# POLICE HEALTH PLAN LIMITED
# FINANCIAL STATEMENTS
# 30 JUNE 2020

**POLICE HEALTH PLAN LIMITED**
**STATEMENT OF COMPREHENSIVE REVENUE AND EXPENSE**
**FOR THE YEAR ENDED 30 JUNE 2020**

| | Note | 2020 | 2019 |
|---|---|---|---|
| **UNDERWRITING ACTIVITIES (EXCHANGE TRANSACTIONS)** | | | |
| Premium Revenue | | 40,110,442 | 39,435,568 |
| Claims Expense | 2 | 37,078,127 | 36,486,766 |
| **UNDERWRITING SURPLUS** | | 3,032,315 | 2,948,802 |
| | | | |
| **REVENUE FROM EXCHANGE TRANSACTIONS** | | | |
| Investment Income | 3 | 2,094,907 | 2,343,289 |
| **INVESTMENT INCOME PLUS UNDERWRITING ACTIVITIES** | | 5,127,222 | 5,292,091 |
| | | | |
| **EXPENDITURE** | | | |
| Depreciation and Amortisation | | 66,941 | 64,982 |
| Administration - Other | | 13,987 | 40,689 |
| Administration - IT | | 167,730 | 145,724 |
| Audit Fees | 11 | 32,872 | 29,327 |
| Professional Fees | | 312,637 | 228,104 |
| Property & Premise Expenses | | 45,600 | 45,600 |
| Staff Costs | 12 | 751,653 | 692,723 |
| Communications Expenses | | 192,147 | 202,707 |
| District, Regional & Board Expenses | | 35,000 | 27,133 |
| Finance Expenses | | 48,712 | 52,229 |
| Members Services | | 55,022 | 95,881 |
| **TOTAL EXPENDITURE** | | 1,722,301 | 1,625,100 |
| | | | |
| **SURPLUS/(DEFICIT) FOR THE YEAR** | | 3,404,921 | 3,666,991 |
| | | | |
| **TOTAL COMPREHENSIVE REVENUE AND EXPENSE** | | 3,404,921 | 3,666,991 |

The attached notes form part of and must be read in conjunction with the financial statements

BDO WELLINGTON

**POLICE HEALTH PLAN LIMITED**
**STATEMENT OF CHANGES IN NET ASSETS/EQUITY**
**FOR THE YEAR ENDED 30 JUNE 2020**

| | Accumulated Revenue and Expense | Share Capital | Investment Reserve | Total Equity |
|---|---|---|---|---|
| **2020** | | | | |
| Opening balance at 1 July 2019 | 35,388,517 | 1,000 | - | 35,389,517 |
| Total Surplus/(Deficit) for the Year | 3,404,921 | - | | 3,404,921 |
| Closing balance 30 June 2020 | 38,793,438 | 1,000 | - | 38,794,438 |
| | | | | |
| **2019** | | | | |
| Opening balance at 1 July 2018 | 31,380,710 | 1,000 | 340,816 | 31,722,526 |
| Total Surplus/(Deficit) for the Year | 3,666,991 | - | | 3,666,991 |
| Fair Value Movement in Investment Reserve | 340,816 | | (340,816) | - |
| Closing balance 30 June 2019 | 35,388,517 | 1,000 | - | 35,389,517 |

**POLICE HEALTH PLAN LIMITED**
**STATEMENT OF FINANCIAL POSITION**
**AS AT 30 JUNE 2020**

| | Note | 2020 | 2019 |
|---|---|---|---|
| **CURRENT ASSETS** | | | |
| Trade & Other Receivables from exchange transactions | 9 | 85,880 | 95,710 |
| Cash and Cash Equivalents | 9, 10 | 4,160,836 | 4,812,007 |
| Investments | 4 | 46,453,639 | 39,479,055 |
| | | 50,700,355 | 44,386,771 |
| **NON-CURRENT ASSETS** | | | |
| Property Plant & Equipment | 5 | 24,100 | 14,668 |
| Intangibles | 5 | 277,994 | 362,103 |
| | | 302,094 | 376,771 |
| **TOTAL ASSETS** | | 51,002,449 | 44,763,543 |
| **CURRENT LIABILITIES** | | | |
| Trade & other Payables under exchange transactions | 9 | 70,907 | 84,649 |
| Employee Benefits | | 58,806 | 45,377 |
| Provision for Claims | 6 | 8,884,885 | 8,082,000 |
| Unearned Premium Liability | 6 | 768,281 | 1,030,000 |
| Provision for Unexpired Risk | 6 | 2,425,132 | 132,000 |
| | | 12,208,011 | 9,374,026 |
| **NET ASSETS/EQUITY** | | | |
| Accumulated Revenue and Expense | | 38,793,438 | 35,388,517 |
| Share Capital | 8 | 1,000 | 1,000 |
| **TOTAL NET ASSETS/EQUITY** | | 38,794,438 | 35,389,517 |
| **TOTAL NET ASSETS/EQUITY AND LIABILITIES** | | 51,002,449 | 44,763,543 |

For and on behalf of the Board

Director

Director

23 September 2020
Date



BDO WELLINGTON

**POLICE HEALTH PLAN LIMITED**
**STATEMENT OF CASH FLOWS**
**FOR THE YEAR ENDED 30 JUNE 2020**

| | Note | **2020** | **2019** |
|---|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | |
| Cash Was Provided From: | | | |
| - Premiums From Members | | 42,151,685 | 39,418,142 |
| - Investment Income | | 24,295 | 70,827 |
| | | 42,175,980 | 39,488,968 |
| Cash Was Applied To: | | | |
| - Payments of Claims | | 36,275,242 | 36,361,763 |
| - Payments to Suppliers and Employees | | 1,655,673 | 1,523,129 |
| | | 37,930,915 | 37,884,892 |
| **NET CASH FLOWS FROM OPERATING ACTIVITIES** | 17 | 4,245,065 | 1,604,076 |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | |
| Cash Was Provided From: | | | |
| - Sale of Investments | | 125,362 | 2,506,731 |
| | | 125,362 | 2,506,731 |
| Cash Was Applied To: | | | |
| - Purchase of PPE and Intangibles | | (7,736) | 41,797 |
| - Purchase of Investments | | 5,029,334 | 2,437,382 |
| | | 5,021,598 | 2,479,179 |
| **NET CASH FLOWS FROM INVESTING ACTIVITIES** | | (4,896,236) | 27,552 |
| **NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS** | | (651,171) | 1,631,628 |
| Opening Cash and Cash Equivalents | | 4,812,007 | 3,180,379 |
| **CLOSING CASH AND CASH EQUIVALENTS** | | 4,160,836 | 4,812,007 |

**POLICE HEALTH PLAN LIMITED**
**NOTES FORMING PART OF THE FINANCIAL STATEMENTS**
**FOR THE YEAR ENDED 30 JUNE 2020**

## 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 2020. The financial statements were authorised for issue by the directors on 23 September 2020. 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"), as applicable for Tier 1 not-for-profit public benefit entities

### Financial Reporting Standards not yet Effective

At the date of authorisation of the financial statements of the Company for the year ended 30 June 2020, the following PBE Standards were in issue but not yet effective:

| Standard | Effective Date |
|---|---|
| PBE IPSAS 41 - Financial Instruments | 1 January 2022 |
| PBE IFRS 17 - Insurance Contracts | 1 January 2023 |
| PBE FRS 48 - Service Performance Reporting | 1 January 2021 |

***PBE IPSAS 41 - 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. IPSAS 41 establishes requirements for the recognition and measurement of financial instruments by Tier 1 and Tier 2 public benefit entities.

***PBE IFRS 17 Insurance Contracts***

This standard will be adopted by the Company for the first time for its financial reporting period ended 30 June 2023.
PBE IFRS 17 establishes principles for the recognition, measurement, presentation and disclosure of insurance contracts.

***PBE FRS 48 - Service Performance Reporting***

This standard will be adopted by the Company for the first time for its financial reporting period ended 30 June 2022. This standard establishes requirements for Tier 1 and Tier 2 public benefit entities to select and present service performance information. Service information is information about what the entity has done during the reporting period in working towards its broader aims and objectives, together with supporting contextual information.

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, other than PBE IPSAS 41, PBE FRS 48 and PBE IFRS17.
PBE IPSAS 41 will change the classifications of financial instruments held by the Company.
PBE IFRS 17 will change the classification of insurance contract held by the Company.
PBE FRS 48 will require the Company to prepare a statement of service performance as part of its 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.

## NOTE 1. STATEMENT OF ACCOUNTING POLICIES *(continued)*

### FUNCTIONAL AND PRESENTATION CURRENCY
The financial statements are presented in New Zealand Dollars, rounded to the nearest dollar.

### 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, specifically Note 6(d) which include significant assumptions with relation to COVID-19
- 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, 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 |

### (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.

## NOTE 1. STATEMENT OF ACCOUNTING POLICIES *(continued)*

### (v) FINANCIAL INSTRUMENTS

***Financial Assets***

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

***(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 fair value 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) 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.

***(c) 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 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.

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.

## NOTE 1. STATEMENT OF ACCOUNTING POLICIES *(continued)*

### (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 wholly within 12 months of the reporting date are recognised in employee benefit liabilities 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 reporting 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

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 2020**

## 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

The Company has recognised a new standard, interpretation and amendment effective for the first time for periods beginning on (or after) 1 January 2019, and has been adopted in these financial statements. The nature and effect of the new standard, interpretation and amendment adopted by the Company is detailed below.

***PBE IPSAS 39 Employee Benefits***

The main change introduced by PBE IPSAS 39 that is relevant to the Company is that the definition of short-term employee benefits has changed to be employee benefits expected to be settled (as opposed to due to be settled) wholly within 12 months after the end of the reporting period. There has been no material impact on the Company as a result of this change in definition.

## NOTE 2. CLAIMS EXPENSE

| | 2020 | 2019 |
|---|---|---|
| Claims incurred relating to risks borne in current financial year | 36,878,032 | 36,723,004 |
| Claims incurred relating to risks borne in previous financial years | | |
| Claims previously recognised relating to risks borne in current financial year | (3,000) | (261,238) |
| Movement in provision for claims handling costs | 51,820 | 1,000 |
| Movement in provision for ACC recoveries | 78,558 | 14,000 |
| Movement in risk margin | 72,717 | 10,000 |
| *Claims incurred* | 37,078,127 | 36,486,766 |
| | 37,078,127 | 36,486,766 |

## NOTE 3. INVESTMENT INCOME

| | 2020 | 2019 |
|---|---|---|
| ***Loans and Receivables*** | | |
| Interest Income | 24,084 | 70,735 |
| | 24,084 | 70,735 |
| ***Financial Assets at Fair Value Through Surplus or Deficit*** | | |
| Interest Income | 211 | 92 |
| Realised Gains on ANZ Investments Portfolio | 125,362 | 17,432 |
| Unrealised Gains on ANZ Investments Portfolio | 1,945,250 | 2,255,030 |
| | 2,070,823 | 2,272,554 |
| Total Investment Income | 2,094,907 | 2,343,289 |

## NOTE 4. INVESTMENTS

| | 2020 | 2019 |
|---|---|---|
| ***Financial Assets at Fair Value Through Surplus or Deficit*** | | |
| ANZ Investments Portfolio | 46,453,639 | 39,479,055 |
| | 46,453,639 | 39,479,055 |
| Total Investments | 46,453,639 | 39,479,055 |
| Current assets | 46,453,639 | 39,479,055 |
| Non-current Assets | - | - |
| | 46,453,639 | 39,479,055 |

## NOTE 5. PROPERTY, PLANT & EQUIPMENT & INTANGIBLES

| | **Property, Plant and Equipment** | | | **Intangibles** |
|---|---|---|---|---|
| **2020** | *Furniture & Fittings* | *Computer Hardware* | *Total* | *Blueline 360 CRM System* |
| ***Cost:*** | | | | |
| Opening | 24,034 | 13,870 | 37,904 | 660,999 |
| Purchases | 4,690 | 7,584 | 12,274 | - |
| Disposals | - | - | - | 20,010 |
| Closing | 28,724 | 21,454 | 50,178 | 640,989 |
| ***Accumulated Depreciation and Impairment:*** | | | | |
| Opening | 9,366 | 13,870 | 23,236 | 298,896 |
| Depreciation/Amortisation Expense | 2,188 | 654 | 2,842 | 64,099 |
| Disposals | - | - | - | - |
| Closing | 11,554 | 14,524 | 26,078 | 362,995 |
| ***Book Value*** | | | | |
| Opening | 14,668 | - | 14,668 | 362,103 |
| Closing | 17,170 | 6,930 | 24,100 | 277,994 |

| | **Property, Plant and Equipment** | | | **Intangibles** |
|---|---|---|---|---|
| **2019** | *Furniture & Fittings* | *Computer Hardware* | *Total* | *Blueline 360 CRM System* |
| ***Cost:*** | | | | |
| Opening | 23,445 | 15,003 | 38,448 | 619,791 |
| Purchases | 589 | - | 589 | 41,208 |
| Disposals | - | 1,133 | 1,133 | - |
| Closing | 24,034 | 13,870 | 37,904 | 660,999 |
| ***Accumulated Depreciation and Impairment:*** | | | | |
| Opening | 7,517 | 15,003 | 22,520 | 235,763 |
| Depreciation/Amortisation Expense | 1,849 | - | 1,849 | 63,133 |
| Disposals | - | 1,133 | 1,133 | - |
| Closing | 9,366 | 13,870 | 23,236 | 298,896 |
| ***Book Value*** | | | | |
| Opening | 15,928 | - | 15,928 | 384,028 |
| Closing | 14,668 | - | 14,668 | 362,103 |

## NOTE 6. INSURANCE CONTRACT LIABILITIES

| | **2020** | **2019** |
|---|---|---|
| Provision for claims (refer note 6a) | 8,884,885 | 8,082,000 |
| Unearned premium liability (refer note 6c) | 768,281 | 1,030,000 |
| Provision for unexpired risk (refer note 6d) | 2,425,132 | 132,000 |
| | 12,078,298 | 9,244,000 |
| Assets backing insurance contract liabilities, see Note 10. | 46,453,639 | 39,479,055 |

*Police Health Plan hold an investment portfolio with ANZ Investments as security over their insurance liabilities. The carrying value of investments that back general insurance liabilities is the fair value of these assets. Assets backing insurance liabilities have been determined as the investment portfolio as it is highly liquid and funds can be withdrawn on demand in order to meet insurance contract liabilities.*

| *Note 6a Provision for outstanding claims* | **2020** | **2019** |
|---|---|---|
| Central estimate of outstanding claims liability | 7,952,790 | 7,353,000 |
| Claims handling costs | 198,820 | 147,000 |
| ACC Recoveries | (74,442) | (153,000) |
| Risk margin | 807,717 | 735,000 |
| Closing balance | 8,884,885 | 8,082,000 |

## NOTE 6. INSURANCE CONTRACT LIABILITIES *(continued)*

| *Note 6b Reconciliation of movement in provision for claims* | 2020 | 2019 |
|---|---|---|
| Opening balance | 8,082,000 | 7,971,000 |
| Amounts utilised during the year | (7,350,000) | (7,005,762) |
| Movement in ACC Recoveries | 78,558 | 14,000 |
| Movement in Risk margin | 72,717 | 10,000 |
| Movement in Claims Handling Costs | 51,820 | 1,000 |
| Amounts provided during the year | 7,949,790 | 7,091,762 |
| Closing balance | 8,884,885 | 8,082,000 |

| *Note 6c Reconciliation of movement in unearned premiums liability* | 2020 | 2019 |
|---|---|---|
| Opening balance | 1,030,000 | 976,997 |
| Premiums written during year | 39,848,723 | 39,488,571 |
| Premiums earned during year | (40,110,442) | (39,435,568) |
| Closing balance | 768,281 | 1,030,000 |

### *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.

Claims in March and April were especially affected by the COVID-19 pandemic, due to surgical treatments not being performed in the lockdown level 4 period. There is likely to be a catch up of these claims in future months as medical providers seek to clear the backlogs which have built up. Therefore, the expected claims incurred during the months following 30 June 2020 are likely to be higher than might otherwise be expected in the absence of COVID-19. The additional claims that will be incurred after 30 June 2020 will relate to policies which were active as at 30 June 2020. As such, at the end of the reporting year ended 30 June 2020, it was considered appropriate to include an additional allowance for claims due to the unwinding of the COVID-19 backlog. As these claims have not yet been incurred it is appropriate to include them in the premium liability. The following are the significant assumptions and judgements which have been used in calculating the provision for unexpired risk:
- The company expects to make a significant loss in servicing these policies over the next few months.
- The company has an obligation to service policies indefinitely as long as premiums continue to be paid.

| *Provision for Unexpired Risk* | 2020 | 2019 |
|---|---|---|
| Expected future cashflows for claims and expenses | 729,413 | 989,000 |
| Risk margin | 2,464,000 | 132,000 |
| Less Unearned Premium | (768,281) | (1,030,000) |
| Closing Balance | 2,425,132 | 91,000 |

| *Reconciliation of movement in provision for unexpired risk* | 2020 | 2019 |
|---|---|---|
| Opening Balance | 132,000 | 171,000 |
| Reversal of Opening Balance | (132,000) | (171,000) |
| Net liability for unexpired risk recognised during the year | 0 | 0 |
| Risk Margin | 2,464,000 | 132,000 |
| Closing Balance | 2,464,000 | 132,000 |

## NOTE 7. ACTUARIAL INFORMATION

The estimate of outstanding claims as at 30 June 2020 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 24 August 2020. 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.

## NOTE 7. ACTUARIAL INFORMATION *(continued)*

***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 2020, 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 enough 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 2020 (30 June 2019: 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 estimated by assuming a percentage of claims over the last year will be successful with the percentage depending on the month of claim. It has been further assumed that 98% of the amount claimed will be recovered and a management fee of 25% of the amount recovered.
3. A risk margin of 10% as described above.
4. 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 2.5% (30 June 2019: 2%) of the underlying claims amounts based on an analysis of administration expenses.
5. Expected future payments are not discounted due to the short tail nature of the liabilities.

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 2% (30 June 2019: 2%) of the underlying claims amounts based on an analysis of administration expenses.

As at 30 June 2020, 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 2019: 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 7 July 2020. This includes an allowance for surgical claims that were deferred due to the COVID-19 pandemic.

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 26.25% (35% for the COVID-19 provision) of the present value of expected future cash flows has been applied at 30 June 2020 (30 June 2019: 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.

**POLICE HEALTH PLAN LIMITED**
**NOTES FORMING PART OF THE FINANCIAL STATEMENTS**
**FOR THE YEAR ENDED 30 JUNE 2020**

## NOTE 8. TOTAL EQUITY

| | 2020 | 2019 |
|---|---|---|
| ***Share Capital*** | | |
| Ordinary Shares @$1 Fully Paid | 1,000 | 1,000 |
| No shares have been issued or sold during the year | | |

## 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:

| | 2020 | | 2019 | |
|---|---|---|---|---|
| | *Carrying Value* | *Fair* | *Carrying Value* | *Fair* |
| *Loans and receivables* | | | | |
| Cash and cash equivalents (Cash at Bank) | 4,160,836 | 4,160,836 | 4,812,008 | 4,812,008 |
| Trade receivables | 85,880 | 85,880 | 95,710 | 95,710 |
| | 4,246,716 | 4,246,716 | 4,907,717 | 4,907,717 |
| Fair value through surplus or deficit | | | | |
| ANZ Investment Portfolio | 46,453,639 | 46,453,639 | 39,479,055 | 39,479,055 |
| | 46,453,639 | 46,453,639 | 39,479,055 | 39,479,055 |
| ***Total Financial Assets*** | 50,700,355 | 50,700,355 | 44,386,772 | 44,386,772 |

| | 2020 | | 2019 | |
|---|---|---|---|---|
| | *Carrying Value* | *Fair* | *Carrying Value* | *Fair* |
| *Financial liabilities at amortised cost* | | | | |
| Sundry Creditors | 70,907 | 70,907 | 84,649 | 84,649 |
| ***Total Financial Liabilities*** | 70,907 | 70,907 | 84,649 | 84,649 |

The fair value of financial instruments is not materially different to the carrying values set out above.
The ANZ Investment Portfolio, managed on behalf of the Group by ANZ Investments, is invested in a number of single-asset-class funds. Exposure to credit risk, interest rate risk, equity price and liquidity risk arises in the ordinary course of the Group's operations.

## 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, liquidity risk and other price 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.

**POLICE HEALTH PLAN LIMITED**
**NOTES FORMING PART OF THE FINANCIAL STATEMENTS**
**FOR THE YEAR ENDED 30 JUNE 2020**

## NOTE 10. RISK MANAGEMENT *(continued)*

*(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 heath 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.
*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.

| | **2020** | **2019** |
|---|---|---|
| Banks | 4,160,836 | 4,812,008 |
| Financial Institutions | 46,453,639 | 39,479,055 |
| Other non-investment related receivable | 85,880 | 95,710 |
| Total Financial Assets with Credit Exposure | 50,700,355 | 44,386,772 |

*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: | **2020** | **2019** |
|---|---|---|
| AAA | 645,588 | 1,533,825 |
| AA | 39,395,520 | 36,115,728 |
| A | 10,572,828 | 6,641,508 |
| BBB | 539 | - |
| Non-rated | 85,880 | 95,710 |
| | 50,700,355 | 44,386,770 |

A number of individual ANZ products ($4,163,713) have been classified as a group as AA, being the ANZ bank overall classification as they are held as unit investments through ANZ. The Boada believes this is the best estimate of the credit ratings for these products.

## NOTE 10. RISK MANAGEMENT *(continued)*

***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*

| **2020** | *Carrying Value Value* | *On Demand* | *Less than one One Year* | *One to Two Years* | *Two to Four Years* |
|---|---|---|---|---|---|
| *Financial Assets* | | | | | |
| Cash and cash equivalents | 4,160,836 | 4,160,836 | - | - | - |
| ANZ Investment Portfolio | 46,453,639 | 46,453,639 | - | - | - |
| Trade receivables | 85,880 | - | 85,880 | - | - |
| *Financial Liabilities* | | | | | |
| Trade and Other Payables | 70,907 | - | 70,907 | - | - |
| Provision for Claims | 8,884,885 | - | 8,884,885 | - | - |
| Unearned Premium Liability | 768,281 | - | 768,281 | - | - |
| Provision for Unexpired Risk | 2,425,132 | - | 2,425,132 | - | - |
| **2019** | *Value* | | *One Year* | *Years* | *Years* |
| *Financial Assets* | | | | | |
| Cash and cash equivalents | 4,812,008 | 4,812,008 | - | - | - |
| ANZ Investment Portfolio | 39,479,055 | 39,479,055 | - | - | - |
| Trade receivables | 95,710 | - | 95,710 | - | - |
| *Financial Liabilities* | | | | | |
| Trade and Other Payables | 84,649 | - | 84,649 | - | - |
| Provision for Claims | 8,082,000 | - | 8,082,000 | - | - |
| Unearned Premium Liability | 1,030,000 | - | 1,030,000 | - | - |
| Provision for Unexpired Risk | 132,000 | - | 132,000 | - | - |

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 $2,201,745 as at 30 June 2020 (2019: $1,885,786) 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 2020 being $6,522 (2019: $11,846).

*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.
*(i) Cash flow interest rate risk*
The cash flows from the Company's cash and cash equivalents are susceptible to changes in interest rates. The following analysis shows the impact of a 1% movement in interest rates (2019: 1%). This sensitivity is consistent with that used in the companies disclosures to the Reserve Bank

| | **2020** | **2019** |
|---|---|---|
| Impact of increase in interest rates by 100 basis points on cash flows | 41,608 | 48,120 |
| Impact of decrease in interest rates by 100 basis points on cash flows | (41,608) | (48,120) |

*(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.

## NOTE 10. RISK MANAGEMENT *(continued)*

*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.

| **2020** | **Level 1** | **Level 2** | **Level 3** | **Total** |
|---|---|---|---|---|
| ANZ Investment Portfolio | 46,453,639 | | | 46,453,639 |
| | **46,453,639** | **-** | **-** | **46,453,639** |

| **2019** | **Level 1** | **Level 2** | Level 3 | **Total** |
|---|---|---|---|---|
| ANZ Investment Portfolio | 39,479,055 | | | 39,479,055 |
| | **39,479,055** | **-** | - | **39,479,055** |

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. Investment Bonds are listed.

*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 2020:

| | **2020** | **2019** |
|---|---|---|
| Impact of increase in unit price on surplus or deficit | 2,452,846 | 2,103,750 |
| Impact of decrease in unit price on surplus or deficit | (2,465,533) | (2,125,840) |

The % changes used in the sensitively 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

| | **2020** | **2019** |
|---|---|---|
| Audit Fees | 32,872 | 29,327 |
| Other Fees Paid to Auditors | 7,340 | 2,444 |

Other fees paid to auditors relate to fees paid for the taxation services

## NOTE 12. STAFF COSTS

| | **2020** | **2019** |
|---|---|---|
| Salaries and Wages | 702,939 | 625,537 |
| Contributions to Defined Contribution Plans | 19,591 | 30,076 |
| Other Staff Costs | 29,123 | 37,110 |
| | 751,653 | 692,723 |

## 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 $45,600 (2019: $45,600) 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 $170,400 (2019: $175,200) 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 $33,260 total (2019: $33,260).
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:

| | 2020 | | 2019 | |
|---|---|---|---|---|
| | Remuneration $ | Number of People | Remuneration $ | Number of People |
| Members of the governing body | 35,000 | 8 | 40,285 | 8 |
| Senior executive officers | 156,003 | 0.6 FTE's | 143,321 | 0.6 FTE's |
| | 191,003 | | 183,606 | |

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 $25,013 was paid during the year for Chairmanship and Professional advice (2019: $19,300).

## NOTE 14. CONTINGENT LIABILITIES AND CAPITAL COMMITMENTS

There were no contingent liabilities as at reporting date (2019: nil). There were no capital commitments as at reporting date (2019: nil).

## NOTE 15. CREDIT RATING

On 7 May 2020 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 $38.50 million (30 June 2019: $35.03 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 Solvency Standard issued by The Reserve Bank of New Zealand for non-life business insurance under the Insurance (Prudential Supervision) Act 2011.
The Reserve Bank Solvency 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 2020 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.

## NOTE 16. SOLVENCY AND CAPITAL ADEQUACY (continued)

| | 2020 | 2019 |
|---|---|---|
| Actual Solvency Capital | 38,505,752 | 35,025,467 |
| Minimum Solvency Capital | 9,154,578 | 7,746,665 |
| Solvency Margin | 29,351,174 | 27,278,802 |
| Solvency Ratio | 4.21 | 4.52 |

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

| | 2020 | 2019 |
|---|---|---|
| Net Surplus/(Deficit) for the Year | 3,404,921 | 3,666,991 |
| *Non Cash Items* | | |
| Unrealised gain on investments | (1,945,250) | (2,255,030) |
| Realised gain on investments | (125,362) | (17,432) |
| Depreciation & Amortisation | 66,941 | 64,982 |
| | (2,003,671) | (2,207,480) |
| Movement in Working Capital Items | | |
| (Increase) Decrease in Debtors | 9,830 | (17,426) |
| Increase (Decrease) in Employee Benefit Liability | 13,429 | 20,231 |
| Increase (Decrease) in Creditors | (13,742) | 16,758 |
| Increase (Decrease) in Claims Provision | 802,885 | 111,000 |
| Increase (Decrease) in Unexpired Premium Liability | (261,719) | 53,003 |
| Increase (Decrease) in Unexpired Risk | 2,293,132 | (39,000) |
| | 2,843,815 | 144,566 |
| Net Cash Inflow(Outflow) from Operating Activities | 4,245,065 | 1,604,076 |

## NOTE 18. COVID-19 PANDEMIC

In December 2019, a new virus, COVID-19, was detected in Wuhan, China. The virus was soon common in other countries and on 11 March 2020 the World Health Organisation declared that the outbreak should be considered a pandemic.

The result of this pandemic has been a substantial reduction in economic activity throughout the world, as governments have introduced measures (such as the closure of national borders, the closure of non-essential businesses, the cancellation of public events and the imposition of restrictions on individuals) in an attempt to reduce transmission of the virus.

In late March 2020, the New Zealand Government ordered a four-week lockdown, during which non-essential businesses and organisation were not allowed to operate and individuals (other than essential workers or those undertaking essential business) were required to stay at home. As a result of the lockdown, community transmission of COVID-19 was eliminated. In late April 2020, the lockdown period ended and the New Zealand Government started gradually easing the restrictions that had been placed on businesses, organisation and individuals, although substantial restrictions remained at the border. However, in mid-August 2020, community transmission of COVID-19 was detected in Auckland, and the New Zealand Government again placed restrictions on businesses, organisations and individuals in New Zealand.

During the initial four-week lockdown period, the Group was able to continue to operate, however members of the Association were unable to utilise the membership for which they pay. Since the end of that lockdown period, the Company has been able to operate, but has experienced increased demand in claims and pre-approvals due to the delay in operations caused by the COVID-19 lockdown. At the time of signing these financial statements, the restrictions put in place in mid-August are still in effect and these have further reduced the Group's revenue. The pandemic has also impacted a number of financial statement areas, as outlined below:

- Received wage subsidy, this is currently included as an accrual at year end.
- Unexpired premium provision, see note 6(d).
- Investment property valuations, see note 13.

BDO Wellington Audit Limited

**INDEPENDENT AUDITOR'S REPORT**
**TO THE DIRECTORS 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 2020, 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 2020, 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 *International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand)* 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.

## Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

| Valuation of Provision for Claims and Provision for Unexpired Risk | How The Matter Was Addressed in Our Audit |
|---|---|
| We considered the valuation of the provision for outstanding claims and the provision for unexpired risk a key audit matter because of the significant judgement required by management and the directors in determining the balance as at 30 June 2020.<br><br>The valuation of the provisions relies on the quality of the underlying data. It involves subjective judgements about future events, both internal and external to the business, for which small changes in assumptions can result in material impacts to the estimate.<br><br>In particular, judgement arises over the estimation of payments for claims that have | Our audit procedures included obtaining an understanding of key controls, including key data reconciliations and management review of the estimates.<br><br>Historical claims data is a key input to the actuarial estimates. Accordingly, we:<br><br>• Have gained an understanding of the design and implementation of the control environment in regard to claims processing;<br>• Re-performed claims data reconciliations;<br>• Inspected a sample of claims paid during the year to confirm that they were supported by |

| | |
|---|---|
| been incurred at the reporting date but have not yet been reported to the entity, as there is generally less information available in relation to these claims, and uncertainty over the amount which will be settled.<br><br>The provision for outstanding claims include a risk margin that allows for the inherent uncertainty in the central estimate of the future claim payments. In determining the risk margin, the entity and its appointed actuary make judgements about the volatility of the claims pattern.<br><br>The provision for unexpired risk includes an additional COVID-19 provision for claims that are expected to be incurred after 30 June 2020 which are related to policies which were active as at 30 June 2020.<br><br>Relevant references in the financial statements: Refer to Notes 6 and 7 to the financial statements, which also describe the elements that make up the balance. | appropriate documentation and approved within delegated authority limits.<br><br>To assess our ability to rely on the work of the actuarial expert engaged by management, we:<br><br>• Obtained the amount for the actual claims paid in the months of July and August 2020 for claims incurred pre year end and compared the total paid to the central estimate.<br><br>• Considered the accuracy of claims liability in the past against actual post balance date claims; and<br><br>• We checked that the data used by the Insurer's actuary was consistent with the data in the financial statements.<br><br>• Assessing the disclosures in the financial report using our understanding obtained from our testing and against the requirements of the accounting standards.<br><br>• We engaged an independent actuary to perform the following:<br><br>  ○ Evaluate the actuarial models and methodologies used by the Appointed Actuary in determining the provision for outstanding claims and the provision for unexpired risk.<br><br>  ○ Assess key actuarial judgements and assumptions and challenged them by comparing expectations based on the expert's experience, sector knowledge and independently observable industry trends.<br><br>  ○ Recalculate the provisions based on the claims data in the financial statements.<br><br>  ○ Evaluate the Provision for Unexpired Risk for considerations and impact of Covid-19. |

**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.

A further description of our responsibilities for the audit of the financial statements is located at the External Reporting Board's website at: https://www.xrb.govt.nz/assurance-standards/auditors-responsibilities/audit-report-2/.

This description forms part of our auditor's report.

**Who we Report to**

This report is made solely to the company's directors, 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 directors, 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 Audit Limited

**BDO WELLINGTON AUDIT LIMITED**
Wellington
New Zealand
23 September 2020

**Police Health Plan Limited**

**Review of Actuarial Information In, or Used In Preparation of, the Financial Statements at 30 June 2020**

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 2020 of the Police Health Plan Limited (the Plan).

I have provided a "Valuation Report" dated 24 August 2020, 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

23 September 2020