TEAL Insurance Limited

Financial Statements

For the year ended 30 June 2017

TEAL Insurance Limited
Statement of Financial Performance
For the year ended 30 June 2017

	Notes	30 June 2017 $000	30 June 2016 $000
Premium revenue	4	4,385	4,567
Outwards reinsurance expense		(2,451)	(2,556)
		1,934	2,011
Net claims expense	2	(431)	(334)
Underwriting Surplus		1,503	1,677
Operating expenses	4	(119)	(115)
Earnings before finance income and taxation		1,384	1,562
Finance income	1, 4	296	391
Earnings before Taxation		1,680	1,953
Taxation expense	3	(470)	(547)
Net Profit after Taxation		1,210	1,406

The accompanying notes form part of these financial statements.

TEAL Insurance Limited
Statement of Comprehensive Income
For the year ended 30 June 2017

	30 June 2017 $000	30 June 2016 $000
Net profit for the year	1,210	1,406
Total Comprehensive Income for the Year Attributable to Shareholders of the Parent Company	1,210	1,406

Statement of Changes in Equity
For the year ended 30 June 2017

	Note	Share Capital $000	Retained Earnings $000	Total Equity $000
Balance as at 1 July 2016		10,000	2,208	12,208
Net profit for the year		-	1,210	1,210
Total Comprehensive Income for the Year		-	1,210	1,210
Transactions with Owners:				
Dividends on Ordinary Shares	7	-	(1,250)	(1,250)
Total Transactions with Owners		-	(1,250)	(1,250)
Balance as at 30 June 2017		10,000	2,168	12,168
Balance as at 1 July 2015		10,000	2,302	12,302
Net profit for the year		-	1,406	1,406
Total Comprehensive Income for the Year		-	1,406	1,406
Transactions with Owners:				
Dividends on Ordinary Shares	7	-	(1,500)	(1,500)
Total Transactions with Owners		-	(1,500)	(1,500)
Balance as at 30 June 2016		10,000	2,208	12,208

The accompanying notes form part of these financial statements.

TEAL Insurance Limited
Statement of Financial Position
As at 30 June 2017

	Notes	30 June 2017 $000	30 June 2016 $000
Current Assets			
Cash and cash equivalents		-	-
Other receivables		82	19
Deferred reinsurance expenses		842	842
Owing from parent	4	3,780	4,516
		4,704	5,377
Non-Current Assets			
Investments	6	10,000	10,000
Total Assets		14,704	15,377
Current Liabilities			
Trade and other payables		3	3
Insurance contract liabilities	9	2,059	2,619
Income taxation		470	547
Premiums refundable to related parties	4	4	-
		2,536	3,169
Total Liabilities		2,536	3,169
Net Assets		12,168	12,208
Equity			
Share capital	8	10,000	10,000
Retained earnings		2,168	2,208
Total Equity		12,168	12,208

Director

Director

17/10/17.

Date

The accompanying notes form part of these financial statements.

TEAL Insurance Limited
Statement of Cash Flows
For the year ended 30 June 2017

	Notes	30 June 2017 $000	30 June 2016 $000
Cash Flows from Operating Activities			
Receipt of premiums		4,367	4,418
Interest received		296	391
Payment of reinsurance premiums		(2,451)	(2,531)
Payment of claims		(1,032)	(589)
Payment of suppliers		(119)	(115)
Payment of taxation		(547)	(472)
Net cash flows from operating activities	5	514	1,102
Cash Flows from Investing Activities			
Net decrease in amount owing from related party		736	398
Net cash flows from investing activities		736	398
Cash Flows from Financing Activities			
Dividend on Ordinary Shares	7	(1,250)	(1,500)
Net cash flows from financing activities		(1,250)	(1,500)
Increase/(Decrease) in Cash and Cash Equivalents		-	-
Cash and cash equivalents at the beginning of the year		-	-
Cash and Cash Equivalents at the End of the Year		-	-

The Air New Zealand Group has elected to settle the Company's cash flow obligations and receipt of funds through Air New Zealand Limited's (the parent) bank account. The net cash flow movement is recognised through "Net decrease in amount owing from related party" above.

The accompanying notes form part of these financial statements.

Entity 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 and registered under the Companies Act 1993. The Company is a FMC Reporting Entity under the Financial Markets Conduct Act 2013 and the Financial Reporting Act 2013. 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 17 October 2017.

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.

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

NZ IFRS 9 (2014) - Financial Instruments has not been adopted early. It includes a framework for classification and measurement of financial instruments and a single, forward-looking impairment model. This Standard, which becomes effective for annual periods commencing on or after 1 January 2018, will have no impact on the financial statements.

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 2018, is not expected to have a significant impact on the financial statements.

NZ IFRS 16 - Leases has not been adopted early. This standard will fundamentally change the accounting treatment of leases by lessees. This standard, which becomes effective for annual periods commencing on or after 1 January 2019, will have no impact on the financial statements.

NZ IFRS 17 Insurance Contracts has not been adopted early. This standard provides consistent principles for all aspects of accounting for insurance contracts. This standard becomes effective for annual periods commencing on or after 1 January 2021. The impact on the financial statements has not yet been determined.

Disclosure Initiative (Amendments to IAS 7) has not been adopted early. This amendment requires new disclosures of changes in liabilities arising from financing activities, including both changes arising from cash and non-cash changes. This amendment, which becomes effective for annual periods commencing on or after 1 January 2017, will have no impact on the financial statements.

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.

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 in profit and loss 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 are recognised initially at fair value plus any attributable transaction costs. Subsequent to initial recognition, financial instruments are recognised as described below. The carrying value approximates fair value at balance date.

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. Bad debts are written off when they are considered to have become uncollectible.

Investments

Investments (including term deposits) 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.

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.

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 Earnings Before Taxation

	30 June 2017 $000	30 June 2016 $000
Finance income includes:		
Interest income	296	391
	296	391

Audit fees were met by the ultimate parent company, Air New Zealand Limited.

2 Net Claims Expense

	30 June 2017 $000	30 June 2016 $000
Claims cost relating to risks borne in the current financial year	481	535
Claims cost relating to risks borne in the previous financial year	1	(172)
Movement in risk margin	(51)	(29)
	431	334

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 2017 $000	30 June 2016 $000
Current taxation expense		
Current year	(470)	(547)
Total taxation expense recognised in earnings	(470)	(547)
Reconciliation of effective tax rate		
Earnings before taxation	1,680	1,953
Taxation at 28%	(470)	(547)
Taxation expense	(470)	(547)

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
Air New Zealand Regional Maintenance 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

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 2017 $000	30 June 2016 $000
Premium revenue	4,145	4,241
Interest income	296	391
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. Interest rates during the year ranged from 1.84 percent to 2.35 percent (30 June 2016: 2.26 percent to 3.33 percent).

Unearned premiums from the Parent as at 30 June 2017 were $1,237k (30 June 2016: $1,243k).

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

There were no premiums receivable from the Parent as at 30 June 2017 (30 June 2016: Nil).

There were premiums refundable to the Parent of $4k as at 30 June 2017 (30 June 2016: Nil).

Other Air New Zealand Group related parties

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

	30 June 2017 $000	30 June 2016 $000
Premium revenue	240	326

Premiums received in advance from Air Nelson Limited, Air New Zealand Regional Maintenance Limited and Mount Cook Airline Limited as at 30 June 2017 were $47k (30 June 2016: $63k).

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 2017 (30 June 2016: Nil). Air New Zealand Limited pays service fees to JLT New Zealand Limited which incorporates brokering services provided to the Company.

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

5 Notes to the Statement of Cash Flows

	30 June 2017 $000	30 June 2016 $000
Reconciliation of Net Profit Attributable to Shareholders to Net Cash from Operating Activities:		
Net profit attributable to shareholders	1,210	1,406
Net working capital movements:		
Assets	(59)	(22)
Liabilities	(637)	(282)
	(696)	(304)
Net Cash Flow from Operating Activities	514	1,102

6 Investments

	30 June 2017 $000	30 June 2016 $000
Term deposit held with Air New Zealand Limited	10,000	10,000
Total investments	10,000	10,000

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.

Investment assets are held to back general insurance liabilities and are a "Level 2" of the fair value hierarchy as defined within NZ IFRS 13 - Fair Value Measurement.

7 Distributions to Owners

	30 June 2017 $000	30 June 2016 $000
Dividend on Ordinary Shares	1,250	1,500
	1,250	1,500

On 29 November 2016, the Board of Directors declared an unimputed dividend of $12,500 per Ordinary Share payable to its shareholder on the same day. The total dividend paid was $1,250,000.

On 23 December 2015, the Board of Directors declared an unimputed dividend of $15,000 per Ordinary Share payable to its shareholder on the same day. The total dividend paid was $1,500,000.

8 Share Capital

	30 June 2017 $000	30 June 2016 $000
Authorised, Issued and Fully Paid in Capital		
Ordinary Shares		
Balance at beginning of the year (100 ordinary shares)	10,000	10,000
Balance at end of the year (100 ordinary shares)	10,000	10,000

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 2017 $000	30 June 2016 $000
Outstanding claims liability	775	1,313
Unearned premium liability (gross)	1,284	1,306
	2,059	2,619

Outstanding claims liability

	30 June 2017 $000	30 June 2016 $000
Balance at the beginning of the year	1,313	1,568
Amounts provided during the year	171	192
Amounts utilised during the year	(658)	(418)
Movement in risk margin	(51)	(29)
Balance at the end of the year	775	1,313

9 Insurance Contract Liabilities (Continued)

	30 June 2017 $000	30 June 2016 $000
Outstanding claims liability comprises:		
Central estimate of future payments for claims incurred (including costs)	738	1,225
Risk margin	37	88
Balance at the end of the year	775	1,313

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 2017 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 2017. No qualifications were contained within the report. There were no material claims adjustments required between the amount contained in the actuarial report to that reported in the financial statements as at 30 June 2017.

The assumptions applied in determining the liability were as follows:

- the total number of late notified claims was on average six claims (30 June 2016: five claims).
- the average value of late notified claims was $6,000 (30 June 2016: $6,000).
- the future inflation allowance was nil

- claims management fees of 10% were incorporated for medical and cross class claims (30 June 2016: 10%)
- a risk margin of 15% has been applied as at 30 June 2017 (30 June 2016: 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 2017 $000	30 June 2016 $000
Balance at the beginning of the year	1,306	1,408
Premiums written during the year	4,367	4,418
Premiums earned during the year	(4,385)	(4,567)
Premiums accrued during the year	(4)	47
Balance at the end of the year	1,284	1,306

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 2016: 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.

	30 June 2017 $000	30 June 2016 $000
Liability adequacy test included:		
Unearned premium liability	1,284	1,306
Central estimate of future cash flows on future claims	(706)	(718)
Risk margin	(212)	(216)
Liability adequacy test surplus	366	372

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 certain 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 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 for personal accident and medical risks. Cyber risk reinsurance is purchased with the Company retaining up to $250,000 of loss.

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.

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.

11 Financial Risk Management (Continued)

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

	30 June 2017	30 June 2016
	$000	$000
Claim amount		
On profit before taxation:		
Increase of 15%	65	50
Decrease of 15%	(65)	(50)

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 2017 (30 June 2016: Nil). The Company does not require collateral or other security to support financial instruments with credit risk.

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 2016: Nil).

11 Financial Risk Management (Continued)

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. Interest bearing investments were fixed for approximately 30 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.

12 Capital Commitments

There were no capital commitments at 30 June 2017 (30 June 2016: Nil).

13 Contingent Liabilities

There were no contingent liabilities at 30 June 2017 (30 June 2016: 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 Baa2 long term issuer rating from Moody's Investor Services on 3 July 2015.

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. Actual solvency capital is calculated in accordance with the "Solvency Standard for Captive Insurers Transacting Non-life Insurance Business" issued by the RBNZ. The Company has complied with the minimum solvency margin requirements at all times during the year.

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.

	30 June 2017 $000	30 June 2016 $000
Actual Solvency Capital	12,168	12,208
Minimum Solvency Capital	4,247	4,377
Solvency Margin	7,921	7,831
Solvency Ratio	286.5%	278.9%

16 Subsequent Event

TEAL Insurance Limited provides business interruption insurance to the Air New Zealand Group. In September 2017 a fuel supply issue occurred at Auckland airport resulting in the amount of fuel uplift being significantly reduced thereby causing flight cancellations and refuelling diversions. TEAL Insurance Limited has been notified of the circumstances which may result in a claim in relation to the incident.

As at the date of signing of the financial statements there is insufficient information surrounding causation to enable the Company to confirm acceptance of a claim event nor quantify the financial impact. If the claim is valid the insured has estimated that it will exceed $5 million. The Company has reinsurance cover for the claim in excess of $5 million and holds sufficient capital to ensure a minimum solvency requirements are meet.

Deloitte.

Independent Auditor's Report

To the Shareholder of TEAL Insurance Limited

Auditor-General

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

Opinion

We have audited the financial statements of the Company on pages 3 to 16, that comprise the Statement of Financial Position as at 30 June 2017, 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.

In our opinion the financial statements present fairly, in all material respects the financial position of the Company as at 30 June 2017, and its financial performance and its cash flows for the year then ended in accordance with New Zealand Equivalents to International Financial Reporting Standards and International Financial Reporting Standards.

Our audit was completed on 17 October 2017. This is the date at which our opinion is expressed.

The basis for our opinion is explained below. In addition, we outline the responsibilities of the Board of Directors and our responsibilities relating to the financial statements, we comment on other information, and we explain our independence.

Basis for opinion

We carried out our audit in accordance with the Auditor-General's Auditing Standards, which incorporate the Professional and Ethical Standards and the International Standards on Auditing (New Zealand) issued by the New Zealand Auditing and Assurance Standards Board. Our responsibilities under those standards are further described in the *Responsibilities of the auditor for the audit of the financial statements* section of our report.

We have fulfilled our responsibilities in accordance with the Auditor-General's Auditing Standards.

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

Responsibilities of the Board of Directors for the financial statements

The Board of Directors is responsible on behalf of the Company for preparing financial statements that are fairly presented in accordance with New Zealand Equivalents to International Financial Reporting Standards and International Financial Reporting Standards.

The Board of Directors is responsible on behalf of the Company for such internal control as it determines is necessary to enable it to prepare financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Board of Directors is responsible on behalf of the Company for assessing the Company's ability to continue as a going concern. The Board of Directors is also responsible for disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless there is an intention to liquidate the Company or to cease operations, or there is no realistic alternative but to do so.

The Board of Director's responsibilities arise from the Financial Markets Conduct Act 2013.

Responsibilities of the auditor 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 carried out in accordance with the Auditor-General's Auditing Standards will always detect a material misstatement when it exists. Misstatements are differences or omissions of amounts or disclosures, and can arise from fraud or error. Misstatements are considered material if, individually or in the aggregate, they could reasonably be expected to influence the decisions of the shareholder taken on the basis of these financial statements.

We did not evaluate the security and controls over the electronic publication of the financial statements.

As part of an audit in accordance with the Auditor-General's Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. Also:

- We identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- We obtain an understanding of internal control relevant to the audit 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.
- We evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors.
- We conclude on the appropriateness of the use of the going concern basis of accounting by the Board of Directors and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- We evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the Board of Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

Our responsibility arises from section 15 of the Public Audit Act 2001.

Independence

We are independent of the Company in accordance with the independence requirements of the Auditor-General's Auditing Standards which incorporate the independence requirements of Professional and Ethical Standard 1 (Revised): *Code of Ethics for Assurance Practitioners* issued by the New Zealand Auditing and Assurance Standards Board and we have fulfilled our other ethical responsibilities in accordance with these requirements.

In addition to the audit we have carried out a limited assurance engagement on the Company's Annual Solvency Return, which is compatible with those indepencence requirements. Other than the audit and the limited assurance engagement, we have no relationship with, or interests in the Company.

Peter Gulliver
Partner
for Deloitte Limited
On behalf of the Auditor-General
Auckland, New Zealand

Davies Financial and Actuarial Limited

19th October 2017

To: The Directors
TEAL Insurance Limited

From: Peter Davies
Appointed Actuary

Re: TEAL Insurance Limited: Report as at 30th June 2017 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 2017. "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 2014, as at 30th June 2017, and is expected to meet this requirement at all times over the next four 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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