RISK REINSURANCE LIMITED

FINANCIAL STATEMENTS
FOR THE YEAR ENDED
30 JUNE 2024

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FOR THE YEAR ENDED 30 JUNE 2024

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RISK REINSURANCE LIMITED
STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30 JUNE 2024

	Notes	2024 $000	*Restated* 2023 $000
Insurance revenue	A1	28,784	25,361
Insurance service expense	A2	(21,518)	(24,899)
Insurance service result before reinsurance contracts held		**7,266**	**462**
Allocation of reinsurance premiums		(7,621)	(6,362)
Amounts recoverable from reinsurers for incurred claims		9,708	1,217
Insurance service result from reinsurance contracts held		**2,087**	**(5,145)**
Insurance service result		**9,353**	**(4,683)**
Interest revenue		3,227	1,941
Fair value gains / (losses) on financial assets		673	(63)
Total investment income		**3,900**	**1,878**
Insurance finance expenses for insurance contracts issued	A3	(904)	-
Net insurance finance result		**(904)**	**-**
Other operating expenses		-	(49)
Net profit / (loss) before tax		**12,349**	**(2,854)**
Income tax (expense) / benefit	A4	(3,458)	799
Net profit / (loss) attributable to owners of the Parent		**8,891**	**(2,055)**
Other comprehensive income			
Other comprehensive income for the year attributable to owners of the parent		-	-
Total comprehensive income		**8,891**	**(2,055)**

These statements are to be read in conjunction with the accompanying notes.

RISK REINSURANCE LIMITED
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2024

	Notes	Ordinary shares $000	Retained earnings $000	Total $000
Equity at 30 June 2022 as previously reported		**20,000**	**51,357**	**71,357**
Impact of initial application of NZ IFRS 17		-	-	-
Restated equity at 1 July 2022		**20,000**	**51,357**	**71,357**
Net (loss)		-	(2,055)	(2,055)
Other comprehensive income		-	-	-
Total comprehensive income		**-**	**(2,055)**	**(2,055)**
Dividends paid	B1	-	(38,000)	(38,000)
Total equity at 30 June 2023 (restated)		**20,000**	**11,302**	**31,302**
Net profit		-	8,891	8,891
Other comprehensive income		-	-	-
Total comprehensive income		**-**	**8,891**	**8,891**
Dividends paid	B1	-	-	-
Total equity at 30 June 2024		**20,000**	**20,193**	**40,193**

These statements are to be read in conjunction with the accompanying notes.

RISK REINSURANCE LIMITED
STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2024

	Notes	30 June 2024 $000	Restated 30 June 2023 $000	Restated 1 July 2022 $000
Current assets				
Cash and cash equivalents	B2	42,468	20,741	8,821
Investments	B3	27,972	35,143	73,167
Related party receivables	E1	3,304	-	-
Reinsurance contracts assets	D2	12,234	2,290	995
		85,978	58,174	82,983
Non-current assets				
Deferred tax asset	A4	-	6,762	2,138
Total assets		**85,978**	**64,936**	**85,121**
Current liabilities				
Related party payables	E1	-	3,874	2,429
Liability for insurance contracts	D1	45,785	10,843	11,335
		45,785	14,717	13,764
Non-current liabilities				
Liability for insurance contracts	D1	-	18,917	-
		-	18,917	-
Total liabilities		45,785	33,634	13,764
Equity				
Ordinary shares	B1	20,000	20,000	20,000
Retained earnings		20,193	11,302	51,357
Total equity attributable to parent		40,193	31,302	71,357
Total funds employed		**85,978**	**64,936**	**85,121**

These statements are to be read in conjunction with the accompanying notes.
The Directors of Risk Reinsurance Limited authorise these financial statements for issue on **09 September 2024.**

For, and on behalf of, the Board of Directors

Michele Embling
Director
09 September 2024

Catherine Shaw
Director
09 September 2024

RISK REINSURANCE LIMITED
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2024

	Notes	2024 $000	2023 $000
Premiums received		29,327	26,071
Reinsurance premiums paid		(7,857)	(6,440)
Interest received		3,321	2,256
Claims and insurance expenses paid		(6,940)	(7,184)
Payments to other suppliers		(49)	-
Income tax paid		(3,825)	(2,429)
Operating cash flows		**13,977**	**12,274**
Sale of investments		36,750	52,977
Purchase of investments		(29,000)	(15,331)
Investing cash flows		**7,750**	**37,646**
Dividends paid	B1	-	(38,000)
Financing cash flows		**-**	**(38,000)**
Net increase in cash and cash equivalents		21,727	11,920
Cash and cash equivalents at beginning of the period		20,741	8,821
Cash and cash equivalents at end of the period		**42,468**	**20,741**

A reconciliation of net profit to operating cash flows is provided below:

	2024 $000	2023 $000
Net profit / (loss)	8,891	(2,055)
Add/(deduct) non-cash items:		
(Gains) / losses in the fair value of financial assets	(673)	63
Net insurance financial result	904	-
Deferred tax expense / (benefit)	6,762	(4,624)
Movements in working capital items:		
(Increase) in reinsurance contracts assets	(9,944)	(1,295)
Decrease in accrued investment income	94	315
(Decrease)/ increase in trade and other payables	(49)	49
(Decrease) / increase in provision for income tax	(7,129)	1,396
Increase in liability for incurred claims	15,121	18,425
Operating cash flows	**13,977**	**12,274**

These statements are to be read in conjunction with the accompanying notes.

REPORTING ENTITY

Risk Reinsurance Limited (the "Company") was incorporated on 17 January 2001 under the laws of the Cayman Islands and was domiciled in the Cayman Islands until 3 April 2023. On 3 April 2023, the Company was registered in New Zealand under the Companies Act 1993. The Reserve Bank of New Zealand approved the New Zealand insurance licence on the 23 March 2023. As a result of its New Zealand registration, the Company surrendered its Cayman Island insurance licence and company registration. The Company is a licensed insurer under the Insurance (Prudential Supervision) Act 2010, and operates under the terms and conditions of its New Zealand insurance license: 8602048.

The registered office of the Company is 22 Boulcott Street, Wellington Central, Wellington, 6011, New Zealand.

The principal activity of the Company is that of a captive insurance company, which provides material damage and business interruption coverage to its parent company, Transpower New Zealand Limited (Transpower). The Company reinsures a portion of its risk in the external reinsurance market.

BASIS OF PREPARATION

The financial statements have been prepared:

- in accordance with New Zealand generally accepted accounting practice (GAAP) and comply with New Zealand equivalents to International Financial Reporting Standards (NZ IFRS) and IFRS as appropriate for profit-oriented entities;
- in accordance with the requirements of the Companies Act 1993, the Financial Markets Conduct Act 2013 and the Insurance (Prudential Supervision) Act 2010;
- on a historical cost basis, except for certain financial assets and financial liabilities;
- in New Zealand dollars (NZD) with all values rounded to the nearest thousand ($000) unless otherwise stated; and,
- using the same accounting policies for all reporting periods presented (except as outlined below).

Certain comparative information has been reclassified to conform with NZ IFRS 17 *Insurance Contracts* presentation.

MATERIAL ACCOUNTING POLICIES AND JUDGEMENTS

Accounting policies and information about judgements that have had a material effect on the amounts recognised in the financial statements are disclosed in the following note:

	Note
Liability for insurance contracts	D1
Reinsurance contracts assets	D2

SIGNIFICANT MATTERS

Cyclone Gabrielle

During 2023, insurance claims were lodged by Transpower with the Company following damage to assets caused by Cyclone Gabrielle. The Company has accepted the claims and is currently working with loss adjusters to determine the claims value. Due to the significant damage incurred, there is also a claim by the Company with the external reinsurers under the Material Damages and Business Interruptions Policy. During the current period, additional costs have been captured through the claims process and progress made to determine a long-term solution, resulting an increase in the total estimated loss and insurable claim. As at 30 June 2024, the undiscounted claims value is estimated at $26.5 million (2023: $18.9 million), of which $7.6 million (2023: nil) would be recoverable from reinsurance contracts.

CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

New accounting standards

The Company applied NZ IFRS 17 *Insurance Contracts* from 1 July 2023. NZ IFRS 17 replaces NZ IFRS 4. The Company has restated comparative information for the year ended 30 June 2023 applying the transitional provisions in Appendix C to NZ IFRS 17. The nature of the changes is summarised as follows:

(i) Changes to classification and measurement

NZ IFRS 17 establishes specific principles for the recognition and measurement of insurance contracts issued and reinsurance contracts held by the Company.

In accordance with NZ IFRS 17, the Company's insurance contracts issued and reinsurance contracts held are measured using the Premium Allocation approach (PAA), as the coverage period is one year or less.

The measurement principles of the PAA differ from the general approach and require consideration of the following key areas:

- The liability for remaining coverage reflects premiums received less amounts recognised in revenue for insurance services provided;
- Measurement of the liability for remaining coverage includes an adjustment for the time value of money and the effect of financial risk where the premium due date and the related period of services are more than 12 months apart;
- Measurement of the liability for incurred claims (previously claims outstanding and incurred but not reported claims) is determined on a discounted probability-weighted expected value basis, and includes an explicit risk adjustment for non-financial risk. The liability includes the Company's obligation to pay other incurred insurance expenses; and
- Measurement of the asset for remaining coverage (reflecting reinsurance premiums paid for reinsurance held) is adjusted to include a loss-recovery component to reflect the expected recovery of onerous contract losses where such contracts reinsure onerous direct contracts.

The Company expenses its insurance acquisition cash flows when it incurs those costs as the coverage period of insurance contract is no more than one year.

(ii) Changes to presentation and disclosure

The line item descriptions in the statement of profit or loss and other comprehensive income have been aligned with those specified in NZ IFRS 17, as follows:

Previous disclosure (NZ IFRS 4)	**Current disclosure (NZ IFRS 17)**
− Insurance premiums received - related party − Movement in unearned premium reserve	− Insurance revenue
− Reinsurance premium ceded − Movement in prepaid reinsurance premium	− Allocation of reinsurance premiums
− Insurance recoveries	− Amounts recoverable from reinsurers for incurred claims
− Claims expense - related party	− Insurance finance income or expenses − Insurance service expenses

CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (CONTINUED)

(iii) Transition

On transition date, 1 July 2022, the Company:

- Applied a fully retrospective approach for transition to IFRS 17; and
- Has identified, recognised and measured each group of insurance contracts as if NZ IFRS 17 had always applied.

The application resulted in no changes to equity.

A FINANCIAL PERFORMANCE

A1 INSURANCE REVENUE

Accounting policies

The insurance revenue for the period is the amount of expected premium receipts allocated to the period. The Company allocates the expected premium receipts to each period of insurance contract services on the basis of the passage of time.

A2 INSURANCE SERVICE EXPENSE

	2024 $000	*Restated* 2023 $000
Changes to liabilities for incurred claims	12,096	32
Incurred claims	8,730	24,300
Other expenses	692	567
Total insurance service expense	21,518	24,899

A3 INSURANCE FINANCE INCOME AND EXPENSE

Accounting policies

Insurance finance income or expenses comprise the change in the carrying amount of the insurance contract issued and reinsurance contracts held arising from:

- The effect of the time value of money and changes in the time value of money; and
- The effect of financial risk and changes in financial risk.

The Company does not disaggregate insurance finance income and expenses because the related financial assets are managed on a fair value basis and measured at fair value through profit or loss.

A4 INCOME TAX EXPENSE

	2024 $000	2023 $000
Reconciliation to net profit before tax		
Net profit / (loss) before tax	12,349	(2,854)
Income tax at 28%	3,458	(799)
Total income tax expense	3,458	(799)
Comprising		
Current tax (benefit) / expense	(3,304)	3,825
Deferred tax expense / (benefit)	6,762	(4,624)

The Company is a member of the Transpower consolidated tax group. Any current income tax liabilities or benefits are transferred to Transpower through related party accounts at year end.

DEFERRED TAX

$000	At 1 July 2022	Recognised in profit or loss	At 30 June 2023	Recognised in profit or loss	At 30 June 2024
Liability for insurance contracts	2,138	4,624	6,762	(6,762)	-
Deferred tax assets / (liabilities)	2,138	4,624	6,762	(6,762)	-

Deferred tax is provided on any temporary differences at the reporting date between the tax bases of assets and liabilities, and their carrying amounts for financial reporting purposes.

There are no unrecognised deferred tax assets (2023: nil).

B MANAGING FUNDING

B1 SHAREHOLDER'S FUNDS

Capital

The company has 1,000,000 issued and fully paid $20 ordinary shares (2023: same).
All shares rank equally and confer the right to vote at general meetings of the company.

Dividends

	2024		2023	
	$000	**$ per share**	**$000**	**$ per share**
Final dividend paid	-	-	38,000	38

B2 CASH AND CASH EQUIVALENTS

	2024 $000	2023 $000
Bank call deposit	20,384	20,741
Short term deposit	22,084	-
Total cash and cash equivalents	42,468	20,741

The bank call deposit and short term deposit have an original maturity of three months or less and are classified as cash equivalents.

The call deposit is held with ASB and attracts interest at 5.60% p.a. as at 30 June 2024 (30 June 2023: ASB 5.35% p.a.)

The short term deposits are held with Transpower and attract interest at 5.84% p.a. as at 30 June 2024 (30 June 2023: n/a)

B3 INVESTMENTS

	2024 $000	2023 $000
Term deposits	15,028	13,949
Corporate bonds	12,944	21,194
Total investments	27,972	35,143

The term deposit is held with ANZ and has an interest rate of 6.26% p.a. as at 30 June 2024 (2023: ANZ 6.43% p.a.)

Accounting policies
The company classifies its investments as current assets held at fair value through profit or loss.

Fair value is established by using discounted cash flow analysis based on the relevant yield curve. The yield curve is adjusted to reflect the credit risk of the counterparty to the transaction.
Deposits and corporate bonds are considered level two in the fair value hierarchy.

Purchases and sales of investments are accounted for at settlement date.

B3 INVESTMENTS (CONTINUED)

Related disclosures

The following table shows the impact of credit spread movements on fair value:	**2024 $000**	**2023 $000**
Fair value movement in asset due to credit spread movement	82	917
Statement of financial position balance - (decrease) in investment due to credit spread	(26)	(108)

The fair value movements in the table above do not include interest.

C RISK MANAGEMENT

C1 Capital risk management

Minimum capital requirements

The Company's capital includes issued and fully paid ordinary shares and retained earnings. In order to maintain or manage the capital structure, the Company may adjust the amount of dividends paid to the shareholder or request an injection of new equity.

The Company is required to maintain a solvency margin, in accordance with the "Interim Solvency Standard 2023" (including amendments to 1 August 2023) of at least $0. The minimum amount of Capital defined as Prescribed Capital Requirement, as set out in this standard, is $8.4 million.

The 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. The Company measures the adequacy of capital against the Interim Solvency Standard 2023 published by the RBNZ alongside additional capital held to meet RBNZ minimum requirements and any further capital as determined by the Board.

	2024
	$000
Solvency capital	41,374
Prescribed Capital Requirement	8,419
Solvency margin	32,955
Solvency ratio (percent)	491%

	2023
	$000
Actual solvency capital	24,540
Minimum solvency capital	8,224
Solvency margin	16,316
Solvency ratio (percent)	298%

C2 Financial risk management

The Company's activities expose it to a variety of financial risks including liquidity risk, interest rate risk, credit risk, insurance risk and climate change risk.

The Board of the company have developed, implemented and maintained policies and procedures, processes and controls that comprise its risk management and control systems. These systems address all material risks, financial and non-financial, likely to be faced by the company. The Board reviews these strategies regularly.

A summary of the financial risks that impact the Company, how they arise and how they are managed is presented in this section:

Nature and exposure	Note	How the risk is managed
Liquidity risk The risk the Company may encounter difficulties raising funds to meet expected claims.	**C3**	The Company manages liquidity risk by maintaining adequate reserves. The Company has implemented a capital management plan with a target capital of $50m. The target capital is based on the value of the Company's largest possible claim and a margin. The target capital is set to ensure that the Company remains technically solvent in the event of a large claim.
Interest rate risk The risk that changes in interest rates applicable to term deposits and corporate bonds, will affect the Company's income or the value of its holdings of financial instruments.	**C4**	The Company actively manages the investment portfolio to minimise interest rate risk. The Company invests in high quality, liquid interest-bearing bonds and cash and actively manages the duration of the fixed interest portfolio, in accordance with the limits set by the Company's investment policy

C2 Financial risk management (continued)

Nature and exposure	Note	How the risk is managed
Credit risk Credit risk refers to the risk that a counterparty to a financial instrument will default on its contractual obligations resulting in financial loss to the Company.	**C5**	*Reinsurance* The Company limits its exposure to reinsurance counterparty credit risk by entering into contracts with counterparties that have a good financial strength. Reinsurers must have a claims paying rating of at least A- (by AM Best or another reputable Ratings Agency). The Company reinsures with multiple counterparties to minimise credit risk and regularly evaluates and monitors the financial condition of its reinsurers. *Cash, deposits and corporate bonds* Investments in deposits and corporate bonds are made in financial instruments issued by organisations with credit ratings of BBB or above. Counterparty exposures are limited to 10% of total assets or less, by individual counterparty, based on their credit ratings, and exposures are monitored.
Insurance risk The risk the Company cannot provide cover in the event of loss.	**C6**	The Company has an objective to control insurance risk thus minimising substantial unexpected losses that would expose the Company to an adverse financial capital loss. The key processes used to mitigate risk include: - The maintenance and use of management information systems, which provide up to date, reliable data on the risks to which the business is exposed at any point in time; - Re-insurance is used to limit the Company's exposure to large single claims and catastrophes; - The management of assets and liabilities is closely monitored to match the maturity dates of assets with the expected pattern of claim payments; - The mix of assets in which the Company invests is driven by the nature and term of insurance liabilities. The diversification of business over classes within the reinsurance portfolio and separate geographical segments reduce variability in loss experience. In entering into an insurance contract, the Company ensures appropriate limits, deductibles and coverage terms are in place and determines appropriate levels for reinsurance. The Company also engages with third party experts to ensure premium levels are set appropriately to manage potential future claims. *Reinsurance:* The Company has a re-insurance programme that limits insurance exposure. This programme is reviewed annually by the Board and is structured to adequately protect the solvency and capital position of the Company. In addition, all reinsurance contracts are subject to pre-determined capacity limits and underwriting guidelines and authorities. There are no special terms and conditions in any non-standard contract that have a material impact on these financial statements. Reinsurance contracts written are subject to substantially the same terms and conditions as the insurance contracts with Transpower.
Insurance concentration risk Concentration risk is determined as concentration of asset values geographically and to type of catastrophic event (earthquake/weather/flooding).		Transpower's assets insured by the Company are geographically diverse and are designed and operated by Transpower which mitigates risk of common mode failure. The policies for Material Damage and Business Interruption (MDBI) and Submarine Cables have a concentration risk within the Wellington region, which is managed through specific reinsurance contracts.
Climate risk The Company insures certain assets of the Transpower Group which are exposed to climate-related risks.		The Company retains sufficient capital to meet the costs of a large claim, including potentially greater frequency and value of claims due to climate change related risks. The Company ensures that appropriate cover is put in place including limits, deductibles and coverage terms.

C3 Liquidity risk

Maturity profile

The contractual cash flows in the table below are presented on an undiscounted basis.

2024

$000	<1 year	1 - 2 years	3 - 5 years	>5 years	Total
Liability for incurred claims	35,012	-	-	-	35,012
Total contractual cash flows	**35,012**	**-**	**-**	**-**	**35,012**

2023

$000	<1 year	1 - 2 years	3 - 5 years	>5 years	Total
Related party payables	107	-	-	-	107
Liability for incurred claims	6,391	650	18,900	-	25,941
Total contractual cash flows	**6,498**	**650**	**18,900**	**-**	**26,048**

C4 Interest rate risk

As at 30 June 2024, the Company held $70.4 million of investments and short term deposits at a weighted average interest rate of 5.23% (30 June 2023: $55.9 million at 4.50%).
The impact of a 100 basis point increase/decrease in interest rates on unrealised fair value gains/(losses) would be $0.1 million/$(0.1) million (30 June 2023: $0.3 million/$(0.3) million).

C5 Credit risk

An analysis of the credit quality of financial assets and % of total are as follows:

	2024			2023		
	Credit rating (S&P or Moody's)	**$000**	**%**	**Credit rating (S&P or Moody's)**	**$000**	**%**
Cash and cash equivalents, term deposits and bonds	A- and above	48,356	69%	A- and above	55,884	100%
Term deposits - related parties	AA	22,084	31%		-	0%
		70,440	**100%**		**55,884**	**100%**

All reinsurers have an A- rating or above.

C6 Insurance risk

The Company assumed the following material insurance risks in 2024 (net of any excess payable) of $49.0 million (2023: $49.0 million):

Insurance policy ($m)	Amount Insured	Deductible	Externally insured risk	RRL Retained risk
HVDC submarine cables	75	-	45	30
Material Damage	650	1	640	9
Transmission lines	10	-	-	10
Total	**735**	**1**	**685**	**49**

D INSURANCE AND REINSURANCE CONTRACTS

D1 LIABILITY FOR INSURANCE CONTRACTS

Reconciliation of movements in liability for remaining coverage and incurred claims:

	2024				
	Liabilities for remaining coverage		**Liabilities for incurred claims**		**Total**
$000	**Excluding loss component**	**Loss component**	**Estimates of the present value of future cash flows**	**Risk adjustment**	
Opening balance	4,345	-	24,107	1,308	29,760
Insurance revenue	(28,784)	-	-	-	(28,784)
Incurred claims	-	-	7,270	1,460	8,730
Changes to liabilities for incurred claims	-		9,622	2,474	12,096
Other expenses	-	-	692	-	692
Insurance service results	**(28,784)**	**-**	**17,584**	**3,934**	**(7,266)**
Insurance finance expenses for insurance contracts issued		-	904	-	904
Total changes in the statement of comprehensive income	**(28,784)**	**-**	**18,488**	**3,934**	**(6,362)**
Premiums Received	29,327	-	-	-	29,327
Claims and other expenses paid	-	-	(6,940)	-	(6,940)
Total cash flows	**29,327**	**-**	**(6,940)**	**-**	**22,387**
Closing balance	**4,888**	**-**	**35,655**	**5,242**	**45,785**
Comprising					
Current	4,888	-	35,655	5,242	45,785
Non-current	-	-	-	-	-
	4,888	**-**	**35,655**	**5,242**	**45,785**

D1 LIABILITY FOR INSURANCE CONTRACTS (CONTINUED)

2023	Liabilities for remaining coverage		Liabilities for incurred claims		Total
$000	**Excluding loss component**	**Loss component**	**Estimates of the present value of future cash flows**	**Risk adjustment**	
Opening balance	3,635	-	7,700	-	11,335
Insurance revenue	(25,361)	-	-	-	(25,361)
Incurred claims	-	-	22,992	1,308	24,300
Changes to liabilities for incurred claims	-	-	32	-	32
Other expenses	-	-	567	-	567
Insurance service results	**(25,361)**	**-**	**23,591**	**1,308**	**(462)**
Insurance finance expenses for insurance contracts issued	-	-	-	-	-
Total changes in the statement of comprehensive income	**(25,361)**	**-**	**23,591**	**1,308**	**(462)**
Premiums Received	26,071	-	-	-	26,071
Claims and other expenses paid	-	-	(7,184)	-	(7,184)
Total cash flows	**26,071**	**-**	**(7,184)**	**-**	**18,887**
Closing balance	**4,345**	**-**	**24,107**	**1,308**	**29,760**
Comprising					
Current	4,345	-	6,498	-	10,843
Non-current	-	-	17,609	1,308	18,917
	4,345	**-**	**24,107**	**1,308**	**29,760**

Accounting policies

Liability for incurred claims

Liability for incurred claims are recognised when loss events have occurred and are based on the estimated fulfilment cash flows. The fulfilment cash flows incorporate, in an unbiased way, all reasonable and supportable information available without undue cost or effort about the amount, timing and uncertainty of those future cash flows, they reflect current estimates from the perspective of the Company, and include an explicit adjustment for non-financial risk (the risk adjustment).

Changes in expected claims that have occurred but which have not been settled are reflected by adjusting the claim liability.

A 4.0% loading for claims handling expense is supported by analysis of the Company's projected claim related expenses applied to the claim expenses (2023: 3.3%).

Discount rates

The liability for incurred claims are calculated by discounting expected future cash flows at a risk free rate, plus an illiquidity premium where applicable. The risk free rate is based on the NZ Government bond rate.

The weighted average discount rate used in the measurement of the liability for incurred claim is 5.3% (2023: 5.0%)

Risk adjustment for non-financial risk

The risk adjustment for non-financial risk is the compensation that the Company requires for bearing the uncertainty as to the amount and timing of cash flows relating to insurance contracts.

The Company has estimated the risk adjustment using a confidence level (probability of sufficiency) of the 75th percentile. A risk adjustment of 20% was applied to certain claims to maintain the confidence level where there is material uncertainty regarding the company's net cost to settle the claim (June 2023: 12%).

D1 LIABILITY FOR INSURANCE CONTRACTS (CONTINUED)

Actuarial assumption and methods

The Appointed Actuary is Jeremy Holmes, a Fellow of the New Zealand Society of Actuaries. The Appointed Actuary is satisfied as to the nature, sufficiency and accuracy of the data upon which insurance liabilities have been determined.

The methodology applied in estimating the liability for incurred claims includes:
- Consideration of the adequacy of previous case estimates and the comparison to the actual cost to settle claims;
- Consideration of the nature of the Company's businesses, claim history and assessment of any allowance required for reopened claims or claims which have been incurred but not reported (IBNR);
- Assessment of the volatility in previous claim outcomes (relative to estimates) to determine risk adjustments; and
- Consideration of the Company's operational expenses as they relate to claims management and an estimate of what this equates to as a percentage of claims costs.

Sensitivities

The liability for incurred claims is sensitive to the key assumptions in the table below. It has not been possible to quantify the sensitivity of certain assumptions such as legislative changes or uncertainty in the estimation process. The following sensitivity analysis shows the impact on gross and net liabilities, profit before tax and equity for reasonably possible movements in key assumptions with all other assumptions held constant.

At 30 June 2024, the weighted average term to settlement is approximately 6 months (2023: 2 years 4 months). The term to settlement for reinsurance recoverable is consistent with these applied to liabilities for incurred claims.

		Impact on profit before tax		Impact on equity	
$000	**Change in assumptions**	**Gross of reinsurance**	**Net of reinsurance**	**Gross of reinsurance**	**Net of reinsurance**
Weighted average term to settlement	+1 year	1,785	1,412	1,285	1,017
	- 1 year	(950)	(755)	(684)	(543)
Discount rate	+1%	171	136	123	98
	- 1%	(174)	(138)	(125)	(99)
Claims handling fee	+1%	(341)	(341)	(246)	(246)
	-1%	341	341	246	246
Risk adjustment	+10%	(2,621)	(861)	(1,887)	(620)
	-10%	2,621	861	1,887	620

2023 (restated)

		Impact on profit before tax		Impact on equity	
$000	**Change in assumptions**	**Gross of reinsurance**	**Net of reinsurance**	**Gross of reinsurance**	**Net of reinsurance**
Weighted average term to settlement	+1 year	1,045	1,045	752	752
	- 1 year	(842)	(842)	(606)	(606)
Discount rate	+1%	506	506	364	364
	- 1%	(525)	(525)	(378)	(378)
Claims handling fee	+1%	(279)	(279)	(201)	(201)
	-1%	187	187	135	135
Risk adjustment	+10%	(1,075)	(75)	(774)	(54)
	-10%	1,075	75	774	54

D1 LIABILITY FOR INSURANCE CONTRACTS (CONTINUED)

Claims development

The majority of the company's claims are typically resolved within one year.

The exception is the Cyclone Gabrielle claim which due to its complexity is estimated to be resolved within two years from date of accident.

Gross undiscounted claims - Cyclone Gabrielle

$000

Accident year	**2023**
At end of year - 30 June 2023	18,900
One year later - 30 June 2024	26,500

D2 REINSURANCE CONTRACTS

The roll-forward of the reinsurance contracts held showing assets for remaining coverage and amounts recoverable on incurred claims.

$000	2024				
	Assets for remaining coverage		Amounts recoverable on incurred claims		Total
	Excluding loss recovery component	Loss recovery component	Estimates of the present value of future cash flows	Risk adjustment	
Opening balance 1 July	**1,073**	**-**	**-**	**1,217**	**2,290**
Allocation of reinsurance premiums	(7,621)	-	-	-	(7,621)
Amounts recoverable from reinsurers for incurred claims:	-	-	7,405	2,303	9,708
Amounts recoverable for incurred claims and other expenses	-		-	-	-
Changes to amounts recoverable for incurred claims	-	-	7,405	2,303	9,708
Net income or expense from reinsurance contracts held	**(7,621)**	**-**	**7,405**	**2,303**	**2,087**
Reinsurance finance expense for reinsurance contracts held	-	-	-	-	-
Total changes in the statement of comprehensive income	**(7,621)**	**-**	**7,405**	**2,303**	**2,087**
Cash flows					
Reinsurance premiums paid	7,857	-	-	-	7,857
Recoveries received	-	-	-	-	-
Total cash flows	**7,857**	**-**	**-**	**-**	**7,857**
Closing balance 30 June	**1,309**	**-**	**7,405**	**3,520**	**12,234**

The Company cedes some written insurance risks to a number of reinsurance companies. As at 30 June 2024, the reinsurance premium prepayment relates to the period July - August 2024.
(2023: July - August 2023).

D2 REINSURANCE CONTRACTS (CONTINUED)

	2023				
	Assets for remaining coverage		**Amounts recoverable on incurred claims**		**Total**
$000	Excluding loss recovery component	Loss recovery component	Estimates of the present value of future cash flows	Risk adjustment	
Opening balance 1 July	**995**	**-**	**-**	**-**	**995**
An allocation of reinsurance premiums	(6,362)	-	-	-	(6,362)
Amounts recoverable from reinsurers for incurred claims:	-	-	-	1,217	1,217
Amounts recoverable for incurred claims and other expenses	-	-		1,217	1,217
Changes to amounts recoverable for incurred claims	-	-	-	-	-
Net income or expense from reinsurance contracts held	**(6,362)**	**-**	**-**	**1,217**	**(5,145)**
Reinsurance finance income for reinsurance contracts held	-		-		-
Total changes in the statement of comprehensive income	**(6,362)**	**-**	**-**	**1,217**	**(5,145)**
Cash flows					
Reinsurance premiums paid	6,440	-	-	-	6,440
Recoveries received	-	-	-	-	-
Total cash flows	**6,440**	**-**	**-**	**-**	**6,440**
Closing balance 30 June	**1,073**	**-**	**-**	**1,217**	**2,290**

Accounting policies

Reinsurance contracts held

Reinsurance assets for the reinsurance contracts is measured on the same basis as insurance contracts that the company issues.
The weighted average discount rate used in the measurement of the reinsurance recoverable on incurred claims is 5.3% (2023: Nil)
The risk adjustment for the reinsurance recoverable on incurred claims is based on the reinsurer's share of a gross adjustment of 20% (2023: 12%).

E OTHER

E1 RELATED PARTIES

The Company is a 100% owned subsidiary of Transpower.

Transpower pays insurance premiums to the Company and makes claims when insurance events occur. The related party balances and transactions are disclosed below.
The material insurance policies held by Transpower with the Company are disclosed in Note C6.

$000	2024	Restated 2023
Related party transactions with Transpower		
Insurance revenue	28,784	25,361
Other insurance service expenses	(490)	(490)
Claims incurred and change to liabilities for incurred claims	(20,826)	(32)
Insurance finance expenses for insurance contracts issued	(904)	-
	6,564	24,839
Related party (receivables) / payables with Transpower		
Provision for income tax (receivable) / payable	(3,304)	3,825
Other expenses incurred on the Company's behalf	-	49
	(3,304)	3,874
Other related party balances with Transpower		
Liability for insurance contracts	45,785	29,760
Term deposit	(22,084)	-
	23,701	29,760

Related party payables are non-interest bearing and are repayable on demand.
No related party debts have been written-off or forgiven during this period.

Transactions with key management personnel
No remuneration or other benefits are paid to key management personnel or the directors of the Company in respect of their roles as directors of the Company. Indemnity insurance is paid by the Parent.

Audit fees
Audit fees and some other operating expenses are incurred by the Parent and not recharged to subsidiary companies.

E2 CONTINGENT ASSETS AND LIABILITIES

There are no contingent assets or liabilities at 30 June 2024 (2023: Nil).

E3 COMMITMENTS

There are no capital commitments at 30 June 2024 (2023: Nil).

E4 SUBSEQUENT EVENTS

There have been no subsequent events.

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INDEPENDENT AUDITOR'S REPORT

TO THE READERS OF RISK REINSURANCE LIMITED'S FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2024

The Auditor-General is the auditor of Risk Reinsurance Limited (the entity). The Auditor-General has appointed me, Sam Nicolle, using the staff and resources of Ernst & Young, to carry out the audit of the financial statements of the entity on his behalf.

Opinion

We have audited the financial statements of the entity on pages 3 to 24, that comprise the statement of financial position as at 30 June 2024, the statement of profit or loss and other 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 material accounting policy information.

In our opinion, the financial statements present fairly, in all material respects, the financial position of the entity as at 30 June 2024, and its financial performance and its cash flows for the year then ended in accordance with New Zealand equivalents to International Financial Reporting Standards and International Financial Reporting Standards.

Basis for our 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 entity 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 provided other assurance services to the entity which is compatible with those independence requirements. Other than in our capacity as auditor and this assignment, we have no relationship with, or interests in, Risk Reinsurance Limited.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

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We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the financial statements* section of the audit report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of the material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial statements.

Valuation of liability for incurred claims

<table>
<tr><th>Why significant</th><th>How our audit addressed the key audit matter</th></tr>
<tr><td>
Risk Reinsurance Limited is a captive insurance company, which provides material damage and business interruption coverage to its parent company Transpower New Zealand Limited.

As at 30 June 2024, the entity recorded a Liability for Incurred Claims of $40.9m (note D1).

The entity applied NZ IFRS 17 Insurance Contracts (NZ IFRS 17) for the first time from 1 July 2023. This standard brought changes to accounting for the entity's insurance and reinsurance contracts. The impact of adopting NZ IFRS 17 is described within the section headed Changes in Accounting Policies and Disclosures in the notes to the financial statements.

The entity's Appointed Actuary calculated the Liability for Incurred Claims by considering management's case estimates and assumptions applicable to the entity.

We considered the valuation of the Liability for Incurred Claims to be a key audit matter because of the:

► Financial significance of the Liability for Incurred Claims
► Degree of judgement in developing assumptions. The key judgements involved in estimating the Liability for Incurred Claims include:
- Assumptions as to the timing and amount of reported claim payments
- Assumption in relation to future claims handling expenses
</td><td>
Our audit procedures in relation to the valuation of the Liability for Incurred Claims included:
- Obtaining an understanding of the entity's claims assessment and settlement processes;
- Inspecting claims paid during the year to assess the appropriateness of historical estimates;
- Assessing, on a sample basis, the costs associated with claims outstanding at balance date;
- Utilising our actuarial specialists to review the Liability for Incurred Claims valuation prepared by the Appointed Actuary to evaluate the appropriateness of the methodologies and assumptions used in the valuation against the requirements of NZ IFRS 17;
- Assessing the procedures performed by management to address the completeness of claims data used for determining the Liability for Incurred Claims;
- Evaluating the objectivity, capabilities, and competence of the entity's Appointed Actuary;
- Analysing the entity's accounting policies to evaluate their compliance with the requirements of NZ IFRS 17; and
- Assessing the adequacy of the Liability for Incurred Claims disclosures, including new disclosures required by NZ IFRS 17, within the Notes to the Financial Statements.
We considered the results of the procedures above satisfactory in forming our opinion on the financial statements as a whole.
</td></tr>
</table>

- Discount rates - Allowance for risk in estimating future cash flows through the inclusion of a risk adjustment - Assumptions in relation to the number and size of claims incurred but not reported ► Change in disclosures relating to the introduction and application of NZ IFRS 17. Details of the valuation techniques, inputs and assumptions used are disclosed in Note D1 of the financial statements.	

Other information

The Directors are responsible on behalf of the entity for the other information. The other information comprises the information that 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 and, in doing so, 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 the work we have performed, 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 entity for the preparation and fair presentation of the 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 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 entity for assessing the entity'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 entity or to cease operations, or have no realistic alternative but 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 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 readers 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 for 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 entity's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- 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 entity'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 entity 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.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entity to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the audit. We remain solely responsible for our audit opinion.

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.

Sam Nicolle
Ernst & Young
Chartered Accountants
On behalf of the Auditor-General
Wellington, New Zealand
10 September 2024