Westpac Life-NZ- Limited

Annual report

For the year ended 30 September 2018

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

The members of the Board of Directors of the Company ('**Board**') as at the signing date of these financial statements are Ronald James Hill, David Gordon Benison, Karen Lee Silk, Georgina Maida McDonald Croft, and Katherine Anne Morrison. Karen Lee Silk and Katherine Anne Morrison were appointed as Directors of the Company on 24 January 2018. Georgina Croft was appointed as a Director of the Company on 21 May 2018. Effective from the dates below, the following Directors resigned from their capacity as Directors of the Company:

- 16 October 2017 – Mark Todd
- 3 November 2017 – Andrew Kerr
- 15 December 2017 – Jason Clifton

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Directors' report

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

Accordingly, there is no information to be included in the Annual Report other than the financial statements for the year ended 30 September 2018 and the independent auditor's report on those financial statements.

For and on behalf of the Board of Directors:

Director
23 January 2019

Director
23 January 2019

Westpac Life-NZ- Limited

Statement of comprehensive income for the years ended 30 September

	Note	2018 $'000	2017 $'000
Insurance premium revenue	4	157,731	158,708
Outwards reinsurance premium expense		(15,729)	(14,694)
Net premium revenue		142,002	144,014
Investment income	4	6,923	5,491
Fee income and other income	4	15,473	30,040
Net revenue		164,398	179,545
Insurance claims and rebate expense	5	(67,731)	(70,506)
Reinsurance recoveries revenue	4	10,958	14,668
Net claims expenses		(56,773)	(55,838)
Changes in policy liabilities	10	11,824	(3,360)
Other operating expenses	5	(48,543)	(53,512)
Net claims and expenses		(93,492)	(112,710)
Profit before income tax		70,906	66,835
Income tax expense	6	(19,451)	(18,519)
Net profit for the year		51,455	48,316
Other comprehensive income (net of tax)		-	-
Total comprehensive income for the year		51,455	48,316

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

Balance sheet as at 30 September

	Note	2018 $'000	2017 $'000
Assets			
Cash and cash equivalents	14	5,920	4,584
Financial assets at fair value through profit or loss	9	200,736	206,664
Reinsurance recoveries receivable	16	10,516	14,499
Other assets		1,912	1,884
Total assets		219,084	227,631
Liabilities			
Payables due to related entities	14	4,632	4,585
Derivative financial instruments	14	2,082	1,605
Current tax liabilities		3,796	4,859
Other liabilities	12	4,329	3,145
Deferred tax liabilities	11	35,710	33,560
Claims reserve	16	39,722	32,695
Policy liabilities	10	(109,121)	(97,297)
Total negative liabilities		(18,850)	(16,848)
Net assets		237,934	244,479
Shareholder's equity			
Share capital	13	79,520	79,520
Retained profits		158,414	164,959
Total Shareholder's equity		237,934	244,479

The above balance sheet 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
As at 1 October 2016		79,520	132,643	212,163
Year ended 30 September 2017				
Net profit for the year		-	48,316	48,316
Total comprehensive income for the year ended 30 September 2017		-	48,316	48,316
Transactions with owners:				
Dividends paid on ordinary shares	13	-	(16,000)	(16,000)
As at 30 September 2017		79,520	164,959	244,479
Year ended 30 September 2018				
Net profit for the year		-	51,455	51,455
Total comprehensive income for the year ended 30 September 2018		-	51,455	51,455
Transactions with owners:				
Dividends paid on ordinary shares	13	-	(58,000)	(58,000)
As at 30 September 2018		79,520	158,414	237,934

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

Statement of cash flows for the years ended 30 September

	Note	2018 $'000	2017 $'000
Cash flows from operating activities			
Premiums received		157,737	158,766
Reinsurance payments		(15,661)	(14,392)
Interest income received		362	391
Other income received		15,572	28,449
Claims and rebates payments		(60,704)	(64,458)
Reinsurance income received		14,941	8,265
Other operating expenses paid		(47,364)	(54,609)
Income taxes paid		(18,364)	(17,143)
Net cash provided by operating activities	18	46,519	45,269
Cash flows from investing activities			
Sale of investments		131,212	89,325
Purchase of investments		(118,384)	(122,243)
Purchase of property and equipment		(11)	(29)
Net cash provided by/(used in) investing activities		12,817	(32,947)
Cash flows from financing activities			
Dividends paid to ordinary shareholders	13	(58,000)	(16,000)
Net cash used in financing activities		(58,000)	(16,000)
Net increase/(decrease) in cash and cash equivalents		1,336	(3,678)
Cash and cash equivalents at the beginning of the year		4,584	8,262
Cash and cash equivalents at the end of the year	14	5,920	4,584

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

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Notes to the financial statements

Note 1. Financial statement preparation

These financial statements were authorised for issue by the Board on 23 January 2019. The Board has the power to amend the financial statements after they are authorised for issue.

Westpac Life-NZ-Limited's (the '**Company**') 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.

The principal accounting policies are set out below and in the relevant notes to the financial statements. These policies have been consistently applied to all the years presented, unless otherwise stated.

a. Basis of preparation

(i) Basis of accounting

These financial statements are general purpose financial statements prepared in accordance with the Financial Reporting Act 2013 and the Financial Markets Conduct Act 2013. These financial statements comply with 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 for-profit entities. The Company is a Tier 1 entity. 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.

All amounts in these financial statements have been rounded in thousands of New Zealand dollars unless otherwise stated.

(ii) Historical cost convention

The financial statements have been prepared under the historical cost convention, as modified by applying fair value accounting to financial assets and financial liabilities (including derivative instruments) measured at fair value through the profit or loss section of the statement of comprehensive income. The going concern concept has been applied.

(iii) Changes in accounting standards

The Company has adopted the requirements of Disclosure Initiative: Amendments to NZ IAS 7 *Statement of Cash Flows* which require additional disclosures regarding both cash and non-cash changes in liabilities arising from financing activities. As the Company does not have any liabilities arising from financing activities, no additional disclosure is required.

(iv) Foreign currency translation

Functional and presentational currency

The financial statements of the Company are presented in New Zealand dollars, which is the Company's functional and presentation currency.

Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the profit or loss section of the statement of comprehensive income.

b. Financial assets and financial liabilities

(i) Recognition

Purchases and sales of financial assets are recognised on trade-date, the date on which the Company commits to purchase or sell the asset. Financial liabilities are recognised when an obligation arises.

(ii) Classification and measurement

The Company classifies its financial assets into the following categories: financial assets at fair value through profit or loss, derivative financial instruments and loans and receivables. Financial assets at fair value through profit or loss relate to local authority securities, investment grade corporate bonds and units in unlisted unit trusts. Derivative financial instruments are classified as held for trading.

The Company classifies its financial liabilities into the following categories: financial liabilities at amortised cost and derivative financial instruments.

Financial assets and liabilities at fair value through profit or loss, including derivative financial instruments, are recognised initially at fair value. Loans and receivables and financial liabilities at amortised cost are carried at amortised cost using the effective interest rate method and are initially recognised at fair value plus directly attributable transaction costs. Realised and unrealised gains or losses arising from changes in the fair value of financial assets and liabilities at fair value through profit or loss and derivative financial instruments are included in profit or loss in the period in which they arise.

The Company's policies for determining the fair value of financial assets and financial liabilities are set out in Note 15.

Notes to the financial statements

Note 1. Financial statement 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 either 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.

(iv) 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.

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 financial asset has a variable interest rate, the discount rate for measuring any impairment is the current effective interest rate determined under the contract.

(v) Other assets

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

c. Statement of cash flows

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.

d. Critical accounting assumptions and estimates

Applying the Company's accounting policies requires the use of judgment, assumptions and estimates which impact the financial information. Significant assumptions and estimates used are included in the policies below.

Uncertainty over valuation of life insurance policy liabilities and claims reserve

Policy liabilities and claims reserve 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 may affect the estimation of these liabilities are:

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

In addition, factors such as regulation, competition, interest rates, taxes, rebates values, 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.

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.

Fair value of financial instruments

Financial instruments classified as held for trading or designated at fair value through the profit or loss section of the statement of comprehensive income 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 15, as well as the mechanism by which fair value has been derived.

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Notes to the financial statements

Note 1. Financial statement preparation (continued)

e. Future developments in accounting standards

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

NZ IFRS 9 *Financial Instruments* (**'NZ IFRS 9'**) 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. The standard is effective from 1 October 2018.

NZ IFRS 9 requires financial assets to be classified on the basis of the business model for managing financial assets and the contractual cash flow characteristics of the financial asset, and subsequently measures the financial assets as either at amortised cost or fair value.

NZ IFRS 9 is not expected to have a significant impact on the classification of the Company's financial assets as:

- The derivative financial instruments which are classified as held for trading under NZ IAS 39 will continue to be classified as such under NZ IFRS 9.
- Financial assets designated at fair value through profit or loss are designated as such to reduce an accounting mismatch which will otherwise occur from the measurement of the related policy liability. Accordingly, these financial assets will continue to be measured at fair value through profit or loss under NZ IFRS 9.
- Other financial assets which meet the solely payments of principle and interest (SPPI) criterion and are held for collection, such as cash balances and receivables, will continue to be measured at amortised cost.

The requirements for classifying and measuring financial liabilities remain largely unchanged from NZ IAS 39.

The new expected credit loss model introduced in NZ IFRS 9 (ECL impairment model) is not expected to have a material impact on the Company as the financial assets subject to impairment testing are those measured at amortised cost which are short term and/or of a high credit quality.

As the Company does not apply hedge accounting, the NZ IFRS 9 hedge accounting related changes do not have an impact on the financial statements.

The Company will apply NZ IFRS 9 for the first time in the 30 September 2019 financial year.

NZ IFRS 15 *Revenue from Contracts with Customers* (**'NZ IFRS 15'**) will replace NZ IAS 18 *Revenue* and related interpretations, and applies to all contracts with customers except leases, financial instruments and insurance contracts. The standard is effective from 1 October 2018.

The standard provides a systematic approach to revenue recognition by introducing a five-step model governing revenue measurement and recognition. The core principle of this standard is that an entity shall recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

The Company has assessed the impact of NZ IFRS 15 and has concluded that no changes to the current accounting treatment of fee and commission income is required.

The Company will apply NZ IFRS 15 for the first time in the 30 September 2019 financial year.

NZ IFRS 17 *Insurance Contracts* was issued on 10 August 2017 and will be effective for the 30 September 2022 year end unless early adopted. This will replace NZ IFRS 4 *Insurance Contracts*. The main changes under the standard are:

- portfolios of contracts (with similar risks which are managed together) will be required to be disaggregated to a more granular level by both the age of a contract and the likelihood of the contract being onerous in order to determine the recognition of profit over the contract period (i.e. the contractual service margin). The contractual service margin uses a different basis to recognise profit to the current Margin on Services approach for life insurance and therefore the pattern of profit recognition is likely to differ;
- risk adjustments, which reflect uncertainties in the amount and timing of future cash flows, are required for life insurance contracts;
- the contract boundary, which is the period over which profit is recognised, differs and is determined based on the ability to compel the policyholder to pay premiums or the substantive obligation to provide coverage/services. For life insurance, in particular term renewable contracts, the contract boundary is expected to be shorter. Life insurance contracts will be impacted by different patterns of profit recognition compared to the current standards;
- the premium allocation approach, which is a simplified approach, is available for some short term products, such as, where the contract boundary is one year or less;
- a narrower definition of what acquisition costs may be deferred;
- an election to recognise changes in assumptions regarding discount rate in other comprehensive income rather than in statement of comprehensive income;
- an election to recognise changes in the fair value of assets supporting policy liabilities in other comprehensive income rather than through statement of comprehensive income;
- reinsurance contracts and the associated liability is to be determined separately to the gross contract liability and may have different contract boundaries;
- additional disclosure requirements; and
- full retrospective disclosure of restated comparatives is required, however if this is impractical, a modified retrospective approach or a fair value approach are permitted.

The standard is expected to result in a reduction in the level of deferred acquisition costs, however the quantum of this and the profit and loss impacts to the Company are not yet practicable to determine.

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Notes to the financial statements

Note 2. Actuarial assumptions and methods

a. Actuarial policies and methods

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 2018. 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:

	2018	2017
Loan Cover	1.720%	1.743%
Bill Protection Insurance, Mortgage Insurance and Flexicover Insurance	1.898%	2.120%
Other Major Products	2.650%	2.975%

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

(ii) Profit carriers

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

Product	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

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Notes to the financial statements

Note 2. Actuarial assumptions and methods (continued)

(iii) Maintenance expenses

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

Product	2018 Maintenance Expense	2017 Maintenance Expense
Term Cover ($ per annum per policy)	$33.00	$33.00
Gold Term Cover ($ per annum per policy)	$33.00	$33.00
Simplicity Life ($ per annum per policy)	$33.00	$33.00
Disability Income Insurance ($ per annum per policy)	$33.00	$33.00
Gold Disability Income Insurance ($ per annum per policy)	$33.00	$33.00
Flexicover Insurance (% of premiums)	5.5%	5.5%
Mortgage Repayment Insurance (% of original single premium spread over the term)	10.0%	10.0%
Loan Cover (% of original single premium spread over the term)	10.0%	10.0%
Bill Protection Insurance ($ per annum per policy)	$46.00	$46.00
Lifetime Guarantee and Kiwilife Senior ($ per annum per policy)	$46.00	$46.00
Kiwilife, Kiwicover and Kiwiguard ($ per annum per policy)	$33.00	$33.00
Accident Cover ($ per annum per policy)	$33.00	$33.00
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 2017: 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 2017: 2.0% per annum).

(v) Taxation

For the purposes of the actuarial calculations, a taxation rate of 28% (30 September 2017: 28%) has been assumed throughout. A GST taxation rate of 15% (30 September 2017: 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, morbidity and trauma

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

Product	2018	2017
Term Cover and Gold Term Cover	94% of NZ Insured Lives 2008-2010 with adjustments for smoker status and selection	94% 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 ADI 2007-2011
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 ADI 2007-2011
Kiwicover, Kiwiguard and Accident Cover	Adjusted NZ population accident experience 2009/11	Adjusted NZ population accident experience 2009/11
Term Cover and Gold Term Cover	95% Company experience trauma table	95% Company experience trauma table

Notes to the financial statements

Note 2. Actuarial assumptions and methods (continued)

(x) Rates of discontinuance

Projected rates of discontinuance of policies were as follows:

Product	2018	2017
Term Cover (% per annum)	7.0% to 17.5%	7.0% to 19.0%
Gold Term Cover (% per annum)	7.0% to 15.0%	7.0% to 15.0%
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%	7.0% to 15.0%
Flexicover Insurance (% per annum)	12.0%	12.0% to 18.0%
Mortgage Repayment Insurance (% per annum)	15.0%	15.0%
Loan Cover (% per annum)	30.0% to 60.0%	30.0% to 60.0%
Bill Protection Insurance (% per annum)	15.0%	15.0%
Lifetime Guarantee (% per annum)	1.0%	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 2017 to 2018 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 2016 to 2017: nil). Aside from the changes in discount rates which increased profit by $3,587,000 (30 September 2017: decreased $7,378,000), the changes in actuarial assumptions had the effect of decreasing the present value of future planned profit margins by $292,000 (30 September 2017: increasing by $11,133,000). The primary contributors to this impact were:

- $3,259,000 arising from changes to premium rates (30 September 2017: $8,959,000);
- ($2,773,000) arising from changes to projected investment management fees (30 September 2017: nil);
- ($951,000) arising from changes to projected rates of incidence of mortality claims (30 September 2017: ($10,000));
- $173,000 arising from the changes to projected rates of discontinuance (30 September 2017: ($73,000));
- nil arising from changes to Term Cover trauma expiry age (30 September 2017: $20,028,000).
- nil arising from changes to projected rates of incidence of trauma claims (30 September 2017: ($14,647,000));
- nil arising from changes to reinsurance premium rates (30 September 2017: ($2,560,000));
- nil arising from the changes to projected non-commission expenses (30 September 2017: ($564,000)); and

Other modelling changes had the effect of increasing the present value of future planned profit margins by $342,000 (30 September 2017: increasing by $4,000).

(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.

	2018		2017	
	Change in Variable	Impact on Future Planned Profit	Change in Variable	Impact on Future Planned Profit
Changes in discount rates	+0.1%	-1.0%	+0.1%	-1.0%
	-0.1%	1.0%	-0.1%	1.0%
Change in mortality and morbidity	+10%	-8.8%	+10%	-8.8%
	-10%	8.9%	-10%	+8.9%
Change of non-commission policy maintenance expense	+10%	-0.6%	+10%	-0.6%
	-10%	0.6%	-10%	+0.6%
Change in discontinuance rate	+10%	-10.9%	+10%	-10.9%
	-10%	12.7%	-10%	+12.8%

Notes to the financial statements

Note 2. Actuarial assumptions and methods (continued)

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 which reflects its culture of 'risk is everyone's business' and that all employees are responsible for identifying and managing risk and operating within the Company's desired risk profile. Each 'Line of Defence' is responsible for establishing its own risk controls and processes for determining whether those controls continue to be adequate and effective. Each subsequent 'Line of Defence' also oversees and advises on the adequacy of the processes and controls at the preceding level and considers them in forming its views on the adequacy and effectiveness of risk management.

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

c. Categories of risks

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

The Risk Management Framework identifies the following broad categories of risk:

- Insurance risk
- Credit risk
- Market risk
- Liquidity risk
- Non-financial risk including capital and regulatory compliance risk

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

Notes to financial statements

Note 3. Risk management policies and procedures (continued)

(i) Insurance risk

Insurance risk is 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. 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. The Company also holds catastrophe reinsurance treaties to limit large losses arising from concentrations of risk due to geographical exposure or single events. The Company actively manages its exposure under its retention agreements with its reinsurers. 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;
- Market risk - the risk of an adverse impact on earnings resulting from changes in market factors. 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;
  - 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.

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

<u>Credit risk</u>

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.

Westpac Life-NZ- Limited

Notes to financial statements

Note 3. Risk management policies and procedures (continued)

30 September 2018

	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							
Cash and cash equivalents	-	5,920	-	-	5,920	-	5,920
Financial assets at fair value through profit or loss[1]	2,841	7,013	-	-	9,854	-	9,854
Other assets	-	1,721	-	156	1,877	-	1,877
Insurance assets							
Reinsurance recoveries receivable	-	10,516	-	-	10,516	-	10,516
Total maximum exposure to credit risk	2,841	25,170	-	156	28,167	-	28,167

[1] Debt securities held in unit trusts are not included in the above disclosure as the unit trusts do not have credit ratings. The unit trusts are indirectly exposed to credit risk, however given the conservative investment mandates, comprising solely fixed interest securities, the credit risk is assessed as low.

30 September 2017

	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							
Cash and cash equivalents	-	4,584	-	-	4,584	-	4,584
Financial assets at fair value through profit or loss[1]	4,298	5,997	-	-	10,295	-	10,295
Other assets	-	1,683	-	161	1,844	-	1,844
Insurance assets							
Reinsurance recoveries receivable	-	14,499	-	-	14,499	-	14,499
Total maximum exposure to credit risk	4,298	26,763	-	161	31,222	-	31,222

[1] Debt securities held in unit trusts are not included in the above disclosure as the unit trusts do not have credit ratings. The unit trusts are indirectly exposed to credit risk, however given the conservative investment mandates, comprising solely fixed interest securities, the credit risk is assessed as low.

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 the profit or loss section of the statement of comprehensive income, 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 statement of comprehensive income.

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 which is mitigated by the interest rate swap contracts entered into by the Company which creates an economic hedge. The interest rate swap is designed to substantially hedge the impact of interest rate movements on the policy liabilities valuation. For the year ended 30 September 2018 and 2017, there is no material unmatched interest rate risk in the Company and any changes in market interest rates will not materially affect the statement of comprehensive income and equity of the Company. A sensitivity analysis of the policy liabilities is disclosed in Note 2. The interest rate risk created by fixed interest assets and reinsurance recoveries is not deemed material.

Westpac Life-NZ- Limited

Notes to financial statements

Note 3. Risk management policies and procedures (continued)

Equity price risk

The Company is exposed to equity price risk arising from its investments in unit trusts. The underlying investments of these unit trusts indirectly expose the Company to various risks such as interest rate risk, foreign currency risk and credit risk.

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

	2018 $'000	2017 $'000
0.5% decrease in unit trust prices (2017: 0.5%)	(687)	(707)
0.5% increase in unit trust prices (2017: 0.5%)	687	707

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 2018				
	No Specific Maturity[1] $'000	Up to 1 Year[2] $'000	1 to 5 Years $'000	Over 5 Years $'000	Total $'000
Financial assets					
Cash and cash equivalents	-	5,920	-	-	5,920
Financial assets at fair value through profit or loss	190,882	9,854	-	-	200,736
Other assets	-	1,877	-	-	1,877
Insurance assets					
Reinsurance recoveries receivable	-	8,050	1,241	1,225	10,516
Total	190,882	25,701	1,241	1,225	219,049
Financial liabilities					
Payables due to related entities	-	4,632	-	-	4,632
Derivative financial instruments	-	2,082	-	-	2,082
Other liabilities	-	4,014	-	-	4,014
Insurance liabilities					
Claims reserve	-	36,767	1,471	1,484	39,722
Total	-	47,495	1,471	1,484	50,450

[1] Amounts classified under 'No Specific Maturity' refer to investments in unit trusts, which can be withdrawn on demand.
[2] Amounts classified under 'Up to 1 Year' refer to all commitments which are either contractually due within the timeframe or payable on demand.

	30 September 2017				
	No Specific Maturity[1] $'000	Up to 1 Year[2] $'000	1 to 5 Years $'000	Over 5 Years $'000	Total $'000
Financial assets					
Cash and cash equivalents	-	4,584	-	-	4,584
Financial assets at fair value through profit or loss	196,369	10,295	-	-	206,664
Other assets	-	1,844	-	-	1,844
Insurance assets					
Reinsurance recoveries receivable	-	12,311	980	1,208	14,499
Total	196,369	29,034	980	1,208	227,591
Financial liabilities					
Payables due to related entities	-	4,585	-	-	4,585
Derivative financial instruments	-	1,605	-	-	1,605
Other liabilities	-	2,832	-	-	2,832
Insurance liabilities					-
Claims reserve	-	30,073	1,206	1,416	32,695
Total	-	39,095	1,206	1,416	41,717

[1] Amounts classified under 'No Specific Maturity' refer to investments in unit trusts, which can be withdrawn on demand.
[2] Amounts classified under 'Up to 1 Year' refer to all commitments which are either contractually due within the timeframe or payable on demand.

Westpac Life-NZ- Limited

Notes to financial statements

Note 3. Risk management policies and procedures (continued)

(iii) Capital and regulatory compliance risk

The risk of legal or regulatory sanction, financial or reputational loss arising from the Company's failure to abide by the compliance obligations required of the Company. 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.

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

Insurance premium revenue

Life insurance premiums 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 material 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.

Interest income

Interest income for all interest earning financial assets, detailed within the table below, is recognised using the effective interest rate method.

The effective interest rate method calculates the amortised cost of a financial instrument by discounting the financial instruments estimated future cash receipts or payments to their present value and allocates the interest income, including any fees, premiums or discounts integral to the instrument, over its expected life.

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 profit or loss 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.

	Note	2018 $'000	2017 $'000
Insurance premium revenue		157,731	158,708
Deposits with related entities - interest income	14	18	11
Financial assets at fair value through profit or loss:			
Fixed interest bearing securities - interest income		298	358
Realised gains on unit trusts		5,528	2,506
Unrealised gains on unit trusts		1,079	2,616
Total income from financial assets at fair value through profit or loss	14	6,905	5,480
Total investment income		6,923	5,491
Fees income and other income:			
Non-risk fees		20,995	20,151
Other		1,646	1,892
Fair value gains/(losses) on derivative financial instruments	14	(7,168)	7,997
Total fee income and other income		15,473	30,040
Reinsurance recoveries revenue		10,958	14,668
Total premium revenue and other income		191,085	208,907

Westpac Life-NZ- Limited

Notes to the financial statements

Note 5. Claims, rebates and 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.

	Note	2018 $'000	2017 $'000
Insurance claims		(65,965)	(69,433)
Rebate expenses		(1,766)	(1,073)
Total insurance claims and rebate expense		(67,731)	(70,506)

	Note	2018 $'000	2017 $'000
Salaries and other staff expenses[1]			
Salaries and wages		4,380	4,625
Defined contribution plan		355	358
Other staff expenses		70	77
Total salaries and other staff expenses	14	4,805	5,060
Other expenses			
Audit fees			
Audit and review of the financial statements		92	91
Other assurance services - solvency return		11	10
GST		5,481	5,120
Management fees		2,438	2,284
Policy expenses		34,221	38,984
Purchased services		298	517
Stationery		230	307
Other expenses		967	1,139
Total other expenses		43,738	48,452
Total other operating expenses		48,543	53,512
Components of other operating expenses:			
Investment management expenses		666	625
Policy acquisition expenses[2]:			
Commissions[3]		8,732	14,947
Other		3,295	3,595
Policy maintenance expenses[2]:			
Commissions[3]		29,851	28,167
Other		5,999	6,178
Total other operating expenses		48,543	53,512

[1] 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.

[2] Expenses are categorised into acquisition or maintenance on the basis of time and cost analysis of activities carried out by the Company.

[3] Commissions are gross of GST for the purpose of this disclosure.

Note 6. Income tax expense

Accounting policy

Income tax

The income tax expense for the year comprises current tax and deferred tax. Tax is recognised in the statement of comprehensive income, except to the extent that it relates to items recognised directly in other comprehensive income.

Current tax is the expected tax payable for the year using tax rates and laws for each jurisdiction. Current tax also includes adjustments to tax payable for previous years.

Westpac Life-NZ- Limited

Notes to the financial statements

Note 6. Income tax expense (continued)

Goods and services tax ('GST')

Where applicable, the profit or loss and assets are recognised net of GST, except to the extent that GST is not recoverable from Inland Revenue. In these circumstances, the GST is recognised as part of the profit or loss or the cost of the asset.

	2018 $'000	2017 $'000
Income tax expense		
Current tax		
- Current year	17,584	19,372
- Prior year adjustments	(283)	(46)
Deferred tax (refer to note 11)		
- Current year	1,855	(825)
- Prior year adjustments	295	18
Total income tax expense	19,451	18,519
Reconciliation of income tax expense to profit before income tax expense		
Profit before income tax expense	70,906	66,835
Tax calculated at tax rate of 28% (30 September 2017: 28%)	19,854	18,714
Tax effect of amounts which are not deductible/(assessable) in calculating taxable income:		
Income not subject to tax	(420)	(170)
Expenses not deductible for tax purposes	5	3
Prior year adjustments	12	(28)
Total income tax expense	19,451	18,519

Note 7. Imputation credit account

	2018 $'000	2017 $'000
Imputation credits available for use in subsequent reporting periods	22,359	27,172

Note 8. Margin on services profit

	2018 $'000	2017 $'000
Net profit for the year arose from:		
Planned margins of revenues over expenses	41,343	40,377
Difference between actual and assumed experience	(1,192)	(4,040)
Profit on non-projected business	3,143	3,600
Investment earnings on assets in excess of policy liabilities	5,878	4,506
Net commission on fire and general agency	3,722	3,848
Adjustments for prior year over/(under) provision	(13)	28
Loss recognition on groups of related products	-	-
Other sources	(1,426)	(3)
Net profit for the year	51,455	48,316

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

Accounting policy

Financial assets at fair value through profit or loss are the life insurance assets which include investments in unit trusts.

Life insurance assets are designated at fair value through profit or loss upon initial recognition with changes in fair value included in the profit or loss.

	2018 $'000	2017 $'000
Debt securities		
New Zealand Government and semi-government securities	2,012	2,900
Corporate bonds	7,842	7,395
Unit trusts	181,906	187,247
Equity securities		
Unit trusts	8,976	9,122
Total financial assets at fair value through profit or loss	200,736	206,664
Amounts expected to be recovered within 12 months	200,736	206,664
Amounts expected to be recovered after 12 months	-	-
Total financial assets at fair value through profit or loss	200,736	206,664

Westpac Life-NZ- Limited

Notes to the financial statements

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.

	Note	2018 $'000	2017 $'000
Balance at the beginning of the year		(97,297)	(100,657)
Changes in policy liabilities reflected in the statement of comprehensive income		(11,824)	3,360
Balance at the end of the year		(109,121)	(97,297)
Components of policy liabilities:			
Future policy benefits		1,035,529	996,005
Balance of future expenses		588,077	563,695
Planned margins of revenues over expenses		673,232	647,007
Balance of future revenues		(2,370,617)	(2,270,978)
Future charges for acquisition costs		-	-
Policy liabilities at the end of the year		(73,779)	(64,271)
Less deferred tax liability element of policy liabilities	11	(35,342)	(33,026)
Balance at the end of the year		(109,121)	(97,297)
Policy liabilities excluding deferred tax liability:			
Amounts expected to be settled within 12 months		1,060	2,856
Amounts expected to be settled after 12 months		(110,181)	(100,153)
Total policy liabilities		(109,121)	(97,297)

The following analysis presents the maturity profile for the policy liabilities on an undiscounted basis. As such, the balances in the table below do not agree with the balance sheet.

Undiscounted policy liabilities excluding deferred tax liability	2018 $'000	2017 $'000
Up to 1 Year	1,196	3,266
1 to 5 Years	(18,621)	(17,160)
Over 5 Years	(139,699)	(134,930)
Total undiscounted policy liabilities	(157,124)	(148,824)

Note 11. Deferred tax liabilities

Accounting policy

Deferred tax accounts for temporary differences between the carrying amounts of assets and liabilities in the financial statements and their values for taxation purposes. Deferred tax is not recognised if the temporary difference arises from the initial recognition of assets and liabilities that affect neither accounting nor taxable profit.

Deferred tax is determined using the enacted or substantively enacted tax rates and laws which are expected to apply when the assets will be realised or the liabilities settled.

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.

Deferred tax assets and liabilities have been offset where they relate to the same taxable entity or group and where there is a legal right and intention to settle on a net basis.

Notes to the financial statements

Note 11. Deferred tax liabilities (continued)

	Note	2018 $'000	2017 $'000
Deferred tax (assets)/liabilities attributable to the following:			
PIE income		765	826
Policy liabilities	10	35,342	33,026
Other		(397)	(292)
Balance at the end of the year		35,710	33,560
Amounts expected to be settled within 12 months		1,272	1,196
Amounts expected to be settled after 12 months		34,438	32,364
Balance at the end of the year		35,710	33,560
Movements			
Balance at the beginning of the year		33,560	34,367
(Credited)/Charged to the statement of comprehensive income		2,150	(807)
Balance at the end of the year		35,710	33,560

Deferred tax on policy liabilities

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

Note 12. Other liabilities

Accounting policy

Other liabilities include accrued reinsurance expenses and bonus provision and other staff benefits. Accrued reinsurance expenses are primarily premiums payable for reinsurance contracts. Accrued expenses and other liabilities are financial liabilities which are measured at amortised cost. The bonus provision and other staff benefits (including wages and salaries, inclusive of non-monetary benefits, and any associated on-costs) (e.g. payroll tax) is calculated based on expected payments.

	Note	2018 $'000	2017 $'000
Accrued expenses		1,674	1,609
Other		2,340	1,223
Bonus provision and other staff benefits[1]	14	315	313
Total other liabilities		4,329	3,145
Amounts expected to be settled within 12 months		4,329	3,145
Amounts expected to be settled after 12 months		-	-
Total other liabilities		4,329	3,145

[1] Bonus provision and other staff benefits are liabilities payable by the Company to WNZL.

Note 13. Shareholder's equity

Accounting policy

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

Ordinary share capital

	2018 Number of issued and authorised shares fully paid	2017 Number of issued and authorised shares fully 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

Ordinary shares

The shares have no par value. Ordinary shares entitle the holder to participate in dividends and, in the event of the company winding up, to a share of the proceeds in proportion to the number of and amounts paid on the shares held. Each ordinary share entitles the holder to one vote, either in person or by proxy, at a shareholder meeting.

Dividends

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

In the year ended 30 September 2018, the Company paid dividends in respect of the ordinary shares amounting to $58,000,000 (30 September 2017: $16,000,000) to the sole shareholder of the Company, Westpac Financial Services Group-NZ- Limited ('WFSGNZL').

Westpac Life-NZ- Limited

Notes to the financial statements

Note 14. Related entities

Accounting policy

Related parties

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 equivalents are short-term and highly liquid used in the day-to-day management of the Company that are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value. 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.

Payables 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 parent 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. WNZL and BT Funds Management (NZ) Limited ('**BTFMNZL**') are indirect subsidiaries of the ultimate parent 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.

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

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

Insurance premium revenue was received from WNZL.

The Company's investment income is earned from the investments managed independently 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. The Company pays sales commissions to WNZL. 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.

Transactions with related entities are arranged on commercial terms.

The Company paid dividends to its parent entity, refer to Note 13.

Transactions with related entities

	Note	2018 $'000	2017 $'000
Dividend paid			
Dividend paid to WFSGNZL	13	58,000	16,000
Income			
Interest income from NZ Branch	4	18	11
Insurance premium revenue from WNZL		185	201
Investment income from related parties of BTFMNZL	4	6,905	5,480
Total income		7,108	5,692
Expenses			
Investment management fees to BTFMNZL		587	556
Commissions to WNZL		34,169	38,931
Salaries and other staff expenses to WNZL	5	4,805	5,060
Fees for support services to WNZL		1,851	1,728
(Gain)/loss from derivative financial instruments transacted with NZ Branch	4	7,168	(7,997)
Total expenses		48,580	38,278

Westpac Life-NZ- Limited

Notes to the financial statements

Note 14. Related entities (continued)

Due from and to related entities

	Note	2018 $'000	2017 $'000
Cash and cash equivalents			
Deposits held with NZ Branch		2,935	1,599
Deposits under the management of BTFMNZL and deposited with NZ Branch		2,985	2,985
Total cash and cash equivalents		5,920	4,584
Total receivables due from related entities		5,920	4,584
Settlement profile:			
Amounts expected to be recovered within 12 months		5,920	4,584
Amounts expected to be recovered after 12 months		-	-
Total receivables due from related entities		5,920	4,584
Payables due to related entities			
Sundry creditors - BTFMNZL		48	50
Sundry creditors - WNZL		391	606
Accrued expenses - WNZL		4,193	3,929
Total payables due to related entities		4,632	4,585
Derivative financial instruments			
Derivative financial instruments transacted with NZ Branch (at fair value)		2,082	1,605
Total derivative financial instruments		2,082	1,605
Other liabilities			
Bonus provision and other staff benefits - WNZL	12	315	313
Total other liabilities		315	313
Total payables due to related entities including derivative financial instruments and other liabilities		7,029	6,503
Settlement profile:			
Amounts expected to be recovered within 12 months		7,029	6,503
Amounts expected to be recovered after 12 months		-	-
Total payables due to related entities		7,029	6,503

The notional amount of the derivative financial instruments at 30 September 2018 was $4,590,000,000 (30 September 2017: $4,085,000,000). The fair value is disclosed in the balance sheet.

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

Key management personnel

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 (30 September 2017: nil) as any compensation is paid by WNZL and, where appropriate, is reimbursed by the Company as agreed with WNZL. However the Company paid short term compensation to its independent key management personnel (Independent Directors) during the year amounting to $152,000 (30 September 2017: $165,000).

Note 15. 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. Where unobservable information is used, the difference between the transaction price and the fair value (day one profit or loss) is only recognised in statement of comprehensive income when the inputs become observable, or over the life of the instrument.

Fair valuation control framework

The Company uses a Fair Valuation Control Framework where the fair value is either determined or validated by a function independent of the originator of the transaction. This framework formalises the policies and procedures used to achieve compliance with relevant accounting, industry and regulatory standards. The framework includes specific controls relating to:

- the revaluation of financial instruments;
- independent price verification;
- fair value adjustments; and
- financial reporting.

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

Fair value hierarchy

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

The Company categorises all fair value instruments according to the hierarchy described below.

Westpac Life-NZ- Limited

Notes to the financial statements

Note 15. Fair value of financial instruments (continued)

Valuation techniques
The Company applies market accepted valuation techniques in determining the fair valuation of over-the-counter derivatives.

The specific valuation techniques, the observability of the inputs used in valuation models and the subsequent classification for each significant product category are outlined below:

Financial instruments measured at fair value
Level 1 instruments
The fair value of financial instruments traded in active markets based on recent unadjusted quoted prices. These prices are based on actual arm's length basis transactions.

The valuations of Level 1 instruments require little or no management judgment.

There are no financial instruments included in Level 1 category (30 September 2017: nil).

Level 2 instruments
The fair value for financial instruments that are not actively traded are determined using valuation techniques which maximise the use of observable market inputs. Valuation techniques include:

- the use of market standard discounting methodologies;
- option pricing models; and
- other valuation techniques widely used and accepted by market participants.

Instrument	Balance sheet category	Includes:	Valuation
Life insurance assets Shareholder assets	Financial assets at fair value through profit or loss	Local authority securities, investment grade corporate bonds and units in unlisted unit trusts	Valued using observable market prices or other widely used and accepted valuation techniques utilising observable market inputs.
Interest rate products	Derivative financial instruments	Interest rate swaps - derivative financial instruments	Industry standard valuation models are used to calculate the expected future value of payments, which is discounted back to a present value. The model's interest rate inputs are benchmark interest rates and active broker quoted interest rates in the swap markets. Interest rate volatilities are sourced from brokers and consensus data providers.

Level 3 instruments
Financial instruments valued where at least one input that could have a significant effect on the instrument's valuation is not based on observable market data 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 historical transactions.

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

There are no financial instruments included in the Level 3 category (30 September 2017: nil).

Analysis of movements between fair value hierarchy levels
During the year, there were no material transfers between levels of the fair value hierarchy (30 September 2017: no material transfers between levels).

Financial instruments not measured at fair value

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

Westpac Life-NZ- Limited

Notes to the financial statements

Note 16. Reconciliation of claims reserve and reinsurance recoveries receivable

Accounting policy

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.

Assets 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.

Recoveries receivable are measured as the present value of the expected future receipts, calculated on the same basis as the liability for outstanding claims. 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.

Reconciliation of claims reserve

	2018 $'000	2017 $'000
Balance at the beginning of the year	32,695	26,647
Release of start of period reserve for claims closed during the year	(14,916)	(10,647)
Changes in claims reserves for the year	20,606	16,211
Changes in incurred but not yet reported ('IBNR') reserve for the year	1,337	484
Balance at the end of the year	39,722	32,695
Amounts expected to be settled within 12 months	36,767	30,073
Amounts expected to be settled after 12 months	2,955	2,622
Balance at the end of the year	39,722	32,695

Reconciliation of reinsurance recoveries receivable

	2018 $'000	2017 $'000
Balance at the beginning of the year	14,499	8,096
Release of start of period reinsurance recovery reserve for claims closed during year	(8,697)	(3,695)
Changes in reinsurance recovery reserves for the year	4,491	9,944
Changes in reinsurance recovery IBNR reserve for the year	223	154
Balance at the end of the year	10,516	14,499
Amounts expected to be settled within 12 months	8,050	12,311
Amounts expected to be settled after 12 months	2,466	2,188
Balance at the end of the year	10,516	14,499

Westpac Life-NZ- Limited

Notes to the financial statements

Note 17. Statutory Fund

It is a requirement of the 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 the 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.

Disaggregated information by fund is presented below.

	Statutory Fund No. 1 $'000	Shareholder Fund $'000	Total All Funds $'000
Balance sheet as at 30 September 2018:			
Cash and cash equivalents	5,648	272	5,920
Financial assets at fair value through profit or loss	191,898	8,838	200,736
Reinsurance recoveries receivable	10,516	-	10,516
Other assets	190	1,722	1,912
Total assets	208,252	10,832	219,084
Payables due to related entities	3,574	1,058	4,632
Derivative financial instruments	2,082	-	2,082
Current tax liabilities	3,435	361	3,796
Other liabilities	3,069	1,260	4,329
Net deferred tax liabilities/(assets)	35,776	(66)	35,710
Claims reserve	39,722	-	39,722
Policy liabilities	(109,121)	-	(109,121)
Total liabilities/(negative liabilities)	(21,463)	2,613	(18,850)
Share capital	79,520	-	79,520
Retained profits	150,195	8,219	158,414
Equity	229,715	8,219	237,934
Statement of comprehensive income for the year ended 30 September 2018:			
Net premium revenue	142,002	-	142,002
Investment income	6,673	250	6,923
Fee income and other income	(5,799)	21,272	15,473
Net claims expenses	(56,773)	-	(56,773)
Changes in policy liabilities	11,824	-	11,824
Other operating expenses	(31,967)	(16,576)	(48,543)
Profit before income tax	65,960	4,946	70,906
Net profit for the year	47,893	3,562	51,455
Transfer of capital (from)/ to funds	(54,000)	54,000	-
Distributions made from funds (refer Note 13)	-	(58,000)	(58,000)

Westpac Life-NZ- Limited

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 2017:			
Cash and cash equivalents	4,332	252	4,584
Financial assets at fair value through profit or loss	197,548	9,116	206,664
Reinsurance recoveries receivable	14,499	-	14,499
Other assets	201	1,683	1,884
Total assets	216,580	11,051	227,631
Payables due to related entities	3,455	1,130	4,585
Derivative financial instruments	1,605	-	1,605
Current tax liabilities	4,382	477	4,859
Other liabilities	2,095	1,050	3,145
Net deferred tax liabilities/(assets)	33,823	(263)	33,560
Claims reserve	32,695	-	32,695
Policy liabilities	(97,297)	-	(97,297)
Total liabilities/(negative liabilities)	(19,242)	2,394	(16,848)
Share capital	79,520	-	79,520
Retained profits	156,302	8,657	164,959
Equity	235,822	8,657	244,479
Statement of comprehensive income for the year ended 30 September 2017:			
Net premium revenue	144,014	-	144,014
Investment income	5,248	243	5,491
Fee income and other income	9,015	21,025	30,040
Net claims expenses	(55,838)	-	(55,838)
Changes in policy liabilities	(3,360)	-	(3,360)
Other operating expenses	(37,743)	(15,769)	(53,512)
Profit before income tax	61,336	5,499	66,835
Net profit for the year	44,356	3,960	48,316
Transfer of capital (from)/to funds	(13,000)	13,000	-
Distributions made from funds (refer to Note 13)	-	(16,000)	(16,000)

Note 18. Reconciliation of net cash provided by operating activities to net profit for the year

	2018 $'000	2017 $'000
Net profit for the year	51,455	48,316
Adjustments:		
Depreciation	16	14
Fair value gains on financial assets at fair value through profit or loss	(6,900)	(5,472)
Movement in payables due to related entities	47	(1,127)
Movement in reinsurance recoveries receivable	3,983	(6,403)
Movement in other assets	(33)	31
Movement in derivative financial instruments	477	(1,192)
Movement in current tax liabilities and deferred tax liabilities	1,087	1,376
Movement in claims reserve	7,027	6,048
Movement in policy liabilities	(11,824)	3,360
Movement in other liabilities	1,184	318
Net cash provided by operating activities	46,519	45,269

Westpac Life-NZ- Limited

Notes to the financial statements

Note 19. Solvency reserves

The Board's policy is to maintain a strong capital base to meet the regulatory requirements. The 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.

The 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 2018 $'000	**Shareholder Fund as at 30 September 2018 $'000**	**Aggregate for all Funds as at 30 September 2018 $'000**
Actual Solvency Capital	229,306	8,219	237,525
Minimum Solvency Capital	129,735	946	130,681
Solvency Margin	99,571	7,273	106,844
Solvency Ratio	177%	869%	182%

	Statutory Fund No. 1 as at 30 September 2017 $'000	Shareholder Fund as at 30 September 2017 $'000	Aggregate for all Funds as at 30 September 2017 $'000
Actual Solvency Capital	235,429	8,657	244,086
Minimum Solvency Capital	120,556	970	121,526
Solvency Margin	114,873	7,687	122,560
Solvency Ratio	195%	892%	201%

Note 20. Contingent assets, contingent liabilities and commitments

There were no contingent assets, contingent liabilities or unrecognised contractual commitments as at 30 September 2018 (30 September 2017: nil).

Westpac Life-NZ- Limited

Independent auditor's report

Independent auditor's report

To the shareholder of Westpac Life-NZ- Limited

The financial statements comprise:

- the balance sheet as at 30 September 2018;
- the statement of comprehensive income for the year then ended;
- the statement of changes in equity for the year then ended;
- the statement of cashflows for the year then ended; and
- the notes to the financial statements, which include a summary of 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 2018, 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 areas 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, and will 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, except that not all other information was available to us at the date of our signing.

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

This description forms part of our auditor's report.

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

Chartered Accountants
23 January 2019

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 the directors of 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 2018 (**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 2018, and the review of the solvency calculations and solvency return for Westpac Life as at 30 September 2018. 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 2018 is satisfactory for the purposes of valuing Westpac Life's policy liabilities. There were no limitations placed upon the scope of my review.

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 2018, 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 general insurance policies with IAG New Zealand Limited through the Westpac / IAG 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

23 January 2019