

WESTPAC LIFE INSURANCE SERVICES LIMITED

ABN 31 003 149 157

Annual Report

For the year ended 30 September 2019

WESTPAC LIFE INSURANCE SERVICES LIMITED

CONTENTS

Directors' report.....	2
Auditor's independence declaration.....	4
Statement of profit or loss and other comprehensive income.....	5
Balance sheet.....	6
Statement of changes in equity	7
Cash flow statement.....	8
Notes to the financial statements	9
Directors' declaration	53
Independent auditor's report	54

This financial report covers Westpac Life Insurance Services Limited (the Company) as an individual entity. The financial report is presented in Australian dollars.

Westpac Life Insurance Services Limited is a company limited by shares, incorporated and domiciled in Australia.

The financial report was authorised for issue by the Directors of the Company on 11 December 2019. The Directors have the power to amend and reissue the financial report. The Company's registered office is:

Level 18, Westpac Place
275 Kent Street
Sydney NSW 2000

WESTPAC LIFE INSURANCE SERVICES LIMITED

DIRECTORS' REPORT

The Directors of Westpac Life Insurance Services Limited (the Company) present their report together with the financial statements of the Company for the financial year ended 30 September 2019.

Directors

The following persons were Directors of the Company during the period since 1 October 2018 and up to the date of this report unless otherwise stated:

Justin Breheny
Helen Conway
Allan Griffiths
Susan Houghton
Yvonne Le Bas (resigned on 1 August 2019)
Kitrina Shanahan (appointed on 1 August 2019)
Lindsay Smartt

Principal activities

The principal activities of the Company during the financial year ended 30 September 2019 were the provision of a range of life insurance products, including risk and investment policies.

There have been no significant changes in the nature of the principal activities of the company during 2019.

Operating and financial review

The net profit attributable to owners of the Company for the year ended 30 September 2019 was \$156.8 million (2018: \$197.9 million) which is a decrease of 21% compared to last year. The Company experienced a decrease in profit predominantly as a result of a 33% decrease in investment income to \$487.5 million (2018: \$724.9 million), offset by a 8% increase in net life insurance premiums revenue to \$984.1 million (2018: \$908.9 million), 8% decrease in net claims and expenses to \$1,391.4 million (2018: \$1,516.2 million) and 34% decrease in income tax expense to \$78.4 million (2018: \$119.3 million).

Dividends

Details of dividends paid in respect of the Company for the current financial year are disclosed in Note 21.

Significant changes in state of affairs and events during and since the end of the 2019 financial year

During the course of the year, Westpac reset its wealth strategy and made a number of changes to its wealth business. This resulted in the realignment of the Company into the Consumer division of Westpac from 1 April 2019. This did not have a material financial impact on the Company.

There were no other significant changes in the state of affairs of the Company during the year.

The Directors are not aware of any matter or circumstance that has occurred since the end of the financial year that has significantly affected or may significantly affect the operations of the Company, the results of its operations or the state of affairs of the Company in subsequent financial years.

Developments and expected results

Information on likely developments in the operations and the expected results of the operations have not been included in this report because the Directors believe it would be likely to result in unreasonable prejudice to the Company.

Shares or interests

No shares or options were issued or granted by the Company to the Directors during the year ended 30 September 2019.

WESTPAC LIFE INSURANCE SERVICES LIMITED

DIRECTORS' REPORT (CONTINUED)

Indemnities and insurance

Under the Constitution, the ultimate parent entity, Westpac Banking Corporation (Westpac), unless prohibited by statute, indemnifies, each of the Directors and Company Secretaries of Westpac and of each of its related bodies corporate (except related bodies corporate listed on a recognised stock exchange), each employee of Westpac or its subsidiaries (except subsidiaries listed on a recognised stock exchange), and each person acting as a responsible manager under an Australian Financial Services Licence of any of Westpac's wholly owned subsidiaries, against every liability (other than a liability for legal costs) incurred by each such person in their capacity as director, company secretary, employee or responsible manager, as the case may be; and all legal costs incurred in defending or resisting (or otherwise in connection with) proceedings, whether civil or criminal or of an administrative or investigatory nature, in which the person becomes involved because of that capacity.

Each of the Directors named in this Directors' report and each of the Company Secretaries has the benefit of this indemnity.

Westpac also executed a deed poll in September 2009 providing indemnification equivalent to that provided under the Westpac Constitution to individuals acting as directors and other statutory officers of wholly-owned subsidiaries of Westpac (including the Company).

Under the September 2009 deed poll, Westpac also agrees to provide directors' and officers' insurance to Directors of Westpac and Directors of Westpac's wholly-owned subsidiaries.

For the year ended 30 September 2019, Westpac and the entities it controls (Westpac Group) has insurance cover which, in certain circumstances, will provide reimbursement for amounts which the Westpac Group or the Company has to pay under the indemnities set out above. That cover is subject to the terms and conditions of the relevant insurance, including but not limited to the limit of the indemnity provided by the insurance. The insurance policies prohibit disclosure of the premium payable and the nature of the liabilities covered.

Proceedings on behalf of the Company

No application has been made and no proceedings have been brought or intervened in on behalf of the Company under section 237 of the Corporations Act 2001.

Environmental disclosure

The operations of the Company are not subject to any significant environmental regulation under any law of the Commonwealth of Australia or of any state or territory of Australia. The Company has not incurred any liability (including for rectification costs) under any environmental legislation.

Rounding of amounts

The Company is an entity to which ASIC Corporations Instrument 2016/191 dated 24 March 2016, relating to the rounding of amounts in directors' reports and financial reports, applies.

Pursuant to this Instrument, amounts in this Directors' report and the accompanying financial report have been rounded to the nearest hundred thousand dollars, unless indicated to the contrary.

Auditor's independence declaration

A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 is set out on page 4 and forms part of this report.

Signed in accordance with a resolution of the Board.



Director



Director

11/12/19

Sydney

11/12/19



Auditor's Independence Declaration

As lead auditor for the audit of Westpac Life Insurance Services Limited for the year ended 30 September 2019, I declare that to the best of my knowledge and belief, there have been:

- (a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
- (b) no contraventions of any applicable code of professional conduct in relation to the audit.

A handwritten signature in black ink, appearing to be 'R Balding', with a long horizontal flourish extending to the right.

R Balding
Partner
PricewaterhouseCoopers

Sydney
11 December 2019

WESTPAC LIFE INSURANCE SERVICES LIMITED

Statement of profit or loss and other comprehensive income for the year ended 30 September 2019

	Note	2019 ¹ \$m	2018 \$m
Premium revenue from life insurance contracts	3	1,242.8	1,170.2
Less: insurance premiums ceded to reinsurers	3	(258.7)	(261.3)
Net life insurance premium revenue		984.1	908.9
Fee revenue	3	132.6	153.7
Other revenue	3	22.4	45.9
Total fee and other revenue		155.0	199.6
Total revenue		1,139.1	1,108.5
Investment income	4	487.5	724.9
Total revenue and investment income		1,626.6	1,833.4
Life insurance claims expense	5	619.9	460.7
Less: reinsurance recoveries revenue		(198.3)	(107.5)
Net life insurance claims expense		421.6	353.2
Increase in net life insurance contract liabilities	16(b)	41.3	9.9
Increase in net life investment contract liabilities	16(b)	504.3	702.9
Interest expense		3.6	3.7
Other expenses	6	420.6	446.5
Total other costs and expenses		969.8	1,163.0
Net claims and expenses		1,391.4	1,516.2
Profit before income tax		235.2	317.2
Income tax expense	8	(78.4)	(119.3)
Net profit for the year	7	156.8	197.9
Other comprehensive income		-	-
Total comprehensive income for the year attributable to owners of Westpac Life Insurance Services Limited		156.8	197.9

The above statement of profit or loss and other comprehensive income should be read in conjunction with the accompanying notes.

¹ The Company has adopted AASB 9 and AASB 15 from 1 October 2018. Comparatives have not been restated. Refer to Note 1 for further information.

WESTPAC LIFE INSURANCE SERVICES LIMITED

Balance sheet as at 30 September 2019

	Note	2019 ¹ \$m	2018 \$m
Assets			
Cash and cash equivalents	28(a)	69.3	36.1
Financial assets measured at fair value	9	8,936.4	8,672.0
Trade and other receivables	10	186.6	180.7
Other financial assets ²	11	6.8	7.1
Other assets		1.1	0.8
Reinsurers' share of life insurance contract liabilities	16(b)	1,237.1	657.7
Total assets		10,437.3	9,554.4
Liabilities			
Trade and other payables	13	262.5	252.7
Life insurance contract liabilities	16(b)	539.3	(81.4)
Life investment contract liabilities	16(b)	7,913.1	7,799.9
Provisions	14	3.0	4.8
Deferred tax liabilities	15	16.8	17.6
Debt issues	18	60.0	60.0
Total liabilities		8,794.7	8,053.6
Net assets		1,642.6	1,500.8
Shareholders' equity			
Share capital	19	201.5	201.5
Reserves	20	260.1	260.1
Retained profits		1,181.0	1,039.2
Total shareholders' equity		1,642.6	1,500.8

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

¹ The Company has adopted AASB 9 and AASB 15 from 1 October 2018. Comparatives have not been restated. Refer to Note 1 for further information.

² Amounts in other assets have been reclassified to other financial assets where relevant. Comparatives have been restated. Refer to Note 1 for further information.

WESTPAC LIFE INSURANCE SERVICES LIMITED

Statement of changes in equity for the year ended 30 September 2019

	Note	Share capital \$m	Reserves \$m	Retained profit \$m	Total \$m
Balance at 1 October 2017		201.5	260.1	880.9	1,342.5
Net profit for the year		-	-	197.9	197.9
Net other comprehensive income for the year		-	-	-	-
Total comprehensive income for the year		-	-	197.9	197.9
Transaction in capacity as equity holders					
Part 9 transfer	24(f)	-	-	48.4	48.4
Dividends on ordinary shares	21	-	-	(88.0)	(88.0)
Balance at 30 September 2018		201.5	260.1	1,039.2	1,500.8
Impact of adoption of new accounting standards ¹		-	-	-	-
Restated opening balance		201.5	260.1	1,039.2	1,500.8
Net profit for the year		-	-	156.8	156.8
Net other comprehensive income for the year		-	-	-	-
Total comprehensive income for the year		-	-	156.8	156.8
Transaction in capacity as equity holders					
Dividends on ordinary shares	21	-	-	(15.0)	(15.0)
Balance at 30 September 2019		201.5	260.1	1,181.0	1,642.6

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

¹ The Company has adopted AASB 9 and AASB 15 from 1 October 2018. Comparatives have not been restated. Refer to Note 1 for further information.

WESTPAC LIFE INSURANCE SERVICES LIMITED

Cash flow statement for the year ended 30 September 2019

	Note	2019 ¹ \$m	2018 \$m
Cash flows from operating activities			
Fee revenue received	3	132.6	153.7
Interest received	4	2.4	3.2
Distributions received		552.8	641.6
Other revenue		23.4	49.3
Premiums received		1,268.0	1,129.2
Insurance premiums ceded to reinsurers		(260.1)	(261.3)
Life investment contract contributions received	16(b)	897.8	738.4
Claims paid		(586.9)	(434.2)
Reinsurance recoveries received		143.3	91.6
Life investment contract withdrawals paid	16(b)	(1,217.8)	(1,115.4)
Life investment contract fees paid	16(b)	(71.1)	(103.2)
Net payments for financial assets measured at fair value		(308.9)	(292.5)
Expenses paid		(444.9)	(403.4)
Payments to head entity under tax funding agreement		(78.7)	(106.5)
Net cash provided by/(used in) operating activities	28(b)	51.9	90.5
Cash flows from investing activities			
Net cash provided by/(used in) investing activities		-	-
Cash flows from financing activities			
Payment of dividends	21	(15.0)	(88.0)
Part 9 transfer – bank account	24(f)	-	1.2
Interest paid	28(c)	(3.7)	(3.7)
Net cash provided by/(used in) financing activities		(18.7)	(90.5)
Net increase in cash and cash equivalents		33.2	-
Cash and cash equivalents as at the beginning of the year		36.1	36.1
Cash and cash equivalents as at the end of the year	28(a)	69.3	36.1

The above cash flow statement should be read in conjunction with the accompanying notes. Details of the reconciliation of net cash provided by/(used in) operating activities to net profit are provided in Note 28.

¹ The Company has adopted AASB 9 and AASB 15 from 1 October 2018. Comparatives have not been restated. Refer to Note 1 for further information.

WESTPAC LIFE INSURANCE SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Note 1. Financial statements preparation

a. Basis of accounting

(i) General

Westpac Life Insurance Services Limited (the Company) is a for-profit entity for the purpose of this financial report.

This general purpose financial report has been prepared in accordance with Australian Accounting Standards (AAS) and Interpretations as issued by the Australian Accounting Standards Board (AASB) and the Corporations Act 2001.

The principal accounting policies adopted in the preparation of the financial report are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

This financial report also complies with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

(ii) Historical cost convention

The financial report has been prepared under the historical cost convention, as modified by applying fair value accounting to financial assets and financial liabilities measured at fair value through profit or loss.

(iii) Changes in accounting policies

Balance sheet

Financial assets included in other assets has been reclassified to other financial assets. This voluntary presentation change to the balance sheet (and related notes) has been made by the Company to improve consistency and provide more relevant information to the users of the financial statements by reporting balances of a similar nature together in the same place in the balance sheet. This change has no effect on the measurement of these items and therefore had no impact on retained earnings or net profit.

(iv) Standards adopted during the year ended 30 September 2019

AASB 9 Financial Instruments (December 2014) (AASB 9)

The Company adopted AASB 9 on 1 October 2018. The adoption of AASB 9 has been applied retrospectively by adjusting the opening balance sheet at 1 October 2018, with no restatement of comparatives as permitted by the standard.

Impairment

AASB 9 introduces a revised impairment model which requires entities to recognise expected credit losses based on unbiased forward looking information, replacing the incurred loss model under AASB 139 Financial Instruments: Recognition and Measurement (AASB 139) which only recognised impairment if there was objective evidence that a loss had been incurred. The revised impairment model applies to all financial assets at amortised cost.

Classification and measurement

AASB 9 replaced the classification and measurement model in AASB 139 with a new model that categorises financial assets based on a) the business model within which the assets are managed, and b) whether the contractual cash flows under the instrument represents solely payment of principal and interest (SPPi).

The accounting policies for the classification and measurement of financial assets and financial liabilities are located in the relevant notes to the financial statements for financial assets and financial liabilities.

The adoption of AASB 9 has had no material impact on the Company.

AASB 15 Revenue from Contracts with Customers (AASB 15)

The Company adopted AASB 15 on 1 October 2018 with no restatement of comparatives as permitted by the standard. It replaced AASB 118 Revenue and related interpretations and applies to all contracts with customers, except leases, financial instruments and insurance contracts.

The adoption of AASB 15 has had no material impact on the Company.

(v) Functional and presentational currency

The financial statements are presented in Australian dollars which is the Company's functional and presentation currency. The functional currency is the main currency of the economy it operates in.

(vi) Principles of life insurance business

The life insurance operations of the Company are conducted within separate statutory funds as required by the Life Insurance Act 1995 (Life Act) and are reported in aggregate with the shareholder fund in the statement of profit or loss and other comprehensive income, balance sheet and cash flow statement of the Company. The life insurance operations of the Company comprise the selling and administration of life insurance and investment contracts.

Life insurance contracts involve the acceptance of significant insurance risk. Insurance risk is defined as significant if and only if, an insured event could cause an insurer to pay significant additional benefits in any scenario, excluding scenarios that lack commercial substance (i.e. have no discernible effect on the economics of the transaction). Insurance contracts include those where the insured benefit is payable on the occurrence of a specified event such as death, injury or disability caused by accident or illness. The benefit is either not linked or only partly linked to the market value of the investments held by the Company, and the financial risks are substantially borne by the Company. Any products sold that do not meet the definition of a life insurance contract are classified as life investment contracts.

Life investment contracts include investment-linked contracts where the benefit amount is directly linked to the market value of the investment held in the particular investment-linked fund. While the underlying assets are registered in the name of the Company and the investment-linked policy owner has no direct access to the specific assets, the contractual arrangements are such that the investment-linked policy owner bears the risks and rewards of the fund's investment performance. The Company derives fee income from the administration of investment-linked policies and funds.

Policy contracts that include both investment and insurance elements are separated into these two elements and reported accordingly.

WESTPAC LIFE INSURANCE SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Note 1. Financial statements preparation (continued)

b. Revenue recognition

(i) Premium

Premiums relating to life insurance contracts are recognised as revenue on an accruals basis. Deposit components of life investment contracts are not revenue and are treated as movements in life insurance policy liabilities. Unpaid premiums are only recognised as revenue during the days of grace or where secured by the surrender value of the policy and are included in trade debtors in the balance sheet.

(ii) Fee income

Fees for investment management services are recognised on an accruals basis over the period during which the services are provided. Entry fees are charged to the customer on inception. All fee revenue is measured at the fair value of consideration received. Regular fees are charged to the policyholders periodically (usually monthly) by making a deduction from investment funds.

(iii) Other revenue

Other revenue is recognised in the statement of profit or loss and other comprehensive income on an accruals basis.

(iv) Investment income

Dividends, trust distributions and interest income are recognised as they accrue or are receivable. The profit or loss on disposal of investments is brought to account at the date of the contract for sale.

Unrealised gains or losses on investments revalued at year end are taken to the statement of profit or loss and other comprehensive income at that date.

Interest income from bank accounts is recognised on an accruals basis using the effective interest rate method.

(v) Reinsurance claim recoveries

Reinsurance claim recoveries are recognised as revenue as the underlying claims are incurred. Recoveries receivable are measured as the present value of the expected future receipts, calculated on the same basis as claims payable.

c. Expense recognition

(i) Claims expense

Life insurance contracts

Claims incurred relate to life insurance contracts and are treated as expenses. Claims on life insurance contracts are recognised when the liability to the policyholder under the policy contract has been established, or upon notification of the insured event depending on the type of claim.

Surrenders, withdrawals and investment earnings which relate to life investment contracts are treated as a movement in life investment contract liabilities. Surrenders are recognised when the policyholders formally notify of their intention to end the policy previously entered into.

(ii) Basis of expense apportionment

Expenses are incurred in relation to the acquisition and maintenance of life insurance and life investment contracts, in addition expenses are incurred with respect to investment management and other administrative activities. Acquisition costs are the fixed and variable costs of acquiring new business, including commissions and similar distribution costs and costs of accepting, issuing and initially recording policies. Investment management costs include the costs involved with buying and selling investments and the ongoing management costs of an investment portfolio. All other expenses are considered to be policy maintenance costs incurred to administer existing life insurance and life investment contracts.

Expenses of the Company are either:

- Direct costs i.e. where they are directly attributable to life insurance and life investment products; or
- Indirect costs i.e. all other expenses relating to the acquisition, maintenance and investment management activities associated with life insurance and life investment contracts which are booked in cost centres and have been incurred in relation to more than one business activity.

Indirect costs for life insurance and life investment contracts are apportioned across acquisition, maintenance and investment management expense categories in accordance with the requirements of Division 2 Part 6 of the Life Act. To carry out this apportionment, discussions are held with the cost centre managers to determine the proportions that relate to the various business activities. Statistics, such as policy counts, annual premiums, funds under management and claims payments, are used to apportion the expenses to individual life insurance or life investment products.

(iii) Outwards reinsurance premium

Premium ceded to reinsurers is recognised as an expense in accordance with the pattern of reinsurance service received.

WESTPAC LIFE INSURANCE SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Note 1. Financial statements preparation (continued)

c. Expense recognition (continued)

(iv) Impairment charges

As comparatives have not been restated upon the adoption of AASB 9 the accounting policy applied in 2019 differs to that applied in comparative periods. The accounting policy applied in comparative periods is discussed in Note 32. The accounting policy applied in 2019 is as follows.

Impairment charges are based on an expected loss model which measures the difference between the current carrying amount and the present value of expected future cash flows taking into account past experience, current conditions and multiple probability-weighted macroeconomic scenarios for reasonably supportable future economic conditions.

Impairment charges are recognised in the profit or loss, with a corresponding amount recognised as a reduction of the carrying value of the financial asset through an offsetting provision account.

(v) Other expenses

Other expenses are recognised in the statement of profit or loss and other comprehensive income when the liability is established.

d. Income tax

The Company is part of a tax consolidated group, of which Westpac Banking Corporation (Westpac) is the head entity. As a consequence of tax consolidation accounting, the Company does not recognise any current tax payable balances in its own financial statements, unless the head entity is in default of its obligations, or a default is probable under the tax consolidation legislation, or the tax amounts relate to taxable income incurred prior to the implementation of the tax consolidation regime. Amounts payable or receivable under a tax funding agreement with the head entity are recognised in accordance with the terms and conditions of the agreement as tax-related amounts receivable or payable. Expenses and revenues arising under this agreement are recognised as income tax (expense)/revenue.

The Company has entered into tax funding and tax sharing arrangements with Westpac. Under the terms of the tax funding agreement, the Company reimburses Westpac for any current tax payable by Westpac in respect of the Company's activities. The Company will also be reimbursed by Westpac for any reduction in current tax payable by Westpac in respect of the Company's activities. The reimbursements are payable at the same time as the associated income tax liability falls due and have therefore been recognised as a current tax-related payable by the Company. In the opinion of management, the tax sharing agreement is a valid agreement under the tax consolidation legislation and limits the joint and several liability of the Company in the case of a default by Westpac.

The tax expense for the year comprises current and deferred tax. Tax is recognised in the statement of profit or loss and other comprehensive income. Current tax is the tax payable for the year using enacted or substantively enacted tax rates and laws for each jurisdiction. Current tax also includes adjustments to tax payable for previous years.

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 determined using the enacted or substantively enacted tax rates and laws for each jurisdiction which are expected to apply when the assets will be realised or the liabilities settled. Deferred tax assets and liabilities have been offset where they relate to the same taxation authority, and where there is a legal right and intention to settle on a net basis. Deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available to utilise the assets.

Deferred tax is not recognised for temporary differences where the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither the accounting nor taxable profit or loss.

WESTPAC LIFE INSURANCE SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Note 1. Financial statements preparation (continued)

e. Assets

(i) Financial assets

Recognition

Purchases and sales of regular way financial assets, except for receivables, are recognised on trade-date; the date on which the Company commits to purchase or sell the asset.

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 has assumed an obligation to pay the received cash flows in full under a 'pass through' arrangement and transferred substantially all the risks and rewards of ownership.

Classification and measurement

As comparatives have not been restated upon the adoption of AASB 9 the accounting policy applied in 2019 differs to that applied in comparative periods. The accounting policy applied in comparative periods is discussed in Note 32. The accounting policy applied in 2019 is as follows.

The Company classifies its financial assets in the following categories: cash and cash equivalents, financial assets measured at fair value, trade and other receivables, other financial assets, other assets and reinsurers' share of life insurance contract liabilities.

Financial assets measured at fair value through profit or loss are recognised initially at fair value. All other financial assets are recognised initially at fair value plus directly attributable transaction costs.

Financial assets backing insurance liabilities

The Company has determined that financial assets held to back insurance liabilities are designated at fair value through profit or loss.

Financial assets not backing insurance liabilities

The Company has determined that financial assets held to back the shareholder funds are designated at fair value through profit or loss.

The accounting policy for each category of financial asset mentioned above and the determination of its fair value is set out below in the note for the relevant item.

(a) Cash and cash equivalents

For the purpose of presentation in the cash flow statement, cash and cash equivalents includes deposits at call, managed cash and bills of exchange which are readily convertible to cash on hand and are subject to an insignificant risk of changes in value.

For the current and previous financial years, the cash and cash equivalents of the Company consists solely of cash on deposit with banks and other financial institutions.

(b) Financial assets measured at fair value

Financial assets measured at fair value are composed of:

- Financial assets held for trading or those acquired principally for the purpose of selling in the short term with the intention of making a profit; and
- Financial assets designated at fair value through profit or loss at inception are those that are not held for trading purposes but may be sold when the need arises. These include investments in unlisted unit trusts which are managed and their performance evaluated on a fair value basis in accordance with the Company's investment strategy.

At initial recognition, the Company measures the financial assets at their fair value. At reporting date, these assets are subsequently carried at fair value. Gains and losses arising from changes in the fair value of financial assets measured at fair value, including interest and dividend income, are included in the statement of profit or loss and other comprehensive income in the period in which they arise.

(c) Trade and other receivables

Receivables (including amounts from related entities) are recognised initially at fair value and subsequently measured at amortised cost, less provision for expected credit losses (in 2019 based on AASB 9) or provision for impairment losses (prior to 2019 based on AASB 139). Trade and other receivables are presented as current assets unless payment is not due within 12 months from the reporting date.

WESTPAC LIFE INSURANCE SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Note 1. Financial statements preparation (continued)

e. Assets (continued)

(i) Financial assets (continued)

(d) Provision for expected credit losses

As comparatives have not been restated upon the adoption of AASB 9 the accounting policy applied in 2019 differs to that applied in comparative periods. The accounting policy applied in comparative periods is discussed in Note 32. The accounting policy applied in 2019 is as follows.

Impairment under AASB 9 applies to all financial assets at amortised cost.

The expected credit losses for receivables, amounts due from related entities and other financial assets determined under AASB 9 are recognised as a reduction of the carrying value of the financial asset through an offsetting provision account.

Measurement

The provision for expected credit losses (ECL) is a probability-weighted estimate of the cash shortfalls expected to result from defaults over the relevant timeframe. They are determined by evaluating a range of possible outcomes and taking into account the time value of money, past events, current conditions and forecasts of future economic conditions.

For assets with low credit risk or where credit risk has not significantly increased, credit losses are limited to those within the next 12 months. For assets where credit risk has significantly increased, expected credit losses are those across the assets' lifetime. For assets where there is evidence of current impairment, incurred credit losses are recognised in addition to the expected credit losses previously described.

(e) Other financial assets

Other financial assets include futures margin account balances (refer Note 11) and are recognised initially at fair value plus directly attributable transaction costs.

(f) Derivative financial instruments

Derivative financial instruments are instruments whose values derive from the value of an underlying asset, reference rate or index and can include forwards, futures, swaps and options.

The Company uses derivative instruments as part of its asset and liability management activities to manage exposures to interest rate risks. The method of recognising the fair value gain or loss of derivatives depends on the nature of the hedging relationship. The only hedging relationship that applies to the Company is a fair value hedge, which is a hedge of the fair value of recognised assets or liabilities or firm commitments.

The Company does not hold derivatives that qualify for hedge accounting.

(ii) Non-financial assets

Deferred acquisition costs

(a) Life insurance contracts and life investment contracts

The costs incurred in acquiring specific life insurance contracts include commission, advertising, policy issue and underwriting costs, agency expense and other sales costs. The proportion of life insurance contract acquisition costs not recovered by specific charges received from the contract holder at inception is deferred provided that these amounts are recoverable out of future profit margins. The deferred amounts are recognised in the balance sheet as a reduction in life insurance policy liabilities and are amortised through the statement of profit or loss and other comprehensive income over the expected duration of the relevant policies.

(b) Other assets

Other assets represent prepayments, subsequently measured at amortised cost, less provision for impairment.

WESTPAC LIFE INSURANCE SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Note 1. Financial statements preparation (continued)

f. Liabilities

(i) Financial liabilities

Recognition

Financial liabilities are recognised when an obligation arises.

Derecognition

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

Classification and measurement

The accounting policy for classification and measurement has not changed with the adoption of AASB 9. The accounting policy applied in 2019 is as follows.

The Company classifies financial liabilities into the following categories: trade and other payables, life insurance contract liabilities, life investment contract liabilities, provisions, and debt issues.

Financial liabilities are measured at amortised cost if they are not held for trading or designated at fair value through profit or loss otherwise they are measured at fair value through statement of profit or loss and other comprehensive income.

Financial liabilities measured at fair value through profit or loss are recognised initially at fair value. All other financial liabilities are recognised initially at fair value plus directly attributable transaction costs.

The accounting policy for each category of financial liability mentioned above and determination of fair value is set out in the note for the relevant item.

(a) Trade and other payables

Trade and other payables (including amounts due to related entities) represent liabilities for goods and services provided to the Company prior to the end of the financial year which are unpaid. The amounts are unsecured and are usually paid within normal credit terms. Trade and other payables are presented as current liabilities unless payment is not due within 12 months from the reporting date.

(b) Policy liabilities

Policy liabilities have been determined in accordance with applicable accounting and prudential standards. The relevant accounting standards are AASB 1038 Life Insurance Contracts and AASB 139 Financial Instruments: Recognition and Measurement. The relevant prudential standard is LPS 340 Valuation of Policy Liabilities issued by the Australian Prudential Regulation Authority (APRA) under the Life Act. Policy liabilities consist of life insurance contract liabilities and life investment contract liabilities.

(c) Life insurance contract liabilities

The financial reporting methodology used to determine the value of life insurance contract liabilities is referred to as Margin on Services (MoS). Under MoS the excess of premium received over claims and expenses (the profit margin), is recognised over the life of the contract in a manner that reflects the pattern of risk accepted from the policyholder (the service), hence the term MoS. The movement in life insurance contract liabilities recognised in the statement of profit or loss and other comprehensive income reflects the planned release of this margin and includes experience variations to the planned margin. For most life insurance contracts, policy liabilities were determined using the projection method, whereby estimates of policy cashflows (premiums, benefits, expenses and profit margins to be released in future periods) are projected into the future. The policy liabilities were calculated as the net present value of these projected cashflows using best estimate assumptions about the future. A risk free rate (10 year Commonwealth Government bond rate) was used as the discount rate.

For some life insurance contracts, the accumulation method was used. This assumes that future premium inflows will correspond in timing to future claims and expense outflows. The profit margin (not specifically identified) is the excess of premium income over claims and expenses. Where the policy liability is determined by the projection method, LPS 340 requires profit to be related to one or more financially measurable indicators of the provision of service called 'profit carriers'. The assumptions applied in the calculation of the policy liabilities are reviewed at each reporting date.

(d) Life investment contract liabilities

Life investment contract liabilities consist of a financial instrument and a management services element. For investment-linked business, the financial instrument element represents the unit liability to the policyholder and is designated at fair value through the profit or loss in accordance with AASB 139, subject to a minimum of the current surrender value. Movements in fair value are recognised through the statement of profit or loss and other comprehensive income. The liability to the policyholder is closely linked to the performance and value of the assets (after tax) that back those liabilities. The fair value of such liabilities is therefore the same as the fair value of those assets (after tax charged to the policyholders). For fixed term immediate annuity contracts, there is no active market and hence no quoted market value. Fair value was therefore determined using a discounted cash flow approach, with the cash flows that were discounted being annuity payments plus a risk margin, and the discount rate being a market swap yield curve (Australian Financial Markets Association swap reference rates). The management services element refers to activities and cash flows arising from management services provided, representing the deferral of fees yet to be earned and expenses yet to be recognised and is measured in accordance with the relevant accounting standards.

WESTPAC LIFE INSURANCE SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Note 1. Financial statements preparation (continued)

f. Liabilities (continued)

(i) Financial liabilities (continued)

(e) Provisions

Provisions are recognised for present obligations arising from past events where a payment (or other economic transfer) is likely to be necessary to settle the obligation and can be reliably estimated.

(f) Debt issues

These are notes that have been issued by the Company. Debt issues are initially measured at fair value and then subsequently measured at amortised cost using the effective interest rate method. Finance costs incurred on the debt issuances are recognised in the statement of profit or loss and other comprehensive income as interest expense.

g. Separate financial statements

The Company has elected to produce separate financial statements in respect of the financial year ended 30 September 2019 as it has made use of the exemption from consolidation available under AASB 10 Consolidated Financial Statements and AASB 128 Investments in Associates and Joint Ventures. Consolidated financial statements have not been prepared for the Company and its controlled unit trusts due to the fact that its ultimate parent, Westpac, an Australian resident company, produces consolidated financial statements available for public use that comply with International Financial Reporting Standards.

The consolidated financial statements are available for viewing on the Westpac website at www.westpac.com.au.

h. Shareholders' equity

Shareholders' equity consists of share capital and reserves. Ordinary shares are recognised at the amount paid up per ordinary share net of directly attributable issue costs. Reserves consist of retained earnings and other reserves.

i. Goods and Services Tax (GST)

The Company is part of a GST consolidated group, of which Westpac is the head entity. Any GST payable or recoverable is presented on the balance sheet as a net payable to or receivable from Westpac.

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not deemed recoverable from the Australian Taxation Office (ATO). In this case it is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are recognised inclusive of GST.

Cash flows are presented on a net basis. The GST components of cash flows arising from investing or financing activities which are ultimately recoverable from, or payable to the ATO, are presented as operating cash flows.

Commitments are disclosed net of the amount of GST ultimately recoverable from, or payable to, the ATO.

j. Contingent liabilities

Contingent liabilities are possible obligations whose existence will be confirmed only by uncertain future events, and present obligations where the transfer of economic resources is not probable or cannot be reliably measured. Contingent liabilities are not recognised on the balance sheet but are disclosed unless the outflow of economic resources is remote.

k. Offsetting

Financial assets and liabilities are presented net in the balance sheet when the Company has a legally enforceable right to offset them in all circumstances and there is an intention to settle the asset and liability on a net basis, or to realise the asset and settle the liability simultaneously.

l. Rounding of amounts

All amounts have been rounded in accordance with ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191, to the nearest hundred thousand dollars, unless otherwise stated.

WESTPAC LIFE INSURANCE SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Note 1. Financial statements preparation (continued)

m. 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 unless otherwise stated, have not been early adopted by the Company:

(i) AASB 17 Insurance Contracts

AASB 17 Insurance Contracts (AASB 17) was issued on 19 July 2017 and will be effective for the 30 September 2022 year end unless early adopted. This will replace AASB 4 Insurance Contracts and AASB 1038 Life Insurance Contracts. The main changes under the standard are:

- the scope of the standard may result in some contracts that are currently "unbundled", i.e. accounted for separately as insurance and investment contracts being required to be "bundled" and accounted for as an insurance contract;
- 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 both general and life insurance contracts rather than just general insurance contracts under the current accounting standards;
- 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 some general insurance contracts (e.g. some lender mortgage insurance and reinsurance contracts) this may result in the contract boundary being longer. For life insurance, in particular term renewable contracts, the contract boundary is expected to be shorter. Both will be impacted by different patterns of profit recognition compared to the current standards;
- 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 profit and loss;
- an election to recognise changes in the fair value of assets supporting policy liabilities in other comprehensive income rather than through profit and loss;
- reinsurance contracts and the associated liability are to be determined separately to the gross contract liability and may have different contract boundaries; and
- additional disclosure requirements.

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.

On 26 June 2019, the IASB issued an exposure draft proposing a number of amendments to the insurance contracts standard. If approved, these amendments would allow entities to:

- defer acquisition costs for anticipated renewals outside of the initial contract boundary; and
- recognise a gain in the profit or loss for reinsurance contracts, to offset losses from onerous contracts on initial recognition (to the extent the reinsurance contracts held covers the losses of each contract on a proportionate basis).

In addition, the effective date of the standard would be deferred by one year to be applicable to the Company for the 30 September 2023 financial year.

(ii) AASB 16 Leases

AASB 16 Leases (AASB 16) was issued on 23 February 2016 and will be effective for the 30 September 2020 financial year. The standard will not result in significant changes for lessor accounting. The main changes under the standard are:

- all operating leases of greater than 12 months duration will be required to be presented on balance sheet by the lessee as a right-of-use asset and lease liability. The asset and liability will initially be measured at the present value of non-cancellable lease payments and payments to be made in optional periods where it is reasonably certain that the option will be exercised; and
- all leases on balance sheet will give rise to a combination of interest expense on the lease liability and depreciation of the right-of-use asset.

Alternative methods of calculating the right-of-use asset are allowed under AASB 16 which impact the size of the transition adjustment.

The application of AASB 16 will not have an impact on the Company as the Company has no leasing arrangements.

WESTPAC LIFE INSURANCE SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Note 2. Critical accounting assumptions and estimates

Applying the Company's accounting policies require the use of judgement, assumptions, and estimates which impact the financial information. The significant assumptions and estimates used are as follows.

Life insurance contract liabilities

Life insurance contract liabilities are computed using statistical or mathematical methods (refer to Note 16), which are expected to give approximately the same results as if an individual liability was calculated for each contract. These computations are made by suitably qualified personnel on the basis of recognised actuarial methods, with due regard to relevant actuarial principles. The methodology takes into account the risks and uncertainties of the particular classes of the life insurance business written. Deferred policy acquisition costs are connected with the measurement basis of life insurance contract liabilities and are equally sensitive to the factors that are considered in the liability measurement.

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

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

Regulation, competition, interest rates, taxes, securities market conditions and general economic conditions also affect the estimation of life insurance liabilities.

Reinsurance assets

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 the amounts due and these amounts can be reliably measured.

WESTPAC LIFE INSURANCE SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Note 3. Revenue

	Note	2019 \$m	2018 \$m
Life insurance contract premium revenue		1,242.8	1,170.2
Less: insurance premiums ceded to reinsurers		(258.7)	(261.3)
Net life insurance premium revenue		984.1	908.9
Fee revenue - investment management services rendered and policy fees		132.6	153.7
Tax recoveries from policyholders		11.6	34.7
Other revenue		10.8	11.2
Total other revenue		22.4	45.9
Total fee and other revenue		155.0	199.6
Total revenue		1,139.1	1,108.5
		2019 \$m	2018 \$m
Life insurance contract premium revenue		1,242.8	1,170.2
Life investment contract contributions recognised as an increase in policy liabilities	16(b)	897.8	738.4
Total premiums		2,140.6	1,908.6

Note 4. Investment income

	2019 \$m	2018 \$m
Interest	2.4	3.2
Distributions from financial assets measured at fair value	548.1	641.0
Net realised and unrealised (losses)/gains on financial assets measured at fair value	(63.0)	80.7
Total investment income	487.5	724.9

Note 5. Claims expense

	Note	2019 \$m	2018 \$m
Death and disability		613.8	453.5
Annuities		0.5	0.2
Surrenders and terminations		1.2	1.2
Other claims		4.4	5.8
Total life insurance contract claims expense		619.9	460.7
Life investment contract payments recognised as a reduction in policy liabilities	16(b)	1,217.8	1,115.4
Total claims		1,837.7	1,576.1

WESTPAC LIFE INSURANCE SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Note 6. Other expenses

	2019	2018
	\$m	\$m
Policy acquisition expenses - life insurance contracts		
Commission	26.8	41.4
Commission - ultimate parent entity	0.9	9.5
Commission - other related entities	1.5	1.2
Other acquisition costs	-	10.6
Other acquisition expenses - ultimate parent entity	31.4	26.3
Other acquisition expenses - other related entities	57.6	78.5
Total policy acquisition expenses - life insurance contracts	118.2	167.5
Policy acquisition expenses - life investment contracts		
Commission - ultimate parent entity	-	0.6
Other acquisition expenses - ultimate parent entity	2.4	1.5
Other acquisition expenses - other related entities	4.2	4.1
Total policy acquisition expenses - life investment contracts	6.6	6.2
Total policy acquisition expenses	124.8	173.7
Policy maintenance expenses - life insurance contracts		
Commission	53.5	40.8
Commission - ultimate parent entity	33.1	39.7
Commission - other related entities	10.6	10.5
Policy maintenance expenses - ultimate parent entity	50.4	38.0
Policy maintenance expenses - other related entities	82.6	67.0
Total policy maintenance expenses - life insurance contracts	230.2	196.0
Policy maintenance expenses - life investment contracts		
Commission	0.1	0.3
Commission - ultimate parent entity	(5.2)	7.8
Commission - other related entities	0.1	0.3
Policy maintenance expenses	6.5	7.2
Policy maintenance expenses - ultimate parent entity	18.9	19.8
Policy maintenance expenses - other related entities	31.9	29.7
Total policy maintenance expenses - life investment contracts	52.3	65.1
Other maintenance expenses	13.3	11.7
Total policy maintenance expenses	295.8	272.8
Total other expenses	420.6	446.5
Analysis of expense by nature		
Commission expense	121.4	152.1
Service fee expense	285.9	282.7
Other expenses	13.3	11.7
Total other expenses	420.6	446.5

WESTPAC LIFE INSURANCE SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Note 7. Components of profit

	Note	2019 \$m	2018 \$m
Components of profit related to movement in life insurance liabilities			
Planned margins of revenues over expenses released		153.0	160.7
Difference between actual and assumed experience		(41.5)	(14.3)
Change in valuation methods and assumptions (net of hedge)	(a)	(4.3)	(2.5)
Components of profit related to movement in life investment liabilities			
Planned margins of revenues over expenses released		33.0	32.6
Difference between actual and assumed experience		(1.1)	4.4
Investment earnings on assets in excess of:			
Life insurance policy liabilities in statutory funds		12.2	11.2
Life investment policy liabilities in statutory funds		5.3	5.1
Shareholder fund	(a)	0.2	0.7
Profit for the year		156.8	197.9

(a) The hedge has been offset in the life insurance profit component as it is designed to reduce the volatility of changes in the discount rate on policy liabilities. During the year the hedge was transferred from the Shareholder Fund to Statutory Fund 1.

Note 8. Income tax

The income tax expense for the year reconciles to the profit before income tax as follows:

	2019 \$m	2018 \$m
Profit before income tax	235.2	317.2
Tax at the Australian company tax rate of 30%	70.6	95.1
The effect of amounts which are not deductible/ (assessable) in calculating taxable income		
Non-assessable items	(0.3)	(0.9)
Tax expense attributable to policyholders	8.1	24.3
	78.4	118.5
Income tax under provision in prior years	-	0.8
Total income tax expense	78.4	119.3

WESTPAC LIFE INSURANCE SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Note 8. Income tax (continued)

	Note	2019 \$m	2018 \$m
Income tax analysis			
Income tax expense comprises:			
Current income tax		79.2	115.2
Movement in deferred tax	(i)	(0.8)	3.3
Income tax under provision in prior years	(ii)	-	0.8
Total income tax expense		78.4	119.3
 (i) Deferred income tax (credit)/expense included in income tax expense comprises:			
Decrease in deferred tax assets	12	0.5	0.8
(Decrease)/increase in deferred tax liabilities	15	(1.3)	2.5
Total deferred income tax (benefit)/expense		(0.8)	3.3
 (ii) Income and deferred tax under provision in prior years:			
Increase in current tax liabilities - ultimate parent entity		-	0.8
Total income and deferred tax (under)/over provision in prior years		-	0.8

The effective tax rate was 33% in 2019 (2018: 38%).

Note 9. Financial assets measured at fair value

	2019 \$m	2018 \$m
Held as Investments in:		
Unit trusts	8,890.0	8,610.6
Fixed interest securities	37.9	40.7
Loans	8.5	20.7
Total financial assets measured at fair value	8,936.4	8,672.0

The unit trusts that the Company invests into are considered to be structured entities for the purposes of AASB 12 Disclosure of Interests in Other Entities. The objective of these funds is to seek near, medium and long term gains and invest primarily in equities and cash. The funds issue units which are redeemable at the holder's option and entitles the holder to a proportional share of the funds' net assets. The nature and extent of the Company's interests in structured entities are described in Note 25.

Note 10. Trade and other receivables

	2019 \$m	2018 \$m
Premiums receivable	29.6	54.8
Reinsurance recoveries receivable on claims payable	95.1	52.2
Reinsurance recoveries receivable on paid claims	21.9	9.8
Investment income accrued and receivable	14.4	19.1
Trade receivables	23.2	42.6
Amounts due from:		
Other related entities	2.4	2.2
Total trade and other receivables	186.6	180.7

WESTPAC LIFE INSURANCE SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Note 11. Other financial assets

	2019 ¹	2018 ¹
	\$m	\$m
Other financial assets		
Futures margin account	6.8	7.1
Total other financial assets	6.8	7.1

¹ In the current year, futures margin account has been reclassified from other assets to other financial assets. Comparatives have been restated. Refer to Note 1 for further information.

Note 12. Deferred tax assets

The balance comprises temporary differences attributable to:

	Note	2019	2018
		\$m	\$m
Amounts recognised in the statement of profit or loss and other comprehensive income :			
Provisions		0.9	1.4
Gross deferred tax assets		0.9	1.4
Set-off of deferred tax assets and deferred tax liabilities	15	(0.9)	(1.4)
Net deferred tax assets		-	-

Movements in each class of deferred tax asset during the financial year are set out below.

	Note	Provisions	Total
		\$m	\$m
Movements			
Balance at 1 October 2017		1.3	1.3
Recognised in the statement of profit or loss and other comprehensive income		(0.8)	(0.8)
Part 9 transfer	24(f)	0.9	0.9
Balance at 30 September 2018		1.4	1.4
Recognised in the statement of profit or loss and other comprehensive income		(0.5)	(0.5)
Balance at 30 September 2019		0.9	0.9

Note 13. Trade and other payables

	2019	2018
	\$m	\$m
Claims payable	176.2	143.2
Trade payables	53.7	55.6
Amounts due to:		
Ultimate parent entity – current tax liabilities	0.5	-
Ultimate parent entity - other	24.4	47.5
Other related entities	7.7	6.4
Total trade and other payables	262.5	252.7

WESTPAC LIFE INSURANCE SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Note 14. Provisions

	2019	2018
	\$m	\$m
Provisions for:		
Non - lending losses	3.0	4.8
Total provisions	3.0	4.8

Movements in each class of provision during the financial year are set out below:

	Note	Non - lending losses \$m	Total \$m
Balance at 1 October 2017		4.4	4.4
Additions		1.7	1.7
Part 9 transfer	24(f)	3.1	3.1
Utilisation		(4.3)	(4.3)
Reversal of unutilised provisions		(0.1)	(0.1)
Balance at 30 September 2018		4.8	4.8
Additions		2.9	2.9
Utilisation		(4.7)	(4.7)
Balance at 30 September 2019		3.0	3.0

Note 15. Deferred tax liabilities

The balance comprises temporary differences attributable to:

	Note	2019	2018
		\$m	\$m
Amounts recognised in the statement of profit or loss and other comprehensive income			
Financial assets measured at fair value		17.7	19.0
Gross deferred tax liabilities		17.7	19.0
Set-off deferred tax assets and deferred tax liabilities	12	(0.9)	(1.4)
Net deferred tax liabilities		16.8	17.6

Movements in each class of deferred tax liability during the financial year are set out below.

Movements		Financial assets \$m	Total \$m
Balance at 1 October 2017		16.5	16.5
Recognised in the statement of profit or loss and other comprehensive income		2.5	2.5
Balance at 30 September 2018		19.0	19.0
Recognised in the statement of profit or loss and other comprehensive income	8	(1.3)	(1.3)
Balance at 30 September 2019		17.7	17.7

WESTPAC LIFE INSURANCE SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Note 16. Policy liabilities

a. Assumptions and methodology applied in the valuation of life insurance contracts

(i) Actuarial information

The effective date of the Financial Condition Report (FCR) on policy liabilities and prudential capital is 30 September 2019. The FCR was prepared by Joseph Robert Desoisa FIA FIAA (Appointed Actuary). The FCR indicates the Appointed Actuary is satisfied as to the accuracy of the data upon which the policy liabilities have been determined.

(ii) Valuation method

Life insurance contract liabilities are calculated in accordance with Prudential Standard LPS 340 Valuation of Policy Liabilities issued by the Australian Prudential Regulation Authority (APRA). For life insurance contracts LPS 340 requires policy liabilities to be calculated in a way which allows for the systematic release of planned margins as services are provided to policyholders and premiums are received. This methodology is known as Margin on Services (MoS) and is further described in Note 1 (f).

The profit carriers used for the major product groups of life insurance contracts are as follows:

<u>Product group</u>	<u>Method</u>	<u>Profit carrier</u>
Individual		
Legacy (two groups)	Projection	Claims
Lump sum risk ordinary	Projection	Premiums
Lump sum risk super	Projection	Premiums
Disability income risk (ordinary)	Projection	Premiums
Disability income risk (super)	Projection	Premiums
Products written by St George Life Limited	Accumulation	Premiums less claims and expenses (implied)
Investment account	Accumulation	Charges less expenses (implied)
Consumer credit	Accumulation	Premiums less claims and expenses (implied)
Group		
Investment account	Accumulation	Charges less expenses (implied)
Group business (ordinary)	Accumulation	Premiums less claims and expenses (implied)
Group business (super)	Accumulation	Premiums less claims and expenses (implied)

(iii) Disclosure of assumptions

Discount rates

For life insurance contracts, the risk free rate (10 year Commonwealth Government bond rate) was used as the discount rate. For fixed term immediate annuity contracts, the discount rates used to determine fair value were Australian Financial Markets Association swap reference rates based on "mid" swap spreads against AUD bond futures prices/rates.

Discount rates assumed were:	2019	2018
Risk business	1.01% pa	2.7% pa
Fixed term immediate annuity business	0.7% pa to 1.4% pa	2.0% pa to 3.1% pa
Fixed term immediate annuity business (products written by St George Life Limited)	0.8% pa to 0.9% pa	1.4% pa to 2.0% pa

Inflation rates

The inflation rates assumed were:	2019	2018
Risk business	1.1% pa	1.8% pa

Future expenses and indexation

Unit costs were based on current expense levels and budgeted expenses in the year following the report date. The unit costs vary by product line and class of business and are indexed by the rate of inflation set out above. Benefits and policy fees under many products are automatically linked to the inflation rate above. The assumption for future take-up of indexation options was based on the Company's previous experience.

Rates of taxation

Rates of taxation have been assumed to remain at current levels into the future. The rates of taxation applicable to the taxable income of significant classes of business are as follows:

<u>Class of business</u>	2019	2018
Ordinary life insurance	30%	30%
Complying superannuation	15%	15%
Current annuity/pension business	Exempt	Exempt
Other business including accident and disability	30%	30%
Shareholder fund	30%	30%

WESTPAC LIFE INSURANCE SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Note 16. Policy liabilities (continued)

a. Assumptions and methodology applied in the valuation of life insurance contracts (continued)

(iii) Disclosure of assumptions (continued)

Mortality

Mortality assumptions were determined based on FSC-AI 2004-2008, with adjustments for the Company's experience. Typical policy mortality assumptions were in the range of:

	2019	2018
Individual business	26% to 220% of FSC-AI 2004-2008	22% to 197% of FSC-AI 2004-2008

Disability-Lump sum

Lump sum disability assumptions were determined using FSC-AI 2004-2008-TPD, adjusted for the Company's experience in recent years. Typical policy lump sum disability assumptions were in the range of:

	2019	2018
Individual business	59% to 200% of FSC-AI 2004-2008-TPD	50% to 139% of FSC-AI 2004-2008-TPD

Disability income

Incidence and termination rates were based on ADI2007-2011, adjusted for the Company's experience. Different rates were used for agreed value and indemnity contracts. Typical policy disability income assumptions were in the range of:

	2019	2018
Incidence	47% to 408% of ADI2007-2011	64% to 377% of ADI2007-2011
Termination	55% to 117% of ADI2007-2011	63% to 123% of ADI2007-2011

Trauma

Trauma assumptions were determined using FSC-AI 2004-2008-Trauma, adjusted for the Company's experience in recent years. Typical policy trauma assumptions were in the range of:

	2019	2018
Individual business	50% to 175% of FSC-AI 2004-2008- Trauma	48% to 182% of FSC-AI 2004-2008-Trauma

Accidental death

The assumptions were determined based on the Company's experience. The rates used were:

	2019	2018
Individual business	39 per 100,000 pa	10 per 100,000 pa

Voluntary discontinuance

Discontinuance rates were determined based on recent investigations of experience and vary by product, policy duration, age attained and premium frequency. Additional assumptions were made to reflect shorter term risks including the closure of the bank advice channel and policies likely to cancel under Protecting Your Superannuation legislation. Discontinuance assumptions, excluding the additional assumptions, for the major classes of business were in the following ranges:

	2019	2018
Lump sum risk	3% pa to 43% pa	3% pa to 43% pa
Disability income	3% pa to 61% pa	3% pa to 77% pa

Surrender values

Surrender values are based on the provisions specified in policy contracts.

Products written by St George Life Limited business

Mortality

Pricing basis assumptions, which are best estimate, have been adopted. The assumptions are based on Australian industry experience and vary by sex, age and product. The base mortality table used was IA95-97 (a table derived by the Institute of Actuaries of Australia based on Australian insured lives experience from 1995 to 1997). Adjustments were made to this base table to reflect varying underwriting requirements and exclusions for the Company's range of products and to allow for more recent industry trends.

Disability-Lump sum

Total and Permanent Disablement assumptions, which are best estimate, are based on reinsurance premium rates and vary by sex, age and product.

Disability Income

The assumptions are based on Australian industry experience and vary by sex and age. The base morbidity table used was IAD89-93 (a table derived by the Institute of Actuaries of Australia based on Australian insured lives experience from 1989 to 1993). Adjustments were made to this base table to reflect recent industry trends.

Trauma

Trauma assumptions, which are best estimate, are based on reinsurance premium rates and vary by sex and age.

Voluntary discontinuance

Pricing basis assumptions, which are best estimate, have been adopted. The assumptions were set after considering Company and industry experience.

Group business

Group business is priced on an accumulation basis, taking account of historic experience and future experience where expected to deviate from historic experience. Group business is valued using an assumed loss ratio, which is revised as experience unfolds. Loss ratios are set at a product and benefit type level. Gross of reinsurance loss ratios range from 54% to 112%.

WESTPAC LIFE INSURANCE SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Note 16. Policy liabilities (continued)

a. Assumptions and methodology applied in the valuation of life insurance contracts (continued)

(iv) Insurance risk sensitivity analysis – life insurance contracts

For life insurance contracts, changes to assumptions used in the valuation of policy liabilities can have an effect on the financial results. The changes (+ / -10%) in key assumptions (mortality, morbidity and discontinuance rates) would not have a material impact on the reported profit and equity of the Company.

Changes to discount rate used in the valuation of policy liabilities can have an effect on the financial results. The table below illustrates how a change in the discount rate would impact the reported profit and equity of the Company:

30 September 2019	Change in assumption	Effect on profit		Effect on policy liabilities		Effect on equity	
		2019		2019		2019	
		Increase/(decrease) (\$m)		Increase/(decrease) (\$m)		Increase/(decrease) (\$m)	
		Gross of reinsurance	Net of reinsurance	Gross of reinsurance	Net of reinsurance	Gross of reinsurance	Net of reinsurance
Statutory funds 1	+50bp	70.3	-	(89.0)	11.4	70.3	-

30 September 2018	Change in assumption	Effect on profit		Effect on policy liabilities		Effect on equity	
		2018		2018		2018	
		Increase/(decrease) (\$m)		Increase/(decrease) (\$m)		Increase/(decrease) (\$m)	
		Gross of reinsurance	Net of reinsurance	Gross of reinsurance	Change in assumption	Gross of reinsurance	Net of reinsurance
Statutory funds 1	+50bp	41.7	(10.0)	(59.6)	14.3	41.7	(10.0)
Shareholder Fund	+50bp	N/A	10.0	-	-	N/A	10.0

During September 2019, the interest rate hedge in the Shareholder Fund was transferred to Statutory Fund 1.

(v) Life insurance contract liability adequacy

Life insurance contract policy liabilities are tested for liability adequacy by comparing them to the best estimate of future cash flows. Liabilities are grouped into related product groups and each group is tested against the best estimate of future cash flows. If the liability of a related product group is less than best estimate the liability is increased with the expense being recorded directly through the statement of profit or loss and other comprehensive income.

WESTPAC LIFE INSURANCE SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Note 16. Policy liabilities (continued)

b. Reconciliation of movements in policy liabilities

	Note	2019 \$m	2018 \$m
Net life insurance contract liabilities			
Net life insurance contract liabilities			
Increase in insurance contract policy liabilities		620.7	238.4
(Increase)/decrease in reinsurers' share of life insurance contract policy liabilities		(579.4)	(228.5)
Total increase in net life insurance contract liabilities		41.3	9.9
Net life investment contract liabilities			
Net life investment contract liabilities			
Life investment contract revenue credited to policyholders		504.3	702.9
Total increase in net life investment contract liabilities		504.3	702.9
Analysis of movement in policy liabilities by nature			
Life insurance contract liabilities			
Gross life insurance contract liabilities at beginning of the period		(81.4)	(312.8)
Part 9 transfer	24(f)	-	(7.0)
Increase in life insurance contract policy liabilities		620.7	238.4
Gross life insurance contract liabilities at end of the period		539.3	(81.4)
Reinsurers' share of life insurance contract liabilities at beginning of the period		(657.7)	(426.6)
Part 9 transfer	24(f)	-	(2.6)
(Increase)/decrease in reinsurers' share of life insurance contract policy liabilities		(579.4)	(228.5)
Reinsurers' share of life insurance contract liabilities at end of the period		(1,237.1)	(657.7)
Net life insurance contract liabilities		(697.8)	(739.1)
Life investment contract liabilities			
Gross life investment contract liabilities at beginning of the period		7,799.9	7,577.2
Life investment contract contributions recognised as an increase in policy liabilities		897.8	738.4
Life investment contract withdrawals recognised as a decrease in policy liabilities		(1,217.8)	(1,115.4)
Life investment contract revenue credited to policyholders		504.3	702.9
Life investment contract fees, expenses and tax recoveries		(71.1)	(103.2)
Total life investment contract liabilities		7,913.1	7,799.9
Net policy liabilities		7,215.3	7,060.8
Expected to be realised within 12 months		8,005.7	7,791.8
Expected to be realised in more than 12 months		(790.4)	(731.0)
Net policy liabilities		7,215.3	7,060.8

In respect of investment-linked contracts, the amount of policy liabilities subject to investment performance guarantees is \$9.0 million (2018: \$10.2million).

In respect of contracts with a discretionary non-participation feature, the amount of policy liabilities that relates to the guaranteed element is \$990.5 million (2018: \$826.9 million).

With the exception of fixed term immediate annuities maturing after 12 months, investment policy liabilities are classified as current as the Company does not have the right to defer settlement of the investment policy liability for at least twelve months after reporting date.

WESTPAC LIFE INSURANCE SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Note 16. Policy liabilities (continued)

c. Life insurance risk

Insurance risk is the inherent uncertainty as to the occurrence, amount and timing of insurance liabilities. This exposure is transferred to the Company through its underwriting process.

The primary life insurance products offered by the Company are Term Life (mostly sold as a stepped premium product), where lump sum benefits are payable on death or, as an optional benefit, on permanent disability or a specified trauma event, and Income Protection products. All contracts are written within Australia.

Through its life insurance contracts the Company is exposed to pricing, acceptance and management of mortality, morbidity and longevity risks.

To mitigate its exposure to insurance risk the Company has embedded a number of key controls in its operations.

The design, development and distribution of products carrying insurance risk is managed to ensure that policy wording and promotional materials are clear. The Company undertakes comprehensive market research to ensure potential risks with the insurance product are identified and understood. Product prices are set through a process of financial analysis, including a review of previous experience and specific product design features.

The type and nature of life insurance risk accepted is determined by reference to underwriting procedures designed to ensure that risks are sufficiently diversified across occupational sectors, geographical locations and by level of sum insured. Underwriting is managed through a dedicated underwriting department, with formal underwriting limits and appropriate training and development of underwriting staff.

Claims are managed through a dedicated claims management team, with a formalised claims acceptance process, including claims acceptance limits and appropriate training of staff. Claims experience is regularly assessed and appropriate reserves are established to reflect up to date experience and any anticipated future events.

The Company also reinsures (cedes) insurance risk to manage its exposure to large claims which lie outside predetermined risk tolerance limits, and to reduce the Company's net liability on large individual risks.

As the majority of the life insurance contracts written by the Company are on individual insured persons rather than on groups there is minimal concentration of insurance risk in the Company's portfolio of life insurance contracts. The Company has obtained reinsurance that reduces geographical concentration risk for the Group portfolio.

d. Asset liability management (ALM)

The principal aims of the Company's ALM are to match assets to the liabilities arising from insurance and investment contracts by reference to the type of benefits payable to contract holders. The Company's ALM also forms an integral part of the insurance risk management policy, to ensure in each period, sufficient cash flow is available to meet liabilities arising from insurance contracts.

e. Components of net life insurance contract liabilities

	2019 \$m	2018 \$m
Future policy benefits (projection business only in 2018)	4,335.3	3,689.5
Future expenses (projection business only in 2018)	2,095.2	1,870.0
Planned margins over future expenses (projection method business only)	1,808.4	2,078.0
Balance of future revenues	(8,936.7)	(8,376.6)
Net life insurance contract liabilities	(697.8)	(739.1)

WESTPAC LIFE INSURANCE SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Note 17. Financial risk management

An integrated risk management framework has been implemented to bring together the various component parts of the risk framework. The framework is the totality of the systems, processes, structures, policies and people involved in identifying, assessing, treating and monitoring risks. The Risk Management Strategy (RMS) sets out the strategy to be adopted by the Company for managing risk and is a key element of the risk management framework. The framework overall, including the RMS, incorporates the requirements of APRA's Prudential Standard for Risk Management (CPS220).

The Company operates within, and is governed by the Westpac Group risk management framework, and aligns with Westpac Group risk appetite, policies and frameworks that are designed to manage risk effectively and efficiently. Adherence to these frameworks is essential to ongoing management of its risks.

Governance Framework

The Company's governance framework overseeing effective risk management consists of:

- Defined roles and responsibilities for the Board, its committees and various management committees and forums that oversee particular aspects of the business;
- Various governance-related documents setting out the policies, practices and procedures adopted by the Company to ensure it operates in accordance with prudential requirements and good governance principles; and
- A dedicated risk management function that supports the risk management framework and execution of the Company's RMS.

The Company has adopted the Westpac Group Delegated Authority Policy Framework. This framework enables management to make decisions which are not reserved for the Board. The Board has delegated certain risk management responsibilities to the following committees.

Board Committees

Insurance Board Audit Committee

The primary role of the Committee is to assist the Board by providing an objective, non-executive review of the effectiveness of the Board's financial reporting and financial management framework. Ultimate responsibility for the integrity of the Company's financial reporting and audit rests with the Board. The duties of the Committee include:

- Oversight of statutory reporting requirements, financial reporting requirements, professional accounting requirements and internal and external audit, and make recommendations to the Board;
- Review and assess the integrity of the financial statements and the financial reporting framework;
- Review regular reports from management and external auditor regarding the Company's internal financial controls and compliance, disclosure, legal and regulatory requirements;
- Review the policies and procedures for employees to submit, confidentially, information about accounting, internal control, compliance, audit and other matters about which an employee has concerns, and establish a process for ensuring employees are aware of the policies and for dealing with such matters; and
- Consider advice from the Appointed Actuary in respect of the valuation of insurance liabilities, including an assessment of the overall financial condition of the Company.

Insurance Board Risk Committee

The Board is ultimately responsible for the integrity of the risk and compliance processes. The role of the Committee is to assist the Board discharge its responsibilities by having oversight of the implementation and operation of the risk management framework.

The duties of the Committee include:

- Oversight of the risk management frameworks and making recommendations to the Board;
- Oversight of senior management's implementation of the Insurance Risk Management Strategy;
- Review the compliance processes that are in place to anticipate and effectively manage the impact of regulatory change on operations;
- Oversee for reporting or recommendation to the Board the Internal Capital Adequacy Assessment Process (ICAAP) and in doing so review the stress testing outcomes; the target capital ranges for regulatory capital; and review and monitor capital levels for consistency with the Company's risk appetite; and
- Advising the Board on current and future risk appetite, capital strength and Risk Management Strategy.

Westpac Board Remuneration Committee

The Board has delegated remuneration matters to the Westpac Board Remuneration Committee. The primary role of this Committee is to review and make recommendations to the Westpac Board that ensure coherent remuneration policies and practices that fairly and responsibly reward individuals having regard to performance, the Risk Management Framework, the law and the highest standards of governance.

The Appointed Actuary

The Appointed Actuary is responsible for providing a report on the financial condition of the Company to the Board. The report is considerate of current solvency and capital adequacy, together with consideration of a range of factors such as the premium rates, policy conditions, reinsurance arrangements, risks faced by the insurer and other related matters. The Appointed Actuary also provides advice in respect of the value of the insurance liabilities calculated in accordance with APRA Prudential Standards.

WESTPAC LIFE INSURANCE SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Note 17. Financial risk management (continued)

Approach to risk management

The Company has adopted the Three Lines of Defence model to ensure it practices holistic end-to-end management of risk. The Company's Three Lines of Defence approach is designed on a functional basis and covers all employees. The delineation of responsibilities between the Three Lines of Defence are set out below.

1st Line of Defence – Risk identification, risk management and self-assurance

The First Line proactively identifies, evaluates, owns and manages the risks in their business/domain. It also ensures that business activities are within approved risk appetite and policies. This accountability cannot be abrogated. The First Line of defence is accountable for 'self-certification'.

In managing its risk, the First Line is required to establish and maintain appropriate governance structures, controls, resources and self-assessment processes, including issue identification recording and escalation procedures.

2nd Line of Defence – Establishment of risk management frameworks and policies and risk management oversight

The Second Line sets frameworks, controls (including policies and limits), and standards for use across the Company. They can require remediation or cessation of activity where these are not adhered to. Their approach will be risk-based and proportionate.

The Second Line reviews and challenges First Line activities and decisions that may materially affect the Company's risk position, and independently evaluates the effectiveness of the First Line's controls, monitoring, compliance, and monitors progress towards mitigating risks. In addition, the Second line provides insight to the First Line, assisting in developing, maintaining and enhancing the business' approach to risk management.

The Second Line understands and reports the aggregated risk profile of the business to ensure end-to-end oversight of risk and is required to endorse the acceptance of any risks outside of the business' risk appetite before being considered by the Board

3rd Line of Defence – Independent assurance

The Third Line is an independent assurance function that evaluates and opines on adequacy and effectiveness of both First and Second Line risk management approaches and tracks remediation progress, with the aim of providing the Board, and Senior Executives, with comfort that governance, risk management and internal controls are operating effectively.

Financial Risks

a. Credit risk

Credit risk is the risk of financial loss where a customer or counterparty fails to meet their financial obligations to the Company or the broader Westpac Group. The Company is subject to the Westpac Credit Risk Management Framework. This framework defines what constitutes credit risk for the Company and provides the basis for managing credit risk. A key driver of credit risk is in the Company's reinsurance activities, particularly counterparty exposure and counterparty performance management.

The following policies and procedures established through the Risk Management Strategy, Credit Risk Management Framework and Reinsurance Management Strategy are used to mitigate the Company's exposure to credit risk.

- (i) 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.
- (ii) Credit risk limits, counterparty exposure limits and acceptable credit quality ratings for investment assets of the Company are defined within the Credit Risk Management Framework and managed for the Company by the appointed investment portfolio managers. Compliance with these limits is monitored.
- (iii) Certain non-unit linked life investment contract liabilities are partly backed by Australian mortgages. The Company mitigates its credit risk in respect of these mortgages by applying limits to amounts loaned, loan to value ratios (LVR), and through the purchase of lenders mortgage insurance for all loans with an LVR in excess of pre-defined limits. In addition mortgage holdings are diversified by being distributed across all of the states of Australia.
- (iv) 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 either paid up or terminated.
- (v) As part of its overall risk management strategy the Company cedes a proportion of its insurance risk. While these cessions mitigate insurance risk, the recoverable from reinsurers expose the Company to credit risk. Exposure to reinsurance counterparties and the credit quality of those counterparties is actively monitored. Reinsurance is placed according to a pre-approved panel of reinsurers that have a strong credit rating. Concentration of risk is managed by adherence to counterparty limits. As at 30 September 2019 \$11.8 million of reinsurance recoveries on paid claims was due from a single reinsurer (2018: \$5.3 million).

Maximum credit risk exposure

The Company's maximum exposure to credit risk, in respect of its financial assets, without taking account of unit linked investment contracts and any collateral or other credit enhancements is determined as follows:

- Financial assets recognised on the balance sheet – the carrying amount; and
- Financial guarantees granted – the maximum amount the Company would have to pay if the guarantees were to be called upon.

The Company's maximum exposure to credit risk as of 30 September 2019 is \$2,171.3million (2018: \$1,810.5 million).

Collateral held

No collateral is held or provided on the financial assets of the Company other than a fixed charge over the properties backing the Company's Australian mortgage investments. These properties are valued on origination of the loan or during enforcement actions only.

WESTPAC LIFE INSURANCE SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Note 17. Financial risk management (continued)

a. Credit risk (continued)

Credit quality of financial assets that are neither past due nor impaired

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

30 September 2019	Neither past due nor impaired						Past due but not impaired	Unit linked ⁽²⁾	Total
	AAA	AA	AA-	A	Not rated ⁽¹⁾	Total			
	(\$m)	(\$m)	(\$m)	(\$m)	(\$m)	(\$m)	(\$m)	(\$m)	(\$m)
Cash and cash equivalents	-	-	64.5	4.4	-	68.9	-	0.4	69.3
Financial assets measured at fair value	-	-	37.9	-	1,885.0	1,922.9	1.5	7,012.0	8,936.4
Premiums receivable	-	-	-	-	29.6	29.6	-	-	29.6
Reinsurance recoveries receivable	-	-	95.1	-	-	95.1	21.9	-	117.0
Investment income accrued and receivable	-	-	-	-	2.5	2.5	-	11.9	14.4
Trade receivables	-	-	-	-	19.8	19.8	-	3.4	23.2
Amounts due from related entities	-	-	-	-	2.4	2.4	-	-	2.4
Futures margin account	-	-	-	6.7	-	6.7	-	0.1	6.8
Total	-	-	197.5	11.1	1,939.3	2,147.9	23.4	7,027.8	9,199.1

30 September 2018	Neither past due nor impaired						Past due but not impaired	Unit linked ⁽²⁾	Total
	AAA	AA	AA-	A	Not rated ⁽¹⁾	Total			
	(\$m)	(\$m)	(\$m)	(\$m)	(\$m)	(\$m)	(\$m)	(\$m)	(\$m)
Cash and cash equivalents	-	-	30.7	5.1	-	35.8	-	0.3	36.1
Financial assets measured at fair value	-	-	40.7	-	1,581.3	1,622.0	2.3	7,047.7	8,672.0
Premiums receivable	-	-	-	-	54.7	54.7	-	0.1	54.8
Reinsurance recoveries receivable	-	-	52.2	-	-	52.2	9.8	-	62.0
Investment income accrued and receivable	-	-	-	-	3.3	3.3	-	15.8	19.1
Trade receivables	-	-	-	-	21.5	21.5	-	21.1	42.6
Amounts due from related entities	-	-	-	-	2.2	2.2	-	-	2.2
Futures margin account	-	-	-	6.7	-	6.7	-	0.4	7.1
Total	-	-	123.6	11.8	1,663.0	1,798.4	12.1	7,085.4	8,895.9

- (1) Not rated – unrated financial assets measured at fair value comprise investments in units in managed schemes (unit trusts) and Australian Mortgages. These investments are predominantly held with Pandal Group Limited in structured entities as disclosed in Note 25.
- (2) Balances represent financial assets for unit-linked investment contracts, where the liability to the policyholder is linked to the performance and value of the assets that back those liabilities. The shareholder has no direct exposure to any credit risk in those assets.

WESTPAC LIFE INSURANCE SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Note 17. Financial risk management (continued)

a. Credit risk (continued)

Past due but not impaired financial assets

The following tables provide information regarding the ageing of those financial assets that are past due but not impaired at the balance date.

30 September 2019	Past due but not impaired				
	Less than 31 days	31 to 60 days	61 to 90 days	Greater than 90 days	Total
	(\$m)	(\$m)	(\$m)	(\$m)	(\$m)
Financial assets measured at fair value	0.7	0.4	-	0.4	1.5
Receivables					
- Reinsurance recoveries receivable	16.7	4.8	-	0.4	21.9

30 September 2018	Past due but not impaired				
	Less than 31 days	31 to 60 days	61 to 90 days	Greater than 90 days	Total
	(\$m)	(\$m)	(\$m)	(\$m)	(\$m)
Financial assets measured at fair value	1.8	-	0.2	0.3	2.3
Receivables					
- Reinsurance recoveries receivable	7.2	2.5	-	0.1	9.8

WESTPAC LIFE INSURANCE SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Note 17. Financial risk management (continued)

b. Liquidity risk

Liquidity risk is the risk of being unable to fund assets and meet obligations as they fall due. The Company is subject to the Westpac Group Liquidity Risk Management Framework to provide coverage across all businesses. This framework and policies define what constitutes liquidity risk and provides the basis for managing funding and liquidity risk. Liquidity risk management focuses primarily on ensuring sufficient cash is available to meet liabilities arising from insurance and investment policies.

The primary means the Company uses to manage liquidity risk are:

- Ensuring the investment of assets that are backing insurance liabilities are held in liquid assets that closely match the maturity of liabilities;
- Ensuring the investment of assets backing capital are held in appropriately liquid assets;
- Defining the minimum level of liquid funds at call within 48 hours to be held by the Company;
- Monitoring of liquid asset levels to ensure that holdings of liquid assets, together with other cash inflows, are sufficient to meet cash flow obligations to policyholders and other creditors;
- Liquidity modelling is carried out which considers the Company's ability to fund under both normal conditions and during a crisis situation; and
- Investments are made through recognised exchange markets. Unit-linked life investment business is invested "true to label" therefore there is a precise match between the liabilities and the assets backing those liabilities.

The Company has no significant concentration of liquidity risk.

Maturity profiles

The following table summarises the maturity profile of the financial liabilities of the Company based on remaining undiscounted repayment obligations, except for insurance contract liabilities, where maturity profiles are determined on the discounted estimated timing of net cash outflows.

30 September 2019	Up to 1 year ⁽¹⁾ (\$m)	1 to 5 years (\$m)	Over 5 years (\$m)	Unit linked ⁽²⁾ (\$m)	Non-unit linked ⁽³⁾ (\$m)	Total (\$m)
Insurance contract liabilities net of reinsurance ceded	94.2	(251.7)	(540.3)	-	-	(697.8)
Investment contract liabilities	1.7	1.7	-	6,919.8	990.0	7,913.2
Trade payables	229.9	-	-	-	-	229.9
Amounts due to related entities	32.9	-	-	-	-	32.9
Debt issues	-	60.0	-	-	-	60.0

30 September 2018	Up to 1 year ⁽¹⁾ (\$m)	1 to 5 years (\$m)	Over 5 years (\$m)	Unit linked ⁽²⁾ (\$m)	Non-unit linked ⁽³⁾ (\$m)	Total (\$m)
Insurance contract liabilities net of reinsurance ceded ⁽⁴⁾	(58.0)	(266.8)	(414.3)	-	-	(739.1)
Investment contract liabilities	16.1	3.6	-	6,953.3	826.9	7,799.9
Trade payables	198.8	-	-	-	-	198.8
Amounts due to related entities	53.9	-	-	-	-	53.9
Debt issues	-	-	60.0	-	-	60.0

- (1) "Up to 1 year" are all commitments which are either contractually due within the time frame, payable on demand, or in the case of insurance liabilities, where the estimated timing of associated cash outflows is expected within the timeframe.
- (2) For unit-linked business, the policyholder can generally surrender their contracts at any time, at which point the underlying unit-linked assets would be liquidated. Therefore the table shows the policyholder liability in aggregate only, without any maturity profile analysis. This is also consistent with the Company's management practice.
- (3) For non-unit linked investments, the policyholder can surrender their contracts at any time, at which point the underlying assets would be liquidated. Therefore the table shows the policyholder liability in aggregate only, without any maturity profile analysis. This is also consistent with the Company's management practice.
- (4) 2018 comparative amounts for insurance contract liabilities net of reinsurance ceded have been adjusted to enhance comparability with the current year.

WESTPAC LIFE INSURANCE SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Note 17. Financial risk management (continued)

b. Liquidity risk (continued)

The following table shows the estimated timing of future net cash flows in respect of insurance contract liabilities. These consist of expected future outgoings (claims, expenses, commissions, reinsurance premiums) less expected future income (premiums, reinsurance claim recoveries). The release of Planned (MoS) Profit Margins is also included. All values are discounted to the valuation date using the discount rate shown in Note 16 (a).

	Less than 1 Mth (\$m)	1 Mth to 3 Mths (\$m)	3 Mths to 1 Year (\$m)	1 Year to 5 Years (\$m)	Over 5 Years (\$m)	Total (\$m)
30 September 2019	51.0	49.1	(5.9)	(251.7)	(540.3)	(697.8)
30 September 2018	2.3	(2.1)	(58.2)	(266.8)	(414.3)	(739.1)

The following table shows the maturity profile of the fixed term annuities. These consist of discounted net cash flows in respect of annuity contracts.

30 September 2019	Less than 1 Mth \$m	1 Mth to 3 Mths \$m	3 Mths to 1 Year \$m	1 Year to 5 Years \$m	Over 5 Years \$m	Total \$m
Annuities	0.1	-	1.6	1.7	-	3.4

30 September 2018	Less than 1 Mth \$m	1 Mth to 3 Mths \$m	3 Mths to 1 Year \$m	1 Year to 5 Years \$m	Over 5 Years \$m	Total \$m
Annuities	1.8	7.6	6.7	3.6	-	19.7

c. Market risk

Market risk is the risk of an adverse impact on earnings resulting from changes in market factors such as foreign exchange rates (currency risk), interest rates (interest rate risk), commodity prices and equity prices. This includes interest rate risk – the risk to interest income from a mismatch between the duration of assets and liabilities that arises in the normal course of business activities. The main risks that the Company faces due to the nature of its investments and liabilities are interest rate and price risk.

The Company is subject to the Westpac Market Risk Management Framework. This framework defines what constitutes market risk for the Company and provides the Company with a framework for managing its market risk.

The following policies and procedures are established to mitigate the Company's exposure to market risk:

- Trading authorities and responsibilities are clearly delineated at all levels to ensure accountability;
- A structured system of limits and reporting of exposures against these exists for all trading activities; and
- Models are used to determine risk and profit/loss and are independently reviewed on a regular basis.

In addition to these controls, the Company uses derivatives to:

- protect an asset or portfolio against a fluctuation in market value;
- immediately adjust the asset exposure within the established strategy; and
- manage the exposure within a portfolio to fluctuations in interest rates.

Refer to Note 29 for the details of derivatives held by the Company.

Returns on unit-linked contracts, classified as life investment contracts, are at the risk of the policyholder. Therefore the shareholder has no direct exposure to any market movements arising from those contracts except in so far as they impact the amount of investment management fees assessed against the policyholder.

WESTPAC LIFE INSURANCE SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Note 17. Financial risk management (continued)

c. Market risk (continued)

(i) Interest rate risk

Interest rate risk is the risk of loss resulting from changes in interest rates, including changes in the shapes of yield curves.

Financial instruments with floating rate interest expose the Company to cash flow interest rate risk, whereas financial instruments with fixed rate interest expose the Company to fair value interest rate risk. The Company manages its investment portfolios by maintaining an appropriate mix of fixed and variable rate instruments. The Company invests in high quality, liquid fixed interest securities, units in fixed interest and floating rate interest managed investment schemes and cash having regard to the durations of the underlying liabilities. The Company is also exposed to interest rate risk on obligations arising from a number of its life insurance and life investment contracts. A "risk free" interest rate is applied as the discount rate in the calculation of policyholder liabilities for life insurance contracts. The sensitivity of policyholder liabilities to changes in this rate is mitigated through the use of 10 year Government bond futures. The futures have the economic effect of offsetting market related movements in the discount rate.

Where the liability to investment contract holders is directly linked to the assets backing that liability (i.e. unit-linked business) there is no residual interest rate risk to the shareholder. The Company's retained exposure to interest rate risk arising from its life insurance and life investment contracts is detailed below. The Company has no significant concentration of interest rate risk.

Interest rate risk sensitivity analysis

The table below shows the estimated impact on the Company's profit after tax and equity as at 30 September 2019 and 30 September 2018, of a 1% reasonably possible change in interest rates with all other variables held constant. The analysis includes all related derivatives and excludes sensitivities on unit-linked assets, as policyholders bear the investment risk.

Change in variables	30 September 2019		30 September 2018	
	Impact on profit after tax ⁽¹⁾	Impact on equity	Impact on profit after tax ⁽¹⁾	Impact on equity
	(\$m)	(\$m)	(\$m)	(\$m)
+100 basis points	26.9	26.9	26.2	26.2
-100 basis points	(26.9)	(26.9)	(25.6)	(25.6)

(1) Determined net of taxation at the prima facie rate of 30%.

The method used in deriving sensitivity information and significant variables did not change from the previous period.

(ii) Price risk

Price risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

The Company is subject to an internal capital adequacy assessment process. This framework defines what constitutes price risk for the Company and provides the Company with a framework for managing this risk. The Company's exposure to price risk primarily arises from investments in units in managed investment schemes (unit trusts) not held for the account of unit-linked business. The Company manages its exposure to price risk by applying investment limits at a transaction and portfolio level and by sector and market. The Company has no significant concentration of price risk.

Price risk sensitivity analysis

The potential impact of a change in the market value of the Company's unit trust investments, on profit after tax and equity as at 30 September 2019 and 2018, is shown in the sensitivity analysis below. The change in variable is measured by reference to a range of quoted stock market indices used by management to benchmark the Company's investments in unit trusts. The analysis includes all related derivatives and excludes sensitivities on unit-linked assets, as policyholders bear the investment risk.

Change in variables	30 September 2019		30 September 2018	
	Impact on profit after tax ⁽¹⁾	Impact on equity	Impact on profit after tax ⁽¹⁾	Impact on equity
	(\$m)	(\$m)	(\$m)	(\$m)
+300 basis points	2.1	2.1	2.0	2.0
-300 basis points	(2.1)	(2.1)	(2.0)	(2.0)

(1) Determined net of taxation at the prima facie rate of 30%

The method used in deriving sensitivity information and significant variables did not change from the previous period.

WESTPAC LIFE INSURANCE SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Note 17. Financial risk management (continued)

d. Fair value measurements

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement or for disclosure purposes.

AASB 13 Fair Value Measurement requires disclosure of fair value measurements by level of the following fair value measurement hierarchy.

The Company has adopted the amendment to AASB 7 Financial Instruments: Disclosures which requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

- unadjusted quoted prices in active markets for identical assets and liabilities (level 1);
- inputs other than quoted prices included within level 1 that are observable for assets or liabilities, either directly (as prices) or indirectly (derived from prices) (level 2); and
- inputs for assets and liabilities that are not based on observable market data (unobservable inputs) (level 3).

Fair value is determined as follows:

- Cash assets at face value of the amounts deposited;
- Investments in unlisted unit trusts by reference to the prevailing redemption prices at the reporting date, which inherently includes transaction costs;
- Receivables at amortised cost less provision for impairment losses, which is the best estimate of their fair value, as they are settled within a short time;
- Payables at amortised cost, which is the best estimate of their fair value, as they are settled within a short time;
- Investments in money market and fixed and floating interest rate securities at last sales price or, if such prices are not available, at prices for securities of comparable maturity, quality and type;
- Listed equities and trusts at bid price with no allowance made for transaction costs that may be incurred upon disposal;
- Exchange traded futures and options at bid price;
- Over-the-counter contracts on broker or dealer price quotations or prices for securities with similar credit risk, maturity and yield characteristics; and
- Forward foreign currency contracts on the rates of exchange ruling on the reporting date. Only the net unrealised gains/losses are accounted for in the balance sheet. The principal is held outside of the balance sheet.

30 September 2019	Quoted market prices (Level 1)	Valuation techniques (market observable) (Level 2)	Valuation techniques (Non-Market observable) (Level 3)	Total
	(\$m)	(\$m)	(\$m)	(\$m)
Assets				
Financial assets measured at fair value		8,936.4		8,936.4
Total assets carried at fair value	-	8,936.4	-	8,936.4

30 September 2018	Quoted market prices (Level 1)	Valuation techniques (Market observable) (Level 2)	Valuation techniques (Non-Market observable) (Level 3)	Total
	(\$m)	(\$m)	(\$m)	(\$m)
Assets				
Financial assets measured at fair value		8,672.0		8,672.0
Total assets carried at fair value	-	8,672.0	-	8,672.0

Investments whose values are based on quoted market prices in active markets, and therefore classified within level 1, include active listed equities and certain unlisted unit trusts exchange traded derivatives. The Company did not have any level 1 investments as at year end.

Financial instruments that trade in markets that are not considered to be active but are valued based on quoted market prices, dealer quotations or alternative pricing sources supported by observable inputs are classified within level 2. These include, investment-grade corporate bonds, certain listed equities, certain unlisted unit trusts, and over-the-counter derivatives. As level 2 investments include positions that are not traded in active markets and/or are subject to transfer restrictions, valuations may be adjusted to reflect illiquidity and/or non-transferability, which are generally based on available market information.

Investments classified within level 3 have significant unobservable inputs, as they are infrequently traded. The Company did not have any level 3 investments as at year end. There were no transfers between levels during the financial year.

For financial instruments that are not carried at fair value, fair value is provided for disclosure purposes only. For financial instruments that are considered short term in nature such as trade receivables and payables, the carrying value is a reasonable approximation of fair value.

WESTPAC LIFE INSURANCE SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Note 17. Financial risk management (continued)

d. Fair value measurement (continued)

The following table shows the estimated fair value of financial instruments not carried at fair value.

30 September 2019	Carrying Value	Quoted market prices (Level 1)	Valuation techniques (market observable) (Level 2)	Valuation techniques (Non-Market observable) (Level 3)	Total
	(\$m)	(\$m)	(\$m)	(\$m)	(\$m)
Financial liabilities					
Debt issues ¹	60.0	-	67.6	-	67.6

30 September 2018	Carrying Value	Quoted market prices (Level 1)	Valuation techniques (Market observable) (Level 2)	Valuation techniques (Non-Market observable) (Level 3)	Total
	(\$m)	(\$m)	(\$m)	(\$m)	(\$m)
Financial liabilities					
Debt issues ¹	60.0	-	69.1	-	69.1

(1) Fair value is derived using a discounted cash flow model. The discount rates applied reflect the terms of the instrument, the timing of the estimated cash flows and is adjusted for Westpac credit spreads.

For all other financial assets and liabilities, the carrying value is a reasonable approximation for fair value, therefore no fair value disclosure required under AASB 7.

Operational risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. The definition includes legal and regulatory risk but excludes strategic risk. The Company is subject to the Westpac Operational Risk Management Framework. The framework establishes roles and responsibilities and the measurement, management, monitoring and reporting of operational risks, including risk and control management, and scenario analysis. The Company is also subject to Westpac Incident Management Policy and Westpac Issue and Action Management Policy.

The key components of the Operational Risk Management Framework are:

- Governance, Projects, Capital, Data, Acceptance, Indicators and Reporting;
- Incident, Issues and Action Management; and
- Scenario analysis and External Loss Events.

Consistent with the three lines of defence model, roles and responsibilities are documented for each line of defence.

Complementing this framework, the Company maintains a database of operational incidents. An analysis of the causes of operational incidents is used to enable the Company to implement measures to avoid or reduce future losses. The measures adopted may include revising processes, improving failed or inappropriate controls or strengthening emergency plans.

Internal capital adequacy assessment process (ICAAP)

The ICAAP is the over-arching process through which the level of capital is determined and maintained to ensure it is adequate and commensurate with the Board's risk appetite and complies with all prudential requirements. The ICAAP is a key element of, and is governed by, the Risk Management Framework.

In the course of protecting policyholder interests, the Company seeks to manage capital to ensure it is adequate to provide for the risks that arise from operations conducted by the Company. The ICAAP is an important tool that assists the Company to achieve this and provides crucial insights into the Company's approach to managing capital.

The ICAAP uses regulatory capital requirements prescribed by the Australian Prudential Regulation Authority (APRA) as the foundation upon which a target capital structure is built. The ICAAP is integrated into the Risk Management Framework. While the ICAAP is governed within the Risk Management Framework, other policies also support the ICAAP.

The Board is fundamentally responsible for the ICAAP of the Company and retains responsibility for approval and implementation of the process. The Board Risk Committee, Consumer Division Chief Executive Officer, Appointed Actuary, Consumer Division Chief Financial Officer, Consumer Division Chief Risk & Compliance Officer, the GM Insurance supported by Senior Management play key roles, assisting the Board in applying the ICAAP to the Company.

WESTPAC LIFE INSURANCE SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Note 17. Financial risk management (continued)

Capital and regulatory risk

The Company holds capital to protect customers, creditors and shareholders against unexpected losses to a level consistent with the Company's regulatory requirements and risk appetite, as approved by the Board of Directors. In addition, each statutory fund within the Company must meet the legislative solvency and capital requirements at all times. In order to meet these requirements the Company holds capital equal to its prescribed capital amount (PCA), plus a "buffer" capital to ensure the Company has sufficient assets to satisfy capital adequacy during unplanned negative performance. The Company also undertakes strategic investments to further the business of both the Company and Westpac. Therefore, free assets of the Company are represented by shareholder capital in excess of regulatory capital requirements, plus target surplus.

The Company is regulated by APRA and is required to hold a minimum amount of capital to meet capital requirements specified in APRA's Capital Adequacy Prudential Standards.

The Company's capital resources includes contributed equity attributable to shareholders of \$201.5 million (2018: \$201.5 million). The Company's capital position is monitored on a regular basis and adjustments are made, as required, in light of changes in economic conditions and changes in the Company's risk profile. The Company's capital position is monitored on a regular basis and reported to the Board quarterly.

Other capital maintained

The Company holds capital based on its view of the risks involved in its business and this capital is above the prudential capital requirement. The amount in excess of the statutory requirements is a buffer to ensure the Company has sufficient assets to satisfy capital adequacy in the event of poor performance.

WESTPAC LIFE INSURANCE SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Note 17. Financial risk management (continued)

Capital adequacy

The following table shows the capital adequacy calculated in accordance with the APRA prudential framework for the year ended 30 September 2019.

	Statutory fund 1 (\$m)	Statutory fund 2 (\$m)	Shareholder fund (\$m)	Total (\$m)
Net Assets	1,565.4	68.5	8.7	1,642.6
Regulatory adjustment applied in calculation of Tier 1 capital	(1,340.3)	-	-	(1,340.3)
Common Equity Tier 1 Capital	225.1	68.5	8.7	302.3
Additional tier 1 capital	-	-	-	-
Regulatory adjustments (if any)	-	-	-	-
Tier 2 Capital	35.0	25.0	-	60.0
Regulatory adjustments (if any)	-	-	-	-
Capital Base:	260.1	93.5	8.7	362.3
Prescribed capital amount comprises:				
Insurance Risk	41.5	-	-	41.5
Asset Risk	46.1	15.2	-	61.3
Asset Concentration Risk	-	-	-	-
Operational Risk	40.7	17.3	-	58.0
Aggregation benefit	-	-	-	-
Combined scenario adjustment	-	6.5	-	6.5
Prescribed capital amount	128.3	39.0	-	167.3
(a) Capital Base	260.1	93.5	8.7	362.3
(b) Prescribed capital amount	128.3	39.0	-	167.3
Capital in excess of prescribed capital amount = (a) - (b)	131.8	54.5	8.7	195.0
Capital adequacy multiple (%) = (a) / (b)	203%	240%	21573%	217%

Capital adequacy for the year ended 30 September 2018

	Statutory fund 1 (\$m)	Statutory fund 2 (\$m)	Shareholder fund (\$m)	Total (\$m)
Net Assets	1,365.6	71.6	63.6	1,500.8
Regulatory adjustment applied in calculation of Tier 1 capital	(1,221.8)	-	-	(1,221.8)
Common Equity Tier 1 Capital	143.8	71.6	63.6	279.0
Additional tier 1 capital	-	-	-	-
Regulatory adjustments (if any)	-	-	-	-
Tier 2 Capital	35.0	25.0	-	60.0
Regulatory adjustments (if any)	-	-	-	-
Capital Base:	178.8	96.6	63.6	339.0
Prescribed capital amount comprises:				
Insurance Risk	-	-	-	-
Asset Risk	30.1	16.6	24.5	71.2
Asset Concentration Risk	-	-	-	-
Operational Risk	38.7	17.4	-	56.1
Aggregation benefit	-	-	-	-
Combined scenario adjustment	-	7.1	10.5	17.6
Prescribed capital amount	68.8	41.1	35.0	144.9
(a) Capital Base	178.8	96.6	63.6	339.0
(b) Prescribed capital amount	68.8	41.1	35.0	144.9
Capital in excess of prescribed capital amount = (a) - (b)	110.0	55.5	28.6	194.1
Capital adequacy multiple (%) = (a) / (b)	260%	235%	182%	234%

WESTPAC LIFE INSURANCE SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Note 17. Financial risk management (continued)

Disclosures on asset restrictions

Investments in the life funds can only be used within the restrictions imposed under the Life Act. The main restrictions are that the assets in a fund can only be used to meet the liabilities and expenses of that fund, to acquire investments to further the business of the fund or as distributions when capital requirements are met.

Note 18. Debt issues

	2019	2018
	\$m	\$m
Subordinated notes	60.0	60.0
Total debt issues	60.0	60.0

Debt issue balance with the ultimate parent entity at year end is \$60.0 million. All notes are fully paid, redeemable and unsecured. Interest payable on the notes is bank bill rate plus 3% margin. The interest charged during the year was \$2.8 million (2018: \$2.9 million). The notes are redeemable after 29 October 2018 with a maturity of 29 October 2023 and must be converted to ordinary shares upon certain non-viability trigger events. Non-viability trigger events are notified by APRA, when it determines that the capital position of the entity is insufficient to make the entity viable. Any redemption of notes must be approved by APRA. There is no right of set-off against obligations to the note holders.

Note 19. Share capital

	2019	2018
	\$m	\$m
Share capital		
Ordinary share capital, fully paid	201.5	201.5
Total share capital	201.5	201.5

Movements in share capital	\$m	\$m
Opening balance	201.5	201.5
Closing balance	201.5	201.5

	2019	2018
	No.	No.
Ordinary shares at beginning of the year	166,780,468	166,780,468
Ordinary shares at end of the year	166,780,468	166,780,468

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 amount paid on the shares held.

Each ordinary share entitles the holder to one vote, either in person or by proxy, at a shareholder meeting.

The Company's capital management objectives are to:

- ensure sufficient capital resource to support the Company's business and operational requirements;
- safeguard the Company's ability to continue as a going concern; and
- maintain sufficient capital to exceed externally imposed capital requirements.

Periodic reviews of the Company's capital requirements are performed to ensure the Company is meeting its objectives. Capital is defined as share capital plus reserves.

WESTPAC LIFE INSURANCE SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Note 20. Reserves

	2019	2018
	\$m	\$m
Reserves		
Capital reserves	260.1	260.1
Total reserves	260.1	260.1
	2019	2018
	\$m	\$m
Movements in reserves		
Balance at beginning of the year	260.1	260.1
Balance at end of the year	260.1	260.1

Nature and purpose of reserves

Capital reserves represent amounts transferred to statutory funds from shareholder fund from the issue of shares in prior years.

Note 21. Dividends

	2019	2018
	\$m	\$m
Equity - Ordinary		
Ordinary dividend of \$0.09 per fully paid share paid in December 2018	15.0	-
Ordinary dividend of \$0.25 per fully paid share paid in September 2018	-	42.0
Ordinary dividend of \$0.13 per fully paid share paid in June 2018	-	21.0
Ordinary dividend of \$0.15 per fully paid share paid in March 2018	-	25.0
Total dividends	15.0	88.0

Note 22. Economic dependency

The normal trading activities of the Company and its controlled entities depend significantly on the product sales generated by the sales channels of the ultimate parent entity, Westpac and its controlled entities.

Note 23. Auditor's remuneration

The auditor's remuneration for audit of the financial statements of \$739,631 (2018: \$704,410) was paid by the ultimate parent entity, Westpac.

WESTPAC LIFE INSURANCE SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Note 24. Related party disclosures

a. Parent entities

Westpac Financial Services Group Limited is the immediate parent entity. Westpac Banking Corporation is the ultimate parent entity.

b. Key management personnel (KMP)

Key management personnel are those who, directly or indirectly, have authority and responsibility for planning, directing and controlling the activities of the Company. This includes all Executive and Non-Executive Directors.

	2019 \$	2018 \$
Remuneration of KMP		
Short-term benefits	1,109,621	931,130
Post-employment benefits	64,782	54,623
Other long-term benefits	11,189	9,470
Termination benefits	-	-
Share-based payments	362,290	171,066
Total remuneration of KMP	1,547,882	1,166,289

Key management personnel remuneration was paid by the relevant employing entities within the Westpac Group, with the exception of share-based payments which consist of shares, options and other equity instruments issued by the ultimate parent entity. In addition to the remuneration disclosed above, certain Directors of the Company also receive remuneration for their role as key management personnel of related responsible entities and trustee companies. This remuneration is separately disclosed in the financial statement of those responsible entities.

c. Controlled unit trusts

Interests in controlled unit trusts are set out in Note 25.

d. Transactions with related parties

The following transactions occurred with related parties:

Type of transaction	Class of related party	Note	2019 \$	2018 \$
Interest received	Ultimate parent entity		469,702	562,074
Interest paid	Ultimate parent entity	18	2,828,316	2,907,539
Interest paid	Other related entities		755,495	755,495
Distribution from unit trust	Other related entities		159,517	147,651
Service fee expense	Ultimate parent entity		103,144,106	85,557,661
Service fee expense	Other related entities		176,332,974	179,196,981
Commission expense	Ultimate parent entity		28,776,216	57,739,485
Commission expense	Other related entities		12,213,615	11,946,667
Dividends paid	Parent entity	21	15,000,000	88,000,000
Purchase of units	Controlled unit trust		468,054,415	422,816,597
Sale of units	Controlled unit trust		319,314,451	466,042,589
Distributions from unit trust	Controlled unit trust		155,452,304	270,324,238
Purchase of units	Non-controlled unit trust		2,086,809,272	2,448,303,090
Sale of units	Non-controlled unit trust		1,863,511,072	2,082,333,166
Distributions from unit trust	Non-controlled unit trust		375,091,402	374,590,454

WESTPAC LIFE INSURANCE SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Note 24. Related party disclosures (continued)

e. Outstanding balances

The following balances are outstanding at the reporting date in relation to transactions with related parties:

Balance type	Class of related party	Note	2019 \$	2018 \$
Cash and cash equivalents	Ultimate parent entity	28(a)	64,470,366	30,711,788
Financial assets measured at fair value	Controlled unit trusts		2,569,261,283	2,494,550,065
Financial assets measured at fair value	Non-controlled unit trusts		6,177,541,003	5,958,376,823
Trade and other receivables	Other related entities	10	2,419,939	2,152,283
Current tax liability	Ultimate parent entity	13	463,938	-
Trade and other payables	Ultimate parent entity	13	24,431,860	47,508,283
Trade and other payables	Other related entities	13	7,675,539	6,423,220
Debt issues	Ultimate parent entity	18	60,000,000	60,000,000

f. Part 9 transfer

On 29 August 2018 the Federal Court of Australia approved the Scheme to transfer all of St George Life Limited's business to the Company under Part 9 of the Life Insurance Act 1995. The effective date of the transfer was 1 September 2018. Details of the Scheme are provided in Note 26.

Details of the assets, liabilities and shareholders' equity transferred on 1 September 2018 are listed below:

	2019 \$m	2018 \$m
Assets		
Cash and cash equivalents	-	1.2
Financial assets measured at fair value	-	40.4
Trade and other receivables	-	2.7
Deferred tax assets	-	0.9
Reinsurers' share of life insurance contract liabilities	-	2.6
Total assets	-	47.8
Liabilities		
Trade and other payables	-	3.3
Life insurance contract liabilities	-	(7.0)
Provisions	-	3.1
Total liabilities	-	(0.6)
Shareholders' equity		
Retained profits	-	48.4
Total shareholders' equity	-	48.4

g. Terms and conditions

All transactions have been made on normal commercial terms and conditions.

WESTPAC LIFE INSURANCE SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Note 25. Structured entities

A structured entity is one which has been designed such that voting or similar rights are not the dominant factor in determining who controls the entity (for example, when voting rights relate to administrative tasks only and the relevant activities are directed by means of contractual arrangements). Structured entities are generally created to achieve a specific and well defined objective with restrictions over their ongoing activities. An interest in a structured entity is any form of contractual or non-contractual involvement which creates variability in returns arising from the performance of the entity for the Company. Such interests include holdings of units in trusts.

The following table shows the interest in unconsolidated structured entities, which includes controlled and uncontrolled entities. The carrying value of controlled and uncontrolled units at the end of the period is \$8,890.0 million (2018: \$8,610.6 million) and they are classified as assets designated at fair value through the profit and loss.

The carrying value of the investments represents the Company's maximum exposure to loss. The Company does not provide any material financial support to these structured entities.

	Cash \$m	Fixed interest \$m	Domestic equity \$m	Global equity \$m	Property \$m	Other \$m	Total \$m
30 September 2019							
Assets							
Financial assets measured at fair value	2,119.0	786.2	4,987.4	688.9	125.9	182.6	8,890.0
Size of structured entity ⁽¹⁾	3,740.5	3,081.1	27,913.8	13,308.9	958.3	10,345.7	59,348.3
30 September 2018							
Assets							
Financial assets measured at fair value	1,855.4	851.4	4,813.2	753.9	132.5	204.2	8,610.6
Size of structured entity ⁽¹⁾	4,072.8	4,900.4	28,859.7	16,080.3	1,405.3	9,995.1	65,313.6

(1) For investments in unit trusts, the size of the structured entity is measured as the total funds under management or if not available, the Company's maximum exposure.

The table below shows the interest in unconsolidated structured entities which are controlled entities.

Name of unit trust	Country of incorporation	2019 %	2018 %
Pendal FDS Fund	Australia	-	86.4
Pendal Medium Term Income Fund	Australia	100.0	100.0
Pendal Stable Cash Plus Trust	Australia	54.9	46.4
Pendal Global Share Fund	Australia	95.7	96.2
Pendal Enhanced Australian Shares Fund	Australia	99.9	86.4
Pendal International Share Trust	Australia	73.8	64.0
Pendal Enhanced Fixed Interest Trust	Australia	92.6	80.1

In addition to the controlled unit trusts above, the Company invests in trusts that may result in it holding greater than 20% of the units. The Company does not account for these investments using the equity method of accounting as it does not have significant influence or is not involved in the decision making or investment strategy or general management of these unit trusts. In addition, if the Company redeemed its unit holdings in these unit trusts, they would continue to operate as per normal.

WESTPAC LIFE INSURANCE SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Note 26. Statutory fund information

On 13 June 2019, the Directors of the Company approved the termination of the inactive Statutory Funds 3, 4, 5, 6, 7, 8, 9 and 10. The effective date of the Funds termination was 1 July 2019.

The following details show the number of statutory funds operated by the Company as at the end of the financial year, the types of business written and the major products within each statutory fund.

As at 30 September 2019

Statutory fund	Type of business	Major products
Statutory fund 1	Non unit-linked ordinary and super business for individual and group policyholders (including annuity business)	Term life Income protection Living insurance (trauma) Accidental death Guaranteed income plan Yearly renewable term Trauma recovery Accidental injury Consumer credit insurance Fixed term annuity Flexible income plan
Statutory fund 2	Unit-linked ordinary and super business	Lifetime super service Personal portfolio service Business super Foundation plan Corporate balanced fund Super savings fund

As at 30 September 2018

Statutory fund	Type of business	Major products
Statutory fund 1	Non unit-linked ordinary and super business (including annuity business)	Term life Income protection Living insurance (trauma) Accidental death Guaranteed income plan Yearly renewable term Trauma recovery Accidental injury Consumer credit insurance Fixed term annuity Flexible income plan
Statutory fund 2	Unit-linked ordinary and super business	Lifetime super service Personal portfolio service Business super Foundation plan Corporate balanced fund Super savings fund
Statutory fund 3	No products maintained under this statutory fund	Not applicable
Statutory fund 4	No products maintained under this statutory fund	Not applicable
Statutory fund 5	No products maintained under this statutory fund	Not applicable
Statutory fund 6	No products maintained under this statutory fund	Not applicable
Statutory fund 7	No products maintained under this statutory fund	Not applicable
Statutory fund 8	No products maintained under this statutory fund	Not applicable
Statutory fund 9	No products maintained under this statutory fund	Not applicable
Statutory fund 10	No products maintained under this statutory fund	Not applicable

WESTPAC LIFE INSURANCE SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Note 26. Statutory fund information (continued)

Abbreviated information by fund for the year ended 30 September 2019	Statutory fund no. 1 insurance \$m	Statutory fund no. 1 investment \$m	Statutory fund no. 2 investment \$m
Financial assets measured at fair value	835.5	1,086.2	7,014.4
Reinsurers' share of life insurance contract liabilities	1,237.1	-	-
Other assets	231.3	(2.3)	28.5
Life insurance contract liabilities	539.3	-	-
Life investment contract liabilities	-	993.8	6,919.3
Other liabilities	288.3	1.0	55.1
Contributed equity	-	-	-
Reserves	401.4	(9.6)	43.2
Retained profits	1,074.9	98.7	25.3
Net life insurance premium revenue	984.1	-	-
Investment income	16.2	15.6	497.8
Fee and other revenue	34.7	10.2	110.1
Net life insurance claims expense	421.2	0.4	-
Change in life insurance contract policy liabilities	41.3	-	-
Change in life investment contract policy liabilities	-	12.7	491.6
Interest expense	1.6	-	2.0
Other expenses	358.2	0.6	61.7
Profit before income tax expense	212.7	12.2	52.5
Net profit for the year	148.9	7.1	30.4

Abbreviated information by fund for the year ended 30 September 2019	Total insurance \$m	Total investment \$m	Total statutory funds \$m	Shareholder fund \$m	Total all funds \$m
Financial assets measured at fair value	835.5	8,100.6	8,936.1	0.3	8,936.4
Reinsurers' share of life insurance contract liabilities	1,237.1	-	1,237.1	-	1,237.1
Other assets	231.3	26.2	257.5	6.3	263.8
Life insurance contract liabilities	539.3	-	539.3	-	539.3
Life investment contract liabilities	-	7,913.1	7,913.1	-	7,913.1
Other liabilities	288.3	56.1	344.4	(2.1)	342.3
Contributed equity	-	-	-	201.5	201.5
Reserves	401.4	33.6	435.0	(174.9)	260.1
Retained profits	1,074.9	124.0	1,198.9	(17.9)	1,181.0
Net life insurance premium revenue	984.1	-	984.1	-	984.1
Investment income	16.2	513.4	529.6	(42.1)	487.5
Fee and other revenue	34.7	120.3	155.0	-	155.0
Net life insurance claims expense	421.2	0.4	421.6	-	421.6
Change in life insurance contract policy liabilities	41.3	-	41.3	-	41.3
Change in life investment contract policy liabilities	-	504.3	504.3	-	504.3
Interest expense	1.6	2.0	3.6	-	3.6
Other expenses	358.2	62.3	420.5	0.1	420.6
Profit before income tax expense	212.7	64.7	277.4	(42.2)	235.2
Net profit for the year	148.9	37.5	186.4	(29.6)	156.8

WESTPAC LIFE INSURANCE SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Note 26. Statutory fund information (continued)

Abbreviated information by fund for the year ended 30 September 2018	Note	Statutory fund no. 1 insurance \$m	Statutory fund no. 1 investment \$m	Statutory fund no. 2 investment \$m
Financial assets measured at fair value		646.0	930.4	7,050.2
Reinsurers' share of life insurance contract liabilities		657.7	-	-
Other assets		163.9	0.9	42.9
Life insurance contract liabilities		(81.4)	-	-
Life investment contract liabilities		-	846.6	6,953.3
Other liabilities		256.3	2.7	77.3
Contributed equity		-	-	-
Reserves		401.4	(9.6)	43.2
Retained profits		842.8	91.7	19.3
Retained profits - Part 9 transfer	24(f)	48.4	-	-
Net life insurance premium revenue		908.9	-	-
Investment income		16.4	14.1	701.1
Fee and other revenue		37.1	11.7	150.8
Net life insurance claims expense		352.4	0.8	-
Change in life insurance contract policy liabilities		9.9	-	-
Change in life investment contract policy liabilities		-	10.6	692.3
Interest expense		1.7	-	2.0
Other expenses		360.9	0.7	84.8
Profit before income tax expense		237.5	13.7	72.8
Net profit for the year		168.8	8.6	25.3

Abbreviated information by fund for the year ended 30 September 2018		Total insurance \$m	Total investment \$m	Total statutory funds \$m	Shareholder fund \$m	Total all funds \$m
Financial assets measured at fair value		646.0	7,980.6	8,626.6	45.4	8,672.0
Reinsurers' share of life insurance contract liabilities		657.7	-	657.7	-	657.7
Other assets		163.9	43.8	207.7	17.0	224.7
Life insurance contract liabilities		(81.4)	-	(81.4)	-	(81.4)
Life investment contract liabilities		-	7,799.9	7,799.9	-	7,799.9
Other liabilities		256.3	80.0	336.3	(1.2)	335.1
Contributed equity		-	-	-	201.5	201.5
Reserves		401.4	33.6	435.0	(174.9)	260.1
Retained profits		842.8	111.0	953.8	37.0	990.8
Retained profits - Part 9 Transfer	24(f)	48.4	-	48.4	-	48.4
Net life insurance premium revenue		908.9	-	908.9	-	908.9
Investment income		16.4	715.2	731.6	(6.7)	724.9
Fee and other revenue		37.1	162.5	199.6	-	199.6
Net life insurance claims expense		352.4	0.8	353.2	-	353.2
Change in life insurance contract policy liabilities		9.9	-	9.9	-	9.9
Change in life investment contract policy liabilities		-	702.9	702.9	-	702.9
Interest expense		1.7	2.0	3.7	-	3.7
Other expenses		360.9	85.5	446.4	0.1	446.5
Profit before income tax expense		237.5	86.5	324.0	(6.8)	317.2
Net profit for the year		168.8	33.9	202.7	(4.8)	197.9

WESTPAC LIFE INSURANCE SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Note 27. Offsetting financial assets and financial liabilities

Financial assets and liabilities are presented net in the balance sheet when the Company has a legally enforceable right to offset them in all circumstances and there is an intention to settle the asset and liability on a net basis, or to realise the asset and settle the liability simultaneously. The gross assets and liabilities behind the net amounts reported in the balance sheet are disclosed in the table below.

30 September 2019	Note	Effects of offsetting on balance sheet		Net amounts reported on the balance sheet \$m
		Gross amounts \$m	Amounts offset \$m	
Financial assets:				
Trade and other receivables	10	186.9	(0.3)	186.6
Financial liabilities:				
Trade and other payables	13	262.8	(0.3)	262.5

30 September 2018	Note	Effects of offsetting on balance sheet		Net amounts reported on the balance sheet \$m
		Gross amounts \$m	Amounts offset \$m	
Financial assets:				
Trade and other receivables	10	181.1	(0.4)	180.7
Financial liabilities:				
Trade and other payables	13	253.1	(0.4)	252.7

WESTPAC LIFE INSURANCE SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Note 28. Notes to the cash flow statement

	2019	2018
	\$m	\$m
(a) Reconciliation of cash and cash equivalents		
Cash with ultimate parent entity	64.5	30.7
Cash - other	4.8	5.4
Cash and cash equivalents at end of year	69.3	36.1
(b) Reconciliation of net cash provided by/(used in) operating activities to net profit for the year is set out below:		
Net profit for the year	156.8	197.9
Adjustments:		
Net realised and unrealised gains on financial assets measured at fair value	63.0	(80.7)
Interest paid	3.6	3.7
Changes in operating assets and liabilities:		
Decrease/(increase) in assets		
Trade and other receivables	(5.9)	(60.8)
Current tax assets	-	9.5
Financial assets measured at fair value	(327.4)	(283.6)
Reinsurance ceded	(579.4)	(228.5)
Other financial assets	(0.3)	(0.6)
Other assets	0.3	0.1
Increase/(decrease) in liabilities		
Trade and other payables	10.8	71.8
Current tax liabilities	0.5	-
Policy liabilities	733.9	461.1
Provisions	(1.8)	(2.7)
Reinsurance payable	(1.4)	-
Deferred tax liabilities	(0.8)	3.3
Net cash provided by/(used in) operating activities	51.9	90.5

WESTPAC LIFE INSURANCE SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Note 28. Notes to the cash flow statement (continued)

(c) Reconciliation of liabilities arising from financing activities

	Debt Issue \$m	Accrued Interest payable- debt issue \$m	Total \$m
Balance as at 1 October 2017	60.0	0.5	60.5
Other cash movements	-	(3.7)	(3.7)
Total cash movements	-	(3.7)	(3.7)
Other non-cash movements	-	3.7	3.7
Total non-cash movements	-	3.7	3.7
Balance as at 30 September 2018	60.0	0.5	60.5
Other cash movements	-	(3.7)	(3.7)
Total cash movements	-	(3.7)	(3.7)
Other non-cash movements	-	3.6	3.6
Total non-cash movements	-	3.6	3.6
Balance as at 30 September 2019	60.0	0.4	60.4

Note 29. Financial instruments – Derivatives

The Company is party to derivative instruments in the normal course of business in order to hedge exposure to fluctuations in interest rates and commodity and equity prices.

The notional amounts of derivatives as at 30 September 2019 and 30 September 2018 are as follows:

	2019 \$m	2018 \$m
Fixed interest futures	(269.6)	(359.7)
Share price and commodities index futures	(0.1)	0.1
Total notional value of derivatives	(269.7)	(359.6)

The fair value of the derivatives at 30 September 2019 is \$2.6m loss (2018: \$1.8m profit).

WESTPAC LIFE INSURANCE SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Note 30. Contingent liabilities and commitments

Regulatory actions

Regulators and other bodies routinely conduct investigations and reviews involving the financial services sector, both in Australia and overseas. These investigations and reviews may consider a range of subject matters, and in Australia, a number of investigations and reviews have recently considered, and continue to consider, potential misconduct in credit and financial services.

Domestic regulators such as ASIC, APRA, ACCC, AUSTRAC, the OAIC and the ATO are also currently conducting investigations and reviews and inquiries (some of which are industry-wide) that involve or may involve the Westpac Group (the Group) in the future. These investigations and reviews are separately considering a range of matters, including matters such as ongoing advice services fees, responsible lending, residential mortgages, credit portfolio management, consumer credit insurance, privacy and information governance, the provision of financial advice, competition law conduct, anti-money laundering and counter-terrorism financing processes and procedures, and financial markets conduct.

The Group has also received various notices and requests for information from regulators as part of both industry-wide and the Group-specific investigations and reviews and inquiries.

These investigations and reviews and inquiries, which may be conducted by a regulator, and in some cases also an external third party retained either by the regulator or by the Group (including where a matter has been self-identified by the Group), may result in litigation (including class action proceedings against the Group), fines, imposition of additional capital, civil or criminal penalties, revocation, suspension or variation of conditions of relevant regulatory licences or other enforcement or administrative action being taken by regulators or other parties. An assessment of the likely cost to the Company of these investigations and reviews and actions has been made on a case-by-case basis for the purpose of the financial statements but cannot always be reliably estimated.

Litigation

There are ongoing court proceedings, claims and possible claims for and against the Company. Contingent liabilities exist in respect of actual and potential claims and proceedings, including those listed below. An assessment of the Company's likely loss has been made on a case-by-case basis for the purpose of the financial statements but cannot always be reliably estimated, including in relation to those listed below.

- On 12 October 2017, a class action against Westpac Banking Corporation (Westpac) and the Company was filed in the Federal Court of Australia. The class action was filed on behalf of customers who, since February 2011, obtained insurance issued by the Company on the recommendation of certain financial advisers employed within the Westpac Group. The plaintiffs have alleged that aspects of the financial advice provided by those advisers breached fiduciary and statutory duties owed to the advisers' clients, including the duty to act in the best interests of the client, and that the Company was knowingly involved in those alleged breaches. Westpac and the Company are defending the proceedings. These proceedings are currently stayed by order of the Court, pending the outcome of an appeal concerning a procedural issue unrelated to the substantive claims made in the class action. No provision has been recognised in relation to this matter.
- On 5 September 2019, a class action against BT Funds Management Limited (BTFM) and the Company was commenced in relation to aspects of BTFM's BT Super for Life cash investment option. The claim follows other industry class actions as part of Slater and Gordon's 'Get your super back' campaign. It is alleged in the proceedings that BTFM failed to adhere to a number of obligations under the general law, the relevant trust deed and the Superannuation Industry (Supervision) Act 1993 (Cth), and that the Company was knowingly concerned with BTFM's alleged contraventions. The damages sought by the claim are unspecified. BTFM and the Company are defending the proceedings. No provision has been recognised in relation to this matter.

Internal reviews and remediation

The Group is currently undertaking a number of reviews to identify and resolve prior issues that have the potential to impact our customers and reputation. These internal reviews have identified, and may continue to identify, issues in respect of which we are, or will be, taking steps to put things right (including in relation to areas of industry focus such as compliance with responsible lending obligations and the way some product terms and conditions are operationalised) so that our customers are not at a disadvantage from certain past practices. By undertaking these reviews we can also improve our processes and controls. An assessment of the Company's likely loss has been made on a case-by-case basis for the purpose of the financial statements but cannot always be reliably estimated. Contingent liabilities may exist in respect of actual or potential claims, compensation payments and/or refunds identified as part of these reviews.

Australian Financial Complaints Authority

Contingent liabilities may also exist in relation to customer complaints brought before the Australian Financial Complaints Authority (AFCA). AFCA has the power to make determinations about complaints and can award compensation up to certain thresholds. AFCA has a broader jurisdiction than previous dispute resolution bodies which it has replaced and, up until 30 June 2020, can also consider customer complaints dating back to 1 January 2008.

The Company does not have any other contingent liabilities or commitments.

WESTPAC LIFE INSURANCE SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Note 31. Subsequent events

No matters have arisen since the year ended 30 September 2019 which is not otherwise dealt with in this report, that has significantly affected or may significantly affect the operations of the Company, the results of its operations or the state of affairs of the Company in subsequent periods.

Note 32. Accounting policies relating to prior years

Due to the adoption of AASB 9, the accounting policies relating to the accounting for some financial instruments and related balances have changed. The policies applicable to the current year are provided in the relevant note to the financial statements above. As prior comparative years have not been restated, the accounting policies detailed below reflect the policies applicable to financial years prior to 2019 based on AASB 139. Refer to Note 1 for further information.

Trade & other receivables (Note 1c(iv)) / (Note 1e(i)(d))

A receivable is impaired when there is objective evidence that receivables may not be recoverable. An impairment charge is recognised when the financial impact of the non-recoverable receivables can be reliably measured. At each balance sheet date, the Company assesses whether any receivables are impaired, recognising an impairment charge if required.

The impairment charge is recognised in the statement of profit or loss and other comprehensive income with a corresponding reduction of the carrying value of the receivables through an offsetting provision account.

In subsequent periods, objective evidence may indicate that an impairment charge should be reversed. The impairment charge is reversed in the statement of profit or loss and other comprehensive income of that future period and the related provision for impairment is reduced.

WESTPAC LIFE INSURANCE SERVICES LIMITED

DIRECTORS' DECLARATION

For the year ended 30 September 2019

In the Directors' opinion:

- a. the financial statements and notes for the year ended 30 September 2019 are in accordance with the Corporations Act 2001, including:
 - (i) complying with Australian Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements; and
 - (ii) giving a true and fair view of the Company's financial position as at 30 September 2019 and its performance for the financial year ended on that date; and
- b. there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

Note 1(a) includes a statement that the financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

This declaration is made in accordance with a resolution of the Directors.



Director



Director

Sydney 11 / 12 /2019



Independent auditor's report

To the members of Westpac Life Insurance Services Limited

Our opinion

In our opinion:

The accompanying financial report of Westpac Life Insurance Services Limited (the Company) is in accordance with the *Corporations Act 2001*, including:

- (a) giving a true and fair view of the Company's financial position as at 30 September 2019 and of its financial performance for the year then ended
- (b) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

What we have audited

The financial report comprises:

- the balance sheet as at 30 September 2019
- the statement of changes in equity for the year then ended
- the cash flow statement for the year then ended
- the statement of profit or loss and other comprehensive income for the year then ended
- the notes to the financial statements, which include a summary of significant accounting policies
- the directors' declaration.

Basis for opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial report* section of our report.

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

Independence

We are independent of the Company in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report for the year ended 30 September 2019, but does not include the financial report and our auditor's report thereon.



Our opinion on the financial report does not cover the other information and accordingly we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report 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.

Responsibilities of the directors for the financial report

The directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors are responsible for assessing the ability of the Company 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 report


Our objectives are to obtain reasonable assurance about whether the financial report as a whole is 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 the Australian Auditing Standards 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 the financial report.

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website at:

http://www.auasb.gov.au/auditors_responsibilities/ar3.pdf.

This description forms part of our auditor's report.


PricewaterhouseCoopers


R Balding
Partner

Sydney
11 December 2019