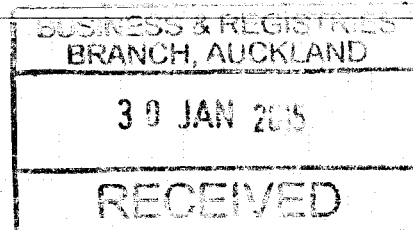




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Westpac Life-NZ- Limited
Financial statements
For the year ended 30 September 2014

Westpac Life-NZ- Limited

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These financial statements cover Westpac Life-NZ- Limited ('Company') as an individual entity.
Westpac Life-NZ- Limited is a company limited by shares, incorporated and domiciled in New Zealand. Its registered office is:
Westpac on Takutai Square
16 Takutai Square
Auckland

Westpac Life-NZ- Limited

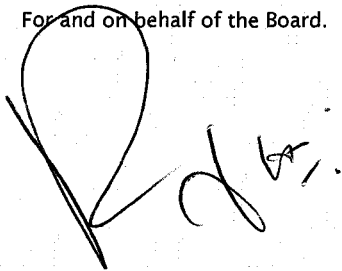
Directors' report

The Board of Directors ('Board') has pleasure in presenting the financial statements of the Company and the independent auditors' report for the year ended 30 September 2014.

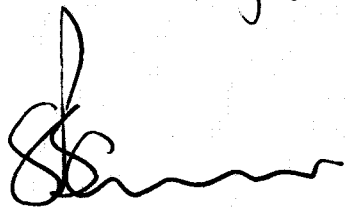
The shareholder of the Company has exercised its rights under section 211(3) of the Companies Act 1993 and has agreed that these financial statements need not comply with any of the paragraphs (a) and (e) to (j) of section 211(1) of the Companies Act 1993.

The Board authorised these financial statements on 27 January 2015.

For and on behalf of the Board.



Director
Date: 27 January 2015



Director
Date: 27 January 2015

Westpac Life-NZ- Limited

Statement of comprehensive income for the year ended 30 September

	Note	2014 \$'000	2013 \$'000
Insurance premium revenue	5	136,575	126,748
Outwards reinsurance premium expense		(10,972)	(10,019)
Net premium revenue		125,603	116,729
Investment income	5	10,709	7,107
Fee income and other income	5	13,736	20,029
Net revenue		150,048	143,865
Insurance claims and rebate expense		(50,491)	(47,921)
Reinsurance recoveries revenue	5	7,536	7,102
Net claims expenses		(42,955)	(40,819)
Changes in policy liabilities	11	10,444	2,900
Other operating expenses	6	(51,545)	(49,036)
Net claims and expenses		(84,056)	(86,955)
Profit before income tax expense		65,992	56,910
Income tax expense	7	(10,894)	(6,812)
Profit after income tax expense		55,098	50,098
Other comprehensive income		-	-
Total comprehensive income, net of tax		55,098	50,098
Profit after income tax expense and total comprehensive income, net of tax, attributable to:			
Owners of the Company		55,098	50,098
		55,098	50,098

The above statement of comprehensive income should be read in conjunction with the accompanying notes.

Westpac Life-NZ- Limited

Statement of changes in equity for the year ended 30 September

	Note	Attributable to owners of the Company		Total \$'000
		Share Capital \$'000	Retained Profits \$'000	
As at 1 October 2012		75,200	125,697	200,897
Year ended 30 September 2013				
Profit after income tax expense		-	50,098	50,098
Total comprehensive income for the year ended 30 September 2013		-	50,098	50,098
Transactions with owners:				
Dividends paid on ordinary shares	14	-	-	-
As at 30 September 2013		75,200	175,795	250,995
Year ended 30 September 2014				
Profit after income tax expense		-	55,098	55,098
Total comprehensive income for the year ended 30 September 2014		-	55,098	55,098
Transactions with owners:				
Dividends paid on ordinary shares	14	-	(60,000)	(60,000)
As at 30 September 2014		75,200	170,893	246,093

The above statement of changes in equity should be read in conjunction with the accompanying notes.

Westpac Life-NZ- Limited

Balance sheet as at 30 September

	Note	2014 \$'000	2013 \$'000
Assets			
Cash and cash equivalents	15	8,174	12,120
Derivative financial instruments	15	-	1018
Financial assets at fair value through profit or loss	10	234,856	237,185
Reinsurance recoveries receivable		8,707	7,677
Property, plant and equipment		6	6
Other assets		1,739	1565
Total assets		253,482	259,571
Liabilities			
Derivative financial instruments	15	2,636	-
Current tax liabilities		6,629	7,240
Due to related entities	15	5,380	6,080
Claims reserve		24,387	24,422
Policy liabilities	11	(61,908)	(51,464)
Deferred tax liabilities	12	24,735	20,715
Other liabilities	13	5,530	1583
Total liabilities		7,389	8,576
Net assets		246,093	250,995
Equity			
Share capital	14	75,200	75,200
Retained profits		170,893	175,795
Total equity attributable to owners of the Company		246,093	250,995

The above balance sheet should be read in conjunction with the accompanying notes.

Westpac Life-NZ- Limited

Statement of cash flows for the year ended 30 September

	Note	2014 \$'000	2013 \$'000
Cash flows from operating activities			
Interest received		1,548	1,075
Premiums received		136,575	126,748
Other income received		17,005	18,069
Reinsurance income received		6,506	5,388
Claims and rebates payments		(50,526)	(43,732)
Reinsurance payments		(10,972)	(10,019)
Other operating expenses paid		(52,267)	(49,267)
Income taxes paid		(7,485)	(2,137)
Net cash provided by operating activities	19	40,384	46,125
Cash flows from investing activities			
Sale of investments		248,680	163,644
Purchase of investments		(233,008)	(205,780)
Sale of property, plant and equipment		-	12
Purchase of property, plant and equipment		(2)	-
Net cash provided by/(used in) investing activities		15,670	(42,124)
Cash flows from financing activities			
Dividends paid		(60,000)	-
Net cash used in financing activities		(60,000)	-
Net (decrease)/increase in cash and cash equivalents		(3,946)	4,001
Cash and cash equivalents at the beginning of the year		12,120	8,119
Cash and cash equivalents at the end of the year		8,174	12,120

The above statement of cash flows should be read in conjunction with the accompanying notes.

Westpac Life-NZ- Limited

Notes to the financial statements

Note 1. General information

These financial statements were authorised for issue by the Board on 27 January 2015. The Board has the power to amend the financial statements after they are authorised for issue.

The Company's primary activities are the development, underwriting and management of products under life insurance legislation providing insurance cover against the risks of death, disability, redundancy and bankruptcy. The Company also manages some insurance agency arrangements.

Note 2. Summary of significant accounting policies

a. Statutory base

These financial statements have been prepared and presented in accordance with the Financial Reporting Act 1993 (New Zealand) and the Companies Act 1993 (New Zealand). These financial statements have also been prepared in accordance with New Zealand Generally Accepted Accounting Practice, applicable New Zealand equivalents to International Financial Reporting Standards ('NZ IFRS') and other authoritative pronouncements of the External Reporting Board ('XRB'), as appropriate for profit-oriented entities. These financial statements comply with International Financial Reporting Standards ('IFRS'), as issued by the International Accounting Standards Board. The Company is carrying on insurance business in New Zealand and is therefore subject to the requirements set out in the Insurance (Prudential Supervision) Act 2010 ('the Act'), including licensing and supervision by the Reserve Bank of New Zealand ('RBNZ'). The Company was granted a full licence by the RBNZ on 1 May 2013 which replaces the provisional licence the Company had been operating under since 22 February 2012.

The Company has adopted XRB A1 *Accounting Standards Framework (For-profit Entities Update)* ('XRB A1'). XRB A1 establishes a for-profit tier structure and outlines which suite of accounting standards entities in different tiers must follow. The Company is a Tier 1 entity. There is no impact on the current or prior year financial statements of transitioning to XRB A1.

b. Basis of preparation

The financial statements are based on the general principles of historical cost accounting, as modified by the fair value accounting for financial assets and financial liabilities at fair value through profit or loss, including derivative contracts. The going concern concept and the accrual basis of accounting have been adopted. All amounts are expressed in New Zealand dollars unless otherwise stated.

The same accounting policies and methods of computation have been followed in preparing these financial statements that were used in preparing the financial statements for the year ended 30 September 2013, except as amended for the changes required due to the adoption of the new and revised accounting standards as explained in Note 2(f).

Certain comparative information has been restated to ensure consistent treatment with the current reporting period. Where there has been a material restatement of comparative information, the nature of, and the reason for, the restatement is disclosed in the relevant note. In the statement of cash flows the comparative figures for Sales of investments and Purchases of investments have been restated to reflect gross sales and purchases. The impact of this restatement is that Sales of investments has increased by \$83,033,000 from \$80,611,000 to \$163,644,000 and Purchases of investments has increased by \$83,033,000 from \$122,747,000 to \$205,780,000. This restatement has no impact on the Company's net cash used in investing activities, reported profit for the year ended 30 September 2013 or financial position at 30 September 2013.

The preparation of financial statements in conformity with NZ IFRS and IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Company's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 2(g).

c. Rounding of amounts

Amounts in these financial statements have been rounded to the nearest thousand dollars unless otherwise stated.

d. Foreign currency

Items included in the financial statements are measured using the currency of the primary economic environment in which the Company operates (the 'functional currency'). The financial statements of the Company are presented in New Zealand dollars, which is the Company's functional and presentation currency.

Foreign currency monetary assets and liabilities have been translated into New Zealand dollars at the rate of foreign exchange prevailing as at the balance date. Transactions denominated in a foreign currency are converted to New Zealand dollars at the exchange rates in effect at the date of the transaction.

Foreign exchange differences relating to monetary items and gains and losses arising from foreign exchange dealings by the Company have been included in the statement of comprehensive income.

e. Particular accounting policies

Revenue recognition

Premium revenue

Premiums relating to policy liabilities with a regular due date are recognised as revenue in the statement of comprehensive income when they become payable by the policy holders. Premiums with no due date are recognised as revenue on a cash received basis. Premiums are shown before deduction of commission. There is no deposit component.

Reinsurance premium and recoveries

Premium ceded to reinsurers is recognised as an expense in accordance with the pattern of reinsurance service received. Reinsurance recoveries are recognised as revenue. Recoveries receivable are measured as the present value of the expected future receipts, calculated on the same basis as the liability for outstanding claims.

Westpac Life-NZ- Limited

Notes to the financial statements

Note 2. Summary of significant accounting policies (continued)

Interest income

Interest income for all interest earning financial assets including those at fair value is recognised in the statement of comprehensive income using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument, or when appropriate, a shorter period, to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, cash flows are estimated based upon all contractual terms of the financial instrument (e.g. prepayment options), but do not consider future credit losses. The calculation includes all fees and other amounts paid or received between parties to the contract that are an integral part of the effective interest rate (i.e. loan establishment fees), transaction costs and all other premiums or discounts.

Fee and commission income

Fee income which arises from commissions received on insurance business and refunds received in relation to reinsurance arrangements are recognised in the statement of comprehensive income on an accrual basis over the period during which the services are performed.

Gain or loss on financial assets at fair value through profit or loss

Realised gains or losses, and unrealised gains or losses arising from changes in the fair value of financial assets at fair value through profit or loss are recognised as investment income in the statement of comprehensive income in the period in which they arise. Interest income on financial assets at fair value through profit or loss is recognised as part of interest income.

Gain or loss on sale of property, plant and equipment

The gain or loss arising on the disposal or retirement of property, plant and equipment is determined as the difference between the sale proceeds less costs of disposal and the carrying amount of the respective asset and is recognised in the statement of comprehensive income as other income.

Expense recognition

Claims expenses

All incurred insurance claims are recognised as expenses in the statement of comprehensive income. Claims are recognised in the statement of comprehensive income when the liability to the policy holder under the policy contract has been established, or upon notification of the insured event depending on the type of claim. There is no material deposit component.

Policy acquisition expenses

Policy acquisition expenses are the expenses of acquiring new business including commissions and similar distribution expenses, expenses of accepting, issuing and initially recording policies.

Policy maintenance expenses

Policy maintenance expenses are the expenses of administering policies subsequent to sale and maintaining operations such that they are sufficient to service existing policies. These include general growth and development expenses and all operating and management expenses other than policy acquisition and investment management expenses.

Investment management expenses

Investment management expenses are the expenses of managing investment funds.

Operating expenses

Operating expenses are recognised on an accrual basis.

Taxation

Income tax

Income tax expense on the profit for the year comprises current tax and movement in deferred tax balances.

Current tax is the expected tax payable on the taxable income for the financial year, using tax rates that have been enacted or substantively enacted as at the balance date, and any adjustment to tax payable in respect of previous years.

Deferred tax is accounted for using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding amounts used for taxation purposes. Deferred tax assets and liabilities are not recognised if the temporary difference arises from the initial recognition of assets and liabilities that affect neither accounting nor taxable profit. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates that have been enacted or substantively enacted as at the balance date that are expected to apply when the liability is settled or the asset is realised.

Except as noted above, deferred tax liabilities are recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which the asset can be utilised.

For presentation purposes deferred tax assets and deferred tax liabilities have been offset where they relate to income taxes levied by the same taxation authority on the Company.

Goods and services tax

Where applicable, revenue, expenses and assets are recognised net of goods and services tax ('GST'), except to the extent that GST is not recoverable from Inland Revenue. In these circumstances, the GST is recognised as part of the expense or the cost of the asset.

Westpac Life-NZ- Limited

Notes to the financial statements

Note 2. Summary of significant accounting policies (continued)

Assets

Financial assets

The Company classifies its financial assets in the following categories: financial assets at fair value through profit or loss and loans and receivables. Management determines the classification of its financial assets at initial recognition.

- ***Financial assets at fair value through profit or loss***

This category has two sub-categories: first, financial assets held for trading and second, those designated at fair value through profit or loss at inception. A financial asset is classified in this category if acquired principally for the purpose of selling it in the near term, if it is part of a portfolio of financial assets that are managed together and for which there is evidence of a recent pattern of short-term profit taking, if it is a derivative that is not a designated hedging instrument, or if so designated on acquisition by management. This designation may only be made if the financial asset contains an embedded derivative, it is managed on a fair value basis in accordance with a documented risk management strategy or if designating it at fair value reduces an accounting mismatch.

- ***Loans and receivables***

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Company provides money, goods or services directly to a debtor with no intention of trading the receivable.

Recognition and measurement of financial assets

Purchases and sales of financial assets at fair value through profit or loss are recognised on trade-date, being the date on which the Company commits to purchase or sell the asset. Loans and receivables are recognised when the Company becomes a party to the contractual provision of the instrument. Financial assets at fair value through profit or loss are recognised at fair value. Loans and receivables are recognised initially at fair value plus directly attributable transaction costs.

Financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are subsequently carried at amortised cost using the effective interest method. Realised and unrealised gains or losses arising from changes in the fair value of financial assets at fair value through profit or loss are included in the statement of comprehensive income in the period in which they arise.

The fair values of quoted investments in active markets are based on current bid prices. If the market for a financial asset is not active the Company establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants.

Derecognition of financial assets

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or where the Company has transferred all the risks and rewards of ownership.

Cash and cash equivalents

Cash and cash equivalents include cash at bank, at call money market deposits and other investments in highly liquid assets. Cash and cash equivalents are brought to account at the face value or the gross value of the outstanding balance, where appropriate. They are accounted for as loans and receivables.

Fixed income securities

Fixed income securities are stated at fair value which is the market price of individual securities held at balance date.

Shares in listed companies and units held in unit trusts or managed funds

Shares in listed companies and units held in unit trusts or managed funds are stated at net market value based on the end-of-day price quoted by the stock exchange or fund manager.

Derivative financial instruments

Derivative financial instruments including forwards, futures, swaps and options are recognised in the balance sheet at fair value. Fair values are obtained from quoted market prices, independent dealer price quotations, discounted cash flow models and option pricing models, which incorporate current market and contractual prices for the underlying instrument, time to expiry, yield curves and volatility of the underlying instrument. Derivatives are carried as assets or liabilities when the fair value is positive or negative.

Assets and liabilities arising under reinsurance contracts

The benefits to which the Company is entitled under its reinsurance contracts held are recognised as reinsurance assets. These assets consist of short-term balances due from reinsurers, as well as longer term receivables that are dependent on the expected claims and benefits arising under the related insured insurance contracts. Amounts recoverable from or due to reinsurers are measured consistently with the amounts associated with the reinsured insurance contracts and in accordance with the terms of each reinsurance contract. Reinsurance liabilities are primarily premiums payable for reinsurance contracts and are recognised as an expense when due.

Due from related entities

Due from related entities includes accrued income receivable and balances due from other related entities controlled by Westpac Banking Corporation ('WBC'), the ultimate parent company.

Westpac Life-NZ- Limited

Notes to the financial statements

Note 2. Summary of significant accounting policies (continued)

Other assets

Other assets include commissions receivable under insurance agency arrangements.

Impairment of financial assets

The following accounting policy applies to the impairment of financial assets carried at amortised cost.

The Company assesses at each balance date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment charges are recognised if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. Objective evidence that a financial asset or group of assets is impaired includes observable data that comes to the attention of the Company about the following loss events:

- (i) significant financial difficulty of the issuer or obligor;
- (ii) a breach of contract, such as a default or delinquency in interest or principal payments;
- (iii) the Company granting to the borrower, for economic or legal reasons relating to the borrower's financial difficulty, a concession that the Company would not otherwise consider;
- (iv) it becoming probable that the borrower will enter bankruptcy or other financial reorganisation;
- (v) the disappearance of an active market for that financial asset because of financial difficulties; or
- (vi) observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the Company, including:
 - (a) adverse changes in the payment status of borrowers in the group; or
 - (b) national or local economic conditions that correlate with defaults on the assets in the group.

The Company first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If the Company determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment on loans and receivables has been incurred, the amount of the charge is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of a provision account and the amount of the loss is recognised in the statement of comprehensive income. If a loan has a variable interest rate, the discount rate for measuring any impairment is the current effective interest rate determined under the contract.

Property, plant and equipment

Property, plant and equipment are carried at cost less accumulated depreciation and impairment losses. Cost is the fair value of the consideration provided plus incidental costs directly attributable to the acquisition. Other subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the item of property, plant and equipment. All other expenditure is recognised in the statement of comprehensive income as an expense as incurred. Impairment losses are recognised as other operating expense in the statement of comprehensive income.

Depreciation is calculated using the straight-line method to allocate the costs of assets less any residual value over their estimated useful lives, as follows:

- Furniture and equipment 3 to 15 years

Impairment of non-financial assets

The carrying amount of the Company's non-financial assets, other than deferred tax assets, are reviewed as at each balance sheet date to determine whether there is any indication of impairment. If such an indication exists, the asset's recoverable amount is estimated. An impairment is recognised whenever the carrying amount of an asset or the cash generating unit ('CGU') to which it is allocated exceeds its recoverable amount. Where an impairment charge subsequently reverses, the carrying amount of the asset (or CGU) is increased to the revised estimate of its recoverable amount, such that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment charge been recognised for the asset (or CGU) in prior years. Impairment charges and reversals of impairment charges are recognised in the statement of comprehensive income.

The recoverable amount of an asset is the greater of its fair value less costs to sell and value-in-use. In assessing value-in-use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the CGU to which the asset belongs.

Westpac Life-NZ- Limited

Notes to the financial statements

Note 2. Summary of significant accounting policies (continued)

Liabilities

Financial liabilities

The Company classifies its financial liabilities in the following categories: financial liabilities at fair value through profit or loss and financial liabilities at amortised cost.

- ***Financial liabilities at fair value through profit or loss***

This category has two sub-categories: first, financial liabilities held for trading and second, those designated at fair value through profit or loss at inception. A financial liability is classified in this category if incurred principally for repurchasing it in the near term, if it is part of a portfolio of financial liabilities that are managed together and for which there is evidence of a recent pattern of short-term profit taking, if it is a derivative that is not a designated hedging instrument, or if so designated on initial recognition by management. This designation may only be made if the financial liability contains an embedded derivative, it is managed on a fair value basis in accordance with a documented risk management strategy or if designating it at fair value reduces an accounting mismatch.

- ***Financial liabilities at amortised cost***

This category includes all financial liabilities other than those at fair value through profit or loss. Liabilities in this category are measured at amortised cost.

Recognition, measurement and derecognition of financial liabilities

Financial liabilities are initially recognised at fair value less transaction costs except where they are designated at fair value, in which case transaction costs are expensed as incurred. They are subsequently measured at amortised cost except for financial liabilities at fair value, which are held at fair value through profit or loss. Financial liabilities are recognised when an obligation arises and derecognised when they are discharged, cancelled or expire.

Due to related entities

This amount includes amounts due to other entities controlled by WBC. Due to related entities includes accrual expense balances due to other related entities. They are measured at amortised cost.

Claims reserve

Provision has been made for liabilities in respect of insurance claims notified but not settled at balance date, together with an allowance for incurred but not reported insurance claims.

Policy liabilities

Policy liabilities arising from insurance contracts are calculated by using the margin on service methodology in accordance with New Zealand Society of Actuaries Professional Standard 3 *Determination of Life Insurance Policy Liabilities*. Under this methodology, planned profit margins and an estimate of future liabilities are calculated separately for each major product line using applied assumptions at each reporting date. Profit margins are released over each financial period in line with the service that has been provided. The net impact of reinsurance on policy liabilities has been assessed to be immaterial.

Liability adequacy test

Expected future cash flows are reviewed to establish the present value of the estimated future expenses for the group of related products against the present value of estimated future revenues. Where there is a shortfall in the liabilities, a loss is recognised in the statement of comprehensive income in the reporting period in which the assessment is made.

Employee entitlements

The following accounting policies relate to wages and salaries, annual leave, sick leave, long service leave and superannuation obligations. All employees are employed by other entities controlled by WBC, rather than by the Company. These entities pay these expenses to the employees and are then reimbursed by the Company.

- ***Wages and salaries, annual leave and sick leave***

Liabilities for wages and salaries, including non-monetary benefits and annual leave expected to be settled within 12 months of the balance date are recognised in other liabilities in respect of employees' services and are measured at the amounts expected to be paid when the liabilities are settled.

No provision is made for non-vesting sick leave as the pattern of sick leave taken indicates that no additional liability will arise for non-vesting sick leave.

- ***Long service leave***

Liabilities for long service leave expected to be settled within 12 months of the balance date are recognised in other liabilities and are measured at the amounts expected to be paid when the liabilities are settled.

Liabilities for long service leave and other deferred employee benefits expected to be settled more than 12 months from the balance date are recognised in the provision for long service leave and are measured at the present value of future payments expected to be made in respect of services provided by employees up to the balance date. Consideration is given to expected future wage and salary levels, experience of employee departure and periods of service. Expected future payments are discounted to their net present value using market yields as at the balance date on government bonds with terms that match as closely as possible to the estimated timing of future cash flows.

- ***Superannuation obligations***

Obligations for contributions to the defined contribution superannuation scheme are recognised as operating expense in the statement of comprehensive income as incurred.

Equity

Ordinary shares

Ordinary shares are recognised at the amount paid up per ordinary share, net of directly attributable issue costs.

Westpac Life-NZ- Limited

Notes to the financial statements

Note 2. Summary of significant accounting policies (continued)

Statement of cash flows

Basis of presentation

The statement of cash flows has been presented in accordance with New Zealand equivalent to International Accounting Standard ('NZ IAS') 7 *Statement of Cash Flows*.

Cash and cash equivalents

Cash and cash equivalents reflect the balance of cash and liquid assets used in the day-to-day cash management of the Company, which are readily convertible to a known amount of cash at the Company's option.

Operating, investing and financing activities

Operating activities are the principal revenue-producing activities of the Company and other activities that are not investing or financing activities. Investing activities are the acquisition and disposal of long-term assets and other investments that are not included in cash and cash equivalents. Financing activities are activities that result in changes in the size and composition of the contributed equity and borrowings of the Company.

f. Changes in accounting standards and future accounting developments

The following new standards and amendments to standards have been adopted in the reporting period commencing 1 October 2013:

- **NZ IFRS 13 *Fair Value Measurement* ('NZ IFRS 13')** - This standard provides a single unified definition of fair value and a framework for measuring and disclosing fair value. The standard does not change when an entity is required to use fair value, but rather, provides guidance on how to determine fair value under NZ IFRS when fair value is required or permitted by that NZ IFRS. Its adoption has not had a material impact on the Company's reported results or financial position. The additional disclosures required by NZ IFRS 13 are included in Note 17.
- ***Disclosures - Offsetting Financial Assets and Financial Liabilities* (Amendments to NZ IFRS 7 *Financial Instruments: Disclosures*)** requires additional disclosure of the effect or potential effect of netting arrangements, including rights of set-off associated with recognised financial assets and liabilities on the Company's financial position. The adoption of the amendments has not had a material impact on the Company's reported results or financial position.

The following new standards and interpretations which may have a material impact on the Company have been issued, but are not yet effective and have not been early adopted by the Company:

- **NZ IFRS 9 *Financial Instruments* ('NZ IFRS 9')** was issued in September 2014. Unless early adopted as noted below, the standard will be effective for the 30 September 2019 financial year. The major changes under the standard are that:
 - the multiple classification and measurement models in NZ IAS 39 *Financial Instruments: Recognition and Measurement* are replaced with a single model that has two measurement categories: amortised cost and fair value;
 - a financial asset is measured at amortised cost if two criteria are met: a) the objective of the business model is to hold the financial asset for the collection of the contractual cash flows, and b) the contractual cash flows under the instrument solely represent the payment of principal and interest;
 - if a financial asset is eligible for amortised cost measurement, an entity can elect to measure it at fair value if it eliminates or significantly reduces an accounting mismatch;
 - an embedded derivative will not be separated where the instrument is a financial asset;
 - equity instruments must be measured at fair value however, an entity can elect on initial recognition to present the fair value changes on non-trading equity investments directly in other comprehensive income. There is no subsequent recycling of fair value gains and losses to profit or loss; however dividends from such investments will continue to be recognised in profit or loss;
 - if an entity holds an investment in asset-backed securities it must determine the classification of that investment by looking through to the underlying assets and assess the credit quality of the investment compared with the underlying portfolio of assets. If an entity is unable to look through to the underlying assets, then the investment must be measured at fair value;
 - the portion of a change of fair value relating to the entity's own credit risk for financial liabilities designated at fair value is presented in other comprehensive income, except when that would create an accounting mismatch. If such a mismatch would be created or enlarged, all changes in fair value (including the effects of changes in the credit risk) is recognised in profit or loss. The Company early adopted this amendment from 1 October 2013;
 - hedge accounting is more closely aligned with risk management activities by increasing the eligibility of both hedged items and hedging instruments and introducing a more principles-based approach to assessing hedge effectiveness; and
 - it is no longer necessary for a credit event to have occurred before credit losses are recognised. Instead, an entity always accounts for expected credit losses, and changes in those expected credit losses. The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition, and, consequently, more timely information is provided about expected credit losses.

The IASB has a separate active project on accounting for macro hedging which it continues to work on.

NZ IFRS 9 will impact the classification and measurement of the Company's financial instruments and the amount of impairments recognised in the income statement when the remainder of the standard is adopted.

- ***Offsetting Financial Assets and Financial Liabilities* (Amendments to NZ IAS 32 *Financial Instruments: Presentation* ('NZ IAS 32'))** was issued in February 2012 and will be effective for the 30 September 2015 financial year. The amendment provides application guidance to addressing inconsistencies applied to offsetting criteria provided in NZ IAS 32, including clarifying the meaning of current legal enforceable right of set-off and that some gross settlement systems may be considered as the equivalent to net settlement. The amendment is not expected to have a material impact on the Company's reported results or financial position.
- **NZ IFRS 15 *Revenue from Contracts with Customers* ('NZ IFRS 15')** was issued in July 2014 and will be effective for the 30 September 2018 financial year. The standard provides a single comprehensive model for revenue recognition. It supersedes current recognition and related interpretations. The application of NZ IFRS 15 is not expected to have a material impact on the Company.

Westpac Life-NZ- Limited

Notes to the financial statements

Note 2. Summary of significant accounting policies (continued)

g. Critical accounting estimates, judgments and assumptions

The application of the Company's accounting policies necessarily requires the use of estimates, judgments and assumptions. Should different estimates, judgments or assumptions be applied, the resulting values would change, impacting the net assets and income of the Company. Estimates, judgments and assumptions are regularly evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The nature of assumptions and estimates used and the value of the resulting asset and liability balances are included in the policies below.

Uncertainty over valuation of life insurance policy liabilities

Policy liabilities arising from life insurance contracts are computed at each reporting date using statistical and mathematical methods. The valuations are prepared by suitably qualified personnel on the basis of recognised actuarial methods and with due regard to the actuarial principles. The methodology takes into account the risks and uncertainties of the particular classes of business written.

The key factors that affect the estimation of these liabilities are:

- the cost of providing benefits and administering the contracts;
- mortality and morbidity experience;
- discontinuance experience, which affects the Company's ability to recover the cost of acquiring new business over the life of the contracts; and
- the rate at which projected future cash flows are discounted.

In addition, factors such as regulation, competition, interest rates, taxes, securities' market conditions and general economic conditions affect the level of these liabilities.

The uncertainties surrounding these assumptions mean that it is likely that the actual observed claims incidence will vary from the liability estimated at the reporting date.

See Note 3 for more detail on the valuation of the policy liabilities and the assumptions applied.

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 is recognised where there is objective evidence that the Company may not receive amounts due to it and these amounts can be reliably measured.

Assets arising from reinsurance contracts are recognised in the balance sheet as reinsurance recoveries receivable.

Income taxes

The Company is subject to income taxes in New Zealand. Significant judgment is required in determining the provision for income taxes. There are many transactions and calculations undertaken during the ordinary course of business for which the ultimate tax determination is uncertain. The Company estimates its tax liabilities based on the Company's understanding of the tax law. Where the final outcome of these matters is different from the amounts initially recorded, such differences will impact the current and deferred tax provisions in the period when such determinations are made.

Fair value of financial instruments

Financial instruments classified as held for trading or designated at fair value through profit or loss are recognised in the financial statements at fair value. All derivatives are measured and recognised at fair value.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Fair value is obtained from quoted market prices, independent dealer price quotations, discounted cash flow models and option pricing models, which incorporate current market and contractual prices for the underlying instrument, time to expiry, yield curves and volatility of the underlying. The calculation of fair value for any financial instrument may also require adjustment of the quoted price or model value to reflect the cost of credit risk (where not embedded in underlying models or prices used). The process of calculating fair value on illiquid instruments or from a valuation model may require estimation of certain pricing parameters, assumptions or model characteristics. These estimates are calibrated against industry standards, economic models and observed transaction prices.

The fair value of financial instruments is provided in Note 17, as well as the mechanism by which fair value has been derived.

Westpac Life-NZ- Limited

Notes to the financial statements

Note 3. Actuarial assumptions and methods

a. Actuarial policies and methods for the Company

The effective date of the actuarial valuation of policy liabilities (refer to Note 11) and solvency reserving requirement (refer to Note 20) is 30 September 2014. The actuarial valuation for the Company was prepared by Ian New, who is the Appointed Actuary of the Company and a Fellow of the New Zealand Society of Actuaries.

Policy liabilities for life insurance contracts are amounts which, when taken together with future premiums and investment earnings, are required to meet the payment of future benefits and expenses, and incorporate profit margins on existing business to be released when earned in future periods.

b. Disclosure of assumptions

The valuations included in the reported results are calculated using assumptions about certain key underlying variables. The assumptions are determined by the Appointed Actuary of the Company based on results of annual investigations into the experience of the Company's in force business, industry experience data and data provided by the Company's reinsurers.

After making appropriate checks, the Appointed Actuary of the Company was satisfied as to the accuracy of the data from which the amount of insurance policy liabilities has been determined.

The key assumptions used in determining policy liabilities for the major products are disclosed below.

(i) Discount rates

The discount rates used to determine policy liabilities were as follows:

	2014	2013
Loan Cover	3.567%	2.557%
Bill Protection Insurance, Mortgage Insurance and Flexicover Insurance	3.925%	3.485%
Other Major Products	4.277%	4.507%

These assumed discount rates are gross of tax and net of investment and management expenses.

(ii) Profit carriers

The profit carriers for the products which were valued on a projection basis were as follows:

Product type	Profit Carrier
Term Cover	Premium
Gold Term Cover	Premium
Simplicity Life	Premium
Disability Income Insurance	Premium
Gold Disability Income Insurance	Premium
Flexicover Insurance	Premium
Mortgage Repayment Insurance	Claims
Loan Cover	Claims
Bill Protection Insurance	Premium
Lifetime Guarantee and Kiwilife Senior	Claims
Kiwilife, Kiwicover and Kiwiguard	Premium
Accident Cover	Premium
Ex-Trust Bank Mortgage Insurance	Premium

Westpac Life-NZ- Limited

Notes to the financial statements

Note 3. Actuarial assumptions and methods (continued)

(iii) Maintenance expenses

The non-commission maintenance expenses allowances assumed were as follows:

Product	2014 Maintenance Expense	2013 Maintenance Expense
Term Cover (\$ per annum per policy)	\$27.60	\$25.32
Gold Term Cover (\$ per annum per policy)	\$27.60	\$25.32
Simplicity Life (\$ per annum per policy)	\$26.64	\$24.48
Disability Income Insurance (\$ per annum per policy)	\$27.60	\$25.32
Gold Disability Income Insurance (\$ per annum per policy)	\$27.60	\$25.32
Flexicover Insurance (% of premiums)	5.2%	5.2%
Mortgage Repayment Insurance (% of original single premium spread over the term)	10.0%	10.0%
Loan Cover (% of original single premium spread over the term)	10.0%	10.0%
Bill Protection Insurance (\$ per annum per policy)	\$37.92	\$34.80
Lifetime Guarantee and Kiwilife Senior (\$ per annum per policy)	\$37.92	\$34.80
Kiwilife, Kiwicover and Kiwiguard (\$ per annum per policy)	\$26.64	\$24.48
Accident Cover (\$ per annum per policy)	\$26.64	\$24.48
Ex-Trust Bank Mortgage Insurance (% of premiums)	5.2%	5.2%

(iv) Inflation and automatic index of benefits

Maintenance expenses are assumed to increase at 2.5% per annum (30 September 2013: 2.5% per annum). Term cover policies and disability income insurances with automatic inflation linked indexation of benefits are assumed to have benefit increases of 2.5% per annum (30 September 2013: 2.5% per annum).

(v) Taxation

For the purposes of the actuarial calculations, a taxation rate of 28% (30 September 2013: 28%) has been assumed throughout. The taxation basis that applies post enactment of the Taxation (International Taxation, Life Insurance and Remedial Matters) Act ('Taxation Act') has been assumed to apply, with allowance for the transitional tax arrangements provided under that Taxation Act.

A GST taxation rate of 15% (30 September 2013: 15%) has been assumed throughout.

(vi) Rebate values

Future policy rebate values are projected on the basis of the Company's current practice.

(vii) Unit-linked business

The Company has no unit-linked business.

(viii) Participating business

The Company has no participating business.

(ix) Mortality and morbidity

The projected rates of claims reflect industry experience in New Zealand together with the Company's experience where appropriate. The tables used as a basis for mortality and morbidity assumptions were as follows:

Product	2014	2013
Term Cover and Gold Term Cover	85% of NZ04 males/females with adjustments for smoker status and selection	88% of NZ04 males/females with adjustments for smoker status and selection
Disability Income Insurance and Gold Disability Income Insurance	Adjusted CIDA 85	Adjusted CIDA 85
Simplicity Life, Kiwilife, Life components of Mortgage Repayment Insurance, Flexicover Insurance, Ex-Trust Bank Mortgage Insurance and Loan Cover	Adjusted NZ04	Adjusted NZ04
Lifetime Guarantee and Kiwilife Senior	Adjusted NZ 95/97	Adjusted NZ 95/97
Disability components of Mortgage Repayment Insurance, Flexicover Insurance, Ex-Trust Bank Mortgage Insurance, Bill Protection Insurance and Loan Cover	Adjusted CIDA 85	Adjusted CIDA 85
Kiwicover, Kiwiguard and Accident Cover	Adjusted NZ 95/97	Adjusted NZ 95/97

Westpac Life-NZ- Limited

Notes to the financial statements

Note 3. Actuarial assumptions and methods (continued)

(x) Rates of discontinuance

Projected rates of discontinuance of policies were as follows:

Product	2014	2013
Term Cover (% per annum)	7.0% to 18.0%	7.0% to 18.0%
Gold Term Cover (% per annum)	7.0% to 8.0%	7.0% to 8.0%
Simplicity Life (% per annum)	10.0%	10.0%
Disability Income Insurance (% per annum)	7.0%	7.0%
Gold Disability Income Insurance (% per annum)	10.0%	10.0%
Flexicover Insurance (% per annum)	12.0% to 21.0%	12.0% to 21.0%
Mortgage Repayment Insurance (% per annum)	15.0%	15.0%
Loan Cover (% per annum)	26.0% to 60.0%	26.0% to 60.0%
Bill Protection Insurance (% per annum)	18.0%	18.0%
Lifetime Guarantee (% per annum)	1.5%	1.5%
Kiwilife Senior (% per annum)	3.0%	3.0%
Kiwilife (% per annum)	10.0%	10.0%
Kiwicover, Kiwiguard (% per annum)	10.0%	10.0%
Accident Cover (% per annum)	6.0%	7.0%
Ex-Trust Bank Mortgage Insurance (% per annum)	15.0%	15.0%

Where a range of discontinuance rates is assumed for a product, the assumption varies by the duration in force of the policy. Where a flat rate of discontinuance is assumed for a product, the assumption is independent of duration.

(xi) Effect of changes in actuarial assumptions

The changes in actuarial assumptions from 2013 to 2014 set out above had no impact upon the Company's policy liabilities as none of the Company's related product groups is in loss recognition (from 2012 to 2013: nil). Aside from the changes in discount rates due to changing economic conditions, the changes in actuarial assumptions had the effect of decreasing the present value of future planned profit margins by (\$24,764,000) (30 September 2013: increasing by \$145,821,000). The primary contributors to this impact were:

- \$43,000 arising from the changes to projected rates of discontinuance (30 September 2013: \$138,727,000);
- (\$1,707,000) arising from the changes to projected non-commission maintenance expenses (30 September 2013: (\$2,927,000));
- \$3,033,000 arising from changes to projected investment management expenses (30 September 2013: nil);
- \$19,835,000 arising from changes to projected rates of incidence of mortality claims (30 September 2013: \$14,230,000); and
- (\$45,968,000) arising from changes to premium rates (30 September 2013: (\$4,209,000)).

Other modelling changes had the effect of decreasing the present value of future planned profit margins by (\$6,499,000) (30 September 2013: decreasing by (\$1,331,000)).

(xii) Sensitivity analysis

The Company conducts sensitivity analysis to quantify exposure to risk of changes in the key underlying variables such as discount rates, maintenance expenses, mortality, morbidity and discontinuances. The valuations included in the reported results and the Company's best estimates of future performance are calculated using certain assumptions about these variables. The movement in any key variable will impact the performance and net assets of the Company and as such represents a risk.

The table below illustrates how changes in key assumptions would impact the reported profit of the Company.

	2014		2013	
	Change in Variable	Impact on Future Planned Profit	Change in Variable	Impact on Future Planned Profit
Change in mortality and morbidity	+10%	-12.2%	+10%	-12.4%
	-10%	+12.2%	-10%	+12.4%
Change in discontinuance rate	+10%	-13.1%	+10%	-13.1%
	-10%	+13.1%	-10%	+13.1%
Change of non-commission policy maintenance expense	+10%	-0.6%	+10%	-0.6%
	-10%	+0.6%	-10%	+0.6%
Changes in discount rates	+0.1%	-0.8%	+0.1%	-0.8%
	-0.1%	+0.8%	-0.1%	+0.8%

None of the Company's groups of related products are in loss recognition and none would move into loss recognition upon reasonably expected changes in the variables set out in the above table, where the changes are applied individually.

Westpac Life-NZ- Limited

Notes to financial statements

Note 4. Risk management policies and procedures

a. The Company's Risk Management Programme

The Company's financial condition and operating activities are affected by a number of key financial risks (insurance risk, credit risk, market risk and liquidity risk) as well as non-financial risks (compliance risk, operational risk, reputation and environmental, social and governance).

The Board determines the Company's overall risk appetite and approves the Risk Management Programme, management strategies, policies and practices to ensure that risks are identified and managed within the context of this appetite.

Inherent in the Company's risk management approach are the requirements to:

- meet regulatory and compliance obligations;
- protect the Company's capital and desired financial strength rating;
- enhance risk-return within the Company's risk appetite;
- achieve transparency of the Company's risk profile; and
- embed adequate controls to guard against excessive risk or undue risk concentration.

Senior management is responsible for implementing and assessing the effectiveness of risk management strategies and internal controls of the Company in accordance with the overarching Risk Management Programme, policies and procedures covering risk identification, rating, assessment, treatment and ongoing management (including reporting).

The life insurance activities of the Company are concerned with the pricing, acceptance and management of the mortality and morbidity risks of lives insured. The risks underwritten by the Company are actively managed to ensure they do not adversely affect the Company's ability to pay benefits and claims when due. Compliance and operational risks are controlled and monitored to maintain the efficiency of the Company as well as to manage the risk of non-compliance.

The Company's Risk Oversight Committee ('WLL ROC') meets quarterly and is responsible for overseeing the effectiveness and implementation of the Risk Management Programme. The WLL ROC oversees and manages all risks inherent in the operations of the Company. Material matters are escalated to the Company's Board, the WBC NZ Executive Risk Committee and if required the WBC Board Risk and Compliance Committee, the WBC Board Audit Committee and the CEO of WBC will be notified.

As prescribed by Section 73 of the Insurance (Prudential Supervision) Act 2010 ('IPSA'), the Company maintains the Risk Management Programme and this is reviewed regularly. The Risk Management Programme consists of the Board Risk Appetite Statement and Risk Management Framework.

b. Risk Management Framework

The Company has adopted the 'Three Lines of Defence' approach to risk management. Each 'Line of Defence' is responsible for establishing its own risk controls and processes for determining whether those controls continue to be adequate and effective. Each subsequent 'Line of Defence' also oversees and advises on the adequacy of the processes and controls at the preceding level and considers them in forming its views on the adequacy and effectiveness of risk management.

The Company accepts and manages risks that arise from business activities, provided such risks are within the Company's defined risk appetite and where applicable, the Company receives an appropriate risk-adjusted return for taking those risks.

c. Categories of risks

The key risks that the Company is subject to are specific insurance risks and risks arising from the general business environment.

The Risk Management Framework identifies six broad categories of risk:

- Insurance risk - the risk of volatility in the number or severity of insured events, and the inherent uncertainty in relation to insurance liabilities;
- Other financial risks (credit risk, market risk and liquidity risk) - the potential loss arising from open positions in interest rate and equity products, which are exposed to general and specific market movements;
- Compliance risk - the risk of legal or regulatory sanction, financial loss, or loss to reputation arising from the failure to abide by the compliance obligations required of the Company;
- Operational risk - the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events;
- Environmental, social and governance ('ESG') risk - the risk that the Company damages its reputation or financial performance due to failure to recognise or address material existing or emerging sustainability related ESG issues; and
- Reputation risk - the risk to earnings from negative public opinion resulting from the loss of reputation or public trust and standing.

Additional details surrounding the risk management activities relating to the management of these risks follows.

(i) Insurance risk

Insurance risk manifests as the inherent uncertainty as to the occurrence, amount and timing of insurance liabilities. The Company is exposed to this risk through its underwriting philosophy, product design, retention limits, reinsurance arrangements, mortality / morbidity fluctuations and trends, natural disasters and the possibility of pandemics.

To manage insurance risk, the Company has various risk mitigation systems in place:

- Claims fluctuation risk - the Company maintains actuarial models to value the in-force book of individual policies as is used as a key input in the pricing of policies. The Company's claims performance is closely monitored and reported on. Claims fluctuations are managed through reinsurance arrangements;
- Underwriting risk - insurance policies underwritten by the Company are subject to approval by a specialist underwriter who reviews each application against defined standards. The Company ensures that underwriting standards remain up to date and in line with industry and reinsurer standards;
- Reinsurance risk - the Company obtains reinsurance cover for all life insurance policies with a sum insured above the risk retention levels approved by the Board. The Company also has catastrophe reinsurance cover in place;

Westpac Life-NZ- Limited

Notes to financial statements

Note 4. Risk management policies and procedures (continued)

- Lapse risk - the Company actively monitors and manages lapse rates; and
- Concentration risk - the Company maintains a retention limit per life and reinsures the excess.

Under the Company's internal reporting system the financial and operating results, mortality and morbidity experience and expenses are monitored quarterly against budget projections. In addition, detailed annual actuarial investigations are performed into the mortality, morbidity and persistency experience of the life insurance products. Concentrations of risk based on individual lives are managed through the use of surplus reinsurance arrangements whereby the Company's maximum exposure to any individual life is capped. A product pricing process ensures that profitability is not materially impacted by changes to the age and gender profile of the in-force business. The Company conducts sensitivity analysis to quantify exposure to changes in risks affecting the key underlying variables and further detail is provided in Note 3.

(ii) Other financial risks

The Company is exposed to a range of financial risks through its financial assets, reinsurance assets and insurance liabilities. The key components of financial risk are as follows:

- Credit risk - the potential for financial loss where a counterparty fails to meet its financial obligations to the Company;
- Market risk - these risks are monitored daily against a comprehensive limit framework based on longer term risk/return objectives. The principal risk components of this monitoring process are:
 - Interest rate risk - the potential loss arising from changes in the value of financial instruments and policy liabilities, due to changes in market interest rates;
 - Currency risk - the potential loss arising from changes in the value of financial instruments due to changes in foreign exchange rates or their implied volatilities; and
 - Equity price risk - the potential loss arising from decline in value of equity instruments due to changes in their quoted market value or implied volatilities; and
- Liquidity risk - the risk that the Company will not be able to fund assets and meet obligations as they come due, without incurring unacceptable losses.

The Company's policies for managing the above financial risks are set out below.

Credit risk

Credit risk is the potential for financial loss where a counterparty fails to meet its financial obligations to the Company. It arises primarily from the Company's relationship with reinsurance providers.

Financial assets which potentially subject the Company to concentrations of credit risk consist of cash and cash equivalents, financial assets at fair value through profit or loss and reinsurance recoveries receivable. Related risks include resilience risk and asset concentration risk.

The following policies and procedures are in place to mitigate the Company's exposure to credit risk:

- exposures to counterparties are monitored and controlled to ensure significant deterioration in credit quality is identified, credit risk management information is accurate and complete and excessive concentrations of credit risk are identified and controlled;
- financial strength ratings of reinsurers are monitored and the Company seeks to maintain reinsurance providers above agreed minimum financial strength ratings;
- credit risk limits for investment assets are defined within a recognised rating scale and managed for the Company by the appointed investment portfolio managers. The Risk Management Framework also sets out acceptable credit quality ratings for investments that may be held; and
- credit risk in respect of customer balances is actively monitored and losses incurred on non-payment of premiums or contributions will only persist during the grace period specified in the policy document until expiry, when the policy is terminated.

As part of its overall risk management programme the Company cedes a proportion of its insurance risk. While these cessions mitigate insurance risk, the amounts recoverable from reinsurers expose the Company to credit risk. Exposure to and the credit quality of reinsurance counterparties are actively monitored.

The following table provides information regarding the credit risk exposure of the Company. The credit quality of these financial assets that are neither past due nor impaired is shown by classifying those assets according to Standard & Poor's counterparty credit ratings. AAA is the highest possible rating.

	30 September 2014					Past Due But not Impaired	Total
	Neither past due nor impaired				Subtotal \$'000	Impaired \$'000	Total \$'000
	AAA \$'000	AA \$'000	A \$'000	Not Rated \$'000			
Financial assets subject to credit risk							
Cash and cash equivalents	-	8,174	-	-	8,174	-	8,174
Financial assets at fair value through profit or loss ¹	5,838	36,355	-	-	42,193	-	42,193
Reinsurance recoveries receivable	-	8,707	-	-	8,707	-	8,707
Other assets	-	-	1562	177	1739	-	1739
Total maximum exposure to credit risk	5,838	53,236	1562	177	60,813	-	60,813

¹ The amount excludes investments in unit trusts as they are treated as investments in equity instruments and hence they are not regarded as being exposed to credit risk for the purpose of this disclosure.

Westpac Life-NZ- Limited

Notes to the financial statements

Note 4. Risk management policies and procedures (continued)

30 September 2013

	Neither past due nor impaired				Subtotal	Past Due But not Impaired	Total
	AAA	AA	A	Not Rated			
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Financial assets subject to credit risk							
Cash and cash equivalents	-	12,120	-	-	12,120	-	12,120
Derivative financial instruments	-	1018	-	-	1018	-	1018
Financial assets at fair value through profit or loss ¹	2,590	26,380	-	-	28,970	-	28,970
Reinsurance recoveries receivable	-	7,677	-	-	7,677	-	7,677
Other assets	-	-	1310	255	1565	-	1565
Total maximum exposure to credit risk	2,590	47,185	1310	255	51,350	-	51,350

¹ The amount excludes investments in unit trusts as they are treated as investments in equity instruments and hence they are not regarded as being exposed to credit risk for the purpose of this disclosure.

Market risk

Market risk is the risk of an adverse impact on earnings resulting from changes in market factors such as foreign exchange rates, interest rates, commodity prices and equity prices.

The main market risk that the Company faces is interest rate risk. This reflects the underlying nature of its investments and liabilities. The Company's investment strategies for the Shareholder Fund and Statutory Fund are approved by the Board. The investment strategies are reviewed as required and changes are made in line with changing financial market conditions.

To manage market risk arising from policy liabilities, the Company uses derivatives to manage interest rate risk. This is achieved by implementing an interest rate swap arrangement.

To mitigate market risk arising from financial assets at fair value through profit or loss, the Company's investment manager has implemented the following controls:

- trading authorities and responsibilities are clearly delineated at all levels to ensure accountability;
- a structured system of limits and reporting of exposures against these exist for all trading activities; and
- models are used to determine the risk and impact on profit or loss.

In addition to these controls, the Company's investment manager uses derivatives to:

- protect an asset or portfolio against a fluctuation in market value;
- reduce the transaction costs of achieving a desired market exposure;
- immediately adjust the asset exposure within the established strategy;
- adjust the duration of fixed interest portfolios; or
- manage the exposure within a portfolio to fluctuations in interest rates and foreign currency exchange rates.

Interest rate risk

Interest rate risk is the potential loss arising from changes in the value of financial instruments due to changes in market interest rates.

The Company is exposed to interest rate risk in that future interest rate movements will affect cash flows, the market value of fixed interest assets, and the market value of unit trusts which hold fixed interest assets.

The Company is also exposed to interest rate risk on obligations arising from its life insurance contracts. A sensitivity analysis of the policy liabilities is disclosed in Note 3. The sensitivity analysis does not include variables such as investments and reinsurance recoveries as these are not deemed material with respect to interest rate risk.

Currency risk

The Company does not have a direct exposure to foreign currency risk as it does not have foreign currency denominated financial instruments.

Westpac Life-NZ- Limited

Notes to the financial statements

Note 4. Risk management policies and procedures (continued)

Equity price risk

The Company is exposed to equity price risk arising from its investments in unit trusts. The underlying investments of these unit trusts indirectly expose the Company to various risks such as interest rate risk, foreign currency risk and credit risk. However, these risks are assumed to be captured by equity price risk given that these investments are considered to be equity instruments.

The following table provides the after tax impact on profit or loss and equity for a reasonably possible change in equity prices:

	2014 \$'000	2013 \$'000
0.75% decrease in unit trust prices (2013: 0.75%)	(1,040)	(1,188)
0.75% increase in unit trust prices (2013: 0.75%)	1,040	1,188

Liquidity risk

Liquidity risk is the risk that the Company will not be able to fund assets and meet obligations as they come due, without incurring unacceptable losses.

The liquidity of both physical and derivative positions is factored into the investment decision making process. Considerations include market depth, possible market disruptions and standard settlement times.

The liquidity position of the Company is monitored regularly and funds backing life insurance contracts are significantly invested in readily realisable assets such as cash, short term securities and unit trust investments. Minimum cash balances required to be held are established to ensure that sufficient funds are available to meet all potential policy holder and shareholder obligations.

The following liquidity analysis of financial assets and liabilities presents the contractual undiscounted cash flows receivable and payable, and is based on the remaining period as at balance date to the contractual maturity. The balances in the tables below may not agree to the balance sheet as the tables incorporate all cash flows on an undiscounted basis, including both principal and associated future interest income/expense accruals.

The Company's undiscounted maturity profiles for financial assets and liabilities are as follows:

30 September 2014					
	Up to 1 Year ¹ \$'000	1 to 5 Years \$'000	Over 5 Years \$'000	No Specific Maturity ² \$'000	Total \$'000
Financial assets					
Cash and cash equivalents	8,174	-	-	-	8,174
Derivative financial instruments	-	-	-	-	-
Financial assets at fair value through profit or loss	42,193	-	-	192,663	234,856
Reinsurance recoveries receivable	6,374	863	1,470	-	8,707
Other assets	1,739	-	-	-	1,739
Total financial assets	58,480	863	1,470	192,663	253,476
Financial liabilities					
Derivative financial instruments	2,636	-	-	-	2,636
Due to related entities	5,380	-	-	-	5,380
Claims reserve	21,610	1,056	1,721	-	24,387
Other liabilities	5,129	-	-	-	5,129
Total financial liabilities	34,755	1,056	1,721	-	37,532

¹ Amounts classified under 'Up to 1 Year' refer to all commitments which are either contractually due within the timeframe or payable on demand.

² Amounts classified under 'No Specific Maturity' refer to investments in unit trusts.

30 September 2013					
	Up to 1 Year ¹ \$'000	1 to 5 Years \$'000	Over 5 Years \$'000	No Specific Maturity ² \$'000	Total \$'000
Financial assets					
Cash and cash equivalents	12,120	-	-	-	12,120
Derivative financial instruments	1,018	-	-	-	1,018
Financial assets at fair value through profit or loss	26,380	-	-	210,805	237,185
Reinsurance recoveries receivable	5,487	883	1,307	-	7,677
Other assets	1,565	-	-	-	1,565
Total financial assets	46,570	883	1,307	210,805	259,565
Financial liabilities					
Derivative financial instruments	-	-	-	-	-
Due to related entities	6,080	-	-	-	6,080
Claims reserve	21,936	995	1,491	-	24,422
Other liabilities	1,183	-	-	-	1,183
Total financial liabilities	29,199	995	1,491	-	31,685

¹ Amounts classified under 'Up to 1 Year' refer to all commitments which are either contractually due within the timeframe or payable on demand.

² Amounts classified under 'No Specific Maturity' refer to investments in unit trusts.

Westpac Life-NZ- Limited

Notes to the financial statements

Note 4. Risk management policies and procedures (continued)

(iii) Compliance risk

Effective compliance risk management is about identifying compliance obligations, and implementing and testing controls to ensure these obligations are met. The Company's compliance obligations include all obligations that have an impact on the Company including, but not limited to, obligations arising under the IPSA, its related regulations, licence conditions and standards issued by the RBNZ.

The Board and senior management commit to compliance management through the establishment and maintenance of a dedicated compliance function in support of the Risk Management Framework. Staff are required to be proactive in becoming aware of their compliance obligations and implement the obligations in their day to day business activities, including actively monitoring and reporting compliance failures.

The Company maintains a record of business obligations and action plans which set out the measures that it needs to apply to ensure compliance with the relevant compliance obligations.

(iv) Operational risk

Operational risk arises from inadequate or failed internal processes, people and systems or from external events. Operational risk has the potential, as a result of the way business objectives are pursued, to negatively impact the organisation's financial performance, customer service and/or reputation in the community or cause other damage to the business.

The Company's Risk Management Programme applies the principles of WBC's Group Operational Risk Management Framework which outlines the overall approach to managing operational risk within risk appetite. That framework also outlines the approach to risk and control management, incident management, external incident data, reporting and monitoring operational risk in projects, risk acceptances and business continuity.

(v) Reputation and Environment, Social and Governance ('ESG') risks

Reputation risks arise from various sources and do not follow legal structures and operational models. Reputation risk is driven by the perception of external stakeholders. Reputation risk may also arise from services provided by third party insurance companies, whose products the Company distributes. Understanding and proactive management of the complex relationships between the Company and third party insurance providers is a critical aspect of reputation risk management in the Company. The Company's reputation risk is closely interlinked with ESG risk and arises predominantly from stakeholders' expectations around the Company's conduct risk. The Company manages reputation risk and ESG risk by assessing and reviewing available information, including customer complaints and market issues and trends. The Company engages with the distribution channels to ensure that sales conduct is in line with the expectations of regulators and other external stakeholders. The assessment of reputation and ESG risk also forms part of the claims process and the Company has processes in place to ensure that all claims are treated in good faith and with dignity.

In addition to the above risks, the Company also manages capital and regulatory risk.

Capital and regulatory risk

The Company holds sufficient capital to mitigate the impact of losses which exceed the Company's ongoing surpluses. The Company strictly adheres to minimum regulatory capital requirements. In addition, the Board has defined a target level of capital to be held to ensure ongoing adherence with regulatory minimums.

Solvency reserves maintained by the Company are disclosed in Note 20.

Note 5. Revenue and other income

	Year Ended 30 September 2014 \$'000	Year Ended 30 September 2013 \$'000
Insurance premium revenue	136,575	126,748
Investment income:		
Deposits with other financial institutions - interest income	711	371
Fixed rate notes - interest income	837	704
Fair value gains on financial assets at fair value through profit or loss	9,161	6,032
Total investment income	10,709	7,107
Fees income and other income:		
Non risk fees	18,211	16,339
Other	262	234
Fair value (losses)/gains on derivative financial instruments	(4,737)	3,456
Total fee income and other income	13,736	20,029
Reinsurance recoveries revenue	7,536	7,102
Total revenue and other income	168,556	160,986

Westpac Life-NZ- Limited

Notes to the financial statements

Note 6. Other operating expenses

	Year Ended 30 September 2014 \$'000	Year Ended 30 September 2013 \$'000
Salaries and other staff expenses		
Salaries and wages	4,118	4,032
Movement in employee entitlements	14	(123)
Defined contribution plan	342	279
Restructuring costs	-	10
Other staff expenses	89	19
Total salaries and other staff expenses (refer to Note 15)	4,563	4,317
Equipment and occupancy expenses		
Depreciation:		
Equipment	2	9
Lease and rental expenses	1	4
Other equipment and occupancy expenses	3	6
Total equipment and occupancy expenses	6	19
Other expenses		
Audit fees		
Audit and review of the financial statements	100	48
Other assurance services - solvency return	18	5
Management fees - related entities (refer to Note 15)	2,144	2,223
Policy expenses - related entities (refer to Note 15)	38,759	37,479
Policy expenses - other	83	145
Postage and freight	66	77
Purchased services	469	575
Stationery	326	151
Telecommunication costs	2	-
Training	5	21
Travel	77	90
Other	4,927	3,886
Total other expenses	46,976	44,700
Total other operating expenses	51,545	49,036
Components of other operating expenses:		
Investment management expenses	532	648
Policy acquisition expenses:		
Commissions	15,865	16,933
Other	3,161	3,269
Policy maintenance expenses:		
Commissions	26,322	23,173
Other	5,665	5,013
Total other operating expenses	51,545	49,036

Westpac Life-NZ- Limited

Notes to the financial statements

Note 7. Income tax expense

	Year Ended 30 September 2014 \$'000	Year Ended 30 September 2013 \$'000
Income tax expense		
Current tax		
- Current year	6,628	7,240
- Prior year adjustments	246	(580)
Deferred tax		
- Current year	4,090	51
- Prior year adjustments	(70)	101
Total income tax expense	10,894	6,812
Reconciliation of income tax expense to profit before income tax expense		
Profit before income tax expense	65,992	56,910
Tax calculated at tax rate of 28% (30 September 2013: 28%)	18,478	15,935
Tax effect of amounts which are not deductible/(assessable) in calculating taxable income:		
Income not subject to tax	(7,766)	(8,647)
Expenses not deductible for tax purposes	6	3
Prior year adjustments	176	(479)
Total income tax expense	10,894	6,812

Note 8. Imputation credit account

	2014 \$'000	2013 \$'000
Imputation credits available for use in subsequent reporting periods	238	145

Note 9. Margin on services profit

	Year Ended 30 September 2014 \$'000	Year Ended 30 September 2013 \$'000
Profit after income tax expense arose from:		
Planned margins of revenues over expenses	38,148	35,096
Difference between actual and assumed experience	4,384	1,375
Profit on non-projected business	4,954	4,768
Loss recognition on groups of related products	-	-
Investment earnings on assets in excess of policy liabilities	5,002	5,167
Net commission on fire and general agency	2,785	2,412
Adjustments for prior year (under)/over provision	(174)	1,290
Other sources	(1)	(1)
Profit after income tax expense	55,098	50,098

Westpac Life-NZ- Limited

Notes to the financial statements

Note 10. Financial assets at fair value through profit or loss

	2014 \$'000	2013 \$'000
New Zealand Government securities	31,384	26,380
Corporate bonds	10,809	2,590
Unit trusts managed by related entities	192,663	208,215
Total financial assets at fair value through profit or loss	234,856	237,185
Amounts expected to be recovered within 12 months	234,856	237,185
Amounts expected to be recovered after 12 months	-	-
Total financial assets at fair value through profit or loss	234,856	237,185

Note 11. Policy liabilities

	2014 \$'000	2013 \$'000
Balance at the beginning of the year	(51,464)	(48,564)
Changes in policy liabilities	(10,444)	(2,900)
Balance at the end of the year	(61,908)	(51,464)
Components of policy liabilities:		
Future policy benefits	768,839	725,842
Balance of future expenses	379,120	331,344
Future charges for acquisition costs	-	-
Planned margins of revenues over expenses	462,469	437,950
Balance of future revenues	(1,648,858)	(1,526,108)
Policy liabilities at the end of the year	(38,430)	(30,972)
Less deferred tax liability element of policy liabilities (refer to Note 12)	(23,478)	(20,492)
Balance at the end of the year	(61,908)	(51,464)
Policy liabilities excluding deferred tax liability:		
Amounts expected to be settled within 12 months	2,336	4,707
Amounts expected to be settled after 12 months	(64,244)	(56,171)
Total policy liabilities	(61,908)	(51,464)

Note 12. Deferred tax liabilities

	2014 \$'000	2013 \$'000
Deferred tax liabilities attributable to the following:		
PIE income	1,258	226
Property, plant and equipment	(1)	(3)
Policy liabilities	23,478	20,492
Balance at the end of the year	24,735	20,715
Amounts expected to be settled within 12 months	2,431	1,249
Amounts expected to be settled after 12 months	22,304	19,466
Balance at the end of the year	24,735	20,715
Movements		
Balance at the beginning of the year	20,715	20,563
Charged to the income statement	4,020	152
Balance at the end of the year	24,735	20,715

Deferred tax on policy liabilities

Life insurance policy liabilities represent the net present value of estimated future cash flows and planned profit margins. Using the margin on services methodology, planned after tax profit margins are recognised in the statement of comprehensive income over the period services are provided to policy holders.

Westpac Life-NZ- Limited

Notes to the financial statements

Note 13. Other liabilities

	2014 \$'000	2013 \$'000
Accrued expenses	1,158	147
Other liabilities	3,971	36
Provision for annual leave and other staff benefits	401	400
Total other liabilities	5,530	1,583
Amounts expected to be settled within 12 months	5,530	1,583
Amounts expected to be settled after 12 months	-	-
Total other liabilities	5,530	1,583

Note 14. Equity

	2014 Number of Issued Shares	2013 Number of Issued Shares
Balance at the beginning of the year	79,520,000	79,520,000
Balance at the end of the year¹	79,520,000	79,520,000

¹ Of the 79,520,000 ordinary shares issued, 6,000,000 ordinary shares are partially paid.

Ordinary shares

Subject to the constitution of the Company, each ordinary share confers on its holder the right to one vote on a poll at meetings of shareholders, the right to an equal share in dividends authorised by the Board and the right to an equal share in the distribution of the surplus assets of the Company in the event of liquidation.

The 6,000,000 partially paid ordinary shares originally issued for \$1.00 are paid up to \$0.28 per share. These partially paid ordinary shares carry full voting rights and participate pro rata in dividends. The unpaid balance can be called at any time by the Board.

The shares have no par value, as per section 38 of the Companies Act 1993.

Dividends paid

In the year ended 30 September 2014, the Company paid dividends in respect of the ordinary shares amounting to \$60,000,000 (30 September 2013: nil). The weighted average amount of dividends per share is \$0.7978 (30 September 2013: nil).

Note 15. Related entities

Ultimate holding company

The Company is a wholly-owned subsidiary of Westpac Financial Services Group-NZ-Limited. The ultimate parent company is WBC, which is incorporated in Australia and whose financial statements are available, free of charge, at www.westpac.com.au.

All entities controlled by WBC, either directly or indirectly, are considered to be related entities of the Company.

Nature of transactions

Current account banking facilities and other financial products are provided by the WBC New Zealand Branch ('NZ Branch') to the Company on normal commercial terms.

Derivative transactions (interest rate swaps) are carried out between the NZ Branch and the Company on normal commercial terms.

The Company received interest on cash deposits with the NZ Branch.

Insurance premium revenue was received from Westpac New Zealand Limited ('WNZL').

The Company's investment income is from the investments managed by BT Funds Management (NZ) Limited ('BTFMNZL'). The Company also invests in unit trusts for which BTFMNZL is the manager. The fair value of that investment is disclosed in Note 10.

Investment management services in respect of the Statutory Fund No. 1 and Shareholder Fund (refer to Note 18) are carried out by BTFMNZL and the Company pays investment management fees to BTFMNZL in respect of these services, which include the management of some of the Company's cash and cash equivalents which are deposited with the NZ Branch. The outstanding balance at year end is included in Sundry creditors - BTFMNZL.

Life insurance products are sold on behalf of the Company by WNZL and have previously been sold by The Warehouse Financial Services Limited ('TWFSL'). TWFSL is a controlled entity of WNZL. The Company pays sales commissions to these entities. The outstanding balance at year end is included in Accrued expenses - WNZL.

Salaries and other staff expenses are reimbursed by the Company to entities controlled by WBC. Under existing employment agreements, these salaries and other staff expenses relate to employees who are employed by other entities controlled by WBC. Transactions in relation to these related parties are arranged on a cost recovery basis. The outstanding balance at year end is included in Sundry creditors - WNZL.

Fees for support services are paid by the Company to WNZL for certain operating costs incurred by WNZL. These transactions are arranged on a cost recovery basis. The outstanding balance at year end is included in Sundry creditors - WNZL.

Except for cash and cash equivalents, and derivative financial instruments, amounts due to and from related entities are normally settled within 90 days.

The Company paid dividends in the current year to its parent entity, refer to Note 14.

Westpac Life-NZ- Limited

Notes to the financial statements

Note 15. Related entities (continued)

Income from and expenses to related entities

	Year Ended 30 September 2014 \$'000	Year Ended 30 September 2013 \$'000
Income		
Interest income from NZ Branch	22	4
Insurance premium revenue from WNZL	286	300
Investment income from investments managed by BTFMNZL	10,687	7,107
Total income	10,995	7,411
Expenses		
Investment management fees to BTFMNZL ¹	483	602
Commissions to TWFSL and WNZL ¹	38,759	37,479
Salaries and other staff expenses to WNZL ¹	4,563	4,317
Fees for support services to WNZL ¹	1,661	1,621
Total expenses	45,466	44,019

¹ Included in other operating expenses in the statement of comprehensive income.

Due from and to related entities

	2014 \$'000	2013 \$'000
Cash and cash equivalents		
Deposits held with NZ Branch	636	822
Deposits under the management of BTFMNZL and deposited with NZ Branch	7,538	11,298
Total cash and cash equivalents	8,174	12,120
Derivative financial instruments		
Derivative financial instruments transacted with NZ Branch (at fair value) ¹	-	1018
Total derivative financial instruments	-	1018
Total due from related entities	8,174	13,138
Settlement profile:		
Amounts expected to be recovered within 12 months	8,174	13,138
Amounts expected to be recovered after 12 months	-	-
Total due from related entities	8,174	13,138
Derivative financial instruments		
Derivative financial instruments transacted with NZ Branch (at fair value) ¹	2,636	-
Total derivative financial instruments	2,636	-
Due to related entities		
Sundry creditors - BTFMNZL	55	44
Sundry creditors - WNZL	2,167	2,962
Accrued expenses - WNZL	3,158	3,074
Total due to related entities	5,380	6,080
Total due to related entities including derivative financial instruments	8,016	6,080
Settlement profile:		
Amounts expected to be recovered within 12 months	8,016	6,080
Amounts expected to be recovered after 12 months	-	-
Total due to related entities	8,016	6,080

¹ The notional amount of the derivative financial instruments at 30 September 2014 was \$2,286,600,000 (30 September 2013: \$1,516,000,000). The fair value is disclosed in the balance sheet.

Note 16. Key management personnel

In accordance with the Board Charter, at least half of the Directors of the Company are to be independent Non-executive Directors. The Company currently has a target board composition of six Directors.

The Board has adopted a number of governance policies in accordance with the RBNZ Governance Guidelines. Non-executive Directors appointed to the Board are considered by the WBC Nominations Committee. An assessment of fitness and propriety of Directors and senior management is conducted in accordance with the Company's Fit and Proper Policy.

Westpac Life-NZ- Limited

Notes to the financial statements

Note 16. Key management personnel (continued)

Key management personnel are defined as being Directors and senior management of the Company. The Company paid no compensation to its non-independent key management personnel during the year (year ended 30 September 2013: nil) as any compensation is paid by other entities controlled by WBC and, where appropriate, is reimbursed by the Company as agreed with the relevant employee entity. However the Company paid compensation to its independent key management personnel (Independent Directors) during the year amounting to \$165,000 (30 September 2013: \$165,000).

Note 17. Fair value of financial instruments

Financial assets and financial liabilities are measured on an ongoing basis either at fair value or at amortised cost in the balance sheet. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value disclosure does not cover those instruments that are not considered financial instruments from an accounting perspective such as income taxes and intangible assets.

Quoted market prices, when available, are used as the measure of fair values. Where quoted market prices do not exist, fair values presented are estimates derived using present values or other market accepted valuation techniques. These techniques involve uncertainties and are affected by the assumptions used and judgments made regarding risk characteristics of various financial instruments, discount rates, estimates of future cash flows, future expected loss experience and other factors. Changes in assumptions could significantly affect these estimates and the resulting fair values.

The tables below summarise the categories of financial instruments and the carrying value of all financial instruments of the Company.

30 September 2014					
	Classified at Fair Value through Profit or Loss			Financial Liabilities at Amortised Cost	Total Carrying Amount
	Held for Trading	Designated Upon Initial Recognition	Loans and Receivables		
	\$'000	\$'000	\$'000	\$'000	\$'000
Financial assets					
Cash and cash equivalents	-	-	8,174	-	8,174
Financial assets at fair value through profit or loss	-	234,856	-	-	234,856
Reinsurance recoveries receivable	-	-	8,707	-	8,707
Other assets	-	-	1,739	-	1,739
Total financial assets	-	234,856	10,620	-	253,476
Financial liabilities					
Derivative financial instruments	2,636	-	-	-	2,636
Due to related entities	-	-	-	5,380	5,380
Other liabilities	-	-	-	5,129	5,129
Total financial liabilities	2,636	-	-	10,509	18,145

30 September 2013					
	Classified at Fair Value through Profit or Loss			Financial Liabilities at Amortised Cost	Total Carrying Amount
	Held for Trading	Designated Upon Initial Recognition	Loans and Receivables		
	\$'000	\$'000	\$'000	\$'000	\$'000
Financial assets					
Cash and cash equivalents	-	-	12,120	-	12,120
Derivative financial instruments	1018	-	-	-	1018
Financial assets at fair value through profit or loss	-	237,185	-	-	237,185
Reinsurance recoveries receivable	-	-	7,677	-	7,677
Other assets	-	-	1,565	-	1,565
Total financial assets	1018	237,185	21,362	-	259,565
Financial liabilities					
Due to related entities	-	-	-	6,080	6,080
Other liabilities	-	-	-	1,183	1,183
Total financial liabilities	-	-	-	7,263	7,263

Westpac Life-NZ- Limited

Notes to the financial statements

Note 17. Fair value of financial instruments (continued)

Fair value hierarchy

The Company categorises all fair value measurements according to the following fair value hierarchy:

- **Quoted market price ('Level 1')**
Financial instruments valued using recent unadjusted quoted prices in active markets for identical assets or liabilities.
- **Valuation technique using observable inputs ('Level 2')**
Valuation techniques using observable market prices applied to these assets or liabilities include the use of discounted cash flow analysis and other valuation techniques widely used and accepted by market participants. Management judgment will be used in the application of these techniques (e.g. the selection of the appropriate discount rate to value a bond).
- **Valuation technique with significant non-observable inputs ('Level 3')**
Financial instruments valued using at least one input that could have a significant effect on the instrument's valuation which is not based on observable market data (unobservable input). Unobservable inputs are those not readily available in an active market due to illiquidity or complexity of the product. These inputs are generally derived and extrapolated from other relevant market data and calibrated against current market trends and historic transactions.

A financial instrument's categorisation within the valuation hierarchy is based on the lowest level input that is significant to the fair value measurement.

The fair value estimates were determined by application of the methods and assumptions described below.

New Zealand Government securities and corporate bonds

Government bonds and corporate bonds are valued using observable market prices which are sourced from broker quotes, inter-dealer prices or consensus pricing services.

Investment in unit trusts

Unit prices provided by the fund manager were used to determine the fair value of investments in unlisted unit trusts.

Derivatives

Interest rate derivative cash flows are valued using interest rate curves whereby observable market data is used to construct the term structure of forward rates. This term structure is used to project and discount future cash flows based on the terms of the trade.

The following table summarises the attribution of the financial instruments to the fair value hierarchy based on the fair value measurement basis after initial recognition.

	30 September 2014			
	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
Financial assets				
New Zealand Government securities	31,384	-	-	31,384
Corporate bonds	-	10,809	-	10,809
Unit trusts	-	192,663	-	192,663
Total financial assets carried at fair value	31,384	203,472	-	234,856
Financial liabilities				
Derivative financial instruments	-	2,636	-	2,636
Total financial liabilities carried at fair value	-	2,636	-	2,636

	30 September 2013			
	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
Financial assets				
New Zealand Government securities	-	26,380	-	26,380
Corporate bonds	-	2,590	-	2,590
Unit trusts	-	208,215	-	208,215
Derivative financial instruments	-	1018	-	1018
Total financial assets carried at fair value	-	238,203	-	238,203

For cash and cash equivalents, due to related entities, reinsurance recoveries receivable, other assets and other liabilities which are carried at amortised cost, the carrying amount is equivalent to fair value. These items are either short-term in nature or repriced frequently, and are of a high credit rating.

Westpac Life-NZ- Limited

Notes to the financial statements

Note 17. Fair value of financial instruments (continued)

In the financial year WBC, being a primary dealer, has seen and participated in increased liquidity in the Government bond markets as part of its broader financial markets strategy. Therefore 30 September 2014 financial assets include \$31,384,000 of New Zealand Government securities which were transferred from Level 2 to Level 1 of the fair value hierarchy. There have been no other transfers between Levels 2 and 1 during the year ended 30 September 2014 (transfers between Levels 2 and 1 for 30 September 2013: nil). Transfers in and transfers out are reported using the end-of-period fair values.

There have also been no transfers into or out of Level 3 during the year ended 30 September 2014 (30 September 2013: nil).

Note 18. Statutory Fund

It is a requirement of the Act that a life insurer must have at least one statutory fund in respect of its life insurance business. A core requirement is that the assets in the statutory fund are only available to meet the liabilities and expenses of the life insurance business and cannot be used to support any other business of the life insurance company. Distribution of the retained profits of a statutory fund may only be made when certain solvency and other requirements are met. The Westpac Life-NZ- Limited Statutory Fund No.1 ('Statutory Fund No. 1') was established by the Company on 1 October 2012.

Abbreviated information by fund is presented below.

	Statutory Fund No. 1 \$'000	Shareholder Fund \$'000	Total All Funds \$'000
Balance sheet as at 30 September 2014:			
Cash and cash equivalents	7,903	271	8,174
Financial assets at fair value through profit or loss	227,360	7,496	234,856
Reinsurance recoveries receivable	8,707	-	8,707
Property, plant and equipment	6	-	6
Other assets	176	1,563	1,739
Total assets	244,152	9,330	253,482
Derivative financial instruments	2,636	-	2,636
Current tax liabilities	5,022	1,607	6,629
Due to related entities	4,202	178	5,380
Claims reserve	24,387	-	24,387
Policy liabilities	(61,908)	-	(61,908)
Deferred tax liabilities	24,693	42	24,735
Other liabilities	5,530	-	5,530
Total liabilities	4,562	2,827	7,389
Equity	239,590	6,503	246,093
Statement of comprehensive income for the year ended 30 September 2014:			
Net premium revenue	125,603	-	125,603
Investment income	9,627	1,082	10,709
Fee income and other income	(4,475)	18,211	13,736
Net claims and expenses	(69,756)	(14,300)	(84,056)
Profit before income tax expense	60,999	4,993	65,992
Profit after income tax expense	51,982	3,116	55,098

Westpac Life-NZ- Limited

Notes to the financial statements

Note 18. Statutory Fund (continued)

	Statutory Fund No. 1 \$'000	Shareholder Fund \$'000	Total All Funds \$'000
Balance sheet as at 30 September 2013:			
Cash and cash equivalents	11,634	486	12,120
Derivative financial instruments	1018	-	1018
Financial assets at fair value through profit or loss	173,523	63,662	237,185
Reinsurance recoveries receivable	7,677	-	7,677
Property, plant and equipment	6	-	6
Other assets	255	1310	1565
Total assets	194,113	65,458	259,571
Current tax liabilities	6,200	1,040	7,240
Due to related entities	5,047	1,033	6,080
Claims reserve	24,422	-	24,422
Policy liabilities	(51,464)	-	(51,464)
Deferred tax liabilities	20,715	-	20,715
Other liabilities	1,583	-	1,583
Total liabilities	6,503	2,073	8,576
Equity	187,610	63,385	250,995
Statement of comprehensive income for the year ended 30 September 2013:			
Net premium revenue	116,729	-	116,729
Investment income	5,245	1,862	7,107
Fee income and other income	3,688	16,341	20,029
Net claims and expenses	(74,177)	(12,778)	(86,955)
Profit before income tax expense	51,485	5,425	56,910
Profit after income tax expense	45,711	4,387	50,098

Note 19. Reconciliation of profit after income tax expense to net cash provided by operating activities

	2014 \$'000	2013 \$'000
Profit after income tax expense	55,098	50,098
Adjustments:		
Depreciation	2	9
Fair value gains on financial assets at fair value through profit or loss	(9,372)	(6,032)
Movement in due to related entities	(700)	(513)
Movement in reinsurance recoveries receivable	(1,030)	(27)
Movement in other assets	(174)	(135)
Movement in derivative financial instruments	3,654	(1,825)
Movement in current tax liabilities and deferred tax liabilities	3,409	4,675
Movement in claims reserve	(35)	2,502
Movement in policy liabilities	(10,444)	(2,900)
Movement in other liabilities	(24)	273
Net cash provided by operating activities	40,384	46,125

Westpac Life-NZ- Limited

Notes to the financial statements

Note 20. Solvency reserves

The Board's policy is to maintain a strong capital base to meet the regulatory requirements. The Act requires the Company to comply at all times with the Solvency Standard for Life Insurance Business ('Solvency Standard') issued by the RBNZ. The Directors have adopted a policy of holding a buffer amount of free capital over and above the minimum level of capital required by the Solvency Standard.

The Act requires disclosure of the solvency margins for the statutory fund, the business and assets outside the statutory fund and for the Company as a whole. These solvency margins as at 30 September are shown in the following tables.

	Statutory Fund No. 1 as at 30 September 2014 \$'000	Shareholder Fund as at 30 September 2014 \$'000	Aggregate for all Funds as at 30 September 2014 \$'000
Actual Solvency Capital	238,864	6,503	245,367
Minimum Solvency Capital	90,277	857	91,134
Solvency Margin	148,587	5,646	154,233

	Statutory Fund No. 1 as at 30 September 2013 \$'000	Shareholder Fund as at 30 September 2013 \$'000	Aggregate for all Funds as at 30 September 2013 \$'000
Actual Solvency Capital	185,930	63,385	249,315
Minimum Solvency Capital	78,450	2,249	80,699
Solvency Margin	107,480	61,136	168,616

Note 21. Contingent assets, contingent liabilities and commitments

There were no contingent assets, contingent liabilities or unrecognised contractual commitments as at 30 September 2014 (30 September 2013: nil).



Independent Auditors' Report to the shareholders of Westpac Life-NZ- Limited

Report on the Financial Statements

We have audited the financial statements of Westpac Life-NZ- Limited on pages 3 to 31 which comprise the balance sheet as at 30 September 2014, the statement of comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and the notes to the financial statements that include a summary of significant accounting policies and other explanatory information.

Directors' Responsibility for the Financial Statements

The Directors are responsible for the preparation of these financial statements in accordance with generally accepted accounting practice in New Zealand and that give a true and fair view of the matters to which they relate and for such internal controls as the Directors determine are necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' 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) and International Standards on Auditing. These standards require that we comply with relevant 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 auditors' 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 auditors consider the internal controls relevant to the Company's preparation of financial statements that give a true and fair view of the matters to which they relate, in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company'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 overall 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 carries out other services for the Company in the areas of other assurance related services. Appropriate safeguards were applied to reduce the threats to independence from the provision of other services to an acceptable level. The provision of these other services has not impaired our independence as auditors of the Company.



Independent Auditors' Report

Westpac Life-NZ- Limited

Opinion

In our opinion, the financial statements on pages 3 to 31:

- (i) comply with generally accepted accounting practice in New Zealand;
- (ii) comply with International Financial Reporting Standards; and
- (iii) give a true and fair view of the financial position of the Company as at 30 September 2014, and its financial performance and cash flows for the year then ended.

Report on Other Legal and Regulatory Requirements

We also report in accordance with Sections 16(1)(d) and 16(1)(e) of the Financial Reporting Act 1993. In relation to our audit of the financial statements for the year ended 30 September 2014:

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

Restriction on Distribution or Use

This report is made solely to the Company's shareholders, as a body, in accordance with Section 205(1) of the Companies Act 1993. Our audit work has been undertaken so that we might state to the Company's shareholders those matters which we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's shareholders, as a body, for our audit work, for this report or for the opinions we have formed.

A handwritten signature in black ink, appearing to read 'Ricardelhouse Lopes'.

Chartered Accountants
27 January 2015

Auckland

The Directors
Westpac Life-NZ-Limited
Westpac on Takutai Square
16 Takutai Square
Auckland 1010

Appointed Actuary's Report

This report has been prepared for Westpac Life-NZ-Limited ("Westpac Life") under section 78 of the Insurance (Prudential Supervision) Act 2010 ("the Act").

In my capacity as Appointed Actuary to Westpac Life, I have reviewed the actuarial information contained in, or used in the preparation of, the financial statements of Westpac Life for the year ended 30 September 2014 ("the financial statements"). For the purposes of this report "actuarial information" has the meaning given to it in section 77(4) of the Act, supplemented by paragraph 144 of the Solvency Standard for Life Insurance Business issued by the Reserve Bank of New Zealand ("the Solvency Standard").

My review has included the review and resetting of the best estimate assumptions which are used for valuation purposes, the review of the valuation results as at 30 September 2014, and the review of the solvency calculations and solvency return for Westpac Life as at 30 September 2014. It is Westpac Life's established policy to seek my advice in respect of actuarial information and to adopt that advice in Westpac Life's financial statements.

My review has been carried out in accordance with the relevant Professional Standards issued by the New Zealand Society of Actuaries, and the Solvency Standard.

I have obtained all the information and explanations that I have required from Westpac Life in relation to my review. My review is dependent upon the accuracy of the policy data upon which the policy valuations have been based. Whilst there are a small number of individual policies with erroneous data, in my opinion the policy data as at 30 September 2014 is satisfactory for the purposes of valuing Westpac Life's policy liabilities.

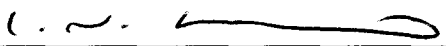
In my opinion, and from an actuarial perspective:

- (i) the actuarial information contained in the financial statements has been appropriately included in those statements;
- (ii) the actuarial information used in the preparation of the financial statements has been used appropriately; and
- (iii) as at 30 September 2014, Westpac Life was maintaining a solvency margin within each of the Westpac Life-NZ-Limited Statutory Fund No. 1 and the Westpac Life-NZ-Limited Shareholder Fund, and for Westpac Life as a whole, that would comply under the Solvency Standard.

In my role as Appointed Actuary to Westpac Life, I am an employee of Westpac New Zealand Limited, a related company of Westpac Life. My remuneration and employee benefits are paid by Westpac

New Zealand Limited and then reimbursed by Westpac Life. I was a director of Westpac Life until 31 July 2012 and I am currently a director of Westpac Life's appointed investment manager, BT Funds Management (NZ) Limited. I hold shares and options in Westpac Banking Corporation, the ultimate holding company of Westpac Life. I am a member and a Westpac appointed trustee of the Westpac New Zealand Staff Superannuation Scheme, the trustees of which hold a group life insurance policy with Westpac Life. I maintain certain personal insurance policies directly with Westpac Life, and certain personal general insurance policies with Lumley General Insurance (NZ) Limited through an agency managed by Westpac Life.

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



Ian New
Fellow of the New Zealand Society of Actuaries
Appointed Actuary, Westpac Life-NZ-Limited

27 January 2015