CO-OPERATIVE LIFE LIMITED

Annual Financial Statements

For the Year Ended 31 March 2017

CO-OPERATIVE LIFE LIMITED
INCOME STATEMENT
For the Year Ended 31 March 2017

	Note	31/03/2017 $000	31/03/2016 $000
Insurance Premium Revenue		10,711	10,342
Outwards Reinsurance Premium Expense		(1,556)	(1,394)
Net Premium Revenue		9,155	8,948
Investment and Other Revenue	3	452	601
Net Revenue		**9,607**	**9,549**
Claims Expense		(3,130)	(2,938)
Reinsurance Recoveries Revenue		914	905
Net Claims Expense		(2,216)	(2,033)
Changes in Policy Liabilities	13	319	283
Other Operating Expenses	4	(4,872)	(4,613)
Total Operating Expenses		(4,553)	(4,330)
Profit before Tax		**2,838**	**3,186**
Income Tax Expense	5	(795)	(488)
Profit after Tax Attributable to Parent	6	**2,043**	**2,698**

The Notes to the Financial Statements form part of, and are to be read in conjunction with, these Financial Statements.

CO-OPERATIVE LIFE LIMITED
STATEMENT OF COMPREHENSIVE INCOME
For the Year Ended 31 March 2017

	31/03/2017 $000	31/03/2016 $000
Profit after Tax	**2,043**	**2,698**
Items that may be Reclassified Subsequently to Profit or Loss		
Fair Value Movement on Available for Sale Investments	(69)	63
Income Tax Expense relating to Items that may be Reclassified	19	(18)
Other Comprehensive Income, Net of Tax	**(50)**	**45**
Total Comprehensive Income, Net of Tax	**1,993**	**2,743**
Total Comprehensive Income for the Period Attributable to Parent	**1,993**	**2,743**

STATEMENT OF CHANGES IN EQUITY
For the Year Ended 31 March 2017

Equity at Beginning of Year	9,621	8,128
Profit after Tax Attributable to Parent	2,043	2,698
Other Comprehensive Income Attributable to Parent	(50)	45
Dividends Paid to Parent	(5,500)	(1,250)
Equity at End of Year	**6,114**	**9,621**
Retained Earnings		
Balance at Beginning of Year	8,038	6,590
Profit after Tax	2,043	2,698
Dividends Paid to Parent	(5,500)	(1,250)
Balance at End of Year	**4,581**	**8,038**
Available for Sale Reserve		
Balance at Beginning of Year	83	38
Fair Value Movement through Other Comprehensive Income	(69)	63
Tax through Other Comprehensive Income	19	(18)
Balance at End of Year	**33**	**83**
Share Capital		
Balance at Beginning of Year	1,500	1,500
Balance at End of Year	**1,500**	**1,500**
Total Equity	**6,114**	**9,621**

The Notes to the Financial Statements form part of, and are to be read in conjunction with, these Financial Statements.

CO-OPERATIVE LIFE LIMITED
BALANCE SHEET
As at 31 March 2017

	Note	31/03/2017 $000	31/03/2016 $000
Assets			
Cash and Cash Equivalents		758	323
Available for Sale Investments	7	3,991	5,328
Fair Value through Profit or Loss Investments	8	5,764	8,634
Receivables and Prepayments	10	122	529
Intangible Asset	11	65	174
Total Assets		**10,700**	**14,988**
Liabilities			
Trade and Other Payables	12	767	662
Outstanding Claims Provision	13	880	1,479
Life Insurance Net Policy Liabilities	14	2,828	3,147
Deferred Tax Liability	5	111	79
Total Liabilities		**4,586**	**5,367**
Net Assets		**6,114**	**9,621**
Equity			
Retained Earnings		4,581	8,038
Share Capital	17	1,500	1,500
Available for Sale Reserve		33	83
Total Equity		**6,114**	**9,621**

These financial statements were authorised for issue for and on behalf of the Directors on 24 May 2017.

Director

Director

The Notes to the Financial Statements form part of, and are to be read in conjunction with, these Financial Statements.

CO-OPERATIVE LIFE LIMITED
STATEMENT OF CASH FLOWS
For the Year Ended 31 March 2017

	Note	Year Ended 31/03/2017 $000	Year Ended 31/03/2016 $000
Cash Flows from Operating Activities			
Insurance Premium Revenue		10,711	10,342
Reinsurance Recoveries Revenue		1,328	601
Investment and Other Revenue		503	519
Claims Expenses		(3,729)	(2,536)
Reinsurance Premium Expense		(1,556)	(1,394)
Other Expenses		(4,813)	(4,443)
Tax Paid		(596)	(302)
Net Cash Flows from Operating Activities	**18**	**1,848**	**2,787**
Cash Flows from Investing Activities			
Net Sale/(Purchase) of Investments		4,087	(1,533)
Net Cash Flows from Investing Activities		**4,087**	**(1,533)**
Cash Flows from Financing Activities			
Dividends Paid to Parent		(5,500)	(1,250)
Net Cash Flows from Financing Activities		**(5,500)**	**(1,250)**
Net Movement in Cash and Cash Equivalents		**435**	**4**
Opening Balance of Cash and Cash Equivalents		323	319
Closing Balance of Cash and Cash Equivalents		**758**	**323**
Reconciliation of Cash and Cash Equivalents:			
Cash at NZ Registered Banks		758	323
Total Cash and Cash Equivalents		**758**	**323**

The Notes to the Financial Statements form part of, and are to be read in conjunction with, these Financial Statements.

1. Statement of General Accounting Policies

Reporting Entity

Co-operative Life Limited ("the Company" or "Co-op Life") is a profit-oriented entity incorporated in New Zealand under the Companies Act 1993 and registered under the Co-operative Companies Act 1996 on 17 October 2011. The Company is an FMC Reporting Entity under the Financial Markets Conduct Act 2013.

The Company is a wholly owned subsidiary of The Co-operative Bank Limited ("Co-op Bank" or "the Parent"). The registered office is 20 - 26 Ballance Street, Wellington.

The life insurance operations are conducted in accordance with the Life Insurance Act 1908 and the Insurance (Prudential Supervision) Act 2010. On 25 March 2013, the Company obtained its licence to carry on life insurance business in New Zealand under the Insurance (Prudential Supervision) Act 2010 from the Reserve Bank of New Zealand.

As at 31 March 2017 and up until the date of the signing the Financial Statements, Co-op Life had a financial strength rating of B++ (outlook stable) and an issuer credit rating of bbb+ (outlook stable) issued by A.M. Best Company Inc ("A.M. Best"). The financial strength rating and credit rating were re-affirmed by A.M. Best on 15 September 2016.

The Company's principal business activities are the provision and underwriting of life and trauma insurance which involves the acceptance of significant insurance risk. Life insurance contracts are 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 Company currently provides the Life Plus, Loan Plus, and Loan Instalment Care insurance products. All insurance contracts written are non-investment linked and non-participating, with all profits and losses being allocated to the shareholder.

Basis of Preparation

The financial statements have been prepared in accordance with New Zealand Generally Accepted Accounting Practice ("NZ GAAP"), which complies with the New Zealand equivalents to International Financial Reporting Standards ("NZ IFRS") and other applicable Financial Reporting Standards as applicable for profit-oriented entities. The Company's financial statements comply with International Financial Reporting Standards ("IFRS").

Measurement Base

The financial statements have been prepared on a going concern basis in accordance with the historical cost concept, except for the revaluation of Available for Sale Investments and financial instruments designated at fair value through profit or loss which are recognised at fair value. Cost is based on the fair value of the consideration given in exchange for the assets.

Revenue, expenses and assets are reported in the financial statements net of the amount of Goods and Services Tax ("GST"), except when the GST incurred on a purchase of goods and services is not recoverable, GST is recognised as part of the cost of the acquisition of the assets or as part of the expense item as applicable. Receivables and payables are reported in the Balance Sheet with the amount of GST included.

Use of Accounting Estimates and Judgements

The preparation of the financial statements requires the use of management judgement, estimates and assumptions that affect reported amounts. The estimates and assumptions used are based on historical experience and other factors which are reviewed on a regular basis. Actual results may differ from these estimates. For further discussion on the critical estimates and judgements used by the Company that have the most significant effect on the amounts recognised in the financial statements, refer to Note 14 (Life Insurance Net Policy Liabilities).

Recognition and de-recognition of financial assets and financial liabilities

The Company recognises a financial asset or financial liability on its Balance Sheet when the Company becomes a party to the contractual provisions of the financial asset or financial liability and cash is settled.

The Company derecognises a financial asset from its Balance Sheet when:

(a) The contractual rights to the cash flows from the financial asset expire; or
(b) The Company has transferred the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or when it does not retain control of the financial asset.

Financial liabilities are derecognised when the obligations specified in the contract have been discharged, cancelled or have expired.

1. Statement of General Accounting Policies Continued

Functional and Presentation Currency and Rounding

The functional and presentation currency of the Company is New Zealand dollars and all amounts have been rounded to the nearest thousand dollars ($000), except where otherwise stated.

Offsetting

Assets and liabilities are offset and the net amount presented in the Balance Sheet when the Company has a legal right to set off the amounts and it intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

Income and expenses are presented in the Statement of Comprehensive Income on a net basis only when permitted under NZ GAAP, or for gains and losses arising from a group of similar transactions such as in the Company's trading activity.

Comparatives

To ensure consistency with the current period, comparative figures have been restated where appropriate.

Changes in Accounting Policies and Application of New or Amended Accounting Standards

The accounting policies used by the Company are consistent with those used in previous periods. Management have considered amendments to NZ IFRSs applicable for the first time to Co-op Life for the year ended 31 March 2017, however they have had no impact to the Company's reported result or financial position.

NZ IFRS Accounting Standards Issued but not yet Effective

At the date of authorisation of the financial statements, one applicable accounting standard was on issue but not yet effective. The Company does not intend to apply this pronouncement until its effective date.

Standard	Effective for Annual Reporting Periods Beginning on or After	Expected to be Initially Applied in the Financial Year Ending
NZ IFRS 9: *Financial Instruments*	1 January 2018	31 March 2019

NZ IFRS 9 introduces changes to the classification and measurement of financial instruments. An impact assessment has been performed, with no impact expected from the adoption of this standard. The forthcoming expected changes to the insurance contracts standard (not yet issued) however may allow assets backing insurance contract liabilities to be measured at Fair Value through Other Comprehensive Income (currently Fair Value through Profit or Loss). This will be assessed once the insurance contracts standard is finalised.

2. Accounting Classification and Measurement

Financial Instruments Classification and Measurement

Financial instruments are transacted on a commercial basis to derive an interest yield/cost with terms and conditions that have due regard to the nature of the transaction and the risks involved. The Company classifies its financial instruments into the following categories at initial recognition:

Loans and Receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and that the Company does not intend to sell immediately or in the near term. Loans and receivables are initially measured at fair value plus incremental direct transaction costs, and subsequently measured at their amortised cost using the effective interest method. Assets classified as loans and receivables include receivables and prepayments.

2. Accounting Classification and Measurement Continued

Fair Value through Profit or Loss Investments

Financial assets and financial liabilities in this category are either held for trading or managed with other assets and liabilities which are accounted for and evaluated on a fair value basis. The Company has determined that all financial assets held in relation to insurance contracts are Assets Backing Insurance Contract Liabilities. Such assets have been allocated to the Statutory Fund.

Changes in the fair value of these financial instruments are recognised in profit or loss in the period in which they occur. The fair value gain or loss does not include interest earned and accrued on the financial assets, as this is recorded as part of interest income.

Available for Sale Investments

Available for sale investments are non-derivative financial assets that are designated as available for sale or are not classified as another category of financial assets. Available for sale investments are intended to be held for an indefinite period of time and may be sold in response to needs for liquidity or changes in interest rates or exchange rates.

Available for sale investments are initially measured at fair value, including transaction costs, and subsequently carried at fair value. Interest income is recognised in profit or loss using the effective interest method. Impairment losses are recognised directly in profit or loss. Other fair value changes, other than impairment losses, are recognised directly in Other Comprehensive Income and presented in the Available for Sale Reserve within Equity. When the financial asset is de-recognised or impaired, the cumulative gains or losses previously recognised in Other Comprehensive Income are reclassified in profit or loss. Financial assets classified in this category include short term deposits and commercial paper securities, which are used to manage liquidity and may be sold prior to maturity.

Other Financial Liabilities

Other financial liabilities include all financial liabilities other than those classified at fair value through profit or loss. Other financial liabilities are initially recognised at fair value, including direct and incremental transaction costs, and are subsequently measured at amortised cost. Financial liabilities classified in this category include trade and other payables.

The following symbols used throughout the Financial Statements represent:

Significant Accounting Policy

Significant Accounting Estimate or Judgement

3. Investment and Other Revenue

	31/03/2017 $000	31/03/2016 $000
Interest on Available for Sale Investments	187	175
Interest on Fair Value through Profit or Loss Investments	247	339
Other Interest Income	9	8
Commission Income	48	-
Fair Value Gain on Investments	(39)	79
	452	**601**

4. Other Operating Expenses

	31/03/2017 $000	31/03/2016 $000
Policy Acquisition Costs	853	883
Policy Maintenance Expenses	3,779	3,485
Director's Fees	12	10
Other Operating Expenses	119	126
Amortisation of Intangible Asset	109	109
	4,872	**4,613**
Fees Paid to Auditors		
Audit or Review of Financial Statements	24	24
Other Assurance Services	6	6
Total Fees Paid to Auditors	**30**	**30**

Auditor's remuneration is included within Other Operating Expenses above. The fees for the audit of the Company's financial statements and solvency return are paid by Co-op Bank on behalf of the Company.

Other Operating Expenses

Expenses are recognised in the Statement of Comprehensive Income on an accruals basis.

Policy Acquisition Costs

Policy acquisition costs are the fixed and variable costs of acquiring new business, including commission and underwriting costs. Policy acquisition costs are initially recorded in profit or loss when the expense has been incurred, with any amounts to be deferred then taken to the Balance Sheet as a Deferred Acquisition Cost ("DAC") to be released over the life of the policy.

Policy Maintenance Expenses

Policy maintenance costs are the costs of administering policies subsequent to sale and maintaining operations such that they are sufficient to service existing policies. These include all operating and management costs other than policy acquisition and investment management costs. Policy maintenance costs are recorded in profit or loss when the expense has been incurred.

5. Income Tax

(a) The prima facie income tax expense on pre-tax accounting profit from operations reconciles to the income tax expense in the financial statements as follows:

	31/03/2017 $000	31/03/2016 $000
Profit before Tax	2,838	3,186
Tax Expense at 28% (31 March 2016: 28%)	(795)	(892)
Transitional adjustment for life insurance tax rules[1]	-	404
Income Tax Expense	**(795)**	**(488)**
Comprising:		
Current Tax	(763)	(576)
Deferred Tax	(32)	88
Income Tax Expense	**(795)**	**(488)**

Income Tax Expense

Income tax on the net profit for the year comprises current and deferred tax and is based on the applicable tax law. The income tax expense is recognised in profit or loss except when it relates to items credited directly to equity, in which case it is recognised in Other Comprehensive Income.

Current Tax

Current tax is calculated by reference to the amount of income taxes payable or recoverable in respect of the taxable profit or tax loss for the year based on applicable tax rates and laws. Current tax for current and prior periods is recognised as a liability (or asset) to the extent that it is unpaid (or refundable).

(b) **Deferred Tax**

31 March 2017	Opening Balance 1 April $000	Charged to Profit or Loss $000	Closing Balance 31 March $000
Gross Deferred Tax Liability:			
Net Policy Liabilities	(30)	(63)	(93)
Intangible Asset	(49)	31	(18)
Net Deferred Tax Liability	**(79)**	**(32)**	**(111)**
31 March 2016			
Gross Deferred Tax Liability:			
Net Policy Liabilities	(88)	58	(30)
Intangible Asset	(79)	30	(49)
Net Deferred Tax Liability	**(167)**	**88**	**(79)**

[1] The transitional adjustment relates to certain life insurance policies which were taxed under the previous tax rules for such policies, as permitted under the tax rules relating to life insurance that came into effect from 1 July 2010 for the Company. The final benefit from the transitional adjustment was recognised in March 2016.

5. Income Tax Continued

Deferred Tax

Deferred tax is accounted for using the comprehensive tax balance sheet method in respect of temporary differences arising from differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax base of those items.

Deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets are recognised to the extent that it is probable that sufficient taxable amounts will be available against which the deductible temporary differences or unused tax losses and tax credits can be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period(s) when the asset and liability giving rise to them are realised or settled, based on applicable tax rates and laws. The measurement of deferred tax assets and liabilities reflects the tax consequences that would follow from the manner in which the Company expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

6. Analysis of Profit

	31/03/2017 $000	31/03/2016 $000
Planned Margins of Revenues over Expenses	692	1,223
Changes in Assumptions	99	(138)
Other Income	35	-
Difference between Actual and Assumed Experience	1,008	1,320
Investment Earnings on Assets in Excess of Policy Liabilities	209	293
Profit after Tax	**2,043**	**2,698**

7. Available for Sale Investments

Short Term Deposits with NZ Registered Banks	504	201
NZ Registered Bank Bonds	873	1,747
Local Government Bonds	837	644
Rated Corporate Commercial Paper	-	994
Listed Multilateral Development Banks and Other International Organisations	1,777	1,742
	3,991	**5,328**

8. Fair Value through Profit or Loss Investments

Short Term Deposits with NZ Registered Banks	503	604
Rated Corporate Commercial Paper	500	2,692
NZ Registered Bank Bonds	2,043	1,761
Local Government Bonds	2,042	2,067
Listed Multilateral Development Banks and Other International Organisations	676	1,510
	5,764	**8,634**

9. Fair Value of Financial Instruments

Financial assets and financial liabilities are measured on an on-going basis either at fair value or amortised cost. The fair value of a financial instrument is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the reporting date. The assets not measured at fair value (Receivables, Trade and Other Payables, Outstanding Claims Provision) have an amortised cost value that is equivalent to fair value.

Fair Value Measurement

Fair value is the price that would be received from the sale of an asset or paid to transfer a liability in a transaction between active market participants or in its absence, the most advantageous market to which the Banking Group has access to at the reporting date. The fair value of a financial liability reflects its non-performance risk.

When available, fair value is measured using the quoted price in an active market. A market is active if transactions take place with sufficient frequency and volume to provide pricing information on an on-going basis. If there is no quoted price in an active market, then the Banking Group uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

Valuation hierarchy for financial instruments held at fair value

The following fair value hierarchy, as set out in NZ IFRS 13: *Fair Value Measurement*, has been used to categorise the inputs to valuation techniques used to measure the financial assets and financial liabilities which are carried at fair value:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the assets or liabilities, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the assets or liabilities that are not based on observable market data (unobservable inputs).

All of the Banking Group's financial instruments that are recognised and measured at fair value on a recurring basis sit within Level 2.

There were no transfers between Level 1 and Level 2 of the fair value hierarchy during the reporting period.

10. Receivables and Prepayments

	31/03/2017 $000	31/03/2016 $000
Reinsurance Recoveries	86	500
Prepayments	24	29
Receivable from Parent	12	-
	122	**529**

Insurance Premiums

Insurance premium revenue is recognised from the inception date as soon as there is a basis on which it can reliably be estimated. Insurance premium revenue is recognised as income when it is earned in accordance with the pattern of incidence of risk expected under the insurance contract.

Reinsurance Recoveries

Reinsurance recoveries are recognised as revenue from the date the applicable claim is accepted and recognised as a liability. Reinsurance recoveries are measured at the present value of the expected future receipts, calculated on the same basis as the liability for outstanding claims.

11. Intangible Asset

	31/03/2017	31/03/2016
Cost	$000	$000
Balance at Beginning of Year	547	547
Balance at End of Year	**547**	**547**
Accumulated Amortisation		
Balance at Beginning of Year	(373)	(264)
Amortisation Expense	(109)	(109)
Balance at End of Year	**(482)**	**(373)**
Net Book Value		
As at 31 March	**65**	**174**

Intangible Assets

Intangible assets are carried at cost less accumulated amortisation and impairment losses.

The intangible asset relates to the future profits to be earned from existing customers acquired in the acquisition of the Loan Instalment Care business from IAG New Zealand Limited in October 2012. This intangible asset is being amortised on a straight line basis over five years and is reviewed for impairment at each reporting date. Any impairment loss is recognised in profit or loss.

12. Trade and Other Payables

	31/03/2017	31/03/2016
Tax Payable to Parent	743	595
Payable to Parent	-	67
Other Payables	24	-
	767	**662**

13. Outstanding Claims Provision

	31/03/2017	31/03/2016
Claims under Policies in the Process of Settlement	569	1,181
Claims Incurred But Not Reported	311	298
	880	**1,479**

Claims

Insurance claims are recognised as an expense when a valid claim has been received and accepted.

The outstanding claims liability for the Loan Plus and Life Plus products equals the sum insured of valid notified claims that have yet to be paid.

For the Loan Instalment Care business the outstanding claim liability equals the discounted present value of the estimated future payments of the insured benefit for the duration of disablement.

For all insurance products an additional provision is held for claims Incurred But Not Reported ("IBNR") at the reporting date, which is calculated by Co-op Life's independent Appointed Actuary based on historical claims experience and actuarial statistical tables.

14. Life Insurance Net Policy Liabilities

	31/03/2017 $000	31/03/2016 $000
Balance at 1 April	3,147	3,430
Movement for the Year	(319)	(283)
Balance at 31 March	**2,828**	**3,147**

Components of Life Insurance Net Policy Liabilities	31/03/2017 $000	31/03/2016 $000
Future Policy Benefits	48,757	57,406
Balance of Future Expenses	30,837	36,284
Planned Margins of Revenue over Expenses	10,881	11,735
Future Charges for Acquisition Costs	(3,210)	(2,774)
Deferred Tax Liability Element of Policy Liabilities	111	79
Balance of Future Revenues	(84,548)	(99,583)
	2,828	**3,147**

The Life Insurance Net Policy Liabilities recorded in the Balance Sheet comprises of the following components:

- Life Plus and Loan Plus: An estimate of the net present value of the net future cash flows of each product plus a profit margin, calculated using the projection method. This method defers profits over the life of the policy and releases it evenly over the term of the contract in proportion to the profit carriers (gross life and trauma claims). The deferred acquisition costs component of the policy liabilities is separately identified for purposes of calculating deferred tax. On 21 March 2016, 241 longer-term Loan Plus policies were issued arising from the wind up of the Loan Care fund. Given the longer-term profile of these policies the Loan plus valuation method changed from the accumulation method to the projection method. This change did not have any material impact on the value of Loan Plus policy liabilities;
- LIC: Unearned premium calculated using the accumulation method, representing the premium unearned up to the next premium due date. The result of using the "accumulation" method rather than the "projection" method required under NZ IFRS 4: Insurance Contracts ("NZ IFRS 4") is not materially different as the LIC contracts have an average duration of approximately 2.5 years; and
- A provision for outstanding notified claims which have been accepted but not yet been paid, and claims incurred but not reported. For LIC claims, the outstanding notified claims provision is the discounted present value of the insured instalment for the duration of disablement, projected forward using a set of claim continuance assumptions.

Life Insurance Net Policy Liabilities

Policy liabilities arising from insurance contracts are calculated by Co-op Life's independent Appointed Actuary, using the Margin on Service ("MoS") methodology in accordance with New Zealand Society of Actuaries Professional Standard 20: *Determination of Life Insurance Policy Liabilities.* Under the MoS methodology, profit comprises the following components:

- Planned Margins of Revenues over Expenses – at the time of writing a policy and at each reporting date, best estimate assumptions are used to determine all expected future payments and premiums.
- Difference between Actual and Assumed Experience – where actual experience replicates best estimate assumptions, the expected profit margin will be released to profit over the life of the policy. Experience profits or losses are realised where actual experience differs from best estimate assumptions. Instances giving rise to experience profits or losses include variations in claims, expenses, mortality, discontinuance and investment returns.
- Investment Earnings on Assets in Excess of Policy Liabilities – profits are generated from investment assets which are in excess of those required to meet policy liabilities. Investment earnings are directly influenced by market conditions and as such this component of MoS profit will vary from year to year.

14. Life Insurance Net Policy Liabilities Continued

Life Insurance Net Policy Liabilities continued

- Changes to Underlying Assumptions – assumptions used for measuring policy liabilities are reviewed each year. Where the review leads to a change in assumptions, the change is deemed to have occurred from the reporting date. The financial effect of changes to the assumptions underlying the measurement of policy liabilities are recognised in the Statement of Comprehensive Income over the future reporting periods during which services are provided to policyholders. However if based on best estimate assumptions, written business is expected to be unprofitable, the total expected loss is recognised in the Statement of Comprehensive Income immediately. When loss making business becomes profitable previously recognised losses are reversed.

The Life Insurance Net Policy Liabilities recorded in the Balance Sheet is the sum of the unearned premium reserve ("UPR"), net of DAC.

Actuarial Information

The valuation of policy liabilities has been calculated by Co-op Life's independent Appointed Actuary Peter Davies, B.Bus.Sc, FIA, FNZSA. The valuation is done in accordance with NZ IFRS 4 and Professional Standard no. 20: Determination of Life Insurance Policy Liabilities ("PS-20"), issued by the New Zealand Society of Actuaries. Mr Davies is an independent professional adviser to the Banking Group on insurance related matters.

The valuation of policy liabilities as at 31 March 2017 was dated 10 May 2017. Mr Davies confirmed in his actuarial report that he is satisfied with the nature, sufficiency and accuracy of the data provided to him by Co-op Life for the purpose of his valuation. There were no significant changes to the actuarial assumptions used in the 31 March 2017 valuation compared to the assumptions used in the 31 March 2016 valuation. There were no qualifications in the actuarial report.

Best Estimate Assumptions

The key assumptions that effect the estimation of policy liabilities used by the Appointed Actuary are set out below:

Discount, Inflation, and Tax Rates:
Discount rates vary from 1.67% to 2.42% dependent on the product. The discount rate basis is swap rates (2016: swap rates). Inflation and tax are set at 2% and 28% respectively.

Mortality:
Life Plus Death cover was assumed 80% of NZ97 (2016: 80%), based on the Company's own experience, adjusted for the smoking status of lives insured. Loan Plus was assumed 55% of NZ97 (2016: 55%).

Morbidity:
Life Plus Trauma assumed at 90% of reinsurance rates (2016: 90%); Loan Instalment Care 25% of premiums (2016: 25%).

Cancellation Rates:
Life Plus cancellation rates vary from 6% to 20% dependent on the age of the policy holder and the recent and expected future experience of cancellations. Loan Instalment Care is based on 35% per annum (2016: 35%).

Surrender volume and values:
Loan Plus surrender volumes are based on a sliding scale which is modelled from actual experience adjusted for expected future experience. Loan Plus Surrender values are modelled from actual experience adjusted for expected future experience.

Administration Costs:

Life Plus renewals	$31 per policy per annum (2016: $32)
Loan Plus	$1 per policy per annum (2016: $3)
Loan Instalment Care	13% of premiums (2016: 13% of premiums)

14. Life Insurance Net Policy Liabilities Continued

Estimation of Life Insurance Net Policy Liabilities

Life insurance contract liabilities are valued using actuarial models which are based on recognised actuarial methodologies, standards and principles. The methodologies take into account the risks and uncertainties of the life insurance policies and use best estimate assumptions (detailed on the previous page), which requires a high level of judgement. Variances between best estimate assumptions used and actual experience could affect the value of the life insurance net policy liabilities.

15. Life Fund Reporting

Statutory Fund

On 1 July 2012, Co-op Life established a Statutory Fund in accordance with the requirements of the Insurance (Prudential Supervision) Act 2010. The Statutory Fund gives priority to policy holders to the assets held in the Statutory Fund ahead of the claims of any other creditor. This included any depositor with Co-op Bank who had the benefit of the guarantee from Co-op Life which ceased on 25 September 2016 following the maturity of the remaining deposits.

All operating profits and losses generated by the Statutory Fund are retained within the Statutory Fund and distributions of these can only be made provided they comply with the requirements of the Insurance (Prudential Supervision) Act 2010 and the Insurance (Prudential Supervision) Regulations 2010. These requirements include receiving and having regard to Co-op Life's Appointed Actuary's written advice as to the likely consequences of any proposed distribution. A distribution of the Statutory Fund's retained profits must not be made if the distribution would have the result that Co-op Life would fail to maintain the minimum solvency margin in relation to the Statutory Fund.

Profit and Loss disaggregated by Life Fund

	31 March 2017			31 March 2016		
	Statutory Fund $000	**Shareholder Fund $000**	**Total $000**	**Statutory Fund $000**	**Shareholder Fund $000**	**Total $000**
Net Premium Revenue	9,155	-	9,155	8,948	-	8,948
Investment and Other Income	203	249	452	378	223	601
Net Revenue	**9,358**	**249**	**9,607**	**9,326**	**223**	**9,549**
Net Claims Expense	(2,216)	-	(2,216)	(2,033)	-	(2,033)
Other Operating Expenses	(4,553)	-	(4,553)	(4,330)	-	(4,330)
Net Profit before Taxation	**2,589**	**249**	**2,838**	**2,963**	**223**	**3,186**
Net Profit after Taxation	**1,864**	**179**	**2,043**	**2,538**	**160**	**2,698**

15. Life Fund Reporting Continued

Balance Sheet disaggregated by Life Fund

	31 March 2017			31 March 2016		
	Statutory Fund $000	Shareholder Fund $000	Total $000	Statutory Fund $000	Shareholder Fund $000	Total $000
Cash	617	141	758	129	194	323
Investment Assets	5,264	4,491	9,755	8,634	5,328	13,962
Other Assets	176	11	187	703	-	703
Total Assets	**6,057**	**4,643**	**10,700**	**9,466**	**5,522**	**14,988**
Other Liabilities	807	71	878	661	80	741
Outstanding Claim Provision	880	-	880	1,479	-	1,479
Life Insurance Net Policy Liabilities	2,828	-	2,828	3,147	-	3,147
Total Liabilities	**4,515**	**71**	**4,586**	**5,287**	**80**	**5,367**
Retained Earnings	1,542	3,039	4,581	4,179	3,859	8,038
Share Capital	-	1,500	1,500	-	1,500	1,500
Available for Sale Reserve	-	33	33	-	83	83
Total Equity	**1,542**	**4,572**	**6,114**	**4,179**	**5,442**	**9,621**

16. Solvency Margin

The Insurance (Prudential Supervision) Act 2010 requires registered life insurers to maintain a positive Solvency Margin for the Shareholder Fund and each Statutory Fund at all times. We have calculated the prudential solvency position as at 31 March 2017 in accordance with the Reserve Bank of New Zealand ("RBNZ") Solvency Standard for Life Insurance Business ("the Solvency Standard"). The solvency position for the Statutory Fund and the Shareholder Fund is summarised below:

	31 March 2017			31 March 2016		
	Statutory Fund $000	Shareholder Fund $000	Total $000	Statutory Fund $000	Shareholder Fund $000	Total $000
Total Assets	6,057	4,643	10,700	9,466	5,522	14,988
Total Liabilities	(4,515)	(71)	(4,586)	(5,287)	(80)	(5,367)
Capital	1,542	4,572	6,114	4,179	5,442	9,621
Less Deductions	(45)	-	(45)	(3,125)	(500)	(3,625)
Actual Solvency Capital	1,497	4,572	6,069	1,054	4,942	5,996
Minimum Solvency Capital*	440	242	5,000	374	571	5,000
Solvency Margin	**1,057**	**4,330**	**1,069**	**680**	**4,371**	**996**
Solvency Ratio	**340%**	**1,889%**	**121%**	**282%**	**865%**	**120%**

*A minimum solvency capital of $5m is required at a total fund level for Co-operative Life. As the sum of the Statutory and Shareholder Fund's minimum solvency capital is less than the regulatory requirement of $5m, the minimum solvency capital for Co-operative Life defaults to $5m. This means the Total Co-operative Life solvency column will not equal the total of the Statutory and Shareholder Fund columns.

17. Share Capital

	31/03/2017 Number of Shares '000	31/03/2016 Number of Shares '000
Opening Number of Fully Paid Issued Ordinary Shares	1,500	1,500
Closing Number of Fully Paid Issued Ordinary Shares	**1,500**	**1,500**

All fully paid ordinary shares rank equally and share equally in any surplus, dividends or share in winding up. All ordinary shares were issued for $1 per share.

18. Reconciliation of Profit after Tax with Net Cash Flows from Operating Activities

	Year Ended 31/03/2017 $000	Year Ended 31/03/2016 $000
Profit after Tax	2,043	2,698
Add/(Less) Non-Cash Items:		
Amortisation	109	109
Fair Value Movement on Investments	39	(79)
Deferred Tax	32	(88)
IBNR Claims Provision	13	12
Life Insurance Net Policy Liabilities	(319)	(283)
Changes in Working Capital Items:		
Receivables and Prepayments	407	(309)
Trade and Other Payables	124	340
Outstanding Claims Provision	(612)	390
Items Classified as Investing Activities:		
Interest on Investment Securities	12	(3)
Net Cash Flows from Operating Activities	**1,848**	**2,787**

Statement of Cash Flows

The Statement of Cash Flows has been prepared using the direct approach modified by the netting of certain items in order to provide more meaningful disclosure. Cash flows included in the Statement of Cash Flows are reported net of GST. The following are definitions of the terms used in the Statement of Cash Flows:

- Cash and cash equivalents comprises cash held at registered banks by the Company;
- Investing activities are those relating to the acquisition, holding and disposal of financial assets;
- Financing activities are those activities which result in changes in size, composition and capital structure of the Company; and
- Operating activities include all transactions and other events that are not investing or financing activities.

19. Related Party Transactions

	31/03/2017 $000	31/03/2016 $000
Transactions During the Year:		
Net receipt of monies from Co-op Bank	(79)	66
Dividends Paid to Co-op Bank	(5,500)	(1,250)
Policy Maintenance Expense Paid to Co-op Bank	(3,811)	(3,512)
Policy Acquisition Costs Paid to Co-op Bank*	(576)	(641)

Amounts Outstanding at Year End:	31/03/2017 $000	31/03/2016 $000
Receivable from/(Payable to) Co-op Bank (non-interest bearing)	12	(67)
Tax Payable to Co-op Bank (non-interest bearing)	(743)	(595)

**Commission expense for Loan Plus is classified as Policy Acquisition Costs as Loan Plus is a single premium product, and Policy Maintenance Expenses for all other products.*

The Company has no employees as its activities are managed by Co-op Bank in accordance with the Management Deed between the both parties. All income and expenses of the Company are initially received or paid by Co-op Bank on behalf of the Company and are settled regularly through the intercompany account.

No related party balances were written off or forgiven during the year ended 31 March 2017 (2016: Nil).

20. Financial Risk Management

The Company is committed to the management of risk to achieve sustainability of service and profits, and therefore, takes on controlled amounts of risk when considered appropriate. The Company's primary financial risks are insurance, credit, liquidity, interest rate and operational risk. There have been no material changes in the Company's policies for managing these risks during the financial reporting period.

The Co-op Life Board's policy is to maintain a strong capital base to protect policyholders' and creditors' interests and meet the regulatory requirements set out in the Solvency Standard for Life Insurance Business issued by the Reserve Bank of New Zealand. The Company's Board of Directors is ultimately responsible for the review and ratification of the Company's systems of risk management, internal control, codes of conduct and legal compliance. The Board meets quarterly and receives reports including performance against agreed risk metrics. Risk systems and procedures are maintained and monitored by Co-op Bank under a Management Deed.

Co-op Bank's Board of Directors maintains a formal set of delegated authorities for Co-op Bank and its subsidiaries, including Co-op Life. Credit and treasury delegated authorities are contained within their respective policy documents. Co-op Bank's Board of Directors approves these delegated authorities on behalf of the Company.

Co-op Bank management formally reports on all aspects of key operational risks to the Company's Board of Directors at least four times each year, with credit and treasury risks reported monthly. In addition, the following Management Committees review and manage key risks:

(i) Co-op Bank's Senior Leadership Team meets regularly to consider new and emerging risks, reviews actions required to manage and mitigate key risks, and to monitor progress; and

(ii) Co-op Bank's Assets and Liabilities Committee ("ALCO") meets weekly to consider, monitor and review exposure to interest rate risk, liquidity risk, and credit risk.

Insurance Risk

Insurance risk is the failure of product design, product pricing, underwriting or claims management processes resulting in the cost of an insurance claim being higher than the planned cost. Key insurance risk metrics are measured against targets and reported to the Co-op Life Board on a quarterly basis. In compliance with contractual and policy requirements, a strategy is in place to ensure that the risks underwritten should not adversely affect Co-op Life's ability to pay benefits and claims when they fall due. To limit its exposure, Co-op Life has its own reinsurance programme in place where it cedes business to external entities, either by surplus or quota share reinsurance arrangements. Continuous monitoring of the procedures in place is undertaken to minimise the chance of an adverse compliance or operational risk event occurring.

20. Financial Risk Management Continued

Procedures exist for verification, assessment and payment of claims. Strict claims management procedures ensure the timely and correct payment of claims in accordance with policy and/or treaty conditions.

Concentration of insurance risk is managed by setting the underwriting acceptance criteria for Life Plus life and trauma cover so that they are progressively more extensive with higher covers and older ages and limiting the maximum cover offered by some key products. Policies are sold only to individuals where there is a reasonable diversification of geographic and work-place risk, rather than to employer-based or affinity-based schemes.

Sensitivity Analysis

A sensitivity analysis has been carried out based on the position at 31 March 2017, varying the discount rate used to value policy liabilities for Life Plus and Loan Plus by an increase and decrease of 100 basis points respectively. The policy liabilities for LIC are unaffected by this change, due to this business being valued on the accumulation method, which does not require discounting. However estimation of future claim costs does have a discounting impact. The effect of the change in rates is shown below:

	Discount Rate Increase before Tax By 100 Basis Points		Discount Rate Decrease before Tax By 100 Basis Points	
	2017	2016	2017	2016
	$000	$000	$000	$000
Life Plus – impact on policy liabilities	(217)	(287)	254	341
Loan Plus – impact on policy liabilities	(12)	-	13	-
Loan Instalment Care – impact on Open Claims	(9)	(8)	11	9

Further sensitivity analysis has been completed using a 10% change to the demographic and expense assumptions used. There is no impact on LIC's net policy liabilities because LIC is subject to a loss recognition test. For the Life Plus and Loan Plus products, there is sufficient profit margin in the policy liabilities to absorb any change in actual experience versus best estimate assumptions. Further analysis on the effect of movements on interest rates on interest bearing assets is disclosed on page 20.

Credit Risk

Credit risk is the potential risk of loss arising from the non-performance of a counterparty to a financial instrument or facility. The Company's credit risk relates predominately to wholesale (treasury) investments. Approximately 77% (2016: 77%) of all credit risks are within New Zealand and all credit risk is denominated in New Zealand dollars. The risk exposure is managed through a conservative "approved counterparty" policy and maximum credit limits which have been approved for each counterparty on the basis of:

- Portfolio tier limits by credit rating;
- Individual tier limits by credit rating;
- Product category limits; and
- Term to maturity limits.

Liquidity Risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting commitments associated with its financial liabilities. Liquidity risk is mitigated through:

(i) Managing the relative term to maturity of insurance treasury assets;
(ii) Investing in liquid, senior ranking securities; and
(iii) Compliance with regulated solvency margins as stipulated by regulation.

Liquidity management is delegated, under the Management Deed, to Co-op Bank's Treasurer under the oversight of the ALCO.

Interest Rate Risk

Interest rate risk relates to the mismatch between the policyholder liabilities and the assets backing those liabilities. These mismatches could impact current period operating profits.

Interest rate risk is managed by the Company through a strategic asset allocation policy and an investment management policy that has regards to surrender and claims expectations and risks. Any breaches of interest rate risk limits are managed within the treasury policy of Co-op Bank and reported to the Company's Board of Directors quarterly.

20. Financial Risk Management Continued

Sensitivity Analysis

As at 31 March if interest rates on interest bearing assets had been 100 basis points higher or 100 basis points lower with all other variables held constant the impact on Profit after Tax and Equity would have been as follows:

	Interest Rates Increase by 100 Basis Points		Interest Rates Decrease by 100 Basis Points	
	2017	2016	2017	2016
	$000	$000	$000	$000
Effect on Profit after Tax	(113)	(167)	254	372
Effect on Equity	(56)	(56)	127	132

The effect of movements in interest rates on interest bearing assets is partially mitigated by the effect of movements in discount rates on policy liabilities, as discussed on page 19 of these Financial Statements. Interest rate risk on net interest income is hedged by interest rate swaps held by Co-op Bank.

Operational Risk

Operational risks are those arising from human error, system failures, inadequate procedures or controls and external events. Co-op Bank, under the Management Deed, manages the Company's operational risks. Risks under management include systems, reputation, legal and regulatory, fraud, losses and physical asset protection and crisis management. Risks are reported to the Board of Co-op Bank on a monthly basis and remedial action taken where necessary.

21. Concentration of Credit Exposures

	31/03/2017	31/03/2016
	$000	$000
NZ Registered Banks	4,681	4,636
Government, Local Authority and State Owned Enterprises	2,879	2,711
Listed Multilateral Development Banks and Other International Organisations	2,453	3,252
Other Corporate Investments	500	3,686
Receivables	86	500
	10,599	**14,785**

22. Interest Rate Repricing Profile

The following tables include the Company's financial assets and financial liabilities at their carrying amounts, categorised by the earlier of contractual repricing or maturity dates.

	Within 3 months	3-6 Months	6-12 Months	1 – 2 Years	Over 2 Years	Non-Interest Bearing	Total
31 March 2017	**$000**	**$000**	**$000**	**$000**	**$000**	**$000**	**$000**
Cash and Cash Equivalents	758	-	-	-	-	-	758
Available for Sale Investments	546	-	-	887	2,558	-	3,991
Fair Value through Profit or Loss Investments	1,081	303	395	839	3,146	-	5,764
Receivables	-	-	-	-	-	86	86
Total Financial Assets	**2,385**	**303**	**395**	**1,726**	**5,704**	**86**	**10,599**
Trade and Other Payables	-	-	-	-	-	767	767
Outstanding Claims Provision	184	209	-	-	-	176	569
Total Financial Liabilities	**184**	**209**	-	-	-	**943**	**1,336**
Total Interest Rate Sensitivity Gap	**2,201**	**94**	**395**	**1,726**	**5,704**	**(857)**	**9,263**

22. Interest Rate Repricing Profile Continued

	Within 3 months $000	3-6 Months $000	6-12 Months $000	1 – 2 Years $000	Over 2 Years $000	Non-Interest Bearing $000	Total $000
31 March 2016							
Cash and Cash Equivalents	323	-	-	-	-	-	323
Available for Sale Investments	753	898	355	1,046	2,276	-	5,328
Fair Value through Profit or Loss Investments	3,377	604	203	399	4,051	-	8,634
Receivables	-	-	-	-	-	500	500
Total Financial Assets	**4,453**	**1,502**	**558**	**1,445**	**6,327**	**500**	**14,785**
Trade and Other Payables	-	-	-	-	-	662	662
Outstanding Claims Provision	632	149	-	-	-	400	1,181
Total Financial Liabilities	**632**	**149**	-	-	-	**1,062**	**1,843**
Total Interest Rate Sensitivity Gap	**3,821**	**1,353**	**558**	**1,445**	**6,327**	**(562)**	**12,492**

23. Contractual Maturity Analysis

The following tables analyse the Company's financial assets and financial liabilities into relevant maturity groupings based on the remaining period at the reporting date to the contractual maturity date. The figures reported include interest and principal cash flows expected to maturity, as well as the commitment to make amounts available in instalments. The total amount is different from the amount on the Balance Sheet as the cash flows shown below are undiscounted cash flows.

31 March 2017	On Demand $000	Within 6 Months $000	6-12 Months $000	1 – 2 Years $000	Over 2 Years $000	No Maturity $000	Total $000
Cash and Cash Equivalents	758	-	-	-	-	-	758
Available for Sale Investments	-	604	57	944	2,614	-	4,219
Fair Value through Profit or Loss Investments	-	1,471	467	922	3,482	-	6,342
Receivables	-	86	-	-	-	-	86
Total Financial Assets	**758**	**2,161**	**524**	**1,866**	**6,096**	**-**	**11,405**
Trade and Other Payables	-	767	-	-	-	-	767
Outstanding Claims Provision	-	-	-	-	-	176	176
Total Financial Liabilities	**-**	**767**	**-**	**-**	**-**	**176**	**943**

31 March 2016	On Demand $000	Within 6 Months $000	6-12 Months $000	1 – 2 Years $000	Over 2 Years $000	No Maturity $000	Total $000
Cash and Cash Equivalents	323	-	-	-	-	-	323
Available for Sale Investments	-	1,736	419	1,110	2,256	-	5,521
Fair Value through Profit or Loss Investments	-	4,091	284	548	4,405	-	9,328
Receivables	-	500	-	-	-	-	500
Total Financial Assets	**323**	**6,327**	**703**	**1,658**	**6,661**	**-**	**15,672**
Trade and Other Payables	-	662	-	-	-	-	662
Outstanding Claims Provision	-	-	-	-	-	1,181	1,181
Total Financial Liabilities	**-**	**662**	**-**	**-**	**-**	**1,181**	**1,843**

24. Commitments

The Company had no capital or operating lease commitments as at 31 March 2017 (31 March 2016: Nil).

25. Contingent Liabilities

The Company had no material contingent liabilities at 31 March 2017. Co-op Life had previously guaranteed the obligations of Co-op Bank to all depositors who were depositors at the time and date of bank registration. At 31 March 2016 there was a guarantee of $1,581,727 which represented the full amount of deposits that had not yet matured. The guarantee ceased on 25 September 2016 following the maturity of the remaining deposits.

26. Subsequent Events

Bruce McLachlan resigned as Director on the 31st March 2017, with his replacement to be confirmed in due course. There were no other events subsequent to the reporting date which would materially affect the financial statements.

Independent Auditor's Report

To the shareholder of Co-operative Life Limited

Report on the financial statements

Opinion

In our opinion, the accompanying financial statements of Co-operative Life Limited (the company) on pages 1 to 22:

i. present fairly in all material respects the company's financial position as at 31 March 2017 and its financial performance and cash flows for the year ended on that date; and

ii. comply with New Zealand Equivalents to International Financial Reporting Standards and International Financial Reporting Standards.

We have audited the accompanying financial statements which comprise:

— the balance sheet as at 31 March 2017;

— the income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended; and

— notes, including a summary of significant accounting policies and other explanatory information.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (New Zealand) ("ISAs (NZ)"). We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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

Our responsibilities under ISAs (NZ) are further described in the Auditor's Responsibilities for the Audit of the financial statements section of our report.

Our firm has also provided other services to the company in relation to audit related services associated with the solvency return. Subject to certain restrictions, partners and employees of our firm may also deal with the company on normal terms within the ordinary course of trading activities of the business of the company. These matters have not impaired our independence as auditor of the company. The firm has no other relationship with, or interest in, the company.

Use of this Independent Auditor's Report

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

Responsibilities of the Directors for the financial statements

The Directors, on behalf of the company, are responsible for:

- the preparation and fair presentation of the financial statements in accordance with generally accepted accounting practice in New Zealand (being New Zealand Equivalents to International Financial Reporting Standards) and International Financial Reporting Standards;
- implementing necessary internal control to enable the preparation of a set of financial statements that is fairly presented and free from material misstatement, whether due to fraud or error; and
- assessing the ability to continue as a going concern. This includes disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate or to cease operations, or have no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the financial statements

Our objective is:

- to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error; and
- to issue an Independent Auditor's Report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs NZ will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error. They are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of these financial statements is located at the External Reporting Board (XRB) website at:

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

This description forms part of our Independent Auditor's Report.

KPMG

Graeme Edwards

For and on behalf of

KPMG
Wellington

24 May 2017

Davies Financial and Actuarial Limited

28th April 2017

To: The Directors
Co-operative Life Limited

From: Peter Davies
Appointed Actuary

Re: Co-operative Life Limited: Report as at 31st March 2017 under Sections 77 and 78 of the Insurance (Prudential Supervision) Act 2010

You have asked me to prepare this report in terms of the above sections of the Act, and I would like to comment further as follows:

1. I have reviewed the actuarial information included in the audited accounts for Co-operative Life Limited as at 31st March 2017. "Actuarial information" includes the following:

    - policy liabilities;
    - solvency calculations in terms of the RBNZ Solvency Standard;
    - balance sheet and other information allowed for in the calculation of the company's solvency position; and
    - disclosures regarding the methodology and assumptions used for calculating policy liabilities, and other disclosures.

2. No limitations have been placed on my work.

Level 1, 3 Shea Terrace, Takapuna 0622 Telephone (09) 489-3551 e-mail: pdavies@actuary.co.nz
P.O. Box 35-258, Browns Bay, Auckland 0753 Facsimile: (09) 489-6613 home page: www.actuary.co.nz

3. I am independent with respect to Co-operative Life Limited as defined under professional standard ISA (NZ) 620 of the External Reporting Board.

4. I have been provided with all information that I have requested in order to carry out this review.

5. In my view the actuarial information contained in the financial statements has been appropriately included, and the actuarial information used in the preparation of the financial statements has been appropriately used.

6. Co-operative Life Limited's solvency margin as at 31st March 2017 exceeded the minimum requirement of the RBNZ Solvency Standard for Life Insurance Business 2014, issued in terms of the Insurance (Prudential Supervision) Act. The Company's Statutory Fund, and its Shareholder fund, were each independently solvent at that date.

   I have carried out a 4-year projection of the Company's solvency position, which includes the payment of regular dividends out of future profits. The Company is projected to exceed the minimum RBNZ solvency requirements at all times over this period. While the legislation prescribes a 3-year projection period, the nature of the representations made to the RBNZ effectively require a 4-year forecast.

I would be very happy to answer any queries concerning this report.

Yours sincerely

Peter

Peter Davies B.Bus.Sc., FIA, FNZSA
Appointed Actuary

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