POLICE HEALTH PLAN

FINANCIAL STATEMENTS

30 JUNE 2021

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POLICE HEALTH PLAN LIMITED
STATEMENT OF COMPREHENSIVE REVENUE AND EXPENSE
FOR THE YEAR ENDED 30 JUNE 2021

	Note	2021	2020
UNDERWRITING ACTIVITIES (EXCHANGE TRANSACTIONS)			
Premium Revenue		46,039,360	40,110,442
Claims Expense	2	(42,239,524)	(37,078,127)
UNDERWRITING SURPLUS		3,799,836	3,032,315
REVENUE FROM EXCHANGE TRANSACTIONS			
Investment Income	7	813,920	2,094,907
INVESTMENT INCOME PLUS UNDERWRITING ACTIVITIES		4,613,756	5,127,222
EXPENDITURE			
Depreciation and Amortisation		(118,815)	(66,941)
Administration		(172,572)	(181,717)
Audit Fees	14	(46,636)	(32,872)
Professional Fees		(325,809)	(312,637)
Property & Premise Expenses		(45,600)	(45,600)
Staff Costs	15	(904,378)	(751,653)
Communications Expenses		(189,018)	(192,147)
District, Regional & Board Expenses		(64,350)	(35,000)
Finance Expenses		(69,825)	(48,712)
Marketing		(36,918)	(55,022)
TOTAL EXPENDITURE		(1,973,921)	(1,722,301)
SURPLUS/(DEFICIT) FOR THE YEAR		2,639,835	3,404,921
OTHER COMPREHENSIVE REVENUE AND EXPENSE			
Fair Value Movement in Investment Reserve		-	-
TOTAL COMPREHENSIVE REVENUE AND EXPENSE		2,639,835	3,404,921

The accompanying notes form part of these financial statements.

POLICE HEALTH PLAN LIMITED
STATEMENT OF CHANGES IN NET ASSETS/EQUITY
FOR THE YEAR ENDED 30 JUNE 2021

	Accumulated Revenue and Expense	Share Capital	Total Equity
2021			
Opening balance at 1 July 2020	38,793,438	1,000	38,794,438
Total Surplus/(Deficit) for the Year	2,639,835	-	2,639,835
Closing balance 30 June 2021	41,433,273	1,000	41,434,273
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

The accompanying notes form part of these financial statements.

POLICE HEALTH PLAN LIMITED
STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2021

	Note	2021	2020
CURRENT ASSETS		$	$
Trade & Other Receivables from exchange transactions		370,780	85,880
Cash and Cash Equivalents	12	2,584,238	4,160,836
Investments	9	48,154,037	46,453,639
		51,109,055	50,700,355
NON-CURRENT ASSETS			
Property Plant & Equipment	10	19,137	24,100
Intangibles	11	696,956	277,994
		716,094	302,094
TOTAL ASSETS		51,825,149	51,002,449
CURRENT LIABILITIES			
Trade & other Payables under exchange transactions		75,713	70,907
Employee Benefits		24,637	58,806
Provision for Claims	3	9,556,000	8,884,885
Unearned Premium Liability	3	658,526	768,281
Provision for Unexpired Risk	3	76,000	2,425,132
		10,390,876	12,208,011
NET ASSETS/EQUITY			
Accumulated Revenue and Expense		41,433,273	38,793,438
Share Capital		1,000	1,000
TOTAL NET ASSETS/EQUITY		41,434,273	38,794,438
TOTAL NET ASSETS/EQUITY AND LIABILITIES		51,825,149	51,002,449

Susannah Staley
Director
6 October 2021

Robin Flannagan
Director
6 October 2021

The accompanying notes form part of these financial statements.

POLICE HEALTH PLAN LIMITED
STATEMENT OF CASHFLOWS
FOR THE YEAR ENDED 30 JUNE 2021

	2021 $	2020 $
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash Was Provided From:		
- Premiums From Members	43,295,573	42,151,685
- Investment Income	-	24,295
	43,295,573	42,175,980
Cash Was Applied To:		
- Payments of Claims	(41,568,409)	(36,275,242)
- Payments to Suppliers and Employees	(1,884,470)	(1,655,673)
	(43,452,878)	(37,930,915)
NET CASH FLOWS FROM OPERATING ACTIVITIES	(157,305)	4,245,065
CASH FLOWS FROM INVESTING ACTIVITIES		
Cash Was Provided From:		
- Sale of Investments	-	133,098
	-	133,098
Cash Was Applied To:		
- Purchase of PPE and Intangibles	(532,815)	-
- Purchase of Investments	(886,478)	5,029,334
	(1,419,293)	5,029,334
NET CASH FLOWS FROM INVESTING ACTIVITIES	(1,419,293)	(4,896,236)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	(1,576,598)	(651,171)
Opening Cash and Cash Equivalents	4,160,836	4,812,007
CLOSING CASH AND CASH EQUIVALENTS	2,584,238	4,160,836

The accompanying notes form part of these financial statements.

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 2021. The financial statements were authorised for issue by the directors on 6 October 2021. The registered office is Level 11 Findex House, 57 Willis Street, Wellington.

For the purposes of complying with generally accepted accounting practice in New Zealand ("NZ GAAP"), the Company is a Tier 1 Public Benefit Entity, and 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.

STATEMENT OF COMPLIANCE AND BASIS OF PREPARATION

The financial statements have been prepared in accordance with New Zealand Generally Accepted Accounting Practice ("NZ GAAP"). They comply with 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 2021, the following PBE Standards were in issue but not yet effective:

Standard	Effective Date
PBE FRS 48 Service Performance Reporting	1 January 2022
PBE IPSAS 41 Financial Instruments	1 January 2022
PBE IFRS 17 Insurance Contracts (NFP entities only)	1 January 2023

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 2023. 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.

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 2023. This standard establishes requirements for Tier 1 and Tier 2 public benefit entities for the recognition and measurement of financial instruments.

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

PBE IFRS 17 Insurance Contracts (NFP entities only)
The accounting for insurance contracts is currently established by PBE IFRS 4 Insurance contracts which is based on NZ IFRS 4 Insurance. This standard will supersede that and will be adopted by the Company for the first time for its financial reporting period ended 30 June 2024.

Impact of adoption of new standards
The impact of adoption of the PBE IPSAS 41 is still being assessed but is not expected to have a significant impact on the financial statements. PBE FRS 48 and PBE IFRS 17 are also being assessed but are expected to have a significant impact on the financial statements.

PBE FRS 48 will require the Company to prepare a statement of service performance as part of its financial statements. PBE IFRS 17 requires the identification of portfolios of insurance contracts which are subject to similar risks and managed together and report on those separately.

Future Change in Intangible Assets Accounting Policy
In March 2021, the IFRS Interpretations Committee (**Committee**), which is responsible for interpreting the application of IFRS, issued an agenda decision that the costs incurred in configuring and customising software provided under software as a service arrangements (**SaaS**) must be expensed unless they:

- create an intangible asset, separate from the software, that the customer controls; or
- are paid to the supplier of the cloud-based software for significant customisation work, in which case the costs are recorded as a prepayment for services and amortised over the expected term of the SaaS arrangement.

The Committee's agenda decision was ratified by the International Accounting Standards Board in April 2021.

Compliance with the Committee's decision may necessitate a change to Police Health Plan's intangible assets accounting policy, as Police Health Plan has to date looked to recognise such costs as intangible assets. Making this change will require a retrospective restatement of prior period financial statements in the year in which the revised accounting policy is adopted, should some of our software accounting need to be adjusted. To implement this change, Police Health Plan is currently examining all historically capitalised software configuration and customisation costs relating to SaaS arrangements to identify the level of restatement required. Given the complexity of this issue in regard to Police Health Plans software arrangements, Police Health Plan has decided to implement the revised accounting policy in the 30 June 2022 annual financial statements with full compliance.

While the financial impact of the revised accounting policy is still being quantified, it is could well be material for financial reporting purposes. The change could reduce intangible assets and associated amortisation, increase operating expenses, and reclassify the relevant spend from an investing to an operating cashflow. The change may also result in the recognition of prepayments.

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, which is the Company's functional and presentational currency. All financial information presented in New Zealand dollars has been rounded to the nearest dollar, unless otherwise stated.

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 3: Insurance contract liabilities
- Note 4: Actuarial information

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

A. 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

Premium Income

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 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.

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

B. PROPERTY, PLANT & EQUIPMENT

Property, Plant & Equipment are recognised at cost less accumulated depreciation and accumulated impairment losses 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 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 their cost or revalued amounts, net of any residual amounts, over their useful lives. The assets' useful lives, residual values and depreciation rates 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.

Category	Depreciation Rate 2021	Depreciation Rate 2020	Class Value is Carried
Furniture and Fittings	12% - 48%	12% - 48%	Cost
Computer Hardware	2-3 Years	2-3 Years	Cost

C. EXTERNALLY ACQUIRED INTANGIBLES

Externally acquired intangible assets are recorded at cost less accumulated amortisation and impairment. Amortisation is charged on a straight-line basis over their estimated useful economic lives. The significant intangibles recognised by the Company; their useful economic lives are as follows:

Category	Amortisation Rate 2021	Amortisation Rate 2020	Class Value Is Carried
Computer Software	10% - 48%	10% - 48%	Cost

D. 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.

E. GOODS AND SERVICES TAX (GST)

The statement of comprehensive revenue and expense and statement of cash flows have been prepared so that all components are stated exclusive of GST. All items in the statement of financial position are stated net of GST, except for receivables and payables which include GST invoiced.

F. IMPAIRMENT OF NON-FINANCIAL ASSETS

Non-financial assets with finite useful economic lives 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').

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

G. 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.

H. CLAIMS EXPENSE

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

I. 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.

J. 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.

K. UNEXPIRED RISK PROVISION & 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 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 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.

L. EMPLOYEE BENEFITS

Defined contribution pension plans

Obligations for contributions to defined contribution pension plans are recognised as an expense in surplus or deficit 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 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.

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

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 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.

M. FINANCIAL INSTRUMENTS

Financial Assets

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

Management determines the classification of its investments 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 12 for breakdown).

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.

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

(d) 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.

Financial Assets continued

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 uncollectible 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, except for 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 are initially recognised at fair value plus directly attributable transaction costs and subsequently carried at amortised cost using the effective interest method.

N. CHANGES IN ACCOUNTING POLICIES

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

NOTE 2. CLAIMS EXPENSE

	2021 $	2020 $
Claims incurred relating to risks borne in current financial year	(42,279,639)	(36,878,032)
Claims previously recognised relating to risks borne in current financial year	(2,790)	3,000
Movement in provision for claims handling costs	(18,820)	(51,820)
Movement in provision for ACC recoveries	442	(78,558)
Movement in risk margin	61,283	(72,717)
Claims incurred	(42,239,524)	(37,078,127)
	(42,239,524)	(37,078,127)

NOTE 3. INSURANCE CONTRACT LIABILITIES

	Note	2021 $	2020 $
Provision for claims	3a	9,556,000	8,884,885
Unearned premium liability	3c	658,526	768,281
Provision for unexpired risk	3d	76,000	2,425,132
		10,290,526	12,078,298
Assets backing insurance contract liabilities		48,154,037	46,453,639

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 3a. Provision for outstanding claims

	2021 $	2020 $
Central estimate of outstanding claims liability	7,181,000	7,952,790
Claims handling costs	180,000	198,820
Claims previously declined	1,400,000	
ACC Recoveries	(74,000)	(74,442)
Risk margin	869,000	807,717
Closing balance	9,556,000	8,884,885

As a result of an internal policy review, Police Health Plan have identified historic claims that were declined incorrectly and are required to be paid under the Insurance Law Reform Act. The estimate shown represents the claims identified in the review, overheads and potential remediation costs.

The Financial Markets Authority have been advised of the breach and Police Health Plan's remediation proposal.

Note 3b. Reconciliation of movement in provision for claims

	2021 $	2020 $
Opening balance	8,884,885	8,082,000
Amounts utilised during the year	(7,950,000)	(7,350,000)
Movement in ACC Recoveries	442	78,558
Movement in Risk margin	61,283	72,717
Movement in Claims Handling Costs	(18,820)	51,820
Amounts provided during the year	8,578,210	7,949,790
Closing balance	9,556,000	8,884,885

NOTE 3. INSURANCE CONTRACT LIABILITIES continued

Note 3c. Reconciliation of movement in unearned premiums liability

	2021 $	2020 $
Opening balance	768,281	1,030,000
Premiums written during year	45,929,605	39,848,723
Premiums earned during year	(46,039,360)	(40,110,442)
Closing balance	658,526	768,281

Note 3d. Provision for unexpired risk

A liability adequacy test is performed to assess whether there is any deficiency in the unearned premium liability arising from claims and administration costs during the period covered by the unearned premium. The test is performed on all 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 revenue and expense. The deficiency is recognised in the statements of financial position as an unexpired risk provision.

In prior year, claims in March and April 2020 were especially affected by the COVID-19 pandemic, due to surgical treatments not being performed in the lockdown level 4 period. It was anticipated that there would be a catch up of these claims in the future months as medical providers sought to clear the backlogs that built up. Due to this, it was considered appropriate to include an allowance for claims due to the unwinding of the COVID-19 backlog. As the claims had not been incurred at 30 June 2020, it was considered appropriate to include them in the premium liability.

	2021 $	2020 $
Expected future cashflows for claims and expenses	625,526	729,413
Risk margin	109,000	2,464,000
Less Unearned Premium	(658,526)	(768,281)
Closing Balance	76,000	2,425,132

Reconciliation of movement in provision for unexpired risk

	2021 $	2020 $
Opening Balance	2,464,000	132,000
Reversal of Opening Balance	(2,464,000)	(132,000)
Risk Margin	109,000	2,464,000
Closing Balance	109,000	2,464,000

NOTE 4. ACTUARIAL INFORMATION

The estimate of outstanding claims as at 30 June 2021 has been determined by Charles Cahn FIAA, a Fellow of the New Zealand Society of Actuaries and was presented to the directors of Police Health Plan Limited in a report dated 25 August 2021. 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 30 – Valuation 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 Provision

The central estimate used the Adjusted Chain Ladder method. In the past this has been checked against the Past Actual Outstanding Claims Liabilities as a reasonableness check but due to COVID 19 the last year's data was not useful and has not been used this year.

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 was established at 30 June 2021 (30 June 2020: 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:

a. Future patterns of claims development will be similar to historical patterns (apart from the period in 2020 when claims and claims development was affected by the COVID 19 lockdown).
b. ACC recoveries have been estimated based on past patterns of payments made on outstanding cases at year end. This includes an adjustment for recovery (98%) (30 June 2020: 98%) and a management fee of 25% (30 June 2020: 25%).
c. A 2.5% loading for claims management expenses on expected future claims.
d. A risk margin of 10% (30 June 2020: 10%).
e. 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. Direct claims handling costs were determined to be approximately 2.1% (30 June 2020: 2.5%) of the underlying claims amounts based on an analysis of administration expenses and this was increased to 2.5% to allow for indirect costs.
f. Expected future payments are not discounted due to the short tail nature of the liabilities.

Claims handline 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 2020: 2%) of the underlying claims amounts based on an analysis of administration expenses.

As at 30 June 2021, 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 2020: no more than 2 to 3 months). Accordingly, expected future payments are not discounted due to the short-term nature of the liabilities.

NOTE 4. ACTUARIAL INFORMATION continued

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 2021.

The calculation of the risk margin has been based on an analysis of 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 2021 (30 June 2020: 26.25%). The risk margin was determined with the objective of achieving at least 75% probability of sufficiency of the unexpired risk liability.

Key assumptions:

a. Future patterns of loss rations will be similar to historical patterns.

NOTE 5. 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 is equal to the equity reserves as disclosed in the financial statements.

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

Police Health Plan Limited calculates its capital adequacy requirements using the Draft 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.

A calculation at 30 June 2021 showed Police Health Plan Limited 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.

	2021	**2020**
Actual Solvency Capital	40,737,317	38,505,752
Minimum Solvency Capital	8,968,091	9,154,578
Solvency Margin	31,769,226	29,351,174
Solvency Ratio	4.54	4.21

NOTE 6. CREDIT RATING

On 16 May 2021 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 7. INVESTMENT INCOME

	2021 $	2020 $
Interest Income	3,574	24,084
	3,574	24,084
Financial Assets at Fair Value Through Surplus or Deficit		
Interest Income	-	211
Realised Gains on ANZ Investments Portfolio	-	125,362
Unrealised Gains on ANZ Investments Portfolio	810,346	1,945,250
	810,346	2,070,823
Total Investment Income	813,920	2,094,907

NOTE 8. RECONCILIATION BETWEEN NET SURPLUS AND OPERATING CASHFLOW

	2021	2020
Net Surplus/(Deficit) for the Year	2,639,835	3,404,921
Non Cash Items		
Unrealised gain on investments	(813,920)	(1,945,250)
Realised gain on investments	-	(125,362)
Depreciation & Amortisation	118,815	66,941
	(695,104)	(2,003,671)
Movement in Working Capital Items		
(Increase) Decrease in Debtors	(284,900)	9,830
Increase (Decrease) in Employee Benefit Liability	(34,169)	13,429
Increase (Decrease) in Creditors	4,805	(13,742)
Increase (Decrease) in Claims Provision	671,115	802,885
Increase (Decrease) in Unexpired Premium Liability	(109,755)	(261,719)
Increase (Decrease) in Unexpired Risk	(2,349,132)	2,293,132
	(2,102,035)	2,843,815
Net Cash Inflow(Outflow) from Operating Activities	(157,305)	4,245,065

NOTE 9. INVESTMENTS

	2021 $	2020 $
Financial Assets at Fair Value Through Surplus or Deficit		
ANZ Investments Portfolio	48,154,037	46,453,639
	48,154,037	46,453,639
Total Investments	48,154,037	46,453,639
Current assets	48,154,037	46,453,639
	48,154,037	46,453,639

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NOTE 10. PROPERTY, PLANT & EQUIPMENT

2021	*Furniture & Fittings*	*Computer Hardware*	*Total*
Cost:			
Opening	28,724	21,454	50,178
Purchases	1,005	-	1,005
Closing	29,729	21,454	51,183
Accumulated Depreciation and Impairment:			
Opening	11,554	14,524	26,078
Depreciation/Amortisation Expense	2,933	3,035	5,968
Closing	14,487	17,559	32,046
Book Value			
Opening	17,170	6,930	24,100
Closing	15,242	3,895	19,137

2020	*Furniture & Fittings*	*Computer Hardware*	*Total*
Cost:			
Opening	24,034	13,870	37,904
Purchases	4,690	7,584	12,274
Closing	28,724	21,454	50,178
Accumulated Depreciation and Impairment:			
Opening	9,366	13,870	23,236
Depreciation/Amortisation Expense	2,188	654	2,842
Closing	11,554	14,524	26,078
Book Value			
Opening	14,668	-	14,668
Closing	17,170	6,930	24,100

NOTE 11. INTANGIBLE ASSETS

	2021 Computer Software	**2020 Computer Software**
Cost:	**$**	**$**
Opening	640,989	660,999
Purchases	531,810	- 20,010
Closing	1,172,799	640,989
Accumulated Depreciation and Impairment:		
Opening	362,995	298,896
Depreciation/Amortisation Expense	112,848	64,099
Closing	475,843	362,995
Book Value		
Opening	277,994	362,103
Closing	696,956	277,994

NOTE 12. 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:

	2021		2020	
	$		$	
	Carrying Value	*Fair Value*	*Carrying Value*	*Fair Value*
Loans and receivables				
Cash and cash equivalents (Cash at Bank)	2,584,238	2,584,238	4,160,836	4,160,836
Trade receivables	370,780	370,780	85,880	85,880
	2,955,017	2,955,017	4,246,716	4,246,716
Fair value through surplus or deficit				
ANZ Investment Portfolio	48,154,037	48,154,037	46,453,639	46,453,639
	48,154,037	48,154,037	46,453,639	46,453,639
Total Financial Assets	51,109,055	51,109,055	50,700,355	50,700,355

	2021		2020	
	$		$	
	Carrying Value	*Fair Value*	*Carrying Value*	*Fair Value*
Financial liabilities at amortised cost				
Sundry Creditors	75,713	75,713	70,907	70,907
Total Financial Liabilities	75,713	75,713	70,907	70,907

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 Company by ANZ Investments, is invested in a number of single-asset class funds. Exposure to credit, interest rate risk, equity price and liquidity risk arises in the ordinary course of the Company's operations.

NOTE 13. RISK MANAGEMENT

The Company is exposed to a number of risks in the normal course of business. Primarily there are the risks associated with underwriting an insurance business (insurance risk). Other risks include financial risks (credit risk and liquidity risk), market risks (price risk and foreign currency risk), 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 as follows:

NOTE 13. RISK MANAGEMENT continued

Note 13a. Insurance Risk

The Company assumes insurance risks through its health insurance activities. The key risk arises in respect of claims costs and 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 Police Health Plan Limited 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 Police Health Plan Limited 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 4.

The scope of insurance risk is managed 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. Police Health Plan Limited 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.

NOTE 13. RISK MANAGEMENT continued

Note 13b. 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, Reserve Bank of New Zealand 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 between A and 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.

	2021	2020
Banks	2,584,238	4,160,836
Financial Institutions	48,154,037	46,453,639
Other non-investment related receivable	370,780	85,880
Total Financial Assets with Credit Exposure	51,109,055	50,700,355

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:

	2021	2020
AAA	14,875,534	645,588
AA	6,759,362	39,395,520
A	20,303,740	10,572,828
BBB	3,592,700	539
Non-rated	5,577,719	85,880
	51,109,055	50,700,355

NOTE 13. RISK MANAGEMENT continued

Note 13c. Liquidity risk

Liquidity risk is the risk that the Company 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 proposition of maturing funds available to meet such calls to cover claims and expenses at unexpected levels of demand.

Undiscounted contractual maturities of Financial Assets

2021	Carrying Value	On Demand	Less than one year	One to four years	Over Five Years	Total
Financial Assets						
Cash and cash equivalents	2,584,238	2,584,238	-	-	-	2,584,238
ANZ Investment Portfolio	48,154,037	48,154,037	-	-	-	48,154,037
Loans and Receivables	370,780	-	370,780	-	-	370,780
Financial Liabilities						
Trade and Other Payables	75,713	-	75,713	-	-	75,713
Provision for Claims	9,556,000	-	9,556,000	-	-	9,556,000
Unearned Premium Liability	658,526	-	658,526	-	-	658,526
Provision for Unexpired Risk	76,000	-	76,000	-	-	76,000
2020						
Financial Assets						
Cash and cash equivalents	4,160,836	4,160,836	-	-	-	4,160,836
ANZ Investment Portfolio	46,453,639	46,453,639	-	-	-	46,453,639
Loans and Receivables	85,880	-	85,880	-	13,333	99,213
Financial Liabilities						
Trade and Other Payables	70,907	-	70,907	-	-	70,907
Provision for Claims	8,884,885	-	8,884,885	-	-	8,884,885
Unearned Premium Liability	768,281	-	768,281	-	-	768,281
Provision for Unexpired Risk	2,425,132	-	2,425,132	-	-	2,425,132

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

Note 13d. Market risks

I. Other Price Risk

The Company 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 2021:

	2021	2020
Impact of increase in unit price on surplus or deficit	2,616,146	2,452,846
Impact of decrease in unit price on surplus or deficit	(2,616,146)	(2,452,846)

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.

II. Foreign currency risks

Through the portfolio with ANZ Investments, an amount of $2,825,727 as at 30 June 2021 (2020: $2,201,745) 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 Company's behalf as part of the investment portfolio, the fair value of these at 30 June 2021 being -$55,322 (2020: -$6,522).

NOTE 13. RISK MANAGEMENT continued

(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 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.

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.

2021	**Level 1**	**Level 2**	**Level 3**	**Total**
ANZ Investment Portfolio	48,154,037	-	-	48,154,037
	48,154,037	**-**	**-**	**48,154,037**

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

The fair value of financial instruments traded in active markets is based on quoted market prices at the reporting date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry Company, 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.

NOTE 14. AUDITORS REMUNERATION

The following fees were paid to the Audit Firm, BDO Wellington:

	2021	**2020**
	$	**$**
Audit Fees	46,636	32,872
Other Fees Paid to Auditors	-	7,340

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

NOTE 15. STAFF COSTS

	2021	**2020**
	$	**$**
Salaries and Wages	856,083	702,939
Contributions to Defined Contribution Plans	21,869	19,591
Other Staff Costs	26,427	29,123
	904,378	751,653

NOTE 16. 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 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 (2020: $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 (2020: $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.

Note 16a. Transactions with Key Management Personnel

Remuneration

The Company 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 $34,816 total (2020: $35,000). Senior executive officers are employed as employees of the Company 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:

Members of the governing body

	Remuneration $	Number of individuals
2021	34,816	8
2020	35,000	8

Senior executive officers

	Remuneration $	Other benefits $	Number of FTE
2021	176,578	29,283	0.9
2020	156,003	-	0.6

The Company 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.

NOTE 17. CONTINGENT LIABILITIES AND CAPITAL COMMITMENTS

There were no contingent liabilities as at reporting date (2020: nil). There were no capital commitments as at reporting date (2020: nil).

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 2021, 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 2021, 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	How The Matter Was Addressed in Our Audit
We considered the valuation of the provision for outstanding claims a key audit matter because of the significant judgement required by management and the directors in determining the balance as at 30 June 2021. 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. In particular, judgement arises over the estimation of payments for claims that have 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. The provision for outstanding claims includes 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 make a judgement about the volatility of the claims pattern. Relevant references in the financial statements: Refer to notes 3 and 4 to the financial statements, which also describe the elements that make up the balance.	Our audit procedures included obtaining an understanding of key controls, including key data reconciliations and management review of the estimates. Historical claims data is a key input to the actuarial estimates. Accordingly, we: o Have gained an understanding of the design and implementation of the control environment in regard to claims processing; o Re-performed claims data reconciliations; o Inspected a sample of claims paid during the year to confirm that they were supported by appropriate documentation. To assess our ability to rely on the work of the actuarial expert engaged by management, we: - Obtained the amount for the actual claims paid in the months of July and August 2021 for claims incurred pre year end and compared the total paid to the central estimate. - Considered the accuracy of claims liability in the past against actual post balance date claims; and - We checked that the data used by the Insurer's actuary was consistent with the data in the financial statements. - Assessing the disclosures in the financial report using our understanding obtained from our testing and against the requirements of the accounting standards. - We engaged an independent actuary to perform the following: o Evaluate the actuarial models and methodologies used by the Appointed Actuary in determining the provision for outstanding claims. o 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. o Recalculate the provisions based on the claims data in the financial statements.

Claims previously declined	How The Matter Was Addressed in Our Audit
We considered the valuation of the provision for 'Claims previously declined' (included within the Provision for Claims in Note 3) a key audit matter because of the significant judgement required by management and the directors in determining the balance as at 30 June 2021. The Provision for Claims includes an allowance of $1,400,000 in relation to claims which were previously declined incorrectly and are required to be paid under the Insurance Law Reform Act 1977. . Management's estimate for this provision is based on the data of previously declined claims, plus some additional allowances for direct expenses plus claims which may be lodged in future. These are 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. Relevant references in the financial statements: Refer to notes 3 and 4 to the financial statements, which also describes the elements that make up the balance.	Our audit procedures included obtaining an understanding of key controls, including key data reconciliations and management review of the estimates. Historical claims data is a key input to the actuarial estimates. Accordingly, we: o Gained an understanding of the design and implementation of the control environment in regard to claims processing; o Re-performed claims data reconciliations; To assess our ability to rely on the work of the actuarial expert engaged by management, we: - Obtained the list of incorrectly declined claims from the past 10 years and performed sample testing to assess the reason for declining the claim. - Obtained and reviewed the legal advice received regarding the incorrectly declined claims matter and the Insurance Law Reform Act 1977. - We checked that the data used by the Insurer's actuary was consistent with the data in the financial statements. - Assessing the disclosures in the financial report using our understanding obtained from our testing and against the requirements of the accounting standards. - We engaged an independent actuary to perform the following: o Evaluate the actuarial models and methodologies used by the Appointed Actuary in determining the provision for the incorrectly declined claims. o Assess key actuarial judgements and assumptions and challenged them by comparing expectations based on the expert's experience and sector knowledge.

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 Mark Bewley.

BDO Wellington Audit Limited

BDO WELLINGTON AUDIT LIMITED
Wellington
New Zealand
6 October 2021

Greystone Consulting

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29 October 2021

Nicole Jack
Chief Financial Officer
New Zealand Police Association
PO Box 12 344
WELLINGTON

Dear Bryan

Report under Section 78 of the Insurance (Prudential Supervision) Act

As requested, I attach my report to comply with section 78 of the Act.

Reliance and Limitations

This letter and attached report is for the use of the Police Health Plan (the Plan) for the purposes set out above. No use may be made of this letter and attached report by the Plan for any other purpose. No use may be made of this letter by any third party for any purpose.

I will not accept any liability or responsibility to any third party recipients of my letter or attached report under any circumstances.

No onwards distribution of this letter by the Plan to third parties other than as required by law is permitted. I understand that the attached report may be available as a public document.

Yours sincerely

Charles Cahn
Appointed Actuary

Greystone Consulting

Police Health Plan Limited

Review of Actuarial Information In, or Used In Preparation of, the Financial Statements at 30 June 2021

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 2021 of the Police Health Plan Limited (the Plan).

I have provided a "Valuation Report" dated 25 August 2021, 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

29 October 2021