WESTPAC LIFE INSURANCE SERVICES LIMITED

ABN 31 003 149 157

Annual Report

For the year ended 30 September 2020

WESTPAC LIFE INSURANCE SERVICES LIMITED

CONTENTS

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 10 December 2020. 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 2020.

Directors

The following persons were Directors of the Company during the period since 1 October 2019 and up to the date of this report unless otherwise stated:

Justin Breheny	
Helen Conway	
Robert Daly	(appointed on 27 November 2020)
Allan Griffiths	
Susan Houghton	
Kitrina Shanahan	(resigned on 21 August 2020)
Lindsay Smartt	

Principal activities

The principal activities of the Company during the financial year ended 30 September 2020 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 2020 except for those stated in the "Significant changes in state of affairs and events during and since the end of the 2020 financial year".

Operating and financial review

The net loss attributable to owners of the Company for the year ended 30 September 2020 was $178.4 million (2019 profit: $156.8 million) which is a decrease of 214% compared to last year. The Company experienced a decrease in profit predominantly as a result of the increase in net life insurance contract liabilities movements to $355.8m (2019: $41.3m) driven by loss recognition on the disability income portfolio and derecognition of deferred acquisition costs as a result of the Company exiting the Group business (refer *Significant changes in state of affairs and events during and since the end of the 2020 financial year* below). The exit from the Group business was also the main driver of net life insurance premium revenue decreasing by 12% to $867.8m (2109: $984.1m), whilst the 47% decrease in fee revenue to $70.6 million (2019: $132.6 million) was mainly due to the transfer of investment business to a related party.

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 2020 financial year

During the course of the year, Westpac created a Specialist Businesses Division, which resulted in the realignment of certain Wealth companies, including the Company, into the Specialist Businesses Division of Westpac from 18 May 2020. Although this did not have a material financial impact on the Company, Westpac has indicated that it does not view itself as the long-term owner of businesses in the Specialist Businesses Division.

During the course of the year, Super for Life Cash options were fully redeemed and the member book of BT Business Super (BTBS) previously administered on Capital registry and Westpac Personal Super Fund (WPSF) and Westpac MasterTrust Division (WMD) (excluding risk only) previously administered on CLOAS registry were transferred out of the Company. This resulted in a significant reduction in both investment assets and the corresponding policy liabilities.

On 1st July 2020, the Company exited the Group business and therefore ceased to provide life insurance coverage to members of Corporate Master Trust, the retail superannuation and the Asgard life insurance offers that are administered by BT Financial Group.

The Company entered into loss recognition on Retail Disability Income related products groups as a result of the Liability Adequacy Test, predominately caused by poor claims experience and related rising reinsurance costs.

The COVID-19 pandemic has had a limited effect on the Company's business and financial performance as at the balance date. Given the demographic most affected by COVID-19 and Australia's successful (to date) management of cases, no significant direct claims experience is forecast. A risk arises from the economic downturn, with potential additional claims for disability income policies in particular. No discernible overall increase in claim levels or lapses has been observed to date and management continues to actively monitor experience.

At the date of this report a definitive assessment of the future effects of COVID-19 on the Company cannot be made, as the impact will depend on the magnitude and duration of the pandemic, resulting public health orders and the consequences for the economy.

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

Other than the estimated impact of COVID-19 mentioned above, 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 2020.

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 2020, 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 Australian Securities and Investments Commission (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

Sydney 10/12/20

Auditor's Independence Declaration

As lead auditor for the audit of Westpac Life Insurance Services Limited for the year ended 30 September 2020, 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.

R Balding
Partner
PricewaterhouseCoopers

Sydney
10 December 2020

WESTPAC LIFE INSURANCE SERVICES LIMITED

Statement of profit or loss and other comprehensive income for the year ended 30 September 2020

	Note	2020 $m	2019 $m
Premium revenue from life insurance contracts	3	1,109.9	1,242.8
Less: insurance premiums ceded to reinsurers	3	(242.1)	(258.7)
Net life insurance premium revenue		**867.8**	**984.1**
Total fee and other revenue	3	48.1	155.0
Total revenue		**915.9**	**1,139.1**
Investment income	4	210.5	487.5
Total revenue and investment income		**1,126.4**	**1,626.6**
Life insurance claims expense	5	581.9	619.9
Less: reinsurance recoveries revenue		(173.4)	(198.3)
Net life insurance claims expense		**408.5**	**421.6**
Increase in net life insurance contract liabilities	16(b)	355.8	41.3
Increase in net life investment contract liabilities	16(b)	221.2	504.3
Interest expense		2.8	3.6
Other expenses	6	416.6	420.6
Total other costs and expenses		**996.4**	**969.8**
Net claims and expenses		**1,404.9**	**1,391.4**
(Loss)/profit before income tax		**(278.5)**	**235.2**
Income tax benefit/(expense)	8	100.1	(78.4)
Net (loss)/profit for the year	7	**(178.4)**	**156.8**
Other comprehensive income		-	-
Total comprehensive income for the year attributable to owners of Westpac Life Insurance Services Limited		**(178.4)**	**156.8**

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

WESTPAC LIFE INSURANCE SERVICES LIMITED

Balance sheet as at 30 September 2020

	Note	2020 $m	2019 $m
Assets			
Cash and cash equivalents	27(a)	294.6	69.3
Financial assets measured at fair value	9	1,644.6	8,936.4
Trade and other receivables	10	147.6	186.6
Other financial assets	11	0.2	6.8
Other assets		0.6	1.1
Reinsurers' share of life insurance contract liabilities	16(b)	1,154.4	1,237.1
Deferred tax assets	12	81.1	-
Total assets		**3,323.1**	**10,437.3**
Liabilities			
Bank overdraft - unsecured		267.8	-
Trade and other payables	13	252.0	262.5
Life insurance contract liabilities	16(b)	812.4	539.3
Life investment contract liabilities	16(b)	138.7	7,913.1
Provisions	14	8.0	3.0
Deferred tax liabilities	15	-	16.8
Debt issues	18	60.0	60.0
Total liabilities		**1,538.9**	**8,794.7**
Net assets		**1,784.2**	**1,642.6**
Shareholders' equity			
Share capital	19	521.5	201.5
Reserves	20	260.1	260.1
Retained profits		1,002.6	1,181.0
Total shareholders' equity		**1,784.2**	**1,642.6**

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

WESTPAC LIFE INSURANCE SERVICES LIMITED

Statement of changes in equity for the year ended 30 September 2020

	Note	Share capital $m	Reserves $m	Retained profit $m	Total $m
Balance at 1 October 2018		**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**
Net (loss)/profit for the year		**-**	**-**	**(178.4)**	**(178.4)**
Net other comprehensive income for the year		-	-	-	-
Total comprehensive income for the year		**-**	**-**	**(178.4)**	**(178.4)**
Transaction in capacity as equity holders					
Ordinary shares issued	19	320.0	-	-	320.0
Dividends on ordinary shares	21	-	-	-	-
Balance at 30 September 2020		**521.5**	**260.1**	**1,002.6**	**1,784.2**

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

Cash flow statement for the year ended 30 September 2020

	Note	2020 $m	2019 $m
Cash flows from operating activities			
Fee and other revenue received		52.4	156.0
Interest received	4	1.3	2.4
Distributions received		306.1	552.8
Premiums received		1,122.0	1,268.0
Insurance premiums ceded to reinsurers		(258.3)	(260.1)
Life investment contract contributions received	16(b)	367.7	897.8
Claims paid		(574.8)	(586.9)
Reinsurance recoveries received		182.9	143.3
Life investment contract withdrawals paid		(1,651.4)	(1,217.8)
Life investment contract fees paid	16(b)	(41.2)	(71.1)
Net proceeds/(payments) for financial assets measured at fair value		816.7	(308.9)
Expenses paid		(411.4)	(444.9)
Payments to head entity under tax funding agreement		(3.9)	(78.7)
Net cash provided by/(used in) operating activities	27(b)	**(91.9)**	**51.9**
Cash flows from investing activities			
Net cash provided by/(used in) investing activities		-	-
Cash flows from financing activities			
Proceeds from share issue	19	320.0	-
Payment of dividends	21	-	(15.0)
Interest paid	27(c)	(2.8)	(3.7)
Net cash provided by/(used in) financing activities		**317.2**	**(18.7)**
Net increase in cash and cash equivalents		**225.3**	**33.2**
Cash and cash equivalents as at the beginning of the year		69.3	36.1
Cash and cash equivalents as at the end of the year	27(a)	**294.6**	**69.3**

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 27.

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) Comparative revisions

Comparative information has been revised where appropriate to conform to changes in presentation in the current year and to enhance comparability.

(iv) Standards adopted during the year ended 30 September 2020

AASB 16 Leases (AASB 16)

The Company adopted AASB 16 on 1 October 2019. The adoption of AASB16 has had no impact on the Company as the Company has no leasing arrangements.

AASB Interpretation 23 Uncertainty over Income Tax Treatments (Interpretation 23)

Interpretation 23 was adopted by the Company on 1 October 2019 and clarifies the recognition and measurement criteria in AASB 112 Income Taxes (AASB 112) where there is uncertainty over income tax treatments, and requires an assessment of each uncertain tax position as to whether it is probable that a taxation authority will accept the position.

Where it is not considered probable, the effect of the uncertainty will be reflected in determining the relevant taxable profit or loss, tax bases, unused tax losses and unused tax credits or tax rates. The amount will be determined as either the single most likely amount or the sum of the probability weighted amounts in a range of possible outcomes, whichever better predicts the resolution of the uncertainty. Judgements will be reassessed as and when new facts and circumstances are presented.

Interpretation 23 did not have a 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.

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 investment contract 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 and other receivables 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Note 1. Financial statements preparation (continued)

c. Expense recognition (continued)

(iv) Impairment charges

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 or receivable to 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Note 1. Financial statements preparation (continued)

e. Assets

(i) Financial assets

Recognition

Purchases and sales by regular way of 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

The Company has grouped its financial assets in the following classes: 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 (ECL). Trade and other receivables are presented as current assets unless payment is not due within 12 months from the reporting date.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Note 1. Financial statements preparation (continued)

e. Assets (continued)

(i) Financial assets (continued)

(d) Provision for ECL

Impairment applies to all financial assets at amortised cost.

The ECL for receivables, amounts due from related entities and other financial assets are recognised as a reduction of the carrying value of the financial asset through an offsetting provision account.

Measurement

The provision for 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, ECL are those across the assets' lifetime. For assets where there is evidence of current impairment, incurred credit losses are recognised in addition to the ECL 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) Reinsurers' share of life insurance contract liabilities

Assets arising under contracts entered into by the Company with reinsurers, which meet the definition of an insurance contract, have been computed using the same methods as used for insurance contract liabilities.

(g) 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 used 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 applied 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 contract 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.

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 Company has grouped its financial liabilities into the following classes: bank overdraft – unsecured; 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 minus 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) Bank overdraft – unsecured

Bank overdraft represents a temporary extension of credit from a lending institution that is granted when the bank account has insufficient funds.

(b) 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.

(c) 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 9 Financial Instruments. 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.

(d) 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, life insurance contract 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 life insurance contract 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 life insurance contract 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 life insurance contract liabilities are reviewed at each reporting date.

(e) 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 9, 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Note 1. Financial statements preparation (continued)

f. Liabilities (continued)

(i) Financial liabilities (continued)

(f) 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.

(g) 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 2020 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 gross 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.

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 2024 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 life insurance, in particular term renewable contracts, the contract boundary is expected to be shorter and 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 contract 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.

AASB 2020-5 Amendments to AASB -Insurance Contracts was issued on 30 July 2020. This standard includes a number of amendments to AASB17.

These amendments include:

- deferral of acquisition costs for anticipated renewals outside of the initial contract boundary;
- further clarity on the contract service margin;
- additional scope exclusion for credit card contracts and similar contracts that provide insurance coverage as well as optional scope exclusion for loan contracts that transfer significant insurance risk;
- ability to recognise a gain in the profit or loss for reinsurance contracts, to offset losses from onerous contracts on initial recognition;
- simplified presentation requirements; and
- additional transitional relief.

(ii) Revised Conceptual Framework

A revised Conceptual Framework (Framework) was issued in May 2019. This will be effective for the Company for the 30 September 2021 financial year end. The revised Framework includes new definitions and recognition criteria for assets, liabilities, income and expenses and other relevant financial reporting concepts. The changes are not expected to have a material impact to the Company.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Note 2. Critical accounting assumptions and estimates

Applying the Company's accounting policies requires 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.

Impact of COVID-19

The COVID-19 pandemic and the measures put in place domestically and globally to control the spread of the virus have had a significant impact on global economies and financial markets. As a result, this has increased the uncertainty and judgement required in relation to critical accounting assumptions and estimates, primarily relating to actuarial assumptions.

As there is a higher than usual degree of uncertainty associated with these assumptions and estimates, the actual economic conditions are likely to be different from those which may impact accounting estimates included in these financial statements. The impact of COVID-19 is discussed further in each of the related notes.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Note 3. Revenue

	Note	2020 $m	2019 $m
Life insurance contract premium revenue		1,109.9	1,242.8
Less: insurance premiums ceded to reinsurers		(242.1)	(258.7)
Net life insurance premium revenue		**867.8**	**984.1**
Fee revenue - investment management services rendered and policy fees		70.6	132.6
Tax (refunds)/recoveries (to)/from policyholders		(24.2)	11.6
Other revenue		1.7	10.8
Total other revenue		(22.5)	22.4
Total fee and other revenue		**48.1**	**155.0**
Total revenue		**915.9**	**1,139.1**

		2020 $m	2019 $m
Life insurance contract premium revenue		1,109.9	1,242.8
Life investment contract contributions recognised as an increase in contract liabilities	16(b)	367.7	897.8
Total premiums		**1,477.6**	**2,140.6**

Note 4. Investment income

	2020 $m	2019 $m
Interest	1.3	2.4
Distributions from financial assets measured at fair value	292.2	548.1
Net realised and unrealised (losses)/gains on financial assets measured at fair value	(83.0)	(63.0)
Total investment income	**210.5**	**487.5**

Note 5. Claims expense

	Note	2020 $m	2019 $m
Death and disability		574.3	613.8
Annuities		0.3	0.5
Surrenders and terminations		1.3	1.2
Other claims		6.0	4.4
Total life insurance contract claims expense		**581.9**	**619.9**
Life investment contract payments recognised as a reduction in contract liabilities	16(b)	8,322.1	1,217.8
Total claims		**8,904.0**	**1,837.7**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Note 6. Other expenses

	2020 $m	2019 $m
Policy acquisition expenses - life insurance contracts		
Commission	19.8	26.8
Commission - ultimate parent entity	0.3	0.9
Commission - other related entities	1.1	1.5
Other acquisition expenses - ultimate parent entity	53.1	31.4
Other acquisition expenses - other related entities	28.9	57.6
Total policy acquisition expenses - life insurance contracts	**103.2**	**118.2**
Policy acquisition expenses - life investment contracts		
Other acquisition expenses - ultimate parent entity	0.2	2.4
Other acquisition expenses - other related entities	1.3	4.2
Total policy acquisition expenses - life investment contracts	**1.5**	**6.6**
Total policy acquisition expenses	**104.7**	**124.8**
Policy maintenance expenses - life insurance contracts		
Commission	61.9	53.5
Commission - ultimate parent entity	30.0	33.1
Commission - other related entities	10.3	10.6
Policy maintenance expenses - ultimate parent entity	89.2	50.4
Policy maintenance expenses - other related entities	71.4	82.6
Total policy maintenance expenses - life insurance contracts	**262.8**	**230.2**
Policy maintenance expenses - life investment contracts		
Commission	0.1	0.1
Commission - ultimate parent entity	-	(5.2)
Commission - other related entities	-	0.1
Policy maintenance expenses	4.5	6.5
Policy maintenance expenses - ultimate parent entity	9.1	18.9
Policy maintenance expenses - other related entities	12.1	31.9
Total policy maintenance expenses - life investment contracts	**25.8**	**52.3**
Other maintenance expenses	23.3	13.3
Total policy maintenance expenses	**311.9**	**295.8**
Total other expenses	**416.6**	**420.6**
Analysis of expense by nature		
Commission expense	123.5	121.4
Service fee expense	269.8	285.9
Other expenses	23.3	13.3
Total other expenses	**416.6**	**420.6**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Note 7. Components of profit

	Note	2020 $m	2019 $m
Components of profit related to movement in life insurance liabilities			
Planned margins of revenues over expenses released		109.0	153.0
Difference between actual and assumed experience		(106.7)	(41.5)
Loss recognition		(182.1)	-
Change in valuation methods and assumptions (net of hedge)	(a)	0.2	(4.3)
Components of profit related to movement in life investment liabilities			
Planned margins of revenues over expenses released		11.0	33.0
Difference between actual and assumed experience		(2.4)	(1.1)
Investment earnings on assets in excess of:			
Life insurance contract liabilities in statutory funds		2.3	12.2
Life investment contract liabilities in statutory funds		(9.7)	5.3
Shareholder fund		-	0.2
(Loss)/profit for the year		**(178.4)**	**156.8**

(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 life insurance contract liabilities. The hedge was terminated on 15 September 2020.

Note 8. Income tax

The income tax (benefit)/expense for the year reconciles to the (loss)/profit before income tax as follows:

	2020 $m	2019 $m
(Loss)/profit before income tax	**(278.5)**	**235.2**
Tax at the Australian company tax rate of 30%	(83.5)	70.6
The effect of amounts which are not deductible/ (assessable) in calculating taxable income		
Non-assessable items	1.2	(0.3)
Tax (benefit)/expense attributable to policyholders	(16.9)	8.1
	(99.2)	**78.4**
Income tax (over)/under provision in prior years	(0.9)	-
Total income tax (benefit)/expense	**(100.1)**	**78.4**

	Note	2020 $m	2019 $m
Income tax analysis			
Income tax expense comprises:			
Current income tax		(1.3)	79.2
Movement in deferred tax	(i)	(97.9)	(0.8)
Income tax (over)/under provision in prior years	(ii)	(1.2)	-
Deferred tax (over)/under provision in prior years		0.3	-
Total income tax expense		**(100.1)**	**78.4**
(i) Deferred income tax (credit)/expense included in income tax expense comprises:			
(Increase)/decrease in deferred tax assets	12	(80.2)	0.5
(Decrease)/increase in deferred tax liabilities	15	(17.7)	(1.3)
Total deferred income tax (benefit)/expense		**(97.9)**	**(0.8)**
(ii) Income and deferred tax under/(over) provision in prior years:			
(Decrease)/increase in current tax liabilities - ultimate parent entity		(1.2)	-
(Increase)/decrease in deferred tax assets		0.3	-
Total income and deferred tax (over)/under provision in prior years		**(0.9)**	**-**

The effective tax rate was 36% in 2020 (2019: 33%).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Note 9. Financial assets measured at fair value

	2020 $m	2019 $m
Held as Investments in:		
Unit trusts	1,592.2	8,890.0
Fixed interest securities	47.0	37.9
Loans	5.4	8.5
Total financial assets measured at fair value	**1,644.6**	**8,936.4**
Expected to be realised within 12 months	1,501.7	1,242.2
Expected to be realised after more than 12 months	142.9	7,694.2
Total financial assets measured at fair value	**1,644.6**	**8,936.4**

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 24.

Note 10. Trade and other receivables

	2020 $m	2019 $m
Premiums receivable	17.5	29.6
Reinsurance recoveries receivable on claims payable	92.1	95.1
Reinsurance recoveries receivable on paid claims	15.4	21.9
Provision for ECL	(0.6)	-
Investment income accrued and receivable	0.5	14.4
Trade receivables	16.9	23.2
Amounts due from:		
Ultimate parent entity – current tax receivable	5.6	-
Other related entities	0.2	2.4
Total trade and other receivables	**147.6**	**186.6**

Total trade and other receivables are expected to be recovered within 12 months after the reporting period.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Note 11. Other financial assets

	2020 $m	2019 $m
Other financial assets		
Futures margin account	0.2	6.8
Total other financial assets	**0.2**	**6.8**

Total other financial assets are expected to be realised within 12 months after the reporting period.

Note 12. Deferred tax assets

The balance comprises temporary differences attributable to:

	Note	2020 $m	2019 $m
Amounts recognised in the statement of profit or loss and other comprehensive income :			
Provisions		2.6	0.9
Financial assets measured at fair value		0.5	-
Cumulative Losses		78.0	-
Gross deferred tax assets		**81.1**	**0.9**
Set-off of deferred tax assets and deferred tax liabilities	15	-	(0.9)
Net deferred tax assets		**81.1**	**-**

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

Movements	**Financial assets measured at fair value** $m	**Cumulative Losses** $m	**Provisions** $m	**Total** $m
Balance at 1 October 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**
Recognised in the statement of profit or loss and other comprehensive income	0.5	78.0	1.7	80.2
Balance at 30 September 2020	**0.5**	**78.0**	**2.6**	**81.1**

	2020 $m	2019 $m
Expected to be realised within 12 months	1.2	0.3
Expected to be realised after more than 12 months	79.9	0.6
Total deferred tax assets	**81.1**	**0.9**

Note 13. Trade and other payables

	2020 $m	2019 $m
Claims payable	183.3	176.2
Trade payables	32.7	53.7
Amounts due to:		
Ultimate parent entity – current tax liabilities	-	0.5
Ultimate parent entity - other	34.3	24.4
Other related entities	1.7	7.7
Total trade and other payables	**252.0**	**262.5**

Total trade and other payables are expected to be settled within 12 months after the reporting period.

Note 14. Provisions

	2020 $m	2019 $m
Provisions for:		
Non - lending losses	8.0	3.0
Total provisions	**8.0**	**3.0**

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

	Non - lending losses $m	Total $m
Balance at 1 October 2018	**4.8**	**4.8**
Additions	2.9	2.9
Utilisation	(4.7)	(4.7)
Balance at 30 September 2019	**3.0**	**3.0**
Additions	9.9	9.9
Utilisation	(4.9)	(4.9)
Balance at 30 September 2020	**8.0**	**8.0**

Total provisions are expected to be settled within 12 months after the reporting period.

Note 15. Deferred tax liabilities

The balance comprises temporary differences attributable to:

	Note	2020 $m	2019 $m
Amounts recognised in the statement of profit or loss and other comprehensive income			
Financial assets measured at fair value		-	17.7
Gross deferred tax liabilities		**-**	**17.7**
Set-off deferred tax assets and deferred tax liabilities	12	-	(0.9)
Net deferred tax liabilities		**-**	**16.8**

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 2018		**19.0**	**19.0**
Recognised in the statement of profit or loss and other comprehensive income		(1.3)	(1.3)
Balance at 30 September 2019		**17.7**	**17.7**
Recognised in the statement of profit or loss and other comprehensive income	8	(17.7)	(17.7)
Balance at 30 September 2020		**-**	**-**

	2020 $m	2019 $m
Expected to be realised within 12 months	-	11.7
Expected to be realised after more than 12 months	-	6.0
Total deferred tax liabilities	**-**	**17.7**

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 contract liabilities and prudential capital is 30 September 2020. 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 contract liabilities have been determined.

On 30 September 2020, the two related product groups for disability income risk entered into loss recognition as required by AASB 1038. This was a culmination of a hardening of the reinsurance market and strengthening of assumptions. This led to an immediate increase in the value of the life insurance contract liabilities and increases the sensitivity of the Company's profit to changes in assumptions for the disability income related product groups.

As at the balance date of 30 September 2020, no increase in aggregate claims to date due to COVID-19 has been apparent. No explicit additional reserve has been created for COVID-19 related claims. Ongoing risks remain as this is a continually evolving area of experience and management continues to actively track claims.

(ii) Valuation method

Life insurance contract liabilities are calculated in accordance with Prudential Standard LPS 340 Valuation of Policy Liabilities issued by the 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 MoS and is further described in Note 1 (f).

The profit carriers used for the related product groups of life insurance contracts in order to achieve the systematic release of planned margins are as follows:

Product group	Method	Profit carrier
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
Legacy products written by St George Life Limited	Accumulation	Premiums less claims and expenses (implied)
Consumer credit	Accumulation	Premiums less claims and expenses (implied)
Group		
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 the majority of life insurance contracts, the risk free rate (10 year Commonwealth Government bond rate) was used as the discount rate.

Discount rates assumed were:	2020	2019
Risk business	0.8% p.a.	1.0% p.a.

Inflation rates

The inflation rates assumed were:	2020	2019
Risk business	1.4% p.a.	1.1% p.a.

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:

Class of business	2020	2019
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%

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:

	2020	**2019**
Individual business	22% to 273% of FSC-AI 2004-2008	26% to 265% of FSC-AI 2004-2008*

* Comparative information has been revised to enhance comparability with the current year.

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:

	2020	**2019**
Individual business	61% to 243% of FSC-AI 2004-2008-TPD	59% to 200% 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:

	2020	**2019**
Incidence	42% to 442% of ADI2007-2011	47% to 408% of ADI2007-2011
Termination	49% to 115% of ADI2007-2011	55% to 117% 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:

	2020	**2019**
Individual business	56% to 177% of FSC-AI 2004-2008- Trauma	50% to 175% of FSC-AI 2004-2008-Trauma

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:

	2020	**2019**
Lump sum risk	3% pa to 71% pa	3% pa to 76% pa*
Disability income	3% pa to 56% pa	3% pa to 61% pa

* Comparative information has been revised to enhance comparability with the current year.

Surrender values

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

Group business

Group business is reserved for 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 61% to 115% (2019: 54% to 112%).

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 contract liabilities can have an effect on the financial results. The impact of changes in key assumptions on the reported profit and equity of the Company of mortality, morbidity, expense and lapse rates are provided below. Changes in demographic assumptions primarily affect immediate profitability of products in or close to loss recognition or those valued on an accumulation basis. These do not allow for any customer price or reinsurance rate changes which would be a potential real-life consequence of adverse experience.

Changes to key assumptions used in the valuation of contract liabilities can also have an effect on the financial results. The table below illustrates how these changes would impact the reported profit and equity of the Company:

30 September 2020		Effect on profit		Effect on contract liabilities		Effect on equity	
		(Decrease)/increase ($m)		Increase/(decrease) ($m)		(Decrease)/increase ($m)	
	Change in assumption	Gross of reinsurance	Net of reinsurance	Gross of reinsurance	Net of reinsurance	Gross of reinsurance	Net of reinsurance
Interest rates	-50 basis points	(65.2)	(25.4)	93.1	36.3	(65.2)	(25.4)
Morbidity	+10%	(264.8)	(184.0)	378.2	262.8	(264.8)	(184.0)
Mortality	+10%	(14.2)	(8.5)	20.3	12.2	(14.2)	(8.5)
Lapses	+10%	(35.0)	(28.2)	50.0	40.3	(35.0)	(28.2)
Expenses	+10%	(12.4)	(12.4)	17.6	17.6	(12.4)	(12.4)

30 September 2019		Effect on profit		Effect on contract liabilities		Effect on equity	
		Increase/(decrease) ($m)		Increase/(decrease) ($m)		Increase/(decrease) ($m)	
	Change in assumption	Gross of reinsurance	Net of reinsurance	Gross of reinsurance	Net of reinsurance	Gross of reinsurance	Net of reinsurance
Interest rates	-50 basis points	(70.3)	-	89.0	(11.4)	(70.3)	-
Morbidity	+10%	(0.6)	(0.5)	1.6	0.7	(0.6)	(0.5)
Mortality	+10%	(4.5)	(7.6)	17.2	10.8	(4.5)	(7.6)
Lapses	+10%	-	-	-	-	-	-
Expenses	+10%	-	-	-	-	-	-

Comparative information has been restated to enhance comparability with the current year.

(v) Life insurance contract liability adequacy

Life insurance contract 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. This occurred for the two disability income related product groups at 30 September 2020.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Note 16. Policy liabilities (continued)

b. Reconciliation of movements in policy liabilities

	2020 $m	2019 $m
Net life insurance contract liabilities		
Increase in life insurance contract liabilities	273.1	620.7
Decrease/(increase) in reinsurers' share of life insurance contract liabilities	82.7	(579.4)
Total increase in net life insurance contract liabilities	**355.8**	**41.3**
Net life investment contract liabilities		
Life investment contract revenue credited to policyholders	221.2	504.3
Total increase in net life investment contract liabilities	**221.2**	**504.3**
Analysis of movement in policy liabilities by nature		
Life insurance contract liabilities		
Gross life insurance contract liabilities at beginning of the period	539.3	(81.4)
Increase in life insurance contract liabilities	273.1	620.7
Gross life insurance contract liabilities at end of the period	812.4	539.3
Reinsurers' share of life insurance contract liabilities at beginning of the period	(1,237.1)	(657.7)
Decrease/(increase) in reinsurers' share of life insurance contract liabilities	82.7	(579.4)
Reinsurers' share of life insurance contract liabilities at end of the period	(1,154.4)	(1,237.1)
Net life insurance contract liabilities	**(342.0)**	**(697.8)**
Life investment contract liabilities		
Gross life investment contract liabilities at beginning of the period	7,913.1	7,799.9
Life investment contract contributions recognised as an increase in contract liabilities	367.7	897.8
Life investment contract withdrawals recognised as a decrease in contract liabilities	(8,322.1)	(1,217.8)
Life investment contract revenue credited to policyholders	221.2	504.3
Life investment contract fees, expenses and tax recoveries	(41.2)	(71.1)
Total life investment contract liabilities	**138.7**	**7,913.1**
Net policy liabilities	**(203.3)**	**7,215.3**
Expected to be settled within 12 months	169.7	8,005.7
Expected to be settled in more than 12 months	(373.0)	(790.4)
Net policy liabilities	**(203.3)**	**7,215.3**

In respect of investment-linked contracts, the amount of contract liabilities subject to investment performance guarantees is $6.7 million (2019: $9.0million).

In respect of contracts with a discretionary non-participation feature, the amount of contract liabilities that relates to the guaranteed element is nil (2019: $990.5 million).

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

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 risks.

On 11 March 2020, the World Health Organisation officially characterised COVID-19 as a pandemic. In response to this, most countries, including Australia, introduced periods of lock down, border closures and social distancing measures to control the spread of the virus. Whilst there is a significant level of uncertainty and limited data, with respect to the health and economic implications of COVID-19, there is a risk of an increase in claims cost over the next two years for mortality and morbidity related claims.

As a consequence, the level of uncertainty in the modelling of insurance liabilities and financial projections has increased substantially.

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.

d. *Asset liability management*

The investments for the Company are governed by a Board approved investment policy. The investment objective of the Company is to optimise returns subject to there being sufficient liquidity for the business to meet its obligations to policyholders in a timely manner. The investment policy specifies the minimum counterparty ratings allowed and details the approach adopted by management for assets backing liabilities in the Company. This policy provides enough flexibility for the Company to manage liability mismatch risk through the purchase of assets that match, as closely as possible, the duration of the liabilities, with rebalancing occurring as required.

e. *Components of net life insurance contract liabilities*

	2020 $m	2019 $m
Future policy benefits	6,347.7	4,335.3
Future expenses	2,122.2	2,095.2
Planned margins over future expenses (projection method business only)	918.9	1,808.4
Balance of future revenues	(9,730.8)	(8,936.7)
Net life insurance contract liabilities	**(342.0)**	**(697.8)**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Note 17. Financial risk management

An integrated Risk Management Framework (RMF) has been designed to help answer pertinent questions, including what are the risks to the business strategy; what is the appetite for these risks; how are these risks governed, monitored and managed; how are these risks responded to; and what are the possible scenarios that could cause an impact. 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 RMF. The framework overall, including the RMS, incorporates the requirements of APRA's Prudential Standard for Risk Management (CPS 220).

The Company operates within, and is governed by a company-specific RMF and Risk Appetite Statement which aligns to the Westpac Group RMF, Westpac Group risk appetite, and other supporting policies and frameworks that are designed to manage risk effectively and efficiently. Adherence to these frameworks and policies 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 RMF 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 Board is ultimately responsible for the integrity of the Company's financial reporting and audit processes. The role of the Insurance Board Audit Committee is to assist the Board to discharge its responsibilities by having oversight of the:

- Integrity of the financial statements and financial reporting systems of the Company;
- Performance and effectiveness of Westpac Group Audit and the external auditor; and
- Integrity of the Company's corporate reporting i.e. includes the Company's financial reporting requirements, prudential regulatory reporting, requirements to APRA and professional accounting requirements.

Insurance Board Risk Committee

The Board is ultimately responsible for the integrity of the Company's 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.

Westpac Board Remuneration Committee

Although the Board has delegated remuneration matters to the Westpac Board Remuneration Committee, the Board provides input to Management and Westpac Board Remuneration Committee, on matters such as performance objectives, outcomes and remuneration recommendations for Responsible Persons and other persons whose activities may impact the financial soundness of the Company. The Westpac Board Remuneration Committee assists the Westpac Board to discharge its responsibility by overseeing remuneration policies and practices of the Westpac Group in the context that these policies and practices fairly and responsibly reward individuals having regard to performance, and reflect the Westpac Group RMF, the law and highest standard of governance. The Westpac Board Remuneration Committee reviews and makes recommendations to the Westpac Board in relation to the Westpac Group Remuneration Policy, remuneration arrangements and structures, and oversees general remuneration practices across the Group.

The Appointed Actuary

The Appointed Actuary is responsible for providing a report on the financial condition of the Company (FCR) to the Board. The report includes a summary of the key results of the Actuarial Valuation Report (AVR), an assessment of the suitability and adequacy of the insurer's reinsurance strategy and insurer's current and future profitability and capital adequacy, together with consideration of a range of factors such as the premium rates, policy conditions, investment strategy, risks faced by the insurer and other related matters. The Appointed Actuary also provides advice in respect of the value of the policy liabilities calculated in accordance with APRA Prudential Standards.

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 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 is set out below.

1st Line of Defence – Business and support: manages the risks they originate

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 – Risk: provides oversight, insight and control of First Line activities

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 Westpac's risk position, and independently evaluate 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 – Audit: provides Independent Audit

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

1. 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 Company selects reinsurance partners and investment counterparties with appropriate credit ratings based on the Reinsurance Management Strategy and Investment Policy.

Policies and procedures established through the Risk Management Strategy, Credit Risk Management Framework, Reinsurance Management Strategy and the Investment Policy 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 Company Risk Appetite Statement, Reinsurance Management Strategy, and Investment Policy, and in the case of investment assets are 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 supported 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 2020 $58.3 million of reinsurance recoveries on paid claims was due from a single reinsurer.

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 2020 is $1,910.6 million (2019: $2,171.3 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.

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 2020	Neither past due nor impaired						Past due but not impaired	Unit linked (2)	Total
	AAA ($m)	AA ($m)	AA- ($m)	A ($m)	Not rated(1) ($m)	Total ($m)	($m)	($m)	($m)
Cash and cash equivalents	-	-	291.5	1.6	-	293.1	-	1.5	294.6
Financial assets measured at fair value	-	-	47.0	-	1,428.2	1,475.2	0.1	169.3	1,644.6
Premiums receivable	-	-	-	-	17.5	17.5	-	-	17.5
Reinsurance recoveries receivable	-	-	92.1	-	-	92.1	14.8	-	106.9
Investment income accrued and receivable	-	-	-	-	0.5	0.5	-	-	0.5
Trade receivables	-	-	-	-	16.9	16.9	-	-	16.9
Amounts due from related entities	-	-	-	-	0.2	0.2	-	-	0.2
Futures margin account	-	-	-	0.2	-	0.2	-	-	0.2
Total	**-**	**-**	**430.6**	**1.8**	**1,463.3**	**1,895.7**	**14.9**	**170.8**	**2,081.4**

30 September 2019	Neither past due nor impaired						Past due but not impaired	Unit linked (2)	Total
	AAA ($m)	AA ($m)	AA- ($m)	A ($m)	Not rated(1) ($m)	Total ($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**

(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 Pendal 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.

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 2020	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	0.1	-	-	-	0.1
Receivables - Reinsurance recoveries receivable	6.2	4.3	-	4.3	14.8

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

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 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 each insurance entity;
- 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Note 17. Financial risk management (continued)

b. Liquidity risk (continued)

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 2020	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	30.9	(605.7)	232.8	-	-	(342.0)
Investment contract liabilities	1.2	0.3	-	137.2	-	138.7
Trade payables	216.0	-	-	-	-	216.0
Amounts due to related entities	36.0	-	-	-	-	36.0
Debt issues	-	60.0	-	-	-	60.0

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	32.6	-	-	-	-	32.6
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.

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).

Insurance contract liabilities	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 2020	58.1	46.8	(74.0)	(605.7)	232.8	(342.0)
30 September 2019	51.0	49.1	(5.9)	(251.7)	(540.3)	(697.8)

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

Annuities	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 2020	0.1	-	1.1	0.3	-	1.5
30 September 2019	0.1	-	1.6	1.7	-	3.4

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Note 17. Financial risk management (continued)

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 28 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.

(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 was mitigated through the use of 10 year Government bond futures that were terminated on 15 September 2020. The futures had 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 2020 and 30 September 2019, 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 and life insurance contract liabilities that are separately disclosed in Note 16a(iv).

	30 September 2020		30 September 2019	
Change in variables	**Impact on profit after tax [(1)] ($m)**	**Impact on equity ($m)**	**Impact on profit after tax [(1)] ($m)**	**Impact on equity ($m)**
+100 basis points	3.7	3.7	26.9	26.9
-100 basis points	(3.7)	(3.7)	(26.9)	(26.9)

(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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Note 17. Financial risk management (continued)

c. Market risk (continued)

(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 2020 and 2019, 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.

	30 September 2020		30 September 2019	
Change in variables	**Impact on profit after tax (1) ($m)**	**Impact on equity ($m)**	**Impact on profit after tax (1) ($m)**	**Impact on equity ($m)**
+300 basis points	-	-	2.1	2.1
-300 basis points	-	-	(2.1)	(2.1)

(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.

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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Note 17. Financial risk management (continued)

d. Fair value measurement (continued)

Assets carried at fair value: Financial assets measured at fair value	Quoted market prices (Level 1) ($m)	Valuation techniques (Market observable) (Level 2) ($m)	Valuation techniques (Non-Market observable) (Level 3) ($m)	Total ($m)
30 September 2020	-	1,644.6	-	**1,644.6**
30 September 2019	-	8,936.4	-	**8,936.4**

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.

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

Financial liabilities: Debt issues[1]	Carrying Value ($m)	Quoted market prices (Level 1) ($m)	Valuation techniques (Market observable) (Level 2) ($m)	Valuation techniques (Non-Market observable) (Level 3) ($m)	Total ($m)
30 September 2020	60.0	-	65.9	-	**65.9**
30 September 2019	60.0	-	67.6	-	**67.6**

(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.

e. 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:

- Risk and Control Management;
- Risk Acceptance;
- Key Indicators;
- Operational Risk in Projects;
- User Developed Applications;
- Incident, Issues and Action Management;
- Scenario analysis;
- Operational Risk in Data;
- Operational Risk Capital; 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Note 17. Financial risk management (continued)

*f. **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 the Risk Management Framework, and is governed by the Board.

The ICAAP uses regulatory capital requirements prescribed by APRA as the foundation upon which a target capital structure is built. The ICAAP has been integrated into the existing Risk Management Framework. While the ICAAP is a key element of 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 ICAAP Summary Statement requires approval from the Board based on recommendations from the Board Risk Committee. The Board Risk Committee receives recommendations from the Insurance Chief Financial Officer (CFO) and the General Manager Insurance. The Appointed Actuary supports the Insurance CFO and plays a key role in the day-to-day implementation of the ICAAP for the insurance business.

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. As an APRA authorised life insurance Company that conducts insurance business in Australia, the Company is subject to a risk-based approach for measuring and holding the required regulatory level of capital, referred to as the Prudential Capital Requirement (PCR). The PCR is the minimum level of capital that APRA deems must be held to meet policyowner obligations and consists of the Prescribed Capital Amount (PCA) and any supervisory adjustment determined by APRA. The Company uses APRA's standardised method for calculating the PCA in accordance with the relevant Prudential Standards and holds regulatory capital plus a Target Surplus 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.

The Company's capital resources includes contributed equity attributable to shareholders of $521.5 million (2019: $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 at least 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.

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 2020.

	Statutory fund 1 ($m)	Statutory fund 2 ($m)	Shareholder fund ($m)	Total ($m)
Net Assets	1,766.2	16.3	1.7	1,784.2
Regulatory adjustment applied in calculation of Tier 1 capital	(1,150.6)	-	-	(1,150.6)
Common Equity Tier 1 Capital	615.6	16.3	1.7	633.6
Additional tier 1 capital	-	-	-	-
Regulatory adjustments (if any)	-	-	-	-
Tier 2 Capital	28.0	20.0	-	48.0
Regulatory adjustments (if any)	-	-	-	-
Capital Base:	**643.6**	**36.3**	**1.7**	**681.6**
Prescribed capital amount comprises:				
Insurance Risk	254.1	-	-	254.1
Asset Risk	27.3	0.2	-	27.5
Asset Concentration Risk	-	-	-	-
Operational Risk	35.3	15.2	-	50.5
Aggregation benefit	-	-	-	-
Combined scenario adjustment	138.5	0.1	-	138.6
Prescribed capital amount	**455.2**	**15.5**	**-**	**470.7**
(a) Capital Base	643.6	36.3	1.7	681.6
(b) Prescribed capital amount	455.2	15.5	-	470.7
Capital in excess of prescribed capital amount = (a) - (b)	188.4	20.8	1.7	210.9
Capital adequacy multiple (%) = (a) / (b)	141%	234%	16035%	145%

Capital adequacy 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%

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

	2020 $m	2019 $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 $2.1 million (2019: $2.8 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

	2020 $m	2019 $m
Share capital		
Ordinary share capital, fully paid	521.5	201.5
Total share capital	**521.5**	**201.5**

Movements in share capital	**$m**	**$m**
Opening balance	201.5	201.5
Issue of ordinary shares	320.0	-
Closing balance	**521.5**	**201.5**

	2020 No.	2019 No.
Ordinary shares at beginning of the year	166,780,468	166,780,468
Issue of ordinary shares	320,000,000	-
Ordinary shares at end of the year	**486,780,468**	**166,780,468**

The Company issued new share capital to its parent, Westpac Financial Services Group Limited, of $60 million on 30th March 2020 and $260 million on 30th September 2020.

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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Note 20. Reserves

	2020 $m	2019 $m
Reserves		
Capital reserves	260.1	260.1
Total reserves	**260.1**	**260.1**

Movements in reserves	2020 $m	2019 $m
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

	2020 $m	2019 $m
Equity - Ordinary		
Ordinary dividend of $0.09 per fully paid share paid in December 2018	-	15.0
Total dividends	**-**	**15.0**

Note 22. Auditor's remuneration

The auditor's remuneration for the audit of the financial statements was $754 thousand (2019: $740 thousand) and $44 thousand (2019: nil) for non-audit related services. All fees were paid by the ultimate parent entity, Westpac.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Note 23. 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.

	2020 $'000	2019 $'000
Remuneration of KMP		
Short-term benefits	1,922	1,110
Post-employment benefits	150	65
Other long-term benefits	31	11
Termination benefits	10	-
Share-based payments	465	362
Total remuneration of KMP	**2,578**	**1,548**

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 entities. This remuneration is separately disclosed in the financial statement of those entities.

c. Controlled unit trusts

Interests in controlled unit trusts are set out in Note 24.

d. Transactions with related parties

The following transactions occurred with related parties:

Type of transaction	Class of related party	Note	2020 $'000	2019 $'000
Interest received	Ultimate parent entity		111	470
Interest paid	Ultimate parent entity	18	2,146	2,828
Interest paid	Other related entities		659	755
Distributions from unit trusts	Other related entities		65	160
Service fee expense	Ultimate parent entity		151,530	103,144
Service fee expense	Other related entities		113,726	176,333
Commission expense	Ultimate parent entity		30,227	28,776
Commission expense	Other related entities		11,402	12,214
Dividends paid	Parent entity	21	-	15,000
Purchase of units	Controlled unit trust		2,246,699	468,054
Sale of units	Controlled unit trust		1,720,934	319,314
Distributions from unit trust	Controlled unit trust		9,434	155,452
Purchase of units	Non-controlled unit trust		727,446	2,086,809
Sale of units	Non-controlled unit trust		8,074,588	1,863,511
Distributions from unit trust	Non-controlled unit trust		278,922	375,091

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Note 23. 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	2020 $'000	2019 $'000
Cash and cash equivalents	Ultimate parent entity	27(a)	291,467	64,470
Financial assets measured at fair value	Controlled unit trusts		1,455,784	2,569,261
Financial assets measured at fair value	Non-controlled unit trusts		135,833	6,177,541
Trade and other receivables	Other related entities	10	213	2,420
Current tax receivable	Ultimate parent entity	10	5,650	-
Current tax liability	Ultimate parent entity	13	-	464
Trade and other payables	Ultimate parent entity	13	34,302	24,432
Trade and other payables	Other related entities	13	1,680	7,676
Debt issues	Ultimate parent entity	18	60,000	60,000

f. Terms and conditions

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Note 24. 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 on a look-through basis. The carrying value of controlled and uncontrolled units at the end of the period is $1,592.2 million (2019: $8,890.0 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.

30 September 2020	Cash $m	Fixed interest $m	Domestic equity $m	Global equity $m	Property $m	Other $m	Total $m
Assets							
Financial assets measured at fair value	1,456.4	10.8	-	-	-	125.0	1,592.2
Size of structured entity (1)	2,725.7	444.6	-	-	-	577.8	3,748.1

30 September 2019	Cash $m	Fixed interest $m	Domestic equity $m	Global equity $m	Property $m	Other $m	Total $m
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

(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	2020 %	2019 %
Pendal Institutional Liquidity Management Trust	Australia	53.4	-
Pendal Institutional Managed Cash Fund	Australia	83.7	-
Pendal Medium Term Income Fund	Australia	-	100.0
Pendal Stable Cash Plus Trust	Australia	-	54.9
Pendal Global Share Fund	Australia	-	95.7
Pendal Enhanced Australian Shares Fund	Australia	-	99.9
Pendal International Share Trust	Australia	-	73.8
Pendal Enhanced Fixed Interest Trust	Australia	-	92.6

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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Note 25. Statutory fund information

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 2020

Statutory fund	Type of business	Major products
Statutory fund 1	Non unit-linked ordinary and super risk business for individuals. Risk for group members and annuity business in run off	Term life Income protection Living insurance (trauma) Accidental death Yearly renewable term Trauma recovery Accidental injury Consumer credit insurance
Statutory fund 2	Unit-linked ordinary business	Insurance bonds Variable income plan Foundation plan

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
Statutory fund 2	Unit-linked ordinary and super business	Flexible income plan Lifetime super service Personal portfolio service Business super Foundation plan Corporate balanced fund Super savings fund

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Note 25. Statutory fund information (continued)

Abbreviated information by fund for the year ended 30 September 2020	Statutory fund no. 1 insurance $m	Statutory fund no. 1 investment $m	Statutory fund no. 2 investment $m
Financial assets measured at fair value	1,371.1	103.9	169.3
Reinsurers' share of life insurance contract liabilities	1,154.4	-	-
Other assets	528.0	(13.3)	8.0
Life insurance contract liabilities	812.4	-	-
Life investment contract liabilities	-	1.5	137.2
Other liabilities	563.7	0.3	23.8
Contributed equity	-	-	-
Reserves	750.4	(9.6)	14.2
Retained profits	927.0	98.4	2.1
Net life insurance premium revenue	867.8	-	-
Investment income	(2.1)	2.1	210.4
Fee and other revenue	32.0	(0.6)	16.7
Net life insurance claims expense	408.5	-	-
Change in life insurance contract liabilities	355.8	-	-
Change in life investment contract liabilities	-	1.2	220.0
Interest expense	1.3	-	1.5
Other expenses	386.8	1.2	28.5
Profit before income tax expense	(254.7)	(0.9)	(22.9)
Net profit for the year	(178.0)	(0.2)	(0.2)

Abbreviated information by fund for the year ended 30 September 2020	Total insurance $m	Total investment $m	Total statutory funds $m	Shareholder fund $m	Total all funds $m
Financial assets measured at fair value	1,371.1	273.2	1,644.3	0.3	1,644.6
Reinsurers' share of life insurance contract liabilities	1,154.4	-	1,154.4	-	1,154.4
Other assets	528.0	(5.3)	522.7	1.4	524.1
Life insurance contract liabilities	812.4	-	812.4	-	812.4
Life investment contract liabilities	-	138.7	138.7	-	138.7
Other liabilities	563.7	24.1	587.8	-	587.8
Contributed equity	-	-	-	521.5	521.5
Reserves	750.4	4.6	755.0	(494.9)	260.1
Retained profits	927.0	100.5	1,027.5	(24.9)	1,002.6
Net life insurance premium revenue	867.8	-	867.8	-	867.8
Investment income	(2.1)	212.5	210.4	0.1	210.5
Fee and other revenue	32.0	16.1	48.1	-	48.1
Net life insurance claims expense	408.5	-	408.5	-	408.5
Change in life insurance contract liabilities	355.8	-	355.8	-	355.8
Change in life investment contract liabilities	-	221.2	221.2	-	221.2
Interest expense	1.3	1.5	2.8	-	2.8
Other expenses	386.8	29.7	416.5	0.1	416.6
Profit before income tax expense	(254.7)	(23.8)	(278.5)	-	(278.5)
Net profit for the year	(178.0)	(0.4)	(178.4)	-	(178.4)

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Note 25. 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 liabilities	41.3	-	-
Change in life investment contract 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 liabilities	41.3	-	41.3	-	41.3
Change in life investment contract 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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Note 26. 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.

		Effects of offsetting on balance sheet		
30 September 2020	Note	Gross amounts $m	Amounts offset $m	Net amounts reported on the balance sheet $m
Financial assets:				
Trade and other receivables	10	147.6	-	147.6
Financial liabilities:				
Trade and other payables	13	252.0	-	252.0

		Effects of offsetting on balance sheet		
30 September 2019	Note	Gross amounts $m	Amounts offset $m	Net amounts reported on the balance sheet $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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Note 27. Notes to the cash flow statement

	2020 $m	2019 $m
(a) Reconciliation of cash and cash equivalents		
Cash with ultimate parent entity	291.5	64.5
Cash - other	3.1	4.8
Cash and cash equivalents at end of year	**294.6**	**69.3**

	2020 $m	2019 $m
(b) Reconciliation of net cash provided (used in)/by operating activities to net (loss)/profit for the year is set out below:		
Net (loss)/profit for the year	(178.4)	156.8
Adjustments:		
Net realised and unrealised gains on financial assets measured at fair value	83.0	63.0
Interest paid	2.8	3.6
Changes in operating assets and liabilities:		
Decrease/(increase) in assets		
Trade and other receivables	44.6	(5.9)
Current tax assets	(5.6)	-
Deferred tax assets	(80.2)	-
Financial assets measured at fair value	7,208.8	(327.4)
Reinsurance ceded	82.7	(579.4)
Other financial assets	6.6	(0.3)
Other assets	0.5	0.3
(Decrease)/increase in liabilities		
Bank overdrafts - unsecured	267.8	-
Trade and other payables	(10.0)	10.8
Current tax liabilities	(0.5)	0.5
Policy liabilities	(7,501.3)	733.9
Provisions	5.0	(1.8)
Reinsurance payable	-	(1.4)
Deferred tax liabilities	(17.7)	(0.8)
Net cash provided (used in)/by operating activities	**(91.9)**	**51.9**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Note 27. 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 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**
Other cash movements	-	(2.8)	(2.8)
Total cash movements	**-**	**(2.8)**	**(2.8)**
Other non-cash movements	-	2.8	2.8
Total non-cash movements	**-**	**2.8**	**2.8**
Balance as at 30 September 2020	**60.0**	**0.4**	**60.4**

Note 28. Financial instruments – Derivatives

The Company was party to derivative instruments in the normal course of business in order to hedge exposure to fluctuations in interest rates. The hedge was terminated on 15 September 2020.

The notional amounts of derivatives as at 30 September 2020 and 30 September 2019 are as follows:

	2020 $m	2019 $m
Fixed interest futures	-	(269.6)
Share price and commodities index futures	-	(0.1)
Total notional value of derivatives	**-**	**(269.7)**

The fair value of the derivatives at 30 September 2020 is $0.0m (2019: $2.6m loss).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Note 29. Contingent liabilities and commitments

Regulatory investigations, reviews and inquiries

Regulators, statutory authorities and other bodies routinely conduct investigations, reviews and inquiries involving the financial services sector, both in Australia and overseas. These regulatory actions may consider a range of subject matter, and in Australia, a number of regulatory investigations and reviews are currently considering potential misconduct in credit and financial services.

A specific area of investigation undertaken by ASIC is:

- Consumer credit insurance - ASIC is investigating Westpac Banking Corporation's (Westpac) past sales practices in relation to Consumer Credit Insurance (CCI). This investigation follows ASIC's industry-wide review of CCI sales practices between the period 2011 and 2018.
  Westpac ceased selling CCI products in branch and contact centre channels in November 2018, and ceased online sales in June 2019. ASIC's investigation is a separate matter to the Federal Court class action proceedings commenced against Westpac, Westpac General Insurance Limited and the Company. Further information about this class action is set out in the 'Litigation' section below.

In addition, there are investigations covering a range of other matters (some of which are industry-wide) that involve or may involve the Westpac Group (Group) in the future, including:

- the provision of financial advice, including whether personal advice obligations have been complied with and the conduct of financial planners;
- the adequacy of fee disclosure charged for products and services; and
- other areas such as the provision of superannuation (including insurance in superannuation), privacy and information governance and competition law conduct.

The Group has not received any indication of what (if any) action regulators will take following the conclusion of the investigations set out above. No provisions have yet been made in relation to any financial penalty that might arise in the event that regulators were to pursue enforcement proceedings, as any potential future liability of that kind cannot be reliably estimated at this time.

These investigations may result in litigation (including class action proceedings), fines and penalties, infringement notices, enforceable undertakings, imposition of capital requirements, licence revocation or variation, or other action being taken by regulators or other parties. Given the size of Westpac, these investigations have in some instances resulted, and could in the future result, in findings of a significant number of breaches of obligations. This in turn could lead to significant financial and other penalties.

Westpac is aware from media reports and other publicly available material that other class actions against Westpac entities are being investigated. Westpac does not have any further information about the proposed claims beyond the issued public statements.

Litigation

There are ongoing Court proceedings, claims and possible claims for and against the Group. Contingent liabilities exist in respect of actual and potential claims and proceedings. An assessment of the Group'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. Except as otherwise stated, no provision has been recognised in relation to the matters below because liability is not certain and cannot be reliably estimated.

Class actions

The Group is currently defending the following class actions:

- On 12 October 2017, a class action against 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 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. The matter has been set down for an initial trial in May 2021. The damages sought are unspecified.
- On 5 September 2019, a class action against BT Funds Management Limited (BTFM) and the Company was commenced in the Federal Court of Australia in relation to aspects of BTFM's BT Super for Life cash investment option. The claim follows other industry class actions. It is alleged 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 are unspecified.
- On 28 February 2020, a class action was commenced against Westpac, Westpac General Insurance Limited and the Company in the Federal Court of Australia in relation to Westpac's sale of CCI. The claim follows other industry class actions. It is alleged that the three entities failed to adhere to a number of obligations in selling CCI in conjunction with credit cards, personal loans and flexi loans. The damages sought are unspecified. Westpac no longer sells CCI products.

Internal reviews and remediation

As in prior periods, Westpac is continuing to undertake a number of reviews to identify and resolve prior issues that have the potential to impact customers and reputation. These internal reviews continue to identify a number of issues in respect of which steps are being taken or will be taken to put things right so that customers are not at a disadvantage from certain past practices, including making compensation/remediation payments to customers and providing refunds where identified. These issues include compliance with the charging of certain Wealth fees, the processing of corporate actions, reviewing third party remuneration arrangements and the way some product terms and conditions are operationalised. By undertaking these reviews improvements can be made to processes and controls.

An assessment of the Group'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 (which could be brought by customers or regulators), compensation/remediation 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Note 30. Subsequent events

The Company issued new share capital to its parent, Westpac Financial Services Group Limited of $65.0m on 1 October 2020 to support ongoing capital requirements.

Since the end of the financial year management has continued to monitor the COVID-19 situation. At the date of this report a definitive assessment of the future effects of COVID-19 on the Company cannot be made, as the impact will depend on the magnitude and duration of the pandemic, resulting public health orders and the consequences for the economy.

No other matters except the above have arisen since the year ended 30 September 2020 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.

DIRECTORS' DECLARATION

For the year ended 30 September 2020

In the Directors' opinion:

a. the financial statements and notes for the year ended 30 September 2020 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 2020 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

Sydney 10 / 12 /2020

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 2020 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 2020
- 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 & 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 2020, but does not include the financial report and our auditor's report thereon.

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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
10 December 2020