



FOUNDATION LIFE (NZ) LIMITED
(formerly TOWER Life (N.Z.) Limited)

FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 SEPTEMBER 2015

FOUNDATION LIFE (NZ) LIMITED

FINANCIAL STATEMENTS

For the year ended 30 September 2015

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FOUNDATION LIFE (NZ) LIMITED

DIRECTORS REPORT

For the year ended 30 September 2015

The Directors of Foundation Life (NZ) Limited present their report and financial statements of the Group for the year ended 30 September 2015.

On 28 January 2015 the company changed its name from TOWER Life (N.Z.) Limited to Foundation Life (NZ) Limited.

During the year the Group undertook its principal activity of providing life insurance services and investment management.

The after tax profit for the year was \$4,888k (2014: \$5,637k). Shareholders' equity at the end of the year totals \$39,064k (2014: \$41,076k). The Directors consider the Group to be in a strong Financial Position.

No disclosure has been made in respect of Section 211 (1) (a) and (e) to (j) of the Companies Act 1993 following a unanimous decision by the shareholders in accordance with section 211 (3) of the Act.

The Group has arranged Directors' liability insurance for directors and officers of the Company and its related companies which ensures that generally directors and those officers will incur no monetary losses as a result of actions undertaken by them in the course of their duties. Such insurance arrangements exclude certain actions such as the incurring of penalties or fines that may be imposed for breaches of the law.

The Directors in office at the date of this report are: R Kellerman, M Hilder, S Keane, R Davies and, A Eisen

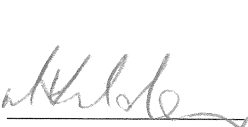
The Directors wish to thank all staff for their loyalty, application and support during the year.

The Board of Directors of Foundation Life (NZ) Limited authorised these financial statements, for issue on 8 December 2015.

For and on behalf of the Board:

Director: 

Date: 8 December 2015

Director: 

Date: 8 December 2015

FOUNDATION LIFE (NZ) LIMITED

GOVERNANCE STATEMENT

For the year ended 30 September 2015

The New Zealand insurance industry is regulated by the Reserve Bank of New Zealand under the Insurance (Prudential Supervision) Act 2010 ("IPSA"). All companies carrying on insurance business in New Zealand must hold a licence. Foundation Life (NZ) Limited is a licensed insurer.

Governance is a key aspect of the Reserve Bank's licensing requirements and the Reserve Bank has published Governance Guidelines setting out the governance requirements for licensed insurers. Foundation Life (NZ) Limited has adopted and developed corporate governance structures, policies and practices that are consistent with these guidelines.

Role and operation of the Board of Directors

The primary role of the Board of Foundation Life (NZ) Limited is to govern the company by ensuring there is a proper governance framework in place to promote and protect the company's interests for the benefit of its stakeholders.

Under IPSA, Directors of a licensed insurer must act in the best interests of that company and cannot act in the best interests of a holding company where it is not in the best interests of the licensed insurer.

The Board is primarily governed by the Foundation Life (NZ) Limited Board Charter, and is also subject to the Foundation Life (NZ) Limited Code of Ethics. The Board Charter records the Board's roles and responsibilities, including reserving certain functions to the Board, and the Code of Ethics ensures decision making is in accordance with Foundation Life (NZ) Limited's values.

The Board meets a minimum of four times each calendar year and will hold additional meetings as required.

The day-to day leadership and management of Foundation Life (NZ) Limited is undertaken by the Chief Executive Officer under a formal delegation from the Board, and by senior staff. The Chief Executive Officer is solely accountable to the Board for management performance. The Chief Executive Officer has also formally delegated decision making to senior staff within their areas of responsibility and subject to quantitative limits to ensure consistent and efficient decision-making within the Company.

Composition of the Board

The Foundation Life (NZ) Limited constitution provides for a minimum of two, and a maximum of nine Directors. Foundation Life (NZ) Limited has five Directors as at 8 December 2015. Details on the Directors, including their qualifications and experience are set out below. Under the Reserve Bank Governance Guidelines it is expected that at least half of the Directors will be independent. Criteria that the Reserve Bank will consider when determining whether a Director is independent include, but are not limited to:

- any financial or other obligation the Director may have to the licensed insurer or its Directors;
- whether the Director has been employed in an executive capacity by the licensed insurer or any associated person within the last three years;
- whether the Director is, or has been, a provider of material professional services to the licensed insurer or any associated person within the last three years;
- whether the Director has a material contractual relationship with the licensed insurer or any associated person;
- any remuneration received in addition to Director's fees, related directorships or shareholdings in the licensed insurer; or
- whether the Director is a related party of the licensed insurer.

Three out of five of the Foundation Life (NZ) Limited Directors are considered by the company to be independent and those Directors are noted below.

Composition of the Board (including range of skills, knowledge and experience) and Director independence, is reviewed by the Board Chairman.

Raymond Kellerman

B Ec, LLB, MBA, ACI

Independent Chairman

Appointed: 29 August 2014

Ray has over 27 years of experience in the funds management and corporate and structured finance industries. Ray was with Perpetual Trustees Australia for 10 years before establishing his own compliance consulting and advisory business in 2001. He currently acts as an audit, risk and compliance committee member and director for a number of major fund managers including Goodman Funds Management Australia, Fidelity Australia, Invesco Australia, Aberdeen Australia and Alliance Bernstein Australia. Ray is an owner and Executive Director of Quentin Ayers, an implemented asset consultant specialising in alternative private market investments. Previous appointments include Independent Chairman of ClearView Wealth, an ASX listed life insurance and financial services company; and Independent Chairman of Credit Suisse Asset Management Australia.

Ray resides in Sydney, Australia.

FOUNDATION LIFE (NZ) LIMITED

GOVERNANCE STATEMENT

For the year ended 30 September 2015

Murray Hilder

MSc (Hons), FIA, FIAA FNZA

Independent Director

Appointed: 29 August 2014

Murray, an actuarial consultant with over 30 years' experience, has been a commercial manager whose strategic, financial, company taxation, human resource management, ICT project management and marketing skills have been gained from running diverse businesses. Murray is a former President of the New Zealand Society of Actuaries and a Fellow of the New Zealand, Australian and United Kingdom actuarial societies.

Murray resides in Auckland, New Zealand.

Sean G Keane

BA Economics (Hons), Dip BA

Independent Director

Appointed: 29 August 2014

Sean's career spans 27 years in the financial markets industry, in a variety of senior roles in London, Wellington, Sydney, Singapore and Tokyo. Most recently he was Managing Director of Global Money Market Funding and Short Term Interest Rate Trading in Asia-Pacific for Credit Suisse. In 2008 Sean returned to New Zealand, with his young family, and founded Triple T Consulting which has close ties to Credit Suisse, and its local partner First New Zealand Capital. In 2012 Sean joined the Board of FNZC as a non-executive Director. In addition to this Sean is Deputy Chairman of the NZX listed company EROAD, and he chairs the Audit Committee.

Sean resides in Auckland, New Zealand

Richard Davies

B Ec, LLb (Hons), MBA (Hons)

Executive Director

Not Independent

Appointed: 29 August 2014

Richard has over 15 years of broad financial markets experience with both public and private capital markets as an analyst, investor and director in both Australia and the USA. This experience includes founding Roadnight Capital, and managing the investment portfolio of the Bori Liberman Family which involved backing and financing start up payments and financial services companies, turning around a \$1b+ property business. Between 1998 and 2002 Richard worked at Tiger Management and Kicap Management in NYC. Prior to this Richard practiced as a lawyer at Baker & McKenzie and Freehills.

Richard resides in Melbourne, Australia.

Anthony Eisen

BCom, ICCA

Executive Director

Not Independent

Appointed: 29 August 2014

Anthony has over 20 years' experience in investing, maintaining public company directorships and providing corporate advice. Prior to his investment and involvement in Foundation Life, Anthony was Chief Investment Officer of Guinness Peat Group, focused on making investments in publicly listed companies in Australasia and the United Kingdom. Prior to joining Guinness Peat Group, Anthony was an investment banker specialising in mergers and acquisitions and providing corporate advice, having practiced extensively in Australia and the United States (Hambros Bank, Credit Suisse, Greenhill Caliburn). Anthony commenced his professional career as an accountant in Australia (Price Waterhouse).

Anthony resides in Sydney, Australia.

Board committees

The Board has one governance committee: the Audit and Compliance Committee. The committee is governed by written terms of reference, which detail its specific functions and responsibilities.

FOUNDATION LIFE (NZ) LIMITED

GOVERNANCE STATEMENT

For the year ended 30 September 2015

The Audit and Compliance Committee make recommendations to the Board. They have no decision-making ability except where expressly provided by the Board.

Audit and Compliance Committee

Members: Murray Hilder (Independent Chairman), Sean Keane and Anthony Eisen.

Foundation Life (NZ) Limited has a structure to independently verify and safeguard the integrity of the company's financial reporting. The principal components of this are the Audit and Compliance Committee, the internal and external auditors, and the certifications provided to the Board by the Chief Executive Officer.

The terms of reference of the Audit and Compliance Committee include the following duties and responsibilities:

- Independently and objectively review the financial information presented by management to the Board, regulators and the public.
- Review draft half yearly and annual Company financial statements and reports and the external audit report, and make recommendations to the Board as to their adoption.
- Oversee the performance of the external auditor and be satisfied as to its independence.
- Review draft half yearly and annual solvency returns and receive the financial condition report prepared by the Appointed Actuary.
- Recommend allocation and distribution of retained profits of the statutory fund.
- Advise the Board in respect of IPSA solvency issues relating to the Company.
- Review the effectiveness of management processes, risk management, internal financial controls and control systems.
- Monitor and review compliance with regulatory and statutory requirements and obligations including, but not limited to, the requirements of IPSA.
- Monitor the internal audit function and receive regular reports from the internal auditors on risks, exposures and compliance.
- Maintain open and direct lines of communication with the external and internal auditors.
- Make recommendations to the Board as to the appointment of external auditors.
- Monitor and review policies and practices established to avoid and manage conflicts of interest (pecuniary or otherwise) by the Company, directors, management and staff.

The Audit and Compliance Committee is to meet a minimum of three times per year.

The Terms of Reference require that the Audit and Compliance Committee has a minimum of two non-Executive Directors, the majority of whom are independent. The Board appoints the Chairman of the Committee, who is an independent non-executive Director who cannot also be the Chairman of the Board.

Following each meeting the Chairman of the Committee provides a report to the Board. The Chairman is also required to provide an annual report summarising the committee's activities, findings, recommendations and results for the past year.

Risk management

Foundation Life (NZ) Limited's approach to risk management is recorded in the Foundation Life (NZ) Limited Risk & Compliance Framework Policy. This policy sets out Foundation Life (NZ) Limited's commitment to managing risk and compliance, and provides an overview of the core components of the Framework including roles and responsibilities and requirements that must be met. The Framework applies to Foundation Life (NZ) Limited. Effective management of risk and compliance is essential to ensure that Foundation Life (NZ) Limited remains a viable business and is able to achieve its objectives. This Framework is integral in providing guidance to management and staff of Foundation Life (NZ) Limited in dealing with its risk and compliance obligations.

Foundation Life (NZ) Limited is subject to the Foundation Life (NZ) Limited Conflicts of Interest Policy. This policy sets out the principles and procedures relating to the management of conflicts of interest within Foundation Life (NZ) Limited.



Independent Auditors' Report to the shareholders of Foundation Life (NZ) Limited

Report on the Consolidated Financial Statements

We have audited the consolidated financial statements of Foundation Life (NZ) Limited ("the Company") on pages 10 to 48, which comprise the consolidated statement of financial position as at 30 September 2015, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and the notes to the financial statements that include a summary of significant accounting policies and other explanatory information for the Group. The Group comprises the Company and the entities it controlled at 30 September 2015 or from time to time during the financial year.

Directors' Responsibility for the Consolidated Financial Statements

The Directors are responsible on behalf of the Company for the preparation and fair presentation of these consolidated financial statements in accordance with New Zealand Equivalents to International Financial Reporting Standards and International Financial Reporting Standards and for such internal controls as the Directors determine are necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing (New Zealand) and International Standards on Auditing. These standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider the internal controls relevant to the Company's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates, as well as evaluating the overall presentation of the consolidated financial statements.

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

We are independent of the Group. Other than in our capacity as auditors and providers of other related assurance services we have no relationship with, or interests in, the Group.

Opinion

In our opinion, the consolidated financial statements on pages 10 to 48 present fairly, in all material respects, the financial position of the Group as at 30 September 2015, and its financial performance and cash flows for the year then ended in accordance with New Zealand Equivalents to International Financial Reporting Standards and International Financial Reporting Standards.



Independent Auditors' Report

to the shareholders of Foundation Life (NZ) Limited

Restriction on Use of our Report

This report is made solely to the Company's shareholder, as a body, in accordance with the Companies Act 1993. Our audit work has been undertaken so that we might state those matters which we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's shareholder, as a body, for our audit work, for this report or for the opinions we have formed.

A handwritten signature in dark ink, appearing to read 'Dianate Houelope'.

Chartered Accountants
9 December 2015

Wellington

Foundation Life (NZ) Limited - 30th September 2015

Appointed Actuary's Insurance (Prudential Supervision) Act 2010 Section 78 Report

The report prepared by Charles Hett; MA, FNZSA the Appointed Actuary for the purpose of Section 78 of Insurance (Prudential Supervision) Act 2010 ("IPSA") is included in the Foundation Life (NZ) Limited ("FLNZ") financial statements.

The report provides information to the Directors of FLNZ (and management) regarding a review of the actuarial information (Section 77 of IPSA) contained in the FLNZ financial statements as at 30th September 2015 and provides an opinion as to its appropriateness.

This report has not been prepared with any other additional purposes in mind.

**Review of the Actuarial Information contained in the 30th September 2015
Foundation Life (NZ) Limited Financial Statements**

I am the Appointed Actuary to Foundation Life (NZ) Limited (FLNZ). I am Head of Actuarial Services at Deloitte and act as Appointed Actuary under a contract for services.

The directors are responsible for the preparation of the company's financial statements; FLNZ's policy is to seek the advice of the appointed actuary in the preparation of the actuarial information contained in its financial statements. I and the Deloitte team of actuarial staff have been directly involved in the preparation of FLNZ 2015 financial statements. I confirm the financial statements have been prepared in accordance with this policy, and as such this satisfies the requirements of the Act. Appropriate actuarial information has been used accurately and appropriately.

No limitations were placed on me in preparing the actuarial information and all data requested was provided by the company. All information and explanations that were necessary to prepare the actuarial information were obtained.

In my opinion and from an actuarial perspective the actuarial information contained in the financial statements has been appropriately included in the statements and the actuarial information used in the preparation of the financial statements has been used appropriately.

The company has maintained a solvency margin as at 30th September 2015 that complies with the Reserve Bank of New Zealand ("RBNZ") Solvency Standards and any other licensing requirements in regard to solvency.



Charles Hett; MA, FNZSA
Appointed Actuary
Fellow of the New Zealand Society of Actuaries

Date: 8th December 2015

FOUNDATION LIFE (NZ) LIMITED

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 30 September 2015

	Note	2015 \$000	2014 \$000
Premium revenue from insurance contracts		8,468	9,043
Less: Reinsurance expense		(27)	103
Net premium revenue	4	8,441	9,146
Investment revenue	5	102,311	66,688
Net operating revenue		110,752	75,834
Claims expense		39,467	43,161
Less: Reinsurance recoveries revenue		(316)	185
Net claims expense	6	39,151	43,346
Increase in policy liabilities	7	35,528	7,222
Management and sales expenses	8	7,729	6,061
Net claims and operating expenses		82,408	56,629
Profit before taxation		28,344	19,205
Less: Income tax expense	9	(23,456)	(13,568)
Profit for the year		4,888	5,637
Profit attributable to:			
- Shareholders		4,888	5,637

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

FOUNDATION LIFE (NZ) LIMITED

STATEMENT OF FINANCIAL POSITION

As at 30 September 2015

	Note	2015 \$000	2014 \$000
Assets			
Cash and cash equivalents	18	7,220	11,376
Receivables	10	22,042	38,095
Related Party receivables	21	63	-
Financial assets at fair value through profit or loss	15	728,316	641,459
Derivative financial assets	15	28,248	55,771
Current tax assets		-	1,059
Policyholder loans		3,381	3,803
Property, Plant & Equipment		197	5
Deferred tax asset	9	2,037	4,911
Total assets		791,504	756,479
Liabilities			
Payables	11	20,268	18,297
Related Party payables	21	-	13
Derivative financial liabilities	15	8	4,220
Employee provisions		89	93
Current tax liabilities		7,021	-
Insurance liabilities	12	7,809	6,458
Life insurance contract liabilities	14	700,679	666,082
Life investment contract liabilities	14	16,566	20,240
Total liabilities		752,440	715,403
Net assets		39,064	41,076
Equity			
Contributed equity	13	10,000	10,000
Retained earnings		29,064	31,076
Total equity		39,064	41,076

The financial statements were approved for issue by the Board on 8 December 2015.



Director



Director

The above Statement of Financial Position should be read in conjunction with the accompanying notes.

FOUNDATION LIFE (NZ) LIMITED

STATEMENT OF CHANGES IN EQUITY
For the year ended 30 September 2015

	Note	Attributed to shareholders		
		Contributed equity \$000	Retained earnings \$000	Total equity \$000
Year ended 30 September 2015				
At the beginning of the year		10,000	31,076	41,076
Comprehensive income				
Profit for the year		-	4,888	4,888
Total comprehensive income		-	4,888	4,888
Transactions with shareholders				
Dividends paid	21	-	(6,900)	(6,900)
Total transactions with shareholders		-	(6,900)	(6,900)
At the end of the year		10,000	29,064	39,064
Year ended 30 September 2014				
At the beginning of the year		10,000	29,439	39,439
Comprehensive income				
Profit for the year		-	5,637	5,637
Total comprehensive income		-	5,637	5,637
Transactions with shareholders				
Dividends paid	21	-	(4,000)	(4,000)
Total transactions with shareholders		-	(4,000)	(4,000)
At the end of the year		10,000	31,076	41,076

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

FOUNDATION LIFE (NZ) LIMITED

STATEMENT OF CASH FLOWS

For the year ended 30 September 2015

	Note	2015 \$000	2014 \$000
Cash flows from operating activities			
Premiums received		7,521	8,121
Reinsurance revenue		722	3,849
Interest received		26,389	34,124
Dividends received from property and equity investments		1,678	3,194
Payments to policyholders		(38,756)	(42,754)
Reinsurance payments		(27)	(607)
Payments to suppliers and employees		(7,155)	(6,591)
Income taxation paid		(12,501)	(40)
Net cash outflow from operating activities	18	(22,129)	(704)
Cash flows from investing activities			
Net receipts for financial assets		25,232	5,840
Net payments for purchase of property, plant and equipment		(283)	(6)
Net cash inflow from investing activities		24,949	5,834
Cash flows from financing activities			
Sale of business		-	2,134
Payment of dividends		(6,900)	(4,000)
Repayment of borrowings		(76)	(287)
Increase in investment in subsidiary		-	-
Outflow from issue of equity share capital		-	-
Proceeds from borrowings		-	-
Net cash outflow from financing activities		(6,976)	(2,153)
Net (decrease) / increase in cash and cash equivalents		(4,156)	2,977
Cash and cash equivalents at beginning of year		11,376	8,399
Cash and cash equivalents at end of year		7,220	11,376

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

FOUNDATION LIFE (NZ) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 September 2015

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

STATEMENT OF COMPLIANCE

Foundation Life (NZ) Limited (the Company) is a profit-oriented company incorporated in New Zealand under the New Zealand Companies Act 1993. The Company is an FMC reporting entity under the Financial Markets Conduct Act 2013. The Company and its subsidiary, Fisher Institutional Income Fund (formerly Tower Asset Management Income Trust), together are referred to in these financial statements as the Group, or the consolidated entity. The address of its registered office is 50 Customhouse Quay, Wellington, New Zealand.

On 26 August 2013 Foundation Life (NZ) Limited obtained its licence to carry on insurance business in New Zealand under the Insurance (Prudential Supervision) Act 2010 from the Reserve Bank of New Zealand.

On 28 January 2015 the Company changed its name from TOWER Life (N.Z.) Limited to Foundation Life (NZ) Limited.

The principal activities of the Foundation Life (NZ) Limited Group are providing life insurance and investment management.

BASIS OF PREPARATION

The financial statements of the Group have been prepared in accordance with New Zealand Generally Accepted Accounting Practice (NZ GAAP). It complies with New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS) and other applicable financial reporting standards, as appropriate for profit-oriented entities. The financial statements comply with International Financial Reporting Standards (IFRS).

The financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets and financial liabilities at fair value through profit or loss.

The Company's owners or others do not have the power to amend the financial statements after they have been authorised for issue.

The preparation of the financial statements in conformity with NZ IFRS requires the use of critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the statements have been disclosed in note 2.

PRINCIPLES OF CONSOLIDATION

Foundation Life (NZ) Limited has one subsidiary – Fisher Institutional Income Fund. The consolidated financial statements incorporate the assets and liabilities of the subsidiary as at 30 September 2015 and the results of the subsidiary for the year then ended.

Subsidiaries are all those entities over which the consolidated entity has control, being the power to govern the financial and operating policies, generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the consolidated entity controls another entity.

The results of any subsidiaries acquired during the year are consolidated from the date on which control is transferred to the consolidated entity and the results of any subsidiaries disposed of during the year are consolidated up to the date control ceases.

The acquisition of controlled entities is accounted for using the acquisition method of accounting. The share of net assets of controlled entities attributable to minority interests is disclosed separately in the Statement of Financial Position and Statement of Comprehensive Income.

When the group ceases to have control any retained interest in the entity is re-measured to its fair value at the date when control is lost, with the change in carrying amount recognised in profit or loss.

Intercompany transactions and balances between Group entities are eliminated on consolidation.

PRINCIPLES UNDERLYING THE CONDUCT OF LIFE INSURANCE BUSINESS

The life insurance operations of the Group comprise the administration of contracts which are classified as either life insurance contracts or life investment contracts. Contracts that include both investment and insurance elements are separated into these two elements and reported accordingly.

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. 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 insured benefit is either not linked or only partly linked to the market value of the investments held by the life insurer, and the financial risks are substantially borne by the Group. Any products that do not meet the definition of a life insurance contract are classified as life investment contracts.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 September 2015

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Life investment contracts include investment-linked contracts where the benefit amount is directly linked to the market value of the investments held. While the underlying assets are registered in the name of the life insurer 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 investment performance.

Participating policy owner benefits, both vested and unvested, are treated as expenses when incurred and liabilities until paid.

SPECIFIC ACCOUNTING POLICIES

(A) PREMIUM REVENUE

(i) Life insurance contracts

Premiums on life insurance contracts are separated into their revenue and deposit components. Where it is not practicable to split out the two components all premiums have been recognised as revenue. Where policies provide for the payment of amounts of premiums on specific due dates, such premiums are recognised as revenue when due. Unpaid premiums are recognised as revenue only during the days of grace or where secured by the surrender values of the policies concerned. Other premiums are recognised as revenue on a cash received basis.

(ii) Life investment contracts

Under life investment contracts the Group receive deposits from policyholders which are then invested on behalf of the policyholders. No premiums are recognised as revenue. Fees deducted from policyholders' accounts are accounted for as fee revenue.

(B) INVESTMENT REVENUE

Investment revenue is recognised as follows:

(i) Dividends and distributions

Revenue is recognised on an accrual basis when the right to receive payment is established.

(ii) Property income

Property income is recognised on an accrual basis.

(iii) Interest income

Interest income is recognised using the effective interest method.

(iv) Fair value gains and losses

Fair value gains and losses on financial assets at fair value through profit or loss are recognised through the Statement of Comprehensive Income in the period in which they arise.

(C) CLAIMS EXPENSE

(i) Life insurance contracts

Claims are recognised when the liability to a policyholder under a life insurance contract has been established or upon notification of the insured event. Claims are separated into their expense and withdrawal components. Claims on risk business are treated as an expense and are recognised when a liability to the policyholder is established.

(ii) Life investment contracts

There is no claims expense in respect of investment contracts. Surrenders and withdrawals which relate to life investment contracts are treated as a movement in life investment contract liabilities. Other claim amounts are similar to withdrawals and as such do not relate to the provision of services or the bearing of risk. Accordingly, they are not expenses and are treated as movements in life insurance contract liabilities.

(D) BASIS OF EXPENSE APPORTIONMENT

All operating expenses in respect of life insurance or life investment contracts have been apportioned between policy acquisition, policy maintenance and investment management expenses with regard to the objective when incurring the expense and the outcome achieved.

The apportionment process is adopted by applying the following methodology:

(i) Expenses that can be directly identifiable and attributable to a particular class of business are not apportioned.

(ii) Investment expenses are apportioned to the classes of business on the mean balance of assets under management.

(iii) Other expenses that cannot be allocated to a particular class of business are apportioned to classes of business based on appropriate cost drivers including premiums, mean balance of assets under management, average number of policies in-force and time and activity based allocations.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 September 2015

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(E) OUTWARDS REINSURANCE

Premiums ceded to reinsurers under reinsurance contracts are recorded as an outwards reinsurance expense and are recognised over the period of indemnity of the reinsurance contract.

(F) REINSURANCE RECOVERIES

Reinsurance recoveries are recognised as revenue. Amounts recoverable are assessed in accordance with the terms of the reinsurance contracts, which is in a manner similar to the assessment of outstanding claims. Recoveries are measured as the present value of the expected future receipts, calculated on the same basis as the provision for outstanding claims.

(G) FINANCING COSTS

Financing costs include interest on external debt (borrowing costs), and amortisation of transaction costs and are recognised on an effective interest method basis.

(H) TAXATION

(i) 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 period. It is calculated using tax rates and tax laws that have been enacted or substantively enacted by reporting date. Current tax for current and prior periods is recognised as a liability (or asset) to the extent that it is unpaid (or refundable).

(ii) Deferred tax

Deferred tax is accounted for using the comprehensive Balance Sheet liability 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 assets and liabilities are recognised for temporary differences at the tax rates expected to apply when the assets are recovered or liabilities settled, based on the tax rates enacted or substantively enacted for each jurisdiction. Deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences or unused tax losses can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of the other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Current and deferred tax balances attributable to amounts recognised directly in equity are also recognised directly in equity.

(iii) Income tax expense

The income tax expense is the tax payable on taxable income for the current period, based on the income tax rate for each jurisdiction and adjusted for changes in deferred tax assets and liabilities attributable to temporary differences and unused tax losses.

(iv) Life Insurance tax

From 1 July 2010, life insurers have been subject to a new tax regime. Two tax bases are maintained; the shareholder base which is subject to tax on life risk products (premiums less claims) and net investment income from shareholder funds, and the policyholder base which is subject to tax on net investment income from policyholder funds. The life insurer pays tax on both bases at the prevailing corporate tax rate of 28% (2014: 28%). As the life insurer is taxed as proxy for the policyholder, returns to policyholders are tax exempt.

(v) GST

All revenues, expenses and certain assets are recognised net of goods and services taxes (GST) except where the GST is not recoverable. In these circumstances the GST is included in the related asset or expense. Receivables and payables are reported inclusive of GST. The net GST payable or recoverable from the tax authorities as at balance date is included as a receivable or payable in the Statement of Financial Position.

Cash flows are included in the statements of cash flows on a net basis to the extent that the GST is not recoverable and has been included in the expense or asset.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 September 2015

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(I) FOREIGN CURRENCY

(i) Functional and presentation currencies

Items included in the financial statements of the Group are presented in the currency of the primary economic environment in which the entity operates. The Group's statements are presented in New Zealand dollars, which is the Group's presentational and functional currency. Unless otherwise stated all, amounts are and rounded off to the nearest thousand dollars.

(ii) Transactions and balances

Translation differences on non-monetary items such as financial assets held at fair value through profit or loss are reported as part of their fair value gain or loss.

Exchange differences arising on the settlement or retranslation of monetary items at year end exchange rates are recognised in the Statement of Comprehensive Income.

(J) CASH AND CASH EQUIVALENTS

Cash and cash equivalents includes cash on hand and deposits held at call with financial institutions, other short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and bank overdrafts. Bank overdrafts are shown within cash and cash equivalents in the Statement of Financial Position if the net position is an asset due to the Group's right to offset overdrafts within its banking facility.

(K) ASSETS BACKING INSURANCE BUSINESS

The Group has determined that all assets of the life insurance company are assets backing the policy liabilities of the life insurance business including life insurance contract liabilities and life investment contract liabilities.

These assets are managed under the Group's Risk Compliance Framework Policy on a fair value basis and are reported to the Board on this basis. They have been measured at fair value through profit or loss wherever the applicable standard allows.

Fair value is determined as follows:

- cash assets and bank overdrafts are carried at face value which approximates fair value;
- shares, fixed interest securities, options and units in trusts listed on stock exchanges are valued at the quoted bid price of the instrument at Balance Sheet date;
- unlisted fixed interest securities are recorded at amounts based on valuations using rates of interest equivalent to the yields obtainable on comparable traded investments at balance date;
- unlisted unit trusts are recorded at fund managers' quoted redemption prices; and,
- receivables are carried at amortised cost less any impairment, which is the approximately equal to fair value as they are settled within a short period.

(L) IMPAIRMENT OF NON FINANCIAL ASSETS

Assets that have an indefinite useful life are not subject to amortisation and are tested bi-annually for impairment. Assets with a finite useful life are subject to amortisation and reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell, and value in use.

For the purposes of assessing impairment assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units).

(M) BUSINESS ACQUISITIONS

Identifiable assets acquired and liabilities assumed in a business combination are measured at fair value at acquisition date with any excess of cost over the fair value of the net assets acquired recognised as goodwill on the Statement of Financial Position. If there is negative goodwill then this is recognised directly in the Statement of Comprehensive Income.

Identifiable assets acquired and liabilities assumed in business combinations are accounted for at carrying value at the date of acquisition. Any difference between the cost and carrying value of net assets is recognised in the business combinations under common control reserve in the Statement of Financial Position.

(N) FINANCIAL INSTRUMENTS

The Group classifies its financial assets in the following categories: at fair value through the Statement of Comprehensive Income and loans and receivables. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

All purchases and sales of financial assets classified at fair value through profit or loss that require delivery within the timeframe established by regulation or market convention ("regular way" purchases and sales) are recognised at trade date, which is the date the Group commits to purchase or sell the assets. Loans and receivables are recognised at settlement date, which is the date that the assets are delivered or received.

(i) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted on an active market. The Group's loans and receivables comprise trade and other receivables and cash and cash equivalents in the Statement of Financial Position. Loans and receivables are measured initially at fair value plus transactions costs and subsequently at amortised cost using the effective interest method less any impairment.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 September 2015

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(ii) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss comprise of financial assets that are either held for trading or designated on initial recognition at fair value through profit or loss. A financial asset is classified in this category if acquired principally for the purpose of selling in the short-term or if so designated by management. Designation by management takes place when it is necessary to eliminate or significantly reduce measurement or recognition inconsistencies or if related financial assets or liabilities are managed and evaluated on a fair value basis.

Financial assets at fair value through profit or loss are stated at fair value, with any resultant gain or loss recognised in the Statement of Comprehensive Income. The net gain or loss recognised in the Statement of Comprehensive Income includes any dividend or interest earned on the financial assets.

Derivatives are categorised as held for trading unless they are designated as hedges. All derivatives entered into by the Group are classified as held for trading as the Group does not apply hedge accounting.

(iii) Fair value

The fair value of the Group's financial assets and liabilities that are measured at fair value is determined based on available market prices or using appropriate valuation methods if these are not traded in an active market. Financial instruments carried at fair value are categorised into the three level fair value hierarchy based on significance of inputs used in the measurement. Level 1 includes inputs of quoted prices in active markets for identical assets or liabilities. Level 2 includes inputs other than quoted prices included within Level 1 that are observable for the assets or liabilities, either directly or indirectly. Level 3 includes inputs for the assets or liabilities that are not based on observable market data.

(iv) Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the Statement of Financial Position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously.

(v) Derecognition

Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership.

(O) POLICYHOLDER LOANS

Loans made to policyholders are recognised initially at fair value. The corresponding policy surrender value is held as collateral for the loans in case of non-payment and consequently the Group's exposure to bad debt risk is negligible. Interest is receivable on the loans at the applicable rates.

(P) IMPAIRMENT OF FINANCIAL ASSETS

Financial assets, with the exception of those measured at fair value through profit or loss, are assessed for indicators of impairment at each reporting date. Financial assets are impaired when there is objective evidence that the estimated future cash flows of the asset have been impacted as a result of one or more events that occurred after the initial recognition of the financial asset.

For financial assets carried at amortised cost, the amount of the impairment is the difference between the assets' carrying amount and the present value of the estimated future cash flows, discounted at the original effective interest rate.

For all financial assets, other than trade receivables, the carrying amount is reduced by the impairment loss directly. For trade receivables the carrying amount is reduced via an allowance account, against which an uncollectible trade receivable is written off.

A trade receivable is deemed to be uncollectible upon notification of insolvency of the debtor or upon receipt of similar evidence that the Group will be unable to collect the amount. Changes in the carrying amount of the allowance account are recognised in the Statement of Comprehensive Income.

A previously recognised impairment loss is reversed when, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment loss was initially recognised.

In respect of financial assets carried at amortised cost, with the exception of trade receivables, the impairment loss is reversed through the Statement of Comprehensive Income to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised. Subsequent recoveries of trade receivables previously written off are credited against the allowance account.

(Q) PAYABLES

These amounts represent liabilities for goods and services provided to the Group prior to the end of the financial year which are unsettled. Payables are recognised initially at fair value net of transaction costs and subsequently measured at amortised cost using the effective interest method.

(R) PROVISIONS

Provisions are only recognised when the Group has a present legal or constructive obligation as a result of a past event or decision, and it is more likely than not that an outflow of resources will be required to settle the obligation. Provisions are recognised at the best estimate of future cash flows discounted to present value where the effect is material.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 September 2015

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(S) **EMPLOYEE ENTITLEMENTS**

Provision is made for employee entitlements for services rendered up to the balance date. This includes salaries, wages, bonuses, annual leave and long service leave, but excludes share-based payments. Liabilities arising in respect of employee entitlements expected to be settled within 12 months of the reporting date are measured at their nominal amounts.

(T) **DERIVATIVES**

Derivatives embedded in other financial instruments or other host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of host contracts and the host contracts are not measured at fair value with changes in fair value recognised in the Statement of Comprehensive Income. A separate instrument with the same terms as the embedded derivative would meet the definition of a derivative.

(U) **LIFE INSURANCE LIABILITIES**

The Group's life insurance liabilities are split between life insurance contracts and life investment contracts. Life insurance contracts are accounted for in accordance with the requirements of NZ IFRS 4 Insurance Contracts. Life investment contracts are accounted for in accordance with NZ IAS 18 Revenue and NZ IAS 39 Financial Instruments: Recognition and Measurement.

Life insurance contracts are those contracts that transfer significant insurance risk. Life investment contracts are those contracts with no insurance risk, but which give rise to a financial asset and/or liability under NZ IAS 39. Contracts that contain a discretionary participating feature are also classified as life insurance contracts.

(i) Life investment contract liabilities

These contracts are designated at inception as at fair value through profit or loss and subsequently measured at fair value with any change in value being recognised in the Statement of Comprehensive Income. Fair value is the current value of units plus investment fluctuation reserves subject to a minimum of current surrender value.

The Group designates these investment contracts to be measured at fair value through profit or loss because it eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets and liabilities or recognising gains or losses on different basis.

(ii) 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 Margin on Services.

Life insurance contract liabilities are determined using either the projection method or accumulation method as referred to in note 14. Under the projection method the policy liability is calculated as the net present value of these projected cash flows using best estimate assumptions about the future. When the benefits under the life insurance contract liability are linked to the assets backing it, the discount rate applied is based on the expected future earnings rate on those assets. Where the benefits are not linked to the performance of the backing assets, a risk free discount rate is used. The risk free discount rate is determined by the Appointed Actuary based on the zero coupon swap rates, depending on the nature, structure and term of the contract liabilities.

The assumptions used in the calculation of the policy liabilities are reviewed at each reporting date.

(V) **CASH FLOWS**

The statements of cash flows present the net cash flows for financial assets. Foundation Life (NZ) Limited Group considers that knowledge of gross receipts and payments is not essential to understanding the activities of the Group and it is considered acceptable to report only the net cash flows for these items. This is based on the fact that either the turnover of these items is quick, the amounts are large, and the maturities are short or the value of the sales are immaterial.

(W) **CONTRIBUTED EQUITY**

Ordinary shares issued by the Group are classified as equity and are recognised at fair value less direct issue costs.

(X) **LEASES**

Payments made under operating leases, where the lessor substantially retains the risks and rewards of ownership, are recognised in the statement of comprehensive income in a systematic manner over the term of the lease.

(Y) **COMPARATIVES**

Comparative information have been changed/ re-arranged, where necessary, for the purpose of comparison and to align with the current year presentation.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 September 2015

2. CRITICAL ACCOUNTING JUDGEMENTS AND ESTIMATES

The Group makes estimates and assumptions in respect of certain key assets and liabilities. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The key areas where critical accounting estimates are applied are noted below.

(A) POLICY LIABILITIES

Policy liabilities for life insurance contracts are computed using statistical or mathematical methods, which are expected to give approximately the same results as if an individual liability was calculated for each contract. The 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 life insurance business written. Deferred policy acquisition costs are connected with the measurement basis of life insurance 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 these insurance contracts;
- mortality and morbidity experience on life insurance products, including enhancements to policyholder benefits;
- discontinuance experience; and
- the amounts credited to policyholders' accounts compared to the returns on invested assets through asset-liability management and strategic and tactical asset allocation.

In addition, factors such as regulation, competition, interest rates, taxes, securities market conditions and general economic conditions affect the level of these liabilities. In some contracts, the Company shares experience on mortality, morbidity, persistency and investment results with its customers, which can offset the impact of these factors on profitability from those products. Details of specific actuarial policies and methods are set out in note 14.

(B) TAXATION

Deferred tax assets are recognised for all unused tax losses to the extent it is probable that taxable profits will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised based on the likely timing and quantum of future taxable profits, together with future tax planning strategies.

3. IMPACT OF AMENDMENTS TO NZ IFRS

(A) Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Group.

The following standards, amendments and interpretations to existing standards have been published and are mandatory for the Group's accounting periods beginning after 1 October 2015 or later periods, and the Group has not early adopted them. The Group expects to adopt the following new standards on 1 October after the effective date.

- NZ IFRS 9, 'Financial instruments'. NZ IFRS 9 introduces changes to the classification, measurement and recognition of financial instruments which are expected to affect certain amounts recognised in the Group's financial statements. A detailed analysis of the impact is yet to be performed as the amendments are not effective until the 30 September 2019 financial statements.

(B) Standards, amendments and interpretations to existing standards effective 2015 or early adopted by the Group.

The Group has adopted the following new and amended IFRS's as of 1 October 2014:

- Amendment to NZ IAS 32: Financial Instruments: Presentation on asset and liability offsetting.
- Amendment to NZ IAS 36: Impairment of assets on recoverable amount disclosures.
- Amendment to NZ IAS 39: Financial Instruments: Recognition and measurement on novation of derivatives.
- 2012 and 2013 Annual improvements to Standards.

The above amendments have not had a material impact on the financial statements.

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 September 2015

4. PREMIUM REVENUE

	2015 \$000	2014 \$000
Life insurance premiums	8,470	9,035
Life investment premiums	132	180
Total life premiums	8,602	9,215
Less: Deposits recognised as an increase in policy liabilities	(134)	(172)
Life Insurance contract premiums recognised as revenue	8,468	9,043
Less: Reinsurance expense	(27)	103
Total net premium revenue	8,441	9,146

5. INVESTMENT REVENUE

	2015 \$000	2014 \$000
Fixed interest securities⁽¹⁾		
Interest income	23,877	22,388
Net realised gain / (loss)	5,949	(834)
Net unrealised gain	14,960	5,926
	44,786	27,480
Equity securities⁽¹⁾		
Dividend income	367	1,681
Net realised gain	13,545	4,008
Net unrealised (loss) / gain	(5,446)	6,886
	8,466	12,575
Property securities⁽¹⁾		
Property income	979	1,042
Net realised gain	2,486	2,567
Net unrealised gain	3,482	1,088
	6,947	4,697
Other⁽²⁾		
Other interest income	4,224	12,210
Net realised gain	59,557	1,006
Net unrealised (loss) / gain	(21,669)	8,720
	42,112	21,936
Total investment revenue		
Interest, dividend and property income	29,447	37,321
Total net realised gain	81,537	6,747
Net unrealised (loss) / gain	(8,673)	22,620
	102,311	66,688

⁽¹⁾ The income and loss in these categories has been generated by financial assets designated on initial recognition at fair value through profit or loss.

⁽²⁾ Other investment gains have been generated by derivative financial assets and financial liabilities classified as held for trading at fair value through profit or loss.

2014 Investment Revenue has been reclassified to categorise items consistent with 2015.

FOUNDATION LIFE (NZ) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 September 2015

6. CLAIMS EXPENSE

	2015 \$000	2014 \$000
Life insurance claims	39,659	43,360
Life investment contract payments	4,548	5,406
Total life claims and payments	44,207	48,766
Less: Withdrawals recognised as a decrease in policy liabilities	(4,740)	(5,605)
Life insurance claims recognised as expense	39,467	43,161
Less: Reinsurance recoveries revenue	(316)	185
Total net claims expense	39,151	43,346

7. MOVEMENT IN POLICY LIABILITIES

	2015 \$000	2014 \$000
Increase in life insurance contract liabilities	34,786	5,344
Increase in life investment contract liabilities	742	1,878
Increase in policy liabilities	35,528	7,222

8. MANAGEMENT AND SALES EXPENSES

	2015 \$000	2014 \$000
Life insurance contracts		
Policy maintenance expenses:		
Commission	329	421
Other maintenance expenses	4,614	3,018
Policy maintenance expenses	4,943	3,439
Investment management expenses	2,552	2,362
Total life insurance expenses	7,495	5,801
Life investment contracts		
Policy maintenance expenses:		
Commission	19	26
Other maintenance expenses	103	147
Total life investment expenses	122	173
Other non-life expenses	112	87
Total management and sales expenses	7,729	6,061

Audit, review and other assurance services fees for the year were \$113,000 (2014: \$45,000).

FOUNDATION LIFE (NZ) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 September 2015

9. TAXATION

	2015 \$000	2014 \$000
(A) CURRENT TAX EXPENSE		
Analysis of taxation expense		
Current taxation	20,580	8,757
Deferred taxation	2,934	4,811
Over provided in prior years	(58)	-
Income tax expense for the year from continued operations	23,456	13,568
Income tax expense attributed to policyholders	22,831	13,394
Income tax expense attributed to shareholders	625	174
	23,456	13,568
The tax expense recognised can be reconciled to the accounting profit as follow s:		
Profit before taxation	28,344	19,205
Income tax at the current rate of 28 cents	7,936	5,377
Taxation effect of non-deductible expenses/non assessable revenue:		
Life insurance companies permanent differences	18,652	11,545
Prior period adjustment	(58)	-
Non taxable Policyholder Australasian equity gains	(961)	(874)
Non deductible income from PIEs	(3,614)	(4,167)
Benefit of imputation credits received	(165)	(370)
Utilisation of tax losses	3,387	3,072
Other	(1,721)	(1,015)
Income Tax expense	23,456	13,568

The Group taxation expense includes tax on shareholder profits and on returns attributed to policyholders.

FOUNDATION LIFE (NZ) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 September 2015

9. TAXATION (CONTINUED)

(B) DEFERRED TAX ASSETS AND LIABILITIES

	Opening balance at 1 October	Prior period adjustment	(Charged)/ credited to statement of Comprehensive Income	Reclassification to current tax	Closing balance at 30 September
	\$000	\$000	\$000	\$000	\$000
2015					
Movements in deferred taxation assets					
Tax losses	4,897	-	(3,387)	-	1,510
Unrealised losses	72	(5)	435	-	502
Total deferred tax assets	4,969	(5)	(2,952)	-	2,012
Movements in deferred taxation liabilities					
Other	58	(65)	(18)	-	(25)
Total deferred taxation liabilities	58	(65)	(18)	-	(25)
Net deferred tax	4,911	60	(2,934)	-	2,037
2014					
Movements in deferred taxation assets					
Tax Losses	14,266	-	(3,072)	(6,297)	4,897
Unrealised losses	1,837	-	(1,765)	-	72
Total deferred tax assets	16,103	-	(4,837)	(6,297)	4,969
Movements in deferred taxation liabilities					
Other	84	-	(26)	-	58
Total deferred taxation liabilities	84	-	(26)	-	58
Net deferred tax	16,019	-	(4,811)	(6,297)	4,911

	2015 \$000	2014 \$000
Net deferred tax		
Expected to crystallise in the next 12 months	2,037	3,083
Not expected to crystallise in the next 12 months	-	1,828
	2,037	4,911

(C) IMPUTATION CREDIT ACCOUNT

The imputations credits available to carry forward and utilise in future periods is \$486,112 (2014: nil). On 29 August 2014, Foundation Life (NZ) Limited exited the TOWER consolidated tax group as a result of the sale of the ordinary shares to Foundation Life (NZ) Holdings Limited.

FOUNDATION LIFE (NZ) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 September 2015

10. RECEIVABLES

	2015 \$000	2014 \$000
Reinsurance receivable	106	1,432
Outstanding premiums and trade receivables	19,305	21,067
Unsettled investment sales	2,252	15,018
Prepayments	350	327
Other	29	251
Total receivables - current	22,042	38,095

11. PAYABLES

	2015 \$000	2014 \$000
Reinsurance payables	-	433
Other payables	3,251	2,679
Unsettled investment transactions	17,017	15,185
Total payables - current	20,268	18,297
Analysed as:		
Current	20,268	18,714
	20,268	18,714

2014 Payables have been reclassified to categorise items consistent with 2015

12. INSURANCE LIABILITIES

	2015 \$000	2014 \$000
Outstanding claims – life	7,809	6,458
	7,809	6,458

FOUNDATION LIFE (NZ) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 September 2015

13. CONTRIBUTED EQUITY

	2015	2014
	\$000	\$000
Ordinary share capital		
Fully paid	10,000	10,000
	10,000	10,000
Represented by:	Number of shares	Number of shares
	000s	000s
Ordinary Shares	10,000	10,000
	10,000	10,000

On 29 August 2014, Foundation Life (NZ) Holdings Limited acquired 100% of the ordinary shares in Foundation Life (NZ) Limited from TOWER Insurance Limited.

All shares rank equally with one vote attached to each share. Ordinary shares have no par value.

FOUNDATION LIFE (NZ) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 September 2015

14. LIFE INSURANCE BUSINESS

(A) POLICY LIABILITIES

	2015 \$000	2014 \$000
Life insurance contract liabilities		
<i>Value of policy liabilities – Projection Method</i>		
Future policy benefits	568,550	546,805
Future bonuses	121,527	113,876
Future expenses	39,374	36,352
Future profit margins	26,279	28,866
Future premiums	(93,909)	(95,320)
	661,821	630,579
<i>Value of policy liabilities – Accumulation Method</i>		
Future policy benefits	643	828
Unvested policy benefits	38,215	34,675
Net policy liabilities - life insurance contracts	700,679	666,082
Reconciliation of movements in life insurance contract policy liabilities		
Gross life insurance liabilities at 1 October	666,082	660,945
Increase in life insurance contract liabilities recognised in the Statement of Comprehensive Income	34,786	5,344
Deposits recognised as an increase in policy liabilities	3	7
Withdrawals recognised as a decrease in policy liabilities	(192)	(214)
Gross life insurance liabilities at 30 September	700,679	666,082
Life investment contract liabilities		
<i>Value of policy liabilities – Accumulation Method</i>		
Future policy benefits	16,566	20,240
Gross policy liabilities - life investment contracts	16,566	20,240
Reconciliation of movements in investment contract policy liabilities		
Gross life investment contract liabilities at 1 October	20,240	23,589
Change in Unit Linked Pricing	-	-
Increase in life investment contract liabilities recognised in the Statement of Comprehensive Income	742	1,878
Deposits recognised as an increase in policy liabilities	132	181
Withdrawals recognised as a decrease in policy liabilities	(4,548)	(5,408)
Gross life investment contract liabilities at 30 September	16,566	20,240
Total gross policy liabilities	717,245	686,322
Gross policy liabilities analysed as:		
Current	17,455	13,640
Non current	699,790	672,682
	717,245	686,322

FOUNDATION LIFE (NZ) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 September 2015

14. LIFE INSURANCE BUSINESS (CONTINUED)

The Company has designated life investment contract liabilities at fair value through profit or loss. The impact on the fair value of these liabilities resulting from changes in credit risk recognised during the year is nil (2014: nil), except where the fair value of investment assets backing these liabilities is impacted by changes in credit risk. Any such impact on the investment assets is reflected in the movement in the fair value of these contracts.

(B) ANALYSIS OF LIFE INSURANCE AND LIFE INVESTMENT CONTRACT RESULTS

	2015 \$000	2014 \$000
Life insurance contracts		
Planned profit margins	1,314	1,529
Experience profit	534	2,498
Investment earnings on assets in excess of policy liabilities of life companies	2,855	1,459
Profit after tax attributable to shareholders arising from life insurance contracts	4,703	5,486
Life investment contracts		
Planned profit margins	148	258
Experience profit/(loss)	37	(107)
Profit after tax attributable to shareholders arising from life investment contracts	185	151

All profit after tax arising from life insurance and life investment contracts is attributed to the shareholders.

(C) SOLVENCY REQUIREMENTS OF LIFE FUNDS

The minimum solvency capital required to be retained to meet solvency requirements under the Insurance (Prudential Supervision) Act 2010 are shown below. The actual solvency capital exceeds the minimum requirements by \$26,875 million.

	2015 \$000	2014 \$000
Actual solvency capital	32,965	33,865
Minimum solvency capital	6,090	9,355
Solvency margin	26,875	24,510

On 26 August 2013 the Reserve Bank of New Zealand imposed a condition of license requirements for TOWER Life (N.Z) Limited (now named Foundation Life (NZ) Limited) to maintain a minimum solvency margin of \$15 million.

The methodology and bases for determining the Solvency Margin are in accordance with the requirements of the Solvency Standard for Life Insurance Business published by the Reserve Bank of New Zealand.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 September 2015

14. LIFE INSURANCE BUSINESS (CONTINUED)

(D) SUMMARY OF SIGNIFICANT ACTUARIAL METHODS AND ASSUMPTIONS – LIFE INSURANCE

The effective date of the policy liabilities and solvency reserves calculation is 30 September 2015. The Appointed Actuary, Charles Hett, FNZSA, FIA, Head of Actuarial Services, Deloitte, has calculated policy liabilities for the Company. The actuary is satisfied as to the accuracy of the data from which the policy liabilities have been determined.

This note summarises the assumptions made and the methods adopted for the calculation of policy liabilities and solvency requirements.

(a) Policy liabilities

Policy liabilities for the Company have been determined in accordance with Professional Standard No.20 "Determination of Life Insurance Policy Liabilities" issued by the New Zealand Society of Actuaries. This standard requires that policy liabilities be calculated on the basis of best estimate assumptions and in a way that allows for the release of planned margins as services are provided to policyholders.

Valuation of policy liabilities

Policy liabilities comprise the amount required to pay the expected future benefits and expenses after receiving expected future premiums and investment earnings.

The value of policy liabilities may also include a component for profit margins on existing business that will be earned as services are provided to policy owners over the time the relevant policies are held with the Company.

Methods used to value policy liabilities

(i) Projection method

The projection method uses expected cash flows (premiums, investment income, redemptions or benefit payments, expenses) plus profit margins to be released in future periods, to establish the value of policy liabilities. The value of expected future premiums is deducted from the value of expected benefit and expense payments to arrive at the obligation to policy owners.

(ii) Accumulation method

The accumulation method is only used if the results are not materially different from the projection method. Under the accumulation method for risk policies the policy liability is the sum of the unearned premiums, outstanding claims plus an allowance for claims incurred but not yet reported. For investment policies, the policy liability is determined as the policy account balance including accrued interest to the balance date, plus investment fluctuation reserves subject to a minimum of the current surrender value.

Methods used

Where the policy liability is determined by the projection method, actuarial standards require profit to be related to one or more financially measurable indicators of the provision of service (or related income) called 'profit carriers'. The profit carriers adopted for the major product groups are shown in the table below:

MAJOR PRODUCT GROUPS	METHOD	PROFIT CARRIERS (for business valued using projection method)
Traditional participating	Projection	Cost of supportable bonus
Traditional non-participating, renewal and level term and mortgage repayment insurance	Projection	Expected death claims
Annuities	Projection	Expected annuity payments
Individual lump sum life insurance risk (life, temporary and permanent disability and trauma) and disability income protection insurance	Projection	Expected claims
Non-participating investment account	Accumulation	
Investment Linked	Accumulation	

FOUNDATION LIFE (NZ) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 September 2015

14. LIFE INSURANCE BUSINESS (CONTINUED)

(b) Disclosure of assumptions

The following table summarises the key assumptions used in the calculation of policy liabilities, together with notes on any significant changes in the assumptions:

REQUIRED ASSUMPTION	BASIS OF ASSUMPTION (By product Group)	SIGNIFICANT CHANGES
Discount rates for participating business	As the value of benefits is contractually linked to the performance of assets, a discount rate based on the market return on the asset backing policy liabilities is used. The discount rate assumed in calculating policyholder liabilities was derived from the expected long term average rates of return for the assets pool backing this business, based on the benchmark asset mix. Discount rates assumed are net of taxation and investment expense.	The discount rates used are as follows: September 2015 2.7% September 2014 3.3%
Discount rates for non-participating life	Risk free discount rates have been adopted for life insurance contracts where the benefits are not contractually linked to the performance of backing asset pools. The risk free discount rates have been determined based on the swap rates, depending on the nature structure and term of the contract liabilities.	The discount rates used are as follows: September 2015 2.3% September 2014 3.1%
Inflation	Benefit indexation is before allowance for the proportion of policyholders who take up indexation.	Benefit Indexation: September 2015 2.0% September 2014 2.0%
Future expenses	Future maintenance expenses have been set based on experience analyses conducted by the various companies as well as the actuaries' expectations of future expense levels. Future investment expenses have been assumed to be at the same percentage of assets under management as currently applies.	Sept 2015: Traditional Participating \$81 Traditional non-participating \$81 Annuities \$81 Sept 2014: Traditional Participating \$73 Traditional non-participating \$73 Annuities \$73
Rates of taxation	Rates of taxation have been assumed to remain at current levels.	None
Mortality – risk products	Standard mortality tables, primarily NZ97 in New Zealand. These are adjusted for company experience.	None
Mortality – annuities	Standard mortality tables (New Zealand use PML80C10) adjusted for company experience.	None
Disability – lump sum	Based upon recent company and reinsurer experience adjusting for different product definitions. Some wholesale schemes use specific company experience.	None
Disability income	Standard morbidity tables (IAD89-93) adjusted for company experience. Specific company experience is used for certain wholesale schemes.	None
Discontinuances	Discontinuance rates have been assumed to be consistent with the experience of recent years. Assumed discontinuance rates vary by sub-grouping within a class and vary according to the length of time tranches of business have been in-force and other relevant factors.	None

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 September 2015

14. LIFE INSURANCE BUSINESS (CONTINUED)

Surrender values	Surrender values are based on current practice.	None
Rates of future supportable participating benefits	Assumed future supportable bonus rates included in policyholder liabilities were set such that the present value of policyholder liabilities, allowing for the shareholders' right to participate in distributions, equals the value of assets supporting the business. Distributions are split between policyholders and shareholders with the valuation allowing for shareholders to share in distributions. The rate of shareholder participation assumed is generally at the maximum allowable of 25% of the value of bonuses distributed to participating policyholders subject to Additional policy bonuses will emerge from the assets representing policyholders' unvested benefits.	None None None

Effect of changes in actuarial assumptions during the reporting period

The liabilities for life insurance contracts include the value of future profit margins that are to be released over future reporting periods. The impact of assumption changes on non participating business are absorbed by the future profit margins, provided sufficient future margins exist, such that there is no change in the contract liability in the current period.

For participating business, the impact of assumption changes is absorbed by the value of future supportable bonus. The current period contract liability is impacted by the change in cost of current period supportable bonus.

The impact of the assumption changes in the current period on future profit margins in respect of life insurance contracts (excluding new business contracts which are measured using assumptions at the valuation date) are shown below.

Where the value of future profit margins are insufficient to absorb the assumption changes, the resulting losses are recognised in the current year via a change in the contract liability. These losses may be reversed in subsequent periods should experience improve.

The life insurance contract liability calculations include the use of published market yields, such as government bond and swap rates. The changes in these yields do not represent actuarial assumption changes and they impact both life insurance contract liabilities and asset values as at the balance date.

The impact of assumption changes for life insurance contracts made during the year is shown below.

	Change in future shareholder profit margins \$000	Change in next financial year's shareholder planned profit \$000	Change in current period contract liability \$000	Change in current period shareholder profit \$000
2015				
Assumption change				
Mortality and morbidity	-	-	-	-
Discontinuances	-	-	-	-
Expenses	168	21	(100)	20
2014				
Assumption change				
Mortality and morbidity	-	-	-	-
Expenses	(1,856)	(361)	401	(441)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 September 2015

14. LIFE INSURANCE BUSINESS (CONTINUED)

(c) Sensitivity analysis

Sensitivity analysis is conducted to quantify the exposure to risk of change in the key underlying variables.

<u>Variable</u>	<u>Impact of movement in underlying variable</u>
Expense risk	An increase in the level or inflationary growth of expenses over assumed levels will decrease profit and shareholder equity.
Interest rate risk	Depending on the profile of the investment portfolio, the investment income of the Company will decrease as interest rates decrease. This may be offset to an extent by changes in the market value of fixed interest investments. The impact on profit and shareholder equity depends on the relative profiles of assets and liabilities, to the extent that these are not matched.
Mortality rates	For insurance contracts providing death benefits, greater mortality rates would lead to higher levels of claims, increasing associated claims costs and therefore reducing profit and shareholder equity.
Morbidity rates	The cost of health-related claims depends on both the incidence of policyholders becoming temporarily or totally and permanently disabled and, in the case of temporary disablement, the duration which they remain temporarily disabled. Higher than expected incidence and duration would increase claim costs, reducing profit and shareholder equity.
Discontinuance	The impact of the discontinuance rate assumption depends on a range of factors including the type of contract, the surrender value basis (where applicable) and the duration in force. For example, an increase in discontinuance rates at earlier durations of life insurance contracts usually has a negative effect on profit and shareholder equity. However, due to the interplay between the factors, there is not always an adverse outcome from an increase in discontinuance rates.
Market risk	For benefits which are not contractually linked to the underlying assets, the Company is exposed to market risk.

The valuations included in the reported results are calculated using certain assumptions about these variable as disclosed above. The movement in any key variable will impact the performance and equity of the Company. The table below describes how the change in each assumption will affect the insurance liabilities and show an analysis of the sensitivity of the profit or loss and equity net of reinsurance to changes in assumptions.

Variable	Change in following financial year's shareholder profit and equity net of reinsurance			
	2015		2014	
	+ 10% \$000	- 10% \$000	+ 10% \$000	- 10% \$000
Mortality	(70)	70	(78)	78
Morbidity claims costs	-	-	-	-
Annuitant mortality	137	(137)	143	(143)
Lapses and surrenders	84	(84)	68	(68)
Renewal expenses	(48)	48	(47)	47

The impact from changes to interest rates has been reflected in note 16 (F).

(d) Life insurance risk

The life insurance business of the Company involves a number of non-financial risks concerned with the pricing, acceptance and management of the mortality, morbidity and longevity risks accepted from policyholders. Financial risks involving the Company are in note 16.

Key objectives in managing insurance risk are;

- (i) To ensure sound business practices are in place for underwriting risks and claims management;
- (ii) To achieve a target return on capital that is invested in order to take on insurance risk;
- (iii) To ensure solvency and capital requirements are met.

Insurance risks are controlled through the use of underwriting procedures and adequate premium rates and policy charges, all of which are approved by the Appointed Actuary. Tight controls are also maintained over claims management practices to ensure the correct and timely payment of insurance claims.

(i) Claim management procedures

Claims are managed through a claims team, with appropriate training and development of staff to ensure procedures are adhered to. Claims are managed to ensure timely and correct payment in accordance with policy conditions. Claims experience is reviewed regularly and appropriate actuarial reserves are established.

FOUNDATION LIFE (NZ) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 September 2015

14. LIFE INSURANCE BUSINESS (CONTINUED)

(ii) Terms and conditions of life insurance contracts

The nature of the terms of the insurance contracts written by the Company is such that certain external variables can be identified on which related cash flows for claim payments depend. The tables below provide an overview of the key variables upon which the amount of related cash flows are dependent.

Type of contract	Details of contract workings	Nature of compensation for claims	Key variables affecting future cash flows
Non-participating life insurance contracts with fixed and guaranteed terms (Term Life and Disability including renewable term)	Guaranteed benefits paid on death, permanent and temporary disablement or maturity that are fixed and guaranteed and not at the discretion of the issuer.	Benefits, defined by the insurance contract are determined by the contract and not directly affected by the performance of underlying assets or the performance of the contracts as whole.	Mortality, morbidity, lapses, expenses and market earnings on assets backing the liabilities
Life annuity contracts	These policies provide a guaranteed regular income for the life of the insured in return for an initial single premium.	The amount of the guaranteed regular income is set at inception of the policy including any indexation.	Longevity, benefit inflation, expenses and market earnings on assets backing the liabilities
Traditional life insurance contracts with discretionary participating benefits (endowment and whole of life)	These policies include a defined initial guaranteed sum assured that is payable on death. The guarantee amount is increased throughout the duration of the policy by the addition of bonuses annually that once added are not removed. An additional (terminal) bonus is payable on claims paid as a result of death or maturity. Terminal bonus amounts are not guaranteed.	Benefits arising from the discretionary participation feature are based on the performance of a specified pool of contracts or a specified type of contract. Operating profit arising from these contracts is allocated between the policyholders and shareholders. The amount allocated to policyholders is held as an unvested policy liability until it is distributed to policyholders via bonuses.	Mortality, morbidity, lapses, expenses and market earnings on assets backing the liabilities
Investment account contracts with discretionary participating features	The gross value of the premiums received is invested in the investment account with fees and premiums for any associated insurance cover being deducted from the account balance. Interest is credited regularly.	The payment of the account balance is generally guaranteed, although it may be subject to certain penalties on early termination. On certain contracts withdrawals can be deferred over limited time periods.	Fees, lapses, expenses and market earnings on assets backing the liabilities

(e) Concentration of insurance risk

The Company aims to maintain a portfolio of policyholders with a broad spread of insurance risk types, ages, sexes, occupation classes and geographical locations for the individual business.

(f) Liquidity risk and future net cash outflows

The table below shows the estimated timing of future cash outflows resulting from life insurance contract liabilities. This includes estimated future claims offset by expected future premiums and reinsurance recoveries. All values are discounted to the valuation date.

	Total \$000	Less than one year \$000	One to two years \$000	Two to three years \$000	Three to five years \$000	Over five years \$000
30 September 2015	674,410	31,546	30,142	29,181	54,549	528,992
30 September 2014	636,837	32,057	29,380	28,033	52,181	495,186

FOUNDATION LIFE (NZ) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 September 2015

15. FINANCIAL INSTRUMENTS CATEGORIES

The analysis of financial assets and liabilities into their categories and classes is set out in the following tables.

	Total	Loans and Receivables	Fair value through profit or loss	
			Designated	Held for trading
	\$000	\$000	\$000	\$000
As at 30 September 2015				
Financial assets				
Cash and cash equivalents	7,220	7,220	-	-
Reinsurance recoveries receivable	106	106	-	-
Outstanding premiums and trade receivables	19,305	19,305	-	-
Unsettled investments sale	2,252	2,252	-	-
Related party receivable	63	63	-	-
Other receivables	29	29	-	-
Loans on policy	3,381	3,381	-	-
Derivative financial assets	28,248	-	-	28,248
Investments in fixed interest securities	580,970	-	580,970	-
Investment in equity securities	95,764	-	95,764	-
Investments in property securities	51,582	-	51,582	-
Total financial assets	788,920	32,356	728,316	28,248
As at 30 September 2014				
Financial assets				
Cash and cash equivalents	11,376	11,376	-	-
Reinsurance recoveries receivable	1,432	1,432	-	-
Outstanding premiums and trade receivables	21,067	21,067	-	-
Unsettled investments sale	15,018	15,018	-	-
Related party receivable	-	-	-	-
Other receivables	155	155	-	-
Loans on policy	3,803	3,803	-	-
Derivative financial assets	55,771	-	-	55,771
Investment in equity securities	92,414	-	92,414	-
Investments in fixed interest securities	499,220	-	499,220	-
Investments in property securities	49,825	-	49,825	-
Total financial assets	750,081	52,851	641,459	55,771

FOUNDATION LIFE (NZ) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 September 2015

15. FINANCIAL INSTRUMENTS CATEGORIES (CONTINUED)

	Total	Financial Liabilities at Amortised Cost	Fair value through profit or loss	
			Designated	Held for trading
	\$000	\$000	\$000	\$000
As at 30 September 2015				
Financial liabilities				
Trade payables	3,209	3,209	-	-
Reinsurance payables	-	-	-	-
Unsettled investment purchases	17,017	17,017	-	-
Related party payables	-	-	-	-
Employee Provisions	89	89	-	-
Derivative financial liabilities	8	-	-	8
Life investment contract liabilities	16,566	-	16,566	-
Total financial instruments	36,889	20,315	16,566	8
As at 30 September 2014				
Financial liabilities				
Trade payables	2,651	2,651	-	-
Reinsurance payables	433	433	-	-
Unsettled investment purchases	15,184	15,184	-	-
Related party payables	13	13	-	-
Employee Provisions	93	93	-	-
Derivative financial liabilities	4,220	-	-	4,220
Life investment contract liabilities	20,240	-	20,240	-
Total financial instruments	42,835	18,375	20,240	4,220

16. RISK MANAGEMENT AND FINANCIAL INSTRUMENT INFORMATION

The financial condition and operating results of the Group are affected by a number of key risks. These risks include market risk, credit risk, financing and liquidity risk, insurance risk, compliance risk and operational risk. The Group's objectives and policies in respect of insurance risks are disclosed in note 14, while the managing of other risks is set out in the remainder of this note.

The Group's objective is to satisfactorily manage these risks in line with approved Risk and Compliance Framework policy. Various procedures are put in place to control and mitigate the risks faced the Group depending on the nature of the risk. The Chief Executive Officer is responsible for managing risks including operational and compliance risk. The Group's exposure to all high and critical risks is reviewed by the Chief Executive Officer and this exposure is reported quarterly to the Audit and Compliance Committee.

The Board has delegated to the Audit and Compliance Committee the responsibility to review the effectiveness and efficiency of management processes, risk management and internal financial controls and systems as part of their duties. The Chief Executive Officer operates in an oversight and advisory capacity and manages the risk and compliance framework.

The Board has responsibility for:

- reviewing investment policy for shareholder and policyholder funds;
- reviewing the risk management policy and statements in respect of investment management, including the derivative policy;
- considering the establishment, adjustment or deletion of limits and counter-party approvals, and the scope of financial instruments to be used in the management of the Group's investments;
- reviewing the appointment of external investment managers;
- monitoring investment and fund manager performance; and
- monitoring compliance with investment policies.

(A) MARKET RISK

Market risk is the risk of change in the fair value of financial instruments from fluctuations in the foreign exchange rates (currency risk), market interest rates (interest rate risk) and market prices (price risk), whether such change in price is caused by factors specific to an individual financial instrument or its issuer or factors affecting all financial instruments traded in a market.

The impact of reasonable possible changes in market risk on the Group shareholders' profit and equity is included in (F) below.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 September 2015

16. RISK MANAGEMENT AND FINANCIAL INSTRUMENT INFORMATION (CONTINUED)

(i) Currency risk

Currency risk is the risk of loss resulting from changes in exchange rates when applied to assets and liabilities or future transactions denominated in a currency that is not the Group's functional currency.

The Board sets limits for the management of currency risk arising from its investments based on prudent international asset management practice. Regular reviews are conducted to ensure that these limits are adhered to.

The Group enters into forward foreign exchange contracts in accordance with its investment policies as economic hedges of foreign currency exposure in investments in international equities through its holdings in international equities funds. The main foreign currencies exposure of the funds is to Australian and US dollars, Japanese Yen, Euro and British Pounds. The notional amounts and contractual cash flows of these derivatives are included in (E) below.

(ii) Interest rate risk

Interest rate risk is the risk that the value or future value cash flows of a financial instrument will fluctuate because of changes in interest rates.

The Board is responsible for the management of the interest rate risk arising from external borrowings. As at 30 September 2015 there were no interest rate swaps in place in relation to external borrowings (2014: nil). The Group manages interest rate risk arising from its interest bearing investments in accordance with the Board approved policies.

Life insurance

Interest rate risk and other market risks arise in life insurance to the extent that there is a mismatch between the policyholder liabilities and assets backing those liabilities. These mismatches could impact current period operating profits.

The primary areas of mismatch for the Group's life insurance business are:

- For non-participating life insurance contracts, the mismatch between risk free discount rates used in the policy liability calculations and the backing asset values.
- For a portion of the life investment contract business, the mismatch between the value of the financial instrument liabilities (including the discount rates used in their calculation, if applicable) and the backing asset values.

Interest rate and other market risks are managed by the Group through a strategic asset allocation policy and an investment management policy that has regard to policyholder expectations and risks and to target surplus solvency as advised by the Appointed Actuary.

(iii) Price risk

Price risk is the risk of loss resulting from the decline in prices of equity securities or other assets. The Group is exposed to price risk because of its investments in publicly traded equity securities and other unit trusts.

Price risk is managed by diversification of the investment portfolio, which is done in accordance with the limits set by investment mandates and monitored by the Board.

(B) CREDIT RISK

Credit risk is the risk of loss that arises from a counterparty failing to meet their contractual commitment in full and on time, or from losses arising from the change in value of a trading financial instrument as a result in changes in credit risk of that instrument.

The Group's exposure to credit risk is limited to deposits and investments held with banks and other financial institutions as well as credit exposure to trade customers or other counterparties. For banks and financial institutions the minimum credit rating accepted by the Group is 'A'. Independent ratings are used for customers that are rated by rating agencies. For customers with no external ratings, internally developed minimum credit quality requirements are applied, which take into account customers' financial position, past experience and other relevant factors. Overall exposure to credit risk is monitored on group basis in accordance with limits set by the Board.

(i) Credit risk concentration

Concentration of credit risk exists when the Group enters into contracts or financial instruments with a number of counterparties that are engaged in similar business activities or exposed to similar economic factors that might affect their ability to meet contractual obligations. Foundation Life (NZ) Limited manages concentration of credit risk by credit rating, industry type and individual counterparty.

FOUNDATION LIFE (NZ) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 September 2015

16. RISK MANAGEMENT AND FINANCIAL INSTRUMENT INFORMATION (CONTINUED)

The significant concentrations of credit risk are outlined by industry type below.

	Carrying value	
	2015	2014
	\$000	\$000
New Zealand government	176,473	25,654
Other government agencies	73,734	37,105
Banks	325,083	480,122
Financial institutions	5,384	5,516
Other receivables	25,072	26,041
Other industries	35,765	33,986
Related party receivables	63	-
Total financial assets with credit exposure	641,574	608,424

(ii) Maximum exposure to credit risk

The Group's maximum exposure to credit risk without taking account of any collateral or any other credit enhancements, is as follows:

	Carrying value	
	2015	2014
	\$000	\$000
Cash and cash equivalents	7,220	11,376
Reinsurance recoveries receivable	106	1,432
Outstanding premiums and trade receivables	8,668	9,591
Unsettled investments sale	2,252	15,018
Loans and receivables	2,444	2,691
Financial assets at fair value through profit or loss	580,970	499,940
Derivative financial assets	73,650	109,893
Interest receivable	11,602	12,605
Related party receivables	63	-
Total credit risk	686,975	662,546

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

The credit quality of financial assets that are neither past due nor impaired can be assessed by reference to external credit ratings (if applicable) or to historical information about counterparty default rates:

AAA	201,587	214,428
AA	454,860	373,470
Total counterparties with external credit rating by Standard and Poor's	656,447	587,898
Group 1	22,521	24,608
Group 1A	63	-
Group 2	-	-
Group 3	7,838	48,608
Total counterparties with no external credit rating	30,422	73,216
Total financial assets neither past due nor impaired with credit exposure	686,869	661,114

Group 1:	trade debtors outstanding for less than 6 months or secured
Group 1A:	related party receivable
Group 2:	trade debtors (more than 6 months) with some defaults in the past
Group 3:	unrated investments

(iv) Financial assets that would otherwise be past due whose terms have been renegotiated

None of the financial assets that are fully performing have been renegotiated during the year (2014: nil).

FOUNDATION LIFE (NZ) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 September 2015

16. RISK MANAGEMENT AND FINANCIAL INSTRUMENT INFORMATION (CONTINUED)

(v) *Financial assets that are past due but not impaired*

The Group considers that financial assets are past due if payments have not been received when contractually due. At the reporting date, the total of carrying value of past due but not impaired assets held by the Group is as follows:

Group	Past due but not impaired				Total \$000
	Less than 30 days \$000	30 to 60 days \$000	61 to 90 days \$000	Over 90 days \$000	
As at 30 September 2015					
Reinsurance recoveries receivable	-	-	-	106	106
Total	-	-	-	106	106
As at 30 September 2014					
Reinsurance recoveries receivable	-	-	-	1,432	1,432
Total	-	-	-	1,432	1,432

(vi) *Financial assets that are individually impaired*

There were no assets that were individually impaired (2014: nil).

For policies with a surrender or investment value, outstanding premiums are supported by the underlying assets invested. When outstanding premiums reach the value of the surrender or investment value, the assets are realised and offset against the outstanding debt. Policies with no surrender value are lapsed when outstanding premiums exceed a set value and the outstanding premiums are written off. The secured balance, which represents the surrender value, for the year ended 30 September 2015 is \$22,684,612 (2014: \$25,163,937).

(C) FINANCING AND LIQUIDITY RISK

Financing and liquidity risk is the risk that the Group will not be able to meet its cash outflows or refinance debt obligations, as they fall due, because of lack of liquid assets or access to funding on acceptable terms.

To mitigate financing and liquidity risk Foundation Life (NZ) Limited maintains sufficient liquid assets to ensure that the Group can meet its debt obligations and other cash outflows on a timely basis.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 September 2015

16. RISK MANAGEMENT AND FINANCIAL INSTRUMENT INFORMATION (CONTINUED)

(i) Financial liabilities and guarantees by contractual maturity

The table below summarises the Group's financial liabilities and guarantees into relevant maturity groups based on the remaining period at the balance date to the contractual maturity date. All amounts disclosed are contractual undiscounted cash flows that include interest payments and exclude the impact of netting agreements.

Group	Carrying value \$000	Total contractual cash flows \$000	Less than one year \$000	On demand \$000
As at 30 September 2015				
Financial liabilities and guarantees				
Trade Payables	3,209	3,209	3,209	-
Reinsurance payable	-	-	-	-
Unsettled investment purchases	17,017	17,017	17,017	-
Derivative financial liabilities	8	44,920	44,920	-
Life investment contract liabilities	16,566	16,566	-	16,566
Funds invested guarantee	286	286	-	286
Other payables	89	89	89	-
Total financial liabilities and guarantees	37,175	82,087	65,235	16,852
As at 30 September 2014				
Financial liabilities and guarantees				
Trade Payables	1,177	1,177	1,177	-
Reinsurance payable	433	433	433	-
Unsettled investment purchases	160	160	160	-
Derivative financial liabilities	4,220	55,889	55,889	-
Life investment contract liabilities	20,240	20,240	-	20,240
Funds invested guarantee	464	464	-	464
Related party payables	13	13	13	-
Other payables	16,499	16,499	16,499	-
Total financial liabilities and guarantees	43,206	94,875	74,171	20,704

⁽¹⁾ Please see note 16 (E) for total cash flows for forward foreign exchange contracts

(D) FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. Refer below for details of valuation methods used for each category of financial assets and liabilities.

The carrying amounts of all financial assets and liabilities reasonably approximate their fair values.

The following methods and assumptions were used by the Group in estimating the fair values of financial instruments.

(i) Cash and cash equivalents

The carrying amount of cash and cash equivalents reasonably approximates its fair value.

(ii) Financial assets at fair value through profit or loss and held for trading

The fair value of financial assets at fair value through profit or loss is determined by reference to their quoted price at the reporting date.

(iii) Loans and receivables and other financial liabilities held at amortised cost

Carrying values of loans and receivables, adjusted for impairment values, and carrying values of other financial liabilities held at amortised cost reasonably approximate their fair values.

(iv) Derivative financial liabilities

The fair value of derivative financial liabilities is determined by reference to the quoted market price of the underlying equity securities.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 September 2015

16. RISK MANAGEMENT AND FINANCIAL INSTRUMENT INFORMATION (CONTINUED)

Financial instruments that are measured in the Statement of Financial Position at fair value (excluding short term amounts held at a reasonable approximation of fair value), are categorised by the following fair value measurement hierarchy levels:

- Level 1 - Quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2 - Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices)
- Level 3 - Inputs for that asset or liability that are not based on observable market data (i.e. unobservable inputs)

The following tables present the Group's assets and liabilities categorised by fair value measurement hierarchy levels.

	Total \$000	Level 1 \$000	Level 2 \$000
As at 30 September 2015			
Assets			
Derivative financial assets	28,248	-	28,248
Investment in equity securities	95,764	-	95,764
Investments in fixed interest securities	580,970	-	580,970
Investments in property securities	51,582	-	51,582
Total financial assets	756,564	-	756,564
Liabilities			
Derivative financial liabilities	8	-	8
Life investment contract liabilities	16,566	-	16,566
Total financial liabilities	16,574	-	16,574
As at 30 September 2014			
Assets			
Derivative financial assets	55,771	-	55,771
Investment in equity securities	92,414	38,972	53,442
Investments in fixed interest securities	499,220	-	499,220
Investments in property securities	49,825	-	49,825
Total financial assets	697,230	38,972	658,258
Liabilities			
Derivative financial liabilities	4,220	-	4,220
Life investment contract liabilities	20,240	-	20,240
Total financial liabilities	24,460	-	24,460

There was no movement between financial instrument assets or liabilities classified as level 1 or level 2, of the fair value hierarchy during the year ended 30 September 2015 (2014: nil).

(a) Financial Instruments in Level 1:

The fair value of financial instruments traded in active markets is based on quoted market prices at the Balance Sheet date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the Group is the current bid price. These instruments are included in Level 1. Instruments included in Level 1 comprise equity securities classified as trading securities or available for sale.

(b) Financial Instruments in Level 2:

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in Level 2. If one or more of the significant inputs is not based on observable market data, the instrument is included in Level 3. Specific valuation techniques used to value financial instruments include:

- Quoted market prices or dealer quotes for similar instruments.
- The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows based on observable yield curves.
- Other techniques, such as discounted cash flow analysis, are used to determine fair value for remaining financial instruments.

(c) Financial Instruments in Level 3:

The Group does not hold any level 3 financial instrument assets or liabilities.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 September 2015

16. RISK MANAGEMENT AND FINANCIAL INSTRUMENT INFORMATION (CONTINUED)

(E) DERIVATIVE FINANCIAL INSTRUMENTS

The Group utilises derivative financial instruments to reduce investment risk. Specifically, derivatives are used to achieve cost effective short-term re-weightings of asset class, sector and security exposures and to hedge portfolios, as an economic hedge, when a market is subject to significant short-term risk.

Derivative financial instruments used by the Group include interest rate swaps and foreign exchange forward contracts. Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value. The fair values of interest rate swaps are calculated by discounting estimated future cash flows based on the terms and maturity of each contract using market interest rates. The average interest rate is based on the outstanding balances at the start of the financial year.

The table below details the notional principal amounts (amounts used to calculate payments made on swap contracts), fair values and remaining terms of interest rate swap contracts outstanding as at reporting date:

	Average contracted fixed		Notional principal amount		Fair value	
	2015	2014	2015	2014	2015	2014
	%	%	\$000	\$000	\$000	\$000
Less than 1 year	-	-	-	-	-	-
1 to 2 years	-	-	-	-	-	-
2 to 5 years	-	-	-	-	-	-
over 5 years	5.1%	7.7%	419,633	363,607	27,759	53,445
			419,633	363,607	27,759	53,445

Foreign exchange forward contracts are settled on a gross basis. All contracts mature within 12 months of the reporting date and their carrying values reasonably approximate undiscounted cash flows because the impact of discounting is not significant.

(F) SENSITIVITY ANALYSIS

The analysis below demonstrates the impact of changes in interest rates, exchange rates and equity prices on the Group's shareholder profit after tax and equity. The analysis is based on changes in economic conditions that are considered reasonably possible at the reporting date. The potential impact is assumed as at the reporting date.

(i) Interest rate

The impact of a 50 basis point change in New Zealand and international interest rates as at the reporting date on the Group's profit after tax and equity is included in the table below. The sensitivity analysis assumes changes in interest rates only. All other variables are held constant.

	2015		2014	
	Impact on		Impact on	
	Profit after tax	Equity	Profit after tax	Equity
	\$000	\$000	\$000	\$000
<i>Change in variables</i>				
+50 basis points	(1,084)	(1,084)	(1,593)	(1,593)
-50 basis points	1,131	1,131	1,649	1,649

This analysis assumes that the sensitivity applies to the closing market yields of fixed interest investments. A parallel shift in the yield curve is assumed.

The risks assumed and methods used for deriving sensitivity information and significant variables have been applied consistently over the reporting period included in the analysis.

The impact of changes in market interest rates presented here excludes insurance contract liabilities, which are also affected by the changes in market interest rates that determine the discount rates applicable to these contracts.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 September 2015

16. RISK MANAGEMENT AND FINANCIAL INSTRUMENT INFORMATION (CONTINUED)

The table below provides a sensitivity analysis in respect of changes in interest rates as applied to insurance contract liabilities. A combined effect is necessary to appreciate the sensitivity of the Group's profit to movements in interest rates.

	2015 Impact on		2014 Impact on	
	Profit after tax \$000	Equity \$000	Profit after tax \$000	Equity \$000
<i>Change in variables</i>				
<i>+50 basis points</i>	473	473	456	456
<i>-50 basis points</i>	(504)	(504)	(533)	(533)

Sensitivity to interest rates has been assessed by reference to internal investigations of the movement in insurance contract liabilities to movements in discount rates consistent with that used for internal management reporting.

(ii) Foreign currency

The table below demonstrates the impact of a 10% movement of currency rates against the New Zealand dollar on the profit after tax and equity. The analysis assumes changes in foreign currency rates only, with all other variables held constant. The potential impact on the profit and equity of the Group is due to the changes in fair value of currency sensitive monetary assets and liabilities as at the reporting date.

	2015 Impact on		2014 Impact on	
	Profit after tax \$000	Equity \$000	Profit after tax \$000	Equity \$000
<i>Change in variables</i>				
<i>10% appreciation of New Zealand dollar</i>	(6)	(6)	(8)	(8)
<i>10% depreciation of New Zealand dollar</i>	6	6	8	8

The dollar impact of the change in currency movements is determined by applying the sensitivity to the value of the unhedged international assets.

The risks assumed and methods used for deriving sensitivity information and significant variables have been applied consistently over the reporting period included in the analysis.

(iii) Equity price

Equity price risk is the risk that the fair value of equities will decrease as a result of changes in levels of equity indices and the value of individual stocks. The Group holds all of its equities at fair value through profit or loss.

The table below demonstrates the impact of a 10% movement in New Zealand equities on the profit after tax and equity. The potential impact is assumed as at the reporting date. The analysis below excludes investment linked business, which is disclosed in note 24. Investment linked business can be excluded because any asset movement will flow through to the policyholder.

	2015 Impact on		2014 Impact on	
	Profit after tax \$000	Equity \$000	Profit after tax \$000	Equity \$000
<i>Change in variables</i>				
<i>+10% in New Zealand equities</i>	63	63	44	44
<i>-10% in New Zealand equities</i>	(63)	(63)	(44)	(44)

The dollar impact of the change in New Zealand equities is determined by applying the sensitivity to the value of New Zealand equities.

The risks assumed and methods used for deriving sensitivity information and significant variables have been applied consistently over the two reporting periods included in the analysis.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 September 2015

16. RISK MANAGEMENT AND FINANCIAL INSTRUMENT INFORMATION (CONTINUED)

(iv) Other price

Other price sensitivity includes sensitivity to unit price fluctuations. Unit price risk is the risk that the fair value of investments in property fund units and international equities held in unit trusts will decrease as a result of changes in the value of these units. The Group holds all of its investments in property securities, international equities and other unit trusts at fair value through profit or loss.

The table below demonstrates the impact of a 10% movement in the value of property funds, international equities and other unit trusts on the profit after tax and equity of the Group. The potential impact is assumed as at the reporting date.

	2015 Impact on		2014 Impact on	
	Profit after tax \$000	Equity \$000	Profit after tax \$000	Equity \$000
<i>Change in variables</i>				
+10% property funds and other unit trusts	69	69	62	62
-10% property funds and other unit trusts	(69)	(69)	(62)	(62)
 +10% in International equities	64	64	63	63
-10% in International equities	(64)	(64)	(63)	(63)

International equity assets are held via a unit trust which invests in a number of different countries. The sensitivity for each individual country is small, a breakdown by country has not been provided.

The risks assumed and methods used for deriving sensitivity information and significant variables have been applied consistently over the two reporting periods included in the analysis.

17. CAPITAL RISK MANAGEMENT

The Group's objective when managing capital is to ensure that the Group's level of capital is sufficient to enable it to meet statutory solvency obligations, including on a look forward basis to enable it to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders of the Group.

The Group's capital resources include ordinary equity.

	2015 \$000	2014 \$000
Total shareholders equity	39,064	41,076
Total capital resources	39,064	41,076

The Group measures adequacy of their capital against the Solvency Standard for Life Insurance Business ("the solvency standard") published by the Reserve Bank of New Zealand.

From August 2013 actual solvency capital as determined under the solvency standards, should exceed the minimum solvency capital level by at least \$15 million. The amount retained as minimum solvency capital as shown in note 14(C).

During the year ended 30 September 2015 the Group complied with all externally imposed capital requirements.

The Group holds assets in excess of the levels specified by the various standards so as to ensure that they continue to meet the minimum requirements under a reasonable range of adverse scenarios. The Group's capital management strategy forms part of the Group's broader strategic planning process overseen by the Audit and Compliance Committee.

FOUNDATION LIFE (NZ) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 September 2015

18. CASH AND CASH EQUIVALENTS

(A) RECONCILIATION OF CASH AT THE END OF THE YEAR

	2015 \$000	2014 \$000
Cash at bank and in hand	7,038	10,276
Deposits at call	182	1,100
Total cash and cash equivalents	7,220	11,376

(B) RECONCILIATION OF PROFIT FOR THE YEAR TO NET CASH FLOWS FROM OPERATING ACTIVITIES

	2015 \$000	2014 \$000
Profit attributable to shareholders	4,888	5,637
Add/(less) non cash items		
Depreciation of property, plant and equipment	65	1
Unrealised loss / (gain) on investment	8,673	(22,300)
Decrease in deferred tax balances	2,874	11,109
Lapses	3,077	4,793
Change in policyholder liabilities	30,923	2,150
	45,612	(4,247)
Add/(less) movements in working capital relating to operating activities		
(Increase) / Decrease in receivables	(1,000)	2,671
Increase / (decrease) in payables	1,800	(550)
Taxation paid	8,081	2,420
	8,881	4,541
Add other item classified as financing activities		
Loss on sale of fixed assets	24	-
	24	-
Add other item classified as investing activities		
Realised gains on investments	(81,534)	(6,635)
	(81,534)	(6,635)
Net cash outflows from operating activities	(22,129)	(704)

19. CONTINGENT LIABILITIES

The Group has no contingent liabilities as at 30 September 2015 (2014: nil).

The Group is infrequently subject to claims and disputes as a commercial outcome of conducting its insurance and investment businesses. Provisions are recorded for these claims or disputes when it is probable that an outflow of resources will be required to settle any obligations. Best estimates are included within claims reserves for any litigation that has arisen in the usual course of business.

FOUNDATION LIFE (NZ) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 September 2015

20. CAPITAL COMMITMENTS

The Group has no capital commitments at reporting date (2014: nil).

21. TRANSACTIONS WITH RELATED PARTIES

Until 29 August 2014, the Group was a wholly owned subsidiary of TOWER Insurance Limited and the ultimate owner was TOWER Limited. On 29 August 2014, Foundation Life (NZ) Holdings Limited acquired 100% of the shareholding in TOWER Life (NZ) Limited. Any transactions after this date between TOWER Life (N.Z.) Limited and any member of the TOWER consolidated Group were negotiated on an arm length basis and were not viewed as related party transactions.

(A) RELATED PARTY BALANCES AND TRANSACTIONS

Related party receivable and payable balances of Foundation Life (NZ) Limited at the reporting date were as follows and are payable on demand:

Related party	2015 \$000	2014 \$000	Nature of Relationship	Type of Transactions
Foundation Life (NZ) Holdings Limited	63	(13)	Parent	Operating expenses paid

Foundation Life (NZ) Limited enters into transactions with its related parties in the normal course of business. Transactions during the period 01 October 2013 to 29 August 2014 when Foundation Life (NZ) Limited was a wholly owned subsidiary of TOWER Insurance Limited and transactions with Foundation Life (NZ) Holdings Limited are shown below:

Related party	2015 \$000	2014 \$000	Nature of Relationship	Type of Transactions
TOWER New Zealand Limited	-	(4,000)	Former fellow Subsidiary	Dividend
Foundation Life (NZ) Holdings Limited	(6,900)	-	Parent	Dividend

Two of the Directors provide consultancy services to Foundation Life (NZ) Limited, the consultancy agreement governing the provision of these services has been entered into on an arm's length commercial basis and was approved by the Board. Foundation Life (NZ) Limited accrued \$300k within Other Payables at 30 September 2015 (2014: nil) for these consultancy services.

(B) KEY MANAGEMENT PERSONNEL DISCLOSURES

Up until 29 August 2014, TOWER New Zealand Limited paid all key management compensation on behalf of TOWER Life (N.Z.) Limited (now named Foundation Life (NZ) Limited). After this date, Foundation Life (NZ) Limited paid all key management personal compensation.

Key management have been defined as the Chief Executive Officer and direct reports.

	2015 \$000	2014 \$000
Key management personnel remuneration comprised:		
Short-term employee benefits	585	25
Post employment benefits	-	-
Termination benefits	-	-
Other long-term benefits	-	-
Share based payments	-	-
	<u>585</u>	<u>25</u>

Director fees paid to directors of Foundation Life (NZ) Limited were \$292,000 (2014: \$37,500).

22. DISCLOSURES ON ASSET RESTRICTIONS AND MANAGED ASSETS

Restrictions on assets

Investments and other assets held in the Company can only be used to meet the liabilities and expenses of that company, to acquire investments to further the business of the company or as distributions to shareholders. Distributions may be made to shareholders only when regulatory capital requirements are met and sufficient equity remains for the ongoing operation of the business.

FOUNDATION LIFE (NZ) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 September 2015

23. GUARANTEED RETURNS ON FUNDS INVESTED – LIFE INSURANCE COMPANIES

The Group guarantees capital contributed by policyholders together with any declared dividends for the following funds.

At balance date the policy liabilities of these funds were:

	2015 \$000	2014 \$000
VITAL	286	464
	286	464

24. INVESTMENT LINKED AND NON-INVESTMENT LINKED BUSINESS

	2015		2014	
	Investment Linked \$000	Non-Investment Linked \$000	Investment Linked \$000	Non-Investment Linked \$000
Investment assets	16,566	774,938	20,240	737,238
Other assets	-	-	-	-
Policyholder liabilities	(16,566)	(700,679)	(20,240)	(666,082)
Other liabilities	-	(35,195)	-	(30,080)
Net assets	-	39,064	-	41,076
Retained earnings	-	29,064	-	31,076
Net premium revenue	-	8,441	-	9,146
Investment revenue	876	101,435	2,028	64,660
Net claims expense	-	(39,151)	-	(43,346)
Other operating expenses	(90)	(7,639)	(173)	(5,888)
Change in policyholder liabilities	(742)	(34,786)	(1,878)	(5,344)
Profit / (loss) before taxation	44	28,300	(23)	19,228
Taxation credit / (expense)	141	(23,597)	174	(13,742)
Profit after taxation	185	4,703	151	5,486

Investment revenue allocated to policyholders was \$876,000 (2014: \$2,028,000).

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 September 2015

25. STATUTORY AND NON-STATUTORY FUNDS OF LIFE INSURANCE COMPANIES

	2015		2014	
	Statutory Fund	Non Statutory Fund	Statutory Fund	Non Statutory Fund
	\$000	\$000	\$000	\$000
Investment assets	791,454	50	757,428	50
Other assets	-	-	-	-
Policyholder liabilities	(717,245)	-	(686,322)	-
Other liabilities	(35,195)	-	(30,080)	-
Net assets	39,014	50	41,026	50
Retained earnings	29,064	-	31,076	-
Net premium revenue	8,441	-	9,146	-
Investment revenue	102,311	-	63,529	-
Net claims expense	(39,151)	-	(43,346)	-
Other operating expenses	(7,729)	-	(5,974)	-
Change in policyholder liabilities	(35,528)	-	(7,222)	-
Profit before taxation	28,344	-	16,133	-
Taxation expense	(23,456)	-	(10,496)	-
Profit after taxation	4,888	-	5,637	-

26. PARTICIPATING AND NON PARTICIPATING FUNDS OF LIFE INSURANCE COMPANIES

	2015			2014		
	Par Fund	Non-Par Fund	Non-Statutory Fund	Par Fund	Non-Par Fund	Non-Statutory Fund
	\$000	\$000	\$000	\$000	\$000	\$000
Investment assets	688,524	102,930	50	652,062	105,366	50
Other assets	-	-	-	-	-	-
Policyholder liabilities	(678,980)	(38,265)	-	(643,402)	(42,920)	-
Other liabilities	-	(35,195)	-	-	(30,080)	-
Net assets	9,544	29,470	50	8,660	32,366	50
Retained earnings	9,544	19,520	-	8,660	(8,660)	-
Net premium income	8,256	185	-	8,884	262	-
Investment income	88,988	13,324	-	53,841	12,847	-
Claims expense	(36,971)	(2,180)	-	(40,122)	(3,224)	-
Other operating expenses	(4,811)	(2,918)	-	(3,274)	(2,787)	-
Change in policyholder liabilities	(35,578)	49	-	(7,262)	40	-
Profit before taxation	19,884	8,460	-	12,067	7,138	-
Taxation expense	(18,529)	(4,927)	-	(9,343)	(4,225)	-
Profit after taxation	1,355	3,533	-	2,724	2,913	-

FOUNDATION LIFE (NZ) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 September 2015

27. LEASE COMMITMENTS

The Company leases office space and this lease is a standard operating lease with 2 rights of renewal of one year each.

	2015 \$000	2014 \$000
Non-Cancellable Operating Lease Commitments		
Payable no later than one year	42	42
	42	42

28. SUBSEQUENT EVENTS

There have been no subsequent events.