



POLICE HEALTH PLAN LIMITED
FINANCIAL STATEMENTS
30 June 2017



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DIRECTORS REPORT FOR THE YEAR ENDED 30 JUNE 2017

In respect of the financial year ended 30 June 2017 the Directors of Police Health Plan Limited submit the following report

With the unanimous agreement of all shareholders, the Company has taken advantage of the reporting concessions available to it under section 211(3) of the Companies Act 1993.

DIRECTORS

<i>Name</i>	<i>Date of Appointment</i>	<i>Name</i>	<i>Date of Appointment</i>
Christopher Cahill	06/12/2016	Paul Ormerod	15/02/2017
Maurice Cummings	20/09/2011	Anthony Price	16/09/2014
Michael McRandle	16/09/2014	Ralph Stewart	01/09/2014

PRINCIPAL ACTIVITIES OF THE COMPANY

The principal activity of Police Health Plan Limited is a provider of health insurance

RESULTS FOR THE YEAR

The surplus for the year was \$330,124 (2016: \$797,360)

DIRECTORS INTERESTS IN CONTRACTS

Ralph Stewart (director of Police Health Plan) is also a director/shareholder of Stewart Capital Limited to which nil was paid during the year (2016: \$22,158).

AUDITORS

BDO Wellington has indicated their willingness to continue as auditor for the next financial year

DIRECTORS' INSURANCE

Police Health Plan have arranged policies of director's liability insurance, which together with a deed of indemnity, ensure that directors will incur no monetary loss as a result of actions undertaken by them as directors provided they operate within the law

DIRECTORS BENEFITS

<i>Name</i>	<i>Total remuneration and other benefits</i>
Christopher Cahill	nil
Maurice Cummings	nil
Michael McRandle	nil
Paul Ormerod	nil
Anthony Price	nil
Ralph Stewart	\$20,000

For and on behalf of the Board

Director:

Director:

26 September 2017

POLICE HEALTH PLAN LIMITED
STATEMENT OF COMPREHENSIVE REVENUE AND EXPENSE
FOR THE YEAR ENDED 30 JUNE 2017

	Note	2017	2016
UNDERWRITING ACTIVITIES (EXCHANGE TRANSACTIONS)			
Premium Revenue		33,239,464	31,705,299
Claims Expense	2	<u>32,903,522</u>	<u>30,310,059</u>
UNDERWRITING SURPLUS		<u>335,942</u>	<u>1,395,240</u>
REVENUE FROM EXCHANGE TRANSACTIONS			
Investment Income	3	<u>1,340,120</u>	<u>1,087,182</u>
INVESTMENT INCOME PLUS UNDERWRITING ACTIVITIES		<u>1,676,062</u>	<u>2,482,422</u>
EXPENDITURE			
Depreciation and Amortisation		56,463	51,318
Administration - Other		28,188	56,639
Administration - IT		98,221	74,256
Audit Fees	11	24,000	39,945
Professional Fees		149,643	199,328
Property & Premise Expenses		44,400	456,301
Staff Costs	12	637,206	602,741
Communications Expenses		190,707	201,804
District, Regional & Board Expenses		40,700	19,195
Finance Expenses		46,308	37,475
Members Services		41,484	31,705
TOTAL EXPENDITURE		<u>1,357,320</u>	<u>1,770,707</u>
SURPLUS/(DEFICIT) FOR THE YEAR		<u>\$318,742</u>	<u>\$711,715</u>
OTHER COMPREHENSIVE REVENUE AND EXPENSE			
Fair Value Movement in Investment Reserve		11,382	85,645
TOTAL COMPREHENSIVE REVENUE AND EXPENSE		<u><u>\$330,124</u></u>	<u><u>\$797,360</u></u>

POLICE HEALTH PLAN LIMITED
STATEMENT OF CHANGES IN NET ASSETS/EQUITY
FOR THE YEAR ENDED 30 JUNE 2017

	Accumulated Revenue and Expense	Share Capital	Investment Reserve	Total Equity
2017				
Opening balance at 1 July 2016	30,280,504	1,000	281,628	30,563,132
Total Surplus/(Deficit) for the Year	318,742	-		318,742
Fair Value Movement in Investment Reserve			11,382	11,382
Closing balance 30 June 2017	<u>30,599,246</u>	<u>1,000</u>	<u>293,010</u>	<u>30,893,256</u>
2016				
Opening balance at 1 July 2015	29,568,789	1,000	195,983	29,765,772
Total Surplus/(Deficit) for the Year	711,715	-		797,360
Fair Value Movement in Investment Reserve			85,645	
Closing balance 30 June 2016	<u>30,280,504</u>	<u>1,000</u>	<u>281,628</u>	<u>30,563,132</u>

POLICE HEALTH PLAN LIMITED
STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2017

	Note	2017	2016
CURRENT ASSETS			
Trade & Other Receivables from exchange transactions	9	17,539	272,844
Cash and Cash Equivalents	9, 10	2,251,517	19,301,278
Investments	4	<u>35,113,272</u>	<u>16,393,789</u>
		37,382,328	35,967,911
NON-CURRENT ASSETS			
Investments	4	556,012	766,325
Property Plant & Equipment	5	19,136	23,245
Intangibles	5	<u>353,118</u>	<u>381,817</u>
		928,266	1,171,387
TOTAL ASSETS		<u>\$38,310,594</u>	<u>\$ 37,139,298</u>
CURRENT LIABILITIES			
Trade & other Payables under exchange transactions	9	78,145	69,278
Employee Benefits		37,128	57,885
Provision for Claims	6	6,119,000	5,179,000
Unearned Premium Liability	6	1,007,065	1,049,003
Provision for Unexpired Risk	6	<u>176,000</u>	<u>221,000</u>
		7,417,338	6,576,166
NET ASSETS/EQUITY			
Accumulated Revenue and Expense		30,599,246	30,280,504
Share Capital	8	1,000	1,000
Investment Reserve	8	<u>293,010</u>	<u>281,628</u>
TOTAL NET ASSETS/EQUITY		30,893,256	30,563,132
TOTAL NET ASSETS/EQUITY AND LIABILITIES		<u>\$38,310,594</u>	<u>\$ 37,139,298</u>

For and on behalf of the Board

Director

Director

26 September 2017

Date

**POLICE HEALTH PLAN LIMITED
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2017**

	Note	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash Was Provided From:			
- Premiums From Members		33,229,104	31,752,456
- Other Income		265,846	-
- Investment Income		514,734	874,841
		<u>34,009,684</u>	<u>32,627,297</u>
Cash Was Applied To:			
- Payments of Claims		32,050,460	30,006,059
- Payments to Suppliers and Employees		1,312,747	1,676,219
		<u>33,363,207</u>	<u>31,682,278</u>
NET CASH FLOWS FROM OPERATING ACTIVITIES	17	<u>646,477</u>	<u>945,019</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Cash Was Applied To:			
-Purchase of PPE and Intangibles		23,836	64,902
-Purchase of Investments		17,672,402	13,000,000
		<u>17,696,238</u>	<u>13,064,902</u>
NET CASH FLOWS FROM INVESTING ACTIVITIES		<u>(17,696,238)</u>	<u>(13,064,902)</u>
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		<u>(17,049,761)</u>	<u>(12,119,883)</u>
Opening Cash and Cash Equivalents		19,301,278	31,421,161
CLOSING CASH AND CASH EQUIVALENTS		<u>2,251,517</u>	<u>19,301,278</u>

POLICE HEALTH PLAN LIMITED
NOTES FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2017

NOTE 1. STATEMENT OF ACCOUNTING POLICIES

REPORTING ENTITY

Police Health Plan Limited (the "Company") is a company incorporated and domiciled in New Zealand, registered under the Companies Act 1993.

The Company provides health insurance to members of the New Zealand Police and their families.

The financial statements are those of the Company for the year ended 30 June 2017. The financial statements were authorised for issue by the directors on 26 September 2017.

The registered office is level 11 Willbank House, 57 Willis Street, Wellington.

For the purposes of complying with generally accepted accounting practice in New Zealand ("NZ GAAP"), the Company is a public benefit entity as its primary objective is to provide health insurance to members of the New Zealand Police.

The Company is a subsidiary of Police Welfare Fund Limited and is part of New Zealand Police Association Group. Its equity has been provided in order to serve this primary objective rather than for a financial return to equity holders.

The Company is an FMC Reporting Entity for the purposes of the Financial Markets Conduct Act 2013, and the financial statements are compliant with this act.

The financial report is a general purpose financial report which has been prepared in accordance with the Financial Reporting Act 2013.

The Company is required to be fully licensed under section 19 of the Insurance (Prudential Supervision) Act 2010. The Company was licensed by the Reserve Bank of New Zealand on the 7th of May 2013.

BASIS OF PREPARATION

The financial statements have been prepared in accordance with Generally Accepted Accounting Practice in New Zealand (NZ GAAP). They comply with the Public Benefit Entity Accounting Standards ("PBE Standards").

Financial Reporting Standards not yet Effective

At the date of authorisation of the financial statements of the Company for the year ended 30 June 2017, the following PBE Standards were in issue but not yet effective:

Standard	Effective Date
PBE IPSAS 1 - Presentational of Financial Statements - 2016 Omnibus	1 January 2017
Amendments to PBE Standards	1 January 2021
PBE IFRS 9 - Financial Instruments	1 January 2019
PBE IPSAS 39 - Employee Benefits	1 January 2019

PBE IPSAS 1 Amendments - 2016 Omnibus Amendments and other 2016 Omnibus Amendments

Certain of these amendments to standards will be adopted by the Company for the first time for its financial reporting period ended 30 June 2018 and the remainder for financial reporting period ended 30 June 2019.

Amendments that will be applicable for the 30 June 2018 year end include:

- Amendments to PBE Standards arising from the PBE conceptual framework, which are not expected to have any impact on accounting policies

This amending Standard contains amendments to PBE Standards arising from Chapters 1 to 4 of the Public Benefit Entities' Conceptual Framework, Improvements to IPSASs 2015 and IASB narrow scope-amendments to IFRS Standards. It also contains editorial corrections.

The amendments have a range of effective dates, with the earliest being for annual periods beginning on or after 1 January 2017.

PBE IFRS 9 - Financial Instruments

This standard will be adopted by the Company for the first time for its financial reporting period ended 30 June 2022. This standard replaces PBE IPSAS 29 Financial Instruments: Recognition and Measurement. Adoption of this standard will align PBE Standards for Financial Instruments with the changes that for-profit entities will encounter on the adoption of NZ IFRS 9 Financial Instruments.

PBE IPSAS 39 Employee benefits

This standard will be adopted by the Company for the first time for its financial reporting period ended 30 June 2020.

PBE IPSAS 39 supersedes PBE IPSAS 25 Employee Benefits.

PBE IPSAS 39 amends the definition of short-term employee benefits to only include those benefits that are expected to be settled wholly before twelve months after the end of the reporting period in which the employees render the related service.

The impact of adoption of the above standards is still being assessed but is not expected to have a significant impact on the financial statements.

BASIS OF MEASUREMENT

These financial statements have been prepared under the historical cost convention, as modified by the revaluation of certain assets and liabilities as identified in specific accounting policies below.

FUNCTIONAL AND PRESENTATION CURRENCY

The financial statements are presented in New Zealand Dollars, rounded to the nearest dollar.

POLICE HEALTH PLAN LIMITED
NOTES FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2017

NOTE 1. STATEMENT OF ACCOUNTING POLICIES (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 underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised.

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

- Note 6: Insurance contract liabilities
- Note 7: Actuarial information

The accounting policies set out below have been applied consistently by the Company to all periods presented in these financial statements.

(i) REVENUE RECOGNITION

Revenue is recognised on an accruals basis only when the amount thereof can be determined accurately and when the significant risks and rewards have passed to the members.

Revenue from exchange transactions

Premiums

Health Plan premiums are recognised from the attachment date being the date on which the insurer accepts the risk of the insured and is spread over the period of the insurance cover. Premiums are paid in advance and accordingly at reporting date, the advance portion is recorded in the statement of financial position as an Unearned Premium Liability.

Investment income

Investment income comprises interest income on financial assets, gains on the disposal of available-for-sale financial assets, and fair value gains on financial assets at fair value through surplus or deficit. Interest income is recognised as it accrues in surplus or deficit, using the effective interest method.

(ii) PROPERTY, PLANT & EQUIPMENT

Property, Plant & Equipment are recognised at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditure that are directly attributable to the acquisition of the asset. Subsequent costs are added to the carrying amount of an item of Property, Plant & Equipment when that cost is incurred if it is probable that the future economic benefits will flow to the Company and the cost can be reliably measured.

Depreciation is calculated using the straight line method to allocate the assets cost or revalued amounts, net of any residual amounts, over their useful lives. The assets' useful lives, residual values and depreciation methods are reviewed and adjusted if appropriate at each reporting date. An asset's carrying amount is written down immediately to its recoverable amount if it is considered that the carrying amount is greater than its recoverable amount. Depreciation rates are consistent with the previous period

Category	Useful Economic Life	Valuation Method
Furniture and Fittings	5-10 Years	Cost
Computer Hardware	2-3 Years	Cost

(iii) EXTERNALLY ACQUIRED INTANGIBLES

Externally acquired intangible assets are initially recognised at cost and subsequently amortised on a straight-line basis over their useful economic lives less any impairment. The assets useful lives residual values and depreciation methods are reviewed and adjusted if appropriate at each reporting date. The significant intangibles recognised by the Company and their useful economic lives are as follows:

Intangible Asset	Useful Economic Life	Valuation Method
Blueline 360 CRM System	10 Years	Cost
Other Computer Software	2-4 Years	Cost

(iv) INCOME TAX

The Company is a Sickness, Accident & Death Benefit Fund and is exempt from income tax under section CZ18 of the Income Tax Act 2007.

(v) FINANCIAL INSTRUMENTS

Financial Assets

The Company classifies its financial assets in the following categories: loans and receivables, held to maturity, fair value through surplus or deficit and available for sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

**POLICE HEALTH PLAN LIMITED
NOTES FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2017**

NOTE 1. STATEMENT OF ACCOUNTING POLICIES (continued)

(v) FINANCIAL INSTRUMENTS (continued)

(a) Loans & Receivables

These are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

Loans and receivables are initially measured at cost plus directly attributable transaction costs and subsequently measured at amortised cost using the effective interest method less any impairment losses.

The Company's loans and receivables comprise cash and cash equivalents and trade and other receivables from exchange transactions. Cash and cash equivalents represent highly liquid investments that are readily convertible into a known amount of cash with an insignificant risk of changes in value, with maturities of 3 months or less.

(b) Held to Maturity

The Company have term deposits which are to be held until maturity. Held to maturity investments are initially measured at cost plus directly attributable transaction cost and subsequently measured at amortised cost using the effective interest method less any impairment losses.

(c) Available for Sale

Financial assets classified as available for sale comprise of financial assets that are either not classified in any other category or designated on initial recognition as available for sale. A financial asset is classified in this category if acquired principally for the purpose of investment. Assets classified as available for sale are measured at initial recognition at fair value plus directly attributable transaction costs. Subsequently they are measured at fair value with gains or losses recognised in other comprehensive revenue and expense and presented in the AFS fair value reserve within net assets/equity, less impairment.

Financial assets included within this category include Investment Bonds.

These are included in the Investments line on the statement of financial position, see note 4 for breakdown.

(d) Fair value through surplus or deficit

A financial instrument is classified as fair value through surplus or deficit if it is:

- Held-for-trading: This includes derivatives where hedge accounting is not applied.
- Designated at initial recognition: If the Company manages such investments and makes purchase and sale decisions based on their fair value in accordance with the Company's documented risk management or investment strategy.

Those fair value through surplus or deficit instruments sub-classified as held-for-trading comprise the ANZ Investment Portfolio (included within Investments - refer to note 4 for breakdown).

There are no assets designated at initial recognition.

Financial instruments classified as fair value through surplus or deficit are subsequently measured at fair value with gains or losses being recognised in surplus or deficit.

(e) Impairment

Financial assets, are assessed for indicators of impairment at each reporting date. Financial assets are impaired when there is objective evidence that the estimated future cash flows of the asset have been impacted as a result of one or more events that occurred after the initial recognition of the financial asset.

For available for sale financial assets, where there is a significant or prolonged decline in the fair value (which constitutes objective evidence of impairment), the full amount of the impairment, including any amount previously recognised in other comprehensive revenue and expense, is recognised in surplus or deficit. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases, and the increase can be objectively related to an event occurring after the impairment loss was recognised in surplus or deficit, the impairment loss shall be reversed through surplus or deficit.

For financial assets carried at amortised cost, the amount of the impairment is the difference between the assets' carrying amount and the present value of the estimated future cash flows, discounted at the original effective interest rate.

For all financial assets, other than trade receivables, the carrying amount is reduced by the impairment loss directly.

For trade receivables the carrying amount is reduced via an allowance account, against which an uncollectible trade receivable is written off. A trade receivable is deemed to be uncollectible upon notification of insolvency of the debtor or upon receipt of similar evidence that the Company will be unable to collect the amount. Impairment losses for uncollectable premiums are written off against claims expense in the year in which they are incurred.

Changes in the carrying amount of the allowance account are recognised in surplus or deficit.

A previously recognised impairment loss is reversed when, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment loss was initially recognised.

POLICE HEALTH PLAN LIMITED
NOTES FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2017

NOTE 1. STATEMENT OF ACCOUNTING POLICIES (continued)

(v) FINANCIAL INSTRUMENTS (continued)

In respect of financial assets carried at amortised cost, with the exception of trade receivables, the impairment loss is reversed through the profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised. Subsequent recoveries of trade receivables previously written off are credited against the allowance account.

Financial Liabilities

Trade payables and other short-term monetary liabilities, which are initially recognised at fair value plus directly attributable transaction costs and subsequently carried at amortised cost using the effective interest method.

(vi) EMPLOYEE BENEFITS

Defined contribution pension plans

Obligations for contributions to defined contribution pension plans are recognised as an expense in statement of comprehensive revenue and expense as incurred.

Short Term Employee Benefits Liability

Liabilities for wages and salaries, including non-monetary benefits, annual leave, and accumulating sick leave expected to be settled within 12 months of the reporting date are recognised in other payables in respect of employees' services up to the reporting date and are measured at the amounts expected to be paid when the liabilities are settled on an undiscounted basis.

Long service and Retirement leave

The Company's net obligation in respect of long service and retirement leave is the amount of future benefit that employees have earned in return for their service in the current and prior periods. The long service leave obligation is made up of actual untaken service leave at balance date plus 50% of future entitlements for staff who will become entitled to long service leave within the next 12 months.

Sick leave

Sick leave is expensed as incurred unless accumulated sick leave likely to be taken exceeds current entitlements. To the extent that sick leave likely to be taken exceeds current entitlements a liability is recognised.

(vii) GOODS & SERVICES TAX (GST)

The Statement of Comprehensive Revenue and Expense has been prepared so that all components are stated exclusive of GST. All items in the statement of financial position are stated net of GST, with the exception of receivables and payables which include GST invoiced.

(viii) IMPAIRMENT OF NON-FINANCIAL ASSETS

Impairment tests on non-financial assets with indefinite useful economic lives are undertaken annually at the financial year end. Other non-financial assets are subject to impairment tests whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. Where the carrying value of an asset exceeds its recoverable amount (i.e. the higher of value in use and fair value less costs to sell), the asset is written down accordingly.

Where it is not possible to estimate the recoverable amount of an individual asset, the impairment test is carried out on the smallest group of assets to which it belongs for which there are separately identifiable cash flows; its cash generating units ('CGUs'). Impairment charges are included in the surplus or deficit, except to the extent they reverse gains previously recognised in other comprehensive revenue and expense.

(ix) INSURANCE CONTRACTS

Insurance contracts are defined as those containing significant insurance risk at the inception of the contract. Once a contract has been classified as an insurance contract, it remains an insurance contract for the remainder of its lifetime, even if the insurance risk reduces significantly during the period. The Company has determined that all health insurance policies provided to members are insurance contracts.

(x) CLAIMS EXPENSE

The claims expense represents payments made on claims and the movements in the outstanding claims and unexpired risk provisions (as described below).

(xi) PROVISION FOR CLAIMS

The liability for outstanding claims comprises claims incurred but not settled at the reporting date, whether reported or not. A central estimate is made of claims reported but not paid, claims incurred but not reported and claims incurred but not adequately reported. The claims provision includes expected claim payments plus associated claims handling costs. In addition a risk margin is added to reflect the inherent uncertainty in the estimates of claims.

(xii) ACQUISITION COSTS

Acquisition costs are those incurred in acquiring and recording insurance contracts that will give rise to future benefits from premiums. The Company's acquisition costs do not directly relate to future premium revenue and so are immediately expensed.

POLICE HEALTH PLAN LIMITED
NOTES FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2017

NOTE 1. STATEMENT OF ACCOUNTING POLICIES (continued)

(xiii) UNEXPIRED RISK PROVISION AND LIABILITY ADEQUACY TEST

A liability adequacy test is performed to assess whether there is any deficiency in the unearned premium liability arising from expected claims and administration costs during the period covered by the unearned premium. The test is performed on all the policies as a whole as risks are broadly similar and are managed together as a single portfolio. The central estimate of claims and administration expense is calculated. In addition, a risk margin is added to reflect the inherent uncertainty in estimating the claims. The total is compared with the unearned premium liability. Any deficiency is recognised as an expense in determining the Statement of Comprehensive Revenue and Expense after first writing down any deferred acquisition costs. The deficiency in excess of deferred acquisition costs is recognised in the Statement of Financial Position as an unexpired risk provision.

(xiv) ADOPTION OF ACCOUNTING STANDARDS

There have been no new accounting standards adopted that have materially affected the financial statements.

(xv) CHANGES IN ACCOUNTING POLICIES

There have been no changes in accounting policy that materially effect the financial statements. All accounting policies have been applied on a consistent basis with the prior year.

NOTE 2. CLAIMS EXPENSE

Claims incurred relating to risks borne in current financial year
Claims incurred relating to risks borne in previous financial years
Claims previously recognised relating to risks borne in current financial year
Movement in provision for claims handling costs
Movement in provision for ACC recoveries
Movement in risk margin
Claims incurred
Movement in Provision for Unexpired Risk

2017	2016
32,838,521	30,179,721
(72,999)	207,338
24,000	11,000
28,000	(116,000)
86,000	28,000
32,903,522	30,310,059
-	-
32,903,522	30,310,059

NOTE 3. INVESTMENT INCOME

Available for Sale Financial Assets
Interest Income

2017	2016
94,378	95,058
94,378	95,058

Financial Assets at Fair Value Through Surplus or Deficit

Interest Income
Realised Gains on ANZ Investments Portfolio
Unrealised Gains on ANZ Investments Portfolio

1,205	-
6,690	-
825,386	-
833,281	-

Held to Maturity Financial Assets

Interest Income

412,461	992,124
412,461	992,124

Total Investment Income

1,340,120	1,087,182
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NOTE 4. INVESTMENTS

Available-for-sale
Investment Bonds

2017	2016
4,252,227	4,160,114
4,252,227	4,160,114

Financial Assets at Fair Value Through Surplus or Deficit

ANZ Investments Portfolio

31,417,057	-
31,417,057	-

Held-to-Maturity

Term Deposits over 90 days

-	13,000,000
-	13,000,000

Total Investments

35,669,284	17,160,114
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Current assets

Non-current Assets

35,113,272	16,393,789
556,012	766,325
35,669,284	17,160,114

POLICE HEALTH PLAN LIMITED
NOTES FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2017

NOTE 5. PROPERTY, PLANT & EQUIPMENT & INTANGIBLES

	Property, Plant and Equipment			Intangibles
	<i>Furniture & Fittings</i>	<i>Computer Hardware</i>	<i>Total</i>	<i>Computer Software</i>
2017				
Cost:				
Opening	23,445	15,003	38,448	505,691
Purchases	-	-	-	23,655
Disposals	-	-	-	-
Closing	23,445	15,003	38,448	529,346
Accumulated Depreciation and Impairment:				
Opening	3,583	11,620	15,203	123,874
Depreciation/Amortisation Expense	2,079	2,030	4,109	52,354
Disposals	-	-	-	-
Closing	5,662	13,650	19,312	176,228
Book Value				
Opening	19,862	3,383	23,245	381,817
Closing	17,783	1,353	19,136	353,118
2016				
Cost:				
Opening	6,824	13,327	19,951	470,391
Purchases	20,448	5,075	25,523	35,300
Disposals	3,627	3,399	7,026	-
Closing	23,445	15,003	38,448	505,691
Accumulated Depreciation and Impairment:				
Opening	6,018	13,327	19,345	75,393
Depreciation/Amortisation Expense	1,146	1,692	2,838	48,481
Disposals	3,581	3,399	6,980	-
Closing	3,583	11,620	15,203	123,874
Book Value				
Opening	606	-	606	394,998
Closing	19,862	3,383	23,245	381,817

NOTE 6. INSURANCE CONTRACT LIABILITIES

	2017	2016
Provision for claims (refer note 6a)	6,119,000	5,179,000
Unearned premium liability (refer note 6c)	1,007,065	1,049,003
Provision for unexpired risk (refer note 6d)	176,000	221,000
	<u>7,302,065</u>	<u>6,449,003</u>
Assets backing insurance contract liabilities	31,417,057	29,900,000

Police Health Plan hold a number of short term bank deposits as security over their insurance liabilities.

The carrying value of investments that back general insurance liabilities approximates the fair value of these assets.

Assets backing Insurance liabilities have been determined as term deposits due to the similar nature of their contractual terms.

	2017	2016
Note 6a Provision for outstanding claims		
Central estimate of outstanding claims liability	5,972,000	5,170,000
Claims handling costs	179,000	155,000
ACC Recoveries	(588,000)	(616,000)
Risk margin	556,000	470,000
Closing balance	<u>6,119,000</u>	<u>5,179,000</u>
Note 6b Reconciliation of movement in provision for claims		
Opening balance	5,179,000	4,875,000
Amounts utilised during the year	(5,097,001)	(4,996,338)
Movement in ACC Recoveries	28,000	(116,000)
Movement in Risk margin	86,000	28,000
Movement in Claims Handling Costs	24,000	11,000
Amounts provided during the year	5,899,001	5,377,338
Closing balance	<u>6,119,000</u>	<u>5,179,000</u>

POLICE HEALTH PLAN LIMITED
NOTES FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2017

NOTE 6. INSURANCE CONTRACT LIABILITIES (continued)

<i>Note 6c Reconciliation of movement in unearned premiums liability</i>	2017	2016
Opening balance	1,049,003	1,115,000
Premiums written during year	33,197,526	31,639,302
Premiums earned during year	(33,239,464)	(31,705,299)
Closing balance	<u>1,007,065</u>	<u>1,049,003</u>

Note 6d Provision for unexpired risk

A liability adequacy test is performed to assess whether there is any deficiency in the unearned premium liability arising from expected claims and administration costs during the period covered by the unearned premium. The test is performed on all the policies as a whole as risks are broadly similar and are managed together as a single portfolio. The central estimate of claims and administration expenses is calculated. In addition, a risk margin is added to reflect the inherent uncertainty in estimating the claims. The total is compared with the unearned premium liability. Any deficiency is recognised as an expense in determining the surplus or deficit before tax in the statements of comprehensive income. The deficiency is recognised in the statements of financial position as an unexpired risk provision.

<i>Provision for Unexpired Risk</i>	2017	2016
Expected future cashflows for claims and expenses	1,007,000	1,081,003
Risk margin	176,000	189,000
Less Unearned Premium	(1,007,065)	(1,049,003)
Closing Balance	<u>175,935</u>	<u>221,000</u>

<i>Reconciliation of movement in provision for unexpired risk</i>	2017	2016
Opening Balance	221,000	117,000
Reversal of Opening Balance	(221,000)	(117,000)
Net liability for unexpired risk recognised during the year	0	32,000
Risk Margin	176,000	189,000
Closing Balance	<u>176,000</u>	<u>221,000</u>

NOTE 7. ACTUARIAL INFORMATION

The estimate of outstanding claims as at 30 June 2017 has been determined by Charles Cahn FIAA, a Fellow of the New Zealand Society of Actuaries and was presented to the directors of the Company in a report dated 1 August 2017. There were no qualifications to the report. The calculation of the provision for outstanding claims complies with both PBE IFRS 4: Insurance Contracts, and the Professional Standard No 30 Valuations of General Insurance Claims, of the New Zealand Society of Actuaries. The actuary is satisfied as to the nature, sufficiency and accuracy of the data used to determine the provision.

Outstanding claims liability

Outstanding claims liabilities are measured as the central estimate of the present value of expected future payments for claims incurred but not settled at 30 June 2017, whether reported or not, together with related claims handling costs and an additional risk margin to allow for the inherent uncertainty in the central claims estimate. The central estimate of the outstanding claims has been calculated using historical experience to determine the pattern of claims development.

The central estimate used the Adjusted Chain Ladder method with a the Past Actual Outstanding Claims Liabilities method used for a reasonableness check.

Estimation of outstanding claims liabilities includes an allowance for claims incurred but not reported, claims incurred but not adequately reported, unpaid reported claims and future claims handling costs associated with paying claims. An explicit allowance has been made for expected ACC recoveries.

A risk margin has been added to reflect the inherent uncertainty in the central estimate.

A risk margin of 10% of the outstanding claims and premiums liability was established at 30 June 2017 (30 June 2016: 10%). The risk margin was deemed appropriate by the actuary based on Australian Experience adjusted for New Zealand's slower run off patterns.

Key assumptions:

1. Future patterns of claims development will be similar to historical patterns.
2. ACC recoveries have been assumed to be 54% on claims outstanding. This includes an adjustment for success (81%), recovery (91%) and a management fee of 25%
3. A risk margin of 10% as described above

POLICE HEALTH PLAN LIMITED
NOTES FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2017

NOTE 7. ACTUARIAL INFORMATION (continued)

Claims handling costs include internal and external costs incurred in connection with the negotiation and settlement of claims. Costs include all direct expenses of the claims department and any part of the general administrative costs directly attributable to the claims function. Claims handling costs were determined to be approximately 3% (30 June 2016: 3%) of the underlying claims amounts based on an analysis of administration expenses.

As at 30 June 2017, the expected settlement date for claims included in the liability for outstanding claims is no more than 2 to 3 months for most claims (30 June 2016: no more than 2 to 3 months). Accordingly, expected future payments are not discounted due to the short term nature of the liabilities.

Unexpired risk provision and liability adequacy test

A liability adequacy test was performed to determine whether the unearned premium liability is adequate to cover the present value of the expected future cash flows arising from rights and obligations under current insurance contracts, plus an additional risk margin to reflect the inherent uncertainty in the central estimate. The future cash flows are future claims, associated claims handling costs and other administration costs relating to the business.

If the present value of the expected future cash flows plus the additional risk margin to reflect the inherent uncertainty in the central estimate exceeds the unearned premium liability less related intangible assets and related deferred acquisition costs then the unearned premium liability is deemed to be deficient.

The unexpired risk liability has been calculated as the projected premium deficiency for current in-force business until the next policy billing date on or after 12 July 2017.

The calculation of the risk margin has been based on an analysis of the volatility of historical claims experience within the time period covered by the unearned premiums. A risk margin of 17.5% of the present value of expected future cash flows has been applied at 30 June 2017 (30 June 2016: 17.5%). The risk margin was determined with the objective of achieving at least 75% probability of sufficiency of the unexpired risk liability.

Key assumptions:

1. Future patterns of claims development will be similar to historical patterns depending on the type of policy, type of claim and development month.
2. Monthly seasonality factors used for claims incurred. These were calculated from the 5 years' claims experience.
3. Claims handling costs include internal and external costs incurred in connection with the negotiation and settlement of claims. Costs include all direct expenses of the claims department and any part of the general administrative costs directly attributable to the claims function. Claims handling costs were determined to be approximately 3% (30 June 2016: 3%) of the underlying claims amounts based on an analysis of administration expenses. No explicit allowance has been made for cancellations or transfers. These are allowed for implicitly in the inflation assumption. Expected future payments are not discounted due to the short term nature of the liabilities.

NOTE 8. TOTAL EQUITY

Share Capital

Ordinary Shares @\$1 Fully Paid

No shares have been issued or sold during the year

	2017	2016
Ordinary Shares @\$1 Fully Paid	1,000	1,000

Investment reserve

This reserve records the movements in the fair value of bond investments designated as available for sale financial assets.

NOTE 9. FINANCIAL INSTRUMENTS

The categories of financial assets and liabilities

The carrying amount of each of the following categories of financial assets and financial liabilities are as follows:

	2017		2016	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Held to Maturity				
Term Deposits over 90 days	-	-	13,000,000	13,000,000
	-	-	13,000,000	13,000,000
Loans and receivables				
Cash and cash equivalents (Cash at Bank)	2,251,517	2,251,517	19,301,278	19,301,278
Trade receivables	17,539	17,539	272,844	272,844
	2,269,056	2,269,056	19,574,122	19,574,122
Available for Sale				
Investment Bonds	4,252,227	4,252,227	4,160,114	4,160,114
	4,252,227	4,252,227	4,160,114	4,160,114
Fair value through surplus or deficit				
ANZ Investment Portfolio	31,417,057	31,417,057	-	-
	31,417,057	31,417,057	-	-
Total Financial Assets	37,938,340	37,938,340	36,734,236	36,734,236

POLICE HEALTH PLAN LIMITED
NOTES FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2017

NOTE 9. FINANCIAL INSTRUMENTS (continued)

Financial liabilities at amortised cost

Sundry Creditors	78,145	78,145	69,278	69,278
Total Financial Liabilities	78,145	78,145	69,278	69,278

NOTE 10. RISK MANAGEMENT

The Company is exposed to a number of risks in the normal course of business. Primarily there are the risks associated with an underwriting insurance business (insurance risk). Other risks include financial risks (credit risk and liquidity risk), market risks (interest rate risk), underwriting and non-financial risks (operational risk and compliance risk). The Directors and management recognise the importance of having an effective risk management policy in place. The risks and any objectives, policies and procedures to manage these insurance and financial risks are described below:

a. Insurance risks

The Company assumes insurance risks through its health insurance activities. The key risk arises in respect of claims costs and, in particular, those costs varying from what was assumed in the setting of premium rates.

(i) Risk Management Objectives, Policies and Processes for Mitigating Risk

The primary objective in managing risk is, as far as possible, 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 Company if there is adverse deviation in experience. Key policies and methods for mitigating risk include:

- Underwriting policies and processes which evaluate new risks and offer terms that do not endanger the portfolio.
- Claims management procedures to ensure the payment of claims is in accordance with policy conditions.
- Pricing strategy adopted by the Board which supports pricing based on underlying risk.
- Regular monitoring of financial and operating results.
- Maintaining a target solvency margin in excess of the minimum required by the draft Reserve Bank of New Zealand Solvency Standard for Non-life Insurance Business. The solvency margin ensures the Company is able to withstand a period of adverse insurance or investment experience and still maintain a satisfactory financial position.

(ii) Sensitivity to Insurance Risk

The financial results of the Company are primarily affected by the level of claims incurred relative to that implicit in the premiums. The assumptions used in the valuation of the outstanding claims provision directly affect the level of estimated claims incurred. The key assumptions used are detailed in note 7.

The scope of insurance risk is managed to by the terms and conditions of the policy. The main insurance benefit involves the reimbursement of medical and surgical expenses depending upon the plan option.

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.

Other variables affecting the level of claims include the underlying morbidity of the lives insured, the nature of the treatment given and the costs of treatment.

(iii) Concentration of Insurance Risk

Management defines concentration of risk by type of insurance business and geographic region. The Company transacts health insurance business in New Zealand and, therefore, the concentration of risk by type of insurance and 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.

b. Credit risk

Credit risk is the risk of loss that arises from a counterparty failing to meet their contractual commitment in full and on time.

The Company's exposure to credit risk is limited to deposits and investments held with banks and other financial institutions as well as credit exposure to trade customers or other counterparties. The Company maintains a credit policy which is used to manage the exposure to credit risk. Limits on counter-party exposures have been set and are monitored on an ongoing basis. In addition, the RBNZ has issued concentration risk limits, as part of its solvency standards.

The Company has no significant exposure to credit risk. The credit exposure in respect of the Company's cash balance is AA- and A.

POLICE HEALTH PLAN LIMITED
NOTES FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2017

NOTE 10. RISK MANAGEMENT (continued)

I. Credit Concentration Risk

Concentration of credit risk exists when the Company enters into contracts or financial instruments with counterparties that are engaged in similar business activities or exposed to similar economic factors that might affect their ability to meet contractual obligations. The significant concentrations of credit risk are outlined by industry type below.

	2017	2016
Banks	2,251,517	19,301,278
Financial Institutions	35,669,284	17,160,114
Other non-investment related receivable	17,539	272,844
Total Financial Assets with Credit Exposure	<u>37,938,340</u>	<u>36,734,236</u>

II. Maximum Exposure to Credit Risk

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

III. Credit Quality of Financial Assets

The credit quality of investment counter parties is as follows:

	2017	2016
AAA	-	-
AA	35,957,924	28,993,505
A	1,641,319	7,296,600
BBB	367,568	171,287
BB	-	-
Non-rated	17,539	272,844
	<u>37,984,350</u>	<u>36,734,236</u>

c. Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its cash outflows associated with financial liabilities, as they fall due, because of lack of liquid assets or access to funding on acceptable terms. The Directors set limits on the minimum proportion of maturing funds available to meet such calls to cover claims and expenses at unexpected levels of demand.

I. Undiscounted Contractual maturities of Financial Assets

	Carrying Value	On Demand	Less than One Year	One to Two Years	Two to Four Years
2017					
Financial Assets					
Cash and cash equivalents	2,303,357	2,303,357	-	-	-
ANZ Investment Portfolio	31,417,057	31,417,057	-	-	-
Trade receivables	17,539	-	17,539	-	-
Investment Bonds	4,252,227	1,554,099	2,147,947	550,182	-
Financial Liabilities					
Trade and Other Payables	78,145	-	78,145	-	-
2016	Value		One Year	Years	Years
Financial Assets					
Cash and cash equivalents	19,301,278	19,301,278	-	-	-
Term deposits over 90 days	13,000,000	-	13,000,000	-	-
Trade receivables	272,844	-	272,844	-	-
Investment Bonds	4,160,114	1,025,959	2,367,830	200,000	566,325
Financial Liabilities					
Trade and Other Payables	69,278	-	69,278	-	-

The liquidity analysis prepared above is prepared based on the expected timings of cash flows per contractual requirements.

d. Market risks

I. Foreign currency risks

Through the portfolio with ANZ Investments, an amount of \$1,698,383 as at 30 June 2017 (2016: Nil) is invested in International Equities. In order to reduce the foreign exchange risk, ANZ Investments has entered into a number of foreign exchange forward contracts on the Group's behalf as part of the investment portfolio, the fair value of these at 30 June 2017 being \$1,973 (2016: Nil).

II. Interest rate risk

The Company invests in both fixed and variable rate financial instruments such as bonds, and bank deposits. There is a risk that any movement in interest rates can have an effect on the profitability and cash flows of the Company. The Company maintains a spread of investment types and maturity profiles to mitigate this risk.

POLICE HEALTH PLAN LIMITED
NOTES FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2017

NOTE 10. RISK MANAGEMENT (continued)

(i) Cash flow interest rate risk

The cash flows from the Company's cash and cash equivalents and short term deposits are susceptible to changes in interest rates. The following analysis shows the impact of a 1% movement in interest rates (2016: 1%). This sensitivity is consistent with that used in companies disclosures to the Reserve Bank

	2017	2016
Impact of increase in interest rates by 100 basis points on cash flows	38,575	333,272
Impact of decrease in interest rates by 100 basis points on cash flows	(38,575)	(333,272)

(ii) Fair value risk

The fair value of fixed rate investment bonds can fluctuate depending on changes in interest rates. Unrealised fair value changes are recognised in determining the total comprehensive revenue and expense in the Statements of Comprehensive Revenue and Expense for each period. The following analysis shows the impact of a 1% change in interest rates on the fair value of fixed rate investments (2016: 1%).

	2017	2016
Impact of increase in interest rates by 100 basis points on investments	120,951	(47,226)
Impact of decrease in interest rates by 100 basis points on investments	(120,951)	47,226

(iii) Fair values of financial assets and financial liabilities

Excluding cash and cash equivalents, trade receivables and trade payables which are measured amortised cost all financial assets and financial liabilities included in the consolidated statement of financial position are carried at 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 fair value hierarchy

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

Level 2: Valuation techniques based on observable 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
2017				
Investment Bonds	4,252,227	-	-	4,252,227
ANZ Investment Portfolio	31,417,057	-	-	31,417,057
	<u>35,669,284</u>	<u>-</u>	<u>-</u>	<u>35,669,284</u>
2016				
Investment Bonds	17,160,114	-	-	17,160,114
	<u>17,160,114</u>	<u>-</u>	<u>-</u>	<u>17,160,114</u>

The fair value of financial instruments traded in active markets is based on quoted market prices at the Statement of Financial Position date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the Company is the current bid price. These instruments are included in Level 1.

III. Other Price Risk

The Group has an investment portfolio managed by ANZ Investments which is invested in a number of single-asset-class funds such as the NZ Share Fund, International Share Fund, NZ Fixed Interest Bond Fund and the NZ Cash Fund. The following analysis shows the effect of a 20% change in the unit price of the share funds, a 5% change in unit price of the fixed interest funds and a 2% change in the unit price of the cash fund as at 30 June 2017:

	2017	2016
Impact of increase in unit price on surplus or deficit	1,699,943	-
Impact of decrease in unit price on surplus or deficit	(1,699,943)	-

The % changes used in the sensitivity analysis are movements which could be reasonably expected to occur in the current market based on the results of the previous year.

IV. Debt Price Risk

This is the risk that investments in debt instruments will fall in value. Investments in debt instruments are carried at fair value which equates to the market value. Refer to note 10 ii for sensitivity analysis of bond interest rates.

NOTE 11. AUDIT FEES

	2017	2016
Audit Fees	24,000	39,945
Other Fees Paid to Auditors	1,205	3,411
Other fees paid to auditors relate to fees paid for the taxation services		

POLICE HEALTH PLAN LIMITED
NOTES FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2017

NOTE 12. STAFF COSTS

	2017	2016
Salaries and Wages	608,081	571,421
Contributions to Defined Contribution Plans	15,624	16,140
Other Staff Costs	13,501	15,180
	<u>637,206</u>	<u>602,741</u>

NOTE 13. RELATED PARTIES

Members under the Police Services Group "umbrella" include New Zealand Police Association Inc and Subsidiaries (PA Frontline Limited and Blueline Premises Limited), Police Welfare Fund Limited and subsidiaries (including Police Welfare Fund Insurances Limited, Police Welfare Fund Mortgages Limited, Police Welfare Fund General Insurances, Police Welfare Fund Nominees, New Zealand Police Centennial Trust. Police Health Plan is a wholly owned subsidiary of Police Welfare Fund Limited.

Police Health Plan Limited paid \$44,400 (2016: \$456,300) to Blueline Premises Limited during the year for the rental of part of 57 Willis Street.

During the year the New Zealand Police Association on-charged \$154,400 (2016: \$169,200) associated with Police Health Plan's representation in the Police News Magazine, the member website and social media.

No amounts owed by related parties have been written off or forgiven during the period.

The Company has a related party relationship with its directors and executive officers.

Transactions with Key Management personnel

Remuneration

The Group classifies its key management personnel into one of two classes:

- Members of the governing body
- Senior executive officers, responsible for reporting to the governing body

Members of the governing body are paid an annual fee of \$20,000 total.

Senior executive officers are employed as employees of the Group, on normal employment terms.

The aggregate level of remuneration paid and number of persons (measured in 'people' for Members of the governing body, and full-time-equivalents' (FTE's) for Senior executive officers) in each class of key management personnel is presented below:

	2017		2016	
	Remuneration	Number of People	Remuneration	Number of People
Members of the governing body	29,252	6	9,001	6
Senior executive officers	<u>196,743</u>	<u>0.6 FTE's</u>	<u>156,717</u>	<u>0.6 FTE's</u>
	<u>225,995</u>		<u>165,718</u>	

The Group provides salaries and employee benefits in the form of long service leave and retirement leave as well as contributing to a defined contribution superannuation fund.

Transactions with Directors

Ralph Stewart (director of Police Health Plan) is also a director/shareholder of Stewart Capital Limited to which \$12,500 was paid during the year for Chairmanship and Professional advice (2016: \$22,158).

NOTE 14. CONTINGENT LIABILITIES AND CAPITAL COMMITMENTS

There were no contingent liabilities as at reporting date (2016: nil). There were no capital commitments as at reporting date (2016: nil).

NOTE 15. CREDIT RATING

On 6 May 2017 A.M. Best Co. confirmed the assignment of a financial strength rating of A- (outlook implication Stable) and an issuer credit rating of A- (outlook implication Stable) for Police Health Plan Limited

NOTE 16. SOLVENCY AND CAPITAL ADEQUACY

The Company is a not-for-profit organisation. As a consequence of its legal structure the Company has no recourse to external capital and therefore internally generated capital is of paramount importance. The Company's capital of \$30.89 million (30 June 2016: \$30.56 million) is equal to the reserves as disclosed in the financial statements.

The Directors' policy for managing capital is to have strong capital base to establish security for members and enable the Company to conduct its business whilst maintaining financial soundness.

The Company calculates its capital adequacy requirements using the Capital Adequacy Standard Issued by The Reserve Bank of New Zealand for non-life business insurance under the Insurance (Prudential Supervision) Act 2011.

The Reserve Bank Capital Adequacy Standard has been constructed for the purpose of determining a minimum amount of capital required to support business plans and maintain financial soundness. Police Health Plan Limited are required to maintain the prescribed minimum amount of capital in order to retain their licensed insurer status.

A calculation at 30 June 2017 showed the Company had assets in excess of the level specified by the Reserve Bank of New Zealand Standard. Accordingly, the Directors consider the current level of capital is sufficient for the requirement of maintaining financial soundness

POLICE HEALTH PLAN LIMITED
NOTES FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2017

NOTE 16. SOLVENCY AND CAPITAL ADEQUACY (continued)

	2017	2016
Actual Solvency Capital	30,540,138	30,184,000
Minimum Solvency Capital	6,371,204	4,025,000
Solvency Margin	24,168,934	26,159,000
Solvency Ratio	4.79	7.50

NOTE 17. RECONCILIATION OF CASHFLOWS FROM OPERATING ACTIVITIES WITH NET PROFIT AFTER TAX

	2017	2016
Net Surplus/(Deficit) for the Year	\$318,742	\$711,715
<i>Non Cash Items</i>		
Unrealised gain on investments	(825,386)	(101,925)
Expense in Investment Bonds	-	15,321
Depreciation & Amortisation	56,463	51,138
	(768,923)	(35,466)
<i>Movement in Working Capital Items</i>		
(Increase) Decrease in Debtors	255,486	(119,344)
Increase (Decrease) in Employee Benefit Liability	(20,757)	(1,373)
Increase (Decrease) in Creditors	8,867	47,484
Increase (Decrease) in Claims Provision	940,000	304,000
Increase (Decrease) in Unexpired Premium Liability	(41,938)	(66,211)
Increase (Decrease) in Unexpired Risk	(45,000)	104,214
	1,096,658	268,770
Net Cash Inflow(Outflow) from Operating Activities	<u>\$646,477</u>	<u>\$945,019</u>

INDEPENDENT AUDITOR'S REPORT
To the Shareholders of Police Health Plan Limited

Opinion

We have audited the financial statements of Police Health Plan Limited ("the Company"), which comprise the statement of financial position as at 30 June 2017, and the statement of comprehensive revenue and expense, statement of changes in net assets/equity and cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at 30 June 2017, and its financial performance and its cash flows for the year then ended in accordance with Public Benefit Entity Standards ("PBE Standards") issued by the New Zealand Accounting Standards Board.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (New Zealand) ("ISAs (NZ)"). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with Professional and Ethical Standard 1 (Revised) *Code of Ethics for Assurance Practitioners* issued by the New Zealand Auditing and Assurance Standards Board, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other than in our capacity as auditor we have no relationship with, or interests in, the Company.

Directors' Responsibilities for the Financial Statements

The directors are responsible on behalf of the Company for the preparation and fair presentation of the financial statements in accordance with PBE Standards, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible on behalf of the Company for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (NZ) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs (NZ), we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the abbreviation's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of the use of the going concern basis of accounting by the directors and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the abbreviation's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the abbreviation to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

Who we Report to

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

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



BDO Wellington
Wellington
New Zealand
26 September 2017

Greystone Consulting

Police Health Plan

Review of Actuarial Information In, or Used In Preparation of, the Financial Statements at 30 June 2017

This report is to provide certain information and certification as required under Sections 77 and 78 of the Insurance (Prudential Supervision) Act 2010 (the Act). This information is actuarial information in, or used in the preparation of, the financial statements as at 30 June 2017 of the Police Health Plan (the Plan).

I have provided a "Valuation Report" dated 1 August 2017, which contains detailed advice on actuarial information for the financial statements,

The Solvency Standard for Non-life Insurance Business issued under the Act (the Standard) specifies which is actuarial information.

I have reviewed the following actuarial information:

- The Provision for Unexpired Risk (which, together with Unexpired Premiums Received, is referred to in the Standard as Premium Liabilities).
- The Provision for Claims (referred to in the Standard as the Net Outstanding Claims Liability).
- Note 7 to the financial statements containing a description of the method and assumptions used in the calculation of the Provision for Claims and Provision for Unexpired Risk.

The Plan has no reinsurance and no deferred acquisition costs or fee revenue assets.

I can advise as follows:

- There were no limitations or restrictions placed on me in carrying out this work, and I have obtained all the information and explanation that I required.
- My relationship with or interest in the Plan is limited to that of Appointed Actuary.
- It is the Plan's established policy to seek my advice on actuarial information and to adopt my advice in the financial statements.
- The actuarial information provided by me has been prepared in accordance with the New Zealand Equivalent of International Financial Reporting Standard 4, and Professional Standard 30 of the New Zealand Society of Actuaries
- The actuarial information contained in, and used in the preparation of, the financial statements has been appropriately included and used.
- In my opinion, and from an actuarial perspective, the Plan is maintaining, at the balance date, the solvency margin as required under the Act.



Charles Cahn
FIAA FNZSA
Appointed Actuary

6 October 2017