TEAL Insurance Limited

Financial Statements

For the year ended 30 June 2023

TEAL Insurance Limited
Statement of Financial Performance
For the year ended 30 June 2023

	Notes	30 June 2023 $000	30 June 2022 $000
Premium revenue	4	7,785	6,116
Reinsurance recoveries	2	10,291	-
Outwards reinsurance expense		(6,154)	(4,661)
		11,922	1,455
Claims expense	2	(15,728)	(720)
Underwriting (Deficit)/Surplus		(3,806)	735
Operating expenses	4	(125)	(120)
(Loss)/Earnings before Finance Income and Taxation		(3,931)	615
Finance income	1, 4	735	110
(Loss)/Earnings before Taxation		(3,196)	725
Taxation credit/(expense)	3	895	(203)
Net (Loss)/Profit after Taxation		(2,301)	522

The accompanying notes form part of these financial statements.

TEAL Insurance Limited
Statement of Comprehensive (Loss)/Income
For the year ended 30 June 2023

	30 June 2023 $000	30 June 2022 $000
Net (loss)/profit for the year	(2,301)	522
Total Comprehensive (Loss)/Income for the Year Attributable to Shareholders of the Parent Company	(2,301)	522

Statement of Changes in Equity
For the year ended 30 June 2023

	Share Capital $000	Retained Earnings $000	Total Equity $000
Balance as at 1 July 2022	12,500	2,496	14,996
Net loss for the year	-	(2,301)	(2,301)
Total Comprehensive Loss for the Year	-	(2,301)	(2,301)
Balance as at 30 June 2023	12,500	195	12,695
Balance as at 1 July 2021	12,500	1,974	14,474
Net profit for the year	-	522	522
Total Comprehensive Income for the Year	-	522	522
Balance as at 30 June 2022	12,500	2,496	14,996

The accompanying notes form part of these financial statements.

TEAL Insurance Limited
Statement of Financial Position
As at 30 June 2023

	Notes	30 June 2023 $000	30 June 2022 $000
Current Assets			
Cash and cash equivalents		10	1
Other receivables		15	15
Reinsurance recoveries receivable	2	10,291	-
Deferred reinsurance expenses		2,227	1,603
Income taxation		895	-
Premiums receivable from related parties	4	223	-
Owing from parent	4	8,147	6,596
		21,808	8,215
Non-Current Assets			
Investments	6	10,000	10,000
Total Assets		31,808	18,215
Current Liabilities			
Trade and other payables		7	5
Insurance contract liabilities	8	19,018	2,805
Income taxation		-	203
Premiums refundable to related parties	4	88	206
		19,113	3,219
Total Liabilities		19,113	3,219
Net Assets		12,695	14,996
Equity			
Share capital	7	12,500	12,500
Retained earnings		195	2,496
Total Equity		12,695	14,996

Director

Director

25 October 2023
Date

The accompanying notes form part of these financial statements.

TEAL Insurance Limited
Statement of Cash Flows
For the year ended 30 June 2023

	Notes	30 June 2023 $000	30 June 2022 $000
Cash Flows from Operating Activities			
Receipt of premiums		8,004	6,372
Interest received	1, 4	735	110
Payment of reinsurance premiums		(6,778)	(4,910)
Payment of claims		(75)	(630)
Payment of suppliers		(123)	(128)
Payment of taxation		(203)	(608)
Net cash flows from operating activities	5	1,560	206
Cash Flows used in Investing Activities			
Net increase in amount owing from related party		(1,551)	(206)
Net cash flows used in investing activities		(1,551)	(206)
Net cash flows from financing activities		-	-
Increase in Cash and Cash Equivalents		9	-
Cash and cash equivalents at the beginning of the year		1	1
Cash and Cash Equivalents at the End of the Year		10	1

The Air New Zealand Group has elected to settle the Company's cash flow obligations and receipt of funds through Air New Zealand Limited's (the parent) bank account. The net cash flow movement is recognised through "Net increase in amount owing from related party" above.

The accompanying notes form part of these financial statements.

Entity reporting

The financial statements presented are those of TEAL Insurance Limited (the Company). The Company's primary business is the provision of insurance services to the Air New Zealand Group.

Statutory base

The entity is a company incorporated and domiciled in New Zealand and registered under the Companies Act 1993. The Company is a FMC Reporting Entity under the Financial Markets Conduct Act 2013 and the Financial Reporting Act 2013. The registered office is located at 185 Fanshawe Street, Auckland, New Zealand.

Basis of preparation

The Company prepares its financial statements in accordance with New Zealand Generally Accepted Accounting Practice ("NZ GAAP"). NZ GAAP consists of New Zealand equivalents to International Financial Reporting Standards ("NZ IFRS") and other applicable financial reporting standards as appropriate to profit-oriented entities. These financial statements comply with NZ IFRS and International Financial Reporting Standards ("IFRS"). The Company is a profit-oriented entity.

The financial statements were authorised for issue by the directors on 25 October 2023

Basis of measurement

The financial statements have been prepared on the historical cost basis, with the exception of certain items as identified in specific accounting policies below and are presented in New Zealand Dollars which is the Company's functional currency.

Use of accounting estimates and judgements

The preparation of financial statements requires the use of certain critical accounting estimates. It also requires the directors to exercise their judgement in the process of applying the Company's accounting policies. Estimates and associated assumptions are based on historical experience and other factors, as appropriate to the particular circumstances. The Company reviews the estimates and assumptions on an ongoing basis.

Areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed below:

(a) Outstanding claims liability
A provision is made for the estimated cost of claims incurred but not yet settled at balance sheet date and claims incurred but not adequately reported, which includes expected claim payments plus associated claim handling costs. In addition a risk margin is added to reflect the inherent uncertainty in the estimate of claims. The estimate is based on external actuarial calculations. Further information is disclosed in the accounting policies under "Outstanding claims liability" and within Note 8 Insurance Contract Liabilities.

Significant accounting policies

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

The following NZ IFRSs and Interpretations, which have been issued, but are not yet effective, have not yet been adopted by the Company.

NZ IFRS 17 *Insurance Contracts* has not been adopted early. This standard provides consistent principles for all aspects of accounting for insurance contracts issued and reinsurance contracts held and becomes effective for annual periods commencing on or after 1 January 2023. The Company expects to apply the premium allocation approach and other than changes in disclosures and presentation the standard is not expected to have a material impact. Further details of the impact of the standard are included in Note 15.

Revenue recognition
Premium revenue

Premium revenue represents premiums relating to the current financial year. Premiums received which relate to the following financial year are deferred and recorded within "Unearned Premium Liability" (within "Insurance Contract Liabilities") within the Statement of Financial Position.

Investment revenue

Interest revenue from investments is recognised as it accrues, using the effective interest method where appropriate.

Outwards reinsurance

Reinsurance recoveries are recognised within revenue. Premiums ceded to reinsurers under reinsurance contracts are classified as an Outwards reinsurance expense and are recognised in profit and loss over the period of the contract. Accordingly, a portion of the outwards reinsurance premium is treated at balance date as a Deferred reinsurance expense in the Statement of Financial Position.

Claims expense

Claims expense represents payments made on claims and the movement in the outstanding claims and unexpired risk provision.

Cash Flows

Cash flows are included in the Statement of Cash Flows net of Goods and Services Tax.

Financial instruments

Financial instruments are recognised initially at fair value plus any attributable transaction costs. Subsequent to initial recognition, financial instruments are recognised as described below. The carrying value approximates fair value at balance date.

Financial assets at amortised cost:

Cash and cash equivalents

Cash and cash equivalents include cash on hand, demand deposits (other than those held with related parties that are maintained for solvency purposes), current accounts in banks net of overdrafts and other short-term highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Investments

Investments (including term deposits) are measured at amortised cost using the effective interest method, less any impairment.

Related party receivables

Amounts owing from parent are recognised at cost less any provision for expected credit losses.

Financial liabilities at amortised cost:

Trade and other payables and premiums refundable to related parties

Trade and other payables and premiums refundable to related parties are stated at cost.

Impairment of financial assets at amortised cost

Financial assets carried at amortised cost are assessed each reporting date for impairment. If there is objective evidence of impairment, the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate, where appropriate, is recognised in the Statement of Financial Performance.

Reinsurance receivables

Reinsurance recoveries receivable are discounted, where appropriate, on a basis consistent with the discounting of outstanding claim liabilities.

Insurance contract liability

Insurance contracts are defined as those containing significant insurance risk at the inception of the contract. Once a contract has been classified as an insurance contract, it remains an insurance contract for the remainder of its lifetime, even if the insurance risk significantly reduces during the period. The directors have determined that all policies issued to other members of the Air New Zealand Group are insurance contracts.

Outstanding claims liability

Insurance contract liabilities include a provision for outstanding claims measured as the central estimate of the present value of the expected future payments for claims incurred but not reported and claims reported but not yet paid plus associated claim handling costs. In addition a risk margin is added to reflect the inherent uncertainty in the estimate of claims.

Unearned premium liability

Unearned premium liability relates to premiums received for risks that have not yet expired and are recognised in the Statement of Financial Position. Unearned premiums are released to the Statement of Financial Performance within premium revenue over the period to the next premium due date.

Liability adequacy test

A liability adequacy test is performed to assess whether there is any deficiency in the unearned premium liability arising from expected claims and administration costs during the period covered by the unearned premium liability. The present value of the expected future cash flows relating to future claims is calculated. In addition a risk margin is added to reflect the inherent uncertainty in estimating the claims. The total is compared to the unearned premium liability and any deficiency is recognised in the Statement of Financial Position as part of Insurance contract liabilities (within "Unearned premium liability").

Taxation

The income taxation expense for the period is the taxation payable on the current period’s taxable income at tax rates enacted or substantively enacted at reporting date. Income taxation expense is recognised in the Statement of Financial Performance.

1 (Loss)/Earnings Before Taxation

	30 June 2023 $000	30 June 2022 $000
Finance income includes:		
Interest income	735	110
	735	110

Audit fees were met by the ultimate parent company, Air New Zealand Limited.

2 Claims Expense

	30 June 2023 $000	30 June 2022 $000
Claims expense relating to risks borne in the current financial year	15,575	88
Claims expense relating to risks borne in the previous financial year	122	625
Movement in risk margin	31	7
Claims expense	15,728	720

Claim costs of $15,728k were recognised for the year ended 30 June 2023 (30 June 2022: $720k). The Company provides cross class insurance to the Air New Zealand Group. On 27 January 2023, Air New Zealand facilities sustained damage as a result of flooding during a weather event in the Auckland region. The Company has confirmed the loss is an insured event. The Company has engaged a loss adjuster to determine the amount of the loss. The claim is estimated to be $15.3 million. Losses in excess of $5 milion are reinsured by the Company with a third-party insurer who has been notified of the loss. The Company holds sufficient capital to ensure a minimum solvency requirements are meet.

Claims are predominantly short-term in nature and settled within twelve months of being incurred, therefore no discounting has been applied.

3 Taxation Credit/(Expense)

	30 June 2023 $000	30 June 2022 $000
Current taxation credit/(expense)		
Current year	895	(203)
Total taxation credit/(expense) recognised in earnings	895	(203)
Reconciliation of effective tax rate		
(Loss)/earnings before taxation	(3,196)	725
Taxation at 28%	895	(203)
Taxation credit/(expense)	895	(203)

The Company is a member of the Air New Zealand consolidated Group for income tax purposes and does not separately record entries into its imputation credit account. All consolidated Group entries are recognised in the Air New Zealand Limited imputation credit account.

4 Related Parties

The following disclosure is made with regard to related parties:

Related Party:	*Relationship:*	*Nature of relationship*
Air New Zealand Limited	Parent	Provision of support and administration services, insurance services
Air Nelson Limited	Group Company	Provision of insurance services
Air New Zealand Regional Maintenance Limited	Group Company	Provision of insurance services
Mount Cook Airline Limited	Group Company	Provision of insurance services

All members of the Air New Zealand Group are considered to be related parties.

Transactions between the Company and its related parties:

During the year the Company issued insurance policies to other members of the Air New Zealand Group.

4 Related Parties (Continued)

Parent

There have been the following transactions between the Company and its parent:

	30 June 2023 $000	30 June 2022 $000
Premium revenue	7,688	6,038
Interest income	735	110
Finance and insurance advisory services expense (included in "Operating expenses")	(85)	(85)

Amounts advanced to the Parent by the Company are unsecured, repayable on demand and bear interest at the 30 day bank bill rate. Interest rates during the year ranged from 2.39 percent to 5.60 percent per annum (30 June 2022: 0.26 percent to 2.39 percent per annum).

Unearned premiums from the Parent as at 30 June 2023 were $2,492k (30 June 2022: $1,941k).

Air New Zealand Limited makes taxation payments and receives taxation refunds on the Company's behalf with related party transfers being made as required.

There were $223k premiums receivable from the Parent as at 30 June 2023 (30 June 2022: Nil).

There were premiums refundable to the Parent of $88k as at 30 June 2023 (30 June 2022: $206k).

Other Air New Zealand Group related parties

Transactions between the Company and fellow Air New Zealand Group subsidiaries were as follows:

	30 June 2023 $000	30 June 2022 $000
Premium revenue	97	78

Unearned premiums from Air New Zealand Regional Maintenance Limited as at 30 June 2023 were $33k (30 June 2022: $24k from Air New Zealand Regional Maintenance Limited).

Key Management Personnel

A related party to Hannah Ringland (director and executive), Murray Snell (husband), is an executive of Aon New Zealand. During the year, Aon New Zealand provided insurance brokering services to the Company. There were no amounts outstanding as at 30 June 2023 (30 June 2022: Nil). Air New Zealand Limited pays service fees to Aon New Zealand which incorporates brokering services provided to the Company.

Other significant transactions and balances are separately disclosed within these financial statements.

5 Notes to the Statement of Cash Flows

	30 June 2023 $000	30 June 2022 $000
Reconciliation of Net (Loss)/Profit Attributable to Shareholders to Net Cash from Operating Activities:		
Net (loss)/profit attributable to shareholders	(2,301)	522
Net working capital movements:		
Assets	(11,256)	(185)
Liabilities	15,117	(131)
	3,861	(316)
Net Cash Flow from Operating Activities	1,560	206

6 Investments

	30 June 2023 $000	30 June 2022 $000
Term deposit held with Air New Zealand Limited	10,000	10,000
Total investments	10,000	10,000

The interest rate on the intercompany deposit is based on the 30 day bank bill rate. The intercompany deposit is repayable upon demand however is considered to be non-current in nature as it is maintained to ensure appropriate long-term liquidity after considering the maximum aggregate claims loss limit.

7 Share Capital

	30 June 2023 $000	30 June 2022 $000
Authorised, Issued and Fully Paid in Capital		
Ordinary Shares		
Balance at beginning of the year	12,500	12,500
Balance at end of the year	12,500	12,500

Number of Ordinary Shares on issue	**30 June 2023**	**30 June 2022**
Balance at beginning of the year	125	125
Balance at end of the year	125	125

Changes to the New Zealand Companies law in 1993 abolished the par value concept in relation to share capital. Therefore issued shares do not have a par value.

Rights

On a show of hands or by a vote of voices each holder of Ordinary Shares has one vote. On a poll, each holder of Ordinary Shares has one vote for each fully paid share. All Ordinary Shares carry equal rights to dividends and equal distribution rights on wind up.

8 Insurance Contract Liabilities

	30 June 2023 $000	30 June 2022 $000
Outstanding claims liability	16,493	840
Unearned premium liability (gross)	2,525	1,965
	19,018	2,805

Claims are predominantly short term in nature and settled within twelve months of being incurred.

Outstanding claims liability

	30 June 2023 $000	30 June 2022 $000
Balance at the beginning of the year	840	749
Amounts provided during the year	15,673	700
Amounts utilised during the year	(51)	(616)
Movement in risk margin	31	7
Balance at the end of the year	16,493	840

	30 June 2023 $000	30 June 2022 $000
Outstanding claims liability comprises:		
Central estimate of future payments for claims incurred (including costs)	16,413	791
Risk margin	80	49
Balance at the end of the year	16,493	840

8 Insurance Contract Liabilities (Continued)

The outstanding claims liability includes an allowance for claims incurred but not reported, unpaid reported claims and costs associated with paying claims. A risk margin has been added to reflect the inherent uncertainties in the provision surrounding such claims. The liability has been calculated using historical experience to determine the pattern of claims development.

Estimates of the outstanding claims as at 30 June 2023 have been carried out by Peter Davies B Bus Sc, a Fellow of the Institute of Actuaries. The outstanding claims liability has been calculated in compliance with the requirements of NZ IFRS 4: Insurance Contracts and the New Zealand Society of Actuaries. The actuary was satisfied as to the nature, sufficiency and accuracy of the data used to determine the outstanding claims.

The effective date for the outstanding claims liability contained within the actuarial report was for 31 May 2023. No qualifications were contained within the report. There were no material claims adjustments required between the amount contained in the actuarial report to that reported in the financial statements as at 30 June 2023.

The assumptions applied in determining the liability were as follows:

- the total number of late notified personal accident claims was on average two claims (30 June 2022: one claim).
- the average value of late notified personal accident claims was $6,500 (30 June 2022: $6,500).
- an allowance of 25% was incorporated for the maximum benefit level of loss of licence claims for notified claims where the Company's liability for future payments is uncertain (30 June 2022: 25%).
- the future inflation allowance was nil within 12 months of being incurred
- claims management fees of $42.5k were incorporated for medical and cross class claims (30 June 2022: $42.5k)
- a risk margin of 15% has been applied as at 30 June 2023 other than to the cross class claim in relation to the Auckland flooding event and loss of licence claims where the maximum benefit level of a claim is fully provided for (30 June 2022: 15%).
- discount rate of nil as claims are on average paid out within 12 months of being incurred

The risk margin of 15% was determined with the objective of achieving a 75% probability of sufficiency of the outstanding claims provision.

Unearned premium liability

	30 June 2023 $000	**30 June 2022 $000**
Balance at the beginning of the year	1,965	1,782
Premiums written during the year	8,004	6,372
Premiums earned during the year	(7,785)	(6,116)
Premiums accrued during the year	341	(73)
Balance at the end of the year	2,525	1,965

A liability adequacy test was performed to determine whether recognised unearned premium liabilities were adequate, using current estimates of future cash flows under insurance contracts (including claims handling costs of 10%), to cover the present value of the expected future cash flows arising from obligations under insurance contracts. A risk margin of 30% of the present value of expected future cash flows was applied based on an analysis of historical claims experience. The risk margin is expected to provide 75% probability of sufficiency. Expected future payments were not discounted due to the short term nature of payments. The future inflation allowance was deemed to be nil.

	30 June 2023 $000	**30 June 2022 $000**
Liability adequacy test included:		
Unearned premium liability	2,525	1,965
Central estimate of future cash flows on future claims	(1,666)	(1,081)
Risk margin	(500)	(324)
Liability adequacy test surplus	359	560

The carrying amount of insurance liabilities was found to be adequate in light of estimated future cash flows, and therefore no additional risk liability was required.

9 Reinsurance

The Company structures its reinsurance programme based on certain individual risks to which the Air New Zealand Group business is exposed. The Company utilises the information systems which provide up to date reliable information, on the risks to which the business is exposed. An actuary is engaged to model the projected losses of each line of business. These projections are used in the determination of reinsurance limits purchased.

Reinsurers are required to have a Standard & Poors rating of A- or higher. Reinsurance policies purchased are reviewed by independent third parties to ensure that they are appropriate.

The management and the Board of the Company utilise all of the information above to ensure that the reinsurance programme is structured to provide protection for the business to the risks it is exposed to.

The likelihood of claims volatility or catastrophe is considered to be low in frequency but potentially high in value. The risk is minimised by the purchase of reinsurance. Geographically the assets are considered to be adequately spread.

Reinsurance cover is bought in excess of $1 million for liability and fidelity guarantee risks and $5 million for property and business interruption with an overall aggregate of $10 million applying over the aforementioned risks. Reinsurance cover is bought in excess of $300,000 for any one loss for personal accident and medical risks. From September 2021 the Company bought reinsurance to cover all losses on Cyber risks.

10 Financial Risk Management

The financial performance and operations of the Company are affected by a number of key risks including insurance risk, liquidity risk, credit risk and market risk. These risks are managed using a set of policies approved by either the Company's Board of Directors or the Parent's Board of Directors. Compliance with these policies is reviewed and reported to the Board.

Insurance risk

The Company assumes insurance risk through its general insurance activities. The risk is the possibility that the insured event occurs and the uncertainty of the amount of the resulting claim. The risk is random and unpredictable. The key risk arises in respect of claims costs varying from what was assumed in the setting of premium rates.

Risk management objectives, policies and processes for managing insurance risk

The primary objective in managing risk is, to enhance the financial performance of the Company and the Air New Zealand Group, to reduce the magnitude and volatility of claims, and to ensure funds are available to pay claims and maintain the solvency of the business if there is a negative deviation from historical experience.

Policies, processes and methods for managing insurance risk are as follows:

- a Risk Tolerance policy is in place to ensure minimum capital requirements are maintained, to protect the capital base of the Company and to provide benchmarks for risk acceptance.
- the use of reinsurance policies to limit the Company's exposure.
- pricing of policy premiums to ensure alignment with underlying risk.
- regular monitoring of the financial results to ensure the adequacy of policies.

Sensitivity to insurance risk

The financial results of the Company are primarily affected by the level of claims incurred relative to that implicit in the premiums. The assumptions used in the valuation of the outstanding claims liability and the liability adequacy test (refer to Note 8) directly affect the level of estimated claims incurred.

The scope of insurance risk is managed by the terms and conditions of the policy. The level of benefits specified in the contract is a key determinant of the amount of future claims although the exact level of claims is uncertain. Other variables affecting the levels of claims include the nature of medical treatment given or maintenance work required, the geographical location of the incident and the cost of the treatment or repair work.

10 Financial Risk Management (Continued)

Earnings are sensitive to changes in the net cost of claims. Sensitivity to a reasonably possible change in the claim cost with all other variables being held constant, is set out below:

	30 June 2023	30 June 2022
	$000	$000
Claim amount		
Increase/(decrease) in profit before taxation:		
Increase of net claim amount by 15% (30 June 2022: 15%)	(816)	108
Decrease of net claim amount by 15% (30 June 2022: 15%)	816	108

Concentrations of insurance risk

Management defines concentration of risk by insurance business and geographical region. The Company provides personal accident, loss of licence, cyber and property and business interruption cover to the Air New Zealand Group, primarily in New Zealand. From September 2022, the Company also provided enviromental cover in the United States of America to the Parent. Concentration of risk by type of insurance and geographical region cannot be avoided. Risk arises from large property losses affecting one or more properties, as well as accidents affecting multiple persons. Insurance risks related to personal accident cover is considered to be well diversified with claim costs spread amongst many different types of medical events. Reinsurance cover is taken out to cover all cross class insured losses with an overall aggregate loss limit of $10 million applying in any one year.

Credit risk

Credit risk is the potential loss from a transaction in the event of default by a counterparty during the term of the transaction or on settlement of the transaction. The Company incurs credit risk from insurance transactions with reinsurers and other members of the Air New Zealand Group, and from financial institutions and other receivables in the normal course of business. The maximum exposure to credit risk is represented by the carrying value of financial assets. The Company has a a concentration of credit risk with related party receivables and investments held with the Parent.

The Company places cash and short term deposits with the parent company or with good credit quality counterparties, having a minimum Standard & Poors credit rating of A-. Under the Companies Credit Policy reinsurers are required to have a Standard & Poors rating of A- or higher. The Company is bound by an investment grade mandate approved by the Board whereby a proportion of the assets are to be approved assets, credit exposures are to be limited to single or limited counter parties and creditworthiness of the counterparties are actively monitored. There were no amounts which were considered to be past due or impaired, or whose terms have been renegotiated as at 30 June 2023 (30 June 2022: Nil). The Company does not require collateral or other security to support financial instruments with credit risk.

Liquidity risk

Liquidity risk is the risk that the Company will be unable to meet its obligations as they fall due.

Liquidity risk is managed through:

- the Company holding significant deposits with the Parent to enable it to meet its liabilities as they fall due to protect the entity from unanticipated external factors or events;
- restricting losses through the use of appropriate retentions as governed by Risk Tolerance policy; and
- regular Board review of liquidity positions including an assessment of cash flow projections and estimated claims payout trends being used to predict longer term liquidity positions

Amounts payable to the parent are settled on-demand. Trade payables are due within 12 months of balance date.

Market risk
Foreign exchange risk

Foreign exchange risk is the risk of loss arising from adverse fluctuations in exchange rates.

The Company's exposure to foreign exchange risk arises from settlement of claim expenses on personal accident policies. All reinsurance policies are purchased in New Zealand dollars, irrespective of where the reinsurer is domiciled. Given that the foreign exchange risk is minimal, the Company does not enter into any derivative contracts to manage this risk. As at balance date there were no foreign currency amounts owing or receivable (30 June 2022: Nil).

10 Financial Risk Management (Continued)

Interest rate risk

Interest rate risk is the risk of loss to the Company arising from adverse fluctuations in interest rates.

The Company has exposure to interest rate risk as a result of its interest bearing investments. The Board regularly reviews the investment strategy of the Company in accordance with Air New Zealand Group policies and those outlined within the Company's Corporate Governance Framework. Interest bearing investments were fixed for approximately 30 days.

Capital risk management

The Company's objectives when managing capital is to safeguard the Company's ability to continue as a going concern and to continue to generate shareholder value and benefits for its Parent, and to provide an acceptable return for the Air New Zealand Group by removing complexity, reducing costs and pricing services commensurately with the level of risk. The Company is subject to externally imposed capital requirements under the Insurance (Prudential Supervision) Act 2010 (refer to Note 14).

The Company's capital structure is managed in the light of economic conditions and the risk characteristics of the underlying assets. The capital management policies and guidelines are regularly reviewed by the Board of Directors.

11 Capital Commitments

There were no capital commitments at 30 June 2023 (30 June 2022: Nil).

12 Contingent Liabilities

There were no contingent liabilities at 30 June 2023 (30 June 2022: Nil).

13 Credit Rating

TEAL Insurance Limited is not required to hold a credit rating. Air New Zealand Limited, the Company's ultimate parent, obtained a Baa2 long term issuer rating from Moody's Investor Services on 3 July 2015 which was reaffirmed on 31 March 2022.

14 Solvency and Capital Adequacy

On 29 May 2013 the Company was issued a full licence to carry on insurance in New Zealand under the Insurance (Prudential Supervision) Act 2010 (Act). Under the Act the Reserve Bank of New Zealand (RBNZ) imposes solvency margin requirements on the Company. Under the capital management policies the Directors regularly review capital adequacy in line with the solvency requirements issued by the RBNZ. Actual solvency capital is calculated in accordance with the "Solvency Standard for Captive Insurers Transacting Non-life Insurance Business" issued by the RBNZ. The Company has complied with the minimum solvency margin requirements at all times during the year.

On 20 April 2023 the RBNZ advised the Company that it intended to modify the Company's licence conditions issued on 29 May 2012 as well as amend existing notices issued to the Company under the Act. The amendments arose from changes to the New Zealand accounting standard for insurance businesses and related updates to solvency standards and insurer data reporting. The modified conditions and amended notices were effective for the Company from 1 July 2023.

As at 30 June 2023 and 30 June 2022, the Directors consider the current level of reserves is sufficient for the requirements of maintaining financial soundness, after giving consideration to the level of reinsurance cover held by the Company.

	30 June 2023 $000	**30 June 2022 $000**
Actual Solvency Capital	12,695	14,996
Minimum Solvency Capital	5,739	4,743
Solvency Margin	6,956	10,253
Solvency Ratio	221.2%	316.2%

15 Impact of New Accounting Standards

The following NZ IFRSs and Interpretations, which have been issued, but are not yet effective, have not yet been adopted by the Company.

NZ IFRS 17 *Insurance Contracts* will be adopted by the Company with effect from 1 July 2023. The standard will not have a significant impact on the financial statements other than presentation and additional disclosures. The standard will be applied on a fully retrospective basis resulting in a change in the presentation of the Statement of Financial Position as at 1 July 2022 and 30 June 2023 and the Statement of Financial Performance for the year ended 30 June 2023.

The nature of the changes in the Company's accounting policies is summarised below:

- Under NZ IFRS 17, the Company’s insurance contracts issued and reinsurance contracts held are all eligible to be measured by applying the Premium Allocation Approach ('PAA'). The measurement principles of the PAA differ from the ‘earned premium approach’ used by the Company under NZ IFRS 4. However, these differences will not have an impact on the measurement of the insurance contract liability and reinsurance contract asset. The Company will apply the elections available under the PAA.

- For presentation in the Statement of Financial Position, the Company aggregates insurance contracts issued and reinsurance contracts held, respectively and presents separately portfolios of insurance contracts issued that are assets, portfolios of insurance contracts issued that are liabilities, portfolios of reinsurance contracts held that are assets, and portfolios of reinsurance contracts held that are liabilities. The portfolios are those established at initial recognition in accordance with the NZ IFRS 17 requirements.

- Line item descriptions in the Statement of Financial Performance will be revised to align to categorisations required under NZ IFRS 17.

- On adoption of NZ IFRS 17, the Company will provide disaggregated qualitative and quantitative information about amounts recognised in its financial statements from insurance contracts as well as significant judgements, and changes in those judgements, when applying the standard.

The expected impact of the changes on the Statement of Financial Position upon adoption, when retrospectively applied, is set out below. There is no impact on retained earnings as at 1 July 2022 or 30 June 2023.

Statement of Financial Position As at			**Impact of changes in accounting policies**			
	Prior to application of NZ IFRS 17	**NZ IFRS 17 application**	**After application of NZ IFRS 17**	**Prior to application of NZ IFRS 17**	**NZ IFRS 17 application**	**After application of NZ IFRS 17**
	1 July 2022 $000	**1 July 2022 $000**	**1 July 2022 $000**	**30 June 2023 $000**	**30 June 2023 $000**	**30 June 2023 $000**
Current Assets						
Other receivables	15	(6)	9	15	(6)	9
Reinsurance recoveries receivable	-	-	-	10,291	(10,291)	-
Deferred reinsurance expenses	1,603	(1,603)	-	2,227	(2,227)	-
Reinsurance contract assets	-	1,609	1,609	-	12,524	12,524
Total Current Assets	8,215	-	8,215	21,808	-	21,808
Total Assets	18,215	-	18,215	31,808	-	31,808
Current Liabilities						
Trade and other payables	5	(5)	-	7	(7)	-
Insurance contract liabilities	2,805	211	3,016	19,018	95	22,129
Premiums refundable to related parties	206	(206)	-	88	(88)	-
Total Current Liabilities	3,219	-	3,219	19,113	-	19,113
Total Liabilities	3,219	-	3,219	19,113	-	19,113
Retained earnings	2,496	-	2,496	195	-	195

15 Impact of New Accounting Standards (Continued)

The expected impact of the changes on the Statement of Financial Performance for the year ended 30 June 2023 is set out below. There is no net impact on earnings from the change in presentation.

Statement of Financial Performance For the year ended 30 June 2023	Impact of changes in accounting policies		
	Prior to application of NZ IFRS 17 $000	NZ IFRS 17 application $000	After application of NZ IFRS 17 $000
Premium revenue	7,785	(7,785)	-
Insurance revenue	-	7,785	7,785
Insurance service expenses	-	(15,853)	(15,853)
Net claims expense	(15,728)	15,728	-
Operating expenses	(125)	125	-
(Loss)/Earnings before Taxation	(3,196)	-	(3,196)

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Independent Auditor's Report

To the Shareholder of TEAL Insurance Limited

Auditor-General

The Auditor-General is the auditor of TEAL Insurance Limited (the 'Company'). The Auditor-General has appointed me, Bennie Greyling, using the staff and resources of Deloitte Limited, to carry out the audit of the financial statements of the Company on his behalf.

Opinion

We have audited the financial statements of TEAL Insurance Limited (the 'Company'), on pages 3 to 18, which comprise the Statement of Financial Position as at 30 June 2023, and the Statement of Financial Performance, Statement of Comprehensive Income, Statement of Changes in Equity and Statement of Cash Flows for the year then ended, and 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 30 June 2023, and its financial performance and cash flows for the year then ended in accordance with New Zealand Equivalents to International Financial Reporting Standards ('NZ IFRS') and International Financial Reporting Standards ('IFRS').

Basis for opinion

We conducted our audit in accordance with 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 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: International 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.

In addition to the audit we have carried out a reasonable assurance engagement over the Company's annual solvency return to the Reserve Bank of New Zealand, which is compatible with those independence requirements. Other than the audit of the Company's financial statements and assurance engagement for the annual solvency return, we have no relationship with, or interests in the Company.

Key audit matters

We have determined that there are no key audit matters to communicate in our report.

Other information

The directors are responsible on behalf of the Company for the other information. The other information comprises the information that accompanies the financial statements and the audit report.

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

Our responsibility is to read the other information and consider whether it is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If so, we are required to report that fact. We have nothing to report in this regard.

Board of Directors' responsibilities for the financial statements

The Board of Directors is responsible on behalf of the Company for the preparation of financial statements in accordance with New Zealand Equivalents to International Financial Reporting Standards and International Financial Reporting Standards and for such internal control as the Board of Directors determines 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 Board of Directors is 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 Board of Directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

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

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Auditor's responsibilities for the audit of the financial statements

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

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with 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 shareholders taken on the basis of these financial statements.

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

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

- We identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- We obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- We evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors.
- We conclude on the appropriateness of the use of the going concern basis of accounting by the Board of Directors and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- We evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and 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 Board of 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.

Bennie Greyling
for Deloitte Limited
On behalf of the Auditor-General
Auckland, New Zealand
25 October 2023

Davies Financial and Actuarial Limited

24th October 2023

To: The Directors
TEAL Insurance Limited

From: Peter Davies
Appointed Actuary

Re: TEAL Insurance Limited: Report as at 30th June 2023 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 TEAL Insurance Limited as at 30th June 2023. "Actuarial information" includes the following:

   - claim provisions and unexpired risk / unearned premium provisions;
   - solvency calculations in terms of the RBNZ Solvency Standard;
   - balance sheet and other information allowed for in the calculation of the company's solvency position; and
   - disclosures regarding the methodology and assumptions used for calculating claim provisions, unexpired risk provisions, and other disclosures.

2. No limitations have been placed on my work.

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3. I am independent with respect to TEAL Insurance Limited 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. TEAL Insurance Limited met the minimum solvency margin requirement of the RBNZ solvency standard for Captives writing Non-life Insurance 2014, as at 30th June 2023, and is expected to meet this requirement at all times over the next four years.

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

Yours sincerely

Peter

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