Unison Insurance Limited
Financial statements
for the year ended 31 March 2023

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Principal business

Unison Insurance Limited's principal activity is to act as a captive insurance company. The Company insures certain transmission and distribution assets of Unison Networks Limited, and the fibre optic network of Unison Fibre Limited. From time to time the Company also provides material damage and business interruption cover for the Unison Group. All insurance activity between the Company and the Unison Group are transacted via the Company's parent . Where required, the Company obtains reinsurance for the material damage and business interruption cover in the wholesale insurance market.

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

Directors

Ken Sutherland
Brian Martin
John Palairet

Registered office

1101 Omahu Road
Hastings
New Zealand

Auditor

Audit New Zealand, on behalf of the Auditor-General

Unison Insurance Limited

Statement of comprehensive income

For the year ended 31 March 2023

	Notes	**2023 $'000**	2022 $'000
Premium revenue	4	**825**	908
Claims expenses	4	**-**	-
Net underwriting result		**825**	908
Other income	5	**668**	744
Operating expenses	6	**(442)**	(267)
Profit before income tax		**1,051**	1,385
Income tax expense	12	**(342)**	(336)
Profit for the year		**709**	1,049
Other comprehensive income:			
Items that will not be reclassified to profit or loss:			
		-	-
		-	-
Items that may be subsequently reclassified to profit or loss:			
		-	-
		-	-
Other comprehensive income for the year, net of tax		**-**	-
Total comprehensive income for the year		**709**	1,049

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

Statement of financial position

As at 31 March 2023

	Notes	**2023 $'000**	2022 $'000
ASSETS			
Current assets			
Cash and cash equivalents	7	**605**	4,989
Receivables	9	**36**	47
Other financial assets	8	**2,500**	-
Investments	8	**-**	-
Total current assets		**3,141**	5,036
Non-current assets			
Other financial assets	8	**18,507**	16,421
Total non-current assets		**18,507**	16,421
Total assets		**21,648**	21,457
LIABILITIES			
Current liabilities			
Payables		**46**	55
Current tax liabilities		**124**	633
Total current liabilities		**170**	688
Total liabilities		**170**	688
Net assets		**21,478**	20,769
EQUITY			
Contributed equity	14	**8,700**	8,700
Retained earnings		**12,778**	12,069
Total equity		**21,478**	20,769

The Board of Directors of Unison Insurance Limited authorised these financial statements presented on pages 3 to 22 for issue on 30 June 2023.

Director

Director

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

Unison Insurance Limited

Statement of changes in equity

For the year ended 31 March 2023

	Contributed equity $'000	Retained earnings $'000	Total equity $'000
Balance as at 1 April 2022	8,700	12,069	20,769
Comprehensive income			
Profit or loss for the year	-	709	709
Other comprehensive income			
	-	-	-
Total other comprehensive income	-	-	-
Total comprehensive income	-	709	709
Balance as at 31 March 2023	8,700	12,778	21,478
Balance as at 1 April 2021	8,700	11,020	19,720
Comprehensive income			
Profit or loss for the year	-	1,049	1,049
Other comprehensive income			
	-	-	-
Total other comprehensive income	-	-	-
Total comprehensive income	-	1,049	1,049
Balance as at 31 March 2022	8,700	12,069	20,769

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 2023

	Notes	**2023 $'000**	2022 $'000
Cash flows from operating activities			
Insurance premiums		**866**	866
Payment to suppliers & employees		**(292)**	(263)
Income taxes paid		**(846)**	(109)
Net cash inflow / (outflow) from operating activities		**(272)**	494
Cash flows from investing activities			
Dividends received		**225**	186
Interest received from investments		**121**	44
Interest received from Parent		**283**	231
Repayment of investments		**2,043**	2,006
Purchase of investments		**(6,784)**	(1,949)
Net cash inflow / (outflow) from investing activities		**(4,112)**	518
Net increase / (decrease) in cash and cash equivalents		**(4,384)**	1,012
Cash and cash equivalents at the beginning of the financial year		**4,989**	3,977
Cash and cash equivalents at end of financial year	7	**605**	4,989

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

	2023 $'000	2022 $'000
Profit for the year	**709**	1,049
(Increase)/decrease in receivables	**47**	(47)
Increase/(decrease) in payables	**(8)**	9
Increase/(decrease) in income tax payable	**(509)**	215
Investment income (including Interest received, dividends and realised FX gains)	**(669)**	(456)
Fair value losses/(gains) on other financial assets at fair value through profit or loss	**158**	(276)
Net cash inflow from operating activities	**(272)**	494

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

1 About this report

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

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

(a) Basis of preparation

The financial statements of the Company have been prepared in accordance with generally accepted accounting practice (GAAP). They comply with New Zealand equivalents to International Financial Reporting Standards (NZ IFRS), and other applicable New Zealand Reporting Standards, as appropriate to 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 FMC reporting entity for the purpose of the Financial Markets Conduct Act 2013 as it is a licensed insurer. Therefore these financial statements have been prepared in accordance with the requirements of the Financial Markets 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) 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** has not been adopted early. This standard provides consistent principles for all aspects of accounting for insurance contracts 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 disclosure the standard is not expected to have a material impact.
- **NZ IAS 1 Presentation of Financial Statements -** (effective 1 January 2023). The amendments to NZ IAS 1 require entities to disclose their material accounting policy information rather than their significant accounting policies. The amendments aim to improve the relevance of the information in the financial statements by helping an entity to:
  • identify and disclose accounting policy information that is material to users of financial statements; and
  • remove immaterial accounting policy information that might obscure material accounting policy information.

  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.

(d) 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 11 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.

1 About this report (continued)

(d) Critical judgements and estimations in applying accounting policies (continued)

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.

(e) 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.

(f) 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:

	2023 $'000	2022 $'000
Actual solvency capital	**21,478**	20,769
Minimum solvency capital	**7,177**	6,637
Solvency margin	**14,301**	14,132
Solvency ratio	**299 %**	313 %

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

	2023 $'000	2022 $'000
Premium revenue	**825**	908
Outwards reinsurance premiums	**-**	-
Net premium revenue	**825**	908
Claims expense	**-**	-
Net claims incurred	**-**	-
Net underwriting result	**825**	908

There were no claims in 2023. 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 2023 (2022: 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

	2023 $'000	2022 $'000
Interest income	**440**	284
Dividend income	**225**	186
Fair value movement on investments	**-**	276
Realised FX gains / (loss)	**3**	(2)
Total other income	**668**	744

(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 investment*s

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

	2023 $'000	2022 $'000
Audit of the annual financial statements - Audit New Zealand	**30**	25
Audit of the annual solvency return - Audit New Zealand	**7**	6
Directors fees	**18**	18
Corporate management fees	**88**	82
Other expenses	**141**	136
Fair value movement on investments	**158**	-
	442	267

7 Cash and cash equivalents

	2023 $'000	2022 $'000
Cash at bank and in hand	**450**	4,045
NZD Trust Account	**116**	719
Foreign Currency Accounts	**39**	225
	605	4,989

(a) Risk exposure

The Company's exposure to interest rate and currency risk is discussed in note 10. 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

	2023 $'000	2022 $'000
Current		
Term deposits	**2,500**	-

	2023 $'000	2022 $'000
Non-current		
Corporate bonds	**1,600**	808
Global Bond Funds	**1,034**	960
Equities	**9,173**	7,953
Term deposits	**-**	-
Related party receivable	**6,700**	6,700
	18,507	16,421

(i) Term deposits

Term deposits classified as other financial assets had a carrying value of $2,500,000 (31 March 2022: nil) with interest rates of between 4.07% and 5.7% and mature between 29 June 2023 and 27 March 2024.

(ii) Corporate bonds

Corporate bonds classified as other financial assets at fair value through profit or loss had a carrying value of $1,600,097 (31 March 2022: $807,602) with interest rates of between 3.696% and 6.19% (31 March 2022: between 3.00% and 4.85%) and mature between 16 February 2027 and 19 November 2051 (31 March 2022: 16 February 2027 and 19 November 2051).

(iii) Global bonds

Global bonds classified as other financial assets at fair value through profit or loss with a carrying value of $1,034,243 (31 March 2022: $959,520) have values of between $0.90 and $41.23 per unit (31 March 2022: between $1.04 and $44.23 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 $9,172,917 (31 March 2022: $7,952,730) have share values of between $4.36 and $540.75 per share (31 March 2022: between $3.37 and $557.18 per share). 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 year ending 31 March 2023 this equates to an interest rate of 4.23% (31 March 2022: 3.61%).

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.

	2023 $'000	2022 $'000
Fair value gains/(losses) on equity investments at fair value through profit or loss	**(65)**	345
Fair value gains/(losses) on debt instruments at fair value through profit or loss	**(93)**	(69)
	(158)	276

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 way 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 closing market price.

9 Receivables

	2023 $'000	2022 $'000
Premium receivable	**-**	47
Deferred expenses	**-**	-
	-	47
Interest receivable	**36**	-

(a) Fair value and credit risk

Due to the short-term nature of these receivables, their carrying value is assumed to approximate their fair value.

The maximum exposure to credit risk at the reporting date is the fair value of each class of receivables mentioned above. The Company does not hold any collateral as security.

10 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, British pound 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:

	2023 $'000	2022 $'000
Financial assets		
Cash and cash equivalents	**605**	4,989
Term deposits	**2,500**	-
Receivables	**-**	47
Interest receivables	**36**	-
NZ equity investments	**2,971**	2,242
Offshore equity investments	**6,202**	5,710
Corporate bonds	**1,600**	808
Global bond funds	**1,034**	960
Related party receivable	**6,700**	6,700
	21,648	21,456
Financial liabilities		
Trade and other payables	**46**	55
	46	55

(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.

10 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, British pound and Euro.

The Company’s exposure to foreign currency risk at the reporting date converted to New Zealand dollar equivalents was as follows:

	Cash and cash equivalents		Other financial assets	
	2023	**2022**	2023	2022
	$'000	**$'000**	$'000	$'000
USD	**20**	**19**	3,012	2,907
AUD	**11**	**197**	2,550	2,399
EUR	**-**	**3**	388	236
GBP	**8**	**6**	252	168

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 (31 March 2022: 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 (31 March 2022: 5 cent) change in foreign currency exchange rates. A positive number indicates an increase in profit and equity.

	Impact on post tax profit	
	2023	2022
	$'000	$'000
USD/NZD exchange rate - strengthening NZD	**(224)**	(196)
USD/NZD exchange rate - weakening NZD	**263**	227
AUD/NZD exchange rate - strengthening NZD	**(130)**	(133)
AUD/NZD exchange rate - weakening NZD	**145**	148
EUR/NZD exchange rate - strengthening NZD	**(31)**	(18)
EUR/NZD exchange rate - weakening NZD	**37**	21
GBP/NZD exchange rate - strengthening NZD	**(23)**	(15)
GBP/NZD exchange rate - weakening NZD	**29**	18

(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.

10 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% (31 March 2022: 5%) with all other variables held constant and all the Company's equity instruments moved in perfect correlation with the index.

	Impact on post-tax profit	
	2023	2022
	$'000	$'000
NZ Equities	**107**	81
Offshore Equities	**223**	206

(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 2023, 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 $45k higher/lower (31 March 2022: $45k), 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 2022: 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).

Other than the receivable with Unison Networks Limited, there are no significant concentrations of credit risk

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

	2023	2022
	$'000	$'000
Fair value through profit or loss		
Counterparties with external credit rating (S&P or Moody's):		
AA	**-**	4,285
AA-	**3,906**	-
A+	**1,189**	-
A	**-**	1,926
A-	**52**	-
BBB+	**61**	-
BBB	**187**	265
BB+	**245**	-
BB	**-**	99
Unrated	**99**	203
Loan to Parent	**6,700**	6,700
	12,439	13,478

10 Financial risk management (continued)

The related party receivable is neither past due nor impaired.

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

(c) Liquidity risk

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

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

(d) Financial instruments categories and fair value hierachy

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

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

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

The following table presents the Company's financial assets and liabilities that are measured at fair value at the end of the reporting period.

	Level 1	Level 2	Level 3	Total
31 March 2023				
Financial assets at fair value through profit or loss				
Cash and cash equivalents	605	-	-	605
Term deposits	-	2,500	-	2,500
Interest receivable	36	-	-	36
Corporate bonds	1,600	-	-	1,600
Global bond funds	1,034	-	-	1,034
Equity investments	9,173	-	-	9,173
Loan to Parent	-	6,700	-	6,700
Total assets	12,448	9,200	-	21,648
31 March 2022				
Financial assets at fair value through profit or loss				
Cash and cash equivalents	4,989	-	-	4,989
Receivables	47	-	-	47
Corporate bonds	808	-	-	808
Global bond funds	960	-	-	960
Equity investments	7,952	-	-	7,952
Loan to Parent	-	6,700	-	6,700
Total assets	14,756	6,700	-	21,456

10 Financial risk management (continued)

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

- Term deposits 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.

There were no transfers between levels during the period.

11 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

The Company, 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.

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.

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

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 2022/23 year the Company only wrote a Transmission & Distribution and Business Interruption 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 2022 the following insurance contracts were written by the Company for the period 1 April 2022 to 31 March 2023:

- Transmission & Distribution and Business Interruption policy with a gross written premium of $866,250

(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	Properties concentrated in regions that are subject to: - Earthquakes - Storm - Flood - Volcanic eruption	The Company's underwriting strategy requires individual risk premiums to be differentiated in order to reflect the higher loss frequency in particular geographical areas. The Company has modelled aggregated risk by postcode using commercially available catastrophe models. The Company's exposure data across the portfolio encompasses all natural catastrophe risks. Based on the probable maximum loss per the models, the Company purchases catastrophe reinsurance cover where economically available. For the year ending 31 March 2023, the loss of damage caused by natural catastrophe to transmission and distribution assets is limited to $17.5 million of cover for a series of losses arising out of any one event for Material Damage and $3.5 million of cover for Business Interruption combined with a $7.5 million deductible held by Unison Networks Limited.

11 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	The Company has mitigated these risks by retaining sufficient capital within the Company to meet the costs of a large claim. The Company has access to all the Stakeholder data so is in a privileged and well-informed position when determining its risk acceptance policy. Claims for the year ending 31 March 2023 year are limited to \$17.5 million of cover for a series of losses arising out of any one event for Material Damage and \$3.5 million of cover for Business Interruption combined with a \$7.5 million deductible held by Unison Networks Limited.

(e) Claims management

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

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

(f) Liability adequacy test

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

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

(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.

Other than receivable with Unison Networks Limited, there are no significant concentrations of credit risk.

12 Income tax expense

	2023 $'000	2022 $'000
(a) Income tax expense		
Current tax:		
Current tax on profits for the year	**350**	336
Prior period current tax adjustment	**(8)**	-
Income tax expense	**342**	336

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

	2023 $'000	2022 $'000
Profit from continuing operations before income tax expense	**1,051**	1,385
Income tax @ 28%	**294**	388
Tax effects of:		
• Income not subject to tax	**14**	(43)
• Expenses not deductible for tax purposes	**42**	-
Imputation credits received	**(8)**	(9)
Income tax expense	**342**	336

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.

13 Imputation credits

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

14 Contributed equity

	2023 Shares	2022 Shares	2023 $'000	2022 $'000
Ordinary shares				
Fully paid (no par value)	**8,700,000**	8,700,000	**8,700**	8,700

15 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 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:

	2023 **$**	2022 $
B Martin	**9,000**	9,000
J Palairet	**9,000**	9,000
K Sutherland (Chairman)	**-**	-
	18,000	18,000

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:

	2023 **$'000**	2022 $'000
(i) Sales of services:		
• Insurance premiums charged to Parent	**866**	908
•Prior year adjustment	**(41)**	-
	825	908

15 Related party transactions (continued)

	2023 $'000	2022 $'000
(ii) Purchases of services		
• Corporate overhead charges paid to Parent	**(88)**	(82)
(iii) Year-end balances arising from sales/purchases services		
Premium receivable from Parent	**-**	47
(iv) Loans to related parties		
Loans to key management of the company (and their families):		
• Loan receivable from/(payable to) Parent	**6,700**	6,700
• Interest received from Parent	**283**	231
	6,983	6,931

16 Contingent Liabilities and Commitments

As at 31 March 2023 the Company had no contingent liabilities nor capital commitments (31 March 2022: $Nil).

17 Events occuring after the reporting period

There were no subsequent events occuring after the reporting period.

18 Impact of Cyclone Gabrielle

Cyclone Gabrielle reached the North Island of New Zealand in mid-February 2023, causing significant disruption to the electricity distribution network operated by the Company's parent, Unison Networks Limited (Unison). The impact of the subtropical storm was particularly acute in Hawke's Bay, with strong winds and heavy rain resulting in the flooding of several major rivers and damage to key community infrastructure assets, such as bridges, stop banks and arterial roading links. Mobile networks and other means of communication such as fibre optic links were also damaged or offline for a number of days in the initial period following the cyclone. A major transmission substation located at Redclyffe (owned by grid operator Transpower) was flooded, resulting in a high proportion of Unison's Hawke's Bay customers being left without power for days to weeks. Unison staff worked to progressively restore electricity supply to the region through temporary remediation work, temporary reconfiguration of the network, and through the deployment of third party generation assets. Flooding and high winds also caused damage to Unison's Transmission & Distribution Assets, including certain assets insured under the T&D policy. Unison have advised that the cost of the cyclone with respect to the insured T&D assets is expected to fall below the $7.5 million deductible. Unison does not expect to lodge a claim for this event and accordingly no claim provision is recorded in the Company's financial statements at 31 March 2023.

Independent Auditor's Report

To the shareholders of Unison Insurance Limited's financial statements for the year ended 31 March 2023

The Auditor-General is the auditor of Unison Insurance Limited (the Company). The Auditor-General has appointed me, Chris Webby, 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 2023, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended and the notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as at 31 March 2023, and its financial performance and its cash flows for the year then ended, in accordance with the 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 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 limited assurance engagement in relation to the Company's annual solvency return as at 31 March 2023, which is compatible with the above independence requirements. Other than the audit and this engagement, 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. 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 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.

Chris Webby
Audit New Zealand
On behalf of the Auditor-General
Palmerston North, New Zealand
30 June 2023

Davies Financial and Actuarial Limited

26th June 2023

To: The Directors
Unison Insurance Limited

From: Peter Davies
Consulting Actuary

Re: Unison Insurance Limited

You have asked me to prepare a report on the financial condition of Unison Insurance Limited ("the Company") as at 31st March 2023. I would like to comment further as follows:

1. Introduction

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

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

2. Materiality

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

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

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

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

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

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

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

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

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3. Data

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

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

4. Background, business and operations, business plans

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

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

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

Total sum insured:	$17,500,000
Deductible:	$7,500,000
Material Damage proportion:	80%
Business Interruption proportion:	20%

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

Unison Insurance has no reinsurance cover in place.

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

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5. Recent experience and profitability

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

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

I note that the company made a profit of $709,373 over the past year which is a decrease on the previous year's result of $1,049,000. The main driver of this change has been the Company's investment performance, with equity and bond performance being relatively weak this year.

Averaging the performance of the last five years: With annual premiums of approximately $0.8m and investment income of approximately $0.8m, clearly there is the possibility of the occasional year in which a large claim occurs, which would produce an underwriting loss of an order of magnitude of $17.5m - $7.5m (Deductible) - $1.6m (pre-tax profits) = $8.4m before tax.

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

I note that the Company has a total equity of $21.6m. This provides it with sufficient capital to meet the cost of a claim at its maximum possible level.

6. Pricing, Underwriting and claim management

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

The deductible under the Company’s insurance contract with its parent increased from $0.5m to $5m, effective from 1st April 2017 and has since further increased from $5m to $7.5m. This reduced the likelihood of the Company incurring any claims in future, as this high deductible will eliminate all but the very serious claims.

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

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

7. Insurance and Other Liabilities

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

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

8. Investment and Other Assets

The Company's investments are listed in the balance sheet set out in Annexure A. The investments are managed by JBWere. The investment assets consist primarily of cash with New Zealand-registered banks, with investments in New Zealand and Overseas bonds and equities, and some small overseas bank investments. I note that at year end for the last three years, there were no term deposits held.

I note further that since year ending 31st March 2021 assets are held in investments funds with two further fund managers, the Legg Mason Brandywine Global Fund and PIMCO Global Bond Fund NZD. As a result there is an increase in investments in overseas equities and bonds with $7.2m held at year ending 31st March 2023, up from $6.7m at March 2022, and $6.6m at March 2021.

Total investment assets amount to $14.9m, which is sufficient to cover the maximum cost of the largest single possible claim ($10m).

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

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9. Intercompany Loan

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

10. Capital Management

The minimum requirement under the various elements of the RBNZ Solvency Standard for Captives is $7.18m. This exceeds the overall minimum of $1m that applies to Captives writing this level of premium income, accordingly the Company's minimum capital requirement is $7.18m.

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

I note that the Company has sufficient capital to pay for the largest claim to which it is potentially exposed.

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

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11. Solvency Assessment

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

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

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

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

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

	31 March 2023	30 September 2022	31 March 2022	30 September 2021	31 March 2021
Solvency capital:	21,477,373	20,803,567	20,769,000	20,570,798	19,719,733
Minimum capital requirement:	7,176,901	6,839,905	6,637,060	6,841,233	6,319,305
Solvency margin:	14,300,472	13,963,662	14,131,940	13,729,565	13,400,428
Solvency coverage ratio	299%	304%	313%	301%	312%

12. Capital Adequacy

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

13. Risks and Risk Management

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

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

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

(b) The Company has mitigated these risks by:

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

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

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

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

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

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

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

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

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

14. Additional Disclosures

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

15. <u>Summary and Conclusions</u>

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

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

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

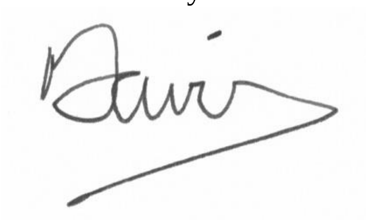
It is important in my view that the Board makes it clear to the parent that a captive insurer does not remove the risks of having a relatively high material damage and business interruption exposure from the Group as a whole. While there is a legitimate transfer of risk between the Captive and the other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

The Company's solvency margin exceeds the minimum required by the RBNZ solvency standard, with a coverage ratio of 299%.

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

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

Yours sincerely



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Annexure A: Accounts

	Year Ended 31/03/2023	Year Ended 31/03/2022	Year Ended 31/03/2021	Year Ended 31/03/2020	Year Ended 31/03/2019
Revenue Statement					
Gross Premiums Written	825,000	908,000	825,000	807,975	787,803
Less Gross Unearned Premiu	(0)	0	0	0	0
Reinsurance	0	0	0	0	0
Net premiums	825,000	908,000	825,000	807,975	787,803
Investment income	510,658	744,000	2,307,088	258,288	914,051
Other income	0	0	0	0	0
Net fees and commission inco	0	0	0	0	0
Total income	1,335,658	1,652,000	3,132,088	1,066,263	1,701,854
Gross claim expense	0	0	0	0	0
Reinsurance recoveries	0	0	0	0	0
Net claim expense	0	0	0	0	0
Commissions	0	0	0	0	0
Operating expenses	283,750	267,000	239,418	251,079	216,000
Total expenses	283,750	267,000	239,418	251,079	216,000
Profit before tax	1,051,908	1,385,000	2,892,670	815,184	1,485,854
Tax	342,535	336,000	310,669	343,365	343,000
Profit after tax	709,373	1,049,000	2,582,001	471,819	1,142,854
Profit after unrealised gains ar	709,373	1,049,000	2,582,001	471,819	1,142,854
Movement in equity	0	0	0	0	0
Capital in / dividends out	0	0	0	0	0
	709,373	1,049,000	2,582,001	471,819	1,142,854
As % of gross premium					
Reinsurance	0.00%	0.00%	0.00%	0.00%	0.00%
Commission	0.00%	0.00%	0.00%	0.00%	0.00%
Expenses	34.39%	29.41%	29.02%	31.08%	27.42%
Claims (net)	0.00%	0.00%	0.00%	0.00%	0.00%
Investment return %	2.40%	3.64%	13.08%	1.58%	5.81%

Balance sheet

	31/03/2023	31/03/2022	31/03/2021	31/03/2020	31/03/2019
Cash - NZ	565,678	4,764,000	3,947,790	4,052,938	1,733,196
Cash - Australian/US/EUR $	39,051	225,000	29,028	185,346	178,552
Term Deposit	2,500,000	0	0	0	1,550,000
Accrued Investment Income	35,513	0	0	0	11,331
NZ govt security	0	0	0	0	0
NZ Bonds	1,600,097	808,000	941,517	1,041,377	1,041,502
NZ equities	2,971,316	2,167,000	1,922,619	1,307,120	1,224,337
Australian equities	2,550,137	2,399,000	2,178,785	1,349,802	1,552,657
Overseas equities	3,651,464	3,387,000	3,056,506	1,967,653	2,030,691
Overseas bonds hedged	1,034,243	960,000	1,407,165	789,299	781,799
NZ Property	0	0	0	0	0
Premiums Receivable	0	47,000	0	0	0
Deferred reinsurance premium					
Captive balance with parent	6,700,000	6,700,000	6,700,000	6,700,000	6,700,000
Total assets	21,647,499	21,457,000	20,183,410	17,393,535	16,804,065
Accounts Payable	45,728	55,000	45,872	30,959	16,000
Bank overdraft	0	0	0	0	0
Provision for income tax	124,397	633,000	417,805	223,843	123,000
Unearned Premium Reserve	0	0	0	0	0
Intercompany Loan	0	0	0	0	0
Total liabilities	170,125	688,000	463,677	254,802	139,000
Share Capital	8,700,000	8,700,000	8,700,000	8,700,000	8,700,000
Retained Earnings	12,777,373	12,069,000	11,019,733	8,438,732	7,965,115
Equity	21,477,373	20,769,000	19,719,733	17,138,732	16,665,115
Check:	21,647,498	21,457,000	20,183,410	17,393,534	16,804,115
	(0)	0	0	(1)	50
vs P&L	(1,000)	267	(1)	0	0
		Rounding			Rounding

Annexure B: Solvency Calculations

RBNZ Solvency Calculations

Equity	21,477,373
Less deferred tax asset	0
add back UPR	0
less remaining liability coverage	0
Actual solvency capital:	21,477,373
Insurance risk charge:	
Largest Foreseeable per event retention:	10,000,000
	20%
Insurance risk charge:	2,000,000
Credit, Equity, Property Risk	3,522,669
Concentration exposure	0
Concentration risk:	0
Interest rate risk:	281,289
Foreign exchange risk:	1,372,943
Reinsurance risk:	0
Operating Risk charge	0
Total capital requirement:	7,176,901
Minimum $1m:	7,176,901
Solvency margin:	14,300,472
Solvency ratio:	299%

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Annexure B.2

Asset risk charges

Category	RBNZ Categories	Fixed Interest Schedule	Charge
1	1 Cash and sovereign debt	0	0.5%
2	2 AA rated fixed interest <1 year	0	1.0%
3	3 AA rated fixed interest >1 year	541,545	2.0%
4	4 A rated fixed interest	4,189,567	4.0%
5	5 Unpaid premiums <6 months	0	4.0%
6	6 Deferred acquisition costs	0	5.0%
7	7 BBB rated fixed interest	202,136	6.0%
8	8 Unrated local authority debt & 3rd party recoveries	0	8.0%
9	9 Other fixed interest & short term unpaid premiums	201,092	15.0%
10	10 Related party captive and parent	0	15.0%
11	11 Off balance sheet exposures not covered elsewhere	0	20.0%
12	12 Listed equity & trusts, property, plant & equipment	0	25.0%
13	13 Unlisted equity & trusts	0	35.0%
14	14 Any other assets	0	40.0%
15	15 Assets incurring a full capital charge	0	100.0%
		5,134,340	

Annexure B.3: Solvency history

	31 March 2023	30 September 2022	31 March 2022	30 September 2021	31 March 2021
Solvency capital:	21,477,373	20,803,567	20,769,000	20,570,798	19,719,733
Minimum capital requirement:	7,176,901	6,839,905	6,637,060	6,841,233	6,319,305
Solvency margin:	14,300,472	13,963,662	14,131,940	13,729,565	13,400,428
Solvency coverage ratio	299%	304%	313%	301%	312%

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Annexure B.4: Solvency Projection

Solvency projection:	New equity	Estimated profit	Credit, Equity, Property Risk	Insurance Risk	Other asset risks	Premium income	Operational Risk %	Operational risk charge	Total Solvency capital	Total capital requirement	Solvency margin	Solvency ratio
2024	-	1,000,000	3,582,669	2,000,000	1,654,233	926,160	0.00%	0	22,477,373	7,236,901	15,240,472	3.11
2025		1,000,000	3,642,669	2,000,000	1,681,937	972,468	1.00%	9,725	23,477,373	7,334,330	16,143,043	3.20
2026		1,000,000	3,702,669	2,000,000	1,709,641	1,021,091	2.00%	20,422	24,477,373	7,432,731	17,044,642	3.29
2027		1,000,000	3,762,669	2,000,000	1,737,344	1,072,146	3.00%	32,164	25,477,373	7,532,178	17,945,196	3.38
2028		1,000,000	3,822,669	2,000,000	1,765,048	1,125,753	3.00%	33,773	26,477,373	7,621,490	18,855,883	3.47
2029		1,000,000	3,882,669	2,000,000	1,792,752	1,182,041	3.00%	35,461	27,477,373	7,710,882	19,766,491	3.56

Annexure B.5 Interest rate risk

Short name	Name	Fund	Face value	Coupon	Mature	MV	Term	Credit Rating	Sub code	Yield *1	Value re-calc	Revised yield	Value yield change	Asset class	Asset charge factor	FX risk	Asset risk charge	Concentration risk charge
NZGS	NZ Govt	Main	-	0.000%	15-Apr-15	-	<1	AA+	Govt	0.000%	-	0.000%	-	AA+ <1Govt	0.50%		-	-
Westpac	Term Deposit	Main	500,000	5.520%	27-Dec-23	500,000	<1	A		7.653%	500,000	9.403%	494,162	A <1	4.00%		20,000	
ASB	Term Deposit	Main	750,000	5.700%	27-Mar-24	750,000	<1	A		5.835%	750,000	7.585%	738,076	A <1	4.00%		30,000	
BNZ	Term Deposit	Main	1,250,000	5.520%	27-Dec-23	1,250,000	<1	A		7.653%	1,250,000	9.403%	1,235,405	A <1	4.00%		50,000	
ASB	Corporate Bond	Main	350,000	5.52%	21-Jun-27	358,642	1+	A		5.338%	358,642	7.088%	337,078	A 1+	4.00%		14,346	
BNZ	Corporate Bond	Main	350,000	4.99%	7-Jun-27	351,388	1+	A		5.368%	351,388	7.118%	330,282	A 1+	4.00%		14,056	
Westpac	Corporate Bond	Main	100,000	3.70%	16-Feb-27	94,678	1+	A		5.429%	94,678	7.179%	89,195	A 1+	4.00%		3,787	
Westpac	Corporate Bond	Main	150,000	6.19%	16-Sep-32	151,232	1+	A	Sub	6.198%	151,232	7.948%	134,404	A 1+Sub	15.00%		22,685	
Genesis	Corporate Bond	Main	65,000	4.17%	14-Mar-28	61,326	1+	A		5.609%	61,326	7.359%	56,961	A 1+	4.00%		2,453	
Contact	Corporate Bond	Main	100,000	4.33%	19-Nov-51	93,572	1+	A		4.908%	93,572	6.658%	73,014	A 1+	4.00%		3,743	
IAG	Corporate Bond	Main	200,000	5.32%	15-Jun-38	187,000	1+	A		6.235%	187,000	7.985%	158,870	A 1+	4.00%		7,480	
Infratil	Corporate Bond	Main	100,000	4.85%	15-Dec-28	98,881	1+	A		5.439%	98,881	7.189%	91,133	A 1+	4.00%		3,955	
AIA	Corporate Bond	Main	50,000	5.67%	9-May-28	51,907	1+	A		5.378%	51,907	7.128%	48,278	A 1+	4.00%		2,076	
Contact	Corporate Bond	Main	150,000	5.82%	11-Apr-28	151,471	1+	A		6.325%	151,471	8.075%	141,222	A 1+	4.00%		6,059	
	Russell Global Fixed Interest (hedged)																	
	Interest rate risk:	Main	249,079	0.000%	31-Mar-30	217,225	1+			1.974%	217,224	3.724%	192,830					
	Credit risk:	31-Mar-23																
Russell	AAA & Cash	41.50%				90,148	1+	AAA						AAA 1+	2.00%		1,803	
Russell	AA	5.18%				11,252	1+	AA						AA 1+	2.00%		225	
Russell	A	21.13%				45,900	1+	A						A 1+	4.00%		1,836	
Russell	BBB	23.75%				51,591	1+	BBB						BBB 1+	6.00%		3,095	
Russell	BB	0.00%				-	1+	BB						BB 1+	15.00%		-	
Russell	B	0.00%				-	1+	B						B 1+	15.00%		-	
Russell	CCC& Lower	0.00%				-	1+	CCC						CCC 1+	15.00%		-	
Russell	Unrated	8.44%				18,334	1+	Unrated						Unrated 1+	15.00%		2,750	
		100.00%																
	Nikko Global Bond Fund (hedged)																	
	Interest rate risk:	Main	362,013	0.000%	30-Jun-29	349,930	1+			0.545%	349,929	2.295%	314,151					
	Credit risk:	28-Feb-23																
Nikko	AAA & Cash	30.67%				107,323	1+	AAA						AAA 1+	2.00%		2,146	
Nikko	AA	5.76%				20,156	1+	AA						AA 1+	2.00%		403	
Nikko	A	40.87%				143,016	1+	A						A 1+	4.00%		5,721	
Nikko	BBB	22.61%				79,119	1+	BBB						BBB 1+	6.00%		4,747	
Nikko	BB	0.07%				245	1+	BB						BB 1+	15.00%		37	
Nikko	B	0.02%				70	1+	B						B 1+	15.00%		10	
Nikko	CCC& Lower	0.00%				-	1+	CCC						CCC 1+	15.00%		-	
Nikko	Unrated	0.00%				-	1+	Unrated						Unrated 1+	15.00%		-	
		100.00%																
	Legg Mason Brandywine Global																	
	Interest rate risk:	Main	179,180	0.000%	31-Dec-30	155,575	1+			1.839%	155,575	3.589%	136,322					
	Credit risk:	31-Mar-23																
Legg	AAA & Cash	52.01%				80,915	1+	AAA						AAA 1+	2.00%		1,618	
Legg	AA	8.80%				13,691	1+	AA						AA 1+	2.00%		274	
Legg	A	10.26%				15,962	1+	A						A 1+	4.00%		638	
Legg	BBB	19.08%				29,684	1+	BBB						BBB 1+	6.00%		1,781	
Legg	BB	9.72%				15,122	1+	BB						BB 1+	15.00%		2,268	
Legg	B	0.06%				93	1+	B						B 1+	15.00%		14	
Legg	CCC& Lower	0.00%				-	1+	CCC						CCC 1+	15.00%		-	
Legg	Unrated	0.07%				109	1+	Unrated						Unrated 1+	15.00%		16	
		100.00%																
	PIMCO Global Bond Fund NZD																	
	Interest rate risk:	Main	348,633	0.000%	28-Feb-29	311,513	1+			1.921%	311,513	3.671%	281,665					
	Credit risk:	31-Mar-23																
PIMCO	AAA & Cash	60.10%				187,220	1+	AAA						AAA 1+	2.00%		3,744	
PIMCO	AA	9.90%				30,840	1+	AA						AA 1+	2.00%		617	
PIMCO	A	11.50%				35,824	1+	A						A 1+	4.00%		1,433	
PIMCO	BBB	13.40%				41,743	1+	BBB						BBB 1+	6.00%		2,505	
PIMCO	BB	1.20%				3,738	1+	BB						BB 1+	15.00%		561	
PIMCO	B	0.50%				1,558	1+	B						B 1+	15.00%		234	
PIMCO	CCC& Lower	0.00%				-	1+	CCC						CCC 1+	15.00%		-	
PIMCO	Unrated	3.40%				10,591	1+	Unrated						Unrated 1+	15.00%		1,589	
		100.00%																
			5,253,906			5,134,340					5,134,339		4,853,050				203,414	-
												Resilience:	(281,289)		Average		4.0%	

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