



FOUNDATION LIFE (NZ) HOLDINGS LIMITED
CONSOLIDATED
FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 SEPTEMBER 2018

FOUNDATION LIFE (NZ) HOLDINGS LIMITED – CONSOLIDATED

FINANCIAL STATEMENTS

For the year ended 30 September 2018

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FOUNDATION LIFE (NZ) HOLDINGS LIMITED – CONSOLIDATED

DIRECTORS' REPORT

For the year ended 30 September 2018

The Directors of Foundation Life (NZ) Holdings Limited present their report and financial statements of the Group for the year ended 30 September 2018.

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

The subsidiary Foundation Life (NZ) Limited has undertaken a strategic review of its participating Whole of Life and Endowment product offering. The review concluded that greater value and choice could be provided to policyholders through a Scheme of Arrangement (the Scheme) and restructuring process. If the Scheme is approved by policyholders, the subsidiary company will cease to operate. As it is the Directors' intention to proceed with the Scheme, the income, assets and liabilities of the subsidiary have been classified as 'discontinued operations'.

The after tax profit/ (loss) for the year was \$23,281k (2017: -\$89k). Shareholders' equity at the end of the year totals \$36,239k (2017: \$13,015k). 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 for Foundation Life (NZ) Holdings Limited at the date of this report are: R Davies and, A Eisen.

The Board of Directors of Foundation Life (NZ) Holdings Limited authorised these financial statements, for issue on 7 March 2019.

For and on behalf of the Board:

Director: 

Date: 7 March 2019

Director: 

Date: 7 March 2019

FOUNDATION LIFE (NZ) HOLDINGS LIMITED – CONSOLIDATED

GOVERNANCE STATEMENT

For the year ended 30 September 2018

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) Holdings 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.

Composition of the Board

The Board includes two Directors Richard Davies and Anthony Eisen.

<p>Richard Davies B Ec, LLB (Hons), MBA (Hons) Executive Director Not Independent Appointed: 29 August 2014</p> <p>Richard has over 19 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 and turning around a \$1b+ property business. Between 1998 and 2002 Richard worked at Tiger Management and Kicap Management in NYC. Prior to this Richard practised as a lawyer at Baker & McKenzie and Freehills.</p> <p>Richard resides in Melbourne, Australia.</p>
<p>Anthony Eisen BCom, ICCA Executive Director Not Independent Appointed: 29 August 2014</p> <p>Anthony has over 24 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 practised 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).</p> <p>Anthony resides in Sydney, Australia.</p>



Independent auditor's report

To the shareholders of Foundation Life (NZ) Holdings Limited

The consolidated financial statements comprise:

- the statement of financial position as at 30 September 2018;
- the statement of profit or loss and other comprehensive income for the year then ended;
- the statement of changes in equity for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies.

Our opinion

In our opinion, the consolidated financial statements of the Group comprising Foundation Life (NZ) Holdings Limited (the Company) and its subsidiary, present fairly, in all material respects, the financial position of the Group as at 30 September 2018, its financial performance and its cash flows for the year then ended in accordance with New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS) and International Financial Reporting Standards (IFRS).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (New Zealand) (ISAs NZ) and International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report.

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

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

Our firm carries out the audit of the financial statements and interim financial statement review, an assurance engagement over annual solvency return and other services in the areas of policyholder data integrity in respect of the Company's subsidiary. The provision of these services has not impaired our independence as auditor of the Group.

Information other than the financial statements and auditor's report

The Directors are responsible for the annual report. Our opinion on the consolidated financial statements does not cover the other information included in the annual report and we do not express any form of assurance conclusion on the other information.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.



Responsibilities of the Directors for the consolidated financial statements

The Directors are responsible, on behalf of the Company, for the preparation and fair presentation of the consolidated financial statements in accordance with NZ IFRS and IFRS, and for such internal control as the Directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements, as a whole, are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs NZ and ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

A further description of our responsibilities for the audit of the financial statements is located at the External Reporting Board's website at:

<https://www.xrb.govt.nz/standards-for-assurance-practitioners/auditors-responsibilities/audit-report-7/>

This description forms part of our auditor's report.

Who we report to

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

The engagement partner on the audit resulting in this independent auditor's report is Kevin Brown.

For and on behalf of:

A handwritten signature in cursive script that reads 'PricewaterhouseCoopers'.

Chartered Accountants
15 March 2019

Wellington

FOUNDATION LIFE (NZ) HOLDINGS LIMITED – CONSOLIDATED

STATEMENT OF PROFIT OR LOSS & OTHER COMPREHENSIVE INCOME

For the year ended 30 September 2018

		2018	Restated*
	Note	\$000	2017 \$000
Continuing operations			
Interest expense on loan notes and management expenses		2,819	2,761
Loss before taxation		(2,819)	(2,761)
Income tax benefit	9	789	773
Loss from continuing operations		(2,030)	(1,988)
Profit after tax from discontinued operations	4	25,311	1,899
Profit / (Loss) attributable to:			
- Shareholder		23,281	(89)
Other Comprehensive Income		-	-
Total Comprehensive Income / (Loss)		23,281	(89)

*Comparative information has been restated in accordance with NZ IFRS 5: Non-current Assets Held for Sale and Discontinued Operations. The restatement is to show the post-tax profit of the discontinued operations as a single line item.

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

FOUNDATION LIFE (NZ) HOLDINGS LIMITED – CONSOLIDATED

STATEMENT OF FINANCIAL POSITION

As at 30 September 2018

	Note	2018 \$000	2017 \$000
Assets			
Cash and cash equivalents		1	1,827
Receivables		-	21,056
Financial assets at fair value through profit or loss		-	744,354
Derivative financial assets		-	17,526
Policyholder loans		-	2,693
Property, Plant & Equipment		-	171
Current tax asset		1,298	577
Deferred tax asset		-	6,246
Assets classified as Held for Sale	4	752,197	-
Total assets		753,496	794,450
Liabilities			
Payables		2,079	14,555
Related Party payables		-	-
Derivative financial liabilities		-	6,407
Employee provisions		-	89
Provision for loss on sale of Annuity portfolio		-	1,403
Insurance liabilities		-	7,860
Life insurance contract liabilities		-	712,886
Life investment contract liabilities		-	15,166
Loan Notes Payable		23,069	23,069
Liabilities classified as Held for Sale	4	692,109	-
Total liabilities		717,257	781,435
Net assets		36,239	13,015
Equity			
Loan Notes - liquidation principal		6,891	6,891
Retained earnings		29,348	6,124
Total equity		36,239	13,015

The financial statements were approved for issue by the Board on 7 March 2019.


Director


Director

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

FOUNDATION LIFE (NZ) HOLDINGS LIMITED – CONSOLIDATED

STATEMENT OF CHANGES IN EQUITY

For the year ended 30 September 2018

	Note	Attributed to shareholders		
		Contributed equity \$000	Retained earnings \$000	Total equity \$000
Year ended 30 September 2018				
At the beginning of the year		6,891	6,124	13,015
Comprehensive income				
Profit for the year		-	23,281	23,281
Total comprehensive income		-	23,281	23,281
Transactions with shareholders				
Dividends paid	13	-	(57)	(57)
Total transactions with shareholders		-	(57)	(57)
Movement in Reserves				
Loan Notes - liquidation principal		-	-	-
Total movement in Reserves		-	-	-
At the end of the year	10	6,891	29,348	36,239
Year ended 30 September 2017				
At the beginning of the year		-	6,273	6,273
Comprehensive income				
Loss for the year		-	(89)	(89)
Total comprehensive income		-	(89)	(89)
Transactions with shareholders				
Dividends paid	13	-	(60)	(60)
Total transactions with shareholders		-	(60)	(60)
Movement in Reserves				
Loan Notes - liquidation principal		6,891	-	6,891
Total movement in Reserves		6,891	-	6,891
At the end of the year	10	6,891	6,124	13,015

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

FOUNDATION LIFE (NZ) HOLDINGS LIMITED – CONSOLIDATED

STATEMENT OF CASH FLOWS

For the year ended 30 September 2018

	Note	2018 \$000	Restated 2017 \$000
Cash flows from operating activities			
Payments to suppliers and employees		(21)	(30)
Interest Paid		(2,774)	(2,717)
Income taxation paid		-	782
Net cash flows from operating activities from discontinued operations		3,447	(10,984)
Net cash inflow / (outflow) from operating activities	11	652	(12,949)
 Cash flows from investing activities			
Net cash flows from investing activities from discontinued operations		-	12,728
Net cash inflow from investing activities		-	12,728
 Cash flows from financing activities			
Net cash flows from financing activities from discontinued operations		(1,583)	-
Repayment of borrowings		-	(223)
Payment of dividends		(57)	(60)
Net cash outflow from financing activities		(1,640)	(283)
 Net (decrease) / increase in cash and cash equivalents		(988)	(504)
Cash and cash equivalents at beginning of year		1,827	2,331
Less: Cash and cash equivalents classified within discontinued operations		(838)	-
Cash and cash equivalents at end of year		1	1,827

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

FOUNDATION LIFE (NZ) HOLDINGS LIMITED – CONSOLIDATED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 September 2018

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

STATEMENT OF COMPLIANCE

Foundation Life (NZ) Holdings Limited (the Company) is a for-profit company incorporated in New Zealand under the Companies Act 1993. The Company and its subsidiary, Foundation Life (NZ) Limited, 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.

The subsidiary Foundation Life (NZ) Limited is an FMC reporting entity under the Financial Markets Conduct Act 2013.

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.

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 for-profit 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.

A going concern basis of accounting has been adopted in the preparation of the financial statements as the Company has the ability to call upon its subsidiary company Foundation Life (NZ) Limited for a dividend when needed.

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) Holdings Limited has one subsidiary – Foundation Life (NZ) Limited (the Subsidiary).

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.

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.

Foundation Life (NZ) Limited – discontinued operations

The financial statements incorporate the assets and liabilities of the Subsidiary as at 30 September 2018 and the results of the Subsidiary for the year then ended.

The Subsidiary has initiated a project that is intended to lead to that entity ceasing to trade in the foreseeable future. With the Subsidiary being closed to new business and in the current economic environment of low interest rates, low expected future investment returns and low inflation, the constraints on investment policy and diseconomies of scale mean that participating policies may no longer be in the best interests of their policyholders. The Directors have been investigating options to provide increased benefits and choice to the policyholders.

As a result of this investigation, the Subsidiary's Directors have initiated a project developing a proposal for policyholders to consider. This proposal provides policyholders with the opportunity to decide whether they still require life insurance, would prefer to receive a cash value that is higher than their policy's current surrender value, or a combination of life cover and cash. In July 2018 the Subsidiary signed a contract with a third party insurer to provide replacement life cover to those policyholders who elect to receive continued life cover should the proposal be successfully implemented. The following are the major milestones that are yet to be met in order for the proposed project to go ahead:

- Approval of the final proposal to policyholders by the Subsidiary's Board of Directors; supported by the Appointed Actuary and Independent Actuary reports.
- Approval by the High Court of the proposed Scheme of Arrangement.
- Approval by the policyholders.

If these milestones are achieved the Subsidiary's operations would cease shortly thereafter. If milestones are not achieved the Subsidiary will continue with current operations.

The intention of the Board of Directors of the Subsidiary is to continue with the project. Given this intention and the advanced stage of the project, including the appointment of a third party insurance provider, the Subsidiary has been classified as a discontinued operation.

FOUNDATION LIFE (NZ) HOLDINGS LIMITED – CONSOLIDATED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 September 2018

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Realisation basis of accounting

The assets and liabilities of the Subsidiary have been measured on a realisation basis, refer to note 4 for details.

Under the realisation basis of accounting, assets and liabilities are measured at realisation value. This is the estimated amount of cash or cash equivalent that could be received/required to settle the obligation.

Critical Accounting Judgements and Estimate relating to the operations of the Subsidiary

The Subsidiary has made 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 in the current reporting year are noted below:

The project provides policyholders with the opportunity to decide whether they require replacement life insurance, would prefer to receive a cash value that is higher than their policy's current surrender value or a combination of replacement life cover and cash. It has been estimated that 80% of policyholders will opt to take up replacement life cover with the third party insurer and 20% will choose to receive a cash pay-out. This estimate is based on the assumption that more policyholders will opt for replacement life cover given no further premium will be charged and no medical approval is needed under this option. Replacement life cover is also the default option for the participating whole of life policyholders that do not respond with a preferred option.

Investment assets backing life insurance contracts

An agreement has been made with the third party insurer to transfer designated investment assets for a fixed value of \$426m. The designated asset detail and value was agreed to on the date of signing the contract with the third party insurer. It is intended that these assets will be transferred to the third party insurer when policyholders have voted on which option they prefer. If the actual value of replacement life cover take-up is lower than \$426m, the value of the excess assets will revert back to fair value. If the value of replacement life cover taken up is higher than \$426m additional investment assets will be transferred to the third party insurer.

Investment assets that have not been designated for transfer to the third party insurer continue to be valued at fair value.

Policy Liabilities

The policy liability has been calculated using statistical modelling and mathematical methods. Values are based on the assumption that 80% of policyholders will opt to take up replacement life cover and 20% of policyholders will choose to receive a cash pay-out. If the actual rates differ, the policy liability will change.

Please refer to note 4(b) for details on the policy liability calculation and key judgements.

While significant progress has been made on the proposed project, there remains a significant amount of work still to be completed before the Subsidiary is in a position to recommend the scheme to policyholders. As such, the policy liabilities reflect the current assessment of the realisation values. It is possible that following review by a number of stakeholders, the scheme may need to be altered. It is possible that such a methodology change could result in an increase or decrease in profits of \$5m.

SPECIFIC ACCOUNTING POLICIES

In 2018 the Subsidiary was classified as a discontinued operation, and assets and liabilities measured on a realisation basis. The following policies have been applied to the current and comparative years unless stated above.

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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 September 2018

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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. The life investment contracts were sold to Lifetime Income Limited in March 2018.

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

(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 receives 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 security income

Property security 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 in profit or loss in the period in which they arise.

(C) CLAIMS EXPENSE

(i) Life insurance contracts

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

(ii) Life investment contracts

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

(D) BASIS OF EXPENSE APPORTIONMENT

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

The apportionment process is adopted by applying the following methodology:

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 September 2018

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 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% (2017: 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 the functional currency. Unless otherwise stated, all amounts are 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.

FOUNDATION LIFE (NZ) HOLDINGS LIMITED – CONSOLIDATED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 September 2018

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 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 or 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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 September 2018

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 profit or loss. A separate instrument with the same terms as the embedded derivative would meet the definition of a derivative.

FOUNDATION LIFE (NZ) HOLDINGS LIMITED – CONSOLIDATED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 September 2018

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(R) LIFE INSURANCE LIABILITIES

The Company'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 profit or loss. Fair value is the current value of units plus investment fluctuation reserves subject to a minimum of current surrender value.

The Company 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. There are no investment contract liabilities as at 30 September 2018.

(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 5. 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 policy liability as at 30 September 2018 is not calculated under MoS; refer to note 4(b).

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.

FOUNDATION LIFE (NZ) HOLDINGS LIMITED – CONSOLIDATED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 September 2018

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 and have been applied to the current and comparative years unless stated in the previous Foundation Life (NZ) Limited – discontinued operations section on page 11.

(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 Group 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 4(b).

(B) TAXATION

Deferred tax assets are recognised for unused tax losses to the extent it is probable that taxable profits will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised based on the likely timing and quantum of future taxable profits, together with future tax planning strategies. The company calculates at each reporting period the probability that taxable profit will be available against which the unused tax losses or unused tax credits can be utilised subject to a maximum of the estimated tax on three years' of expected taxable income.

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 2018 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. With the intention to wind up the operations of the Subsidiary, implications of this new standard will be minimal on the group. Impact of the effect of adopting the following standards has not yet been investigated due to the wind up of the Subsidiary.

- 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. The standard is effective for 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. The standard is effective for the 30 September 2020 financial statements.
- NZ IFRS 17 'Insurance Contracts'. This will replace NZ IFRS 4 which establishes the principles for recognition, measurement, presentation and disclosure of insurance contracts. This standard is not effective until 1 January 2022. Given the Group's plans, the standard is not expected to be applicable.

(B) Standards, amendments and interpretations to existing standards effective 2018 or early adopted by the Group.

The application of new or amended accounting standards as of 1 October 2017 has not had a material impact on the financial statements.

FOUNDATION LIFE (NZ) HOLDINGS LIMITED – CONSOLIDATED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 September 2018

4. DISCONTINUED OPERATIONS

The Subsidiary has initiated a project that will lead to the Subsidiary ceasing operations in the foreseeable future. The assets and liabilities of the Subsidiary were consequently presented as discontinued operations in 2018.

The Statement of Profit or Loss and Other Comprehensive Income and Statement of Financial Position for the Subsidiary are presented below:

Statement of Profit or Loss and Other Comprehensive Income of discontinued operations:

	2018 \$000	2017 \$000
Premium revenue from insurance contracts	6,948	7,430
Investment revenue / (expense)	50,254	(9,904)
Net operating revenue / (loss)	57,202	(2,474)
Claims expense	33,347	33,184
Decrease in policy liabilities	(30,923)	(40,224)
Management and sales expenses	18,856	9,587
Net claims and operating expenses	21,280	2,547
Profit / (Loss) before taxation from discontinued operation	35,922	(5,021)
Income tax (expense) / benefit	(10,611)	6,920
Profit for the year attributable to the shareholders of the company from discontinued operation	25,311	1,899
Profit attributable to:		
- Shareholder	25,311	1,899
Other Comprehensive Income from discontinued operation	-	-
Total Comprehensive Income from discontinued operation	25,311	1,899

FOUNDATION LIFE (NZ) HOLDINGS LIMITED – CONSOLIDATED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 September 2018

4. DISCONTINUED OPERATIONS (CONTINUED)

Statement of Financial Position from discontinued operations

	2018 \$000	2017 \$000
Assets		
Cash and cash equivalents	838	1,823
Receivables	17,596	21,056
Financial assets	730,988	744,354
Derivative financial assets	-	17,526
Policyholder loans	2,669	2,693
Property, Plant & Equipment	106	171
Deferred tax asset	-	6,246
Total assets	752,197	793,869
Liabilities		
Payables	11,080	12,501
Derivative financial liabilities	-	6,407
Employee provisions	315	89
Current tax liabilities	4,286	213
Provision for loss on sale of Annuity Portfolio	-	1,403
Insurance liabilities	8,360	7,860
Life insurance contract liabilities	664,870	712,886
Life investment contract liabilities	-	15,166
Interest Payable to third party insurer	3,198	-
Total liabilities	692,109	756,525
Net assets	60,088	37,344
Equity		
Contributed equity	10,000	10,000
Retained earnings	50,088	27,344
Total equity	60,088	37,344

The Subsidiary is classified as a discontinued operation, the assets and the liabilities of Subsidiary have been measured on a realisation basis. The following notes assist in explaining balances held for sale in the Statement of Financial Position.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 September 2018

4. DISCONTINUED OPERATIONS (CONTINUED)

4(a) Financial assets:

Financial instruments have been valued on a realisation basis. This represents the amount that the Subsidiary expects to receive by selling the assets in an orderly disposal.

The Subsidiary has entered into an agreement with a third party insurer. This entity will provide continued life cover for policyholders that elect the continued life cover option under the proposed project. The details of the agreement are as follows:

- Designated financial instruments will be transferred to the third party insurer in order to settle the liability relating to these policies.
- The value of the designated instruments was fixed at the date of signing the agreement with the third party insurer.
- The instruments will be transferred when the proposed project is implemented, and the total value of the replacement life cover liability is known.
- The interest earned from agreement date to transfer of the designated financial instruments will be payable to the third party insurer and settled on implementation of the proposed project.
- The value of the designated instruments have been discounted to allow for an interest rate of 2% p.a. from the date of signing the agreement up to settlement date. The Subsidiary has treated this agreement as interest income and a prepayment to the third party insurer.

The financial instruments designated for transfer to the third party are measured at the agreed fixed value per the signed agreement. Investments that are not designated for transfer to the third party insurer continue to be measured at fair value as this is the best indicator of their realisable value.

	2018
	\$000
Investment in fixed interest securities - designated for transfer to third party insurer	426,466
Investment in fixed interest securities - measured at fair value	158,847
Investment in cash PIE fund	145,675
	<u>730,988</u>

The fair value of the fixed interest securities designated for transfer to the third party insurer is \$14.4m higher than the fixed value as at 30 September 2018. The fair value of the Subsidiary's investments as at 30 September is therefore \$745.3m.

Interest earned on fixed interest securities designated for transfer to the third party insurer is categorised as Interest Payable on the Discontinued Operations Balance Sheet.

4(b) Life insurance contract liabilities:

Policy liabilities have been valued on a realisation basis. Policyholder liabilities represent:

- amounts expected to be paid to policyholders who choose to 'cash out' their policies. These amounts are measured at the expected cash and cash equivalents required to settle the obligation.
- amounts expected to be extinguished upon policyholders electing to take up replacement life cover with a third party insurer. The liability relating to these policyholders will be settled through transferring a fixed value of assets to the third party insurer. As such, the liability is measured at the value of assets required to settle it.

Note 5 contains life insurance policy liability details for both 2018 and the 2017 comparative year. The financial reporting methodology used to determine the value of life insurance contract liabilities as at 30 September 2018 is realisation basis accounting. The financial reporting methodology used to determine the value of life insurance contract liabilities as at 30 September 2017 is referred to as Margin on Services (MoS).

FOUNDATION LIFE (NZ) HOLDINGS LIMITED – CONSOLIDATED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 September 2018

5. POLICY LIABILITIES

(A) POLICY LIABILITIES

	2018 \$000	2017 \$000
Life insurance contract liabilities		
<i>Value of policy liabilities – Projection Method</i>		
Future policy benefits	-	556,889
Future bonuses	-	124,747
Future expenses	-	45,767
Future profit margins	-	30,244
Future premiums	-	(87,245)
	-	670,402
<i>Value of policy liabilities - Accumulation Method</i>		
Future policy benefits	534,903	494
Unvested policy benefits	129,967	41,990
Net policy liabilities - life insurance contracts	664,870	712,886
Reconciliation of movements in life insurance contract policy liabilities		
Gross life insurance liabilities at 1 October	712,886	754,441
Decrease in life insurance contract liabilities recognised in the Statement of Comprehensive Income	(31,415)	(41,548)
Decrease in policyholder liability due to sale of annuity business	(16,601)	-
Deposits recognised as a decrease in policy liabilities	-	(2)
Withdrawals recognised as a decrease in policy liabilities	-	(5)
Gross life insurance liabilities at 30 September	664,870	712,886
Life investment contract liabilities		
<i>Value of policy liabilities – Accumulation Method</i>		
Future policy benefits	-	15,166
Gross policy liabilities - life investment contracts	-	15,166
Reconciliation of movements in investment contract policy liabilities		
Gross life investment contract liabilities at 1 October	15,166	15,549
Increase in life investment contract liabilities recognised in the Statement of Comprehensive Income	492	1,324
Decrease in policyholder liability due to sale of Unit Linked business	(14,122)	-
Deposits recognised as an increase in policy liabilities	31	79
Withdrawals recognised as a decrease in policy liabilities	(1,567)	(1,786)
Gross life investment contract liabilities at 30 September	-	15,166
Total gross policy liabilities	664,870	728,052
Gross policy liabilities analysed as:		
Current	664,870	52,777
Non current	-	675,275
	664,870	728,052

FOUNDATION LIFE (NZ) HOLDINGS LIMITED – CONSOLIDATED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 September 2018

5. POLICY LIABILITIES (CONTINUED)

In 2017 the Subsidiary 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 2017 year is 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. There are no life investment contract liabilities as at 30 September 2018.

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

(B) SOLVENCY REQUIREMENTS OF LIFE FUNDS

The Company's Subsidiary is a licensed life insurer. Details of the Subsidiary's solvency position follows.

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 \$34.528 million (2017: \$23.193 million).

	Statutory Fund	Non- Statutory Fund	Aggregate for FLNZ
	2018	2018	2018
	\$000	\$000	\$000
Actual solvency capital	37,522	53	37,575
Minimum solvency capital	3,047	-	3,047
Solvency margin	34,475	53	34,528
Solvency Ratio	1231%	20000%	1233%
	2017	2017	2017
	\$000	\$000	\$000
Actual solvency capital	30,411	53	30,464
Minimum solvency capital	7,271	-	7,271
Solvency margin	23,140	53	23,193
Solvency Ratio	418%	20000%	419%

The methodology and basis 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. This methodology differs from the realisation basis of accounting used in the preparation of the financial statements. A reconciliation between the financial statements values and values used in solvency is detailed below:

	Amount per Subsidiary Financial Statements	Amount used in solvency	Change (Solvency - Financial Statements)
	2018	2018	2018
	\$000	\$000	\$000
Total Assets	752,197	765,874	13,677
Policy Liabilities	(664,870)	(708,962)	(44,092)
Other Liabilities	(27,239)	(19,348)	7,891
Total Comprehensive Income	25,311	2,854	(22,457)
Total Equity	60,088	37,564	(22,524)

Total assets are valued on a realisation basis for financial statements and at fair value for solvency (see note 4(a)).

Policy liabilities are valued on a realisation basis for financial statements and on a MoS basis for solvency (see note 4(b)).

FOUNDATION LIFE (NZ) HOLDINGS LIMITED – CONSOLIDATED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 September 2018

5. POLICY LIABILITIES (CONTINUED)

The difference in other liabilities is due to close down and future costs and interest payable to the third party insurer included in the Discontinued Operations Financial Statements and tax differences under each profit calculation.

The difference arising in Total Comprehensive Income and Total Equity are a combination of all of the above.

The 30 September 2017 solvency calculation includes an expense of \$1.4m relating to the provision for loss on the sale of the Annuity business portfolio. Subsequent to the transfer of the business on 2 November 2017 the policy liabilities, and therefore minimum solvency capital, were reduced.

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.

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

The effective date of the policy liabilities and solvency reserves calculation is 30 September 2018. The Appointed Actuary, Paul Swinhoe, FNZSA, FIA, FIAA has calculated policy liabilities for the Subsidiary. The actuary is satisfied as to the accuracy of the data from which the policy liabilities have been determined.

30 September 2018

Participating policyholder liability

As previously noted, the Subsidiary has undertaken a strategic review of its participating product. Plans are now underway to return the assets held within the participating fund to policyholders and shareholders. The policy liabilities reflect an assessment of the realisation value at 30 September 2018.

Policyholder liabilities represent:

- amounts expected to be paid to policyholders who choose to 'cash out' their policies. These amounts are measured at the expected cash and cash equivalents required to settle the obligation.
- amounts expected to be extinguished upon policyholders electing to take up replacement life cover with a third party insurer. The liability relating to these policyholders will be settled through transferring a fixed value of assets to the third party insurer. As such, the liability is measured at the value of assets required to settle it.

To determine each policyholder's share of the assets of the participating fund, each policy was valued by modelling the future benefits that each policy would have delivered and the costs of administering it. This calculation values each policy at the present value of those future benefits and expenses less the present value of future premiums.

As the benefits delivered by a policy will vary with the future performance of the participating fund, a Stochastic Model was commissioned to enable the calculation of future benefits under a wide range of different economic scenarios. This approach was particularly important to identify and value those scenarios in which, because of poor performance, the participating fund assets were insufficient to sustain bonuses and the guaranteed benefits had to be paid from the Subsidiary's assets outside of the participating fund. The policies contain guarantees of the amounts payable on death and at maturity, this is a valuable policy feature. Therefore, it was important to use an approach that valued those guarantees.

For each policy, the future value was calculated under 7,000 randomly generated scenarios and averaged over all of those scenarios. The value of each policy was set at a minimum of 10% above the surrender value at the calculation date. This is to make sure that there is an immediate benefit for all policyholders.

The shareholders are entitled to 20% of the value of bonuses attributed to policyholders. The assets retained by the shareholder were calculated as the value of such future entitlements, averaged over the same scenarios used for valuing the policyholders' share of the assets. The cost of the guarantee (discussed above) and the shareholder's contribution to the costs of the scheme were deducted from the value of the shareholder's share of future bonuses.

For each policy, the future value is used to purchase a paid up (nil future premiums payable) non-participating life insurance policy with the third party insurer. The level of insurance cover under the new policy was equal to 105% of the existing cover including reversionary and terminal bonuses.

Policies that have a future value that is greater than the cost needed to purchase 105% of the existing cover will receive the balance as a cash payment. Policies that have a future value that is insufficient to purchase this level of cover will result in a shortfall. This shortfall will be funded by the assets of the participating fund and shareholders.

The Policy Liability has been calculated to recognise that all of the net assets of the fund would:

- meet outgoings from the fund, treated as payables in Balance Sheet.
- be available to shareholders. Shareholders would receive the value of the Subsidiary's share of future bonuses, less the cost of the guarantee and less the shareholders' contribution to bring the shareholders' share of the costs of the scheme and above minimum Top-up premiums to 50%.
- be distributed to policyholders, this will be the balance of the total assets of the participating fund.

The above calculation was performed as at 31 March 2018. The 30 September 2018 calculation rolled forward results from the 31 March 2018 calculation with allowances made for changes in the participating fund assets and the expenses associated with this project over the 6 months.

The following key judgements were made in arriving at these policy liabilities:

FOUNDATION LIFE (NZ) HOLDINGS LIMITED – CONSOLIDATED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 September 2018

5. POLICY LIABILITIES (CONTINUED)

Take-up rate

The realisation value has been calculated on the basis that 80% of policyholders will opt to take up replacement life cover with the third party insurer and 20% will choose to receive a cash pay-out. This estimate is based on the assumption that more policyholders will opt for replacement life cover given no further premium will be charged and no medical approval is needed under this option. Replacement life cover is also the default option for the participating whole of life policyholders that do not respond with a preferred option. This take up rate is an estimate and is subject to change.

Top-up Premiums

The shortfall on policies with a future value that is insufficient to purchase 105% of the existing cover will be funded by the assets of the fund and by shareholders.

Non-participating policyholder liability

The realisation value of the non-participating policies represents the assessment of the estimated cost of transferring those policies to another insurer.

30 September 2017

The note below summarises assumptions made and the methods adopted for the calculation of policy liabilities and solvency requirements for the year ended 30 September 2017.

(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 Subsidiary.

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	

FOUNDATION LIFE (NZ) HOLDINGS LIMITED – CONSOLIDATED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 September 2018

5. POLICY LIABILITIES (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 for the year ended 30 September 2017:

30 September 2017

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 follow s: September 2017 2.5%
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 follow s: September 2017 2.0%
Inflation	Benefit indexation is before allowance for the proportion of policyholders who take up indexation.	Benefit Indexation: September 2017 2.0%
Future expenses	Future maintenance expenses have been set based on experience analyses and the actuaries' expectations of future expense levels. Future investment expenses have been assumed to be at the same percentage of assets under management as currently applies.	Sept 2017: Traditional Participating \$99 Traditional non-participating \$99 Annuities \$99
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.	Participating Whole of Life products had mortality rates reduced by up to 28% depending on age and sex. The mortality multiplier for male rates have been reduced to 46% from 76.5%.
Mortality – annuities	Standard mortality tables (New Zealand use PML80C10) adjusted for Company experience.	n/a
Disability – lump sum	Based upon recent Company and reinsurer experience adjusting for different product definitions. Some wholesale schemes use specific Company experience.	n/a
Disability income	Standard morbidity tables (IAD89-93) adjusted for Company experience. Specific Company experience is used for certain wholesale schemes.	n/a
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.	n/a None

FOUNDATION LIFE (NZ) HOLDINGS LIMITED – CONSOLIDATED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 September 2018

5. POLICY LIABILITIES (CONTINUED)

REQUIRED ASSUMPTION	BASIS OF ASSUMPTION (By product Group)	SIGNIFICANT CHANGES
Surrender values	Surrender values are based on current practice.	None
Rates of future supportable participating benefits	Assumed future supportable bonus rates included in policyholder liabilities were set such that the present value of policyholder liabilities, allowing for the shareholders' right to participate in distributions, equals the value of assets supporting the business.	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 30 September 2018 policy liability has been valued on a realisation basis as discussed on page 21. The note below relates to the 2017 valuation:

2017

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
	\$000	\$000	\$000	\$000
2017				
Assumption change				
Mortality and morbidity	621	94	-	-
Discontinuances	-	-	-	-
Expenses	(462)	(21)	9	(9)
Other	(165)	1	-	-

FOUNDATION LIFE (NZ) HOLDINGS LIMITED – CONSOLIDATED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 September 2018

5. POLICY LIABILITIES (CONTINUED)

(c) Sensitivity analysis

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

30 September 2018

The 30 September 2018 policy liabilities have been valued on a realisation basis as discussed on page 21.

The analysis below demonstrates the impact of a change in the key judgements and assumptions made in arriving at the realisation values for the participating business:

Take-up rate

The policyholder liability realisation values have been calculated on the basis that 80% of policyholders will take up replacement life cover with the third party insurer and 20% will receive a cash pay-out. Sensitivities of profit to this assumption are as follows:

		2018 \$000
65% of policyholders take up replacement life cover	-15%	300
100% of policyholders take up replacement life cover	20%	(400)

While significant progress has been made on the project, there remains a significant amount of work still to be completed before the Subsidiary is in a position to recommend the scheme to policyholders. As such, the policy liabilities reflect the current assessment of the realisation values. It is possible that following review by a number of stakeholders the scheme may need to be altered. It is possible that such a methodology change could result in a change in profits of ±\$5m. Possible reasons for a change of this magnitude include:

Reason	Detail
Expense Sharing	A change to the way the costs of the project are shared between shareholders and policyholders
Sum Insured Multiplier	A change to the level of cover purchased with the new insurer
Surrender value uplift	A change to the surrender value uplift, currently the scheme assumes that the payment made to policyholders will be at least 10% higher than their current surrender value
Top-up premiums	A change to the way top-ups are calculated
Cash alternative	A change to the way the cash alternative is calculated
Demographics	A change to the way certain policyholders are treated, e.g. those with small policies, the aged, the young, the policies with a very long time in force, endowments
Other	Something that we have not yet thought of

The Directors believe that the profit recognised in the financial statements represents their current best estimate of the realisation value and split of assets between policyholders and shareholders.

All sensitivities that could be applied to the non-participating business are immaterial given the small size of the policy liabilities.

30 September 2017

The note below relates to the 2017 sensitivity.

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 Subsidiary 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 Subsidiary is exposed to market risk.

FOUNDATION LIFE (NZ) HOLDINGS LIMITED – CONSOLIDATED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 September 2018

5. POLICY LIABILITIES (CONTINUED)

The valuations included in the reported results are calculated using certain assumptions about these variables as disclosed above. The movement in any key variable will impact the performance and equity of the Subsidiary. The movement in any key variable will impact the performance of the Subsidiary. 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	
	2017	
	+ 10%	- 10%
	\$000	\$000
Mortality	(59)	59
Morbidity claims costs	-	-
Annuitant mortality	129	(129)
Lapses and surrenders	98	(98)
Renewal expenses	(52)	52

The impact from changes to interest rates has been reflected in note 8 (F).

30 September 2018 and 2017

(d) Solvency requirements

Separate to the policy liabilities recognised in the Statement of Financial Position, 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 "Solvency Standard for Life Insurance Business 2014" issued by the Reserve Bank of New Zealand.

(e) Life insurance risk

The life insurance business of the Subsidiary 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 Subsidiary included in note 8.

Key objectives in managing insurance risk are;

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

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

(i) Underwriting management procedures

Underwriting was previously managed by a separate department with underwriting limits in place to enforce appropriate risk selection criteria. The Subsidiary is closed to new business and subsequently underwriting is no longer required.

(ii) Claim management procedures

Claims are managed through a claims administration 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 Subsidiary holds appropriate reinsurance arrangements to limit exposure to individual 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 Subsidiary 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.

FOUNDATION LIFE (NZ) HOLDINGS LIMITED – CONSOLIDATED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 September 2018

5. POLICY LIABILITIES (CONTINUED)

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
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

(f) Concentration of insurance risk

The Subsidiary is closed to new business. The current portfolio of policyholders has a broad spread of insurance risk types, ages, sexes, occupation classes and geographical locations. The Subsidiary has used reinsurance to limit the insurance risk exposure for a select group of individuals. The Subsidiary is exposed to a greater risk of loss from events affecting a location where groups of insured employees work. The Subsidiary has purchased catastrophe reinsurance to limit the exposure from any one group event.

(g) 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 2018	664,870	664,870	-	-	-	-
30 September 2017	598,809	28,120	26,194	25,813	45,895	472,786

FOUNDATION LIFE (NZ) HOLDINGS LIMITED – CONSOLIDATED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 September 2018

6. FINANCIAL INSTRUMENTS

The analysis of financial assets and liabilities into their categories and classes is set out in the following tables. Refer to note 4 for information on assets and liabilities classified as Held for Sale.

	Total	Loans and Receivables	Fair value through profit or loss	
			Designated	Held for trading
	\$000	\$000	\$000	\$000
As at 30 September 2018				
Financial assets				
Cash and cash equivalents	1	1	-	-
Assets classified as Held for Sale*	752,090	-	-	-
Current tax asset	1,298	1,298	-	-
Policyholder loans	-	-	-	-
Derivative financial assets	-	-	-	-
Investments in fixed interest securities	-	-	-	-
Investment in equity securities	-	-	-	-
Investments in property securities	-	-	-	-
Total financial assets	753,389	1,299	-	-
As at 30 September 2017				
Financial assets				
Cash and cash equivalents	1,827	1,827	-	-
Assets classified as Held for Sale	-	-	-	-
Outstanding premiums and trade receivables	17,550	17,550	-	-
Unsettled investments sale	3,192	3,192	-	-
Policyholder loans	2,693	2,693	-	-
Derivative financial assets	17,526	-	-	17,526
Investments in fixed interest securities	609,313	-	609,313	-
Investment in equity securities	101,991	-	101,991	-
Investments in property securities	33,050	-	33,050	-
Total financial assets	787,142	25,262	744,354	17,526

*2018 Assets classified as held for sale have been valued on a realisation basis, therefore are not categorised as a loans and receivables or fair value through profit or loss. Refer to note 4.

FOUNDATION LIFE (NZ) HOLDINGS LIMITED – CONSOLIDATED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 September 2018

6. FINANCIAL INSTRUMENTS (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 2018				
Financial liabilities				
Payables	2,079	2,079	-	-
Liabilities classified as Held for Sale*	692,109	-	-	-
Unsettled investment purchases	-	-	-	-
Employee provisions	-	-	-	-
Derivative financial liabilities	-	-	-	-
Life investment contract liabilities	-	-	-	-
Loan Notes Payable	23,069	23,069	-	-
Total financial instruments	717,257	25,148	-	-
As at 30 September 2017				
Financial liabilities				
Trade payables	14,380	14,380	-	-
Liabilities classified as Held for Sale	-	-	-	-
Employee provisions	89	89	-	-
Derivative financial liabilities	6,407	-	-	6,407
Life investment contract liabilities	15,166	-	15,166	-
Loan Notes Payable	23,069	23,069	-	-
Total financial instruments	59,111	37,538	15,166	6,407

*2018 Liabilities classified as held for sale have been valued on a realisation basis, therefore are not categorised as a Liabilities at amortised cost or fair value through profit or loss. Refer to note 4.

7. LOAN NOTES PAYABLE

	2018 \$000	2017 \$000
Loan Notes Payable	23,069	23,069
	23,069	23,069

On 30 September 2017 Foundation Life (NZ) Holdings Limited issued a Deed of Variation to the conditions of the Notes Payable. This deed changed each note on issue into two components, Ordinary Principal and Liquidation Principal. The terms of the Ordinary Principal have not changed from the original terms of the Loan notes and therefore remain classified as a Financial Liability. These terms include an obligation to pay interest on notes at 9% and an obligation to repay the noteholder. The characteristics of the Liquidation Principal have deemed them to be of equity in nature as there is no obligation for the Parent Company to repay the Liquidation Principal, therefore they have been classified as equity as at 30 September 2017. This treatment has not changed in 2018 and remains classified as equity.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 September 2018

8. RISK MANAGEMENT AND FINANCIAL INSTRUMENT INFORMATION

The Subsidiary has been treated as a discontinued operation, however, as the Subsidiary has not yet been disposed of, the risks associated with operations remain within the Group. Where appropriate, the risk management and financial instrument information in this note presents the Subsidiary amounts as a continued operation.

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, compliance risk and operational risk. The Group's objectives and policies in respect of insurance risks are disclosed in note 5, while the managing of other risks is set out in the remainder of this note.

(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.

(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 currency exposure of the funds is to Australian and US dollars, Japanese Yen, Euro, Swiss Francs, Hong Kong dollars, Canadian dollars and British Pounds. The notional amounts and contractual cash flows of these derivatives are included in (E) below. There is no currency risk exposure as at 30 September 2018.

(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 2018 there were no interest rate swaps in place in relation to external borrowings (2017: nil). The Group manages interest rate risk arising from its interest bearing investments in accordance with the Board approved policies.

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.

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

FOUNDATION LIFE (NZ) HOLDINGS LIMITED – CONSOLIDATED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 September 2018

8. RISK MANAGEMENT AND FINANCIAL INSTRUMENT INFORMATION (CONTINUED)

	Carrying value	
	2018	2017
	\$000	\$000
New Zealand government	455,224	180,883
Other government agencies	89,696	45,648
Banks	27,343	363,526
Financial institutions	145,675	4,880
Other receivables	21,564	23,418
Other industries	13,887	33,729
Total financial assets with credit exposure	753,389	652,084

Assets have been valued on a realisation basis as detailed in note 4(a).

(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.

(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	
	2018	2017
	\$000	\$000
Credit exposure by credit rating		
AAA	16,922	231,994
AA	569,228	388,460
A	-	10
Total counterparties with external credit rating by Standard and Poor's	586,150	620,464
Group 1	18,379	21,477
Group 1A	-	-
Group 2	-	-
Group 3	148,860	10,143
Total counterparties with no external credit rating	167,239	31,620
Total financial assets neither past due nor impaired with credit exposure	753,389	652,084

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

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

None of the financial assets that are fully performing have been renegotiated during the 2018 year (2017: 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 30 September 2018, the total of carrying value of past due but not impaired assets held by the Group is nil (2017: nil).

(vi) Financial assets that are individually impaired

As at 30 September 2018 there were no assets that were individually impaired (2017: 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 after a non-payment grace period and the outstanding premiums are written off. The secured balance, which represents the surrender value, for the year ended 30 September 2018 is \$19.57m (2017: \$20.24m).

FOUNDATION LIFE (NZ) HOLDINGS LIMITED – CONSOLIDATED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 September 2018

8. RISK MANAGEMENT AND FINANCIAL INSTRUMENT INFORMATION (CONTINUED)

(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.

(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	Greater than one year \$000	Less than one year \$000	On demand \$000
As at 30 September 2018					
Financial liabilities and guarantees					
Payables	2,079	2,079	-	2,079	-
Derivative financial liabilities	-	-	-	-	-
Life investment contract liabilities	-	-	-	-	-
Loan notes payable	23,069	-	23,069	-	-
Liabilities classified as held for sale	692,109	692,109	-	692,109	-
Total financial liabilities and guarantees	717,257	694,188	23,069	694,188	-
As at 30 September 2017					
Financial liabilities and guarantees					
Payables	14,380	14,380	-	14,380	-
Employee provisions	89	89	-	89	-
Derivative financial liabilities	6,407	16,987	-	16,987	-
Life investment contract liabilities	15,166	15,166	-	-	15,166
Loan notes payable	23,069	23,069	23,069	-	-
Total financial liabilities and guarantees	59,111	69,691	23,069	31,456	15,166

Please see note 8 (E) for total cash flows for forward foreign exchange contracts.

FOUNDATION LIFE (NZ) HOLDINGS LIMITED – CONSOLIDATED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 September 2018

8. RISK MANAGEMENT AND FINANCIAL INSTRUMENT INFORMATION (CONTINUED)

(D) FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

Financial assets have been valued on a realisation basis – refer to note 4.

For the year ended 30 September 2017 the following fair value assumptions apply:

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.

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)

There was no movement between financial instrument assets or liabilities classified within the fair value hierarchy during the year. All financial instruments as at 30 September 2018 are level 2. Total fair value assets exclude fixed assets designated for transfer as detailed in note 4(a).

The following tables present the Group's assets and liabilities as at 30 September 2017 categorised by fair value measurement hierarchy levels.

	Total \$000	Level 1 \$000	Level 2 \$000
As at 30 September 2017			
Assets			
Derivative financial assets	17,526	-	17,526
Investment in equity securities	101,991	-	101,991
Investments in fixed interest securities	609,313	-	609,313
Investments in property securities	33,050	-	33,050
Total financial assets	761,880	-	761,880
Liabilities			
Derivative financial liabilities	6,407	-	6,407
Life investment contract liabilities	15,166	-	15,166
Total financial liabilities	21,573	-	21,573

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NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 September 2018

8. RISK MANAGEMENT AND FINANCIAL INSTRUMENT INFORMATION (CONTINUED)

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.

(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.

(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.

(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	
	2018	2017	2018	2017	2018	2017
	%	%	\$000	\$000	\$000	\$000
Less than 1 year	-	-	-	-	-	-
1 to 2 years	-	-	-	-	-	-
2 to 5 years	-	3.2%	-	42,000	-	490
over 5 years	-	5.5%	-	343,570	-	10,734
			-	385,570	-	11,224

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.

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NOTES TO THE FINANCIAL STATEMENTS

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8. RISK MANAGEMENT AND FINANCIAL INSTRUMENT INFORMATION (CONTINUED)

(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.

	2018		2017	
	Impact on		Impact on	
	Profit after tax \$000	Equity \$000	Profit after tax \$000	Equity \$000
<i>Change in variables</i>				
+50 basis points	(340)	(340)	(924)	(924)
-50 basis points	368	368	968	968

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 dollar impact of the change in interest rates is estimated by reference to the average duration of the investment assets.

The table below provides a sensitivity analysis in respect of changes in interest rates as applied to the annuity contract assets and liabilities.

A change in interest rates has nil impact on annuity contract assets and liabilities as at 30 September 2018 as they were sold in November 2017.

	2018		2017	
	Impact on		Impact on	
	Profit after tax \$000	Equity \$000	Profit after tax \$000	Equity \$000
<i>Change in variables</i>				
+50 basis points	-	-	526	526
-50 basis points	-	-	(560)	(560)

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.

	2018		2017	
	Impact on		Impact on	
	Profit after tax \$000	Equity \$000	Profit after tax \$000	Equity \$000
<i>Change in variables</i>				
10% appreciation of New Zealand dollar	-	-	(11)	(11)
10% depreciation of New Zealand dollar	-	-	11	11

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.

There is no foreign currency risk exposure as at 30 September 2018.

(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.

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For the year ended 30 September 2018

8. RISK MANAGEMENT AND FINANCIAL INSTRUMENT INFORMATION (CONTINUED)

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.

	2018 Impact on		2017 Impact on	
	Profit after tax \$000	Equity \$000	Profit after tax \$000	Equity \$000
Change in variables				
+10% in New Zealand equities	-	-	93	93
-10% in New Zealand equities	-	-	(93)	(93)

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.

There is no New Zealand equity risk exposure as at 30 September 2018.

(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.

	2018 Impact on		2017 Impact on	
	Profit after tax \$000	Equity \$000	Profit after tax \$000	Equity \$000
Change in variables				
+10% property funds and other unit trusts	-	-	57	57
-10% property funds and other unit trusts	-	-	(57)	(57)
+10% in International equities	-	-	91	91
-10% in International equities	-	-	(91)	(91)

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.

There is no property or international equity risk exposure as at 30 September 2018.

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NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 September 2018

9. TAXATION

	2018 \$000	Restated* 2017 \$000
Loss before taxation from continuing operations	(2,819)	(2,761)
Income tax at the current rate of 28 cents	(789)	(773)

*Comparative information has been restated in accordance with NZ IFRS 5: Non-current Assets Held for Sale and Discontinued Operations. The restatement is to tax calculation for the continued operations only..

DEFERRED TAX ASSETS AND LIABILITIES

As a result of the discontinued operations of the Subsidiary all taxation assets and obligations are included with the assets and liabilities classified as Held for Sale. Due to the realisation basis of preparation applied to the discontinued operations all tax related balances are current in nature.

The 2017 deferred tax balance movement is as follows:

	Opening balance at 1 October	Prior period adjustment	Charged/ (credited) to profit or loss	Closing balance at 30 September
2017				
Movements in deferred taxation assets				
Unrealised losses on investments	-	-	7,020	7,020
Other	25	(7)	8	26
Total deferred tax assets	25	(7)	7,028	7,046
Movements in deferred taxation liabilities				
Unrealised gains on investments	905	-	(105)	800
Total deferred taxation liabilities	905	-	(105)	800
Net deferred tax	(880)	(7)	7,133	6,246

(C) IMPUTATION CREDIT ACCOUNT

The imputations credits available to carry forward and utilise in future periods is \$2,238,422 (2017: \$2,246,908).

10. CAPITAL RISK MANAGEMENT

The Group's objective when managing capital is to ensure that Foundation Life (NZ) Limited's level of capital is sufficient to enable it to meet statutory solvency obligations.

The Group's capital resources include ordinary equity and retained earnings.

	2018 \$000	2017 \$000
Total shareholders equity	36,239	13,015
Total capital resources	36,239	13,015

From August 2013 actual solvency capital as determined under the solvency standards, should exceed the minimum solvency capital level by at least \$15 million. This amount is retained as minimum solvency capital.

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.

FOUNDATION LIFE (NZ) HOLDINGS LIMITED – CONSOLIDATED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 September 2018

11. CASH AND CASH EQUIVALENTS

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

	2018 \$000	2017 \$000
Cash at bank and in hand	1	1,645
Deposits at call	-	182
Total cash and cash equivalents	1	1,827

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

	2018 \$000	Restated* 2017 \$000
Loss from continuing operations	(2,030)	(1,988)
Profit after tax from discontinued operations	25,311	1,899
Profit attributable to shareholders	23,281	(89)
Add/(less) non cash items		
Non-cash items from discontinued operations	20,905	14,686
	20,905	14,686
Add/(less) movements in working capital relating to operating activities		
(Increase) / Decrease in receivables	-	9
Increase / (decrease) in payables	23	5
Change in assets and liabilities classified as Held for Sale	(42,768)	(27,569)
Taxation paid	(789)	9
	(43,534)	(27,546)
Net cash inflows from operating activities	652	(12,949)

*Comparative information has been restated in accordance with NZ IFRS 5: Non-current Assets Held for Sale and Discontinued Operations. The restatement is to show non-cash items of the discontinued operations as a single line item.

12. CONTINGENT LIABILITIES

The Group has no contingent liabilities as at 30 September 2018 (2017: 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.

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NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 September 2018

13. TRANSACTIONS WITH RELATED PARTIES

(A) RELATED PARTY BALANCES AND TRANSACTIONS

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

Receivable and payable balances:

Related party	2018 \$000	2017 \$000	Nature of Relationship	Type of Transactions
Shareholders of Foundation Life (NZ) Holdings Limited	(23,069)	(23,069)	Shareholders	Loan Notes Payable

Transactions:

Related party	2018 \$000	2017 \$000	Nature of Relationship	Type of Transactions
Shareholders of Foundation Life (NZ) Holdings Limited	2,800	2,718	Shareholders	Interest on Loan Notes Payable
Directors of Foundation Life (NZ) Holdings Limited	57	60	Directors	Class B Distribution

(B) KEY MANAGEMENT PERSONNEL DISCLOSURES

Key management have been defined as the Chief Executive Officer and direct reports. Below are the amounts included in the discontinued operations for the Subsidiary.

	2018 \$000	2017 \$000
Key management personnel remuneration comprised:		
Short-term employee benefits	817	568
Post employment benefits	-	-
Termination benefits	1,143	-
Other long-term benefits	-	-
Share based payments	-	-
	<u>1,960</u>	<u>568</u>

Director fees paid to directors of Foundation Life (NZ) Limited were \$382,000 (2017: \$342,000). Dividends paid to non-independent directors of Foundation Life (NZ) Limited were \$40,000 (2017: \$40,000).

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NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 September 2017

14. LEASE COMMITMENTS

The Subsidiary as detailed in note 4 leases office space and this is a standard operating lease.

	2018 \$000	2017 \$000
Non-Cancellable Operating Lease Commitments		
Payable no later than one year	43	43
	43	43

15. AUDIT FEES

Audit and review (interim financial statements), other assurance services (solvency return), and data integrity service fees for the year were \$123,710, \$7,500 and \$24,000 respectively (2017: \$130,935, \$7,500 and \$7,800 respectively).

16. SUBSEQUENT EVENTS

There have been no subsequent events.

