Southern Cross Health Insurance

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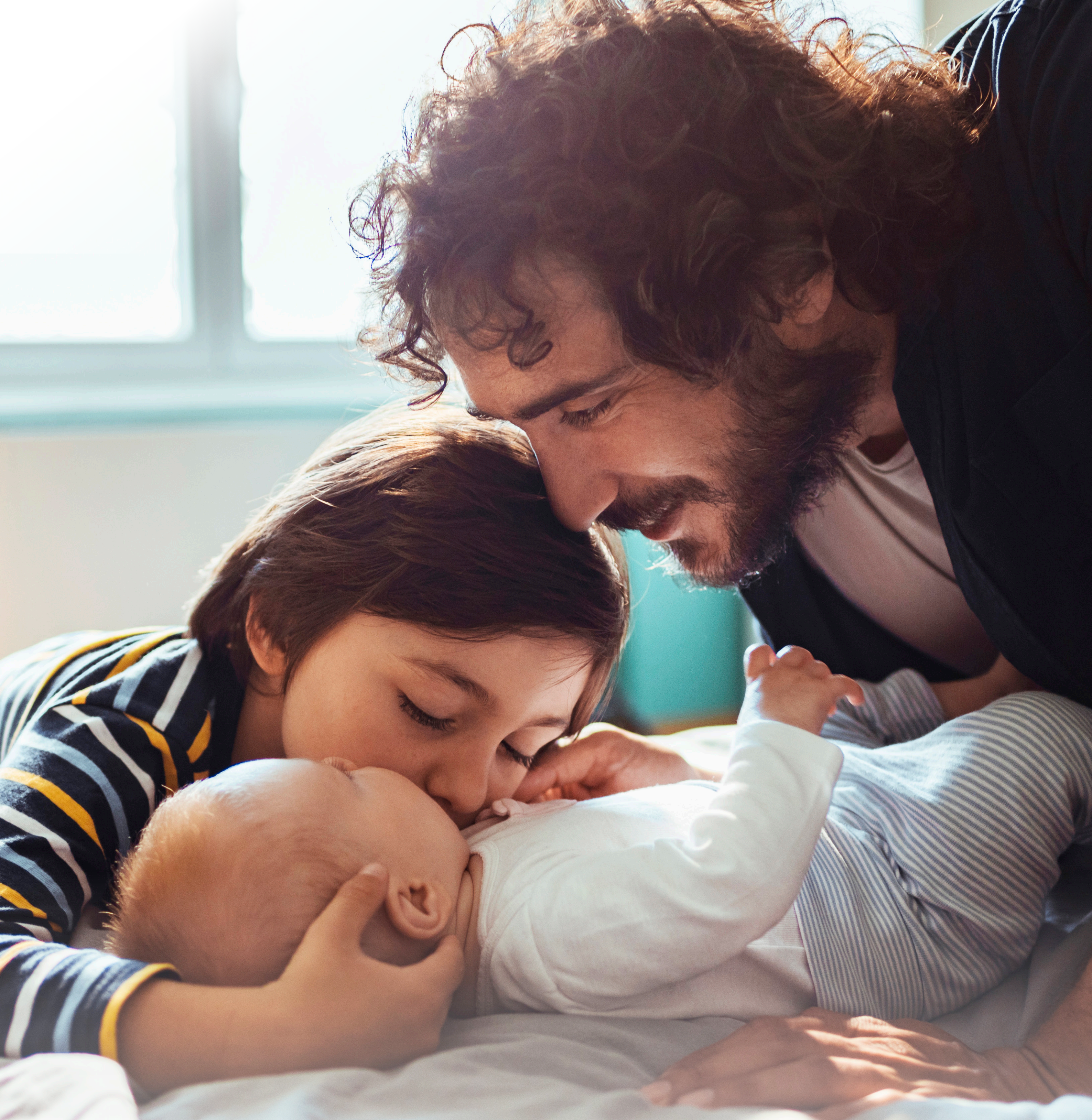

Southern Cross Medical Care Society Group

2021 Annual Report – Consolidated Financial Statements

These Consolidated Financial Statements, together with the 2021 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/annualreport

THE SOUTHERN CROSS MEDICAL CARE SOCIETY GROUP

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED

30 June 2021

CONTENTS

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME AND CHANGES IN RESERVES
for the year ended 30 June 2021

	Note	2021 $000	2020 $000
Premium revenue	2,11	1,280,483	1,146,520
Claims expense	2,5	(1,118,818)	(980,878)
Less: third party recoveries	4,5	3,605	3,967
Net claims expense		(1,115,213)	(976,911)
Underwriting surplus		**165,270**	**169,609**
Operating expenses	9	(154,910)	(163,949)
Operating surplus		**10,360**	**5,660**
Net investment and other income	8	39,504	18,976
Interest expense	13	(558)	(223)
Surplus before taxation		**49,306**	**24,413**
Taxation credit	15	3,201	7,996
Surplus after taxation		**52,507**	**32,409**
Other comprehensive income		-	-
Total comprehensive income		**52,507**	**32,409**
Opening balance of reserves		471,160	438,751
Closing balance of reserves		**523,667**	**471,160**

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
as at 30 June 2021

	Note	2021 $000	2020 $000
Assets			
Cash and cash equivalents	10	27,086	39,538
Premium and other receivables	2,11	129,898	108,260
Investments	7	577,407	534,700
Investment in joint venture	21	178	-
Property and equipment	12	7,841	5,749
Intangible assets	12	29,565	39,335
Right-of-use assets	13	37,962	3,754
Deferred tax assets	15	10,919	7,545
Total assets		**820,856**	**738,881**
Liabilities			
Payables and other liabilities	14	12,835	29,059
Employee benefits	16	11,537	11,167
Lease liabilities	13	52,990	4,086
Insurance contract liabilities	4	218,619	222,373
Deferred tax liabilities	15	1,208	1,036
Total liabilities		**297,189**	**267,721**
Net assets		**523,667**	**471,160**
Reserves		**523,667**	**471,160**

Authorised on behalf of the Board of Directors on 7 September 2021

G W Gent
Chairman

C M Drayton
Director

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

CONSOLIDATED STATEMENT OF CASH FLOWS
for the year ended 30 June 2021

	Note	2021 $000	2020 $000
Cash flows from/(to) operating activities			
Premium revenue received		1,266,331	1,154,979
Interest received		6,010	7,624
Other income received		540	4,497
Payment of claims		(1,128,515)	(955,296)
Payments to employees		(68,402)	(61,843)
Payments to suppliers		(73,551)	(74,730)
Net cash flows from operating activities		**2,413**	**75,231**
Cash flows from/(to) investing activities			
Proceeds from sale of property and equipment		149	-
Payments for property and equipment	12	(5,112)	(1,472)
Payments for intangible assets	12	(1,809)	(6,125)
Net purchases of investments		(9,503)	(35,366)
Lease incentives received	13	7,163	6,900
Investment in joint venture	21	(350)	-
Purchase of pet insurance business	20	-	(8,077)
Cash and cash equivalents acquired with the purchase of pet insurance business	20	-	3,411
Net cash flows to investing activities		**(9,462)**	**(40,729)**
Cash flows from/(to) financing activities			
Repayment of lease liabilities	13	(4,845)	(4,775)
Interest paid	13	(558)	(223)
Net cash flows to financing activities		**(5,403)**	**(4,998)**
Net (decrease)/increase in cash and cash equivalents		**(12,452)**	**29,504**
Opening cash and cash equivalents		39,538	10,034
Closing cash and cash equivalents		**27,086**	**39,538**

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

	Note	2021 $000	2020 $000
Surplus after taxation		52,507	32,409
Adjustments for non-cash items included in surplus after taxation:			
Depreciation and amortisation	12,13a	17,794	18,362
Interest expense	13	558	223
Impairment of assets	12	512	3,657
Loss on disposal of assets	12	398	-
Net gains on investments at fair value through profit or loss	8	(34,406)	(6,855)
Changes in assets and liabilities:			
Premium and other receivables		(10,083)	4,369
Interest receivable		1,452	-
Payables and other liabilities		(6,183)	8,794
Deferred acquisition costs	11	(1,547)	-
Net deferred taxation	15	(3,201)	(7,996)
Investment in joint venture	21	(78)	-
Insurance contract liabilities		(15,310)	22,268
Net cash flows from operating activities		**2,413**	**75,231**

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

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 30 June 2021

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 Insurance Services Limited ("SCISL"), Southern Cross Health Services Limited ("SCHSL"), Southern Cross Pet Insurance Limited ("SCPIL") and Southern Cross Ventures Limited ("SCVL") (formerly Southern Cross Healthcare Limited ("SCHL") (non-trading)) (collectively the "Group"). As the pet insurance business was acquired on 31 January 2020, the comparative financial statement amounts as at and for the year ended 30 June 2020 are for the five months ending 30 June 2020 (refer to note 20).

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 $520.3 million (30 June 2020: $474.2 million) represents the retained surpluses of the Society. Capital of the Group of $523.7 million (30 June 2020: $471.2 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 2013.
- 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 currency. 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. The items in the cash flow statement are shown exclusive of GST.
- prepared using historical cost as the measurement basis except for investments and insurance contract liabilities, which are measured at fair value.

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 2021

1 BASIS OF ACCOUNTING (continued)

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 6a: Insurance risk
- Note 12: Property and equipment and intangible assets
- Note 13: Leases
- Note 15: Taxation

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.

The Society experienced a period of significantly lower claims as a direct result of the country lock-downs between March and May 2020 and August 2020, due to the disruption caused by the pandemic. Provisions for outstanding claims liability and unexpired risk liability were adjusted for known impacts in the central estimates and allowances made for the additional uncertainty in the risk margins as at 30 June 2020. As anticipated, in the twelve months to 30 June 2021, the Society experienced a period of higher claims relative to prior experience. The elevated claims experience, coupled with the risk of future periods of raised alert levels, introduces additional uncertainly in estimating outstanding claims liability and unexpired risk liability. Due to the short term nature of the Group's claims liabilities, it is assumed that the effects of the lock-downs have largely flowed through with claims experience largely returning to normal. As a result, no explicit allowance has been made for COVID-19 as at 30 June 2021 (30 June 2020: Nil). However, consistent with 30 June 2020, allowances have been made for the additional uncertainty in the risk margins as at 30 June 2021, at a reduced level compared to 30 June 2020. Refer to note 4 for further detail.

For the year ended 30 June 2020, the Board approved a one-off $50 million pledge to the Society's membership base in response to the impact Covid-19 had on its members and corporate group customers. The pledge took the form of a premium credit against each member's health insurance policy. The $50 million (inclusive of GST) premium credit was fully applied against premium revenue for the year ended 30 June 2020.

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 both the Society and SCPIL to each retain a positive solvency margin, meaning that the actual solvency capital position exceeds the minimum required under the Solvency Standard.

The Society's Directors' policy for managing capital is to have a strong capital base to establish security for members and enable the Society to conduct its business whilst maintaining financial soundness. The SCPIL Directors' policy for managing capital is to have a capital base to establish security for policyholders and enable SCPIL to conduct its business whilst maintaining financial soundness. SCPIL has a parental support resolution in place from the Society to support the pet insurance business. Both the Society and SCPIL have embedded in their capital management frameworks the necessary tests to ensure continuous and full compliance with the Solvency Standard.

a. Society solvency

Society solvency is measured using an internal benchmark and target range for the Society to hold net tangible assets equivalent to 5 to 7 months of expected annual claims, and a minimum RBNZ solvency ratio of 3.00. The Board of Directors has determined that the solvency ratio should not fall below a minimum solvency capital of 3.00 (30 June 2020: 3.00). 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 2021 are equivalent to 5.3 months of claims (30 June 2020: 5.1 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 2021 (30 June 2020: In compliance).

NOTES TO THE FINANCIAL STATEMENTS (continued)
for the year ended 30 June 2021

3 SOLVENCY (continued)

a. Society solvency (continued)

	2021 $m	2020 $m
Disclosures of Society solvency required by the Solvency Standard as issued by the RBNZ		
Solvency capital	483.0	426.6
Minimum solvency capital	147.1	137.0
Solvency margin	335.9	289.6

	2021	2020
Solvency ratio	3.28	3.11

On 6 December 2020, Standard & Poor's reaffirmed the Society's Insurer Financial Strength Rating at A+ (Strong) (23 April 2020: A+(Strong)), under its global insurance industry rating methodology.

b. Group solvency

The target range for the capital position of SCPIL is a solvency ratio of 1.20 to 1.50. The policy in respect of capital management is regularly reviewed by the SCPIL Directors in line with the guidelines issued by the RBNZ. During 2020, the RBNZ indicated their expectation that insurers should take steps to protect, if not build, their capital positions, in response to severe economic uncertainty partly as a result of COVID-19 (refer Note 2). This means that insurers were unable to make dividends or similar payments that would reduce insurer capital. In late 2020, the RBNZ indicated that it no longer considers it necessary for all insurers to withhold dividend payments in order to support financial stability. However, each insurer is expected to only make dividend payments where it is prudent for the insurer to do so.

SCPIL is a licensed insurer under the Insurance (Prudential Supervision) Act 2010 since 30 January 2020. SCPIL has complied with RBNZ imposed capital requirements for the year ended 30 June 2021. On 6 December 2020, Standard & Poor's reaffirmed SCPIL's Insurer Financial Strength Rating at A (Strong) (3 February 2020: A (Strong)), under its global insurance industry rating methodology.

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

	2021 $m	2020 $m
Disclosures of insurance group solvency required by the Solvency Standard as issued by the RBNZ		
Solvency capital	493.0	433.0
Minimum solvency capital	150.4	140.1
Solvency margin	342.6	292.9

	2021	2020
Solvency ratio	3.28	3.09

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 and SCPIL are insurance contracts.

Estimates of the outstanding claims and unexpired risk at 30 June 2021 have been determined by the Group's Appointed Actuary, John Smeed, a Fellow of the New Zealand Society of Actuaries. These were presented to the Directors in reports dated 7 September 2021. 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 Actuary is satisfied as to the nature, sufficiency and accuracy of the data used to determine these provisions.

	2021 $000	2020 $000
Insurance contract liabilities		
Net provision for outstanding claims	71,656	76,799
Provision for unearned premium	129,654	119,646
Provision for unexpired risk	9,911	19,332
Other insurance provisions	816	1,276
Assessed claims payable	6,582	5,320
Total	218,619	222,373

NOTES TO THE FINANCIAL STATEMENTS (continued)
for the year ended 30 June 2021

4 INSURANCE CONTRACT LIABILITIES (continued)

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, where future claims payments are not inflated or discounted due to the short tail nature of the liabilities.

Estimation of the provision for outstanding claims includes an allowance for claims incurred but not reported, claims incurred but not enough reported, unpaid reported claims and future claims handling costs associated with paying claims. For Society, an explicit allowance for third party recoveries of $0.75 million has been made for expected Accident Compensation Corporation ("ACC") recoveries as at 30 June 2021, which has been netted off against liabilities (30 June 2020: $0.75 million).

A risk margin has been added to reflect the inherent uncertainty in the central estimate. The risk margin considers both historic and future sources of volatility. For Society, a risk margin of 9% of the central estimate was established as at 30 June 2021 (30 June 2020: 10%), and for SCPIL, a risk margin of 8.5% (30 June 2020: 10%) . The risk margin was determined with the objective of achieving at least 75% probability of sufficiency of the provision for outstanding claims. Included within the risk margins are risk allowances for Society of 2% (30 June 2020: 3%) and SCPIL of 1.5% (30 June 2020: 3%) to reflect the additional uncertainty in estimating the outstanding liability due to the impacts of the COVID-19 lock-down. Refer to Note 2.

	2021	2020
Outstanding claims risk margin		
Society	9.0%	10.0%
SCPIL	8.5%	10.0%

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 2020: 44% to 121%) 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 7% p.a. (30 June 2020: 5.5%), 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 2020: 4%) of the underlying claims amounts based on an analysis of administration expenses.

The average weighted term from 30 June 2021 to the expected settlement date for claims included in the liability for outstanding claims is 47 days (30 June 2020: 57 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. Historical claims inflation of nil, based on previous claims experience.

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.

The average weighted term from 30 June 2021 to the expected settlement date for claims included in the liability for outstanding claims is 3.2 months (30 June 2020: 4.3 months). Accordingly, expected future claims payments are not discounted due to the short tail nature of the liabilities.

Provision for outstanding claims

	Note	2021 $000	2020 $000
Provision for outstanding claims			
Central estimate of outstanding claims liability		63,883	67,797
Claims handling costs		2,632	2,784
Risk margin		5,899	6,975
Total		72,414	77,556
Reinsurance recoveries on outstanding claims			
Central estimate of reinsurance recoveries on outstanding claims liability		(8)	(7)
Total		(8)	(7)
Third party recoveries on outstanding claims			
Estimate of third party recoveries on outstanding claims liability		(750)	(750)
Total		(750)	(750)
Total net provision for outstanding claims		71,656	76,799

NOTES TO THE FINANCIAL STATEMENTS (continued)
for the year ended 30 June 2021

4 INSURANCE CONTRACT LIABILITIES (continued)

Provision for outstanding claims (continued)

	Note	2021	2020
		$000	$000
Reconciliation of movement in net provision for outstanding claims			
Opening balance		76,799	64,399
Net pet insurance outstanding claims liabilities acquired	20	-	2,243
Amounts utilised during the year		(61,595)	(57,206)
Additional provision/(release of) provision		(1,724)	1,582
Amounts provided during the year		59,404	62,725
Movement in claims handling costs		(152)	440
Movement in risk margin		(1,076)	2,616
Total		71,656	76,799

Sensitivity of outstanding claims liability

The Society 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 on the basis it does not have a material impact on the Group financial statements.

	Impact on provision for outstanding claims			
	2021	2021	2020	2020
	$000	$000	$000	$000
Society outstanding claims liability sensitivity				
Inflation +/- 2%	68,500	68,400	74,000	73,500
Claims payment per member +/- 2%	69,800	67,100	75,200	72,300
Expenses +/- 2.5%	70,100	66,800	75,500	72,000
Seasonality factor June -1% and July +1%	68,000	-	73,400	-
Seasonality factor July -1% and June +1%	68,900	-	74,100	-

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 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, the liability for unearned premiums arises from premiums received for risks that have not yet expired. The provision is released evenly over the duration of the pet insurance premium and is recognised as premium income. For both Society and SCPIL, 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. The Society provision for unexpired risk has been calculated as the projected premium deficiency for current in-force business until the next policy billing date on or after 1 July 2021 and a deficiency as at 30 June 2021 (30 June 2020: deficiency) has been recognised in the statement of financial position as a provision of unexpired risk. For SCPIL, as at 30 June 2021, the liability adequacy test identified a surplus (30 June 2020: surplus), therefore no deficiency in the unearned premium liability has been recognised.

	Note	2021	2020
		$000	$000
Society liability adequacy test			
Unearned premium liability		114,497	107,885
Present value of expected future cash flows for claims and expenses		(117,922)	(120,016)
Risk margin of the present value of expected future cash flows		(6,486)	(7,201)
Liability adequacy test deficit		(9,911)	(19,332)
Unexpired risk liability		(9,911)	(19,332)
SCPIL liability adequacy test			
Unearned premium liability		15,157	11,762
Deferred acquisition costs	11	(1,547)	-
Present value of expected future cash flows for claims and expenses		(12,245)	(9,255)
Risk margin of the present value of expected future cash flows		(1,294)	(1,035)
Liability adequacy test surplus		71	1,472

NOTES TO THE FINANCIAL STATEMENTS (continued)
for the year ended 30 June 2021

4 INSURANCE CONTRACT LIABILITIES (continued)

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. For Society, a risk margin of 5.5% of the present value of expected future cash flows has been applied at 30 June 2021 (30 June 2020: 6%), including an additional 1.5% (30 June 2020: 2%) allowance for uncertainty in estimating the impact of COVID-19 on the future claims liability due to the unknown future private health utilisation level. For SCPIL, a risk margin of 12.5% of the present value of expected cash flows has been applied at 30 June 2021 (30 June 2020: 15%), including an additional 2.5% (30 June 2020: 5%) allowance for uncertainty associated with COVID-19. 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 claims payments are not discounted due to the short tail nature of the liabilities.

	2021	2020
Premium liabilities risk margin		
Society	5.5%	6.0%
SCPIL	12.5%	15.0%

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. Monthly seasonality factors used for claims incurred. These were calculated from the 5 years' previous claims experience, and range from 73% to 112% (30 June 2020: 65% to 119%) of the monthly average. The provision for outstanding claims is calculated separately for different claim types and therefore has different seasonality factors than the provision for unexpired risk, which is calculated at a portfolio level.
iii. Expenses based on the business plan for 2021/22.

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 2021/22, and an analysis of administration expenses.

	Note	2021 $000	2020 $000
Provision for unearned premium			
Opening balance		119,646	104,330
Net pet insurance unearned premium acquired	20	-	9,885
Premiums written in the year		1,290,491	1,151,969
Premiums earned during the year		(1,280,483)	(1,146,538)
Total		129,654	119,646

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

5 NET CLAIMS EXPENSE

The net claims expense represents payments made on claims and the movements in the provisions for outstanding claims and unexpired risk. Details of processes and assumptions used in calculating the provisions are disclosed in Note 4.

	2021 $000	2020 $000
Net claims expense		
Claims incurred relating to risks borne in current financial year	1,123,723	961,062
Reinsurance recoveries relating to risks borne in current financial year	(29)	(10)
Claims incurred relating to risks borne in previous financial years	2,165	1,563
Reinsurance recoveries relating to risks borne in previous financial years	3	19
Movement in provision for claims handling costs	(152)	440
Movement in risk margin	(1,076)	2,616
Net claims incurred	1,124,634	965,690
Movement in provision for unexpired risk	(9,421)	11,221
Total	1,115,213	976,911

NOTES TO THE FINANCIAL STATEMENTS (continued)
for the year ended 30 June 2021

6 RISK MANAGEMENT

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

a. Insurance risk

The Group is exposed to insurance risk through its health and pet 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 health care and pet care costs are reimbursed and claims management procedures which ensure those terms and conditions are adhered to in claims administration.
- 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. The solvency margin ensures the Society and SCPIL 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.
- During the course of the year, SCPIL made the decision to move from an advice to an information only model.

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.

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. 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.

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 and pet 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 concentrations of credit risk at 30 June 2021 in excess of policy (30 June 2020: Nil).

NOTES TO THE FINANCIAL STATEMENTS (continued)
for the year ended 30 June 2021

6 RISK MANAGEMENT (continued)

b. Financial risks (continued)

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

	2021 $000	2020 $000
Money market		
AAA	2,832	-
AA	178,451	169,326
A	81,339	100,062
BBB	85,135	42,873
	347,757	312,261
Unit trusts		
Non-rated (Global bonds, weighted average rating of the underlying investments is AA, 30 June 2020: A)	109,770	108,483
Non-rated (Global equities)	59,920	58,279
Non-rated (Global real estate)	30,452	27,559
Non-rated (Global listed infrastructure)	29,508	28,118
	229,650	222,439
Total	577,407	534,700

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 2020: 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.

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.

	2021 $000	2020 $000
Contractual maturities of investments		
0-6 months	419,404	402,306
7-12 months	134,663	114,134
Current	554,067	516,440
1-2 years	23,340	15,285
2-5 years	-	2,975
Non-current	23,340	18,260
Total	577,407	534,700

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 $229.7 million (30 June 2020: $222.4 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 cash flows from the Group’s investment in bank deposits, commercial paper and floating rate notes are susceptible to changes in interest rates.

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.

NOTES TO THE FINANCIAL STATEMENTS (continued)

for the year ended 30 June 2021

6 RISK MANAGEMENT (continued)

c. Market risks (continued)

i. Interest rate risk (continued)

	2021 $000	2020 $000
	Impact on profitability	
Fair value - interest rate sensitivity on money market investments		
Exposure	347,757	312,261
Impact of change in interest rates:		
Increase by 100 basis points	(1,897)	(1,797)
Decrease by 100 basis points	1,840	1,819

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.

	2021 $000	2020 $000
	Impact on profitability	
Fair value - unit price sensitivity on unit trust investments		
Exposure	229,650	222,439
Impact of change in unit prices:		
Increase by 10%	22,965	22,244
Decrease by 10%	(22,965)	(22,244)

iii. Foreign currency risk.

The Group does not have material exposure to foreign currency risk through its insurance operations. On a net basis the foreign currency risk on investments in unit trusts is substantially hedged into NZD. In operating these funds, inherent currency risk exposure arises. The Group does not apply hedge accounting.

There are no significant liabilities denominated in foreign currencies.

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 2021				
Investments	-	577,407	-	577,407
Total	-	577,407	-	577,407
30 June 2020				
Investments	-	534,700	-	534,700
Total	-	534,700	-	534,700

NOTES TO THE FINANCIAL STATEMENTS (continued)

for the year ended 30 June 2021

6 RISK MANAGEMENT (continued)

d. Operational risk

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

Management of the Group's operational risk is a continual cyclic process. This process is documented in the respective Society and SCPIL 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 Company. Operational risk is managed in accordance with the risk appetite statement set by the Board and the process in the RMF.

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, 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 and RBNZ). 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:

- 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.
- Changed workforce and workplace dynamics – adapting to the COVID-19-prompted virtualisation of workplaces, changed operating models, related shifts in customer behaviour and calling patterns, and supporting the employees health, safety and wellbeing through prolonged periods of complexity, pace and change.
- 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.

7 INVESTMENTS

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

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

	2021 $000	2020 $000
Investments		
Bonds	28,472	20,111
Bank deposits	302,054	275,151
Commercial paper	6,998	1,999
Floating rate notes	10,233	15,000
Unit trusts - global bonds	109,770	108,483
Unit trusts - global equities	59,920	58,279
Unit trusts - global real estate	30,452	27,559
Unit trusts - global listed infrastructure	29,508	28,118
Total	577,407	534,700

NOTES TO THE FINANCIAL STATEMENTS (continued)

for the year ended 30 June 2021

8 NET INVESTMENT AND OTHER INCOME

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

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

	Note	2021 $000	2020 $000
Net investment and other income			
Interest income		4,558	7,624
Net gains on investments at fair value through profit or loss		34,406	6,855
Joint venture net income	21	(250)	-
Net investment income		38,714	14,479
Fee and other income		790	4,497
Total		39,504	18,976

9 OPERATING EXPENSES

	2021 $000	2020 $000
Operating expenses consist of:		
Policy acquisition	12,027	10,811
Policy administration	46,751	53,307
Claims administration	12,505	13,418
Other operating expenses	83,627	86,413
Total	154,910	163,949

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

	Note	2021 $000	2020 $000
Included within operating expenses are the following specific items:			
Auditor's remuneration:			
• audit of annual financial statements of the Group		299	263
• review of interim financial statements of the Group		48	62
• audit of annual financial statements of the Group - prior years		33	-
• audit of annual insurer solvency return of the Group		82	81
• review of half year insurer solvency return of the Group		27	23
• audit of annual insurer solvency return of the Group - prior years		8	-
Employee benefits expense		66,359	61,736
Restructuring		1,040	460
Contributions to defined contribution plan		1,597	1,518
Depreciation charge on right-of-use assets	13	4,254	4,352
Short term lease expense		256	12
Depreciation	12	2,473	2,888
Amortisation	12	11,067	11,122
Losses on disposal of property and equipment		398	-
(Decrease)/increase in provision for bad and doubtful debts		(117)	48

10 CASH AND CASH EQUIVALENTS

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

for the year ended 30 June 2021

11 PREMIUM AND OTHER RECEIVABLES

For 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, gross earned premiums from insurance contracts are recognised evenly over the annual contract period, which is considered to be in line with the pattern of incidence of risk. For both Society and SCPIL, revenue is recognised on the date from which the policy is effective. 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	2021	2020
		$000	$000
Premium and other receivables			
Premium receivable	2	107,358	92,361
Other receivables		14,993	15,899
Investment receivables		6,000	-
Deferred acquisition costs		1,547	-
Total		129,898	108,260
Reconciliation of movement in deferred acquisition expenses			
Opening balance		-	-
Recognition of deferred acquisition costs	4	1,547	-
Total		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.

12 PROPERTY AND EQUIPMENT AND INTANGIBLE ASSETS

Property and equipment and intangible assets are measured at cost, less accumulated depreciation or amortisation and impairment losses.

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

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

Assets	Estimated useful lives
• Computer equipment	3 - 5 years
• Office equipment	3 - 7 years
• Leasehold improvements	9 - 12 years
• Customer base	16 years
• Portfolio-in-force	1 year
• Acquired agencies	3 years
• Goodwill	Indefinite
• Computer software	3 - 7 years

Goodwill

Goodwill relates entirely to the pet insurance business acquired on 31 January 2020 (refer to Note 20). 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. No goodwill impairment assessment was performed at 30 June 2020, as it was included in the assessment of the fair value of the assets and liabilities acquired. At 30 June 2021, goodwill was tested using the value in use methodology, using projected cash flows for the next five years. The cash flows were discounted using a nominal rate of 12.79% 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 13% in the projected average five year underwriting result growth would result in impairment of the value in use. 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 2021 (30 June 2020: Nil).

NOTES TO THE FINANCIAL STATEMENTS (continued)
for the year ended 30 June 2021

12 PROPERTY AND EQUIPMENT AND INTANGIBLE ASSETS (continued)

Portfolio-in-force

Portfolio-in-force relates entirely to the pet insurance business acquired on 31 January 2020 (refer to Note 20), 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-on-force were recognised during the year to 30 June 2021 (30 June 2020: Nil).

Customer base

Customer base relates entirely to the pet insurance business acquired on 31 January 2020 (refer to Note 20), 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 2021 (30 June 2020: Nil).

The recoverable amount of the cash-generating unit ("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. The discounted cash flow model has used a 16 year projection with a terminal value, a discount rate of 12.5%, and annual growth rates for insured pets lives and customer base acquired.

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 Society 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.

a. Property and equipment	Computer equipment	Office equipment	Leasehold improvements	Work in progress	Total
	$000	$000	$000	$000	$000
As at 30 June 2020					
Cost	18,137	3,951	10,793	2,032	34,913
Accumulated depreciation and impairment	(15,635)	(3,663)	(9,866)	-	(29,164)
Opening net book value	2,502	288	927	2,032	5,749
Additions	-	-	-	5,112	5,112
Transfers	971	-	6,173	(7,144)	-
Disposal - cost	(12,564)	(3,833)	(498)	-	(16,895)
Disposal - accumulated depreciation	12,215	3,637	496	-	16,348
Depreciation	(1,488)	(42)	(943)	-	(2,473)
Closing net book value	1,636	50	6,155	-	7,841
As at 30 June 2021					
Cost	6,544	118	16,468	-	23,130
Accumulated depreciation and impairment	(4,908)	(68)	(10,313)	-	(15,289)
Closing net book value	1,636	50	6,155	-	7,841

NOTES TO THE FINANCIAL STATEMENTS (continued)
for the year ended 30 June 2021

12 PROPERTY AND EQUIPMENT AND INTANGIBLE ASSETS (continued)

b. Intangible assets	Customer base and Portfolio-in-force	Acquired agencies	Goodwill	Computer software	Work in progress	Total
	$000	$000	$000	$000	$000	$000
As at 30 June 2020						
Cost	5,309	-	4,192	83,523	4,934	97,958
Accumulated amortisation and impairment	(1,306)	-	-	(56,049)	(1,268)	(58,623)
Opening net book value	4,003	-	4,192	27,474	3,666	39,335
Additions	-	316	-	-	1,493	1,809
Transfers	-	-	-	5,159	(5,159)	-
Disposal - cost	-	-	-	(32,598)	(1,268)	(33,866)
Disposal - accumulated amortisation	-	-	-	32,598	-	32,598
Amortisation	(1,119)	(36)	-	(9,912)	-	(11,067)
Impairment	-	-	-	(512)	1,268	756
Closing net book value	2,884	280	4,192	22,209	-	29,565
As at 30 June 2021						
Cost	5,309	316	4,192	56,084	-	65,901
Accumulated amortisation and impairment	(2,425)	(36)	-	(33,875)	-	(36,336)
Closing net book value	2,884	280	4,192	22,209	-	29,565

13 LEASES

a. Right-of-use assets	Motor vehicles	Premises	Total
	$000	$000	$000
As at 30 June 2020			
Cost	824	7,282	8,106
Accumulated depreciation	(268)	(4,084)	(4,352)
Opening net book value as at 1 July 2020	556	3,198	3,754
Additions	39	41,467	41,506
Terminations - cost	-	(3,044)	(3,044)
Disposal - cost	(17)	(4,166)	(4,183)
Disposal - accumulated amortisation	17	4,166	4,183
Depreciation	(267)	(3,987)	(4,254)
Closing net book value as at 30 June 2021	328	37,634	37,962
As at 30 June 2021			
Cost	846	41,539	42,385
Accumulated depreciation	(518)	(3,905)	(4,423)
Closing net book value as at 30 June 2021	328	37,634	37,962

b. Lease liabilities	Motor vehicles	Premises	Total
	$000	$000	$000
As at 30 June 2020			
Cost	824	8,037	8,861
Accumulated interest expense and principal repayments	(255)	(4,520)	(4,775)
Opening net book value	569	3,517	4,086
Additions	39	56,754	56,793
Terminations - cost	-	(3,044)	(3,044)
Interest expense	26	532	558
Principal repayment	(283)	(5,120)	(5,403)
Closing net book value	351	52,639	52,990
As at 30 June 2021			
Cost	863	61,747	62,610
Accumulated interest expense and principal repayments	(512)	(9,108)	(9,620)
Closing net book value	351	52,639	52,990

NOTES TO THE FINANCIAL STATEMENTS (continued)
for the year ended 30 June 2021

13 LEASES (continued)

	2021	2020
	$000	$000
Maturity analysis of undiscounted lease liabilities		
Within 1 year	5,335	2,347
Between 1 and 2 years	4,872	1,062
Between 2 and 5 years	14,306	762
Greater than 5 years	32,645	83
Total	57,158	4,254

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. New premises leases for the year ended 30 June 2021 used an IBR of 1.33%.

14 PAYABLES AND OTHER LIABILITIES

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

	2021	2020
	$000	$000
Payables and other liabilities		
Trade creditors and accruals	7,099	19,714
Amounts due to policyholders	5,736	9,345
Total	12,835	29,059

15 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 expense 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. With the acquisition of the pet insurance business during the year ended 30 June 2020 (refer to Note 20), the Group anticipates that future taxable profits are now probable, and deferred tax assets of $10,919,000 have been recognised as at 30 June 2021 (30 June 2020: $7,545,000).

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.

	2021	2020
	$000	$001
Reconciliation of income tax to surplus before taxation		
Surplus before taxation	49,306	24,413
Income tax at the domestic tax rate of 28%	**13,806**	**6,836**
Tax effect of Society exempt income	(12,896)	(7,839)
Tax effect of recognised group losses	(4,108)	(5,846)
Tax effect of permanent differences	5	2
Tax effect of temporary differences	(8)	(1,149)
Total income tax benefit	(3,201)	(7,996)

Deferred tax

The Society's subsidiaries have accumulated tax losses carried forward of $38,998,000 at 30 June 2021 (30 June 2020: $41,620,000), of which the Society has accumulated tax losses carried forward of nil (30 June 2020: Nil). The Group has unrecognised tax losses carried forward of nil (30 June 2020: $14,672,000).

NOTES TO THE FINANCIAL STATEMENTS (continued)
for the year ended 30 June 2021

15 TAXATION (continued)

	Note	2021 $000	2020 $000
Deferred tax comprises temporary differences attributable to:			
a. Deferred tax assets			
Losses available for offset against future taxable income		10,919	7,545
Total deferred tax assets		10,919	7,545
Expected to crystallise within 12 months		1,302	854
Expected to crystallise in greater than 12 months		9,617	6,691
Total deferred tax assets		10,919	7,545
Movements in deferred tax assets			
Opening balance		7,545	-
Recognition of losses available for offset against future taxable income		4,108	8,001
Group loss offsets recognised in the statement of comprehensive income		(734)	(456)
Closing deferred tax assets		10,919	7,545
b. Deferred tax liabilities			
Intangible assets		(808)	(1,122)
Deferred acquisition costs	4	(433)	-
Payables and other liabilities		33	86
Total deferred tax liabilities		(1,208)	(1,036)
Expected to crystallise within 12 months		(533)	(228)
Expected to crystallise in greater than 12 months		(675)	(808)
Total deferred tax liabilities		(1,208)	(1,036)
Movements in deferred tax liabilities			
Opening balance		(1,036)	-
Net deferred tax liabilities recognised on acquisition	20	-	(1,487)
Intangible assets temporary differences recognised in the statement of comprehensive income		314	365
Deferred acquisition costs recognised in the statement of comprehensive income	4	(433)	-
Other temporary differences recognised in the statement of comprehensive income		(53)	86
Closing deferred tax liabilities		(1,208)	(1,036)

16 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.

	2021 $000	2020 $000
Employee benefits		
Short term benefits	9,598	9,281
Post employment benefits	1,939	1,886
Total	11,537	11,167

NOTES TO THE FINANCIAL STATEMENTS (continued)

for the year ended 30 June 2021

17 RELATED PARTIES

a. Identity of related parties:	Relationship	Balance Date
• The Southern Cross Medical Care Society ("Society")	Parent	30 June
• Southern Cross Health Services Limited ("Health Services")	100% subsidiary of Society	30 June
• Southern Cross Insurance Services Limited ("SCISL")	100% subsidiary of Society	30 June
• Southern Cross Pet Insurance Limited ("SCPIL)	100% subsidiary of Society	30 June
• Southern Cross Ventures Limited ("SCVL")	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 Benefits Limited ("SCBL")	100% subsidiary of Trust	30 June
• Southern Cross Healthcare Limited ("Hospitals")	100% subsidiary of Trust	30 June
• Directors of The Southern Cross Medical Care Society	Certain Directors are Trustees of Trust	-

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. Some goods and services are purchased by the Group and other related parties on a combined basis, and are on-charged to other related parties at cost. The Society contracts healthcare services on behalf of its members from all providers, including Hospitals, on a contestable and contractual basis, which are not included in the table below, as these are services paid on behalf of members.

All related party balances are payable on normal trading terms and unsecured, except for related party advances and tax transfers within the Group (refer note 15). No related party balances have been written off or forgiven during the year (30 June 2020: Nil).

	Note	2021 $000	2020 $000
Total amount of transactions with other related parties			
Sale of services		2,947	6,208
Purchase of services		740	1,063
Acquisition of pet insurance business from SCBL	20	-	8,077
Total outstanding balances with other related parties			
Receivables		340	264
Payables		26	107

b. Remuneration of Directors

A friendly society has trustees to hold its assets. The trustees for the year were C M Drayton, G W Gent 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 who bears the cost for other operating expenses relating to SCPIL governance. The Society and SCPIL 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. Where the Executive Team Leaders are directors of subsidiaries, they do not receive remuneration for these appointments.

All directors, excluding M Misur, M J Gardiner and M L James, have medical insurance policies with the Society. N J Astwick and J M Raue have pet insurance policies with SCPIL.

NOTES TO THE FINANCIAL STATEMENTS (continued)
for the year ended 30 June 2021

17 RELATED PARTIES (continued)

b. Remuneration of Directors (continued)

Director	Society Board Amount	Audit & Risk Committee Amount	Investment Committee Amount	Remuneration Committee Amount	Nominations Committee Amount	Total Remuneration Amount
Actual directors' remuneration paid by the Society for the year ended 30 June 2021 was as follows:						
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 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.

Director	SCPIL Board Amount	Audit & Risk Committee Amount	Total Remuneration Amount
Actual directors' remuneration paid by SCPIL the year ended 30 June 2021 was as follows:			
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 2021

17 RELATED PARTIES (continued)

b. Remuneration of Directors (continued)

	Society					
Director	**Board Amount**	**Audit & Risk Committee Amount**	**Investment Committee Amount**	**Remuneration Committee Amount**	**Nominations Committee Amount**	**Total Remuneration Amount**
Actual directors' remuneration paid by the Society for the year ended 30 June 2020 was as follows:						
C M Drayton [3]	58,000	4,500 Chair	1,250	1,000	500	65,250
G R W France	58,000	-	5,000 Chair	1,000	-	64,000
G W Gent [1]	116,000 Chair	-	-	-	- Chair	116,000
E M Hickey [2]	29,000	3,000 Chair	1,250	-	-	33,250
M Jordan [2]	29,000	1,500	-	1,000	500	32,000
P Leightley [2]	29,000	-	-	-	-	29,000
M Misur [2]	34,201	-	-	1,000	500	35,701
J M Raue	58,000	-	-	4,000 Chair	500	62,500
K B Taylor	58,000	3,000	-	-	500	61,500
Total	469,201	12,000	7,500	8,000	2,500	499,201

1 G W Gent did not receive any fees for being a member of the Audit and Risk, Investment, Remuneration or Nominations Committees.
2 E M Hickey and P Leightley retired 31 December 2019 . M Misur was appointed 29 November 2019. M Jordan was appointed 1 January 2020.
3 E M Hickey was chair of the Audit and Risk Committee until 31 December 2019. C M Drayton was appointed 1 January 2020.

From 31 January 2020, remuneration was paid by SCPIL to directors of SCPIL.

	SCPIL		
Director	**Board Amount**	**Audit & Risk Committee Amount**	**Total Remuneration Amount**
Actual directors' remuneration paid by SCPIL the year ended 30 June 2020 was as follows:			
N J Astwick	-	-	-
M J Gardiner	6,264	1,044 Chair	7,308
M L James	10,440 Chair	-	10,440
J M Raue	6,264	-	6,264
Total	22,968	1,044	24,012

NOTES TO THE FINANCIAL STATEMENTS (continued)
for the year ended 30 June 2021

17 RELATED PARTIES (continued)

c. Remuneration of key management personnel

Key management personnel are the members of the Society Leadership Team. SCPIL has no direct employees and therefore no key management personnel. The Society 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.

	2021	2020
	$000	$000
Salaries and other short-term benefits	3,616	3,604
Contributions to defined contribution plan	98	100
Net long-term employee benefits provision movement	49	(6)

Chief Executive Officer ("CEO") remuneration

Over the course of the financial year, the CEO of the Society earned a base salary of $739,749 (30 June 2020: $739,749). The amount of total short-term performance-related incentive provided as at 30 June 2021 was $140,000 (30 June 2020: $160,000). The final amount of $160,000 will be paid in the 2022 financial year (30 June 2020: $152,000 paid in the 2021 financial year). As a member of Kiwi Saver, the CEO received contribution from the Society of $36,386 during 2021 (30 June 2020: $36,775). In addition, the CEO received other non-cash short-term benefits of $9,960 during 2021 (30 June 2020: $11,365).

The CEO has a long-term incentive plan relating to achieving specific performance targets by 30 June 2021 which is payable as a lump sum on achievement. Depending on the level of performance achieved against set targets, potential payments that the Board may award in respect of the 3-year period, at its discretion, range from 0% to 60.75% of the CEO's base salary of $700,000 as at 1 July 2018. The amount of total long-term performance-related incentive provided as at 30 June 2021 was $259,000 (30 June 2020: Nil).

18 EMPLOYEE REMUNERATION

The following table discloses the number of employees and former employees of the Society, who received remuneration and other allowances during the financial year. Remuneration represents actual payments made during the financial year and includes base salary, bonuses, redundancy and termination payments.

	2021	2020
$	Number of employees	
<100,000	666	632
100,001 - 110,000	41	34
110,001 - 120,000	27	29
120,001 - 130,000	31	29
130,001 - 140,000	20	17
140,001 - 150,000	14	14
150,001 - 160,000	11	10
160,001 - 170,000	9	9
170,001 - 180,000	9	3
180,001 - 190,000	3	4
190,001 - 200,000	3	6
200,001 - 210,000	2	8
210,001 - 220,000	6	1
220,001 - 230,000	1	1
230,001 - 240,000	3	1
240,001 - 250,000	-	3
260,001 - 270,000	1	-
300,001 - 310,000	1	1
340,001 - 350,000	1	-
350,001 - 360,000	-	1
360,001 - 370,000	1	-
370,001 - 380,000	-	1
390,001 - 400,000	1	1
400,001 - 410,000	1	1
410,001 - 420,000	1	-
900,001 - 910,000	1	-
910,001 - 920,000	-	1
Total	854	807
Headcount as at balance date	740	700

NOTES TO THE FINANCIAL STATEMENTS (continued)
for the year ended 30 June 2021

19 COMMITMENTS, CONTINGENCIES AND SUBSEQUENT EVENTS

a. Other commitments

The Group had contractual commitments for the acquisition of property and equipment and intangible assets of Nil at 30 June 2021 (30 June 2020: $4,241,000). The Society has unrecognised commitments to provide loans to SCVL to provide financial support for its investment in joint venture (refer Note 21).

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.

The Group had no contingent liabilities at 30 June 2020.

c. Subsequent events

On 17 August 2021, the New Zealand government announced a countrywide lockdown. As this is an event subsequent to the Balance Sheet date, the Group has not made any further COVID-19 risk allowances for the year ended 30 June 2021, other than those referred to in Note 4. At this time the impact of the lockdown is unknown.

20 PURCHASE OF PET INSURANCE BUSINESS

On 31 January 2020, SCPIL purchased the assets and liabilities relating to the pet insurance business from SCBL and SCISL. Since the purchase of the pet insurance business by SCBL in 2012, the day to day oversight and management of the pet insurance business was outsourced to the Society, via its subsidiary SCISL. The Group acquired the pet insurance business because it combined ownership within the Society with the existing management operation of the business. SCBL is a 100% owned subsidiary of Southern Cross Health Trust, which is a related party of the Society (refer to Note 17).

The assets and liabilities acquired from SCBL were purchased via an Asset Sale Agreement for $8,077,000. An independent valuation of the business was obtained for the purchase price. The acquisition of the control of the business from SCBL met the definition of a business combination under NZ IFRS 3 *Business Combinations* , but did not meet the criteria of common control.

The fair value amounts of the assets and liabilities acquired were determined to be equivalent to the carrying value at the date of acquisition, except for customer base and portfolio-in-force.

Estimates of the fair value of the acquired insurance contract liabilities were determined by an external actuary at the date of acquisition.

The fair values of the identifiable assets and liabilities of the pet insurance business acquired are outlined below.

	2020
	$000
Assets	
Cash and cash equivalents	3,411
Premium and other receivables	9,450
Intangible assets	5,309
Total assets	18,170
Liabilities	
Payables and other liabilities	670
Insurance contract liabilities	12,128
Deferred tax liabilities	1,487
Total liabilities	14,285
Total identifiable net assets at fair value	**3,885**
Goodwill arising on acquisition*	4,192
Purchase consideration transferred	**8,077**

*No reconciliation of the carrying amount of goodwill was provided on the basis the Group had no opening goodwill.

Analysis of cash flows on acquisition	
Net cash acquired with the subsidiary (included in cash flows from investing activities)	3,411
Cash paid	(8,077)
Net cash flow on acquisition	**(4,666)**

NOTES TO THE FINANCIAL STATEMENTS (continued)
for the year ended 30 June 2021

21 INVESTMENT IN JOINT VENTURE

On 29 October 2020, Southern Cross Healthcare Limited (subsequently renamed Southern Cross Ventures Limited ("SCVL")) entered into an agreement with ProCare Health (LP) Limited to create a 50/50 joint venture limited partnership called CareHQ Limited Partnership ("Limited Partnership"), which was incorporated on 3 November 2020. Care HQ (General Partner) Limited, jointly owned by SCVL and ProCare Health (LP) Limited, was appointed as general partner of the Limited Partnership.

The limited partnership is considered to be a joint venture as the parties have rights to the net assets of the arrangement rather than the individual assets and liabilities. The limited partnership is accounted for using the equity method, where SCVL's initial interest in the joint venture has been recognised as an investment at cost, and is adjusted thereafter for the post-acquisition change in SCVL's share of the profit or loss, with SCVL's proportionate share of the profit or loss recognised in total comprehensive income. Any distributions of profit received will reduce the carrying amount of the investment.

The initial investment in the joint venture is comprised of $350,000 cash and $77,900 intangible assets/intellectual property. The loss recognised in total comprehensive income for the year ended 30 June 2021 is $250,000 (30 June 2020: Nil).

As a joint venture, the limited partnership is deemed to be a related party of the Group. As at 30 June 2021, there have been no other related party transactions with the Limited Partnership.

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 impact of these is still to be determined. The most significant of these is NZ IFRS 17 *Insurance Contracts* ("NZ IFRS 17").

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.
- A NZ IFRS 17 project team was put in place at the beginning of 2020. Phase I of the project is complete which included the initial gap analysis, various impact assessments, preparation and review of key technical position papers. Phase II is underway, which includes discovery and selection of an appropriate disclosure solution, testing of our approach with regards to onerous contracts, and preparation of second tranche technical position papers.
- The Group will pursue the application of the Premium Allocation Approach given the short term nature of insurance policies in the Group, which will simplify and limit the impact of this new standard in respect of recognition and measurement of the insurance contracts in the Group. The most significant impact relates to identification and measurement of onerous contracts.
- Presentation and disclosure requirements under NZ IFRS 17 differs significantly from NZ IFRS 4, and Phase II of the project is focussing on finding an appropriate response to this impact. We do not expect a significant impact on our systems (changes to the core system will be limited but opportunities will be considered on a cost/benefit basis to make improvements to systems and processes).
- The impact of adoption of NZ IFRS 17 has not yet been quantified.

The recent Exposure Draft ("ED") issued by RBNZ in respect of the proposed new Solvency Standard is being assessed as part of our broader IFRS 17 Project. We are in the process of reviewing the impact of this proposed standard on our solvency position and operational/system requirements.

Independent Auditor's Report

To the members of The Southern Cross Medical Care Society

Report on the audit of the consolidated financial statements

Opinion

In our opinion, the accompanying consolidated financial statements of The Southern Cross Medical Care Society (the "Society") and its subsidiaries (the "Group") on pages 1 to 25:

i. present fairly in all material respects the Group's financial position as at 30 June 2021 and its financial performance and cash flows for the year ended on that date; and

ii. comply with New Zealand Equivalents to International Financial Reporting Standards and International Financial Reporting Standards.

We have audited the accompanying consolidated financial statements which comprise:

— the consolidated statement of financial position as at 30 June 2021;

— the consolidated statements of comprehensive income and changes in reserves and cash flows for the year then ended; and

— notes, including a summary of significant accounting policies and other explanatory information.

Basis for opinion

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

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

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

Our firm has also provided other services to the Group in relation to the audit of the year end solvency returns, review of the consolidated interim financial statements and the Society half year solvency return. Subject to certain restrictions, partners and employees of our firm may also deal with the Group on normal terms within the ordinary course of trading activities of the business of the Group. These matters have not impaired our independence as auditor of the Group. The firm has no other relationship with, or interest in, the Group.

Materiality

The scope of our audit was influenced by our application of materiality. Materiality helped us to determine the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and on the consolidated financial statements as a whole. The materiality for the consolidated financial statements as a whole was set at $10,473,000 determined with reference to a benchmark of the Group's net assets. We chose the benchmark because, in our view, net assets 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 insurance contract 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 2021, 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 2021 actual claims paid versus expected experience; and — testing the completeness and accuracy of data used in the actuarial modelling underlying the 30 June 2021 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.

Other information

The Directors, on behalf of the Group, are responsible for the other information included with 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 Society, 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 consolidated set of 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 Kay Baldock

For and on behalf of

KPMG

KPMG
Auckland

8 September 2021

7 September 2021

The Directors
Southern Cross Medical Care Society
Auckland

Dear Directors

Review of Actuarial Information Contained in Financial Statements as at 30 June 2021

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 2021 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 2021 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 2021 is inappropriate. No limitations were placed on us in performing our review and all data and information requested was provided.

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

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

Yours sincerely

John Smeed
Appointed Actuary

Anagha Pasche

Fellows of the Institute of Actuaries of Australia

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