Westpac Life-NZ- Limited

Annual report

For the year ended 30 September 2015

Westpac Life-NZ- Limited

Contents

This annual report covers Westpac Life-NZ- Limited (the '**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 annual report of the Company comprising the financial statements of the Company and the independent auditors' report for the year ended 30 September 2015.

The Company's annual report need not comply with any of paragraphs (a) and (e) to (j) of section 211(1) of the Companies Act 1993 and the Board may prepare an annual report for the accounting period ending 30 September 2015, and for any later accounting period, which does not specify those matters.

The Board authorised this annual report on 27 January 2016.

For and on behalf of the Board.

Director
Date: 27 January 2016

Director
Date: 27 January 2016

Westpac Life-NZ- Limited

Statement of comprehensive income for the year ended 30 September

	Note	2015 $'000	2014 $'000
Insurance premium revenue	5	**141,901**	136,575
Outwards reinsurance premium expense		**(12,196)**	(10,972)
Net premium revenue		**129,705**	125,603
Investment income	5	**10,001**	10,709
Fee income and other income	5	**11,720**	13,736
Net revenue		**151,426**	150,048
Insurance claims and rebate expense		**(61,854)**	(50,491)
Reinsurance recoveries revenue	5	**10,864**	7,536
Net claims expenses		**(50,990)**	(42,955)
Changes in policy liabilities	11	**17,815**	10,444
Other operating expenses	6	**(54,616)**	(51,545)
Net claims and expenses		**(87,791)**	(84,056)
Profit before income tax expense		**63,635**	65,992
Income tax expense	7	**(12,342)**	(10,894)
Profit after income tax expense		**51,293**	55,098
Other comprehensive income		**-**	-
Total comprehensive income, net of tax		**51,293**	55,098
Profit after income tax expense and total comprehensive income, net of tax, attributable to:			
Owners of the Company		**51,293**	55,098
		51,293	55,098

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

		Attributable to owners of the Company		
	Note	Share Capital $'000	Retained Profits $'000	Total $'000
As at 1 October 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
Year ended 30 September 2015				
Profit after income tax expense		-	51,293	51,293
Total comprehensive income for the year ended 30 September 2015		-	51,293	51,293
Transactions with owners:				
Dividends paid on ordinary shares	14	-	(85,000)	(85,000)
As at 30 September 2015		75,200	137,186	212,386

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	2015 $'000	2014 $'000
Assets			
Cash and cash equivalents	15	6,936	8,174
Financial assets at fair value through profit or loss	10	185,781	234,856
Reinsurance recoveries receivable		11,378	8,707
Property, plant and equipment		15	6
Other assets		1,953	1,739
Total assets		206,063	253,482
Liabilities			
Derivative financial instruments	15	3,331	2,636
Current tax liabilities		8,120	6,629
Due to related entities	15	5,685	5,380
Claims reserve		25,616	24,387
Policy liabilities	11	(79,723)	(61,908)
Deferred tax liabilities	12	28,966	24,735
Other liabilities	13	1,682	5,530
Total liabilities/(negative liabilities)		(6,323)	7,389
Net assets		212,386	246,093
Equity			
Share capital	14	75,200	75,200
Retained profits		137,186	170,893
Total equity attributable to owners of the Company		212,386	246,093

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	2015 $'000	2014 $'000
Cash flows from operating activities			
Premiums received		141,732	136,575
Reinsurance payments		(11,974)	(10,972)
Interest income received		2,010	1,548
Other income received		10,384	17,005
Claims and rebates payments		(60,625)	(50,526)
Reinsurance income received		8,193	6,506
Other operating expenses paid		(58,378)	(52,267)
Income taxes paid		(6,620)	(7,485)
Net cash provided by operating activities	19	24,722	40,384
Cash flows from investing activities			
Sale of investments		157,893	248,680
Purchase of investments		(98,841)	(233,008)
Purchase of property, plant and equipment		(12)	(2)
Net cash provided by investing activities		59,040	15,670
Cash flows from financing activities			
Dividends paid		(85,000)	(60,000)
Net cash used in financing activities		(85,000)	(60,000)
Net decrease in cash and cash equivalents		(1,238)	(3,946)
Cash and cash equivalents at the beginning of the year		8,174	12,120
Cash and cash equivalents at the end of the year	15	6,936	8,174

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 2016. 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 2013 and the Financial Markets Conduct Act 2013. 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 ('**IPSA**'), 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.

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.

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 2014, except as amended for the changes required due to the adoption of the revised accounting standard as explained in Note 2(f).

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 life insurance contracts with a regular due date are recognised as revenue on an accrual basis. 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.

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, 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.

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 same taxable entity or different entities in the same taxable group and where there is a legal right and intention to settle on a net basis.

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. These are designated at fair value through profit or loss.

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. These are designated at fair value through profit or loss.

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. These are classified as held for trading.

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. They are accounted for as loans and receivables.

Other assets

Other assets include commissions receivable under insurance agency arrangements and premium due from policyholders. These are classified as loans and receivables.

Notes to the financial statements

Note 2. Summary of significant accounting policies (continued)

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.

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.

Other liabilities

Other liabilities include accrued expenses, provisions for annual bonus and other staff benefits and other liabilities. Accrued expenses and other liabilities are financial liabilities which are measured at amortised cost.

Non-financial liabilities

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.

Notes to the financial statements

Note 2. Summary of significant accounting policies (continued)

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 20 *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 Westpac New Zealand Limited ('**WNZL**'), rather than by the Company. WNZL pays 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.

Equity

Ordinary shares

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

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

An amendment to NZ IAS 32 *Financial Instruments: Presentation* was applied by the Company from 1 October 2014. It clarified the conditions for applying the offsetting criteria of NZ IAS 32 including what constitutes a 'currently legally enforceable right of set-off' and the circumstances in which gross settlement systems may be considered the equivalent to net settlement. The application of NZ IAS 32 has not resulted in any material changes to the netting of balances presented on the Company's balance sheet.

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* (September 2014) ('**NZ IFRS 9**') will replace NZ IAS 39 *Financial Instruments: Recognition and Measurement* ('**NZ IAS 39**'). It includes a revised classification and measurement model, a forward looking 'expected loss' impairment model and modifies the approach to hedge accounting. Unless early adopted, the standard will be effective for the 30 September 2019 financial year. The major changes under the standard are:

- replaces the multiple classification and measurement models in NZ IAS 39 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;
- requires more timely recognition of expected credit losses using a three stage approach. For financial assets where there has been no significant increase in credit risk since origination a provision for 12 months expected credit losses is required. For financial assets where there has been a significant increase in credit risk or where the asset is credit impaired a provision for full lifetime expected losses is required;
- 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;

Notes to the financial statements

Note 2. Summary of significant accounting policies (continued)

- interest is calculated on the gross carrying amount of a financial assets, except where the asset is credit impaired;
- there will be no separation of an embedded derivative 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;
- where the fair value option is used for valuing financial liabilities the change in fair value relating to the entity's own credit risk is presented in other comprehensive income, except where it would create an accounting mismatch. If such a mismatch is 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; and
- aligns hedge accounting more closely 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.

The Company is in the process of assessing the full impact of the application of NZ IFRS 9. The application of NZ IFRS 9 is not expected to have a material impact on the Company's financial statements.

NZ IFRS 15 Revenue from Contracts with Customers was issued in July 2014 and will be effective for the 30 September 2019 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's financial statements.

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 administrating 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.

Notes to the financial statements

Note 2. Summary of significant accounting policies (continued)

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.

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 2015. 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:

	2015	2014
Loan Cover	**2.410%**	3.567%
Bill Protection Insurance, Mortgage Insurance and Flexicover Insurance	**2.490%**	3.925%
Other Major Products	**3.203%**	4.277%

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	2015 Maintenance Expense	2014 Maintenance Expense
Term Cover ($ per annum per policy)	$30.00	$27.60
Gold Term Cover ($ per annum per policy)	$30.00	$27.60
Simplicity Life ($ per annum per policy)	$30.00	$26.64
Disability Income Insurance ($ per annum per policy)	$30.00	$27.60
Gold Disability Income Insurance ($ per annum per policy)	$30.00	$27.60
Flexicover Insurance (% of premiums)	5.5%	5.2%
Mortgage Repayment Insurance (% of original single premium spread over the term)	10.0%	10.0%
Loan Cover (% of original single premium spread over the term)	10.0%	10.0%
Bill Protection Insurance ($ per annum per policy)	$41.00	$37.92
Lifetime Guarantee and Kiwilife Senior ($ per annum per policy)	$41.00	$37.92
Kiwilife, Kiwicover and Kiwiguard ($ per annum per policy)	$30.00	$26.64
Accident Cover ($ per annum per policy)	$30.00	$26.64
Ex-Trust Bank Mortgage Insurance (% of premiums)	5.5%	5.2%

(iv) Inflation and automatic index of benefits

Maintenance expenses are assumed to increase at 2.0% per annum (30 September 2014: 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 2.0% per annum (30 September 2014: 2.5% per annum).

(v) Taxation

For the purposes of the actuarial calculations, a taxation rate of 28% (30 September 2014: 28%) has been assumed throughout. A GST taxation rate of 15% (30 September 2014: 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	2015	2014
Term Cover and Gold Term Cover	96% of NZ Insured Lives 2008-2010 with adjustments for smoker status and selection	85% 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 NZ Insured Lives 2008-2010	Adjusted NZ04
Lifetime Guarantee and Kiwilife Senior	Adjusted NZ Population 2010/12	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 population accident experience 2009/11	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	2015	2014
Term Cover (% per annum)	7.0% to 19.0%	7.0% to 18.0%
Gold Term Cover (% per annum)	7.0% to 10.0%	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% to 12.0%	10.0%
Flexicover Insurance (% per annum)	12.0% to 18.0%	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)	17.0%	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)	6.0%	10.0%
Accident Cover (% per annum)	6.0%	6.0%
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

Aside from the changes in discount rates due to changing economic conditions, the changes in actuarial assumptions from 2014 to 2015 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 2013 to 2014: nil). Aside from the changes in discount rates, the changes in actuarial assumptions had the effect of increasing the present value of future planned profit margins by $23,462,000 (30 September 2014: decreasing by ($24,764,000)). The primary contributors to this impact were:

- ($192,000) arising from the changes to projected rates of discontinuance (30 September 2014: $43,000);
- ($2,009,000) arising from the changes to projected non-commission maintenance expenses (30 September 2014: ($1,707,000));
- nil arising from changes to projected investment management expenses (30 September 2014: $3,033,000);
- $5,822,000 arising from changes to projected rates of incidence of mortality claims (30 September 2014: $19,835,000);
- $27,654,000 arising from changes to premium rates (30 September 2014: ($45,968,000)); and
- ($7,813,000) arising from the changes to projected rates of inflation and automatic indexation of benefits (30 September 2014: nil).

Other modelling changes had the effect of increasing the present value of future planned profit margins by $106,000 (30 September 2014: decreasing by ($6,499,000)).

(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 variables would impact the reported profit of the Company.

	2015		2014	
	Change in Variable	Impact on Future Planned Profit	Change in Variable	Impact on Future Planned Profit
Change in mortality and morbidity	+10%	-9.3%	+10%	-12.2%
	-10%	+9.3%	-10%	+12.2%
Change in discontinuance rate	+10%	-10.9%	+10%	-13.1%
	-10%	+10.9%	-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%

The financial impact of the above changes would emerge through reported profits over future years, except for the impact of changes to discount rates which would result in an immediate one-off impact upon reported profit. The Company currently has a derivative arrangement in place to offset a portion of the financial impact of changes to discount rates. 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.

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 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;
- Credit risk - the risk of financial loss when a customer or counterparty fails to meet their financial obligations to the Company;
- Liquidity risk - the risk that the Company will be unable to fund assets and meet obligations as they become due;
- Market risk - 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.
- Compliance risk - the risk of legal or regulatory sanction, financial loss or reputational loss 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;

Westpac Life-NZ- Limited

Notes to financial statements

Note 4. Risk management policies and procedures (continued)

- 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;
- 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 risk of financial loss where a customer or counterparty fails to meet their 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.

<u>Credit risk</u>

Credit risk is the risk of financial loss where a customer or counterparty fails to meet their 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 2015	Neither past due nor impaired					Past Due But not Impaired	
	AAA	AA	A	Not Rated	Subtotal		Total
	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Financial assets subject to credit risk							
Cash and cash equivalents	-	6,936	-	-	6,936	-	6,936
Financial assets at fair value through profit or loss[1]	7,225	21,324	-	-	28,549	-	28,549
Reinsurance recoveries receivable	-	11,378	-	-	11,378	-	11,378
Other assets	-	-	1,607	346	1,953	-	1,953
Total maximum exposure to credit risk	7,225	39,638	1,607	346	48,816	-	48,816

[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 2014						
	Neither past due nor impaired					Past Due But not Impaired	
	AAA	AA	A	Not Rated	Subtotal	Impaired	Total
	$'000	$'000	$'000	$'000	$'000	$'000	$'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	-	-	1,562	177	1,739	-	1,739
Total maximum exposure to credit risk	5,838	53,236	1,562	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.

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 Westpac Life-NZ-Limited Shareholder Fund ('**Shareholder Fund**') and Westpac Life-NZ-Limited Statutory Fund No. 1 ('**Statutory Fund No.1**') are approved by the Board. The investment strategies are reviewed annually.

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.

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:

	2015	2014
	$'000	$'000
0.75% decrease in unit trust prices (2014: 0.75%)	(849)	(1,040)
0.75% increase in unit trust prices (2014: 0.75%)	849	1,040

Westpac Life-NZ- Limited

Notes to the financial statements

Note 4. Risk management policies and procedures

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 2015				
	Up to 1 Year[1]	1 to 5 Years	Over 5 Years	No Specific Maturity[2]	Total
	$'000	$'000	$'000	$'000	$'000
Financial assets					
Cash and cash equivalents	6,936	-	-	-	6,936
Derivative financial instruments	-	-	-	-	-
Financial assets at fair value through profit or loss	28,549	-	-	157,232	185,781
Reinsurance recoveries receivable	8,901	1,162	1,315	-	11,378
Other assets	1,953	-	-	-	1,953
Total financial assets	46,339	1,162	1,315	157,232	206,048
Financial liabilities					
Derivative financial instruments	3,331	-	-	-	3,331
Due to related entities	5,685	-	-	-	5,685
Claims reserve	22,641	1,437	1,538	-	25,616
Other liabilities	1,382	-	-	-	1,382
Total financial liabilities	33,039	1,437	1,538	-	36,014

[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 2014				
	Up to 1 Year[1]	1 to 5 Years	Over 5 Years	No Specific Maturity[2]	Total
	$'000	$'000	$'000	$'000	$'000
Financial assets					
Cash and cash equivalents	8,174	-	-	-	8,174
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.

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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 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.

<u>Capital and regulatory risk</u>

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 2015 $'000	Year Ended 30 September 2014 $'000
Insurance premium revenue	141,901	136,575
Investment income:		
Deposits with related entities - interest income	17	711
Fixed rate notes - interest income	1,856	837
Fair value gains on financial assets at fair value through profit or loss	8,128	9,161
Total investment income	10,001	10,709
Fees income and other income:		
Non risk fees	19,972	18,211
Other	707	262
Fair value losses on derivative financial instruments	(8,959)	(4,737)
Total fee income and other income	11,720	13,736
Reinsurance recoveries revenue	10,864	7,536
Total revenue and other income	174,486	168,556

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Notes to the financial statements

Note 6. Other operating expenses

	Year Ended 30 September 2015 $'000	Year Ended 30 September 2014 $'000
Salaries and other staff expenses		
Salaries and wages	4,484	4,118
Defined contribution plan	356	342
Other staff expenses	91	103
Total salaries and other staff expenses (refer to Note 15)	4,931	4,563
Other expenses		
Audit fees		
Audit and review of the financial statements	89	100
Other assurance services - solvency return	17	18
GST	4,197	4,095
Management fees - related entities (refer to Note 15)	2,282	2,144
Policy expenses - related entities (refer to Note 15)	41,073	38,759
Purchased services	574	469
Stationery	263	326
Other expenses	1,190	1,071
Total other expenses	49,685	46,976
Total other operating expenses	54,616	51,545
Components of other operating expenses:		
Investment management expenses	664	532
Policy acquisition expenses:		
Commissions	17,576	15,865
Other	3,337	3,161
Policy maintenance expenses:		
Commissions	26,956	26,322
Other	6,083	5,665
Total other operating expenses	54,616	51,545

Note 7. Income tax expense

	Year Ended 30 September 2015 $'000	Year Ended 30 September 2014 $'000
Income tax expense		
Current tax		
- Current year	8,120	6,628
- Prior year adjustments	(9)	246
Deferred tax		
- Current year	4,232	4,090
- Prior year adjustments	(1)	(70)
Total income tax expense	12,342	10,894
Reconciliation of income tax expense to profit before income tax expense		
Profit before income tax expense	63,635	65,992
Tax calculated at tax rate of 28% (30 September 2014: 28%)	17,818	18,478
Tax effect of amounts which are not deductible/(assessable) in calculating taxable income:		
Income not subject to tax	(5,468)	(7,766)
Expenses not deductible for tax purposes	2	6
Prior year adjustments	(10)	176
Total income tax expense	12,342	10,894

Westpac Life-NZ- Limited

Notes to the financial statements

Note 8. Imputation credit account

	2015 $'000	2014 $'000
Imputation credits available for use in subsequent reporting periods	287	238

Note 9. Margin on services profit

	Year Ended 30 September 2015 $'000	Year Ended 30 September 2014 $'000
Profit after income tax expense arose from:		
Planned margins of revenues over expenses	38,932	38,148
Difference between actual and assumed experience	(3,319)	4,384
Profit on non-projected business	4,681	4,954
Loss recognition on groups of related products	-	-
Investment earnings on assets in excess of policy liabilities	7,821	5,002
Net commission on fire and general agency	3,167	2,785
Adjustments for prior year over/(under) provision	8	(174)
Other sources	3	(1)
Profit after income tax expense	51,293	55,098

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

	2015 $'000	2014 $'000
New Zealand Government securities	21,324	31,384
Corporate bonds	7,225	10,809
Unit trusts managed by related entities	157,232	192,663
Total financial assets at fair value through profit or loss	185,781	234,856
Amounts expected to be recovered within 12 months	185,781	234,856
Amounts expected to be recovered after 12 months	-	-
Total financial assets at fair value through profit or loss	185,781	234,856

Note 11. Policy liabilities

	2015 $'000	2014 $'000
Balance at the beginning of the year	(61,908)	(51,464)
Changes in policy liabilities	(17,815)	(10,444)
Balance at the end of the year	(79,723)	(61,908)
Components of policy liabilities:		
Future policy benefits	877,500	768,839
Balance of future expenses	467,003	379,120
Future charges for acquisition costs	-	-
Planned margins of revenues over expenses	542,945	462,469
Balance of future revenues	(1,939,061)	(1,648,858)
Policy liabilities at the end of the year	(51,613)	(38,430)
Less deferred tax liability element of policy liabilities (refer to Note 12)	(28,110)	(23,478)
Balance at the end of the year	(79,723)	(61,908)
Policy liabilities excluding deferred tax liability:		
Amounts expected to be settled within 12 months	3,143	2,336
Amounts expected to be settled after 12 months	(82,866)	(64,244)
Total policy liabilities	(79,723)	(61,908)

Westpac Life-NZ- Limited

Notes to the financial statements

Note 12. Deferred tax liabilities

	2015 $'000	2014 $'000
Deferred tax liabilities attributable to the following:		
PIE income	856	1,258
Property, plant and equipment	-	(1)
Policy liabilities	28,110	23,478
Balance at the end of the year	28,966	24,735
Amounts expected to be settled within 12 months	1,573	2,431
Amounts expected to be settled after 12 months	27,393	22,304
Balance at the end of the year	28,966	24,735
Movements		
Balance at the beginning of the year	24,735	20,715
Charged to the income statement	4,231	4,020
Balance at the end of the year	28,966	24,735

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.

Note 13. Other liabilities

	2015 $'000	2014 $'000
Accrued expenses	1,380	1,158
Other liabilities	2	3,971
Provision for annual bonus and other staff benefits	300	401
Total other liabilities	1,682	5,530
Amounts expected to be settled within 12 months	1,682	5,530
Amounts expected to be settled after 12 months	-	-
Total other liabilities	1,682	5,530

Note 14. Equity

	2015 Number of Issued Shares	2014 Number of Issued Shares
Balance at the beginning of the year	79,520,000	79,520,000
Balance at the end of the year[1]	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 2015, the Company paid dividends in respect of the ordinary shares amounting to $85,000,000 (30 September 2014: $60,000,000). The weighted average amount of dividends per share is $1.1303 (30 September 2014: $0.7978).

Notes to the financial statements

Note 15. Related entities

Ultimate holding company

The Company is a wholly-owned subsidiary of Westpac Financial Services Group-NZ-Limited ('**WFSGNZL**'). 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 WNZL.

The Company's investment income is from the investments managed by BT Funds Management (NZ) Limited ('**BTFMNZL**'). The fair value of these investments 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 was a controlled entity of WNZL until 30 September 2015, on which date Westpac NZ Operations Limited (a wholly-owned subsidiary of WNZL) sold its 51% interest in TWFSL. 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 WNZL. Under existing employment agreements, these salaries and other staff expenses relate to employees who are employed by WNZL. Transactions in relation to this related party is 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 to its parent entity, refer to Note 14.

Income from and expenses to related entities

	Year Ended 30 September 2015 $'000	Year Ended 30 September 2014 $'000
Income		
Interest income from NZ Branch	17	22
Insurance premium revenue from WNZL	248	286
Investment income from investments managed by BTFMNZL	9,984	10,687
Total income	10,249	10,995
Expenses		
Investment management fees to BTFMNZL [1]	605	483
Commissions to TWFSL and WNZL [1]	41,073	38,759
Salaries and other staff expenses to WNZL [1]	4,931	4,563
Fees for support services to WNZL [1]	1,677	1,661
Total expenses	48,286	45,466

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

Westpac Life-NZ- Limited

Notes to the financial statements

Note 15. Related entities (continued)

Due from and to related entities

	2015 $'000	2014 $'000
Cash and cash equivalents		
Deposits held with NZ Branch	819	636
Deposits under the management of BTFMNZL and deposited with NZ Branch	6,117	7,538
Total cash and cash equivalents	6,936	8,174
Total due from related entities	6,936	8,174
Settlement profile:		
Amounts expected to be recovered within 12 months	6,936	8,174
Amounts expected to be recovered after 12 months	-	-
Total due from related entities	6,936	8,174
Derivative financial instruments		
Derivative financial instruments transacted with NZ Branch (at fair value)[1]	3,331	2,636
Total derivative financial instruments	3,331	2,636
Due to related entities		
Sundry creditors - BTFMNZL	43	55
Sundry creditors - WNZL	2,401	2,167
Accrued expenses - WNZL	3,241	3,158
Total due to related entities	5,685	5,380
Total due to related entities including derivative financial instruments	9,016	8,016
Settlement profile:		
Amounts expected to be recovered within 12 months	9,016	8,016
Amounts expected to be recovered after 12 months	-	-
Total due to related entities	9,016	8,016

[1] The notional amount of the derivative financial instruments at 30 September 2015 was $3,021,650,000 (30 September 2014: $2,286,600,000). 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 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 relevant officers is conducted in accordance with the Company's Fit and Proper Policy.

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 2014: nil) as any compensation is paid by WNZL and, where appropriate, is reimbursed by the Company as agreed with WNZL. However the Company paid compensation to its independent key management personnel (Independent Directors) during the year amounting to $165,000 (30 September 2014: $165,000).

Note 17. Fair value of financial instruments

The method of determining a fair value differs depending on the information available.

Valuation techniques

Quoted market prices, when available, are used as the measure of fair values. Where quoted market prices do not exist, fair values presented are estimated using present value 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.

Fair value of financial instruments has been determined as follows:

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.

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. An active market is one in which prices are readily and regularly available and those prices represent actual and regularly occurring market transactions on an arm's length basis.

  Valuation of Level 1 instruments requires little or no management judgment.

- Valuation technique using market observable inputs ('**Level 2**')

  Valuation techniques utilising observable market prices applied to these assets or liabilities include the use of market standard discounting methodologies, option pricing models and other valuation techniques widely used and accepted by market participants.

- Valuation technique with significant non-market 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.

  These valuations are calculated using a high degree of management judgment.

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

Attribution of financial instruments to the fair value hierarchy

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 2015			
	Level 1	**Level 2**	**Level 3**	**Total**
	$'000	**$'000**	**$'000**	**$'000**
Financial assets				
New Zealand Government securities	**21,324**	-	-	**21,324**
Corporate bonds	-	**7,225**	-	**7,225**
Unit trusts	-	**157,232**	-	**157,232**
Total financial assets carried at fair value	**21,324**	**164,457**	-	**185,781**
Financial liabilities				
Derivative financial instruments	-	**3,331**	-	**3,331**
Total financial liabilities carried at fair value	-	**3,331**	-	**3,331**

	30 September 2014			
	Level 1	Level 2	Level 3	Total
	$'000	$'000	$'000	$'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

There have been no transfers between Levels 1 and 2 and no transfers into/out of Level 3 during the year ended 30 September 2015 (30 September 2014: nil). Transfers in and transfers out are reported using the end-of-period fair values.

Financial instruments not measured at fair value and their estimates of fair value

For cash and cash equivalents, reinsurance recoveries receivable, other assets, due to related entities 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 reprice frequently, and are of a high credit rating.

Westpac Life-NZ- Limited

Notes to the financial statements

Note 18. Statutory Fund

It is a requirement of IPSA that a life insurer must have at least one statutory fund in respect of its life insurance business. The statutory fund is subject to restrictions imposed under IPSA. 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.

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 2015:			
Cash and cash equivalents	6,643	293	6,936
Financial assets at fair value through profit or loss	175,112	10,669	185,781
Reinsurance recoveries receivable	11,378	-	11,378
Property, plant and equipment	15	-	15
Other assets	346	1,607	1,953
Total assets	193,494	12,569	206,063
Derivative financial instruments	3,331	-	3,331
Current tax liabilities	6,790	1,330	8,120
Due to related entities	4,468	1,217	5,685
Claims reserve	25,616	-	25,616
Policy liabilities	(79,723)	-	(79,723)
Deferred tax liabilities	28,908	58	28,966
Other liabilities	1,682	-	1,682
Total liabilities/(negative liabilities)	(8,928)	2,605	(6,323)
Equity	202,422	9,964	212,386
Statement of comprehensive income for the year ended 30 September 2015:			
Net premium revenue	129,705	-	129,705
Investment income	9,589	412	10,001
Fee income and other income	(8,302)	20,022	11,720
Net claims and expenses	(72,165)	(15,626)	(87,791)
Profit before income tax expense	58,827	4,808	63,635
Profit after income tax expense	47,829	3,464	51,293

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 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	1,178	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

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

	2015 $'000	2014 $'000
Profit after income tax expense	51,293	55,098
Adjustments:		
Depreciation	3	2
Fair value gains on financial assets at fair value through profit or loss	(9,977)	(9,372)
Movement in due to related entities	305	(700)
Movement in reinsurance recoveries receivable	(2,671)	(1,030)
Movement in other assets	(214)	(174)
Movement in derivative financial instruments	695	3,654
Movement in current tax liabilities and deferred tax liabilities	5,722	3,409
Movement in claims reserve	1,229	(35)
Movement in policy liabilities	(17,815)	(10,444)
Movement in other liabilities	(3,848)	(24)
Net cash provided by operating activities	24,722	40,384

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. IPSA requires the Company to comply at all times with the Solvency Standard for Life Insurance Business 2014 ('**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.

IPSA 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 2015 $'000	**Shareholder Fund as at 30 September 2015 $'000**	**Aggregate for all Funds as at 30 September 2015 $'000**
Actual Solvency Capital	**201,994**	**9,964**	**211,958**
Minimum Solvency Capital	**102,380**	**956**	**103,336**
Solvency Margin	**99,614**	**9,008**	**108,622**
Solvency Ratio	**197%**	**1042%**	**205%**

	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
Solvency Ratio	265%	759%	269%

Note 21. Contingent assets, contingent liabilities and commitments

There were no contingent assets, contingent liabilities or unrecognised contractual commitments as at 30 September 2015 (30 September 2014: nil).

Note 22. Subsequent events

On 9 November 2015 the Board resolved to call up $4,320,000 of remaining unpaid share capital from its sole shareholder WFSGNZL.

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

Report on the Financial Statements

We have audited the financial statements of Westpac Life-NZ- Limited (the "Company") on pages 3 to 29, which comprise the balance sheet as at 30 September 2015, 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 and fair presentation of these financial statements in accordance with New Zealand Equivalents to International Financial Reporting Standards and International Financial Reporting Standards 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 and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates, as well as evaluating the 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.

We are independent of the Company. Our firm carries out other services for the Company in the areas of other assurance and advisory services. The provision of these other services has not impaired our independence.

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Independent Auditors' Report

Westpac Life-NZ- Limited

Opinion

In our opinion, the financial statements on pages 3 to 29 present fairly, in all material respects, the financial position of the Company as at 30 September 2015, and its financial performance and cash flows for the year then ended in accordance with New Zealand Equivalents to International Financial Reporting Standards and International Financial Reporting Standards.

Restriction on Use of our Report

This report is made solely to the Company's shareholder, in accordance with the Companies Act 1993. Our audit work has been undertaken so that we might state 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 shareholder, for our audit work, for this report or for the opinions we have formed.

PricewaterhouseCoopers

Chartered Accountants
27 January 2016

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 2015 (**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 139 of the Solvency Standard for Life Insurance Business 2014 issued by the Reserve Bank of New Zealand (**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 2015, and the review of the solvency calculations and solvency return for Westpac Life as at 30 September 2015. 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 2015 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 2015, 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 prior to 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 (now IAG New Zealand 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 2016