Unison Insurance Limited
Financial statements
for the year ended 31 March 2017

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Principal business	Unison Insurance Limited's principal 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. From time to time the Company also provides material damage and business interruption cover for the Unison Group. All insurance activity between the Company and the Unison Group are transacted via the Company's parent . Where required, the Company obtains reinsurance for the material damage and business interruption cover in the wholesale insurance market. Unison Insurance Limited is a wholly owned subsidiary of Unison Networks Limited.
Directors	Ken Sutherland Brian Martin John Palairet
Registered office	1101 Omahu Road Hastings New Zealand
Auditor	Audit New Zealand, on behalf of the Auditor-General

Unison Insurance Limited

Statement of comprehensive income

For the year ended 31 March 2017

	Notes	2017 $'000	2016 $'000
Premium revenue	5	**876**	960
Claims expenses		**-**	-
Net underwriting result		**876**	960
Other revenue from ordinary activities	5	**721**	634
		1,597	1,594
Expenses	6	**(174)**	(194)
Profit before income tax		**1,423**	1,400
Income tax expense	11	**(356)**	(331)
Profit for the period		**1,067**	1,069
Other comprehensive income:			
Items that will not be reclassified to profit or loss:			
		-	-
		-	-
Items that may be subsequently reclassified to profit or loss:			
Other comprehensive income for the period, net of tax		**-**	-
		-	-
Total comprehensive income for the period		**1,067**	1,069

The above statement of comprehensive income should be read in conjunction with the accompanying notes

Unison Insurance Limited

Statement of financial position

As at 31 March 2017

	Notes	2017 $'000	2016 $'000
ASSETS			
Current assets			
Cash and cash equivalents	7	**3,674**	3,902
Other financial assets	8	**500**	1,650
Interest receivable		**5**	38
Total current assets		**4,179**	5,590
Non-current assets			
Other financial assets	8	**10,365**	7,866
Total non-current assets		**10,365**	7,866
Total assets		**14,544**	13,456
LIABILITIES			
Current liabilities			
Payables		**14**	14
Current tax liabilities		**69**	48
Total current liabilities		**83**	62
Total liabilities		**83**	62
Net assets		**14,461**	13,394
EQUITY			
Contributed equity	13	**8,700**	8,700
Retained earnings		**5,761**	4,694
Total equity		**14,461**	13,394

The Board of Directors of Unison Insurance Limited authorised these financial statements presented on pages 3 to 19 for issue on 22 June 2017.

Director

22 June 2017

Director

22 June 2017

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 2017

	Contributed equity $'000	Retained earnings $'000	Total equity $'000
Balance as at 1 April 2016	8,700	4,694	13,394
Profit or loss for the year	-	1,067	1,067
Total comprehensive income	-	1,067	1,067
Issue of share capital	-	-	-
Balance as at 31 March 2017	8,700	5,761	14,461
Balance as at 1 April 2015	8,700	3,625	12,325
Profit or loss for the period	-	1,069	1,069
Total comprehensive income	-	1,069	1,069
Balance as at 31 March 2016	8,700	4,694	13,394

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 2017

	Notes	2017 $'000	2016 $'000
Cash flows from operating activities			
Insurance premiums		**876**	960
Payment to suppliers & employees		**(175)**	(189)
Income taxes paid		**(335)**	(431)
Net cash inflow / (outflow) from operating activities		**366**	340
Cash flows from investing activities			
Dividends received		**69**	32
Interest received from investments		**128**	140
Interest received from Parent		**357**	414
Repayment of investments		**2,148**	1,452
Purchase of investments		**(3,296)**	(2,091)
Net cash inflow / (outflow) from investing activities		**(594)**	(53)
Cash flows from financing activities			
Intercompany loan repayment		**-**	-
Net cash inflow / (outflow) from financing activities		**-**	-
Net increase (decrease) in cash and cash equivalents		**(228)**	287
Cash and cash equivalents at the beginning of the period		**3,902**	3,615
Cash and cash equivalents at end of the period	7	**3,674**	3,902

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

	2017 $'000	2016 $'000
Profit for the period	**1,067**	1,069
(Increase)/decrease in receivables	**-**	3
Increase/(decrease) in payables	**(2)**	(6)
Increase/(decrease) in income tax payable	**21**	(100)
Investment income	**(519)**	(586)
Fair value gains on other financial assets at fair value through profit or loss	**(201)**	(40)
Net cash inflow from operating activities	**366**	340

The above statement of cash flows should be read in conjunction with the accompanying notes

1 About this report

These financial statements are for Unison Insurance Limited ('the company').

Unison Insurance Limited is a limited liability company incorporated and domiciled in New Zealand.

(a) Basis of preparation

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

Unison Insurance Limited is a for-profit company for the purposes of complying with GAAP.

The Company is a 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 New Zealand Companies Act 1993 .

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

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.

(b) Notes to the financial statements

Information that is considered material and relevant to the users of these financial statements is included within the notes to the financial statements. The assessment of materiality and relevance includes qualitative as well as quantitative factors including the size and nature of the balance and if the balance is important in understanding the Company's current or future performance.

Information, including accounting policies, that is considered material and not listed with the notes to the accounts are included below.

(c) New and amended standards adopted by the Company

The Company has applied tthe following standards and amendments for the first time for their annual reporting period commencing 1 April 2016:

- Annual Improvements to NZ IFRSs 2012-2014 cycles
- XRB A1 Application of the Accounting Standards Framework (
- Amendments to For-profit Accounting Standards as a Consequence of XRB A1 and Other Amendments
- Amendments to NZ IAS 1 'Disclosure Initiative'
- 2014 Omnibus Amendments to NZ IFRSs

The adoption of these amendments did not have any impact on the current period or any prior period and is not likely to affect future periods.

(d) New standards and interpretations not yet effective

There are a number of other new and amended accounting standards and interpretations not yet effective that will be adopted by the Company when they become effective. Those relevant to the Company include:

- **NZ IFRS 9, 'Financial instruments',** addresses the classification, measurement and recognition of financial assets and financial liabilities. The standard is effective for accounting periods beginning on or after 1 January 2018. The Company has yet to assess its full impact.

  Amendments to NZ IFRS 4, 'Applying NZ IFRS 9 Financial Instruments with NZ IFRS 4 Insurance Contract', addresses issues arising from the different effective dates of NZ IFRS 9 Financial Instruments and the forthcoming standard on insurance contracts. The standard is effective for accounting periods beginning on or after 1 January 2018. The Company has yet to assess its full impact.

1 About this report (continued)

(e) Critical judgements and estimations in applying accounting policies

The preparation of financial statements in conformity with NZ IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements include estimation of the fair value of financial assets based on observable inputs, as disclosed in notes 9 and 10.

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 that have not been disclosed in these financial statements.

(f) Foreign currency translation

Transactions in foreign currencies are translated at the New Zealand 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 comprehensive income.

(g) Goods and Services Tax (GST)

The statement of comprehensive income 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.

2 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 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:

	2017 $'000	2016 $'000
Actual solvency capital	**14,461**	13,394
Minimum solvency capital	**4,137**	3,839
Solvency margin	**10,324**	9,555
Solvency ratio	**350 %**	349 %

2 Capital adequacy (continued)

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.

3 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.

4 Net underwriting result

	2017 $'000	2016 $'000
Premium revenue	**876**	960
Net premium revenue	**876**	960
Claims expense	**-**	-
Net claims incurred	**-**	-
Net underwriting result	**876**	960

There were no claims in 2017. 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 31 March 2017 (2016: Nil).

5 Revenue

Accounting policy

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.

	2017 $'000	2016 $'000
Insurance business revenue		
Premium revenue	**876**	960
	876	960
Other revenue		
Interest received	**452**	562
Dividends	**69**	32
Fair value movement on investments	**200**	40
	721	634

6 Expenses

	2017 $'000	2016 $'000
Expenses, excluding finance costs, included in the statement of comprehensive income classified by nature		
Corporate management charges	**67**	90
Directors fees	**17**	16
Audit of the annual financial statements - Audit NZ	**12**	12
Audit of the annual solvency return - Audit NZ	**5**	5
Other expenses	**73**	71
	174	194

7 Cash and cash equivalents

Accounting policy

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.

	2017 $'000	2016 $'000
Cash at bank and in hand	**2,013**	1,267
USD Account	**3**	-
AUD Account	**7**	36
EUR Account	**1**	-
Term deposits	**-**	1,500
NZD Trust Account	**1,650**	1,099
	3,674	3,902

(a) Risk exposure

The Company's exposure to interest rate risk is discussed in note 8(a). 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) Fair value

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

8 Other financial assets

Accounting policy

Classification

The Company classifies all of its financial assets as 'at fair value through profit or loss' as they are available to back insurance liabilities. Assets in this category are classified as current assets if expected to be settled or sold 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, being the date on which the Company commits to purchase or sell the asset. 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.

8 Other financial assets (continued)

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 comprehensive income in the period in which they arise.

	2017 $'000	2016 $'000
Current		
Term deposits	**500**	1,650
	500	1,650
Non-current		
Corporate bonds	**200**	-
Global Bond Funds	**236**	-
Equities	**3,229**	1,166
Related party receivable	**6,700**	6,700
	10,365	7,866

(a) Interest rate exposures

Term deposits

The deposit is bearing a fixed interest rate of 3.30% (31 March 2016: between 3.05% and 3.15%). The deposit maturities on 19 April 2017 (31 March 2016: between 76 days and 90 days).

Global bonds

Global bonds classified as other financial assets at fair value through the profit or loss with a carrying value of $236,184 have values of between $1.155 and $1.183 per unit. Management do not intend to dispose of these within 12 months of balance date.

Corporate bonds

Corporate bonds classified as other financial assets at fair value through the profit or loss had a carrying value of $200,127 with interest rates between 4.695% and 5.25%, mature between 1 September 2021 and 15 December 2021.

Equities

Equities classified as other financial assets at fair value through the profit or loss with a carrying value of $3,229,344 (31 March 2016: $1,166,245) have share values of between $1.30 and $216.61 per share (31 March 2016: between $1.18 and $112.39 per share). Management do not intend to dispose of these within 12 months of balance date.

Related party receivables

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 2016-17 financial year this equates to an interest rate of 5.33% (31 March 2016: 6.17%).

9 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.

9 Financial risk management (continued)

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 Company holds the following financial instruments:

	2017 $'000	2016 $'000
Financial assets		
Cash and cash equivalents	**3,674**	2,402
Term deposits	**500**	3,150
Interest receivables	**5**	38
Equity investments	**3,229**	1,166
Corporate bonds	**200**	-
Global bond funds	**236**	-
Related party receivables	**6,700**	6,700
	14,544	13,456
Financial liabilities		
Trade and other payable	**14**	14
	14	14

(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. Reinsurance is purchased in New Zealand dollars, irrespective of where the reinsurer is domiciled, and is effective from the same date and time as the Company writes the policy for its parent and accepts the insurance risk.

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 foreign currency exposure to a maximum of 20% of the Company's investment portfolio. The Company also holds cash denominated in Australian dollar, US dollar, British Pound and the Euro.

	Cash and cash equivalents		**Other financial assets**	
	2017 FC$'000	2016 FC$'000	**2017 FC$'000**	2016 FC$'000
USD	**2**	-	**852**	-
AUD	**7**	33	**997**	230
EUR	**1**	-	**117**	-

Sensitivity

At 31 March 2017, if the NZD had weakened / strengthened by 1 cent against the foreign currencies with all other variables held constant, post-tax profit for the year would have been $18k (31 March 2016: $3k) lower / higher, mainly as a result of foreign exchange gains / losses on translation of foreign currency-denominated financial assets classified as fair value through the profit or loss and foreign exchange losses / gains on translation of cash held in foreign currencies.

(ii) Price risk
The Company is exposed to equity securities price risk because of investments held by the Company and classified in the statement of financial position as at fair value through profit or loss. The Company is not exposed to commodity price risk. 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 either the NZX equity index or an offshore equity index.

9 Financial risk management (continued)

The table below summarises the impact of increases / decreases of the 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	
	2017	2016
	$'000	$'000
NZ Equities	**41**	33
Offshore Equities	**76**	9

(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.

Sensitivity

At 31 March 2017, 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 $13k higher/lower (31 March 2016: $16k), 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, term deposits, interest receivable, corporate bonds, global bonds and related party receivables. No collateral is held on these amounts (31 March 2016: 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.

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

	2017	2016
	$'000	$'000
Fair value through profit or loss		
Counterparties with external credit rating (S&P or Moody's)		
AA	**4,374**	4,089
A	**236**	1,501
Related party receivables	**6,700**	6,700
	11,310	12,290

The related party receivable is neither past due nor impaired.

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

(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.

9 Financial risk management (continued)

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 hierachy

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

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

- Level 1: Quoted market prices – financial instruments with quoted prices for identical instruments in active markets.
- Level 2: Valuation techniques using observable inputs - financial instruments with quoted prices for similar instruments in active markets or quoted prices for identical or similar instruments in inactive markets and financial instruments valued using models where all significant inputs are observable.
- Level 3: Valuation techniques with significant non-observable inputs - financial instruments valued using models where one or more significant inputs are not observable.

The following table presents the Company's financial assets and liabilities that are measured at fair value at 31 March 2017 and 31 March 2016.

At 31 March 2017	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Financial assets at fair value through profit or loss				
Cash and cash equivalents	3,674	-	-	3,674
Term deposits	-	500	-	500
Interest receivable	-	5	-	5
Corporate bonds	200	-	-	200
Global bond funds	236	-	-	236
Equity investments	3,229	-	-	3,229
Related party receivables	-	6,700	-	6,700
Total assets	7,339	7,205	-	14,544
Financial liabilities at fair value through profit or loss				
Trade and other payables	-	12	-	12
Total liabilities	-	12	-	12
At 31 March 2016				
Financial assets at fair value through profit or loss				
Cash and cash equivalents	2,402	-	-	2,402
Term deposits	-	3,150	-	3,150
Interest receivable	-	38	-	38
Equity investments	1,166	-	-	1,166
Related party receivables	-	6,700	-	6,700
Total assets	3,568	9,888	-	13,456
Financial liabilities at fair value through profit or loss				
Trade and other payables	-	14	-	14
Total liabilities	-	14	-	14

9 Financial risk management (continued)

The fair value of financial assets that are not traded in an active market (for example: term deposits and related party receivables) are determined by using valuation techniques that maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates.

Term deposits are typically short term in nature and held with banks with credit ratings of A+ or better. As such the the fair value of these financial assets is considered to be their face value.

Related party receivables with the Parent are reviewed annually and the interest rate is reset at every financial year to market rates. As such the fair value of this financial asset is considered to be its face value.

In 2016 all financial assets at fair value were classified as Level 1. Management have reclassified term deposits, interest receivable and related party receivables to Level 2 as these are not traded in active markets. There has been no impact to the fair value assessment of these financial assets.

10 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.

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) 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.

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

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 2016/17 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 UIL is 1 April of each insurance period. During the month of April 2016 the following insurance contracts were written by UIL for the period 1 April 2016 to 31 March 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.

(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	The Company's underwriting strategy requires individual risk premiums to be differentiated in order to reflect the higher loss frequency in particular geographical areas. 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. Based on the probable maximum loss per the models, the Company purchases catastrophe reinsurance cover where economically available. For the 2016/17 year the loss of damage caused by natural catastrophe to transmission and distribution assets is limited to $13.25 million for each and every loss and in the aggregate. The Company also applied a deductible of $0.5m for each and every loss or series of losses arising from one event .
Larger than expected claims	Having a relatively high exposure to material damage and business interruption risks from the Group	The Company has mitigated these risks by retaining sufficient capital within the Company to meet the costs of a large claim. The Company has access to all the Stakeholder data so is in a privileged and well-informed position when determining its risk acceptance policy. Claims for the 2016/17 year are limited to $13.25 million for each and every loss and in the aggregate. The Company also applied a deductible of $0.5m for each and every loss or series of losses arising from one event .

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

(d) Claims management

It is the Company's policy to insure only its parent and subsidiaries of the parent. 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 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 Comprehensive Income, with the corresponding impact on the statement of financial position.

No liability adequacy test has been performed as there have been no claims made nor notified to it during the year, and the latest insurance contract expires on 31 March and the next policy risk starts on 1 April

(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 statement of financial position at the amount that best represents the maximum credit risk exposure at balance date.

There are no significant concentrations of credit risk.

11 Income tax expense

Accounting policy

The tax expense for the period comprises only current 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 period, 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 substantively enacted by balance date.

	2017 **$'000**	2016 $'000
(a) Income tax expense		
Current tax:		
Current tax on profits for the period	**342**	367
Prior period current tax adjustment	**14**	(36)
Income tax expense	**356**	331

11 Income tax expense (continued)

(b) Reconciliation of income tax expense to prima facie tax payable

Profit from continuing operations before income tax expense	**1,423**	1,400
Income tax @ 28%	**398**	392
Tax effects of:		
Income not subject to tax	**(56)**	(25)
Prior period current tax adjustment	**14**	(36)
Income tax expense	**356**	331

There is no unrecognised deferred tax.

12 Imputation credits

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

13 Contributed equity

	31 March 2017 Shares	31 March 2016 Shares	**31 March 2017 $'000**	31 March 2016 $'000
Ordinary shares				
Fully paid (no par value)	**8,700,000**	8,700,000	**8,700**	8,700

14 Related party transactions

(a) Group structure

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

Related parties include:
- Unison Networks Limited
- Other Group companies

(b) Key management and personnel compensation

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. 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 18 of the 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.

14 Related party transactions (continued)

(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:

	2017 $'000	2016 $'000
B Martin	8,500	7,875
J Palairet	8,500	7,875
K Sutherland	-	-
	17,000	15,750

The directors remuneration is all classed as short term employee remuneration.

Directors interests

There were no new interests declared.

(d) Transactions with related parties

The following transactions occurred with related parties:

	2017 $'000	2016 $'000
(i) Sales of services:		
Insurance premiums charged to Parent	876	960
Interest received from Parent	357	414
	1,233	1,374

	2017 $'000	2016 $'000
(ii) Purchases of services		
Corporate overhead charges paid to Parent	(67)	(90)
	(67)	(90)
(iii) Loans to related parties		
Loan receivable from/(payable to) Parent (note 8(a))	6,700	6,700
	6,700	6,700

15 Contingent Liabilities and Commitments

As at 31 March 2017 the Company had no contingent liabilities nor capital commitments (31 March 2016: $Nil).

Independent Auditor's Report

To the readers of Unison Insurance Limited's financial statements for the year ended 31 March 2017

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 his behalf.

Opinion

We have audited the financial statements of the company on pages 3 to 19, that comprise the statement of financial position as at 31 March 2017, 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 2017; and
  - its financial performance and cash flows for the year then ended; and
- comply with generally accepted accounting practice in New Zealand in accordance with the New Zealand equivalents to International Financial Reporting Standards.

Our audit was completed on 22 June 2017. This is the date at which our opinion is expressed.

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

Basis for opinion

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

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

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

Responsibilities of the Board of Directors for the financial statements

The Board of Directors is responsible on behalf of the company for preparing financial statements that are fairly presented and that comply with generally accepted accounting practice in New Zealand.

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

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

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

Responsibilities of the auditor for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements, as a whole, are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit carried out in accordance with the Auditor-General's Auditing Standards will always detect a material misstatement when it exists. Misstatements are differences or omissions of amounts or disclosures, and can arise from fraud or error. Misstatements are considered material if, individually or in the aggregate, they could reasonably be expected to influence the decisions of readers taken on the basis of these financial statements.

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

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

- We identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- We obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control.

- We evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors.

- We conclude on the appropriateness of the use of the going concern basis of accounting by the Board of Directors and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the company to cease to continue as a going concern.

- We evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

Our responsibilities arise from the Public Audit Act 2001 and Part 7 of the Financial Markets Conduct Act 2013.

Independence

We are independent of the company in accordance with the independence requirements of the Auditor-General's Auditing Standards, which incorporate the independence requirements of Professional and Ethical Standard 1 (Revised): *Code of Ethics for Assurance Practitioners* issued by the New Zealand Auditing and Assurance Standards Board.

In addition to the audit, we have completed an assurance engagement in connection with the company's compliance with the Insurance (Prudential Supervision) Act 2010, specifically those aspects applying to insurance captives transacting non-life insurance business.

Other than the audit and the assurance engagement, 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

Davies Financial and Actuarial Limited

14th June 2017

To: The Directors
Unison Insurance Limited

From: Peter Davies
Appointed Actuary

Re: Unison Insurance Limited ("the Company"): Report as at 31st March 2017 under Sections 77 and 78 of the Insurance (Prudential Supervision) Act 2010

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

1. I have reviewed the actuarial information included in the audited accounts for the Company as at 31st March 2017. "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.

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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 2017 under the RBNZ Solvency Standard for Captive Insurers Transacting Non-life Insurance Business 2014 can be summarised as follows

	31 March 2017	31 March 2016
Solvency capital:	14,461,000	13,394,000
Minimum capital requirement:	4,137,468	3,839,074
Solvency margin:	10,323,532	9,554,926
Solvency coverage ratio	350%	349%

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

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

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