OnePath Life (NZ) Limited Annual Report

FOR THE YEAR ENDED 30 SEPTEMBER 2015

Annual Report

For the year ended 30 September 2015

Contents

Annual Report

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

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

Signed for and on behalf of the Board of Directors:

Director
15 December 2015

Director
15 December 2015

Financial Strength Rating Information

As at 15 December 2015 the Company 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 Company adheres to the mandatory requirements of the Reserve Bank of New Zealand (RBNZ) Governance Guidelines (the Guidelines) for licensed insurers issued under the Insurance (Prudential Supervision) Act 2010 and endeavours to embrace non-mandatory governance guidelines or recommendations of the RBNZ and other relevant bodies.

Board of Directors

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

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

Board members as at 15 December 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 Company's Constitution and its Board Charter. The Board Charter describes the Board's role, powers, responsibilities and relationship with management.

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

Committees

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

Statement of Comprehensive Income

$ thousands	Note	Year to 30/09/2015	Year to 30/09/2014
Revenue			
Premium revenue	5	197,851	100,173
Less reinsurance premium expense		(30,229)	(18,196)
Net premium revenue		167,622	81,977
Investment income	6	8,736	3,964
Other operating income	7	6,119	60,066
Total revenue		182,477	146,007
Expenses			
Claims and surrenders	8	77,485	45,727
Less reinsurance recoveries		(27,267)	(17,002)
Net claims expense		50,218	28,725
Change in life insurance contract assets:			
- Effect of changes in discount rates		(45,222)	(22,429)
- Other changes in life insurance contract assets		(28,754)	(24,709)
Net increase in life insurance contract assets	15	(73,976)	(47,138)
Commissions and operating expenses	9	89,118	54,716
Total expenses		65,360	36,303
Profit before income tax		117,117	109,704
Income tax expense	10	27,206	12,848
Profit after income tax	4	89,911	96,856

There are no items of other comprehensive income.

Statement of Changes in Equity

$ thousands	Note	Share capital	Retained earnings	Total equity
As at 1 October 2013		368,701	119,865	488,566
Profit after income tax		-	96,856	96,856
Dividends paid	17	-	(40,000)	(40,000)
As at 30 September 2014		368,701	176,721	545,422
Profit after income tax		-	89,911	89,911
Amalgamation adjustment	16	-	58,083	58,083
Dividends paid	17	-	(100,000)	(100,000)
As at 30 September 2015		368,701	224,715	593,416

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Balance Sheet

$ thousands	Note	30/09/2015	30/09/2014
Assets			
Cash at bank	16	7,299	5,328
Investments backing insurance contract liabilities	11	188,775	133,850
Trade and other receivables	12	11,307	4,963
Current tax asset		-	2,451
Life insurance contract assets	15	552,265	415,860
Investments in subsidiaries	16	-	167,079
Office furniture and equipment		120	13
Goodwill and other intangible assets	13	124,455	-
Total assets		884,221	729,544
Liabilities			
Payables and other liabilities	14	13,920	6,954
Current tax liability		9,037	-
Life insurance contract liabilities - reinsurance	15	107,452	86,013
Deferred tax liability	10	160,396	91,155
Total liabilities		290,805	184,122
Net assets		593,416	545,422
Equity			
Ordinary share capital	17	368,701	368,701
Retained earnings		224,715	176,721
Total equity		593,416	545,422

For and on behalf of the Board of Directors:

Director
15 December 2015

Director
15 December 2015

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Cash Flow Statement

$ thousands	Note	Year to 30/09/2015	Year to 30/09/2014
Cash flows from operating activities			
Premium received		197,769	99,970
Reinsurance premiums paid		(30,212)	(18,448)
Interest received		8,596	4,090
Commission received		6,118	-
Claims, surrenders and maturities paid		(77,485)	(45,727)
Reinsurance recoveries received		23,890	14,703
Commission paid		(33,188)	(21,700)
Operating expenses paid		(50,556)	(34,006)
Tax loss offset received	16	-	11,859
Income taxes refunded / (paid)		2,800	(71)
Net cash flows provided by operating activities	22	47,732	10,670
Cash flows from investing activities			
Change in investments backing insurance contract liabilities		49,768	(32,328)
Purchase of office furniture and equipment		(119)	-
Net cash flows provided by / (used in) investing activities		49,649	(32,328)
Cash flows from financing activities			
Cash transferred on amalgamation	16	4,590	-
Dividend received from subsidiary		-	60,000
Dividends paid		(100,000)	(40,000)
Net cash flows provided by / (used in) financing activities		(95,410)	20,000
Net increase / (decrease) in cash and cash equivalents		1,971	(1,658)
Cash and cash equivalents at beginning of the year		5,328	6,986
Cash and cash equivalents at end of the year		7,299	5,328

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Notes to the Financial Statements

1. Significant Accounting Policies

(a) Basis of preparation

(i) Statement of compliance

These financial statements for OnePath Life (NZ) Limited (the Company) have been prepared in accordance with the requirements of the Companies Act 1993 and the Financial Markets Conduct Act 2013.

These financial statements comply with

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

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

The Company amalgamated with its subsidiary, OnePath Insurance Services (NZ) Limited (OPIS), on 30 November 2014 after obtaining necessary consents and approvals, including from the RBNZ. Consolidated financial statements are no longer required as the Company did not have any subsidiaries at 30 September 2015.

The financial statements for the year ended 30 September 2015 are the individual financial statements of the Company, including the financial position, performance and cash flows of OPIS from the date of amalgamation. The comparative financial statements are for the Company prior to the amalgamation, and therefore exclude OPIS.

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 Company in the year ended 30 September 2015 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 Company'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.

(b) Income recognition

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

(i) Premium income

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

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

(ii) Other income, including fees and commissions

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

(iii) Commission income

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

(iv) Reinsurance contracts

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

(v) Interest income

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

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

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Notes to the Financial Statements

(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 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 Company.

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

Basis of expense apportionment

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

Acquisition expenses

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

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

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

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

Maintenance expenses

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

(d) Income tax

(i) Income tax expense

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

(ii) Current tax

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

(iii) Deferred tax

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

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

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period(s) when the asset and liability giving rise to them are realised or settled, based on tax rates and tax laws that have been

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enacted or substantively enacted by the reporting date. The measurement reflects the tax consequences that would follow from the manner in which the Company, at the reporting date, recovers or settles the carrying amount of its assets and liabilities.

(iv) Offsetting

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

(e) Assets

Financial assets

(i) Investments backing insurance contract assets

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

(ii) Other financial assets

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

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

Non-financial assets

(iii) Goodwill

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

(iv) Other intangible assets

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

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 Company 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 Company also earns a portion of commission income received from third party insurance providers. Management rights that have been assessed as having a definite useful life are amortised on a straight-line basis over the expected useful life, which is between 12 and 20 years.

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

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

(f) Life insurance contract assets

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

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

Determination of life insurance contract assets

Life insurance contract assets are calculated using the MoS methodology in accordance with *Professional Standard 20: Determination of Life Insurance Policy Liabilities* 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

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

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

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

(h) Liabilities

Financial liabilities

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

(i) Equity

(i) Shares

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

(ii) Dividends

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

(j) Presentation

(i) Offsetting of income and expenses

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

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(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.

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) Amalgamations

Amalgamations of a parent and a subsidiary are accounted for using book value accounting. The surviving entity's financial statements use the carrying amounts of the assets and liabilities of the amalgamated entity from the parent's consolidated financial statements. These amounts include any goodwill and specific intangibles recorded at the consolidated level in respect of the amalgamated entity. Any net adjustment on amalgamation is recognised as a movement in retained earnings in the statement of changes in equity.

2. Critical Estimates and Judgements Used in Applying Accounting Policies

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

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

Critical accounting estimates and assumptions

Life insurance contract assets

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

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

Assets arising from reinsurance contracts

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

Critical judgements in applying the Company's accounting policies

Deferred tax

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

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

Management rights

The Company performed an impairment test for management rights where the recoverable amount was based on value in use using cash flow projections and management budgets for a three year period. Key assumptions used in the calculation are the discount rate of 11.6%, long term revenue growth rate of 3% and the cost to income ratio of 37%. 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

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experience. The recoverable amount was greater than the book value for the management rights and no impairment has been recognised.

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

Goodwill

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

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

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

The recoverable amount is based on value in use calculations. The appraisal value methodology employed in assessing excess market value over net tangible assets of the cash generating unit is deemed by management to be an appropriate proxy for determining value in use. These calculations use discounted expected future cash flow projections based on the in-force book of business sold post acquisition (representing Value in Force) and a multiplier for future new business sales (representing Value of New Business). Cash flow projections cover a maximum period of 70 years, so that they are consistent with the actuarial model and assumptions used for the policyholder liability valuation (refer 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 2015, a discount rate of 9.0% was applied. The main variables in the calculation of the discount rate used are the risk free rate, the beta rate and the market risk premium. The risk free rate is based on the 10 year Government Bond Rate. The beta rate and the market risk premium are consistent with observable and comparative market rates applied in the regional insurance sector.

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

VOBA

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

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

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

These cash flow projections are discounted using a capital asset pricing model. As at 30 September 2015, a discount rate of 9.0% was applied. The main variables in the calculation of the discount rate used are the risk free rate, the beta rate and the market risk premium. The risk free rate is based on the 10 year government bond rate. The beta rate and the market risk premium are consistent with observable and comparative market rates applied in the regional insurance sector.

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

3. Summary of Significant Actuarial Methods and Assumptions

The actuarial reports on life insurance contract assets / liabilities and solvency reserves for the current reporting period were prepared as at 30 September 2015. The actuary who prepared the reports for the Company was Michael Bartram, BSc. (Hons), FIAA, FNZSA, who is a Fellow of the Institute of Actuaries of Australia and a Fellow of the New Zealand Society of Actuaries.

The amount of life insurance contract assets / liabilities has been determined in accordance with *Professional Standard 20: 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.

Notes to the Financial Statements

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 2.4% to 4.2% (2014: 3.8% to 4.9%).

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% (2014: 1% to 3%). The rate assumed is 2% pa (2014: 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 (2014: no additional reserve).

Rates of taxation

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

Mortality and morbidity

Projected future rates of mortality for insured lives range from 60% to 650% (2014: 60% to 160%) 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 IAD89-93 tables, entity and industry 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 2% and 56% (2014: between 6% and 50%).

Surrender values

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

Participating business

The Company does not issue participating business.

Solvency requirement

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

Impact of changes in assumptions

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

Notes to the Financial Statements

Impact of changes in assumptions increase / (decrease)

$ thousands	Change in future profit margins	Change in insurance contract liabilities	Change in shareholder's profit & equity
30/09/2015			
Mortality and morbidity	**4,580**	**-**	**-**
Discontinuance rates	**(120,735)**	**-**	**-**
Maintenance expenses	**(15,181)**	**-**	**-**
Other assumptions	**277,378**	**-**	**-**
Total	**146,042**	**-**	**-**
30/09/2014			
Mortality and morbidity	(18,249)	1,634	(1,177)
Discontinuance rates	(9,711)	(690)	497
Maintenance expenses	19,191	-	-
Other assumptions	7,101	(959)	690
Total	(1,668)	(15)	10

4. Sources of Profit

$ thousands	Year to 30/09/2015	Year to 30/09/2014
Life Insurance		
Planned margins of revenues over expenses	**41,093**	14,592
Difference between actual and assumed experience	**9,723**	3,406
Effects of changes in underlying assumptions	**31,805**	16,004
	82,621	34,002
Investment earnings on assets in excess of policy liabilities	**6,290**	2,854
Other revenue / expenses		
Dividend received from subsidiary	**-**	60,000
Business valued on accumulation basis	**1,241**	-
Inwards commission	**4,405**	-
Amortisation of management rights	**(889)**	-
Amortisation of value of business acquired (VOBA)	**(3,757)**	-
	1,000	60,000
Profit after income tax	**89,911**	96,856

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

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Notes to the Financial Statements

5. Premium Revenue

$ thousands	Year to 30/09/2015	Year to 30/09/2014
Single premiums	4,591	-
Regular premiums	193,260	100,173
Total premium revenue	197,851	100,173

6. Investment Income

$ thousands	Year to 30/09/2015	Year to 30/09/2014
Interest income from:		
- Cash at bank	356	158
- Debt securities and bank deposits at fair value through profit or loss	8,239	3,866
Total interest income	8,595	4,024
Net gain / (loss) on financial assets at fair value through profit or loss	141	(60)
Total investment income	8,736	3,964

7. Other Operating Income

$ thousands	Year to 30/09/2015	Year to 30/09/2014
Commission income	6,118	-
Dividend received from subsidiary	-	60,000
Use of money interest	1	66
Total other operating income	6,119	60,066

8. Claims and Surrenders

$ thousands	Year to 30/09/2015	Year to 30/09/2014
Death and disability	75,475	45,727
Surrenders	2,010	-
Claims and surrenders	77,485	45,727

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Notes to the Financial Statements

9. Commissions and Operating Expenses

$ thousands	Note	Year to 30/09/2015	Year to 30/09/2014
Acquisition costs			
Commissions		19,327	13,021
Operating expenses		29,509	18,694
Total acquisition costs		48,836	31,715
Maintenance costs			
Commissions		14,156	8,899
Operating expenses		19,673	14,102
Total maintenance costs		33,829	23,001
Amortisation of management rights and VOBA		6,453	-
Total commissions and operating expenses		89,118	54,716
Operating expenses includes the following specific items:			
Personnel costs		560	3,427
Operating expenses recharged by related parties	16	43,326	25,368
Depreciation		12	22
Amortisation of intangible assets	13	6,453	22
Travel and accommodation		238	175
Printing, postage and stationery		1,262	676
Other operating expenses		3,784	3,106
		55,635	32,796

All costs are associated with life insurance contracts. During the year ended 30 September 2014, certain functions performed by the Company were transferred to ANZ Bank New Zealand Limited (ANZ Bank). This resulted in a decrease in personnel costs, as staff performing these services are no longer employed by the Company. Operating expenses recharged by related parties increased for the cost of services that are now provided by ANZ Bank to the Company.

$ thousands	Year to 30/09/2015	Year to 30/09/2014
Fees paid to principal auditor (KPMG New Zealand)		
Audit of financial statements	339	181
Other services - review of solvency returns	37	56
Other services - agreed upon procedures	10	-
Total fees paid to auditor	386	237

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

Notes to the Financial Statements

10. Income Tax

$ thousands	Note	Year to 30/09/2015	Year to 30/09/2014
Reconciliation of the prima facie income tax payable on profit			
Profit before income tax		117,117	109,704
Prima facie income tax at 28%		32,793	30,717
Non-deductible / (non-assessable) policyholder income and expenses		(1,054)	408
Non-assessable dividend from subsidiary		-	(16,800)
Effect of pre - 2010 life tax regime		(4,651)	(2,370)
Other non-deductible expenses		115	106
Income tax under / (over) provided in prior years		3	787
Total income tax expense		27,206	12,848
Total income tax expense comprises:			
Current tax		8,098	(2,450)
Prior period adjustment - current tax		(6,490)	181
Prior period adjustment - tax loss offsets utilised by subsidiary	16	-	(6,366)
Deferred tax		25,598	21,483
Total income tax expense		27,206	12,848

Deferred tax comprises the following temporary differences:	Deferred tax asset / (liability)		Deferred tax expense /(credit)	
	30/09/2015	30/09/2014	Year to 30/09/2015	Year to 30/09/2014
Provisions and accruals	352	619	310	284
Carried forward losses	-	8,997	8,997	6,595
Other deferred tax assets	774	410	(101)	224
Life insurance contract assets, net of reinsurance	(146,415)	(101,181)	18,199	14,380
VOBA	(12,804)	-	(1,461)	-
Management rights	(2,303)	-	(346)	-
Total[1]	(160,396)	(91,155)	25,598	21,483

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

The Company is part of a wholly owned group of companies and may receive the benefit of tax losses by way of a tax loss offset, for which compensation will be paid to another member of the ANZ Holdings (New Zealand) Limited group. The Company is a member of an imputation group and can access imputation credits of $2,882 million (2014: $2,224 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 lasted 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.

Notes to the Financial Statements

11. Investments Backing Insurance Contract Liabilities

$ thousands	30/09/2015	30/09/2014
Bank deposits	181,536	132,809
New Zealand Government securities	2,521	1,041
Corporate bonds	4,718	-
Total investments backing insurance contract liabilities	188,775	133,850
Maturity analysis:		
- Less than one year	184,046	133,850
- Two years to five years	4,729	-
Total investments backing insurance contract liabilities	188,775	133,850

12. Trade and Other Receivables

$ thousands	30/09/2015	30/09/2014
Outstanding premiums	1,633	867
Amounts due from reinsurers	8,465	4,550
Other receivables	2,258	668
Provision for doubtful debts	(1,049)	(1,122)
Total trade and other receivables	11,307	4,963

The Company has no material trade and other receivables that are past due and not impaired (2014: none material).

Movement in provision for doubtful debts

$ thousands	30/09/2015	30/09/2014
Balance at beginning of the year	1,122	1,122
Transferred on amalgamation	94	-
Bad debts written off	(167)	-
Balance at end of the year	1,049	1,122

Notes to the Financial Statements

13. Intangible Assets

$ thousands	30/09/2015 Cost	30/09/2015 Accumulated amortisation and impairment	30/09/2015 Carrying amount	30/09/2014 Cost	30/09/2014 Accumulated amortisation and impairment	30/09/2014 Carrying amount
Goodwill	75,726	(5,226)	70,500	-	-	-
VOBA	93,000	(47,271)	45,729	-	-	-
Management rights	20,861	(12,635)	8,226	-	-	-
Computer software	7,783	(7,783)	-	6,358	(6,358)	-
Total goodwill and other intangible assets	197,370	(72,915)	124,455	6,358	(6,358)	-

Movement analysis

$ thousands	Note	Goodwill	VOBA	Management rights	Computer software	Total
Carrying amount at 1 October 2014		-	-	-	-	-
Transferred in on amalgamation	16	70,500	50,947	9,461	-	130,908
Amortisation	9	-	(5,218)	(1,235)	-	(6,453)
Carrying amount at 30 September 2015		70,500	45,729	8,226	-	124,455

Goodwill and VOBA relate to the acquisition and subsequent amalgamation of OPIS. Refer to note 2 for details of impairment testing of goodwill, VOBA and management rights. The remaining amortisation period of VOBA is 13 years (2014: 14 years), and 6.5 years (2014: 7.5 years) for management rights.

14. Payables and Other Liabilities

$ thousands	Note	30/09/2015	30/09/2014
Creditors		1,313	138
Due to reinsurers		3,239	2,548
Due to related parties	16	7,443	3,020
Accrued charges		1,156	377
Employee annual and long service leave		9	8
Other liabilities		760	863
Total payables and other liabilities		13,920	6,954

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

Notes to the Financial Statements

15. Life Insurance Contract Assets / (Liabilities)

Net life insurance contract assets contain the following components:

$ thousands	30/09/2015	30/09/2014
Future premiums	2,283,931	1,051,347
Future policy benefits	(829,554)	(407,514)
Future expenses	(283,897)	(211,025)
Planned margins of revenues over expenses	(725,667)	(102,961)
Total life insurance contract assets, net of reinsurance	444,813	329,847
Estimated discounted net cash inflows from life insurance contract assets:		
- Less than one year	28,520	23,588
- One year to five years	85,132	71,580
- Later than five years	331,161	234,679
Total net life insurance contract assets future net cash inflows	444,813	329,847

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	Note	30/09/2015	30/09/2014
Life insurance contract assets			
Opening balance		415,860	363,876
Transferred in on amalgamation	16	60,241	-
Recognised in statement of comprehensive income		76,164	51,984
Closing balance		552,265	415,860
Of which:			
Current		33,127	27,659
Non-current		519,138	388,201
Life insurance contract liabilities - reinsurance			
Opening balance		86,013	81,167
Transferred in on amalgamation	16	19,251	-
Recognised in statement of comprehensive income		2,188	4,846
Closing balance		107,452	86,013
Of which:			
Current		4,607	4,071
Non-current		102,845	81,942

Notes to the Financial Statements

16. Related Party Transactions

Key management personnel compensation

$ thousands	Year to 30/09/2015	Year to 30/09/2014
Salaries and short-term employee benefits	-	65
Directors' fees	98	92
Termination benefits	-	431
Total compensation of key management personnel	98	588

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

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

Other transactions with related parties

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

The Company was a wholly owned subsidiary of OnePath Insurance Holdings (NZ) Limited until 30 September 2014 when OnePath Insurance Holdings (NZ) Limited amalgamated with its immediate parent company ANZ Wealth New Zealand Limited.

$ thousands	Year to 30/09/2015	Year to 30/09/2014
ANZ Bank		
Interest income	1,648	860
Commission expense	10,537	-
Operating expenses	43,326	25,368
Tax losses utilised by other ANZ Bank subsidiaries	-	5,493
Immediate Parent		
Dividend paid	100,000	40,000
Subsidiary		
Dividend income	-	60,000
Tax losses utilised by subsidiary	-	6,366

Balances with related parties

$ thousands	30/09/2015	30/09/2014
ANZ Bank		
Cash at bank	7,299	5,328
Investments backing insurance contract liabilities	37,283	23,864
Subsidiary		
Investment in subsidiary	-	167,079
Total due from related parties	44,582	196,271
Due to ANZ Bank	6,229	2,317
Due to other ANZ Bank subsidiaries	1,214	703
Total due to related parties	7,443	3,020

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

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Notes to the Financial Statements

Amalgamation with subsidiary

As noted in Note 1(i), the Company amalgamated with its wholly owned subsidiary, OPIS, on 30 November 2014.

The assets and liabilities amalgamated comprised:

$ thousands	Note	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	13	130,908
Total assets		302,682
Liabilities		
Payables and other liabilities		7,546
Current tax liability		7,080
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

17. Ordinary Share Capital

The Company's share capital comprises 329,685,311 fully paid ordinary shares (2014: 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 Company.

During the year ended 30 September 2015 the Company paid a dividend of $100 million to the Immediate Parent Company (equivalent to $0.30 per share) (2014: $40 million, equivalent to $0.12 per share).

18. Capital Management

Capital management policies

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

During the year ended 30 September 2015, the Company has complied with all externally imposed capital requirements.

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

Notes to the Financial Statements

Solvency requirements and statutory funds

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

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

$ thousands	Statutory fund	30/09/2015 Non-statutory fund	Total	Statutory fund	30/09/2014 Non-statutory fund	Total
Summary Income Statement information						
Premium revenue	188,795	9,056	197,851	91,502	8,671	100,173
Investment revenue	7,294	1,442	8,736	3,235	729	3,964
Claims expense	(71,594)	(5,891)	(77,485)	(40,311)	(5,416)	(45,727)
All other net income / (net expense)	(9,239)	(2,746)	(11,985)	(8,943)	60,237	51,294
Profit before income tax	115,256	1,861	117,117	45,483	64,221	109,704
Profit after income tax	88,573	1,338	89,911	33,830	63,026	96,856
Summary Balance Sheet information						
Assets						
Investments backing insurance policy liabilities	175,823	20,251	196,074	108,046	31,132	139,178
Life insurance contract assets	541,371	10,894	552,265	407,211	8,649	415,860
All other assets	11,286	124,596	135,882	7,883	166,623	174,506
Total assets	728,480	155,741	884,221	523,140	206,404	729,544
Liabilities						
Life insurance contract liabilities - reinsurance	107,452	-	107,452	86,013	-	86,013
All other liabilities	161,817	21,536	183,353	94,719	3,390	98,109
Total liabilities	269,269	21,536	290,805	180,732	3,390	184,122
Equity						
Share capital	191,134	177,567	368,701	191,134	177,567	368,701
Retained earnings	268,077	(43,362)	224,715	151,274	25,447	176,721
Total equity	459,211	134,205	593,416	342,408	203,014	545,422
Other items						
Dividends paid	(75,000)	(25,000)	(100,000)	-	(40,000)	(40,000)
Net assets / (liabilities) transferred on amalgamation	103,230	(45,147)	58,083	-	-	-
Solvency						
Actual solvency capital	458,085	24,858	482,943	329,532	36,334	365,866
Minimum solvency capital	384,296	11,427	395,723	267,679	11,447	279,126
Solvency margin	73,789	13,431	87,220	61,853	24,887	86,740

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

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Notes to the Financial Statements

19. Financial Risk Management

Strategy in using financial instruments

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

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

Credit risk

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

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

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

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

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

Concentrations of credit risk

	Credit Rating	30/09/2015	30/09/2014
ANZ Bank New Zealand Limited	A-1+	21.5%	19.6%
ASB Bank Limited	A-1+	14.1%	15.4%
Bank of New Zealand Limited	A-1+	14.4%	15.8%
The Hongkong and Shanghai Banking Corporation Limited	A-1+	9.7%	8.3%
Kiwibank Limited	A-1	8.4%	4.2%
New Zealand Government	A-1+	1.2%	0.7%
Rabobank New Zealand Limited	A-1	8.1%	14.2%
Westpac New Zealand Limited	A-1+	14.6%	15.1%

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

	30/09/2015	30/09/2014
Cigna Life Insurance New Zealand Limited	A-	A-
General Reinsurance Life Australia Limited	AA+	AA+
Hannover Life Re of Australasia Limited	AA-	AA-
Munich Reinsurance Company of Australasia Limited	AA-	AA-
RGA Reinsurance Company of Australia Limited	AA-	AA-
SCOR Global Life SE	AA-	A+
Swiss Re Life & Health Australia Limited	AA-	AA-

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Notes to the Financial Statements

Market risk

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

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

Interest rate risk

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

The Company has established limits on investments in interest-bearing assets, which are monitored on a daily basis. The following table summarises the sensitivity of the Company's life insurance contract 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% (2014: 1%), with all other variables held constant. This represents a best estimate of a reasonable shift in the interest rates, with regard to historical volatility of those rates. The balances shown provide the impact on both profit after tax and equity. The effect of a similar movement in interest rates on investments backing insurance contract liabilities is not material.

	30/09/2015		30/09/2014	
$ thousands	+ 1%	- 1%	+ 1%	- 1%
Life insurance contract assets, net of reinsurance	(38,282)	48,639	(22,074)	(27,248)

Liquidity risk

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

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

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 Company's life insurance business is reviewed regularly.

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

Insurance risk management strategy

The Company's objectives in managing risks arising from the insurance business are:
(i) To ensure risk appetite decisions are made within the context of corporate goals and governance structures;
(ii) To ensure that an appropriate return on capital is made in return for accepting insurance risk;
(iii) To ensure that strong internal controls embed underwriting for risk within the business;
(iv) To ensure that internal and external solvency and capital requirements are met; 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 Company's ability to pay benefits and claims when due. The strategy involves the identification of risks by type, impact and likelihood, the implementation of processes and controls to mitigate the risks, and continuous monitoring and improvement of the procedures in place to minimise the chance of an adverse compliance or operational risk event occurring.

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

Methods to limit or transfer insurance risk exposures

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

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

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

Concentrations of insurance risk

Concentrations of insurance risk arise due to:

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

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Notes to the Financial Statements

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)	30/09/2015 Sum Insured	30/09/2015 Sum Reinsured	30/09/2014 Sum Insured	30/09/2014 Sum Reinsured
Company				
Life[1]	43,110	18,979	18,543	10,789
Trauma / Total Permanent Disablement [1, 3]	10,499	4,322	6,663	3,744
Other income cover[2]	297	84	176	92
Total	53,906	23,385	25,382	14,625

1 Aggregate sum insured is the aggregate of all lump sums payable under this benefit category.
2 Aggregate sum insured is the aggregate of the monthly benefits payable under replacement income benefit categories.
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	30/09/2015 Before reinsurance	30/09/2015 After reinsurance	30/09/2014 Before reinsurance	30/09/2014 After reinsurance
Change in mortality and morbidity	+10%	-	-	(1,388)	(140)
	-10%	-	-	-	-
Change in lapse rates	+10%	-	-	(2,314)	(2,161)
	-10%	-	-	-	-

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

- New Zealand Government securities are valued using quoted yields for the specific securities (Level 1).
- Bank deposits and corporate bonds are valued using discounted techniques 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).

During the year, bank deposits of $82 million were reclassified from Level 1 to Level 2 following a reassessment of available pricing information. Transfers into and out of Level 1 and Level 2 are deemed to have occurred as of the beginning of the reporting period in which the transfer occurred.

22. Notes to the Cash Flow Statement

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

$ thousands	Note	Year to 30/09/2015	Year to 30/09/2014
Profit after income tax		89,911	96,856
Non-cash items:			
Depreciation and amortisation	9	6,465	44
Unrealised gains / (losses) on securities		(141)	60
Deferrals or accruals of past or future operating cash receipts or payments:			
Change in trade and other receivables		(3,953)	(1,496)
Change in payables and other liabilities		(580)	(2,292)
Change in life insurance contract assets, net of reinsurance		(73,976)	(47,138)
Change in income tax assets and liabilities		30,006	24,636
Items classified as investing / financing:			
Dividends from subsidiary		-	(60,000)
Net cash flows provided by operating activities		47,732	10,670

23. Contingent Liabilities

The Company has a contingent liability with respect to potential legacy issues which may arise from time to time. An assessment of the likely loss in respect of such matters is made on a case-by-case basis and provision made where necessary. At the date of approval of these financial statements, it is not practicable to make an assessment of the likely loss.

24. Subsequent Events

On 1 December 2015, the Company sold its medical insurance business. This business comprised life insurance contract assets of $29 million, which were considered to be held for sale as at 30 September 2015. The Company estimates a net loss after tax of $0.8 million from this sale.

Appointed Actuary's Report

To the Directors of OnePath Life (NZ) Limited

This Appointed Actuary's report under Section 78 of the Insurance (Prudential Supervision) Act 2010 (IPSA) is prepared in respect of the financial statements of OnePath Life (NZ) Limited (the Company) for the year ended 30 September 2015.

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

My review has been carried out in accordance with the *Solvency Standard for Life Insurance Businesses 2014* issued by the Reserve Bank of New Zealand under section 55 of IPSA (the 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 IPSA, and that I have prepared this report.

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

- (i) Information relating to the Company's calculations of premiums, claims, reserves, dividends, insurance rates, and technical provisions;
- (ii) Information relating to assessments of the probability of uncertain future events occurring and the financial implications for the Company if those events do occur;
- (iii) The Company's Policy Liability, as defined in the Solvency Standard;
- (iv) 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 20 "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 (ANZ Bank), of which the Company is a subsidiary. I have a small number of shares in ANZ Bank, as part of an employee share scheme.

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

(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 2015, is maintaining a solvency margin that complies with that required under the Solvency Standard for the purposes of section 21(2)(b) of IPSA.

(g) I consider that in my opinion and from an actuarial perspective as at 30 September 2015, the Company is maintaining solvency margins that comply with those required under the 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 IPSA. To the fullest extent permitted by law, I do not accept responsibility to anyone other than the Reserve Bank of New Zealand, the Company, its board and shareholder for the contents of this report.

Michael Bartram
Appointed Actuary
OnePath Life (NZ) Limited
Auckland
15 December 2015

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Independent auditor's report

To the shareholder of OnePath Life (NZ) Limited

We have audited the accompanying financial statements of OnePath Life (NZ) Limited ("the company") on pages 3 to 27. The financial statements comprise the balance sheet as at 30 September 2015, 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.

Directors' responsibility for the financial statements

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

Auditor's responsibility

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

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

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

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

Opinion

In our opinion, the financial statements on pages 3 to 27 comply with generally accepted accounting practice in New Zealand and present fairly, in all material respects, the financial position of OnePath Life (NZ) Limited as at 30 September 2015 and its financial performance and cash flows for the year then ended in accordance with New Zealand Equivalents to International Financial Reporting Standards and International Financial Reporting Standards.

KPMG

15 December 2015
Auckland