FOUNDATION LIFE (NZ) LIMITED

ANNUAL REPORT

FOR THE YEAR ENDED 30 SEPTEMBER 2021

FOUNDATION LIFE (NZ) LIMITED

ANNUAL REPORT
For the year ended 30 September 2021

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FOUNDATION LIFE (NZ) LIMITED

DIRECTORS' REPORT
For the year ended 30 September 2021

The Directors of Foundation Life (NZ) Limited present their report and financial statements of the Company for the year ended 30 September 2021.

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

The Company 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 and restructuring process. If the Scheme is approved by policyholders and the High Court, the Company will cease to operate. As it is the Directors' intention to proceed with the Scheme, the financial statements continue to be prepared on a realisation basis.

The after tax loss for the year was $145k (2020: $2,139k loss). Shareholders' equity at the end of the year totals $42,682k (2020: $42,827k). The Directors consider the Company 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 Company has arranged Directors' liability insurance for directors and officers of the Company and its related companies which ensures that generally directors and those officers will incur no monetary losses as a result of actions undertaken by them in the course of their duties. Such insurance arrangements exclude certain actions such as the incurring of penalties or fines that may be imposed for breaches of the law.

The Directors in office at the date of this report are: R Davies, J Ogden and T Sole.

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

The Board of Directors of Foundation Life (NZ) Limited authorised these financial statements, for issue on 9 December 2021.

For and on behalf of the Board:

T. C. Sole

Director:
Date: 9 December 2021

J Ogden

Director:
Date: 9 December 2021

FOUNDATION LIFE (NZ) LIMITED

GOVERNANCE STATEMENT
For the year ended 30 September 2021

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

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

Role and operation of the Board of Directors

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

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

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

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

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

Composition of the Board

The Foundation Life (NZ) Limited constitution provides for a minimum of two, and a maximum of nine Directors. On 1 December 2021 Ray Kellerman resigned from his position as Director and Chairman of the Board; Tim Sole was appointed Chairman of the Board. Foundation Life (NZ) Limited has three Directors as at 9 December 2021. Details of the Directors, including their qualifications and experience are set out below. Under the Reserve Bank Governance Guidelines, it is expected that at least half of the Directors will be independent. Criteria that the Reserve Bank will consider when determining whether a Director is independent include, but are not limited to:

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

Two out of three of the Foundation Life (NZ) Limited Directors are considered by the Company to be independent, and those Directors are noted below.

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

Tim Sole

BSc (Hons), MBA , FNZSA (rtd)

Independent Chairman

Appointed: 9 October 2017

Tim is a recently retired actuary and chartered statistician and has spent 26 years of his career as a Chief Executive. He is a former Chief Executive of Royal and Sun Alliance Life, State Insurance, Public Trust, and New Zealand Local Government Insurance Corporation Limited and he has worked as an actuary in the UK, Australia and New Zealand. Roles in New Zealand have included Chairman of the Life Office Association, Chairman of the Insurance and Savings Ombudsman Scheme and Chairman of the New Zealand Export Credit Office Advisory Board.

Tim resides in Waikanae, New Zealand.

Richard Davies

B Ec, LLB (Hons), MBA (Hons)

Executive Director

Not Independent

Appointed: 29 August 2014

Richard has over 21 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.

Richard resides in Melbourne, Australia.

James Ogden

BCA (Hons), FCA, CFinstD, INFINZ (Cert)

Independent Director

Appointed: 16 October 2017

James provides consulting services to organisations in the private sector on mergers and acquisitions and investment strategy. His current directorships include the NZX and ASX listed companies Summerset Group Holdings Limited and Vista Group International Limited; chairs the Investment Committee of Pencarrow Funds IV, V and Pencarrow Bridge Fund; Chair of the Special Division of the New Zealand Markets Disciplinary Tribunal and a member of the Audit and Risk Committee and the Investment sub-committee of the Crown Forestry Rental Trust. Before becoming a consultant and director, James had extensive investment banking experience including six years as Country Manager for Macquarie Bank Limited and five years as a Director of Credit Suisse First Boston. James worked for eight years in the New Zealand dairy industry in chief executive and finance roles and in London for six years in finance roles. James has a professional accounting background with extensive experience in investment banking and capital markets. He is a Fellow of the Chartered Accountants of Australia and New Zealand, Chartered Fellow of the Institute of Directors, Member of the Institute of Finance Professionals New Zealand Inc. and a former New Zealand Stock Exchange Broker.

James resides in Wellington, New Zealand.

Board committees

The Board has two governance committees: The Audit and Compliance Committee and the Project Scholar Steering Committee. Each Committee is governed by written terms of reference, which detail its specific functions and responsibilities.

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

Audit and Compliance Committee

Members: James Ogden (Independent Chairman), Tim Sole and Richard Davies. James Ogden was appointed as Chairman of the Audit and Compliance Committee on 1 December 2021.

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

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

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

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

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

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

Project Scholar Steering Committee

Members: Tim Sole (Independent Chairman), Richard Davies, James Ogden.

The Board of Directors of Foundation Life (NZ) Limited has delegated to the Project Scholar Steering Committee certain responsibilities in respect of the potential restructuring of the Company's Participating Fund and all associated streams of work required to implement the restructuring. The primary function and objective of the Committee is to assist the Board in relation to assessing and implementing Project Scholar. In general terms, this is achieved by monitoring the various work streams associated with developing a potential proposal in relation to Project Scholar, and should the Board decide to move into the implementation phase, the various works streams associated with the implementation of Project Scholar.

Other Committee functions and objectives are to, in respect of the Company:

- Oversee and appraise any advisers appointed to assist in developing and implementing a proposal in relation to Project Scholar (Advisers).
- Maintain open lines of communication between the Board, the Appointed Actuary and Advisers including the full and open exchange of views and information, as well as to confirm their respective roles, authorities, and responsibilities.
- The Chairman of the Committee has a direct line of communication to all Advisers.
- Serve as an independent and objective party to review periodic and pro-forma financial information, particularly as to accuracy and timeliness, presented by management to the Board, regulators, and the public.

Risk management

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

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

Independent auditor's report

To the shareholder of Foundation Life (NZ) Limited

Our opinion

In our opinion, the accompanying financial statements of Foundation Life (NZ) Limited (the Company), present fairly, in all material respects, the financial position of the Company as at 30 September 2021, 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).

What we have audited

The financial statements comprise:

- the statement of financial position as at 30 September 2021;
- 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 significant accounting policies and other explanatory information.

Basis for opinion

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

Independence

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

Our firm carries out other services for the Company in the areas of an agreed upon procedure engagement relating to data reconciliation, and an assurance engagement in respect of the annual solvency return. The provision of these other services has not impaired our independence as auditor of the Company.

Emphasis of matter

We draw attention to Note 1 of the financial statements, which details that the financial statements of the Company have been prepared on a realisation basis. The Directors of the Company are implementing a project that is intended to lead to the Company ceasing to trade in the foreseeable future. As a result, the Directors have determined that the use of the going concern basis of preparation is not appropriate. This basis of preparation is consistent with that applied in the comparative period.

Consistent with the comparative period, adjustments have been made in these financial statements to:

- recognise assets at their realisable values;
- provide for liabilities arising from the signing of an agreement with a third-party insurer, indicating the Company's intention to cease trading in the foreseeable future subject to the successful implementation of the project; and
- reclassify non-current assets and non-current liabilities as current assets and liabilities.

Our opinion is not modified in respect of this matter.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current year. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Description of the key audit matter	How our audit addressed the key audit matter
Impact of changes in agreement with the third-party insurer upon the valuation of assets and liabilities As explained in note 1 and 12 to the financial statements, the Company revised its agreement with the third-party insurer. Under the revised agreement the Company will: • pay any tax due on coupon income from and market value gains of the Pre-Agreed Securities (PAS) at the time of transfer of the assets to the third-party insurer • no longer receive interest income at 2% per annum on the fixed value of the PAS • transfer a reduced amount of the PAS to the third-party insurer to settle the single premium requirement under the agreement. As at balance date, the Company has estimated that it will be required to transfer 85% of the PAS and reinvested coupons to provide insurance to 66% of policyholders. The impact of these changes were: • tax payable on market gains and coupons on the PAS of $20.7 million was recognised. This tax liability reduces assets available for distribution to policyholders and consequently reduces the liability to policyholders, • interest receivable from the third-party insurer of $19.7 million was reversed, and	To assess the impact of changes in the agreement upon the valuation of assets and liabilities, we performed the following procedures: • Enquired of management of the Company to obtain an understanding of the revised commercial terms of the agreement with the third-party insurer. • Reviewed the revised terms of the Company's draft agreement with the third-party insurer. • Obtained confirmation from the third-party insurer regarding the changes in the agreement, including clarification of the pricing mechanism within the agreement. • Assessed management's accounting treatment for the changes in the contractual terms, including recalculating the: – tax payable on the fair value gains of the pre-agreed securities (PAS), and – fair value of assets, including PAS retained by the Company • Considered whether the changes in the contractual terms, particularly relating to the reversal of the interest receivable, represented an error in historic treatment, • Assessed the appropriateness of the financial statement disclosures. We have no material matters to report arising from the procedures performed.

Description of the key audit matter	How our audit addressed the key audit matter
• adjustments were made to fair value a larger portion of the investment assets. This reflects the transfer of fewer PAS to settle the Company's obligation to the third-party insurer. These adjustments had a nil net impact upon profit or loss. Given the time spent and the significance of the impact of changes in the agreement with the third-party insurer upon the valuation of assets and liabilities, we deem this area to be a key audit matter.	
Determination of the realisable value of liabilities to policyholders Liabilities to policyholders are disclosed in note 11 (D)(a) to the financial statements. The realisable value of liabilities to policyholders has been determined on the basis that the net assets of the participating fund will be distributed to policyholders. These net assets include deduction of an amount, agreed between the Company and the shareholder, to be paid to the shareholder of $14.43 million. The realisable value of liabilities to policyholders has been calculated on the basis that 66% of policyholders will opt to take up replacement life cover with the third-party insurer, with the remaining policyholders choosing to receive a cash pay-out. If more than 90% opt for insurance, the shareholder agreed amount will reduce. The determination of the shareholder payment materially impacts the determination of liabilities to policyholders and the profit or loss for the year. Given the significance of the determination of the liabilities to policyholders upon the financial statements we deem this area to be a key audit matter.	To assess the valuation of liabilities to policyholders, we engaged our own actuarial expert and: • Understood the methodology and approach taken by the Directors to determine the realisable value of liabilities to policyholders, and the control processes implemented over the valuation, including review of the analysis undertaken by the Company's Appointed Actuary. • Tested, for completeness and accuracy of classification between participating and non-participating assets, the reconciliation of the net assets of the participating funds as at 30 September 2021. • Reviewed the agreement (and its extension) between the Company and the shareholder detailing the amount of participating fund assets to be retained by the shareholder. • Reviewed the terms of the Company's agreement (and its extension) with the third-party insurer. • Considered for reasonableness the judgements and assumptions made by the Directors, including performing sensitivity analysis over the replacement cover take up rate. We also considered the appropriateness of the disclosures in the financial statements. We have no material matters to report arising from the procedures performed.

Our audit approach

Overview

Materiality	Overall materiality: $1.73 million, which represents approximately 0.25% of total assets. We chose total assets as the benchmark because, in our view, total assets are of most importance to shareholders and policyholders as they represent the amounts available for distribution to them upon cessation of the Company's operations. The amount that will be attributable to the Company's shareholder is also dependent upon the value of total assets.
Key audit matters	As reported above, we have two key audit matters, being: • Impact of changes in agreement with the third-party insurer upon the valuation of assets and liabilities, and • Determination of the realisable value of liabilities to policyholders.

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we considered where management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters, consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the financial statements as a whole, taking into account the structure of the Company, the accounting processes and controls, and the industry in which the Company operates.

Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance about whether the financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall materiality for the financial statements as a whole as set out above. These, together with qualitative considerations, helped us to determine the scope of our audit, the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate, on the financial statements as a whole.

Other information

The Directors are responsible for the other information. The other information comprises the information included in the Annual report, but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of audit opinion or assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the 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 financial statements

The Directors are responsible, on behalf of the Company, for the preparation and fair presentation of the 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 financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Company'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 Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements, as a whole, are free from material misstatement, whether due to fraud or error, and to issue an 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 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/assurance-standards/auditors-responsibilities/audit-report-2/

This description forms part of our auditor's report.

Who we report to

This report is made solely to the Company's shareholder. 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 shareholder, 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:

PricewaterhouseCoopers

Chartered Accountants
10 December 2021

Wellington

ACTUARY'S REPORT

Shadow Projects Pty Ltd

ABN 12 096 205 971

16 Bongalong St
Naremburn NSW 2065
Mobile: 0427 946 463
Email: paul.swinhoe@tpg.com.au

9 December 2021

Foundation Life (NZ) Limited - 30 September 2021

<u>Appointed Actuary's Insurance (Prudential Supervision) Act 2010 Section 78 Report</u>

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

The report provides information to the Directors of FLNZ (and management) regarding a review of the actuarial information (Section 77 of IPSA) contained in the FLNZ financial statements as at 30 September 2021 and provides an opinion as to its appropriateness.

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

<u>Review of the Actuarial Information contained in the 30 September 2021 Foundation Life (NZ) Limited Financial Statements</u>

I am the Appointed Actuary to Foundation Life (NZ) Limited (FLNZ). I am an independent contractor and act as Appointed Actuary under a contract for services.

The directors are responsible for the preparation of the Company's financial statements; FLNZ's policy is to seek the advice of the appointed actuary in the preparation of the actuarial information contained in its financial statements. I and the Deloitte NZ team of actuarial staff have been directly involved in the preparation of FLNZ 30 September 2021 financial statements. I confirm the financial statements have been prepared in accordance with this policy, and as such this satisfies the requirements of the Act. Appropriate actuarial information has been used accurately and appropriately.

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

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

As at 30 September 2021 the company and its statutory fund complied with the Reserve Bank of New Zealand ("RBNZ") Solvency Standards and FLNZ's licence requirements in regard to solvency.

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

FOUNDATION LIFE (NZ) LIMITED

STATEMENT OF PROFIT OR LOSS & OTHER COMPREHENSIVE INCOME
For the year ended 30 September 2021

	Note	2021 $000	2020 $000
Premium revenue from insurance contracts	3	5,858	6,236
Investment (expense) / revenue	4	(26,059)	24,190
Net operating revenue		**(20,201)**	**30,426**
Claims expense		34,648	32,576
Decrease in liabilities to policyholders	11	(72,340)	(12,114)
Management and sales expenses	5	5,521	7,117
Net claims and operating expenses		**(32,171)**	**27,579**
Profit before taxation		**11,970**	**2,847**
Income tax expense	6	(12,115)	(4,986)
Loss for the year attributable to the shareholder of the Company		**(145)**	**(2,139)**
Loss attributable to:			
- Shareholder		**(145)**	**(2,139)**
Other Comprehensive Income		-	-
Total Comprehensive Income / (Loss)		**(145)**	**(2,139)**

The above Statement of Profit or Loss and Other Comprehensive Income should be read in conjunction with the accompanying notes.

FOUNDATION LIFE (NZ) LIMITED

STATEMENT OF FINANCIAL POSITION
As at 30 September 2021

	Note	2021 $000	2020 $000
Assets			
Cash and cash equivalents	15	692	1,381
Receivables	7	14,144	37,751
Financial assets	12	675,783	707,317
Policyholder loans	8	2,223	2,274
Property, Plant & Equipment		148	160
Current tax assets		-	5,116
Total assets		**692,990**	**753,999**
Liabilities			
Payables	9	14,861	17,014
Related Party payables	18	403	173
Employee provisions		321	318
Current tax liabilities		6,572	-
Claims payable		10,855	10,034
Liabilities to policyholders	11	581,513	653,853
Interest payable to third party insurer		35,783	29,780
Total liabilities		**650,308**	**711,172**
Net assets		**42,682**	**42,827**
Equity			
Contributed equity	10	10,000	10,000
Retained earnings		32,682	32,827
Total equity		**42,682**	**42,827**

The financial statements were approved for issue by the Board on 9 December 2021.

T. C. Gole

Director

Director

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

FOUNDATION LIFE (NZ) LIMITED

STATEMENT OF CHANGES IN EQUITY
For the year ended 30 September 2021

		Attributed to shareholder		
		Contributed equity $000	Retained earnings $000	Total equity $000
Year ended 30 September 2021				
At the beginning of the period		**10,000**	**32,827**	**42,827**
Comprehensive income				
Loss for the period		-	(145)	(145)
Total comprehensive income		**-**	**(145)**	**(145)**
Transactions with the shareholder				
Dividends paid	18	-	-	-
Total transactions with the shareholder		**-**	**-**	**-**
At the end of the period		**10,000**	**32,682**	**42,682**
Year ended 30 September 2020				
At the beginning of the period		**10,000**	**36,866**	**46,866**
Comprehensive income				
Loss for the period		-	(2,139)	(2,139)
Total comprehensive income		**-**	**(2,139)**	**(2,139)**
Transactions with the shareholder				
Dividends paid ($0.19 per share)	18	-	(1,900)	(1,900)
Total transactions with the shareholder		**-**	**(1,900)**	**(1,900)**
At the end of the period		**10,000**	**32,827**	**42,827**

The above Statement of Changes in Equity should be read in conjunction with the accompanying notes.

FOUNDATION LIFE (NZ) LIMITED

STATEMENT OF CASH FLOWS
For the year ended 30 September 2021

	Note	2021 $000	2020 $000
Cash flows from operating activities			
Premiums received		6,188	6,395
Interest received		16,927	16,633
Payments to policyholders		(33,639)	(29,304)
Reinsurance payments		(48)	(45)
Payments to suppliers and employees		(7,410)	(8,651)
Income taxation paid		(427)	(19,093)
Net receipts for financial assets *		17,540	36,315
Payments for purchase of property, plant and equipment		(51)	(17)
Net cash (outlfow) / inflow from operating activities	15	**(920)**	**2,233**
Cash flows from financing activities			
Payment of dividends		-	(1,900)
Intercompany settlements		231	173
Net cash inflow / (outflow) from financing activities		**231**	**(1,727)**
Net (decrease) /increase in cash and cash equivalents		**(689)**	**506**
Cash and cash equivalents at beginning of period		1,381	875
Cash and cash equivalents at end of period		**692**	**1,381**

* There have been no cash flows from investing activities in the current or comparative year. These cash flows have been categorised as operating cash flows as these activities are now undertaken in order to settle the liabilities of the Company. This is consistent with the realisation basis of accounting.

The above Statement of Cash Flows should be read in conjunction with the accompanying notes.

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) Limited is a:

- Limited liability for-profit company incorporated in New Zealand under the New Zealand Companies Act 1993
- FMC reporting entity under the Financial Markets Conduct Act 2013
- Licensed insurer in accordance with the Insurance (Prudential Supervision) Act 2010.

The address of its registered office is 50 Customhouse Quay, Wellington, New Zealand. The Company is a wholly owned subsidiary of Foundation Life (NZ) Holdings Limited.

The principal activities of the Company are continuing the prudential management of life insurance portfolio and investment management activities.

BASIS OF PREPARATION

The financial statements of the Company 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 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 Company'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 on page 18.

<u>Going Concern</u>

The Going Concern assumption has not been applied in the preparation of the financial statements as the Company has initiated a project that is intended to lead to the Company ceasing to trade in the foreseeable future.

With the Company being closed to new business and in the recent economic environment of low interest rates, low expected future investment returns and volatility in the inflation rate, the constraints on investment policy and diseconomies of scale mean that Participating policies may no longer be in the best interests of their policyholders. These views remain, although some market conditions have changed in recent times. The Directors investigated options to provide increased benefits and choice to the policyholders.

As a result of this investigation, the Foundation Life Directors initiated a project (Project Scholar) to develop 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 Company 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. This contract was updated in December 2020. The December 2020 contract has been extended and an updated contract containing further amendments is currently being finalised. The following are the major milestones that are yet to be met in order for Project Scholar to go ahead:

- Approval of the final proposal to policyholders by the 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 Company's operations would cease shortly thereafter (subject to the sale of the Non-participating business). If milestones are not achieved the Company will continue with current operations.

The intention of the Board of Directors is to continue with the Project Scholar. Given this intention and the advanced stage of Project Scholar, including the appointment of a third-party insurance provider, the Company has not applied the going concern assumption in the preparation of the financial statements. The financial statements have been prepared on a realisation basis. This is consistent with the basis of preparation applied for the 30 September 2018, 30 September 2019, and 30 September 2020 financial statements.

The impact of preparing the financial statements on a realisation basis are:

- Financial assets have been valued on a realisation basis. This represents the amount that the Company expects to receive by selling the assets in an orderly disposal. For a portion of the investments the Company holds to back insurance liabilities, the realisable value reflects the contractually agreed value with the third party insurer. These are referred to as 'Pre-Agreed Securities'. This value was fixed when the Company entered into a contract with the third party insurer. The Pre-Agreed Securities are valued at the agreed value only to the extent of those assets that the Company estimates will need to be transferred to acquire insurance for policyholders. Investments that are not designated for transfer to the third party insurer continue to be measured at fair value, being the best indicator of their realisable value. Refer to note 12 for further information.
- Liabilities to policyholders have been valued on a realisation basis. Liabilities to policyholders 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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

  - Business close down costs, future project costs and cash pay-out phase costs of $0.186m (September 2020: $0.628m) have been included in management and sales expenses in the period. Provisions of $13.892m (2020: $15.486m) included on the balance sheet represent estimated costs that the Company will incur and is obligated to pay by completing Project Scholar and by the cessation and closure of operations.
- Investment income payable to the third party insurer of $35.783m (September 2020: $29.780m) is included in the current period. Refer to note 12 for information on investment income payable.
- A provision for tax payable of $20.696m has been included in the 30 September 2021 year. The Company has agreed with the third party insurer that the Company will pay the tax on the market value gains and coupons of the Pre-Agreed Securities at the time the transfer of assets takes place. This arrangement will be reflected in the updated contract.

If Project Scholar does not go ahead, the measurement basis and presentation will revert back to a going concern basis.

<u>Critical Accounting Judgements and Estimates</u>

The Company 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 and comparative reporting year are noted below:

<u>Investment assets backing life insurance contracts</u>

An agreement has been made with the third party insurer to transfer designated investment assets ('Pre-Agreed Securities') for a fixed value of $465m. In 2020 $452m of financial assets were valued at the pre-agreed value. The Pre-Agreed Securities 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 or default to. The Pre-Agreed Security value was calculated based on an estimate that 66% of policyholders would choose or default to replacement insurance.

In 2021 the methodology for valuing the Pre-Agreed Securities was modified to reflect the proposed changes to the contract with the third party insurer. As at 30 September 2021 it is estimated that 85% of the original Pre-Agreed Securities will be required for 66% of policyholders to receive replacement life cover with the third party insurer. This is equal to $395m of the Pre-Agreed Securities valued at the pre-agreed value. Pre-agreed assets in excess of $395m have been valued at market value. If the actual value of replacement life cover taken up is lower than the value of the Pre-Agreed Securities, the value of the excess assets will revert back to fair value. If the value of replacement life cover taken up is higher than the value of the Pre-Agree Securities 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.

<u>Liability to policyholders</u>

The liability to policyholders has been calculated using statistical modelling and mathematical methods. 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 life insurance business written.

The liability to policyholders has been calculated to recognise that all of the net assets of the Participating Fund would be distributed as follows:

- meet outgoings from the fund, treated as payables in the Balance Sheet.
- $14.43m for shareholder (September 2020: $16.43m).
- distributed to policyholders. This will be the balance of the total assets of the Participating Fund.

Project Scholar 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.

The realisation value has been calculated on the basis that 66% of policyholders will receive replacement life cover with the third party insurer and the rest will receive a cash pay-out. A change in the number of policyholders choosing replacement life cover does not impact profit if the take-up rate is less than 90%. Take-up rates over 90% are considered extremely unlikely to occur. This assessment is based on the cash alternative being attractive to some policyholders as well as it being the default option for endowment policyholders and for overseas resident policyholders. The agreement with the shareholder drives the estimated shareholder share of the Participating Fund of $14.43m (September 2020: $16.43m). The reduction in shareholder share from September 2020 to September 2021 is predominantly driven by a transfer made to the non-par fund in March 2021 where the shareholder share of the FY20 profit has been paid out to them and an increase in Project costs that are to be paid for by the shareholder if Project Scholar is implemented.

Please refer to note 11 (D) for full details on the liability to policyholders calculation and key judgements.

While significant progress has been made on Project Scholar, there remains a significant amount of work still to be completed before the Company is in a position to recommend the scheme to policyholders. As such, the liability to policyholders reflects 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.

<u>Realisation basis of accounting</u>

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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

PRINCIPLES UNDERLYING THE CONDUCT OF LIFE INSURANCE BUSINESS

The life insurance operations of the Company in the current year comprise the administration of contracts which are classified insurance contracts.

Life insurance contracts involve the acceptance of significant insurance risk. Insurance risk is defined as significant, if and only if, an insured event could cause an insurer to pay significant additional benefits in any scenario, excluding scenarios that lack commercial substance. 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 Company.

Participating policy owner benefits, both vested and unvested, are treated as expenses when incurred and liabilities until paid.
The Financial Statements have been prepared under a realisation basis of accounting.

SPECIFIC ACCOUNTING POLICIES

(A) PREMIUM REVENUE

All premiums relate to life insurance contracts. 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.

(B) INVESTMENT REVENUE

Investment revenue is recognised as follows:

(i) Interest income
Interest income is recognised using the effective interest method.

(ii) 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

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 on risk business are treated as an expense and are recognised when a liability to the policyholder is established.

(D) BASIS OF EXPENSE APPORTIONMENT

All operating expenses in respect of life insurance 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.

(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
As a result of the realisation basis of preparation all taxation assets and obligations are current tax balances of the Company.

(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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(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% (2020: 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 Statement 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 Company are presented in the currency of the primary economic environment in which the entity operates. The Company's statements are presented in New Zealand dollars, which is the Company's presentation and 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.

(I) CASH AND CASH EQUIVALENTS

Cash and cash equivalents include 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 Company's right to offset overdrafts within its banking facility.

(J) ASSETS BACKING INSURANCE BUSINESS

The Company has determined that all assets of the life insurance company are assets backing the liability to policyholders of the life insurance business.

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

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 sell 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) FINANCIAL INSTRUMENTS

Financial assets have been valued on a realisation basis. This represents the amount that the Company expects to receive by selling the assets in an orderly disposal. In respect of investments the Company holds to back insurance liabilities, the realisable value reflects the contractually agreed value with the third party insurer. This value was fixed when the Company entered into a contract with the third party insurer.

Investments that are not designated for transfer to the third party insurer continue to be measured at fair value through profit or loss, being the best indicator of their realisable value.

Financial assets at fair value through profit or loss
Financial assets at fair value through profit or loss comprise 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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(i) Fair value
The fair value of the Company'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.

(ii) 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.

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

(L) 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 Company's exposure to bad debt risk is negligible. Interest is receivable on the loans at the applicable rates.

(M) 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 Company 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.

(N) PAYABLES
These amounts represent liabilities for goods and services provided to the Company 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.

(O) 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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(P) LIABILITY TO POLICYHOLDERS

The liability to policyholders is accounted for in accordance with the requirements of NZ IFRS.

The liability to policyholders has been valued on a realisation basis. The liability to policyholders represents:

- 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.

The liability to policyholders details are included in notes 11 and 12. The assumptions used in the calculation of the liability to policyholders are reviewed at each reporting date.

(Q) CASH FLOWS

The Statement of Cash Flows presents the net cash flows for financial assets. The Company considers that knowledge of gross receipts and payments is not essential to understanding the activities of the Company 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.

(R) CONTRIBUTED EQUITY

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

2. 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 Company.

The Company financial statements are prepared on a realisation basis for the reasons outlined in the 'Basis of Preparation' on page 17. As a result, the NZ IFRS currently on issue, but not yet effective, are not expected to have any impact on the Company.

(B) Standards, amendments and interpretations to existing standards effective 2021 or early adopted by the Company.

The Company financial statements are prepared on a realisation basis for the reasons outlined in the 'Basis of Preparation' on page 17. As a result, standards, amendments and interpretations to existing standards that came in effect in 2021 or were available for early adoption are not applicable / relevant to the Company.

3. PREMIUM REVENUE

	2021 $000	2020 $000
Life insurance premiums	5,906	6,281
Less: Reinsurance expense	(48)	(45)
Life Insurance contract premiums recognised as revenue	**5,858**	**6,236**

4. INVESTMENT REVENUE

	2021 $000	2020 $000
Fixed interest securities		
Interest (expense) / income	(8,776)	12,809
Net (loss) /gain on investment	(17,283)	11,381
	(26,059)	**24,190**
Total investment revenue		
Interest, dividend and property (expense) / income	(8,776)	12,809
Total (loss) / gain on investment	(17,283)	11,381
	(26,059)	**24,190**

During the period the Company has changed the commercial terms of its contract with the third-party insurer. Under the previous contract the Company received interest income in lieu of receipt of investment returns on a pre-agreed set of assets. Under the proposed revised contract, the Company is no longer entitled to this interest income and instead benefits from an increase in the amount of premium that the Pre-Agreed Securities can purchase. The impact of this change in contractual terms is summarised as follows:

- Write-off of interest receivable (recognised in interest income) of $19.7 million
- Recognition of previously unrecognised investment gains of $13.2 million
- Recognition of a tax liability of $20.7 million
- Reduction in the liability payable to policyholders of $25.4 million.

5. MANAGEMENT AND SALES EXPENSES

	2021 $000	2020 $000
Life insurance contracts		
Commission	161	174
Business close down costs [1]	(75)	(34)
Future project costs [2]	616	662
Cash pay-out phase costs [3]	(355)	-
Other maintenance expenses [4]	4,076	4,555
Policy maintenance expenses	**4,423**	**5,357**
Investment management expenses	1,098	1,760
Total life insurance expenses	**5,521**	**7,117**
Other non-life expenses	-	-
Total management and sales expenses	**5,521**	**7,117**

[1] Business close down costs

Business close down costs represent the estimated costs that the Company will incur, and is obligated to settle, as a result of the cessation and closure of operations. As the financial statements are prepared on a realisation basis these costs were expensed in 2018 when the Company made the decision to close the operations. Changes to the estimated expense have been included in 2020 and 2021 expenses. If Project Scholar is implemented, business close down costs will be settled within 15 months of reporting date. The change in estimated business close down costs are detailed below:

Close down costs	2021 $000	2020 $000
Professional services	-	-
Payment to financial advisors to compensate for lost commission	(75)	(105)
Data storage	-	(100)
Employee costs	-	148
Other	-	23
	(75)	**(34)**

The change in estimated business close down costs represent a $75k reduction in business close down costs relating to the Participating Fund and no cost change relating to the Non-participating fund in 2021 (2020 expenses: $105k reduction and $71k increase respectively).

[2] Future project costs

Future project costs represent the increase in the estimated future costs to implement Project Scholar discussed on page 17.

Future Project Costs	2021 $000	2020 $000
Future Project Costs	616	662
IBNR claims	-	-
	616	**662**

5. MANAGEMENT AND SALES EXPENSES (CONTINUED)

[3] Cash pay-out phase costs
Cash pay-out phase costs represent the change in the estimated costs of paying out cash to policyholders that choose the cash value option or have a policy value in excess of the cost of obtaining a replacement insurance contract. These costs will only be payable if Project Scholar is successfully implemented. The cash pay-out cost provision is based on an assumption made by management about the number of policyholders receiving a cash payment.

Cash pay-out phase costs	2021 $000	2020 $000
Cash pay-out phase costs	-	-
Decrease in provision	(355)	-
	(355)	**-**

[4] Other maintenance expenses broken down by nature:

Other Maintenance expenses	2021 $000	2020 $000
Professional and consultancy fees	516	927
Tenancy costs	277	264
Employee Benefits	998	1,223
Other	2,122	1,972
Audit and review of interim financial statements	147	125
Other assurance services - solvency return	12	11
Non assurance services		
- Agreed Upon Procedures relating to data reconciliations for the Project	4	33
	4,076	**4,555**

6. TAXATION

	2021 $000	2020 $000
(A) INCOME TAX EXPENSE		
Analysis of taxation expense		
Current taxation	12,115	4,929
Under / (over) provided in prior years	-	57
Income tax expense for the year from continued operations	**12,115**	**4,986**
Income tax expense attributed to policyholders	12,364	4,646
Income tax expense attributed to shareholders	(249)	340
	12,115	**4,986**

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

	2021 $000	2020 $000
Profit / (loss) before taxation	11,970	2,847
Income tax expense / (credit) at the current rate of 28 cents	3,352	797
Taxation effect of non-deductible expenses/non assessable revenue:		
Life insurance companies permanent differences	(12,107)	3,946
Prior period adjustment	-	57
Provision for tax on future market value gains	20,696	-
Non-taxable income from PIEs	1	-
Other	173	186
Income Tax expense	**12,115**	**4,986**

The Company taxation expense includes tax on shareholders' profits and on returns attributed to policyholders.

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 September 2021

6. TAXATION (CONTINUED)

(B) DEFERRED TAX ASSETS AND LIABILITIES

As a result of the realisation basis of preparation all taxation assets and obligations are current tax balances of the Company.

(C) IMPUTATION CREDIT ACCOUNT

The imputation credits available to carry forward and utilise in future periods is $2.195m (2020: $2.215m). The Company is part of an imputation group with its parent company Foundation Life (NZ) Holdings Limited. Any imputation credits not used prior to closure will be utilised by the Parent, subject to imputation continuity tax rules.

7. RECEIVABLES

	2021 $000	2020 $000
Outstanding premium debt	14,144	14,762
Unsettled investment sales	-	3,267
Receivable - third party insurer	-	19,722
Total receivables - current	**14,144**	**37,751**
Analysed as:		
Current	14,144	37,751
Non current	-	-
	14,144	**37,751**

Receivables have been recorded on a realisation basis. This includes adjustments for doubtful debts of nil (2020: nil).

Outstanding premium debt is made up of premiums not received and interest on premium debt, policyholders can choose to repay this at any time. Under Project Scholar, policyholders will be given the option to settle all premium debt. If a debt remains outstanding at the time Project Scholar is implemented, the premium debt will be deducted from the value that the individual policyholder will receive.

In 2020 the receivable from the third party insurer represented the interest receivable on the fixed value of designated instruments to be transferred to the third party insurer. Interest was earned at 2% p.a. on the fixed value of the designated instruments. The interest receivable has been reversed in 2021 to reflect the proposed changes in the contract with the third-party insurer whereby the Company will no longer receive this income. Details of the contract are included in note 12.

All receivables have been classified as current assets under the realisation basis of accounting.

8. POLICYHOLDER LOANS

Policyholder loans are recorded on a realisation basis. Under Project Scholar, policyholders will be given the option to settle their policyholder loans. If a loan remains outstanding at the time Project Scholar is implemented, the policyholder loan amount will be deducted from the value that the individual policyholder will receive.

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 September 2021

9. PAYABLES

	2021 $000	2020 $000
Trade and other payables	969	1,528
Provision for business close down costs (refer note 5)	1,872	1,947
Provision for future project expenses (refer note 5)	4,120	5,284
Provision for cash pay-out phase (refer note 5)	7,900	8,255
Total payables - current	**14,861**	**17,014**

Payables have been recorded on a realisation basis. This is calculated as the amount of cash or cash equivalents that are required to settle the obligation.

Movement in provisions	2021 $000	2020 $000
Business close down costs		
Opening balance	1,947	1,981
Current year expense	(75)	(34)
Closing balance	**1,872**	**1,947**

	2021 $000	2020 $000
Future project expense		
Opening balance	5,284	6,878
Provision utilised in current year	(1,780)	(2,256)
Current year expense	616	662
Closing balance	**4,120**	**5,284**
Cash pay-out		
Opening balance	8,255	8,255
Provision utilised in current year	-	-
Current year expense	(355)	-
Closing balance	**7,900**	**8,255**

10. CONTRIBUTED EQUITY

	2021 000's	2020 000's
Ordinary shares	10,000	10,000
	10,000	**10,000**

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

11. LIFE INSURANCE BUSINESS

The financial reporting methodology used to determine the value of liabilities to policyholders in the current and comparative year is realisation basis accounting.

(A) LIABILITIES TO POLICYHOLDERS

	2021 $000	2020 $000
Life insurance contract liabilities		
Value of liabilities to policyholders - Accumulation Method		
Future policy benefits	527,414	591,548
Unvested policy benefits	54,099	62,305
Net liability to policyholders - life insurance contracts	**581,513**	**653,853**
Reconciliation of movements in life insurance contract liabilities		
Gross life insurance liabilities at 1 October	653,853	665,967
Decrease in life insurance contract liabilities recognised in the Statement of Profit or Loss and Comprehensive Income	(72,340)	(12,114)
Gross life insurance contract liabilities at 30 September	**581,513**	**653,853**
Gross life insurance contract liabilities analysed as:		
Current	581,513	653,853
Non current	-	-
	581,513	**653,853**

(B) ANALYSIS OF LIFE INSURANCE CONTRACT RESULTS

	2021 $000	2020 $000
Life insurance contracts		
Planned profit margins	1,779	1,328
Experience (loss) / profit	(1,756)	(3,878)
Investment earnings on assets in excess of policy liabilities of life contracts	(168)	411
(Loss) / Profit after tax attributable to shareholders arising from life insurance contracts	**(145)**	**(2,139)**

11. LIFE INSURANCE BUSINESS (CONTINUED)

(C) SOLVENCY REQUIREMENTS OF LIFE FUNDS

The minimum solvency capital required to be retained to meet solvency requirements under the Insurance (Prudential Supervision) Act 2010 are shown below. As at 30 September 2021 the solvency margin is $33.064m (2020: $32.614m).

	Statutory Fund		Non- Statutory Fund	Aggregate for FLNZ
	2021		2021	2021
	$000		$000	$000
Actual solvency capital	38,009		55	38,064
Minimum solvency capital	2,636		-	5,000
Solvency margin	35,373		55	33,064
RBNZ minimum solvency margin	(15,000)	**	-	-
Margin in excess of required minimum	20,373		55	33,064
Solvency Ratio	1442%		20000%	761%
	2020		2020	2020
	$000		$000	$000
Actual solvency capital	37,560		54	37,614
Minimum solvency capital	2,920		-	5,000
Solvency margin	34,640		54	32,614
RBNZ minimum solvency margin	(15,000)	**	-	-
Margin in excess of required minimum	19,640		54	32,614
Solvency Ratio	1286%		20000%	752%

* The Company is required to hold $5m minimum solvency capital at the company level.

** A condition of Foundation Life (NZ) Limited's licence is to maintain a minimum solvency margin in its statutory fund of $15m.

11. LIFE INSURANCE BUSINESS (CONTINUED)

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 Financial Statements	Amount used in solvency	Change (Solvency - Financial Statements)
	2021	2021	2021
	$000	$000	$000
Total Assets	692,990	730,874	37,884
Liabilities to policyholders	(581,513)	(671,451)	(89,938)
Other Liabilities	(68,795)	(21,359)	47,436
Total Comprehensive Income	(145)	450	595
Total Equity	42,682	38,064	(4,618)

	Amount per Financial Statements	Amount used in solvency	Change (Solvency - Financial Statements)
	2020	2020	2020
	$000	$000	$000
Total Assets	753,999	877,979	123,980
Liabilities to policyholders	(653,853)	(786,348)	(132,495)
Other Liabilities	(57,319)	(54,017)	3,302
Total Comprehensive Income	(2,139)	1,157	3,296
Total Equity	42,827	37,614	(5,213)

Total assets are valued on a realisation basis for financial statements and at fair value for solvency (see note 12).

Liabilities to policyholders are valued on a realisation basis for financial statements and on a MoS basis for solvency (see note 11D).

The difference in other liabilities is due to business close down and future costs and interest payable to the third party insurer included in 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.

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

The effective date of the liability to policyholders and solvency reserves calculation is 30 September 2021. The Appointed Actuary, Paul Swinhoe, FNZSA, FIA, FIAA has calculated the liability to policyholders for the Company. The Appointed Actuary is satisfied as to the accuracy of the data from which the liability to policyholders has been determined.

(a) Participating liability to policyholders
As previously noted, the Company has undertaken a strategic review of its participating products. Plans are now underway to return the assets within the Participating Fund to policyholders and shareholder. The liability to policyholders reflects an assessment of the realisation value.

<u>The methodology used in the calculation of the liability to policyholders is described below:</u>

Liability to policyholders represent:

- amounts expected to be paid to policyholders who default or 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 defaulting to or 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.

The assets retained by the shareholders are $14.43m (2020: $16.43m) (Note 21), being the amount, the shareholder had previously agreed to accept to support the strategic review.

For each policy receiving replacement life cover, 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 life cover under the new policy is equal to a minimum of 103% of the existing life cover including reversionary and current terminal bonuses.

11. LIFE INSURANCE BUSINESS (CONTINUED)

Policies receiving replacement life cover that have a future value that is greater than the cost needed to purchase 103% of the existing life cover, including reversionary and current terminal bonuses, will receive the balance as a cash payment if that balance amount is greater than $250. If the balance is less than $250, the excess will be used to purchase additional life cover. Policies that have a future value that is insufficient to purchase this level of life cover will result in a shortfall. This shortfall will be funded by the assets of the Participating Fund.

The Liability to policyholders has been calculated to recognise that all of the net assets of the Participating Fund would be distributed as follows:

- meet outgoings from the fund, treated as payables in the Statement of Financial Position;
- $14.43m (2020: $16.43m) for shareholders;
- distributed to policyholders, this will be the balance of the total assets of the Participating Fund.

Take-up rate
The realisation value has been calculated on the basis that 66% of policyholders will receive replacement life cover with the third-party insurer and the rest will receive a cash pay-out.

A change in the take-up rate of replacement life cover does not impact profit if the take-up rate is less than 90%. The shareholders' share of the Participating Fund will be lower at a take-up rate higher than 90%. Take-up rates over 90% are considered extremely unlikely to occur. This assessment is based on the cash alternative being attractive to some policyholders as well as it being the default option for endowment policyholders and for overseas resident policyholders. This assumption drives the estimated shareholder share of Participating Fund of $14.43m as discussed above.

Take up rates of less than 90% do not impact the determination of the shareholder share.

A proportion of the liability to policyholders is represented by the amount 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 ('Pre-Agreed Securities') to the third party insurer. As such, the liability is measured at the value of assets required to settle it. This proportion of the liability to policyholders has been calculated based on an estimate of 66% of policyholders choosing or defaulting to replacement life cover, which equates to 85% of the original Pre-Agreed Securities. If the take-up rate is higher, this will require more of the Pre-Agreed Securities and coupon income to settle the amount. As the value of the Pre-Agreed Securities as at 30 September 2021 is lower than the market value this will result in lower valued assets and lower valued liability to policyholders. If the take-up rate is lower, less of the Pre-Agreed Securities and coupon payable will be transferred, resulting in more of the Pre-Agreed Securities being valued at market value, which as at 30 September 2021 is a higher value. The liability to policyholders will be valued at an equally higher value. A change in take up rate lower than 90% (discussed above) does not have an impact on profit as the increase in asset is equally offset by the increase in liability. Refer to sensitivity table below.

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

(b) Sensitivity analysis

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

The liability to policyholders has been valued on a realisation basis as discussed above.

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:

Sensitivity
The liability to policyholder's realisation values has been calculated on the basis that under 90% of policyholders will take up replacement life cover with the third party insurer. Under the initial agreement with shareholders, if 100% of eligible policyholders take up replacement life cover this would decrease profit by $4m.

The agreement with shareholders provided shareholders with an amount from the Participating Fund defined by a formula. This amount is the same for all take-up rates of replacement insurance up to 90%. Above that, the amount is $4m lower.

Take up rate sensitivity

The value of the liability to policyholders and assets will vary with take-up rate. The table below shows the impact on assets and liabilities at different take up rates.

	Impact on Liabilities to policyholders	**Impact on Assets**	**Impact on Profit and Retained Earnings**
80% of policyholders take up replacement life cover	-$9.5m	-$9.5m	-
60% of policyholders take up replacement life cover	+$4.6m	+$4.6m	-

11. LIFE INSURANCE BUSINESS (CONTINUED)

(c) Solvency requirements
Separate to the liability to policyholders 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.

(d) Life insurance risk
The life insurance business of the Company involves a number of non-financial risks concerned with the pricing, acceptance and management of the mortality, morbidity and longevity risks accepted from policyholders. Financial risks involving the Company are in note 13.

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 adequate premium rates, policy charges and bonus rates, The latter two are approved by the Appointed Actuary, and the former were approved by the Appointed Actuary's predecessors. Tight controls are also maintained over claims management practices to ensure the correct and timely payment of insurance claims.

(i) Underwriting management procedures
FLNZ 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 Company holds appropriate reinsurance arrangements to limit exposure to individual risks. No new reinsurance is taken out as the company is closed to new business.

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

Type of contract	**Details of contract workings**	**Nature of compensation for claims**	**Key variables affecting future cash flows**
Non-participating life insurance contracts with fixed and guaranteed terms (Term Life and Disability including renewable term)	Guaranteed benefits paid on death, permanent and temporary disablement or maturity that are fixed and guaranteed and not at the discretion of the issuer.	Benefits defined by the insurance contract are determined by the contract and not directly affected by the performance of underlying assets or the performance of the contracts as a whole.	Mortality, morbidity, lapses, expenses and 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 guaranteed amount may be increased throughout the duration of the policy by the addition of bonuses annually that once added are not removed. An additional (terminal) bonus may be 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 liability to policyholders until it is distributed to policyholders via bonuses.	Mortality, morbidity, lapses, expenses and earnings on assets backing the liabilities

11. LIFE INSURANCE BUSINESS (CONTINUED)

(e) Concentration of insurance risk

The Company 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 Company has used reinsurance to limit the insurance risk exposure for a select group of individuals. The Company is exposed to a greater risk of loss from events affecting a location where groups of insured policyholders live.

(f) Liquidity risk and future net cash outflows

The table below shows the estimated timing of future cash outflows resulting from liabilities to policyholders. 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 2021	**581,513**	581,513	-	-	-	-
30 September 2020	**653,853**	653,853	-	-	-	-

The liability to policyholders has been classified as payable in less than one year due to the realisation basis of accounting. It is likely that the amount will be settled beyond one year in accordance with the expected Project timeline.

12. FINANCIAL INSTRUMENTS CATEGORIES

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

The Company has entered into a contract with a third party insurer. This entity will provide continued life cover for policyholders that receive the life cover option under Project Scholar. The details of the contract are as follows:

- Designated financial instruments will be transferred to the third party insurer in order to settle the liability relating to these policies ('Pre-Agreed Securities').
- The value of the Pre-Agreed Securities was fixed at the date of signing the contract with the third party insurer. Coupons on the designated instruments have been reinvested, the market value of the instruments at date of investment are the agreed value for transfer. An agreement has been made with the third party insurer to transfer designated investment assets for a fixed value of $465m as at 30 September 2021. This amount includes reinvested coupons. The Pre-Agreed Securities 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 or default to. The Pre-Agreed Security value was calculated based on an estimate that 66% of policyholders would choose or default to replacement insurance.
- The instruments will be transferred when Project Scholar is implemented, and the total value of the replacement life cover liability is known.
- In 2021 the methodology for valuing the Pre-Agreed Securities was modified to reflect the proposed changes to the contract with the third party insurer. As at 30 September 2021 it is estimated that 85% of the original Pre-Agreed Securities will be required for 66% of policyholders to receive replacement life cover with the third party insurer. This is equal to $395m of the Pre-Agreed Securities valued at the pre-agreed value. This amount includes reinvested coupons.
- Pre-agreed assets in excess of $395m have been valued at market value. If the actual value of replacement life cover taken up is lower than $395m, the value of the excess assets will revert back to fair value. If the value of replacement life cover taken up is higher than $395m additional investment assets will be transferred to the third party insurer.
- Under the previous contract the Company received interest income in lieu of receipt of investment returns on a pre-agreed set of assets. Under the proposed revised contract, the Company is no longer entitled to this interest income and instead benefits from an increase in the amount of premium that the Pre-Agreed Securities can purchase.
- The realisable value of assets has been determined based on agreed pricing with the third-party insurer. The pricing on the date replacement insurance is purchased will be based on a number of factors including the prevailing interest rate, actual take up rate, gender and age of those who take up insurance, and taxation basis of the replacement insurance product. A change in the estimates used to value the premium payable for replacement insurance will consequently change the amount of pre-agreed securities transferred and therefore the value of assets.

The financial instruments designated for transfer to the third party are measured at the agreed fixed value per the signed contract. 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.

	2021 $000	2020 $000
Investment in fixed interest securities - designated for transfer to third party insurer	394,564	451,898
Investment in fixed interest securities - measured at fair value	176,914	135,019
Investment in cash PIE fund	104,305	120,400
	675,783	**707,317**

The fair value of the fixed interest securities designated for transfer to the third party insurer is $38.2m higher than the fixed value (realisation basis) as at 30 September 2021 (2020: $148.9m). The fair value of the Company's investments as at 30 September 2021 is therefore $714.0m (2020: $856.2m).

12. FINANCIAL INSTRUMENTS CATEGORIES (CONTINUED)

Interest earned on fixed interest securities designated for transfer to the third party insurer is categorised as Payable to the third party insurer on the Statement of Financial Position.

13. RISK MANAGEMENT AND FINANCIAL INSTRUMENT INFORMATION

The financial condition and operating results of the Company are affected by a number of key risks. These risks include market risk, credit risk, financing and liquidity risk, insurance risk, compliance risk operational risk and conduct risk. The Company's objectives and policies in respect of insurance risks are disclosed in note 11, while the managing of other risks is set out in the remainder of this note.

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

The Board has delegated to the Audit and Compliance Committee the responsibility to review the effectiveness and efficiency of management processes, risk management and internal financial controls and systems as part of their duties. The Chief Executive Officer is accountable for risk and compliance across the Company and is responsible for overseeing the implementation and management of the risk and compliance framework.

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

The Company has undertaken a strategic review of its Participating Whole of Life and Endowment product offering. As a result, the Company has initiated a project developing a proposal for policyholders to consider. The initiation of this project has resulted in additional risk to the Company. The key risks arising from the implementation of this project are:

- Reputation risk. This is the risk of loss resulting from damage to the Company's reputation, this could arise if policyholders do not agree with the proposal.
- Risk of policyholders voting against the proposal. If policyholders vote against Project Scholar, the expenses involved in developing Project Scholar will not be recoverable.
- Risk of High Court not approving Scheme of Arrangement. If the High Court does not approve Project Scholar, the expenses involved in developing Project Scholar will not be recoverable.
- Third Party Insurer Risk. This is the risk related to the contract with the third party not being fulfilled.

The risks stated above are managed by the Project Scholar Steering Committee.

These risks stated above are additional to the 'Business as Usual' risks detailed below.

(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.

(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 Company'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 Company 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. There is no currency risk exposure as at 30 September 2021 (2020: nil).

(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 2021 there were no interest rate swaps in place in relation to external borrowings (2020: nil). The Company manages interest rate risk arising from its interest bearing investments in accordance with the Board approved policies.

13. RISK MANAGEMENT AND FINANCIAL INSTRUMENT INFORMATION (CONTINUED)

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

The primary area of mismatch for the Company's life insurance business relates to the Non-participating life insurance contracts, the mismatch between risk free discount rates used in the liability to policyholders calculations and the backing asset values.

Interest rate and other market risks are managed by the Company 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 Company is exposed to price risk because when it holds 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. There are no investments in equity securities in the current year (2020: nil).

(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 Company'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 Company 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 Company 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.

	Carrying value	
	2021	**2020**
	$000	**$000**
New Zealand government	450,504	455,149
Other government agencies	109,786	130,553
Banks	11,880	2,596
Financial institutions	104,306	120,400
Other receivables	16,366	40,025
Total financial assets with credit exposure	**692,842**	**748,723**

Assets have been valued on a realisation basis as detailed in note 12.

(ii) Maximum exposure to credit risk
The Company's maximum exposure to credit risk without taking account of any collateral or any other credit enhancements, is as follows:

	Carrying value	
	2021	**2020**
	$000	**$000**
Cash and cash equivalents	692	1,381
Outstanding premiums and trade receivables	5,852	6,117
Unsettled investments sale	-	3,267
Loans and receivables	1,492	1,565
Financial assets	675,783	707,317
Interest receivable	9,023	29,076
Total credit risk	**692,842**	**748,723**

(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:

13. RISK MANAGEMENT AND FINANCIAL INSTRUMENT INFORMATION (CONTINUED)

	Carrying value 2021 $000	2020 $000
Credit exposure by credit rating		
AA	572,169	588,298
Total counterparties with external credit rating by Standard and Poor's	**572,169**	**588,298**
Group 1	14,876	38,463
Group 1A	-	-
Group 2	-	-
Group 3	105,797	121,962
Total counterparties with no external credit rating	**120,673**	**160,425**
Total financial assets neither past due nor impaired with credit exposure	**692,842**	**748,723**

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
No financial assets became past due during the 2021 year so there were no renegotiations (2020: nil).

(v) Financial assets that are past due but not impaired
The Company considers that financial assets are past due if payments have not been received when contractually due. At 30 September 2021, the total of carrying value of past due but not impaired assets held by the Company is nil (2020: nil).

(vi) Financial assets that are individually impaired
As at 30 September 2021 there were no assets that were individually impaired (2020: 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 2021 is $16.37m (2020: $17.04m).

(C) FINANCING AND LIQUIDITY RISK

Financing and liquidity risk is the risk that the Company 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 Company 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 Company'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.

13. RISK MANAGEMENT AND FINANCIAL INSTRUMENT INFORMATION (CONTINUED)

	Carrying value $000	Total contractual cash flows $000	Less than one year $000	One - two years $000	On demand $000
As at 30 September 2021					
Financial liabilities and guarantees					
Trade Payables	969	969	969	-	-
Current tax liability	6,572	6,572	-	6,572	-
Interest payable	35,783	35,783	35,783	-	-
Other payables and related party payables	724	724	724	-	-
Total financial liabilities and guarantees	**44,048**	**44,048**	**37,476**	**6,572**	**-**
As at 30 September 2020					
Financial liabilities and guarantees					
Trade Payables	1,528	1,528	1,528	-	-
Interest payable	29,780	29,780	29,780	-	-
Other payables	491	491	491	-	-
Total financial liabilities and guarantees	**31,799**	**31,799**	**31,799**	**-**	**-**

Financial assets have been valued on a realisation basis – refer to note 12.

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 2021 are level 2.

(a) Financial Instruments in Level 1:
The fair value of financial instruments traded in active markets is based on quoted market prices at the reporting 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 Company is the current sale 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 Company does not hold any Level 3 financial assets or liabilities.

(D) SENSITIVITY ANALYSIS

The Company no longer has any sensitivity to foreign exchange rates, equity prices or property funds as it no longer holds these types of assets. Movement in interest rates do not affect profit or equity for the Company due to the methodology used to calculate the liability to policyholders (see note 11 (D)).

14. CAPITAL RISK MANAGEMENT

The Company's objective when managing capital is to ensure that the Company's level of capital is sufficient to enable it to meet statutory solvency obligations, including on a look forward basis to enable it to provide returns for shareholder and benefits for other stakeholders of the Company.

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

	2021 $000	2020 $000
Total shareholder equity	42,682	42,827
Total capital resources	**42,682**	**42,827**

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

From August 2013 actual solvency capital as determined under the solvency standards, should exceed the minimum solvency capital level by at least $15m. The amount retained as minimum solvency capital as shown in note 11(C).

The Company 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 Company's capital management strategy forms part of the Company's broader strategic planning process overseen by the Audit and Compliance Committee.

15. CASH AND CASH EQUIVALENTS

(A) CASH AT THE END OF THE YEAR

	2021 $000	2020 $000
Cash at bank and in hand	510	1,199
Deposits at call	182	182
Total cash and cash equivalents	**692**	**1,381**

15. CASH AND CASH EQUIVALENTS (CONTINUED)

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

	2021 $000	2020 $000
Loss attributable to shareholders	(145)	(2,139)
Add/(less) non cash items		
Depreciation of property, plant and equipment	63	72
Unrealised loss on investments	20,603	10,641
Lapses	335	948
Change in policyholder liabilities	(72,340)	(12,114)
	(51,339)	(453)
Add/(less) movements in working capital relating to operating activities		
Change in receivables	20,035	(9,354)
Change in payables	4,673	14,010
Change in taxation receivable	11,689	(14,107)
Net receipts for financial assets	17,540	36,315
Payments for purchase of property, plant and equipment	(51)	(17)
Realised gains on investments	(3,322)	(22,022)
	50,564	4,825
Net cash (outflows) / inflows from operating activities	**(920)**	**2,233**

16. CONTINGENT LIABILITIES

The Company has no contingent liabilities as at 30 September 2021 (2020: nil).

The Company 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.

17. CAPITAL COMMITMENTS

Capital commitments represent capital expenditure contracted for at balance date but not yet incurred. There were no capital commitments as at 30 September 2021 (2020: nil).

18. TRANSACTIONS WITH RELATED PARTIES

(A) RELATED PARTY BALANCES AND TRANSACTIONS

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

Related party	2021 $000	2020 $000	Nature of Relationship	Type of Transactions
Foundation Life (NZ) Holdings Limited	(403)	(173)	Parent	Operating expenses paid and tax loss offset

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

Related party	2021 $000	2020 $000	Nature of Relationship	Type of Transactions
Foundation Life (NZ) Holdings Limited	-	(1,900)	Parent	Dividend

During the year one of the Directors provided consultancy services to Foundation Life (NZ) Limited. The consultancy agreement governing the provision of these services was approved by the Board. Foundation Life (NZ) Limited paid $138k (2020: $206k) for these consultancy services during the year.

(B) KEY MANAGEMENT PERSONNEL DISCLOSURES

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

Key management personnel remuneration comprised:	2021 $000	2020 $000
Short-term employee benefits	919	938
Post employment benefits	-	-
Termination benefits	-	176
Other long-term benefits	-	-
Share based payments	-	-
	919	1,114

Termination Benefits in 2020 above include a provision relating to staff retention of $256,000 (2021: nil). This is offset by a reduction in the provision for redundancy costs.

Director fees paid to directors of Foundation Life (NZ) Limited during the year were $392,000 (2020: $482,000). Dividends paid to non-independent directors of Foundation Life (NZ) Limited during the year were $nil (2020: $56,000).

19. DISCLOSURES ON ASSET RESTRICTIONS AND MANAGED ASSETS

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

20. STATUTORY AND NON-STATUTORY FUNDS

	2021		2020	
	Statutory Fund	Non Statutory Fund	Statutory Fund	Non Statutory Fund
	$000	$000	$000	$000
Investment assets	676,568	55	736,750	54
Other assets	16,367	-	17,195	-
Liabilities to policyholders	(581,513)	-	(653,853)	-
Other liabilities	(68,795)	-	(57,319)	-
Net assets	**42,627**	**55**	**42,773**	**54**
Retained earnings	**32,627**	**55**	**32,773**	**54**
Net premium revenue	5,858	-	6,236	-
Investment (expense) / income	(26,060)	1	24,190	-
Net claims expense	(34,648)	-	(32,576)	-
Other operating expenses	(5,521)	-	(7,117)	-
Change in liabilities to policyholders	72,340	-	12,114	-
Profit before taxation	**11,969**	**1**	**2,847**	**-**
Taxation expense	(12,115)	-	(4,986)	-
Loss after taxation	**(146)**	**1**	**(2,139)**	**-**

	2021		2020	
	Statutory Fund	Non Statutory Fund	Statutory Fund	Non Statutory Fund
	$000	$000	$000	$000
Total equity				
At the beginning of the year	42,773	54	46,812	54
Comprehensive income				
(Loss) / Profit for the year	(146)	1	(2,139)	-
Total comprehensive income	**(146)**	**1**	**(2,139)**	**-**
Transfers				
Transfers	-	-	(1,900)	1,900
Total transfers	**-**	**-**	**(1,900)**	**1,900**
Transactions with shareholders				
Dividends paid	-	-	-	(1,900)
Total transactions with shareholders	**-**	**-**	**-**	**(1,900)**
Total equity at the end of the year	**42,627**	**55**	**42,773**	**54**

21. PARTICIPATING AND NON PARTICIPATING FUNDS

	2021			2020		
	Par Fund	Non-Par Fund	Non-Statutory Fund	Par Fund	Non-Par Fund	Non-Statutory Fund
	$000	$000	$000	$000	$000	$000
Investment assets	649,664	26,904	55	705,961	47,985	54
Other assets	16,367	-	-	17,195	-	-
Liabilities to policyholders	(580,792)	(721)	-	(652,893)	(960)	-
Other liabilities	(70,811)	2,016	-	(53,831)	(3,488)	-
Net assets	14,428	28,199	55	16,432	43,537	54
Retained earnings	14,428	18,253	-	16,432	16,395	-
Net premium income	5,805	53	-	6,164	72	-
Investment (expense) / income	(26,705)	645	1	23,684	506	-
Claims expense	(34,648)	-	-	(32,513)	(63)	-
Other operating expenses	(4,986)	(535)	-	(5,598)	(1,519)	-
Change in liabilities to policyholders	72,102	238	-	11,873	241	-
Profit / (loss) before taxation	11,568	401	1	3,610	(763)	-
Taxation expense	(12,008)	(107)	-	(5,320)	334	-
(Loss) / profit after taxation	(440)	294	1	(1,710)	(429)	-

22. LEASE COMMITMENTS

The Company leases office space and this lease is a standard operating lease.

	2021	2020
	$000	$000
Non-Cancellable Operating Lease Commitments	355	183
	355	183

The lease commitment has been calculated under realisation basis and represents the lease expense up to the close down of the Company. The future lease expense is provided for in the Statement of Financial Position.

23. SUBSEQUENT EVENTS

There have been no subsequent events.