Westpac Life-NZ- Limited

Annual report

For the year ended 30 September 2016

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 auditor's report for the year ended 30 September 2016.

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

The Board authorised this annual report on 24 January 2016.

For and on behalf of the Board.

Director
Date: 24 January 2017

Director
Date: 24 January 2017

Westpac Life-NZ- Limited

Statement of comprehensive income for the years ended 30 September

	Note	2016 $'000	2015 $'000
Insurance premium revenue	4	151,288	141,901
Outwards reinsurance premium expense		(13,307)	(12,196)
Net premium revenue		137,981	129,705
Investment income	4	7,663	10,001
Fee income and other income	4	9,722	11,720
Net revenue		155,366	151,426
Insurance claims and rebate expense		(59,388)	(61,854)
Reinsurance recoveries revenue	4	6,844	10,864
Net claims expenses		(52,544)	(50,990)
Changes in policy liabilities	10	20,934	17,815
Other operating expenses	5	(55,578)	(54,616)
Net claims and expenses		(87,188)	(87,791)
Profit before income tax expense		68,178	63,635
Income tax expense	6	(18,721)	(12,342)
Profit after income tax expense		49,457	51,293
Other comprehensive income		-	-
Total comprehensive income, net of tax		49,457	51,293
Profit after income tax expense and total comprehensive income, net of tax, attributable to:			
Owners of the Company		49,457	51,293
		49,457	51,293

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 years ended 30 September

	Note	Share Capital $'000	Retained Profits $'000	Total $'000
		Attributable to owners of the Company		
As at 1 October 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	13	-	(85,000)	(85,000)
As at 30 September 2015		75,200	137,186	212,386
Year ended 30 September 2016				
Profit after income tax expense		-	49,457	49,457
Total comprehensive income for the year ended 30 September 2016		-	49,457	49,457
Transactions with owners:				
Dividends paid on ordinary shares	13	-	(54,000)	(54,000)
Settlement of unpaid share capital	13	4,320	-	4,320
As at 30 September 2016		79,520	132,643	212,163

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	2016 $'000	2015 $'000
Assets			
Cash and cash equivalents	14	8,262	6,936
Financial assets at fair value through profit or loss	9	168,274	185,781
Reinsurance recoveries receivable		8,096	11,378
Property, plant and equipment		25	15
Other assets		1,875	1,953
Total assets		186,532	206,063
Liabilities			
Derivative financial instruments	14	2,797	3,331
Current tax liabilities		2,676	8,120
Due to related entities	14	5,712	5,685
Claims reserve		26,647	25,616
Policy liabilities	10	(100,657)	(79,723)
Deferred tax liabilities	11	34,367	28,966
Other liabilities	12	2,827	1,682
Total negative liabilities		(25,631)	(6,323)
Net assets		212,163	212,386
Equity			
Share capital	13	79,520	75,200
Retained profits		132,643	137,186
Total equity attributable to owners of the Company		212,163	212,386

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

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Westpac Life-NZ- Limited

Statement of cash flows for the years ended 30 September

	Note	2016 $'000	2015 $'000
Cash flows from operating activities			
Premiums received		151,415	141,732
Reinsurance payments		(12,178)	(11,974)
Interest income received		1,045	2,010
Other income received		8,118	10,384
Claims and rebates payments		(58,357)	(60,625)
Reinsurance income received		10,126	8,193
Other operating expenses paid		(55,529)	(58,378)
Income taxes paid		(18,764)	(6,620)
Net cash provided by operating activities	18	25,876	24,722
Cash flows from investing activities			
Sale of investments		144,168	157,893
Purchase of investments		(119,022)	(98,841)
Purchase of property, plant and equipment		(16)	(12)
Net cash provided by investing activities		25,130	59,040
Cash flows from financing activities			
Dividends paid	13	(54,000)	(85,000)
Settlement of unpaid share capital		4,320	-
Net cash used in financing activities		(49,680)	(85,000)
Net increase/(decrease) in cash and cash equivalents		1,326	(1,238)
Cash and cash equivalents at the beginning of the year		6,936	8,174
Cash and cash equivalents at the end of the year	14	8,262	6,936

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

Notes to the financial statements

Note 1. Basis of preparation

These financial statements were authorised for issue by the Board on 24 January 2017 . 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.

a. Basis of preparation

(i) Basis of accounting

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.

(ii) Accounting conventions

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 2015.

The Company's significant accounting policies relating to specific financial statement items are set out under the relevant notes. Accounting policies that affect the financial statements as a whole and details of critical accounting assumptions and estimates are set out below.

(iii) Comparative revisions

No comparative information revisions have been made.

(iv) Rounding of amounts

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

(v) 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.

b. Particular accounting policies

Financial assets and financial liabilities

(i) Recognition

Purchases and sales of financial assets, except for loans and receivables, are recognised on trade-date; the date on which the Company commits to purchase or sell the asset. Loans and receivables are recognised on settlement date when the Company becomes a party to the contractual provision of the instrument.

Financial liabilities are recognised when an obligation arises.

(ii) Classification and measurement

The Company classifies its significant financial assets into the following categories: financial assets designated at fair value, derivative financial instruments and loans and receivables. The Company has not classified any of its financial assets as held-to-maturity investments. Derivative financial instruments are classified as held for trading.

The Company classifies significant financial liabilities into the following categories: financial liabilities at fair value through income statement, financial liabilities at amortised costs and derivative financial instruments.

Financial assets at fair value through profit or loss including derivatives are carried at fair value. Loans and receivables are 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.

Financial liabilities are measured at amortised cost except for financial liabilities at fair value including derivatives, which are held at fair value through profit or loss.

Notes to the financial statements

Note 1. Basis of preparation (continued)

(iii) Derecognition

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

Financial liabilities are derecognised when the obligation is discharged, cancelled or expires.

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.

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.

Other assets

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

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.

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.

Notes to the financial statements

Note 1. Basis of preparation (continued)

c. Changes in accounting standards and future accounting developments

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 forward looking 'expected credit loss' impairment model, revised classification and measurement model and modifies the approach to hedge accounting. Unless early adopted, the standard will be effective for the 30 September 2019 financial year. Whilst it is not yet practical to reliably estimate the financial impact on the financial statements, the major changes under the standard are outlined below:

Impairment

NZ IFRS 9 introduces a revised impairment model which requires entities to recognise expected credit losses based on unbiased forward looking information, replacing the existing incurred loss model which only recognises impairment if there is objective evidence that a loss has been incurred.

Classification and measurement

NZ IFRS 9 replaces the classification and measurement model in NZ IAS 39 with a new model that categorises financial assets based on a) the business model within which the assets are managed, and b) whether the contractual cash flows under the instrument solely represent the payment of principal and interest. Financial assets will be measured at:

- amortised cost where the business model is to hold the financial assets in order to collect contractual cash flows and those cash flows represent solely payments of principal and interest;
- fair value through other comprehensive income where the business model is to both collect contractual cash flows and sell financial assets and the cash flows represent solely payments of principal and interest. Non - traded equity instruments can also be measured at fair value through other comprehensive income; or
- fair value through profit or loss if they are held for trading or if the cash flows on the asset do not solely represent payments of principal and interest. An entity can also elect to measure a financial asset at fair value through profit and loss if it eliminates or reduces an accounting mismatch.

The accounting for financial liabilities is largely unchanged.

Hedging

NZ IFRS 9 will change hedge accounting by increasing the eligibility of both hedged items and hedging instruments and introducing a more principles-based approach to assessing hedge effectiveness. Adoption of the new hedge accounting model is optional and current hedge accounting under NZ IAS 39 can continue to be applied until the IASB completes its Accounting for Dynamic Risk Management project. The Company is yet to determine whether to apply the new hedge accounting model when NZ IFRS 9 is adopted.

The Company is in the process of assessing the full impact of the application of NZ IFRS 9. The financial impact on the financial statements has not yet been determined.

NZ IFRS 15 *Revenue from Contracts with Customers* (**'NZ IFRS 15'**) was issued on 3 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.

d. 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 2 for more detail on the valuation of the policy liabilities and the assumptions applied.

Notes to the financial statements

Note 1. Basis of preparation (continued)

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 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. 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 16, as well as the mechanism by which fair value has been derived.

Note 2. 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 10) and solvency reserving requirement (refer to Note 19) is 30 September 2016. 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:

	2016	2015
Loan Cover	1.778%	2.410%
Bill Protection Insurance, Mortgage Insurance and Flexicover Insurance	1.720%	2.490%
Other Major Products	2.145%	3.203%

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

Notes to the financial statements

Note 2. Actuarial assumptions and methods (continued)

(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

(iii) Maintenance expenses

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

Product	2016 Maintenance Expense	2015 Maintenance Expense
Term Cover ($ per annum per policy)	**$32.50**	$30.00
Gold Term Cover ($ per annum per policy)	**$32.50**	$30.00
Simplicity Life ($ per annum per policy)	**$32.50**	$30.00
Disability Income Insurance ($ per annum per policy)	**$32.50**	$30.00
Gold Disability Income Insurance ($ per annum per policy)	**$32.50**	$30.00
Flexicover Insurance (% of premiums)	**5.5%**	5.5%
Mortgage Repayment Insurance (% of original single premium spread over the term)	**10.0%**	10.0%
Loan Cover (% of original single premium spread over the term)	**10.0%**	10.0%
Bill Protection Insurance ($ per annum per policy)	**$45.00**	$41.00
Lifetime Guarantee and Kiwilife Senior ($ per annum per policy)	**$45.00**	$41.00
Kiwilife, Kiwicover and Kiwiguard ($ per annum per policy)	**$32.50**	$30.00
Accident Cover ($ per annum per policy)	**$32.50**	$30.00
Ex-Trust Bank Mortgage Insurance (% of premiums)	**5.5%**	5.5%

(iv) Inflation and automatic indexation of benefits

Maintenance expenses are assumed to increase at 2.0% per annum (30 September 2015: 2.0% 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 2015: 2.0% per annum).

(v) Taxation

For the purposes of the actuarial calculations, a taxation rate of 28% (30 September 2015: 28%) has been assumed throughout. A GST taxation rate of 15% (30 September 2015: 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:

Notes to the financial statements

Note 2. Actuarial assumptions and methods (continued)

Product	2016	2015
Term Cover and Gold Term Cover	**94% of NZ Insured Lives 2008-2010 with adjustments for smoker status and selection**	96% of NZ Insured Lives 2008-2010 with adjustments for smoker status and selection
Disability Income Insurance and Gold Disability Income Insurance	**Adjusted ADI 2007-2011**	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 NZ Insured Lives 2008-2010
Lifetime Guarantee and Kiwilife Senior	**Adjusted NZ Population 2010/12**	Adjusted NZ Population 2010/12
Disability components of Mortgage Repayment Insurance, Flexicover Insurance, Ex-Trust Bank Mortgage Insurance, Bill Protection Insurance and Loan Cover	**Adjusted ADI 2007-2011**	Adjusted CIDA 85
Kiwicover, Kiwiguard and Accident Cover	**Adjusted NZ population accident experience 2009/11**	Adjusted NZ population accident experience 2009/11

(x) Rates of discontinuance

Projected rates of discontinuance of policies were as follows:

Product	2016	2015
Term Cover (% per annum)	**7.0% to 19.0%**	7.0% to 19.0%
Gold Term Cover (% per annum)	**7.0% to 12.0%**	7.0% to 10.0%
Simplicity Life (% per annum)	**10.0%**	10.0%
Disability Income Insurance (% per annum)	**7.0%**	7.0%
Gold Disability Income Insurance (% per annum)	**7.0% to 15.0%**	10.0% to 12.0%
Flexicover Insurance (% per annum)	**12.0% to 18.0%**	12.0% to 18.0%
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)	**15.0%**	17.0%
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%**	6.0%
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 2015 to 2016 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 2014 to 2015: 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 $32,016,000 (30 September 2015: increasing by $23,462,000). The primary contributors to this impact were:

- $1,307,000 arising from the changes to projected rates of discontinuance (30 September 2015: ($192,000));
- ($2,968,000) arising from the changes to projected non-commission maintenance expenses (30 September 2015: ($2,009,000));
- nil arising from changes to projected investment management expenses (30 September 2015: nil);
- $9,019,000 arising from changes to projected rates of incidence of mortality claims (30 September 2015: $5,822,000);
- ($13,966,000) arising from changes to projected rates of incidence of trauma claims (30 September 2015: nil);
- $17,912,000 arising from changes to projected rates of incidence and duration of disability claims (30 September 2015: nil);
- $1,144,000 arising from changes to projected rates of incidence of redundancy claims (30 September 2015: nil);
- $21,644,000 arising from changes to premium rates (30 September 2015: $27,654,000);
- ($2,076,000) arising from changes to reinsurance premium rates (30 September 2015: nil); and
- nil arising from the changes to projected rates of inflation and automatic indexation of benefits (30 September 2015: ($7,813,000)).

Notes to the financial statements

Note 2. Actuarial assumptions and methods (continued)

Other modelling changes had the effect of decreasing the present value of future planned profit margins by ($2,469,000) (30 September 2015: increasing by $106,000).

(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.

	2016		2015	
	Change in Variable	Impact on Future Planned Profit	Change in Variable	Impact on Future Planned Profit
Change in mortality and morbidity	+10%	-8.6%	+10%	-9.3%
	-10%	+8.7%	-10%	+9.3%
Change in discontinuance rate	+10%	-11.4%	+10%	-10.9%
	-10%	+13.4%	-10%	+10.9%
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%	-0.9%	+0.1%	-0.8%
	-0.1%	+0.9%	-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.

Note 3. 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, conduct risk, reputation risk and environmental, social and governance risk).

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 Westpac Banking Corporation ('**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.

Notes to financial statements

Note 3. Risk management policies and procedures (continued)

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 the following broad categories of risk:

- Insurance risk - the risk of mis-estimation of the expected cost of insured events, volatility in the number or severity of insured events, and mis-estimation of the cost of incurred claims;
- Credit risk - the risk of financial loss when a customer or counterparty fails to meet their financial obligations to the Company;
- 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.
- Liquidity risk - the risk that the Company will be unable to fund assets and meet obligations as they become due;
- 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 (or opportunity cost) due to failure to recognise or address material existing or emerging ESG factors; and
- Reputation risk - the risk to earnings from negative public opinion resulting from the loss of reputation or public trust and standing;
- Conduct risk - the risk that the Company's provision of services and products results in unsuitable or unfair outcomes for the Company's customers or undermines market integrity.

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

(i) Insurance risk

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

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

- Claims fluctuation risk - the Company maintains actuarial models to value the in-force book of individual policies as is used as a key input in the pricing of policies. The Company's claims performance is closely monitored and reported on. Claims fluctuations are managed through reinsurance arrangements;
- Underwriting risk - insurance policies underwritten by the Company are subject to approval by a specialist underwriter who reviews each application against defined standards. The Company ensures that underwriting standards remain up to date and in line with industry and reinsurer standards;
- Reinsurance risk - the Company obtains reinsurance cover for all life insurance policies with a sum insured above the risk retention levels approved by the Board. The Company also has catastrophe reinsurance cover in place;
- Termination risk - the Company actively monitors and manages termination 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 2.

(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.

Westpac Life-NZ- Limited

Notes to financial statements

Note 3. Risk management policies and procedures (continued)

Credit risk

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 S&P Global Ratings' counterparty credit ratings. AAA is the highest possible rating.

30 September 2016

	Neither past due nor impaired					Past Due But not	
	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	-	8,262	-	-	8,262	-	8,262
Financial assets at fair value through profit or loss[1]	4,566	3,497	-	-	8,063	-	8,063
Reinsurance recoveries receivable	-	8,096	-	-	8,096	-	8,096
Other assets	-	-	1,656	219	1,875	-	1,875
Total maximum exposure to credit risk	4,566	19,855	1,656	219	26,296	-	26,296

[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.

30 September 2015

	Neither past due nor impaired					Past Due But not	
	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	-	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.

Market risk

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.

Notes to the financial statements

Note 3. Risk management policies and procedures (continued)

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 2. 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:

	2016 $'000	2015 $'000
0.5% decrease in unit trust prices (2015: 0.75%)	(577)	(849)
0.5% increase in unit trust prices (2015: 0.75%)	577	849

Liquidity risk

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 2016				
	Up to 1 Year[1] $'000	1 to 5 Years $'000	Over 5 Years $'000	No Specific Maturity[2] $'000	Total $'000
Financial assets					
Cash and cash equivalents	8,262	-	-	-	8,262
Financial assets at fair value through profit or loss	8,063	-	-	160,211	168,274
Reinsurance recoveries receivable	6,463	768	865	-	8,096
Other assets	1,875	-	-	-	1,875
Total financial assets	24,663	768	865	160,211	186,507
Financial liabilities					
Derivative financial instruments	2,797	-	-	-	2,797
Due to related entities	5,712	-	-	-	5,712
Claims reserve	24,703	937	1,007	-	26,647
Other liabilities	2,512	-	-	-	2,512
Total financial liabilities	35,724	937	1,007	-	37,668

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.

Notes to the financial statements

Note 3. Risk management policies and procedures (continued)

	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
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.

(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 Compliance Plan 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) Conduct, 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 (and third party product providers) conduct. The Company manages conduct, reputation and ESG risks 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. A clear Code of Conduct is in place which sets out the required performance standards of all staff. All staff are required to complete mandatory compliance training. 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 19.

Note 4. Premium revenue and other income

Accounting policy

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.

Westpac Life-NZ- Limited

Notes to the financial statements

Note 4. Premium revenue and other income (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.

	Year Ended 30 September 2016 $'000	Year Ended 30 September 2015 $'000
Insurance premium revenue	**151,288**	141,901
Investment income:		
Deposits with related entities - interest income	**13**	17
Fixed rate notes - interest income	**916**	1,856
Fair value gains on financial assets at fair value through profit or loss	**6,734**	8,128
Total investment income	**7,663**	10,001
Fees income and other income:		
Non-risk fees	**19,862**	19,972
Other	**2,477**	707
Fair value losses on derivative financial instruments (Note 14)	**(12,617)**	(8,959)
Total fee income and other income	**9,722**	11,720
Reinsurance recoveries revenue	**6,844**	10,864
Total revenue and other income	**175,517**	174,486

Note 5. Other operating expenses

Accounting policy

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 as the relevant service is rendered or asset is consumed or once a liability is incurred.

Salaries and other staff expenses

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. Liabilities for wages and salaries, including non-monetary benefits and bonuses 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.

Westpac Life-NZ- Limited

Notes to the financial statements

Note 5. Other operating expenses (continued)

	Year Ended 30 September 2016 $'000	Year Ended 30 September 2015 $'000
Salaries and other staff expenses		
Salaries and wages	4,686	4,484
Defined contribution plan	397	356
Other staff expenses	65	91
Total salaries and other staff expenses (refer to Note 14)	5,148	4,931
Other expenses		
Audit fees		
Audit and review of the financial statements	90	89
Other assurance services - solvency return	16	17
GST	4,838	4,197
Management fees	2,260	2,282
Policy expenses	41,474	41,073
Purchased services	366	574
Stationery	265	263
Other expenses	1,121	1,190
Total other expenses	50,430	49,685
Total other operating expenses	55,578	54,616
Components of other operating expenses:		
Investment management expenses	593	664
Policy acquisition expenses:		
Commissions	18,066	17,576
Other	3,208	3,337
Policy maintenance expenses:		
Commissions	27,370	26,956
Other	6,341	6,083
Total other operating expenses	55,578	54,616

Note 6. Income tax expense

Accounting policy

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.

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 New Zealand Inland Revenue. In these circumstances, the GST is recognised as part of the expense or the cost of the asset.

	Year Ended 30 September 2016 $'000	Year Ended 30 September 2015 $'000
Income tax expense		
Current tax		
- Current year	13,358	8,120
- Prior year adjustments	(38)	(9)
Deferred tax		
- Current year	5,420	4,232
- Prior year adjustments	(19)	(1)
Total income tax expense	18,721	12,342
Reconciliation of income tax expense to profit before income tax expense		
Profit before income tax expense	68,178	63,635
Tax calculated at tax rate of 28% (30 September 2015: 28%)	19,090	17,818
Tax effect of amounts which are not deductible/(assessable) in calculating taxable income:		
Income not subject to tax	(314)	(5,468)
Expenses not deductible for tax purposes	2	2
Prior year adjustments	(57)	(10)
Total income tax expense	18,721	12,342

Westpac Life-NZ- Limited

Notes to the financial statements

Note 7. Imputation credit account

	2016 $'000	2015 $'000
Imputation credits available for use in subsequent reporting periods	13,797	287

Note 8. Margin on services profit

	Year Ended 30 September 2016 $'000	Year Ended 30 September 2015 $'000
Profit after income tax expense arose from:		
Planned margins of revenues over expenses	36,625	38,932
Difference between actual and assumed experience	(1,156)	(3,319)
Profit on non-projected business	3,922	4,681
Loss recognition on groups of related products	-	-
Investment earnings on assets in excess of policy liabilities	6,535	7,821
Net commission on fire and general agency	3,471	3,167
Adjustments for prior year over/(under) provision	57	8
Other sources	3	3
Profit after income tax expense	49,457	51,293

Note 9. Financial assets at fair value through profit or loss

	2016 $'000	2015 $'000
New Zealand Government and semi-government securities	1,499	21,324
Corporate bonds	6,564	7,225
Unit trusts managed by related entities	160,211	157,232
Total financial assets at fair value through profit or loss	168,274	185,781
Amounts expected to be recovered within 12 months	168,274	185,781
Amounts expected to be recovered after 12 months	-	-
Total financial assets at fair value through profit or loss	168,274	185,781

Note 10. Policy liabilities

Accounting policy

Policy liabilities

Policy liabilities arising from insurance contracts are calculated by using the margin on services 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.

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.

Notes to the financial statements

Note 10. Policy liabilities (continued)

	2016 $'000	2015 $'000
Balance at the beginning of the year	(79,723)	(61,908)
Changes in policy liabilities	(20,934)	(17,815)
Balance at the end of the year	(100,657)	(79,723)
Components of policy liabilities:		
Future policy benefits	979,999	877,500
Balance of future expenses	570,306	467,003
Future charges for acquisition costs	-	-
Planned margins of revenues over expenses	657,454	542,945
Balance of future revenues	(2,274,512)	(1,939,061)
Policy liabilities at the end of the year	(66,753)	(51,613)
Less deferred tax liability element of policy liabilities (refer to Note 11)	(33,904)	(28,110)
Balance at the end of the year	(100,657)	(79,723)
Policy liabilities excluding deferred tax liability:		
Amounts expected to be settled within 12 months	3,808	3,143
Amounts expected to be settled after 12 months	(104,465)	(82,866)
Total policy liabilities	(100,657)	(79,723)

Note 11. Deferred tax liabilities

Accounting policy

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.

	2016 $'000	2015 $'000
Deferred tax (assets)/liabilities attributable to the following:		
PIE income	774	856
Policy liabilities	33,904	28,110
Other	(311)	-
Balance at the end of the year	34,367	28,966
Amounts expected to be settled within 12 months	877	1,573
Amounts expected to be settled after 12 months	33,490	27,393
Balance at the end of the year	34,367	28,966
Movements		
Balance at the beginning of the year	28,966	24,735
Charged to the income statement	5,401	4,231
Balance at the end of the year	34,367	28,966

Deferred tax on policy liabilities

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

Westpac Life-NZ- Limited

Notes to the financial statements

Note 12. Other liabilities

Accounting policy

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.

	2016 $'000	2015 $'000
Accrued expenses	2,509	1,380
Other liabilities	3	2
Provision for annual bonus and other staff benefits	315	300
Total other liabilities	2,827	1,682
Amounts expected to be settled within 12 months	2,827	1,682
Amounts expected to be settled after 12 months	-	-
Total other liabilities	2,827	1,682

Note 13. Equity

Accounting policy

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

	2016 Number of Issued Shares Fully Paid	2015 Number of Issued Shares Partially Paid
Balance at the beginning of the year	79,520,000	79,520,000
Balance at the end of the year	79,520,000	79,520,000

Dividends

As disclosed in Note 19, the Company is subject to certain regulatory capital requirements. The dividend policy ensures compliance with these requirements.

On 8 March 2016, the Company paid dividends in respect of the ordinary shares amounting to $54,000,000 (year ended 30 September 2015: $85,000,000) to the sole shareholder of the Company, Westpac Financial Services Group-NZ- Limited (**'WFSGNZL'**). The weighted average amount of dividends per share was $0.72 (year ended 30 September 2015: $1.13).

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

On 9 March 2016, WFSGNZL settled in full the outstanding unpaid share capital of $4,320,000.

Note 14. Related entities

Accounting policy

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operating decisions, or one other party controls both. Examples include subsidiaries, associates, joint ventures and superannuation plans as well as key management personnel and their related parties.

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.

Due from related entities

Due from related entities includes accrued income receivable and balances due from other related entities controlled by WBC, the ultimate parent company. They are accounted for as loans and receivables.

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.

Ultimate holding company

The Company is a wholly-owned subsidiary of 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.

Notes to the financial statements

Note 14. Related entities (continued)

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 9.

Investment management services in respect of the Statutory Fund No. 1 and Shareholder Fund (refer to Note 17) 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 13.

Income from and expenses to related entities

	Year Ended 30 September 2016 $'000	Year Ended 30 September 2015 $'000
Income		
Interest income from NZ Branch	13	17
Insurance premium revenue from WNZL	218	248
Investment income from investments managed by BTFMNZL	7,650	9,984
Total income	7,881	10,249
Expenses		
Investment management fees to BTFMNZL[1]	532	605
Commissions to WNZL and TWFSL (2015)[1]	41,414	41,073
Salaries and other staff expenses to WNZL[1]	5,148	4,931
Fees for support services to WNZL[1]	1,728	1,677
Loss from derivative financial instruments transacted with NZ Branch[2]	12,617	8,959
Total expenses	61,439	57,245

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

[2] Included in fee income and other income in the statement of comprehensive income.

Notes to the financial statements

Note 14. Related entities (continued)

Due from and to related entities

	2016 $'000	2015 $'000
Cash and cash equivalents		
Deposits held with NZ Branch	973	819
Deposits under the management of BTFMNZL and deposited with NZ Branch	7,289	6,117
Total cash and cash equivalents	8,262	6,936
Total due from related entities	8,262	6,936
Settlement profile:		
Amounts expected to be recovered within 12 months	8,262	6,936
Amounts expected to be recovered after 12 months	-	-
Total due from related entities	8,262	6,936
Derivative financial instruments		
Derivative financial instruments transacted with NZ Branch (at fair value)	2,797	3,331
Total derivative financial instruments	2,797	3,331
Due to related entities		
Sundry creditors - BTFMNZL	41	43
Sundry creditors - WNZL	546	2,401
Accrued expenses - WNZL	5,125	3,241
Total due to related entities	5,712	5,685
Total due to related entities including derivative financial instruments	8,509	9,016
Settlement profile:		
Amounts expected to be recovered within 12 months	8,509	9,016
Amounts expected to be recovered after 12 months	-	-
Total due to related entities	8,509	9,016

The notional amount of the derivative financial instruments at 30 September 2016 was $4,080,000,000 (30 September 2015: $3,021,650,000). The fair value is disclosed in the balance sheet.

Note 15. 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 2015: 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 2015: $165,000).

Note 16. Fair value of financial instruments

Accounting policy

The fair value of a financial instrument 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.

On initial recognition, the transaction price generally represents the fair value of the financial instrument unless there is observable information available in an active market to the contrary. If fair value can be evidenced by comparison with other observable current market transactions in the same instrument, without modification or repackaging, or is based on a valuation technique whose inputs include only data from observable markets, then the instrument is recognised at the fair value derived from such observable market data. The difference between the transaction price and fair value is recognised as a gain or loss (day one profit or loss) in the income statement. In cases where use is made of data which is not observable, day one profit or loss is only recognised in the income statement when the inputs become observable, or over the life of the instrument.

For financial liabilities measured at fair value, the carrying amount reflects the effect on fair value of changes in own credit spreads derived from observable market data.

Subsequent measurement of the fair value of a financial instrument is, wherever possible, determined by reference to a quoted market price for that instrument. Where quoted prices are not available, the Company applies present value estimates or other market accepted valuation techniques. The use of a market accepted valuation technique will typically involve the use of a valuation model and appropriate inputs to the model.

The majority of valuation models used by the Company employ only observable market data as inputs. However, for certain financial instruments, data may be employed which is not readily observable in current markets.

Fair value of financial instruments has been determined as follows:

Westpac Life-NZ- Limited

Notes to the financial statements

Note 16. Fair value of financial instruments (continued)

Fixed income securities

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 and shares in listed companies

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

Derivatives

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.

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 2016			
	Level 1	Level 2	Level 3	Total
	$'000	$'000	$'000	$'000
Financial assets				
New Zealand Government and semi-government securities	-	1,499	-	1,499
Corporate bonds	-	6,564	-	6,564
Unit trusts	-	160,211	-	160,211
Total financial assets carried at fair value	-	168,274	-	168,274
Financial liabilities				
Derivative financial instruments	-	2,797	-	2,797
Total financial liabilities carried at fair value	-	2,797	-	2,797

	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

There have been no transfers between Levels 1 and 2 and no transfers into/out of Level 3 during the year ended 30 September 2016 (30 September 2015: nil). Transfers in and transfers out are reported using the end-of-period fair values.

Westpac Life-NZ- Limited

Notes to the financial statements

Note 16. Fair value of financial instruments (continued)

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.

Note 17. 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 2016:			
Cash and cash equivalents	7,953	309	8,262
Financial assets at fair value through profit or loss	159,811	8,463	168,274
Reinsurance recoveries receivable	8,096	-	8,096
Property, plant and equipment	25	-	25
Other assets	157	1,718	1,875
Total assets	176,042	10,490	186,532
Derivative financial instruments	2,797	-	2,797
Current tax liabilities	1,938	738	2,676
Due to related entities	4,448	1,264	5,712
Claims reserve	26,647	-	26,647
Policy liabilities	(100,657)	-	(100,657)
Net deferred tax liabilities/(assets)	34,626	(259)	34,367
Other liabilities	1,777	1,050	2,827
Total liabilities/(negative liabilities)	(28,424)	2,793	(25,631)
Equity	204,466	7,697	212,163
Statement of comprehensive income for the year ended 30 September 2016:			
Net premium revenue	137,981	-	137,981
Investment income	7,320	343	7,663
Fee income and other income	(10,543)	20,265	9,722
Net claims and expenses	(71,766)	(15,422)	(87,188)
Profit before income tax expense	62,992	5,186	68,178
Profit after income tax expense	45,723	3,734	49,457

Notes to the financial statements

Note 17. Statutory Fund (continued)

	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

Note 18. Reconciliation of profit after income tax expense to net cash provided by operating activities

	2016 $'000	2015 $'000
Profit after income tax expense	49,457	51,293
Adjustments:		
Depreciation	6	3
Fair value gains on financial assets at fair value through profit or loss	(7,639)	(9,977)
Movement in due to related entities	27	305
Movement in reinsurance recoveries receivable	3,282	(2,671)
Movement in other assets	78	(214)
Movement in derivative financial instruments	(534)	695
Movement in current tax liabilities and deferred tax liabilities	(43)	5,722
Movement in claims reserve	1,031	1,229
Movement in policy liabilities	(20,934)	(17,815)
Movement in other liabilities	1,145	(3,848)
Net cash provided by operating activities	25,876	24,722

Note 19. 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 2016 $'000	Shareholder Fund as at 30 September 2016 $'000	Aggregate for all Funds as at 30 September 2016 $'000
Actual Solvency Capital	204,132	7,697	211,829
Minimum Solvency Capital	126,943	933	127,876
Solvency Margin	77,189	6,764	83,953
Solvency Ratio	161%	825%	166%

Westpac Life-NZ- Limited

Notes to the financial statements

Note 19. Solvency reserves (continued)

	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%

Note 20. Contingent assets, contingent liabilities and commitments

There were no contingent assets, contingent liabilities or unrecognised contractual commitments as at 30 September 2016 (30 September 2015: nil).

Westpac Life-NZ- Limited

Independent auditor's report

Independent auditor's report

Westpac Life-NZ- Limited's financial statements comprise:

- the statement of financial position as at 30 September 2016;
- the statement of comprehensive income for the year then ended;
- the statement of changes in equity for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include significant accounting policies.

Our opinion

In our opinion the financial statements of Westpac Life-NZ- Limited (the Company), present fairly, in all material respects, the financial position of the Company as at 30 September 2016, its financial performance and its cash flows for the year then ended in accordance with New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS) and International Financial Reporting Standards (IFRS).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (New Zealand) (ISAs NZ) and International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report.

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

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

Our firm carries out other services for the Company in the area of other assurance services. The provision of these other services has not impaired our independence as auditor of the Company.

Information other than the financial statements and auditor's report

The Directors are responsible for the annual report. Our opinion on the financial statements does not cover the other information included in the annual report and we do not express any form of assurance conclusion on the other information.

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

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T: +64 (9) 355 8000, F: +64 (9) 355 8001, www.pwc.com/nz

Responsibilities of the Directors for the financial statements

The Directors are responsible, on behalf of the Company, for the preparation and fair presentation of the financial statements in accordance with NZ IFRS and IFRS, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements, as a whole, are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs NZ and ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located at the External Reporting Board's website at:

https://xrb.govt.nz/Site/Auditing_Assurance_Standards/Current_Standards/Page6.aspx

Who we report to

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

The engagement partner on the audit resulting in this independent auditor's report is Jonathan Freeman.

For and on behalf of:

PricewaterhouseCoopers

PricewaterhouseCoopers

Chartered Accountants
24 January 2017

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 2016 (**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 2016, and the review of the solvency calculations and solvency return for Westpac Life as at 30 September 2016. 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 2016 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 2016, 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 of the Westpac New Zealand Staff Superannuation Scheme and a Westpac appointed director of the trustee company for the Westpac New Zealand Staff Superannuation Scheme, the trustee of which holds 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 IAG New Zealand Limited through the Westpac / Lumley 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.

I. N. New

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

24 January 2017