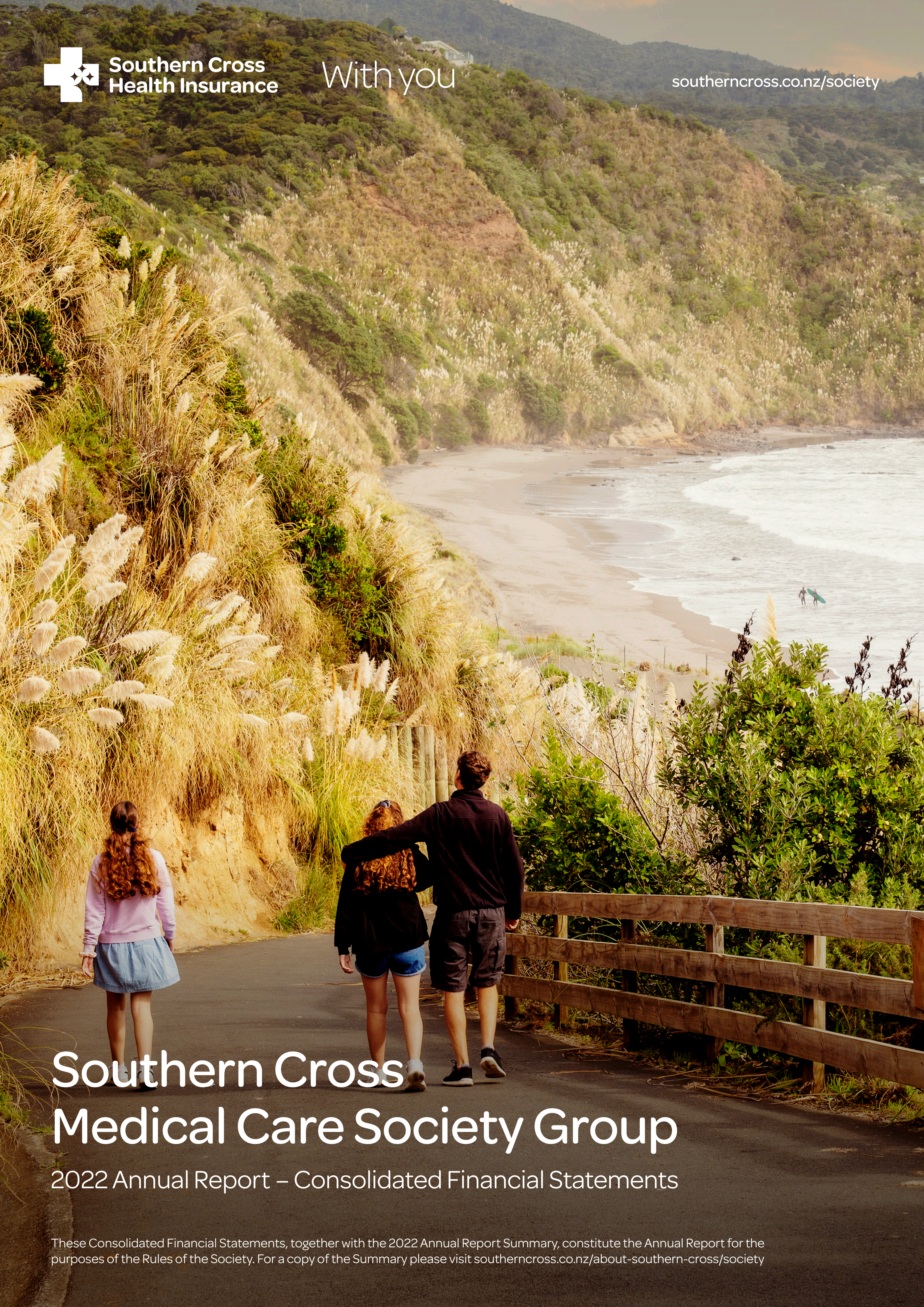

Southern Cross Health Insurance

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Southern Cross Medical Care Society Group

2022 Annual Report – Consolidated Financial Statements

These Consolidated Financial Statements, together with the 2022 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 2022

CONTENTS

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
for the year ended 30 June 2022

	Note	2022 $000	2021 $000
Net premium revenue	5	1,384,425	1,280,483
Net claims expense	2,6	(1,103,507)	(1,115,213)
Underwriting surplus		**280,918**	**165,270**
Operating expenses	10	(172,455)	(154,910)
Operating surplus		**108,463**	**10,360**
Net investment and other income	9	(17,107)	39,504
Interest expense	14	(698)	(558)
Surplus before taxation		**90,658**	**49,306**
Taxation (expense)/credit	16	(521)	3,201
Surplus after taxation		**90,137**	**52,507**
Other comprehensive income:			
Movement in foreign currency translation reserve		-	-
Total comprehensive income		**90,137**	**52,507**

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 2022

	Note	2022 $000	2021 $000
Assets			
Cash and cash equivalents	11	40,787	27,086
Premium and other receivables	12	134,850	129,898
Recoveries	4	550	758
Investments	8	696,676	577,407
Investment in joint venture	18	98	178
Property and equipment	13	6,816	7,841
Intangible assets	13	28,075	29,565
Right-of-use assets	14	33,705	37,962
Deferred tax assets	16	10,403	10,919
Total assets		**951,960**	**821,614**
Liabilities			
Payables and other liabilities	15	20,290	12,835
Employee benefits	17	13,238	11,537
Lease liabilities	14	48,348	52,990
Insurance contract liabilities	4	254,972	219,377
Deferred tax liabilities	16	1,308	1,208
Total liabilities		**338,156**	**297,947**
Net assets		**613,804**	**523,667**
Reserves			
Consolidated reserves		613,804	523,667
Total Reserves		**613,804**	**523,667**

Authorised on behalf of the Board of Directors on 06 September 2022

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 2022

2022	Note	Consolidated Reserves $000	Foreign Currency Translation Reserve $000	Total Reserves $000
Opening balance		523,667	-	523,667
Total comprehensive income:				
Surplus after taxation		90,137	-	90,137
Other comprehensive income:				
Movement in foreign currency translation reserve		-	-	-
Total comprehensive income		90,137	-	90,137
Closing balance		**613,804**	**-**	**613,804**

2021	Consolidated Reserves $000	Foreign Currency Translation Reserve $000	Total Reserves $000
Opening balance	471,160	-	471,160
Total comprehensive income:			
Surplus after taxation	52,507	-	52,507
Other comprehensive income:			
Movement in foreign currency translation reserve	-	-	-
Total comprehensive income	52,507	-	52,507
Closing balance	**523,667**	**-**	**523,667**

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 2022

	Note	2022 $000	2021 $000
Cash flows from/(to) operating activities			
Premium revenue received		1,385,792	1,272,331
Interest received		3,792	6,010
Other income received		1,135	790
Payment of claims		(1,093,648)	(1,128,515)
Payments to employees		(78,795)	(68,402)
Payments to suppliers		(74,333)	(73,551)
Net cash flows from operating activities		**143,943**	**8,663**
Cash flows from/(to) investing activities			
Proceeds from sale of property and equipment		-	149
Payments for property and equipment	13	(378)	(5,112)
Payments for intangible assets	13	(617)	(1,809)
Net purchases of investments		(118,965)	(15,753)
Lease incentives received	14	-	7,163
Investment in joint venture	18	(280)	(350)
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		**(125,368)**	**(15,712)**
Cash flows from/(to) financing activities			
Repayment of lease liabilities	14	(4,176)	(4,845)
Interest paid	14	(698)	(558)
Net cash flows to financing activities		**(4,874)**	**(5,403)**
Net increase/(decrease) in cash and cash equivalents		**13,701**	**(12,452)**
Opening cash and cash equivalents		27,086	39,538
Closing cash and cash equivalents		**40,787**	**27,086**

RECONCILIATION OF SURPLUS AFTER TAXATION TO NET CASH FLOWS FROM OPERATING ACTIVITIES

	Note	2022 $000	2021 $000
Surplus after taxation		90,137	52,507
Adjustments for non-cash and non-operating items included in surplus after taxation:			
Depreciation and amortisation	13,14a	14,852	17,794
Interest expense	14	698	558
Adjustments to lease terms	14	(468)	-
Impairment of assets	13	325	512
Loss/(gains) on disposal of assets	13	-	398
Net losses/(gains) on investments	9	24,530	(34,156)
Changes in assets and liabilities:			
Premium and other receivables		392	(4,083)
Interest receivable		(2,495)	1,452
Payables and other liabilities		6,047	(6,183)
Deferred acquisition costs	12	(460)	(1,547)
Net deferred taxation	16	521	(3,201)
Investment in joint venture		-	(78)
Insurance contract liabilities		9,864	(15,310)
Net cash flows from operating activities		**143,943**	**8,663**

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 2022

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 reporting period, SCBL did not contribute any revenue or profit to the Group's results for the year ended 30 June 2022. Thus, the Consolidated Statement of Financial Position includes SCBL's position, whereas there is no impact on the Consolidated Statement of Comprehensive Income. If the acquisition date for the business combination had been at the beginning of the reporting period, SCBL would have contributed net premium revenue of $13.4m and loss after taxation of $6.8m to the Group's results. (Please refer to Note 21 for further detail).

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 $600.7 million (30 June 2021: $520.3 million) represents the retained surpluses of the Society. Consolidated reserves of the Group of $613.8 million (30 June 2021: $523.7 million) includes the net equity of the Society's insurance and non-insurance subsidiaries.

BASIS OF PREPARATION

The Society is a profit-oriented 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").
- in compliance 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. Transactions in the branch are translated to New Zealand dollars as discussed 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 or significant influence 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 2022

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 New Zealand dollars 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 New Zealand dollars at an average exchange rate for each month. The assets and liabilities of the branch are initially translated to New Zealand dollars 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 2: COVID-19 pandemic
- Note 4: Insurance contract liabilities
- Note 7a: Insurance risk
- Note 13: Property and equipment and intangible assets
- Note 14: Leases
- Note 16: Taxation
- Note 21: Purchase of travel insurance business

2 COVID-19 PANDEMIC

On 11 March 2020, the World Health Organisation announced that the coronavirus ("COVID-19") outbreak be classified as a pandemic. This resulted in the New Zealand government introducing various measures to combat the outbreak, including travel restrictions, quarantines, closure on non-essential businesses and lock-downs of the country.

Throughout the year ended 30 June 2022, New Zealand had multiple community outbreaks of the COVID-19 virus (Delta and Omicron variants) and as a result, subsequently experienced heightened government restrictions and a number of extended lockdowns, primarily in the Auckland region. The impact of this has been a year of highly volatile claims experience, resulting in materially lower claims than originally planned. Whilst utilisation rates are showing signs of increasing in recent months, sickness (both COVID-19 and Flu) in the wider community look to be continuing to restrict provider capacity.

As a result of the COVID-19 pandemic and other developments in the environment (such as inflation), the Group has reassessed at 30 June 2022 certain key inputs that underpin insurance contract liabilities. This assessment was performed at an individual entity level:

a. Society

At 30 June 2022, new health reforms, a new wave of COVID-19 infections, higher inflation, and significant strain on the public health system has increased the uncertainty associated with estimating the actual level of private health treatment utilisation. A risk margin of 11% (June 2021: 9%) of the outstanding claims liability and associated expenses has been established. An unexpired risk liability risk margin of 8% (June 2021: 5.5%) of the expected future claims and associated expenses has also been established. The increase in risk margins reflects the elevated uncertainty in estimating outstanding liabilities due to the flow-on impacts on claims from the increased strain on public health and from New Zealand's response to managing the COVID-19 pandemic.

b. SCPIL

At 30 June 2022, uncertainty in the current environment arises from the flow on impacts on claims from New Zealand's response to managing the COVID-19 pandemic, including disruption faced by veterinary providers as a result of staff sickness, as well as higher inflation in the New Zealand economy. A risk margin of 8.5% (June 2021: 8.5%) of the outstanding claims liability and associated expenses has been established. An unexpired risk liability risk margin of 12.5% (June 2021: 12.5%) of the expected future claims and associated expenses has also been established. While the overall risk margins have not deviated from prior year, the explicit COVID-19 allowances have reduced in the current financial year, offset by an increase in other components of the risk margin.

NOTES TO THE FINANCIAL STATEMENTS (continued)
for the year ended 30 June 2022

2 COVID-19 PANDEMIC (continued)

c. SCBL

SCBL was heavily impacted by Covid-19 over the last two financial periods. However, with border lockdowns in New Zealand (NZ) and Australia (AU) now mostly removed, business has now lifted particularly for outbound travel products. SCBL's Appointed Actuary continues to regularly monitor, assess and value the current Omicron claims experience as well as future exposure. As such, one risk margin is used, inclusive of COVID-19 experience and there is no explicit loading of the risk margin for COVID-19, noting that the loss ratios selected for the premium liability also make allowance for COVID-19 claims. A risk margin of 15% - NZ operations and 19% - AU operations of the outstanding claims liability and associated expenses have been established. An unexpired risk liability risk margin of 20% - NZ operations and 24% - AU operations of the expected future claims and associated expenses have also been established.

3 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 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 2021: 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 2022 are equivalent to 5.4 months of claims (30 June 2021: 5.3 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 2022 (30 June 2021: In compliance).

	2022 $m	2021 $m
Disclosures of Society solvency required by the Solvency Standard as issued by the RBNZ		
Solvency capital	545.4	483.0
Minimum solvency capital	167.9	147.1
Solvency margin	377.5	335.9
Solvency ratio	3.25	3.28

On 19 January 2022, Standard & Poor's reaffirmed the Society's Insurer Financial Strength Rating at A+ (Strong) (6 December 2020: 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 2022. On 19 January 2022, Standard & Poor's reaffirmed SCPIL's Insurer Financial Strength Rating at A (Strong) (20 January 2021: A (Strong)), under its global insurance industry rating methodology.

NOTES TO THE FINANCIAL STATEMENTS (continued)
for the year ended 30 June 2022

3 SOLVENCY (continued)

b. Group Solvency (continued)
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 $2.6 million for the SCBL has been determined by the Directors as sufficient for maintaining financial soundness. On 19 January 2022, Standard & Poor's reaffirmed SCBL's Insurer Financial Strength Rating at A (Strong) (3 February 2020: A (Strong)), under its global insurance industry rating methodology.

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

	2022 $m	2021 $m
Disclosures of insurance group solvency required by the Solvency Standard as issued by the RBNZ		
Solvency capital	569.7	493.0
Minimum solvency capital	176.6	150.4
Solvency margin	393.1	342.6
Solvency ratio	3.23	3.28

4 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 2022 have been determined by the Appointed Actuary, John Smeed, a Fellow of the New Zealand Society of Actuaries. For SCBL, the applicable estimates have been determined by the Appointed Actuary, Win-Li Toh, MA (Oxon) a Fellow of the New Zealand Society of Actuaries and a Fellow of the Institute of Actuaries of Australia, and currently a Director for the Institute of Actuaries of Australia.
These estimates were presented to the Directors in reports dated 6 September 2022. 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.

	2022 $000	2021 $000
Insurance contract liabilities		
Net provision for outstanding claims	83,206	71,656
Provision for unearned premium	150,814	129,654
Provision for unexpired risk	13,298	9,911
Other insurance provisions	640	816
Assessed claims payable	6,464	6,582
Total insurance contract liabilities net of recoveries	254,422	218,619
Third party recoveries*	500	750
Reinsurance recoveries*	50	8
Total recoveries	550	758
Total insurance contract liabilities per the Statement of financial position	**254,972**	**219,377**

*Relates to a separate disclosure for allowance for third party (ACC) and reinsurance recoveries on insurance contract liabilities.

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 Bornhuetter-Ferguson (BF) method is used for outstanding claims, which blends assumed loss ratios for more recent event months with a standard chain ladder method for older (beyond six to twelve for TravelCare and Domestic policies, and four for other policies) event months. 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. The risk margins consider both historic and future sources of volatility. Margins were determined with the objective of achieving at least 75% probability of sufficiency of the provision for outstanding claims.

NOTES TO THE FINANCIAL STATEMENTS (continued)
for the year ended 30 June 2022

4 INSURANCE CONTRACT LIABILITIES (continued)

	2022	2021
Outstanding claims risk margin		
Society	11.0%	9.0%
SCPIL	8.5%	8.5%
SCBL - New Zealand operations	15.0%	n/a
SCBL - Australian Branch	19.0%	n/a

Key assumptions for Society:

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 69% to 114% (30 June 2021: 69% to 114%) of the monthly average. The provision for outstanding claims is calculated separately for different claim types and therefore has different seasonality factors than the unexpired risk provision, which is calculated at a portfolio level.
iii. Historical claims inflation 8% p.a. (30 June 2021: 7%), based on previous claims experience.

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. Claims handling costs were determined to be 4% (30 June 2021: 4%) of the underlying claims amounts based on an analysis of administration expenses.

The average weighted term from 30 June 2022 to the expected settlement date for claims included in the liability for outstanding claims is 44 days (30 June 2021: 47 days). Accordingly, expected future claims payments are not discounted due to the short tail nature of the liabilities.

Key assumptions for SCPIL:

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. No explicit allowance for claims inflation is made. Instead, there is an implicit assumption that future inflation will be in line with recent inflation which is appropriate given the short tail nature of the liabilities.

Claims handling costs include internal and external costs incurred in connection with the 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. Claims handling costs were determined to be 9% (30 June 2021: 7%) of the underlying claims amounts based on an analysis of administration expenses.

The average weighted term from 30 June 2022 to the expected settlement date for claims included in the liability for outstanding claims is 3.5 months (30 June 2021: 3.2 months). Accordingly, expected future claims payments are not discounted due to the short tail nature of the liabilities.

Key assumptions for 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. No explicit adjustment for discounting and future inflation has been made. This is equivalent to assuming the impact of inflating future claim payments will be exactly offset by the effect of discounting. This is appropriate given the short-tailed nature of travel insurance.

Claims handling costs include internal and external costs incurred in connection with the 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. Claims handling costs were determined to be 12% of the underlying claims amounts, determined using a fixed dollar approach based on an analysis of administration expenses. These costs are assessed on a run-off basis, and reflect the costs incurred in settling claims if SCBL was to cease trading on 1 July 2022.

The average weighted term from 30 June 2022 to the expected settlement date for claims included in the liability for outstanding claims is 2.7 months. Accordingly, expected future claims payments are not discounted due to the short tail nature of the liabilities.

NOTES TO THE FINANCIAL STATEMENTS (continued)
for the year ended 30 June 2022

4 INSURANCE CONTRACT LIABILITIES (continued)

Provision for outstanding claims

	2022 $000	2021 $000
Provision for outstanding claims		
Central estimate of outstanding claims liability	72,129	63,883
Claims handling costs	3,321	2,632
Risk margin	8,306	5,899
Total provision for outstanding claims (gross)	83,756	72,414
Central estimate of reinsurance recoveries on outstanding claims liability	(50)	(8)
Estimate of third party recoveries on outstanding claims liability	(500)	(750)
Total recoveries	(550)	(758)
Total provision for outstanding claims (net)	**83,206**	**71,656**

	Note	2022 $000	2021 $000
Reconciliation of movement in net provision for outstanding claims			
Opening balance		71,656	76,799
Net travel insurance outstanding claims liabilities acquired	21	4,782	-
Amounts utilised during the year		(60,698)	(61,595)
Additional provision/(release of) provision		1,076	(1,724)
Amounts provided during the year		64,359	59,404
Movement in claims handling costs		228	(152)
Movement in risk margin		1,803	(1,076)
Total		**83,206**	**71,656**

Sensitivity of outstanding claims liability

The provision of 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 financial statements.

	Provision for outstanding claims			
	2022	2022	2021	2021
Society outstanding claims liability sensitivity	**+ $000**	**- $000**	**+ $000**	**- $000**
Inflation +/- 5% (2021: +/- 2%)	75,600	74,800	68,500	68,400
Claims payment per member +/- 2%	76,700	73,800	69,800	67,100
Expenses +/- 2.5%	77,000	73,400	70,100	66,800

	2022	2021
Society outstanding claims liability seasonality sensitivity	**$000**	**$000**
Seasonality factor June -1% and July +1%	74,800	68,000
Seasonality factor July -1% and June +1%	75,700	68,900

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 and a provision of unexpired risk is recognised in the statement of financial position.

(i) The Society's provision for unexpired risk has been calculated as the liability adequacy test projected a deficiency as at 30 June 2022 for current in-force business until the next policy billing date on or after 1 July 2022 (30 June 2021: deficiency).

(ii) For SCPIL, as at 30 June 2022, the liability adequacy test identified a surplus (30 June 2021: surplus), therefore no deficiency in the unearned premium liability has been recognised.

(iii) For SCBL, as at 30 June 2022, 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, therefore no deficiency in the unearned premium liability has been recognised.

NOTES TO THE FINANCIAL STATEMENTS (continued)
for the year ended 30 June 2022

4 INSURANCE CONTRACT LIABILITIES (continued)

Provision for unexpired risk and liability adequacy test (continued)

	Note	2022 $000	2021 $000
Society liability adequacy test			
Unearned premium liability		121,939	114,497
Present value of expected future cash flows for claims and expenses		(125,219)	(117,922)
Risk margin of the present value of expected future cash flows		(10,018)	(6,486)
Liability adequacy test deficit		(13,298)	(9,911)
Unexpired risk liability		(13,298)	(9,911)
SCPIL liability adequacy test			
Unearned premium liability		18,110	15,157
Deferred acquisition costs	12	(2,007)	(1,547)
Present value of expected future cash flows for claims and expenses		(14,427)	(12,245)
Risk margin of the present value of expected future cash flows		(1,577)	(1,294)
Liability adequacy test surplus		99	71
SCBL liability adequacy test			
Unearned premium liability		10,765	-
Deferred acquisition costs	12	(205)	-
Present value of expected future cash flows for claims and expenses		(6,958)	-
Risk margin of the present value of expected future cash flows		(1,140)	-
Liability adequacy test surplus		2,462	-

Premium liabilities risk margin

	2022	2021
Society	8.0%	5.5%
SCPIL	12.5%	12.5%
SCBL - New Zealand operations	20.0%	n/a
SCBL - Australian Branch	24.0%	n/a

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 62% to 115% depending on the month (30 June 2021: monthly seasonality factors ranging from 73% to 112% of the monthly average claims incurred).
iii. Expenses based on the business plan for 2022/23.

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. Expenses based on the business plan for 2022/23, and an analysis of administration expenses.

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 2022

4 INSURANCE CONTRACT LIABILITIES (continued)

	Note	2022 $000	2021 $000
Provision for unearned premium			
Opening balance		129,654	119,646
Premiums written in the year		1,394,820	1,290,491
Premiums earned during the year		(1,384,425)	(1,280,483)
Net travel insurance unearned premium acquired	21	10,765	-
Total		**150,814**	**129,654**

Premiums billed but unearned are recorded as a provision for unearned premium in the statement of financial position.

5 NET PREMIUM REVENUE

For the 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.

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

	2022 $000	2021 $000
Premium revenue	1,384,462	1,280,523
Reinsurance premium	(37)	(40)
Net premium revenue	**1,384,425**	**1,280,483**

6 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 4.

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.

	2022 $000	2021 $000
Claims expense	1,107,958	1,118,844
Reinsurance recoveries	(22)	(26)
Third party recoveries	(4,429)	(3,605)
Net claims expense	**1,103,507**	**1,115,213**
Net claims expense		
Claims incurred relating to risks borne in current financial year	1,097,040	1,127,615
Reinsurance recoveries relating to risks borne in current financial year	(27)	(29)
Claims incurred relating to risks borne in previous financial years	1,071	(1,727)
Reinsurance recoveries relating to risks borne in previous financial years	5	3
Movement in provision for claims handling costs	228	(152)
Movement in risk margin	1,803	(1,076)
Net claims incurred	**1,100,120**	**1,124,634**
Movement in provision for unexpired risk	3,387	(9,421)
Total	**1,103,507**	**1,115,213**

NOTES TO THE FINANCIAL STATEMENTS (continued)
for the year ended 30 June 2022

7 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.
- 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 3).
- 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 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, i.e. 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.

NOTES TO THE FINANCIAL STATEMENTS (continued)

for the year ended 30 June 2022

7 RISK MANAGEMENT (continued)

a. Insurance risk (continued)

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.

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 counter-party exposures have been set and are monitored on an ongoing basis. The credit quality of investment counter-parties 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 2022 in excess of policy (30 June 2021: Nil).

The credit quality of investment counter-parties is as follows:

	2022 $000	2021 $000
Money market		
AAA	5,823	2,832
AA	240,801	178,451
A	110,991	81,339
BBB	97,125	85,135
	454,740	347,757
The credit ratings have been disclosed at the investment grade level. Intermediate ratings of (+) or (-) are not separately disclosed.		
Unit trusts		
Non-rated (Global bonds, weighted average rating of the underlying investments is AA, 30 June 2021: AA)	126,826	109,770
Non-rated (Global equities)	55,890	59,920
Non-rated (Global real estate)	27,078	30,452
Non-rated (Global listed infrastructure)	32,142	29,508
	241,936	229,650
Total	**696,676**	**577,407**

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 counter-party organisations.

The cash and cash equivalents balances are held with a counter-party rated AA- (30 June 2021: AA-).

Premium receivables are due from a very large number of counter-parties, ranging from large corporates to individual members and policyholders. Analysing these by credit quality would not be feasible, as the majority of counter-parties 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.

NOTES TO THE FINANCIAL STATEMENTS (continued)
for the year ended 30 June 2022

7 RISK MANAGEMENT (continued)

b. Financial risks (continued)

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.

	2022 $000	2021 $000
Contractual maturities of investments		
On call	6	-
0-6 months	432,745	419,404
7-12 months	168,413	134,663
Current	601,164	554,067
1-2 years	80,685	23,340
2-5 years	14,827	-
Non-current	95,512	23,340
Total	**696,676**	**577,407**

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 $241.9 million (30 June 2021: $229.7 million), as these investments could be liquidated at short notice.

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.

	2022 $000	2021 $000
	Impact on profitability	
Fair value - interest rate sensitivity on money market investments		
Exposure	454,740	347,757
Impact of change in interest rates:		
Increase by 100 basis points	(2,402)	(1,897)
Decrease by 100 basis points	2,410	1,840

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 and loss.

	2022 $000	2021 $000
	Impact on profitability	
Fair value - unit price sensitivity on unit trust investments		
Exposure	241,936	229,650
Impact of change in unit prices:		
Increase by 10%	24,194	22,965
Decrease by 10%	(24,194)	(22,965)

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. In operating these funds, inherent currency risk exposure arises.

SCBL's Australian branch exposes it to 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 $13.0m and $6.0m respectively. 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 $50k on the net assets of SCBL and the foreign currency translation reserve.

The Group does not apply hedge accounting.

NOTES TO THE FINANCIAL STATEMENTS (continued)
for the year ended 30 June 2022

7 RISK MANAGEMENT (continued)

c. Market risks (continued)

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 2022				
Investments	-	696,676	-	696,676
Total	-	696,676	-	696,676
30 June 2021				
Investments	-	577,407	-	577,407
Total	-	577,407	-	577,407

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; 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 Committee 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 opportunities offshore, and impacts of higher CPI and inflationary pressures on treatment costs and pricing.
- 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.
- Information security and cyber-resilience – recognising and responding to increasingly digitised customer experience, internal reliance on systems, data and automation, and the material uplift in threat complexity posed globally by potential cyber intrusion, hacking, data theft and intrusion.
- Regulatory momentum – responding to significant uplift in the pace, volume and breadth of regulatory and legal change, generating heightened expectation and scrutiny across solvency; operational resilience; privacy and confidentiality; customer-centricity, culture and conduct; consumer and insurance law; financial services advice law; environment, sustainability and governance; and financial accounting and reporting standards.

NOTES TO THE FINANCIAL STATEMENTS (continued)

for the year ended 30 June 2022

8 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 the statement of comprehensive income. The credit quality, contractual maturities, and fair value hierarchies of investments are disclosed in Note 7.

	2022 $000	2021 $000
Investments		
Local authority bonds	11,473	-
Other bonds	54,871	28,472
Bank deposits	383,817	302,054
Commercial paper	-	6,998
Floating rate notes	4,579	10,233
Unit trusts - global bonds	126,826	109,770
Unit trusts - global equities	55,890	59,920
Unit trusts - global real estate	27,078	30,452
Unit trusts - global listed infrastructure	32,142	29,508
Total	**696,676**	**577,407**

9 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 statement of comprehensive income in the period in which they arise.

	Note	2022 $000	2021 $000
Net investment and other income			
Interest income		6,288	4,558
Net (losses)/gains on investments at fair value through profit or loss		(24,169)	34,406
Joint venture net loss		(361)	(250)
Net investment (loss)/income		(18,242)	38,714
Fee and other income		1,135	790
Total		**(17,107)**	**39,504**

10 OPERATING EXPENSES

	2022 $000	2021 $000
Operating expenses consist of:		
Policy acquisition	15,149	12,027
Policy administration	53,050	46,751
Claims administration	14,030	12,505
Other operating expenses	90,226	83,627
Total	**172,455**	**154,910**

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

for the year ended 30 June 2022

10 OPERATING EXPENSES (continued)

	Note	2022 $000	2021 $000
Included within operating expenses are the following specific items:			
Auditor's remuneration*			
• audit of annual financial statements		334	299
• review of interim financial statements		64	48
• audit of annual financial statements of the Group - prior years		-	33
• audit of annual insurer solvency return		76	82
• review of half year insurer solvency return		25	27
• audit of annual insurer solvency return of the Group - prior years		-	8
• other assurance		3	-
• non-assurance		27	-
Employee benefits expense		77,735	66,359
Restructuring		218	1,040
Contributions to defined contribution plan		1,915	1,597
Depreciation charge on right-of-use assets	14	4,259	4,254
Short term lease expense		460	256
Depreciation	13	1,632	2,473
Amortisation	13	8,961	11,067
Losses on disposal of property and equipment		-	398
Impairment loss on intangible assets	13	325	-
Increase/(decrease) in provision for bad and doubtful debts		196	(117)
Deferred acquisition cost credit	12	(460)	(1,547)

*SCBL has incurred audit related fees of $354,000 for the year ended 30 June 2022. This is not included in the above disclosure as the acquisition occurred on 30 June 2022 (Refer Note 21), with no impact to the consolidated statement of comprehensive income.

11 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.

12 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	2022 $000	2021 $000
Premium and other receivables			
Premium receivable		114,441	107,358
Reinsurance recoveries receivable	12a	3	-
Other receivables		18,194	14,993
Investment receivables		-	6,000
Deferred acquisition costs	12b	2,212	1,547
Total		**134,850**	**129,898**

a. Reconciliation of reinsurance recoveries receivable

	Note	2022 $000	2021 $000
Opening balance		-	-
Acquired with purchase of travel insurance business (refer Note 21)		3	-
Gross reinsurance recoveries on claims paid during the year		-	-
Reinsurance recoveries settled by reinsurer during the year		-	-
Closing balance		3	-

b. Reconciliation of deferred acquisition costs

	Note	2022 $000	2021 $000
Opening balance		1,547	-
Acquired with purchase of travel insurance business (refer Note 21)		205	-
Movement in deferred acquisition costs	4	460	1,547
Closing balance		2,212	1,547

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.

NOTES TO THE FINANCIAL STATEMENTS (continued)

for the year ended 30 June 2022

13 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.

As discussed in Note 21, upon acquisition of the travel insurance business from Southern Cross Health Trust, the Group acquired intangible assets of $7.2m representing computer software, portfolio-in-force and goodwill. It also acquired fixed assets of $0.2m representing computer equipment, office equipment, and leasehold improvements.

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	3 - 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 2022, goodwill generated from the acquisition of the pet and travel insurance businesses was tested 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 2021: 12.8%), with a terminal growth rate of 2% (30 June 2021: 2%). Adverse changes in actual performance or future rates of growth will reduce the calculated recoverable amount. A reduction of 7.9% (30 June 2021: 13%) 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 15.2% after tax, with a terminal growth rate of 2%. Adverse changes in actual performance or future rates of growth will reduce the calculated recoverable amount. A reduction of 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 2022 (30 June 2021: Nil for Pet insurance).

Portfolio-in-force

Portfolio-in-force relates entirely 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. No impairment losses on portfolio-in-force were recognised during the year to 30 June 2022.

NOTES TO THE FINANCIAL STATEMENTS (continued)
for the year ended 30 June 2022

13 PROPERTY AND EQUIPMENT AND INTANGIBLE ASSETS (continued)

Customer base

Customer base relates entirely 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 2022 (30 June 2021: 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 2022, the capitalised costs include salaries and ancillary costs incurred relating to automating the claims processing for SCPIL, which are monitored and estimated by the Product Owner.

At 30 June 2022, 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%. 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 2022. For the computer software currently in use, impairment assessments were performed to identify if there are any indicators of impairment. Impairment loss of $325k is recognised for the year ended 30 June 2022 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**
As at 30 June 2021					
Cost	6,544	118	16,468	-	23,130
Accumulated depreciation and impairment	(4,908)	(68)	(10,313)	-	(15,289)
Opening net book value	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	1,093	66	5,496	161	6,816
As at 30 June 2022					
Cost	3,920	141	8,644	161	12,866
Accumulated depreciation and impairment	(2,827)	(75)	(3,148)	-	(6,050)
Closing net book value	1,093	66	5,496	161	6,816

b. Intangible assets	**Customer base $000**	**Portfolio-in-force $000**	**Acquired agencies $000**	**Goodwill $000**	**Computer software $000**	**Work in progress $000**	**Total $000**
As at 30 June 2021							
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	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	2,409	4,198	172	4,977	15,791	528	28,075
As at 30 June 2022							
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	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 2022

14 LEASES

a. Right-of-use assets	Motor vehicles $000	Premises $000	Total $000
As at 30 June 2021			
Cost	846	41,539	42,385
Accumulated depreciation	(518)	(3,905)	(4,423)
Opening net book value	328	37,634	37,962
Additions	-	-	-
Modifications	-	2	2
Disposal - cost	(235)	(274)	(509)
Disposal - accumulated amortisation	235	274	509
Depreciation	(199)	(4,060)	(4,259)
Closing net book value	129	33,576	33,705
As at 30 June 2022			
Cost	611	41,267	41,878
Accumulated depreciation	(482)	(7,691)	(8,173)
Closing net book value	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 $000	Premises $000	Total $000
As at 30 June 2021			
Cost	863	61,747	62,610
Accumulated interest expense and principal repayments	(512)	(9,108)	(9,620)
Opening net book value	351	52,639	52,990
Additions	-	-	-
Modifications	-	-	-
Disposals	-	-	-
Interest expense	14	684	698
Rent concessions	-	(466)	(466)
Lease repayment	(223)	(4,651)	(4,874)
Closing net book value	142	48,206	48,348
As at 30 June 2022			
Cost	863	61,747	62,610
Accumulated interest expense and principal repayments	(721)	(13,541)	(14,262)
Closing net book value	142	48,206	48,348

	2022 $000	2021 $000
Maturity analysis of undiscounted lease liabilities		
Within 1 year	4,883	5,335
Between 1 and 2 years	4,718	4,872
Between 2 and 5 years	14,352	14,306
Greater than 5 years	27,864	32,645
Total	51,817	57,158

On initial application of NZ IFRS 16 *Leases* at 1 July 2019, the Group measured right-of-use assets and lease liabilities using an incremental borrowing rate ("IBR") of 3.30%. At the commencement date of any new or renewed leases, the Group uses a lease-specific assessment of the appropriate IBR if the interest rate in the lease is not readily available. The Group renewed a premises lease on 1 August 2021, the applicable IBR at that time was 0.9%.

Since the Government announced a COVID-19 level 4 country-wide lockdown from 17 August 2021, landlords have provided the Society with rent concessions (in the form of rent abatements) for closures of offices due to COVID-19. In accordance with the practical expedient provided under paragraph 46A of NZ IFRS 16, the Society has elected not to assess whether the rent concessions are lease modifications. As a result, the rent concessions are recognised in the statement of comprehensive income when received, with corresponding reductions in lease liabilities of the related leases. There are no substantive changes to the terms and conditions of the leases.

NOTES TO THE FINANCIAL STATEMENTS (continued)
for the year ended 30 June 2022

15 PAYABLES AND OTHER LIABILITIES

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

	2022 $000	2021 $000
Payables and other liabilities		
Trade creditors and accruals	14,119	7,099
Amounts due to policyholders	6,117	5,736
Premium refunds payable*	54	-
Total	**20,290**	**12,835**

*SCBL acknowledges that as a result of the lockdowns due to COVID-19, many customers have not been able to travel and make use of their travel insurance policies. SCBL performed an analysis and identified customers eligible for refunds. These customers have been contacted to inform them that they are eligible to cancel and receive a refund of the policy purchased.

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 $10,403,000 have been recognised as at 30 June 2022 (30 June 2021: $10,919,000).

SCBL has been deregistered as a charity and is now subject to New Zealand income tax on both New Zealand and Australian activities. The balances for taxation purposes at 30 June 2022 are calculated on the same basis as if the SCBL had always been a tax payer in the past.

In Australia, whilst SCBL does not have a Permanent Establishment, the Company launched Domestic Australia travel insurance in December 2020. As such, under s142 of the Income Tax Assessment Act 1936, the Company is subject to pay an effective income tax of 3%, (being the corporate tax rate of 30% being applied to 10% of the Domestic Australia premium income).

Income tax

Tax expense comprises 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.

	2022 $000	2021 $000
Reconciliation of income tax to surplus before taxation		
Surplus before taxation	90,658	49,306
Income tax at the domestic tax rate of 28%	**25,384**	**13,806**
Tax effect of Society exempt income	(24,867)	(12,896)
Tax effect of recognised group losses	-	(4,108)
Tax effect of current year unrecognised losses	-	734
Tax effect of permanent differences	4	5
Tax effect of temporary differences	-	(8)
Tax effect of increase/(decrease) in tax losses carried forward	-	(233)
Tax effect of tax losses utilised in currently year	-	(501)
Total income tax expense/(benefit)	521	(3,201)

NOTES TO THE FINANCIAL STATEMENTS (continued)
for the year ended 30 June 2022

16 TAXATION (continued)

Deferred tax

The Society's subsidiaries have accumulated tax losses carried forward of $37,154,000 at 30 June 2022 (30 June 2021: $38,998,000), of which the Society has accumulated tax losses carried forward of nil (30 June 2021: Nil). The Group has unrecognised tax losses carried forward of nil (30 June 2021: Nil).

	Note	2022 $000	2021 $000
Deferred tax comprises temporary differences attributable to:			
a. Deferred tax assets			
Losses available for offset against future taxable income		10,403	10,919
Total deferred tax assets		10,403	10,919
Expected to crystallise within 12 months		4,137	1,302
Expected to crystallise in greater than 12 months		6,266	9,617
Total deferred tax assets		10,403	10,919
Movements in deferred tax assets			
Opening balance as at 1 July 2021		10,919	7,545
Recognition of losses available for offset against future taxable income		-	4,108
Group loss offsets recognised in the statement of comprehensive income		(516)	(734)
Closing deferred tax assets as at 30 June 2022		10,403	10,919

	Note	2022 $000	2021 $000
b. Deferred tax liabilities			
Fixed assets		58	-
Intangible assets		(1,154)	(808)
Deferred acquisition costs	4	(620)	(433)
Payables and other liabilities		136	33
Foreign currency translation reserve		272	-
Total deferred tax liabilities		(1,308)	(1,208)
Expected to crystallise within 12 months		(635)	(533)
Expected to crystallise in greater than 12 months		(673)	(675)
Total deferred tax liabilities		(1,308)	(1,208)
Movements in deferred tax liabilities			
Opening balance as at 1 July 2021		(1,208)	(1,036)
Net deferred tax liabilities recognised on acquisition of SCBL		(95)	-
Intangible assets temporary differences recognised in the statement of comprehensive income		128	314
Deferred acquisition costs recognised in the statement of comprehensive income	4	(129)	(433)
Other temporary differences recognised in the statement of comprehensive income		(4)	(53)
Closing deferred tax liabilities as at 30 June 2022		(1,308)	(1,208)

NOTES TO THE FINANCIAL STATEMENTS (continued)

for the year ended 30 June 2022

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.

	2022 $000	2021 $000
Employee benefits		
Short term benefits	11,682	9,598
Post employment benefits	1,556	1,939
Total	13,238	11,537

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 ("Hospitals")	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 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 (including SCBL up to the date of acquisition, refer to Note 21) 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 Hospitals 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 transfers within the Group (refer Note 16) and the use of trademarks owned by Society.

	Note	2022 $000	2021 $000
Total amount of transactions with other related parties			
Sale of services		3,272	2,947
Purchase of services		520	740
Acquisition of travel insurance business from Southern Cross Health Trust	21	(28,500)	-
Total outstanding balances with other related parties			
Receivables		170	340
Payables		300	26

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. The licence agreements with Trust and SCBL (via a sub-agreement with Trust) were terminated before acquisition of SCBL. New licence agreements were entered into separately with Trust and SCBL after acquisition.

NOTES TO THE FINANCIAL STATEMENTS (continued)
for the year ended 30 June 2022

18 RELATED PARTIES (continued)

b. Debt forgiveness

During October 2021, the Society had forgiven related parties debt of $19.5m from its subsidiaries ($13.4m from SCHSL and $6.1m from SCISL). The Society Board also approved the reduction of the redemption price of the 18m redeemable preference shares ("RPS") issued by SCISL to the Society from $1 to $0, effectively eliminating SCISL's RPS debt to the Society. This is to enable the subsidiaries to return to a solvent position.

These transactions have no impact on the consolidated financial statements.

c. Share cancellation and dividend

SCPIL has reviewed its long-term capital requirements against its ability to generate cash flows and sustain appropriate solvency levels. The optimal capital structure allowed for a return of capital of $2.5m effected via a repurchase and cancellation of 2.5m ordinary shares from the Society at $1 per share during the year ended 30 June 2022. A dividend of $0.75m was also declared and paid to the Society on the remaining shares.

d. CareHQ joint venture

During October 2021, SCVL invested an additional $279,830 (via a share purchase at $1 per ordinary share) into CareHQ Limited Partnership. The limited partnership is a joint venture between SCVL and ProCare Health (LP) Limited. The Society paid $309k consultation fees to CareHQ in relation to the free consultations offered to members, and received $70k in service fees during the year ended 30 June 2022. The Society has a net balance of $99k owing to CareHQ as at 30 June 2022.

e. Subsidiary recharges

The Group entities have entered into an agreement for the Society to recharge costs incurred to 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. This agreement is a formalisation of a process which already existed with the subsidiaries (except for SCBL). No margin is applied to the recharges.

f. Remuneration of Directors

A friendly society has trustees to hold its assets. The trustees for the year were C M Drayton, M Jordan and G R W France 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 bears 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 directors of the Society are also directors of the Society's subsidiaries, they do not receive any fees for these appointments, with the exception of SCPIL, where fees are paid to directors. No directors fees have been paid to directors of SCBL by the Group, for the year ended 30 June 2022. Where the Executive Team members are directors of subsidiaries, they do not receive remuneration for these appointments.

All directors of the Society and its subsidiaries, excluding M Misur and M L James, have medical insurance policies with the Society. N J Astwick and J M Raue have pet insurance policies with SCPIL. D Bridgman and M Misur have travel insurance policies with SCBL.

NOTES TO THE FINANCIAL STATEMENTS (continued)
for the year ended 30 June 2022

18 RELATED PARTIES (continued)

f. 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 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 Black[2]	32,783	1,500	-	1,000	500	35,783
D Bridgman[2]	32,783	1,500	-	-	500	34,783
M 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 Jordan did not receive any fees for being a member of the Audit and Risk, Investment, Remuneration, People & Culture or Nominations Committees. M 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 Black, D 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	**Board**	**Audit & Risk Committee**	**Total Remuneration**
	Amount	**Amount**	**Amount**
N J Astwick	-	-	-
M J Gardiner	15,000	2,500 Chair	17,500
M L James	25,000 Chair	-	25,000
J M Raue	15,000	-	15,000
Total	55,000	2,500	57,500

NOTES TO THE FINANCIAL STATEMENTS (continued)
for the year ended 30 June 2022

18 RELATED PARTIES (continued)

f. Remuneration of Directors (continued)

Actual directors' remuneration paid by the Society for the year ended 30 June 2021 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	-	-	66,500
G R W France	58,000	-	5,000 Chair	-	-	63,000
G W Gent [1]	116,000 Chair	-	-	-	- Chair	116,000
M Jordan	58,000	3,000	-	2,000	1,000	64,000
M Misur	58,000	-	-	2,000	1,000	61,000
J M Raue	58,000	-	-	4,000 Chair	1,000	63,000
K B Taylor	58,000	3,000	-	-	-	61,000
Total	464,000	12,000	7,500	8,000	3,000	494,500

1 G W Gent did not receive any fees for being a member of the Audit and Risk, Investment, Remuneration, People & Culture or Nominations Committees.

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 2021 was as follows:

	SCPIL		
Director	**Board**	**Audit & Risk Committee**	**Total Remuneration**
	Amount	**Amount**	**Amount**
N J Astwick	-	-	-
M J Gardiner	15,000	2,500 Chair	17,500
M L James	25,000 Chair	-	25,000
J M Raue	15,000	-	15,000
Total	55,000	2,500	57,500

NOTES TO THE FINANCIAL STATEMENTS (continued)
for the year ended 30 June 2022

18 RELATED PARTIES (continued)

g. Remuneration of key management personnel

Key management personnel are the members of the Society, SCPIL and SCBL Leadership Teams. The Group does not provide loans or advances to key management personnel. At each reporting date, there are amounts outstanding to key management personnel comprising salaries, earned leave and short-term incentives.

	2022	2021
	$000	$000
Salaries and other short-term benefits	3,909	3,616
Contributions to defined contribution plan	128	98
Net long service leave provision movement	6	49

Chief Executive Officer ("CEO") remuneration

Over the course of the financial year, the CEO of the Society earned a base salary of $811,488 (30 June 2021: $739,749). The amount of total short-term performance-related incentive provided as at 30 June 2022 was $150,000 (30 June 2021: $140,000). The final amount of $140,000 will be paid in the 2023 financial year ($160,000 paid in the 2022 financial year). As a member of Kiwi Saver, the CEO received contribution from the Society of $47,790 during 2022 (30 June 2021: $36,386). In addition, the CEO received other non-cash short-term benefits of $11,233 during 2022 (30 June 2021: $9,960).

There is no long term incentive plan in place for the CEO in the current financial year. The CEO had a three-year long term incentive plan which ran from 2019 – 2021 inclusive and related to achieving specific performance targets by the end of the June 2021 financial year. A total amount of $259,000 was provided for as at 30 June 2021, with a payment of $196,397 paid out in the current financial year. This one-off payment was the total amount achieved across all three years of the plan.

19 EMPLOYEE REMUNERATION

The following table discloses the number of employees and former employees of the Society (excluding the CEO – 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.

	2022	2021
$	Number of employees	
100,001 - 110,000	43	41
110,001 - 120,000	36	27
120,001 - 130,000	37	31
130,001 - 140,000	25	20
140,001 - 150,000	21	14
150,001 - 160,000	18	11
160,001 - 170,000	10	9
170,001 - 180,000	5	9
180,001 - 190,000	7	3
190,001 - 200,000	2	3
200,001 - 210,000	4	2
210,001 - 220,000	4	6
220,001 - 230,000	6	1
230,001 - 240,000	2	3
240,001 - 250,000	1	-
250,001 - 260,000	2	1
260,001 - 270,000	1	-
300,001 - 310,000	1	1
340,001 - 350,000	-	1
360,001 - 370,000	-	1
370,001 - 380,000	2	-
390,001 - 400,000	-	1
400,001 - 410,000	1	1
410,001 - 420,000	1	1
430,001 - 440,000	1	-
Total	230	187

NOTES TO THE FINANCIAL STATEMENTS (continued)
for the year ended 30 June 2022

20 COMMITMENTS, CONTINGENCIES AND SUBSEQUENT EVENTS

a. Commitments

The Group had no commitments at 30 June 2022 (30 June 2021: Society had unrecognised commitments to provide loans to SCVL to provide financial support for its investment in joint venture).

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 obligation becomes probable and can be reliably estimated, a provision is recognised.

The Group has undertaken a systematic review of its existing products and policyholder portfolios in order to proactively identify any conduct and culture risks and issues. No material matters requiring remediation or compensation have been identified. The Group will continue to proactively identify and remediate issues to promote good customer outcomes. As a result, there is a potential for future customer remediation or compensation. The financial impact associated with these possible exposures remain uncertain.

SCBL has a standby letter of credit arrangement as a requirement of its merchant acquiring facility in Australia. The maximum value of this facility is $200,000 Australian dollars. (30 June 2021: n/a)

The Group had no other contingent liabilities at 30 June 2022 (30 June 2021: Nil).

c. Subsequent events

- In July 2022, the Society invested an additional $143,170 (via a share purchase of $1 per ordinary share) into SCVL, for the purposes of allowing SCVL to make a $143,170 capital contribution to CareHQ Limited Partnership.
- During July 2022, the Society signed a lease renewal agreement in relation to the Hamilton office. The monthly lease payment is $52k, with a lease term of 6 years.

There were no further events subsequent to the reporting period which would materially affect the financial statements (30 June 2021: Nil).

NOTES TO THE FINANCIAL STATEMENTS (continued)
for the year ended 30 June 2022

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 fair value amounts of the assets and liabilities acquired are provisionally determined to be equivalent to their carrying values at the date of acquisition, except for portfolio-in-force. If new information obtained within one year of the date of acquisition identifies adjustments to the assets or liabilities, or any additional provisions, existed at the date of acquisition, then the accounting for the acquisition will be revised.

The fair values of the identifiable assets and liabilities of the travel insurance business acquired are outlined 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 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 reporting period, SCBL would have contributed net premium revenue of $13.4m and loss after taxation of $6.8m to the Group's 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 '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.

NOTES TO THE FINANCIAL STATEMENTS (continued)
for the year ended 30 June 2022

22 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.

Implementation progress and status
The project to manage the implementation of NZ IFRS 17 has been in place since early 2020 and is tracking well against key milestones.

- The Group completed technical accounting papers in support of its draft accounting policies under NZ IFRS 17. The draft accounting policies are subject to final approval, following a review of the results of the parallel run as described below.
- The Group implemented an IFRS 17 application to assist compliance with the measurement, presentation and disclosure requirements of NZ IFRS 17. This solution was implemented during July 2022 to produce comparative numbers on a parallel basis to NZ IFRS 4. The Group will use this parallel run to: (a) fully understand the implications and outcomes associated with its NZ IFRS 17 draft accounting policy choices and produce scenario analysis where required to inform final policy decisions; (b) test methodology decisions that underpin the key areas of measurement which are described in more detail below; (c) validate accuracy and refine design of data extracts that are being used to populate the IFRS 17 application.
- Changes to the reporting process and integration of the IFRS 17 application with other processes and systems in the Group are being developed and tested.
- Training on the new IFRS 17 application and broader education sessions are being planned in conjunction with using the outcome of the parallel run.

Measurement of Insurance Contracts
NZ IFRS 17 permits the use of a simplified approach (which is similar to the current basis on which general insurance contracts are accounted under NZ IFRS 4). The Group will apply the Premium Allocation Approach (“PAA”) given the short-term nature of insurance policies in the Group, which will simplify the impact of this new standard in respect of recognition and measurement of non-onerous insurance contracts in the Group. The measurement and recognition requirements of onerous contracts are more complex because certain elements of the General Measurement Model need to be applied to onerous contracts.

The measurement principles of the PAA differ from the ‘earned premium approach’ used by the Group under IFRS 4 in the following key areas:

- The losses on onerous contracts are measured based on the net outflow of expected fulfilment cashflows over the coverage period. The level at which onerous contracts is identified and measured is more granular than the level at which the Liability Adequacy Test (“LAT”) is carried out. The LAT is done at a portfolio level whereas onerous contracts are identified at a ‘group’ level. Models for measuring potential onerous contract losses are currently being developed, tested and approved. The loss component forms part of the Liability for Remaining Coverage (“LFRC”). The financial impact is still being determined and subject to the finalisation of the models, however the recognition and measurement of onerous contracts is likely to result in a decrease in the opening equity on adoption of NZ IFRS 17.
- The period that is used to quantify this obligation changed – under NZ IFRS 17 the period is determined based on the definition of a ‘contract boundary’, whereas NZ IFRS 4 did not have a similar definition - the LAT was based on a period of 3-months whereas the contract boundary is likely to be a different period. The decision about the contract boundary is subject to approval of the final set of accounting policies.
- The difference in period described above may also have an impact on the calculation of the different elements of the non-loss component of the LFRC, but is likely to be fully offset within the non-loss component of the LFRC. The financial impact needs to be validated.
- When the PAA is applied, NZ IFRS 17 allows the option to not defer acquisition cashflows. The initial draft accounting policies propose the option to not defer acquisition cashflows. If approved, this will mean that SCPIL will no longer defer acquisition cashflows and will result in a release of the deferred acquisition cost asset on SCPIL’s balance sheet, which in turn will result in a decrease in the opening equity on adoption of NZ IFRS 17.
- The measurement of insurance contract liabilities includes a risk adjustment which replaces the risk margin under NZ IFRS 4. The risk margin reflects the inherent uncertainty in the central estimate of liabilities calculated in terms of NZ IFRS 4, whereas the risk adjustment is defined as the compensation required for bearing the uncertainty that arises from non-financial risk. The Group is currently considering the methodology for determining the risk adjustment by reviewing evolving industry interpretations regarding this matter. The financial impact of a potential change to this assumption cannot be reasonably estimated at the balance date.

Presentation and Disclosure
Presentation and disclosure requirements under NZ IFRS 17 differ significantly from NZ IFRS 4 and the implemented NZ IFRS 17 solution supports the Group’s process to prepare these disclosures.

NZ IFRS 17 introduces new line items on the balance sheet and the statement of comprehensive income and significant additional disclosures, most notably in the form of a ‘roll-forward’ reconciliation with requirements to provide an analysis of the movement in the LFRC from its opening balance to the closing balance at period end.

Interim Solvency Standard
The Reserve Bank of New Zealand (“RBNZ”) has released an Interim Solvency Standard (“ISS”) which includes changes related to the implementation of NZ IFRS17. The ISS will come into force on balance dates after 1 January 2023. The Group is assessing the impact of the new ISS but has not concluded this work.

Financial Impact
The financial impact of adopting NZ IFRS 17 is not reasonably estimable at the date of this report given a combination of the following matters that are all in progress at the date of this report: (a) the draft status of the Group’s accounting policies; (b) ongoing validation of models and data extracts; (c) testing and scenario analysis of certain methodologies that underpin the measurement of the insurance contracts; (d) some elements of global interpretation that are still evolving; (e) the impact of the ISS on the Group’s solvency; and (f) the impact of NZ IFRS 17 on the recent acquisition of the Travel Insurance Business (SCBL) that has not yet been determined.

NOTES TO THE FINANCIAL STATEMENTS (continued)
for the year ended 30 June 2022

22 CHANGES IN FINANCIAL REPORTING STANDARDS (continued)

Climate-related disclosures

The External Reporting Board (XRB) is developing standards that will apply to entities that have to prepare climate-related disclosures under legislation, which include large licenced insurers such as the Group. The XRB intends to issue the following:

- Aotearoa New Zealand Climate Standard 1: Climate-related Disclosures (NZ CS 1)
- Aotearoa New Zealand Climate Standard 2: Adoption of Climate-related Disclosures (NZ CS 2)
- Aotearoa New Zealand Climate-related Disclosures Concepts (NZ CRDC)

The first climate standard is expected to be issued in December 2022. Disclosures are likely to be required as early as financial reporting periods beginning on or after 1 July 2023 for the Group.

As the standards have not been issued and are still evolving, the financial impact of adopting the new standards cannot be reasonably estimated as at reporting date. The Group continues to monitor the development of these standards and their potential impact on the Group.

Independent Auditor's Report

To the members of The Southern Cross Medical Care Society

Report on the audit of the consolidated financial 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 2022;
- 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 of Group on pages 1 to 32 present fairly, in all material respects, the Group's financial position as at 30 June 2022 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 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.

KPMG

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 4 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 2022, 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, including any allowance for the ongoing uncertainty caused by COVID-19; and - comparing previous estimates to actual claims development in the current year (i.e. performing a hindsight analysis). — comparing July 2022 actual claims paid versus expected experience; and — testing the completeness and accuracy of data used in the actuarial modelling underlying the 30 June 2022 valuation. We did not identify material exceptions from procedures performed, and found the judgements and assumptions, including those adopted in response to the ongoing uncertainty of COVID-19, to be balanced and consistent with our understanding of the Group.

KPMG

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;

— implementing necessary internal control to enable the preparation of a set of consolidated financial statements that is fairly presented and 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

7 September 2022

6 September 2022

The Directors
Southern Cross Medical Care Society
Auckland

Dear Directors

Review of Actuarial Information Contained in Financial Statements as at 30 June 2022

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 2022 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 2022 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 2022 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
Fellows of the New Zealand Society of Actuaries

Anagha Pasche
Fellows of the New Zealand Society of Actuaries