

Directors Report for the Year Ended 30 September 2019

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 2019.

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
Donna Nicolof (Resigned 3 December 2018)
Richard G Bowman (Resigned 27 May 2019)
Fiona Oliver
Christine Yates (Appointed 27 May 2019)
Bruce Baillie (Appointed 3 December 2018)

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 \$27.9m.

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:

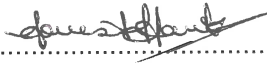
- a) there were dividends of \$20.2m paid during the year.

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.

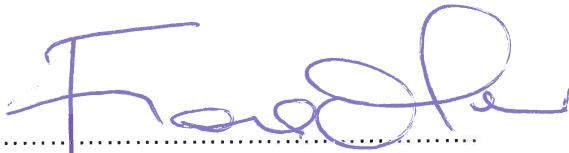
Likely developments in the operations of the company, and the expected results of those operations in future financial years, have not been included in this report as the inclusion of such information is likely to result in unreasonable prejudice to the company.

Signed in accordance with a resolution of the Director:



.....
Director
BNZ Life Insurance Limited

Dated this 3RD day of DECEMBER 2019



.....
Director
BNZ Life Insurance Limited

Dated this 3RD day of DECEMBER 2019

BNZ Life Insurance Limited

STATEMENT OF COMPREHENSIVE INCOME
For the year ended 30 September 2019

	Note	2019 \$'000	2018 \$'000
Revenues			
Direct insurance premium revenue and policy fees	2	109,620	104,227
Less insurance premiums ceded to reinsurers	3	(22,583)	(21,307)
Net insurance premium revenue		87,037	82,920
Net investment revenue	4	3,859	3,896
Total revenue		90,896	86,816
Expenses			
Gross claims expense	5	51,555	48,739
Reinsurance recoveries revenue	3	(22,574)	(21,172)
Net claims expense		28,981	27,567
Change in net policy liabilities	15	(2,829)	(2,889)
Other expenses	6	27,735	28,792
Total expenses		53,887	53,470
Profit /(loss) before income tax		37,009	33,346
Income tax expense/(benefit)	7	9,129	7,872
Net profit after tax		27,880	25,474
Other comprehensive income		-	-
Total comprehensive income		27,880	25,474

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 2019

	Note	2019 \$'000	2018 \$'000
Current Assets			
Cash and cash equivalents	8	4,998	1,483
Receivables	9	7,865	10,409
Total current assets		12,863	11,892
Non-current assets			
Financial assets at fair value through profit and loss	11	108,730	106,546
Intangible assets	14	277	514
Total non-current assets		109,007	107,060
Total assets		121,870	118,952
Current Liabilities			
Current tax liability	10	9,378	8,064
Payables	12	16,022	16,625
Total current liabilities		25,400	24,689
Non-current liabilities			
Deferred tax liability	13	1,112	1,298
Policyholders' liabilities	15	(8,038)	(2,763)
Total non-current liabilities		(6,926)	(1,465)
Total liabilities		18,474	23,224
Net assets		103,396	95,728
Equity			
Contributed equity	16	11,000	11,000
Retained profits		92,396	84,728
Total equity	22	103,396	95,728

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 3 December 2019.



Director
BNZ Life Insurance Limited
Date 3.12.19



Director
BNZ Life Insurance Limited
Date 3.12.19

BNZ Life Insurance Limited

STATEMENT OF CHANGES IN EQUITY
For the year ended 30 September 2019

	Note	Contributed Equity \$'000	Retained Earnings \$'000	Total \$'000
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
As at 1 October 2018		11,000	84,728	95,728
Net profit after tax		-	27,880	27,880
Other comprehensive income		-	-	-
Total Comprehensive Income for the year		-	27,880	27,880
Dividends Paid	25	-	(20,212)	(20,212)
As at 30 September 2019		11,000	92,396	103,396

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 2019

	Note	2019 \$'000	2018 \$'000
Cash flows from operating activities			
Premiums and deposits received from policyholders		109,626	104,213
Interest received		81	92
Reinsurance claims recoveries		25,113	17,902
Income Tax (paid) / refund		(8,001)	(7,146)
Payments in the course of operations		(28,412)	(28,067)
Reinsurance premiums paid		(22,271)	(20,836)
Claims paid		(54,003)	(42,816)
Net cash provided by / (used in) operating activities	19	22,133	23,342
Cash flows from investing activities			
Proceeds from disposal of financial assets		46,725	29,355
Payments for financial assets		(45,130)	(38,154)
Net cash provided by / (used in) investing activities		1,594	(8,799)
Cash flows from financing activities			
Dividends paid		(20,212)	(17,300)
Net cash provided by / (used in) financing activities		(20,212)	(17,300)
Net increase/(decrease) in cash held		3,515	(2,757)
Cash at the beginning of the period		1,483	4,240
Cash at the end of the period	8 & 19	4,998	1,483

The Statement of Cash Flows 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 2019

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. 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 2019, and have not been applied in preparing these 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, although there is currently a proposal to defer that date to 1 January 2022. The adoption of this standard is to be assessed in future years with the likely impact to the financial statements.

1. SIGNIFICANT ACCOUNTING POLICIES

Changes in Accounting Policy

NZ IFRS 9 Financial Instruments was adopted during this financial period. The adoption of this standard has impacted the classification of financial assets. Under NZ IAS 39 Financial Instruments: Recognition and Measurement, financial assets could be classified as loans and receivables, fair value through profit and loss or amortised cost. Under NZ IFRS 9 the financial assets may be classified as measured at amortised cost, fair value through other comprehensive income, or fair value through profit and loss. Cash and cash equivalents and Receivables now meet the conditions to be classified at amortised cost.

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

The financial statements were authorised for issue by the Directors on 3 December 2019.

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 at the point in time the associated contractual performance obligations are satisfied.

Other Revenue Recognition

All other operating revenue is recognised at the point in time the associated contractual performance obligations are satisfied, 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 IFRS 9. 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 initially recognised at fair value plus transactions costs and subsequently at amortised cost. Trade receivables are generally settled within 60 days however an impairment analysis is performed at reporting date considering the collectability of debts and specific provision is made for any expected credit losses and reversals. The carrying amount of receivables approximates to their fair value.

BNZ LIFE INSURANCE LIMITED

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

for the year ended 30 September 2019

1. SIGNIFICANT ACCOUNTING POLICIES

- *Unlisted unit trusts* are recorded at fund managers' valuation. Fair values of these unit trusts are determined by reference to observable market prices.

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. These amounts are carried at amortised cost, the carrying amount is equivalent to fair value.

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".

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.

BNZ LIFE INSURANCE LIMITED

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

for the year ended 30 September 2019

1. SIGNIFICANT ACCOUNTING POLICIES

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.

	2019	2018
	\$'000	\$'000
2 Premium Revenue		
Life insurance contract premiums	109,620	104,227
Total premiums received or receivable	109,620	104,227
	2019	2018
	\$'000	\$'000
3 Reinsurance		
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	1,833	3,555
Reinsurance recoveries on claims	20,741	17,617
	22,574	21,172
Reinsurance Expense		
Reinsurance premiums	22,583	21,307
	22,583	21,307
	2019	2018
	\$'000	\$'000
4 Investment Revenue		
Revenue from :		
- Equity securities	1,364	2,070
- Debt securities	2,413	1,734
Represented by:		
- Interest income	2,413	1,734
- Investment management fees	(263)	(239)
- Unrealised gains/(losses) on financial assets held as fair value through profit or loss	1,627	2,309
Call interest income - commonly controlled entities	81	92
Total investment revenue	3,859	3,896
	2019	2018
	\$'000	\$'000
5 Claims expense		
Death & disability	51,555	48,739
Total claims paid or payable	51,555	48,739

	2019	2018
	\$'000	\$'000
6 Other Expenses		
Management fees - commonly controlled entities	12,412	11,949
Marketing expense	422	426
Commission - commonly controlled entities	14,052	15,552
Amortisation - Intangible assets	237	237
Outside services (Rating Agency)	57	54
Medical fees	552	572
Bank fees	2	2
Other	1	-
Total other expenses	27,735	28,792
Policy acquisition costs		
Commission	2,701	4,694
Other acquisition costs	4,792	4,825
Total policy acquisition costs	7,493	9,519
Policy maintenance costs		
Commission	11,351	10,858
Other maintenance costs	8,891	8,415
Total policy maintenance costs	20,242	19,273
Total other expenses	27,735	28,792

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 (2018: \$80,500) for audit services, and \$19,300 (2018: \$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.

	2019	2018
	\$'000	\$'000
7 Income Tax Expense/(Benefit)		
Total income tax charged to Statement of Comprehensive Income		
Current tax	9,315	7,754
Deferred tax	(186)	118
Total income tax expense	9,129	7,872

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	37,009	33,346
Prima facie income tax at 28%	10,362	9,337
Add/deduct: Tax effect of amounts which are non-deductible or non-assessable:		
Non assessable and tax paid income	(442)	(475)
Non deductible / (non assessable) change in net policy liabilities	(792)	(809)
Under/(over) provision in prior years	-	(181)
Total income tax expense	9,129	7,872

	2019	2018
	\$'000	\$'000
8 Cash and Cash Equivalents		
Cash at bank - Commonly controlled entities	4,998	1,483
	4,998	1,483

	2019	2018
	\$'000	\$'000
9 Receivables		
Reinsurance claims recoverable	7,769	10,307
Life insurance premiums receivable	96	102
Receivable within 12 months	7,865	10,409

At 30 September 2019 there were \$nil (2018: \$nil) past due or impaired receivables.

	2019	2018
	\$'000	\$'000
10 Current Tax Assets and Liabilities		
Opening balance	(8,064)	(7,456)
Under / (over) provision in prior years	(144)	310
Tax payments/(refunds)	8,208	7,146
Withholding Tax Payable	(206)	-
Current year tax (expense)/benefit	(9,171)	(8,064)
Closing balance - current tax asset/(liability)	(9,378)	(8,064)

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.

	2019	2018
	\$'000	\$'000
11 Financial Assets at Fair Value through Profit and Loss		
Current financial assets - Expected to be realised within 12 months	-	-
Non-current financial assets - Expected to be realised in more than 12 months	108,730	106,546
	108,730	106,546

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 IFRS 9 and IFRS 7 is as follows:

30 September 2019	Level 1	Level 2	Level 3	Total Fair Value
Equity securities				
- Unit Trusts	-	22,393	-	22,393
Subtotal Equity securities	-	22,393	-	22,393
Debt securities				
- Unit Trusts	-	86,337	-	86,337
Subtotal debt securities	-	86,337	-	86,337
Total Financial Assets at Fair Value through Profit and Loss	-	108,730	-	108,730
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

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).

	2019	2018
	\$'000	\$'000
12 Payables		
Reinsurance premiums payable	5,255	4,943
Accrued operating expenses	284	802
Other payables - related parties - commonly controlled entities	10,483	10,880
Payable within one year	16,022	16,625

	2019	2018
	\$'000	\$'000
13 Deferred Tax Asset / (Liability)		
Deferred Tax Asset / (Liability)		
Balance at beginning of period	(1,298)	(1,180)
Tax Income / (expense) recognised in Statement of Comprehensive Income	43	11
Tax Income / (expense) recognised in Statement of Comprehensive Income - over / (under) provision in prior years	144	(129)
Balance at end of period - deferred tax asset / (liability)	(1,111)	(1,298)
Deferred tax asset/(liability) is attributable to the following items:		
Life Reserves	(1,057)	(1,200)
Intangible Assets	(55)	(98)
Total deferred tax assets / (liability)	(1,112)	(1,298)

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

Accelerated tax amortisation	43	11
Life Reserves	144	(129)
Total temporary differences included in deferred tax charge Statement of Comprehensive Income	187	(118)

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.

	2019	2018
	\$'000	\$'000
14 Intangible Assets		
<i>Internally Generated Software</i>		
At cost	9,190	9,190
Accumulated amortisation	(8,913)	(8,676)
Total Intangible Assets	277	514
Reconciliations		
Reconciliations of the carrying amounts for software are set out below:		
	2019	2018
	\$'000	\$'000
<i>Internally Generated Software</i>		
Carrying amount at beginning of year	514	752
Amortisation	(237)	(237)
Carrying amount at end of year	277	515

	2019	2018
	\$'000	\$'000
15 Policyholders' Liabilities		
Gross insurance contract liabilities / (assets) at 1 October	(5,332)	(4,793)
Increase / (decrease) in insurance contract policy liabilities reflected in the Statement of Comprehensive Income (i)	(814)	(539)
Gross insurance contract liabilities / (assets) at 30 September	(6,146)	(5,332)
Liabilities ceded under reinsurance		
Opening balance at 1 October	(15,812)	(13,462)
Decrease / (increase) in reinsurance assets reflected in the Statement of Comprehensive Income (ii)	(2,014)	(2,350)
Closing balance 30 September	(17,826)	(15,812)
Provision for incurred claims	15,933	18,380
Net policy liabilities / (assets) at 30 September	(8,038)	(2,763)
Expected to be realised within 12 months	15,933	18,380
(i) + (ii) = increase/(decrease) in net policy liabilities as disclosed in the Statement of Comprehensive Income	(2,829)	(2,889)
Components of life insurance contract liabilities / (assets)		
Future policy benefits	534,069	495,052
Future expenses	518,456	450,181
Planned margins over future expenses	501,891	466,171
Balance of future revenues	(1,578,388)	(1,432,548)
Total life insurance contract policy liabilities / (assets)	(23,972)	(21,144)

	2019	2018
	\$'000	\$'000
16 Contributed equity		
<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
Louis A. Hawke
Donna Nicolof (resigned 3 December 2018)
Richard G Bowman (Resigned 27 May 2019)
Fiona Oliver
Christine Yates (Appointed 27 May 2019)
Bruce Baillie (Appointed 3 December 2018)

BNZ Insurance Services Limited paid director fees of \$185,700 (2018: \$135,900) on behalf of National Wealth Management New Zealand Holdings Limited Group which includes BNZ Life Insurance Limited.

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 2019 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 in the month 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 2019 \$'000	For the year ended 30 September 2018 \$'000	As at 30 September 2019 \$'000	As at 30 September 2018 \$'000
	Note				
<i>Transaction 1</i>					
Commonly controlled entities - management fee incurred	6	12,412	11,949		
<i>Transaction 2</i>					
Commonly controlled entities - Commissions	6	14,052	15,552		
<i>Transaction 3</i>					
Commonly controlled entities - Cash and call deposits	8			4,998	1,483
Commonly controlled entities - Interest Income	4	81	92		
<i>Transaction 4</i>					
Commonly controlled entities - Payables at balance date	12			10,483	10,880

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 IFRS 9:

	Designated at Fair Value through Profit and Loss	Financial Instruments at Amortised Cost	Fair Value
30 September 2019			
Cash and cash equivalents		4,998	4,998
Receivables		7,865	7,865
Financial assets at fair value through profit and loss	108,730		108,730
Payables		(16,022)	(16,022)
Total Financial Assets / (Liabilities)	108,730	(3,160)	105,570
30 September 2018			
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)	106,546	(4,733)	101,813

(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.

2019	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	-	-	-	4,998	4,998	1.00%
Receivables	-	-	7,865	-	7,865	
Financial assets at fair value through profit and loss						
- Equity securities						
Unit trusts	-	-	22,393	-	22,393	
- Debt securities						
Unit Trusts	-	-	86,337	-	86,337	
	-	-	116,595	4,998	121,593	
<hr/>						
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	

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 2019 and 2018).

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 volatility	10 Year Volatility Rates		Impact on profit before tax		Impact on profit before tax	
	30-Sep-19	30-Sep-18	2019	2019	2018	2018
			Sensitivity +(ve) \$000's	Sensitivity - (ve) \$000's	Sensitivity +(ve) \$000's	Sensitivity -(ve) \$000's
NZ Cash	0.16%	0.29%				
NZ Fixed Interest	2.77%	3.20%				
Global Fixed Interest	2.59%	2.73%				
			\$'000	\$'000	\$'000	\$'000
Sector						
NZ Cash			122	(122)	226	(226)
NZ Fixed Interest			155	(155)	131	(131)
Global Fixed Interest			115	(115)	112	(112)
			392	(392)	469	(469)

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		
	2019	2019	2019	2018	2018	2018
	Carrying amount at floating rate \$'000	+(ve) Movement in interest rate \$'000	-(ve)% Movement in interest rate \$'000	Carrying amount at floating rate \$'000	+(ve) Movement in interest rate \$'000	-(ve)% Movement in interest rate \$'000
Cash and cash equivalents	4,998	50	(50)	1,483	15	(15)
Total assets subject to interest rate risk	4,998	50	(50)	1,483	15	(15)

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.

(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 2019 and 2018).

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		Impact on profit before tax		Impact on profit before tax	
	30-Sep-19	30-Sep-18	2019	2019	2018	2018
			Sensitivity +(ve) \$000's	Sensitivity -(ve) \$000's	Sensitivity +(ve) \$000's	Sensitivity -(ve) \$000's
			\$'000	\$'000	\$'000	\$'000
New Zealand Equities	8.96%	9.81%	502	(502)	666	(666)
International Equities	11.83%	14.36%	1,972	(1,972)	1,894	(1,894)
			2,474	(2,474)	2,560	(2,560)

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 2019 and 2018 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 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	2019	2018
	%	%
AAA	3%	2%
AA	61%	65%
A	24%	22%
BBB	11%	11%
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	2019	2018
	%	%
NZ Cash	70%	73%
NZ Fixed Interest	5%	4%
Global Fixed Interest	4%	4%
NZ Property	0%	1%
Global Property	3%	1%
NZ Equities	5%	5%
International Equities	8%	8%
Emerging Markets	3%	2%
Global Infrastructure	1%	1%
Commodities	1%	1%
	100%	100%

	2019	2018
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:

Cash at bank - Commonly controlled entities	4,998	1,483
	4,998	1,483

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

	2019	2018
Profit from ordinary activities after income tax	27,880	25,474
<i>Adjustments for items classified as investing/financing activities</i>		
Investment Management Fees	263	239
Interest income from financial assets at fair value through profit and loss	(2,414)	(1,735)
<i>Adjustments for non-cash movements</i>		
Unrealised (gains)/losses from financial assets at fair value through profit and loss	(1,627)	(2,309)
Depreciation and amortisation	237	237
<i>Change in assets and liabilities during the financial year:</i>		
(Increase)/decrease in receivables	2,544	(3,218)
Increase/(decrease) in current tax liabilities	1,315	609
Increase/(decrease) in policyholders' liabilities	(5,276)	3,035
Increase/(decrease) in deferred tax liabilities	(186)	118
Increase/(decrease) in payables	(603)	892
Net cash provided by/(used in) operating activities	22,133	23,342

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 2019 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 2019 the rate used was 0.95% (2018: 2.52%). 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% (2018: 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	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 \$13.04 to \$107.92 per policy per annum (2018: \$11.12 to \$74.19), depending on the product. Allowance is also made for claims expenses and discontinuance Expenses are assumed to inflate at a rate of 2% (2018: 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 34%, 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			
	2,019		2018	
	(\$million)	(%)	(\$million)	(%)
claims increased by 10%	-38	-8%	-36	-8%
claims decreased by 10%	38	8%	36	8%
lapse increased by 10%	-43	-9%	-37	-8%
lapse decreased by 10%	49	10%	42	9%
maintenance expenses (including commission) increased by 10%	-23	-5%	-19	-4%
maintenance expenses (including commission) decreased by 10%	23	5%	19	4%

Analysis of Change in Assumptions

The table below illustrates the significant changes in present value of future profit margins at 30 September 2019 due to the change in assumptions from 2018 to 2019. The change in assumptions has no effect on the policy liabilities.

Valuation Movement	Change in present value of future profit margins (\$million)
2018 Valuation	466
Change in discount rate and policy movements	78
Change in expense assumptions	(18)
Change in morbidity and mortality assumptions	4
Change in lapse assumptions	(28)
Other assumption changes	-
2019 Valuation	502

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.

	2019	2018
	\$'000	\$'000
21 Operating profit		
Profit related to movements in policyholders' liabilities:		
Planned margins of revenues over expenses	25,529	22,845
Difference between actual and assumed experience	(1,755)	(659)
The effects of changes to underlying assumptions	976	107
Investment earnings on assets in excess of policyholders' liabilities	3,130	3,181
per Statement of Comprehensive Income	27,880	25,474

	2019	2018
	\$'000	\$'000

22 Regulatory Capital

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	92,396	84,728
Capital	103,396	95,728
<i>Less deductions:</i>		
Intangible assets	(277)	(514)
Actual solvency capital	103,119	95,214
Insurance risk capital charge	39,365	38,454
Catastrophe risk capital charge	15,972	16,189
Asset risk capital charge	10,881	9,998
Policy liabilities plus Other liabilities	(10,705)	(12,917)
Minimum solvency capital	55,513	51,725
Solvency margin	47,606	43,489
Solvency margin ratio	186%	184%

The policy liability figure for solvency purposes in 2019 and 2018 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 2018: 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.

	2019	2018
	\$'000	\$'000

25 Dividends		
Declared and paid during the year (2019: 101 cents; 2018: 87 cents)	(20,212)	(17,300)
Total dividends recognised in the financial statements	(20,212)	(17,300)

26 Imputation Credit Account

The amount of imputation credits available to the BNZ Life Insurance Limited Consolidated Group as at 30 September 2019 was \$14,814 million (30 September 2018: \$13,184 million).

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 Shareholder of BNZ Life Insurance Limited

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 2019, and the statement of comprehensive income, statement of changes in equity and statement of cashflows 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 2019 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.

Other than in our capacity as auditor and the provision of other assurance services we have no 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.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current year. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, but we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the Auditor's responsibilities for the audit of the financial statements section of the audit report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial statements.

Policyholders' liabilities

Why significant

The company's policyholders' liabilities amounts to an asset of approximately \$8 million at 30 September 2019.

The estimation of the value of the policyholders' liabilities involves subjective judgements about future events, both internal and external to the company. It is based on an actuarial model of the expected future cash flows using a Margin on Service methodology as required by NZ IFRS 4 Insurance contracts.

The Actuarial model includes various assumptions such as discount rates, inflation rates, profit carriers, future expenses, mortality and morbidity and forecast lapse rates. Some of these assumptions are also based on historical data extracted from the company's insurance systems.

Disclosures relating to the policyholders' liabilities, including key assumptions, are included in Notes 15 and 20 to the financial statements.

How our audit addressed the key audit matter

Our procedures included:

- ▶ Evaluating and testing key controls over the policy and claims processes;
- ▶ On a sample basis, validating the costs recorded for claims costs;
- ▶ Comparing the historical data used by the appointed actuary to the company's underlying systems and testing selected elements of this data to assess the data's accuracy and completeness;
- ▶ Using our actuarial specialists to review the policyholders' liabilities valuation report prepared by the appointed actuary and evaluating the appropriateness of the methodologies and assumptions used in the valuation;
- ▶ Evaluating the objectivity and expertise of the appointed actuary; and
- ▶ Considering the adequacy of the disclosures relating to policyholders' liabilities.

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, 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 entity, 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 the auditor's responsibilities for the audit of the financial statements is located at the External Reporting Board's website:

<https://www.xrb.govt.nz/standards-for-assurance-practitioners/auditors-responsibilities/audit-report-2/>

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.

The signature 'Ernst & Young' is written in a dark blue, cursive script.

Chartered Accountants
Wellington
10 December 2019

Appointed Actuary's Report

To the Directors of BNZ Life Insurance Limited

This report has been prepared for the Directors of BNZ Life Insurance Limited (**BNZ Life**) under section 78 of the Insurance (Prudential Supervision) Act 2010 (**the Act**).

In my capacity of Appointed Actuary to BNZ Life I have reviewed the actuarial information contained in, or used in the preparation of, the financial statements for BNZ Life for the year ended 30 September 2019 (**the Financial Statements**). For the purposes of this report 'actuarial information' is as defined in section 77(4) of the Act. No limitations have been placed on this report.

My review has been carried out in accordance with the relevant professional standards issued by the New Zealand Society of Actuaries and the Solvency Standard for Life Insurance Business 2014 issued by the Reserve Bank of New Zealand (**Solvency Standard**).

My review has included:

- i) information relating to BNZ Life's calculations of premiums, claims, reserves, dividends, insurance rates, and technical provisions
- ii) information relating to assessments of the probability of uncertain future events occurring and the financial implications for BNZ Life if those events do occur
- iii) the analysis of BNZ Life's profit
- iv) the assumptions used in the calculation of the policy liability
- v) the methodology used to calculate the policy liability
- vi) the sensitivity of BNZ Life's profit margins to changes in key assumptions
- vii) the review of the solvency calculations and the solvency return as at 30 September 2019
- viii) the assumptions used to perform the solvency calculations
- ix) the methodology used to perform the solvency calculations
- x) the analysis of the movement in the solvency margin
- xi) BNZ Life's checks and controls over data and the valuation and solvency calculation processes

I have obtained all the information and explanations that I have required to conduct my review. My review is reliant on the accuracy of the policy data upon which the policy valuations have been based. In my opinion the policy data as at 30 September 2019 is satisfactory for valuing BNZ Life's policy liabilities albeit that there are a small number of policies with incorrect policy data.

In my opinion and from an actuarial perspective:

- i) The actuarial information contained in the Financial Statements has been appropriately included in those Financial Statements
- ii) The actuarial information used in the preparation of those the Financial Statements has been used appropriately
- iii) As at 30 September 2019 BNZ Life is maintaining a solvency margin that complies with that required under the Solvency Standard for the purposes of section 21(2)b of the Act, and
- iv) As at 30 September 2019 BNZ Life is maintaining a solvency margin within its sole statutory fund that complies with that required under the Solvency Standard for the purposes of section 21(2)c of the Act

In my role as Appointed Actuary to BNZ Life I am an employee of BNZ a related company to BNZ Life. My remuneration and employee benefits are paid by BNZ and reimbursed by BNZ Life. I hold shares in NAB, the ultimate parent of BNZ Life. I am a member of the BNZ Officers Provident Association. I maintain certain general insurance policies with IAG New Zealand through the IAG/BNZ agency agreement.

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

A handwritten signature in black ink, appearing to read 'Hamish Farrar', is centered on a light gray rectangular background.

Hamish Farrar

FNZSA, FIAA

Appointed Actuary - BNZ Life Insurance Limited

25 November 2019