

Unison Insurance Limited
Financial statements
for the year ended 31 March 2020

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Directory

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 Omaha 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 2020

| | Notes | 2020 \$'000 | 2019 \$'000 |
|---|-------|----------------|----------------|
| Premium revenue | 4 | 808 | 788 |
| Claims expenses | 4 | - | - |
| Net underwriting result | | 808 | 788 |
| Other income | 5 | 616 | 914 |
| Operating expenses | 6 | (608) | (216) |
| Profit before income tax | | 816 | 1,486 |
| Income tax expense | 11 | (343) | (343) |
| Profit for the year | | 473 | 1,143 |
| Other comprehensive income: | | | |
| <i>Items that will not be reclassified to profit or loss:</i> | | | |
| | | - | - |
| | | - | - |
| <i>Items that may be subsequently reclassified to profit or loss:</i> | | | |
| | | - | - |
| | | - | - |
| Other comprehensive income for the year, net of tax | | - | - |
| Total comprehensive income for the year | | 473 | 1,143 |

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

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Unison Insurance Limited

Statement of financial position

As at 31 March 2020

| | Notes | 2020 \$'000 | 2019 \$'000 |
|----------------------------|-------|----------------|----------------|
| ASSETS | | | |
| Current assets | | | |
| Cash and cash equivalents | 7 | 4,237 | 1,912 |
| Other financial assets | 8 | - | 1,550 |
| Interest receivable | | - | 11 |
| Total current assets | | <u>4,237</u> | <u>3,473</u> |
| Non-current assets | | | |
| Other financial assets | 8 | <u>13,155</u> | <u>13,332</u> |
| Total non-current assets | | <u>13,155</u> | <u>13,332</u> |
| Total assets | | <u>17,392</u> | <u>16,805</u> |
| LIABILITIES | | | |
| Current liabilities | | | |
| Payables | | 29 | 16 |
| Current tax liabilities | | <u>224</u> | <u>123</u> |
| Total current liabilities | | <u>253</u> | <u>139</u> |
| Total liabilities | | <u>253</u> | <u>139</u> |
| Net assets | | <u>17,139</u> | <u>16,666</u> |
| EQUITY | | | |
| Contributed equity | | | |
| Retained earnings | 13 | 8,700 | 8,700 |
| Total equity | | <u>8,439</u> | <u>7,966</u> |
| | | <u>17,139</u> | <u>16,666</u> |

For and on behalf of the Board of Directors of Unison Insurance Limited who authorised these financial statements presented on pages 3 to 22 for issue on 17 June 2020.

Director

Director

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

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Unison Insurance Limited

Statement of changes in equity

For the year ended 31 March 2020

| | Contributed equity \$'000 | Retained earnings \$'000 | Total equity \$'000 |
|---------------------------------------|---------------------------------|--------------------------------|------------------------|
| Balance as at 1 April 2019 | <u>8,700</u> | <u>7,966</u> | <u>16,666</u> |
| Comprehensive income | | | |
| Profit or loss for the year | - | 473 | 473 |
| Other comprehensive income | | | |
| | <u>-</u> | <u>-</u> | <u>-</u> |
| Total other comprehensive income | <u>-</u> | <u>-</u> | <u>-</u> |
| Total comprehensive income | <u>-</u> | <u>473</u> | <u>473</u> |
| Balance as at 31 March 2020 | <u>8,700</u> | <u>8,439</u> | <u>17,139</u> |
| Balance as at 1 April 2018 | <u>8,700</u> | <u>6,823</u> | <u>15,523</u> |
| Comprehensive income | | | |
| Profit or loss for the year | - | 1,143 | 1,143 |
| Other comprehensive income | | | |
| | <u>-</u> | <u>-</u> | <u>-</u> |
| Total other comprehensive income | <u>-</u> | <u>-</u> | <u>-</u> |
| Total comprehensive income | <u>-</u> | <u>1,143</u> | <u>1,143</u> |
| Balance as at 31 March 2019 | <u>8,700</u> | <u>7,966</u> | <u>16,666</u> |

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

Unison Insurance Limited

Statement of cash flows

For the year ended 31 March 2020

| | Notes | 2020 \$'000 | 2019 \$'000 |
|--|-------|----------------|----------------|
| Cash flows from operating activities | | | |
| Insurance premiums | | 808 | 862 |
| Payment to suppliers & employees | | (231) | (237) |
| Income taxes paid | | (233) | (277) |
| Net cash inflow / (outflow) from operating activities | | <u>344</u> | <u>348</u> |
| Cash flows from investing activities | | | |
| Dividends received | | 164 | 129 |
| Interest received from investments | | 111 | 91 |
| Interest received from Parent | | 342 | 341 |
| Repayment of investments | | 3,768 | 5,634 |
| Purchase of investments | | (2,404) | (5,873) |
| Net cash inflow / (outflow) from investing activities | | <u>1,981</u> | <u>322</u> |
| Cash flows from financing activities | | | |
| Intercompany loan repayment | | - | - |
| Net cash inflow / (outflow) from financing activities | | <u>-</u> | <u>-</u> |
| Net increase / (decrease) in cash and cash equivalents | | 2,325 | 670 |
| Cash and cash equivalents at the beginning of the financial year | | <u>1,912</u> | <u>1,242</u> |
| Cash and cash equivalents at end of financial year | 7 | <u>4,237</u> | <u>1,912</u> |

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

| | 2020 \$'000 | 2019 \$'000 |
|--|----------------|----------------|
| Profit for the year | 473 | 1,143 |
| (Increase)/decrease in receivables | - | 74 |
| Increase/(decrease) in payables | 16 | (4) |
| Increase/(decrease) in income tax payable | 101 | 66 |
| Investment income (including Interest received, dividends and realised FX gains) | (603) | (584) |
| Fair value losses/(gains) on other financial assets at fair value through profit or loss | 357 | (347) |
| Net cash inflow from operating activities | <u>344</u> | <u>348</u> |

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

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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 Tier 1 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 accounting policies adopted in the preparation of the interim financial statements are consistent with those followed in the preparation of the Company's annual financial statements for the year ended 31 March 2019, except for the adoption of new standards effective as of 1 April 2019. The Company has not early adopted any standard, interpretation or amendment that has been issued but is not yet effective.

The Company has applied the following standards and amendments for the first time for their year end reporting period commencing 1 April 2019:

- **Annual Improvements to NZ IFRSs 2015 -2017 Cycle** (effective 1 January 2019) The Standard has been issued to make minor amendments to NZ IFRSs, including NZ IFRS 3, NZ IFRS 11, NZ IAS 12, and NZ IAS 23.
- **2017 Omnibus Amendments to NZ IFRSs** (effective 1 January 2019) The Standard has been issued to make minor amendments to NZ IFRSs, including NZ IFRS 10, and NZ IAS 28.

The adoption of the standards and amendments listed above did not have any impact on the amounts recognised in prior periods and did not significantly affect the current period.

(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:

- **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.

The IASB has tentatively agreed to defer the effective date of IFRS 17 to annual reporting periods beginning on or after 1 January 2023.

1 About this report (continued)

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

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.

(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:

| | 2020 | 2019 |
|-------------------------|---------------|--------|
| | \$'000 | \$'000 |
| Actual solvency capital | 17,139 | 16,665 |

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2 Capital adequacy (continued)

| | | |
|--------------------------|---------------|---------------|
| Minimum solvency capital | <u>4,779</u> | <u>4,921</u> |
| Solvency margin | <u>12,360</u> | <u>11,744</u> |
| Solvency ratio | <u>359 %</u> | <u>339 %</u> |

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

| | 2020 | 2019 |
|--------------------------------|-------------------|---------------|
| | \$'000 | \$'000 |
| Premium revenue | 808 | 788 |
| Outwards reinsurance premiums | <u>-</u> | <u>-</u> |
| Net premium revenue | <u>808</u> | <u>788</u> |
| Claims expense | <u>-</u> | <u>-</u> |
| Net claims incurred | <u>-</u> | <u>-</u> |
| Net underwriting result | <u>808</u> | <u>788</u> |

There were no claims in 2020. 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 2020 (2019: Nil).

Accounting policy

Premium revenue

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.

An unearned premium liability is recognised on the Statement of Financial Position for the unearned portion of the insurance premium.

5 Other income

| | 2020 \$'000 | 2019 \$'000 |
|------------------------------------|----------------|----------------|
| Interest income | 442 | 437 |
| Dividend income | 169 | 132 |
| Fair value movement on investments | - | 347 |
| Realised FX gains/(losses) | 5 | (2) |
| Total other income | 616 | 914 |

(i) Interest income

Interest income is recognised using the effective interest method.

(ii) Dividend income

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

(iii) Fair value movement on investments

Fair value income is recognised using the movement in market rate of investments as at the reporting period compared to the prior year.

6 Expenses

| | 2020 \$'000 | 2019 \$'000 |
|--|----------------|----------------|
| Audit of the annual financial statements - Audit New Zealand | 22 | 13 |
| Audit of the annual solvency return - Audit New Zealand | 6 | 6 |
| Directors fees | 17 | 17 |
| Corporate management fees | 80 | 88 |
| Other expenses | 126 | 92 |
| Fair value movement on investments | 357 | - |
| | 608 | 216 |

7 Cash and cash equivalents

| | 2020 \$'000 | 2019 \$'000 |
|---------------------------|----------------|----------------|
| Cash at bank and in hand | 2,380 | 1,621 |
| NZD Trust Account | 1,672 | 112 |
| Foreign Currency Accounts | 185 | 179 |
| | 4,237 | 1,912 |

(a) Risk exposure

The Company's exposure to interest rate risk is discussed in note 9. 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.

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.

8 Other financial assets

| | 2020 \$'000 | 2019 \$'000 |
|--------------------------|----------------|----------------|
| Current | | |
| Term deposits | - | 1,550 |
| | <u>-</u> | <u>1,550</u> |
| Non-current | | |
| Corporate bonds | 1,041 | 1,042 |
| Global Bond Funds | 789 | 782 |
| Equities | 4,625 | 4,808 |
| Related party receivable | 6,700 | 6,700 |
| | <u>13,155</u> | <u>13,332</u> |

(i) Term deposits

There were no term deposits at 31 March 2020. Term deposits at 31 March 2019 had fixed interest rates between 2.96% and 3.44% and had a remaining maturity between 37 days and 78 days.

(ii) Corporate bonds

Corporate bonds classified as other financial assets at fair value through the profit or loss had a carrying value of \$1,041,377 (31 March 2019: \$1,041,502) with interest rates of between 3.5% and 6.25% (31 March 2019: between 4.695% and 6.25%) and mature between 1 September 2026 and 15 June 2043 (31 March 2019: 9 January 2026 and 15 June 2043).

(iii) Global bonds

Global bonds classified as other financial assets at fair value through the profit or loss with a carrying value of \$789,299 (31 March 2019: \$781,799) have values of between \$1.14 and \$1.166 per unit (31 March 2019: between \$1.18 and \$1.188 per unit). Management do not intend to dispose of these within 12 months of balance date.

(iv) Equities

Equities classified as other financial assets at fair value through the profit or loss with a carrying value of \$4,624,575 (31 March 2019: \$4,807,685) have share values of between \$5.77 and \$380.11 per share (31 March 2019: between \$2.02 and \$339.49 pershare). Management do not intend to dispose of these within 12 months of balance date.

(v) 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 2019-20 financial year this equates to an interest rate of 5.09% (31 March 2019: 5.09%).

8 Other financial assets (continued)

(a) Amounts recognised in profit or loss

Changes in fair values of financial assets at fair value through profit or loss are recorded in 'Other income' or 'Operating expenses' in the statement of comprehensive income.

| | 2020 \$'000 | 2019 \$'000 |
|--|----------------|----------------|
| Fair value gains/(losses) on equity investments at fair value through profit or loss | (265) | 332 |
| Fair value gains/(losses) on debt instruments at fair value through profit or loss | (92) | 15 |
| | <u>(357)</u> | <u>347</u> |

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.

The fair value of financial instruments traded in active markets is based on quoted market prices at the balance date. The quoted market price used for financial assets held by the Company is the current bid price.

9 Financial risk management

This note explains the Company's exposure to financial risks and how these risks could affect the Company's future financial performance.

| Risk | Exposure arising from | Measurement | Management |
|--------------------------------|--|----------------------------------|---|
| Market risk - foreign exchange | Equity investments that are denominated in a currency other than New Zealand dollars | Sensitivity analysis | Investment policy limits the Company's foreign currency exposure to a maximum of 30% of the Company's investment portfolio. The Company also holds cash denominated in Australian dollar, US dollar and Euro. |
| Market risk - security prices | Investments in equity securities | Sensitivity analysis | Portfolio diversification |
| Credit risk | Cash and cash equivalents and debt investments | Aging analysis Credit ratings | Diversification of bank deposits Investment guidelines for debt investments |
| Liquidity risk | Insurance claims | Solvency status | Maintain solvency as per the Solvency Standard for Captive Insurers |

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:

| | 2020 \$'000 | 2019 \$'000 |
|------------------------------|----------------|----------------|
| Financial assets | | |
| Cash and cash equivalents | 4,237 | 1,912 |
| Term deposits | - | 1,550 |
| Receivables | - | - |
| Interest receivables | - | 11 |
| NZ equity investments | 1,345 | 1,281 |
| Offshore equity investments | 3,280 | 3,527 |
| Corporate bonds | 1,041 | 1,042 |
| Global bond funds | 789 | 782 |
| Related party receivable | 6,700 | 6,700 |
| | <u>17,392</u> | <u>16,805</u> |
| Financial liabilities | | |
| Trade and other payable | 29 | 16 |
| | <u>29</u> | <u>16</u> |

(a) Market risk

(i) Foreign exchange risk

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

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9 Financial risk management (continued)

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 30% of the Company's investment portfolio. The Company also holds cash denominated in Australian dollar, US dollar and Euro.

The Company's exposure to foreign currency risk at the reporting date was as follows:

| | Cash and cash equivalents | | Other financial assets | |
|-----|---------------------------|------------------|------------------------|------------------|
| | 2020 FC\$'000 | 2019 FC\$'000 | 2020 FC\$'000 | 2019 FC\$'000 |
| USD | 12 | 52 | 940 | 877 |
| AUD | 148 | 77 | 1,307 | 1,491 |
| EUR | 7 | 14 | 186 | 269 |

Sensitivity

The Company is mainly exposed to movements in the United States dollar (USD), Australian dollar (AUD) and Euro (EUR). The following table details the Company's sensitivity to a 5 cent (2019: 5 cent) increase and decrease in the relevant foreign currencies against the New Zealand dollar. Given the volatility of the foreign markets a 5 cent change in foreign currency exchange rates is considered a reasonably possible change. The sensitivity analysis only includes unhedged foreign currency denominated investments (including cash and cash equivalents) held at balance date and adjusts their translation at the period end for a 5 cent (2019: 5 cent) change in foreign currency exchange rates. A positive number indicates an increase in profit and equity.

| | Impact on post tax profit | |
|---|---------------------------|----------------|
| | 2020 \$'000 | 2019 \$'000 |
| USD/NZD exchange rate - strengthening NZD | (89) | (67) |
| USD/NZD exchange rate - weakening NZD | 106 | 78 |
| AUD/NZD exchange rate - strengthening NZD | (52) | (58) |
| AUD/NZD exchange rate - weakening NZD | 59 | 65 |
| EUR/NZD exchange rate - strengthening NZD | (22) | (26) |
| EUR/NZD exchange rate - weakening NZD | 26 | 30 |

(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.

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9 Financial risk management (continued)

Sensitivity

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 | |
|-------------------|---------------------------|----------------|
| | 2020 \$'000 | 2019 \$'000 |
| NZ Equities | 48 | 46 |
| Offshore Equities | 118 | 127 |

(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 2020, 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 \$15k higher/lower (31 March 2019: \$12k), 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 2019: 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 (diversity of investments includes investments in different types of financial assets, and different geographical regions).

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

| | 2020 \$'000 | 2019 \$'000 |
|--|----------------|----------------|
| Fair value through profit or loss | | |
| Counterparties with external credit rating (S&P or Moody's): | | |
| AA | 3,288 | 4,398 |
| A | 481 | 471 |
| Loan to Parent | <u>6,700</u> | <u>6,700</u> |
| | <u>10,469</u> | <u>11,569</u> |

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.

9 Financial risk management (continued)

(c) Liquidity risk

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

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

(d) Financial instruments categories and fair value hierarchy

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

The 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 2020 and 31 March 2019.

| | Level 1 \$'000 | Level 2 \$'000 | Level 3 \$'000 | Total \$'000 |
|--|-------------------|-------------------|-------------------|-----------------|
| 31 March 2020 | | | | |
| Financial assets at fair value through profit or loss | | | | |
| Cash and cash equivalents | 4,237 | - | - | 4,237 |
| Term deposits | - | - | - | - |
| Interest receivable | - | - | - | - |
| Receivables | - | - | - | - |
| Corporate bonds | 1,041 | - | - | 1,041 |
| Global bond funds | 789 | - | - | 789 |
| Equity investments | 4,625 | - | - | 4,625 |
| Loan to Parent | - | 6,700 | - | 6,700 |
| Total assets | 10,692 | 6,700 | - | 17,392 |
| 31 March 2019 | | | | |
| Financial assets at fair value through profit or loss | | | | |
| Cash and cash equivalents | 1,912 | - | - | 1,912 |
| Term deposits | - | 1,550 | - | 1,550 |
| Interest receivable | - | 11 | - | 11 |
| Receivables | - | - | - | - |
| Corporate bonds | 1,042 | - | - | 1,042 |
| Global bond funds | 782 | - | - | 782 |
| Equity investments | 4,808 | - | - | 4,808 |
| Loan to Parent | - | 6,700 | - | 6,700 |
| Total assets | 8,544 | 8,261 | - | 16,805 |

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9 Financial risk management (continued)

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

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.

(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 the Company, 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. The Company'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. The Transmission and Distribution Policy (T&D Policy) is a MDBI policy and provides limited cover for electricity and fibre network assets of the Unison Group. 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 2019/20 year the Company only wrote a Transmission & Distribution policy, and therefore no reinsurance contracts were entered into.

The attachment of risk for insurance contracts written by the Company is 1 April of each insurance period. During the month of April 2019 the following insurance contracts were written by the Company for the period 1 April 2019 to 31 March 2020:

- Transmission & Distribution policy with a gross written premium of \$807,975.

(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 the Company does not establish it.

Probability of an insurable event - the Company accepts the probabilities of the New Zealand retail insurance market.

(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.

No reinsurance was purchased during the year.

| Risk | Source of concentration | Risk management measures |
|----------------------|---|--|
| Natural catastrophes | <p>Properties concentrated in regions that are subject to:</p> <ul style="list-style-type: none"> - Earthquakes - Storm - Flood - Volcanic eruption | <p>The Company's underwriting strategy requires individual risk premiums to be differentiated in order to reflect the higher loss frequency in particular geographical areas.</p> <p>The Company has modelled aggregated risk by postcode using commercially available catastrophe models. The Company's exposure data across the portfolio encompasses all natural catastrophe risks.</p> <p>Based on the probable maximum loss per the models, the Company purchases catastrophe reinsurance cover where economically available.</p> <p>For the 2019/20 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 \$5 million deductible held by Unison Networks Limited.</p> |

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

| | | |
|-----------------------------|---|--|
| Larger than expected claims | Having a relatively high exposure to material damage and business interruption risks from the Group | <p>The Company has mitigated these risks by retaining sufficient capital within the Company to meet the costs of a large claim.</p> <p>The Company has access to all the Stakeholder data so is in a privileged and well-informed position when determining its risk acceptance policy.</p> <p>Claims for the 2019/20 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 \$5 million deductible held by Unison Networks Limited.</p> |
|-----------------------------|---|--|

(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.

(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

| | 2020 \$'000 | 2019 \$'000 |
|--|----------------|----------------|
| (a) Income tax expense | | |
| Current tax: | | |
| Current tax on profits for the year | 338 | 324 |
| Prior period current tax adjustment | 5 | 19 |
| Income tax expense | 343 | 343 |
| (b) Reconciliation of income tax expense to prima facie tax payable | | |
| Profit from continuing operations before income tax expense | 816 | 1,486 |
| Income tax @ 28% | 228 | 416 |
| Tax effects of: | | |
| • Income not subject to tax | - | (73) |
| • Expenses not deductible for tax purposes | 124 | - |
| • Prior period current tax adjustment | 5 | 19 |
| Imputation credits received | (14) | (13) |
| Other items | - | (6) |
| Income tax expense | 343 | 343 |

There is no unrecognised deferred tax.

Accounting policy

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

Current tax is the amount of income tax payable/(receivable) based on the taxable profit/(loss) for the current 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.

12 Imputation credits

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

13 Contributed equity

| | 2020 Shares | 2019 Shares | 2020 \$'000 | 2019 \$'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:

| | 2020 | 2019 |
|-------------------------|---------------|---------------|
| B Martin | 8,500 | 8,500 |
| J Palairet | 8,500 | 8,500 |
| K Sutherland (Chairman) | - | - |
| | <u>17,000</u> | <u>17,000</u> |

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:

| | 2020 \$'000 | 2019 \$'000 |
|--|----------------|----------------|
| (i) Sales of services: | | |
| • Insurance premiums charged to Parent | 808 | 788 |
| • Interest received from Parent | <u>342</u> | <u>341</u> |
| | <u>1,150</u> | <u>1,129</u> |

14 Related party transactions (continued)

| | 2020 \$'000 | 2019 \$'000 |
|--|----------------|----------------|
| <i>(ii) Purchases of services</i> | | |
| • Corporate overhead charges paid to Parent | <u>(80)</u> | <u>(88)</u> |
| | <u>(80)</u> | <u>(88)</u> |
| <i>(iii) Year-end balances arising from sales/purchases services</i> | | |
| • Amounts receivable from/(payable to) Parent | <u>-</u> | <u>-</u> |
| | <u>-</u> | <u>-</u> |
| <i>(iv) Loans to related parties</i> | | |
| • Loan receivable from/(payable to) Parent | <u>6,700</u> | <u>6,700</u> |
| | <u>6,700</u> | <u>6,700</u> |

15 Contingent Liabilities and Commitments

As at 31 March 2020 the Company had no contingent liabilities nor capital commitments (31 March 2019: \$Nil).

16 The effects of COVID-19

The COVID-19 coronavirus pandemic (COVID-19) has had a major impact on economic activity in New Zealand and around the world. On the 21st of March the Government introduced a four level alert system to deal with the COVID-19 pandemic. As the Government moved to the higher alert levels the Financial Markets Authority (FMA) advised that custody and broking services were classified as "essential services" under the Government response plan to COVID-19. As a result, UIL's brokers, JBWere experienced no disruption to services during this period. The performance for Unison Insurance Limited's investment portfolio was very typical of the performance for the period 20th February to 20th March 2020, where all portfolios experienced negative returns to varying degrees depending on their asset allocation. UIL's investment portfolio was down 0.4% for the 2019/20 financial year, however, to put this into context, performance for the period, 20th February to 20 March was down 9.6%. Since the 31st March 2020, the rebound in markets has also been reflected in UIL's performance for the start of the new financial year 2020/21, up 5.1% as at 11th June 2020, illustrating and reinforcing the importance of the UIL asset allocation framework and staying invested. The ongoing economic impact of COVID-19 will continue to reflect in market volatility over coming periods.

17 Events occurring after the reporting period

There were no subsequent events occurring after the reporting period other than the effects of COVID-19 as disclosed in note 16.

Independent Auditor's Report

To the readers of Unison Insurance Limited's financial statements for the year ended 31 March 2020

The Auditor-General is the auditor of Unison Insurance Limited (the Company). The Auditor-General has appointed me, Chantelle Gernetzky, 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 22, that comprise the statement of financial position as at 31 March 2020, 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, including a summary of significant accounting policies.

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

Basis for Opinion

We conducted 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 *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report.

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

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

Other than in our capacity as auditor we have no relationship with, or interests in, the Company.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period.

These matters were addressed in the context of our audit, and in forming our opinion. We do not provide a separate opinion on these matters.

| Key audit matter | How our procedures addressed the key audit matter |
|--|--|
| <p>Valuation of the Company's investment portfolio</p> <p>As disclosed in note 8 to the financial statements, the Company's investment portfolio is measured at fair value through profit and loss.</p> <p>Note 16 provides information about movements in fair value of the investment portfolio before and after the balance date.</p> <p>The investment portfolio comprises of New Zealand and offshore listed equities and listed bonds, and unlisted bond funds with published unit prices.</p> <p>The valuation of the investment portfolio at 31 March 2020 is considered to be a key audit matter due to:</p> <ul style="list-style-type: none"> • The investments represents a significant portion of the Company's total assets; • The volume of investments included in the investment portfolio; • The judgements applied over whether instruments are quoted in an active market; and • The possible impacts of the COVID-19 pandemic on those instruments that did not trade on 31 March 2020. <p>This was an area of significant focus in our audit and an area where significant audit effort was directed.</p> | <p>Our procedures included:</p> <ul style="list-style-type: none"> • obtaining a schedule of the Company's investments, along with their market price as at 31 March 2020 from the Company's fund manager and reconciling this to the general ledger; • obtaining the fund manager's Controls Report dated 22 November 2019 for custody services, which includes an independent assurance report on the design and operating effectiveness of controls. We read this report and assessed the appropriateness of the controls, and the impact of any exceptions in the control procedures reported. We obtained a bridging letter that there were no significant changes in internal controls during the period between the date of the Controls Report and 31 March 2020; • for a sample of investments, agreeing the last market price at 31 March 2020, and the exchange rates used for the conversion of offshore investments, to independent third party pricing sources. For these samples, we also assessed the level of trading activity and whether any significant events occurred since the last trade for those investments that did not trade on 31 March 2020; and • evaluating the appropriateness of the disclosures made in note 16 in respect of the impact of the COVID-19 pandemic on the investment portfolio. |

Other information

The directors are responsible on behalf of the Company for the other information. The other information comprises the information included on page 2, but does not include the financial statements, and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of audit opinion or assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information. In doing so, we consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on our work, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Directors' Responsibilities for the Financial Statements

The directors are responsible on behalf of the Company for the preparation and fair presentation of the financial statements in accordance with New Zealand equivalent to International Financial Reporting Standards and International Financial Reporting Standards, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

The directors' responsibilities arise from the Financial Markets Conduct Act 2013.

Auditor's Responsibilities for the Audit of the Financial Statements

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

Reasonable assurance is a high level of assurance, but 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 can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of the users taken on the basis of these 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. We also:

- 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.
- 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.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the use of the going concern basis of accounting by the 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.
- 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 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.

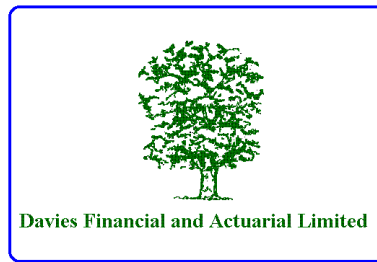
We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Our responsibilities arise from the Public Audit Act 2001.



Chantelle Gernetzky
Audit New Zealand
On behalf of the Auditor-General
Palmerston North, New Zealand
23 June 2020



12th May 2020

To: The Directors
Unison Insurance Limited

From: Peter Davies
Appointed Actuary

Re: Unison Insurance Limited (“the Company”): Report as at 31st March 2020 under Sections 77 and 78 of the Insurance (Prudential Supervision) Act 2010

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

1. I have reviewed the actuarial information included in the audited accounts for the Company as at 31st March 2020. “Actuarial information” includes the following:
 - claim provisions and unexpired risk / unearned premium provisions;
 - balance sheet and other information allowed for in the calculation of the company’s solvency position; and
 - disclosures regarding the methodology and assumptions used for calculating claim provisions, unexpired risk provisions, and other disclosures.
2. No limitations have been placed on my work.

3. I am independent with respect to the Company as defined under professional standard ISA (NZ) 620 of the External Reporting Board.
4. I have been provided with all information that I have requested in order to carry out this review.
5. In my view the actuarial information contained in the financial statements has been appropriately included, and the actuarial information used in the preparation of the financial statements has been appropriately used.
6. The Company's position as at 31st March 2020 under the RBNZ Solvency Standard for Captive Insurers Transacting Non-life Insurance Business 2014 can be summarised as follows:

| | 31 March 2020 | 31 March 2019 |
|------------------------------|------------------|------------------|
| Solvency capital: | 17,138,732 | 16,665,115 |
| Minimum capital requirement: | 4,778,531 | 4,921,445 |
| Solvency margin: | 12,360,201 | 11,743,670 |
| Solvency coverage ratio | 359% | 339% |

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

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

Yours sincerely



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