TEAL Insurance Limited

Financial Statements

For the Year ended 30 June 2014

TEAL Insurance Limited
Statement of Financial Performance
For the Year ended 30 June 2014

	Notes	30 June 2014 $000	30 June 2013 $000
Premium revenue	4	5,737	5,606
Outwards reinsurance expense		(3,844)	(4,108)
		1,893	1,498
Net claims expense	2	(748)	(407)
Underwriting Surplus		1,145	1,091
Operating expenses	4	(115)	(113)
Earnings before finance income and taxation		1,030	978
Finance income	1, 4	494	480
Profit before Taxation	1	1,524	1,458
Taxation expense	3	(427)	(408)
Net Profit after Taxation		1,097	1,050

The accompanying notes form part of these financial statements.

TEAL Insurance Limited

Statement of Comprehensive Income
For the Year ended 30 June 2014

	30 June 2014 $000	30 June 2013 $000
Net profit for the year	1,097	1,050
Total Comprehensive Income for the Year Attributable to Shareholders of the Parent Company	1,097	1,050

Statement of Changes in Equity
For the Year ended 30 June 2014

	Note	30 June 2014 **$000**	30 June 2013 **$000**
Issued Capital			
Balance at the beginning of the year		10,000	10,000
Balance at the end of the year	8	10,000	10,000
Revenue Reserves			
Balance at the beginning of the year		6,493	5,443
Net profit for the year		1,097	1,050
Dividend on Ordinary Shares	7	(6,500)	-
Balance at the end of the year		1,090	6,493
Total Equity at the End of the Year		11,090	16,493
Total Equity			
Balance at the beginning of the year		16,493	15,443
Net profit for the year		1,097	1,050
Transactions with owners:			
Dividend on Ordinary Shares	7	(6,500)	-
Balance at the End of the Year		11,090	16,493

The accompanying notes form part of these financial statements.

TEAL Insurance Limited
Statement of Financial Position
As at 30 June 2014

	Notes	30 June 2014 $000	30 June 2013 $000
Current Assets			
Cash and cash equivalents		8	1
Other receivables		-	6
Deferred reinsurance expenses		1,147	974
Premiums receivable from related parties	4	3	300
Investments	6	-	527
Owing from parent	4	3,375	7,445
		4,533	9,253
Non-Current Assets			
Investments	6	10,000	10,000
Total Assets		14,533	19,253
Current Liabilities			
Trade and other payables		3	3
Insurance contract liabilities	9	2,801	2,026
Income taxation		427	408
Premiums refundable to related parties	4	212	323
		3,443	2,760
Total Liabilities		3,443	2,760
Net Assets		11,090	16,493
Equity			
Issued capital	8	10,000	10,000
Revenue reserves		1,090	6,493
Total Equity		11,090	16,493

Director

Director

20/10/2014
Date

The accompanying notes form part of these financial statements.

TEAL Insurance Limited
Statement of Cash Flows
For the Year ended 30 June 2014

	Notes	30 June 2014 $000	30 June 2013 $000
Cash Flows from Operating Activities			
Premium revenue		6,287	5,952
Interest income		501	506
Payment of reinsurance premiums		(4,017)	(4,154)
Payment of claims		(337)	(364)
Payment of suppliers		(115)	(114)
Payment of taxation		(408)	(254)
Net cash flows from operating activities	5	1,911	1,572
Cash Flows from Investing Activities			
Net increase/(decrease) in amount owing from related party		4,070	(1,573)
Proceeds from maturity of government bond		526	-
Net cash flows from investing activities		4,596	(1,573)
Cash Flows from Financing Activities			
Dividend on Ordinary Shares	7	(6,500)	-
Net cash flows from financing activities		(6,500)	-
Increase / (decrease) in Cash and Cash Equivalents		7	(1)
Cash and cash equivalents at the beginning of the year		1	2
Cash and Cash Equivalents at End of Year		8	1

The accompanying notes form part of these financial statements.

Entities reporting

The financial statements presented are those of TEAL Insurance Limited (the Company). The Company's primary business is the provision of insurance services to the Air New Zealand Group.

Statutory base

The entity is a company incorporated and domiciled in New Zealand, under the Companies Act 1993 and the Financial Reporting Act 1993. The Company became an issuer under the Financial Reporting Act 1993 on 1 July 2012. The registered office is located at 185 Fanshawe Street, Auckland, New Zealand.

Basis of preparation

The Company prepares its financial statements in accordance with New Zealand Generally Accepted Accounting Practice ("NZ GAAP"). NZ GAAP consists of New Zealand equivalents to International Financial Reporting Standards ("NZ IFRS") and other applicable financial reporting standards as appropriate to profit-oriented entities. These financial statements comply with NZ IFRS and International Financial Reporting Standards ("IFRS"). The Company is a profit-oriented entity.

The financial statements were authorised for issue by the directors on 20 October 2014.

Basis of measurement

The financial statements have been prepared on the historical cost basis, with the exception of certain items as identified in specific accounting policies below and are presented in New Zealand Dollars which is the Company's functional currency.

Use of accounting estimates and judgements

The preparation of financial statements requires the use of certain critical accounting estimates. It also requires the directors to exercise their judgement in the process of applying the Company's accounting policies. Estimates and associated assumptions are based on historical experience and other factors, as appropriate to the particular circumstances. The Company reviews the estimates and assumptions on an ongoing basis.

Areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed below:

(a) Outstanding claims liability

A provision is made for the estimated cost of claims incurred but not yet settled at balance sheet date and claims incurred but not adequately reported, which includes expected claim payments plus associated claim handling costs. In addition a risk margin is added to reflect the inherent uncertainty in the estimate of claims. The estimate is based on external actuarial calculations. Further information is disclosed in the accounting policies under "Outstanding claims liability" and within Note 9 Insurance Contract Liabilities.

Significant accounting policies

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

Comparative information has been reclassified, where necessary, to achieve consistency in disclosure with the current period.

The Company has adopted the following new framework, standards and amendments to standards, including any consequential amendments to other standards.

External Reporting Board Standard A1 "Accounting Standards Framework (For-profit Entities Update)" (XRB A1) establishes a for-profit tier structure and outlines which suite of accounting standards entities in different tiers must follow. For the purposes of complying with NZ GAAP, the Company is required to report in accordance with Tier 1 For-profit Accounting Standards (NZ IFRS). XRB A1, was adopted with effect from 1 July 2013, and the transition to Tier 1 NZ IFRS, has had no financial impact on the financial statements.

NZ IFRS 13 - Fair Value Measurement, replaces the fair value measurement guidance contained in individual NZ IFRSs with a single source of guidance. It defines fair value, establishes a framework for measuring fair value and sets out disclosure requirements. The standard, which was adopted with effect from 1 July 2013, has had no financial impact on the financial statements other than additional disclosure.

Amendments to NZ IFRS 7 - Financial instruments: Disclosures, include minimum disclosures relating to financial assets and financial liabilities that are either offset in the Statement of Financial Position or are subject to enforceable master netting or similar arrangements. The amendments, which were adopted with effect from 1 July 2013, have had no impact on the financial statements.

Amendments to NZ IAS 32 - Financial instruments: Presentation, clarify that an entity currently has a legally enforceable right of set-off if that right is not contingent upon a future event and is enforceable both in the normal course of business and in the event of default, insolvency or bankruptcy of the entity and all counterparties. These amendments, which are effective for annual periods commencing or or after 1 January 2014, have been adopted early with effect from 1 July 2013, and have not had any impact on the financial statements.

The Company has elected to early adopt all other NZ IFRSs and Interpretations that had been issued by the New Zealand Accounting Standards Board as at 30 June 2014, except as noted below. The early adoption did not have a material impact on the financial statements.

NZ IFRS 9 (2010) - Financial Instruments and NZ IFRS 9 (2013) - Financial Instruments (Hedge Accounting and amendments to NZ IFRS 9, NZ IFRS 7 and NZ IAS 39) have not been adopted as at 30 June 2014. These Standards, which are effective for periods commencing on or after 1 January 2017, will be adopted with effect from 1 July 2014. The Standards add requirements related to the classification and measurement of financial liabilities, and derecognition of financial assets and financial liabilities to NZ IFRS 9 (2009) and replace the hedge accounting requirements of NZ IAS 39. The application of these standards with effect from 1 July 2014 will have no impact on the financial statements.

NZ IFRS 9 (2014) - Financial Instruments has not been adopted as at 30 June 2014. It includes a framework for classification and measurement of financial instruments and a single, forward-looking impairment model. The Standard becomes effective for annual periods commencing on or after 1 January 2018. The impact on the financial statements has not yet been assessed.

NZ IFRS 15 - Revenue from Contracts with Customers, has not been adopted early. This standard has an objective of a single revenue recognition model that applies to revenue from contracts with customers in all industries. This standard, which becomes effective for annual periods commencing on or after 1 January 2017, is not expected to have a significant impact on the financial statements.

Amendments to XRB A1 Accounting Standards Framework: Omnibus Amendments (Legislative update) issued in February 2014 which amended various paragraphs of XRB A1 to reflect legislative changes has not been applied. This standard, which becomes effective for annual periods commencing on or after 1 April 2014 will not have an impact on the financial statements other than disclosure.

Revenue recognition

Premium revenue

Premium revenue represents premiums relating to the current financial year. Premiums received which relate to the following financial year are deferred and recorded within "Unearned Premium Liability" (within "Insurance Contract Liabilities") within the Statement of Financial Position

Investment revenue

Interest revenue from investments is recognised as it accrues, using the effective interest method where appropriate.

Unrealised gains and losses recorded in the Statement of Financial Performance on investments include gains and losses on financial assets classified as fair value through profit or loss.

Outwards reinsurance

Reinsurance recoveries are recognised within revenue. Premiums ceded to reinsurers under reinsurance contracts are classified as an Outwards reinsurance expense and are recognised over the period of the contract. Accordingly, a portion of the outwards reinsurance premium is treated at balance date as a Deferred reinsurance expense in the Statement of Financial Position.

Claims expense

Claims expense represents payments made on claims and the movement in the outstanding claims and unexpired risk provision.

Cash Flows

Cash flows are included in the Statement of Cash Flows net of Goods and Services Tax.

Financial instruments

Financial instruments include cash and cash equivalents, other receivables, investments held at fair value through profit and loss, premiums receivable from related parties, amounts owing from parent, amounts owing to parent and trade and other payables. These are recognised initially at fair value plus any attributable transaction costs. Subsequent to initial recognition, financial instruments are recognised as described below.

Fair value through profit or loss:

Investments

The Company designates certain investments as "financial assets at fair value through profit or loss" at inception. These investments are purchased with the intention of being held until maturity.

Investments designated as fair value through profit or loss at inception are those that are held to match insurance contract liabilities. The designation of these assets to be at fair value through profit and loss eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from recognising any gains or losses through reserves.

Amortised Cost:

Cash and cash equivalents

Cash and cash equivalents include cash on hand, demand deposits, current accounts in banks net of overdrafts and 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.

Other receivables

Other receivables are recognised at cost less any provision for impairment. A provision for impairment is established when collection is considered to be doubtful. When a receivable is considered uncollectible, it is written-off against the provision.

Investments

All other investments (including term deposits) not carried at fair value through profit or loss are measured at amortised cost using the effective interest method, less any impairment.

Related party receivables

Premiums receivable from parent and amounts owing from related parties are recognised at cost less any provision for impairment. A provision for impairment is established when collection is considered to be doubtful. When an amount owing from a related party is considered uncollectible, it is written-off against the provision.

Financial liabilities at amortised cost:

Trade and other payables and premiums refundable to related parties

Trade and other payables and premiums refundable to related parties are stated at cost.

Fair value estimation

The fair value of New Zealand government bonds is determined by reference to quoted market prices in an active market. This equates to "Level 1" of the fair value hierarchy defined within NZ IFRS 13: Fair Value Measurement. The fair value of all other financial instruments approximates the carrying value.

Impairment of financial assets at amortised cost

Financial assets carried at amortised cost are assessed each reporting date for impairment. If there is objective evidence of impairment, the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate, where appropriate, is recognised in the Statement of Financial Performance.

Insurance liability contracts

Insurance contracts are defined as those containing significant insurance risk at the inception of the contract. Once a contract has been classified as an insurance contract, it remains an insurance contract for the remainder of its lifetime, even if the insurance risk significantly reduces during the period. The directors have determined that all policies issued to other members of the Air New Zealand Group are insurance contracts.

Outstanding claims liability

Insurance liability contracts include a provision for outstanding claims incurred but not reported and claims reported but not yet paid. A central estimate is made of claims incurred but not yet reported and claims incurred but not adequately reported, which includes expected claim payments plus associated claim handling costs. In addition a risk margin is added to reflect the inherent uncertainty in the estimate of claims.

Unearned premium liability

Unearned premiums relates to premiums received for risks that have not yet expired and are recognised in the Statement of Financial Position. Unearned premiums are released to the Statement of Financial Performance within premium revenue over the period to the next premium due date.

Liability adequacy test

A liability adequacy test is performed to assess whether there is any deficiency in the unearned premium liability arising from expected claims and administration costs during the period covered by the unearned premium. The central estimate of claims and estimates is calculated. In addition a risk margin is added to reflect the inherent uncertainty in estimating the claims. The total is compared to the unearned premium liability and any deficiency is recognised in the Statement of Financial Position as part of Insurance liability contracts (within "Unearned Premiums" within "Insurance Contract Liabilities").

Taxation

The income taxation expense for the period is the taxation payable on the current period's taxable income at tax rates enacted or substantively enacted at reporting date. Income taxation expense is recognised in the Statement of Financial Performance.

1 Profit Before Taxation

	30 June 2014 $000	30 June 2013 $000
Finance income has been determined by (debiting)/crediting the following:		
Interest income	495	506
Bond premium amortisation	(1)	(14)
Unrealised fair value movement on government bond	-	(12)
	494	480

Audit fees for the financial statements and the annual solvency return were met by the ultimate parent company, Air New Zealand Limited

2 Net Claims Expense

	30 June 2014 $000	30 June 2013 $000
Claims cost relating to risks borne in the current financial year	270	236
Claims cost relating to risks borne in the previous financial year	474	201
Movement in risk margin	4	(30)
	748	407

Claims are predominantly short term in nature and settled within twelve months of being incurred, therefore no discount rate has been applied.

3 Taxation Expense

	30 June 2014 $000	**30 June 2013 $000**
Current taxation expense		
Current year	(427)	(408)
Total taxation expense recognised in earnings	(427)	(408)
Reconciliation of effective tax rate		
Profit before taxation	1,524	1,458
Taxation at 28%	(427)	(408)
Taxation expense	(427)	(408)

The Company is a member of the Air New Zealand consolidated Group for income tax purposes and does not separately record entries into its imputation credit account. All consolidated Group entries are recognised in the Air New Zealand Limited imputation credit account.

4 Related Parties

The following disclosure is made with regard to related parties:

Related Party:	*Relationship:*	*Nature of relationship*
Air New Zealand Limited	Parent	Provision of support and administration services, insurance policies
Air Nelson Limited	Group Company	Provision of insurance services
Altitude Aerospace Interiors Limited	Group Company	Provision of insurance services
Eagle Airways Limited	Group Company	Provision of insurance services
Mount Cook Airline Limited	Group Company	Provision of insurance services
Safe Air Limited	Group Company	Provision of insurance services

All members of the Air New Zealand Group are considered to be related parties.

Transactions between the Company and its related parties:

During the year the Company issued insurance policies to other members of the Air New Zealand Group.

4 Related Parties (Continued)

Parent

There have been the following transactions between the Company and its parent:

	30 June 2014 $000	30 June 2013 $000
Premium revenue	5,235	5,117
Interest income	493	476
Finance and insurance advisory services expense (included in "Operating expenses")	(85)	(85)

Amounts advanced to the Parent by the Company are unsecured, repayable on demand and bear interest at the 30 day bank bill rate. At balance date, the interest rate was 3.44 percent (30 June 2013: 2.65 percent).

Unearned premiums from the Parent as at 30 June 2014 were $1,496k (30 June 2013: $1,160k).

Air New Zealand Limited makes taxation payments on the Company's behalf with related party transfers being made as required.

Premiums receivable from the Parent as at 30 June 2014 were nil (30 June 2013: $294K).

Premiums refundable to the Parent as at 30 June 2014 were $212k (30 June 2013: $323k).

Other Air New Zealand Group related parties

Transactions between the Company and fellow Air New Zealand Group subsidiaries were as follows:

	30 June 2014 $000	30 June 2013 $000
Premium revenue	502	489

Premiums received in advance from Air Nelson Limited, Mount Cook Airline Limited, Eagle Airways Limited, Altitude Aerospace Interiors Limited and Safe Air Limited as at 30 June 2014 were $106k (30 June 2013: $77k).

Premiums receivable from the Mt Cook Airline Limited and Eagle Airways Limited as at 30 June 2014 were $3k (30 June 2013: $7K).

Key Management Personnel

A related party to Hannah Ringland (director and executive), Murray Snell (husband), is an executive at JLT New Zealand Limited. During the year, JLT New Zealand provided insurance brokering services to the Company. There was no amount outstanding as at 30 June 2014 (30 June 2013: Nil).

Other significant transactions and balances are separately disclosed within these financial statements.

5 Notes to the Statement of Cash Flows

	30 June 2014 $000	30 June 2013 $000
Reconciliation of Net Profit Attributable to Shareholders to Net Cash from Operating Activities:		
Net profit attributable to shareholders	1,097	1,050
Plus/(less) items classified as investing activities:		
Net losses on investments at fair value through profit and loss	1	26
	1,098	1,076
Net working capital movements:		
Assets	19	251
Liabilities	794	245
	813	496
Net Cash Flow from Operating Activities	1,911	1,572

6 Investments

	30 June 2014 $000	30 June 2013 $000
New Zealand Government Bond:		
- At valuation	-	527
Total investments held at fair value through profit or loss	-	527
Term deposit held with Air New Zealand Limited - amortised cost	10,000	10,000
Total investments	10,000	10,527

The interest rate on the intercompany deposit is based on the 30 day bank bill rate. The intercompany deposit is repayable upon demand however is considered to be non-current in nature as it is maintained to ensure appropriate long-term liquidity after considering the maximum aggregate claims loss limit.

The New Zealand Government Bond was held by the Public Trustee as a deposit required under the Insurance Companies' Deposit Act 1953 (repealed on 7 March 2012). Upon the Company being issued a full licence to carry on insurance in New Zealand under the Insurance (Prudential Supervision) Act 2010 the Government Bond was no longer required to be held and was disposed of on 31 July 2013.

Investment assets are held to back general insurance liabilities.

7 Distributions to Owners

	30 June 2014 $000	30 June 2013 $000
Dividend on Ordinary Shares	6,500	-
	6,500	-

On 11 March 2014, the Board of Directors declared an unimputed dividend of $65,000 per Ordinary Share payable to its shareholder on the same day. The total dividend paid was $6,500,000.

8 Issued Capital

	30 June 2014 $000	30 June 2013 $000
Authorised, Issued and Fully Paid in Capital		
Ordinary Shares		
Balance at beginning of the year	10,000	10,000
Balance at end of the year	10,000	10,000

Number of Ordinary Shares on issue	**30 June 2014**	**30 June 2013**
Balance at beginning of the year	100	100
Balance at end of the year	100	100

Changes to the New Zealand Companies law in 1993 abolished the par value concept in relation to share capital. Therefore issued shares do not have a par value.

Rights
On a show of hands or by a vote of voices each holder of Ordinary Shares has one vote. On a poll, each holder of Ordinary Shares has one vote for each fully paid share. All Ordinary Shares carry equal rights to dividends and equal distribution rights on wind up.

9 Insurance Contract Liabilities

Claims are predominantly short term in nature and settled within twelve months of being incurred.

	30 June 2014 $000	30 June 2013 $000
Outstanding claims liability	1,199	789
Unearned premium liability (gross)	1,602	1,237
	2,801	2,026

9 Insurance Contract Liabilities (Continued)

Outstanding claims liability

	30 June 2014 $000	30 June 2013 $000
Balance at the beginning of the year	789	748
Amounts provided during the year	635	454
Amount released from the prior year due to the claim being withdrawn	-	(188)
Amounts utilised during the year	(229)	(195)
Movement in risk margin	4	(30)
Balance at the end of the year	1,199	789

	30 June 2014 $000	30 June 2013 $000
Outstanding claims liability comprises:		
Central estimate of future payments for claims incurred (including costs)	1,150	744
Risk margin	49	45
Balance at the end of the year	1,199	789

The outstanding claims liability includes an allowance for claims incurred but not reported, unpaid reported claims and costs associated with paying claims. A risk margin has been added to reflect the inherent uncertainties in the provision surrounding such claims. The liability has been calculated using historical experience to determine the pattern of claims development.

Estimates of the outstanding claims as at 30 June 2014 have been carried out by Peter Davies B Bus Sc, a Fellow of the Institute of Actuaries. The outstanding claims liability has been calculated in compliance with the requirements of NZ IFRS 4: Insurance Contracts and the New Zealand Society of Actuaries. The actuary was satisfied as to the nature, sufficiency and accuracy of the data used to determine the outstanding claims.

The effective date for the outstanding claims liability contained within the actuarial report was for 31 May 2014. No qualifications were contained within the report.

The assumptions applied in determining the liability were as follows:

- the total number of late notified claims was on average five claims (30 June 2013: five claims).
- the average value of late notified claims was $6,000 (30 June 2013: $6,000).
- the future inflation allowance was nil
- claims management fees of 10% were incorporated (30 June 2013: 10%)
- a risk margin of 15% has been applied as at 30 June 2014 (30 June 2013: 15%).
- discount rate of nil as claims are on average paid out within 12 months of being incurred

The risk margin of 15% was determined with the objective of achieving a 75% probability of sufficiency of the outstanding claims provision.

Unearned premium liability

	30 June 2014 $000	30 June 2013 $000
Balance at the beginning of the year	1,237	1,187
Premiums written during the year	6,287	5,952
Premiums refunded during the year	(185)	(296)
Premiums earned during the year	(5,737)	(5,606)
Balance at the end of the year	1,602	1,237

A liability adequacy test was performed to determine whether recognised unearned premium liabilities were adequate, using current estimates of future cash flows under insurance contracts (including claims handling costs of 10%), to cover the present value of the expected future cash flows arising from obligations under insurance contracts. A risk margin of 30% of the present value of expected future cash flows was applied (30 June 2013: 30%) based on an analysis of historical claims experience. The risk margin is expected to provide 75% probability of sufficiency. Expected future payments were not discounted due to the short term nature of payments. The future inflation allowance was deemed to be nil.

9 Insurance Contract Liabilities (Continued)

	30 June 2014 $000	30 June 2013 $000
Liability adequacy test included:		
Unearned premium liability	1,602	1,237
Central estimate of future cash flows on future claims	(881)	(680)
Risk margin	(264)	(204)
Liability adequacy test surplus	457	353

The carrying amount of insurance liabilities was found to be adequate in light of estimated future cash flows, and therefore no additional risk liability was required.

10 Reinsurance

TEAL Insurance Limited structures its reinsurance programme based on individual risks to which the Air New Zealand Group business is exposed. The Company utilises the information systems which provide up to date reliable information, on the risks to which the business is exposed. An actuary is engaged to model the projected losses of each line of business. These projections are used in the determination of reinsurance limits purchased.

Reinsurers are required to have a Standard & Poors rating of A or higher. Reinsurance policies purchased are reviewed by independent third parties to ensure that they are appropriate.

The management and the Board of the company utilise all of the information above to ensure that the reinsurance programme is structured to provide maximum protection for the business to the risks it is exposed to.

The likelihood of claims volatility or catastrophe is considered to be low in frequency but potentially high in value. The risk is minimised by the purchase of reinsurance. Geographically the assets are considered to be adequately spread.

Reinsurance cover is bought in excess of $1 million for liability and fidelity guarantee risks and $5 million for property and business interruption with an overall aggregate of $10 million applying over the aforementioned risks. Reinsurance cover is also bought in excess of $250,000 any one loss in respect of Personal Accident insurance.

11 Financial Risk Management

The financial performance and operations of the Company are affected by a number of key risks including insurance risk, liquidity risk, credit risk and market risk. These risks are managed using a set of policies approved by either the Company's Board of Directors or the Parent's Board of Directors. Compliance with these policies is reviewed and reported to the Board.

Insurance risk

The Company assumes insurance risk through its general insurance activities. The risk is the possibility that the insured event occurs and the uncertainty of the amount of the resulting claim. The risk is random and unpredictable. The key risk arises in respect of claims costs varying from what was assumed in the setting of premium rates.

Risk management objectives, policies and processes for managing insurance risk

The primary objective in managing risk is, to enhance the financial performance of the Company and the Air New Zealand Group, to reduce the magnitude and volatility of claims, and to ensure funds are available to pay claims and maintain the solvency of the business if there is a negative deviation from historical experience.

11 Financial Risk Management (Continued)

Policies, processes and methods for managing insurance risk are as follows:
- a Risk Tolerance policy is in place to ensure minimum capital requirements are maintained, to protect the capital base of the Company and to provide benchmarks for risk acceptance.
- the use of reinsurance policies to limit the Company's exposure.
- pricing of policy premiums to ensure alignment with underlying risk.
- regular monitoring of the financial results to ensure the adequacy of policies.

Sensitivity to insurance risk

The financial results of the Company are primarily affected by the level of claims incurred relative to that implicit in the premiums. The assumptions used in the valuation of the outstanding claims liability and the liability adequacy test (refer to Note 9) directly affect the level of estimated claims incurred.

The scope of insurance risk is managed by the terms and conditions of the policy. The level of benefits specified in the contract is a key determinant of the amount of future claims although the exact level of claims is uncertain. Other variables affecting the levels of claims include the nature of medical treatment given or maintenance work required, the geographical location of the incident and the cost of the treatment or repair work.

Earnings are sensitive to changes in the average cost of claims. Sensitivity to a reasonably possible change in the average claim cost with all other variables being held constant, is set out below:

	30 June 2014	30 June 2013
	$000	$000
Average claim amount		
On profit before taxation:		
Increase of 15%	112	61
Decrease of 15%	(112)	(61)

Concentrations of insurance risk

Management defines concentration of risk by insurance business and geographical region. The Company provides personal accident, loss of licence, and property and business interruption cover to the Air New Zealand Group, primarily in New Zealand. Concentration of risk by type of insurance and geographical region cannot be avoided. Risk arises from large property losses affecting one or more properties, as well as accidents affecting multiple persons. Insurance risks related to personal accident cover is considered to be well diversified with claim costs spread amongst many different types of medical events. Reinsurance cover is taken out to cover all insured losses with an overall aggregate loss limit of $10 million applying in any one year.

Credit risk

Credit risk is the potential loss from a transaction in the event of default by a counterparty during the term of the transaction or on settlement of the transaction. The Company incurs credit risk from insurance transactions with reinsurers and other members of the Air New Zealand Group, and from financial institutions and other receivables in the normal course of business. The maximum exposure to credit risk is represented by the carrying value of financial assets.

The Company places cash and short term deposits with the parent company or with good credit quality counterparties, having a minimum Standard & Poors credit rating of A-. Under the Companies Credit Policy reinsurers are required to have a Standard & Poors rating of A- or higher. The Company is bound by an investment grade mandate approved by the Board whereby a proportion of the assets are to be approved assets, credit exposures are to be limited to single or limited counter parties and creditworthiness of the counterparties are actively monitored. There were no amounts which were considered to be past due or impaired, or whose terms have been renegotiated as at 30 June 2014 (30 June 2013: Nil). The Company does not require collateral or other security to support financial instruments with credit risk.

11 Financial Risk Management (Continued)

Liquidity risk

Liquidity risk is the risk that the Company will be unable to meet its obligations as they fall due.

Liquidity risk is managed through:
- the Company holding significant deposits with Air New Zealand Limited to enable it to meet its liabilities as they fall due to protect the entity from unanticipated external factors or events.
- restricting losses through the use of appropriate retentions as governed by Risk Tolerance policy;
- regular Board review of liquidity positions including an assessment of cash flow projections and estimated claims payout trends being used to predict longer term liquidity positions

Amounts payable to the parent are settled on-demand. Trade payables are due within 12 months of balance date.

Market risk

Foreign exchange risk

Foreign exchange risk is the risk of loss arising from adverse fluctuations in exchange rates.

The companies exposure to foreign exchange risk arises from settlement of claim expenses on personal accident policies. All reinsurance policies are purchased in New Zealand dollars, irrespective of where the reinsurer is domiciled. Given that the foreign exchange risk is minimal, the Company does not enter into any derivative contracts to manage this risk. As at balance date there were no foreign currency amounts owing or receivable (30 June 2013: Nil).

Interest rate risk

Interest rate risk is the risk of loss to Air New Zealand arising from adverse fluctuations in interest rates.

The Company has exposure to interest rate risk as a result of its interest bearing investments. The Board regularly reviews the investment strategy of the Company in accordance with Air New Zealand Group policies and those outlined within the Company's Corporate Governance Framework. As at balance date all interest bearing investments were fixed for a minimum period of 25 days.

Capital risk management

The Company's objectives when managing capital is to safeguard the Company's ability to continue as a going concern and to continue to generate shareholder value and benefits for its Parent, and to provide an acceptable return for the Air New Zealand Group by removing complexity, reducing costs and pricing services commensurately with the level of risk. The Company is subject to externally imposed capital requirements under the Insurance (Prudential Supervision) Act 2010 (refer to Note 15).

The Company's capital structure is managed in the light of economic conditions and the risk characteristics of the underlying assets. The capital management policies and guidelines are regularly reviewed by the Board of Directors.

Fair value hierarchy

All financial instruments for which fair value is recognised or disclosed are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1	Quoted market prices in an active market (that are unadjusted) for identical assets and liabilities.
Level 2	Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
Level 3	Unobservable inputs for the asset or liability.

Fair value estimation

The fair value of New Zealand government bonds is determined by reference to quoted market prices in an active market. This equates to "Level 1" of the fair value hierarchy defined within NZ IFRS 13: Fair Value Measurement.

11 Financial Risk Management (Continued)

The following table presents the Company's assets and liabilities measured and recognised at fair value on a recurring basis:

	Level	30 June 2014 Fair value/ Carrying value $000	30 June 2013 Fair value/ Carrying value $000
Investment - New Zealand Government Bond	1	-	527

The Government Bond was disposed of on 31 July 2013.

12 Capital Commitments

There were no capital commitments at 30 June 2014 (30 June 2013: Nil).

13 Contingent Liabilities

There were no contingent liabilities at 30 June 2014 (30 June 2013: Nil).

14 Credit Rating

TEAL Insurance Limited is not required to hold a credit rating. Air New Zealand Limited, the Company's ultimate parent, obtained a Baa3 long term issuer rating from Moody's Investor Services on 1 October 2010.

15 Solvency and Capital Adequacy

On 29 May 2013 the Company was issued a full licence to carry on insurance in New Zealand under the Insurance (Prudential Supervision) Act 2010. Under the Act the Reserve Bank of New Zealand (RBNZ) imposes solvency margin requirements on the Company. Under the capital management policies the Directors regularly review capital adequacy in line with the solvency requirements issued by the RBNZ. As at 30 June 2014 the Company had actual solvency capital of $11,090k calculated in accordance with the "Solvency Standard for Captive Insurers Transacting Non-life Insurance Business" issued in October 2011 by the RBNZ (30 June 2013: $16,493k). Under the licence conditions the minimum amount of capital required to be held by the Company is $4,061k (capital as defined as Actual Solvency Capital) (30 June 2013: $4,878k).

The Directors consider the current level of reserves is sufficient for the requirements of maintaining financial soundness, after giving consideration to the level of reinsurance cover held by the Company.

Deloitte.

INDEPENDENT AUDITOR'S REPORT

TO THE SHAREHOLDER OF

TEAL INSURANCE LIMITED'S
FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2014

The Auditor-General is the auditor of TEAL Insurance Limited (the Company). The Auditor-General has appointed me, Andrew Dick, using the staff and resources of Deloitte, to carry out the audit of the financial statements of the Company, on her behalf.

We have audited the financial statements of the company on pages 3 to 18, that comprise the Statement of Financial Position as at 30 June 2014, the Statement of Financial Performance, Statement of Comprehensive Income, Statement of Changes in Equity and Statement of Cash Flows for the year ended on that date and the notes to the financial statements that include accounting policies and other explanatory information.

Opinion

Financial statements

In our opinion the financial statements of the company on pages 3 to 18:

- comply with generally accepted accounting practice in New Zealand;
- comply with International Financial Reporting Standards; and
- give a true and fair view of the company's:
    - financial position as at 30 June 2014; and
    - financial performance and cash flows for the year ended on that date.

Other legal requirements

In accordance with the Financial Reporting Act 1993 we report that, in our opinion, proper accounting records have been kept by the company as far as appears from an examination of those records.

Our audit was completed on 20 October 2014. This is the date at which our opinion is expressed.

The basis of our opinion is explained below. In addition, we outline the responsibilities of the Board of Directors and our responsibilities, and explain our independence.

Basis of opinion

We carried out our audit in accordance with the Auditor-General's Auditing Standards and the International Standards on Auditing (New Zealand). Those standards require that we comply with ethical requirements and plan and carry out our audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

Material misstatements are differences or omissions of amounts and disclosures that, in our judgement, are likely to influence shareholders overall understanding of the financial statements. If we had found material misstatements that were not corrected, we would have referred to them in our opinion.

An audit involves carrying out procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgement, including our assessment of risks of material misstatement of the financial statements whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the preparation of the company's financial statements that give a true and fair view of the matters to which they relate. We consider internal control in order to design audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the company's internal control.

An audit also involves evaluating:

- the appropriateness of accounting policies used and whether they have been consistently applied;
- the reasonableness of the significant accounting estimates and judgements made by the Board of Directors;
- the adequacy of all disclosures in the financial statements; and
- the overall presentation of the financial statements.

We did not examine every transaction, nor do we guarantee complete accuracy of the financial statements.

In accordance with the Financial Reporting Act 1993, we report that we have obtained all the information and explanations we have required. We believe we have obtained sufficient and appropriate audit evidence to provide a basis for our audit opinion.

Responsibilities of the Board of Directors

The Board of Directors is responsible for preparing financial statements that:

- comply with generally accepted accounting practice in New Zealand; and
- give a true and fair view of the company's financial position, financial performance and cash flows.

The Board of Directors is responsible for such internal control as it determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error. The Board of Directors is also responsible for the publication of the financial statements, whether in printed or electronic form.

The Board of Directors' responsibilities arise from the State-Owned Enterprises Act 1986 and the Financial Reporting Act 1993.

Responsibilities of the Auditor

We are responsible for expressing an independent opinion on the financial statements and reporting that opinion to you based on our audit. Our responsibility arises from section 15 of the Public Audit Act 2001 and section 19(1) of the State-Owned Enterprises Act 1986.

Independence

When carrying out the audit, we followed the independence requirements of the Auditor-General, which incorporate the independence requirements of the External Reporting Board.

Other than in our capacity as auditor and the independent limited assurance conclusion, on Teal Insurance Limited's preparation of the Annual Solvency Return as at 30 June 2014, we have no relationship with or interests in TEAL Insurance Limited. These services have not impaired our independence as auditor of the TEAL Insurance Limited.

Andrew Dick
DELOITTE
On behalf of the Auditor-General
Auckland, New Zealand

Davies Financial and Actuarial Limited

13th December 2014

To: The Directors
TEAL Insurance Limited

From: Peter Davies
Appointed Actuary

Re: TEAL Insurance Limited: Report as at 30th June 2014 under Sections 77 and 78 of the Insurance (Prudential Supervision) Act 2010

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

1. I have reviewed the actuarial information included in the audited accounts for TEAL Insurance Limited as at 30th June 2014. "Actuarial information" includes the following:

   - claim provisions and unexpired risk / unearned premium provisions;
   - solvency calculations in terms of the RBNZ Solvency Standard;
   - balance sheet and other information allowed for in the calculation of the company's solvency position; and
   - disclosures regarding the methodology and assumptions used for calculating claim provisions, unexpired risk provisions, and other disclosures.

2. No limitations have been placed on my work.

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

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

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

6. TEAL Insurance Limited met the minimum solvency margin requirement of the RBNZ solvency standard for Captives writing Non-life Insurance as at 30th June 2014, and is expected to meet this requirement at all times over the next three years.

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

Yours sincerely

Peter

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

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