

Unison Insurance Limited
Financial statements
for the year ended 31 March 2016

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Unison Insurance Limited
Statement of financial performance
For the year ended 31 March 2016

	Notes	2016 \$'000	2015 \$'000
Premium revenue	2	960	1,667
Reinsurance expense	2	-	(534)
Net premium revenue		<u>960</u>	<u>1,133</u>
Claims expenses	2	-	-
Net underwriting result		<u>960</u>	<u>1,133</u>
Other income	3	634	592
Expenses	4	<u>(194)</u>	<u>(165)</u>
Profit before income tax		1,400	1,560
Income tax expense	5	<u>(331)</u>	<u>(434)</u>
Profit for the year		<u>1,069</u>	<u>1,126</u>

Unison Insurance Limited
Statement of comprehensive income
For the year ended 31 March 2016

	Notes	2016 \$'000	2015 \$'000
Profit for the year		1,069	1,126
Other comprehensive income:			
Items that will not be reclassified to profit or loss:			
		<u>-</u>	<u>-</u>
		<u>-</u>	<u>-</u>
Items that may be subsequently reclassified to profit or loss:			
		<u>-</u>	<u>-</u>
		<u>-</u>	<u>-</u>
Other comprehensive income for the year			
Total comprehensive income for the year		<u>1,069</u>	<u>1,126</u>

The above statements of financial performance and comprehensive income should be read in conjunction with the accompanying notes

Unison Insurance Limited
Statement of financial position
As at 31 March 2016

	Notes	2016 \$'000	2015 \$'000
ASSETS			
Current assets			
Cash and cash equivalents	6	3,902	3,615
Interest receivable		38	41
Other financial assets	8	<u>1,650</u>	<u>1,452</u>
Total current assets		<u>5,590</u>	<u>5,108</u>
Non-current assets			
Other financial assets	9	<u>7,866</u>	<u>7,385</u>
Total non-current assets		<u>7,866</u>	<u>7,385</u>
Total assets		<u>13,456</u>	<u>12,493</u>
LIABILITIES			
Current liabilities			
Payables	10	14	20
Current tax liabilities	5	<u>48</u>	<u>148</u>
Total current liabilities		<u>62</u>	<u>168</u>
Total liabilities		<u>62</u>	<u>168</u>
Net assets		<u>13,394</u>	<u>12,325</u>
EQUITY			
Contributed equity	11	8,700	8,700
Retained earnings		<u>4,694</u>	<u>3,625</u>
Total equity		<u>13,394</u>	<u>12,325</u>

For and on behalf of the Board.

Director

16 June 2016

Director

16 June 2016

The above statement of financial position should be read in conjunction with the accompanying notes

Unison Insurance Limited
Statement of changes in equity
For the year ended 31 March 2016

	Contributed equity \$'000	Retained earnings \$'000	Total equity \$'000
Balance as at 1 April 2014	8,700	2,499	11,199
Profit or loss for the year	<u>-</u>	<u>1,126</u>	<u>1,126</u>
Total comprehensive income	<u>-</u>	<u>1,126</u>	<u>1,126</u>
Issue of share capital	<u>-</u>	<u>-</u>	<u>-</u>
Balance as at 31 March 2015	<u>8,700</u>	<u>3,625</u>	<u>12,325</u>
 Balance as at 1 April 2015	 8,700	 3,625	 12,325
Profit or loss for the year	<u>-</u>	<u>1,069</u>	<u>1,069</u>
Total comprehensive income	<u>-</u>	<u>1,069</u>	<u>1,069</u>
Issue of share capital	<u>-</u>	<u>-</u>	<u>-</u>
Balance as at 31 March 2016	<u>8,700</u>	<u>4,694</u>	<u>13,394</u>

The above statement of changes in equity should be read in conjunction with the accompanying notes

Unison Insurance Limited
Statement of cash flows
For the year ended 31 March 2016

	2016	2015
Notes	\$'000	\$'000
Cash flows from operating activities		
Insurance premiums	960	1,667
Reinsurance	-	(534)
Payment to suppliers & employees	(189)	(159)
Income taxes paid	(431)	(323)
Net cash inflow / (outflow) from operating activities	<u>340</u>	<u>651</u>
Cash flows from investing activities		
Investment income	172	131
Interest received from Parent	414	345
Repayment of investments	1,452	-
Purchase of investments	(2,091)	(781)
Net cash inflow / (outflow) from investing activities	<u>(53)</u>	<u>(305)</u>
Cash flows from financing activities		
Intercompany loan repayment	-	-
Net cash inflow / (outflow) from financing activities	<u>-</u>	<u>-</u>
Net increase (decrease) in cash and cash equivalents	287	346
Cash and cash equivalents at the beginning of the financial year	<u>3,615</u>	<u>3,269</u>
Cash and cash equivalents at end of year	<u>3,902</u>	<u>3,615</u>

The above cashflow statement should be read in conjunction with the accompanying notes

1 Summary of significant accounting policies

The principal activity of Unison Insurance Limited is to act as a captive insurance company.

Unison Insurance Limited is a limited liability company incorporated and domiciled in New Zealand. The address of its registered office is 1101 Omaha Road, Hastings, New Zealand.

Unison Insurance Limited is a wholly owned subsidiary of Unison Networks Limited.

These financial statements have been approved for issue by the Board of Directors on 16 June 2016.

The principal accounting policies adopted in the preparation of the financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated. The financial statements are for Unison Insurance Limited as an individual entity.

(1.1) Basis of preparation

Reporting Entity

The financial statements presented are for Unison Insurance Limited (the 'Company').

The financial statements of the Company have been prepared in accordance with New Zealand generally accepted accounting practice (NZ GAAP). They comply with New Zealand equivalents to International Financial Reporting Standards (NZ IFRS), and other applicable New Zealand Reporting Standards, as appropriate for Tier 1 for-profit entities preparing general purpose financial statements. The financial statements also comply with International Financial Reporting Standards (IFRS).

Statutory base

The Company is a FMC reporting entity for the purpose of the Financial Market Conduct Act 2013 as it is a licensed insurer. Therefore these financial statements have been prepared in accordance with the requirements of the Financial Market Conduct Act 2013 and the Companies Act 1993.

The financial statements are presented in New Zealand dollars and all values are rounded to the nearest thousand dollars (\$000), unless otherwise stated.

Historical cost convention

These financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets and liabilities at fair value through profit or loss.

Changes in accounting policy and disclosures

New and amended standards adopted by the Company

The Company has applied for the first time certain standards and amendments. The Company has not early adopted any other standard, interpretation or amendment that have been issued but yet to be effective. The nature and impact of the standards and amendments adopted did not have a material impact on the Company's financial position, performance and/or disclosures.

New standards and interpretations not yet adopted

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 April 2015, and have not been applied in preparing these financial statements. None of these are expected to have a significant effect on the financial statements of the Company, except the following set out below:

- **NZ IFRS 9, 'Financial instruments'**, addresses the classification, measurement and recognition of financial assets and financial liabilities. The complete version of NZ IFRS 9 was issued in September 2014. It replaces the guidance in NZ IAS 39 that relates to the classification and measurement of financial instruments. The standard is effective for accounting periods beginning on or after 1 January 2018. Early adoption is permitted. The Company intends to adopt NZ IFRS 9 on its effective date and has yet to assess its full impact.

There are no other NZ IFRSs or NZ IFRIC interpretations that are not yet effective that would be expected to have a material impact on the Company.

1 Summary of significant accounting policies (continued)

(1.2) Critical accounting estimates and judgements in applying policies

The preparation of financial statements in conformity with NZ IFRS requires judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an on going basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The Directors believe that, as at the date of these financial statements, there are no significant sources of estimation uncertainty, significant accounting policies or estimate assumptions to be disclosed.

(1.3) Foreign currency translation

Transactions in foreign currencies are translated at the New Zealand dollar rate of exchange at the date of the transaction. At balance date foreign monetary assets and liabilities are translated at the closing rate, and exchange variances arising included in the statement of financial performance.

(1.4) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable, and represents amounts receivable for services supplied (net of Goods and Services Tax). Revenue is recognised as follows:

(i) Income Attributable to Insurance Business

Premium revenue comprises amounts charged to policyholders and excludes fire service and earthquake levies collected on behalf of statutory bodies. The earned portion of premium received and receivable is recognised as revenue. Premium revenue is recognised as earned from the date of attachment of risk (generally the date a contract is agreed to) over the period of the related insurance contract in accordance with the pattern of the risk expected under the contract. The unearned portion of premium is recognised as an unearned premium liability on the Statement of Financial Position.

(ii) Interest income

Interest income is recognised using the effective interest method.

(iii) Dividend income

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

(1.5) Outward Reinsurance

Reinsurance premiums ceded are recognised as an expense in accordance with the pattern of reinsurance services received.

(1.6) Reinsurance and Other Recoveries Receivable

Reinsurance and other recoveries receivable on paid claims, reported claims not yet paid and claims incurred but not reported are assessed in a manner similar to the assessment of outstanding claims.

(1.7) Liability Adequacy Test

The liability adequacy test is an assessment of whether the carrying amount of the recognised liabilities are adequate and is conducted at each reporting date. If current estimates of the expected future cash flows relating to future claims arising from the rights and obligations under current insurance contracts exceed the recognised liabilities then the recognised liabilities are deemed to be deficient. Any deficiency arising from the test is recognised in the Statement of Financial Performance, with the corresponding impact on the Statement of Financial Position.

(1.8) Assets which back Insurance Liabilities

Ultimately all financial assets of the Company are available to back insurance liabilities.

1 Summary of significant accounting policies (continued)

(1.9) Cash and cash equivalents

Cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the statement of financial position.

(1.10) Investments and other financial assets

Classification

The Company classifies its financial assets in the following categories: 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 acquired principally for the purpose of selling in the short term. Assets in this category are classified as current assets if expected to be settled within 12 months, otherwise they are classified as non-current.

Recognition and measurement

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. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. 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 financial performance. 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.

Gains or losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are presented in the statement of financial performance within the period in which they arise.

(1.11) Trade and other payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

(1.12) Provisions

Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a discount rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to the passage of time is recognised in the statement of financial performance.

(1.13) 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 balance date under insurance contracts issued by the Company.

The expected future payments include those in relation to claims reported but not yet paid, and anticipated claims handling costs.

As insurance contracts are only issued within the Group (see note 17(a)) claims costs can be reliably estimated, and the Company is likely to be aware of any expected claims.

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.

1 Summary of significant accounting policies (continued)

(1.14) Income tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in the statement of financial performance, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

Current tax is the amount of income tax payable/(receivable) based on the taxable profit/(loss) for the current year, plus any adjustments to income tax payable in respect of prior years. Current tax is calculated using rates that have been enacted or substantially enacted by balance date.

Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which the deductible temporary differences or tax losses can be utilised. Deferred tax is not recognised if the temporary difference arises from the initial recognition of goodwill or from the initial recognition of an asset and liability in a transaction that is not a business combination, and at the time of the transaction, affects neither accounting profit nor taxable profit. Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised, using tax rates that have been enacted or substantially enacted by balance date.

Current tax and deferred tax is charged or credited to the statement of financial performance, except when it is related to items charged or credited directly to equity, in which case the tax is dealt with in equity.

(1.15) Goods and Services Tax (GST)

The statement of financial performance has been prepared so that all components are stated exclusive of GST. All items in the statement of financial position are stated net of GST, with the exception of receivables and payables, which include GST invoiced.

(1.16) Contributed Equity

Ordinary shares are classified as equity.

2 Net underwriting result

	2016 \$'000	2015 \$'000
Analysis of insurance operating result		
Premium revenue	960	1,667
Outwards reinsurance premiums	-	(534)
Net premium revenue	<u>960</u>	<u>1,133</u>
Gross claims expense	-	-
Reinsurance and other recoveries revenue	-	-
Net claims incurred	<u>-</u>	<u>-</u>
Net underwriting result	<u>960</u>	<u>1,133</u>

Claims costs are reliably estimated and claims are usually settled in one year, therefore there is no claims development from prior years. There are no outstanding claims liability at the end of the year.

3 Other income

	2016 \$'000	2015 \$'000
Income from investments:		
Interest income	562	472
Dividend income	32	26
Fair value movement on investments	40	94
	<u>634</u>	<u>592</u>

4 Expenses

	2016 \$'000	2015 \$'000
Captive management fees	39	38
Directors fees	16	14
Audit NZ - Audit of the annual financial statements	12	12
Audit NZ - Audit of the Annual Solvency Return	5	14
Corporate management charges	90	62
Other expenses	32	25
	<u>194</u>	<u>165</u>

5 Income tax expense/(benefit)

	2016 \$'000	2015 \$'000
(a) Income tax expense		
Current tax:		
Current tax on profits for the year	367	436
Prior period current tax adjustment	<u>(36)</u>	<u>(2)</u>
Total current tax	<u>331</u>	<u>434</u>
Deferred tax		
Temporary differences	-	-
Prior period deferred tax adjustment	<u>-</u>	<u>-</u>
Total deferred tax	<u>-</u>	<u>-</u>
Income tax expense	<u>331</u>	<u>434</u>
(b) Reconciliation of income tax expense to prima facie tax payable		
Profit from continuing operations before income tax expense	<u>1,400</u>	<u>1,560</u>
Income tax @ 28%	<u>392</u>	<u>436</u>
Income not subject to tax	<u>(25)</u>	<u>-</u>
Prior period current tax adjustment	<u>(36)</u>	<u>(2)</u>
Income tax expense	<u>331</u>	<u>434</u>
(c) Taxation payable/(refund)		
Opening balance	148	45
Current year taxation expense	367	436
Taxation paid	<u>(438)</u>	<u>(323)</u>
Prior period current tax adjustment	<u>(36)</u>	<u>(2)</u>
Withholding tax	<u>7</u>	<u>(8)</u>
Closing balance	<u>48</u>	<u>148</u>

The Parent imputation credit account includes Unison Insurance Limited as part of the Unison Consolidated Income Tax Group.

6 Current assets - Cash and cash equivalents

	2016 \$'000	2015 \$'000
Cash at bank and in hand	1,267	1,998
AUD Account	36	8
Term deposits	1,500	1,550
NZD Trust Account	<u>1,099</u>	<u>59</u>
	<u>3,902</u>	<u>3,615</u>

(a) Risk exposure

The Company's exposure to interest rate risk is discussed in note 12(b). The maximum exposure to credit risk at the end of the reporting period is the carrying amount of each class of cash and cash equivalents mentioned above.

(b) Term Deposits

The deposits are bearing fixed interest rates between 3.05% and 3.15% (2015: 4.20% and 4.40%). These deposits have a remaining maturity between 76 days and 90 days (2015: between 23 and 83 days).

(c) Fair value

The carrying amount for cash and cash equivalents equals the fair value.

7 Credit Rating

Unison Insurance Limited is not required to have a rating under section 60 (2) (c) of the Insurance (Prudential Supervision) Act 2010 as it is a captive insurer.

8 Current assets - Other financial assets

	2016 \$'000	2015 \$'000
Government bonds	-	501
Corporate bonds	-	201
Term deposits	<u>1,650</u>	<u>750</u>
	<u>1,650</u>	<u>1,452</u>

The government bond was previously held as a requirement of the Insurance Deposit Act 1953. Unison Insurance Limited received a full licence on 22 July 2013 under the Insurance (Prudential Supervision) Act 2010. Prior to Unison Insurance Limited obtaining its full licence restrictions existed on the Group's ability to deal in this stock. The principal amount was \$500,000 with a coupon interest rate of 6% and the bond matured on 15 April 2015. The Government bond is classified as fair value through the profit or loss.

Corporate bonds classified as other financial assets at fair value through the profit or loss had a carrying value of \$201,169 with an interest rate of 3.97% and matured on 24 August 2015.

The deposits are bearing fixed interest rates between 3.2% and 4.25% (2015: 4.95%). The term deposit matured on 25 September 2015). These deposits have a remaining maturity between 18 days and 113 days (2015: 178 days).

9 Non-current assets - Other financial assets

	2016 \$'000	2015 \$'000
Equities	1,166	685
Related party receivable	<u>6,700</u>	<u>6,700</u>
	<u>7,866</u>	<u>7,385</u>

(a) Equities

Equities classified as other financial assets at fair value through the profit or loss with a carrying value of \$1,166,245 (2015: \$684,603) have share values of between \$1.18 and \$112.39 per share (2015: between \$2.05 and \$93.83 per share). Management do not intend to dispose of these within 12 months of balance date.

(b) Related party receivable

The related party loan receivable with the parent is callable on demand. It is not the Company's intention to demand repayment of the outstanding intercompany loan for a minimum period of 12 months from balance date. The Company may demand repayment of the outstanding intercompany loan if required to by a regulatory body and/or in order to ensure the Company remains solvent, or in the event of a natural disaster. The Company has the right to set off any monies owed by the Company to the Parent against the Loan, including the payment of insurance proceeds to the parent. There is no security over the loan.

The related party loan receivable with the parent has an interest rate calculated at the Bank Prime Lending Rate plus 1%, which is adjusted annually. For the 2015-16 financial year this equates to an interest rate of 6.17% (2015: 5.16%).

(c) Impairment and risk exposure

The maximum exposure to credit risk at the reporting date is the carrying amount of the investments.

10 Current liabilities - Payables

	2016 \$'000	2015 \$'000
Trade payables	14	14
Intercompany Payables	-	6
	<u>14</u>	<u>20</u>

The average credit period on purchases is 30 days. The Company has financial risk management practices in place to ensure that all payables are paid within the credit timeframe.

11 Contributed equity

	2016 Shares	2015 Shares	2016 \$'000	2015 \$'000
Opening balance	8,700,000	8,700,000	8,700	8,700
Shares issued during the year	-	-	-	-
	<u>8,700,000</u>	<u>8,700,000</u>	<u>8,700</u>	<u>8,700</u>

12 Financial risk management

The Company has a comprehensive investment policy approved by the board of directors to manage the risks of financial instruments. The policy outlines the objectives and approach that the Company will adopt in the investment management process. The policy covers management of credit risk, interest rate risk, liquidity, and operational risks.

The Company holds the following financial instruments:

	2016 \$'000	2015 \$'000
Financial assets		
Cash at bank	2,402	2,065
Term deposits	3,150	2,300
Interest receivables	38	41
Equity investments	1,166	685
Corporate bonds	-	201
Government bonds	-	501
Related party receivables	6,700	6,700
	<u>13,456</u>	<u>12,493</u>
Financial liabilities		
Trade and other payable	14	14
Related party payables	-	6
	<u>14</u>	<u>20</u>

(a) Market risk

(i) Foreign exchange risk

Foreign currency risk is the risk that the value of the Company's assets and liabilities or revenues and expenditure will fluctuate due to changes in foreign exchange rates.

The Company is exposed to currency risk as a result of equity investments that are denominated in a currency other than New Zealand dollars. The Company manages this risk through its comprehensive investment policy which limits the Company's total foreign currency exposure to a maximum of 20% of the Company's investment portfolio. The Company also holds cash denominated in Australian dollar.

The carrying amounts of the Company's financial assets and liabilities are denominated in New Zealand dollars except as set out below:

12 Financial risk management (continued)

	31 March 2016 AUD \$'000	31 March 2015 AUD \$'000
Cash and cash equivalents	33	8
Australian equities	230	270

At 31 March 2016, if the currency had weakened/strengthened by 1 cent against the Australian dollar with all other variables held constant, post-tax profit for the year would have been \$3.2k (2015: \$2.1k) lower/higher, mainly as a result of foreign exchange gains/losses on translation of Australian dollar-denominated financial assets classified as fair value through the profit or loss and foreign exchange losses/gains on translation of cash held in Australian dollars.

(ii) Price risk

The Company is exposed to equity securities price risk because of investments held by the Company and classified on the statement of financial performance at fair value through profit or loss. To manage its price risk arising from investments in equity securities, the Company diversifies its portfolio. Diversification of the portfolio is done in accordance with the limits set by the Company's comprehensive investment policy.

The Company's investments in equity of other entities that are publicly traded are included in one of the following two equity indexes: NZX equity index; and ASX equity index.

The table below summarises the impact of increases/(decreases) of the two equity indexes on the Company's post-tax profit for the year and on equity. The analysis is based on the assumption that the equity indexes had increased/decreased by 5% with all other variables held constant and all the Company's equity instruments moved according to the historical correlation with the index:

	Impact on post-tax profit	
	2016 \$'000	2015 \$'000
ASX 200	9	10
NZX	33	15

(iii) Interest rate risk

The Company's interest rate risk arises from investments in short term deposits and cash held in bank accounts. To manage its exposure to interest rate risk the Company diversifies its investment portfolio. Diversification of the investment portfolio is done in accordance with the limits set by the Company's comprehensive investment policy.

(iv) Sensitivity

At 31 March 2016, if interest rates had changed by +/-50 basis points from the year end rates with all other variables held constant, post tax profit for the year would have been \$15,890 lower/higher (2015 \$2,955), mainly as a result of higher/lower interest income from cash and cash equivalents.

(b) Credit risk

Financial instruments which potentially subject the Company to credit risk principally consist of bank balances, and loans and receivables. No collateral is held on these amounts (2015: nil).

The Company minimises its exposure to credit risk by: pre-qualifying the financial institutions or Brokers/Dealers with which the Company will do business. In principle larger investments and those with longer durations will be made in higher quality investments; and diversifying the investment portfolio so that potential losses on individual investments will be minimised.

12 Financial risk management (continued)

An analysis of the credit quality of financial assets that are neither past due nor impaired is as follows:

	2016 \$'000	2015 \$'000
Fair value through profit or loss		
<i>Counterparties with external credit rating (S&P or Moody's)</i>		
AA	4,089	4,156
A	1,501	952
Counterparties without external credit ratings	-	-
	<u>5,590</u>	<u>5,108</u>
 Loans to related parties:		
Unison Networks Limited	<u>6,700</u>	<u>6,700</u>
	<u>6,700</u>	<u>6,700</u>

None of the loans to related parties are past due nor impaired and there is no history of non performance.

(c) Liquidity risk

Liquidity risk represents the risk that the company may not have the financial ability to meet its contractual obligations. The Company evaluates its liquidity requirements on an ongoing basis. Overall the company generates sufficient cash flows from its operating activities to meet its obligations arising from its financial liabilities and ensure its investments are sufficiently liquid to cover potential shortfalls.

The investment portfolio must remain sufficiently liquid to meet all operating requirements that may be reasonably anticipated. This is accomplished by structuring the portfolio so that investments mature concurrent with cash needs to meet anticipated demands. Furthermore, since all possible cash demands cannot be anticipated, the portfolio consists largely of investments with active secondary or re-sale markets. Negotiable securities may be sold prior to their maturity to provide liquidity as needed for cash flow purposes.

(d) Financial instruments categories and fair value hierarchy

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement or for disclosure purposes.

The methods and assumptions used are that carrying amounts in the Financial Statements reflect the estimated fair value of the financial instruments including receivables, bank and investments, and accounts payable.

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (Level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (Level 3).

12 Financial risk management (continued)

The following table presents the Company's financial assets and liabilities that are measured at fair value at 31 March 2016 and 31 March 2015.

	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
At 31 March 2016				
Assets				
Financial assets at fair value through profit or loss				
Cash at bank	2,402	-	-	2,402
Term deposits	3,150	-	-	3,150
Interest receivable	38	-	-	38
Other financial assets - government bond	-	-	-	-
Other financial assets - corporate bonds	-	-	-	-
Other financial assets - equities	1,166	-	-	1,166
Related party receivables	6,700	-	-	6,700
Total assets	13,456	-	-	13,456
At 31 March 2015				
Assets				
Financial assets at fair value through profit or loss				
Cash at bank	2,065	-	-	2,065
Term deposits	2,300	-	-	2,300
Interest receivable	41	-	-	41
Other financial assets - government bond	501	-	-	501
Other financial assets - corporate bonds	201	-	-	201
Other financial assets - equities	685	-	-	685
Related party receivables	6,700	-	-	6,700
Total assets	12,493	-	-	12,493

There were no transfers between levels 1 and 2 during the year.

13 Insurance contracts - risk management policies and procedures

The financial condition and operation of the Company are affected by a number of key risks including insurance risk, interest rate risk, currency risk, credit risk, market risk, liquidity risk, financial risk, compliance risk, fiscal risk and operational risk. Notes on the Company's policies and procedures in respect of managing these risks are set out in these accounts.

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

Unison Insurance Limited, as the captive insurer and fully-owned subsidiary of Unison Networks Limited, is required to have in place an effective and fully functioning risk management programme. The Company has an objective to control insurance risk thus reducing the volatility of operating profits. In addition to the inherent uncertainty of insurance risk, which can lead to significant variability in the loss experience, profits from insurance business are affected by market factors, particularly reinsurance pricing and movements in asset values. Short-term variability is, to some extent, a feature of insurance business.

13 Insurance contracts - risk management policies and procedures (continued)

It is a requirement under the Insurance (Prudential Supervision) Act 2010 for any licensed insurer domiciled in New Zealand to produce a Risk Management Programme which is to be approved by the Reserve Bank of New Zealand (RBNZ). The purpose of the Risk Management Programme is to formalise, document and consolidate the risk management practices of Unison Insurance Limited, to ensure compliance with sections 18, 34 and 73–75 of the Act. These Sections of the Act are administered by the Reserve Bank of New Zealand. Unison Insurance Limited's Board and senior management have developed the Company's Risk Management Policy and strategies for managing risk. The programme is developed around:

- the generic and international Risk Management Standard, AS/NZS ISO 31000:2009; and
- the specific RBNZ requirements associated with licensed insurance companies domiciled in New Zealand.

The Company's Risk Management Programme has been developed to specifically meet the compliance needs of a Captive Insurance Company underwriting only their stakeholder's (i.e. the parent company's and its subsidiaries) risks. The programme has been developed to comply with the RBNZ's requirements as set out in the Act, and is reviewed on an annual basis.

The Company's Risk Management Programme has been approved by both the Board and RBNZ.

(b) Terms and conditions of insurance

The terms and conditions attaching to insurance contracts affect the level of insurance risk accepted by the Company. The Company is authorised to underwrite only the risks of the parent and its subsidiaries.

The Material Damage Business Interruption (MDBI) risk for the Unison Group may be underwritten by Unison Insurance Limited. If the Company writes an MDBI policy for the Unison Group, this policy is fully reinsured in the wholesale market, with matching terms and conditions, but with differing deductibles.

The Transmission and Distribution Policy (T&D Policy) provides limited cover for those electricity and fibre network assets of the Unison Group that are not covered by the MDBI policy above. The T&D Policy is structured to provide catastrophe cover in the event of an earthquake, storm, flood or volcanic eruption. Unison Insurance Limited does not obtain reinsurance for this policy, and therefore retains all the risk associated with this policy.

The Company's net retentions are subject to annual review and approval by the Board at the time of insurance/reinsurance renewal, and prior to the Unison Group's annual Insurance Programme being arranged.

Insurance and reinsurance contracts are entered into annually. At the time of entering into the contract changes in risk are taken into account and all terms and conditions are negotiable or, in the case of renewals, renegotiable.

For the 2015/16 year the Company only wrote a Transmission & Distribution policy, and therefore no reinsurance contracts were entered into.

The attachment of risk for insurance contracts written by the Company is 1 April of each insurance period. During the month of March 2016 the following insurance contracts were written by the Company for the period 1 April 2016 to 1 April 2017:

- Transmission & Distribution policy with a gross written premium of \$875,789.

Pricing - policy pricing is based on market place quotes. This ensures that premiums are no better or worse than the retail market as Unison Insurance Limited does not establish it.

Probability of an insurable event - Unison Insurance Limited accepts the probabilities of the New Zealand retail insurance market.

13 Insurance contracts - risk management policies and procedures (continued)

(c) 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.

The Company is authorised to underwrite only the risks of the Parent and its subsidiaries.

Risk	Source of concentration	Risk management measures
Natural catastrophes	Properties concentrated in regions that are subject to: - Earthquakes - Storm - Flood - Volcanic eruption	<p>The Company's underwriting strategy requires individual risk premiums to be differentiated in order to reflect the higher loss frequency in particular geographical areas.</p> <p>The Company has modelled aggregated risk by postcode using commercially available catastrophe models. The Company's exposure data across the portfolio encompasses all natural catastrophe risks.</p> <p>Based on the probable maximum loss per the models, the Company purchases catastrophe reinsurance cover where economically available.</p> <p>The loss of damage caused by natural catastrophe to transmission and distribution assets is limited to \$13.25 million.</p>
Larger than expected claims	Having a relatively high exposure to material damage and business interruption risks from the Group	<p>The Company has mitigated these risks by retaining sufficient capital within the Company to meet the costs of a large claim.</p> <p>The Company has access to all the Stakeholder data so is in a privileged and well-informed position when determining its risk acceptance policy.</p> <p>The Company does not place Material Damage Business Interruption Cover (to property other than transmission and distribution assets) without first securing reinsurance cover, and then ensures that the policies issued are on the same terms and conditions as the reinsurance cover, but may have differing deductibles.</p>

13 Insurance contracts - risk management policies and procedures (continued)

Reinsurance risk	Purchasing insufficient reinsurance protection	The Company's policy is to directly align its reinsurance policies, both in terms of scope and limits, with the insurance policy or policies issued to the Stakeholder.
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As the reinsurance limits purchased match the Company's policy limits, any exhaustion of reinsurance limits must similarly reduce the liability of the Company under the direct policies issued to the Stakeholder. Automatic reinstatement provisions are neither necessary nor applicable to the reinsurance arrangements in these circumstances. Any reinstatement of policy coverage limits would be at the request of the Stakeholder and the Company would only respond positively subject to reinsurance being available, and following consideration of any further net retention/capital implications. Any such reinsurance premiums would be recovered from the Stakeholder.

NB: Reinsurance for transmission and distribution network assets is currently not economically viable and therefore the only reinsurance purchased to date has been for the Unison Group's Material Damage and Business Interruption policies which primarily cover non-network assets (property), but also include network substations and ground-mounted assets. The Company maintains a conservative limit for risk retention, this limit being approved by the Board.

(d) Claims management

It is the Company's policy to insure only its Stakeholder. As a result, the potential for non-notified claims and for late reporting of claims is minimised. Nevertheless, it is the Company's policy to require that the claims reporting restrictions imposed by the Company's reinsurers are imported into the insurance policies issued by the Company.

Because of the limited size and specialist requirements of Unison Insurance Limited, a captive insurance adviser has been appointed to meet the Company's administrative needs. Claims are likely to be infrequent, and the Company uses a third party with claims handling experience to independently review and manage all claims.

(e) Liability Adequacy Test

The Company has no active insurance policies at year end therefore no liability adequacy test has been performed.

(f) Credit risk

The credit rating of all participating reinsurers is monitored by the Company's Adviser who is responsible for warning the Board and management of changes to the credit ratings of any reinsurer involved in the Company's reinsurance programme. The reinsurer credit ratings are formally reviewed by the Board each year.

Financial assets and liabilities arising from insurance and reinsurance contracts are stated in the balance sheet at the amount that best represents the maximum credit risk exposure at balance date.

There are no significant concentrations of credit risk.

14 Reinsurance Programme

The Company's reinsurance programme is structured to adequately protect the Company's solvency and capital position. The Company places its reinsurance programme with high quality large reinsurance companies with current financial strength ratings of A or better (as rated by Standard and Poor's). Directors are not aware of any event that would impact the current rating of its reinsurers.

The Board annually reviews the credit ratings of the Company's proposed reinsurers. The proposed reinsurers must have the approval of the Board prior to reinsurance being confirmed and shall be subject to review by the Board when the Captive Adviser makes its annual report on the credit worthiness of reinsurers.

14 Reinsurance Programme (continued)

There are no assets of the Company arising from reinsurance contracts held by the Company, and there have been no events that have led to losses that qualify for reimbursement under reinsurance cover.

For the 2015/16 year the Company only wrote a Transmission & Distribution policy, and therefore no reinsurance contracts were entered into.

15 Capital adequacy

(a) Capital adequacy

The Reserve Bank of New Zealand (RBNZ) is the prudential regulator and supervisor of all insurers carrying on insurance business in New Zealand, and is responsible for administering the Insurance (Prudential Supervision) Act 2010.

As part of the supervision of insurers in New Zealand the RBNZ requires insurers to carry on business in a prudent manner, and to maintain financial resources appropriate for the size and nature of the business. Having sufficient capital to cover the risks of the business is a critical element in carrying on business in a prudent manner.

The Company's capital management is its equity, which comprises contributed equity and retained earnings. Equity is represented by net assets.

The Company manages its equity as a by-product of prudently managing revenues, expenses, assets and liabilities to ensure the Company effectively achieves its objectives and purposes, whilst remaining a going concern.

The Company regularly monitors the adequacy of its capital by monitoring its solvency margin in line with the requirements of the Insurance (Prudential Supervision) Act 2010. The Company has complied with these requirements to maintain solvency as per the solvency standards for a captive insurer, and filed the required solvency returns to the Reserve Bank of New Zealand.

(b) Capital adequacy ratios

The Insurance (Prudential Supervision) Act 2010 requires insurers to maintain solvency at all times. As a captive insurance company, the Company needs to maintain solvency as per the Solvency Standard for Captive Insurers. Based on this standard the Company's solvency status is:

	2016	2015
	\$'000	\$'000
Actual Solvency Capital	13,394	12,326
Minimum Solvency Capital	<u>3,839</u>	<u>3,396</u>
Solvency Margin	<u>9,555</u>	<u>8,930</u>
Solvency Ratio	349 %	363 %

The Company has sufficient equity to meet solvency requirements over and above its policy liabilities. The Company reviews its compliance with the solvency requirements of the RBNZ on a monthly basis.

All shareholder equity is retained to ensure the financial soundness of the Company. The high level of liquidity in cash and fixed interest investments is retained for cash flow purposes.

16 Contingent Liabilities and Commitments

As at 31 March 2016 the Company had no contingent liabilities nor capital commitments (2015:\$Nil).

17 Related party transactions

(a) Group Structure

The ultimate Parent entity within the Group is Unison Networks Limited.

The Company's principle activity is to act as a captive insurance company. The Company insures certain transmission and distribution assets of Unison Networks Limited, and the fibre optic network of Unison Fibre Limited. The Company also provides material damage and business interruption cover for the Unison Group but has not provided this insurance for 2015/16. All insurance activity between the Company and the Unison Group is transacted via the UIL's parent company. Unison Insurance Limited obtained reinsurance for the material damage and business interruption cover in the wholesale insurance market but has not obtained reinsurance for 2015/16.

Related parties include:

Unison Networks Limited
Other Group companies

(b) Key management personnel

The Company does not have any employees. The Parent provides financial and administrative functions to the Company for which the Company pays the Parent a corporate overhead charge. Key management personnel of the Company are all the directors and officers of the Company as they have the authority for the strategic direction and management of the Company.

No compensation is paid by the Company for key management personnel services other than directors fees (see note 17(c) below). No compensation is paid by the Company for services provided by the Chairman, who is the Chief Executive of the Company's Parent; nor officers of the Company, who are executives of the Parent. Their compensation is included in the aggregated key management personnel disclosures in note 27 of the Parent and Group's financial statements. It is not possible to make a reasonable estimate of compensation in relation to services as Chairman or officers of the Company so no compensation value has been included below.

(c) Directors remuneration

The names of persons who were directors of the company and their remuneration at any time during the financial year are as follows:

	2016 \$	2015 \$
B Martin	7,875	7,718
J Palairat	7,875	6,593
K Sutherland	-	-
Total	<u>15,750</u>	<u>14,311</u>

Directors interests

There were no new interests declared.

(d) Transactions with related parties

The following transactions occurred with related parties:

	2016 \$'000	2015 \$'000
(i) <i>Sale of services:</i>		
Insurance premiums charged to Parent	960	1,667
Interest received from Parent	<u>414</u>	<u>345</u>
	<u>1,374</u>	<u>2,012</u>

17 Related party transactions (continued)

	2016 \$'000	2015 \$'000
<i>(ii) Purchase of services</i>		
Corporate overhead charges paid to Parent	<u>(90)</u>	<u>(62)</u>
	<u>(90)</u>	<u>(62)</u>
<i>(iii) Year-end balances arising from sales/purchases of services</i>		
Amounts receivable from/(payable to) Parent	<u>-</u>	<u>(6)</u>
	<u>-</u>	<u>(6)</u>
<i>(iv) Loans to related parties</i>		
Loan receivable from/(payable to) Parent (note 9(b))	<u>6,700</u>	<u>6,700</u>
	<u>6,700</u>	<u>6,700</u>

18 Events occurring after the reporting period

There were no events occurring subsequent to balance date which require adjustment to or disclosure in the financial statements.

19 Reconciliation of profit after income tax to net cash inflow from operating activities

	2016 \$'000	2015 \$'000
Profit for the year	1,069	1,126
(Increase)/decrease in receivables	3	(19)
Increase/(decrease) in payables	(6)	7
Increase/(decrease) in income tax payable	(100)	103
Investment income	(586)	(472)
Fair value gains on other financial assets at fair value through profit or loss	<u>(40)</u>	<u>(94)</u>
Net cash inflow from operating activities	<u>340</u>	<u>651</u>

Independent Auditor's Report

To the readers of Unison Insurance Limited's

financial statements for the year ended 31 March 2016

The Auditor-General is the auditor of Unison Insurance Limited (the company). The Auditor-General has appointed me, Julian Tan, using the staff and resources of Audit New Zealand, to carry out the audit of the financial statements of the company on her behalf.

Opinion

We have audited the financial statements of the company on pages 2 to 22, that comprise the statement of financial position as at 31 March 2016, the statement of financial performance, the 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 of the company:

- present fairly, in all material respects:
 - its financial position as at 31 March 2016; and
 - its financial performance and cash flows for the year then ended; and
- comply with generally accepted accounting practice in New Zealand and have been prepared in accordance with the New Zealand equivalents to International Financial Reporting Standards.

Our audit was completed on 16 June 2016. This is the date at which our opinion is expressed.

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

Basis of opinion

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

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

An audit involves carrying out procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgement,

including our assessment of risks of material misstatement of the financial statements whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the preparation of the company's financial statements in order to design audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the company's internal control.

An audit also involves evaluating:

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

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

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

Responsibilities of the Board of Directors

The Board of Directors is responsible for the preparation and fair presentation of financial statements for the company, that comply with generally accepted accounting practice in New Zealand and with the New Zealand equivalents to International Financial Reporting Standards.

The Board of Directors' responsibilities arise from the Financial Market's Conduct Act 2013.

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

Responsibilities of the Auditor

We are responsible for expressing an independent opinion on the financial statements and reporting that opinion to you based on our audit. Our responsibility arises from the Public Audit Act 2001 and Part 7 of the Financial Markets Conduct Act 2013.

Independence

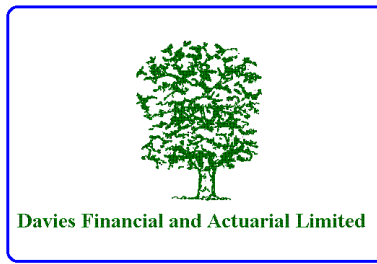
When carrying out the audit, we followed the independence requirements of the Auditor-General, which incorporate the independence requirements of the External Reporting Board.

Other than the audit, we have reported on a limited assurance engagement for the company's solvency return in compliance with the Reserve Bank of New Zealand requirements.

Other than this audit of the company's financial statements and this limited assurance engagement, carried out on behalf of the Auditor-General, we have no relationship with or interests in the company.



Julian Tan
Audit New Zealand
On behalf of the Auditor-General
Palmerston North, New Zealand



8th June 2016

To: The Directors
Unison Insurance Limited

From: Peter Davies
Appointed Actuary

Re: Unison Insurance Limited (“the Company”): Report as at 31st March 2016 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 2016. “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 2016 under the RBNZ Solvency Standard for Captive Insurers Transacting Non-life Insurance Business 2014 can be summarised as follows

	31 March 2016	31 March 2015
Solvency capital:	13,394,000	12,324,515
Minimum capital requirement:	3,839,074	3,396,380
Solvency margin:	9,554,926	8,929,688
Solvency coverage ratio	349%	363%

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

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

Yours sincerely



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