

TRUSTPOWER INSURANCE LIMITED
DIRECTORS' RESPONSIBILITY STATEMENT
FINANCIAL STATEMENTS 2020

The Directors are pleased to present the financial statements of Trustpower Insurance Limited for the year ended 31 March 2020.

The Directors are responsible for ensuring that the financial statements give a true and fair view of the financial position of the Company as at 31 March 2020 and its financial performance for the year ended on that date.

The Directors consider that the financial statements of the Company have been prepared using appropriate accounting policies, consistently applied and supported by reasonable judgements and estimates and that all relevant financial reporting standards have been followed.

The Directors believe that proper accounting records have been kept that enable, with reasonable accuracy, the determination of the financial position of the Company and facilitate compliance of the financial statements with the Financial Markets Conduct Act 2013.

The Directors consider they have taken adequate steps to safeguard the assets of the Company to prevent and detect fraud and other irregularities.

The shareholders of the Company have exercised their right under section 211 (3) of the Companies Act 1993 ("the Act") and unanimously agreed that this Annual Report need not comply with any of paragraphs (a), and (e) to (l) of section 211 (1) of the Act.

DocuSigned by:


Keith Turner
Director



David Prentice
Director

Dated: 29 July 2020

Company No.
Incorporated

1981114
12 September 2007

TRUSTPOWER INSURANCE LIMITED
STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 MARCH 2020

	Note	2020 \$000	2019 \$000
Insurance premium revenue	4	1,669	1,457
Insurance premium ceded to other reinsurers	4	(1,399)	(1,253)
Net Insurance Premium Revenue		270	204
Fee income - insurance contracts	5	85	41
Net Income		355	245
Insurance benefits and claims paid	3.1.1	(778)	2,250
Insurance benefits and claims received	3.1.1	778	(1,800)
Net claims expense		-	450
Expenses for the acquisition of insurance and investment contracts		95	82
Other operating expenses	7	26	23
Expenses		121	555
Results of Operating Activities		234	(310)
Interest received	6	(71)	(98)
Net finance revenue		(71)	(98)
Profit/(Loss) Before Income Tax		305	(212)
Income tax expense/(credit)	8	85	(59)
Profit/(Loss) After Tax Attributable to the Shareholders of the Company		220	(153)
Total Comprehensive Income/(Loss)		220	(153)

TRUSTPOWER INSURANCE LIMITED
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 MARCH 2020

	Note	Share Capital \$000	Retained Earnings \$000	Total Equity \$000
Opening balance as at 1 April 2018		1,000	1,411	2,411
Total comprehensive loss for the period		-	(153)	(153)
Balances as at 31 March 2019		1,000	1,258	2,258
Total comprehensive income for the period		-	220	220
Closing balances as at 31 March 2020		1,000	1,478	2,478

The accompanying notes form part of these financial statements

TRUSTPOWER INSURANCE LIMITED
STATEMENT OF FINANCIAL POSITION
AS AT 31 MARCH 2020

		2020	2019
	Note	\$000	\$000
Equity			
<i>Capital and reserves attributable to shareholders of the Company</i>			
Share capital	9	1,000	1,000
Retained earnings	10	1,478	1,258
Total Equity		2,478	2,258
 <i>Represented by:</i>			
Current Assets			
Cash and cash equivalents	11	665	78
Reinsurance assets	12	2,049	2,583
Advance to Trustpower		2,744	2,673
Accounts receivable and prepayments	13	61	97
		5,519	5,431
 Total Assets		5,519	5,431
 Current Liabilities			
Unearned insurance premium	15	1,346	861
Trade, other payables, deferred income and claims provision	16	1,695	2,312
		3,041	3,173
 Total Liabilities		3,041	3,173
 Net Assets		2,478	2,258

The accompanying notes form part of these financial statements

TRUSTPOWER INSURANCE LIMITED
CASHFLOW STATEMENT
AS AT 31 MARCH 2020

	2020 \$000	2019 \$000
Cash Flows from Operating Activities		
<i>Cash was provided from:</i>		
Receipts from customers	2,231	1,521
	2,231	1,521
<i>Cash was applied to:</i>		
Payments to suppliers	1,644	1,530
	1,644	1,530
Net Cash from Operating Activities	17 587	(9)
Cash Flows from Investing Activities		
<i>Cash was provided from:</i>		
Return of advance from Trustpower	-	24
	-	24
Net Cash used in Investing Activities	-	24
Net Cash used in Financing Activities	-	-
Net Increase in Cash, Cash Equivalents and Bank Overdrafts	587	15
Cash, Cash equivalents and bank overdrafts at beginning of the year	78	63
Cash, Cash Equivalents and Bank Overdrafts at End of the Year	665	78

The accompanying notes form part of these financial statements

TRUSTPOWER INSURANCE LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2020

NOTE 1: GENERAL INFORMATION

Reporting Entity

The principal activity of Trustpower Insurance Limited is the underwriting of insurance risk associated with material damage and business interruption of its parent company, Trustpower Limited, and its subsidiaries. All significant operations take place within New Zealand.

The Company is a limited liability company incorporated on 12 September 2007 and domiciled in New Zealand. The address of its registered office is 108 Durham Street, Tauranga.

These financial statements relate to the year ended 31 March 2020 and have been approved for issue by the Board of Directors on 29 July 2020.

NOTE 2: STATEMENT OF ACCOUNTING POLICIES

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

2.1 Basis of Preparation

These audited financial statements have been prepared in accordance with New Zealand generally accepted accounting practice (NZGAAP). They comply with the New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS), International Financial Reporting Standards and other applicable New Zealand Financial Reporting Standards, as appropriate for profit-oriented entities.

Statutory base

Trustpower Insurance Limited is registered under the Companies Act 1993. It is an FMC Reporting Entity under the Financial Markets Conduct Act 2013 because it is a licensed insurer. The financial statements have been prepared in accordance with the requirements of the Financial Markets Conduct Act 2013 and the Companies Act 1993.

Historical cost convention

These financial statements have been prepared under the historical cost convention.

Functional and presentation currency

The functional and reporting currency used in the preparation of these financial statements is New Zealand dollars, rounded to the nearest thousand.

COVID-19

Trustpower Insurance Limited has considered the potential impact of COVID-19 on its financial statements and has assessed the risk as low. The parent company, Trustpower Limited, provides essential services and continued to trade throughout all alert levels resulting in no COVID-19 impact on intercompany balances. All reinsurers are graded as level 3 or better and cash is held with a bank with a Standards & Poors credit rating of AA-. It is acknowledged that there is significant uncertainty in how COVID-19 will impact the above considerations in the future. This assessment is effective as at 29 July 2020 and has made use of all available information at that time.

TRUSTPOWER INSURANCE LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2020

NOTE 2: STATEMENT OF ACCOUNTING POLICIES (continued)

2.2 Adoption Status of Relevant New Financial Reporting Standards and Interpretations

Trustpower has adopted the following new standard in the current year and has changed its accounting policies accordingly.

NZ IFRS 16 Leases

NZ IFRS 16 Leases replaces NZ IAS 17 Leases and removes the classification of leases as either operating leases or finance leases and consequently, for the lessee, all leases (other than short term or low value leases) are recognised on the balance sheet.

Trustpower Insurance does not hold any leases and IFRS 16 has had no impact on the Financial Statements.

2.3 Financial Assets

Investments are designated by the Company as either financial assets at fair value through profit or loss, or assets at amortised cost. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and re-evaluates this at every reporting date.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if it is acquired principally for the purpose of selling in the short term. Assets in this category are classified as non-current assets where the remaining maturity of the asset is greater than 12 months; they are classified as current assets when the remaining maturity of the asset is less than 12 months.

Assets at amortised cost

Assets at amortised cost are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets.

Recognition and derecognition of financial assets

Regular purchases and sales of financial assets are recognised on the trade date – the date on which the Company commits to purchase or sell the asset. Financial assets are initially recognised at fair value plus, in the case of all financial assets not carried at fair value through profit or loss, transaction costs that are directly attributable to their acquisition. Financial assets carried at fair value through profit or loss are initially recognised at fair value and transaction costs are expensed in the statement of comprehensive income.

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

Financial assets at fair value through profit or loss are subsequently carried at fair value. Assets at amortised cost are carried at amortised cost using the effective interest method. Realised and unrealised gains or losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are included in the statement of comprehensive income within fair value movements of financial instruments, in the period in which they arise. Dividend income from financial assets at fair value through profit or loss is recognised in the statement of comprehensive income as part of other income when the Company's right to receive payments is established.

TRUSTPOWER INSURANCE LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2020

NOTE 2: STATEMENT OF ACCOUNTING POLICIES (continued)

2.4 Premium and Revenue Recognition

Revenue comprises the fair value of consideration received or receivable for services in the ordinary course of the Company's activities. Revenue is shown net of goods and services tax, rebates and discounts.

Regular fees and premiums are normally charged annually in advance. The consideration received is recognised evenly in the income statement from the commencement date over the period of the contract.

Interest income is recognised on a time-proportion basis using the effective interest method.

Dividend income is recognised when the right to receive payment is established.

2.5 Provision for Unearned Premiums

Unearned premiums are calculated by apportioning the premium revenue written in the year, over the period of risk from the dates of commencement using the Daily Pro-rata method.

2.6 Outstanding Claims Liability

The liability for outstanding claims is measured as the central estimate of the present value of expected future payments against claims incurred at the reporting date under general insurance contracts issued by the Company, with an additional risk margin to allow for the inherent uncertainty in the central estimate.

Claims handling costs include costs that can be associated directly with individual claims, such as legal and other professional fees, and costs that can only be indirectly associated with individual claims, such as claims administration costs.

The expected future payments are discounted to present value using a risk free rate.

A risk margin is applied to the outstanding claims liability, net of reinsurance and other recoveries, to reflect the inherent uncertainty in the central estimate. This risk margin increases the probability that the net liability is adequately provided for to a 75% confidence level.

2.7 Reinsurance Recoveries

Reinsurance and other recoveries receivable on paid claims, reported claims not yet paid, IBNR and IBNER are recognised as a reduction of the claims expense.

Amounts due in respect of claims paid and anticipated recoveries in respect of outstanding claims are recognised as reinsurance receivable in the balance sheet.

Recoveries receivable are assessed in a manner similar to the assessment of outstanding claims. Recoveries are measured as the present value of the expected future receipts, calculated on the same basis as the liability for outstanding claims.

TRUSTPOWER INSURANCE LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2020

NOTE 2: STATEMENT OF ACCOUNTING POLICIES (continued)

2.8 Outwards Reinsurance

Premium ceded to reinsurers is recognised as outward reinsurance expense from the attachment date over the period of indemnity of the reinsurance contract in accordance with the expected pattern of the incidence of risk.

2.9 Foreign Currency Translation

Transactions denominated in a foreign currency are converted to New Zealand dollars at the exchange rate on the date of the transaction. Monetary assets and liabilities arising from foreign currency transactions are translated at closing rates at balance date. Gains or losses from currency translation on these items are included in the income statement.

2.10 Insurance Contracts

The Company issues contracts that transfer insurance risk or financial risk or both. Insurance contracts are those contracts that transfer significant insurance risk. Such contracts may also transfer financial risk. As a general guideline, the Company defines as significant insurance risk the possibility of having to pay benefits on the occurrence of an insured event that are at least 10% more than the benefits payable if the insured event did not occur.

2.11 Share Capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

2.12 Trade Payables

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

2.13 Dividend Distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Company's financial statements in the period in which the dividend is approved by the Directors.

NOTE 3: MANAGEMENT OF INSURANCE AND FINANCIAL RISK

The Company issues contracts that transfer insurance risk or financial risk or both. This section summarises these risks and the way the Company manages a number of the key risks including interest rate risk, credit risk, insurance risk and market risk. The Company's policies and procedures in respect of these risks are set out in this note.

Objectives in managing risks arising from insurance contracts and policies for mitigating those risks

The Company has an objective to control insurance risk thus minimising substantial unexpected losses that would expose the Company to an adverse capital loss.

The Board of the Company has developed, implemented and maintains policies and procedures, processes and controls that comprise its risk management and control systems. These systems address all material risks, both financial and non-financial, that are likely to be faced by the Company. These are reviewed annually by the Board.

3.1 Insurance Risk

The risk under any one insurance contract is the possibility that the insured event occurs and the uncertainty of the amount of the resulting claim. By the very nature of an insurance contract, this risk is random and therefore unpredictable.

For a portfolio of insurance contracts where the theory of probability is applied to pricing and provisioning, the principal risk the Company faces under its insurance contracts is that the actual claims and benefit payments exceed the carrying amount of the insured liabilities. This could occur because of the frequency or severity of the claims and benefits are greater than estimated. Insurance events are random and the actual number and amounts of claims will vary from year to year from the level established using statistical techniques.

Experience shows that the larger the portfolio of similar insurance contracts, the smaller the relative variability about the expected outcome will be. In addition, a more diversified portfolio is less likely to be affected by a change in any subset of the portfolio. While the Company has a large portfolio of similar risk in its insurance underwriting, some diversification is achieved through geographical spread of that risk.

TRUSTPOWER INSURANCE LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2020

NOTE 3: MANAGEMENT OF INSURANCE AND FINANCIAL RISK (continued)

3.1.1 Property Insurance Contracts

(a) Frequency and severity of claims

For property insurance contracts, climatic changes give rise to more frequent and severe extreme weather events (for example, river flooding, hurricanes and typhoons) and their consequences (for example, subsidence claims). For certain contracts, the Company has also limited the number of claims that can be paid in any policy year or introduced a maximum amount payable for claims in any policy year.

The Company has the right to re-price the risk on renewal. It also has the ability to impose deductibles and reject fraudulent claims. These contracts are underwritten by reference to the commercial replacement value of the properties and contents insured, and claims payment limits are always included to cap the amount payable on occurrence of the insured event. Cost of rebuilding properties, of replacement or indemnity for contents and time taken to restart operations for business interruption are the key factors that influence the level of claims under these policies. The greatest likelihood of significant losses on these contracts arises from seismic, storm or flood damage.

The Company has reinsurance cover for such damage to limit losses to \$500,000 per claim (excluding seismic, volcanic or hydrothermal activity). There is no limit to the number of claims that may be made in an annual financial period. The loss for damage caused by seismic, volcanic or hydrothermal activity is limited to \$2,500,000 each for the first two events in an annual financial period and unlimited thereafter.

Heavy rain caused damage to several of Trustpower Limited's generation schemes on the West Coast of the South Island in March 2019. The cost to repair is \$1,471,000 and \$651,000 has been received since balance date with the remainder expected in the coming months. As such a \$1,471,000 insurance claim provision has been recognised. A negative expense and revenue claim has been recognised in the Income Statement as the estimated insurance settlement for this event was higher in the prior year than the actual amount. No risk margin has been included in the current year liability as the amount has been confirmed, both with Trustpower Limited and the reinsurers.

Property insurance contracts are subdivided into four risk groups: fire, business interruption, material damage and theft. The insurance risk arising from these contracts is currently confined to the operations of the parent entity and subsidiaries in New Zealand and Australia only.

(b) Sources of uncertainty in the estimation of future claim payments

Property claims are analysed separately for subsidence and non-subsidence claims. The development of large losses/catastrophes is analysed separately. Non-subsidence claims can be estimated with greater reliability and the estimation processes to be used by the Company reflect all the factors that influence the amount and timing of cash flows from these contracts.

Except as disclosed above, there have been no claims notified to the Company in the period under review. The Company is not aware of any events that have been incurred but not reported.

3.2 Financial Risk

The Company is exposed to a range of financial risks through its financial assets, financial liabilities (investment contracts and borrowings), reinsurance assets and insurance liabilities. In particular, the key financial risk is that in the long-term its investment proceeds are not sufficient to fund the obligations arising from its insurance and investment contracts. The most important components of this financial risk are interest rate risk, credit risk and foreign currency risk.

These risks arise from open positions in interest rate or currency products, all of which are exposed to general and specific market movements. The risk that the Company primarily faces due to the nature of its investments and liabilities is interest rate risk. This risk is managed in accordance with the guidelines of the Treasury Policy applying to the Trustpower Limited group of companies.

3.3 Credit Risk

The Company has exposure to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when due. These risks are managed in accordance with the guidelines of the Treasury Policy applying to the Trustpower Limited group of companies.

3.4 Liquidity Risk

Liquidity risk is the risk that the Company will encounter difficulties in raising liquid funds to meet commitments as they fall due. The Company evaluates its liquidity requirements on an ongoing basis. In general, sufficient cash is generated from operating activities to meet obligations arising from financial liabilities. In the event that a shortfall arises, the Company may draw on funds from related parties.

TRUSTPOWER INSURANCE LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2020

NOTE 4: NET INSURANCE PREMIUM REVENUE

	2020 \$000	2019 \$000
Gross written premiums	2,154	1,379
Movement in unearned premiums (see note 15)	(485)	78
Premium revenue	<u>1,669</u>	<u>1,457</u>
Gross outward reinsurance premiums	865	3,051
Movement in prepaid outward reinsurance premiums (see note 12)	534	(1,798)
Outward reinsurance premium expense	<u>1,399</u>	<u>1,253</u>
Net insurance premium revenue	<u>270</u>	<u>204</u>
Short-term insurance contracts:		
- Premium revenue	1,669	1,457
Premium revenue arising from insurance contracts issued	<u>1,669</u>	<u>1,457</u>
Short-term reinsurance contracts:		
- Reinsurance expense	(1,399)	(1,253)
Premium revenue ceded to reinsurers on insurance contracts issued	<u>(1,399)</u>	<u>(1,253)</u>
Net insurance premium revenue	<u>270</u>	<u>204</u>

Short-term insurance and reinsurance contracts are those with an unexpired period of less than 12 months as at reporting date. Long-term insurance and reinsurance contracts are those with an unexpired portion of greater than 12 months. Recognition of premium receivables and payables has been assumed as linear.

NOTE 5: FEE INCOME

	2020 \$000	2019 \$000
Policy administration services:		
- Insurance contracts	85	41
	<u>85</u>	<u>41</u>

Policy administration fees are charged at the commencement of the insurance contract. Income is recognised on a linear basis. Refer to note 16 for fee income received but not yet recognised as income.

NOTE 6: INVESTMENT INCOME

	2020 \$000	2019 \$000
Cash and cash equivalents interest income	-	-
Interest on intercompany loan	71	98
Total interest received	<u>71</u>	<u>98</u>

NOTE 7: OTHER OPERATING EXPENSES

	2020 \$000	2019 \$000
Audit fees and expenses	14	12
Fees paid for other audit related services provided by the auditors*	11	10
Other administration costs	1	1
	<u>26</u>	<u>23</u>

* Other audit related services provided by the auditors include the review of the annual solvency certificate.

TRUSTPOWER INSURANCE LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2020

NOTE 8: INCOME TAX EXPENSE/(CREDIT)

	2020 \$000	2019 \$000
Profit/(Loss) before income tax	305	(212)
Tax @ 28%	85	(59)
	85	(59)
<i>Represented by:</i>		
Current tax	85	(59)
	85	(59)

NOTE 9: SHARE CAPITAL

	2020 \$000	2019 \$000
Authorised and issued ordinary shares at end of year	1,000	1,000
	1,000	1,000

	2020 No. of shares	2019 No. of shares
Authorised and issued ordinary shares at end of year	1,000,000	1,000,000
	1,000,000	1,000,000

All shares rank equally with one vote attached to each share, have no par value and are fully paid.

NOTE 10: RETAINED EARNINGS

	2020 \$000	2019 \$000
Balance at beginning of year	1,258	1,411
Profit/(Loss) for the year	220	(153)
	1,478	1,258

NOTE 11: CASH AND CASH EQUIVALENTS

	2020 \$000	2019 \$000
Cash at bank	665	78
	665	78

NOTE 12: REINSURANCE ASSETS

	2020 \$000	2019 \$000
Prepaid reinsurance	1,028	783
Reinsurance claim receivable	1,021	1,800
	2,049	2,583

Prepaid reinsurance is the amount of those premiums paid in advance to reinsurers as at balance date. Reinsurance premiums have been paid by the Company until 15 November 2020.

TRUSTPOWER INSURANCE LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2020

NOTE 13: ACCOUNTS RECEIVABLE AND PREPAYMENTS

	2020 \$000	2019 \$000
Brokerage and fees prepaid	59	59
Commission and engineering fees	-	34
GST receivable	2	4
	61	97

NOTE 14: FINANCIAL INSTRUMENTS BY CATEGORY

	Loans and receivables	
	2020 \$000	2019 \$000
Assets per the statement of financial position		
Cash and cash equivalents	665	78
Accounts receivable excluding prepayments	2	38
Advance to Trustpower	2,744	2,673
	3,411	2,789

	Other financial liabilities at amortised cost	
	2020 \$000	2019 \$000
Liabilities per the statement of financial position		
Trade and other payables	196	25
	196	25

NOTE 15: UNEARNED INSURANCE PREMIUM

	2020 \$000	2019 \$000
Unearned premium liability at beginning of period	861	940
Earnings from premiums written in previous period	(861)	(940)
Deferral of premiums on contracts written during the period	1,346	861
	1,346	861

NOTE 16: TRADE, OTHER PAYABLES, DEFERRED INCOME AND CLAIMS PROVISION

	2020 \$000	2019 \$000
Deferred income	28	37
Trade payables and accrued expenses	196	25
Outstanding claims liability	1,471	2,250
	1,695	2,312

Deferred income relates to risk management fees received in advance for the period to 15 November 2020. These amounts are non-refundable and are released to income as the services are rendered.

All trade payables, accrued expenses and deferred income are current liabilities.

TRUSTPOWER INSURANCE LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2020

NOTE 17: RECONCILIATION OF NET CASH FROM OPERATING ACTIVITIES WITH PROFIT/(LOSS) AFTER TAX ATTRIBUTABLE TO SHAREHOLDERS

	2020 \$000	2019 \$000
Profit/(Loss) after tax attributable to the shareholders of the Company	220	(153)
<i>Non-cash items</i>		
Intercompany charges	39	(165)
	39	(165)
<i>Decrease / (Increase) in working capital</i>		
Accounts receivable and prepayments		
Taxation payable or receivable	(1,233)	(1,839)
Accounts payable and accruals	-	9
	1,561	2,140
	328	311
Net Cash from Operating Activities	587	(9)

NOTE 18: SOLVENCY REQUIREMENTS

Solvency requirements were introduced under the Insurance (Prudential Supervision) Act 2010 enacted on 7 September 2010. The methodology and bases for determining the Solvency Margin are in accordance with the Solvency Standard for Captive Insurers Transacting Non-life Insurance Business published and updated by the Reserve Bank of New Zealand.

	2020 \$000	2019 \$000
Actual solvency capital		
Minimum solvency capital requirement	2,478	2,258
Solvency capital margin excess	1,000	1,000
Solvency Ratio	1,478	1,258
	248%	226%

NOTE 19: CONTINGENT LIABILITIES, LEASE COMMITMENTS, AND SUBSEQUENT EVENTS

The Company is not aware of any other material contingent liabilities as at balance date (2019: nil).

The Company is not party to any material lease commitments at balance date. (2019: nil)

The Company is not aware of any significant events occurring subsequent to balance date that have not been disclosed.

TRUSTPOWER INSURANCE LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2020

NOTE 20: RELATED PARTY TRANSACTIONS

The Company is ultimately owned by Trustpower Limited which is controlled by Infratil Limited (incorporated in New Zealand) which owns 51.0% of Trustpower Limited's voting shares. Of the remaining Trustpower Limited shares, Tauranga Energy Consumer Trust owns 26.8% and the residual 22.2% are widely held.

During the year insurance premiums of \$1,669,000 (2019: \$1,498,000) were received from the parent entity and subsidiaries of the parent entity. These premiums relate to the period 15 November 2019 to 15 November 2020.

The impact of transactions with the parent entity and subsidiaries of the parent entity on the profit of the Company is shown below.

	2020 \$000	2019 \$000
Insurance premium revenue	1,669	1,498
Impact on profit before income tax	1,669	1,498

The Company invests surplus funds in the parent entity with an interest rate charged on the funds of OCR + 2%, compounded 6 monthly.

The impact of this investment in the parent company is shown below.

	2020 \$000	2019 \$000
Advance to Trustpower	2,744	2,673
Interest on advance	71	98

Except as noted above, no transactions took place with related parties during the year. All transactions with related parties take place on an arms length basis. No related party debts were forgiven or written off during the year.

NOTE 21: CREDIT RATING

As the Company is a captive insurer, the sections of the Insurance Companies (Ratings and Inspections) Act 1994 requiring a credit rating do not apply.

NOTE 22: LIABILITY ADEQUACY TEST

The company is subject to a highly likely insurance claim (see note 3.1.1 for details). The Company has undertaken a liability adequacy test and has concluded that the unearned premium liability is adequate to cover the future claims based on the historic loss ratio as the Company believes that this claim is one-off in nature and is not indicative of future claims.

NOTE 23: PRIOR PERIOD ERROR

In the prior period the Company recognised a liability and reinsurance asset for the West Coast rain event (note 3.1.1). The liability to Trustpower Limited recognised did not account for the \$50,000 insurance excess, and therefore profit before tax was understated by \$50,000. As a consequence, the comparative period has been restated as summarised by the following: the insurance benefits and claims paid has decreased by \$50,000, the outstanding claims liability has decreased by \$50,000 and the impact on tax has been an increase of \$14,000.



Independent auditor's report

To the Shareholders of Trustpower Insurance Limited

We have audited the financial statements which comprise:

- the statement of financial position as at 31 March 2020;
- the statement of comprehensive income for the year then ended;
- the statement of changes in equity for the year then ended;
- the cashflow statement for the year then ended; and
- the notes to the financial statements, which include a statement of accounting policies.

Our opinion

In our opinion, the accompanying financial statements of Trustpower Insurance Limited (the Company), present fairly, in all material respects, the financial position of the Company as at 31 March 2020, its financial performance and its cash flows for the year then ended in accordance with New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS) and International Financial Reporting Standards (IFRS).

Basis for opinion

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

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

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

Our firm carries out services for Trustpower Limited (the Company's parent) in the areas of tax compliance, specifically the review of income tax returns and tax related correspondence which relate to the Company. We also provide an assurance engagement for the Company in relation to the solvency return. The provision of these other services has not impaired our independence as auditor of the Company.

Key audit matters

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



Key audit matter	How our audit addressed the key audit matter
<p data-bbox="277 456 708 517"><i>Valuation of outstanding claim and associated reinsurance asset</i></p> <p data-bbox="277 539 783 1133">We consider the valuation of the outstanding claim a key audit matter because the amount of the claim is material and judgement is exercised in determining the quantum of the claim and the associated asset arising from the reinsurance contract. The claim event occurred in March 2019 which resulted in a high level of inherent uncertainty in the initial valuation of the claim to be paid to Trustpower Limited and the reinsurance asset arising to the Company. There is now less uncertainty over the quantum of the claim and the amount which will be received as subsequent to 31 March 2020 the claim was agreed with the reinsurers. Consequently, there is no longer a risk margin associated with the claim estimate.</p> <p data-bbox="277 1155 783 1346">During the period a restatement to the prior period claim amount and associated reinsurance benefit was identified as the insurance policy excess retained by Trustpower Limited of \$50,000 had in error been omitted.</p> <p data-bbox="277 1368 783 1438">Refer to note 3.1.1 and note 23 of the financial statements.</p>	<p data-bbox="815 506 1453 600">As part of our audit procedures we obtained an understanding of how management has revised the claim estimate.</p> <p data-bbox="815 633 922 663">We have:</p> <ul data-bbox="815 667 1453 1368" style="list-style-type: none"><li data-bbox="815 667 1453 797">• Considered the work and findings of management's internal experts and the independent consultants engaged by Trustpower Limited;<li data-bbox="815 819 1453 880">• Assessed the appropriateness and expertise of the internal experts and independent consultants;<li data-bbox="815 902 1453 1032">• Assessed the judgements and assumptions used in the final claim calculation to estimate the total repair costs and loss of income based on our knowledge of the Trustpower group;<li data-bbox="815 1055 1453 1149">• Agreed the settlement amount to the final settlement confirmations from Trustpower Limited and the reinsurers.<li data-bbox="815 1171 1453 1368">• Validated to supporting documentation including considering the appropriateness of treatment and disclosure the \$50,000 restatement arising from the prior period error in understating the insurance excess applicable to Trustpower Limited as detailed in note 23 of the financial statements. <p data-bbox="815 1402 1453 1460">We have no matters to report from the procedures performed.</p>

Our audit approach

Overview



An audit is designed to obtain reasonable assurance whether the financial statements are free from material misstatement.

Overall materiality: \$15,260, which represents approximately 5% of profit before tax.

We chose profit before tax as the benchmark because, in our view, it is the benchmark against which the performance of the Company is most commonly measured by users, and is a generally accepted benchmark.

As indicated earlier, we have determined that there is one key audit matter:

- Valuation of outstanding claim and associated reinsurance asset

Materiality

The scope of our audit was influenced by our application of materiality.

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

Audit scope

We designed our audit by assessing the risks of material misstatement in the financial statements and our application of materiality. As in all of our audits, we also addressed the risk of management override of internal controls including among other matters, consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

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

Information other than the financial statements and auditor's report

The Directors are responsible for the annual report. Our opinion on the financial statements does not cover the other information included in the annual report and we do not and will not express any form of assurance conclusion on the other information. At the time of our audit, the Directors have advised that no other information will be included in the annual report.

In connection with our audit of the financial statements, if other information is included in the annual report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact.



Responsibilities of the Directors for the financial statements

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

<https://www.xrb.govt.nz/standards-for-assurance-practitioners/auditors-responsibilities/audit-report-2/>
This description forms part of our auditor's report.

Who we report to

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

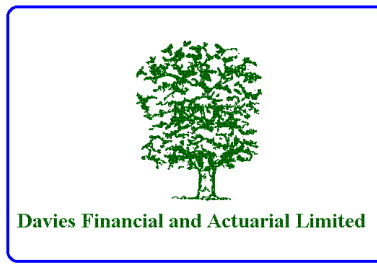
The engagement partner on the audit resulting in this independent auditor's report is Philippa (Pip) Cameron.

For and on behalf of:

A stylized, handwritten-style signature of 'PricewaterhouseCoopers' in black ink.

Chartered Accountants
29 July 2020

Auckland



7th July 2020

To: The Directors
TrustPower Insurance Limited

From: Peter Davies
Appointed Actuary

**Re: TrustPower Insurance Limited (“the Company”): Report
as at 31st March 2020 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 the Company as at 31st March 2020. “Actuarial information” includes the following:
 - claim provisions and unexpired risk / unearned premium provisions;
 - 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.

3. I am independent with respect to the Company 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. The Company's position as at 31st March 2020 under the RBNZ Solvency Standard for Captive Insurers Transacting Non-life Insurance Business can be summarised as follows

	March 2020	March 2019
Solvency capital	2,478,000	2,222,000
Calculated minimum requirement:	611,285	633,460
Minimum requirement per Standard:	1,000,000	1,000,000
Solvency Margin:	1,478,000	1,222,000
Solvency Coverage Ratio:	248%	222%

The Company is projected to meet the requirements of this Standard at all times over the next four years.

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

Yours sincerely



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