ONEPATH LIFE (NZ) LIMITED
ANNUAL REPORT

FOR THE YEAR ENDED 30 SEPTEMBER 2017

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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.

Accordingly, there is no information to be provided in this Annual Report other than the financial statements for the year ended 30 September 2017 and the audit report on those financial statements.

Signed for and on behalf of the Board of Directors:

Anne Urlwin	Craig Mulholland
Director	Director
22 November 2017	22 November 2017

Financial Strength Rating Information

As at 22 November 2017 the Company has an "A+" 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 financial security characteristics, differing only slightly from those rated higher.	AA
Strong financial security characteristics but somewhat more likely to be affected by adverse business conditions than insurers with higher ratings.	A
Marginal financial security characteristics. Positive attributes exist, but adverse business conditions could lead to insufficient ability to meet financial commitments.	BBB
Significant uncertainties exist which could lead to insufficient ability to meet its financial commitments.	BB
Weak financial security characteristics. Adverse business conditions will likely impair ability to meet financial commitments.	B
Very weak financial security characteristics and dependent on favorable business conditions to meet financial commitments.	CCC
Extremely weak financial security and is likely not able to meet some of its financial commitments.	CC
Under regulatory supervision.	R
In default on one or more insurance policy obligations but not under regulatory supervision that would involve a rating of 'R'	SD or D

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.

Board members as at 22 November 2017 are:

Anne June Urlwin

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

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.

Craig Andrew Mulholland

BCom, LLB, LLM (Hons), MBA
Managing Director, Wealth

Mr Mulholland is responsible for ANZ Bank New Zealand Limited's (ANZ Bank) Wealth team, which includes ANZ Bank's funds management and insurance businesses. Mr Mulholland has more than 25 years' experience in commercial and legal roles across a range of industries in New Zealand and overseas.

Gavin Murray Pearce

BSc, FIA
Non-Executive Director

Mr Pearce is Managing Director, Insurance, 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.

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

	Note	Year to 30/09/2017 $000	Year to 30/09/2016 $000
Revenue			
Premium revenue	5	199,647	202,454
Less reinsurance premium expense		(34,603)	(33,985)
Net premium revenue		165,044	168,469
Investment income	6	4,679	6,313
Commission income		3,608	7,847
Total revenue		173,331	182,629
Expenses			
Claims and surrenders	7	61,147	67,688
Less reinsurance recoveries		(22,157)	(22,094)
Net claims expense		38,990	45,594
Change in life insurance contract assets:			
- Effect of changes in discount rates		36,146	(59,723)
- Other changes in life insurance contract assets		(18,987)	(26,769)
Net decrease / (increase) in life insurance contract assets	14	17,159	(86,492)
Commissions and operating expenses	8	75,430	85,512
Loss on sale of medical insurance policies		-	9,208
Total expenses		131,579	53,822
Profit before income tax		41,752	128,807
Income tax expense	9	9,469	25,832
Profit after income tax	4	32,283	102,975

There are no items of other comprehensive income.

STATEMENT OF CHANGES IN EQUITY

	Note	Share capital $000	Retained earnings $000	Total equity $000
As at 1 October 2015		368,701	224,715	593,416
Profit after income tax		-	102,975	102,975
Dividends paid	15	-	(100,000)	(100,000)
As at 30 September 2016		368,701	227,690	596,391
Profit after income tax		-	32,283	32,283
Dividends paid	15	-	(50,000)	(50,000)
As at 30 September 2017		368,701	209,973	578,674

BALANCE SHEET

	Note	30/09/2017 $000	30/09/2016 $000
Assets			
Cash at bank	19	11,692	17,301
Investments backing insurance contract liabilities	10	159,129	154,314
Trade and other receivables	11	8,950	6,988
Life insurance contract assets	14	635,702	630,190
Office furniture and equipment		-	1
Goodwill and other intangible assets	12	105,274	117,190
Total assets		920,747	925,984
Liabilities			
Payables and other liabilities	13	10,085	14,114
Provisions		560	1,387
Current tax liability		17,868	15,729
Life insurance contract liabilities - reinsurance	14	150,445	127,774
Deferred tax liability	9	163,115	170,589
Total liabilities		342,073	329,593
Net assets		578,674	596,391
Equity			
Ordinary share capital	15	368,701	368,701
Retained earnings		209,973	227,690
Total equity		578,674	596,391

For and on behalf of the Board of Directors:

Anne Urlwin
Director
22 November 2017

Craig Mulholland
Director
22 November 2017

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CASH FLOW STATEMENT

	Note	Year to 30/09/2017 $000	Year to 30/09/2016 $000
Cash flows from operating activities			
Premium received		199,604	202,648
Reinsurance premiums paid		(34,974)	(33,923)
Interest received		4,347	6,532
Commission received		3,608	7,847
Claims, surrenders and maturities paid		(61,147)	(67,688)
Reinsurance recoveries received		19,743	26,632
Commission paid		(20,759)	(28,244)
Operating expenses paid		(52,749)	(52,197)
Income tax paid		(14,804)	(8,947)
Net cash flows provided by operating activities		42,869	52,660
Cash flows from investing activities			
Change in investments backing insurance contract liabilities		(4,483)	34,242
Proceeds from sale of medical insurance policies		-	23,100
Proceeds from sale of management rights	19	6,005	-
Net cash flows provided by investing activities		1,522	57,342
Cash flows from financing activities			
Dividends paid		(50,000)	(100,000)
Net cash flows used in financing activities		(50,000)	(100,000)
Net increase / (decrease) in cash and cash equivalents		(5,609)	10,002
Cash and cash equivalents at beginning of the year		17,301	7,299
Cash and cash equivalents at end of the year		11,692	17,301

Reconciliation of profit after income tax to net cash flows provided by operating activities

	Year to 30/09/2017 $000	Year to 30/09/2016 $000
Profit after income tax	32,283	102,975
Non-cash items:		
Depreciation and amortisation	5,912	7,384
Fair value losses	187	3
Deferrals or accruals of past or future operating cash receipts or payments:		
Change in trade and other receivables	(1,962)	4,319
Change in payables and other liabilities	(4,856)	1,581
Change in life insurance contract assets, net of reinsurance	17,159	(57,603)
Change in income tax assets and liabilities	(5,335)	16,885
Change in accrued interest receivable on investments backing insurance contract liabilities	(519)	216
Items classified as investing / financing:		
Proceeds from sale of medical insurance policies	-	(23,100)
Net cash flows provided by operating activities	42,869	52,660

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 Financial Markets Conduct Act 2013, and 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 for-profit entities
- International Financial Reporting Standards (IFRS).

The Company is incorporated 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 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
- life insurance contract assets and liabilities measured using Margin on Services (MoS) principles.

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

There have been no changes in accounting policies or early adoption of accounting standards in the preparation and presentation of the financial statements.

(v) Presentation currency and rounding

The amounts contained in the financial statements have been presented in thousands of New Zealand dollars unless otherwise stated. The functional currency of the Company is New Zealand dollars.

(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.

(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.

NOTES TO THE FINANCIAL STATEMENTS

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 Value of Business Acquired (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 expense comprises both current and deferred taxes and is based on the accounting profit adjusted for differences in the accounting and tax treatments of income and expenses (that is, taxable income). Tax expense is recognised in profit or loss.

(ii) Current tax

Current tax is the tax payable on taxable income for the year, based on tax rates (and tax laws) which are enacted at the reporting date. Current tax 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 balance sheet method. Deferred tax arises because the accounting income is not always the same as the taxable income. This creates temporary differences, which usually reverse over time. Until they reverse, a deferred tax asset, or liability, is recognised on the balance sheet. Deferred taxes are measured at the tax rates that we expect will apply to the period(s) when the asset is realised, or the liability settled, based on tax rates (and tax laws) that have been enacted or substantially enacted at the reporting date.

(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.

NOTES TO THE FINANCIAL STATEMENTS

(iv) Other intangible assets

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

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.

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* (PS20) of the New Zealand Society of Actuaries (NZSA), except that amounts have been calculated gross of tax with a separate liability held for the effects of associated deferred tax in accordance with NZ IAS 12 *Income Taxes*.

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 absorbed within the future value of profit margins, but, instead, 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.

NOTES TO THE FINANCIAL STATEMENTS

Term and other liabilities

Term and other liabilities are recognised in the balance sheet as the present value of future cash outflows plus planned profit margin.

(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 either of 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
- 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
- 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 excluding the amount of goods and services tax (GST) recoverable from the Inland Revenue Department (IRD). Receivables and payables are stated with the amount of GST included. The net amount of GST payable to the IRD is included in payables and other liabilities in the balance sheet.

Cash flows are included in the cash flow statement excluding non-recoverable GST, with the net amount of GST paid to the IRD included in operating expenses paid.

(k) Accounting Standards not early adopted

NZ IFRS 9 *Financial Instruments* (NZ IFRS 9)

NZ IFRS 9 was issued in September 2014. When operative, this standard will replace NZ IAS 39 *Financial Instruments: Recognition and Measurement* (NZ IAS 139) and includes requirements for impairment, classification and measurement and general hedge accounting.

NZ IFRS 9 has a date of initial application for the Company of 1 October 2018 and, based on the financial instruments on the Company's balance sheet as at 30 September 2017, there will not be any change to the recognition and measurement of the Company's financial instruments.

NZ IFRS 16 *Leases* (NZ IFRS 16)

The final version of NZ IFRS 16 was issued in February 2016 and is not effective for the Company until 1 October 2019. NZ IFRS 16 requires a lessee to recognise its right to use the underlying leased asset, as a right-of-use asset and obligation to make lease payments as a lease liability.

There is not expected to be any impact on the Company's financial statements because, as at 30 September 2017, the Company does not have any contracts that would be classified as long term leases under NZ IFRS 16.

NZ IFRS 17 *Insurance Contracts* (NZ IFRS 17)

The final version of NZ IFRS 17 was issued in August 2017 and is not effective for the Company until 1 October 2021. NZ IFRS 17 establishes principles for the recognition, measurement, presentation and disclosure of insurance contracts.

The measurement, presentation and disclosure requirements under NZ IFRS 17 are significantly different from current accounting standards. Although the overall profit recognised in respect of insurance contracts will not change, it is expected that the timing of profit recognition will change. The Company is not yet able to reasonably estimate the impact of NZ IFRS 17 on its financial statements.

NOTES TO THE FINANCIAL STATEMENTS

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.

Goodwill

Refer to note 12 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 to 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 2017, a discount rate of 8.67% 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.

NOTES TO THE FINANCIAL STATEMENTS

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 to note 3).

These cash flow projections are discounted using a capital asset pricing model. As at 30 September 2017, a discount rate of 8.67% 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.

The Company adjusted the amortisation profile for VOBA during the year ended 30 September 2017 to extend the remaining amortisation period by nine months such that VOBA will be amortised over a full 20 years after the acquisition to which the VOBA related, and to better reflect the expected pattern of consumption of the future economic benefits from the VOBA. This change reduced the VOBA amortisation expense for the year ended 30 September 2017, and increased the amount of amortisation to be recognised in future periods, by $0.3 million.

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 2017. 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 NZSA.

The amount of life insurance contract assets / liabilities has been determined in accordance with PS20 of the NZSA, except that amounts have been calculated gross of tax with a separate liability held for the effects of associated deferred tax in accordance with NZ IAS 12 *Income Taxes* while noting that PS20 is currently being reviewed by the 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.

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 1.8% to 3.7% (2016: 1.8% to 3.4%).

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% (2016: 1% to 3%). The rate assumed is 2% pa (2016: 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 benefit 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 (2016: 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 50% to 270% (2016: 65% to 650%) 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.

NOTES TO THE FINANCIAL STATEMENTS

Rates of discontinuance

Long-term discontinuance rates are based on recent company analysis and vary by product, duration in force and age of insured, taking into account market conditions and internal strategies. The assumed rates of discontinuance are between 1% and 37% (2016: between 2% and 40%).

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:

Impact of changes in assumptions	**Change in future profit margins**	**Change in insurance contract liabilities**	**Change in shareholder's profit & equity**
increase / (decrease)	**$000**	**$000**	**$000**
30/09/2017			
Mortality and morbidity	142,435	-	-
Discontinuance rates	(98,711)	-	-
Maintenance expenses	4,008	-	-
Other assumptions	(74,082)	-	-
Total	(26,350)	-	-
30/09/2016			
Mortality and morbidity	(6,948)	-	-
Discontinuance rates	(53,742)	-	-
Maintenance expenses	1,974	-	-
Other assumptions	78,231	-	-
Total	19,515	-	-

4. SOURCES OF PROFIT

	Year to 30/09/2017 $000	**Year to 30/09/2016 $000**
Life Insurance		
Planned margins of revenues over expenses	46,155	47,114
Difference between actual and assumed experience	8,604	7,891
Effects of changes in underlying assumptions	(25,412)	42,087
	29,347	97,092
Investment earnings on assets in excess of policy liabilities	3,368	4,545
Other revenue / (expenses)		
Business valued on accumulation basis	1,209	1,230
Inwards commission	2,598	5,650
Amortisation of management rights and VOBA	(4,239)	(5,284)
Loss on sale of medical insurance policies	-	(258)
	(432)	1,338
Profit after income tax	32,283	102,975

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

NOTES TO THE FINANCIAL STATEMENTS

5. PREMIUM REVENUE

	Year to 30/09/2017 $000	Year to 30/09/2016 $000
Regular premiums	199,603	199,369
Single premiums	44	3,085
Total premium revenue	199,647	202,454

6. INVESTMENT INCOME

	Year to 30/09/2017 $000	Year to 30/09/2016 $000
Interest income from:		
- Cash at bank	365	272
- Debt securities and bank deposits at fair value through profit or loss	4,501	6,043
- IRD use of money interest	-	1
Total interest income	4,866	6,316
Net loss on financial assets at fair value through profit or loss	(187)	(3)
Total investment income	4,679	6,313

7. CLAIMS AND SURRENDERS

	Year to 30/09/2017 $000	Year to 30/09/2016 $000
Death and disability	60,128	65,782
Surrenders	1,019	1,906
Claims and surrenders	61,147	67,688

NOTES TO THE FINANCIAL STATEMENTS

8. COMMISSIONS AND OPERATING EXPENSES

	Year to 30/09/2017 $000	Year to 30/09/2016 $000
Acquisition costs		
Commissions	11,801	16,956
Operating expenses	26,902	27,879
Total acquisition costs	38,703	44,835
Maintenance costs		
Commissions	8,829	11,434
Operating expenses	22,011	21,905
Total maintenance costs	30,840	33,339
Amortisation of management rights and VOBA	5,887	7,338
Total commissions and operating expenses	75,430	85,512

All costs are associated with life insurance contracts.

	Year to 30/09/2017 $000	Year to 30/09/2016 $000
Fees paid to principal auditor (KPMG New Zealand)		
Audit of financial statements	354	382
Other services - review of solvency returns	48	38
Total fees paid to auditor	402	420

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

9. INCOME TAX

	Year to 30/09/2017 $000	Year to 30/09/2016 $000
Reconciliation of the prima facie income tax payable on profit		
Profit before income tax	41,752	128,807
Prima facie income tax at 28%	11,691	36,066
Non-deductible / (non-assessable) policyholder income and expenses	311	(2,486)
Effect of pre - 2010 life tax regime	(816)	(1,061)
Non-assessable proceeds from sale of management rights	(1,681)	-
Non-assessable proceeds, net of non-deductible expenses, associated with sale of medical insurance policies	-	(6,388)
Other non-deductible expenses	-	127
Income tax (over) / under provided in prior years	(36)	(426)
Total income tax expense	9,469	25,832
Total income tax expense comprises:		
Current tax	16,943	15,639
Deferred tax	(7,474)	10,193
Total income tax expense	9,469	25,832

	30/09/2017 $000	30/09/2016 $000
Deferred tax liability comprises the following temporary differences		
Life insurance contract assets, net of reinsurance	154,300	159,505
VOBA	9,723	11,164
Management rights	-	1,889
Provisions and accruals	(343)	(631)
Other deferred tax assets	(565)	(1,338)
Net deferred tax liability[1]	163,115	170,589

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 a member of an imputation group and can access imputation credits of $4,166 million (2016: $3,465 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

From 1 July 2010, life insurers have been subject to a new tax regime which applies to all life insurance policies, irrespective of when they were issued. However, the new regime offered 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 level term and single premium policies, the grandparented status can be for the duration of the policy.

NOTES TO THE FINANCIAL STATEMENTS

10. INVESTMENTS BACKING INSURANCE CONTRACT LIABILITIES

	30/09/2017 $000	30/09/2016 $000
Bank deposits	147,236	139,791
New Zealand Government securities	-	4,634
Bank and corporate bonds	11,893	9,889
Total investments backing insurance contract liabilities	159,129	154,314
Maturity analysis:		
Up to one year	152,256	139,791
Over one year	6,873	14,523
Total investments backing insurance contract liabilities	159,129	154,314

Investments backing insurance contract liabilities are the only financial instruments carried at fair value. All other financial assets and financial liabilities are carried at amortised cost, and their 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).
- All other items are valued using discounted techniques, where contractual future cash flows of the instrument are discounted using term deposit rates appropriate for the remaining term to maturity (Level 2).

11. TRADE AND OTHER RECEIVABLES

	30/09/2017 $000	30/09/2016 $000
Outstanding premiums	1,482	1,439
Amounts due from reinsurers	6,341	3,927
Other receivables	1,408	2,153
Provision for doubtful debts	(281)	(531)
Total trade and other receivables	8,950	6,988

12. GOODWILL AND OTHER INTANGIBLE ASSETS

	30/09/2017			30/09/2016		
	Cost	Accumulated amortisation and impairment	Carrying amount	Cost	Accumulated amortisation and impairment	Carrying amount
	$000	$000	$000	$000	$000	$000
Goodwill	75,726	(5,226)	70,500	75,726	(5,226)	70,500
VOBA	93,000	(58,275)	34,725	93,000	(53,129)	39,871
Management rights	-	-	-	20,861	(14,115)	6,746
Computer software	7,902	(7,853)	49	7,902	(7,829)	73
Total goodwill and other intangible assets	176,628	(71,354)	105,274	197,489	(80,299)	117,190

Refer to note 2 for details of impairment testing of goodwill and VOBA. The remaining amortisation period of VOBA is 12 years (2016: 12 years).

NOTES TO THE FINANCIAL STATEMENTS

13. PAYABLES AND OTHER LIABILITIES

	Note	30/09/2017 $000	30/09/2016 $000
Creditors		1,268	1,188
Due to reinsurers		2,930	3,301
Due to related parties	19	4,297	7,392
Accrued charges		1,200	1,123
Other liabilities		390	1,110
Total payables and other liabilities		10,085	14,114

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

14. LIFE INSURANCE CONTRACT ASSETS / (LIABILITIES)

Net life insurance contract assets contain the following components:

	30/09/2017 $000	30/09/2016 $000
Future premiums	2,057,284	2,291,177
Future policy benefits	(586,528)	(738,624)
Future expenses	(193,457)	(213,468)
Planned margins of revenues over expenses	(792,042)	(836,669)
Total life insurance contract assets, net of reinsurance	485,257	502,416
Estimated discounted net cash inflows from life insurance contract assets:		
- Less than one year	35,927	34,511
- One year to five years	112,900	102,214
- Later than five years	336,430	365,691
Total net life insurance contract assets future net cash inflows	485,257	502,416

The table above shows the estimated timing of discounted future net cash flows resulting from life insurance contract assets. 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.

Reconciliation of movements in life insurance contract assets and liabilities

	30/09/2017 $000	30/09/2016 $000
Life insurance contract assets		
Opening balance	630,190	552,265
Medical insurance policies sold	-	(28,889)
Recognised in statement of comprehensive income	5,512	106,814
Closing balance	635,702	630,190
Of which:		
Current	44,573	41,856
Non-current	591,129	588,334
Life insurance contract liabilities - reinsurance		
Opening balance	127,774	107,452
Recognised in statement of comprehensive income	22,671	20,322
Closing balance	150,445	127,774
Of which:		
Current	8,646	7,345
Non-current	141,799	120,429

NOTES TO THE FINANCIAL STATEMENTS

15. ORDINARY SHARE CAPITAL

The Company's share capital comprises 329,685,311 (2016: 329,685,311) fully paid ordinary shares that have rights and powers prescribed by section 36 of the Companies Act 1993.

Dividends paid during the year amounted to $0.15 (2016: $0.30) per share.

16. 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

(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.

NOTES TO THE FINANCIAL STATEMENTS

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.

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

	30/09/2017		30/09/2016	
Aggregate Sums Assured	Sum Insured $m	Sum Reinsured $m	Sum Insured $m	Sum Reinsured $m
Life[1]	45,165	19,905	44,901	19,692
Trauma / Total Permanent Disablement[1]	10,726	4,280	10,834	4,327
Other income[2]	301	67	315	77
Total	56,192	24,252	56,050	24,096

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.

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 and other income cover.	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

A 10% increase or decrease in mortality and morbidity, lapse rates or expense assumptions would not have a material effect (2016: no material effect) on profit after tax or equity.

17. 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 2017, 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

A 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 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 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 2014* issued by the RBNZ, and the Company is required to have at least $5 million of actual solvency capital.

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

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

	30/09/2017			30/09/2016		
	Statutory fund	Non-statutory fund	Total	Statutory fund	Non-statutory fund	Total
	$000	$000	$000	$000	$000	$000
Summary Income Statement information						
Premium revenue	199,647	-	199,647	200,991	1,463	202,454
Investment revenue	4,503	176	4,679	5,658	655	6,313
Claims expense	(61,147)	-	(61,147)	(66,623)	(1,065)	(67,688)
All other net expense	(98,232)	(3,195)	(101,427)	(7,444)	(4,828)	(12,272)
Profit before income tax	44,771	(3,019)	41,752	132,582	(3,775)	128,807
Profit after income tax	32,792	(509)	32,283	103,550	(575)	102,975
Summary Balance Sheet information						
Assets						
Investments backing insurance contract liabilities	159,129	-	159,129	154,314	-	154,314
Life insurance contract assets	635,702	-	635,702	630,190	-	630,190
All other assets	19,752	106,164	125,916	16,770	124,710	141,480
Total assets	814,583	106,164	920,747	801,274	124,710	925,984
Liabilities						
Life insurance contract liabilities - reinsurance	150,445	-	150,445	127,774	-	127,774
All other liabilities	181,085	10,543	191,628	186,739	15,080	201,819
Total liabilities	331,530	10,543	342,073	314,513	15,080	329,593
Equity						
Share capital	191,134	177,567	368,701	191,134	177,567	368,701
Retained earnings	291,919	(81,946)	209,973	295,627	(67,937)	227,690
Total equity	483,053	95,621	578,674	486,761	109,630	596,391
Other items						
Dividends paid	(45,000)	(5,000)	(50,000)	(76,000)	(24,000)	(100,000)
Transfers	8,500	(8,500)	-	-	-	-
Solvency						
Actual Solvency Capital	482,096	119	482,215	484,494	5,567	490,061
Minimum Solvency Capital	415,678	19	415,697	428,738	307	429,045
Solvency Margin	66,418	100	66,518	55,756	5,260	61,016
Solvency Ratio	116%	626%	116%	113%	1813%	114%

NOTES TO THE FINANCIAL STATEMENTS

18. 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	30/09/2017	30/09/2016
ANZ Bank New Zealand Limited	A-1+	26.8%	29.5%
ASB Bank Limited	A-1+	15.7%	15.4%
Bank of New Zealand Limited	A-1+	15.8%	15.4%
The Hongkong and Shanghai Banking Corporation Limited	A-1+	-	0.9%
Kiwibank Limited	A-1	9.9%	7.4%
New Zealand Government	A-1+	-	2.6%
Rabobank New Zealand Limited	A-1	11.0%	9.4%
Westpac New Zealand Limited	A-1+	15.8%	15.4%

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.

	30/09/2017	30/09/2016
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-	AA-
Swiss Re Life & Health Australia Limited	AA-	AA-

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 assets, 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% (2016: 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.

	30/09/2017		30/09/2016	
	+ 1%	- 1%	+ 1%	- 1%
	$000	$000	$000	$000
Life insurance contract assets, net of reinsurance	(36,381)	45,358	(43,150)	55,640

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. Solvency 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 14. Payables and other liabilities are payable within three months.

NOTES TO THE FINANCIAL STATEMENTS

19. RELATED PARTY TRANSACTIONS

Key management personnel compensation

	Year to 30/09/2017 $000	Year to 30/09/2016 $000
Directors' fees	65	136

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.

	Year to 30/09/2017 $000	Year to 30/09/2016 $000
ANZ Bank		
Interest income	1,626	1,726
Commission expense	6,218	11,539
Operating expenses	46,494	47,700
Proceeds from sale of management rights	6,005	-
Immediate Parent		
Dividend paid	50,000	100,000

Balances with related parties

	30/09/2017 $000	30/09/2016 $000
ANZ Bank		
Cash at bank	11,692	17,301
Investments backing insurance contract liabilities	36,399	35,390
Total due from related parties	48,091	52,691
Due to ANZ Bank	4,297	6,395
Due to other ANZ Bank subsidiaries	-	997
Total due to related parties	4,297	7,392

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

Sale of management rights

Effective from 1 April 2017, the Company sold to ANZ Bank the management and commission rights relating to third party underwritten insurance distributed through ANZ Bank for their carrying value of $6 million. As a result, the Company will receive no further portion of the commission income related to ANZ Bank’s third party insurance providers.

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 2017.

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 (the Solvency Standard), which is the solvency standard applicable to the Company under section 55 of IPSA, 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 (annuity rates and unvested policyholder benefits liability are not applicable to the Company);
- (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) Risk management policies including reinsurance exposures and reinsurance assets relevant to the Policy Liability;
- (v) The deferred tax assets or liabilities relevant to the Policy Liability;
- (vi) The deferred acquisition cost 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;
- (x) The consistency between the Solvency Standard and the calculated Solvency Margin; and
- (xi) 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. There were no limitations in the scope of my review.

(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 2017, 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 2017, the Company is maintaining solvency margins that comply with those required under the Solvency Standard for the purposes of section 21(2)(c) of IPSA.

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
22 November 2017

KPMG

Independent Auditor's Report

To the shareholder of OnePath Life (NZ) Limited

Report on the financial statements

Opinion

In our opinion, the accompanying financial statements of OnePath Life (NZ) Limited (the Company) on pages 3 to 23:

i. present fairly in all material respects the Company's financial position as at 30 September 2017 and its financial performance and cash flows for the year ended on that date; and

ii. comply with New Zealand Equivalents to International Financial Reporting Standards and International Financial Reporting Standards.

We have audited the accompanying financial statements which comprise:

— the balance sheet as at 30 September 2017;

— the statements of comprehensive income, changes in equity and cash flows for the year then ended; and

— notes, including a summary of significant accounting policies and other explanatory information.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (New Zealand) ('ISAs (NZ)'). We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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

Our responsibilities under ISAs (NZ) are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

Our firm has also provided other services to the Company in relation to limited assurance services on the annual insurer solvency return. 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.

Other information

The Directors, on behalf of the Company, are responsible for the other information included in the entity's Annual Report. Other information includes the Governance Statement and the Appointed Actuary's Report. Our opinion on the financial statements does not cover any other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

KPMG

Use of this independent auditor's report

This independent auditor's report is made solely to the shareholder as a body. Our audit work has been undertaken so that we might state to the shareholder those matters we are required to state to them in the independent auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the shareholder as a body for our audit work, this independent auditor's report, or any of the opinions we have formed.

Responsibilities of the Directors for the financial statements

The Directors, on behalf of the Company, are responsible 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;
- implementing necessary internal control to enable the preparation of a set of financial statements that is fairly presented and free from material misstatement, whether due to fraud or error; and
- assessing the ability to continue as a going concern. This includes disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objective is:

- to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error; and
- to issue an independent auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs NZ will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error. They are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of these financial statements is located at the External Reporting Board (XRB) website at:

http://www.xrb.govt.nz/standards-for-assurance-practitioners/auditors-responsibilities/audit-report-6/

This description forms part of our independent auditor's report.

The engagement partner on the audit resulting in this independent auditor's report is Mr. Paul Herrod.

For and on behalf of

KPMG

Auckland

22 November 2017