014) was for periods beginning on or after 1 January 2018. The adoption of this standard is likely to have no material impact on the financial statements.

NZ IFRS 17 Insurance Contracts. This standard provides a comprehensive accounting model for insurance contracts, covering recognition and measurement, presentation and disclosure. The principle of current balance sheet measurement of insurance contract liabilities with the recognition of profit over the period that services are provided is supplemented by specific adaption for contracts with direct participation features (variable fee approach) and a simplified approach for short duration contracts (premium allocation approach).
The mandatory effective date is for periods beginning on or after 1 January 2021. The adoption of this standard is to be assessed in future years with the likely impact to the financial statements.

Changes in Accounting Policy

The accounting policies adopted are consistent with those of the previous period.

The financial statements were authorised for issue by the Directors on 14 December 2018.

Revenue Recognition

Premium Revenue Recognition

Gross recurring premiums on life contracts are recognised as revenue when payable by the policyholder. For single premium business, revenue is recognised on the date on which the policy is effective.

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.

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1. SIGNIFICANT ACCOUNTING POLICIES

- *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.
- *Unlisted unit trusts* are recorded at fund managers' valuation.

Intangible Assets

The amortisable 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.

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

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.

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.

Payables

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

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. 20 "Determination of Life Insurance Policy Liabilities".

1. SIGNIFICANT ACCOUNTING POLICIES

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.

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 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.

		2018	2017
2	**Premium Revenue**	**$'000**	$'000
	Life insurance contract premiums	**104,227**	98,212
	Total premiums received or receivable	**104,227**	98,212

		2018	2017
3	**Reinsurance**	**$'000**	$'000

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.

Reinsurance Revenue		
Reinsurance portfolio revenue	**3,555**	1,592
Reinsurance recoveries on claims	**17,617**	13,402
	21,172	14,994

Reinsurance Expense		
Reinsurance premiums	**21,307**	19,224
	21,307	19,224

		2018	2017
4	**Investment Revenue**	**$'000**	$'000
	Revenue from :		
	- Equity securities	**2,070**	1,900
	- Debt securities	**1,734**	1,588
	Represented by:		
	- Interest income	**1,734**	1,588
	- Realised gains/(losses) on financial assets held as fair value through profit or loss	**(239)**	(228)
	- Unrealised gains/(losses) on financial assets held as fair value through profit or loss	**2,309**	2,128
	Call interest income - commonly controlled entities	**92**	87
	Total investment revenue	**3,896**	3,575

		2018	2017
5	**Claims expense**	**$'000**	$'000
	Death & disability	**48,739**	41,795
	Total claims paid or payable	**48,739**	41,795

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6 Other Expenses

	2018	2017
	$'000	$'000
Management fees - commonly controlled entities	**11,949**	11,233
Marketing expense	**426**	380
Commission - commonly controlled entities	**15,552**	15,485
Amortisation - Intangible assets	**237**	237
Outside services (Rating Agency)	**54**	49
Medical fees	**572**	407
Bank fees	**2**	2
Other	**0**	7
Total other expenses	**28,792**	27,800

Policy acquisition costs		
Commission	**4,694**	4,948
Other acquisition costs	**4,825**	4,060
Total policy acquisition costs	**9,519**	9,008
Policy maintenance costs		
Commission	**10,858**	10,536
Other maintenance costs	**8,176**	8,028
Total policy maintenance costs	**19,034**	18,564
Investment management expenses	**239**	228
Total other expenses	**28,792**	27,800

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 $80,500 (2017: $80,500) for audit services, and $18,000 (2017: $18,000) 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.

7 Income Tax Expense/(Benefit)

	2018	2017
	$'000	$'000
Total income tax charged to Statement of Comprehensive Income		
Current tax	**7,754**	7,232
Deferred tax	**118**	288
Total income tax expense	**7,872**	7,520

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	**33,346**	31,265
Prima facie income tax at 28%	**9,337**	8,754
Add/deduct: Tax effect of amounts which are non-deductible or non-assessable:		
Non assessable and tax paid income	**(475)**	(309)
Non deductible / (non assessable) change in net policy liabilities	**(809)**	(925)
Under/(over) provision in prior years	**(181)**	-
Total income tax expense	**7,872**	7,520

8 Cash and Cash Equivalents

	2018	2017
	$'000	$'000
Cash at bank - Commonly controlled entities	**1,483**	4,240
	1,483	4,240

9 Receivables

	2018	2017
	$'000	$'000
Reinsurance claims recoverable	**10,307**	7,037
Life insurance premiums receivable	**102**	87
Other	**-**	66
Receivable within 12 months	**10,409**	7,190

At 30 September 2018 there were $nil (2017: $nil) past due or impaired receivables.

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10 Current Tax Assets and Liabilities	2018 $'000	2017 $'000
Opening balance	**(7,456)**	(7,698)
Under / (over) provision in prior years	**310**	224
Tax payments/(refunds)	**7,146**	7,474
Current year tax (expense)/benefit	**(8,064)**	(7,456)
Closing balance - current tax asset/(liability)	**(8,064)**	(7,456)

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.

11 Financial Assets at Fair Value through Profit and Loss	2018 $'000	2017 $'000
Non-current financial assets - Expected to be realised in more than 12 months	**106,546**	93,939
	106,546	93,939

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, 80% 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 2018	**Level 1**	**Level 2**	**Level 3**	**Total Fair Value**
Equity securities				
- Unit Trusts	-	20,285	-	**20,285**
Subtotal Equity securities	-	20,285	-	**20,285**
Debt securities				
- Unit Trusts	-	86,261	-	**86,261**
Subtotal debt securities	-	86,261	-	**86,261**
Total Financial Assets at Fair Value through Profit and Loss	-	106,546	-	**106,546**

30 September 2017	**Level 1**	**Level 2**	**Level 3**	**Total Fair Value**
Equity securities				
- Unit Trusts	-	18,938	-	**18,938**
Subtotal Equity securities	-	18,938	-	**18,938**
Debt securities				
- Unit Trusts	-	75,001	-	**75,001**
Subtotal debt securities	-	75,001	-	**75,001**
Total Financial Assets at Fair Value through Profit and Loss	-	93,939	-	**93,939**

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).

	2018	2017
12 Payables	**$'000**	$'000
Reinsurance premiums payable	**4,943**	4,472
Accrued operating expenses	**802**	455
Other payables - related parties		
- commonly controlled entities	**10,880**	10,802
Payable within one year	**16,625**	15,729

	2018	2017
13 Deferred Tax Asset / (Liability)	**$'000**	$'000
Deferred Tax Asset / (Liability)		
Balance at beginning of period	**(1,180)**	(892)
Tax Income / (expense) recognised in Statement of Comprehensive Income	**11**	(64)
Tax Income / (expense) recognised in Statement of Comprehensive Income - over / (under) provision in prior years	**(129)**	(224)
Balance at end of period - deferred tax asset / (liability)	**(1,298)**	(1,180)
Deferred tax asset/(liability) is attributable to the following items:		
Life Reserves	**(1,200)**	(1,071)
Intangible Assets	**(98)**	(109)
Total deferred tax assets / (liability)	**(1,298)**	(1,180)

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

Accelerated tax amortisation	**11**	(64)
Life Reserves	**(129)**	(224)
Total temporary differences included in deferred tax charge Statement of Comprehensive Income	**(118)**	(288)

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.

	2018	2017
14 Intangible Assets	**$'000**	$'000
Internally Generated Software		
At cost	**9,190**	9,190
Accumulated amortisation	**(8,676)**	(8,438)
Total Intangible Assets	**514**	752

Reconciliations
Reconciliations of the carrying amounts for software are set out below:

	2018	2017
	$'000	$'000
Internally Generated Software		
Carrying amount at beginning of year	**752**	989
Amortisation	**(237)**	(237)
Carrying amount at end of year	**515**	752

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			2018	2017
15	**Policyholders' Liabilities**		**$'000**	$'000
	Gross insurance contract liabilities / (assets) at 1 October		**(4,793)**	(6,687)
	Increase / (decrease) in insurance contract policy liabilities reflected in the Statement of Comprehensive Income	(i)	**(539)**	1,894
	Gross insurance contract liabilities / (assets) at 30 September		**(5,332)**	(4,793)
	Liabilities ceded under reinsurance			
	Opening balance at 1 October		**(13,462)**	(8,265)
	Decrease / (increase) in reinsurance assets reflected in the Statement of Comprehensive Income	(ii)	**(2,350)**	(5,197)
	Closing balance 30 September		**(15,812)**	(13,462)
	Provision for incurred claims		**18,380**	12,457
	Net policy liabilities / (assets) at 30 September		**(2,763)**	(5,798)
	Expected to be realised within 12 months		**18,380**	12,457
	(i) + (ii) = increase/(decrease) in net policy liabilities as disclosed in the Statement of Comprehensive Income		**(2,889)**	(3,303)
	Components of life insurance contract liabilities / (assets)			
	Future policy benefits		**495,052**	468,941
	Future expenses		**450,181**	409,032
	Planned margins over future expenses		**466,171**	397,985
	Balance of future revenues		**(1,432,548)**	(1,294,213)
	Total life insurance contract policy liabilities / (assets)		**(21,144)**	(18,255)

		2018	2017
16	**Contributed equity**	**$'000**	$'000
	Issued share capital		
	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
Louis A. Hawke (Appointed 2 August 2018)
Donna Nicolof
Richard G Bowman
Bruce Hassall (Resigned 2 August 2018)
Fiona Oliver

Director fees paid during the year ended 30 September 2018 was $135,917 (2017 : $119,667)

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 2018 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:

	Note	**For the year ended 30 September 2018 $'000**	For the year ended 30 September 2017 $'000	**As at 30 September 2018 $'000**	As at 30 September 2017 $'000
Transaction 1					
Commonly controlled entities - management fee incurred	**6**	**11,949**	11,233		
Transaction 2					
Commonly controlled entities - Commissions	**6**	**15,552**	15,485		
Transaction 3					
Commonly controlled entities - Cash and call deposits	**8**			**1,483**	4,240
Commonly controlled entities - Interest Income	**4**	**92**	87		
Transaction 4					
Commonly controlled entities - Payables at balance date	**12**			**10,880**	10,802

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:

30 September 2018	Loans and Receivables	Designated at Fair Value through Profit and Loss	Amortised Cost	Fair Value
Cash and cash equivalents	1,483			1,483
Receivables	10,409			10,409
Financial assets at fair value through profit and loss		106,546		106,546
Payables			(16,625)	(16,625)
Total Financial Assets / (Liabilities)	**11,892**	**106,546**	**(16,625)**	**101,813**
30 September 2017				
Cash and cash equivalents	4,240			4,240
Receivables	7,190			7,190
Financial assets at fair value through profit and loss		93,939		93,939
Payables			(15,729)	(15,729)
Total Financial Assets / (Liabilities)	**11,430**	**93,939**	**(15,729)**	**89,640**

(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.

2018	**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	**-**	**-**	**-**	**1,483**	**1,483**	**1.75%**
Receivables	**-**	**-**	**10,409**	**-**	**10,409**	
Financial assets at fair value through profit and loss						
- Equity securities						
Unit trusts	**-**	**-**	**20,285**	**-**	**20,285**	
- Debt securities						
Unit Trusts	**-**	**-**	**86,261**	**-**	**86,261**	
	-	**-**	**116,955**	**1,483**	**118,438**	

2017	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	-	-	-	4,240	4,240	1.75%
Receivables	-	-	7,190	-	7,190	
Financial assets at fair value through profit and loss						
- Equity securities						
Unit Trusts	-	-	18,938	-	18,938	
- Debt securities						
Unit Trusts	-	-	75,001	-	75,001	
	-	-	101,129	4,240	105,369	

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 2018 and 2017).

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.

	10 Year Volatility Rates	
Sector volatility	**30-Sep-18**	30-Sep-17
NZ Cash	**0.29%**	0.57%
NZ Fixed Interest	**3.20%**	3.26%
Global Fixed Interest	**2.73%**	2.79%

	Impact on profit before tax		Impact on profit before tax	
	2018	**2018**	2017	2017
Sector	**Sensitivity +(ve) $000's**	**Sensitivity -(ve) $000's**	Sensitivity +(ve) $000's	Sensitivity -(ve) $000's
	$'000	**$'000**	$'000	$'000
NZ Cash	**226**	**(226)**	386	(386)
NZ Fixed Interest	**131**	**(131)**	123	(123)
Global Fixed Interest	**112**	**(112)**	105	(105)
	469	**(469)**	614	(614)

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		
	2018	**2018**	**2018**	2017	2017	2017
	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	**1,483**	**15**	**(15)**	4,240	42	(42)
Total assets subject to interest rate risk	**1,483**	**15**	**(15)**	4,240	42	(42)

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.

EY

(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 2018 and 2017).

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.

	10 Year Volatility Rates	
Sector volatility	**30-Sep-18**	30-Sep-17
New Zealand Equities	**9.81%**	11.35%
International Equities	**14.36%**	15.60%

	Impact on profit before tax		Impact on profit before tax	
	2018	**2018**	2017	2017
Sector	**Sensitivity +(ve) $000's**	**Sensitivity -(ve) $000's**	Sensitivity +(ve) $000's	Sensitivity -(ve) $000's
	$'000	**$'000**	$'000	$'000
New Zealand Equities	**666**	**(666)**	697	(697)
International Equities	**1,894**	**(1,894)**	1,956	(1,956)
	2,560	**(2,560)**	2,653	(2,653)

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 bearings 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 2018 and 2017 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.

EY

(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 unitised 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 deficits 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	**2018**	2017
	%	%
AAA	**2%**	4%
AA	**65%**	59%
A	**22%**	25%
BBB	**11%**	12%
BB	**0%**	0%
Below BB	**0%**	0%
No credit rating	**0%**	0%
	100%	100%

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	**2018**	2017
	%	%
NZ Cash	**73%**	72%
NZ Fixed Interest	**4%**	4%
Global Fixed Interest	**4%**	4%
NZ Property	**1%**	1%
Global Property	**1%**	1%
NZ Equities	**5%**	5%
International Equities	**8%**	8%
Emerging Markets	**2%**	3%
Global Infrastructure	**1%**	1%
Commodities	**1%**	1%
	100%	100%

	2018	2017
19 Notes to the statement of cash flows	**$'000**	$'000

(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:

	2018	2017
Cash at bank - Commonly controlled entities	**1,483**	4,240
	1,483	4,240

(b) Reconciliation of profit from ordinary activities after income tax to net cash provided by operating activities	**2018**	2017
Profit from ordinary activities after income tax	**25,474**	23,745
Adjustments for items classified as investing/financing activities		
Realised (gains)/losses from financial assets at fair value through profit and loss	**239**	228
Interest income from financial assets at fair value through profit and loss	**(1,735)**	(1,588)
Adjustments for non-cash movements		
Unrealised (gains)/losses from financial assets at fair value through profit and loss	**(2,309)**	(2,128)
Depreciation and amortisation	**237**	237
Change in assets and liabilities during the financial year:		
(Increase)/decrease in receivables	**(3,218)**	330
Increase/(decrease) in current tax liabilities	**609**	(242)
Increase/(decrease) in policyholders' liabilities	**3,035**	1,169
Increase/(decrease) in deferred tax liabilities	**118**	288
Increase/(decrease) in payables	**892**	(1,141)
Net cash provided by/(used in) operating activities	**23,342**	20,898

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 2018 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. 20 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 2018 the rate used was 2.52% (2017: 2.83%). 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% (2017: 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

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	Accumulation	n/a
Direct Marketing Products	Projection	Premiums or claims
Group Insurances	Unexpired Risk	n/a

Future Maintenance and Investment Management Expenses

The future expenses range from $11.12 to $74.19 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% (2017: 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 37%, depending on the product and, for some products, on duration.

EY

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			
	2018		2017	
	($million)	**(%)**	($million)	(%)
claims increased by 10%	**-36**	**-8%**	-34	-8%
claims decreased by 10%	**36**	**8%**	34	8%
lapse increased by 10%	**-37**	**-8%**	-31	-8%
lapse decreased by 10%	**42**	**9%**	35	9%
maintenance expenses (including commission) increased by 10%	**-19**	**-4%**	-18	-5%
maintenance expenses (including commission) decreased by 10%	**19**	**4%**	18	5%

Analysis of Change in Assumptions

The table below illustrates the significant changes in present value of future profit margins at 30 September 2018 due to the change in assumptions from 2017 to 2018. The change in assumptions has no effect on the policy liabilities.

Valuation Movement	Change in present value of future profit margins ($million)
2017 Valuation	398
Change in discount rate and policy movements	34
Change in expense assumptions	(2)
Change in morbidity and mortality assumptions	0
Change in lapse assumptions	(6)
Other assumption changes	42
2018 Valuation	466

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.

21 Operating profit

	2018	2017
	$'000	$'000
Profit related to movements in policyholders' liabilities:		
Planned margins of revenues over expenses	**22,845**	23,152
Difference between actual and assumed experience	**(659)**	(1,985)
The effects of changes to underlying assumptions	**107**	(259)
Investment earnings on assets in excess of policyholders' liabilities	**3,181**	2,837
per Statement of Comprehensive Income	**25,474**	23,745

	2018	2017
22 Regulatory Capital	**$'000**	$'000

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 compositi

Solvency requirements and capital composition:

Paid share capital	**11,000**	11,000
Retained earnings	**84,728**	76,554
Capital	**95,728**	87,554
Less deductions:		
Intangible assets	**(514)**	(752)
Actual solvency capital	**95,214**	86,802
Insurance risk capital charge	**38,454**	34,086
Catastrophe risk capital charge	**16,189**	15,952
Asset risk capital charge	**9,998**	9,424
Policy liabilities plus Other liabilities	**(12,917)**	(11,530)
Minimum solvency capital	**51,725**	47,932
Solvency margin	**43,489**	38,870
Solvency margin ratio	**184%**	181%

The policy liability figure for solvency purposes in 2018 and 2017 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 2017: 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.

	2018	2017
25 Dividends	**$'000**	$'000
Declared and paid during the year (2018: 87 cents ; 2017: 92 cents)	**(17,300)**	(18,403)
Total dividends recognised in the financial statements	**(17,300)**	(18,403)

26 Imputation Credit Account

The amount of imputation credits available to the BNZ Life Insurance Limited Consolidated Group as at 30 September 2018 was $13,184 million (30 September 2017: $11,615 million).

No Dividend Withholding Payment account is maintained by the Company.

Policyholder credit account	**nil**	nil

BNZ Life Insurance Limited – Appointed Actuary's Report for the Year Ended 30th September 2018

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 2018.

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 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

5th December 2018

Independent Auditor's Report

To the Shareholder of BNZ Life Insurance Limited: Report on the audit of the financial statements

Opinion

We have audited the financial statements of BNZ Life Insurance Limited ('the Company") on pages 1 to 21, which comprise the statement of financial position of the Company as at 30 September 2018, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended of the Company, and the notes to the financial statements including a summary of significant accounting policies.

In our opinion, the financial statements on pages 1 to 21 present fairly, in all material respects, the financial position of the Company as at 30 September 2018 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.

This report is made solely to the Company's shareholder. Our audit has been undertaken so that we might state to the Company's shareholder 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 shareholder, for our audit work, for this report, or for the opinions we have formed.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (New Zealand). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report.

We are independent of the Company in accordance with Professional and Ethical Standard 1 (revised) Code of Ethics for Assurance Practitioners issued by the New Zealand Auditing and Assurance Standards Board, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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

We provide other assurance services to the Company in relation to the Company's Solvency Return. We have no other relationship with, or interest in, the company. Partners and employees of our firm may deal with the Company on normal terms within the ordinary course of trading activities of the business of the Company.

Information other than the financial statements and auditor's report

The directors of the Company are responsible for the Annual Report, which includes information other than the financial statements and auditor's report.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained during the audit, or otherwise appears to be materially misstated.

If, based upon the work we have performed on the other information obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Directors' responsibilities 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 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.

In preparing the financial statements, the directors are responsible for assessing on behalf of the entity the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Company or cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards on Auditing (New Zealand) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located at the External Reporting Board website: https://www.xrb.govt.nz/standards-for-assurance-practitioners/auditors-responsibilities/audit-report-6/. This description forms part of our auditor's report.

The engagement partner on the audit resulting in this independent auditor's report is David Borrie.

Ernst + Young

Chartered Accountants
Wellington
14 December 2018