Spark nz

TELECO INSURANCE (NZ) LIMITED

ANNUAL REPORT 2018

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COMPANY DIRECTORY

Nature of business:	Mobile phone insurance
Registered office:	Level 2 Spark City 167 Victoria Street West, Auckland, 1010 New Zealand
Company registration number:	509425
Directors:	Richard Quince Dean Werder
Shareholder:	Spark New Zealand Limited
Auditors:	KPMG 10 Customhouse Quay Wellington
Bankers:	Westpac Banking Corporation

Richard Quince
DIRECTOR

Dean Werder
DIRECTOR

Date 23 October 2018

Statement of profit or loss and other comprehensive income

YEAR ENDED 30 JUNE	NOTES	2018 $'000	2017 $'000
Insurance premiums		16,739	14,659
Claims expense	2	(5,043)	(10,039)
Operating expenses	3	(200)	(219)
Underwriting surplus		11,496	4,401
Finance income	4	3,098	2,844
Net earnings before income tax		**14,594**	**7,245**
Income tax expense	5	(4,086)	(2,029)
Total comprehensive income for the year		**10,508**	**5,216**

See accompanying notes to the financial statements.

Statement of financial position

AS AT 30 JUNE	NOTES	2018 $'000	2017 $'000
Current assets			
Cash and cash equivalents	6	510	597
Interest receivable		2	1
Prepayments		55	22
Amounts due from related parties	11	38,317	52,986
Total current assets		38,884	53,606
Non-current assets			
Deferred tax assets	5	47	55
Total non-current assets		47	55
Total assets		**38,931**	**53,661**
Current liabilities			
Outstanding claims liability	7	208	655
Unearned revenue		742	666
Amounts due to related parties	11	554	1,937
Redeemable preference shares	8	-	5,500
Taxation payable	5	4,033	2,017
Total current liabilities		5,537	10,775
Total liabilities		**5,537**	**10,775**
Equity			
Share capital	9	1	1
Retained earnings		33,393	42,885
Total equity attributable to equity holders of the Company		33,394	42,886
Total liabilities and equity		**38,931**	**53,661**

See accompanying notes to the financial statements.

On behalf of the Board

Richard Quince
Director

Dean Werder
Director

Authorised for issue on 23 October 2018

Statement of changes in equity

YEAR ENDED 30 JUNE 2018	SHARE CAPITAL $'000	RETAINED EARNINGS $'000	TOTAL EQUITY $'000
Balance at 1 July 2017	1	42,885	42,886
Net earnings for the year	-	10,508	10,508
Total comprehensive income for the year	-	10,508	10,508
Contributions by, and distributions to, owners:			
Dividends	-	(20,000)	(20,000)
Total transactions with owners	-	(20,000)	(20,000)
Balance at 30 June 2018	1	33,393	33,394

YEAR ENDED 30 JUNE 2017	SHARE CAPITAL $'000	RETAINED EARNINGS $'000	TOTAL EQUITY $'000
Balance at 1 July 2016	1	37,669	37,670
Net earnings for the year	-	5,216	5,216
Total comprehensive income for the year	-	5,216	5,216
Balance at 30 June 2017	1	42,885	42,886

See accompanying notes to the financial statements.

Statement of cash flows

YEAR ENDED 30 JUNE	2018 $'000	2017 $'000
Cash flows from operating activities		
Interest income	14	14
Net cash flows from operating activities	14	14
Cash flows from investing activities		
Net movement in intercompany balances	(101)	1
Net cash flows from investing activities	(101)	1
Net cash flow	(87)	15
Opening cash position	597	582
Closing cash position	510	597

Reconciliation of net earnings to net cash flows from operating activities

YEAR ENDED 30 JUNE	2018 $'000	2017 $'000
Net earnings for the year	10,508	5,216
Adjustments to reconcile net earnings to net cash flows from operating activities		
Insurance premiums	(16,739)	(14,659)
Claims incurred	5,043	10,039
Operating expenses	200	219
Intercompany interest income	(3,084)	(2,830)
Income tax expense	4,086	2,029
Net cash flows from operating activities	14	14

Operating and financing activities of the Company are generally settled through intercompany current accounts, which are not considered cash equivalents.

Notes to the financial statements

Note 1 Accounting Policies

Ownership and activities
Teleco Insurance (NZ) Limited (the "Company") is a wholly owned subsidiary of Spark New Zealand Limited ("the Parent"), Spark New Zealand Limited and its subsidiaries together form the "Spark Group". The Company is a profit oriented entity and was incorporated in New Zealand on 18 July 1991.

The principal activity of the Company is to provide insurance policies for mobile phone handsets sold by the Spark Group. The Company has a credit rating with Standard and Poor's of BBB+, which was reaffirmed on 6 February 2018.

Basis of preparation
These financial statements have been prepared in accordance with New Zealand Generally Accepted Accounting Practice ("NZ GAAP"). They comply with the New Zealand equivalents to New Zealand International Financial Reporting Standards ("NZ IFRS") and other applicable Financial Reporting Standards as appropriate for profit-orientated entities including the External Reporting Board Standard A1, Accounting Standards Framework (For-profit Entities Update) (XRB A1). The Company is a Tier 1 entity, along with a reporting entity for the purposes of the Financial Reporting Act 2013. The Company is registered under the Companies Act 1993 and is an FMC reporting entity under the Financial Markets Conduct Act 2013.

The introduction of the Insurance (Prudential Supervision) Act 2010 requires all insurers carrying on insurance business in New Zealand to be licensed by the Reserve Bank of New Zealand ("RBNZ"). The Company was granted a full license on 10 June 2013. In accordance with the terms of the license, the Company is deemed to be an issuer under section 4(i)(da) of the Financial Reporting Act 2013. Comparative information in the statement of cash flows has been re-presented to conform with the presentation in the current year to exclude non-cash transactions settled through intercompany current accounts as they are not considered cash equivalents. Certain other comparative information have also been reclassified to conform with the current year's presentation.

Measurement basis
The measurement basis adopted in the preparation of these financial statements is historical cost, with the exception of the outstanding claims liability, which is stated at fair value. The financial statements are presented in New Zealand dollars, the Company's functional currency.

Insurance premiums
Insurance premiums comprises amounts charged to the policy holders. The earned portion of premiums received and receivable is recognised as revenue. Insurance premiums are earned over the indemnity period based on the pattern of risks underwritten, from the date of attachment of risk. Unearned revenue comprises the element of the monthly premiums paid in advance by customers part way through the month preceding the year-end, that relates to insurance coverage post the year-end reporting date.

Taxation
The taxation expense charged to earnings includes both current and deferred tax and is calculated after allowing for non-temporary differences. Current tax is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date. Deferred taxation is recognised using the liability method on temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements, except for temporary differences arising on initial recognition of an asset or liability (unless arising in a business combination or impacting profit or loss). Future tax benefits are recognised where realisation of the asset is probable. Deferred tax is determined based on tax rates and laws that have been enacted or substantively enacted at the balance sheet date. Current and deferred tax is recognised in the statement or profit or loss, except when the tax relates to items charged or credited directly in equity or other comprehensive income, in which case the tax is also recognised in equity and other comprehensive income.

Claims and outstanding claims liability
Claims expense consists of payment for claims, direct costs incurred in administering claims and the movement in the outstanding claims liability. Claims represent the benefits paid or payable to the policyholder on the occurrence of an event giving rise to a claim according to the terms of the policy. Claims expenses are recognised in the statement of profit or loss and other comprehensive income according to the point in time when the event giving rise to the claim occurs.

The outstanding claims liability is calculated retrospectively based on claims reported but not yet paid; claims incurred prior to the year-end but not yet reported (IBNR); expected direct and indirect claims settlement costs; plus a risk margin. The IBNR is calculated using an average term to settlement based on historic settlement patterns, which for the current and previous financial years was deemed to be 50% of the total claims settlement value for the month subsequent to the year-end date.

The value of outstanding claims has not been discounted because the period between the date of claim and the settlement date is short (within one year) and the valuation estimates of an expected level of payment allows for current inflation. The variation in outcome of the claims liability will be small because the valuation of claims for replacement mobile handsets is based on current retail prices, the number of open claims relating to the financial year is known, and the insurance settlement date is short.

Financial assets backing general insurance liabilities
The Company's financial assets consist primarily of surplus funds invested with Spark Group Company, Spark Finance Limited, and these funds are used to back both general insurance liabilities and financial liabilities arising under non-insurance contracts. The Company has an agreement with Westpac to guarantee $27 million of its receivable from Spark Finance Limited (2017: same).

Interest income
Interest income is recognised on an effective interest basis.

Notes to the financial statements

Note 1 Accounting Policies (continued)

New and amended standards adopted

NZ IFRS 9 Financial Instruments

The Company has early adopted NZ IFRS 9 Financial Instruments (2014) (NZ IFRS 9), the final version of the standard which replaces earlier versions of NZ IFRS 9 and completes the replacement of NZ IAS 39 Financial Instruments: Recognition and Measurement. The new standard includes three areas of change:

a. Classification and measurement of financial instruments;
b. A single, forward-looking, 'expected loss' impairment model; and
c. Substantially reformed approach to hedge accounting.

a. Classification and measurement of financial instruments

The Company early adopted Part 1 of NZ IFRS 9 (2009) Financial Instruments from the year ended 30 June 2010 and adoption of the final NZ IFRS 9 standard has not required any changes to the Company's classification and measurement of financial assets or financial liabilities.

b. New impairment model

NZ IFRS 9 prescribes an 'expected credit loss' model instead of the previous incurred loss model, so it is no longer necessary for a trigger event to have occurred before recognising credit losses. NZ IFRS 9 requires the Company to now base the measurement of expected credit losses on forward-looking information, as well as current and historic information. There was no expected credit loss allowance recognised as a result of adoption, as the Company has not experienced a history of credit losses (including in relation to intercompany balances), and no current or forward-looking information existed as at 30 June 2018, which would indicate a significant increase in credit risk. There was no financial impact on adoption.

c. Hedge accounting

The Company does not apply hedge accounting which resulted in no financial impact on adoption.

Amendments to NZ IAS 7 Statement of cash flows

As part of the disclosure initiative, amendments were made to NZ IAS 7 Statement of cash flows, which introduce additional disclosure to enable better understanding of changes in liabilities arising from financing activities. There was no impact on adoption as the Company does not hold debt arising from financing activities.

New standards not yet adopted

NZ IFRS 15 Revenue from contracts with customers

NZ IFRS 15 *Revenue from contracts with customers* (NZ IFRS 15) replaces NZ IAS 18 *Revenue* and related interpretations. NZ IFRS 15 is mandatorily effective for the Company from next financial year, being the year ending 30 June 2019. The Company generates revenue from insurance contracts, which are out of scope for NZ IFRS 15 and as a result the Company does not anticipate a financial impact on adoption.

NZ IFRS 16 Leases

NZ IFRS 16 *Leases* (NZ IFRS 16) replaces NZ IAS 17 *Leases*. The Company has elected to early adopt NZ IFRS 16 from next financial year, being the year ending 30 June 2019. The Company has no lease arrangements and there will be no financial impact on adoption.

NZ IFRS 17 Insurance Contracts

NZ IFRS 17 Insurance Contracts (NZ IFRS 17) replaces the current guidance in NZ IFRS 4, and establishes the principles for recognition, measurement, presentation and disclosure of insurance contracts. NZ IFRS 17 is effective for annual periods beginning on or after 1 January 2021 and the impact on adoption is still to be determined.

Notes to the financial statements (continued)

Note 2 Claims expense

	2018	2017
YEAR ENDED 30 JUNE	$'000	$'000
Claims incurred in current year	3,806	8,317
Risk margin expense	50	199
Commission expense	737	1,073
Claims management fee	450	450
Total claims expense	**5,043**	**10,039**

Claims incurred in the current year relate fully to risks bourne in the current year.

Note 3 Operating expenses

	2018	2017
YEAR ENDED 30 JUNE	$'000	$'000
Credit rating fee	53	53
Audit fees	9	9
Directors' fees	10	10
Other operating expenses	128	147
Total operating expenses	**200**	**219**

The Company had no employees in the current year (2017: nil). Some costs are incurred by other Spark Group subsidiaries on behalf of the Company for administration and accounting services.

Note 4 Finance income

	2018	2017
YEAR ENDED 30 JUNE	$'000	$'000
Intercompany interest income	3,084	2,830
Other interest income	14	14
Total finance income	**3,098**	**2,844**

Note 5 Taxation

	2018	2017
YEAR ENDED 30 JUNE	$'000	$'000
Current year income tax expense	4,167	2,040
Deferred income tax		
Provisions	(81)	(11)
Income tax expense per statement of profit or loss and other comprehensive income	**4,086**	**2,029**

Reconciliation of tax expense		
Net earnings before income tax	14,594	7,245
Tax at 28%	4,086	2,029
Income tax expense per statement of profit or loss and other comprehensive income	**4,086**	**2,029**

Taxation payable	2018	2017
AS AT 30 JUNE	$'000	$'000
Opening balance of tax liability	2,017	1,151
Income tax expense per statement of profit or loss and other comprehensive income	4,086	2,029
Tax paid and inter-group allocation	(2,070)	(1,163)
Closing tax balance of tax payable	**4,033**	**2,017**

Notes to the financial statements (continued)

Note 5 Taxation (continued)

Deferred tax asset	2018	2017
AS AT 30 JUNE	$'000	$'000
Balance at the beginning of the year	55	44
Prior period over/under accrual	73	23
Adjustments relating to current period	(81)	(12)
Balance at the end of the year	**47**	**55**

Note 6 Cash and cash equivalents

	2018	2017
AS AT 30 JUNE	$'000	$'000
Cash at bank	10	97
Short-term investments	500	500
Total cash and cash equivalents	**510**	**597**

Note 7 Outstanding claims liability

	2018	2017
AS AT 30 JUNE	$'000	$'000
Outstanding claims liability	158	456
Risk margin	50	199
Total outstanding claims liability	**208**	**655**

Paul Rhodes FNZSA FIA is the Appointed Actuary for the Company. The actuary has nominated a risk margin to allow for uncertainty in the central estimate of claims and to achieve a 75% probability of sufficiency of the provision. A 1% increase / (decrease) in the risk margin assumption does not result in a material impact on the reported profit, outstanding claims liabilities and equity of the Company.

The liability adequacy test which was performed as at 30 June 2018 identified a surplus for the Company (30 June 2017: surplus).

Reconciliation of movement in claims liability:

	2018	2017
AS AT 30 JUNE	$'000	$'000
Balance at the beginning of the year	655	1,218
Claims notified	5,031	9,303
Claims expenses	(5,898)	(9,124)
Movement in risk margin	(149)	40
Movement in claims incurred but not reported (IBNR)	569	(782)
Balance at the end of the year	**208**	**655**

Note 8 Redeemable preference shares

The Company paid Spark New Zealand Limited $5.5 million on 17 April 2018 following receipt of notice requiring redemption of all 550 preference shares that Spark New Zealand Limited holds in the Company (2017: 550 fully paid redeemable preference shares on issue, each with a value of $10,000).

Following redemption, all 550 preference shares were deemed to be cancelled.

Notes to the financial statements (continued)

Note 9 Equity

Ordinary shares and redeemable preference shares

	ORDINARY SHARES	
	Number	*$'000*
As at 30 June 2018	100	1
As at 30 June 2017	100	1

Each share confers on the holder the right to vote at any meeting of shareholders. The Company maintains equity in the form of retained earnings of $33m (2017: $43m), and the Directors believe that this is an appropriate level to cover its exposure to risk, based on annual aggregate exposure and loss history. During the year ended 30 June 2018 the Company paid a dividend of $200,000 per share or $20 million to Spark New Zealand Limited (30 June 2017: nil).

Note 10 Risk management

The Company is exposed to a number of risks in the normal course of business, primarily insurance risk, financial risk (liquidity risk and interest rate risk), credit risk and capital adequacy.

Insurance risk

The Company's main insurance risk is from the increasing value of smartphones which will impact on claim costs in the future. Therefore, the main risk management objective is to manage the magnitude and the volatility of claim costs. Aon New Zealand Limited, the claims administrator, also actively manages claim activity, with assistance from the Spark Group. The Company reviews premium rates by having the Appointed Actuary regularly review the premium rates to ensure that prices reflect risk.

For the Company a broader risk is the reliance on one line of business (namely mobile handset insurance for pay-monthly customers). If something were to arise that negatively affect this, such as reduced use of mobile phones or alternative customer propositions, it would have a flow on impact on the Company's financial position. The probability of catastrophe risk causing a large number of handset replacement claims is low as the value of policies is relatively low and policyholders are geographically widespread throughout New Zealand.

Financial risk

a) Liquidity risk

Nature of the risk

Liquidity risk is the risk that the Company is unable to pay claims and operating expenses as they fall due.

Exposure and risk management

The company manages liquidity through risk by holding surplus funds of $35m (2017: $50m) in an on-call current account with Spark Finance Limited. The Company has entered into an agreement with Westpac Banking Corporation to guarantee $27m of the $35m funds held by Spark Finance Limited, in order to mitigate the risk of asset concentration of these funds being held by a related party. All financial liabilities, including outstanding claims liabilities are treated as current with the settlement of recognised insurance liabilities expected to be within 12 months. Westpac New Zealand Limited has current credit ratings of AA- with Standard and Poor's, and A1 with Moody's Investor Services.

b) Interest rate risk

Nature of the risk

Interest rate risk is the risk that fluctuations in interest rates impact the Company's financial performance or the fair value of its holdings of financial instruments.

Exposure and risk management

There is minimal interest rate risk as surplus funds invested with Spark Finance Limited earn a fixed interest rate (6%). An interest risk exists when short-term investments held with financial institutions mature and a new investment is purchased.

c) Credit risk

Nature of the risk

The Company incurs credit risk related to financial assets of $39m (2017: $54m).

Exposure and risk management

Except for $500,000 invested with a financial institution, the Company's funds are invested in Spark Finance Limited. The board of directors of Spark Finance Limited have approved a credit risk policy that limits exposure with counterparties by placing its cash and short-term investments with high credit quality financial institutions and sovereign bodies, and it also limits the amount of credit exposure to any one of these financial institutions.

The Parent (which guarantees Spark Finance Limited's debt) has a credit rating from Standard & Poor's as at 30 June 2018 as follows:

Long Term Senior Debt	A-
Short Term Debt	A-2
Outlook	Stable

Notes to the financial statements (continued)

Note 10 Risk management (continued)

Capital adequacy

Capital management policies and objectives

The Insurance (Prudential Supervision) Act 2010 ("the Act") requires all general insurance entities carrying on business in New Zealand to be licensed by the Reserve Bank of New Zealand. The Company held a full licence in the current financial year. The Company is managing its capital in accordance with the requirements of the Act.

Under the Solvency Standard for Non-life Insurance Business ("the solvency standard") issued by the Reserve Bank of New Zealand, the Company is required to maintain a solvency margin as determined under the solvency standard at or above the minimum solvency capital level.

The Company satisfied all externally imposed capital requirements which they were subject to during the year ended 30 June 2018. The Company has embedded in its capital management framework the necessary tests to ensure continuous and full compliance with the solvency standard.

Capital composition

The Company manages its capital by considering both regulatory and economic capital. The primary source of capital used is total equity attributable to owners. Total equity attributable to owners equates to "capital" as defined in the solvency standard and shown below.

Regulatory capital is made up of two components, actual solvency capital and minimum solvency capital, with the difference representing the solvency margin. The calculation of the solvency margin for the Company is detailed below:

AS AT 30 JUNE	2018 $'000	2017 $'000
Actual solvency capital	33,347	42,830
Minimum solvency capital	15,542	30,765
Solvency margin	17,805	12,065
Solvency ratio	2.15	1.39

Note 11 Related parties

AS AT 30 JUNE	2018 $'000	2017 $'000
Current assets		
Amounts due from Spark Finance Limited	35,371	50,343
Amounts due from Spark New Zealand Trading Limited	2,946	2,643
Total related party current assets	38,317	52,986
Current liabilities		
Amounts due to Spark New Zealand Trading Limited	554	1,937
Total related party current liabilities	554	1,937

Transactions occurring during the year:

YEAR ENDED 30 JUNE	2018	2017
Spark Finance Limited:	$'000	$'000
Net operating transactions	9,506	3,242
Interest received	3,084	2,830
Funding for dividends paid to Spark New Zealand Limited	(20,000)	-
Spark New Zealand Trading Limited:		
Replacement mobile handsets	(5,898)	(9,124)

At 30 June 2018, the Company owes amounts to Spark New Zealand Trading Limited for the reimbursement of expenses paid to suppliers and for replacement mobile handsets provided to insurance claimants on the Company's behalf. No related party debts have been written off or forgiven during the year.

Notes to the financial statements (continued)

Note 12 Contingent liabilities

The Directors are not aware of any significant contingent liabilities at 30 June 2018 (30 June 2017: nil).

Note 13 Capital commitments

There are no capital commitments at 30 June 2018 (30 June 2017: nil).

Note 14 Subsequent events

There have been no events subsequent to balance date that impact these financial statements.

Independent Auditor's Report

To the shareholder of Teleco Insurance (NZ) Limited

Report on the financial statements

Opinion

In our opinion, the accompanying financial statements of Teleco Insurance (NZ) Limited (the company) on pages 3 to 11:

i. present fairly in all material respects the company's financial position as at 30 June 2018 and its financial performance and cash flows for the year ended on that date; and

ii. comply with New Zealand Equivalents to International Financial Reporting Standards and International Financial Reporting Standards.

We have audited the accompanying financial statements which comprise:

— the statement of financial position as at 30 June 2018;

— the statements of comprehensive income, changes in equity and cash flows for the year then ended; and

— notes, including a summary of 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)'). We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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

Our responsibilities under ISAs (NZ) are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

Our firm has also provided other assurance services to the company. Subject to certain restrictions, partners and employees of our firm may also deal with the company on normal terms within the ordinary course of trading activities of the business of the company. These matters have not impaired our independence as auditor of the company. The firm has no other relationship with, or interest in, the company.

Use of this independent auditor's report

This independent auditor's report is made solely to the shareholder as a body. Our audit work has been undertaken so that we might state to the shareholder those matters we are required to state to them in the independent 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 shareholder as a body for our audit work, this independent auditor's report, or any of the opinions we have formed.

KPMG

Responsibilities of the Directors for the financial statements

The Directors, on behalf of the company, are responsible for:

— the preparation and fair presentation of the financial statements in accordance with generally accepted accounting practice in New Zealand (being New Zealand Equivalents to International Financial Reporting Standards) and International Financial Reporting Standards;

— implementing necessary internal control to enable the preparation of a set of financial statements that is fairly presented and free from material misstatement, whether due to fraud or error; and

— assessing the ability to continue as a going concern. This includes disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objective is:

— 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 independent 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 will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error. They 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 these financial statements is located at the External Reporting Board (XRB) website at:

http://www.xrb.govt.nz/standards-for-assurance-practitioners/auditors-responsibilities/audit-report-2/

This description forms part of our independent auditor's report.

The engagement partner on the audit resulting in this independent auditor's report is David Gates

For and on behalf of

KPMG

KPMG
Wellington

23 October 2018

The Board of Directors
Teleco Insurance (NZ) Limited
42-52 Willis Street
Wellington

23 October 2018

Appointed actuary's review of actuarial information for Teleco Insurance (NZ) Limited

To the Directors of Teleco Insurance (NZ) Limited,

This letter has been prepared for Teleco Insurance (NZ) Limited ("Teleco") to meet the requirements of Section 78 of the Insurance (Prudential Supervision) Act 2010 ("the Act") in respect of Section 77 of the Act which requires that each Licensed insurer must ensure that the actuarial information contained in, or used in preparation of, the financial statements of the insurer is reviewed by the appointed actuary.

I have reviewed the following actuarial information included in the audited accounts for Teleco as at 30 June 2018:

- Outstanding claims liability.
- Unearned premium liability.

I have been provided with all the information and explanations that I have required to complete my review.

I am the appointed actuary to Teleco and am a Partner of PricewaterhouseCoopers New Zealand. I am independent of Teleco.

In my opinion:

- the actuarial information contained in the financial statements has been appropriately included in those statements; and
- the actuarial information used in the preparation of the financial statements has been used appropriately; and
- Teleco is maintaining a solvency margin as required under the Solvency Standard for Non-Life Insurance Business 2014, issued by the Reserve Bank of New Zealand.

Reliances and limitations

This letter has been prepared for Teleco and is provided in accordance with the terms set out in our statement of work signed 1 July 2018.

No distribution of this letter to third parties, other than as required by law is permitted by us. There may be requests for our letter to be copied to third parties. We will be happy to consider these requests, as and when they arise.

Our responsibilities and liabilities are limited to Teleco and exist only in the context of their use of our letter. No liability or responsibility will be accepted by us in relation to the use of our letter for any other purpose. We will not accept any liability or responsibility to any third party recipients.

We have relied on information provided to us in the course of carrying out our work. We perform some data validation checks but we have not verified all of the information provided to us, nor have we carried out anything in the nature of an audit. Accordingly, we express no opinion on the total reliability, accuracy or completeness of the information provided to us and upon which we have relied. We have no reason to believe that the information provided to us is inaccurate or misleading.

This letter must be read in its entirety. Individual sections of this letter could be misleading if considered in isolation from each other. If distributed, this letter must be distributed in its entirety.

This letter is not considered an actuarial report under Professional Standard 90 of the New Zealand Society of Actuaries.

Yours sincerely

PRhodes.

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