Southern Cross Health Insurance

With you

Southern Cross Medical Care Society Group

2025 Annual Report – Consolidated Financial Statements

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These Consolidated Financial Statements, together with the 2025 Annual Report Summary, constitute the Annual Report for the purposes of the Rules of the Society. For a copy of the Summary please visit

THE SOUTHERN CROSS MEDICAL CARE SOCIETY GROUP

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED

30 June 2025

CONTENTS

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
for the year ended 30 June 2025

	Note	2025 $000	2024 $000
Insurance revenue	4	1,966,298	1,744,855
Insurance service expenses	4,8	(2,013,560)	(1,854,702)
Net income/(expenses) from reinsurance contracts held	4	1,444	(2,301)
Insurance service result		**(45,818)**	**(112,148)**
Net investment and other income	7	42,814	53,028
Other operating expenses	8	(43,574)	(24,489)
Loss before taxation		**(46,578)**	**(83,609)**
Taxation expense	15	(5,209)	(4,594)
Loss after taxation		**(51,787)**	**(88,203)**
Other comprehensive income/(loss):			
Items that may be reclassified subsequently to profit or loss:			
Movement in foreign currency translation reserve		12	273
Deferred income tax relating to currency translation		(3)	(76)
Total comprehensive loss		**(51,778)**	**(88,006)**

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
as at 30 June 2025

	Note	2025 $000	2024 $000
Assets			
Cash and cash equivalents	9	53,496	39,460
Receivables	10	21,522	24,240
Investments	6	652,090	694,597
Reinsurance contract assets	4	1,856	-
Investment in joint venture		487	328
Property and equipment		6,009	5,922
Intangible assets	11	16,192	11,652
Right-of-use assets	12	26,001	30,222
Deferred tax assets	15	8,582	10,367
Total assets		**786,235**	**816,788**
Liabilities			
Payables and other liabilities	13	19,384	15,835
Provisions	14	4,882	1,506
Reinsurance contract liabilities	4	-	101
Current tax liabilities		1,577	3,522
Employee benefits	16	15,835	18,087
Lease liabilities	12	38,924	44,031
Insurance contract liabilities	4	286,716	262,767
Deferred tax liabilities	15	-	244
Total liabilities		**367,318**	**346,093**
Net assets		**418,917**	**470,695**
Reserves			
Consolidated reserves		418,720	470,507
Foreign currency translation reserve		197	188
Total Reserves		**418,917**	**470,695**

Authorised on behalf of the Board of Directors on 19 September 2025

C J Black
Chair

K L Jorgensen
Director

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

CONSOLIDATED STATEMENT OF CHANGES IN RESERVES
for the year ended 30 June 2025

	Consolidated Reserves $000	Foreign Currency Translation Reserve $000	Total Reserves $000
As at 1 July 2024	**470,507**	**188**	**470,695**
Loss after taxation	(51,787)	-	(51,787)
Other comprehensive income	-	9	9
Total comprehensive (loss)/income	(51,787)	9	(51,778)
As at 30 June 2025	**418,720**	**197**	**418,917**

	Consolidated Reserves $000	Foreign Currency Translation Reserve $000	Total Reserves $000
As at 1 July 2023	**558,710**	**(9)**	**558,701**
Loss after taxation	(88,203)	-	(88,203)
Other comprehensive income	-	197	197
Total comprehensive (loss)/income	(88,203)	197	(88,006)
As at 30 June 2024	**470,507**	**188**	**470,695**

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

KPMG

CONSOLIDATED STATEMENT OF CASH FLOWS
for the year ended 30 June 2025

	Note	2025 $000	2024 $000
Cash flows from/(to) operating activities			
Premium revenue received		1,972,353	1,751,475
Payment of reinsurance premiums	4c	(1,721)	(2,245)
Other income received		2,037	1,882
Payment of claims		(1,772,283)	(1,575,483)
Third party (ACC) recoveries received		6,913	5,986
Reinsurance recoveries received	4c	1,207	1,241
Payments to employees and suppliers		(254,986)	(259,927)
Premium remediation payments	14	(953)	(4,734)
Payments of income tax		(5,616)	(769)
Net cash flows to operating activities		**(53,049)**	**(82,574)**
Cash flows from/(to) investing activities			
Payments for property and equipment		(1,371)	(751)
Payments for intangible assets	11	(8,143)	(1,742)
Sale of investments		735,085	656,206
Purchase of investments		(678,987)	(588,829)
Interest received		26,598	28,517
Investment in joint venture	17c	-	(200)
Net cash flows from investing activities		**73,182**	**93,201**
Cash flows to financing activities			
Repayment of principal lease liabilities	12	(5,385)	(4,955)
Interest paid	12	(674)	(743)
Net cash flows to financing activities		**(6,059)**	**(5,698)**
Net increase in cash and cash equivalents		**14,074**	**4,929**
Opening cash and cash equivalents		39,460	34,440
Effect of exchange rate movement on foreign currency balances		(38)	91
Closing cash and cash equivalents		**53,496**	**39,460**

RECONCILIATION OF LOSS AFTER TAXATION TO NET CASH FLOWS TO OPERATING ACTIVITIES

	Note	2025 $000	2024 $000
Loss after taxation		(51,787)	(88,203)
Adjustments for non-cash and non-operating items included in loss after taxation:			
Depreciation and amortisation		9,332	11,543
Interest expense on lease liabilities	12	674	743
Loss on disposal of assets		55	-
Net gain on investments		(22,321)	(23,325)
Interest income	7	(18,297)	(27,843)
Foreign currency exchange movement		116	92
Income tax expense	15	5,209	4,594
Changes in assets and liabilities:			
Receivables		2,718	(4,039)
Payables, other liabilities and employee benefits		1,297	194
Provisions		3,376	(5,037)
Insurance and reinsurance contracts		21,992	49,553
Foreign currency translation reserve movement on operating balances		203	(77)
Income tax paid		(5,616)	(769)
Net cash flows to operating activities		**(53,049)**	**(82,574)**

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

KPMG

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 30 June 2025

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 ("IPSA"). It is deemed to be a Financial Markets Conduct ("FMC") reporting entity under Part 7 of the Financial Markets Conduct Act 2013 ("FMCA") and therefore a Tier 1 reporting entity for financial reporting purposes.

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

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 $402.5 million (30 June 2024: $459.4 million) represent the retained surpluses of the Society. Consolidated reserves of the Group of $418.9 million (30 June 2024: $470.7 million) includes the net equity of the Society's insurance and non-insurance subsidiaries.

BASIS OF PREPARATION

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

The consolidated financial statements are:

- prepared in accordance with the statutory requirements of the Friendly Societies and Credit Unions Act 1982, the FMCA and the IPSA.
- prepared in accordance with New Zealand generally accepted accounting practice (“NZ GAAP”).
- compliant with New Zealand equivalents to International Financial Reporting Standards (“NZ IFRS”) and International Financial Reporting Standards (“IFRS”).
- presented in New Zealand dollars ("NZD"), which is the Group’s presentation currency. The functional currency for the Australian branch of SCBL is Australian dollars ("AUD"); transactions of the branch are translated to NZD. All financial information has been rounded to the nearest thousand ($000), unless otherwise stated.
- stated net of Goods and Services Tax ("GST"), with the exception of receivables and payables, which are stated inclusive of GST where applicable. Net cash flows in the cash flow statement are shown exclusive of GST.
- prepared using historical cost as the measurement basis except for investments at fair value, the measurement of insurance and reinsurance contracts based on the fulfilment cashflows, and leases held at the present value of lease payments.

Certain comparative information has been restated where appropriate to align with the current period presentation. The restatements have no impact on the previously reported profit after tax, total assets, total liabilities, or total equity. These presentational changes are not considered material.

BASIS OF CONSOLIDATION

The Group controls an entity when it is exposed to, or has rights to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are entities controlled by the Group. When 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 the Group obtains control of that entity. 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

New standards, amendments and interpretations

Disclosure of Fees for Audit Firms' Services (Amendments to FRS-44)
Effective for accounting periods beginning on or after 1 January 2024, the amendments to Financial Reporting Standard No. 44 New Zealand Additional Disclosures ("FRS-44") require entities to disclose the fees incurred for services received from its audit or review firm, and a description of each service, using specified categories. As a result of the adoption of the amendments, the Group has provided new disclosures for auditor’s remuneration in Note 8.

Other than the above, the Group applied new standards, amendments to standards and interpretations that are effective for its annual reporting period commencing 1 July 2024. Their adoption has not had any material impact on the disclosures or amounts reported in these financial statements.

New accounting standards not yet effective
There are a number of accounting standards, amendments and interpretations which have been issued but are not yet effective. The Group expects to adopt these when they become due for adoption. The most material new accounting standard being NZ IFRS 18: Presentation and Disclosure in Financial Statements, which will replace NZ IAS 1: Presentation of Financial Statements and applies for annual periods beginning on or after 1 January 2027.

The Group is still in the process of assessing the impact of the new accounting standard, particularly with respect to the structure of the Group's consolidated statement of comprehensive income, the consolidated statement of cash flows and additional disclosures.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
for the year ended 30 June 2025

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 areas of estimation, uncertainty and critical judgements in applying accounting policies that have material impact on the amounts recognised in the financial statements are described as follows:

Assets / liabilities	Notes	Judgments	Notes	Assumptions and estimation uncertainties
Insurance and reinsurance contracts	3(a) and 3(b)	Classification of insurance, reinsurance contracts: assessing whether the contract transfers significant insurance risk.	4	Changes in the following key assumptions will change the fulfilment cashflows materially and impact the onerous contracts assessment: (i) Cash flows relating to expected premiums. (ii) Claims development. (iii) Cash flows relating to expenses. (iv) Risk adjustment for non-financial risk.
	3(c)	Level of aggregation of insurance and reinsurance contracts: identifying portfolios of contracts and determining groups of contracts that are onerous on initial recognition and those that have no significant possibility of becoming onerous subsequently.		
	3(e), 4	Measurement of insurance and reinsurance contracts: determining the techniques for estimating risk adjustments for non-financial risk.		
Intangible assets	11	Determination of the level to which the intangible asset belongs, based on identifiable cash flows for impairment testing.	11	Impairment of intangible assets, including goodwill: key assumptions underlying recoverable amounts such as projected cash flows and discount rates.
Provisions	14	Determining whether a present obligation exists as a result of a past event and the probability of an outflow of resources to settle the obligation.	14	Measurement of estimated costs associated with the provisions.
Taxation		-	15	Recognition of deferred tax assets: availability of future taxable profit against which deductible temporary differences and tax losses carried forward can be used.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
for the year ended 30 June 2025

2 SOLVENCY

As licensed insurers, the IPSA requires a positive solvency margin to be retained in accordance with the Interim Solvency Standard 2023 (as amended) ("ISS") issued by the Reserve Bank of New Zealand ("RBNZ"), meaning that solvency capital position exceeds the prescribed capital requirement under the ISS. The Group has formal capital management policies in place to:

- maintain a strong capital base to provide security for its members and policyholders;
- satisfy capital adequacy standards as prescribed by RBNZ and by Australian Prudential Reporting Authority ("APRA") for the Australian branch of SCBL; and
- enable the Group to conduct its business under suitable capital structures.

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

	Society $m	Consolidated $m
2025		
Solvency capital	1,350.5	1,411.4
Adjusted prescribed capital requirement	1,144.7	1,180.8
Adjusted solvency margin	205.8	230.6
Adjusted solvency ratio	1.18	1.20

	Society $m	Consolidated $m
2024		
Solvency capital	459.2	508.8
Adjusted prescribed capital requirement	138.6	168.5
Adjusted solvency margin	320.6	340.3
Adjusted solvency ratio	3.31	3.02

The comparative solvency figures are the previously published solvency figures.
Prior to the amendments made to the Interim Solvency Standard 2023 effective 1 March 2025, all the Society's policies were defined as short-term insurance contracts for solvency purposes. Changes introduced in the amendments reclassified the Society's policies as long-term insurance contracts, which has resulted in material increases in both solvency capital and prescribed capital requirement as at 30 June 2025.

Standard & Poor's reaffirmed the Society, SCPIL and SCBL's Insurer Financial Strength Rating under its global insurance industry rating methodology, as follows:

Rating	2025	2024
Society	A+ (Strong)	A+ (Strong)
SCPIL	A (Strong)	A (Strong)
SCBL	A (Strong)	A (Strong)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
for the year ended 30 June 2025

3 INSURANCE AND REINSURANCE CONTRACTS - MATERIAL ACCOUNTING POLICIES

The material accounting policies adopted for the insurance and reinsurance contracts are summarised below.

a. Insurance and reinsurance contracts classification

The Group issues insurance contracts in the normal course of business, under which it accepts significant insurance risk from its members and policyholders. The Group determines whether it has significant insurance risk by assessing the additional benefits payable after an insured event. Insurance and reinsurance contracts also expose the Group to financial risk.

The Group issues health insurance, CI & CA, pet insurance and travel insurance contracts to individuals. Health insurance plans cover for major medical expenses, specialist consultations or day-to-day health costs. CI & CA plans complement the health insurance plans to provide cover over critical illness and cancer assist. Pet insurance plans cover sickness and accidental injury of policyholders' pets. Travel insurance plans cover travelling policyholders for losses that are caused by unexpected events (such as medical events, lost items, accidents or weather events).

The Group does not issue insurance or reinsurance contracts with direct participating features and does not underwrite life insurance products. SCBL has catastrophe, pandemic and terrorism reinsurance treaties for its travel insurance business, to protect it from high severity losses and catastrophic events.

b. Separating components from insurance and reinsurance contracts

The Group assesses its health, CI & CA, pet and travel insurance products to determine whether they contain distinct components which must be accounted for under another NZ IFRS instead of under NZ IFRS 17. These insurance products in the Group do not include any distinct components that require separation.

c. Level of aggregation

The Group has different product lines, each of which includes contracts that are subject to similar risks and managed together. Insurance contracts within a product line represent a portfolio of contracts and the portfolios include:

- Society: Health insurance
- Society: CI & CA
- SCPIL: Pet insurance
- SCBL: Travel insurance
- SCBL: Travel reinsurance

Each portfolio is further disaggregated into groups based on expected profitability, assessed by actuarial valuation models that take into consideration existing and new business, expected loss ratios, expense ratios and risk adjustments.

An insurance contract issued by the Group is recognised from the earliest of (i) its anniversary date (i.e. the beginning of its coverage period), (ii) the date when the first payment from a policyholder becomes due or (iii) when facts and circumstances indicate that the contract is onerous. Reinsurance contracts held by SCBL are non-proportional, therefore the date of initial recognition will be the earliest of (i) the beginning of the coverage period or (ii) the date an onerous group of underlying contracts is recognised.

i. Health insurance
The Health insurance portfolio consists of a group of contracts that are onerous on initial recognition.

Onerous contracts are identified at a customer segment level:

- individual members group
- employer groups where premiums are not subsidised by employers
- employer groups where premiums are subsidised by employers
- large employer groups

Losses on onerous contracts are measured and recognised in the month a policy/group scheme has its renewal - this means that the valuation of the liability for remaining coverage (“LFRC”) loss component in the Health Insurance portfolio is performed at the level of 48 groups (4 customer segments which are sub-divided into 12 groups based on the contracts in each segment renewing each month).

ii. CI & CA
The CI & CA portfolio consists of a group of contracts with no significant chance of being onerous.

iii. Pet insurance
The Pet insurance portfolio consists of (a) a group of contracts that are onerous on initial recognition and (b) a group of contracts with no significant chance of being onerous. The onerous contracts relate to individual policies where "free cover" for veterinary care is offered to puppies and kittens between the ages of 6 and 26 weeks, for a period of 6 weeks.

iv. Travel insurance and reinsurance
The Travel insurance portfolios consists of contracts aggregated at the product level for NZ and AU separately. These consist of (a) a group of contracts that are onerous on initial recognition and (b) a group of contracts with no significant chance of being onerous.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
for the year ended 30 June 2025

3 INSURANCE AND REINSURANCE CONTRACTS - MATERIAL ACCOUNTING POLICIES (continued)

d. Contract boundary

The measurement of a group of contracts includes all of the future cash flows within the boundary of each contract in the group. Cash flows are within the contract boundary if they arise from substantive rights and obligations that exist during the reporting period in which the Group can compel the member/policyholder to pay premiums or has a substantive obligation to provide insurance services. A substantive obligation to provide services ends when the Group has the practical ability to reassess the risks of the portfolio that contains the contract and reprice accordingly. For reinsurance contracts, a substantive right to receive services from the reinsurer ends when the reinsurer has the practical ability to reassess the risks transferred to it and reprice accordingly or has a substantive right to terminate the coverage.

The assessment of the contract boundary, that defines which future cash flows are included in the measurement of a contract, requires judgement and consideration of the Group's substantive rights and obligations under the contract:

- Health insurance and CI & CA: The annual policy / group scheme anniversary date is the date that best represents a date where portfolios are practically able to be repriced to fully achieve rebalancing of risks until the next anniversary date. Therefore, the contract boundary ends on the anniversary date resulting in a coverage period of 12 months.
- Pet insurance: SCPIL has the right to reprice PetCare and AcciPet products on the renewal date of a policy, but not during the policy period. For these products, the contract boundary ends on the renewal date resulting in a coverage period of 12 months. For the FreeCover product, the contract boundary is 6 weeks as the cover automatically terminates after 6 weeks of cover and there is no option to renew.
- Travel insurance: SCBL's policies vary in length, with the majority of policies with coverage periods less than 12 months. The reinsurance contracts all have a term of one year incepting on 1 July of each year, except for the pandemic treaty which is an 18 month contract.

e. Measurement approach: Premium Allocation Approach ("PAA")

The Group uses the PAA to simplify the measurement of its groups of contracts. Subject to specified criteria, the PAA can be adopted as a simplified approach to the NZ IFRS 17 General Measurement Model ("GMM"). These have been met as follows:

- The coverage period of contracts in the Health insurance, CI & CA and Pet insurance and majority of the contracts in the Travel insurance portfolios is one year or less, therefore these contracts qualify automatically for the PAA.
- In the Travel insurance and Travel reinsurance portfolios, certain contracts have coverage periods which are longer than 12 months. These contracts are eligible for PAA on the basis that PAA and GMM produce results that are not materially different.

The following elections have been made given the adoption of the PAA:

- For the health insurance, CI & CA and pet insurance portfolios, the Group has elected that insurance acquisition cash flows are expensed as incurred. For the Travel insurance portfolio, insurance acquisition cash flows must be allocated using a systematic and rational method to groups of insurance contracts and then amortised over the coverage period of the related group.
- The Group elects to make no adjustment for financial risk or the time value of money when determining the LFRC as all premiums in the Group's portfolios are due within one year.
- The Group elects to make no adjustment for financial risk or the time value of money when determining the liability for incurred claims ("LIC") as all incurred claims arising from the Group's portfolios are expected to be paid out in less than one year.

i. Initial measurement

On initial recognition, the LFRC is measured as the premiums received (if any) minus any insurance acquisition cash flows allocated to the group at that date (where applicable), and adjusted for any amount arising from the derecognition of any assets or liabilities previously recognised.

For contracts that are onerous on initial recognition, the LFRC is measured as the net outflow of fulfilment cash flows for the group of onerous contracts over the coverage period with the corresponding entry recorded as a loss in the profit or loss. This establishes a loss component for the LFRC that depicts the day 1 losses recognised.

ii. Subsequent measurement

Subsequently, the carrying amount of the LFRC is:

- increased by premiums received
- for the Travel insurance portfolio only, increased by the amortisation of insurance acquisition cash flows recognised as expenses
- decreased by the amount recognised as insurance revenue for services provided
- decreased by the acquisition cash flows paid

The Group allocates the expected premium to each period based on the passage of time or the expected timing of incurred insurance service expenses, if the expected pattern of release of risk during the coverage period differs significantly from the passage of time.

Where, during the coverage period, facts and circumstances indicate that a group of insurance contracts is onerous, the Group recognises a loss in profit or loss for the net outflow over the remainder of the coverage period, resulting in the carrying amount of the liability for the group being equal to the fulfilment cash flows for the remainder of the coverage period. The loss component is released to the profit or loss on a systematic basis over the coverage period, based on an allocation that reflects the seasonal nature of expected losses.

The Group recognises the LIC of a group of insurance contracts at the amount of the fulfilment cash flows relating to incurred claims plus an explicit risk adjustment for non-financial risk.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
for the year ended 30 June 2025

3 INSURANCE AND REINSURANCE CONTRACTS - MATERIAL ACCOUNTING POLICIES (continued)

e. Measurement approach: Premium Allocation Approach ("PAA") (continued)

iii. Derecognition and contract modification

The Group derecognises a contract when it is extinguished – i.e. when the specified obligations in the contract expire or are discharged or cancelled.

The Group also derecognises a contract if its terms are modified in a way that would have changed the accounting for the contract significantly had the new terms always existed, in which case a new contract based on the modified terms is recognised. If a contract modification does not result in derecognition, then the Group treats the changes in cash flows caused by the modification as changes in estimates of fulfilment cash flows.

iv. Measurement of reinsurance contracts

The Group applies the same accounting policies to measure a group of reinsurance contracts, adapted where necessary to reflect features that differ from those of insurance contracts.

f. Insurance acquisition cash flows

As noted in 3(e), insurance acquisition cash flows incurred by the Travel insurance portfolio which arose before the recognition of the group of contracts are recognised as an asset. The other portfolios have elected that insurance acquisition cash flows are expensed as incurred. Insurance acquisition cash flows are allocated to groups of insurance contracts using a systematic and rational method.

At each reporting date, if facts and circumstances indicate that an asset for insurance acquisition cash flows may be impaired, then the Group:

- recognises an impairment loss in the consolidated statement of comprehensive income so that the carrying amount of the asset does not exceed the expected net cash inflow for the related group; and
- if the asset relates to expected future contract renewals, recognises an impairment loss in profit or loss to the extent that it expects those insurance acquisition cash flows to exceed the net cash inflow for the expected renewals and this excess has not already been recognised as an impairment loss as above.

The Group reverses any impairment losses in profit or loss and increases the carrying amount of the asset to the extent that the impairment conditions have improved.

g. Presentation

Portfolios of insurance contracts that are assets and those that are liabilities, and portfolios of reinsurance contracts that are assets and those that are liabilities, are presented separately in the consolidated statement of financial position. Assets for insurance acquisition cash flows under (f) are included in the carrying amount of the related portfolios of contracts.

Amounts recognised as part of insurance service result in the consolidated statement of comprehensive income are categorised into insurance revenue, insurance service expenses and net income/(expenses) from reinsurance contracts held. Disclosure of insurance finance income and expense is not applicable to the Group as no allowance is made for the discounting of either the LFRC or the LIC.

- Insurance revenue: the insurance revenue for each period is the amount of expected premium receipts for providing services in the period.
- Insurance service expenses: insurance service expenses include incurred claims and directly attributable expenses such as commission, overheads, policy administration and claims handling costs etc. It also includes amortisation of insurance acquisition cash flows relating to the Travel insurance portfolio, losses on onerous contracts and reversals of such losses.
- Net income/(expenses) from reinsurance contracts held: This comprises an allocation of reinsurance premiums paid less amounts recovered from reinsurers relating to the Travel reinsurance portfolio.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
for the year ended 30 June 2025

4 INSURANCE AND REINSURANCE CONTRACTS

See material accounting policies relating to insurance and reinsurance contracts in Note 3.

For the Health insurance, Pet insurance and CI & CA portfolios, the insurance contracts are of a short duration and the carrying amounts are expected to be recovered/settled within 12 months after the reporting date.

For the Travel insurance and reinsurance portfolios, $890k (30 June 2024: $713k) of insurance contract liabilities and $36k (30 June 2024: $2k) of reinsurance contract assets are expected to be settled/(recovered) more than 12 months after the reporting date.

	Health insurance	Critical Illness & Cancer assist	Pet insurance	Travel insurance	Total
	$000	$000	$000	$000	$000
2025					
Insurance contracts					
Insurance contract liabilities					
- Insurance contract balances	(235,778)	(1,017)	(4,262)	(47,307)	(288,364)
- Assets for insurance acquisition cash flows	-	-	-	1,648	1,648
Total	**(235,778)**	**(1,017)**	**(4,262)**	**(45,659)**	**(286,716)**
Reinsurance contracts					
Reinsurance contract assets	-	-	-	1,856	1,856
Insurance service result					
Insurance revenue	1,804,163	6,642	44,459	111,034	1,966,298
Insurance service expenses	(1,884,297)	(2,019)	(40,447)	(86,797)	(2,013,560)
Net income from reinsurance contracts held	-	-	-	1,444	1,444
Insurance service result	**(80,134)**	**4,623**	**4,012**	**25,681**	**(45,818)**
2024					
Insurance contracts					
Insurance contract liabilities					
- Insurance contract balances	(213,502)	(963)	(4,353)	(45,406)	(264,224)
- Assets for insurance acquisition cash flows	-	-	-	1,457	1,457
Total	**(213,502)**	**(963)**	**(4,353)**	**(43,949)**	**(262,767)**
Reinsurance contracts					
Reinsurance contract liabilities	-	-	-	(101)	(101)
Insurance service result					
Insurance revenue	1,598,833	5,976	41,337	98,709	1,744,855
Insurance service expenses	(1,740,687)	(1,977)	(42,044)	(69,994)	(1,854,702)
Net expenses from reinsurance contracts held	-	-	-	(2,301)	(2,301)
Insurance service result	**(141,854)**	**3,999**	**(707)**	**26,414**	**(112,148)**

At 30 June 2025, the exposure to credit risk from insurance contracts is $135.5m (30 June 2024: $120.3m), which relates to premiums receivable (a component of the LFRC) for services that the Group has already provided for. The exposure to credit risk from reinsurance contracts is $2.0m (30 June 2024: $0.1m).

Fulfilment cash flows

The fulfilment cash flows on initial recognition are used to determine the LFRC loss component recognised in respect of onerous contracts. Fulfilment cash flows comprise:

- estimates of future cash flows; and
- a risk adjustment for non-financial risk.

The following have been incorporated in the estimation of future cash flows:

- Cash flows relating to expected premiums are determined based on the annual premium income over the coverage period. These cash flows are adjusted with an assumption relating to expected lapses.
- Cash flows relating to expected claims are based on expected loss ratios which incorporate assumptions relating to the seasonality associated with claims in the portfolio. These loss ratios are updated annually based on a combination of historical data about claims, other experience and the Group's current expectations of future events that might affect these cash flows.
- Cash flows relating to expenses are allocated to groups of contracts based on an expense allocation model. The attributable cash flows are determined based on their nature and the activities they are incurred for. Attributable cash flows include outflows such as insurance acquisition cash flows, claims handling, policy administration and maintenance costs and an allocation for fixed and variable overheads.
- The valuation of the LFRC loss component is based on the unexpired portion of the coverage period of the groups that are onerous at the reporting date.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
for the year ended 30 June 2025

4 INSURANCE AND REINSURANCE CONTRACTS (continued)

Risk adjustment

Risk adjustments for non-financial risk reflect compensation that the Group may require for bearing the uncertainty about the amount and timing of cash flows that arise from non-financial risk. The risk adjustments have been determined at the portfolio level.

For the Health insurance, CI & CA and Pet insurance portfolios, the risk adjustments relating to the LFRC loss components were determined using a confidence level technique. The entities estimate the probability distribution of the expected present value of future cash flows at the reporting date and calculate the risk adjustment for non-financial risk as the excess of the value at risk at the 75th percentile (the target confidence level) over the expected present value of the future cash flows of claims cash flows.

For the Travel insurance portfolio, the risk adjustment relating to the LFRC loss component was approached by applying a cost of capital approach using SCBL's target capital ratios and a cost of capital assumption. This corresponds to an equivalent probability of adequacy of 75% NZ, 77% AU (30 June 2024: 72% NZ, 72% AU).

Risk adjustment relating to LFRC loss component	**2025**	**2024**
Health insurance	8.0%	8.0%
CI & CA	8.0%	8.0%
Pet insurance - FreeCover product	10.5%	10.0%
Travel insurance - New Zealand	22.5%	16.0%
Travel insurance - Australia	28.0%	18.0%

Liability for incurred claims (LIC)

i. Future patterns of claims development are assumed to be similar to historical patterns. Claims seasonality and claims inflation are allowed for in the estimates of outstanding claims for health insurance based on historical patterns. No explicit adjustment for discounting has been made to expected claim payments. This is appropriate given the short-tail nature of the liabilities.

ii. Claim handling expenses – Claims handling expenses include internal and external costs incurred in connection with the settlement of claims. Internal costs include all direct expenses of the claims department and any part of the general administrative costs directly attributable to the claims function. Claims handling expense allowance is based on an analysis of administration expenses. The claims handling expense allowance included in the LIC is:

	2025	**2024**
Health insurance and CI & CA	2.0%	3.0%
Pet insurance	7.0%	6.0%
Travel insurance - New Zealand	10.5%	10.3%
Travel insurance - Australia	11.0%	11.0%

iii. Weighted average term to settlement – The average weighted term to settlement is based on historic settlement patterns. The average weighted term from 30 June 2025 to the expected settlement date for claims included in the LIC is:

	2025	**2024**
Health insurance and CI & CA	1.2 months	1.4 months
Pet insurance	6.4 months	6.5 months
Travel insurance	2.7 months	2.9 months

Risk adjustment:

For the Health insurance, CI & CA and Pet insurance portfolios, the risk adjustments relating to the LIC were determined using a confidence level technique. The entities estimate the probability distribution of the expected present value of future outstanding claims cash flows at the reporting date and calculate the risk adjustment for non-financial risk as the excess of the value at risk at the 75th percentile (the target confidence level) over the expected present value of outstanding claims cash flows.

For the Travel insurance portfolio, the risk adjustment relating to the LIC was approached by applying a cost of capital approach using SCBL's target capital ratios and a cost of capital assumption. This corresponds to an equivalent probability of adequacy of 70% NZ, 74% AU (30 June 2024: 66% NZ, 69% AU).

Risk adjustment relating to LIC	**2025**	**2024**
Health insurance	11.0%	11.0%
CI & CA	11.0%	11.0%
Pet insurance	8.5%	8.5%
Travel insurance - New Zealand	12.0%	7.5%
Travel insurance - Australia	17.0%	11.0%

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
for the year ended 30 June 2025

4 INSURANCE AND REINSURANCE CONTRACTS (continued)

Movements in insurance and reinsurance contract balances

a. Health insurance and CI & CA portfolios - Insurance contracts

2025

In $000	Liabilities for remaining coverage (LFRC)		Liabilities for incurred claims (LIC)		
	Excluding loss component	Loss component	Estimates of present value of future cash flows	Risk Adjustment for non-financial risk	Total
Opening insurance contract liabilities as at 1 July 2024	**32,624**	**87,139**	**85,449**	**9,253**	**214,465**
Insurance revenue	**(1,810,805)**	**-**	**-**	**-**	**(1,810,805)**
Insurance service expenses					
Incurred claims and other insurance service expenses	-	-	1,884,229	9,862	1,894,091
Changes that relate to past service - adjustments to the LIC	-	-	746	(8,881)	(8,135)
Losses on onerous contracts and reversal of those losses	-	360	-	-	360
Total insurance service expenses	**-**	**360**	**1,884,975**	**981**	**1,886,316**
Insurance service result	**(1,810,805)**	**360**	**1,884,975**	**981**	**75,511**
Cash flows					
Premiums received	1,814,126	-	-	-	1,814,126
Claims and other insurance service expenses paid	-	-	(1,867,307)	-	(1,867,307)
Total cash flows	**1,814,126**	**-**	**(1,867,307)**	**-**	**(53,181)**
Closing insurance contract liabilities as at 30 June 2025	**35,945**	**87,499**	**103,117**	**10,234**	**236,795**

2024

In $000	Liabilities for remaining coverage (LFRC)		Liabilities for incurred claims (LIC)		
	Excluding loss component	Loss component	Estimates of present value of future cash flows	Risk Adjustment for non-financial risk	Total
Opening insurance contract liabilities as at 1 July 2023	**31,364**	**44,066**	**87,120**	**8,695**	**171,245**
Insurance revenue	**(1,604,809)**	**-**	**-**	**-**	**(1,604,809)**
Insurance service expenses					
Incurred claims and other insurance service expenses	-	-	1,702,263	8,887	1,711,150
Changes that relate to past service - adjustments to the LIC	-	-	(3,230)	(8,329)	(11,559)
Losses on onerous contracts and reversal of those losses	-	43,073	-	-	43,073
Total insurance service expenses	**-**	**43,073**	**1,699,033**	**558**	**1,742,664**
Insurance service result	**(1,604,809)**	**43,073**	**1,699,033**	**558**	**137,855**
Cash flows					
Premiums received	1,606,069	-	-	-	1,606,069
Claims and other insurance service expenses paid	-	-	(1,700,704)	-	(1,700,704)
Total cash flows	**1,606,069**	**-**	**(1,700,704)**	**-**	**(94,635)**
Closing insurance contract liabilities as at 30 June 2024	**32,624**	**87,139**	**85,449**	**9,253**	**214,465**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
for the year ended 30 June 2025

4 INSURANCE AND REINSURANCE CONTRACTS (continued)

Sensitivity analysis

Health insurance portfolio
The LIC and LFRC - loss component for the health insurance portfolio were recalculated using alternative assumptions to assess the sensitivity of results to those assumptions. The sensitivities do not represent an upper or lower bound of possible outcomes.

	Health insurance - LIC			
	Estimate	Change	Estimate	Change
	2025	2025	2024	2024
LIC sensitivity	$m	$m	$m	$m
Inflation +5%	113.1	0.5	94.4	0.5
Inflation -5%	112.2	(0.4)	93.4	(0.5)
Payment per Member Factors +10%	122.5	9.9	103.1	9.2
Payment per Member Factors -10%	102.8	(9.8)	84.7	(9.2)
Claims Handling Expense +2.5%	115.0	2.4	96.0	2.1
Claims Handling Expense -2.5%	110.3	(2.3)	91.8	(2.1)
LIC seasonality sensitivity				
Seasonality factor June -1% and July +1%	112.0	(0.6)	93.4	(0.5)
Seasonality factor July -1% and June +1%	113.3	0.7	94.4	0.5

	Health insurance - LFRC - loss component			
	Estimate	Change	Estimate	Change
	2025	2025	2024	2024
LFRC - loss component sensitivity	$m	$m	$m	$m
Lapse Rate +5%	82.8	(4.7)	82.9	(4.2)
Lapse Rate -5%	91.6	4.1	91.4	4.3
Expected Claims +5%	133.0	45.5	128.2	41.1
Expected Claims -5%	42.1	(45.4)	46.1	(41.0)
Expense Ratio +2.5%	108.6	21.1	106.1	19.0
Expense Ratio -2.5%	66.4	(21.1)	68.1	(19.0)

CI & CA portfolio
No sensitivity analysis has been performed for the CI & CA insurance portfolio on the basis it does not have a material impact on the Group's consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
for the year ended 30 June 2025

4 INSURANCE AND REINSURANCE CONTRACTS (continued)

b. Pet insurance and Travel insurance portfolios - Insurance contracts

2025

	Liabilities for remaining coverage (LFRC)		Liabilities for incurred claims (LIC)		
In $000	**Excluding loss component**	**Loss component**	**Estimates of present value of future cash flows**	**Risk Adjustment for non-financial risk**	**Total**
Opening insurance contract liabilities as at 1 July 2024	**28,094**	**37**	**18,643**	**1,528**	**48,302**
Insurance revenue	**(155,493)**	**-**	**-**	**-**	**(155,493)**
Insurance service expenses					
Incurred claims and other insurance service expenses	-	-	122,301	2,082	124,383
Changes that relate to past service - adjustments to the LIC	-	-	(5,253)	(1,431)	(6,684)
Losses on onerous contracts and reversal of those losses	-	(16)	-	-	(16)
Insurance acquisition cash flows amortisation	9,561	-	-	-	9,561
Total insurance service expenses	**9,561**	**(16)**	**117,048**	**651**	**127,244**
Insurance service result	**(145,932)**	**(16)**	**117,048**	**651**	**(28,249)**
Effect of movements in exchange rates	(133)	-	(22)	(5)	(160)
Total amounts recognised in comprehensive income	**(146,065)**	**(16)**	**117,026**	**646**	**(28,409)**
Cash flows					
Premiums received	158,227	-	-	-	158,227
Claims and other insurance service expenses paid	-	-	(118,439)	-	(118,439)
Insurance acquisition cash flows paid	(9,760)	-	-	-	(9,760)
Total cash flows	**148,467**	**-**	**(118,439)**	**-**	**30,028**
Closing insurance contract liabilities as at 30 June 2025	**30,496**	**21**	**17,230**	**2,174**	**49,921**

2024

	Liabilities for remaining coverage (LFRC)		Liabilities for incurred claims (LIC)		
In $000	**Excluding loss component**	**Loss component**	**Estimates of present value of future cash flows**	**Risk Adjustment for non-financial risk**	**Total**
Opening insurance contract liabilities as at 1 July 2023	**22,976**	**33**	**18,411**	**1,840**	**43,260**
Insurance revenue	**(140,046)**	**-**	**-**	**-**	**(140,046)**
Insurance service expenses					
Incurred claims and other insurance service expenses	-	-	107,775	1,426	109,201
Changes that relate to past service - adjustments to the LIC	-	-	(3,945)	(1,739)	(5,684)
Losses on onerous contracts and reversal of those losses	-	4	-	-	4
Insurance acquisition cash flows amortisation	8,517	-	-	-	8,517
Total insurance service expenses	**8,517**	**4**	**103,830**	**(313)**	**112,038**
Insurance service result	**(131,529)**	**4**	**103,830**	**(313)**	**(28,008)**
Effect of movements in exchange rates	71	-	12	1	84
Total amounts recognised in comprehensive income	**(131,458)**	**4**	**103,842**	**(312)**	**(27,924)**
Cash flows					
Premiums received	145,406	-	-	-	145,406
Claims and other insurance service expenses paid	-	-	(103,610)	-	(103,610)
Insurance acquisition cash flows paid	(8,830)	-	-	-	(8,830)
Total cash flows	**136,576**	**-**	**(103,610)**	**-**	**32,966**
Closing insurance contract liabilities as at 30 June 2024	**28,094**	**37**	**18,643**	**1,528**	**48,302**

Sensitivity analysis

Travel insurance portfolio

The LIC for the travel insurance portfolio were recalculated using alternative assumptions to assess the sensitivity of results to those assumptions. The sensitivities do not represent an upper or lower bound of possible outcomes. No sensitivity analysis has been performed for the LFRC - loss component for the travel portfolio on the basis it does not have a material impact on the Group's consolidated financial statements.

	Travel insurance - LIC			
LIC sensitivity	**Estimate 2025 $m**	**Change 2025 $m**	**Estimate 2024 $m**	**Change 2024 $m**
20% increase in the attritional claims ratio for recent event months in International Comprehensive products	18.6	2.5	19.8	3.1
20% decrease in the attritional claims ratio for recent event months in International Comprehensive products	13.6	(2.5)	13.6	(3.1)
An additional 3 large claims above the retention in International Comprehensive (occurring in both New Zealand and Australia)	19.9	3.8	19.6	2.9

Pet insurance portfolio

No sensitivity analysis has been performed for the Pet insurance portfolio on the basis it does not have a material impact on the Group's consolidated financial statements.

KPMG

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
for the year ended 30 June 2025

4 INSURANCE AND REINSURANCE CONTRACTS (continued)

c. Reinsurance contracts

2025

	Remaining coverage		Incurred claims		
In $000	**Excluding loss recovery component**	**Loss recovery component**	**Estimates of present value of future cash flows**	**Risk Adjustment for non-financial risk**	**Total**
Opening reinsurance contract assets/(liabilities) as at 1 July 2024	**(201)**	**-**	**80**	**20**	**(101)**
Reinsurance expenses	**(2,120)**	**-**	**-**	**-**	**(2,120)**
Reinsurance claim recoveries					
Reinsurance claim recoveries	-	-	3,048	320	3,368
Changes that relate to past service - changes to asset for incurred claims	-	-	215	(19)	196
Total reinsurance claim recoveries	**-**	**-**	**3,263**	**301**	**3,564**
Net result from reinsurance held	**(2,120)**	**-**	**3,263**	**301**	**1,444**
Effect of movements in exchange rates	-	-	(1)	-	(1)
Total amounts recognised in comprehensive income	**(2,120)**	**-**	**3,262**	**301**	**1,443**
Cash flows					
Premiums paid	1,721	-	-	-	1,721
Recoveries received	-	-	(1,207)	-	(1,207)
Total cash flows	**1,721**	**-**	**(1,207)**	**-**	**514**
Closing reinsurance contract assets/(liabilities) as at 30 June 2025	**(600)**	**-**	**2,135**	**321**	**1,856**

2024

	Remaining coverage		Incurred claims		
In $000	**Excluding loss recovery component**	**Loss recovery component**	**Estimates of present value of future cash flows**	**Risk Adjustment for non-financial risk**	**Total**
Opening reinsurance contract assets/(liabilities) as at 1 July 2023	**(691)**	**-**	**1,355**	**526**	**1,190**
Reinsurance expenses	**(1,763)**	**-**	**-**	**-**	**(1,763)**
Reinsurance claim recoveries					
Reinsurance claim recoveries	-	-	175	3	178
Changes that relate to past service - changes to asset for incurred claims	-	-	(207)	(509)	(716)
Total reinsurance claim recoveries	**-**	**-**	**(32)**	**(506)**	**(538)**
Net result from reinsurance held	**(1,763)**	**-**	**(32)**	**(506)**	**(2,301)**
Effect of movements in exchange rates	8	-	(2)	-	6
Total amounts recognised in comprehensive income	**(1,755)**	**-**	**(34)**	**(506)**	**(2,295)**
Cash flows					
Premiums paid	2,245	-	-	-	2,245
Recoveries received	-	-	(1,241)	-	(1,241)
Total cash flows	**2,245**	**-**	**(1,241)**	**-**	**1,004**
Closing reinsurance contract assets/(liabilities) as at 30 June 2024	**(201)**	**-**	**80**	**20**	**(101)**

No sensitivity analysis has been performed for the reinsurance portfolio on the basis it does not have a material impact on the Group's consolidated financial statements.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
for the year ended 30 June 2025

5 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 programme.

a. Insurance risk

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

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

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

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

ii. Society sensitivity to insurance risk

In recent years, Society has experienced some level of challenge in accurately predicting claims. While historic experience and claims seasonality still guide our insurance projections, there have been systematic shifts in member/patient behaviour seeking treatment, deferral and rescheduling of treatments, and claims inflation. However, the volatility of health insurance claims is generally lower compared to other types of insurance contracts due to:

- The benefits in the health insurance contracts providing cover primarily for medically necessary yet elective health care services.
- Obligations arising under the health insurance contracts when health care services are provided and the provision of health care services is being constrained by supply of private medical practitioners and medical facilities. This constraint on claims experience is different than other forms of insurance contracts where obligations do not depend on service provision, e.g. property insurance.
- ACC and public sector health care provision of both acute, accident and elective health services. Many of the highest cost and highly variable medical care claims are funded by other sources.
- Management's policies and processes for managing insurance risk, as listed above.

iii. SCPIL sensitivity to insurance risk

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

iv. SCBL sensitivity to insurance risk

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

v. Concentration of insurance risk

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
for the year ended 30 June 2025

5 RISK MANAGEMENT (continued)

b. Financial risks

i. Credit risk

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

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

The Group maintains policies which are used to manage the exposure to credit risk. Limits on counterparty exposures have been set and are monitored on an ongoing basis. The credit quality of investment counterparties is assessed based on published credit ratings issued by Standard & Poor's or equivalent ratings agencies. Where local authorities do not have a formal credit rating, comfort is obtained from their ability to levy rates.

The credit quality of investment counterparties is as follows:

	2025	2024
	$000	$000
Money market		
AAA	-	20,717
AA	69,187	237,620
A	19,129	192,247
BBB	23,217	25,791
	111,533	476,375

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

Unit trusts		
Non-rated (Global bonds, weighted average rating of the underlying investments is AA, (30 June 2024: AA))	110,620	134,601
Non-rated (Global equities)	61,985	83,621
Non-rated (NZ cash fund)	262,164	-
Non-rated (NZ core bond, weighted average rating of the underlying investments is AA-, (30 June 2024: nil))	52,842	-
Non-rated (Trans-Tasman bond, weighted average rating of the underlying investments is A+, (30 June 2024: nil))	52,946	-
	540,557	218,222
Total	**652,090**	**694,597**

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

The Investment Policy requires investments to be well diversified and sets exposure limits for each class of asset and credit rating.

The cash and cash equivalents balances are held with counterparties rated AA- (30 June 2024: AA-).

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

ii. Liquidity risk

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

	2025	2024
	$000	$000
Maturities of investments		
0-6 months	647,384	514,176
7-12 months	4,706	150,794
Current	652,090	664,970
1-2 years	-	26,074
2-5 years	-	3,553
Non-current	-	29,627
Total	**652,090**	**694,597**

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 $540.6 million (30 June 2024: $218.2 million), as these investments could be liquidated at short notice.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
for the year ended 30 June 2025

5 RISK MANAGEMENT (continued)

c. Market risks

i. Interest rate risk

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

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

	2025	2024
	$000	$000
	Impact on profitability	
Fair value - interest rate sensitivity on money market investments		
Exposure	111,533	476,375
Impact of change in interest rates:		
Increase by 100 basis points	(236)	(2,416)
Decrease by 100 basis points	236	2,455

ii. Unit price risk

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

	2025	2024
	$000	$000
	Impact on profitability	
Fair value - unit price sensitivity on unit trust investments		
Exposure	540,557	218,222
Impact of change in unit prices:		
Increase by 10%	54,056	21,822
Decrease by 10%	(54,056)	(21,822)

iii. Foreign currency risk.

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

SCBL's Australian branch exposes it to foreign currency risk, as the branch's functional currency is Australian dollars. The New Zealand dollar equivalents of the Australian assets and liabilities at reporting date amounted to $28.8m and $17.4m respectively (30 June 2024: $25.4m and $14.9m). As the Australian operation is considered an ongoing investment, no hedging of the foreign currency exposure is undertaken. A movement of 100 basis points on the exchange rate at year end would have an impact of $82k (30 June 2024: $76k) on the net assets of SCBL and the foreign currency translation reserve.

The Group does not apply hedge accounting.

iv. Fair values of financial assets and financial liabilities

All financial assets and financial liabilities included in the consolidated 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	Level 2	Level 3	Total
	$000	$000	$000	$000
30 June 2025				
Investments	-	652,090	-	652,090
Total	**-**	**652,090**	**-**	**652,090**
30 June 2024				
Investments	-	694,597	-	694,597
Total	**-**	**694,597**	**-**	**694,597**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
for the year ended 30 June 2025

5 RISK MANAGEMENT (continued)

d. Operational risk

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

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

The Society's Operational Risks are outlined in the RMF and include themes such as Health, Safety and Wellbeing; Information Security; Compliance; Fraud; Conduct; Strategic Delivery; Environmental, Social and Governance ("ESG").

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

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

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

The risk categories the Group is exposed in the normal course of business include 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 programme.

e. Climate risk

Although the Group is exposed to physical risk (claims inflation associated with rising temperatures and business disruption due to extreme weather) and transition risk (including price inflation due to climate change, rising healthcare costs and an increasing regulatory burden), the anticipated impact of these risks are largely limited over the short to medium term and should not impact the Group's financial position. The Group did not experience any material impacts of climate changes, whether physical or transitional during the year.

The Society is a climate reporting entity under the FMCA and is required to comply with the Aotearoa New Zealand Climate Standards. The Society's climate statements can be found on its website.

6 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 because they relate to insurance contracts that are measured in a way that incorporates current information. Discounted cash flow techniques are commonly used for the valuation of debt securities. The fair values of unit trusts are based on prices provided by the fund managers which are generally based on the fair value of the net assets in the underlying trusts.

Changes in fair value are recognised in the consolidated statement of comprehensive income. The credit quality, contractual maturities, and fair value hierarchies of investments are disclosed in Note 5.

	2025	**2024**
	$000	**$000**
Investments		
Local authority bonds	1,009	14,462
Other bonds	-	26,453
Bank deposits	110,524	422,936
Commercial paper	-	4,938
Floating rate notes	-	7,586
Unit trusts - global bonds	110,620	134,601
Unit trusts - global equities	61,985	83,621
Unit trusts - NZ cash fund	262,164	-
Unit trusts - NZ core bonds	52,842	-
Unit trusts - trans-tasman bonds	52,946	-
Total	**652,090**	**694,597**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
for the year ended 30 June 2025

7 NET INVESTMENT AND OTHER INCOME

Interest income is recognised using the effective interest method.

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

Fees and other income are recognised on an accrual basis.

	2025 $000	2024 $000
Net investment and other income		
Interest income	18,297	27,843
Net gains on investments at fair value through profit or loss	22,161	23,443
Joint venture net gain/(loss)	160	(118)
Net investment income	40,618	51,168
Fee and other income	2,196	1,860
Total	**42,814**	**53,028**

8 EXPENSES

	2025 $000	2024 $000
Claims and benefits	1,783,280	1,568,291
Losses on onerous contracts and reversal of those losses	344	43,077
Total claims and benefits	1,783,624	1,611,368
Auditor's Remuneration	954	1,361
Employee expense	134,915	129,940
Other labour expenses	7,694	11,279
Restructuring	927	1,134
Contributions to defined contribution plan	3,341	3,222
Marketing	22,690	23,112
Commissions	37,161	31,421
Short-term lease expense	809	914
Depreciation charge on property, equipment and right-of-use assets	5,729	5,631
Amortisation charge on intangible assets	3,603	5,912
Professional and consultancy fees	14,862	14,990
Premium remediation and expenses	4,737	420
Other	36,088	38,487
Total operating expenses	273,510	267,823
Total expenses	**2,057,134**	**1,879,191**

Certain comparative information has been restated to align with the current period presentation.

	2025	2024
Represented by:		
Insurance service expenses	2,013,560	1,854,702
Other operating expenses	43,574	24,489
Total expenses	**2,057,134**	**1,879,191**

Insurance service expenses include outflows such as claims, insurance acquisition, claims handling, policy administration, maintenance costs and an allocation for fixed and variable overheads. Other operating expenses relate to costs that are not directly attributable to the fulfilment of insurance contracts. During the year, the Society made refinements to its expense allocation model, resulting in a higher proportion of expenses recognised as other operating expenses for the Group.

Research and development tax incentives ("RDTI") are recognised as receivables and as credits to expenses when the supplementary return is submitted to Inland Revenue and there is reasonable assurance that conditions of the RDTI have been met and the funding will be received.

Auditor's Remuneration	2025 $000	2024 $000
Audit and review of the financial statements[1]	725	1,088
Audit or review related services		
Assurance services over insurer solvency returns	161	213
Audit of Annual APRA return and review of APRA compliance[2]	68	60
Audit or review related services	229	273
Total auditor's remuneration	**954**	**1,361**

[1] Fees for the year ended 30 June 2024 include $260k relating to procedures performed in respect of the Group's transition to NZ IFRS 17.

[2] KPMG Australia is engaged for audit and review of annual APRA reporting and APRA compliance.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

for the year ended 30 June 2025

9 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.

10 RECEIVABLES

Receivables comprise prepayments, other receivables and research and development tax incentive receivable. Other receivables are measured at amortised cost less any allowance for expected credit losses. Other receivables are all current assets and the carrying amounts approximate their fair values.

	2025	2024
	$000	$000
Receivables		
Prepayments	20,564	22,239
Other receivables	756	2,001
Research and development tax incentive receivable	202	-
Total	**21,522**	**24,240**

11 INTANGIBLE ASSETS

Intangible assets are measured at cost, less accumulated amortisation and impairment losses.

Capital expenditure on all projects is initially recorded as work in progress ("WIP"). 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.

Amortisation is 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 of disposal 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")). Most assets do not generate cash flows that are largely independent from those from other assets. Therefore, the CGU is determined at the entity level to which the assets belong, rather than at the individual asset level.

Assets	Estimated useful lives
• Acquired agencies	3 years
• Goodwill	Indefinite
• Computer software	3 - 7 years

Goodwill

Goodwill relates to the pet insurance business acquired on 31 January 2020 and the travel insurance business acquired on 30 June 2022. The cost of an acquisition is measured as the fair value of the total identifiable net assets acquired. On acquisition of a business, 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 CGUs, being SCPIL and SCBL entities respectively.

At 30 June 2025, goodwill generated from the acquisitions of the pet and travel insurance businesses was tested using the value in use methodology, using projected cash flows for the next five years in the current Board approved business plans. Key assumptions include underwriting result growth and cost-to-income ratio. Underwriting result growth is calculated by forecasting market share growth based on expected marketing investment less lapses, premium increases and loss ratios based on past experience. Cost-to-income ratio is calculated based on expected operational spend and premium increases.

i. Pet insurance

The cash flows were discounted using a nominal rate of 12.5% after tax (30 June 2024: 14.5%), with a terminal growth rate of 2% (30 June 2024: 2%). Adverse changes in actual performance or future rates of growth will reduce the calculated recoverable amount. A reduction of 2.9% (30 June 2024: 2.4%) in the projected average five year underwriting result growth would result in impairment of the carrying value.

ii. Travel insurance

The cash flows were discounted using a nominal rate of 12.0% after tax (30 June 2024: 14.3%), with a terminal growth rate of 2% (30 June 2024: 2%). Adverse changes in actual performance or future rates of growth will reduce the calculated recoverable amount. A reduction of 9.0% (30 June 2024: 4.2%) in the projected average five year underwriting result growth would result in impairment of the carrying value.

For both Pet and Travel insurance, the recoverable amount using the five year projection exceeds the carrying amount of the CGUs, and no impairment losses on goodwill were recognised during the year to 30 June 2025 (30 June 2024: Nil for both Pet and Travel insurance).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
for the year ended 30 June 2025

11 INTANGIBLE ASSETS (continued)

Computer software

Computer software and WIP relate to internally developed software projects. For the year ended 30 June 2025, the capitalised costs include salaries and ancillary costs incurred, which are monitored and estimated by the project teams.

At 30 June 2025, for the purposes of impairment testing, computer software (if indicators of impairment exist) and WIP are allocated to their respective CGUs, and were tested using the value in use methodology. The recoverable amount using the five year projection exceeds the carrying amount of the CGUs, and no impairment losses on computer software and WIP were recognised during the year ended 30 June 2025 (30 June 2024: Nil).

Intangible assets	**Acquired agencies**	**Goodwill**	**Computer software**	**Work in progress**	**Total**
	$000	**$000**	**$000**	**$000**	**$000**
Cost	-	4,977	47,607	802	53,386
Accumulated amortisation and impairment	-	-	(41,734)	-	(41,734)
Opening net book value as at 1 July 2024	**-**	**4,977**	**5,873**	**802**	**11,652**
Additions	-	-	-	8,143	8,143
Transfers	-	-	1,801	(1,801)	-
Disposal - cost	-	-	(229)	-	(229)
Disposal - accumulated amortisation	-	-	229	-	229
Amortisation	-	-	(3,603)	-	(3,603)
Closing net book value as at 30 June 2025	**-**	**4,977**	**4,071**	**7,144**	**16,192**
Cost	-	4,977	49,179	7,144	61,300
Accumulated amortisation and impairment	-	-	(45,108)	-	(45,108)
Closing net book value as at 30 June 2025	**-**	**4,977**	**4,071**	**7,144**	**16,192**
Cost	316	4,977	45,454	1,213	51,960
Accumulated amortisation and impairment	(248)	-	(35,890)	-	(36,138)
Opening net book value as at 1 July 2023	**68**	**4,977**	**9,564**	**1,213**	**15,822**
Additions	-	-	-	1,742	1,742
Transfers	-	-	2,153	(2,153)	-
Disposal - cost	(316)	-	-	-	(316)
Disposal - accumulated amortisation	316	-	-	-	316
Amortisation	(68)	-	(5,844)	-	(5,912)
Closing net book value as at 30 June 2024	**-**	**4,977**	**5,873**	**802**	**11,652**
Cost	-	4,977	47,607	802	53,386
Accumulated amortisation and impairment	-	-	(41,734)	-	(41,734)
Closing net book value as at 30 June 2024	**-**	**4,977**	**5,873**	**802**	**11,652**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
for the year ended 30 June 2025

12 LEASES

a. Right-of-use assets	Motor vehicles $000	Premises $000	Total $000
Cost	1,336	44,889	46,225
Accumulated depreciation	(293)	(15,710)	(16,003)
Opening net book value as at 1 July 2024	**1,043**	**29,179**	**30,222**
Additions	292	-	292
Reassessments and modifications	4	(4)	-
Disposal - cost	(126)	-	(126)
Disposal - accumulated amortisation	112	-	112
Depreciation	(500)	(3,999)	(4,499)
Closing net book value as at 30 June 2025	**825**	**25,176**	**26,001**
Cost	1,506	44,885	46,391
Accumulated depreciation	(681)	(19,709)	(20,390)
Closing net book value as at 30 June 2025	**825**	**25,176**	**26,001**
Cost	85	44,510	44,595
Accumulated depreciation	(46)	(11,696)	(11,742)
Opening net book value as at 1 July 2023	**39**	**32,814**	**32,853**
Additions	1,305	-	1,305
Reassessments and modifications	-	379	379
Disposal - cost	(54)	-	(54)
Disposal - accumulated amortisation	54	-	54
Depreciation	(301)	(4,014)	(4,315)
Closing net book value as at 30 June 2024	**1,043**	**29,179**	**30,222**
Cost	1,336	44,889	46,225
Accumulated depreciation	(293)	(15,710)	(16,003)
Closing net book value as at 30 June 2024	**1,043**	**29,179**	**30,222**

Reassessments and modifications to leases during the year ended 30 June 2024 mainly relates to the Wellington Office lease renewal.

b. Lease liabilities	Motor vehicles $000	Premises $000	Total $000
Opening balance as at 1 July 2024	**1,062**	**42,969**	**44,031**
Additions	292	-	292
Reassessments and modifications	4	(4)	-
Disposals	(14)	-	(14)
Interest expense	47	627	674
Lease repayment	(540)	(5,519)	(6,059)
Closing balance as at 30 June 2025	**851**	**38,073**	**38,924**
Opening balance as at 1 July 2023	**41**	**47,261**	**47,302**
Additions	1,305	-	1,305
Reassessments and modifications	-	379	379
Interest expense	45	698	743
Lease repayment	(329)	(5,369)	(5,698)
Closing balance as at 30 June 2024	**1,062**	**42,969**	**44,031**

At the commencement date of any new or renewed leases, the Group performs a lease-specific assessment of the appropriate incremental borrowing rate ("IBR") if the interest rate in the lease is not readily available.

	2025 $000	2024 $000
Maturity analysis of undiscounted lease liabilities		
Within 1 year	6,247	6,004
Between 1 and 2 years	5,871	6,160
Between 2 and 5 years	16,125	16,643
Greater than 5 years	12,682	17,893
Total	**40,925**	**46,700**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
for the year ended 30 June 2025

13 PAYABLES AND OTHER LIABILITIES

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

	2025 $000	2024 $000
Payables and other liabilities		
Trade creditors and accruals	19,384	15,835
Total	**19,384**	**15,835**

14 PROVISIONS

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

	Premium remediations $000	Remediation expenses $000	Restructuring provision $000	Total $000
Reconciliation of movement in provisions				
Opening balance as at 1 July 2024	903	274	329	1,506
Provision made during the period	3,706	1,052	177	4,935
Provision used during the period	(953)	(159)	(426)	(1,538)
Provision reversed during the period	(21)	-	-	(21)
Closing balance as at 30 June 2025	**3,635**	**1,167**	**80**	**4,882**
Current	3,635	1,167	80	4,882
Total	**3,635**	**1,167**	**80**	**4,882**

Premium remediations
Provision for premium remediations reflects the best estimates of costs associated with refunding certain of the Group's policyholders under the remediation programmes. It is possible that the final exposures could differ from the provision if additional facts emerge over the remediation process. The exposure of each entity is as follows:

	2025 $000	2024 $000
Society	3,635	141
SCBL	-	762

Remediation expenses
At 30 June 2025, the provision for remediation expenses primarily reflects the estimated costs associated with regulatory penalties arising from SCBL's remediation programme. In the prior year, the provision also included allowances for technology, consulting, legal, and employee costs which were incurred in implementing the remediation of premium refunds to SCBL's policyholders.

Restructuring provision
During the year ended 30 June 2025, the Group recognised an additional $177k restructuring provision relating to expected employee termination costs and utilised $426k of this and the existing provision.

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 is recognised in respect of temporary differences and unused tax losses. Temporary differences are differences between the carrying amounts 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.

SCBL is subject to New Zealand income tax on both New Zealand and Australian activities. SCBL is also subject to Australian tax on domestic Australian Income under s142 of the Income Tax Assessment Act 1936, where the Company is subject to an effective income tax of 3% (being the corporate tax rate of 30% applied to 10% of the domestic Australian premium income).

Income tax

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

Components of income tax expense	2025 $000	2024 $000
Current tax	4,452	4,696
Adjustments in respect of prior years - current tax	(47)	(88)
Deferred tax	804	(14)
Total income tax expense	**5,209**	**4,594**

Reconciliation of income tax to loss before taxation		
Loss before taxation	(46,578)	(83,609)
Income tax at the domestic tax rate of 28%	**(13,042)**	**(23,411)**
Tax effect of Society exempt loss	18,012	28,222
Tax effect of non-deductible expenditure/(non-taxable income)	274	(166)
Adjustments in respect of prior years	(35)	(51)
Total income tax expense	**5,209**	**4,594**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

for the year ended 30 June 2025

15 TAXATION (continued)

Tax losses

The Group has accumulated tax losses carried forward of $29,792k at 30 June 2025 (30 June 2024: $37,026k), of which the Society has accumulated tax losses carried forward of nil (30 June 2024: Nil). Deferred tax assets of $8,342k have been recognised on these tax losses as at 30 June 2025 (30 June 2024: $10,367k).

During the year, SCPIL and SCVL entered into separate arrangements with SCBL for tax loss offset and subvention payment. SCPIL and SCVL sold tax losses of $2,364k and $259k, respectively, to SCBL for offsetting SCBL's taxable income for the year ended 30 June 2024. Under the arrangements, subvention payments for the tax impact of the tax losses sold were made by SCBL to SCPIL and SCVL.

	2025 $000	2024 $000
Deferred tax assets and liabilities		
a. Deferred tax assets on tax losses		
Losses available for offset against future taxable income	8,342	10,367
Total deferred tax assets on tax losses	**8,342**	**10,367**
Movements in deferred tax assets on tax losses		
Opening balance	10,367	10,381
Group loss offsets recognised in the statement of comprehensive income	(1,291)	(14)
Group loss offsets with subvention payments not recognised in the statement of comprehensive income	(734)	-
Closing deferred tax assets on tax losses	**8,342**	**10,367**
b. Deferred tax assets/(liabilities)		
Fixed and intangible assets	156	(377)
Insurance acquisition cash flows	(461)	(408)
Loss component	5	5
Payables and other liabilities	344	336
Foreign operations	196	200
Total deferred tax assets/(liabilities)	**240**	**(244)**
Movements in deferred tax assets/(liabilities)		
Opening balance	(244)	(196)
Intangible assets temporary differences recognised in the statement of comprehensive income	533	19
Insurance acquisition cash flows recognised in the statement of comprehensive income	(53)	(88)
Foreign currency translation differences recognised in the statement of comprehensive income	(3)	(76)
Other temporary differences recognised in the statement of comprehensive income	7	97
Closing deferred tax assets/(liabilities)	**240**	**(244)**

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.

	2025 $000	2024 $000
Employee benefits		
Short-term benefits	14,454	16,718
Post-employment benefits	1,381	1,369
Total	15,835	18,087

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
for the year ended 30 June 2025

17 RELATED PARTIES

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

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

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

	2025 $000	2024 $000
Total amount of transactions with other related parties		
Sale of services	3,644	3,041
Purchase of services	152	141
Total outstanding balances with other related parties		
Receivables	163	495
Payables	19	52

Trademark

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

b. Dividends

The Society received dividends of $2.80m from SCISL and $4.60m from SCBL during the year ended 30 June 2025 (30 June 2024: $1.70m from SCISL).

c. CareHQ joint venture

During the year ended 30 June 2025, SCVL made no additional investment (30 June 2024: $200k) into CareHQ Limited Partnership. The limited partnership is a joint venture between SCVL and ProCare Health (LP) Limited.

Members of the Society have access to unlimited online GP consults with CareHQ. During the year ended 30 June 2025, the Society paid $4,271k (30 June 2024: $2,374k) consultation fees to CareHQ in relation to the free GP consults, and received $35k (30 June 2024: $71k) in service fees. The Society has a net balance of $463k (30 June 2024: $341k) owing to CareHQ as at 30 June 2025.

d. Subsidiary recharges

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

e. Tax loss offset

During the year, SCPIL and SCVL entered into separate arrangements with SCBL for tax loss offset and subvention payment. SCPIL and SCVL sold tax losses of $2,364k and $259k, respectively, to SCBL for offsetting SCBL's taxable income for the year ended 30 June 2024. Under the arrangements, subvention payments for the tax impact of the tax losses sold were made by SCBL to SCPIL and SCVL (refer to note 15). Also during the year, SCPIL offset its tax profit of $2,573k (30 June 2024: nil) with tax losses from SCHSL, with no subvention payments.

f. Remuneration of Directors

A friendly society has trustees to hold its assets. The trustees for the year were D J Bridgman, C J Black, E N D Crombie (elected during the year ended 30 June 2025), and M P Jordan (retired during the year ended 30 June 2025) 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. Operating expenses in relation to governance are met by the Society, except for SCPIL and SCBL who bear the cost for their own governance. The Society, SCPIL and SCBL do not provide loans or advances to directors or trustees. Where the Executive Team members are directors of subsidiaries, they do not receive remuneration for these appointments.

Directors of the Group may have discounted medical insurance policies with the Society, pet insurance policies with SCPIL or travel insurance policies with SCBL.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
for the year ended 30 June 2025

17 RELATED PARTIES (continued)

f. Remuneration of Directors (continued)

Actual directors' remuneration paid by the Society for the year ended 30 June 2025 was as follows:

	Society					
Director	**Board**	**Audit & Risk Committee**	**Investment Committee**	**Remuneration, People & Culture Committee**	**Nominations Committee**	**Total Remuneration**
	$000	**$000**	**$000**	**$000**	**$000**	**$000**
M P Jordan[1]	77	-	-	-	- Chair	77
C J Black[1,2,3,4]	142 Chair	6	2	-	-	150
D J Bridgman[3,4]	90	10	10 Chair	-	-	110
M P Misur	90	-	-	5	-	95
J M Raue	90	-	-	10 Chair	-	100
E N D Crombie	90	-	5	5	-	100
N Sanatkumar	90	8	-	5	-	103
K L Jorgensen[4]	35	5 Chair	1	-	-	41
Total	704	29	18	25	-	776

[1] During the year ended 30 June 2025, C J Black was appointed as Chair of the Board; M P Jordan retired as Director and Chair of the Board.
[2] C J Black did not receive any fees for being a member of the Audit & Risk, Investment, People & Culture, or Nomination Committees after being appointed Chair of the Board.
[3] During the year ended 30 June 2025, D J Bridgman was appointed as Chair of the Audit & Risk Committee (previously C J Black).
[4] During the year ended 30 June 2025, K L Jorgensen was appointed as Director and Chair of the Audit & Risk Committee (previously D J Bridgman and C J Black).
The annual fee pool limit was approved by Society members at the Annual General Meeting in December 2022 at $637,000 (effective 1 January 2023) and $796,000 (effective 1 January 2024).

Actual directors' remuneration paid by SCPIL for the year ended 30 June 2025 was as follows:

	SCPIL
Director	**Remuneration for Board and Audit & Risk Committee**
	$000
N J Astwick	-
M J Gardiner	41 Audit & Risk Committee Chair
M L James	56 Board Chair
C J Black[1]	11
D J Bridgman[1]	22
Total	130

[1] During the year ended 30 June 2025, C J Black retired as Director; and D J Bridgman was appointed as Director.

Actual directors' remuneration paid by SCBL for the year ended 30 June 2025 was as follows:

	SCBL			
Director	**Board**	**Audit & Risk Committee**	**People & Culture Committee**	**Total Remuneration**
	$000	**$000**	**$000**	**$000**
N J Astwick	-	-	-	-
C R Crowley	74 Chair	-	-	74
M L Hewitson	46	9 Chair	-	55
J M Raue	46	-	6 Chair	52
Total	166	9	6	181

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
for the year ended 30 June 2025

17 RELATED PARTIES (continued)

f. Remuneration of Directors (continued)

Actual directors' remuneration paid by the Society for the year ended 30 June 2024 was as follows:

	Society					
Director	**Board**	**Audit & Risk Committee**	**Investment Committee**	**Remuneration, People & Culture Committee**	**Nominations Committee**	**Total Remuneration**
	$000	**$000**	**$000**	**$000**	**$000**	**$000**
C M Drayton[2,3]	31	5	2	-	-	38
M P Jordan[1]	162	-	-	-	-	162
	Chair				Chair	
C J Black[3]	81	11	5	2	-	99
		Chair				
D J Bridgman	81	7	9	-	-	97
			Chair			
M P Misur	81	-	-	5	-	86
J M Raue	81	-	-	9	-	90
				Chair		
E N D Crombie	81	-	3	5	-	89
N Sanatkumar[2]	45	4	-	3	-	52
Total	643	27	19	24	-	713

[1] M P Jordan did not receive any fees for being a member of the Audit and Risk, Investment, Remuneration, People & Culture or Nominations Committees.

[2] During the year ended 30 June 2024, C M Drayton retired as Director; and N Sanatkumar was appointed as Director.

[3] During the year ended 30 June 2024, C J Black was appointed Chair of the Audit & Risk Committee (Previously C M Drayton).

The annual fee pool limit was approved by Society members at the Annual General Meeting in December 2022 at $637,000 (effective 1 January 2023) and $796,000 (effective 1 January 2024).

Actual directors' remuneration paid by SCPIL for the year ended 30 June 2024 was as follows:

	SCPIL
Director	**Remuneration for Board and Audit & Risk Committee**
	$000
N J Astwick	-
M J Gardiner	32
	Audit & Risk Committee Chair
M L James	51
	Board Chair
C J Black	26
Total	109

Actual directors' remuneration paid by SCBL for the year ended 30 June 2024 was as follows:

	SCBL			
Director	**Board**	**Audit & Risk Committee**	**People & Culture Committee**	**Total Remuneration**
	$000	**$000**	**$000**	**$000**
N J Astwick	-	-	-	-
C R Crowley	56	-	-	56
	Chair			
M L Hewitson	31	8	-	39
		Chair		
J M Raue	31	-	5	36
			Chair	
Total	118	8	5	131

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
for the year ended 30 June 2025

17 RELATED PARTIES (continued)

g. Remuneration of key management personnel

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

Key management personnel of the Group includes members of the Society, SCPIL, and SCBL leadership teams. The increase in remuneration compared to the previous year ended 30 June 2024 is primarily driven by the subsidiaries expanding their leadership teams part way through the previous year to meet business growth, where the full year impact is reflected in the current year. The Group does not provide loans or advances to key management personnel.

	SCPIL and SCBL		Society	
	2025	**2024**	**2025**	**2024**
	$000	**$000**	**$000**	**$000**
Salaries and other short-term benefits	4,260	3,064	4,345	4,210
Contributions to KiwiSaver	123	93	139	143
Termination benefits	-	75	-	180

CEO remuneration

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

	Society	
	2025	**2024**
	$000	**$000**
Base salary	925	899
Short-term performance incentive	111	80
Contributions to KiwiSaver	41	43
Short-term benefits	17	16

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
for the year ended 30 June 2025

18 EMPLOYEE REMUNERATION

The following tables disclose the number of employees and former employees of the Group (excluding the CEO of the Society – disclosed separately in Note 17) who received total remuneration and other allowances of $100,000 or more, during the financial year for servicing:

- The Society
- The two licensed insurer subsidiaries (SCPIL and SCBL)

Remuneration represents actual payments made during the financial year and includes base salary, bonuses, redundancy and termination payments.

The increase in the number of employees earning $100,000 or more compared to the previous year ended 30 June 2024 is driven by:

(i) Increased employee costs due to the inflationary environment.

(ii) Continued investment by the Society in modernizing systems to support members to self service their health insurance policies and increased investment in risk and governance required as a result of the regulatory requirements on the insurance industry.

(iii) Increased investment in employees of the subsidiaries during the previous year ended 30 June 2024 to support business growth and as a result of additional regulatory requirements. The cost of new hires in subsidiaries were partly incurred during the previous year ended 30 June 2024, while the full year costs of these new hires are reflected in the current year.

	SCPIL and SCBL		Society	
	2025	**2024**	**2025**	**2024**
$	**Number of employees**		**Number of employees**	
100,000 - 110,000	21	13	63	64
110,001 - 120,000	7	10	43	56
120,001 - 130,000	15	12	66	55
130,001 - 140,000	15	6	58	38
140,001 - 150,000	6	12	47	44
150,001 - 160,000	9	7	36	39
160,001 - 170,000	6	2	26	20
170,001 - 180,000	2	3	12	15
180,001 - 190,000	2	1	14	10
190,001 - 200,000	2	1	11	10
200,001 - 210,000	3	3	11	7
210,001 - 220,000	2	-	5	6
220,001 - 230,000	-	1	9	4
230,001 - 240,000	1	2	3	4
240,001 - 250,000	1	-	2	5
250,001 - 260,000	1	1	1	1
260,001 - 270,000	-	1	1	1
270,001 - 280,000	1	1	2	1
280,001 - 290,000	2	-	1	-
290,001 - 300,000	1	-	2	1
300,001 - 310,000	1	-	-	1
310,001 - 320,000	-	-	1	1
320,001 - 330,000	1	-	-	-
340,001 - 350,000	-	2	-	-
360,001 - 370,000	-	-	-	1
380,001 - 390,000	-	-	1	-
390,001 - 400,000	-	-	1	-
400,001 - 410,000	-	-	-	2
420,001 - 430,000	1	1	-	1
430,001 - 440,000	-	-	1	-
440,001 - 450,000	-	1	-	-
450,001 - 460,000	1	-	-	-
470,001 - 480,000	-	-	1	-
480,001 - 490,000	-	-	1	1
Total	**101**	**80**	**419**	**388**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
for the year ended 30 June 2025

19 COMMITMENTS, CONTINGENCIES AND SUBSEQUENT EVENTS

a. Commitments

The Group had no commitments at 30 June 2025 (30 June 2024: no commitments).

b. Contingent liabilities

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

Each entity of the Group has separately been in communication with the FMA in relation to remediation matters. As at 30 June 2025 there are no known contingent liabilities (30 June 2024: nil).

c. Subsequent events

Subsequent to balance date, SCBL provided an enforceable undertaking to the FMA to pay $1,105,000 in lieu of a pecuniary penalty, and this amount was then paid in full. The financial impact of this agreement was already reflected in the provision for remediation expenses (refer to note 14) as at 30 June 2025 (30 June 2024: Nil).

There were no other events subsequent to the reporting period which would materially affect the consolidated financial statements (30 June 2024: Nil).

Independent auditor's report

To the members of The Southern Cross Medical Care Society

Report on the audit of the consolidated financial statements

Opinion

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

- the consolidated statement of financial position as at 30 June 2025;
- the consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended; and
- notes, including material accounting policy information and other explanatory information.

In our opinion, the accompanying consolidated financial statements on pages 1 to 32 present fairly, in all material respects, the Group's financial position as at 30 June 2025 and its financial performance and cash flows for the year ended on that date; in accordance with New Zealand Equivalents to International Financial Reporting Standards (**NZ IFRS**) issued by the New Zealand Accounting Standards Board and the International Financial Reporting Standards issued by the International Accounting Standards Board.

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**), as applicable to audits of financial statements of public interest entities. We have also fulfilled our other ethical responsibilities in accordance with Professional and Ethical Standards 1 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 provided other services to the Group in relation to a reasonable assurance engagement on the Society's annual solvency return, audits of the financial statements of the Society's insurance subsidiaries, Southern Cross Pet Insurance Limited and Southern Cross Benefits Limited, reasonable assurance engagements on the annual solvency returns of the Society's insurance subsidiaries, and assurance of annual APRA reporting for Southern Cross Benefits Limited. Subject to certain restrictions, partners and employees of our firm may also deal with the Group on normal terms within the ordinary course of trading activities of the business of the Group. These matters have not impaired our independence as auditor of the Group. The firm has no other relationship with, or interest in, the Group.

KPMG

Materiality

The scope of our audit was influenced by our application of materiality. Materiality helped us to determine the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and on the consolidated financial statements as a whole. The materiality for the consolidated financial statements as a whole was set at $8.3 million determined with reference to a benchmark of the Group's net assets. We chose the benchmark because, in our view, this is a key measure of the Group's financial position.

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 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 ($286.8 million) **Liability for Incurred Claims ($132.8 million)** **Liability for Remaining Coverage ($154.0 million)**	
Refer to Notes 3 and 4 to the financial statements. The Group's insurance contract liabilities represents a financially significant balance. Insurance contract liabilities comprise the liability for incurred claims (**LIC**) and the liability for remaining coverage (**LFRC**). Insurance contract liabilities are measured under NZ IFRS 17 *Insurance Contracts* (**NZ IFRS 17**) and the Group has applied the premium allocation approach (**PAA**) for measurement. The LIC comprises fulfilment cash flows related to past services provided under groups of insurance contracts which have not yet been paid, including claims that have been incurred but not yet reported (**IBNR**) and claims incurred but not enough reported (**IBNER**). This balance is inclusive of a risk adjustment for non-financial risk. The LIC reflects the Group and subsidiary's actuarial assessment of future expected outcomes. The LFRC comprises fulfilment cashflows of services to be provided under groups of insurance contracts, inclusive of a loss component where insurance contracts are onerous. The valuation of insurance contract liabilities is a key audit matter as it is highly judgemental and requires	Together with our actuarial specialists, the procedures we performed included: • developing an understanding of the control activities over the process for valuing the insurance contract liabilities; for certain control activities, this included assessing whether they were appropriately designed and testing the operating effectiveness, throughout the year ended 30 June 2025; • testing general IT controls and application controls of claims systems; • selecting a sample of written premiums, case estimates, expenses and claim payments to check the accuracy of the data to source documentation, including the financial and non-financial attributes; • comparing the actuarial methodologies with the methodologies applied across the industry and in prior periods, and the requirements of NZ IFRS 17; • evaluating the assumptions including loss ratios, claim frequencies, average claim sizes, ultimate claims costs and allowance for future claims inflation, by comparing these to our expectations based on the historical actual experience, our industry knowledge and externally observable trends;

The key audit matter	How the matter was addressed in our audit
assumptions to be made with inherent estimation uncertainty. Key elements of uncertainty and judgement include: • whilst the application of the PAA methodology does not require complex calculations, there is judgement in determining if there are facts and circumstances indicating onerous contracts exist; • the valuation of the LIC involves a high level of judgement in estimating future payments for claims incurred, including case estimates for reported claims, and claims incurred but not yet reported to the Group; • judgement is required to determine the degree to which the historical claims experience influences current estimates. This is particularly judgemental for long-tail product lines, for which variability often exists between the original estimation and the ultimate settlement of claims; • judgements in the modelling process, which involves complex and subjective actuarial methodologies, as well as judgements and assumptions about future events and developments, both within, and external to, the Group. Actuarial assumptions include loss ratios, claim frequencies and average claim sizes, and allowance for future claims inflation. Changes in methodologies, judgements and assumptions can significantly change the quantification of the LIC. It is challenging to estimate the impact of elevated inflationary pressures on the LIC, and judgement is needed to determine the extent to which recent experience influences the valuation at balance date; • judgement is required to assess the estimation of the time periods the claims are expected to be settled in; and • judgement is required to reflect the compensation an entity requires for bearing the uncertainty of the amount and timing of insurance contract cash flows that arise from non-financial risks. This complexity requires us to exercise judgement when evaluating the methodology and assumptions adopted by the Group. We involved actuarial specialists to supplement our senior audit team members in assessing this key audit matter	• comparing the prior year estimate of the LIC to actual experience in the current year. We used this information to assess the actuarial assumptions applied in current year valuation; • assessing the appropriateness of case reserves at balance date, and considering if they reflected best estimates of the costs to be incurred on reported incurred claims; considering judgements to estimate the period in which the claims will be settled, by analysing historical payment patterns; • for certain classes of business, we independently estimated the LIC by applying our own actuarial assumptions; we compared our results to the Group's estimates and investigated significant differences; • evaluating the cost of capital assumptions used in the calculation of the risk adjustment for nonfinancial risks; • assessing management's methodology for identification of facts and circumstances indicating onerous contracts; and where onerous contracts were identified, assessing management's methodology and assumptions in calculating the loss component, including the fulfilment cashflows; and • evaluating the adequacy of the consolidated financial statement disclosures in accordance with the requirements of NZ IFRS 17, and reconciling the disclosures to underlying accounting records and supporting actuarial data.

KPMG

Other information

The directors, on behalf of the Group, are responsible for the other information. The other information comprises information included in the Appointed Actuary's report issued under section 78 of the Insurance (Prudential Supervision) Act 2010, but does not include the financial statements and our auditor's report thereon.

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 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. 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, none of KPMG, any entities directly or indirectly controlled by KPMG, or any of their respective members or employees, accept or assume any responsibility and deny all liability to anyone other than the members for our audit work, this independent auditor's report, or any of the opinions we have formed.

Responsibilities of directors for the consolidated financial statements

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

— the preparation and fair presentation of the consolidated financial statements in accordance with NZ IFRS issued by the New Zealand Accounting Standards Board and the International Financial Reporting Standards issued by the International Accounting Standards Board;
— implementing the necessary internal control to enable the preparation of a consolidated set of financial statements that is free from material misstatement, whether due to fraud or error; and
— assessing the ability of the Group 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 it 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 the consolidated financial statements.

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

https://www.xrb.govt.nz/standards/assurance-standards/auditors-responsibilities/audit-report-1-1/

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

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

For and on behalf of:

KPMG

KPMG

Auckland

23 September 2025

22 September 2025

The Directors
Southern Cross Medical Care Society
Auckland

Dear Directors

Review of Actuarial Information Contained in Financial Statements as at 30 June 2025

Finity Consulting Pty Limited (Finity) has been asked by Southern Cross Medical Care Society (the Society) to carry out a review of, and report on, actuarial information contained in the financial statements of the Society as at 30 June 2025, as required under sections 77 and 78 of the Insurance (Prudential Supervision) Act 2010 (the Act).

This report has been prepared by John Smeed, an employee of Finity and 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 the financial statements. We confirm that the financial statements as at 30 June 2025 have been prepared in accordance with this policy, and as such 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 2025 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 accordance with the Interim Solvency Standard 2023 for the purposes of section 1(2)(b) of excess of the Act throughout the year to 30 June 2025.

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)
Fellow of the New Zealand Society of Actuaries

Sam Cosgriff
Fellow of the New Zealand Society of Actuaries