THE EDUCATION BENEVOLENT SOCIETY INCORPORATED

FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2012

WHK Marked for Identification Purposes WELLINGTON

THE EDUCATION BENEVOLENT SOCIETY INCORPORATED

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 30 JUNE 2012

	Notes	2012 $	2011 $
INCOME			
Contributions		3,638,121	3,654,011
Movement in IBNR provision		(77,661)	34,172
Hospital Cover Commission		746,331	731,501
Net Investment Income		243,968	218,388
Other Income		8,585	-
		4,559,344	4,638,073
EXPENDITURE			
Benefits			
Benefits Paid	2	3,176,363	3,149,975
Investment Expenses			
Amortisation of bonds		9,620	-
		9,620	-
Administration Expenses			
Staff Salaries & Related Expenses		524,551	519,561
Rent & Related Occupancy		58,689	65,390
Depreciation		16,454	10,575
Operating -			
Bank Charges		5,335	7,884
Computer Expenses		20,590	18,231
Office Administration		60,055	66,534
Payroll Commission		41,247	43,040
Printing, Stationery, Advertising		30,418	49,700
		157,645	185,390
Professional -			
Accounting fees		7,975	8,765
Audit Fees		13,805	13,000
Consulting Fees		14,473	13,853
Insurance Ombudsman		2,132	-
Legal Fees		466	-
Ratings Agency		23,440	-
		62,291	35,618
Total Expenditure		4,005,613	3,966,509
Net Surplus for the year		553,731	671,564
Other Comprehensive Income			
Unrealised gain (loss) on Investments	4	(139,558)	176,473
Total Comprehensive Income for the year		**414,173**	**848,037**

The accompanying notes should be read in conjunction with the Financial Statements.

WHK Marked for Identification Purposes WELLINGTON

THE EDUCATION BENEVOLENT SOCIETY INCORPORATED

STATEMENT OF MOVEMENTS IN EQUITY

FOR YEAR ENDED 30 JUNE 2012

	Notes	2012 $	2011 $
Equity at 1 July		6,721,068	5,873,031
Total Comprehensive Income for the year		414,173	848,037
Equity at 30 June		7,135,241	6,721,068

The accompanying notes should be read in conjunction with the Financial Statements.

THE EDUCATION BENEVOLENT SOCIETY INCORPORATED

BALANCE SHEET

AS AT 30 JUNE 2012

	Notes	2012 $	2011 $
Equity		7,135,241	6,721,068
This is represented by:			
Current Assets			
Cash and Cash Equivalents	3	796,040	1,415,111
Prepayments		15,605	1,610
Interest accrued		117,982	78,062
Investments	4	4,700,000	3,700,000
Total Current Assets		5,629,627	5,194,782
Non-Current Assets			
Investments	4	2,795,855	2,857,546
Fixed Assets	6	114,188	7,783
Total Non-Current Assets		2,910,043	2,865,329
Total Assets		8,539,670	8,060,111
Current Liabilities			
GST Payable		3,537	23,268
Provision - claims IBNR	15	1,175,579	1,097,918
Creditors		126,359	113,979
Contributions received in advance		98,954	103,878
Total Current Liabilities		1,404,429	1,339,043
Total Liabilities		1,404,429	1,339,043
Net Assets		7,135,241	6,721,068

Richard M Kittelty

RICHARD KITTELTY (Chairman)

Date: 21 November 2012

RUSSELL FOLEY (General Manager)

Date: 21 November 2012

The accompanying notes should be read in conjunction with the Financial Statements.

THE EDUCATION BENEVOLENT SOCIETY INCORPORATED

STATEMENT OF CASH FLOWS

AS AT 30 JUNE 2012

		2012	2011
		$	$
Cash flows from operating activities			
Cash was provided from:			
Contributions		3,633,197	3,670,161
Hospital Premiums Collected		746,331	731,501
Other Income		8,585	-
		4,388,113	4,401,662
Cash was applied to:			
Benefits		3,667,108	3,150,143
Other Expenses		353,203	721,680
		4,020,311	3,871,823
Net cash in flow from operating activities	7	367,802	529,839
Cash flows from investing activities			
Cash was provided from:			
Interest Income		213,854	207,662
		213,854	207,662
Cash was applied to :			
Purchase of Fixed Assets		122,859	5,067
Purchase of Investments		1,077,867	36,164
		1,200,726	41,231
Net cash in flow from investing activities		(986,872)	166,431
Net increase (decrease) in cash held		(619,070)	696,270
Cash Brought Forward		1,415,111	718,840
Cash Carried Forward		796,040	1,415,111
Represented by:			
Bank - cheque account		17,677	28,977
Bank - on call		778,363	1,386,134
		796,040	1,415,111

The accompanying notes should be read in conjunction with the Financial Statements.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2012

1 General Accounting Policies

The following accounting policies have been applied in the preparation of these financial statements.

Statutory Basis

The financial statements of the Society have been prepared in accordance with the requirements of the Incorporated Societies Act 1908, the Insurance (Prudential Supervision) Act 2010, and comply with the Society's Constitution.

Reporting Entity

The financial statements presented here are for the reporting entity The Education Benevolent Society Incorporated ("the Society").

The Society operates solely in New Zealand and its main activity consists of providing partial reimbursement of health care costs to its contributors. Bereavement, birth and sick leave without pay grants are also provided.

The Society has a provisional insurance licence from the Reserve Bank of New Zealand - see Note 14.

Basis of Preparation

The basis of preparation of these financial statements is 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. To ensure consistency with the current period, comparative figures have been restated where appropriate.

Measurement Basis

The measurement base adopted is that of historical cost except for Investments which are stated at market value.

Accrual accounting is used to match revenue and expenses.

Functional & Presentation Currency

These financial statements are presented in New Zealand dollars because that is the currency of the economic environment in which the Society operates.

Goods & Services Tax

Accounts are shown net of Goods and Services Tax, except Accounts Payable and Accounts Receivable which are stated GST inclusive.

Fixed Assets

All Fixed Assets are stated at cost less accumulated depreciation and any impairment losses.

Taxation

No taxation has been provided for on the basis that the Society is exempt under sections CZ18 of the Income Tax Act 2007 because of its recognition as a sickness, accident and death benefit fund.

Changes in Accounting Policies

Certain comparative figures have been reclassified to conform to the presentation adopted in the current year. Specifically, the IBNR provision has been restated to conform with NZ IFRS 4. The restatements have affected the opening equity of the 2010/11 year, as well as the IBNR provision for the 2010/11 year. The cumulative effect of the changes resulting from the conversion to IFRS, including impact on opening 2010/11 year equity, has been summarised below.

2011/12 year:

Particular	Old GAAP $	Adjustments $	IFRS $
Revenue	4,507,252	-	4,507,252
Expenses	3,956,033	137,046	4,093,079
Net Profit	**551,219**	**137,046**	**414,173**
Assets	8,539,670	-	8,539,670
Liabilities	1,018,279	386,150	1,404,429
Equity	**7,521,391**	**386,150**	**7,135,241**

2010/11 year:

Particular	Old GAAP $	Adjustments $	IFRS $
Revenue	4,790,313	-	4,790,313
Expenses	3,976,280	(34,004)	3,942,276
Net Profit	**814,033**	**(34,004)**	**848,037**
Assets	8,060,111	-	8,060,111
Liabilities	1,090,121	248,921	1,339,043
Equity	**6,969,990**	**248,921**	**6,721,068**

1.2 Particular Accounting Policies

a) Income & Expenses Recognition

(i) Income:

Income is recognised in the Statement of Comprehensive Income to the extent that it is probable that the economic benefits will flow to the Society and income can be readily measured.

Contributions & Hospital Cover Commission

All contributions and hospital cover commission income is recorded on a cash basis with the exception that at year end an apportionment is made for contributions and commissions received prior to balance date and relating to the next financial year as income in advance, and received after balance date that relate to the current financial year and recorded as accrued income.

Interest Income & Dividends

Interest income is recognised using the effective interest method.

Dividends are recognised when the right to receive the payment has been established.

(ii) Expenses:

Depreciation

Depreciation is provided for computer equipment, office equipment, and furniture and fittings. Fixed assets are depreciated on a straight line basis over their estimated economic lives. The annual depreciation rates are as follows:

	Years	Percentage
Computer equipment	2.5 - 3	33.3% - 40%
Office equipment	3	33.3%
Furniture & fittings	5	20%

b) Valuation and treatment of liabilities to Subscribers:

A provision is made for unreported claims based on past claims history of claims paid together with an assessment of the time taken to receive and settle claims not reported, and to settle claims in progress at balance date.

NZ IFRS 4 - Insurance Contracts - sets out the methodology for measuring policy liabilities. Actuarial valuation of the Society's outstanding liabilities at balance date and pertaining to the year then ended are carried out every year. The incurred benefits not reported ("IBNR") provision is included as a current liability in the Society's balance sheet, with any movements against prior year being recorded in profit or loss via the Statement of Comprehensive Income.

Actuarial valuations have been carried out by appointed independent actuary Peter Davies (of Davies Financial and Actuarial Limited).

The IBNR provision has been determined in accordance with NZ IFRS 4 and New Zealand Society of Actuaries Professional Standard No. 4 - Valuation of General Insurance Claims.

The IBNR liability is determined using a conventional chain ladder calculation to derive claim payment patterns, in conjunction with the benefits paid expense for the 14 months ended 31 August 2012. The use of July 2012 and August 2012 benefits paid data is utilised with the aim of reducing the level of uncertainty in the calculations.

A provision, known as a "processing expense", is made for claims administration costs and charged at a rate of 8% on top of the base IBNR provision. Movements against prior year are recognised in profit or loss via the Statement of Comprehensive Income.

NZ IFRS 4 prescribes for the following additional charges:

i) Allowance for claim handling costs - Direct and indirect claim handling costs are to be included in claim provisions. An allowance of 7.50% (2011: 7.50%) has been provided for. This is charged on top of the base IBNR provision. Movements against prior year for this provision are recognised in profit or loss via the Statement of Comprehensive Income. This allowance has been assessed as reasonable based on the size of the company, its overall level of expenses, the nature of claims incurred, and the experience of other similar entities.

ii) Risk margin - A risk margin is to be included in claim provisions. An allowance of 4.00% (2011: 4.00%) has been provided for. With a coefficient of variation of 4.96%, and assuming a normal distribution of claim reserves, this produces a result which has a 75% likelihood of sufficiency (75% is the minimum margin prescribed by the RBNZ for its solvency standards). This is charged on top of the base IBNR provision. Movements against prior year for this provision are recognised in profit or loss via the Statement of Comprehensive Income.

The assumptions used in the calculation of the IBNR provision are reviewed at each reporting date. A summary of the significant actuarial methods and assumptions used is set out in Note 15.

c) Cash and Cash Equivalents
Cash and Cash Equivalents include cash in hand and deposits held at call with banks.

d) Investments
The Society has the following investments at balance date:

i) Equities: Are valued at net market value by reference to unit and/or share price as at balance date. In accordance with NZ IAS 39 - Financial Instruments: Recognition & Measurement - changes in the market value of the equities have been recognised in profit or loss via the Statement of Comprehensive Income.

ii) Short Term Deposits: Are valued at cost.

iii) Government Bonds: In accordance with NZ IAS 39, these are measured at cost minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount.

At each balance date the Society assesses whether there is any objective evidence that a financial asset or group of financial assets is impaired. In the event of impairment or uncollectability, a reduction in the investment is to be recognised either directly or through the use of an allowance account, in accordance with NZ IAS 39. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted using the effective interest method.

At 30 June 2012 it had been determined that there was no impairment or reduction in the collectability of the investments held. There were no other doubtful debts.

e) Employee Entitlements
Long Service Leave: Employees of the Society are entitled to an additional one week paid annual leave for every 5 years of continuous employment. The long-service leave entitlement is accrued for on a straight-line basis throughout each five year period, commencing on the start date of each individuals employment. The week of long service leave must be taken within 12 months of being fully accrued by the employee, otherwise it will expire. In accordance with NZ IAS 19 - Employee Benefits - the liability for long service leave is recognised in the provision for employee benefits (contained in Creditors) and measured as the present value of expected future payments to be made in respect of services provided by the employees up to the reporting date. Consideration is given to future wage and salary levels.

Annual Leave & Sick Leave: Annual leave and sick leave benefits estimated to be payable to employees are accounted for on the basis of statutory and contractual requirements.

f) Foreign Currency
Transactions in foreign currencies are converted at the New Zealand rate of exchange at the date of the transaction. At balance sheet date any foreign monetary assets and liabilities are translated at the closing rate and variations arising from these transactions are included in the investment income as either realised or unrealised movement.

g) Statement of Cash Flows
The Statement of Cash Flows is prepared using the direct approach.

Definition of terms used in the Statement of Cash Flows:

"Cash" includes coins and notes, demand deposits and other highly liquid investments readily convertible into cash and includes at call borrowings such as bank overdrafts, used by the Society as part of its day-to-day cash management.

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

"Investing Activities" are those activities relating to the acquisition and disposal of current and non-current investments and any other non-current assets.

"Financing Activities" are activities that result in changes in the size and composition of the contributed equity and borrowings of the entity.

2 Benefits expense incurred during the Year Ended 30 June 2012

The table shows the number of paid applications.

Type	2012 Number	2012 $	2011 Number	2011 $
Bereavement	56	47,826	67	58,570
Birth	193	32,870	221	37,871
Complementary	4,453	384,923	4,388	366,379
Hospital	591	197,726	602	206,484
Hospital Excess	792	289,607	697	248,934
Major Diagnostic	263	76,598	351	93,417
Medical	14,023	1,698,780	14,063	1,646,489
Medical Appliance	272	29,097	238	30,136
Optical	2,876	372,363	3,203	393,843
Orthodontic	190	45,939	215	49,251
Sick Leave Without Pay	80	13,060	111	18,769
Benefits Paid	**23,789**	**3,188,790**	**24,156**	**3,150,143**
Adjust for:				
Increase (decrease) in provision for Claims – IBNR		(12,427)		(168)
Total Benefit Expense		**3,176,363**		**3,149,975**

The actuarial calculation determining the outstanding claims liability has been reviewed on an annual basis.

The reviewing actuary was satisfied with the nature and accuracy of the data, and used that data to determine the liability in accordance with the standards of the New Zealand Society of Actuaries.

3 Cash and Cash Equivalents

	2012 $	2011 $
Cash at Bank	25,270	44,293
Call Deposits	770,770	1,370,818
	796,040	1,415,111

Interest rates earned on cash and cash equivalents ranged from 0.25% to 4.74% (2011: 0.25% to 4.50%) per annum for the period to 30 June 2012. Deposits are treated as cash and cash equivalents due to their ability to convert to cash within 1-3 days. Movements in market rates will not affect the recorded value of investments.

4 Investments

The Society places its cash and short term investments with high credit quality financial institutions and sovereign bodies and this limits the amount of credit exposure to any one financial institution.

The fair value of investments can be influenced by changes in interest rates and by changes in currency values.

	2012 $	2011 $
Investments- Current		
BNZ Term Deposit	3,700,000	2,700,000
Rabo Bank Term Deposit	1,000,000	1,000,000
	4,700,000	3,700,000

	2012 $	2011 $
Investments- Non-Current		
Public Trust Insurance Deposit	546,725	500,000
Monitored Portfolio with Spicers	2,249,130	2,357,546
	2,795,855	2,857,546

The Public Trust Insurance Deposit (Bonds) was purchased on 24 November 2011 (settlement date). The face value of the bonds is $500,000, with a coupon rate of 6.00% per annum, with interest paid on maturity. As the coupon rate exceeded the market rate at the time of purchase, the bonds attracted a premium of $56,345, resulting in a settlement amount of $556,345. The maturity date of the bonds is 15 April 2012. The premium is amortised over the term of the bonds using the effective interest rate method. For the period to 30 June 2012, amortisation of $9,620 has been recognised.

Equities investments experienced an unrealised loss of $139,558 for the 12 months ended 30 June 2012 (2011: Unrealised gain of $176,473). This has been recognised as a loss on investments in the Statement of Comprehensive Income in accordance with NZ IAS 39.

b) Impairment of Assets:

The Society has assessed all investments for impairment as at 30 June 2012. The Society concluded that there was no impairment of any investment at 2012 balance date.

5 Investment Revenue Account

	2012 $	2011 $
Investment Income Per Statement of Comprehensive Income	243,968	218,388
Derived from:		
Equities, Bonds, Debentures & Term Deposits	224,237	161,374
Less: Portfolio Management Fees	(9,806)	(9,939)
Bank Interest from Non-Term Deposit Accounts	29,537	66,953

6 Fixed Assets

Fixed Assets	2012 $ Cost	Accum Depn	Net Book Value
Computer equipment	322,392	310,723	11,669
Office equipment	30,266	30,099	167
Furniture and fittings	25,492	13,141	12,352
Work In Progress - Elmbrook	90,000	-	90,000
Total	468,150	353,963	114,188

	2011 $ Cost	Accum Depn	Net Book Value
Computer equipment	309,806	307,212	2,594
Office equipment	30,266	27,822	2,444
Furniture and fittings	11,919	9,175	2,744
Total	351,991	344,208	7,783

7 Reconciliation of Net Operating Cash Flow to Surplus

	2012 $	2011 $
Net Surplus	414,173	848,037
Less: Interest Income	(213,854)	(207,662)
Add: Non-Cash Items		
Unrealised Gain/Loss on Investments	139,558	(176,473)
Provisions for claims	77,661	(34,171)
Depreciation	16,454	10,575
	433,992	440,306
Add/(Deduct) movements in balance sheet items		
(Increase)/Decrease in Accounts Receivable	-	48,930
(Increase)/Decrease in Prepayments	(13,995)	10,637
(Increase)/Decrease in Interest Accrued	(39,920)	(20,665)
Increase/(Decrease) in Creditors	12,380	36,991
Increase/(Decrease) in GST Payable	(19,731)	(2,510)
Increase/(Decrease) in Contributions Received in Advance	(4,924)	16,150
	(66,190)	89,533
Net Cash Flow from Operating Activities	367,802	529,839

8 Lease Commitments

The Society has the following lease commitments:	2012 $	2011 $
Not later than one year:	48,057	46,971
Two to five years:	96,252	-
More than five years:	-	-

9 Commitments for Capital Expenditure

At 30 June 2012 the Society was implementing a new database. During the 2012yr, payments totalling $90,000 were made to Elmbrook. This amount has been capitalised and classed as Work In Progress. It will not be subject to depreciation until the database is fully functional. At 30 June 2012, 9 more instalments totalling $135,000 are to be paid.

10 Contingent Liabilities and Assets

The Society had no contingent liabilities as at 30 June 2012 (30 June 2011: Nil)
The Society had no contingent assets as at 30 June 2012 (30 June 2011: Nil)

11 Related Party Transactions

(i) Employees

During the 2012 year, employees of the Society were also subscribers. The employees subscription fees were fully subsidised by the Society via the payroll system, however apart from this the Society deals with the employees on the same terms and conditions applied to all subscribers.

(ii) Board Members

During the 2012yr, the following Board members of the Society were also subscribers:

Richard Kittelty
Darrell Ward
Liz Patara
Marian Cadman
Bruce Kirkham
Tom McGrath

The Society deals with the Board on the same terms and conditions applied to all subscribers.

THE EDUCATION BENEVOLENT SOCIETY INCORPORATED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2012

12 Segmental Information

The Education Benevolent Society operates in one industry, being non-life insurance. All operations are based in New Zealand.

13 Risk

(i) Credit Risk

Credit risk is the risk that the other party to a financial transaction will fail to discharge their obligation resulting in the Society incurring a financial loss. The policy is that members are not entitled to claim payouts unless their subscriptions paid are up-to-date (subscriptions are paid in advance). Therefore, credit risk is limited.

(ii) Fair Value

The fair value of financial assets and liabilities is considered to be materially equivalent to book value as reflected in the balance sheet. In the case of financial liabilities, fair value has been determined on the basis of the present value of expected future cash outflows. For financial assets, fair value has been determined on the basis of the amount for which the asset could be sold for in an arms length transaction within an active market while taking into account the terms and conditions of each Included in the financial assets of the Society are equities and fixed interest securities measured at fair value at each reporting date. The source of fair value inputs as defined by NZ IFRS 7 - Financial Instruments: Disclosures - is determined by reference to quoted prices in an active market for the same instrument. All other financial assets are carried at cost less impairment (if any), which approximates their fair value.

(iii) Interest Risk

The Society is exposed to interest rate risk in that further rate movements will affect the market value of its fixed interest assets. Risk management activities are undertaken in respect of financial assets. There is no interest risk in respect to liabilities of the Society as it has no known borrowings and does not pay interest to subscribers.

(iv) Liquidity Risk

Liquidity risk is the risk that the Society may encounter difficulties meeting its financial obligations as they fall due.

The Society's liquidity policy is based upon ensuring significant liquid assets are held so as to meet benefit entitlements of the subscribers. As the subscribers are from throughout New Zealand the funding of the Society is not dependent on any one geographic sector. Risks are managed by continuous reviewing of financial performance, maturity profiles of financial assets, and maintaining adequate reserves and liquidity support facilities.

The liquidity profile is as follows:

	Total	0 -6 months	6-12 months	12-18 months	18-24 months	24+ months
	$	$	$	$	$	$
Monetary Assets						
Cash/Cash Equivalents	796,040	796,040	-	-	-	-
Financial Assets	7,495,855	5,949,130	1,000,000	-	-	546,725
Interest/Commission Accrued	117,982	117,982	-	-	-	-
	8,409,877	6,863,152	1,000,000	-	-	546,725

	Total	0 -6 months	6-12 months	12-18 months	18-24 months	24+ months
Monetary Liabilities						
Trade Payables	40,647	40,647	-	-	-	-
Accrued Expenses	85,712	85,712	-	-	-	-
Subscriptions Paid In Advance	98,954	98,954	-	-	-	-
	225,313	225,313	-	-	-	-

(v) Currency Risk:

Some financial instruments of the Society are subject to foregin currency fluctuations. 81% of the Society's financial instruments are in foreign currency denominated assets. The value of these are converted to New Zealand dollars by Spicers at each reporting date.

All liabilities are denominated in New Zealand dollars.

The Society's management manages currency risk by monitoring the cross rate between New Zealand and foreign currencies. Society does not enter into hedging contracts. Management does not believe volatility of fluctuations in the cross rate of exchange between New Zealand and other countries is a significant risk given the amounts involved as a percentage of New Zealand denominated assets, and can be managed by rebalancing the investment portfolio with greater New Zealand denominated investments.

The Society has $2,249,130 invested in instruments quoted on public securities exchanges. These financial instruments are subject to price fluctuations.

14 Solvency Statement and Reserve Bank Conditions for License

The Insurance (Prudential Supervision) Act 2010 ("the Act") was enacted in September 2010. The Society has been granted a provisional licence under the Act. Full licensing must be obtained by 7 September 2013. Upon full licencing, the Society will be subject to new solvency requirements issued by the RBNZ. In the interim the Society will be subject to new solvency margin requirements issued by the RBNZ.

The Society was required to deposit $500,000 with the Public Trustee in accordance with the Insurance Companies' Deposits Act 1953. This deposit will be refunded after a full license has been obtained.

At balance date the Society meets the Reserve Bank's criteria for adequate margin of solvency in excess of best estimate liabilities to subscribers.

The Board's policy for managing capital is to have a strong capital base to establish security and enable the Society to conduct its business whilst maintaining financial soundness. The policy in respect of capital management is regularly reviewed by the Board in line with the solvency requirements issued by the RBNZ.

15 Actuarial Policies and Methods

The effective date of the actuarial report on the IBNR provision is 30 June 2012. The actuarial report was prepared by Peter Davies, a Fellow of the New Zealand Society of Actuaries, of Davies Financial and Actuarial Limited, consulting actuary to the Society. The IBNR provision has been determined in accordance with the methods and assumptions disclosed in these financial statements and with the standards established by the New Zealand Society of Actuaries and the Reserve Bank of New Zealand.

a) Assumptions:

IBNR provision has been determined in accordance with Professional Standard No. 4 - Valuation of General Insurance Claims - issued by the New Zealand Society of Actuaries for reporting under NZ IFRS with effect from 1 January 2007.

The claim handling cost rate (as required per NZ IFRS 4) assumed was 7.5% of outstanding claims (2011: 7.5%, 2010: 7.5%), which has been determined based on the size of the Society, it's overall level of expenses, and the nature of claims incurred.

The risk margin rate (as required per NZ IFRS 4) assumed was 4.0% of outstanding claims (2011: 4.0%, 2010: 4.0%), which has been determined based on the past level of variability.

16 Significant Events After Balance Date

There are no significant events subsequent to the balance date and up to the time of preparation of these financial statements,

17 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: Actuarial Policies and Methods

18 New Financial Reporting Standards Approved But Not Yet Effective

The following new or amended standards and interpretations are not yet effective for the year ended 30 June 2012, and have not been applied in preparing these financial statements:

NZ IFRS 9 - Financial Instruments: Classification and Measurement
NZ IAS 1 - Presentation of Financial Statements
NZ IFRS 13 - Fair Value Measurement
NZ IAS 19 - Employee Benefits

NZ IFRS 9 - Financial Instruments: Classification and Measurement is the first standard issued as part of a wider project to replace NZ IAS 39. It represents a significant change from the existing requirements in NZ IAS 39 - Financial Instruments: Recognition and Measurement, in respect of financial assets. The standard contains two primary measurement categories for financial assets (amortised cost and fair value), and eliminates the existing three NZ IAS 39 categories (held to maturity, available for sale, and loans and receivables). A financial asset would be measured at amortised cost if it is held to collect contractual cash flows of principal and interest on specified dates. All other financial assets would be measured at fair value.

NZ IFRS 9 - Financial Instruments: Classification and Measurement adds the requirements relating to classification and measurement of financial liabilities, and derecognition of financial assets and liabilities.

The above revisions to NZ IFRS 9 are effective for annual reporting periods beginning on or after 1 January 2015. The International Accounting Standards Board has deferred the mandatory effective date from the previous deadline of 1 January 2013. The impact of the requirements of this standard on the Society is still to be determined.

NZ IAS 1 - Presentation of Financial Statements introduces changes to the presentation of items of other comprehensive income. The impact identified from the amendments is that the title of statement of comprehensive income will be renamed to statement of profit or loss and other comprehensive income. The amendments are effective for annual reporting periods beginning on or after 1 July 2012.

NZ IFRS 13 - Fair Value Measurement - defines fair value, establishes a framework for measuring fair value and sets out related disclosure requirements. It does not give rise to any new requirements as to when fair value measurements are required, but instead provides guidance currently included in individual IFRSs, with a single source of authoritative guidance on how to measure fair value.

NZ IFRS 13 is effective for annual reporting periods beginning on or after 1 January 2012. The impact of the requirements of this standard on the Society is still to be determined.

NZ IAS 19 Employment Benefits amends the definitions of short-term and long-term employee benefits, adds additional disclosures and changes the timing of recognition and measurement basis of certain employment benefits.

The above revisions to NZ IAS 19 are effective for annual reporting periods beginning on or after 1 January 2013. The impact of the requirements of the standard on the Society is still to be determined.

WHK

Level 6 Westfield Tower 45 Knights Road
Lower Hutt Wellington New Zealand

PO Box 30-568
Lower Hutt 5040

T 04 569 9069
F 04 566 6077

wellington@whk.co.nz
www.whk.co.nz

INDEPENDENT AUDITOR'S REPORT

To the Members of The Education Benevolent Society Incorporated ("Society")

Report on the Financial Statements

We have audited the financial statements of the Society on pages 1 to 14, which comprise the balance sheet as at 30 June 2012, the statement of comprehensive income, statement of movements in equity and statement of cash flows, for the year then ended, and a summary of significant accounting policies and other explanatory information.

Board of Management Responsibility for the Financial Statements

The Board of Management is responsible for the preparation and fair presentation of these financial statements in accordance with generally accepted accounting practice in New Zealand and that give a true and fair view of the matters to which they relate; this includes the design, implementation and maintenance of internal control as the Board of Management determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing (New Zealand). Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Society's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Society's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates, as well as evaluating the presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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

Opinion

In our opinion, the financial statements on pages 1 to 14 present fairly, in all material respects, the financial position of the Society as at 30 June 2012 and the results of their operations, movements in equity and cash flows for the year then ended in accordance with generally accepted accounting practice in New Zealand.

WHK

WHK Wellington Partnership
CHARTERED ACCOUNTANTS
21 November 2012