OnePath Life (NZ) Limited
Annual Report

FOR THE YEAR ENDED 30 SEPTEMBER 2014

Annual Report

For the year ended 30 September 2014

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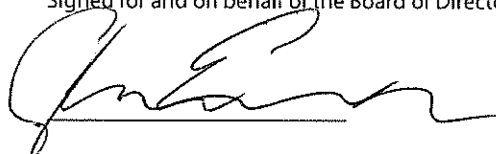
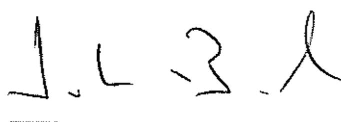
Annual Report

The address for service for OnePath Life (NZ) Limited (the Parent) is Level 3, 205 Wairau Road, Glenfield, Auckland, New Zealand. The principal activity of the Parent is the provision of life insurance.

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

Signed for and on behalf of the Board of Directors:





Director
25 February 2015

Director
25 February 2015

Financial Strength Rating Information

As at 25 February 2015 the Parent has an "AA– Outlook Stable" Insurer Financial Strength rating given by Standard and Poor's. The following table describes the rating grades available. Plus (+) or minus (-) following ratings from AA to CCC show relative standings within the major rating categories:

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

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

Governance Statement

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

Board of Directors

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

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

Board members as at 25 February 2015 are:

John Geddes Errington

BSc, FIA, FIAA, FNZSA
Independent Non-Executive Director and Chairman

Mr Errington is an actuary with extensive experience as a senior manager in the actuarial, consultancy and insurance industries. He has also held a range of governance roles including past president of the New Zealand Society of Actuaries.

Anne June Urlwin

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

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

Gavin Murray Pearce

BSc, FIA
Non-Executive Director

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

John Robert Body

BA (Eco), Dip. Banking, MBS
Executive Director

Mr Body is Managing Director, ANZ Wealth, ANZ Bank New Zealand Limited, and is responsible for managing and building ANZ's Wealth business in New Zealand. Mr Body's experience includes working for ANZ's markets business for over 20 years and he has held a range of senior positions in Singapore, Melbourne and New Zealand.

Board Role and Charter

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

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

Committees

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

Statement of Comprehensive Income

$ thousands	Note	Group Year to 30/09/2014	Group Year to 30/09/2013	Parent Year to 30/09/2014	Parent Year to 30/09/2013
Revenue					
Premium revenue	5	200,428	181,657	100,173	93,957
Less reinsurance premium expense		(29,635)	(28,586)	(18,196)	(18,298)
Net premium revenue		170,793	153,071	81,977	75,659
Investment income	6	7,609	6,643	3,964	3,268
Other operating income	7	5,625	6,434	60,066	1,010
Total revenue		184,027	166,148	146,007	79,937
Expenses					
Claims and surrenders	8	77,653	63,325	45,727	37,851
Less reinsurance recoveries		(24,843)	(20,829)	(17,002)	(14,531)
Net claims expense		52,810	42,496	28,725	23,320
Change in life insurance contract assets:					
- Effect of changes in discount rates		(23,946)	34,712	(22,429)	33,052
- Other changes in life insurance contract assets		(42,482)	(31,675)	(24,709)	(16,540)
Net decrease / (increase) in life insurance contract assets	15	(66,428)	3,037	(47,138)	16,512
Net increase in investment contract liabilities		-	304	-	304
Commissions and operating expenses	9	96,047	102,978	54,716	59,246
Total expenses		82,429	148,815	36,303	99,382
Profit / (loss) before income tax		101,598	17,333	109,704	(19,445)
Income tax expense / (credit)	10	20,819	(7,606)	12,848	(8,422)
Profit / (loss) after income tax	4	80,779	24,939	96,856	(11,023)

There are no items of other comprehensive income.

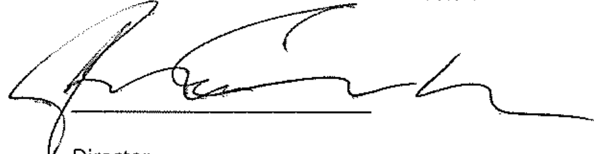
Statement of Changes in Equity

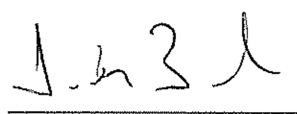
$ thousands	Note	Group Share capital	Group Retained earnings	Group Total equity	Parent Share capital	Parent Retained earnings	Parent Total equity
As at 1 October 2012		368,701	161,014	529,715	368,701	130,888	499,589
Profit / (loss) after income tax		-	24,939	24,939	-	(11,023)	(11,023)
As at 30 September 2013		368,701	185,953	554,654	368,701	119,865	488,566
Profit after income tax		-	80,779	80,779	-	96,856	96,856
Dividends paid	17	-	(40,000)	(40,000)	-	(40,000)	(40,000)
As at 30 September 2014		368,701	226,732	595,433	368,701	176,721	545,422

Balance Sheet

$ thousands	Note	Group 30/09/2014	Group 30/09/2013	Parent 30/09/2014	Parent 30/09/2013
Assets					
Cash at bank		11,110	11,593	5,328	6,986
Investments backing insurance contract liabilities	11	230,241	221,070	133,850	101,582
Trade and other receivables	12	7,799	4,185	4,963	3,467
Current tax asset		-	2,098	2,451	5,604
Life insurance contract assets	15	470,155	398,842	415,860	363,876
Investments in subsidiaries	16	-	-	167,079	167,079
Office furniture and equipment		13	35	13	35
Goodwill and other intangible assets	13	132,199	141,147	-	22
Total assets		851,517	778,970	729,544	648,651
Liabilities					
Payables and other liabilities	14	14,221	14,355	6,954	9,246
Current tax liability		3,679	-	-	-
Life insurance contract liabilities - reinsurance	15	104,377	99,492	86,013	81,167
Deferred tax liability	10	133,807	110,469	91,155	69,672
Total liabilities		256,084	224,316	184,122	160,085
Net assets		595,433	554,654	545,422	488,566
Equity					
Ordinary share capital	17	368,701	368,701	368,701	368,701
Retained earnings		226,732	185,953	176,721	119,865
Total equity		595,433	554,654	545,422	488,566

For and on behalf of the Board of Directors:





Director
25 February 2015

Director
25 February 2015

The notes to the financial statements form part of and should be read in conjunction with these financial statements.

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Cash Flow Statement

$ thousands	Note	Group Year to 30/09/2014	Group Year to 30/09/2013	Parent Year to 30/09/2014	Parent Year to 30/09/2013
Cash flows from operating activities					
Premium received		200,205	182,727	99,970	94,859
Reinsurance premiums paid		(29,887)	(28,051)	(18,448)	(17,763)
Interest received		7,789	6,273	4,090	2,932
Commission received		5,559	5,040	-	-
Other income		-	1,010	-	1,010
Claims, surrenders and maturities paid		(77,653)	(65,148)	(45,727)	(39,674)
Reinsurance recoveries received		22,112	24,504	14,703	18,206
Commission paid		(38,732)	(43,036)	(21,700)	(24,716)
Operating expenses paid		(48,887)	(40,665)	(34,006)	(28,550)
Tax loss offset received	16	5,493	5,912	11,859	6,076
Income taxes refunded / (paid)		2,803	(2,874)	(71)	-
Net cash flows provided by operating activities	22	48,802	45,692	10,670	12,380
Cash flows from investing activities					
Change in investments backing insurance contract liabilities		(9,285)	(42,561)	(32,328)	(12,203)
Proceeds from sale of office furniture and equipment		-	1	-	1
Net cash flows used in investing activities		(9,285)	(42,560)	(32,328)	(12,202)
Cash flows from financing activities					
Repayment of amounts due from related parties		-	384	-	384
Dividend received from subsidiary		-	-	60,000	-
Dividends paid		(40,000)	-	(40,000)	-
Net cash flows provided by / (used in) financing activities		(40,000)	384	20,000	384
Net increase / (decrease) in cash and cash equivalents		(483)	3,516	(1,658)	562
Cash and cash equivalents at beginning of the year		11,593	8,077	6,986	6,424
Cash and cash equivalents at end of the year		11,110	11,593	5,328	6,986

Notes to the Financial Statements

1. Significant Accounting Policies

(a) Basis of preparation

(i) Statement of compliance

These financial statements have been prepared in accordance with the requirements of the Companies Act 1993 and the Financial Reporting Act 1993. The Parent's financial statements are for OnePath Life (NZ) Limited as a separate entity and the Group's financial statements are for the Parent's consolidated group, which includes its subsidiaries.

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

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

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

(ii) Use of estimates and assumptions

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

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

(iii) Basis of measurement

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

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

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

All new and amending NZ IFRSs applicable for the first time to the Group in the year ended 30 September 2014 have been applied to these financial statements effective from their required date of application. The initial application of these standards and interpretations have not resulted in any material change to the Group's reported result or financial position, and has largely resulted in changes to disclosures only.

(v) Presentation currency and rounding

The amounts contained in the financial statements have been presented in thousands of New Zealand Dollars unless otherwise stated.

(vi) Principles of consolidation

The consolidated financial statements of the Group comprise the financial statements of the Parent and all its subsidiary.

An entity is considered a subsidiary of the Group when it is determined that control over the entity exists. Control is deemed to exist when the Group is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Power is assessed by examining existing rights that give the Group the current ability to direct the relevant activities of the entity.

The effect of all transactions between entities in the Group is eliminated. Where subsidiaries have been sold during the year, their operating results have been included to the date of disposal. When control ceases, the assets and liabilities of the subsidiary and other components of equity are derecognised. Any resulting gain or loss is recognised in profit or loss.

In the Parent's financial statements, investments in subsidiaries are carried at cost less accumulated impairment losses.

(b) Income recognition

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

(i) Premium income

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

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

(ii) Other income, including fees and commissions

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

Other income for providing ongoing services (for example, fees received in connection to life investment contracts) is recognised as income over the period the service is provided.

(iii) Commission income

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

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Notes to the Financial Statements

(iv) Reinsurance contracts

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

(v) Interest income

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

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

(vi) Dividend income

Dividends are recognised as revenue when the right to receive payment is established. Dividends from subsidiaries are classified as financing activities in the cash flow statement, as the receipt of these dividends enables the Parent to maintain the level of capital required for solvency purposes.

(c) Expense recognition

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

(i) Claims and surrenders

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

Claims incurred in respect of life investment contracts represent withdrawals and are recognised as a reduction in life investment contract liabilities.

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

Surrenders are recognised when requested by the policyholder.

(ii) Commission and operating expenses

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

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

Basis of expense apportionment

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

Acquisition expenses

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

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

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

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

Maintenance expenses

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

(d) Income tax

(i) Income tax expense

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

(ii) Current tax

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

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Notes to the Financial Statements

(iii) Deferred tax

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

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

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

(iv) Offsetting

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

(e) Assets

Financial assets

The Group classifies its financial assets in the following categories: financial assets at fair value through profit or loss and loans and receivables. The classification depends on the purpose for which the assets were acquired. Management determines the classification of its assets at initial recognition and re-evaluates this designation at every reporting date. Regular purchases and sales of financial assets are recognised on trade date – the date on which the Group commits to purchase or sell the asset.

(i) Financial assets at fair value through profit or loss

Investments backing insurance contract liabilities are designated at fair value through profit or loss to avoid an accounting mismatch as the policyholder liabilities are at fair value.

Financial assets carried at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in the statement of comprehensive income. Gains and losses arising from changes in the fair value of financial assets at fair value through profit or loss are included in the statement of comprehensive income in the period in which they arise.

The fair values of investments that are actively traded in organised financial markets are determined by reference to quoted market bid prices at the close of business on the balance date. For investments with no active market, fair values are determined using discounted cash flow techniques.

(ii) Loans and receivables

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

Loans and receivables are initially recognised at fair value plus transaction costs and are subsequently carried at amortised cost using the effective interest method.

Impairment of loans and receivables

The Group assesses at each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. Financial difficulties of the debtor, default payments or debts more than 90 days overdue are considered objective evidence of impairment.

The amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The asset's carrying amount is reduced through the use of an allowance account and the amount of the loss is recognised in the statement of comprehensive income.

When a receivable is uncollectible, either partially or in full, it is written off against the related provision for doubtful debts. Amounts receivable are normally written-off when they become 180 days past due or earlier if there is a legal release from the obligation.

If in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in the statement of comprehensive income.

(iii) Derecognition

The Group enters into transactions where it transfers financial assets recognised on its balance sheet yet retains either all the risks and rewards of the transferred assets or a portion of them. If all, or substantially all, the risks and rewards are retained, the transferred assets are not derecognised from the balance sheet.

In transactions where substantially all the risks and rewards of ownership of a financial asset are neither retained nor transferred, and the Group derecognises the asset if control over the asset is lost. In transfers where control over the asset is retained, the Group continues to recognise the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset. The rights and obligations retained or created in the transfer are recognised separately as assets and liabilities as appropriate.

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Notes to the Financial Statements

Non-financial assets

(iv) Goodwill

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

(v) Other intangible assets

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

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

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

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

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

(f) Life insurance contract assets

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

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

Determination of life insurance contract assets

Life insurance contract assets are calculated using the MoS methodology in accordance with *Professional Standard 3: Determination of Life Insurance Policy Liabilities* of the New Zealand Society of Actuaries.

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

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

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

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

Planned margins of revenues over expenses

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

The difference between actual and assumed experience

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

Changes to underlying assumptions

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

The calculation of life insurance contract assets includes the use of risk free yields by duration. The changes in these yields are not treated the same as other actuarial

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Notes to the Financial Statements

assumption changes as changes in investment yields impact both the life policyholder liabilities and the asset values in the balance sheet and any change in relative value between the two is recognised during the reporting period.

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

Investment earnings on assets in excess of policyholder liabilities

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

Term and other liabilities

Term and other liabilities are recognised in the balance sheet at the present value of future cash outflows to be incurred relating to obligations at balance date.

(g) Reinsurance

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

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

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

(h) Liabilities

Financial liabilities

Financial liabilities are measured initially at fair value and subsequently at amortised cost using the effective interest method, and are derecognised when the obligation specified in the contract is discharged, cancelled or expires.

Non-financial liabilities

(i) Employee leave benefits

The amounts expected to be paid in respect of employees' entitlements to annual leave are accrued at expected salary rates including on-costs. Liability for long service leave is calculated and accrued for in respect of all applicable employees (including on-costs) using an actuarial valuation. Expected future payments for long service leave are discounted using market yields at the reporting date on national government bonds with terms to maturity that match, as closely as possible, the estimated future cash outflows.

(i) Equity

(i) Shares

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

(ii) Dividends

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

(j) Presentation

(i) Offsetting of income and expenses

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

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

(ii) Offsetting of financial assets and liabilities

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

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

(iii) Goods and services tax

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

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

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Notes to the Financial Statements

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

(k) Accounting standard not early adopted

Statutory Funds (Amendments to Appendix C of NZ IFRS 4 Insurance Contracts) (effective for periods commencing after 1 July 2014) was available for early adoption but has not been applied by the Group in these financial statements. This amendment requires that life insurance entities disclose disaggregated information for each life fund. The Group is not expecting any significant impact on the financial statements from their application.

2. Critical Estimates and Judgements Used in Applying Accounting Policies

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

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

Critical accounting estimates and assumptions

Life insurance contract assets

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

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

Assets arising from reinsurance contracts

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

Critical judgements in applying the Group's accounting policies

Deferred tax

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

Where the expected tax outcomes of these matters is different from the amounts that were initially recorded, such differences will impact the reported profit or loss and current and deferred tax amounts in the period in which such determination is made. Given the complexity of life insurance tax legislation and assumptions involved, material adjustments to income tax expenses in future years may be required.

Management rights

The Group performed an impairment test for management rights where the recoverable amount was based on value in use using cash flow projections and management budgets for a three year period. Key assumptions used in the calculation are the discount rate of 11.5% (2013: 12%), long term revenue growth rate of 3% (2013: 3%) and the cost to income ratio of 32.5% (2013: 32.5%). The discount rate is determined considering internal rates of return and changes in the government bond rate, while the cost to income ratio and growth rate principally consider past experience. The recoverable amount was greater than the book value for the management rights and no impairment has been recognised.

The sensitivity of the recoverable amount to changes in assumptions has been tested, including: increasing the discount rate to 16.5%; decreasing the revenue growth rate to 0%; and increasing the cost to income ratio to 50%. None of these individual changes to assumptions would cause the recoverable amount to be less than the carrying value.

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Goodwill

Refer to Note 13 for details of goodwill held by the Group.

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

Goodwill has been allocated for impairment purposes to the cash generating units at which the goodwill is monitored for internal reporting purposes. Only one cash generating unit is recognised, being OnePath Insurance Services (NZ) Limited. Impairment testing of purchased goodwill is performed by comparing the recoverable value of OnePath Insurance Services (NZ) Limited with the current carrying amount of its net assets, including goodwill.

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

These cash flow projections are discounted using a capital asset pricing model. As at 30 September 2014, a discount rate of 9.9% was applied (2013: 10.3%). The main variables in the calculation of the discount rate used are the risk free rate, the beta rate and the market risk premium. The risk free rate is based on the 10 year Government Bond Rate. The beta rate and the market risk premium are consistent with observable and comparative market rates applied in the regional insurance sector.

The sensitivity of the recoverable amount to changes in assumptions has been tested by increasing the discount rate by 20% (to 12%) and decreasing the new business multipliers by 20%. The combined effect of these changes would not cause the recoverable amount to be less than the carrying value.

VOBA

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

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

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

These cash flow projections are discounted using a capital asset pricing model. As at 30 September 2014, a discount rate of 9.9% was applied (2013: 10.3%). The main variables in the calculation of the discount rate used are the risk free rate, the beta rate and the market risk premium. The risk free rate is based on the 10 year government bond rate. The beta rate and the market risk premium are consistent with observable and comparative market rates applied in the regional insurance sector.

The sensitivity of the recoverable amount to changes in assumptions has been tested by increasing the discount rate to 12%. This change would not cause the recoverable amount to be less than the carrying value.

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3. Summary of Significant Actuarial Methods and Assumptions

The actuarial reports on life insurance contract assets / liabilities and solvency reserves for the current reporting period were prepared as at 30 September 2014. The actuary who prepared the reports for the Parent was Michael Bartram, BSc. (Hons), FIAA, FNZSA, who is a Fellow of the Institute of Actuaries of Australia and a Fellow of the New Zealand Society of Actuaries.

The amount of life insurance contract assets / liabilities has been determined in accordance with *Professional Standard 3: Determination of Life Insurance Policy Liabilities* of the New Zealand Society of Actuaries (NZSA). After making appropriate checks, the actuary was satisfied as to the accuracy of the data from which the amount of the life insurance contract assets / liabilities had been determined.

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

The Group comprises two life companies, OnePath Life (NZ) Limited and OnePath Insurance Services Limited. Unless otherwise stated, the assumptions given are for both life companies.

Profit carriers

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

Discount rates

The discount rates used to determine policyholder liabilities were determined from the inter-bank swap rate curve. These rates are then adjusted to remove the inherent credit risk margin and provide a risk free rate. The risk free rate (before tax) varied by duration between 3.8% to 4.9% (2013: 3.2% to 5.7%).

Inflation

The long-term inflation assumption was determined on a basis consistent with the medium to long term RBNZ inflation target of between 1% to 3% (2013: 1% to 3%). The rate assumed is 2% pa (2013: 2% pa).

Future expenses and indexation

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

Asset mix

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

Asymmetric risks

An asymmetric risk is characterised by a movement in an assumption that results in a significantly larger adjustment in one direction than it does in the other. Given the nature of the business no additional reserve is required for asymmetric risks (2013: no additional reserve).

Rates of taxation

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

Mortality and morbidity

OnePath Life (NZ) Limited

Projected future rates of mortality for insured lives range from 60% to 160% (2013: 55% to 250%) of the NZ07 term mortality tables. These adjustments are determined by comparing the standard tables with the Company's own experience.

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

Future morbidity incidence and termination rates (Replacement Income) have been based on the Parent's experience and on IAD89-93 tables.

OnePath Insurance Services (NZ) Limited

Projected future rates of mortality for insured lives range from 65% to 650% (2013: 65% to 540%) of the NZ07 term mortality tables. These adjustments are determined by comparing the standard tables with the Company's own experience.

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

Assumed incidence rates, durations and loss ratios (Replacement Income) are based on investigation of the Company's experience.

Rates of discontinuance

Long-term discontinuance rates are based on recent company analysis and vary by product and duration in force, taking into account market conditions and internal strategies. The assumed rates of discontinuance are between 6% and 50% (2013: between 6% and 60%) for the Parent and between 2% and 30% (2013: between 1% and 35%) for OnePath Insurance Services (NZ) Limited.

Surrender values

Surrender values for the Parent, where applicable, are calculated on an accumulation basis. Surrender values for OnePath Insurance Services (NZ) Limited are based on the provisions specified in the policy contracts and include a recovery of policy establishment and maintenance costs. It is assumed that the current surrender value bases will be maintained.

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Notes to the Financial Statements

Participating business

The Parent and Group do not issue participating business.

Solvency requirement

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

Impact of changes in assumptions

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

Impact of changes in assumptions increase / (decrease)

	Group			Parent		
$ thousands	Change in future profit margins	Change in insurance contract liabilities	Change in shareholder's profit & equity	Change in future profit margins	Change in insurance contract liabilities	Change in shareholder's profit & equity
30/09/2014						
Mortality and morbidity	(24,723)	1,609	(1,159)	(18,249)	1,634	(1,177)
Discontinuance rates	5,516	(685)	493	(9,711)	(690)	497
Maintenance expenses	12,922	-	-	19,191	-	-
Other assumptions	871	(776)	559	7,101	(959)	690
Total	(5,414)	148	(107)	(1,668)	(15)	10
30/09/2013						
Mortality and morbidity	7,848	2,016	(1,452)	(99)	2,016	(1,452)
Discontinuance rates	(5,379)	60	(43)	(9,920)	60	(43)
Maintenance expenses	(7,049)	(97)	70	(6,231)	(97)	70
Other assumptions	2,395	(1,936)	1,394	4,151	(1,936)	1,394
Total	(2,185)	43	(31)	(12,099)	43	(31)

4. Sources of Profit

	Group		Parent	
$ thousands	Year to 30/09/2014	Year to 30/09/2013	Year to 30/09/2014	Year to 30/09/2013
Life Insurance				
Planned margins of revenues over expenses	54,534	51,366	14,592	12,651
Difference between actual and assumed experience	5,071	(6,372)	3,406	(4,069)
Loss recognition	-	1,435	-	1,435
Effects of changes in underlying assumptions	16,806	(23,920)	16,004	(23,393)
	76,411	22,509	34,002	(13,376)
Investment earnings on assets in excess of policy liabilities	5,479	5,055	2,854	2,353
Other revenue / expenses				
Dividend received from subsidiary	-	-	60,000	-
Business valued on accumulation basis	1,314	1,012	-	-
Inwards commission	4,002	3,628	-	-
Amortisation of VOBA	(4,868)	(5,213)	-	-
Amortisation of management rights	(1,559)	(2,052)	-	-
	(1,111)	(2,625)	60,000	-
Profit after income tax	80,779	24,939	96,856	(11,023)

All profit after income tax is attributable to the shareholder as the Parent and Group do not write participating policies.

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Notes to the Financial Statements

5. Premium Revenue

	Group		Parent	
	Year to	Year to	Year to	Year to
$ thousands	30/09/2014	30/09/2013	30/09/2014	30/09/2013
Single premiums	6,531	5,784	-	-
Regular premiums	193,897	175,873	100,173	93,957
Total premium revenue	200,428	181,657	100,173	93,957

6. Investment Income

	Group		Parent	
	Year to	Year to	Year to	Year to
$ thousands	30/09/2014	30/09/2013	30/09/2014	30/09/2013
Interest income from:				
- Cash at bank	385	379	158	256
- Debt securities and bank deposits at fair value through profit or loss	7,338	5,894	3,866	2,676
Total interest income	7,723	6,273	4,024	2,932
Net gain / (loss) on financial assets at fair value through profit or loss	(114)	370	(60)	336
Total investment income	7,609	6,643	3,964	3,268

7. Other Operating Income

	Group		Parent	
	Year to	Year to	Year to	Year to
$ thousands	30/09/2014	30/09/2013	30/09/2014	30/09/2013
Commission income	5,559	5,040	-	-
Dividend received from subsidiary	-	-	60,000	-
Gain on termination of reinsurance arrangement	-	1,010	-	1,010
Gain on disposal of subsidiary	-	384	-	-
Use of money interest	66	-	66	-
Total other operating income	5,625	6,434	60,066	1,010

8. Claims and Surrenders

	Group		Parent	
	Year to	Year to	Year to	Year to
$ thousands	30/09/2014	30/09/2013	30/09/2014	30/09/2013
Death and disability	75,565	60,741	45,727	37,851
Surrenders	2,088	4,407	-	1,823
Less savings component transferred from investment contract liabilities[1]	-	(1,823)	-	(1,823)
Claims and surrenders	77,653	63,325	45,727	37,851

[1] Profit before tax for the year ended 30 September 2013 also included $304,000 of investment income and $304,000 expense from increase in investment contract liabilities relating to investment linked business which was exited during the year ended 30 September 2013. The Parent and Group do not have any investment linked business at 30 September 2014 (2013: none).

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Notes to the Financial Statements

9. Commissions and Operating Expenses

		Group		Parent	
		Year to	Year to	Year to	Year to
$ thousands	Note	30/09/2014	30/09/2013	30/09/2014	30/09/2013
Acquisition costs					
Commissions		23,927	28,984	13,021	16,582
Operating expenses		33,662	35,643	18,694	20,726
Total acquisition costs		57,589	64,627	31,715	37,308
Maintenance costs					
Commissions		14,914	14,311	8,899	8,504
Operating expenses		21,379	21,190	14,102	13,818
Total maintenance costs		36,293	35,501	23,001	22,322
Other operating expenses		2,165	2,850	-	(384)
Total commissions and operating expenses		96,047	102,978	54,716	59,246
Operating expenses includes the following specific items:					
Wages and salaries[1]		4,437	16,257	3,427	12,470
Operating expenses recharged by related parties[1]	16	37,066	26,897	25,368	17,436
Operating lease charges		9	28	1	19
Depreciation		22	47	22	47
Amortisation	13	8,948	10,191	22	49
Travel and accommodation		231	526	175	413
Doubtful debts expense / (release)	12	(32)	(177)	-	(665)
Printing, postage and stationery		1,164	1,245	676	731
Other operating expenses		5,361	4,669	3,105	3,660
		57,206	59,683	32,796	34,160

[1] During the year, certain functions performed by the Parent and the Group were transferred to ANZ Bank New Zealand Limited (ANZ Bank). This resulted in a decrease in wages and salaries expense, as staff performing these services are no longer employed by the Parent and the Group. Operating expenses recharged by related parties increased for the cost of services that are now provided by ANZ Bank to the Parent and the Group.

All costs are associated with life insurance contracts.

	Group		Parent	
	Year to	Year to	Year to	Year to
$ thousands	30/09/2014	30/09/2013	30/09/2014	30/09/2013
Fees paid to principal auditor (KPMG New Zealand)				
Audit of financial statements	365	313	181	156
Other services - review of solvency returns	93	183	56	110
Total fees paid to auditor	458	496	237	266

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

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Notes to the Financial Statements

10. Income Tax

		Group		Parent	
		Year to	Year to	Year to	Year to
$ thousands	Note	30/09/2014	30/09/2013	30/09/2014	30/09/2013
Reconciliation of the prima facie income tax payable on profit					
Profit before income tax		101,598	17,333	109,704	(19,445)
Prima facie income tax at 28%		28,447	4,853	30,717	(5,445)
Non-deductible / (non-assessable) policyholder income and expenses		(476)	(4,195)	408	(812)
Non-assessable dividend from subsidiary		-	-	(16,800)	-
Effect of pre - 2010 life tax regime		(8,234)	(8,784)	(2,370)	(2,684)
Other non-deductible expenses		204	36	106	35
Income tax under / (over) provided in prior years		878	484	787	484
Total income tax expense / (credit)		20,819	(7,606)	12,848	(8,422)
Total income tax expense comprises:					
Current tax		3,679	(1,929)	(2,450)	(5,803)
Prior period adjustment - current tax		168	563	181	747
Prior period adjustment - tax loss offsets utilised by subsidiary	16	(6,366)	(164)	(6,366)	(164)
Deferred tax		23,338	(6,076)	21,483	(3,202)
Total income tax expense / (credit)		20,819	(7,606)	12,848	(8,422)
		30/09/2014	30/09/2013	30/09/2014	30/09/2013
Deferred tax assets / (liabilities) comprise the following temporary differences:					
Provisions and accruals		721	1,018	619	903
Carried forward losses[1]		8,997	15,592	8,997	15,592
Other deferred tax assets		673	953	410	634
Life insurance contract assets, net of reinsurance		(126,923)	(108,258)	(101,181)	(86,801)
VOBA		(14,557)	(16,450)	-	-
Management rights		(2,718)	(3,324)	-	-
Net deferred tax liability[2]		(133,807)	(110,469)	(91,155)	(69,672)

[1] Utilisation of carried forward losses is dependent on future taxable profits, reversal of taxable temporary differences and there being no changes to the composition of the tax group.

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

The Group is part of a wholly owned group of companies and may receive the benefit of tax losses by way of a tax loss offset, for which compensation will be paid to another member of the ANZ Holdings (New Zealand) Limited group.

The Parent and its subsidiaries are members of an imputation group and can access imputation credits of $2,224 million (2013: $1,725 million) of the imputation group.

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

Impact of 2010 life tax changes

Legislation came into effect on the 1 July 2010 that changed the tax treatment for life insurance policies. Under the new rules, income and expenditure on life insurance policies (i.e. premiums, reinsurance premiums, claims and reinsurance recoveries) now form part of assessable income.

Under the rules, life insurance taxable income is calculated as premiums less claims plus investment income less expenses and changes in certain prescribed reserves. Income and deductions are recognised using ordinary tax principles, with the addition of special rules to deal with the unique timing and allocation issues inherent with life insurance products.

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

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

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Notes to the Financial Statements

11. Investments Backing Insurance Contract Liabilities

$ thousands	Group 30/09/2014	Group 30/09/2013	Parent 30/09/2014	Parent 30/09/2013
Bank deposits	227,664	218,472	132,809	100,510
New Zealand Government bonds	2,577	2,598	1,041	1,072
Total investments backing insurance contract liabilities	230,241	221,070	133,850	101,582
Maturity analysis:				
- Less than one year	230,230	218,472	133,850	100,510
- Two years to five years	11	2,598	-	1,072
Total investments backing insurance contract liabilities	230,241	221,070	133,850	101,582

12. Trade and Other Receivables

$ thousands	Note	Group 30/09/2014	Group 30/09/2013	Parent 30/09/2014	Parent 30/09/2013
Outstanding premiums		1,297	1,127	867	664
Amounts due from advisers		668	912	668	912
Amounts due from reinsurers		5,148	2,417	4,550	2,251
Due from related parties	16	-	25	-	-
Sundry debtors		1,902	952	-	762
Provision for doubtful debts		(1,216)	(1,248)	(1,122)	(1,122)
Total trade and other receivables		7,799	4,185	4,963	3,467

The Parent and the Group held no material trade and other receivables that were past due and not impaired (2013: none material).

13. Goodwill and Other Intangible Assets

$ thousands	30/09/2014 Cost	30/09/2014 Accumulated amortisation and impairment	30/09/2014 Carrying amount	30/09/2013 Cost	30/09/2013 Accumulated amortisation and impairment	30/09/2013 Carrying amount
Group						
Goodwill	75,726	(5,226)	70,500	75,726	(5,226)	70,500
VOBA	93,000	(41,009)	51,991	93,000	(34,248)	58,752
Management rights	30,559	(20,851)	9,708	30,559	(18,686)	11,873
Computer software	7,787	(7,787)	-	7,787	(7,765)	22
Total goodwill and other intangible assets	207,072	(74,873)	132,199	207,072	(65,925)	141,147

Movement analysis

$ thousands	Note	Goodwill	VOBA	Management rights	Computer software	Total
Group						
Carrying amount at 1 October 2012		70,500	65,996	14,723	119	151,338
Amortisation	9	-	(7,244)	(2,850)	(97)	(10,191)
Carrying amount at 30 September 2013		70,500	58,752	11,873	22	141,147
Amortisation	9	-	(6,761)	(2,165)	(22)	(8,948)
Carrying amount at 30 September 2014		70,500	51,991	9,708	-	132,199

Goodwill and VOBA relate to the acquisition of OnePath Insurance Services (NZ) Limited. Refer to note 2 for details of impairment testing of goodwill, VOBA and management rights. The remaining amortisation period of VOBA is 14 years (2013: 15 years), and 7.5 years (2013: 8.5 years) for management rights.

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Notes to the Financial Statements

14. Payables and Other Liabilities

$ thousands	Note	Group 30/09/2014	Group 30/09/2013	Parent 30/09/2014	Parent 30/09/2013
Creditors		533	359	138	148
Due to reinsurers		3,222	3,474	2,548	2,800
Due to related parties	16	6,420	6,739	3,020	3,507
Accrued charges		2,440	2,375	377	1,764
Employee annual and long service leave		8	1,164	8	915
Other liabilities		1,598	244	863	112
Total payables and other liabilities		14,221	14,355	6,954	9,246

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

15. Life Insurance Contract Assets / (Liabilities)

Net life insurance contract assets contain the following components:

$ thousands	Group 30/09/2014	Group 30/09/2013	Parent 30/09/2014	Parent 30/09/2013
Future premiums	1,720,640	1,454,818	1,051,347	892,935
Future policy benefits	(626,406)	(509,289)	(407,514)	(329,010)
Future expenses	(270,221)	(254,191)	(211,025)	(202,778)
Planned margins of revenues over expenses	(458,235)	(391,988)	(102,961)	(78,438)
Total life insurance contract assets, net of reinsurance	365,778	299,350	329,847	282,709
Estimated discounted net cash inflows from life insurance contract assets:				
- Less than one year	27,090	19,828	23,588	18,800
- One year to five years	81,842	62,707	71,580	57,998
- Later than five years	256,846	216,815	234,679	205,911
Total net life insurance contract assets future net cash inflows	365,778	299,350	329,847	282,709

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

Reconciliation of movements in life insurance contract assets and liabilities

$ thousands	Group 30/09/2014	Group 30/09/2013	Parent 30/09/2014	Parent 30/09/2013
Life insurance contract assets				
Opening balance	398,842	408,298	363,876	393,172
Recognised in statement of comprehensive income	71,313	(9,456)	51,984	(29,296)
Closing balance	470,155	398,842	415,860	363,876
Of which:				
Current	32,185	24,650	27,659	22,414
Non-current	437,970	374,192	388,201	341,462
Life insurance contract liabilities - reinsurance				
Opening balance	99,492	105,911	81,167	93,951
Recognised in statement of comprehensive income	4,885	(6,419)	4,846	(12,784)
Closing balance	104,377	99,492	86,013	81,167
Of which:				
Current	5,095	4,822	4,071	3,614
Non-current	99,282	94,670	81,942	77,553

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Notes to the Financial Statements

16. Related Party Transactions

Key management personnel compensation

$ thousands	Group Year to 30/09/2014	Group Year to 30/09/2013	Parent Year to 30/09/2014	Parent Year to 30/09/2013
Salaries and short-term employee benefits	**157**	509	**157**	509
Post-employment benefits	**-**	14	**-**	14
Other long-term benefits	**-**	6	**-**	6
Termination benefits	**431**	62	**431**	62
Share-based payments expense	**-**	6	**-**	6
Total compensation of key management personnel	**588**	597	**588**	597

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

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

Other transactions with related parties

The Parent and Group undertake transactions with the Immediate Parent, ANZ Bank and other subsidiaries of ANZ Bank.

In addition the Parent undertakes similar transactions with its subsidiaries, which are eliminated in the Group financial statements. Included within the Parent's transactions with subsidiaries is the provision of administrative functions to some controlled entities for which no payments have been made.

$ thousands	Group Year to 30/09/2014	Group Year to 30/09/2013	Parent Year to 30/09/2014	Parent Year to 30/09/2013
Income and expenses				
Interest income received from ANZ Bank	**1,761**	1,728	**860**	897
Dividends received from subsidiaries	**60,000**	-	**60,000**	-
Commissions paid to ANZ Bank	**(16,815)**	(18,183)	**-**	-
Operating expenses paid to ANZ Bank and other ANZ Bank subsidiaries	**(37,066)**	(26,897)	**(25,368)**	(17,436)
Other transactions				
Dividend paid to Immediate Parent	**(40,000)**	-	**(40,000)**	-
Tax losses utilised by subsidiary	**-**	-	**6,366**	164
Tax losses utilised by other ANZ Bank subsidiaries	**5,493**	5,912	**5,493**	5,912

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Notes to the Financial Statements

Balances with related parties

$ thousands	Group 30/09/2014	Group 30/09/2013	Parent 30/09/2014	Parent 30/09/2013
Cash at bank due from ANZ Bank	**11,110**	11,593	**5,328**	6,986
Bank deposits due from ANZ Bank	**40,082**	49,104	**23,864**	23,283
Due from other ANZ Bank subsidiaries	**-**	25	**-**	-
Investment in subsidiary	**-**	-	**167,079**	167,079
Total due from related parties	**51,192**	60,722	**196,271**	197,348
Due to ANZ Bank	**4,798**	4,629	**2,317**	2,201
Due to other ANZ Bank subsidiaries	**1,622**	2,110	**703**	1,257
Due to subsidiary	**-**	-	**-**	49
Total due to related parties	**6,420**	6,739	**3,020**	3,507

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

Shares in subsidiary

The Parent owns 100% of the share capital of OnePath Insurance Services (NZ) Limited, an insurance company with a balance date of 30 September.

Silver Fern Life Brokers Limited (Silver Fern) was a subsidiary of the Parent until 31 July 2013 when it amalgamated with Alos Holdings Limited, a fellow subsidiary of ANZ Bank. At 30 September 2012, the Parent had fully provided for a receivable of $384,000 from Silver Fern. This provision was reversed and the balance repaid in full immediately following the amalgamation.

17. Ordinary Share Capital

The Parent's share capital comprises 329,685,311 fully paid ordinary shares (2013: 329,685,311 shares) that have rights and powers prescribed by section 36 of the Companies Act 1993, whereby they have equal rights regarding voting, dividends and the residual assets on winding up of the Parent.

During the year ended 2014 the Parent paid a dividend of $40 million to the Immediate Parent Company (equivalent to $0.12 per share) (2013: no dividend).

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Notes to the Financial Statements

18. Capital Management

Capital management policies

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

During the year ended 30 September 2014, the Parent and Group have complied with all externally imposed capital requirements.

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

Solvency requirements and statutory funds

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

Under the IPSA solvency requirements, the Parent and its subsidiary, OnePath Insurance Services (NZ) Limited (OPIS), are required to maintain a positive solvency margin for each life fund calculated in accordance with *Solvency Standard for Life Insurance Business* issued by the Reserve Bank of New Zealand, and each of these companies is required to have at least $5 million of actual solvency capital.

As at 25 February 2015 the Parent has an AA– Outlook Stable Insurer Financial Strength Rating from Standard and Poor's.

The following tables show the assets, liabilities, equity, profit and solvency of the Group by fund. The Group has two statutory funds, the OPL statutory fund for the Parent, and the OPIS statutory fund for its subsidiary.

	Group				Parent		
$ thousands	OPL statutory fund	OPIS statutory fund	Non-statutory fund	Total	Statutory fund	Non-statutory fund	Total
30/09/2014							
Total assets	523,140	149,976	178,401	851,517	523,140	206,404	729,544
Total liabilities	180,732	55,156	20,196	256,084	180,732	3,390	184,122
Total equity	342,408	94,820	158,205	595,433	342,408	203,014	545,422
Profit / (loss) after income tax	33,830	46,761	188	80,779	33,830	63,026	96,856
Net dividends received / (paid)	-	(60,000)	20,000	(40,000)	-	(40,000)	(40,000)
Actual solvency capital	329,532	94,456	43,680	467,668	329,532	36,334	365,866
Minimum solvency capital	267,679	53,857	11,742	333,278	267,679	11,447	279,126
Solvency margin	61,853	40,599	31,938	134,390	61,853	24,887	86,740
30/09/2013							
Total assets	466,122	155,321	157,527	778,970	466,122	182,529	648,651
Total liabilities	157,544	47,262	19,510	224,316	157,544	2,541	160,085
Total equity	308,578	108,059	138,017	554,654	308,578	179,988	488,566
Profit / (loss) after income tax	(13,348)	40,406	(2,119)	24,939	(13,348)	2,325	(11,023)
Actual solvency capital	286,228	47,625	36,262	370,115	286,228	12,504	298,732
Minimum solvency capital	229,292	36,718	9,413	275,423	229,292	9,266	238,558
Solvency margin	56,936	10,907	26,849	94,692	56,936	3,238	60,174

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

The Appointed Actuary has provided written advice to the Directors of the consequences of the dividends paid during the year in compliance with the IPSA, and certified that the Parent and its subsidiary continue to meet the IPSA solvency requirements, as shown above.

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Notes to the Financial Statements

19. Financial Risk Management

Strategy in using financial instruments

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

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

Credit risk

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

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

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

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

The credit ratings shown in the table below are from Standard & Poor's for the counterparty's New Zealand short term unsecured obligations as at 25 February 2015.

Concentrations of credit risk

	Credit Rating	Group		Parent	
		30/09/2014	30/09/2013	30/09/2014	30/09/2013
ANZ Bank New Zealand Limited	A-1+	19.9%	25.6%	19.6%	27.2%
ASB Bank Limited	A-1+	14.9%	13.0%	15.4%	11.8%
Bank of New Zealand Limited	A-1+	15.3%	15.6%	15.8%	14.1%
The Hongkong and Shanghai Banking Corporation Limited	A-1+	8.2%	5.5%	8.3%	6.4%
Kiwibank Limited	A-1	4.8%	7.4%	4.2%	7.0%
New Zealand Government	A-1+	1.0%	1.1%	0.7%	1.0%
Rabobank New Zealand Limited	A-1	14.5%	13.5%	14.2%	12.5%
Westpac New Zealand Limited	A-1+	15.3%	16.6%	15.1%	17.6%

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

	30/09/2014	30/09/2013
Cigna Life Insurance New Zealand Limited	A-	A-
General Reinsurance Life Australia Limited	AA+	AA+
Hannover Life Re of Australasia Limited	AA-	AA-
Munich Reinsurance Company of Australasia Limited	AA-	AA-
RGA Reinsurance Company	AA-	AA-
SCOR Global Life SE	A+	A+
Swiss Re Life & Health Australia Limited	AA-	AA-

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Market risk

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

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

Interest rate risk

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

The Group has established limits on investments in interest-bearing assets, which are monitored on a daily basis. The following table summarises the sensitivity of the Group's investments backing insurance contract liabilities and life insurance contract liabilities, net of reinsurance, to changes in interest rate movements at year end. The analysis is based on the assumptions that the relevant interest rate increased/decreased by 1% (2013: 1%), with all other variables held constant. This represents a best estimate of a reasonable shift in the interest rates, with regard to historical volatility of those rates. The balances shown provide the impact on both profit after tax and equity.

	30/09/2014		30/09/2013	
$ thousands	+ 1%	- 1%	+ 1%	- 1%
Group				
Investments backing insurance contract liabilities	(340)	401	(459)	514
Life insurance contract assets, net of reinsurance	(23,969)	29,553	(19,173)	23,796
Parent				
Investments backing insurance contract liabilities	(179)	220	(217)	238
Life insurance contract assets, net of reinsurance	(22,074)	27,248	(18,349)	22,767

Liquidity risk

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

The maturity profile for the Group's insurance contract liabilities is shown in Note 15. Payables and other liabilities are payable within three months.

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Notes to the Financial Statements

20. Insurance Risk

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

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

Insurance risk management strategy

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

(i) To ensure risk appetite decisions are made within the context of corporate goals and governance structures;
(ii) To ensure that an appropriate return on capital is made in return for accepting insurance risk;
(iii) To ensure that strong internal controls embed underwriting for risk within the business;
(iv) To ensure that internal and external solvency and capital requirements are met; and
(v) To use reinsurance as a component of insurance risk management strategy.

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

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

Methods to limit or transfer insurance risk exposures

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

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

- Reinsurance – The credit rating of all reinsurers is monitored on a monthly basis through the Asset and Liability Committee Insurance Forum and any changes in ratings from the previous month are brought to the committee's attention.
- Underwriting procedures – Strategic underwriting decisions are put into effect using the underwriting procedures detailed in the Group's underwriting manual. Such procedures include limits to delegated authorities and signing powers.
- Claims management – Strict claims management procedures are in place to assist in the timely and correct payment of claims in accordance with policy conditions.

Concentrations of insurance risk

Concentrations of insurance risk arise due to:

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

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

Aggregate Sums Assured ($ millions)	30/09/2014 Sum Insured	30/09/2014 Sum Reinsured	30/09/2013 Sum Insured	30/09/2013 Sum Reinsured
Group				
Life[1]	40,228	18,022	37,767	17,161
Trauma / Total Permanent Disablement [1,3]	10,012	4,177	9,486	4,105
Other income cover[2,3]	293	92	290	96
Total	50,533	22,291	47,543	21,362
Parent				
Life[1]	18,543	10,789	17,836	10,360
Trauma / Total Permanent Disablement [1,3]	6,663	3,744	6,440	3,619
Other income cover[2]	176	92	183	96
Total	25,382	14,625	24,459	14,075

1 Aggregate sum insured is the aggregate of all lump sums payable under this benefit category.
2 Aggregate sum insured is the aggregate of the annual benefits payable under replacement income benefit categories.
3 Comparative amounts have been reclassified to ensure consistency with the current period's presentation.

Terms and conditions of insurance contracts

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

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

Sensitivity to insurance risk

The table below illustrates the sensitivity of reported profit and loss to changes in assumptions that have a material effect on them:

Increase / (decrease) in profit after tax and equity

$ thousands	Change	30/09/2014 Before reinsurance	30/09/2014 After reinsurance	30/09/2013 Before reinsurance	30/09/2013 After reinsurance
Group					
Change in mortality and morbidity	+10%	(2,149)	(901)	(4,616)	(3,779)
	-10%	-	-	-	-
Change in lapse rates	+10%	(2,314)	(2,161)	(40,842)	(17,910)
	-10%	-	-	-	-
Change in expense assumption	+10%	-	-	-	-
	-10%	-	-	-	-
Parent					
Change in mortality and morbidity	+10%	(1,388)	(140)	(3,908)	(3,071)
	-10%	-	-	-	-
Change in lapse rates	+10%	(2,314)	(2,161)	(40,842)	(17,910)
	-10%	-	-	-	-
Change in expense assumption	+10%	-	-	-	-
	-10%	-	-	-	-

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Notes to the Financial Statements

21. Fair Value Measurements

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

Valuation methodologies

The Group categorises its fair value measurements on the basis of inputs used in measuring fair value using the fair value hierarchy below:

- Level 1 – Financial instruments that have been valued by reference to unadjusted quoted prices in active markets for identical financial instruments. This category includes financial instruments valued using quoted yields where available for specific debt securities.
- Level 2 – Financial instruments that have been valued through valuation techniques incorporating inputs other than quoted prices within Level 1 that are observable for a similar financial asset or liability, either directly or indirectly.
- Level 3 – Financial instruments that have been valued using valuation techniques which incorporate significant inputs that are not based on observable market data (unobservable inputs).

Valuation techniques and inputs used

For bank term and call deposits, discounted cash flow techniques are used where contractual future cash flows of the instrument are discounted using term deposit rates appropriate for the remaining term to maturity (Level 2). Registered certificates of deposit are valued using quoted yields (Level 1).

There have been no changes in the valuation techniques applied to securities during the year.

Valuation hierarchy for financial assets held at fair value

	Group			Parent		
$ thousands	Level 1	Level 2	Total	Level 1	Level 2	Total
30/09/2014						
Bank deposits	**136,965**	**90,699**	**227,664**	**82,332**	**50,477**	**132,809**
New Zealand Government stock	**2,577**	**-**	**2,577**	**1,041**	**-**	**1,041**
Total investments backing insurance contract liabilities	**139,542**	**90,699**	**230,241**	**83,373**	**50,477**	**133,850**
30/09/2013						
Bank deposits	126,348	92,124	218,472	55,727	44,783	100,510
New Zealand Government stock	2,598	-	2,598	1,072	-	1,072
Total investments backing insurance contract liabilities	128,946	92,124	221,070	56,799	44,783	101,582

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Notes to the Financial Statements

22. Notes to the Cash Flow Statement

Reconciliation of profit / (loss) after income tax to net cash flows provided by operating activities

		Group		Parent	
		Year to	Year to	Year to	Year to
$ thousands	Note	30/09/2014	30/09/2013	30/09/2014	30/09/2013
Profit after income tax		80,779	24,939	96,856	(11,023)
Non-cash items:					
Depreciation and amortisation	9	8,970	10,238	44	96
Unrealised gains / (losses) on securities		114	(370)	60	(336)
Deferrals or accruals of past or future operating cash receipts or payments:					
Change in trade and other receivables		(3,614)	11,889	(1,496)	9,096
Change in payables and other liabilities		(134)	2,430	(2,292)	2,284
Change in life insurance contract assets, net of reinsurance		(66,428)	3,037	(47,138)	16,512
Change in life investment contract liabilities		-	(1,519)	-	(1,519)
Change in income tax assets and liabilities		29,115	(4,568)	24,636	(2,346)
Items classified as investing / financing:					
Distributions from subsidiary		-	-	(60,000)	-
Repayment of amounts due from subsidiary	16	-	(384)	-	(384)
Net cash flows provided by operating activities		48,802	45,692	10,670	12,380

23. Subsequent Events

The Parent and its subsidiary amalgamated on 30 November 2014 after obtaining necessary consents and approvals, including from the RBNZ. The Company assumed the assets and liabilities of its subsidiary at the carrying values in the Group's consolidated financial statements.

After the amalgamation, the Parent restructured the OnePath Life (NZ) Limited statutory fund and the OnePath Insurance Services (NZ) Limited statutory fund into a single statutory fund, by making all policies of the OnePath Insurance Services (NZ) Limited statutory fund referable to the OnePath Life (NZ) Limited statutory fund.

The assets and liabilities amalgamated were as follows:

$ thousands	30/11/2014
Assets	
Cash	4,590
Investments backing insurance contract liabilities	104,552
Trade and other receivables	2,391
Insurance contract assets	60,241
Goodwill and other intangible assets	130,908
Total assets	302,682
Liabilities	
Payables and other liabilities	7,547
Current tax liability	7,079
Insurance contract liabilities-reinsurance	19,251
Deferred tax liability	43,643
Total liabilities	77,520
Net assets amalgamated	225,162
Less: Investment in subsidiary	(167,079)
Amalgamation adjustment recognised in equity	58,083

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Appointed Actuary's Report

To the Directors of OnePath Life (NZ) Limited

This Appointed Actuary's report under Section 78 of the Insurance (Prudential Supervision) Act 2010 (the Act) is prepared in respect of the financial statements of OnePath Life (NZ) Limited (the Company) for the year ended 30 September 2014.

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

My review has been carried out in accordance with the *Solvency Standard for Life Insurance Businesses* issued by the Reserve Bank of New Zealand under section 55 of the Act (the Life Solvency Standard) and with the New Zealand Society of Actuaries' Professional Standards.

In respect of my review, I confirm as follows:

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

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

- (i) Information relating to the Company's calculations of premiums, claims, reserves, dividends, insurance rates, and technical provisions;
- (ii) Information relating to assessments of the probability of uncertain future events occurring and the financial implications for the Company if those events do occur;
- (iii) The Company's Policy Liability, as defined in the Life Solvency Standard;
- (iv) Reinsurance assets relevant to the Policy Liability;
- (v) The deferred tax assets or liabilities relevant to the Policy Liability;
- (vi) The deferred acquisition cost or revenue relevant to the Policy Liability;
- (vii) The analysis of the Company's profit;
- (viii) Any additional assumptions used in the calculation of the Policy Liability;
- (ix) The consistency between the New Zealand Society of Actuaries *Professional Standard 3 "Determination of Life Insurance Policy Liabilities"* and the calculated Policy liability; and
- (x) The Company's checks and controls over data and valuation processes.

(c) Other than my relationship as appointed actuary, I am an employee and customer of ANZ Bank New Zealand Limited, of which the Company is a subsidiary. I do not have any other relationship with, or interests in, the Group.

(d) I have obtained all information and explanations that I have required in order to conduct my review under section 77 of the Act.

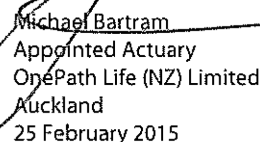
(e) I consider that in my opinion and from an actuarial perspective:

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

(f) I consider that in my opinion and from an actuarial perspective, the Company, as at 30 September 2014, is maintaining a solvency margin that complies with that required under the Life Solvency Standard for the purposes of section 21(2)(b) of the Act.

(g) I consider that in my opinion and from an actuarial perspective as at 30 September 2014, the Company is maintaining solvency margins that comply with those required under the Life Solvency Standard for the purposes of section 21(2)(c).

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



Michael Bartram
Appointed Actuary
OnePath Life (NZ) Limited
Auckland
25 February 2015

Independent auditor's report

To the shareholder of OnePath Life (NZ) Limited

Report on the company and group financial statements

We have audited the accompanying financial statements of OnePath Life (NZ) Limited ("the company") and the group, comprising the company and its subsidiary, on pages 3 to 28. The financial statements comprise the balance sheets as at 30 September 2014, the statements of comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information, for both the company and the group.

Directors' responsibility for the company and group financial statements

The directors are responsible for the preparation of company and group financial statements in accordance with generally accepted accounting practice in New Zealand and International Financial Reporting Standards that give a true and fair view of the matters to which they relate, and for such internal control as the directors determine is necessary to enable the preparation of company and group financial statements that are free from material misstatement whether due to fraud or error.

Auditor's responsibility

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

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

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

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

Opinion

In our opinion the financial statements on pages 3 to 28:

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

Report on other legal and regulatory requirements

In accordance with the requirements of sections 16(1)(d) and 16(1)(e) of the Financial Reporting Act 1993, we report that:

- we have obtained all the information and explanations that we have required; and
- in our opinion, proper accounting records have been kept by OnePath Life (NZ) Limited as far as appears from our examination of those records.

25 February 2015
Auckland