



Southern Cross  
Healthcare

your health is our business

**The Southern Cross Medical Care Society**  
2007 Annual Report

**Our Mission** To provide sustainable access to value for money quality healthcare

2007

# overview of the year

- The Southern Cross Medical Care Society is in a sound financial position. The reserves strengthened throughout the year to reach \$324.1 million. Standard and Poor's reconfirmed the Society's 'A+' claims paying ability rating in February 2007.
- In the 12 months to 30 June 2007 the Society earned \$492.1 million in premiums. Claims were \$418.2 million. Industry data showed total claims settled by New Zealand health insurers in this period were worth \$590 million. Southern Cross accounted for 71% of those.
- Southern Cross membership grew by 17,356 to reach 825,725 by the end of the financial year. The Society's gain in membership accounted for 90% of the total increase in New Zealanders covered by health insurance in the 12 months to 30 June 2007.

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Annual Report  
For The Year Ended  
30 June 2007

Our membership gains tell us that people recognise the value of health insurance

Highlights of the Southern Cross Medical Care Society 2006/07 financial year include strong membership growth and a very satisfactory financial performance. We are very well positioned for the future.

In the financial year in review the Society's operating expenses were \$66.5 million, \$6.8 million lower than the previous financial year. This contributed to a surplus of \$43.9 million. When Southern Cross records a surplus, this is retained to benefit members in coming years. The current year's surplus will be taken into account when considering the premiums to be set in future years.

In the current year our membership grew by 17,356 - the highest growth in the past five years. New members, coupled with fewer cancellations, meant the Society ended the year with 825,725 members.

Our membership gains tell us that people recognise the value of health

covered by health insurance in the 12 months to 30 June 2007.

Southern Cross is New Zealand's largest health insurance provider, serving 60% of the total private health insurance market. We are proud of what we have achieved but we do not take our strong market position for granted. Affordability of premiums and health care remains a priority.

Our membership growth coupled with premium increases produced premium income of \$492.1 million, \$20.2 million ahead of the 2005/06 financial year.

Claims at Southern Cross Medical Care Society were \$418.2 million in the 12 months to 30 June 2007. This compares with claims last year of \$398.3 million, an increase in claims of \$19.9 million. In the past financial year, 85 cents for every \$1 received in premiums was paid to members in claims. This continues a positive trend for the Society. In the five years prior,



## chairman's report

**Jeff Todd** Chairman of the Board

insurance, particularly at a time when the public system cannot provide all health care needs on demand. Despite additional public funding, the rising cost of care coupled with increased demand, especially from an ageing population, means priorities and waiting lists are likely to be permanent features of the public system.

Our membership growth also confirmed our place as the preferred health insurance provider for New Zealanders. The Society's gain in membership accounted for 90% of the total increase in New Zealanders

Southern Cross paid out \$2 billion to members in claims or an average of 85 cents in every \$1 of premiums. Industry data shows total claims settled by New Zealand health insurers in the year to 30 June 2007 were worth \$590 million. Southern Cross accounted for 71% of those claims.

At the end of the financial year, reserves stood at \$324.1 million, reflecting the continuing financial stability and strength of the Society.

### **A+ Rating Retained**

In February 2007 credit rating agency

Standard & Poor's reaffirmed the Society's credit rating of A+ saying the rating reflects our leading market position, robust capitalisation and strong management.

The ratings agency said it viewed Southern Cross' management as strong, evidenced by a track record of controlled financial results and strategic change to maintain relevance and value in the market.

Standard & Poor's noted our ability in the highly competitive private health insurance market to maintain a leading market position through affordable product pricing and relevant and flexible product offerings. We are pleased to have this independent confirmation of our performance and financial stability.

### Premiums

As we reported last year, Southern Cross must constantly monitor health cost escalation trends to ensure that premiums are aligned as closely as possible to claims costs. Recent trends were taken into account when setting premiums early in 2007 for the 2007/08 year. Base premiums were increased on average by 5.4%. However, because premiums differ according to age groups and policies and must reflect relative risk, the range of changes to base premiums will vary from reductions of up to 9% to increases of up to 18%. For some members, other factors such as moving into a higher age band and the loss of a 10% Low Claims Reward could result in premium increases higher than the base rate increase. The end of the two-year Founding Members' Reward will also affect the level of increase in premiums paid by our founding members. This reward will have provided discounts of \$26 million to these members over its two year duration.

We have been signalling for some time now that the costs of some individuals' claims have been increasing, particularly in relation to surgical claims and especially for older members. Premiums must reflect these trends. As a not-for-profit entity, our goal is to provide a premium structure that is fair to all

members and sustains the Society long-term.

### Innovation

Sustainability and innovation are important elements of the Society's business strategy for the future. We have to respond to changes in the market, especially as premiums rise. Southern Cross has been around for more than 45 years and wishes to serve New Zealanders for another 45, and more.

Two years ago we saw that a significant number of New Zealanders, while very health conscious, did not feel the need for a traditional health insurance policy. We developed the Activa health management account to add value to their day-to-day health spending – estimated at some \$2 billion a year in New Zealand. By partnering with providers of health-related services, we have been able to provide special offers and discounts to Activa members. At the same time, we have been innovative in becoming the first health insurer to establish a relationship with a bank, to manage the savings side of the account.

Activa did not have the uptake anticipated among individuals, but it has attracted interest from the corporate sector and its marketing is now aligned to that sector.

Last year, the Society wrote off \$20 million in investment in subsidiaries, a sum which principally related to the research, technology, development and launch costs for establishing Activa – costs funded from investment capital. This year a further \$6 million has been provided to cover Activa costs. Activa's performance, while improving, continues to be carefully monitored.

While the Society took the prudent step of writing down the research, technology, development and launch costs of Activa, the investment has given us a very good platform on which to develop services and products relevant for all of our members. We are now working on projects and products as a direct result of the experience and

developments gained from the new technology and our much expanded health partner and merchant relationships. We are well advanced in a product which is expected to provide significant savings in out-of-pocket health related spend for all members. We plan to roll this out early in 2008.

### Cost-Shifts from Public Sector

Providing out-of-pocket savings and monitoring medical and claims inflation carefully is essential to maintaining the affordability of health care. We recognise the need for premiums to remain affordable while fairly reflecting the actual cost of care. We are also forced to take into account shifts in public policy in health which often have considerable implications for private patients. A case in point is laboratory testing.

The cost of laboratory tests for privately referred patients has historically been met by the public system. However, from November 2006, the Capital & Coast and Hutt Valley District Health Boards in the Wellington region began transferring this cost by charging private patients for tests. Although the Society lobbied the District Health Boards and Ministry of Health on behalf of our members, and met with the Minister of Health several times on the matter, it appears that the Wellington model may be applied in other parts of the country.

While "user-pays" will improve the finances of DHBs, the costs of the tests plus the increased administrative costs will be shifted to private patients. Effectively private patients will bear a greater financial burden than DHBs did under the previous system. From a public policy perspective, "user-pays" lab testing fails to produce a gain to the health sector and therefore has no apparent overall benefit, particularly if unaffordability drives patients back to an overstretched public system.

To date, there has been a marked lack of consultation around the introduction of this new cost-shift which effectively penalises private patients, whether they are insured

or not, and ignores the contribution they already make to public system funding through their taxes.

Of particular concern is the impact this cost-shift will have on our members. Southern Cross is closely monitoring the new regime in order to determine what changes we may need to make to policies to ensure we provide an appropriate level of cover while also providing for the resulting higher claims costs in our premiums.

### Acknowledgements

I thank the Board for their support in the effective governance of the Society over the past twelve months and I look forward to my new role as Chairman of the Society.

Dr John Matthews retired as Chairman at the end of the financial year. Dr Matthews has served on the Board since 1994 and as Chairman since June 2004. He has been a staunch advocate for our members, committed to ensuring the affordability of health insurance and to

ensuring members' continued access to the best levels of care.

His background as a clinical haematologist specialising in leukaemia, coupled with his extensive health and medical research networks, contributed greatly to his performance as both a Director and Chairman of the Society.

His understanding of patients and their needs, his knowledge of advances in medicine and medical technology and his commitment to the Society's not-for-profit ethos has ensured an excellent balance has been achieved between the levels of cover and support we provide to members and our financial performance. We thank him for his many years of service.

We welcomed Dr Douglas Baird to the Board, effective July 2007. He was appointed to fill the vacancy created by Dr Matthews' retirement. Dr Baird, who has extensive experience as a GP and

holds a number of health-related directorships, has a very broad understanding of the many issues confronting the health sector. He has served in a number of elected and advisory roles with the Auckland District Health Board, the ACC Medical Misadventure Unit and the office of the Health and Disability Commissioner. We look forward to his considerable contribution as a Director.

We also thank Dr Ian McPherson, his senior management team and our Southern Cross people for their professionalism and commitment. Finally, we thank our members for their loyalty throughout the year.

**Jeff Todd**  
Chairman



**Board of Directors (L to R)** Dr Douglas Baird, Dr Harley Gray, Carole Durbin, Phillip Meyer, Jeff Todd (Chairman), David May, Dr Susan Macken.

As a not-for-profit entity we remain focused on the affordability of our policies.

It has been an unprecedented year in the New Zealand health care sector. In the public sector there has been almost daily media coverage of waiting list issues, staffing shortages, strikes and facilities stretched to capacity.

While New Zealand mirrors other OECD countries with health spending growing faster than GDP, higher budgets do not necessarily mean higher levels of care, especially in elective surgery. Treatments are more complex and costly and a significant share of public health funding has to be allocated in high priority areas such as lowering the cost of GP visits, attacking the obesity epidemic and providing population health.

With insufficient resources in the public system to meet all needs in the area of elective surgery, health insurance is more relevant than it has ever been. Our experience supports this claim. Ministry of Health data<sup>1</sup> indicates that 105,784 elective surgical procedures were performed in public hospitals in the 2005/06

promote their policies. Despite this, New Zealanders have recognised that Southern Cross knows health, it is our speciality, and as a not-for-profit entity we remain focused on the affordability of our policies.

In addition to being affordable, the Society aims to have its policies reflect changing market conditions and the needs of its members. For example, in the year's review of benefits, which took effect from July 2007, Southern Cross increased the maximum reimbursement that can be claimed on many of our policies for chemotherapy treatment of cancer, provided such treatment is on the PHARMAC Schedule, complies with any PHARMAC criteria and is routinely funded within the public system.

The higher benefit levels we have introduced are intended to provide more reassurance to members, and enable them to get underway with courses of chemotherapy treatment if there are delays in being able to



## chief executive's report

**Dr Ian McPherson** Chief Executive

year while Southern Cross funded 126,300 private procedures in the same period.

Our membership growth also underlines the growing importance New Zealanders are placing on having timely access to health care. We are proud of this membership growth. We now have 825,725 members; they are New Zealanders who see the need to contribute further to the cost of their care. Health insurance is increasingly competitive with a number of insurers aggressively offering brokers high incentives to

access that treatment in the public health system.

Also reviewed was the surgical procedure coverage provided in Southern Cross' traditional and Wellbeing plans, which represent some five out of six policies in force. We added 105 new procedures to the Schedule of Surgical Maximums and List of Surgical Procedures and removed five. This generally reflected that some procedures had become more common while others are no longer performed or have been renamed. At the same time,

1. Implementing The NZ Health Strategy 2006, Ministry of Health Dec 2006.

the Schedule, which also defines the maximum payouts available under RegularCare, RegularCare Plus and KiwiCare plans, was reviewed and reimbursement maximums for either the surgeon or anaesthetist fees, or both, were increased for around 650 procedures.

Significant progress was also made in streamlining our plan range from 74 plans with 206 variations to a more manageable 24 plans and 105 combinations. Our focus has been on reducing the complexity and variation of the plans we offer, and aligning the applicable rules and processes. While we want our members to have choice, too many choices can create confusion and unnecessary administrative overheads. Rationalising our plans means savings are achieved in business areas such as training, printing and IT support, while still providing a choice of products for our members. The Society must also invest in new and enhanced products to remain relevant to current and future customers. Activa is such an investment. Activa has provided Southern Cross an opportunity to show innovation in our products, systems and other skills. It is the forerunner of new services on the horizon. Activa has refreshed perceptions of Southern Cross both internally and externally, showing we are responsive to a changing market. Corporates are now finding the product of interest, and we expect further uptake in this segment. That augurs well for the future.

### External Medical Advisory Group

While the Society has always consulted widely with the medical profession to ensure our policies reflect current practice and technology where appropriate, this year we formalised the relationship, establishing a new External Medical Advisory Group to work with our Chief Medical Officer.

This group – which includes medical professionals representing a wide range of specialities – is consulted about trends in the health sector, how to encourage quality and evidence-based health care, what Southern Cross' priorities should be,

relations with medical practitioners and how to best assist Southern Cross members.

The members are Dr David Benson-Cooper, Radiology; Professor Helen Danesh-Meyer, Ophthalmology; Dr Jonathan Fox, General Practice; Dr Patrick Frengley, Internal Medicine; Mr Grant Kiddle, Orthopaedics; Dr Michael Kluger, Anaesthesia; Mr Andrew Lesperance, Nursing; Dr William Rainger, Public Health and Mr Scott Thomson, Physiotherapy.

The health landscape is ever-changing, with new technologies, techniques, issues, funding constraints and a constant drive for quality care. As the largest funder of private surgery in New Zealand, we want to make sure we are ahead of the curve and prepared for change. Our advisory group will support us in achieving these aims; their input is very important to the work of Southern Cross.

### Test the nation

When our members understand the cause of poor health, they are better equipped to do something about it. Through publications and our website, we are proactive in supporting our members to maintain good health.

In September 2006, we took that support a step further, contributing to TV One's Test The Nation - The Southern Cross Health Test, funded principally by the Southern Cross Health Trust, which is independent of the Society. Throughout the three-hour show, we took almost a million New Zealanders through a series of health questions designed by a leading epidemiologist, Dr Rod Jackson of the University of Auckland. In the months following the programme, more than 21,000 New Zealanders took the test on-line through our website.

The questions were designed to calculate a person's health knowledge and their risk of cardiovascular



(L to R) Lindsey Lawton, Chief Operating Officer Management Services; Craig Morrison, Chief Operating Officer Members' Services; Lisa Gunnery, Director Health Partners and Clinical Services; Peter Tynan, Chief Operating Officer Distribution

disease, the biggest killer in New Zealand. In fact the Society paid some \$35 million in claims last year for cardiovascular disease.

Test the Nation was very positively received by our members and the public in both the broadcast and on-line version.

### **Better Service**

Health issues can be stressful. We do not want to add to that stress by making it difficult for our members to obtain prior approvals or to finalise their claims. In January, Southern Cross ran a trial enabling members to apply for prior approval online.

Online services are a preferred channel for an increasing number of our members, with up to 50,000 unique users a month visiting our website to obtain claiming, policy and health information. We will continue

to automate processes to streamline our systems and enhance customer service through this channel.

In the coming year we will be moving forward with projects which will improve our service and provide greater support and value to our members.

### **Acknowledgements**

My thanks to the Chairman and the Board for their support during the year, as well as former Chairman Dr John Matthews who stepped down in June after 13 years on the Board. I wish him the very best for his future endeavours in business, health and leisure.

I would also like to thank my senior management team. We have very capable people in leadership roles and their drive will support the Society in our strategic growth goals. Thanks are also due to our staff, many of whom have frontline roles dealing

with our members. Their knowledge, dedication and concern for members underpins our service levels.

Finally, my thanks to all of our members. You all have a choice in your health insurance provider and we take your business and your health very seriously.



**Dr Ian McPherson**  
Chief Executive

# statement of corporate governance

The Southern Cross Medical Care Society adheres to principles designed to ensure prudent corporate governance of its affairs.

## Board of Directors

In accordance with its Rules, The Southern Cross Medical Care Society is governed by a Board of directors, the number and composition of which, is fixed from time-to-time by the Board.

To discharge its responsibilities the Board has established a process for the nomination, selection, and appointment of directors to fill casual vacancies, and for the operation of the Board, to ensure that the Board comprises directors with an appropriate range of qualifications and expertise. The Board reviews its performance and that of all directors on an annual basis.

When a Board vacancy exists, the Board, with the help of external consultants, selects a panel of candidates with appropriate qualifications taking into account the relevance of these qualifications to the Society's operations. The Board appoints the most suitable candidate who then stands for election at the next Annual General Meeting of members.

The Directors in office as at 1 July 2007 are: Jeff Todd CBE (Chairman), Dr Douglas Baird, Carole Durbin, Dr Harley Gray CNZM, Dr Susan Macken, David May, Phillip Meyer.

## Board Responsibilities

The Board endorses the principles set out in the Code of Proper Practice for directors, as approved and adopted by the Institute of Directors in New Zealand. The Board guides and monitors the business affairs of the Society on behalf of the members.

The Board is responsible for identifying areas of significant business risk and ensuring arrangements are in place to adequately manage those risks. In addition, the Board ensures that the Society meets its regulatory

obligations and performs to high ethical standards.

All directors register, and formally record, any conflicts of interest. Should a conflict of interest arise during the course of Board business the particular director involved takes no part in that discussion or the resulting decision.

## Delegation Framework

The responsibility for the day-to-day operation and administration of the Society is delegated by the Board to the Chief Executive and the senior management team. The Board ensures that this group is appropriately qualified and experienced to discharge their responsibilities, and has in place procedures to assess the performance of the Chief Executive and the management team. The Board oversees the implementation by management of operating plans and budgets, and monitors key performance indicators and progress against budget.

## Board Meetings

The Board meets formally on a scheduled monthly basis and follows guidelines that ensure all directors have available the necessary information to participate in an informed discussion of all agenda items. Separate strategic planning meetings are held in conjunction with the senior management team at least twice yearly.

## Committees

The Board has established a number of committees that meet at predetermined intervals to oversee specific business aspects.

## Audit Committee

This committee operates under a charter approved by the Board. The

committee is accountable to the Board for recommending the appointment of the external and internal auditors, directing and monitoring the audit function, and reviewing the adequacy and quality of an annual audit process.

The Audit Committee is also responsible for ensuring that requirements of the Society's Auditors are met, that the Society has an effective internal control framework, ascertaining that adequate procedures are in place to keep records in a manner which will enable them to be properly audited and that appropriate ethical standards are maintained.

The Audit Committee comprises David May (Chairman), Dr Susan Macken and Jeff Todd.

## Remuneration Committee

This committee is responsible for reviewing the remuneration and compensation of senior management of the Society, for overseeing staff remuneration policies in general and making recommendations to the Board. This committee operates under a charter approved by the Board.

This Remuneration Committee comprises Carole Durbin (Chairman), Phillip Meyer and Jeff Todd.

## Trustees

The Rules of The Southern Cross Medical Care Society provide for the appointment of three Trustees. All property belonging to the Society vests in the Trustees, who hold it in trust for the members. The Trustees, together with Mr Phillip Meyer, also act as the Investment Committee of the Board.

The Trustees in office as at the 1 July 2007 are David May, Dr John Matthews and Jeff Todd.

# board of directors

## Jeff Todd CBE

BCom, FCA, FInstD

### Chairman

Mr Jeff Todd is a Chartered Accountant, and has been a member of the Board since July 1998, Deputy Chairman from 2004 and was appointed Chairman in July 2007. He joined the Board of Southern Cross because of his belief in the critical role of the Society in supporting, with the public sector, the delivery of comprehensive, quality and affordable health care to all New Zealanders.

Mr Todd has a longstanding interest in health care and health research. He serves on the Boards of the Auckland Medical Research Foundation, the Goodfellow Foundation, Christian Healthcare Trust and the National Research Centre for Growth and Development based at the Liggins Institute.

He was invited to join the Board after a career with chartered accountants, Price Waterhouse (now PricewaterhouseCoopers) where he was Managing Partner for New Zealand and the Pacific before retiring in 1998.

He is also Chairman of NZ Guardian Trust, and the Dynasty Hotel Group and deputy Chairman of Sanfords. In 2007 he accepted an invitation to join the Board of Watercare Services, Auckland's regional bulk water supplier.

## Dr Douglas Baird

MBChB, DipObst, FRNZCGP

Dr Douglas Baird was appointed to the Board on 1 July 2007 to fill the vacancy created by Dr John Matthews' retirement.

Dr Baird is the immediate past Chairman of the Independent Practitioners Association Council (IPAC) and the current Chairman of Homecare Medical. He was a founding Director of ProCARE Health, an organisation which represents more than 500 GPs in the Auckland region. He is also a Director of Best Practice Advisory Centre (BPACnz), Dr Ponsonby White Cross and Dr Ponsonby White Cross Radiology and has served in elected and advisory roles with the Auckland District Health Board, the ACC Medical

Misadventure Unit and the Office of the Health and Disability Commissioner.

Dr Baird has a Diploma of Obstetrics, is a Fellow of the Royal New Zealand College of General Practice and has been in general practice since the late 1970s.

With extensive experience in successful commercial enterprises, Dr Baird brings to the board an excellent understanding of the health industry, particularly General Practice and regional health.

## Carole Durbin

BCom, LLB(Hons), FAMINZ, FInstD

Ms Carole Durbin was appointed as a Director of Southern Cross in August 2006.

Ms Durbin is the Chair of electricity generator Mighty River Power and retailer Mercury Energy which supplies over 600,000 people. She is also Chair of the Legal Services Agency. She is a Commissioner for the Earthquake Commission and since 2004 has been a director of Fidelity Life, the largest New Zealand-owned life, personal protection and business assurance operation in the country. She believes that her governance experience is of value to Southern Cross in its endeavours to protect and improve the health of so many New Zealanders.

A consultant to Simpson Grierson, one of New Zealand's leading legal firms, Ms Durbin has also held a number of previous Board appointments including Simpson Grierson, Transpower NZ and software developer Synergy International (now Fronde). Ms Durbin has an LLB (Hons) and a BCom (Accountancy) from Auckland University. She is a Fellow of the Institute of Directors.

## Dr Harley Gray CNZM

ChM, MMedSc, FRACS

A member of the Southern Cross Board since July 2004, Dr Harley Gray was an eminent orthopaedic surgeon at Auckland's Middlemore Hospital until 2000.

Dr Gray, who was made a Companion of the New Zealand Order of Merit in 2003, says an important

focus for him as a Director is the engagement of health professionals in quality assurance and cost containment in the private sector. He draws on his extensive medical and surgical experience to engage health professionals in these issues.

Dr Gray is a former President of the New Zealand Orthopaedic Association and the Auckland Medico Legal Society. He has served as Vice President of the Royal Australasian College of Surgeons, as a Director of Capital Coast Health and Chair of the Clinical Board and as Chief Medical Officer for South Auckland Health. He is current Secretary of South Kaipara Landcare and a member of the Institute of Directors.

## Dr Susan Macken

BSc, BCom, PhD

Dr Susan Macken, company director and business consultant, has served on the Board of Southern Cross since May 1997.

A Director of a number of companies including the Bank of New Zealand, Ezy Networks and leading reproductive services company, Fertility Associates, Dr Macken also advises on corporate strategy and governance with a broad range of industries and companies.

She has held senior executive positions in major New Zealand corporates including Fletcher Challenge and the Blue Star Group and her previous directorships include Landcare Research, NZ Racing Industry Board, Hutt Valley Health, and NZ Trade Development Board.

Dr Macken is committed to ensuring the Society is a leader in efficiency and effectiveness so that private health care is accessible and affordable to as many New Zealanders as possible.

## David May

BSc (Hons), FIAA

Mr David May joined the Board in June 2002, attracted by the opportunity to contribute his management, insurance and financial experience to the health sector. He believes that a strong, adaptable private health sector will be vital in helping the public sector meet the enormous growth in demand

over the next 20 years.

A qualified actuary, Mr May is Chairman of the Guardians of the New Zealand Superannuation Fund (NZSF), Deputy Chairman of the Government Superannuation Authority and a Director of Annuitas Management. He was the former Managing Director of the Colonial Group (NZ).

He says one of the most satisfying aspects of his Directorship has been working to ensure the Society's financial stability. He says significant strategic challenges remain; first to manage the costs of welcome but often expensive technological advances and second, to ensure members continue to enjoy affordable options for health cover.

## Phillip Meyer

FAIM, FNZIM, AF Inst D

Mr Phillip Meyer joined the Board in June 2002, seeing it as a way to contribute to improving the health of New Zealanders.

He believes Southern Cross plays an important role in health care, reducing anxiety about major health needs and helping to give New Zealanders lasting reassurance about access to quality health care.

He is an experienced company director and investment banker. He is Chairman of Australian Financial Services Group, New Zealand Institute of Management Central Inc. and Salvation Army Red Shield Appeal;

a Director of Wellington Zoo Trust, Kordia Group, Wellington Regional Orchestra Foundation Inc., New Zealand Institute of Management Inc., and Enterprise New Zealand Trust; a member of the Disciplinary Tribunal of the New Zealand Institute of Chartered Accountants and NZX Discipline; and has served on the Development Council of the Heart Research Institute (Australia) and as Chairman of the Executive Business Council of the New South Wales Cancer Council. Mr Meyer is also an Advisor to GPR Dehler (Australia).

## Summary of Meetings for Year Ended 30 June 2007

	Society Board Meetings	AGM	Strategic Workshops	Audit Committee	Remuneration Committee	Investment Committee	Group Strategic Meetings
B Davidson	2					1	
C Durbin	8	1	3		2		2
Dr H Gray	9	1	3				2
Dr S Macken	9	1	3	2			2
Dr J Matthews	10	1	3	5	3	4	2
J Todd	10	1	3	5	3	4	2
D May	10	1	3	5		3	2
P Meyer	10	1	3		3	4	2

B Davidson - retired 1 August 2006

C Durbin - appointed 1 August 2006

- appointed to Remuneration Committee in January 2007

Dr S Macken - appointed to Audit Committee in January 2007

# financial statements

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## CONSOLIDATED STATEMENT OF FINANCIAL PERFORMANCE

For the year ended 30 June 2007

	Note	Group		Parent	
		2007	2006	2007	2006
		\$000	\$000	\$000	\$000
Premium Revenue		492,099	471,906	490,940	470,751
Net Claims Expense	2	406,279	410,940	405,487	409,895
<b>Underwriting Surplus</b>		85,820	60,966	85,453	60,856
Operating Expenses	3	66,486	73,338	67,386	79,152
<b>Operating Surplus/(Deficit)</b>		19,334	(12,372)	18,067	(18,296)
Investment and Other Income	4	24,569	28,388	24,524	28,342
Goodwill Amortised	9	-	6,000	-	6,000
<b>Net Surplus before Taxation</b>		43,903	10,016	42,591	4,046
<b>Taxation</b>	5	-	-	-	-
<b>Net Surplus</b>		\$43,903	\$10,016	\$42,591	\$4,046

## CONSOLIDATED STATEMENT OF MOVEMENTS IN EQUITY

For the year ended 30 June 2007

	Group		Parent	
	2007	2006	2007	2006
	\$000	\$000	\$000	\$000
Net Surplus for the Year	43,903	10,016	42,591	4,046
<b>Reserves at Start of Year</b>	280,227	270,211	281,230	277,184
<b>Reserves at End of Year</b>	\$324,130	\$280,227	\$323,821	\$281,230

The accompanying Notes form part of these Financial Statements

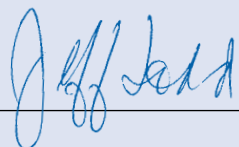


## CONSOLIDATED STATEMENT OF FINANCIAL POSITION


As at 30 June 2007

	Note	Group		Parent	
		2007	2006	2007	2006
		\$000	\$000	\$000	\$000
Current Assets	6	266,313	286,660	265,960	290,697
Non Current Assets:					
Investments	7	193,183	152,044	193,183	152,044
Investment in Subsidiaries	8	-	-	334	787
Goodwill	9	-	-	-	-
Fixed Assets	10	18,857	20,647	18,190	16,661
		212,040	172,691	211,707	169,492
<b>Total Assets</b>		478,353	459,351	477,667	460,189
Current Liabilities	11	154,223	179,124	153,846	178,959
<b>Net Assets</b>		\$324,130	\$280,227	\$323,821	\$281,230
<b>Reserves</b>		\$324,130	\$280,227	\$323,821	\$281,230

For and on behalf of the Board

  
 \_\_\_\_\_  
 04 / 09 / 2007  
 \_\_\_\_\_  
 Date

J G Todd  
**CHAIRMAN**

  
 \_\_\_\_\_  
 04 / 09 / 2007  
 \_\_\_\_\_  
 Date

S C Macken  
**DIRECTOR**

The accompanying Notes form part of these Financial Statements



## CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 30 June 2007

	Note	Group		Parent	
		2007	2006	2007	2006
		\$000	\$000	\$000	\$000
<b>Cash Flows from Operating Activities</b>					
<b>Cash was provided from:</b>					
Premium Revenue		478,166	458,087	477,008	456,932
Interest Received		27,346	26,235	27,302	26,191
Other Income		60	280	60	280
		505,572	484,602	504,370	483,403
<b>Cash was applied to:</b>					
Payment of Direct Claims		421,643	410,067	420,850	409,022
Payments to Employees		31,816	31,474	29,767	28,640
Payments to Suppliers		30,324	38,274	31,271	25,895
		483,783	479,815	481,888	463,557
<b>Net Cash Flows from Operating Activities</b>	15	21,789	4,787	22,482	19,846
<b>Cash Flows from Investing Activities</b>					
<b>Cash was provided from:</b>					
Sale of Fixed Assets		51	74	51	74
		51	74	51	74
<b>Cash was applied to:</b>					
Purchase of Fixed Assets		2,700	8,136	3,344	3,032
Investment in Subsidiaries		-	-	-	20,000
Net Investments		19,504	(2,587)	19,304	(2,137)
		22,204	5,549	22,648	20,895
<b>Net Cash Flows from Investing Activities</b>		(22,153)	(5,475)	(22,597)	(20,821)
<b>Net Increase/(Decrease) in Cash Held</b>		(364)	(688)	(115)	(975)
<b>Opening Cash Balance</b>		1,079	1,767	676	1,651
<b>Closing Cash Balance</b>	6	\$715	\$1,079	\$561	\$676

The accompanying Notes form part of these Financial Statements



## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2007

### 1. STATEMENT OF ACCOUNTING POLICIES

#### Reporting Entity

The reporting entity is The Southern Cross Medical Care Society (the "Parent"). The Group consists of The Southern Cross Medical Care Society and its subsidiaries, Southern Cross Health Services Limited, Southern Cross Healthcare Limited and Activa Health Limited. Southern Cross Healthcare Limited has not traded.

#### Statutory Base

The statutory base for the Society is the Friendly Societies and Credit Unions Act 1982 and the statutory base for the subsidiaries is the Companies Act 1993 and the Financial Reporting Act 1993.

#### Measurement Base

The measurement base adopted is Historical Cost, with the exception of Land and Buildings and Investments, for which specific accounting policies are identified.

#### Basis of Consolidation

The Group's financial statements consolidate the subsidiaries, using the purchase method. All intercompany transactions are eliminated on consolidation.

#### Accounts Receivable

Known losses for uncollectable premiums are written off against premium revenue in the year in which they become evident. In addition, a general provision is made for unidentified uncollectable premiums.

#### Financial Instruments

Financial instruments carried on the Statement of Financial Position include cash on hand, current accounts in banks, accounts receivable, accounts payable and investments. These instruments are carried at their net market value. The particular recognition methods adopted are disclosed in the individual policy statement associated with each item.

#### Fixed Assets and Depreciation

Fixed assets other than land and buildings are recorded at cost less accumulated depreciation. Depreciation is provided on a straight line basis. The depreciation rates in use are:

Motor Vehicles	20% per annum
Furniture, Fittings and Office Equipment	15-20% per annum
Computer Equipment	25-33% per annum
Computer Software	20-33% per annum
Leasehold Improvements	15-20% per annum

The land and buildings are integral to the Society's insurance activities and are therefore valued at net market values each year by an independent valuer. The adjustment in value has been recognised in the Statement of Financial Performance as required under FRS-35: Financial Reporting of Insurance Activities.

Costs incurred on assets prior to their being ready for use are recorded as work in progress. Work in progress is not depreciated until the asset is in use.

#### Foreign Currencies

Transactions denominated in a foreign currency are converted at the exchange rate at the date of the transaction. Foreign currency receivables and payables at balance date are translated at exchange rates current at balance date.



## NOTES TO THE FINANCIAL STATEMENTS (CONT.)

For the year ended 30 June 2007

### 1. STATEMENT OF ACCOUNTING POLICIES (Continued)

#### Goodwill

Goodwill (either arising on consolidation or purchased), representing the excess of the purchase consideration for subsidiary companies over the net tangible assets acquired, is recorded as an asset in the Statement of Financial Position. This asset is amortised through the Statement of Financial Performance on a straight line basis over the period during which benefits are expected to be derived, to a maximum of 5 years, subject to the Directors' assessment of any impairment of value.

#### Impairment

The carrying value of each asset is assessed annually. Where the estimated recoverable amount of the asset is less than its carrying amount, the asset is written down. The impairment loss is recognised in the Statement of Financial Performance.

#### Income Recognition

Premium Revenue represents those members' contributions relating to the current financial year. The premiums billed but relating to the following financial year are not included in premium revenue.

#### Investments and Investment Income

Investments are purchased with the intention of being held until maturity. Any differences between purchase price and face value are amortised over the term of the investment. All investments are integral to the Society's insurance business. Accordingly, they are revalued to net market values at balance date, with any valuation changes recorded in the Statement of Financial Performance. Interest income is accounted for in the Statement of Financial Performance on an accrual basis.

#### Investment in Subsidiaries

Investments in subsidiaries are stated at the Directors' valuation in the Parent's Statement of Financial Position, being the lower of Net Market Value or Net Asset Value.

#### Operating Leases

Payments made under operating leases are recognised in the Statement of Financial Performance on a basis representative of the pattern of benefits expected to be derived from the lease cost.

#### Provisions

The Provision for Outstanding Claims includes claims incurred but not reported, and claims reported but not yet paid. Refer to Note 12 for the methodology adopted.

The Provision for Advance Revenue represents that portion of premiums billed in the current financial year for cover beyond balance date.

The Provision for Founding Members' Reward represents the value of future premium rebates, committed in 2005 to members qualifying for this reward. This is a discount provided to members who joined the Society prior to 1982 and takes into account duration of membership.

The Provision for Unexpired Risk represents any deficiency of premium income in respect of policies in force at balance date, through to the next billing date of such policies. A deficiency exists where future premiums are exceeded by expected claims and expenses. Where a premium deficiency exists, any Deferred Acquisition Costs are first written down to zero. Provision is then made for any remaining deficiency. Refer to Note 12 for the methodology adopted.

All Provisions are classified as Current Liabilities. Due to the short-term nature of the liabilities, any amounts falling due beyond one year are not significant.



## NOTES TO THE FINANCIAL STATEMENTS (CONT.)

For the year ended 30 June 2007

### 1. STATEMENT OF ACCOUNTING POLICIES (Continued)

#### Deferred Acquisition Costs

Acquisition costs, incurred in obtaining insurance policies that will give rise to premium revenue in subsequent reporting periods, are recognised as an asset. The asset is amortised systematically over the reporting periods expected to benefit from the policies acquired, under the term of the related policies. Where there is a premium deficiency, the balance of Deferred Acquisition Costs is written down to its recoverable amount.

#### Statement of Cash Flows

The following are the definitions of the terms used in the Statement of Cash Flows:

Operating activities include all transactions and other events that are not investing or financing activities.

Investing activities are those activities relating to the acquisition, holding and disposal of property, plant and equipment and of investments. Investments can include securities not falling within the definition of cash.

Financing activities are those activities relating to changes in equity and debt capital, and to servicing the equity capital.

Cash is considered to be cash on hand and current accounts in banks, net of overdrafts.

As investments are held until maturity, and then reinvested, only the net purchase or matured amount is disclosed in the Statement of Cash Flows.

#### Taxation

No income tax is payable by the Parent due to its status as a Friendly Society. However, income tax is payable by the subsidiary companies.

The tax expense charged to the Group Statement of Financial Performance includes both the current year's provision and the tax effects of timing differences calculated using the liability method.

Tax effect accounting has been applied on a comprehensive basis to all timing differences. A debit balance in the Deferred Tax account, arising from timing differences or tax losses, is only recognised if there is virtual certainty of realisation.

#### Comparative Figures

Certain comparative figures have been reclassified to ensure consistency with the current year's classifications and disclosures. None of these reclassifications have had an impact on the previous year's result.

#### Changes in Accounting Policies

There have been no changes in accounting policies during the year. All policies have been applied on bases consistent with previous years.

### 2. NET CLAIMS EXPENSE

	Group		Parent	
	2007	2006	2007	2006
	\$000	\$000	\$000	\$000
Direct Claims Expense	418,165	398,335	417,373	397,290
Movement in Provision for Unexpired Risk (refer Note 12)	(11,886)	12,605	(11,886)	12,605
	\$406,279	\$410,940	\$405,487	\$409,895

Claims are predominantly short-term in nature, and settled within twelve months of being incurred. Accordingly, any development on claims is normally limited to the year in which the claim event occurred and the year following. Any reassessment of the risks borne in the previous reporting period is not considered material and therefore not reported.



## NOTES TO THE FINANCIAL STATEMENTS (CONT.)

For the year ended 30 June 2007

### 3. OPERATING EXPENSES

	Group		Parent	
	2007	2006	2007	2006
	\$000	\$000	\$000	\$000
Operating Expenses include:				
Auditor's Remuneration				
– Audit Fees	120	119	120	119
– Other Services	84	-	84	-
– Other Services (previous auditor)	-	34	-	34
Depreciation – Motor Vehicles	127	92	123	91
Depreciation – Furniture, Fittings and Office Equipment	289	332	274	313
Depreciation – Computer Equipment	1,249	1,409	1,148	1,283
Depreciation – Computer Software	4,046	2,886	1,494	1,914
Depreciation – Leasehold Improvements	139	139	139	139
Directors' Fees	362	362	362	362
Rental of Premises	1,689	1,575	1,636	1,552
Acquisition Costs	8,073	6,949	8,073	6,949
Revaluation of Fixed Assets	(1,400)	(1,323)	(1,400)	(1,323)
Change in Valuation of Investment in Subsidiaries	-	-	453	20,471
Provision for Impairment of Amounts				
Receivable from Subsidiaries	-	-	6,030	-
(Profit)/Loss on Disposal of Fixed Assets	(13)	(8)	(13)	(8)

### 4. INVESTMENT AND OTHER INCOME

	Group		Parent	
	2007	2006	2007	2006
	\$000	\$000	\$000	\$000
Income from Fixed Interest and Cash Investments	30,381	29,059	30,336	29,013
Unrealised Movement in Valuation of Investments	(5,872)	(951)	(5,872)	(951)
Other Income	60	280	60	280
	\$24,569	\$28,388	\$24,524	\$28,342

### 5. TAXATION

	Group		Parent	
	2007	2006	2007	2006
	\$000	\$000	\$000	\$000
Net Surplus before Tax	43,903	10,016	42,591	4,046
Surplus not assessable	(49,074)	(31,490)	(42,591)	(4,046)
	(5,171)	(21,474)	-	-
Permanent Differences	(1,904)	34	-	-
Timing Differences	542	172	-	-
	(6,533)	(21,268)	-	-
Tax Losses utilised	-	-	-	-
Deficit (tax losses carried forward)	(6,533)	(21,268)	-	-
Tax at 33%	-	-	-	-
Prior year under/(over)-provision	-	-	-	-
	-	-	-	-

The Group has tax losses carried forward of \$28,105,000 at 30 June 2007 (30 June 2006 \$21,671,000).


**NOTES TO THE FINANCIAL STATEMENTS (CONT.)**

For the year ended 30 June 2007

**6. CURRENT ASSETS**

	Group		Parent	
	2007 \$000	2006 \$000	2007 \$000	2006 \$000
Cash at Bank	715	1,079	561	676
Investments (refer Note 7)	217,727	244,544	217,427	244,444
Amounts Owed by Related Parties (refer Note 14)	45	295	775	5,221
Premium Accounts Receivable	37,770	34,514	37,770	34,514
Other Accounts Receivable	10,056	6,228	9,427	5,842
Deferred Acquisition Costs	-	-	-	-
	\$266,313	\$286,660	\$265,960	\$290,697

Deferred Acquisition Costs have been written down in both the Parent and the Group by \$277,000 at 30 June 2007 (30 June 2006 \$5,733,000) due to the existence of a premium deficiency.

**7. INVESTMENTS**

	Group		Parent	
	2007 \$000 Valuation	2006 \$000 Valuation	2007 \$000 Valuation	2006 \$000 Valuation
New Zealand Government Stock				
- Face Value	1,500	2,500	1,500	2,500
- Revaluation	(49)	4	(49)	4
- Unearned Premium	(14)	4	(14)	4
	1,437	2508	1,437	2,508
State Owned Enterprise Bonds				
- Face Value	10,000	6,000	10,000	6,000
- Revaluation	(366)	(45)	(366)	(45)
- Unearned Premium	(3)	7	(3)	7
	9,631	5,962	9,631	5,962
Local Body Stock				
- Face Value	35,000	16,000	35,000	16,000
- Revaluation	(946)	(78)	(946)	(78)
- Unearned Premium	(71)	-	(71)	-
	33,983	15,922	33,983	15,922
Other Bonds				
- Face Value	223,990	152,000	223,990	152,000
- Revaluation	(4,603)	(450)	(4,603)	(450)
- Unearned Premium	(456)	(183)	(456)	(183)
	218,931	151,367	218,931	151,367


**NOTES TO THE FINANCIAL STATEMENTS (CONT.)**

For the year ended 30 June 2007

**7. INVESTMENTS (Continued)**

	Group		Parent	
	2007 \$000 Valuation	2006 \$000 Valuation	2007 \$000 Valuation	2006 \$000 Valuation
Bank Deposits, Commercial Paper and Floating Rate Notes				
- Face Value	147,564	220,829	147,264	220,729
- Revaluation	(296)	-	(296)	-
- Unearned Premium	(340)	-	(340)	-
	146,928	220,829	146,628	220,729
	\$410,910	\$396,588	\$410,610	\$396,488
Current Assets	217,727	244,544	217,427	244,444
Non-Current Assets	193,183	152,044	193,183	152,044
	\$410,910	\$396,588	\$410,610	\$396,488

**8. INVESTMENT IN SUBSIDIARIES**

	Group		Parent	
	2007 \$000	2006 \$000	2007 \$000	2006 \$000
Opening Balance	-	-	787	1,258
Investment during year	-	-	-	20,000
Change in Valuation	-	-	(453)	(20,471)
Closing Balance	-	-	\$334	\$787

The Directors have resolved to provide sufficient financial support as may be necessary to enable the subsidiary companies to trade as going concerns.

**9. GOODWILL**

	Group		Parent	
	2007 \$000	2006 \$000	2007 \$000	2006 \$000
Cost	45,162	45,162	14,333	14,333
Accumulated Amortisation	(45,162)	(45,162)	(14,333)	(14,333)
	-	-	-	-



## NOTES TO THE FINANCIAL STATEMENTS (CONT.)

For the year ended 30 June 2007

### 10. FIXED ASSETS

	Group 2007		
	Cost/ Valuation	Accumulated Depreciation	Book Value
	\$000	\$000	\$000
Land	7,268	–	7,268
Buildings	3,533	–	3,533
Motor Vehicles	707	182	525
Furniture, Fittings and Office Equipment	4,068	3,383	685
Computer Equipment	14,424	12,382	2,042
Computer Software	20,530	18,232	2,298
Leasehold Improvements	818	278	540
Work in Progress	1,966	–	1,966
	<u>\$53,314</u>	<u>\$34,457</u>	<u>\$18,857</u>

	Group 2006		
	Cost/ Valuation	Accumulated Depreciation	Book Value
	\$000	\$000	\$000
Land	6,206	–	6,206
Buildings	3,195	–	3,195
Motor Vehicles	494	137	357
Furniture, Fittings and Office Equipment	4,110	3,116	994
Computer Equipment	13,800	11,260	2,540
Computer Software	22,944	17,457	5,487
Leasehold Improvements	818	139	679
Work in Progress	1,189	–	1,189
	<u>\$52,756</u>	<u>\$32,109</u>	<u>\$20,647</u>

	Parent 2007		
	Cost/ Valuation	Accumulated Depreciation	Book Value
	\$000	\$000	\$000
Land	7,268	–	7,268
Buildings	3,533	–	3,533
Motor Vehicles	690	176	514
Furniture, Fittings and Office Equipment	4,061	3,384	677
Computer Equipment	14,356	12,344	2,012
Computer Software	19,822	17,892	1,930
Leasehold Improvements	818	278	540
Work in Progress	1,716	–	1,716
	<u>\$52,264</u>	<u>\$34,074</u>	<u>\$18,190</u>


**NOTES TO THE FINANCIAL STATEMENTS (CONT.)**

For the year ended 30 June 2007

**10. FIXED ASSETS (Continued)**

	Cost/ Valuation \$000	Parent 2006	
		Accumulated Depreciation \$000	Book Value \$000
Land	6,206	–	6,206
Buildings	3,195	–	3,195
Motor Vehicles	477	133	344
Furniture, Fittings and Office Equipment	3,980	3,096	884
Computer Equipment	13,305	11,136	2,169
Computer Software	18,706	16,490	2,216
Leasehold Improvements	818	139	679
Work in Progress	968	–	968
	<u>\$47,655</u>	<u>\$30,994</u>	<u>\$16,661</u>

The land and buildings at 30 June 2007 are stated at market valuation as determined by Telfer Young (Auckland) Ltd, a qualified, independent Registered Valuer. The land and buildings are revalued annually on this basis. A surplus on revaluation of \$1,400,000 was recorded at 30 June 2007 (2006 \$1,323,000).

**11. CURRENT LIABILITIES**

	Group		Parent	
	2007 \$000	2006 \$000	2007 \$000	2006 \$000
Accounts Payable	5,373	4,673	4,977	4,349
Amounts Owed to Related Parties	123	132	162	549
Employee Entitlements	4,004	3,556	3,984	3,298
Provision for Outstanding Claims (Refer Note 12)	81,220	84,697	81,220	84,697
Provision for Advance Revenue	58,794	57,011	58,794	57,011
Provision for Founding Members' Reward	3,280	16,100	3,280	16,100
Provision for Unexpired Risk (Refer Note 12)	719	12,605	719	12,605
Other Provisions	710	350	710	350
	<u>\$154,223</u>	<u>\$179,124</u>	<u>\$153,846</u>	<u>\$178,959</u>

Movement on non insurance provisions:	Group		Parent	
	2007 \$000	2006 \$000	2007 \$000	2006 \$000
Provision for Founding Members' Reward				
Opening Balance	16,100	26,000	16,100	26,000
Provision Made	–	–	–	–
Amounts Utilised	12,820	9,431	12,820	9,431
Unused Amounts Reversed	–	469	–	469
Closing Balance	<u>\$3,280</u>	<u>\$16,100</u>	<u>\$3,280</u>	<u>\$16,100</u>



## NOTES TO THE FINANCIAL STATEMENTS (CONT.)

For the year ended 30 June 2007

### 12. ACTUARIAL INFORMATION

Estimates of the outstanding claims and unexpired risk as at 30 June 2007 have been carried out by John Feyter B.Sc, a Fellow of the New Zealand Society of Actuaries. The calculation of the provisions for outstanding claims and unexpired risk both comply with FRS-35: Financial Reporting of Insurance Activities and Professional Standard No. 4 of the New Zealand Society of Actuaries.

The actuary is satisfied as to the nature, sufficiency and accuracy of the data used to determine these provisions.

#### Outstanding Claims Provision:

The methodology adopted is a projected payment per member method, based on recent claims experience and selected to achieve a sensible progression of past incurred claims. The methodology includes an allowance for claims incurred but not reported, unpaid reported claims and future administration expenses associated with paying claims. The risks and uncertainties that inevitably surround claims have been taken into account in reaching the best estimate of the outstanding claims liability.

#### Key assumptions were:

- Monthly seasonality factors for claims incurred were calculated from historical data.
- Claims settlement expenses of 4% of the estimated claims.
- Claims inflation of 0% to 3.5% p.a. depending on the class of business and type of claim.

#### Unexpired Risk Provision:

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 1 July 2007. The same monthly seasonality factor is used in the outstanding claims provision

#### Key assumptions were :

- Projected claims based on claims incurred for the year to 30 June 2007 plus claims inflation of 5% p.a., plus 4% for the effect of ageing.
- Expenses based on the business plan for 2007/8, including allowance for amortisation of deferred acquisition costs.
- No explicit allowance for cancellations or transfers. These are allowed for implicitly in the inflation assumption.

Amounts for both outstanding claims and unexpired risk were not discounted due to their short-term nature.

### 13. FINANCIAL INSTRUMENTS

#### Credit Risks

In the normal course of its business the Parent and the Group incur credit risk from health insurance operations and from investment in securities. There are no significant concentrations of credit risk. The Parent and the Group have a credit policy which is used to manage this exposure to credit risk. As part of this policy, limits on exposures have been set and are monitored on a regular basis.

The maximum exposure to credit risk at balance date is:

	Group		Parent	
	2007	2006	2007	2006
	\$000	\$000	\$000	\$000
Bank Balances	715	1,079	561	676
Investments	410,910	396,588	410,610	396,488
Accounts Receivable	47,871	41,037	47,972	45,577

The above maximum exposures are net of any recognised provisions for losses on these financial instruments.

The Parent and the Group do not require any collateral or security to support financial instruments due to the quality of the organisations dealt with.



## NOTES TO THE FINANCIAL STATEMENTS (CONT.)

For the year ended 30 June 2007

### 13. FINANCIAL INSTRUMENTS (Continued)

#### Fair Values

The carrying value of cash at bank, accounts receivable, and accounts payable is equivalent to fair value.

The carrying value of investments at 30 June 2007 is equivalent to fair value, that being net market values.

#### Interest Rate Risk

As the Parent and the Group hold investments to maturity, there is no risk to the maturity value of investments due to fluctuations in market interest rates. Under FRS-35: Financial Reporting of Insurance Activities, unrealised gains and losses are reflected in the Statement of Financial Performance.

#### Liquidity Risk

The maturity profile of the investments of the Parent and Group are as follows:

	Group		Parent	
	2007 \$000	2006 \$000	2007 \$000	2006 \$000
On Call	2,300	11,050	2,000	10,950
0-6 months	172,751	220,519	172,751	220,519
7-12 months	42,676	12,975	42,676	12,975
1-2 years	41,112	54,606	41,112	54,606
2-3 years	34,231	32,711	34,231	32,711
3-5 years	73,020	35,917	73,020	35,917
Beyond 5 years	44,820	28,810	44,820	28,810
	\$410,910	\$396,588	\$410,610	\$396,488

The net bank balance is available on call. All premiums receivable are due within one month of balance date.

Nearly all liabilities are payable within one year of balance date, with the exception of a small component of the Provisions for Founding Members' Reward and Outstanding Claims.

#### Foreign Currency Risk

At 30 June 2007, the Parent and the Group had assets of \$53,000 and no liabilities denominated in foreign currencies (30 June 2006 assets of \$83,000 and no liabilities).



## NOTES TO THE FINANCIAL STATEMENTS (CONT.)

For the year ended 30 June 2007

### 14. RELATED PARTIES

#### Identity of Related Parties

Southern Cross Medical Care Society ("Society")	Parent
Southern Cross Health Services Limited ("Health Services")	100% Subsidiary of Society
Activa Health Limited ("Activa")	100% Subsidiary of Society
Southern Cross Healthcare Limited	100% Subsidiary of Society
Directors of Southern Cross Medical Care Society	Are Trustees of Southern Cross Health Trust
Southern Cross Health Trust ("Trust")	Related Party to Parent
Southern Cross Benefits Limited ("Benefits")	100% Subsidiary of Trust

All these related entities have 30 June balance dates.

The Parent and the Trust are separate legal entities operating at "arm's length". They work together in certain areas such as information technology, payroll and procurement, under fully costed service level agreements which dictate the expectations of each entity. Net costs charged to the Trust represent 3.8% of the Parent's administration costs (2006 2.6%), and to Benefits 1.2% of these costs (2006 1.2%).

Any other costs incurred by one entity on behalf of another are reimbursed monthly.

The Parent purchases healthcare services from all providers, including the Trust, on a contestable and contractual basis.

The Parent charges Benefits a fee for enabling marketing opportunities to the membership. This represents a reduction of 0.4% of the Parent's administration costs (2006 0.4%).

All related party balances are repayable on normal trading terms.

No related party transactions have taken place at nil or nominal value.

No related party balances have been written off or forgiven during the year.

Included within current assets of the Parent are amounts receivable from subsidiary companies which are repayable on demand. However, these are not currently intended to be called for payment. Provision has been made for any receivables considered to be impaired.



## NOTES TO THE FINANCIAL STATEMENTS (CONT.)

For the year ended 30 June 2007

### 15. RECONCILIATION OF NET SURPLUS WITH NET CASH FLOWS FROM OPERATING ACTIVITIES

	Group		Parent	
	2007	2006	2007	2006
	\$000	\$000	\$000	\$000
<b>Net Surplus</b>	43,903	10,016	42,591	4,046
<b>Add/(Less) non-cash items:</b>				
Depreciation	5,850	4,858	3,178	3,740
Asset Revaluation	(1,400)	(1,323)	(1,400)	(1,323)
Provision for Uncollectable Premiums	(42)	(1,043)	(42)	(1,043)
Amortisation of Goodwill	–	6,000	–	6,000
Change in Valuation of Investment in Subsidiaries	–	–	453	20,471
Amortisation of Investment Discount / Premium	(686)	(677)	(686)	(677)
<b>Add items classified as investing activities:</b>				
(Profit)/Loss on disposal of Fixed Assets	(13)	(8)	(13)	(8)
Movement in Valuation of Investments	5,868	951	5,868	951
<b>Add/(Less) movements in Working Capital items:</b>				
Accounts Receivable	(6,791)	6,816	(8,382)	8,800
Accounts Payable	1,141	(3,532)	926	(3,840)
Provision for Impairment of Amounts Receivable from Subsidiaries	–	–	6,030	–
Other Provisions	360	(665)	360	(665)
Provision for Outstanding Claims	(3,478)	(11,732)	(3,478)	(11,732)
Provision for Advance Revenue	1,783	(7,579)	1,783	(7,579)
Provision for Founding Members Reward	(12,820)	(9,900)	(12,820)	(9,900)
Provision for Unexpired Risk	(11,886)	12,605	(11,886)	12,605
<b>Net Cash Flows from Operating Activities</b>	<b>\$21,789</b>	<b>\$4,787</b>	<b>\$22,482</b>	<b>\$19,846</b>

### 16. PRINCIPAL ACTIVITY

The principal activity of the Parent and the Group is the provision of health insurance.

### 17. CREDIT RATING

On 22 February 2007 Standard & Poor's affirmed Southern Cross Medical Care Society's Insurer Financial Strength Rating of A+. This signifies the Insurer "has strong financial security characteristics".

### 18. ACTUARIAL REPORT

The five yearly Actuarial Report as required under Section 74 of the Friendly Societies and Credit Unions Act 1982 was filed with the Registrar on 13 July 2006.

### 19. SOLVENCY AND CAPITAL ADEQUACY

Solvency is assessed regularly using recognised calculation standards. The current level of solvency excess assets is considered acceptable.

The Directors consider the current level of reserves is sufficient for the requirement of maintaining financial soundness.



## NOTES TO THE FINANCIAL STATEMENTS (CONT.)

For the year ended 30 June 2007

### 20. SEGMENTAL REPORTING

The Parent and the Group operate in one industry and geographic segment, that is the provision of health insurance in New Zealand.

### 21. LEASE COMMITMENTS

At 30 June 2007 commitments under operating leases in respect of payments due to be made in the following years were:

	Group		Parent	
	2007 \$000	2006 \$000	2007 \$000	2006 \$000
Within 1 year	1,706	1,632	1,706	1,632
Between 1 and 2 years	840	1,547	840	1,547
Between 2 and 5 years	425	1,018	425	1,018
Greater than 5 years	-	68	-	68
	\$2,971	\$4,265	\$2,971	\$4,265

### 22. REMUNERATION OF DIRECTORS

Directors fees paid by the Parent for the year ended 30 June 2007 were as follows:

Director	Amount (\$)
Dr D D Baird – appointed 1 July 2007	-
B N Davidson – retired 1 August 2006	3,892
C B Durbin – appointed 1 August 2006	42,808
Dr D H Gray	46,700
Dr S C Macken	46,700
Dr J R D Matthews – retired 30 June 2007	81,700
D J May	46,700
P J Meyer	46,700
J G Todd (Chairman)	46,700
<b>Trustee</b>	
B N Davidson – retired 10 October 2006	
Dr J R D Matthews	
D J May – appointed 10 October 2006	
J G Todd	

The Parent provides Trustees and Directors with Directors and Officers Liability Insurance cover for liabilities to other parties that may arise from their positions as Trustees and Directors.

The Directors receive health insurance cover.



## NOTES TO THE FINANCIAL STATEMENTS (CONT.)

For the year ended 30 June 2007

### 23. CAPITAL COMMITMENTS

The Parent had capital commitments of \$870,000 at 30 June 2007 (2006 Nil) and the Group had capital commitments of \$1,020,000 at 30 June 2007 (2006 Nil)

### 24. CONTINGENT LIABILITIES

The Parent and the Group had no contingent liabilities as at 30 June 2007 (2006 Nil).

### 25. ADOPTION OF NEW ZEALAND INTERNATIONAL FINANCIAL REPORTING STANDARDS

In December 2002 the New Zealand Accounting Standards Review Board announced that New Zealand International Financial Reporting Standards ("NZ IFRS") will apply to all New Zealand reporting entities for reporting periods commencing on or after 1 January 2007. Entities have the option to adopt NZ IFRS for periods beginning on or after 1 January 2005.

The Parent and Group intend to implement NZ IFRS in the annual financial statements for the year ending 30 June 2008.

The Group has completed a project to assess the key differences between NZ IFRS and current accounting policies, determine the likely impacts on the financial statements from transition, and implement processes to deal with any related business impacts.

The adoption of NZ IFRS is expected to result in greater volatility of reported results in future, principally due to the requirement to include risk margins on insurance provisions.

The following items have been identified to date as requiring different treatments under NZ IFRS :-

The outstanding claims provision will be measured as the central estimate of claims incurred with an additional risk margin to allow for inherent uncertainty in the central estimate.

The adequacy of the unearned premium liability will be assessed by the Liability Adequacy Test. This will require an assessment of premium liabilities under contracts of insurance current at year end. This assessment will include an additional risk margin for inherent uncertainty in the central estimate of future claims arising from rights and obligations under these contracts.

Disposal costs will not be deducted in determining the fair value of property.

Increases in the fair value of owner-occupied property will be recorded through an Asset Revaluation Reserve instead of the Statement of Financial Performance.

Financial assets will be designated as "fair value through Profit and Loss". Fair value will be determined using bid prices, excluding disposal costs.

Premiums or discounts on financial assets will be recognised immediately in the Statement of Financial Performance.

Calculations will be performed to determine the liability for employee entitlements and any post employment benefits for employees and directors. Any change in the liability will be recognised in the Statement of Financial Performance for the year.



## Audit Report to the Members of The Southern Cross Medical Care Society

We have audited the financial statements on pages 11 to 27. The financial statements provide information about the past financial performance and financial position of the Society and Group as at 30 June 2007. This information is stated in accordance with the accounting policies set out on pages 14 to 16.

### Directors' Responsibilities

The Directors are responsible for the preparation of financial statements which give a true and fair view of the financial position of the Society and Group as at 30 June 2007 and the results of their operations and cash flows for the year ended on that date.

### Auditor's Responsibilities

It is our responsibility to express an independent opinion on the financial statements presented by the Directors and report our opinion to you.

### Basis of Opinion

An audit includes examining, on a test basis, evidence relevant to the amounts and disclosures in the financial statements. It also includes assessing:

- the significant estimates and judgements made by the Directors in the preparation of the financial statements;
- whether the accounting policies are appropriate to the Society and Group's circumstances, consistently applied and adequately disclosed.

We conducted our audit in accordance with New Zealand Auditing Standards. We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to obtain reasonable assurance that the financial statements are free from material misstatements, whether caused by fraud or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Our firm has also provided other services to the Society and Group in relation to accounting advisory services. Partners and employees of our firm may be members of the Society and deal with the Society and Group on normal terms within the ordinary course of trading activities of the business of the Society and Group. These matters have not impaired our independence as auditor of the Society and Group. The firm has no other relationship with, or interest in, the Society or any of its subsidiaries.

### Unqualified Opinion

We have obtained all the information and explanations we have required.

In our opinion:

- proper accounting records have been kept by the Society as far as appears from our examination of those records;
- the financial statements on pages 11 to 27:
  - comply with New Zealand generally accepted accounting practice;
  - give a true and fair view of the financial position of the Society and Group as at 30 June 2007 and the results of their operations and cash flows for the year ended on that date.

Our audit was completed on 4 September 2007 and our unqualified opinion is expressed as at that date.

**KPMG**  
**AUCKLAND**

# directory

## **The Southern Cross Medical Care Society**

### **Registered Office**

Private Bag 99934  
181 Grafton Road,  
Newmarket, Auckland  
Ph: 09 356 0900  
Fax: 09 366 1423

### **Website:**

[www.southerncross.co.nz](http://www.southerncross.co.nz)



**Southern Cross**  
Healthcare

