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FOUNDATION LIFE (NZ) LIMITED

FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 SEPTEMBER 2016

FOUNDATION LIFE (NZ) LIMITED

FINANCIAL STATEMENTS
For the year ended 30 September 2016

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FOUNDATION LIFE (NZ) LIMITED

DIRECTORS' REPORT
For the year ended 30 September 2016

The Directors of Foundation Life (NZ) Limited present their report and financial statements of the Group for the year ended 30 September 2016.

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 $3,747k (2015: $4,888k). Shareholders' equity at the end of the year totals $36,811k (2015: $39,064k). 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 2016.

For and on behalf of the Board:

Director: M Hilder

Date: 8 December 2016

Director: Peri G. Illean

Date: 8 December 2016

GOVERNANCE STATEMENT
For the year ended 30 September 2016

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 2016. 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.

GOVERNANCE STATEMENT

For the year ended 30 September 2016

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.

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.

Independent Auditors' Report

to the shareholder 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 47, which comprise the statement of financial position as at 30 September 2016, the statement of comprehensive income, the statement of changes in equity and the 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 2016 or from time to time during the financial year.

Directors' Responsibility for the 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 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 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the 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 Group'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 Group'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.

Independent Auditors' Report

Foundation Life (NZ) Limited

Opinion

In our opinion, the consolidated financial statements on pages 10 to 47 present fairly, in all material respects, the financial position of the Group as at 30 September 2016, 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.

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.

PricewaterhouseCoopers

Chartered Accountants
8 December 2016

Wellington

FOUNDATION LIFE (NZ) LIMITED

ACTUARY REPORT

Deloitte.

Foundation Life (NZ) Limited - 30th September 2016
Appointed Actuary's Insurance (Prudential Supervision) Act 2010 Section 78 Report

The report prepared by Paul Swinhoe, FIA, FIAA, 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 2016 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 2016 Foundation Life (NZ) Limited Financial Statements

I am the Appointed Actuary to Foundation Life (NZ) Limited (FLNZ). I am Partner 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 30 September 2016 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 2016 that complies with the Reserve Bank of New Zealand ("RBNZ") Solvency Standards and any other licensing requirements in regard to solvency.

Paul Swinhoe FIA FIAA FNZSA
Appointed Actuary
Foundation Life (NZ) Limited

8th December 2016

FOUNDATION LIFE (NZ) LIMITED

STATEMENT OF COMPREHENSIVE INCOME
For the year ended 30 September 2016

	Note	2016 $000	2015 $000
Premium revenue from insurance contracts		7,963	8,468
Less: Reinsurance expense		(15)	(27)
Net premium revenue	4	**7,948**	**8,441**
Investment revenue	5	125,297	102,311
Net operating revenue		**133,245**	**110,752**
Claims expense		35,261	39,467
Less: Reinsurance recoveries revenue		-	(316)
Net claims expense	6	**35,261**	**39,151**
Increase in policy liabilities	7	55,042	35,528
Management and sales expenses	8	9,807	7,729
Net claims and operating expenses		**100,110**	**82,408**
Profit before taxation		33,135	28,344
Less: Income tax expense	9	(29,388)	(23,456)
Profit for the year		**3,747**	**4,888**
Profit attributable to:			
- Shareholders		3,747	4,888

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

STATEMENT OF FINANCIAL POSITION
As at 30 September 2016

	Note	2016 $000	2015 $000
Assets			
Cash and cash equivalents	17	2,324	7,220
Receivables	10	19,433	22,042
Related Party receivables	20	-	63
Financial assets at fair value through profit or loss	14	797,444	728,316
Derivative financial assets	14	46,512	28,248
Current tax assets		-	-
Policyholder loans		3,057	3,381
Property, Plant & Equipment		229	197
Deferred tax asset	9	-	2,037
Total assets		**868,999**	**791,504**
Liabilities			
Payables	11	46,765	20,268
Related Party payables	20	880	-
Derivative financial liabilities	14	706	8
Employee provisions		86	89
Current tax liabilities		5,873	7,021
Insurance liabilities		7,008	7,809
Life insurance contract liabilities	13	754,441	700,679
Life investment contract liabilities	13	15,549	16,566
Deferred tax liability	9	880	-
Total liabilities		**832,188**	**752,440**
Net assets		**36,811**	**39,064**
Equity			
Contributed equity		10,000	10,000
Retained earnings		26,811	29,064
Total equity		**36,811**	**39,064**

The financial statements were approved for issue by the Board on 8 December 2016.

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 2016

	Note	Attributed to shareholders		
		Contributed equity $000	Retained earnings $000	Total equity $000
Year ended 30 September 2016				
At the beginning of the year		**10,000**	**29,064**	**39,064**
Comprehensive income				
Profit for the year		-	3,747	3,747
Total comprehensive income		**-**	**3,747**	**3,747**
Transactions with shareholders				
Dividends paid	20	-	(6,000)	(6,000)
Total transactions with shareholders		**-**	**(6,000)**	**(6,000)**
At the end of the year		**10,000**	**26,811**	**36,811**
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	20	-	(6,900)	(6,900)
Total transactions with shareholders		**-**	**(6,900)**	**(6,900)**
At the end of the year		**10,000**	**29,064**	**39,064**

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 2016

	Note	2016 $000	2015 $000
Cash flows from operating activities			
Premiums received		7,151	7,521
Reinsurance revenue		-	722
Interest received		27,889	26,389
Dividends received from property and equity investments		854	1,678
Payments to policyholders		(36,576)	(38,756)
Reinsurance payments		(15)	(27)
Payments to suppliers and employees		(9,418)	(7,155)
Income taxation paid		(27,620)	(12,501)
Net cash outflow from operating activities	17	**(37,735)**	**(22,129)**
Cash flows from investing activities			
Net receipts for financial assets		38,073	25,232
Payments for purchase of property, plant and equipment		(177)	(283)
Net cash inflow from investing activities		**37,896**	**24,949**
Cash flows from financing activities			
Payment of dividends		(6,000)	(6,900)
Increase/(repayment) of related party balance		943	(76)
Net cash outflow from financing activities		**(5,057)**	**(6,976)**
Net decrease in cash and cash equivalents		**(4,896)**	**(4,156)**
Cash and cash equivalents at beginning of year		7,220	11,376
Cash and cash equivalents at end of year		**2,324**	**7,220**

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

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 September 2016

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 for-profit 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 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 had one subsidiary – Fisher Institutional Income Fund. This subsidiary was wound up in June 2016. The financial statements incorporate the assets and liabilities of the subsidiary as at 30 September 2016 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. 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.

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.

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) 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% (2015: 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.

(H) 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 presentation 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 profit or loss.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(I) 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.

(J) 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.

(K) 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).

(L) FINANCIAL INSTRUMENTS

The Group classifies its financial assets in the following categories: at fair value through profit and loss 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.

(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 profit or loss. The net gain or loss recognised in profit or loss 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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(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.

(M) 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.

(N) 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 profit or loss.

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 profit or loss 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.

(O) 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.

(P) 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. Liabilities arising in respect of employee entitlements expected to be settled within 12 months of the reporting date are measured at their nominal amounts.

(Q) 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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(R) 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.

(S) CASH FLOWS

The statements of cash flows present the net cash flows for financial assets. The 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.

(T) CONTRIBUTED EQUITY

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

(U) 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.

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 probably 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 2016 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.
- NZ IFRS 15, 'Revenue from contracts with customers'. This will replace NZ IAS 18 and NZ IAS 11. NZ IAS 18 covers contracts for goods and services. NZ IFRS 15 is based on the principle that revenue is recognised when control of a good or service transfers to a customer. A detailed analysis of the impact is yet to be performed as the amendments are not effective until the 30 September 2019 financial statements.
- NZ IFRS 16 'Leases'. NZ IFRS 16 requires a lessee to recognise a lease liability reflecting future lease payment and a 'right-of-use asset' for virtually all lease contracts. A detailed analysis of the impact is yet to be performed as the amendments are not effective until the 30 September 2020 financial statements.

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

The application of new or amended accounting standards as of 1 October 2015 has not had a material impact on the financial statements.

4. PREMIUM REVENUE

	2016 $000	2015 $000
Life insurance premiums	7,963	8,470
Life investment premiums	101	132
Total life premiums	**8,064**	**8,602**
Less: Deposits recognised as an increase in policy liabilities	(101)	(134)
Life Insurance contract premiums recognised as revenue	**7,963**	**8,468**
Less: Reinsurance expense	(15)	(27)
Total net premium revenue	**7,948**	**8,441**

5. INVESTMENT REVENUE

	2016 $000	2015 $000
Fixed interest securities[1]		
Interest income	23,333	23,877
Net realised (loss) / gain	(58,822)	5,949
Net unrealised gain	87,267	14,960
	51,778	**44,786**
Equity securities[1]		
Dividend income	-	367
Net realised gain	2,343	13,545
Net unrealised gain / (loss)	10,132	(5,446)
	12,475	**8,466**
Property securities[1]		
Property income	854	979
Net realised gain	3,155	2,486
Net unrealised gain	993	3,482
	5,002	**6,947**
Other[2]		
Other interest income	6,109	4,224
Net realised gain	31,846	59,557
Net unrealised gain / (loss)	18,087	(21,669)
	56,042	**42,112**
Total investment revenue		
Interest, dividend and property income	30,296	29,447
Total net realised (loss) / gain	(21,478)	81,537
Net unrealised gain / (loss)	116,479	(8,673)
	125,297	**102,311**

[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.

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 September 2016

6. CLAIMS EXPENSE

	2016 $000	2015 $000
Life insurance claims	35,323	39,659
Life investment contract payments	2,336	4,548
Total life claims and payments	**37,659**	**44,207**
Less: Withdrawals recognised as a decrease in policy liabilities	(2,398)	(4,740)
Life insurance claims recognised as expense	**35,261**	**39,467**
Less: Reinsurance recoveries revenue	-	(316)
Total net claims expense	**35,261**	**39,151**

7. MOVEMENT IN POLICY LIABILITIES

	2016 $000	2015 $000
Increase in life insurance contract liabilities	53,824	34,786
Increase in life investment contract liabilities	1,218	742
Increase in policy liabilities	**55,042**	**35,528**

8. MANAGEMENT AND SALES EXPENSES

	2016 $000	2015 $000
Life insurance contracts		
Policy maintenance expenses:		
Commission	315	329
Other maintenance expenses	6,805	4,614
Policy maintenance expenses	**7,120**	**4,943**
Investment management expenses	2,588	2,552
Total life insurance expenses	**9,708**	**7,495**
Life investment contracts		
Policy maintenance expenses:		
Commission	16	19
Other maintenance expenses	83	103
Total life investment expenses	**99**	**122**
Other non-life expenses	-	112
Total management and sales expenses	**9,807**	**7,729**

Audit, review (interim financial statements) and other assurance services (solvency return) fees for the year were $107,475 and $7,500 respectively (2015: $105,000 and $7,500 respectively).

Other maintenance expenses include employee benefit expenses of $1,185k (2015:$1,089k).

9. TAXATION

	2016 $000	2015 $000
(A) CURRENT TAX EXPENSE		
Analysis of taxation expense		
Current taxation	26,509	20,580
Deferred taxation	2,917	2,934
Over provided in prior years	(38)	(58)
Income tax expense for the year from continued operations	**29,388**	**23,456**
Income tax expense attributed to policyholders	27,189	22,831
Income tax expense attributed to shareholders	2,199	625
	29,388	**23,456**

The tax expense recognised can be reconciled to the accounting profit as follows:

	2016 $000	2015 $000
Profit before taxation	33,135	28,344
Income tax at the current rate of 28 cents	9,278	7,936
Taxation effect of non-deductible expenses/non assessable revenue:		
Life insurance companies permanent differences	23,041	18,652
Prior period adjustment	(38)	(58)
Non taxable Policyholder Australasian equity gains	-	(961)
Non deductible income from PIEs	(4,830)	(3,614)
Benefit of imputation credits received	-	(165)
Utilisation of tax losses	1,509	3,387
Other	428	(1,721)
Income Tax expense	**29,388**	**23,456**

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 2016

9. TAXATION (CONTINUED)

(B) DEFERRED TAX ASSETS AND LIABILITIES

	Opening balance at 1 October	Prior period adjustment	Charged/ (credited) to profit or loss	Closing balance at 30 September
2016	**$000**	**$000**	**$000**	**$000**
Movements in deferred taxation assets				
Tax losses	1,509	-	(1,509)	-
Unrealised losses	502	-	(502)	-
Other	25	-	-	25
Total deferred tax assets	**2,036**	**-**	**(2,011)**	**25**
Movements in deferred taxation liabilities				
Unrealised gains	-	-	905	905
Total deferred taxation liabilities	**-**	**-**	**905**	**905**
Net deferred tax	**2,036**	**-**	**(2,916)**	**(880)**

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**

(C) IMPUTATION CREDIT ACCOUNT

The imputations credits available to carry forward and utilise in future periods is $3,294,887 (2015: $486,112).

10. RECEIVABLES

	2016 $000	2015 $000
Reinsurance receivable	106	106
Outstanding premiums and trade receivables	18,174	19,305
Unsettled investment sales	833	2,252
Prepayments	320	350
Other	-	29
Total receivables - current	**19,433**	**22,042**
Analysed as:		
Current	2,961	4,531
Non current	16,472	17,511
	19,433	22,042

11. PAYABLES

	2016 $000	2015 $000
Other payables	3,105	3,251
Unsettled investment transactions	43,660	17,017
Total payables - current	**46,765**	**20,268**
Analysed as:		
Current	46,765	20,268
	46,765	20,268

12. CONTRIBUTED EQUITY

	Number of shares 2016 000s	Number of shares 2015 000s
Ordinary Shares	10,000	10,000
	10,000	10,000

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

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NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 September 2016

13. LIFE INSURANCE BUSINESS

(A) POLICY LIABILITIES

	2016	2015
	$000	$000
Life insurance contract liabilities		
Value of policy liabilities – Projection Method		
Future policy benefits	615,749	568,550
Future bonuses	119,773	121,527
Future expenses	47,119	39,374
Future profit margins	27,079	26,279
Future premiums	(96,669)	(93,909)
	713,051	**661,821**
Value of policy liabilities – Accumulation Method		
Future policy benefits	556	643
Unvested policy benefits	40,834	38,215
Net policy liabilities - life insurance contracts	**754,441**	**700,679**
Reconciliation of movements in life insurance contract policy liabilities		
Gross life insurance liabilities at 1 October	700,679	666,082
Increase in life insurance contract liabilities recognised in profit or loss	53,824	34,786
Deposits recognised as an increase in policy liabilities	-	3
Withdrawals recognised as a decrease in policy liabilities	(62)	(192)
Gross life insurance liabilities at 30 September	**754,441**	**700,679**
Life investment contract liabilities		
Value of policy liabilities – Accumulation Method		
Future policy benefits	15,549	16,566
Gross policy liabilities - life investment contracts	**15,549**	**16,566**
Reconciliation of movements in investment contract policy liabilities		
Gross life investment contract liabilities at 1 October	16,566	20,240
Change in Unit Linked Pricing	-	-
Increase in life investment contract liabilities recognised in profit or loss	1,218	742
Deposits recognised as an increase in policy liabilities	101	131
Withdrawals recognised as a decrease in policy liabilities	(2,336)	(4,548)
Gross life investment contract liabilities at 30 September	**15,549**	**16,566**
Total gross policy liabilities	**769,990**	**717,245**
Gross policy liabilities analysed as:		
Current	22,944	17,455
Non current	747,046	699,790
	769,990	**717,245**

13. 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 (2015: 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

	2016 $000	2015 $000
Life insurance contracts		
Planned profit margins	1,502	1,314
Experience (loss)/profit	(655)	534
Investment earnings on assets in excess of policy liabilities of life insurance contracts	2,738	2,855
Profit after tax attributable to shareholders arising from life insurance contracts	**3,585**	**4,703**
Life investment contracts		
Planned profit margins	152	148
Experience profit/(loss)	10	37
Profit after tax attributable to shareholders arising from life investment contracts	**162**	**185**

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 $26.695 million.

	Statutory Fund 2016 $000	Non-Statutory Fund 2016 $000	Aggregate for FLNZ 2016 $000
Actual Solvency Capital	34,759	52	34,811
Minimum Solvency Capital	8,116	0	8,116
Solvency Margin	26,643	52	26,695
Solvency Ratio	428%	20000%	429%
	2015 $000	2015 $000	2015 $000
Actual Solvency Capital	32,915	50	32,965
Minimum Solvency Capital	7,949	0	7,949
Solvency Margin	24,966	50	25,016
Solvency Ratio	414%	20000%	415%

In completing the solvency calculation for the 31 March 2016 half year financial statements the company identified a modelling error in respect to the treatment of risk margins for the annuity product. The margin was excluded from the calculation within the comparative year. The impact was to reduce the level of solvency, however for both the current and comparative period the company remains above minimum solvency levels. To ensure consistency with current year presentation the comparative solvency position has been amended. The impact of the change was to reduce the September 2015 solvency margin from $26.875 million to $25.016 million.

13. LIFE INSURANCE BUSINESS (CONTINUED)

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.

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

The effective date of the policy liabilities and solvency reserves calculation is 30 September 2016. The Appointed Actuary, Paul Swinhoe, 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 life insurance business 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.

The Company incurs costs in selling new policies. Any costs not recovered by specific charges received from the policy owner at inception are normally deferred. New business selling costs (or acquisition costs) related to the acquisition of new business are deferred as long as the underlying policies are expected to be profitable. Where costs are deferred, they are recovered from premiums or charges receivable in the future.

Methods used to value policy liabilities
(i) Projection method
The projection method uses expected cash flows (premiums, investment income, redemptions or benefit payments, expenses and profits) 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
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	
Group risk insurances and renewable insurances	Accumulation	

13. 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 2016 2.0% September 2015 2.7%
Discount rates for non-participating life insurance contracts	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 2016 1.5% September 2015 2.3%
Inflation	Benefit indexation is before allowance for the proportion of policyholders who take up indexation.	Benefit Indexation September 2016 2.0% September 2015 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.	September 2016 Traditional Participating $92 Traditional non-participating $92 Annuities $92 September 2015 Traditional Participating $81 Traditional non-participating $81 Annuities $81
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.	Male Whole of Life policies aged 41-85 reduced by 10% Female Whole of Life policies aged 41-85 reduced by 15%
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
Surrender values	Surrender values are based on current practice.	None

13. LIFE INSURANCE BUSINESS (CONTINUED)

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.	None
	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 policy conditions.	None
	Additional policy bonuses will emerge from the assets representing policyholders' unvested benefits.	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	Change in next financial year's shareholder planned profit	Change in current period contract liability	Change in current period shareholder profit
2016	**$000**	**$000**	**$000**	**$000**
Assumption change				
Mortality and morbidity	545	(3)	(211)	42
Discontinuances	-	-	-	-
Expenses	(745)	(36)	186	(57)
2015				
Assumption change				
Mortality and morbidity	-	-	-	-
Discontinuances	-	-	-	-
Expenses	168	21	(100)	20

13. LIFE INSURANCE BUSINESS (CONTINUED)

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

Variable	Impact of movement in underlying variable
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 movement in any key variable will impact the performance of the company. The table below illustrates the profit/(loss) impact of each variable net of reinsurance.

Variable	Change in following financial year's shareholder profit and equity net of reinsurance			
	2016		2015	
	+ 10%	- 10%	+ 10%	- 10%
	$000	$000	$000	$000
Mortality	(58)	58	(70)	70
Morbidity claims costs	-	-	-	-
Annuitant mortality	153	(153)	137	(137)
Lapses and surrenders	101	(101)	84	(84)
Renewal expenses	(51)	51	(48)	48

The impact from changes to interest rates has been reflected in note 15 (F).

(d) Solvency requirements
Separate to the policy liabilities recognised in the Statement of Financial Position, the life insurance companies maintain sufficient capital to meet solvency requirements. These are amounts required to provide protection against the impact of fluctuations and unexpected adverse circumstances on life insurance companies.

The methodology and bases for determining the Solvency Requirement are in accordance with the requirements of "Professional Standard No. 20 Solvency Reserving for Life Insurance Business" issued by the New Zealand Society of Actuaries.

(e) Life insurance risk
The life insurance business of the Group 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 15.

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 Chief Actuary. Tight controls are also maintained over claims management practices to ensure the correct and timely payment of insurance claims.

13. LIFE INSURANCE BUSINESS (CONTINUED)

(i) Underwriting management procedures
Underwriting is managed by a separate department with underwriting limits in place to enforce appropriate risk selection criteria. The Group provides appropriate training and development of underwriting and development of underwriting staff. Individual policies carrying insurance risk are underwritten on their merits and are generally not issued without having been examined and underwritten individually. Group risk insurance policies are underwritten on the merits of an employee group as a whole, subject to certain limits for individual members.

(ii) Claim management procedures
Claims are managed through a dedicated 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.

(iii) Reinsurance management procedures
The company holds appropriate reinsurance arrangements to limit exposure to individual and catastrophe risks. All reinsurance arrangements are approved by the Appointed Actuary.

(iv)Terms and conditions of life insurance contracts
The nature of the terms of the insurance contracts written by the Group 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

(f) Concentration of insurance risk
The Group 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 and group risk business. The Group uses reinsurance to limit the insurance risk exposure for any one individual. The group risk business unit offers insurance in respect of groups of employees. The Group is exposed to a greater risk of loss from events affecting a location where groups of insured employees work. The Group has purchased catastrophe reinsurance to limit the exposure from any one group event.

(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 2016	642,020	28,557	27,866	26,294	49,768	509,535
30 September 2015	674,410	31,546	30,142	29,181	54,549	528,992

14. 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 2016				
Financial assets				
Cash and cash equivalents	**2,324**	2,324	-	-
Reinsurance recoveries receivable	**106**	106	-	-
Outstanding premiums and trade receivables	**18,174**	18,174	-	-
Unsettled investments sale	**833**	833	-	-
Loans on policy	**3,057**	3,057	-	-
Derivative financial assets	**46,512**	-	-	46,512
Investments in fixed interest securities	**642,351**	-	642,351	-
Investment in equity securities	**101,132**	-	101,132	-
Investments in property securities	**53,961**	-	53,961	-
Total financial assets	**868,450**	**24,494**	**797,444**	**46,512**
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**

14. 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 2016				
Financial liabilities				
Trade payables	2,939	2,939	-	-
Unsettled investment purchases	43,660	43,660	-	-
Related party payables	880	880	-	-
Employee Provisions	86	86	-	-
Derivative financial liabilities	706	-	-	706
Life investment contract liabilities	15,549	-	15,549	-
Other payables	81	81		
Total financial instruments	63,901	47,646	15,549	706
As at 30 September 2015				
Financial liabilities				
Trade payables	3,209	3,209	-	-
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

15. 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 by 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.

15. 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 2016 there were no interest rate swaps in place in relation to external borrowings (2015: 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 a 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.

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15. RISK MANAGEMENT AND FINANCIAL INSTRUMENT INFORMATION (CONTINUED)

(i) Concentration of credit risk
The significant concentrations of credit risk are outlined by industry type below.

	Carrying value	
	2016	2015
	$000	$000
New Zealand government	208,521	176,473
Other government agencies	68,130	73,734
Banks	374,627	325,083
Financial institutions	5,157	5,384
Other receivables	22,089	25,072
Other industries	34,752	35,765
Related party receivables	-	63
Total financial assets with credit exposure	**713,276**	**641,574**

(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	
	2016	2015
	$000	$000
Cash and cash equivalents	2,324	7,220
Reinsurance recoveries receivable	106	106
Outstanding premiums and trade receivables	8,013	8,668
Unsettled investments sale	833	2,252
Loans and receivables	2,225	2,444
Financial assets at fair value through profit or loss	642,351	580,970
Derivative financial assets	46,512	28,249
Interest receivable	10,912	11,602
Related party receivables	-	63
Total credit risk	**713,276**	**641,574**

(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:

	Carrying value	
	2016	2015
	$000	$000
Credit exposure by credit rating		
AAA	188,328	201,587
AA	485,039	409,458
Total counterparties with external credit rating by Standard and Poor's	**673,367**	**611,045**
Group 1	19,757	22,521
Group 1A	-	63
Group 2	-	-
Group 3	20,046	7,838
Total counterparties with no external credit rating	**39,803**	**30,422**
Total financial assets neither past due nor impaired with credit exposure	**713,170**	**641,467**

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

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15. RISK MANAGEMENT AND FINANCIAL INSTRUMENT INFORMATION (CONTINUED)

(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 (2015: nil).

(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:

	Past due but not impaired				
Group	**Less than 30 days $000**	**30 to 60 days $000**	**61 to 90 days $000**	**Over 90 days $000**	**Total $000**
As at 30 September 2016					
Reinsurance recoveries receivable	-	-	-	106	106
Total	**-**	**-**	**-**	**106**	**106**
As at 30 September 2015					
Reinsurance recoveries receivable	-	-	-	106	106
Total	**-**	**-**	**-**	**106**	**106**

(vi) Financial assets that are individually impaired
There were no assets that were individually impaired (2015: 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 2016 is $21,230,980 (2015: $22,684,612).

(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.

15. 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.

	Carrying value $000	Total contractual cash flows $000	Less than one year $000	On demand $000
Group				
As at 30 September 2016				
Financial liabilities and guarantees				
Trade Payables	2,939	2,939	2,939	-
Reinsurance payable	-	-	-	-
Unsettled investment purchases	43,660	43,660	43,660	-
Related party payables	880	880	-	880
Derivative financial liabilities	706	42,312	42,312	-
Life investment contract liabilities	15,549	15,549	-	15,549
Funds invested guarantee	223	223	-	223
Other payables	167	167	167	-
Total financial liabilities and guarantees	64,124	105,730	89,078	16,652
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	-
Related party payables	-	-	-	-
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

Please see note 15 (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.

15. 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 2016			
Assets			
Derivative financial assets	46,512	-	46,512
Investment in equity securities	101,132	-	101,132
Investments in fixed interest securities	642,351	-	642,351
Investments in property securities	53,961	-	53,961
Total financial assets	843,956	-	843,956
Liabilities			
Derivative financial liabilities	706	-	706
Life investment contract liabilities	15,549	-	15,549
Total financial liabilities	16,255	-	16,255
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

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 2016 (2015: 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.

15. 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	
	2016	2015	2016	2015	2016	2015
	%	%	$000	$000	$000	$000
Less than 1 year	-	-	-	-	-	-
1 to 2 years	-	-	-	-	-	-
2 to 5 years	2.5%	-	40,000	-	797	-
over 5 years	4.2%	5.1%	432,170	419,633	45,277	27,759
			472,170	419,633	46,074	27,759

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.

	2016		2015	
	Impact on		Impact on	
	Profit after tax	Equity	Profit after tax	Equity
	$000	$000	$000	$000
Change in variables				
+50 basis points	(1,143)	(1,143)	(1,084)	(1,084)
-50 basis points	1,200	1,200	1,131	1,131

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.

15. 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.

	2016		2015	
	Impact on		Impact on	
	Profit after tax	Equity	Profit after tax	Equity
	$000	$000	$000	$000
Change in variables				
+50 basis points	648	648	473	473
-50 basis points	(691)	(691)	(504)	(504)

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.

	2016		2015	
	Impact on		Impact on	
	Profit after tax	Equity	Profit after tax	Equity
	$000	$000	$000	$000
Change in variables				
10% appreciation of New Zealand dollar	9	9	(6)	(6)
10% depreciation of New Zealand dollar	(9)	(9)	6	6

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.

	2016		2015	
	Impact on		Impact on	
	Profit after tax	Equity	Profit after tax	Equity
	$000	$000	$000	$000
Change in variables				
+10% in New Zealand equities	84	84	63	63
-10% in New Zealand equities	(84)	(84)	(63)	(63)

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.

15. 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.

	2016		2015	
	Impact on		Impact on	
	Profit after tax	Equity	Profit after tax	Equity
	$000	$000	$000	$000
Change in variables				
+10% property funds and other unit trusts	84	84	69	69
-10% property funds and other unit trusts	(84)	(84)	(69)	(69)
+10% in International equities	75	75	64	64
-10% in International equities	(75)	(75)	(64)	(64)

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.

16. 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.

	2016	2015
	$000	$000
Total shareholders equity	36,811	39,064
Total capital resources	**36,811**	**39,064**

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 13(C).

During the year ended 30 September 2016 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.

17. CASH AND CASH EQUIVALENTS

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

	2016 $000	2015 $000
Cash at bank and in hand	2,142	7,038
Deposits at call	182	182
Total cash and cash equivalents	2,324	7,220

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

	2016 $000	2015 $000
Profit attributable to shareholders	3,747	4,888
Add/(less) non cash items		
Depreciation of property, plant and equipment	145	65
Unrealised loss / (gain) on investment	(116,479)	8,673
Decrease in deferred tax balances	2,917	2,874
Lapses	2,033	3,077
Change in policyholder liabilities	52,745	30,923
	(58,639)	45,612
Add/(less) movements in working capital relating to operating activities		
(Increase) / decrease in receivables	(2,143)	(1,000)
Increase / (decrease) in payables	(1,030)	1,800
Taxation paid	(1,148)	8,081
	(4,321)	8,881
Add other item classified as financing activities		
Loss on sale of fixed assets	-	24
	-	24
Add other item classified as investing activities		
Realised loss / (gain) on investments	21,478	(81,534)
	21,478	(81,534)
Net cash outflows from operating activities	(37,735)	(22,129)

18. CONTINGENT LIABILITIES

The Group has no contingent liabilities as at 30 September 2016 (2015: 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.

19. CAPITAL COMMITMENTS

Capital commitments represent capital expenditure contracted for at balance date but not yet incurred.

	2016 $000	2015 $000
Property, Plant & Equipment	34	-
	34	-

20. TRANSACTIONS WITH RELATED PARTIES

(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	2016 $000	2015 $000	Nature of Relationship	Type of Transactions
Foundation Life (NZ) Holdings Limited	(880)	63	Parent	Balance ow ed to related parties

Foundation Life (NZ) Limited enters into transactions with its related parties in the normal course of business. Transactions with Foundation Life (NZ) Holdings Limited are shown below:

Related party	2016 $000	2015 $000	Nature of Relationship	Type of Transactions
Foundation Life (NZ) Holdings Limited	(6,000)	(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 was approved by the Board. Foundation Life (NZ) Limited paid $450k (2015: $300k) for these consultancy services.

(B) KEY MANAGEMENT PERSONNEL DISCLOSURES

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

Key management personnel remuneration comprised:	2016 $000	2015 $000
Short-term employee benefits	679	585
Post employment benefits	-	-
Termination benefits	-	-
Other long-term benefits	-	-
Share based payments	-	-
	679	585

Director fees paid to directors of Foundation Life (NZ) Limited were $345,736 (2015: $292,000).

21. 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.

22. 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:

	2016	2015
	$000	$000
VITAL	223	286
	223	286

23. INVESTMENT LINKED AND NON-INVESTMENT LINKED BUSINESS

	2016		2015	
	Investment Linked	Non-Investment Linked	Investment Linked	Non-Investment Linked
	$000	$000	$000	$000
Investment assets	15,548	853,451	16,566	774,938
Other assets	-	-	-	-
Policyholder liabilities	(15,548)	(754,441)	(16,566)	(700,679)
Other liabilities	-	(62,199)	-	(35,195)
Net assets	-	36,811	-	39,064
Retained earnings	-	26,811	-	29,064
Net premium revenue	-	7,948	-	8,441
Investment revenue	1,545	123,752	876	101,435
Net claims expense	-	(35,261)	-	(39,151)
Other operating expenses	(62)	(9,745)	(90)	(7,639)
Change in policyholder liabilities	(1,218)	(53,824)	(742)	(34,786)
Profit / (loss) before taxation	265	32,870	44	28,300
Taxation credit / (expense)	(103)	(29,285)	141	(23,597)
Profit after taxation	162	3,585	185	4,703

Investment revenue allocated to policyholders was $1,545,297 (2015: $876,000).

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

	2016		2015	
	Statutory Fund	Non Statutory Fund	Statutory Fund	Non Statutory Fund
	$000	$000	$000	$000
Investment assets	861,236	50	791,454	50
Other assets	-	-	-	-
Policyholder liabilities	(769,990)	-	(717,245)	-
Other liabilities	(54,485)	-	(35,195)	-
Net assets	**36,761**	**50**	**39,014**	**50**
Retained earnings	**26,811**	**-**	**29,064**	
Net premium revenue	7,948	-	8,441	-
Investment revenue	125,297	-	102,311	-
Net claims expense	(35,261)	-	(39,151)	-
Other operating expenses	(9,807)	-	(7,729)	-
Change in policyholder liabilities	(55,042)	-	(35,528)	-
Profit before taxation	**33,135**	**-**	**28,344**	**-**
Taxation expense	(29,388)	-	(23,456)	-
Profit after taxation	**3,747**	**-**	**4,888**	**-**

	2016		2015	
	Statutory Fund	Non Statutory Fund	Statutory Fund	Non Statutory Fund
	$000	$000	$000	$000
Total equity				
At the beginning of the year	39,014	50	41,026	50
Comprehensive income				
Profit for the year	3,747	-	4,888	-
Total comprehensive income	**3,747**	**-**	**4,888**	**-**
Transfers				
Transfers	(6,000)	6,000	(6,900)	6,900
Total transfers	**(6,000)**	**6,000**	**(6,900)**	**6,900**
Transactions with shareholders				
Dividends paid	-	(6,000)	-	(6,900)
Total transactions with shareholders	**-**	**(6,000)**	**-**	**(6,900)**
Total equity at the end of the year	36,761	50	39,014	50

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25. PARTICIPATING AND NON PARTICIPATING FUNDS OF LIFE INSURANCE GROUP

	2016			2015		
	Par Fund	Non-Par Fund	Non-Statutory Fund	Par Fund	Non-Par Fund	Non-Statutory Fund
	$000	$000	$000	$000	$000	$000
Investment assets	743,805	117,430	50	688,524	102,930	50
Other assets	-	-	-	-	-	-
Policyholder liabilities	(733,608)	(36,381)	-	(678,980)	(38,265)	-
Other liabilities	-	(54,485)	-	-	(35,195)	-
Net assets	**10,197**	**26,564**	**50**	**9,544**	**29,470**	**50**
Retained earnings	**10,197**	**16,614**	**-**	**9,544**	**17,508**	**-**

Net premium income	7,803	146	-	8,256	185	-
Investment income	114,001	11,295	-	88,988	13,324	-
Claims expense	(32,829)	(2,432)	-	(36,971)	(2,180)	-
Other operating expenses	(7,039)	(2,768)	-	(4,811)	(2,918)	-
Change in policyholder liabilities	(54,629)	(413)	-	(35,578)	49	-
Profit before taxation	**27,307**	**5,828**	**-**	**19,884**	**8,460**	**-**
Taxation expense	(26,369)	(3,019)	-	(18,529)	(4,927)	-
Profit after taxation	**938**	**2,809**	**-**	**1,355**	**3,533**	**-**

26. LEASE COMMITMENTS

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

	2016	2015
	$000	$000
Non-Cancellable Operating Lease Commitments		
Payable no later than one year	43	42
	43	42

27. SUBSEQUENT EVENTS

There have been no subsequent events.