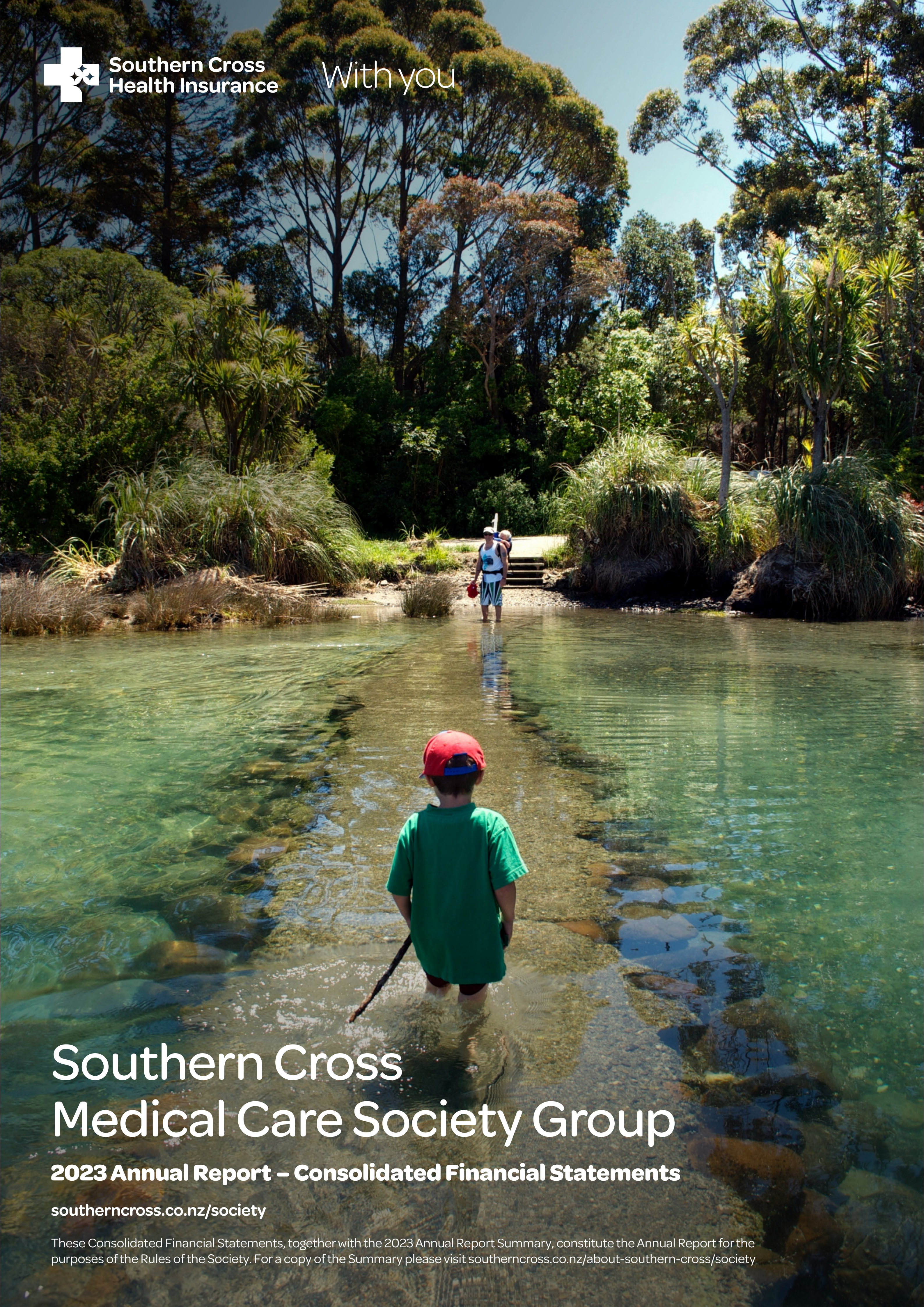

Southern Cross Health Insurance

With you

Southern Cross Medical Care Society Group

2023 Annual Report – Consolidated Financial Statements

southerncross.co.nz/society

These Consolidated Financial Statements, together with the 2023 Annual Report Summary, constitute the Annual Report for the purposes of the Rules of the Society. For a copy of the Summary please visit southerncross.co.nz/about-southern-cross/society

THE SOUTHERN CROSS MEDICAL CARE SOCIETY GROUP

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED

30 June 2023

CONTENTS

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the year ended 30 June 2023

	Note	2023 $000	2022 $000
Net premium revenue	4	1,559,319	1,384,425
Net claims expense	5	(1,357,738)	(1,103,507)
Underwriting surplus		**201,581**	**280,918**
Operating expenses	9	(245,725)	(172,455)
Operating (loss)/surplus		**(44,144)**	**108,463**
Net investment and other income	8	29,052	(17,107)
Interest expense		(1,738)	(698)
(Loss)/surplus before taxation		**(16,830)**	**90,658**
Taxation benefit/(expense)	16	285	(521)
(Loss)/surplus after taxation		**(16,545)**	**90,137**
Other comprehensive income:			
Movement in foreign currency translation reserve		(6)	-
Deferred income tax relating to currency translation		2	-
Total comprehensive (loss)/income		**(16,549)**	**90,137**

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

KPMG

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
as at 30 June 2023

	Note	2023 $000	2022 $000
Assets			
Cash and cash equivalents	10	34,440	40,787
Premium and other receivables	11	151,862	134,850
Reinsurance and other recoveries	3	2,024	550
Current tax assets		316	-
Investments	7	739,040	696,676
Investment in joint venture	18e	245	98
Property and equipment	12	6,487	6,816
Intangible assets	12	17,831	28,075
Right-of-use assets	13	32,853	33,705
Deferred tax assets	16	10,381	10,403
Total assets		**995,479**	**951,960**
Liabilities			
Payables and other liabilities	14	22,400	20,274
Provisions	15	6,543	-
Current tax liabilities		-	16
Employee benefits	17	17,075	13,238
Lease liabilities	13	47,302	48,348
Insurance contract liabilities	3	304,035	254,972
Deferred tax liabilities	16	869	1,308
Total liabilities		**398,224**	**338,156**
Net assets		**597,255**	**613,804**
Reserves			
Consolidated reserves		597,259	613,804
Foreign currency translation reserve		(4)	-
Total Reserves		**597,255**	**613,804**

Authorised on behalf of the Board of Directors on 20 September 2023

M P Jordan
Chairman

C M Drayton
Director

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

KPMG

CONSOLIDATED STATEMENT OF CHANGES IN RESERVES

for the year ended 30 June 2023

	Consolidated Reserves	Foreign Currency Translation Reserve	Total Reserves
	$000	$000	$000
As at 1 July 2022	613,804	-	613,804
Loss after taxation	(16,545)	-	(16,545)
Other comprehensive income	-	(4)	(4)
Total comprehensive loss	(16,545)	(4)	(16,549)
As at 30 June 2023	**597,259**	**(4)**	**597,255**

	Consolidated Reserves	Foreign Currency Translation Reserve	Total Reserves
	$000	$000	$000
As at 1 July 2021	523,667	-	523,667
Surplus after taxation	90,137	-	90,137
Other comprehensive income	-	-	-
Total comprehensive income	90,137	-	90,137
As at 30 June 2022	**613,804**	**-**	**613,804**

The above consolidated statement of changes in reserves should be read in conjunction with the accompanying notes.

KPMG

CONSOLIDATED STATEMENT OF CASH FLOWS

for the year ended 30 June 2023

	Note	2023 $000	2022 $000
Cash flows from operating activities			
Premium revenue received		1,578,683	1,386,850
Payment of reinsurance premiums		(1,246)	(41)
Other income received		1,613	1,135
Payment of claims		(1,342,648)	(1,098,108)
Third party (ACC) recoveries received		5,721	3,412
Reinsurance recoveries received		200	31
Payments to employees		(106,344)	(78,795)
Payments to suppliers		(118,784)	(74,294)
Interest on remediation paid		(50)	(39)
Payments of income tax		(461)	-
Net cash flows from operating activities		**16,684**	**140,151**
Cash flows to investing activities			
Sale of property and equipment		12	-
Payments for property and equipment	12	(949)	(378)
Payments for intangible assets	12	(1,631)	(617)
Net purchases of investments		(26,794)	(118,965)
Interest received		12,126	3,792
Investment in joint venture	18e	(308)	(280)
Purchase of travel insurance business	18,21	-	(28,500)
Cash and cash equivalents acquired with the purchase of travel insurance business	18,21	-	23,372
Net cash flows to investing activities		**(17,544)**	**(121,576)**
Cash flows to financing activities			
Repayment of lease liabilities	13	(4,516)	(4,176)
Interest paid	13	(784)	(698)
Net cash flows to financing activities		**(5,300)**	**(4,874)**
Net (decrease)/increase in cash and cash equivalents		**(6,160)**	**13,701**
Opening cash and cash equivalents		40,787	27,086
Effect of exchange rate movement on foreign currency balances		(187)	-
Closing cash and cash equivalents		**34,440**	**40,787**

RECONCILIATION OF (LOSS)/SURPLUS AFTER TAXATION TO NET CASH FLOWS FROM OPERATING ACTIVITIES

	Note	2023	2022
(Loss)/surplus after taxation		(16,545)	90,137
Adjustments for non-cash and non-operating items included in surplus after taxation:			
Depreciation and amortisation	12,13	17,452	14,852
Interest expense	13	784	698
Adjustments to lease terms		-	(468)
Impairment of assets	12	-	325
Loss on disposal of assets		24	-
Loss on disposal of leases		276	-
Net (gain)/loss on investments	8	(7,879)	24,530
Interest income	8	(19,505)	(6,288)
Foreign currency exchange movement		55	-
Changes in assets and liabilities:			
Premium and other receivables		10,634	392
Payables and other liabilities		5,621	6,048
Provisions	15	6,543	-
Deferred acquisition costs	11	(479)	(460)
Net deferred taxation	16	(415)	521
Insurance contract liabilities		20,118	9,864
Net cash flows from operating activities		**16,684**	**140,151**

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

KPMG

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 30 June 2023

1 BASIS OF ACCOUNTING

The notes to the financial statements contain detailed financial information and the accounting policies that are considered relevant and material to the understanding of the financial performance and financial position.

Additional signposting has been used throughout the notes to the financial statements to assist readers in understanding the key information in the financial statements.

Signpost
Basis of preparation
Accounting policy
Management judgements and estimates

REPORTING ENTITY

The Southern Cross Medical Care Society (the "Society") is a friendly society domiciled in New Zealand, registered under the Friendly Societies and Credit Unions Act 1982. The Society's primary activity is the provision of health insurance and its registered office is Level 1, Te Kupenga, 155 Fanshawe Street, Auckland 1010.

The Society is a licensed insurer under the Insurance (Prudential Supervision) Act 2010. It is deemed to be a financial markets conduct reporting entity under Part 7 of the Financial Markets Conduct Act 2013 and therefore a Tier 1 reporting entity for financial reporting purposes.

The consolidated financial statements are for the Group comprising the Society and its subsidiaries: Southern Cross Pet Insurance Limited ("SCPIL"), Southern Cross Benefits Limited ("SCBL"), Southern Cross Insurance Services Limited ("SCISL"), Southern Cross Ventures Limited ("SCVL"), and Southern Cross Health Services Limited ("SCHSL") (collectively the "Group").

On 30 June 2022, the Society acquired 100% of the shares of SCBL from Southern Cross Health Trust for consideration of $28.5m (hereby referred to as the purchase of the travel insurance business), refer to Note 21 for details. SCBL is a licensed insurer under the Insurance (Prudential Supervision) Act 2010. Its primary activity is the provision of travel insurance. SCBL also operates in Australia selling domestic and outbound travel insurance and is regulated by the Australian Prudential Regulation Authority ("APRA") and the Australian Securities and Investment Commission ("ASIC").

As the Group acquired SCBL on the last day of the comparative reporting period, SCBL did not contribute any revenue or profit to the Group's results for the year ended 30 June 2022. Thus, the comparative Consolidated Statement of Financial Position includes SCBL's position, whereas there is no impact on the comparative Consolidated Statement of Comprehensive Income.

As a consequence of its legal structure, the Society has no recourse to external capital and therefore internally generated capital is of paramount importance. The Society's members reserves of $595.3 million (30 June 2022: $600.7 million) represents the retained surpluses of the Society. Consolidated reserves of the Group of $597.3 million (30 June 2022: $613.8 million) includes the net equity of the Society's insurance and non-insurance subsidiaries.

BASIS OF PREPARATION

The Society is a for-profit entity for financial reporting purposes.

The consolidated financial statements are:

- prepared in accordance with the statutory requirements of the Friendly Societies and Credit Unions Act 1982, the Financial Markets Conduct Act 2013 and the Insurance (Prudential Supervision) Act 2010.
- prepared in accordance with New Zealand generally accepted accounting practice ("NZ GAAP").
- compliant with New Zealand equivalents to International Financial Reporting Standards ("NZ IFRS") and International Financial Reporting Standards ("IFRS").
- presented in New Zealand dollars ("NZD"), which is the Group's functional and presentation currency. The functional currency for the Australian branch of SCBL is Australian dollars ("AUD"). Transactions in the branch are translated to NZD as disclosed in the foreign currency transactions accounting policy. All financial information has been rounded to the nearest thousand ($000), unless otherwise stated.
- stated net of Goods and Services Tax ("GST"), with the exception of receivables and payables, which are stated inclusive of GST where applicable. Net cash flows in the cash flow statement are shown exclusive of GST.
- prepared using historical cost as the measurement basis except for investments, insurance contract liabilities and the purchase of the travel insurance business, which are measured at fair value.
- certain comparatives have been updated to conform with the current year disclosures. These presentational changes are not considered material.

BASIS OF CONSOLIDATION

The Group controls an entity when it is exposed to, or has rights to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are entities controlled by the Group. Where an entity is acquired by the Group during the financial year, the results of that entity are included in the Group financial statements from the date that control commenced. Where an entity acquired by the Group was not under common control, the cost of an acquisition is measured as the fair value of the assets transferred, less the liabilities incurred. The difference between the net assets acquired and the consideration paid is recognised as goodwill. All intra-group balances and transactions are eliminated in preparing the Group consolidated financial statements.

ACCOUNTING POLICIES AND STANDARDS

Accounting policies have been applied on a basis consistent with that used in the previous year.

NOTES TO THE FINANCIAL STATEMENTS (continued)
for the year ended 30 June 2023

1 BASIS OF ACCOUNTING (continued)

FOREIGN CURRENCY TRANSACTIONS

Transactions in foreign currencies that are settled in the reporting period are translated at the settlement rate. Transactions in foreign currency that are not settled in the reporting period, resulting in monetary assets and liabilities denominated in foreign currencies at the reporting date, are translated to NZD at the foreign exchange rate at that date. Foreign exchange differences arising on their translation are recognised in the profit or loss at settlement.

Foreign operations

Activities of the Australian branch of SCBL are recorded in Australian dollars, its functional currency. Profit or loss items are translated to NZD at an average exchange rate for each month. The assets and liabilities of the branch are initially translated to NZD at the foreign exchange rate on the day they arise. At balance date, all assets and liabilities are re-translated at the exchange rate on that date.

Foreign exchange differences arising from this translation are recognised in other comprehensive income and the foreign currency translation reserve as part of consolidation.

USE OF ESTIMATES AND JUDGEMENTS

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised.

Information about significant areas of estimation, uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements are described in the following notes:

- Note 3: Insurance contract liabilities
- Note 6a: Insurance risk
- Note 12: Property and equipment and intangible assets
- Note 13: Leases
- Note 15: Provisions
- Note 16: Taxation
- Note 21: Purchase of travel insurance business

CHANGES IN FINANCIAL REPORTING STANDARDS

New accounting standards not yet effective

There are a number of standards, amendments and interpretations which have been approved but are not yet effective. The Group expects to adopt these when they become due for adoption. The most significant of these is NZ IFRS 17 Insurance Contracts ("NZ IFRS 17").

NZ IFRS 17 Insurance Contracts

NZ IFRS 17 will replace NZ IFRS 4 Insurance Contracts for annual periods beginning on or after 1 January 2023. This means that the Group will be required to produce comparative financial information with effect from 1 July 2022 and a first set of full year financial statements under the new standard for the year ending 30 June 2024. The new standard establishes principles for the recognition, measurement, presentation, and disclosure of insurance contracts issued. The Group has not early adopted NZ IFRS 17 in preparing these consolidated financial statements.

a. Transition

On transition date 1 July 2022, the Group applied NZ IFRS 17 to all of its portfolios, as if it always existed, under the full retrospective approach. The portfolios include Health insurance, Critical illness & Cancer assist (CI & CA), Pet insurance and Travel insurance. Under the full retrospective approach, the Group:

(a) Identified, recognised and measured each group of insurance and reinsurance contracts as if NZ IFRS 17 had always been applied;
(b) Identified, recognised and measured any assets for insurance acquisition cash flows as if NZ IFRS 17 had always been applied, except that the recoverability assessment was not applied before 1 July 2022;
(c) Derecognised previously reported balances that would not have existed if NZ IFRS 17 had always been applied;
(d) Recognised any resulting net difference in the consolidated reserves. The carrying amounts of goodwill from previous business combinations were not adjusted.

The initial application of NZ IFRS 17 on transition date is expected to reduce the Group's consolidated reserves by $37.4m to $67.3m:

	Society (Health insurance) $m	SCPIL (Pet insurance) $m	SCBL (Travel insurance) $m	Total $m
1 July 2022				
Increase (reduction) in the Group's consolidated reserves	(35.2) to (64.5)	(3.0) to (3.2)	0.8 - 0.4	(37.4) to (67.3)

The reduction in the Group's consolidated reserves is largely driven by the recognition of the loss component in the liability for remaining coverage from onerous contracts in the Health insurance portfolio. Measurement of insurance contract liabilities across the various portfolios includes a risk adjustment which is determined using a cost of capital approach. The approach takes into account each entity's target capital position and weighted average cost of capital. For each entity, the risk adjustment included in the estimated financial impact corresponds to an equivalent probability of adequacy range as follows.

i.

Health insurance	Pet insurance	Travel insurance
62% to 75%	62% to 75%	69% to 75%

The critical illness and cancer assist (CI & CA) portfolio has no impact on the reserves on transition.

The nature and effects of the key changes in the Group's accounting policies resulting from its impending adoption of NZ IFRS 17 are summarised below.

NOTES TO THE FINANCIAL STATEMENTS (continued)
for the year ended 30 June 2023

1 BASIS OF ACCOUNTING (continued)

CHANGES IN FINANCIAL REPORTING STANDARDS (continued)

b. Recognition, measurement and presentation of insurance contracts

Measurement

As permitted under NZ IFRS 17, all of the contracts in the Group's portfolios are eligible to be measured by applying the Premium Allocation Approach (“PAA”). This simplifies the recognition and measurement of non-onerous insurance contracts in the Group. The measurement principles of the PAA differs from the "earned premium approach" used by the Group under NZ IFRS 4 in the following areas:

- Recognition of the loss component in the liability for remaining coverage ("LFRC") at a more granular "group" level as opposed to "portfolio" level.
- Measurement of insurance contract liabilities includes a risk adjustment which replaces the risk margin under NZ IFRS 4.
- Adoption of the option to not defer insurance acquisition cashflows for Health insurance and Pet insurance.
- Derecognition of the customer asset that was recognised by Pet insurance under NZ IFRS 4 following its acquisition of a portfolio of insurance contracts. Management judgement was applied to determine this asset was an insurance acquisition cash flow asset and that this asset should be de-recognised after taking the option to expense insurance acquisition cash flows as incurred.
- Travel insurance continues to defer insurance acquisition cashflows as the option to not defer insurance acquisition cashflows is not available.

The Group recognises insurance acquisition cashflows as expenses as incurred, where permitted to do so under NZ IFRS 17, in applying the PAA for contracts with a coverage period of no more than one year.

Presentation

Under NZ IFRS 17:

- In the consolidated statement of financial position, the asset for insurance acquisition cashflows and insurance-related receivables are now part of insurance contract liabilities and are no longer presented separately.
- In the consolidated statement of comprehensive income, the insurance service result consists of insurance revenue, insurance service expenses and net income/(expenses) from reinsurance contracts held. Amounts recovered from reinsurers and reinsurance expenses are presented as a single net amount and no longer offset against insurance revenue / insurance service expenses.

Implementation progress and status

The NZ IFRS 17 project activities for the Group are in the final phase, ready for the implementation date of 1 July 2023 – key milestones delivered are:

- Technical accounting papers in support of NZ IFRS 17 accounting policies were completed.
- Key accounting policies, areas of judgements and key actuarial assumptions have been considered by the Boards.
- NZ IFRS 17 tools, calculations and models to ensure compliance with the measurement, presentation and disclosure requirements of NZ IFRS 17 have been operationalised.
- Comparative numbers on a parallel basis to NZ IFRS 4 from 1 July 2022 have been produced to: (a) understand the implications and outcomes associated with NZ IFRS 17 accounting policy choices (b) test methodology decisions that underpin the key areas of measurement, and (c) validate accuracy of data extracts that are being used in the measurement of insurance contract liabilities.

The requirements of NZ IFRS 17 are complex and the actual financial impacts are subject to the finalisation of key assumptions, in particular risk adjustments. Therefore, the expected financial impact on transition date has been presented as a range as opposed to a point estimate and the impact to net assets at 30 June 2023 is still to be finalised.

NOTES TO THE FINANCIAL STATEMENTS (continued)
for the year ended 30 June 2023

2 SOLVENCY

As licensed insurers, the Solvency Standard for Non-life Insurance Business ("the Solvency Standard") issued by the Reserve Bank of New Zealand ("RBNZ") requires the Society, SCPIL and SCBL to each retain a positive solvency margin, meaning that the actual solvency capital position exceeds the minimum required under the Solvency Standard. The RBNZ has issued an Interim Solvency Standard which applies to the Group from 1 July 2023. The Group has formal capital management policies in place to:

- maintain a strong capital base to establish security for its members and policyholders;
- satisfy capital adequacy standards as prescribed by RBNZ and by APRA for the Australian branch; and
- enable the Group to conduct its business under optimal capital structures.

a. Society solvency

The Society is required by the RBNZ to maintain a solvency ratio of at least 1.0. Solvency is also measured using an internal benchmark and target range for the Society to hold net tangible assets equivalent to 4 to 6 months of expected annual claims. The Board of Directors has determined that if the solvency ratio falls below a minimum solvency capital of 3.0 (30 June 2022: 3.0), then the capital management plan requires that the Board and management must give formal and explicit consideration to the actions needed to restore the Society's capital position to above this level. An internal solvency benchmark that is based on claims is relevant as the Society's reserves are used to pay claims. Net tangible assets at 30 June 2023 are equivalent to 5.1 months of claims (30 June 2022: 5.4 months of claims), which is within the target range under the benchmark.
The Society complied with RBNZ imposed capital requirements for the year ended 30 June 2023 (30 June 2022: In compliance).

	2023	2022
	$m	$m
Disclosures of Society solvency required by the Solvency Standard as issued by the RBNZ		
Solvency capital	533.5	545.4
Minimum solvency capital	146.4	167.9
Solvency margin	387.1	377.5
Solvency ratio	3.64	3.25

In December 2022, Standard & Poor's reaffirmed the Society's Insurer Financial Strength Rating at A+ (Strong) (January 2022: A+ (Strong)), under its global insurance industry rating methodology.

b. Group Solvency

i. SCPIL

The target range for the capital position of SCPIL is a solvency ratio of 1.20 to 1.50. The capital management policy is regularly reviewed by the SCPIL Directors in line with the guidelines issued by the RBNZ.

SCPIL is a licensed insurer under the Insurance (Prudential Supervision) Act 2010. SCPIL has complied with RBNZ imposed capital requirements for the year ended 30 June 2023. In December 2022, Standard & Poor's reaffirmed SCPIL's Insurer Financial Strength Rating at A (Strong) (January 2022: A (Strong)), under its global insurance industry rating methodology.

ii. SCBL

SCBL is a licensed insurer under the Insurance (Prudential Supervision) Act 2010. SCBL has adopted a formal capital management plan to maintain a strong capital base and satisfy capital adequacy standards as prescribed by the RBNZ and by APRA for the Australian branch. An additional capital buffer of $3.8 million (30 June 2022: $2.6 million) for SCBL has been determined by the Directors as sufficient for maintaining financial soundness. In January 2023 Standard & Poor's reaffirmed SCBL's Insurer Financial Strength Rating at A (Strong) (January 2022: A (Strong)), under its global insurance industry rating methodology.

Actual solvency capital at 30 June 2023 for the Australian branch was AUD $8.7 million (30 June 2022: AUD $7.1 million) calculated in accordance with APRA requirements. Minimum solvency capital required to be retained by the Branch to satisfy APRA requirements is AUD $5 million (30 June 2022: AUD $5 million).

Consolidated Solvency

As the Society is a licensed insurer with two licensed insurer subsidiaries, these insurers must be consolidated for the purpose of calculating and reporting the insurance group solvency, as follows:

	2023	2022
	$m	$m
Disclosures of insurance group solvency required by the Solvency Standard as issued by the RBNZ		
Solvency capital	562.3	569.7
Minimum solvency capital	158.7	176.6
Solvency margin	403.6	393.1
Solvency ratio	3.54	3.23

NOTES TO THE FINANCIAL STATEMENTS (continued)
for the year ended 30 June 2023

3 INSURANCE CONTRACT LIABILITIES

Insurance contracts are defined as those containing significant insurance risk at the inception of the contract. All insurance policies issued by the Society, SCPIL and SCBL are insurance contracts.

Estimates of the outstanding claims and unexpired risk for the Society and SCPIL at 30 June 2023 have been determined by the Group's Appointed Actuaries:
Society: John Smeed, a Fellow of the New Zealand Society of Actuaries.
SCPIL: Anagha Pasche, a Fellow of the New Zealand Society of Actuaries.
SCBL: Win-Li Toh, MA (Oxon) a Fellow of the New Zealand Society of Actuaries and a Fellow of the Institute of Actuaries of Australia.
These estimates were presented to the Directors in reports dated 20 September 2023. There were no qualifications to the reports. The calculations of the provisions for outstanding claims and unexpired risk each comply with both NZ IFRS 4 Insurance Contracts, and Professional Standard No.30: Valuations of General Insurance Claims, of the New Zealand Society of Actuaries.

The Appointed Actuaries are satisfied as to the nature, sufficiency and accuracy of the data used to determine these provisions.

	2023 $000	2022 $000
Insurance contract liabilities		
Net provision for outstanding claims	110,364	83,206
Provision for unearned premium	178,303	150,814
Provision for unexpired risk	6,235	13,298
Other insurance provisions	720	640
Assessed claims payable	6,389	6,464
Total insurance contract liabilities net of recoveries	302,011	254,422
Third party (ACC) recoveries	500	500
Reinsurance recoveries	1,524	50
Total recoveries	2,024	550
Total insurance contract liabilities per the Statement of financial position	**304,035**	**254,972**

The net provision for outstanding claims is the central estimate of the present value of expected future payments for claims incurred but not settled at the balance date, less estimated reinsurance and third party recoveries. For the Society, the central estimate has been calculated using historical experience to determine the pattern of claims development. For SCPIL, a payments per active policy approach is adopted to value outstanding claims. For SCBL, a standard chain ladder method is used for claims outstanding twelve months or more on International Comprehensive policies and four months or more on non-International Comprehensive policies. Claims outstanding in respect of the most recent twelve months for International Comprehensive policies and most recent four months for non-International Comprehensive policies are determined by first applying an estimated loss ratio and the percentage estimated as unpaid to the gross earned premiums for the month. This result is then blended with the results from the standard chain ladder method. Additional allowance is made in the New Zealand and Australian outstanding claims provisions for large claim case estimates and associated reinsurance recoveries.

Risk margins (as reflected in the table below) have been added to reflect the inherent uncertainty in the central estimate and consider both historic and future sources of volatility. The risk margins have been kept largely consistent with prior year to reflect the ongoing uncertainty in the current environment due to the flow on impacts on claims of New Zealand's response to managing the COVID-19 pandemic and high levels of inflation. Margins were determined with the objective of achieving at least 75% probability of sufficiency of the provision for outstanding claims.

	2023	2022
Outstanding claims risk margin		
Society	11.0%	11.0%
SCPIL	8.5%	8.5%
SCBL - New Zealand operations	16.0%	15.0%
SCBL - Australian Branch	17.0%	19.0%

Key assumptions:

	Society	SCPIL	SCBL
i.	Future patterns of claims development will be similar to historical patterns depending on the type of policy, type of claim and development month.		
ii.	Monthly seasonality factors used for claims incurred. These are calculated from the 5 years' previous claims experience and range from 70% to 115% (30 June 2022: 69% to 114%) of the monthly average.	No seasonality factors used for claims incurred.	
iii.	Historical claims inflation 8.75% p.a. (30 June 2022: 8.00%), based on previous claims experience. Expected future claim payments are not discounted given the short tail nature of the liabilities.	No explicit adjustment for discounting and future inflation has been made to expected claim payments. This is appropriate given the short tail nature of the liabilities.	

NOTES TO THE FINANCIAL STATEMENTS (continued)
for the year ended 30 June 2023

3 INSURANCE CONTRACT LIABILITIES (continued)

Claims handling costs and expected settlement term:

Claims handling costs include internal and external costs incurred in connection with the negotiation and settlement of claims. Internal costs include all direct expenses of the claims department and any part of the general administrative costs directly attributable to the claims function. Claim handling costs were determined to be the following percentages of the underlying claim amounts:

	Society	SCPIL	SCBL
i.	4% (30 June 2022: 4%)	7% (30 June 2022: 9%)	7% (30 June 2022: 12%)

The average weighted term from 30 June 2023 to the expected settlement date for claims included in the liability for outstanding claims is:

	Society	SCPIL	SCBL
ii.	2.0 months (30 June 2022: 1.5 months)	5.8 months (30 June 2022: 3.5 months)	3.1 months (30 June 2022: 2.7 months)

Provision for outstanding claims

	2023 $000	2022 $000
Provision for outstanding claims		
Central estimate of outstanding claims liability	96,291	72,129
Claims handling costs	4,403	3,321
Risk margin	11,694	8,306
Total provision for outstanding claims (gross)	112,388	83,756
Central estimate of reinsurance recoveries on outstanding claims liability	(1,524)	(50)
Estimate of third party recoveries on outstanding claims liability	(500)	(500)
Total recoveries	(2,024)	(550)
Total provision for outstanding claims (net)	**110,364**	**83,206**

	Note	2023 $000	2022 $000
Reconciliation of movement in net provision for outstanding claims			
Opening balance		83,206	71,656
Net travel insurance outstanding claims liabilities acquired	21	-	4,782
Amounts utilised during the year		(70,415)	(60,698)
Additional provision/(release of) provision		2,905	1,076
Amounts provided during the year		90,401	64,359
Movement in claims handling costs		1,082	228
Movement in risk margin		3,185	1,803
Total		**110,364**	**83,206**

Sensitivity of outstanding claims liability
The provision for outstanding claims was calculated using alternative assumptions to assess the sensitivity of the results to those assumptions. The sensitivities do not represent an upper or lower bound of possible outcomes; the sensitivities can be assessed against the total provision for outstanding claims. No sensitivity impact is disclosed for SCPIL or SCBL on the basis it does not have a material impact on the Group's consolidated financial statements.

	Provision for outstanding claims			
	2023	2023	2022	2022
Society outstanding claims liability sensitivity	$000	$000	$000	$000
Inflation +/- 5%	90,700	89,800	75,600	74,800
Claims payment per member +/- 2%	92,000	88,500	76,700	73,800
Expenses +/- 2.5%	92,500	88,100	77,000	73,400

	2023	2022
Society outstanding claims liability seasonality sensitivity	$000	$000
Seasonality factor June -1% and July +1%	89,700	74,800
Seasonality factor July -1% and June +1%	90,800	75,700

NOTES TO THE FINANCIAL STATEMENTS (continued)
for the year ended 30 June 2023

3 INSURANCE CONTRACT LIABILITIES (continued)

Provision for unexpired risk and liability adequacy test

Liability adequacy tests were performed to determine whether the provision for unearned premium is adequate to cover the present value of the expected future cash flows, plus a risk margin, from the current insurance contracts. For the Society, gross earned premiums from insurance contracts are recognised evenly over the current billing period of the contract, which is considered to be in line with the pattern of the incidence of risk. For SCPIL and SCBL, the liability for unearned premiums arises from premiums received for risks that have not yet expired. The provision is released evenly over the insurance coverage periods and is recognised as premium income. The future cash flows are future claims, associated claims handling costs and other administration costs.

If the present value of the expected future cash outflows exceeds the provision for unearned premium then the provision for unearned premium is deemed to be deficient. Any deficiency is recognised as an expense in the statement of comprehensive income. In recognising the deficiency, each individual entity of the Group will first write down any related deferred acquisition costs before recognising an unexpired risk provision.

(i) The Society's provision for unexpired risk has been calculated as the liability adequacy test projected a deficiency as at 30 June 2023 for current in-force business until the next policy billing date on or after 1 July 2023 (30 June 2022: deficiency).

(ii) For SCPIL, the liability adequacy test projected a deficiency as at 30 June 2023 for current in-force business until the next policy billing date on or after 1 July 2023 (30 June 2022: surplus). The deferred acquisition costs were written down by $0.2m (30 June 2022: nil) and no provision for unexpired risk was recognised.

(iii) For SCBL, as at 30 June 2023, the liability adequacy test which has been performed on the aggregate portfolio of the both New Zealand and Australian travel insurance businesses identified a surplus (30 June 2022: surplus), therefore no deficiency in the unearned premium liability has been recognised.

	Note	2023 $000	2022 $000
Society liability adequacy test			
Unearned premium liability		133,610	121,939
Present value of expected future cash flows for claims and expenses		(129,486)	(125,219)
Risk margin of the present value of expected future cash flows		(10,359)	(10,018)
Liability adequacy test deficit		(6,235)	(13,298)
Unexpired risk liability		(6,235)	(13,298)
SCPIL liability adequacy test			
Unearned premium liability		20,909	18,110
Deferred acquisition costs	11	(2,291)	(2,007)
Present value of expected future cash flows for claims and expenses		(17,283)	(14,427)
Risk margin of the present value of expected future cash flows		(1,519)	(1,577)
Liability adequacy test (deficit)/surplus		(184)	99
SCBL liability adequacy test			
Unearned premium liability		23,784	10,765
Deferred acquisition costs	11	(584)	(205)
Present value of expected future cash flows for claims and expenses		(13,168)	(6,958)
Risk margin of the present value of expected future cash flows		(2,510)	(1,140)
Liability adequacy test surplus		7,522	2,462

Premium liabilities risk margin	**2023**	**2022**
Society	8.0%	8.0%
SCPIL	10.0%	12.5%
SCBL - New Zealand operations	21.0%	20.0%
SCBL - Australian Branch	22.0%	24.0%

The calculation of the risk margins has been based on an analysis of the volatility of historical claims experience within the time period covered by the unearned premiums together with future sources of volatility.

The risk margins were determined with the objective of achieving at least 75% probability of sufficiency of the provision for unexpired risk.
No explicit allowance has been made for cancellations or transfers. These are allowed for implicitly in the inflation assumption.
Expected future cash flows are not discounted due to the short tail nature of the liabilities.

Key assumptions for Society:
i. Future claims development will be similar to historical patterns by the type of policy, type of claim and development month.
ii. Projected loss ratios for next 12 months ranging from 58% to 106% depending on the month (30 June 2022: 62% to 115%).
iii. Expenses based on the business plan for 2023/24.

Key assumptions for SCPIL:
i. Future claims development will be similar to historical patterns by the type of policy, type of claim and development month.
ii. Expense assumptions based on both the business plan for 2023/2024 and expense cost analysis undertaken by SCPIL.

Key assumptions for SCBL:
i. Future claims development will be similar to historical patterns by the type of policy, type of claim and development month.
ii. Expenses based on the current best estimate of future claims handling and administration expenses.

NOTES TO THE FINANCIAL STATEMENTS (continued)
for the year ended 30 June 2023

3 INSURANCE CONTRACT LIABILITIES (continued)

	Note	2023 $000	2022 $000
Provision for unearned premium			
Opening balance		150,814	129,654
Premiums written less cancellations during the year		1,586,808	1,394,820
Premiums earned during the year		(1,559,319)	(1,384,425)
Net travel insurance unearned premium acquired	21	-	10,765
Total		**178,303**	**150,814**

4 NET PREMIUM REVENUE

For Society, gross earned premiums from insurance contracts are recognised evenly over the current billing period of the contract. For SCPIL, gross earned premiums from insurance contracts are recognised evenly over the annual contract period. For SCBL, gross earned premiums from insurance contracts are recognised over the period covered by the contract, with a portion of revenue being recognised in the pre-travel period.

Premiums ceded to reinsurers are recognised as reinsurers' share of the premium and deducted from gross premiums. The recognition of the expense is in accordance with the pattern of reinsurance service received.

	2023 $000	2022 $000
Premium revenue	1,560,904	1,384,462
Reinsurance premium	(1,585)	(37)
Net premium revenue	**1,559,319**	**1,384,425**

5 NET CLAIMS EXPENSE

The net claims expense represents payments made on claims and the movements in the provisions for outstanding claims and unexpired risk. Details of processes and assumptions used in calculating the provisions are disclosed in Note 3.

Claims expense relating to risk ceded to reinsurers and recoveries from ACC are recognised as reinsurance claim recoveries and third party recoveries. They are deducted from gross claims.

	2023 $000	2022 $000
Claims expense	1,364,181	1,107,958
Reinsurance recoveries	(1,736)	(22)
Third party (ACC) recoveries	(4,707)	(4,429)
Net claims expense	**1,357,738**	**1,103,507**
Net claims expense		
Claims incurred relating to risks borne in current financial year	1,359,125	1,097,040
Reinsurance recoveries relating to risks borne in current financial year	(1,494)	(27)
Claims incurred relating to risks borne in previous financial years	2,941	1,071
Reinsurance recoveries relating to risks borne in previous financial years	(38)	5
Movement in provision for claims handling costs	1,082	228
Movement in risk margin	3,185	1,803
Net claims incurred	**1,364,801**	**1,100,120**
Movement in provision for unexpired risk	(7,063)	3,387
Total	**1,357,738**	**1,103,507**

NOTES TO THE FINANCIAL STATEMENTS (continued)
for the year ended 30 June 2023

6 RISK MANAGEMENT

The Group is exposed to a number of risks in the normal course of business, specifically insurance risk, credit risk, liquidity risk, market risk and operational risk. The Directors and management recognise the importance of having effective risk management and have put in place a comprehensive risk management program.

a. Insurance risk

The Group is exposed to insurance risk through its health, pet and travel insurance activities. The key risk is that of claims costs varying significantly from the assumptions made in the setting of premium rates and putting pressure on the solvency and liquidity of the Group.

i. Risk management objectives, policies and processes for mitigating risk

The primary objective in managing insurance risk is to reduce the magnitude and volatility of claims costs. A secondary objective is to ensure funds are available to pay claims and maintain the solvency of the organisation if there is adverse deviation in experience. Key policies and methods for mitigating insurance risk include:

- Each year, as part of the planning process, the Boards and the Executive Leadership Teams review the underwriting and pricing performance.
- Underwriting policies and processes which evaluate new risks and offer terms that do not endanger the portfolio.
- Policy terms and conditions which clearly specify which claims costs are reimbursed and claims management procedures which ensure those terms and conditions are adhered to in claims administration.
- Maintaining a reinsurance programme for SCBL which protects it against single large claims in excess of its retention, and against a catastrophic event involving multiple claims.
- A long-term pricing strategy and guidelines adopted by the Boards which supports pricing based on underlying risk.
- Insurance Risk Committee (IRC) is charged with the oversight and management of insurance risk. This includes identifying, monitoring and mitigating any risks to claims experience, as well as monitoring product and benefit enhancements, including any changes to eligibility criteria that may impact claims performance.
- Regular monitoring of financial and operating results.
- Maintaining a target solvency margin in excess of the minimum required by the standard established by the RBNZ and APRA. The solvency margin ensures the Society, SCPIL and SCBL are able to withstand a period of adverse insurance or investment experience and still maintain a satisfactory financial position (refer to Note 2).
- Cash flow projection model designed to forecast major inflow and outflow items.
- A minimum liquidity reserve buffer is maintained in excess of anticipated cash flow requirements.

ii. Society sensitivity to insurance risk

The volatility of claims at a portfolio level has been historically low relative to other types of insurance contracts. The low volatility is due to:

- The benefits in the health insurance contracts providing cover primarily for medically necessary yet elective health care services.
- Obligations arise under the health insurance contracts when health care services are provided and the provision of health care services is constrained by supply of private medical practitioners and medical facilities. This constraint on claims experience is different than other forms of insurance contracts where obligations do not depend on service provision, e.g. property insurance.
- ACC and public sector health care provision of both acute, accident and elective health services. Many of the highest cost and highly variable medical care claims are funded by other sources.
- Management's policies and processes for managing insurance risk, as listed above.
- In recent years, Society has seen some level of challenge in accurately predicting claims. While historic experience and claims seasonality still guide our insurance projections, there has been unprecedented variation through external events such as COVID-19 driven changes in treatment accessibility, shifts in member/patient behaviour seeking treatment, deferral and rescheduling of treatments, and national/regional weather events.

iii. SCPIL sensitivity to insurance risk

The scope of insurance risk is managed by the terms and conditions of the policy. Policies are subject to benefit limitations and exclusions for maximum cover in each policy period. The main insurance benefits for the pet insurance business involves the reimbursement of medical and surgical expenses depending upon the plan product terms and conditions. The level of benefits specified in the contract is a key determinant of the amount of future claims, although the exact level of claims is uncertain.

iv. SCBL sensitivity to insurance risk

The scope of insurance risk is managed by the terms and conditions of the policy. The main insurance benefit for the travel insurance business involves the reimbursement of losses during travel for medical expenses in addition to the losses relating to personal property, cancellation, personal accident, personal liability, and rental vehicle excess.

v. Concentration of insurance risk

Management defines concentration of risk by type of insurance business and geographic region. The Society transacts health insurance business in New Zealand and, therefore, the concentration of risk by geographic region cannot be avoided. Insurance risks are well diversified within the health insurance portfolio with claims costs spread across many different types of surgery and medical events. There is no significant exposure to individual large claims.

The pet insurance business in New Zealand represents a small and not well diversified risk base, therefore, the concentration of risk by geographic region cannot be avoided. Insurance risks are well diversified within the pet insurance portfolio with claims costs spread across many different types of medical procedures and health events, and animal demographics. There is no significant exposure to individual large claims.

SCBL transacts travel insurance in New Zealand for inbound, domestic, and outbound customers; and in Australia for domestic and outbound customers. The nature of its business means that this concentration of risk cannot be avoided. Management defines concentration of risk by geographical region, specific destination, and unknown and unforeseen accumulations of insured on a single transport carrier. SCBL is most at risk to the global commercial aviation industry and its ability to offer continuous operations given the impacts of oil prices, pandemics, natural disasters and terrorism, which lends itself to a single event resulting in a high volume of relatively low dollar value cancellations / delay claims. SCBL's travel-related concentration risks are mitigated by reinsurance treaties, to protect it from high severity losses and catastrophic events.

NOTES TO THE FINANCIAL STATEMENTS (continued)
for the year ended 30 June 2023

6 RISK MANAGEMENT (continued)

b. Financial risks

i. Credit risk

Credit risk is the potential risk of loss arising from the failure of a debtor or counterparty to meet their contractual obligations.

In the normal course of its business the Group is exposed to credit risk from its health insurance, pet insurance and travel insurance operations and from investment in financial assets.

The Group maintains policies which are used to manage the exposure to credit risk. Limits on counterparty exposures have been set and are monitored on an ongoing basis. The credit quality of investment counterparties is assessed based on published credit ratings issued by Standard & Poor's or equivalent ratings agencies. Where local authorities do not have a formal credit rating, comfort is obtained from their ability to levy rates. There are no significant concentrations of credit risk at 30 June 2023 in excess of the Group's New Zealand Money Market Portfolio Guidelines (30 June 2022: Nil).

The credit quality of investment counterparties is as follows:

	2023	2022
	$000	$000
Money market		
AAA	7,840	5,823
AA	297,302	240,801
A	137,467	110,991
BBB	33,926	97,125
	476,535	454,740

The credit ratings have been disclosed at the investment grade level. Intermediate ratings of (+) or (-) are not separately disclosed.

	2023	2022
Unit trusts		
Non-rated (Global bonds, weighted average rating of the underlying investments is AA, (30 June 2022: AA))	129,916	126,826
Non-rated (Global equities)	69,439	55,890
Non-rated (Global real estate)	29,893	27,078
Non-rated (Global listed infrastructure)	33,257	32,142
	262,505	241,936
Total	**739,040**	**696,676**

The maximum exposure to credit risk at the end of the reporting period is the amount of financial assets stated in the statement of financial position. These exposures are net of any recognised provisions for impairment losses. The Group does not require any collateral or security to support financial assets due to the quality of the counterparty organisations.

The cash and cash equivalents balances are held with counterparties rated AA- (30 June 2022: AA-).

Premium receivables are due from a very large number of counterparties, ranging from large corporates to individual members and policyholders. Analysing these by credit quality would not be feasible, as the majority of counterparties will be non-rated. Credit risk for premium receivables is considered low as the Group is able to terminate or suspend policies for non-payment, at the Group's discretion.

ii. Liquidity risk

The Group is exposed to ongoing operational drawdowns on its available cash resources from claims and administration expenses. Liquidity risk is the risk that payment of obligations may not be met in a timely manner at a reasonable cost. The Directors set limits on the minimum proportion of maturing funds available to meet unexpected levels of claims and expenses.

	2023	2022
	$000	$000
Contractual maturities of investments		
On call	-	6
0-6 months	491,113	432,745
7-12 months	184,490	168,413
Current	675,603	601,164
1-2 years	58,922	80,685
2-5 years	4,515	14,827
Non-current	63,437	95,512
Total	**739,040**	**696,676**

Financial liabilities are all short term. Investments can usually be liquidated at any time, under normal market conditions, to settle liabilities.

The 0-6 months maturity category includes unit trusts of $262.5 million (30 June 2022: $241.9 million), as these investments could be liquidated at short notice.

NOTES TO THE FINANCIAL STATEMENTS (continued)
for the year ended 30 June 2023

6 RISK MANAGEMENT (continued)

c. Market risks

i. Interest rate risk

The Group invests in both fixed and variable rate investments such as bonds, commercial paper and floating rate notes. There is a risk that any movement in interest rates can have an effect on the profitability and cash flows of the Group. The Group maintains a spread of investment types and maturity profiles to mitigate this risk.

The fair value of fixed rate investments can fluctuate depending on changes in interest rates. The Group's policy is to hold all investments until maturity. This eliminates any effects of fair value changes to the investments upon realisation, however unrealised fair value changes are recognised in the statement of comprehensive income for each period.

	2023 $000	2022 $000
	Impact on profitability	
Fair value - interest rate sensitivity on money market investments		
Exposure	476,535	454,740
Impact of change in interest rates:		
Increase by 100 basis points	(2,477)	(2,402)
Decrease by 100 basis points	2,661	2,410

ii. Unit price risk

Unit price risk is the risk that the fair value of investments in unit trusts will change as a result of changes in unit prices. The Group holds all of its investments in unit trusts at fair value through profit or loss.

	2023 $000	2022 $000
	Impact on profitability	
Fair value - unit price sensitivity on unit trust investments		
Exposure	262,505	241,936
Impact of change in unit prices:		
Increase by 10%	26,251	24,194
Decrease by 10%	(26,251)	(24,194)

iii. Foreign currency risk.

The Society and SCPIL do not have material exposure to foreign currency risk through their insurance operations. On a net basis the Society's foreign currency risk on investments in unit trusts is substantially hedged into NZD.

SCBL's Australian branch exposes it to foreign currency risk, as the branch's functional currency is Australian dollars. The New Zealand dollar equivalents of the Australian assets and liabilities at reporting date amounted to $20.6m and $12.8m respectively (30 June 2022: $13.0m and $6.0m). As the Australian operation is considered an ongoing investment, no hedging of the foreign currency exposure is undertaken. A movement of 100 basis points on the exchange rate at year end would have an impact of $56k (30 June 2022: $50k) on the net assets of SCBL and the foreign currency translation reserve.

The Group does not apply hedge accounting.

iv. Fair values of financial instruments and financial liabilities

All financial assets and financial liabilities included in the statement of financial position are carried at amounts that approximate fair value.

The table below analyses financial assets measured at fair value at the end of the reporting period, by the level in the fair value hierarchy into which the fair value measurement is categorised.

Definition of the fair value hierarchy

Level 1: Valuation based on quoted market prices (unadjusted) in an active market.

Level 2: Valuation techniques based on observable market data, either directly (as prices) or indirectly (derived from prices).

Level 3: Valuation techniques not based on observable market data.

	Level 1 $000	Level 2 $000	Level 3 $000	Total $000
30 June 2023				
Investments	-	739,040	-	739,040
Total	-	739,040	-	739,040
30 June 2022				
Investments	-	696,676	-	696,676
Total	-	696,676	-	696,676

NOTES TO THE FINANCIAL STATEMENTS (continued)

for the year ended 30 June 2023

6 RISK MANAGEMENT (continued)

d. Operational risk

Operational risk is defined as the risk of loss (including financial, non-financial and lost opportunities) resulting from inadequate or failed internal processes, people and systems or from external events.

Management of the Group's operational risk is a continual cyclic process. This process is documented in the respective Society, SCPIL and SCBL Risk Appetite Statements and Risk Management Frameworks ("RMF"), and includes risk identification, analysis, evaluation and implementation of risk controls, which results in acceptance, mitigation, or avoidance of risk. The RMF forms part of the overall risk management programme and describes the strategies adopted to identify and manage key risks across all areas of the Group. Operational risk is managed in accordance with the risk appetite statement set by the Board and the process in the RMF.

The Society's Operational Risks are categorised into Health, Safety and Wellbeing; Information Security; Compliance; Fraud; Claims Leakage and Undesirable Billing; Conduct; Strategic Delivery; Talent Management; Environmental, social and governance (ESG); Operational Reliability; Reputation and Brand; Customer Value Proposition and Partner Relationships.

Evolving governance over all Group risks is driven through regular management reporting of risks, issues, incidents, treatment strategies, and risk outcomes, which are reviewed at executive governance forums, Audit and Risk Committees and Board meetings. Regular assessment and reporting on Group's improving levels of risk maturity are supplemented by internal audit review in accordance with the approved annual audit plans.

Appropriate external insurance policy coverage is maintained to safeguard our key stakeholders from relevant and plausible insurable threats; policy coverage is refreshed annually.

The Group values open, transparent and positive relationships with key regulators (Financial Markets Authority, RBNZ and APRA). The Group aims to positively influence the markets, industries and communities within which the Group operates, and actively contribute to the improving standards of conduct, transparency, customer value, health and wellbeing experienced by all New Zealanders.

Topical shifts in operational risk over the past year have included:

- Health system capacity and costs – changing shape of New Zealand's healthcare delivery system, influenced by material reshaping of the public health system, public treatment wait-lists, private treatment facility capacity and utilisation, new health technologies and treatments, health sector labour shortages, accentuated by higher paid job opportunities offshore.
- High inflation - projected to continue for 12-18 months, putting pressure on affordability, lifting healthcare treatment costs, pushing up claims cost escalation, generating higher premium rises.
- Cyber-security - hacking, data theft or service disruption remains active, accentuated by high dependency on digital enablement, the shift to virtualised/hybrid workplaces, global geopolitical tensions, and the complex, constantly shifting global cyber-threat landscape.
- Regulatory momentum – responding to significant uplift in the pace, volume and breadth of regulatory and legal change, generating heightened expectation and scrutiny across customer-centricity; conduct and fair customer outcomes; climate-reporting; environment, sustainability and governance; insurer solvency and liquidity; cyber and operational resilience; privacy and confidentiality; consumer and insurance law; financial services advice law; and financial accounting and reporting standards.
- Competitive environment – growing number of pet insurers and pet wellbeing providers, balancing product innovation, benefits, pricing and affordability, competing for customer affinity and discretionary spend, in a tightening economic environment.
- Workforce and workplace dynamics – adapting to virtualisation of workplaces, changed operating models, shifts in customer calling and claiming behaviour, challenges finding and retaining top talent, and supporting employee health, safety and wellbeing under prolonged pace and complexity.

7 INVESTMENTS

Investments are recognised on the date they are originated and de-recognised on the date of maturity or sale of an investment.

The Group designates its investments as "financial assets at fair value through profit or loss" at inception. Changes in fair value are recognised in profit or loss. The credit quality, contractual maturities, and fair value hierarchies of investments are disclosed in Note 6.

	2023	2022
	$000	$000
Investments		
Local authority bonds	17,240	11,473
Other bonds	36,043	54,871
Bank deposits	417,660	383,817
Floating rate notes	5,592	4,579
Unit trusts - global bonds	129,916	126,826
Unit trusts - global equities	69,439	55,890
Unit trusts - global real estate	29,893	27,078
Unit trusts - global listed infrastructure	33,257	32,142
Total	**739,040**	**696,676**

NOTES TO THE FINANCIAL STATEMENTS (continued)

for the year ended 30 June 2023

8 NET INVESTMENT AND OTHER INCOME

Fees and other income are recognised on an accrual basis. Interest income is recognised using the effective interest method.

Fair value gains and losses on financial assets at fair value through profit or loss are recognised through the consolidated statement of comprehensive income in the period in which they arise.

	2023 $000	2022 $000
Net investment and other income		
Interest income	19,505	6,288
Net gains/(losses) on investments at fair value through profit or loss	8,039	(24,169)
Joint venture net loss	(160)	(361)
Net investment income/(loss)	27,384	(18,242)
Fee and other income	1,668	1,135
Total	**29,052**	**(17,107)**

9 OPERATING EXPENSES

	2023 $000	2022 $000
Operating expenses consist of:		
Policy acquisition	29,316	15,149
Policy administration	65,260	53,050
Claims administration	19,866	14,030
Other operating expenses	131,283	90,226
Total	**245,725**	**172,455**

Other operating expenses consist of expenses incurred for information technology, human resources, occupancy, governance, finance, actuarial, management, depreciation and amortisation.

	Note	2023 $000	2022 $000
Included within operating expenses* are the following specific items:			
Auditor's remuneration			
• audit of annual financial statements		538	334
• review of interim financial statements		57	64
• audit of annual financial statements of the Group - prior years		(5)	-
• audit of annual insurer solvency return		128	76
• review of half year insurer solvency return		28	25
• NZ IFRS 17 transition audit work		231	3
• other assurance		44	-
• non-assurance - training		-	27
Employee expense		107,503	77,735
Other labour expenses		15,419	8,080
Contributions to defined contribution plan		2,642	1,915
Marketing		18,625	9,313
Members' wellbeing expense		2,980	2,583
Commissions		25,843	21,306
Short term lease expense		1,009	460
Depreciation charge on right-of-use assets	13	4,335	4,259
Depreciation	12	1,242	1,632
Amortisation	12	11,875	8,961
Impairment loss on intangible assets	12	-	325

*SCBL (travel insurance business) has incurred operating expenses of $26,854k for the year ended 30 June 2023 (30 June 2022: 12,889k), of which includes audit related fees of $365k (30 June 2022: 354k). The amounts relating to 30 June 2022 have not been included in the above comparative disclosure as the acquisition occurred on 30 June 2022 (Refer Note 21), with no impact to the consolidated statement of comprehensive income.

NOTES TO THE FINANCIAL STATEMENTS (continued)

for the year ended 30 June 2023

10 CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise cash on hand and current account balances in bank accounts, which are readily convertible to cash, with original maturities of less than three months, and are carried at amortised cost as they are subject to an insignificant risk of changes in value.

11 PREMIUM AND OTHER RECEIVABLES

Premium and other receivables are stated at their cost less any impairment losses, using an expected credit losses model. Impairment losses for uncollectible premiums are written off against premium revenue in the year in which they are incurred. The recoverability of reinsurance recoveries receivable is assessed at the reporting date and impairment is recognised where there is objective evidence that the Group may not receive the amounts due to it and these amounts can be reliably measured. Premium and other receivables are classified as financial assets at amortised cost.

Premium and other receivables are current assets. The fair values of premium and other receivables approximate the carrying amounts.

	Note	2023	2022
		$000	$000
Premium and other receivables			
Premium receivable		127,824	114,441
Reinsurance recoveries receivable	11a	47	3
Other receivables		21,300	18,194
Deferred acquisition costs	11b	2,691	2,212
Total		**151,862**	**134,850**

a. Reconciliation of reinsurance recoveries receivable

	Note	2023	2022
Opening balance		3	-
Acquired with purchase of travel insurance business	21	-	3
Gross reinsurance recoveries on claims paid during the year		231	-
Reinsurance recoveries settled by reinsurer during the year		(187)	-
Closing balance		**47**	**3**

b. Reconciliation of deferred acquisition costs

	Note	2023	2022
Opening balance		2,212	1,547
Acquired with purchase of travel insurance business	21	-	205
Movement in deferred acquisition costs[1]		479	460
Closing balance		**2,691**	**2,212**

Acquisition costs incurred in obtaining and recording insurance contracts are deferred and recognised as an asset to the extent that they can be reliably measured and where it is probable that they will give rise to premium revenue that will be recognised in comprehensive income in subsequent reporting periods.

Deferred acquisition costs are amortised systematically in accordance with the expected pattern of the incidence of risk of insurance contracts.

[1]The movement in deferred acquisition costs includes a write-down of $0.2m (30 June 2022: nil) for the deficiency identified by SCPIL's liability adequacy test.

NOTES TO THE FINANCIAL STATEMENTS (continued)
for the year ended 30 June 2023

12 PROPERTY AND EQUIPMENT AND INTANGIBLE ASSETS

Property and equipment and intangible assets are measured at cost, less accumulated depreciation or amortisation and impairment losses.
Capital expenditure on all projects is initially recorded as work in progress. On completion of the project the asset is transferred to the appropriate asset category when the project will generate future economic benefits. For computer software development, costs incurred in researching and evaluating a project up to the point of formal commitment to a project are treated as research costs and are expensed as incurred. Work in progress is not depreciated or amortised.

Depreciation and amortisation are recognised to allocate the assets' costs, net of any residual amounts, over their estimated useful lives. The assets' useful lives are reviewed and adjusted if appropriate at each balance date. An asset's carrying amount is written down to its recoverable amount if it is considered that the carrying amount is greater than its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units ("CGU")).

Assets	**Estimated useful lives**
• Computer equipment	2.5 - 5 years
• Office equipment	3 - 7 years
• Leasehold improvements	5 - 12.5 years
• Customer base	16 years
• Portfolio-in-force	Less than 1 year
• Acquired agencies	3 years
• Goodwill	Indefinite
• Computer software	3 - 7 years

Goodwill

Goodwill relates to the pet insurance business acquired on 31 January 2020 and the travel insurance business acquired on 30 June 2022. The cost of an acquisition is measured as the fair value of the total identifiable net assets acquired. On acquisition of a business combination, the excess of purchase consideration over the fair value of identifiable net assets acquired is recognised as goodwill. Following initial recognition, goodwill is not amortised as it has an indefinite useful life, but is tested for impairment annually and is assessed at each reporting date for indicators of impairment. For the purposes of impairment testing, goodwill is allocated to the CGU.

At 30 June 2023, goodwill generated from the acquisition of the pet and travel insurance businesses was tested for impairment using the value in use methodology, using projected cash flows for the next five years.

i. Pet insurance

The cash flows were discounted using a nominal rate of 14.5% after tax (30 June 2022: 14.5%), with a terminal growth rate of 2% (30 June 2022: 2%). Adverse changes in actual performance or future rates of growth will reduce the calculated recoverable amount. A reduction of 1.2% (30 June 2022: 7.9%) in the projected average five year underwriting result growth would result in impairment of the value in use.

ii. Travel insurance

The cash flows were discounted using a nominal rate of 14.1% after tax (30 June 2022: 15.2%), with a terminal growth rate of 2% (30 June 2022: 2%). Adverse changes in actual performance or future rates of growth will reduce the calculated recoverable amount. A reduction of 7.8% (30 June 2022: 21.6%) in the projected average five year underwriting result growth would result in impairment of the value in use.

For both Pet and Travel insurance, the recoverable amount using the five year projection exceeds the carrying amount, and no impairment losses on goodwill were recognised during the year to 30 June 2023 (30 June 2022: Nil for both Pet and Travel insurance).

Portfolio-in-force

Portfolio-in-force relates to the travel insurance business acquired on 30 June 2022, and represents the difference between the fair value of acquired insurance liabilities, and the fair value of the future claim and administration obligations arising in respect of those contracts. A portfolio-in-force is initially recognised at cost, which is the fair value at the acquisition date, and subsequently carried at cost less accumulated amortisation and any accumulated impairment losses. The capitalised costs are amortised on a diminishing value basis, net of any residual amounts, over the period when future economic benefits are expected to flow to the Group. Portfolio-in-force has been fully amortised during the year ended 30 June 2023.

NOTES TO THE FINANCIAL STATEMENTS (continued)

for the year ended 30 June 2023

12 PROPERTY AND EQUIPMENT AND INTANGIBLE ASSETS (continued)

Customer base

Customer base relates to the pet insurance business acquired on 31 January 2020, and represents the value of a customer base acquired, through its ability to generate future cash flows from retained business. It is recognised as an intangible asset when a business is acquired and when the criteria for recognition are met. A customer base is initially recognised at cost, which is the fair value at the acquisition date, and subsequently carried at cost less accumulated amortisation and any accumulated impairment losses. The capitalised costs are amortised on a diminishing value basis, net of any residual amounts, over the period when future economic benefits are expected to flow to the Group. Useful life represents management's estimate of the period of time over which the asset is expected to generate future cash flows from the pet lives insured and customers acquired. Amortisation is recognised using a systematic allocation of the expected retention of insured pet lives acquired at 31 January 2020. The retention of insured pet lives acquired is used for the purposes of assessing impairment and remaining useful life. No impairment losses on customer base were recognised during the year to 30 June 2023 (30 June 2022: Nil).

The recoverable amount of the CGU is determined based on value-in-use calculations, determined by discounting the future cash flows to be generated from the CGU. These calculations use discounted cash flow projections based on past experience, actual operating results and profit forecasts approved by management as part of the operating budget and forecast process.

Key assumptions underlying the valuation relate to management's assessment of new business growth, claims cost escalation, premium increases and operating expenses. Management utilised local market data as well as the Society's expertise and experience to validate key assumptions. The key assumptions described above may change as economic and market conditions change. The Group estimates that reasonably possible changes in these assumptions are not expected to cause the recoverable amount of the CGU to decline below the carrying amount.

Computer software

Computer software and work in progress (WIP) relate to internally developed software projects. For the year ended 30 June 2023, the capitalised costs include salaries and ancillary costs incurred from automating claims processing and automating marketing processes for SCPIL, which are monitored and estimated by the Product Owners.

At 30 June 2023, for the purposes of impairment testing, WIP was tested using the value in use methodology, using projected savings over the expected life of the software. The cash flows were discounted using a nominal rate of 14.5% (30 June 2022: 14.5%). The recoverable amount using the projected savings exceeds the carrying amount, and no impairment losses on WIP are recognised for the year ended 30 June 2023. For the computer software currently in use, impairment assessments were performed to identify if there are any indicators of impairment. No impairment loss are recognised for the year ended 30 June 2023 (30 June 2022: $325k) as a result of the impairment assessments.

a. **Property and equipment**	**Computer equipment $000**	**Office equipment $000**	**Leasehold improvements $000**	**Work in progress $000**	**Total $000**
Cost	3,920	141	8,644	161	12,866
Accumulated depreciation and impairment	(2,827)	(75)	(3,148)	-	(6,050)
Opening net book value as at 1 July 2022	**1,093**	**66**	**5,496**	**161**	**6,816**
Additions	-	-	-	949	949
Transfers	916	2	83	(1,001)	-
Disposal - cost	(1,749)	(29)	(33)	-	(1,811)
Disposal - accumulated depreciation	1,749	4	22	-	1,775
Depreciation	(600)	(22)	(620)	-	(1,242)
Closing net book value as at 30 June 2023	**1,409**	**21**	**4,948**	**109**	**6,487**
Cost	3,087	114	8,694	109	12,004
Accumulated depreciation and impairment	(1,678)	(93)	(3,746)	-	(5,517)
Closing net book value as at 30 June 2023	**1,409**	**21**	**4,948**	**109**	**6,487**
Cost	6,544	118	16,468	-	23,130
Accumulated depreciation and impairment	(4,908)	(68)	(10,313)	-	(15,289)
Opening net book value as at 1 July 2021	**1,636**	**50**	**6,155**	**-**	**7,841**
Additions	-	-	-	378	378
Acquired with purchase of travel insurance business (refer Note 21)	8	32	32	157	229
Transfers	277	-	97	(374)	-
Disposal - cost	(2,909)	(9)	(7,953)	-	(10,871)
Disposal - accumulated depreciation	2,909	9	7,953	-	10,871
Depreciation	(828)	(16)	(788)	-	(1,632)
Closing net book value as at 30 June 2022	**1,093**	**66**	**5,496**	**161**	**6,816**
Cost	3,920	141	8,644	161	12,866
Accumulated depreciation and impairment	(2,827)	(75)	(3,148)	-	(6,050)
Closing net book value as at 30 June 2022	**1,093**	**66**	**5,496**	**161**	**6,816**

NOTES TO THE FINANCIAL STATEMENTS (continued)
for the year ended 30 June 2023

12 PROPERTY AND EQUIPMENT AND INTANGIBLE ASSETS (continued)

b. Intangible assets	Customer base	Portfolio-in-force	Acquired agencies	Goodwill	Computer software	Work in progress	Total
	$000	$000	$000	$000	$000	$000	$000
Cost	3,761	4,198	316	4,977	51,016	528	64,796
Accumulated amortisation and impairment	(1,352)	-	(144)	-	(35,225)	-	(36,721)
Opening net book value as at 1 July 2022	**2,409**	**4,198**	**172**	**4,977**	**15,791**	**528**	**28,075**
Additions	-	-	-	-	-	1,631	1,631
Transfers	-	-	-	-	946	(946)	-
Disposal - cost	-	(4,198)	-	-	(6,508)	-	(10,706)
Disposal - accumulated amortisation	-	4,198	-	-	6,508	-	10,706
Amortisation	(400)	(4,198)	(104)	-	(7,173)	-	(11,875)
Impairment	-	-	-	-	-	-	-
Closing net book value as at 30 June 2023	**2,009**	**-**	**68**	**4,977**	**9,564**	**1,213**	**17,831**
Cost	3,761	-	316	4,977	45,454	1,213	55,721
Accumulated amortisation and impairment	(1,752)	-	(248)	-	(35,890)	-	(37,890)
Closing net book value as at 30 June 2023	**2,009**	**-**	**68**	**4,977**	**9,564**	**1,213**	**17,831**
Cost	3,761	1,548	316	4,192	56,084	-	65,901
Accumulated amortisation and impairment	(877)	(1,548)	(36)	-	(33,875)	-	(36,336)
Opening net book value as at 1 July 2021	**2,884**	**-**	**280**	**4,192**	**22,209**	**-**	**29,565**
Additions*	-	-	-	-	(2)	619	617
Acquired with purchase of travel insurance business (refer Note 21)	-	4,198	-	785	2,196	-	7,179
Transfers	-	-	-	-	91	(91)	-
Disposal - cost	-	(1,548)	-	-	(7,353)	-	(8,901)
Disposal - accumulated amortisation	-	1,548	-	-	7,353	-	8,901
Amortisation	(475)	-	(108)	-	(8,378)	-	(8,961)
Impairment	-	-	-	-	(325)	-	(325)
Closing net book value as at 30 June 2022	**2,409**	**4,198**	**172**	**4,977**	**15,791**	**528**	**28,075**
Cost	3,761	4,198	316	4,977	51,016	528	64,796
Accumulated amortisation and impairment	(1,352)	-	(144)	-	(35,225)	-	(36,721)
Closing net book value as at 30 June 2022	**2,409**	**4,198**	**172**	**4,977**	**15,791**	**528**	**28,075**

*Credit to additions relates to a credit note received, during the year ended 30 June 2022, for costs capitalised in previous period.

NOTES TO THE FINANCIAL STATEMENTS (continued)
for the year ended 30 June 2023

13 LEASES

a. Right-of-use assets	Motor vehicles	Premises	Total
	$000	$000	$000
Cost	611	41,267	41,878
Accumulated depreciation	(482)	(7,691)	(8,173)
Opening net book value as at 1 July 2022	**129**	**33,576**	**33,705**
Additions	1,061	-	1,061
Reassessments and modifications	-	3,243	3,243
Disposal - cost	(1,587)	-	(1,587)
Disposal - accumulated amortisation	766	-	766
Depreciation	(330)	(4,005)	(4,335)
Closing net book value as at 30 June 2023	**39**	**32,814**	**32,853**
Cost	85	44,510	44,595
Accumulated depreciation	(46)	(11,696)	(11,742)
Closing net book value as at 30 June 2023	**39**	**32,814**	**32,853**

Reassessments and modifications to leases during the year ended 30 June 2023 mainly relates to the Hamilton Office lease renewal.

	Motor vehicles	Premises	Total
Cost	846	41,539	42,385
Accumulated depreciation	(518)	(3,905)	(4,423)
Opening net book value as at 1 July 2021	**328**	**37,634**	**37,962**
Modifications	-	2	2
Disposal - cost	(235)	(274)	(509)
Disposal - accumulated amortisation	235	274	509
Depreciation	(199)	(4,060)	(4,259)
Closing net book value as at 30 June 2022	**129**	**33,576**	**33,705**
Cost	611	41,267	41,878
Accumulated depreciation	(482)	(7,691)	(8,173)
Closing net book value as at 30 June 2022	**129**	**33,576**	**33,705**

Modifications to leases during the year ended 30 June 2022 relate to changes to lease terms and rent review adjustments.

b. Lease liabilities	Motor vehicles	Premises	Total
	$000	$000	$000
Opening balance as at 1 July 2022	**142**	**48,206**	**48,348**
Additions	1,061	-	1,061
Reassessments and modifications	-	3,243	3,243
Disposals	(834)	-	(834)
Interest expense	41	743	784
Lease repayment	(369)	(4,931)	(5,300)
Closing balance as at 30 June 2023	**41**	**47,261**	**47,302**
Opening balance as at 1 July 2021	**351**	**52,639**	**52,990**
Interest expense	14	684	698
Rent concessions	-	(466)	(466)
Lease repayment	(223)	(4,651)	(4,874)
Closing balance as at 30 June 2022	**142**	**48,206**	**48,348**

At the commencement date of any new or renewed leases, the Group uses a lease-specific assessment of the appropriate incremental borrowing rate ("IBR") if the interest rate in the lease is not readily available. Reassessments and modifications to leases during the year ended 30 June 2023 mainly relates to the Hamilton Office lease renewal, the applicable IBR at reassessment was 4.8%.

The Group entered into an agreement to lease 29 motor vehicles for 45 month lease terms during the year ended 30 June 2023. On 27 June 2023, the Group terminated the lease agreement early as these motor vehicles were not fit for purpose. The early termination is disclosed as disposals and a termination fee of $290k was charged to the Group.

	2023	2022
	$000	$000
Maturity analysis of undiscounted lease liabilities		
Within 1 year	5,393	4,883
Between 1 and 2 years	5,394	4,718
Between 2 and 5 years	16,636	14,352
Greater than 5 years	23,144	27,864
Total	50,567	51,817

NOTES TO THE FINANCIAL STATEMENTS (continued)
for the year ended 30 June 2023

14 PAYABLES AND OTHER LIABILITIES

Payables and other liabilities are current liabilities, stated at cost.

	2023	2022
	$000	$000
Payables and other liabilities		
Trade creditors and accruals	17,344	14,103
Amounts due to policyholders	5,056	6,117
Premium refunds payable*	-	54
Total	**22,400**	**20,274**

*For 30 June 2022, SCBL acknowledges that as a result of the lockdowns due to COVID-19, many customers had not been able to travel and make use of their travel insurance policies. SCBL performed an analysis and identified customers eligible for refunds. The refunds have been paid during the year ended 30 June 2023.

15 PROVISIONS

	Discount remediations	Remediation expenses	Restructuring provision	Total
	$000	$000	$000	$000
Reconciliation of movement in provisions				
Opening balance as at 1 July 2022	-	-	-	-
Provision made during the period	5,902	973	79	6,954
Provision used during the period	(411)	-	-	(411)
Closing balance as at 30 June 2023	5,491	973	79	6,543
Current	5,491	973	79	6,543
Total	**5,491**	**973**	**79**	**6,543**

The Group recognises provisions when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. The expense relating to any provision is recognised in the consolidated statement of comprehensive income.

Discount remediations and expenses

Provision for discount remediations has been made by each Group entity to reflect the estimated costs that each entity has associated with refunding certain of their policyholders. Management has made best estimates to the impact on the premium charged to affected policyholders, the time value of money, and, in relation to SCBL, the specific remediation expenses associated with operating the remediation process. It is possible that the final exposures could differ from the provisions if additional facts emerge over the remediation process. Exposure of each entity is as follows:

	$000
SCBL	6,151
Society	196
SCPIL	117

Restructuring provision

SCPIL has recognised a restructuring provision of $79k relating to expected employee termination costs.

NOTES TO THE FINANCIAL STATEMENTS (continued)
for the year ended 30 June 2023

16 TAXATION

The Society is exempt from income tax due to its status as a friendly society, however, its subsidiaries are subject to income tax. Deferred tax is recognised in respect of temporary differences between the carrying amount of assets and liabilities in the financial statements and the amounts used for taxation purposes. Deferred tax assets are only recognised to the extent it is probable it will be utilised. Deferred tax assets of $10,381,000 have been recognised as at 30 June 2023 (30 June 2022: $10,403,000).

SCBL was registered as a charity and exempt from New Zealand income tax prior to 30 June 2022. From 30 June 2022, SCBL is subject to New Zealand income tax on both New Zealand and Australian activities. The balances for taxation purposes at 30 June 2023 are calculated on the same basis as if the SCBL had always been a tax payer in the past. As such, whilst in 2022 there was no current New Zealand income tax expense, the prior year balance contains Australian tax payable on domestic Australian Income under s142 of the Income Tax Assessment Act 1936, where the Company is subject to an effective income tax of 3% (being the corporate tax rate of 30% applied to 10% of the domestic Australian premium income).

Income tax

Tax expense comprises current and deferred tax, calculated using the tax rate enacted or substantively enacted at balance date and any adjustments to tax payable in respect of prior years.

	2023	2022
Components of income tax (benefit)/expense	**$000**	**$000**
Current tax expense	130	-
Deferred tax	(415)	521
Total income tax (benefit)/expense	(285)	521
Reconciliation of income tax to (loss)/surplus before taxation		
(Loss)/surplus before taxation	(16,830)	90,658
Income tax at the domestic tax rate of 28%	**(4,712)**	**25,384**
Tax effect of Society exempt (loss)/income	3,027	(24,867)
Tax effect of permanent differences	1,400	4
Total income tax (benefit)/expense	(285)	521

Deferred tax

The Group has recognised all accumulated tax losses carried forward of $37,076,000 at 30 June 2023 (30 June 2022: $37,154,000), of which the Society has accumulated tax losses carried forward of nil (30 June 2022: Nil).

	Note	2023	2022
		$000	**$000**
Deferred tax comprises temporary differences attributable to:			
a. Deferred tax assets			
Losses available for offset against future taxable income		10,381	10,403
Total deferred tax assets		10,381	10,403
Expected to crystallise within 12 months		715	4,137
Expected to crystallise in greater than 12 months		9,666	6,266
Total deferred tax assets		10,381	10,403
Movements in deferred tax assets			
Opening balance		10,403	10,919
Group loss offsets recognised in the statement of comprehensive income		(22)	(516)
Closing deferred tax assets		10,381	10,403
b. Deferred tax liabilities			
Fixed and intangible assets		(959)	(1,096)
Deferred acquisition costs		(754)	(620)
Payables and other liabilities		570	136
Foreign currency translation reserve		274	272
Total deferred tax liabilities		(869)	(1,308)
Expected to crystallise within 12 months		(425)	(635)
Expected to crystallise in greater than 12 months		(444)	(673)
Total deferred tax liabilities		(869)	(1,308)
Movements in deferred tax liabilities			
Opening balance		(1,308)	(1,208)
Net deferred tax liabilities recognised on acquisition	21	-	(95)
Fixed and intangible assets temporary differences recognised in the statement of comprehensive income		137	128
Deferred acquisition costs recognised in the statement of comprehensive income		(134)	(129)
Foreign currency translation reserve recognised in the statement of comprehensive income		2	-
Other temporary differences recognised in the statement of comprehensive income		434	(4)
Closing deferred tax liabilities		(869)	(1,308)

NOTES TO THE FINANCIAL STATEMENTS (continued)

for the year ended 30 June 2023

17 EMPLOYEE BENEFITS

a. Short term benefits

Employee benefits represent the current obligations to employees in respect of outstanding salaries, leave entitlements and other short term benefits. The Group's net obligation in respect of long service leave is the amount of future benefits that employees have earned in return for their service in current and prior periods. The financial value of the obligation is calculated based on estimated future cash flows and is discounted to its present value, with consideration given to historical data with respect to employee departures, periods of service and estimated future increases in wage and salary rates. The discount rate is the market yield rate on relevant New Zealand Government stock at the end of the reporting period.

b. Post employment benefits

The Group's obligation for post employment benefits comprises post retirement health insurance benefits. The financial value of the obligation is calculated as the present value of estimated future cash flows. In determining future cash flows, consideration is given to future increases in health insurance premiums and historical data with respect to employee departures, periods of service and mortality rates. The discount rate is the market yield rate on relevant New Zealand Government stock at the end of the reporting period.

	2023	2022
	$000	$000
Employee benefits		
Short term benefits	15,618	11,682
Post employment benefits	1,457	1,556
Total	17,075	13,238

18 RELATED PARTIES

a. **Identity of related parties:**	**Relationship**	**Balance Date**
• The Southern Cross Medical Care Society ("Society")	Parent	30 June
• Southern Cross Pet Insurance Limited ("SCPIL")	100% subsidiary of Society	30 June
• Southern Cross Benefits Limited ("SCBL")	100% subsidiary of Society	30 June
• Southern Cross Insurance Services Limited ("SCISL")	100% subsidiary of Society	30 June
• Southern Cross Ventures Limited ("SCVL")	100% subsidiary of Society	30 June
• Southern Cross Health Services Limited ("Health Services")	100% subsidiary of Society	30 June
• CareHQ Limited Partnership	Joint venture of SCVL	30 June
• CareHQ (General Partner) Limited	Joint venture of SCVL	30 June
• Southern Cross Health Trust ("Trust")	Related party of Society	30 June
• Southern Cross Healthcare Limited ("Healthcare")	100% subsidiary of Trust	30 June
• Directors of The Southern Cross Medical Care Society	-	-

The Society and the Trust are separate legal entities with no shared parent or common shareholding. They are however deemed to be related parties for the purposes of these financial statements by virtue of a number of common directors. The Trust and its subsidiaries are referred to as other related parties. Some goods and services are purchased by the Group and other related parties on a combined basis, and are on-charged between the Group and the other related parties at cost. The Society contracts healthcare services on behalf of its members from all providers, including Healthcare and providers under the HealthConnect Pilot program, on a contestable and contractual basis. These healthcare services are not included in the table below as they are paid on behalf of members.

All related party balances are payable on normal trading terms and unsecured, except for related party advances, tax loss transfers within the Group and the use of trademarks owned by the Society.

	Note	2023	2022
		$000	$000
Total amount of transactions with other related parties			
Sale of services		2,817	3,272
Purchase of services		175	520
Acquisition of travel insurance business from Southern Cross Health Trust	21	-	(28,500)
Total outstanding balances with other related parties			
Receivables		343	170
Payables		328	300

Trademark

The Society has granted licences to SCPIL, SCBL and the Trust for the use of its trademarks. The Society did not receive any royalties for these licences.

NOTES TO THE FINANCIAL STATEMENTS (continued)
for the year ended 30 June 2023

18 RELATED PARTIES (continued)

b. Debt forgiveness

The Society did not forgive any related parties debt during the year ended 30 June 2023 (30 June 2022: $37.5m)

c. Dividends

The Society received $0.80m of dividends from its subsidiaries during the year ended 30 June 2023 (30 June 2022: $0.75m).

d. Capital investment

The Society injected capital of $10.0m into SCBL and $2.5m into SCPIL during the year ended 30 June 2023 (30 June 2022: nil).

e. CareHQ joint venture

During July 2022, SCVL invested an additional $308,170 (via a share purchase at $1 per ordinary share) (30 June 2022: $279,830) into CareHQ Limited Partnership. The limited partnership is a joint venture between SCVL and ProCare Health (LP) Limited.

Members of the Society have access to unlimited online GP consults with CareHQ. This benefit was approved by the Society's Board in October 2022. Prior to that, members of the Society had limited access to online GP consults with CareHQ. During the year ended 30 June 2023, the Society paid $1,108k (30 June 2022: $309k) consultation fees to CareHQ in relation to the free GP consults, and received $70k (30 June 2022: $70k) in service fees. The Society has a net balance of $142k (30 June 2022: $99k) owing to CareHQ as at 30 June 2023.

f. Subsidiary recharges

The Society has an agreement with its subsidiaries to recharge costs incurred on behalf of its subsidiaries. The recharges are calculated based on different methodologies for different types of costs to achieve a fair and reasonable cost allocation amongst the Group entities. No margin is applied to the recharges.

g. Remuneration of Directors

A friendly society has trustees to hold its assets. The trustees for the year were C M Drayton, M Jordan, G R W France (retired during the year ended 30 June 2023), and D Bridgman (elected during the year ended 30 June 2023) and they did not receive any fees for this.

The Society has provided the Group trustees and directors with directors' and officers' liability insurance cover, for liabilities to other parties that may arise from their positions as trustees and directors. Other operating expenses in relation to governance are met by the Society, except for SCPIL and SCBL who bear the cost for other operating expenses relating to their own governance. The Society, SCPIL and SCBL do not provide loans or advances to directors or trustees. Where the Executive Team members are directors of subsidiaries, they do not receive remuneration for these appointments.

Directors of the Group may hold health insurance policies with the Society, pet insurance policies with SCPIL and/or travel insurance policies with SCBL. Premiums on these policies may be discounted in line with standard discounts available to all Society personnel.

NOTES TO THE FINANCIAL STATEMENTS (continued)
for the year ended 30 June 2023

18 RELATED PARTIES (continued)
g. Remuneration of Directors (continued)

Actual directors' remuneration paid by the Society for the year ended 30 June 2023 was as follows:

	Society					
Director	**Board**	**Audit & Risk Committee**	**Investment Committee**	**Remuneration, People & Culture Committee**	**Nominations Committee**	**Total Remuneration**
	Amount	**Amount**	**Amount**	**Amount**	**Amount**	**Amount**
C M Drayton	65,000	9,000 Chair	3,250	-	500	77,750
G R W France[2]	25,305	-	2,182	-	-	27,487
M P Jordan[1]	130,000 Chair	-	-	-	- Chair	130,000
C J Black	65,000	4,500	2,000	3,000	500	75,000
D J Bridgman	65,000	4,500	4,000 Chair[3]	-	500	74,000
M P Misur	65,000	-	-	3,000	500	68,500
J M Raue	65,000	-	-	6,000 Chair	500	71,500
E N D Crombie[2]	36,000	-	-	2,000	-	38,000
Total	516,305	18,000	11,432	14,000	2,500	562,237

[1] M P Jordan did not receive any fees for being a member of the Audit and Risk, Investment, Remuneration, People & Culture or Nominations Committees.
[2] During the year ended 30 June 2023, G R W France retired as Director; and E N D Crombie was appointed as Director.
[3] During the year ended 30 June 2023, D J Bridgman was appointed Chair of the Investment Committee (Previously G R W France).
The annual fee pool limit was approved by Society members at the Annual General Meeting in December 2022 at $637,000.

Actual directors' remuneration paid by SCPIL for the year ended 30 June 2023 was as follows:

	SCPIL
Director	**Remuneration for Board and Audit & Risk Committee**
	Amount
N J Astwick	-
M J Gardiner	23,750 Audit & Risk Committee Chair
M L James	37,500 Board Chair
J M Raue[1]	2,527
C J Black[1]	17,473
Total	81,250

[1]During the year ended 30 June 2023, J M Raue retired as Director; and C J Black was appointed as Director.

Actual directors' remuneration paid by SCBL for the year ended 30 June 2023 was as follows:

	SCBL			
Director	**Board**	**Audit & Risk Committee**	**People & Culture Committee**	**Total Remuneration**
	Amount	**Amount**	**Amount**	**Amount**
N J Astwick	-	-	-	-
C R Crowley[1]	27,500 Chair	-	-	27,500
M L Hewitson[1]	15,000	3,750 Chair	-	18,750
J M Raue	22,500	-	2,500 Chair	25,000
C M Drayton[1]	7,500	-	-	7,500
Total	72,500	3,750	2,500	78,750

[1]During the year ended 30 June 2023, G W Gent and C M Drayton retired as Directors; and C R Crowley and M L Hewitson were appointed as Directors. G W Gent, the previous Chair of the Board, did not receive a fee during the year. The additional fees for committee chairs were introduced from January 2023.

The Group did not pay any directors' fees to SCBL's directors during the year ended 30 June 2022.

NOTES TO THE FINANCIAL STATEMENTS (continued)
for the year ended 30 June 2023

18 RELATED PARTIES (continued)

g. Remuneration of Directors (continued)

Actual directors' remuneration paid by the Society for the year ended 30 June 2022 was as follows:

	Society					
Director	**Board**	**Audit & Risk Committee**	**Investment Committee**	**Remuneration, People & Culture Committee**	**Nominations Committee**	**Total Remuneration**
	Amount	**Amount**	**Amount**	**Amount**	**Amount**	**Amount**
C M Drayton	58,000	6,000 Chair	2,500	-	500	67,000
G R W France	58,000	-	5,000 Chair	-	-	63,000
M P Jordan[1]	93,533 Chair	-	-	-	- Chair	93,533
G W Gent[1,2]	50,120	-	-	-	-	50,120
K B Taylor[2]	25,217	1,304	-	-	-	26,521
C J Black[2]	32,783	1,500	-	1,000	500	35,783
D J Bridgman[2]	32,783	1,500	-	-	500	34,783
M P Misur	58,000	-	-	2,000	1,000	61,000
J M Raue	58,000	-	-	4,000 Chair	1,000	63,000
Total	466,436	10,304	7,500	7,000	3,500	494,740

[1] M P Jordan did not receive any fees for being a member of the Audit and Risk, Investment, Remuneration, People & Culture or Nominations Committees. M P Jordan was appointed Chair of the Board during the year ended 30 June 2022 (Previously G W Gent).

[2] During the year ended 30 June 2022, G W Gent and K B Taylor retired as Directors; and C J Black, D J Bridgman were appointed as Directors.
The annual fee pool limit of $499,800 remained at the limit approved by Society members at the Annual General Meeting in December 2017.

Actual directors' remuneration paid by SCPIL for the year ended 30 June 2022 was as follows:

	SCPIL
Director	**Remuneration for Board and Audit & Risk Committee**
	Amount
N J Astwick	-
M J Gardiner	17,500 Audit & Risk Committee Chair
M L James	25,000 Board Chair
J M Raue	15,000
Total	57,500

NOTES TO THE FINANCIAL STATEMENTS (continued)
for the year ended 30 June 2023

18 RELATED PARTIES (continued)

h. Remuneration of key management personnel

The Society Board is committed to a fair and reasonable remuneration framework for its senior leadership team, including the Chief Executive Officer ("CEO"). In determining an executive's total remuneration, external benchmarking is undertaken by locally recognised and based remuneration organisations to ensure job size, comparability and competitiveness, along with consideration of the individual's performance, skills, expertise and experience. Remuneration comprises fixed remuneration, performance incentives and short-term benefits such as health insurance and carpark.

Key management personnel of the Group includes team members of the Society, SCPIL, and SCBL leadership teams. The Group does not provide loans or advances to key management personnel.

	Group		SCBL	
	2023	**2022**	**2023**	**2022**
	$000	**$000**	**$000**	**$000**
Salaries and other short-term benefits	6,081	3,909	1,483	n/a
Contributions to KiwiSaver	192	128	44	n/a

The increase in the remuneration of key management personnel mainly relates to the incorporation of SCBL's figures in the year ended 30 June 2023. (30 June 2022: Not applicable, as acquisition of SCBL occurred on 30 June 2022 (Refer Note 21)) and the introduction of new staff benefits.

CEO remuneration
Over the course of the financial year, remuneration of the Society's CEO comprises the following:

	2023	**2022**
	Amount	**Amount**
Base salary	861,348	811,488
Short-term performance incentive	155,000	140,000
Contributions to KiwiSaver	42,717	47,790
Short-term benefits	15,443	11,233

19 EMPLOYEE REMUNERATION

The following table discloses the number of employees and former employees of the Group (excluding the CEO of the Society – disclosed separately in Note 18), who received total remuneration and other allowances of $100,000 or more, during the financial year. Remuneration represents actual payments made during the financial year and includes base salary, bonuses, redundancy and termination payments.

There is an increase in the number of employees compared to the previous year ended 30 June 2022 driven by:
(i) Increased investment by the Group in transformational initiatives such as modernising systems to support members to 'self-service' their health insurance policies;
(ii) Increased employee costs as a result of inflation;
(iii) The inclusion of SCBL's employees for the year ended 30 June 2023 (30 June 2022: Not applicable, as acquisition of SCBL occurred on 30 June 2022 (Refer Note 21)).

	Group	
	2023	**2022**
$	**Number of employees**	
100,000 - 110,000	72	43
110,001 - 120,000	54	36
120,001 - 130,000	50	37
130,001 - 140,000	45	25
140,001 - 150,000	39	21
150,001 - 160,000	32	18
160,001 - 170,000	12	10
170,001 - 180,000	17	5
180,001 - 190,000	13	7
190,001 - 200,000	5	2
200,001 - 210,000	8	4
210,001 - 220,000	4	4
220,001 - 230,000	3	6
230,001 - 240,000	4	2
240,001 - 250,000	4	1
250,001 - 260,000	2	2
260,001 - 270,000	3	1
270,001 - 280,000	2	-
280,001 - 290,000	1	-
300,001 - 310,000	1	1
330,001 - 340,000	1	-
370,001 - 380,000	2	2
390,001 - 400,000	1	-
400,001 - 410,000	1	1
410,001 - 420,000	1	1
430,001 - 440,000	1	1
450,001 - 460,000	1	-
Total	379	230

NOTES TO THE FINANCIAL STATEMENTS (continued)
for the year ended 30 June 2023

19 EMPLOYEE REMUNERATION (continued)
The following table is a subset of the Group table above disclosing the number of employees and former employees of SCBL who received total remuneration and other allowances of $100,000 or more, during the year ended 30 June 2023.

	SCBL	
	2023	**2022**
$	**Number of employees**	
100,000 - 110,000	3	n/a
110,001 - 120,000	1	n/a
120,001 - 130,000	4	n/a
130,001 - 140,000	3	n/a
140,001 - 150,000	3	n/a
150,001 - 160,000	1	n/a
180,001 - 190,000	1	n/a
190,001 - 200,000	2	n/a
250,001 - 260,000	1	n/a
270,001 - 280,000	1	n/a
370,001 - 380,000	1	n/a
Total	21	n/a

20 COMMITMENTS, CONTINGENCIES AND SUBSEQUENT EVENTS

a. Commitments

The Group had no commitments at 30 June 2023 (30 June 2022: no commitments).

b. Contingent liabilities

The Group from time to time may incur obligations arising from contracts entered into in the normal course of business. A contingent liability is disclosed where a legal or constructive obligation is possible, but not probable, or where the obligation is probable, but the financial impact of the event is unable to be reliably estimated. If an obligation becomes probable and can be reliably estimated, a provision is recognised.

Each entity of the Group has separately been in communication with the Financial Markets Authority (FMA) in relation to discount remediations. As at 30 June 2023 there are no known contingent liabilities (30 June 2022: nil).

c. Subsequent events

There were no events subsequent to the reporting period which would materially affect the financial statements (30 June 2022: Nil).

NOTES TO THE FINANCIAL STATEMENTS (continued)
for the year ended 30 June 2023

21 PURCHASE OF TRAVEL INSURANCE BUSINESS

On 30 June 2022, the Group acquired 100% of the shares and voting interests in SCBL (travel insurance business). The shares were purchased via a Share Sale Agreement and total consideration of $28,500,000 (cash) was transferred to Southern Cross Health Trust. Independent valuation advice was obtained to support the purchase price.

The purpose of the acquisition is for Society to invest in an industry and sector that it understands. Together, the acquired assets and organised workforce of the travel insurance business will enable Society to obtain a return on its investment for the benefit of its members and thereby constitutes a business. This meets the definition of a business combination under NZ IFRS 3 Business Combinations. The Group has also assessed that the combining entities were not under common control prior to the acquisition.

The acquired values of assets and liabilities of SCBL were provisionally determined on 30 June 2022 at fair value and the accounting for the acquisition has been finalised on 30 June 2023. The Group has obtained new information within the measurement period (ended on 30 June 2023) on a contingent liability arising from discount remediations which existed on acquisition date. There is an obligation on SCBL to remediate its policyholders who did not receive the discounts that they were entitled to. As of 30 June 2023, SCBL was still undertaking the discovery exercise and there were insufficient records and data for the Group to fair value the contingent liability reliably or provide a reliable estimate of its financial effect.

Therefore, the finalised acquired values of identifiable assets and liabilities of SCBL remain unchanged from the provisionally determined values presented below.

	2022
Assets	**$000**
Cash and cash equivalents	23,372
Premium and other receivables	774
Recoveries	46
Investments	15,981
Property and equipment	229
Intangible assets	7,179
Total assets	**47,581**
Liabilities	
Payables and other liabilities	2,764
Employee benefits	629
Insurance contract liabilities	15,593
Deferred tax liabilities	95
Total liabilities	**19,081**
Total identifiable net assets at fair value	**28,500**
Analysis of cash flows on acquisition	
Net cash acquired with the subsidiary (included in cash flows from investing activities)	23,372
Cash paid	(28,500)
Net cash flow on acquisition	**(5,128)**

As the Group acquired SCBL on the last day of the comparative reporting period, SCBL did not contribute any revenue or profit to the Group's results for the year ended 30 June 2022. If the acquisition date for the business combination had been at the beginning of the comparative reporting period, SCBL would have contributed net premium revenue of $13.4m and loss after taxation of $6.8m to the Group's comparative results.

Acquisition-related costs

The Group incurred acquisition-related costs of $121,000 on legal fees and due diligence costs. These costs have been included in the comparative 'operating expenses'.

Goodwill

Goodwill arising from the acquisition has been recognised as follows. The goodwill relates to the future economic benefits arising from other assets acquired in the acquisition that have not been individually identified and separately recognised.

Consideration transferred	28,500
Fair value of identifiable net assets (excluding Goodwill)	(27,715)
Goodwill	**785**

Goodwill acquired is not deductible for tax purposes.

KPMG

Independent auditor's report

To the members of The Southern Cross Medical Care Society

Report on the audit of the consolidated finaSMncial statements

Opinion

We have audited the accompanying consolidated financial statements of The Southern Cross Medical Care Society (the "Society") and its subsidiaries (the "Group") which comprise:

- the consolidated statement of financial position as at 30 June 2023;
- the consolidated statements of comprehensive income, changes in reserves and cash flows for the year then ended; and
- notes, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements on pages 1 to 31 present fairly, in all material respects the consolidated financial position as at 30 June 2023 and its financial performance and cash flows for the year ended on that date, in accordance with New Zealand Equivalents to International Financial Reporting Standards and International Financial Reporting Standards.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (New Zealand) ("ISAs (NZ)"). We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

We are independent of the Group in accordance with Professional and Ethical Standard 1 *International Code of Ethics for Assurance Practitioners (Including International Independence Standards) (New Zealand)* issued by the New Zealand Auditing and Assurance Standards Board and the International Ethics Standards Board for Accountants' *International Code of Ethics for Professional Accountants (including International Independence Standards)* ("IESBA Code"), and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

Our responsibilities under ISAs (NZ) are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report.

Our firm has also provided other services to the Group in relation to the audit of the Society's insurer solvency return, review of the Society's consolidated interim financial statements, review of the Society's half-year insurer solvency return, audits of the financial statements and insurer solvency returns of the Society's insurance subsidiaries, Southern Cross Pet Insurance Limited and Southern Cross Benefits Limited, and annual APRA reporting for Southern Cross Benefits Limited. Subject to certain restrictions, partners and employees of our firm may also deal with the Group on normal terms within the ordinary course of trading activities of the business of the Group. These matters have not impaired our independence as auditor of the Group. The firm has no other relationship with, or interest in, the Group.

Materiality

The scope of our audit was influenced by our application of materiality. Materiality helped us to determine the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and on the consolidated financial statements as a whole. The materiality for the consolidated financial statements as a whole was set at $12,200,000 determined with reference to a benchmark of Group's net assets. We chose the benchmark because, in our view, this is a key measure of the Group's solvency and its ability to pay claims which is a primary area of focus for users of the consolidated financial statements.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements in the current period. We summarise below those matters and our key audit procedures to address those matters in order that the members as a body may better understand the process by which we arrived at our audit opinion. Our procedures were undertaken in the context of and solely for the purpose of our statutory audit opinion on the consolidated financial statements as a whole and we do not express discrete opinions on separate elements of the consolidated financial statements

The key audit matter	How the matter was addressed in our audit
Valuation of outstanding claims liabilities	
Refer to Note 3 to the consolidated financial statements. Valuation of the Group's provision for outstanding claims requires significant judgement from management and the Group's externally appointed actuarial specialists.	Our audit procedures included: — testing the Group's IT systems and controls over claims, including the reconciliation of data from underlying systems to the data used in the actuary's valuation; — testing a sample of claims to check whether they had the appropriate level of authorisation and support; — with support from our actuarial specialists, assessing the work of the Group's Appointed Actuary in estimating the future claims costs on claims incurred prior to 30 June 2023, including: - the appropriateness of the valuation methodology, estimates and assumptions, against relevant accounting and actuarial standards; - the appropriateness of key assumptions including claims frequency, payment patterns and claims inflation against benchmark information; - the appropriateness of the risk margin; and - comparing previous estimates to actual claims development in the current year (i.e. performing a hindsight analysis). — comparing July 2023 actual claims paid versus expected experience; and — testing the completeness and accuracy of data used in the actuarial modelling underlying the 30 June 2023 valuation. We did not identify material exceptions from procedures performed, and found the judgements and assumptions to be balanced and consistent with our understanding of the Group.

Other information

The Directors, on behalf of the Group, are responsible for the other information included in the Group's consolidated financial statements. Other information includes the Appointed Actuary's report issued under section 78 of the Insurance (Prudential Supervision) Act 2010. Our opinion on the consolidated financial statements does not cover any other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears 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.

Use of this independent auditor's report

This independent auditor's report is made solely to the members as a body. Our audit work has been undertaken so that we might state to the members those matters we are required to state to them in the independent auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the members as a body for our audit work, this independent auditor's report, or any of the opinions we have formed.

Responsibilities of the Directors for the consolidated financial statements

The Directors, on behalf of the Group, are responsible for:

— the preparation and fair presentation of the consolidated financial statements in accordance with generally accepted accounting practice in New Zealand (being New Zealand Equivalents to International Financial Reporting Standards) and International Financial Reporting Standards issued by the New Zealand Accounting Standards Board;

— implementing necessary internal control to enable the preparation of a set of consolidated financial statements that is free from material misstatement, whether due to fraud or error; and

— assessing the ability to continue as a going concern. This includes disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate or to cease operations or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objective is:

— to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error; and

— to issue an independent 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 ISAs NZ will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error. They are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

A further description of our responsibilities for the audit of these consolidated financial statements is located at the External Reporting Board (XRB) website at:

http://www.xrb.govt.nz/standards-for-assurance-practitioners/auditors-responsibilities/audit-report-1/

This description forms part of our independent auditor's report.

The engagement partner on the audit resulting in this independent auditor's report is Jamie Munro.

For and on behalf of

KPMG

KPMG
Auckland

22 September 2023

25 September 2023

The Directors
Southern Cross Medical Care Society
Auckland

Dear Directors

Review of Actuarial Information Contained in Financial Statements as at 30 June 2023

Finity Consulting Pty Limited (Finity) has been asked by Southern Cross Medical Care Society (the Society) to carry out a review of the 30 June 2023 Actuarial Information contained in the financial statements and used in their preparation and to provide an opinion as to the appropriateness of this information. John Smeed is an employee of Finity and is the Appointed Actuary to the Society. Finity has no relationship with the Society apart from being a provider of actuarial services.

The Society's policy is to seek and adopt the advice of the Appointed Actuary in respect of the Actuarial Information contained in its financial statements. We confirm that the financial statements as at 30 June 2023 have been prepared in accordance with this policy, and as such this satisfies the requirements of the Insurance (Prudential Supervision) Act 2010.

Having carried out the Actuarial Review, nothing has come to our attention that would lead us to believe that the Actuarial Information used in the financial statements or their preparation, or the determination of the solvency position for the Society as at 30 June 2023 is inappropriate. No limitations were placed on us in performing our review and all data and information requested was provided.

In our opinion the Society has maintained a solvency margin in excess of the minimum required as at the balance date.

This report is being provided for the sole use of the Society for the purpose stated above. It is not intended, nor necessarily suitable, for any other purpose and should only be relied on for the purpose for which it is intended.

Yours sincerely

John Smeed
Appointed Actuary

Anagha Pasche

Fellows of the New Zealand Society of Actuaries