



Southern Cross
Healthcare

Not for profit. For you.

The Southern Cross Medical Care Society
2009 Annual Report

2009



contents

Chairman's Report	1
Chief Executive Officer's Report	4
Statement of Corporate Governance	7
Board of Directors	9
Financial Statements	10

Annual Report
For The Year Ended
30 June 2009

overview

for the year ended 30 June 2009

Your Society is proudly not-for-profit and in a strong financial position. So, in the past year, we set out to return the best possible value to members.

The Society paid for more than half a billion dollars in healthcare services for New Zealanders, funding 150,000 elective surgical procedures in the process.

This year, for every \$1 of premium income received, the Society incurred claims of 96.6 cents to meet the costs of members' healthcare treatments.

Returning the best possible value in the face of rapidly rising healthcare costs meant a deliberate strategy to be in deficit.

Even so, the Society remains in a solid financial position. We have no debt and investments valued at \$411.4 million at 30 June 2009. The Society retained its A+ financial strength rating from Standard & Poor's in February 2009.

The membership grew by 8,155 to a total of 843,122, demonstrating the value people continue to place on their Southern Cross health insurance.



chairman's report

Graeme Hawkins Chairman of the Board

**Delivering value
for the Society's
growing
membership.**

This is my first report to the members of The Southern Cross Medical Care Society since my appointment as Chairman on 1 July 2009. It is pleasing, therefore, to tell you the Society is in good shape and is continuing to deliver value for its growing membership.

For every dollar paid by members in premiums during the year, the Society incurred 96.6 cents in claims to meet the costs of healthcare treatment. Few other insurers would come close to that level of reimbursement.

As a not-for-profit organisation operated for the benefit of its members, that statistic demonstrates the Society's core purpose better than any other number in this Annual Report.

Unfortunately, that statistic also hints at the increasingly worrying trend of rising healthcare costs. Premiums will inevitably increase because that level of claims reimbursement is unsustainable in the medium to long term.

The Society is in a very solid financial position.

Our performance

Despite the impact of the economic environment on consumers, the Society's membership continued to grow during the year, up 8,155 to 843,122. This contrasts with many other health insurers who lost customers during the period. It also consolidates Southern Cross's position as insurer of choice for more than 60% of the New Zealanders who have health insurance.

Southern Cross's net membership growth again underlines the importance members attribute to their health cover. In uncertain times, we provide reassurance that members will be able to access important healthcare treatment when they need it.

The Society produced a deficit of \$14.4 million for the year. The story behind that deficit is almost all about claims costs.

During the year the Society earned \$544.2 million in premium income (up 4% on last year) and incurred \$525.6 million in claims (up 13.2% on last year). With claims increasing faster than premiums, the claims to premiums ratio grew from 88.7% a year ago to the very high 96.6% in the latest period.

Value

The value Southern Cross is delivering for members is underlined when you compare the Society with other New Zealand health insurers. If you take Southern Cross out of the equation, the average claims to premium ratio for other insurers was around 70%.

As a further point of comparison, over the long term the Society has aimed to return an average of around 85 cents in claims for every dollar of premium, with the remainder used to meet the costs of providing our health insurance services and keeping the Society's



Board of Directors (L to R) David May, Phillip Meyer, Mark Verbiest, Dr Douglas Baird, Graeme Hawkins, Carole Durbin.

financial reserves at prudent levels. So, even by our own standards, the current claims to premiums ratio is very high.

Operating expenses were \$72.9 million - only slightly up on last year's \$72.1 million despite having a growing membership to provide services to.

Premium impacts

At the outset of the past financial year the Society had anticipated strong growth in claims costs and had deliberately budgeted to use its strong financial position to help cushion members from the consequential impact of premium increases.

Even so, the Society has had to increase premiums for many members in the past year and it seems inevitable that trend will continue. It would be unsustainable for the Society to operate in deficit indefinitely. Premiums must reflect the cost of claims. The Chief Executive

Officer's report will expand on this subject and outline some of the ways we're trying to address this cost spiral.

I would like to emphasise that the Society is in a very solid financial position. We have no debt and our investment portfolio, valued at \$411.4 million at the end of the financial year, generated \$30.1 million of income – in effect moderating members' premiums by approximately five cents for every premium dollar.

It is notable, also, that during the year Standard and Poor's confirmed the Society's A+ financial strength rating for the seventh consecutive year.

Acknowledgements

To conclude, I would like to thank all Board members for their hard work and commitment during the year. I would also like to thank Susan Macken, who retired on 30 June, for her 12 years service as a Director,

and to pay special tribute to Jeff Todd who also retired on 30 June 2009 after 11 years on the Board, including the past two years as Chairman.

My thanks also to Chief Executive Officer, Dr Ian McPherson, and his team for their hard work and dedication to the cause of delivering value to members.

Finally, thanks to you, the members of the Society for your continuing loyalty. I look forward to meeting many of you at the Annual General Meeting on 26 November, details of which will be posted to you from late October.

Graeme Hawkins
Chairman

Director Meeting Attendance for Year Ended 30 June 2009

	Society Board Meetings	AGM	Strategic Workshops	Audit Committee	Remuneration Committee	Investment Committee	Constitutional Committee	Group Strategic Meetings
JG Todd	9	1	2	5	5	3	3	7
Dr DD Baird	9	1	2		1			7
Ms CB Durbin	9	1	2		5	4	3	7
Dr DH Gray	2							
GS Hawkins	6	1	2	3	1	1	3	5
Dr SC Macken	9	1	2	5				7
DJ May	9	1	2	5		4		7
PJ Meyer	9	1	2		5	4		7
MJ Verbiest	6	1	2				3	5

Dr DH Gray - retired from the Board 1 September 2008

GS Hawkins and MJ Verbiest - appointed to the Board 1 October 2008

GS Hawkins - appointed to the Audit Committee 1 October 2008

GS Hawkins and Dr DD Baird - appointed to the Remuneration Committee 1 April 2009

GS Hawkins - appointed to the Investment Committee 1 April 2009

We are trying very hard to make premiums as affordable as possible.

I share the Chairman's pleasure in being able to update you on a successful year for the Society.

Some commentators might think it is odd to describe a year in which we had a deficit of \$14.4 million as successful. But there is a difference between Southern Cross and most other large business entities. While we are commercial and competitive, we are also proudly not-for-profit and in a strong financial position. So we have been focused on returning the best possible value to members during this economic recession.

With that said, I don't want to gloss over a worrying trend in the escalation of claims costs. For many years we've seen the cost of healthcare services climbing well above the rate of inflation. It's an issue for governments and funders all around the developed world. And, as the trend continues, an increasing proportion of people find it harder and harder to afford healthcare.

procedures and rising charges from healthcare providers were the big drivers, each accounting for roughly half of the increase.

It is an inescapable fact that increasing claims costs make premium increases inevitable. We acknowledge that this is worrying for members.

For a number of years now premium affordability has been a very high priority for the Society. And, while there's a limit to how much we can achieve, we are doing what we can to make premiums as affordable as possible for as many people as possible.

Managing claims costs

I am pleased to report some progress in areas of claims cost management.

In the 2008-2009 year, \$85 million of claims were paid on our members' behalf to Southern Cross Affiliated Providers – medical specialists



chief executive officer's report

Dr Ian McPherson Chief Executive Officer

Premium affordability

As a not-for-profit organisation, we can put more of our premium income to work on your behalf because we don't pay dividends to shareholders. In the past year more than half a billion dollars was used to fund healthcare services for members, including around 150,000 elective surgical procedures.

At \$525.6 million, claims were up 13.2% on the previous year. More demand from members for surgical

and facilities contracted to provide specified services at agreed rates. This represents approximately 16% of the total value of all claims paid by the Society. Our analysis suggests that this would have cost the Society significantly more had those services not been delivered under an Affiliated Provider contract.

In the past year the Affiliated Provider programme has undergone significant expansion, with many new specialists added in the areas of cardiac, imaging, radiotherapy, general surgery, orthopaedics and

more. Not only does this programme save on claims costs, it is also quicker and easier for members, providers and Southern Cross.

Southern Cross has been promoting the message for some years that, whenever possible, members should seek referral to Affiliated Providers. With an increasing range and quantity of providers in the programme, and in the context of rising healthcare costs, using Affiliated Providers is an important means by which you can get good value for money.

We have also had some success in the past year ensuring claims arising from accidents or treatment injuries are met by ACC.

In recent months ACC representatives have been quoted in the media as turning down 16% of requests to fund elective surgery, compared with 10% in the previous year. However, during the past year ACC did agree to meet \$3 million of Southern Cross claims costs that we felt were accident or treatment injury related. We expect the value of disputed claims to rise in the current year as a result of our efforts to ensure that costs for accidents and treatment injuries find their proper home. It's important we do this in the interests of individual members, so they can claim on other entitlements that may arise from an ACC claim, such as home help and earnings compensation.

Engaging with providers

The Society is making significant effort to moderate claims cost inflation. But we're rapidly getting to the point where others involved in the healthcare sector have to engage around the serious affordability issue.

We have been actively talking with groups of private sector surgeons, for example, to share views on the issue of affordability. We hear the argument that they are part of a globalised workforce; we point out that if their prices increase to reflect overseas rates, fewer New Zealanders will be able to afford private surgical services.

We hear the argument that it's the job of the insurer to meet those costs for New Zealanders so it's not the patient's problem; we point out that it is the patient's problem because increasing claims costs mean higher health insurance premiums. Southern Cross is not-for-profit - there are no profit margins for us to cut.

We see general practitioners playing a critical role in this issue, as a trusted advisor of both the patient and the payer. Southern Cross has been involved at various general practitioner conferences and engaged with a broad range of PHOs, IPAs and individual GP practices over the past year, on a range of common interests. I believe GPs understand that something has to change and they can play an important role for Southern Cross members. We are keen to work closely with GPs to explore how we can act together to address these issues.

Over 65s

Unfortunately rising claims costs, and hence premium increases, have tended to be most pronounced for older members, who place heavy reliance on their insurance cover to access treatment that will help keep them as fit and active as possible. In the year just gone 32% of all members aged 65 years or older made a claim for an elective surgical procedure.

Any premium relief for members in the 65 and older age bracket would be a cause for celebration, so it was encouraging in mid 2008 that the National Party and United Future's Peter Dunne were supportive of a tax rebate on health insurance premiums for over 65s. Sadly, with the deteriorating state of the economy, the rebate did not become part of the National Party's election promises. Even so, we have hopes that the Government may adopt this policy in the future as the economy improves, and we continue to advocate for this on our members' behalf.

In the meantime, many older members have been looking to downgrade their insurance plan,

trading off cover for some healthcare services in return for lower premiums. We certainly encourage older members to do this if premium affordability becomes an issue, rather than relinquishing health insurance and going into the uncertain territory of public health service waiting lists.

Fringe Benefit Tax

Another area that is worthy of Government consideration is an exemption from Fringe Benefit Tax for employers who subsidise their employees' health insurance premiums. Already, employers' low-cost health and wellness initiatives can be provided to staff without necessarily incurring FBT. Providing an exemption from FBT to health insurance premiums would deliver some welcome relief and strong encouragement to employers who invest in health insurance subsidies for their staff. In the current economic climate, we believe the Government would see a strong payback through maintaining or growing access to private elective surgery for many thousands of middle income New Zealanders who might otherwise fall back on the public health system for their healthcare.

New Technology

An ongoing challenge for Southern Cross is achieving a balance between premium affordability and access to services. We would like to provide cover for every new medical technology or drug that comes onto the market but they typically come at a significantly greater cost. Consequently, the premiums we would need to charge members would be beyond what many are prepared or able to pay.

Where we assess through consultation and international literature review that a new service has a clear and cost effective advantage for members, the Society may add it to the List of Surgical Procedures covered by members' policies. However, if that service does not appear to offer clear and cost effective benefits we have to take a more circumspect view in the interests of premium affordability.

An example of a new medical technology is robot-assisted prostatectomy surgery. Conventional prostatectomy methods tend to cost in the vicinity of \$15,000-\$20,000 per procedure. The robot-assisted version typically costs in excess of \$30,000. The available evidence does not demonstrate faster recovery times or better outcomes so, in our view, it is hard to justify paying an additional \$15,000 for each of these operations. The difference in cost for one prostatectomy could pay for 10 colonoscopies, four cataract removals or a hip replacement.

This can be a source of frustration for members when they have been told by their surgeon who uses the robot-assisted procedure that it is the best option for them. Ultimately it is up to the member, in consultation with their specialist, to decide what treatment option is best for them. However, we feel Southern Cross's decision not to fully fund the robot-assisted procedure is the right stance to try to keep a lid on claims cost inflation.

Cancer care

The situation is similar when it comes to non-Pharmac approved chemotherapy drugs. Pharmac has a robust and professional assessment process designed to achieve the best possible efficacy and value for money from the Government's expenditure on pharmaceuticals. By using Pharmac guidelines for pharmaceutical funding, Southern Cross ensures it too achieves the best possible value on behalf of members.

The alternative – funding any chemotherapy drugs prescribed for patients – would have very serious impacts on health insurance premiums. It would, in effect, encourage members to opt out of the generally good public cancer care system into the private sector to access non-Pharmac approved drugs, and consequently raise costs for the entire membership.

Health Minister Tony Ryall has told his District Health Boards that cancer care must be one of their main priorities. We agree. Our view is that it would be very unwise for health insurers to do anything that would reduce public confidence in, or utilisation of, the public health system's cancer care services.

Laboratory Tests

The Society acts as an advocate for our members on a number of key issues, and a very good recent example relates to a shift to user pays for lab tests prescribed by private specialists. In the past year our members actively supported our stand against the introduction of charges for lab tests by the Auckland region's DHBs, sending more than 8,000 emails and many written surveys and submissions to express their views. The Government subsequently placed a moratorium on the further roll-out of that regime while the effects of it in the Wellington region (where it was introduced in 2007) could be reviewed.

We continue to oppose this "cost shift" from taxpayer funding, not only because of the impact on private patients' wallets (either directly or through increasing health insurance premiums), but also because it could discourage people from accessing important tests that could help diagnose their health conditions. The Government's review is now underway and Southern Cross will continue to play an active role in the process on behalf of members.

Plus Programme

Southern Cross continues to look for ways to add value for our members. The Southern Cross Plus Programme, which launched in February 2008, has been working well in this regard.

Over the last 12 months the Plus Programme has delivered significant value to members through the Alive magazine, and through members taking advantage of special offers

with our retail Plus Partners.

Most members are able to find one or more of the elements of the programme to their liking - younger members are redeeming the vouchers, families engage in reading the magazine and a wide range of members are using the directory to find Affiliated Providers for surgical or diagnostic procedures - there is something in it for everyone.

Looking ahead, our goal is for the Plus card to become the cornerstone of easier electronic claiming and the growing range of Plus Partners will continue to make offers to members that represent good value.

Service levels

It will be apparent from what you have read that the Society is actively engaged in a very broad range of challenges and opportunities on behalf of members. In that context, it is a source of great pleasure to acknowledge that the Southern Cross team has continued to deliver first-rate day-to-day service to members over the past year.

We employ a range of measures to benchmark our service levels, including turnaround time for claims and prior approval applications, the time taken to answer your phone calls, and customer satisfaction. In all of these areas our staff have been consistently meeting or exceeding targets, and in many cases are delivering world class service.

I would like to thank all Southern Cross staff for their dedicated efforts during the year.



Ian McPherson
Chief Executive Officer

statement of corporate governance

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

Board of Directors

The Southern Cross Medical Care Society is governed by a Board of Directors who are elected by members of the Society. The Board is the overall and final body responsible for all decision-making within the Society.

The Board operates in accordance with the Society's Rules and the Board of Directors' Charter, both of which are available to view at www.southerncross.co.nz/board.

The Board Charter describes its role and responsibilities and regulates internal Board procedure. The Board reviews its performance and that of all Directors on an annual basis. The Board has also delegated a number of its responsibilities to Board Committees.

The Directors in office as at 1 July 2009 are:

Graeme S Hawkins (Chairman)
Dr Douglas D Baird
Carole B Durbin
David J May
Phillip J Meyer
Mark J Verbiest

Trustees

Consistent with the Friendly Societies and Credit Unions Act 1982, 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. Trustees have the power to invest the Society's funds. In accordance with the Society's Rules, Trustee recommendations and decisions are subject to approval by the Board.

Consistent with good governance principles and to ensure no confusion as to accountabilities, the Trustees are also Directors of the Society.

The Trustees in office as at 1 July 2009 are: Carole Durbin and David May. Jeff Todd retired on 30 June 2009. Graeme Hawkins has been nominated for election as a Trustee at the Society's Annual General Meeting on 26 November 2009.

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 has also adopted its own Code of Conduct and Ethics Policy to provide guidance to the Board, management and employees on how it expects them to conduct themselves when undertaking business on behalf of the Society. This Policy is available to view at www.southerncross.co.nz/board.

The Board believes that all employees should be protected from dismissal or disadvantage if they, in good faith and by following the correct process, report their concerns about serious wrongdoing within the organisation. Accordingly the Board has adopted a Protected Disclosures Policy and through this seeks to promote an open, honest and transparent working culture.

The Board guides and monitors the business affairs of the Society on behalf of the members. It ensures that the Society complies with all legal and regulatory obligations.

The Board is responsible for identifying areas of significant business risk. Managing risk is central to the sustainability of the Society's business in order to:

- Protect value for members;
- Fulfil governance and oversight obligations to members and regulators;

- Assess and manage the impacts of potential risks on members and the Society; and
- Support the Society in executing its strategy and achieving strategic goals.

The Board has adopted a Risk Management Framework for managing the full spectrum of risks faced by the Society. The Financial Statements contain further information on risk (refer to Note 17).

The Directors ensure that any transactions between related parties are conducted at arms length and on normal commercial terms (refer to Note 18 to the Financial Statements).

All Directors register, and formally record, any actual or potential 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

Responsibility for the day-to-day operation and administration of the Society is delegated by the Board to the Chief Executive Officer and 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 Officer 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 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 on a scheduled basis.

Committees

The Board has established a number of committees that meet at predetermined intervals to oversee specific business aspects. Each Board committee has a charter approved by the Board summarising the role, rights, responsibilities and membership requirements for that committee. The Board annually reviews the charters of the Board committees and their performance against those charters. The charters are available to view at www.southerncross.co.nz/board.

Audit Committee

The Audit Committee's formal objectives include:

- Assist the Board in discharging its responsibilities relative to financial reporting;
- Ensure that adequate internal controls are in place;
- Ensure the Board makes informed decisions regarding accounting policies, practices, and disclosures;
- Review the external auditors' qualifications, performance and independence; and
- Review the scope and outcome of the internal audit function.

The Audit Committee is also responsible for ensuring that requirements of the Society's Auditors are met, 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), Graeme Hawkins and Phillip Meyer.

Remuneration Committee

The Remuneration Committee's formal objectives include:

- Assist the Board in establishing and monitoring remuneration policies and practices for the Chief

Executive Officer and other senior executives in subsidiary, associated and joint venture entities;

- Provide advice to the Board on the remuneration, employment conditions and performance management of the organisation's Chief Executive and senior executives; and
- Review and make recommendations to the Board on non-executive Director remuneration.

The Remuneration Committee comprises Carole Durbin (Chairman), Douglas Baird and Graeme Hawkins.

Nominations Committee

The Nominations Committee's formal objectives are to review the composition of the Board annually and make recommendations to the Board where considered necessary to ensure the Board comprises non-executive Directors with an appropriate mix of skills and experience. When a Board vacancy exists, the Nominations Committee, with the help of external consultants, selects a panel of candidates with appropriate qualifications taking into account the relevance of those qualifications to the Society's operations, the skills and experience of existing Board members, and succession planning. The Board appoints the most suitable candidate who then stands for election at the next Annual General Meeting of members. The Nominations Committee comprises Graeme Hawkins (Chairman), Carole Durbin and David May.

Investment Committee

The Investment Committee's role is to assist the Board in fulfilling its oversight responsibility for the investment assets of the Society. The Committee is responsible for formulating overall investment policies, subject to approval by the Board, and establishing investment guidelines. The Committee monitors the management of the portfolios for compliance with the investment policies and guidelines and for meeting performance objectives over time. The Investment Committee comprises the Trustees and additional Directors: Graeme Hawkins, Mark Verbiest and Phillip Meyer (Chairman).

Constitutional Committee

The Constitutional Committee meets on an ad-hoc basis. Its formal objectives include:

- Review all constitutional documentation, policies and procedures against current corporate governance best practice;
- Make recommendations to amend constitutional documentation (including Board and committee charters), policies and procedures where appropriate; and
- Review and if appropriate make recommendations to the Board as to updating the form and content of the Notice of Meeting for the Society's AGM and the Annual Report to members of the Society.

The Constitutional Committee comprises Mark Verbiest (Chairman), Graeme Hawkins and Carole Durbin.

External audit independence

The Audit Committee is responsible for making recommendations to the Board concerning the appointment of external auditors and their terms of engagement. In September 2008 the Board approved the recommendation of the Audit Committee to re-appoint KPMG as the external auditors for the year ended 30 June 2009. Members approved the re-appointment of KPMG as auditors at the Annual General Meeting in November 2008.

The Board is committed to auditor independence. The Audit Committee reviews the independence and objectivity of the external auditors. The Audit Committee has a policy, the Auditing and Non-auditing Services Policy, which defines the services that may be conducted by the external auditors and the associated approval process.

Loans to Directors

The Southern Cross Medical Care Society does not make loans to Directors.

board of directors

Graeme Hawkins

(BSC, BCom, ACA, FlntSD)

Chairman

Graeme Hawkins has been a professional director for 16 years. He was appointed to the Southern Cross Board in October 2008, and appointed Chairman on 1 July 2009.

He is Chairman of Watercare Services, Southern Cross Health Trust and Southern Cross Benefits. He is a director of Ballance Agri-Nutrients Co-Operative, Cavalier Corporation, and Southern Cross Hospitals and was an independent director of Fonterra Co-operative Group until 2007.

Earlier in his career he held a number of strategic and financial roles at Fletcher Challenge and is a former CEO of Dominion Breweries. Mr Hawkins has Bachelor of Science and Commerce degrees and is an Associate Chartered Accountant.

Dr Douglas Baird

(MBChB, DipObst, FRNZCGP)

Dr Douglas Baird was appointed to the Southern Cross Board in July 2007.

He is Chairman of Auckland Medical Benevolent Fund, a Director of Dr Ponsonby-White Cross, and Managing Director of Aotea Health Services. He is a Trustee/Director of Southern Cross Health Trust and subsidiaries.

Dr Baird is a past Chairman of the Independent Practitioners Association Council (IPAC), was a founding Director of ProCARE Health (which represents more than 500 GPs in Auckland) and of BPACnz (an organisation dedicated to effective use of resources by health providers). He 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 worked in general practice from the late 1970s until 2007.

Carole Durbin

(BCom, LLB(Hons), FAMINZ, FlntSD)

Carole Durbin was appointed to the Southern Cross Board in August 2006.

She is the Chair of electricity generator Mighty River Power and retailer Mercury Energy. She is also Chair of the Legal Services Agency and Damwatch Services, and a Director of New Zealand-owned Fidelity Life. She is a Trustee/Director of Southern Cross Health Trust and subsidiaries.

A consultant to law firm Simpson Grierson, Ms Durbin has also held a number of previous Board appointments including Simpson Grierson, Transpower NZ, software developer Synergy International (now Fronde), and was an Earthquake Commissioner (retired April 2009). Ms Durbin has an LLB (Hons) and a BCom (Accountancy) from Auckland University. She is a Fellow of the Institute of Directors.

David May

(BSc(Hons), FIAA)

David May joined the Southern Cross Board in June 2002, attracted by the opportunity to contribute his management and financial experience to the health sector.

A qualified actuary, Mr May has had extensive involvement in superannuation funds management in New Zealand, Australia, Asia and the UK. He 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. Former management roles include Managing Director of the Colonial Group (NZ), CEO of Jacques Martin in New Zealand, and CEO of Colonial's regional Asian operations based in Hong Kong. He is a Trustee/Director of Southern Cross Health Trust and subsidiaries.

Phillip Meyer

(FAIM, FNZIM, AF Inst D)

Phillip Meyer is an experienced company director and investment banker who joined the Southern Cross Board in June 2002.

He is Chairman of Australian Financial Services Group, the New Zealand Institute of Management Inc., and the New Zealand Institute of Management Central Inc.; Deputy Chairman of the Institute of Directors (Wellington Branch); Director of Kordia Group; Independent Director of the Institute of Financial Advisers; Trustee of the Enterprise New Zealand Trust; member of the Disciplinary Tribunal of the New Zealand Institute of Chartered Accountants, the NZ Markets Disciplinary Tribunal and the Institute of Directors National Council. Mr Meyer is also an Advisor to GPR Dehler (Australia) and in 2008 was appointed as one of two Crown Monitors of the Whanganui District Health Board. He is a Trustee/Director of Southern Cross Health Trust and subsidiaries.

Mark Verbiest

(LLB)

Mark Verbiest, a lawyer and professional director, was appointed to the Southern Cross Board in October 2008. He is also a Trustee of Southern Cross Health Trust, a Director of AMP Haumi Management Ltd (manager of NZX-listed AMP NZ Office Trust) and Bear Fund NZ, an Independent Director of Gas Industry Company Ltd (which co-regulates the gas industry), Chairman of Apitimize, a small internet software company, and a consultant to law firm Simpson Grierson.

From late 2000 until June 2008 he was a member of Telecom New Zealand's senior executive team and Group General Counsel, overseeing several corporate units as well as being accountable for the International and Yellow Pages business units.

financial statements

Consolidated Income Statement	11
Consolidated Statement of Movements in Reserves	11
Consolidated Balance Sheet	12
Consolidated Statement of Cash Flows	13
Notes to the Financial Statements	14 - 39
Audit Report	40



CONSOLIDATED INCOME STATEMENT

For the year ended 30 June 2009

	Note	Group		Society	
		2009	2008	2009	2008
		\$000	\$000	\$000	\$000
Premium revenue		544,190	523,267	544,190	523,267
Net claims expense	3	525,553	464,209	525,553	464,209
Underwriting surplus		18,637	59,058	18,637	59,058
Operating expenses	4	72,899	72,077	70,915	70,981
Operating surplus / (deficit)		(54,262)	(13,019)	(52,278)	(11,923)
Investment and other income	5	39,882	20,846	38,107	19,860
Surplus / (deficit) before taxation		(14,380)	7,827	(14,171)	7,937
Taxation	6	-	-	-	-
Surplus / (deficit) for the year		(14,380)	7,827	(14,171)	7,937

CONSOLIDATED STATEMENT OF MOVEMENTS IN RESERVES

For the year ended 30 June 2009

		Group		Society	
		2009	2008	2009	2008
		\$000	\$000	\$000	\$000
Surplus / (deficit) for the year		(14,380)	7,827	(14,171)	7,937
Movement in asset revaluation reserve		(1,700)	300	(1,700)	300
Total recognised income and expense		(16,080)	8,127	(15,871)	8,237
Reserves at the start of the year		329,332	321,205	329,133	320,896
Reserves at the end of the year	7	313,252	329,332	313,262	329,133

The accompanying Notes form part of these Financial Statements




CONSOLIDATED BALANCE SHEET

As at 30 June 2009

	Note	Group		Society	
		2009 \$000	2008 \$000	2009 \$000	2008 \$000
Assets					
Cash and cash equivalents		976	1,092	858	985
Premium and other receivables	8	52,276	51,701	52,442	55,659
Investments	9	411,409	413,494	411,409	413,494
Investment in subsidiaries	10	-	-	-	-
Property and equipment	11	13,560	14,511	13,556	14,482
Intangible assets	12	6,185	5,149	6,117	5,037
Total assets		484,406	485,947	484,382	489,657
Liabilities					
Payables	13	17,159	15,306	17,125	19,216
Employee benefits	14	7,181	6,785	7,181	6,784
Insurance contract liabilities	15	146,814	134,524	146,814	134,524
Total liabilities		171,154	156,615	171,120	160,524
Net assets		313,252	329,332	313,262	329,133
Reserves		313,252	329,332	313,262	329,133

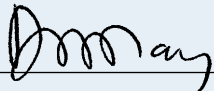
For and on behalf of the Board



G S Hawkins
CHAIRMAN

01/09/2009

Date



D J May
DIRECTOR

01/09/2009

Date

The accompanying Notes form part of these Financial Statements



CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 30 June 2009

	Note	Group		Society	
		2009 \$000	2008 \$000	2009 \$000	2008 \$000
Cash flows from operating activities					
Premium revenue		544,662	520,141	544,662	520,141
Income from investments		31,353	34,216	31,339	34,178
Other income		2,225	1,000	50	50
Payment of claims		(512,207)	(466,102)	(512,207)	(466,102)
Payments to employees		(37,242)	(34,338)	(35,539)	(32,503)
Payments to suppliers		(34,000)	(32,438)	(33,519)	(33,290)
Net cash flows from operating activities	19	(5,209)	22,479	(5,214)	22,474
Cash flows from investing activities					
Net proceeds/(payments) for property and equipment		(2,397)	(869)	(2,403)	(865)
Payments for intangible assets		(2,579)	(4,798)	(2,579)	(4,450)
Net proceeds/(payments) for investments		10,069	(16,435)	10,069	(16,735)
Net cash flows from investing activities		5,093	(22,102)	5,087	(22,050)
Net increase/(decrease) in cash and cash equivalents		(116)	377	(127)	424
Opening cash and cash equivalents		1,092	715	985	561
Closing cash and cash equivalents		976	1,092	858	985

The accompanying Notes form part of these Financial Statements



NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2009

1. STATEMENT OF ACCOUNTING POLICIES

Reporting entity

Southern Cross Medical Care Society (the "Society") is a friendly society domiciled in New Zealand, registered under the Friendly Societies and Credit Unions Act 1982.

The Society's registered office is 181 Grafton Road, Auckland.

Financial statements for the Society and consolidated financial statements are presented. The consolidated financial statements of Southern Cross Medical Care Society as at, and for the year ended, 30 June 2009 comprise the Society and its subsidiaries: Southern Cross Health Services Limited, Southern Cross Healthcare Limited (non-trading) and Activa Health Limited (together referred to as the "Group").

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

The Society's primary activity is the provision of health insurance.

Basis of preparation

The financial statements have been prepared in accordance with New Zealand generally accepted accounting practice ("NZ GAAP"). They comply with New Zealand equivalents to international financial reporting standards ("NZ IFRS"), and other applicable financial reporting standards, as appropriate for public benefit entities. NZ IFRS requires all entities to determine whether they are a public benefit entity or a profit oriented entity for reporting purposes. The Directors consider that the Society is more closely aligned with the characteristics of a public benefit entity than a profit oriented entity.

The balance sheet has been presented in the order of decreasing liquidity.

The financial statements were approved by the Board of Directors on 1 September 2009.

Basis of measurement

The financial statements are prepared on the historical cost basis except that the following are stated at their fair value: investments, land and buildings, and insurance contract liabilities.

Functional and presentation currency

These financial statements are presented in New Zealand dollars (\$), which is the Group's functional and presentation currency. All financial information presented in New Zealand dollars has been rounded to the nearest thousand, unless otherwise stated.

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 15: Insurance contract liabilities
- Note 16: Actuarial information
- Note 17: Risk Management

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



NOTES TO THE FINANCIAL STATEMENTS (CONT.)

For the year ended 30 June 2009

1. STATEMENT OF ACCOUNTING POLICIES (Continued)

Basis of Consolidation

Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies, generally accompanying a control of more than one half of the voting rights. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

All intra-group balances and transactions are eliminated in preparing the consolidated financial statements.

Restatement of comparative information

Where necessary, comparative information has been restated to conform with changes in presentation in the current year.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and current account balances in bank accounts. Under NZ IFRS definitions of financial assets, cash and cash equivalents are classified as "financial assets at fair value through income statement".

Premium and other receivables

Premium and other receivables are stated at their cost less impairment losses. Impairment losses for uncollectible premiums are written off against premium revenue in the year in which they are incurred. Under NZ IFRS definitions of financial assets, premium and other receivables are classified as "loans and receivables".

Investments

The Group designates its investments as "financial assets at fair value through income statement" at inception. Investments are purchased with the intention of being held until maturity.

Investments designated as fair value through income statement at inception are those that are held to match insurance contract liabilities. The designation of these assets to be at fair value through income statement eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from recognising any gains or losses through reserves.

All investments are carried at fair value using the bid price with changes in fair value recognised in the income statement. Transaction costs are recognised in the income statement on transaction date.

As investments are held until maturity, and then reinvested, only the net purchased or matured amount is disclosed in the statement of cash flows.

All purchases of investments are recognised on the date of the trade. Investments are de-recognised on the date of maturity or sale of the investment.

Investment in subsidiaries

Investment in subsidiaries is stated at cost less impairment losses.

Property and equipment

Items of property and equipment, with the exception of land and buildings, are measured at cost, less accumulated depreciation and impairment losses.

Land and buildings are revalued to fair value as determined by an independent registered valuer. Any increase in value is recognised in the asset revaluation reserve. Any decrease in value is recorded in the income statement after utilising previous revaluations, if any, for that asset in the asset revaluation reserve.

Where material parts of an item of property or equipment have different useful lives, they are accounted for as separate items of property and equipment.

Subsequent costs are added to the carrying amount of an item of property or equipment when that cost is incurred if it is probable that the future economic benefits embodied within the item will flow to the Group and the cost of the item can be measured reliably. All other costs are recognised in the income statement as an expense as incurred.

Capital expenditure on major projects is initially recorded as work in progress. On completion of the project the asset is transferred to the appropriate asset category. Work in progress is not depreciated.

Depreciation is recognised in the income statement on a straight-line basis over the estimated useful lives of each part of an item of property or equipment. The estimated useful lives for the current and comparative periods are as follows:

- Computer equipment 25% - 33% per annum
- Other fixed assets 15% - 20% per annum

The estimated useful life of assets is reassessed annually.

Proceeds on sale of property and equipment relate to motor vehicles traded in and replaced with new vehicles. Therefore, only net payments are disclosed in the statement of cash flows.



NOTES TO THE FINANCIAL STATEMENTS (CONT.)

For the year ended 30 June 2009

1. STATEMENT OF ACCOUNTING POLICIES (Continued)

Intangible Assets

Computer software is recognised as an intangible asset when it is not an integral part of the computer hardware. Software development expenditure that meets the criteria for recognition as an intangible asset is capitalised and amortised over its expected useful life, subject to impairment testing. Costs incurred in researching and evaluating a project up to the point of formal commitment to a project are treated as research costs and are expensed as incurred. All capitalised costs are deemed to have an expected useful life of five years unless it can be clearly demonstrated that the net benefits are to be generated over either a longer or shorter period. The capitalised costs are amortised on a straight line basis over the period following completion of a project or implementation of part of a project.

The recoverability of the carrying amount of the asset is reviewed each reporting date by determining whether there is an indication that the carrying value may be impaired. If any such indication exists, the item is tested for impairment by comparing the recoverable amount of the asset to its carrying value.

An impairment loss is recognised whenever the carrying value exceeds the recoverable amount. Impairment losses are recognised in the income statement and may be reversed where there has been a change in the estimates used to determine the recoverable amount.

Foreign currency transactions

Transactions in foreign currencies that are settled in the accounting period are translated at the settlement rate. Transactions in foreign currency that are not settled in the accounting period, resulting in monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to New Zealand dollars at the foreign exchange rate ruling at that date. Foreign exchange differences arising on their translation are recognised in the income statement.

Impairment

The carrying amounts of the Group's assets are reviewed at each balance date to determine whether there is any objective evidence of impairment. If any such indication exists, the asset's recoverable amount is estimated.

The estimated recoverable amount of assets is the greater of: fair value less costs to sell, or value in use.

An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount. Impairment losses directly reduce the carrying amount of the asset and are recognised in the income statement, except for property carried at fair value, which is reversed through the asset revaluation reserve.

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 Society has determined that all health insurance policies provided to members are insurance contracts.

Income recognition

Premiums

Gross earned premiums from insurance contracts are recognised evenly over the current billing period of the contract. Revenue is recognised on the date from which the policy is effective. Premiums billed but unearned are recorded as unearned premiums.

Fee and other income

Fees and other income are recognised as income evenly over the period in which the related services are performed.

Investment income

Interest income is recognised in the income statement as it accrues and is calculated by using the effective interest rate method. Transaction costs that are an integral part of the effective yield of the investment are recognised as an adjustment to the effective interest rate of the instrument.

Realised and unrealised gains and losses recorded in the income statement on investments include gains and losses on financial assets classified as fair value through income statement. Gains and losses on the sale of investments are classified as the difference between net sales proceeds and the fair value recorded on occurrence of the sale transaction.



NOTES TO THE FINANCIAL STATEMENTS (CONT.)

For the year ended 30 June 2009

1. STATEMENT OF ACCOUNTING POLICIES (Continued)

Leases

Payments made under operating leases are recognised in the income statement on a straight-line basis over the term of the lease.

Acquisition costs

The costs incurred in acquiring and recording insurance contracts are deferred in recognition that they represent future benefits. Acquisition costs are initially recorded in the income statement. Any amounts that give rise to premiums in subsequent reporting periods are deferred as an asset and amortised over the period covered by the premium paid.

Trade and other payables

Trade and other payables are stated at cost. Under NZ IFRS definitions, trade and other payables are classified as "other liabilities at amortised cost".

Net claims expense

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

Provisions

A provision is recognised when the Group has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market rates and, where appropriate, the risks specific to the obligation.

Outstanding claims provision

The liability for outstanding claims comprises claims incurred but not settled at the balance sheet 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 central estimate includes expected claim payments plus associated claims handling costs. In addition a risk margin is added to reflect the inherent uncertainty in the estimate of claims.

Unexpired risk provision and liability adequacy test

The liability for unearned premiums arises from premiums received for risks that have not yet expired. The provision is released over the period until the next premium due date and is recognised as premium income. 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 has been performed by the Society on all its 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 in the income statement after first writing down any deferred acquisition costs. The deficiency (if any) in excess of deferred acquisition costs is recognised in the balance sheet as an unexpired risk provision.

Employee benefits

Employee entitlements

Employee entitlements represents the current obligation to employees in respect of outstanding salaries, leave entitlements and other short term benefits.

Employee benefits

The Group's net obligation in respect of long service leave is the amount of future benefits that employees have earned in return for their service in current and prior periods. The financial value of the obligation is calculated based on estimated future cash flows and is discounted to its present value. In determining future cash flows, consideration is given to historical data with respect to employee departures, periods of service and estimated future increases in wage and salary rates. The discount rate is the market yield rate on relevant New Zealand Government stock at the balance sheet date.

Post employment benefits

The Group's obligation for post employment entitlements comprises post retirement health insurance benefits. The financial value of the obligation is calculated as the present value of estimated future cash flows. In determining future cash flows, consideration is given to future increases in health insurance premiums, historical data with respect to employee departures, periods of service, mortality and lapse rates. The discount rate is the market yield rate on relevant New Zealand Government stock at the balance sheet date.



NOTES TO THE FINANCIAL STATEMENTS (CONT.)

For the year ended 30 June 2009

1. STATEMENT OF ACCOUNTING POLICIES (Continued)

Income tax expense

The Society is exempt from income tax due to its status as a friendly society. However, the subsidiaries are subject to income tax.

For subsidiary companies the income tax expense comprises current and deferred tax and is recognised in the income statement. Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years. Deferred tax is recognised using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which temporary differences can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Goods and services tax (GST)

The income statement has been prepared so that all components are stated exclusive of GST. All items in the balance sheet are stated net of GST, with the exception of receivables and payables, which include GST invoiced.

Change in accounting estimates

If a change in accounting estimates gives rise to a change in an asset or liability, it is recognised by adjusting the carrying amount of the related asset or liability item in the period of the change. Otherwise, it is recognised prospectively by including it in the income statement in the period of the change and future periods, as applicable.

During the year, the useful life of computer software was reviewed. Some assets previously being amortised over a shorter period are now amortised over a five year period. The effect on the June 2009 financial statements is to reduce the amortisation expense by \$421,000, and accordingly increase the value of intangible assets in the balance sheet by the same amount.

2. NEW FINANCIAL REPORTING STANDARDS APPROVED BUT NOT YET EFFECTIVE

The following new or amended financial reporting standards and interpretations, which are applicable to the Group, have been issued by the Financial Reporting Standards Board and are applicable to the Group but are not yet effective:

NZ IFRS 3 – Business combinations

NZ IAS 1 – Presentation of financial statements

NZ IAS 27 – Consolidated and separate financial statements

NZ IFRS 3 and NZ IAS 27 are effective for annual reporting periods after 1 July 2009 and will be adopted by the Group for the financial year commencing 1 July 2009. As this standard specifies the accounting treatment of certain business combinations from 1 July 2009, it is not possible to determine the possible impact on future financial statements.

NZ IAS 1 is effective for annual reporting periods after 1 July 2009 and will be adopted by the Group for the financial year commencing 1 July 2009. As this standard refers to presentation matters, it will not have any financial impact on future financial statements.



NOTES TO THE FINANCIAL STATEMENTS (CONT.)

For the year ended 30 June 2009

3. NET CLAIMS EXPENSE

	Group		Society	
	2009 \$000	2008 \$000	2009 \$000	2008 \$000
Claims incurred relating to risks borne in current financial year	521,339	461,468	521,339	461,468
Claims incurred relating to risks borne in previous financial years	(1,752)	2,023	(1,752)	2,023
Movement in provision for claims handling costs	(467)	(105)	(467)	(105)
Movement in risk margin	127	(2,143)	127	(2,143)
Net claims incurred	519,247	461,243	519,247	461,243
Movement in provision for unexpired risk	6,306	2,966	6,306	2,966
	525,553	464,209	525,553	464,209

4. OPERATING EXPENSES

	Group		Society	
	2009 \$000	2008 \$000	2009 \$000	2008 \$000
Operating expenses include:				
Auditor's remuneration				
– Audit fees	155	139	155	139
– Other services	10	20	10	20
Depreciation	1,631	1,782	1,612	1,758
Amortisation of intangible assets	1,167	1,598	1,123	1,205
Impairment loss on intangible assets	376	1,741	376	1,280
Impairment loss on other fixed assets recognised in income statement	-	51	-	51
Directors' fees	362	362	362	362
Employee benefits expense	37,638	34,868	35,936	33,052
Contributions to defined contribution pension plan	63	68	63	68
Rental of premises	2,203	1,785	2,203	1,780
Acquisition costs	10,840	9,045	10,840	9,045
Impairment loss on investment in subsidiaries	-	-	-	334
Provision for impairment loss on amounts receivable from subsidiaries	-	-	650	1,931
(Gains)/losses on disposal of property and equipment	17	(8)	17	(8)

Auditor's remuneration for other services consists of accounting advisory services, reviewing regulatory returns and providing services at the AGM.



NOTES TO THE FINANCIAL STATEMENTS (CONT.)

For the year ended 30 June 2009

5. INVESTMENT AND OTHER INCOME

	Group		Society	
	2009 \$000	2008 \$000	2009 \$000	2008 \$000
Interest income	30,087	34,580	30,073	34,544
Net gains/(losses) on investments at fair value through income statement	7,984	(14,734)	7,984	(14,734)
Fee and other income	1,811	1,000	50	50
	<u>39,882</u>	<u>20,846</u>	<u>38,107</u>	<u>19,860</u>

6. TAXATION

	Group	
	2009 \$000	2008 \$000
Reconciliation of effective tax rate		
Net surplus/(deficit) before tax	<u>(14,380)</u>	<u>7,827</u>
Income tax payable at the domestic tax rate of 30% (2008: 33%)	(4,314)	2,583
Tax on non-deductible expenses	1	3
Tax on exempt (income)/loss	4,056	(3,367)
Tax effect of change in unrecognised temporary differences	(81)	228
Tax on current year losses for which no deferred tax asset was recognised	338	553
	<u>-</u>	<u>-</u>

The aggregate amount of temporary differences arising in the subsidiaries for which a deferred tax asset has not been recognised is \$413,000 at 30 June 2009 (30 June 2008: deferred tax asset \$691,000).

The Group has unrecognised tax losses carried forward of \$29,860,000 at 30 June 2009 (30 June 2008: \$28,748,000).



NOTES TO THE FINANCIAL STATEMENTS (CONT.)

For the year ended 30 June 2009

7. STATEMENT OF RESERVES

	Retained surpluses	Group Asset revaluation reserve	Total reserves
	\$000	\$000	\$000

Reconciliation of movement in reserves

At 30 June 2009

Opening balance	327,632	1,700	329,332
Revaluation recognised in reserves	-	(1,700)	(1,700)
Surplus/(deficit) for the year	(14,380)	-	(14,380)
Closing balance	313,252	-	313,252

At 30 June 2008

Opening balance	319,805	1,400	321,205
Revaluation recognised in reserves	-	300	300
Surplus/(deficit) for the year	7,827	-	7,827
Closing balance	327,632	1,700	329,332

	Retained surpluses	Society Asset revaluation reserve	Total reserves
	\$000	\$000	\$000

Reconciliation of movement in reserves

At 30 June 2009

Opening balance	327,433	1,700	329,133
Revaluation recognised in reserves	-	(1,700)	(1,700)
Surplus/(deficit) for the year	(14,171)	-	(14,171)
Closing balance	313,262	-	313,262

At 30 June 2008

Opening balance	319,496	1,400	320,896
Revaluation recognised in reserves	-	300	300
Surplus/(deficit) for the year	7,937	-	7,937
Closing balance	327,433	1,700	329,133



NOTES TO THE FINANCIAL STATEMENTS (CONT.)

For the year ended 30 June 2009

8. PREMIUM AND OTHER RECEIVABLES

	Group		Society	
	2009	2008	2009	2008
	\$000	\$000	\$000	\$000
Premium accounts receivable	40,793	39,953	40,793	39,953
Interest receivable	5,535	6,801	5,535	6,801
Other accounts receivable	5,635	4,821	5,048	4,289
Amounts owed by related parties	313	126	1,066	4,616
	52,276	51,701	52,442	55,659

Premium and other receivables is a current asset. The fair value of premium and other receivables approximates the carrying amount.

9. INVESTMENTS

At fair value through income statement

	Group		Society	
	2009	2008	2009	2008
	\$000	\$000	\$000	\$000
At valuation				
New Zealand Government stock	1,574	1,557	1,574	1,557
State owned enterprise bonds	6,216	7,739	6,216	7,739
Local body stock	89,745	82,648	89,745	82,648
Other bonds	190,415	195,790	190,415	195,790
Bank deposits, commercial paper and floating rate notes	123,459	125,760	123,459	125,760
	411,409	413,494	411,409	413,494
Current assets	184,572	100,135	184,572	100,135
Non-current assets	226,837	313,359	226,837	313,359
	411,409	413,494	411,409	413,494

New Zealand Government stock is held by the Public Trustee, of which \$500,000 is a deposit required under the Insurance Companies' Deposits Act 1953.

10. INVESTMENT IN SUBSIDIARIES

	Group		Society	
	2009	2008	2009	2008
	\$000	\$000	\$000	\$000
Opening balance	-	-	-	334
Impairment	-	-	-	(334)
Closing balance	-	-	-	-

Investment in subsidiaries is stated at cost less impairment losses. Impairment losses arise as a result of the investment in subsidiaries being adjusted to the value of the net tangible assets of the subsidiaries.



NOTES TO THE FINANCIAL STATEMENTS (CONT.)

For the year ended 30 June 2009

10. INVESTMENT IN SUBSIDIARIES (Continued)

A provision for impairment has been made for loans and advances to subsidiaries to the extent the loans and advances exceed the net tangible assets of the subsidiaries.

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

Investment in subsidiaries is a non-current asset.

11. PROPERTY AND EQUIPMENT

	Group				Total \$000
	Land and buildings \$000	Computer equipment \$000	Other fixed assets \$000	Work in progress \$000	
At 30 June 2009					
Cost / valuation	9,200	16,831	6,231	589	32,851
Accumulated depreciation	-	(14,692)	(4,599)	-	(19,291)
Closing balance	9,200	2,139	1,632	589	13,560

Reconciliation of movement in property and equipment

Opening balance	10,900	1,232	2,047	332	14,511
Additions / (transfers from work in progress)	-	2,017	373	257	2,647
Disposals	-	-	(267)	-	(267)
Depreciation for the year	-	(1,110)	(521)	-	(1,631)
Revaluation recognised in reserves	(1,700)	-	-	-	(1,700)
Closing balance	9,200	2,139	1,632	589	13,560

	Group				Total \$000
	Land and buildings \$000	Computer equipment \$000	Other fixed assets \$000	Work in progress \$000	
At 30 June 2008					
Cost / valuation	10,900	14,775	6,328	332	32,335
Accumulated depreciation	-	(13,543)	(4,281)	-	(17,824)
Closing balance	10,900	1,232	2,047	332	14,511

Reconciliation of movement in property and equipment

Opening balance	10,600	2,046	1,947	574	15,167
Additions / (transfers from work in progress)	-	374	768	(242)	900
Disposals	-	-	(23)	-	(23)
Depreciation for the year	-	(1,188)	(594)	-	(1,782)
Impairment recognised in income statement	-	-	(51)	-	(51)
Revaluation recognised in reserves	300	-	-	-	300
Closing balance	10,900	1,232	2,047	332	14,511



NOTES TO THE FINANCIAL STATEMENTS (CONT.)

For the year ended 30 June 2009

11. PROPERTY AND EQUIPMENT (Continued)

	Society				Total \$000
	Land and buildings \$000	Computer equipment \$000	Other fixed assets \$000	Work in progress \$000	
At 30 June 2009					
Cost / valuation	9,200	16,762	6,225	589	32,776
Accumulated depreciation	-	(14,624)	(4,596)	-	(19,220)
Closing balance	9,200	2,138	1,629	589	13,556

Reconciliation of movement in property and equipment

Opening balance	10,900	1,213	2,037	332	14,482
Additions / (transfers from work in progress)	-	2,018	373	257	2,648
Disposals	-	-	(262)	-	(262)
Depreciation for the year	-	(1,093)	(519)	-	(1,612)
Revaluation recognised in reserves	(1,700)	-	-	-	(1,700)
Closing balance	9,200	2,138	1,629	589	13,556

	Society				Total \$000
	Land and buildings \$000	Computer equipment \$000	Other fixed assets \$000	Work in progress \$000	
At 30 June 2008					
Cost / valuation	10,900	14,705	6,305	332	32,242
Accumulated depreciation	-	(13,492)	(4,268)	-	(17,760)
Closing balance	10,900	1,213	2,037	332	14,482

Reconciliation of movement in property and equipment

Opening balance	10,600	2,012	1,932	574	15,118
Additions / (transfers from work in progress)	-	371	767	(242)	896
Disposals	-	-	(23)	-	(23)
Depreciation for the year	-	(1,170)	(588)	-	(1,758)
Impairment recognised in income statement	-	-	(51)	-	(51)
Revaluation recognised in reserves	300	-	-	-	300
Closing balance	10,900	1,213	2,037	332	14,482

Land and buildings were independently valued at \$9,200,000 on 30 June 2009 (2008: \$10,900,000) by Telfer Young (Auckland) Ltd, a qualified, independent registered valuer. The basis used is current investment market valuation based on an estimated market rental and capitalisation rate. A downward revaluation of \$1,700,000 was recorded at 30 June 2009 (2008: upward revaluation of \$300,000).

Other fixed assets include motor vehicles, office equipment and leasehold improvements.

Property and equipment is a non-current asset.



NOTES TO THE FINANCIAL STATEMENTS (CONT.)

For the year ended 30 June 2009

12. INTANGIBLE ASSETS

	Computer software \$000	Group Work in progress \$000	Total \$000
At 30 June 2009			
Cost / valuation	24,336	2,005	26,341
Accumulated amortisation	(20,156)	-	(20,156)
Closing balance	4,180	2,005	6,185
Reconciliation of movement in intangible assets			
Opening balance	4,089	1,060	5,149
Additions / (transfers from work in progress)	1,258	1,321	2,579
Amortisation for the year	(1,167)	-	(1,167)
Impairment loss recognised in income statement	-	(376)	(376)
Closing balance	4,180	2,005	6,185

	Computer software \$000	Group Work in progress \$000	Total \$000
At 30 June 2008			
Cost / valuation	24,002	1,060	25,062
Accumulated amortisation	(19,913)	-	(19,913)
Closing balance	4,089	1,060	5,149
Reconciliation of movement in intangible assets			
Opening balance	2,298	1,392	3,690
Additions / (transfers from work in progress)	3,850	948	4,798
Amortisation for the year	(1,598)	-	(1,598)
Impairment loss recognised in income statement	(461)	(1,280)	(1,741)
Closing balance	4,089	1,060	5,149



NOTES TO THE FINANCIAL STATEMENTS (CONT.)

For the year ended 30 June 2009

12. INTANGIBLE ASSETS (Continued)

	Computer software \$000	Society Work in progress \$000	Total \$000
At 30 June 2009			
Cost / valuation	24,186	2,005	26,191
Accumulated amortisation	(20,074)	-	(20,074)
Closing balance	4,112	2,005	6,117

Reconciliation of movement in intangible assets

Opening balance	3,977	1,060	5,037
Additions / (transfers from work in progress)	1,258	1,321	2,579
Amortisation for the year	(1,123)	-	(1,123)
Impairment loss recognised in income statement	-	(376)	(376)
Closing balance	4,112	2,005	6,117

	Computer software \$000	Society Work in progress \$000	Total \$000
At 30 June 2008			
Cost / valuation	23,157	1,060	24,217
Accumulated amortisation	(19,180)	-	(19,180)
Closing balance	3,977	1,060	5,037

Reconciliation of movement in intangible assets

Opening balance	1,930	1,142	3,072
Additions / (transfers from work in progress)	3,252	1,198	4,450
Amortisation for the year	(1,205)	-	(1,205)
Impairment loss recognised in income statement	-	(1,280)	(1,280)
Closing balance	3,977	1,060	5,037

Intangible assets is a non-current asset.

Impairment losses arise from software development projects that do not have a positive quantifiable financial benefit.

Where indicators of impairment exist, the future financial benefit is recalculated using a net present value analysis.

Where the net present value is not positive, impairment is recognised.



NOTES TO THE FINANCIAL STATEMENTS (CONT.)

For the year ended 30 June 2009

13. PAYABLES

	Group		Society	
	2009	2008	2009	2008
	\$000	\$000	\$000	\$000
Accounts payable	17,153	15,306	17,050	15,210
Amounts owed to related parties	6	-	75	4,006
	17,159	15,306	17,125	19,216

Payables is a current liability.

14. EMPLOYEE BENEFITS

	Group		Society	
	2009	2008	2009	2008
	\$000	\$000	\$000	\$000
Employee entitlements	5,101	5,015	5,101	5,014
Employee benefits	730	530	730	530
Post-employment benefits	1,350	1,240	1,350	1,240
	7,181	6,785	7,181	6,784
Current	5,286	5,162	5,286	5,161
Non-Current	1,895	1,623	1,895	1,623
	7,181	6,785	7,181	6,784



NOTES TO THE FINANCIAL STATEMENTS (CONT.)

For the year ended 30 June 2009

15. INSURANCE CONTRACT LIABILITIES

	Group		Society	
	2009	2008	2009	2008
	\$000	\$000	\$000	\$000
Provision for outstanding claims (refer note 15a)	72,113	67,441	72,113	67,441
Provision for unearned premium (refer note 15c)	61,578	60,306	61,578	60,306
Provision for unexpired risk (refer note 15d)	12,383	6,077	12,383	6,077
Other insurance provisions	740	700	740	700
	146,814	134,524	146,814	134,524

a. Provision for outstanding claims

	Group		Society	
	2009	2008	2009	2008
	\$000	\$000	\$000	\$000
Central estimate of outstanding claims liability	66,771	61,759	66,771	61,759
Claims handling costs	2,003	2,470	2,003	2,470
Risk margin	3,339	3,212	3,339	3,212
Closing balance	72,113	67,441	72,113	67,441

Claims are predominantly short-term in nature and are generally settled within twelve months of being incurred. Accordingly, amounts are not discounted.

b. Reconciliation of movements in provision for outstanding claims

	Group		Society	
	2009	2008	2009	2008
	\$000	\$000	\$000	\$000
Opening balance	67,441	72,300	67,441	72,300
Amounts utilised during the year	(58,249)	(64,649)	(58,249)	(64,649)
Additional provision /(reversal of unused provision)	(1,752)	2,023	(1,752)	2,023
Amounts provided during the year	65,013	60,015	65,013	60,015
Movement in claims handling costs	(467)	(105)	(467)	(105)
Movement in risk margin	127	(2,143)	127	(2,143)
Closing balance	72,113	67,441	72,113	67,441



NOTES TO THE FINANCIAL STATEMENTS (CONT.)

For the year ended 30 June 2009

15. INSURANCE CONTRACT LIABILITIES (Continued)

c. Reconciliation of movements in provision for unearned premium

	Group		Society	
	2009	2008	2009	2008
	\$000	\$000	\$000	\$000
Opening balance	60,306	58,794	60,306	58,794
Premiums written in the year	545,462	524,779	545,462	524,779
Premiums earned during the year	(544,190)	(523,267)	(544,190)	(523,267)
Closing balance	61,578	60,306	61,578	60,306

d. Provision for unexpired risk

	Group		Society	
	2009	2008	2009	2008
	\$000	\$000	\$000	\$000
Present value of expected future cash flows for claims and expenses	71,344	64,214	71,344	64,214
Risk margin	2,853	2,568	2,853	2,568
Unearned premiums	(61,578)	(60,306)	(61,578)	(60,306)
Write-down of deferred acquisition costs	(236)	(399)	(236)	(399)
Closing balance	12,383	6,077	12,383	6,077

e. Reconciliation of movements in provision for unexpired risk

	Group		Society	
	2009	2008	2009	2008
	\$000	\$000	\$000	\$000
Opening balance	6,077	3,111	6,077	3,111
Reversal of opening balance	(6,077)	(3,111)	(6,077)	(3,111)
Net liability for unexpired risk recognised during the year	9,766	3,908	9,766	3,908
Risk margin	2,853	2,568	2,853	2,568
Write-down of deferred acquisition costs	(236)	(399)	(236)	(399)
Closing balance	12,383	6,077	12,383	6,077



NOTES TO THE FINANCIAL STATEMENTS (CONT.)

For the year ended 30 June 2009

16. ACTUARIAL INFORMATION

Estimates of the outstanding claims and unexpired risk as at 30 June 2009 have been determined by John Feyter B.Sc, a Fellow of the New Zealand Society of Actuaries and were presented to the Directors of the Society in a report dated 19 August 2009. There were no qualifications to the report. The calculations of the provisions for outstanding claims and unexpired risk each comply with both NZ IFRS 4: Insurance Contracts, and Professional Standard No. 4: General Insurance Business, 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.

a. Outstanding claims provision:

Outstanding claims liabilities are measured as the central estimate of the present value of expected future payments for claims incurred but not settled at 30 June 2009, whether reported or not, together with related claims handling costs and an additional risk margin to allow for the inherent uncertainty in the central claims estimate. The central estimate of the outstanding claims has been calculated using historical experience to determine the pattern of claims development.

A projected payment per member method has been adopted for estimating outstanding claims payments. Calculations are based on recent claims experience. Payment per member factors are selected to achieve a sensible progression of past incurred claims.

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.

A risk margin has been added to reflect the inherent uncertainty in the central estimate. An analysis of the volatility of the historical experience has been used in determining the risk margin. Future volatility is assumed to be consistent with historical volatility. A risk margin of 5% of the central estimate was established at 30 June 2009 (30 June 2008: 5%). The risk margin was determined with the objective of achieving at least 75 per cent probability of sufficiency of the outstanding claims provision.

Key assumptions:

1. Future patterns of claims development will be similar to historical patterns depending on the type of policy, type of claim and development month.
2. Monthly seasonality factors used for claims incurred. These were calculated from the 3 years' previous claims experience, and range from 71% to 112% (30 June 2008: 71% to 112%) of the monthly average.
3. Historical claims inflation of 0% to 5% p.a. (30 June 2008: 0% to 7%) depending on the type of policy and type of claim, based on previous claims experience.
4. An additional factor of 6.4% (30 June 2008: 0%) was applied to reflect a claims development trend implied from most recent payment data.

Claims handling costs include internal and external costs incurred in connection with the negotiation and settlement of claims. Internal costs include all direct expenses of the claims department and any part of the general administrative costs directly attributable to the claims function. Claims handling costs were determined to be 3% (30 June 2008: 4%) of the underlying claims amounts based on an analysis of administration expenses.

The average weighted term from 30 June 2009 to the expected settlement date for claims included in the liability for outstanding claims is 75 days (30 June 2008: 77 days). Accordingly, expected future payments are not discounted due to the short tail nature of the liabilities.



NOTES TO THE FINANCIAL STATEMENTS (CONT.)

For the year ended 30 June 2009

16. ACTUARIAL INFORMATION (Continued)

b. 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 cashflows 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 1 July 2009.

The calculation of the risk margin has been based on an analysis of the volatility of historical claims experience within the time period covered by the unearned premiums. A risk margin of 4% of the present value of expected future cash flows has been applied at 30 June 2009 (30 June 2008: 4%). The risk margin was determined with the objective of achieving at least 75 per cent probability of sufficiency of the unexpired risk liability.

Key assumptions:

1. Monthly seasonality factors used for claims incurred. These were calculated from the 3 years' previous claims experience, and range from 75% to 109% (2008: 73% to 113%) of the monthly average.
2. Projected claims inflation of 11.5% p.a., plus 4% for the effect of ageing, based on current expectations (2008: 6.5% plus 4% for ageing)
3. Expenses based on the business plan for 2009/10, including allowance for amortisation of deferred acquisition costs.

No explicit allowance has been made for cancellations or transfers. These are allowed for implicitly in the inflation assumption.

Expected future payments are not discounted due to the short tail nature of the liabilities.



NOTES TO THE FINANCIAL STATEMENTS (CONT.)

For the year ended 30 June 2009

17. RISK MANAGEMENT

The Group is exposed to a number of risks in the normal course of business. Primarily there is the risk of conducting an insurance business (insurance risk). Other risks include financial risks (credit risk and liquidity risk), market risks (interest rate 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 processes to manage the risks are described below.

a. Insurance risk

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

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

The primary objective in managing risk is, as far as possible, to reduce the magnitude and volatility of claims costs. A secondary objective is to ensure funds are available to pay claims and maintain the solvency of the business 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.
- Strict claims management procedures to ensure the payment of claims is in accordance with policy conditions.
- A long-term pricing strategy adopted by the Board which supports pricing based on underlying risk.
- Regular monitoring of financial and operating results and detailed investigations into the morbidity and persistency experience of the portfolio.
- Maintaining a target solvency margin in excess of the minimum required by the standard established by the Health Funds Association of New Zealand. The solvency margin ensures the Society is able to withstand a period of adverse insurance or investment experience and still maintain a satisfactory financial position (refer to Note 22).

II. Sensitivity to insurance risk

The financial results of the Society 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 and the liability adequacy test directly affect the level of estimated claims incurred. The key assumptions used are detailed in note 16.

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 treatment given and the costs of treatment.

III. Concentration of insurance risk

Management defines concentration of risk by type of insurance business and geographic region. The Society 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.



NOTES TO THE FINANCIAL STATEMENTS (CONT.)

For the year ended 30 June 2009

17. RISK MANAGEMENT (Continued)

b. Financial risks

I. Credit risk

In the normal course of its business the Group incurs credit risk from its health insurance operations and from investment in financial assets. There are no significant concentrations of credit risk.

The Group 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. The credit quality of counter parties is assessed based on published credit ratings issued by Standard & Poor's or equivalent ratings agencies. Where local authorities do not have a formal credit rating, security is obtained from their ability to levy rates.

The credit quality of investment counter parties is as follows:

	Group		Society	
	2009 \$000	2008 \$000	2009 \$000	2008 \$000
New Zealand Government rated:				
AAA	1,574	1,557	1,574	1,557
State owned enterprises rated:				
AA	5,180	4,850	5,180	4,850
BBB	1,036	912	1,036	912
Local authorities rated:				
AA	13,120	12,514	13,120	12,514
Non-rated	147,202	100,627	147,202	100,627
Corporates rated:				
AAA	17,051	42,883	17,051	42,883
AA	106,182	162,676	106,182	162,676
A	90,620	59,946	90,620	59,946
BBB	22,030	17,196	22,030	17,196
Below BBB	880	-	880	-
Non-rated	6,534	10,333	6,534	10,333
	<u>411,409</u>	<u>413,494</u>	<u>411,409</u>	<u>413,494</u>

The maximum exposure to credit risk at balance date is the amount of financial assets stated in the balance sheet.

These exposures are net of any recognised provisions for impairment losses. The Group does not require any collateral or security to support financial assets due to the quality of the counter-party organisations.

II. Liquidity risk

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



NOTES TO THE FINANCIAL STATEMENTS (CONT.)

For the year ended 30 June 2009

17. RISK MANAGEMENT (Continued)

The contractual maturities of financial assets are as follows:

	Group		Society	
	2009 \$000	2008 \$000	2009 \$000	2008 \$000
On call	1,500	650	1,500	650
0-6 months	134,994	61,857	134,994	61,857
7-12 months	48,078	37,628	48,078	37,628
1-2 years	53,483	66,818	53,483	66,818
2-5 years	169,101	204,822	169,101	204,822
Beyond 5 years	4,253	41,719	4,253	41,719
	411,409	413,494	411,409	413,494

The cash and cash equivalents are available on call. All premium and other receivables are due within one month of balance date.

Liabilities are all short term or payable on demand. Investments could be liquidated at any time to settle liabilities.

c. Market risks

I. Foreign currency risk

At 30 June 2009, the Group had assets of \$171,000 and no liabilities denominated in foreign currencies (30 June 2008: assets of \$106,000 and no liabilities). Given that the foreign currency risk exposure is minimal, the Group does not enter into any derivative contracts to manage this risk.

II. Interest rate risk

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

Fair value risk

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

	Group and Society	
	2009 \$000	2008 \$000
Impact of increase by 100 basis points on income statement	(6,326)	(7,354)
Impact of decrease by 100 basis points on income statement	6,524	7,593



NOTES TO THE FINANCIAL STATEMENTS (CONT.)

For the year ended 30 June 2009

17. RISK MANAGEMENT (Continued)

Cash flow interest rate risk

The cash flows from the Group's investments in the short term are susceptible to changes in interest rates. However, as the majority of investments are fixed rate, and these investments are held until maturity, this exposure is mitigated. The following analysis shows the impact of any changes in interest rates on the cash flows:

	Group and Society	
	2009	2008
	\$000	\$000
Impact of increase by 100 basis points on cash flows	1,888	1,459
Impact of decrease by 100 basis points on cash flows	(1,888)	(1,459)

d. Fair values of financial assets and financial liabilities

All financial assets and financial liabilities included in the balance sheet are carried at amounts that approximate fair value.

18. RELATED PARTIES

a. Identity and relationship 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 (non-trading) 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 of Society
- Southern Cross Benefits Limited ("Benefits") 100% subsidiary of Trust
- Southern Cross Hospitals Limited ("Hospitals") 100% subsidiary of Trust

All these related entities have 30 June balance dates.

The Society and the Trust are separate legal entities operating at "arm's length".

The Society contracts healthcare services on behalf of its members from all providers, including the Trust, on a contestable and contractual basis.

The Society charges Benefits a fee for enabling marketing opportunities to the membership.

All Group and related parties provide their normal services to the other Group and related parties on normal commercial terms.

The amount of transactions between the Group entities are:

	Purchases		Sales	
	2009	2008	2009	2008
	\$000	\$000	\$000	\$000
Society	2,983	3,599	67	34
Health Services	9	4	68	53
Activa	58	30	2,915	3,546



NOTES TO THE FINANCIAL STATEMENTS (CONT.)

For the year ended 30 June 2009

18. RELATED PARTIES (continued)

The outstanding balances between the Group entities are:

	Payables		Receivables	
	2009	2008	2009	2008
	\$000	\$000	\$000	\$000
Society	69	4,006	759	4,498
Health Services	686	551	6	7
Activa	73	3,947	63	3,999

Some goods and services are purchased by the Group and other related parties on a combined basis. These costs are on-charged to the other related parties at cost.

The amount of transactions with other related parties are:

	Group		Society	
	2009	2008	2009	2008
	\$000	\$000	\$000	\$000
Sale of services	2,817	3,471	2,779	3,440
Purchase of services	92	116	92	116

The outstanding balances with other related parties are:

	Group		Society	
	2009	2008	2009	2008
	\$000	\$000	\$000	\$000
Balance outstanding on sales	313	126	307	118
Balance outstanding on purchases	6	-	6	-

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 related party receivables of the Society 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 2009

18. RELATED PARTIES (continued)

b. Remuneration of Directors

Directors' fees paid by the Society for the year ended 30 June 2009 were as follows:

	Amount (\$) 2009	Amount (\$) 2008
Director		
Dr D D Baird	45,700	46,700
C B Durbin	45,700	46,700
Dr D H Gray - retired 1 September 2008	7,783	46,700
G S Hawkins (Chairman) - appointed 1 October 2008	34,275	-
Dr S C Macken - retired 30 June 2009	45,700	46,700
D J May	45,700	46,700
P J Meyer	45,700	46,700
J G Todd - retired 30 June 2009	57,060	81,700
M J Verbiest - appointed 1 October 2008	34,275	-
Trustee		
C B Durbin	-	-
D J May	-	-
J G Todd - retired 30 June 2009	-	-

Where Directors are directors of subsidiary companies of the Society, they do not receive any fees for these appointments.

The Society 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 received health insurance benefits of \$18,000 for the year ended 30 June 2009 (2008: \$17,000).

Retired Directors received health insurance benefits of \$23,000 for the year ended 30 June 2009 (2008: \$26,000)

c. Remuneration of key management personnel (Excluding Directors' remuneration disclosed separately)

	Group		Society	
	2009	2008	2009	2008
	\$000	\$000	\$000	\$000
Salaries and other short-term benefits	2,280	2,312	2,280	2,312
Post-employment benefits	2	3	2	3
	2,282	2,315	2,282	2,315

Key management personnel include the chief executive officer, chief operating officers and senior executives.



NOTES TO THE FINANCIAL STATEMENTS (CONT.)

For the year ended 30 June 2009

19. RECONCILIATION OF NET SURPLUS WITH NET CASH FLOWS FROM OPERATING ACTIVITIES

	Group		Society	
	2009	2008	2009	2008
	\$000	\$000	\$000	\$000
Net surplus / (deficit)	(14,380)	7,827	(14,171)	7,937
Add/(less) non-cash items:				
Depreciation	1,631	1,782	1,612	1,758
Amortisation of computer software	1,167	1,598	1,123	1,205
Impairment loss on computer software	376	1,741	376	1,280
Impairment loss on other fixed assets	-	51	-	51
Impairment loss on investment in subsidiaries	-	-	-	334
Provision for impairment loss on amounts receivable from subsidiaries	-	-	650	1,931
Add items classified as investing activities:				
(Gain)/loss on disposal of property and equipment	17	(8)	17	(8)
Movement in valuation of investments	(7,984)	14,734	(7,984)	14,734
Add/(less) movements in working capital items:				
Receivables	(575)	(2,995)	2,567	(8,783)
Payables	1,853	890	(2,091)	5,157
Other insurance provisions	40	(10)	40	(10)
Provision for outstanding claims	4,672	(4,859)	4,672	(4,859)
Provision for unearned premium	1,272	1,512	1,272	1,512
Provision for founding members' reward	-	(3,280)	-	(3,280)
Provision for unexpired risk	6,306	2,966	6,306	2,966
Provision for employee benefits	396	530	397	549
Net cash flows from operating activities	(5,209)	22,479	(5,214)	22,474

20. CREDIT RATING

On 21 February 2009 Standard & Poor's reaffirmed the Society's Insurer Financial Strength Rating of A+. This signifies the insurer "has strong financial security characteristics".

21. 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.



NOTES TO THE FINANCIAL STATEMENTS (CONT.)

For the year ended 30 June 2009

22. SOLVENCY AND CAPITAL ADEQUACY

The Society is a not-for-profit organisation. As a consequence of its legal structure the Society has no recourse to external capital and therefore internally generated capital is of paramount importance. The Society's capital of \$313.3 million (2008: \$329.1 million) is equal to the reserves as disclosed in the financial statements.

The Society is required to deposit \$500,000 with the Public Trustee in accordance with the Insurance Companies' Deposits Act 1953. The Society is not subject to any other externally imposed capital requirements.

The Directors' policy for managing capital is to have a strong capital base to establish security for members and enable the Society to conduct its business whilst maintaining financial soundness. The policy in respect of capital management is regularly reviewed by the Directors.

The Society calculates its capital adequacy requirements using the Capital Adequacy Standard issued by Australia's Private Health Insurance Administration Council (PHIAC). The PHIAC 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.

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

There have been no material changes to the Society's policy for the management of capital during the financial year.

The New Zealand authorities have proposed a new regulatory regime for insurers, to be supervised by the Reserve Bank of New Zealand. This is scheduled to take effect in 2010. One component of the proposal is a New Zealand solvency standard for non-life insurers. This new regime will be incorporated into the Society's capital management policy once implemented.

23. SEGMENTAL REPORTING

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

24. LEASE COMMITMENTS

At 30 June 2009 commitments under operating leases in respect of payments due to be made in the following years were:

	Group		Society	
	2009 \$000	2008 \$000	2009 \$000	2008 \$000
Within 1 year	2,254	1,100	2,254	1,100
Between 1 and 2 years	1,708	360	1,708	360
Between 2 and 5 years	2,011	787	2,011	787
Greater than 5 years	2,079	128	2,079	128
	8,052	2,375	8,052	2,375

25. CAPITAL COMMITMENTS

The Group had capital commitments of \$1,034,000 at 30 June 2009 (2008: \$740,000).

26. CONTINGENT LIABILITIES

The Group had no contingent liabilities at 30 June 2009 (2008: Nil).



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

We have audited the financial statements on pages 11 to 39. The financial statements provide information about the past financial performance of the Society and Group and its financial position as at 30 June 2009. This information is stated in accordance with the accounting policies set out on pages 14 to 18.

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 2009 and the results of their operations and cash flows for the year ended on that date.

Auditors' 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 auditors of the Society and Group. The firm has no other relationship with, or interest in, the Society or Group.

Unqualified opinion

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

In our opinion the financial statements on pages 11 to 39:

- 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 2009 and the results of their operations and cash flows for the year ended on that date.

Our audit was completed on 1 September 2009 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



Southern Cross
Healthcare

