Unison Insurance Limited
Financial statements
for the year ended 31 March 2018

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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 2018

	Notes	**2018 $'000**	2017 $'000
Premium revenue	5	**770**	876
Claims expenses	6	-	-
Net underwriting result		**770**	876
Other revenue from ordinary activities	5	**768**	721
Expenses	6	**(199)**	(174)
Profit before income tax		**1,339**	1,423
Income tax expense	11	**(277)**	(356)
Profit for the period		**1,062**	1,067
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 year, net of tax		-	-
Total comprehensive income for the year		**1,062**	1,067

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 2018

	Notes	2018 $'000	2017 $'000
ASSETS			
Current assets			
Cash and cash equivalents	7	**1,242**	3,674
Receivables		**74**	-
Other financial assets	8	**1,850**	500
Interest receivable		**6**	5
Total current assets		**3,172**	4,179
Non-current assets			
Other financial assets	8	**12,427**	10,365
Total non-current assets		**12,427**	10,365
Total assets		**15,599**	14,544
LIABILITIES			
Current liabilities			
Payables		**19**	14
Current tax liabilities		**57**	69
Total current liabilities		**76**	83
Total liabilities		**76**	83
Net assets		**15,523**	14,461
EQUITY			
Contributed equity	13	**8,700**	8,700
Retained earnings		**6,823**	5,761
Total equity		**15,523**	14,461

For and on behalf of the Board of Directors of Unison Insurance Limited who authorised these financial statements presented on pages 3 to 20 for issue on 21 June 2018.

Director

Director

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 2018

	Contributed equity $'000	Retained earnings $'000	Total equity $'000
Balance as at 1 April 2017	8,700	5,761	14,461
Profit or loss for the year	-	1,062	1,062
Total comprehensive income	-	1,062	1,062
Balance as at 31 March 2018	8,700	6,823	15,523
Balance as at 1 April 2016	8,700	4,694	13,394
Profit or loss for the period	-	1,067	1,067
Total comprehensive income	-	1,067	1,067
Balance as at 31 March 2017	8,700	5,761	14,461

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 2018

	Notes	2018 $'000	2017 $'000
Cash flows from operating activities			
Insurance premiums		**696**	876
Payment to suppliers & employees		**(195)**	(175)
Income taxes paid		**(289)**	(335)
Net cash inflow / (outflow) from operating activities		**212**	366
Cash flows from investing activities			
Dividends received		**166**	69
Interest received from investments		**66**	128
Interest received from Parent		**342**	357
Repayment of investments		**2,474**	2,148
Purchase of investments		**(5,692)**	(3,296)
Net cash inflow / (outflow) from investing activities		**(2,644)**	(594)
Cash flows from financing activities			
Intercompany loan repayment		**-**	-
Net cash inflow / (outflow) from financing activities		**-**	-
Net increase / (decrease) in cash and cash equivalents		**(2,432)**	(228)
Cash and cash equivalents at the beginning of the financial year		**3,674**	3,902
Cash and cash equivalents at end of financial year	7	**1,242**	3,674

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

	2018 $'000	2017 $'000
Profit for the year	**1,062**	1,067
(Increase)/decrease in receivables	**(74)**	-
Increase/(decrease) in payables	**4**	(2)
Increase/(decrease) in income tax payable	**(12)**	21
Investment income (including Interest received, dividends and realised FX gains)	**(575)**	(519)
Fair value gains on other financial assets at fair value through profit or loss	**(193)**	(201)
Net cash inflow from operating activities	**212**	366

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 not applied any new standards or amendments for the annual reporting period commencing 1 April 2017.

(d) Standards, amendments and interpretations to existing standards that are 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:

- **Amendments to NZ IFRS 4, 'Applying NZ IFRS 9 Financial Instruments with NZ IFRS 4 Insurance Contract',** is effective for accounting periods beginning on or after 1 January 2018 (31 March 2019 year end). The amendments address issues arising from the different effective dates of NZ IFRS 9 Financial Instruments and the forthcoming standard on insurance contracts. The Company has yet to assess its full impact.
- **NZ IFRS 17 Insurance Contracts** is effective for periods beginning on or after 1 January 2021 (31 March 2022 year end). The standard replaces the current guidance in NZ IFRS 4, and establishes the principles for recognition, measurement, presentation and disclosure of insurance contracts. The Company is yet to assess the impact of adopting NZ IFRS 17.
- **NZ IFRS 9, 'Financial Instruments and associated amendments to various other standards'** is effective for accounting periods beginning on or after 1 January 2018 (31 March 2019 year end). NZ IFRS 9 replaces the multiple classification and measurement models in NZ IAS 39 Financial instruments: Recognition and measurement with a single model that has initially only two classification categories: amortised cost and fair value.

  All fair value movements on financial assets are taken through the statement of profit or loss, except for equity investments that are not held for trading, which may be recorded in the statement of profit or loss or in reserves (without subsequent recycling to profit or loss).

1 About this report (continued)

(d) Standards, amendments and interpretations to existing standards that are not yet effective (continued)

- **NZ IFRS 15, 'Revenue from contracts with customers'** is effective for accounting periods beginning on or after 1 January 2018 (31 March 2019 year end). The standard deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Revenue is recognised when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. The standard replaces NZ IAS 18 'Revenue' and NZ IAS 11 'Construction contracts' and related interpretations. The Company intends to adopt NZ IFRS 15 on its effective date and is currently assessing 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.

(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.

2 Capital adequacy (continued)

(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:

	2018 $'000	2017 $'000
Actual solvency capital	**15,522**	14,461
Minimum solvency capital	**4,733**	4,137
Solvency margin	**10,789**	10,324
Solvency ratio	**328 %**	350 %

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

	2018 $'000	2017 $'000
Premium revenue	**770**	876
Net premium revenue	**770**	876
Claims expense	**-**	-
Net claims incurred	**-**	-
Net underwriting result	**770**	876

There were no claims in 2018. 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 2018 (2017: 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:

5 Revenue (continued)

(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.

	2018 $'000	2017 $'000
Insurance business revenue		
Premium revenue	**770**	876
	770	876
Other revenue		
Interest received	**409**	452
Dividends	**144**	69
Fair value movement on investments	**193**	200
Realised FX gains	**22**	-
	768	721

6 Expenses

	2018 $'000	2017 $'000
Expenses, excluding finance costs, included in the statement of comprehensive income classified by nature		
Directors fees	**17**	17
Audit of the annual financial statements - Audit NZ	**12**	12
Audit of the annual solvency return - Audit NZ	**5**	5
Corporate management charges	**71**	67
Other expenses	**94**	73
	199	174

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.

	2018 $'000	2017 $'000
Cash at bank and in hand	**862**	2,013
NZD Trust Account	**334**	1,650
Foreign Currency Accounts	**46**	11
	1,242	3,674

(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.

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.

	2018 $'000	2017 $'000
Current		
Term deposits	**1,850**	500
	1,850	500
Non-current		
Corporate bonds	**207**	200
Global Bond Funds	**1,024**	236
Equities	**4,496**	3,229
Loan to parent	**6,700**	6,700
	12,427	10,365

(a) Interest rate exposures

Term deposits

The deposits are bearing fixed interest rates of 3.21% to 3.33% (31 March 2017: 3.30%), with maturities between 62 and 111 days (31 March 2017: 19 days).

Global bonds

Global bonds classified as other financial assets at fair value through the profit or loss with a carrying value of $1,024,150 have values of between $1.151 and $1.184 per unit (31 March 2017: $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 $207,090 with interest rates between 4.695% and 5.25%, mature between 1 September 2026 and 15 December 2026.

8 Other financial assets (continued)

Equities

Equities classified as other financial assets at fair value through the profit or loss with a carrying value of $4,495,796 (31 March 2017: $3,229,344) have share values of between $1.70 and $256.46 per share (31 March 2017: between $1.30 and $216.61 per share). Management do not intend to dispose of these within 12 months of balance date.

Loan to parent

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 2017-18 financial year this equates to an interest rate of 5.11% (31 March 2017: 5.33%).

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, foreign exchange risk, liquidity, and operational risks.

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:

	2018 $'000	2017 $'000
Financial assets		
Cash and cash equivalents	**1,242**	3,674
Term deposits	**1,850**	500
Interest receivables	**6**	5
Equity investments	**4,496**	3,229
Corporate bonds	**207**	200
Global bond funds	**1,024**	236
Loan to parent	**6,700**	6,700
	15,525	14,544
Financial liabilities		
Trade and other payable	**19**	14
	19	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, and the Euro.

9 Financial risk management (continued)

	Cash and cash equivalents		Other financial assets	
	2018	2017	**2018**	2017
	FC$'000	FC$'000	**FC$'000**	FC$'000
USD	**6**	2	**1,105**	852
AUD	**33**	7	**1,381**	997
EUR	**1**	1	**109**	117

Sensitivity

At 31 March 2018, 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 $16k (31 March 2017: $18k) 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.

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	
	2018	2017
	$'000	$'000
NZ Equities	**39**	41
Offshore Equities	**123**	76

(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 2018, 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 $11k higher/lower (31 March 2017: $13k), 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 2017: 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.

9 Financial risk management (continued)

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

	2018 $'000	2017 $'000
Fair value through profit or loss		
Counterparties with external credit rating (S&P or Moody's):		
AA	**3,299**	4,374
A	**1,024**	236
Loan to parent	**6,700**	6,700
	11,023	11,310

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.

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.

9 Financial risk management (continued)

The following table presents the Company's financial assets and liabilities that are measured at fair value at 31 March 2018 and 31 March 2017.

	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
31 March 2018				
Financial assets at fair value through profit or loss				
Cash and cash equivalents	1,242	-	-	1,242
Term deposits	-	1,850	-	1,850
Interest receivable	-	6	-	6
Receivables	-	74	-	74
Corporate bonds	207	-	-	207
Global bond funds	1,024	-	-	1,024
Equity investments	4,496	-	-	4,496
Loan to Parent	-	6,700	-	6,700
Total assets	6,969	8,630	-	15,599
31 March 2017				
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
Loan to Parent	-	6,700	-	6,700
Total assets	7,339	7,205	-	14,544

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 and their associated accrued interest are typically short term in nature and held with banks with credit ratings of A+ or better. As such 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.

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.

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

(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 a 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 2017/18 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 2017 the following insurance contracts were written by UIL for the period 1 April 2017 to 31 March 2018:

- Transmission & Distribution policy with a gross written premium of $769,500

(c) Pricing

Basis - 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.

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

(d) 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 2017/18 year the loss of damage caused by natural catastrophe to transmission and distribution assets is limited to $12 million of cover for a series of losses arising out of any one event for Material Damage and $3 million of cover for Business Interruption combined with a $0.5m deductible held by Unison Networks Limited.
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 2017/18 year are limited to $12 million of cover for a series of losses arising out of any one event for Material Damage and $3 million of cover for Business Interruption combined with a $0.5m deductible held by Unison Networks Limited..

(e) 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.

(f) 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

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

(g) 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.

	2018 **$'000**	2017 $'000
(a) Income tax expense		
Current tax:		
Current tax on profits for the year	**295**	342
Prior period current tax adjustment	**(17)**	14
Income tax expense	**277**	356

	2018 **$'000**	2017 $'000
(b) Reconciliation of income tax expense to prima facie tax payable		
Profit from continuing operations before income tax expense	**1,339**	1,423
Income tax @ 28%	**375**	398
Tax effects of:		
• Income not subject to tax	**(64)**	(56)
• Prior period current tax adjustment	**(17)**	14
Imputation credits received	**(13)**	-
Other items	**(3)**	-
Income tax expense	**277**	356

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

	2018 Shares	2017 Shares	**2018 $'000**	2017 $'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.

(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:

	2018 $'000	2017 $'000
B Martin	**8,500**	8,500
J Palairet	**8,500**	8,500
K Sutherland (Chairman)	**-**	-
	17,000	17,000

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

(d) Directors interests

There were no new interests declared.

(e) Transactions with related parties

The following transactions occurred with related parties:

	2018 $'000	2017 $'000
(i) Sales of services:		
Insurance premiums charged to Parent	**770**	876
Interest received from Parent	**342**	357
	1,112	1,233

14 Related party transactions (continued)

	2018 $'000	2017 $'000
(ii) Purchases of services		
Corporate overhead charges paid to Parent	(71)	(67)
	(71)	(67)
(iii) Year-end balances arising from sales/purchases services		
Amounts receivable from/(payable to) Parent	74	-
	74	-
(iv) 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 2018 the Company had no contingent liabilities nor capital commitments (31 March 2017: $Nil).

Independent Auditor's Report

To the readers of Unison Insurance Limited's financial statements for the year ended 31 March 2018

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 on the financial statements

We have audited the financial statements of the company on pages 3 to 20, that comprise the statement of financial position as at 31 March 2018, 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 2018; 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 New Zealand Equivalents to International Financial Reporting Standards.

Our audit was completed on 21 June 2018. 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 our 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 it 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 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 carried out an assurance engagement in connection with the company's compliance with the Insurance (Prudential Supervision) Act 2010, specifically those aspects applying to insurance captives trading 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

29th May 2018

To: The Directors
Unison Insurance Limited

From: Peter Davies
Consulting Actuary

Re: Unison Insurance Limited

You have asked me to prepare a report on the financial condition of Unison Insurance Limited ("the Company") as at 31st March 2018. I would like to comment further as follows:

1. <u>Introduction</u>

The purpose of this report is to provide commentary to the Company's Board on the financial condition of the Company, and to fulfil my obligations, as Appointed Actuary to the Company, to provide a financial condition report in terms of the Insurance (Prudential Supervision) Act 2010.

This report has been prepared in accordance with Professional Standard no. 31 (PS31) of the New Zealand Society of Actuaries –Non-Life Insurers Financial Condition Report, and with Professional Standard No. 90 - General Actuarial Practice. The report has also been prepared in consideration of the Reserve Bank requirements with respect to Financial Condition Reports.

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2. Materiality

Being a captive company with just two exposures (one in respect of material damage to the transmission assets of the Group, the other in respect of business interruption following damage to any of the Group's assets), a simple balance sheet, and only one significant claim over the past six years, this report is relatively brief in some areas.

There are some aspects of PS31 which are not material and / or relevant, including but not limited to:

- A captive company is not concerned with the competitive situation or the business environment.

- There is no data validation involved in reviewing the financial position of a captive.

- There is no "expected" underwriting experience. Claims are very rare, with only one claim having being incurred in the past six years.

- The entity has very simple pricing processes, benchmarking its premium rates to the commercial MDBI market, and very limited claim management processes (with only one claim having been incurred over the past six years).

- The entity has no unearned premium provisions at balance date, no unexpired risk liability, and no outstanding claim provisions. If there were any outstanding claims then a provision would be established based on the assessment of a professional registered loss adjuster.

- The entity's exposure under its policies with its parent is clearly defined and limited, and the Company has opted not to reinsure any of its risks (with effect from 1st April 2015). I have reviewed the adequacy of the Company's capital with regard to its maximum exposures, and there is no assessment required as to the adequacy or otherwise of its reinsurance programme.

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3. Data

I have been provided with a set of audited accounts, as well as further details regarding the company's assets (institution, credit rating, maturity date, interest rates). I have relied on this information in preparing this report.

Being a captive insurer with a very simple premium structure, with no claims incurred over the year, the normal checks that would be done on policy and claim information are not required for this review.

4. Background, business and operations, business plans

Unison Insurance Limited is a captive non-life insurer owned by Unison Networks Limited, a New Zealand electricity lines business. Unison Networks Limited is wholly owned by Hawke's Bay Power Consumers' Trust.

The Company provides Material Damage and Business Interruption cover to Unison Networks Limited in respect of its Transmission & Distribution (T&D) assets.

The cover provided under the Company's policy with Unison Networks is as follows:

		From April 2017
Total sum insured:		$15,000,000
Business interruption sub-limit:		
Deductible:	0	$5,000,000
Material Damage proportion:		80%
Business Interruption proportion:		20%

Unison Networks Limited insures the Material Damage risks in respect of its non-T&D assets directly in the retail market

Unison Insurance has no reinsurance cover in place.

The Company prepares an annual business plan for its Board. Its plans are integrated with the overall insurance requirements of Unison Networks Limited, its own capacity to insure risks, and the availability and competitiveness of the retail insurance market for power company property risks. Its current plan is to continue to offer Material Damage cover to Unison Networks' Transmission and Distribution assets, and Business Interruption cover in respect of all of its property exposures, and to benchmark its premiums to the overall trend in MDBI premiums in the retail market.

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5. Recent experience and profitability

The accounts of the Company for the past three years are set out in Annexure A.

There have been no claims incurred over the previous year. There has been only one material claim incurred over the past six years, in the year to March 2014, costing $193,000.

I note that the company made a profit of $1,061,170 over the past year which is a small decrease on $1,067,000 the year prior.

With annual premiums of approximately $0.8m and investment income of approximately $0.8m, clearly there is the possibility of the occasional year in which a large claim occurs, which would produce an underwriting loss of an order of magnitude of $15.0m - $5.0m (Deductible) - $1.3m (pre-tax profits) = $8.7m before tax.

As long as major losses occur no more than once every seven years, the arrangement should work satisfactorily with no additional top-ups required from the parent.

I note that the Company has a total equity of $15.5m. This provides it with sufficient capital to meet the cost of a claim at its maximum possible level.

6. Pricing, Underwriting and claim management

The Company seeks external independent advice in setting its premiums, based on the underlying risks being written. There is no established "efficient" market for the insurance of power T&D assets in New Zealand, and accordingly the Company uses the services of WillisTowersWatson to assess, as reliably as possible, a reasonable level of premium for these risks, taking account of market premiums for other Material Damage risks, the value of the assets at risk, and other benchmarks. Overall there are three cross-checks done to arrive at a recommended level of premium for the two risks.

The deductible under the Company's insurance contract with its parent increased from $0.5m to $5m, effective from 1st April 2017. This reduced the likelihood of the Company incurring any claims in future, as this high deductible will eliminate all but the very serious claims.

The Company chooses to self-insure and makes no use of reinsurance in respect of its transmission and distribution assets. This is consistent with the parent company's approach of using its captive to manage these risks, and it also arises, in part, from the lack of available capacity or appetite in the retail or reinsurance markets for taking on power T&D asset material damage risks.

Claims are likely to be infrequent, and the Company can call on the services of WillisTowersWatson in managing any claims.

7. Insurance and Other Liabilities

There are no insurance liabilities outstanding as at the latest balance date.

Any outstanding claim would be provided for based on the assessment of a professionally registered loss adjuster.

8. Investment and Other Assets

The Company's investments are listed in the balance sheet set out in Annexure A. The investment assets consist primarily of cash and term deposits with New Zealand-registered banks, with investments in New Zealand and Overseas bonds and equities, and some small overseas bank investments.

Total investment assets amount to $8.90m, which is nearly sufficient to cover the maximum cost of the largest single possible claim ($10m).

There is a significant inter-company balance of $6.7m with the parent. The value of an inter-company asset of this nature depends on the parent company acknowledging that the Company has an explicit right of offset to use this balance against any future claim owing to the parent. There is an inter-company agreement that gives the Company this explicit right, which means that this asset is fully able to be utilised to settle any claims as they arise. This is an important issue in considering the liquidity of the Company's assets.

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9. Intercompany Loan

I note that a 15% asset risk charge applies to this loan under the RBNZ solvency test. There are also concentration limits that apply to inter-company balances, however the inter-company balance is currently below the limit which is 66% of total assets excluding reinsurance recoveries (or $5m if greater).

10. Capital Management

The minimum requirement under the various elements of the RBNZ Solvency Standard for Captives is $4.73m. This exceeds the overall minimum of $1m that applies to Captives writing this level of premium income, accordingly the Company's minimum capital requirement is $4.73m.

The parent may choose to retain more capital than this within the captive, depending on its approach to funding for any possible large claims.

I note that the Company does, even with its changes in cover levels, still have sufficient capital to pay for the largest claim to which it is potentially exposed.

I note also however that while there is a transfer of risk between the Captive and the other companies in the Group, the captive structure does not provide any transfer of risk outside the Group, other than via the external reinsurance arrangements. Therefore, if a claim were to arise, it will affect the Parent company's consolidated accounts as if the Captive did not exist.

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11. Solvency Assessment

I have set out my calculations of the Company's position under the Reserve Bank Solvency Standard for Non-Life Captives 2014, in Annexure B.

The solvency calculations here differ from a non-life insurer dealing with the public in the following areas:

(a) The insurance risk capital charge is a simple 20% of the largest per event retention, plus a reinstatement premium.

(b) There is no additional catastrophe risk capital charge (it is effectively provided for in (a).

The results of this calculation, and the history of the Company's solvency position, are as follows:

Solvency history

	31 March 2018	30 September 2017	31 March 2017	30 September 2016	31 March 2016
Solvency capital:	15,522,170	14,983,672	14,461,000	13,907,000	13,394,000
Minimum capital requirement:	4,732,700	4,682,207	4,137,468	4,476,437	3,839,074
Solvency margin:	10,789,470	10,301,465	10,323,532	9,430,563	9,554,926
Solvency coverage ratio	328%	320%	350%	311%	349%

12. Capital Adequacy

The schedules in Annexure B also include a six-year projection of the solvency position. I note that the Company is expected to continue to generate after-tax profits each year, leading to an improved solvency position. It is the Company's intention not to remit any dividends over this period but rather to build up a pool of funds within the Company. The payment of dividends could be considered, however, subject to the Company's solvency position and its capital management strategy at the time.

13. Risks and Risk Management

(a) In my view the material risks faced by the Company are as follows:

The main risk, from my perspective, is that the Company could experience large claims at a greater frequency than the parent would have been expecting in setting up the captive.

As long as the parent is clearly aware that this is one of the risks of having a relatively high insurance exposure then the parent should have no difficulty with this outcome. The important issue is that the parent should not be under an impression that having a captive insurer somehow takes away the risks of having a relatively high exposure to material damage and business interruption risks from the Group as a whole.

(b) The Company has mitigated these risks by:

Retaining sufficient capital within the Company to meet the costs of a large claim. Premiums are currently structured so as to top up this provision to the maximum claim amount within approximately seven years, if the current level of capital were to be exhausted.

(c) The Company has only permanent capital, which is available to meet losses on a permanent, unencumbered basis.

(d) The Company has no open claims currently on its books.

(e) The Company has no insurance business with long-term risk characteristics.

(f) The Company has no derivatives on its balance sheet.

(g) The Company has no material mis-matching risks arising from the nature and term of its assets and insurance liabilities.

(h) The Company's solvency margin calculations are set out in Annexure B. There is very little assumption-setting required for carrying out these calculations for a captive insurer.

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The only real area of sensitivity is with any variation in the market value of the Company's equity investments in New Zealand and overseas, which are affected by fluctuations in equity markets, and (in respect of the overseas equities) by currency risk.

(i) In my view there is no reason why the Company should not be expecting to maintain a satisfactory solvency margin under the RBNZ solvency standard at all times over the next three years, taking account of the Company's business plans, its enterprise risk management practices, and its external environment.

14. Additional Disclosures

- This report may be released to third parties, at the Company's discretion.
- I place no limitations on this report.
- I am happy for this report to be relied on by the Company, its auditors, and by the Reserve Bank.
- I am available to provide supplementary information and explanation about the scope, methods and data relating to this report.
- I am independent with respect to the Company as defined under professional standard ISA (NZ) 620 of the External Reporting Board.
- I am not aware of any events subsequent to the effective date of this report that could have a material impact on the results set out in this report.
- I have relied on accounting and other data provided by WillisTowersWatson in preparing this report.

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15. Summary and Conclusions

Unison Insurance Limited is a tidy "captive" insurance operation with a conservative balance sheet

The Company is managed by a professional administrator (WillisTowersWatson) with extensive knowledge of the captive insurance market in New Zealand.

The Company has sufficient capital to meet the costs of a large claim at a maximum possible level, and has sufficient profit margins to top this provision up to the maximum size of a claim within approximately six years, if it were to be exhausted.

It is important in my view that the Board makes it clear to the parent that a captive insurer does not remove the risks of having a relatively high material damage and business interruption exposure from the Group as a whole. While there is a legitimate transfer of risk between the Captive and the other members of the Group, the Group is as exposed to the risks of large claims, or multiple smaller claims, as it would be if the captive company did not exist.

The Company's solvency margin exceeds the minimum required by the RBNZ solvency standard, with a coverage ratio of 328%.

The previous financial condition report did not make any specific recommendations, other than to emphasise the point that the Board should ensure that the Company's Parent has a very clear appreciation of the function that a Captive company provides for the Group, in particular that the Group as a whole is as exposed to the risk of a large claim that is not externally reinsured, as it would be if the Captive does not exist.

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

Yours sincerely

Peter

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

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Annexure A: Accounts

Unison Insurance Limited

	Year Ended 31/03/2018	Year Ended 31/03/2017	Year Ended 31/03/2016
Revenue Statement			
Gross Premiums Written	769,500	876,000	960,000
Less Gross Unearned Premium	0	0	0
Reinsurance	0	0	0
Net premiums	769,500	876,000	960,000
Investment income	767,781	721,000	634,000
Other income	0	0	0
Net fees and commission incom	0	0	0
Total income	1,537,281	1,597,000	1,594,000
Opening claim provisions	0	0	0
Claims paid	0	0	0
Closing claim provisions	0	0	0
Gross claim expense	0	0	0
Net claim expense	0	0	0
Operating expenses	199,111	174,000	194,000
Total expenses	199,111	174,000	194,000
Profit before tax	1,338,170	1,423,000	1,400,000
Tax	277,000	356,000	331,000
Profit after tax	1,061,170	1,067,000	1,069,000
Movement in equity	0	0	1,125,000
Capital in / dividends out	0	0	0
As % of gross premium			
Reinsurance	0.00%	0.00%	0.00%
Commission	0.00%	0.00%	0.00%
Expenses	25.88%	19.86%	20.21%
Claims (net)	0.00%	0.00%	0.00%
Investment return %	5.23%	5.29%	5.01%

Balance sheet

	31/03/2018	31/03/2017	31/03/2016
Cash - NZ	1,195,966	3,663,000	2,366,000
Cash - Australian/US/EUR $	45,600	11,000	36,000
Term Deposit	1,850,000	500,000	3,150,000
Accrued Investment Income	5,691	5,000	38,000
NZ govt security	0	0	0
NZ Bonds	207,090	200,000	0
NZ equities	1,093,475	1,127,175	559,000
Australian equities	1,468,352	997,341	255,000
Overseas equities hedged	1,933,969	1,104,484	116,000
Overseas bonds hedged	1,024,150	236,000	236,000
NZ Property	0	0	0
Trade receivable	0	0	0
Premiums Receivable	73,744	0	0
Other debtors	0	0	0
Captive balance with parent	6,700,000	6,700,000	6,700,000
Deferred Tax Asset	0	0	0
Total assets	15,598,037	14,544,000	13,456,000
Accounts Payable	19,008	14,000	14,000
Bank overdraft	0	0	0
Provision for income tax	57,000	69,000	48,000
Unearned Premium Reserve	0	0	0
Intercompany Loan	0	0	0
Total liabilities	76,008	83,000	62,000
Share Capital	8,700,000	8,700,000	8,700,000
Retained Earnings	6,822,170	5,761,000	4,694,000
Equity	15,522,170	14,461,000	13,394,000
Check:	15,598,178	14,544,000	13,456,000
	141	0	0
vs P&L	0	0	0
	Rounding		

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Annexure B: Solvency Calculations

RBNZ Solvency Calculations

Equity	15,522,170
Less deferred tax asset	0
Actual solvency capital:	15,522,170
Insurance risk charge:	
Largest Foreseeable per event re	10,000,000
	20%
Insurance risk charge:	2,000,000
Credit, Equity, Property Risk	2,261,535
Concentration exposure	0
Concentration risk:	0
Interest rate risk:	138,095
Foreign exchange risk:	333,069
Reinsurance risk:	0
Total capital requirement:	4,732,700
Minimum $1m:	4,732,700
Solvency margin:	10,789,470
Solvency ratio:	328%

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Annexure B.2

Asset risk charges

Category	RBNZ Categories	Balance sheet	Fixed Interest Schedule	Total	Charge	CEP Charge
1	1 Cash and sovereign debt	1,241,566	0	1,241,566	0.5%	6,208
2	2 AA rated fixed interest <1 year	0	0	0	1.0%	0
3	3 AA rated fixed interest >1 year	5,691	474,360	480,051	2.0%	9,601
4	4 A rated fixed interest	0	2,403,366	2,403,366	4.0%	96,135
5	5 Unpaid premiums <6 months	73,744	0	73,744	4.0%	2,950
6	6 Deferred acquisition costs	0	0	0	5.0%	0
7	7 BBB rated fixed interest	0	142,602	142,602	6.0%	8,556
8	8 Unrated local authority debt & 3rd party recoveries	0	0	0	8.0%	0
9	9 Other fixed interest & short term unpaid premiums	0	60,914	60,914	15.0%	9,137
10	10 Related party captive and parent	6,700,000	0	6,700,000	15.0%	1,005,000
11	11 Off balance sheet exposures not covered elsewhere	0	0	0	20.0%	0
12	12 Listed equity & trusts, property, plant & equipment	4,495,796	0	4,495,796	25.0%	1,123,949
13	13 Unlisted equity & trusts	0	0	0	35.0%	0
14	14 Any other assets	0	0	0	40.0%	0
15	15 Assets incurring a full capital charge	0	0	0	100.0%	0
		Total assets		15,598,038		2,261,535
		Plus deferred tax and defered rei		0		
		Total		15,598,038		
		vs balance sheet:		15,598,037		

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Annexure B.3: Solvency history

Solvency history

	31 March 2018	30 September 2017	31 March 2017	30 September 2016	31 March 2016
Solvency capital:	15,522,170	14,983,672	14,461,000	13,907,000	13,394,000
Minimum capital requirement:	4,732,700	4,682,207	4,137,468	4,476,437	3,839,074
Solvency margin:	10,789,470	10,301,465	10,323,532	9,430,563	9,554,926
Solvency coverage ratio	328%	320%	350%	311%	349%

Annexure B.4: Solvency Projection

Solvency projection:	New equity	Estimated profit	Credit, Equity, Property Risk	Insurance Risk	Other asset risks	Total Solvency capital	Total capital requirement	Solvency margin	Solvency ratio
2019	-	1,000,000	2,321,535	2,000,000	471,165	16,522,170	4,792,700	11,729,470	3.45
2020		1,000,000	2,381,535	2,000,000	471,165	17,522,170	4,852,700	12,669,470	3.61
2021		1,000,000	2,441,535	2,000,000	471,165	18,522,170	4,912,700	13,609,470	3.77
2022		1,000,000	2,501,535	2,000,000	471,165	19,522,170	4,972,700	14,549,470	3.93
2023		1,000,000	2,561,535	2,000,000	471,165	20,522,170	5,032,700	15,489,470	4.08
2024		1,000,000	2,621,535	2,000,000	471,165	21,522,170	5,092,700	16,429,470	4.23

Annexure B.5 Interest rate risk

Exposure thresholds	
Total assets:	15,598,037
Govt	15,598,037
Local authority	7,799,019
Bank	5,000,000
Other	2,000,000
Sub limit:	2,313,672

Put in "Govt" if government security
Put in "Local Authority" if a local authority
Put in "Sub" if a subordinated bond

Short name	Name	Fund	Face value	Coupon	Mature	MV	Term	Credit Rating	Sub code	Yield *1	Value re-calc	Revised yield	Value yield change	Type of asset for concentration	Concentration extra %	Asset class	Asset charge factor	FX risk	Asset risk charge	Concentration risk charge
											31-Mar-18	1.75%								
NZGS	NZ Govt	Main	-	0.000%	15-Apr-15	-	<1	AA+	Govt	0.000%	-	0.000%	-	Govt	0%	AA+ <1Govt	0.50%		-	-
BNZ	Bank Term deposit	Main	300,000	3.33%	5-Jul-18	300,000	<1	A+		6.484%	300,000	8.234%	298,717	Bank	0%	A+ <1	4.00%		12,000	
BNZ	Bank Term deposit	Main	750,000	3.21%	20-Jul-18	750,000	<1	A+		5.379%	750,000	7.129%	746,255	Bank	0%	A+ <1	4.00%		30,000	
Westpac	Bank Term deposit	Main	300,000	3.27%	1-Jun-18	300,000	<1	A+		10.025%	300,000	11.775%	299,198	Bank	0%	A+ <1	4.00%		12,000	
Westpac	Bank Term deposit	Main	500,000	3.27%	13-Jun-18	500,000	<1	A+		8.334%	500,000	10.084%	498,379	Bank	0%	A+ <1	4.00%		20,000	
Westpac	Corporate Bond	Main	102,636	4.70%	9-Jan-26	102,636	1+	A		4.915%	102,636	6.665%	92,191	Bank	0%	A 1+	4.00%		4,105	
ASB	Corporate Bond	Main	104,454	5.25%	15-Dec-26	104,454	1+	A		5.546%	104,454	7.296%	93,224	Bank	0%	A 1+	4.00%		4,178	
	Russell Global Fixed Interest (hedged)																			
	Interest rate risk:	Main	409,215		31-Jul-24	409,215	1+			0.004%	409,112	1.754%	366,531							
	Credit risk:																			
Russell	AAA & Cash	36.70%				150,182	1+	AAA						Other	0%	AAA 1+	2.00%		3,004	
Russell	AA	10.50%				42,968	1+	AA						Other	0%	AA 1+	2.00%		859	
Russell	A	26.90%				110,079	1+	A						Other	0%	A 1+	4.00%		4,403	
Russell	BBB	11.30%				46,241	1+	BBB						Other	0%	BBB 1+	6.00%		2,774	
Russell	BB	6.30%				25,781	1+	BB						Other	0%	BB 1+	15.00%		3,867	
Russell	B	2.50%				10,230	1+	B						Other	0%	B 1+	15.00%		1,535	
Russell	CCC& Lower	3.00%				12,276	1+	CCC						Other	0%	CCC 1+	15.00%		1,841	
Russell	Unrated	2.80%				11,458	1+	Unrated						Other	0%	Unrated 1+	15.00%		1,719	
		100.00%																		
	Nikko Global Bond Fund (hedged)																			
	Interest rate risk:	Main	614,936		31-Oct-24	614,936	1+			0.004%	614,778	1.754%	548,390							
	Credit risk:																			
Nikko	AAA & Cash	33.83%				208,033	1+	AAA						Other	0%	AAA 1+	2.00%		4,161	
Nikko	AA	11.90%				73,177	1+	AA						Other	0%	AA 1+	2.00%		1,464	
Nikko	A	38.41%				236,197	1+	A						Other	0%	A 1+	4.00%		9,448	
Nikko	BBB	15.67%				96,360	1+	BBB						Other	0%	BBB 1+	6.00%		5,782	
Nikko	BB	0.19%				1,168	1+	BB						Other	0%	BB 1+	15.00%		175	
Nikko	B	0.00%				-	1+	B						Other	0%	B 1+	15.00%		-	
Nikko	CCC& Lower	0.00%				-	1+	CCC						Other	0%	CCC 1+	15.00%		-	
Nikko	Unrated	0.00%				-	1+	Unrated						Other	0%	Unrated 1+	15.00%		-	
		100.00%																		
			3,081,241			3,081,241					3,080,980		2,942,885						123,315	-
												Resilience:	(138,095)				Average		4.0%	
		Main				3,081,241														
		Life				-														
						3,081,241														

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