

Education Benevolent Society Incorporated

Annual Financial Statements

For the Year Ended 30 June 2015

Education Benevolent Society Incorporated

Annual Financial Statements

For the Year Ended 30 June 2015

Contents

	Page
Directory	2
Statement of Comprehensive Income	3
Statement of Financial Position	4
Statement of Changes in Equity	5
Statement of Cash Flows	6
Notes to the financial statements	7

Education Benevolent Society Incorporated

Directory

For the Year Ended 30 June 2015

Nature of Business	Providing health insurance to the education sector.
Board Members	Ross Wilson -Chairman (appointed December 2014) Margaret Kinsey - Deputy Chair Darrell Ward Richard Kittelty Alison O'Connell (appointed April 2015) Samantha Stephen (appointed June 2015) Liz Patara (resigned November 2014) Marian Cadman (resigned May 2015) Bruce Kirkham (resigned November 2014) Tom McGrath (resigned November 2014) Andrew Casidy (resigned November 2014)
Auditor	Crowe Horwath New Zealand Audit Partnership
Bankers	Bank of New Zealand

Education Benevolent Society Incorporated

Statement of Comprehensive Income For the year ended 30 June 2015

	Notes	2015 \$	2014 \$
INCOME			
Contributions		3,740,460	3,764,390
Hospital cover commission		734,145	726,357
Investment income	8	595,029	672,978
Other income		9,480	4,494
Total income		5,079,114	5,168,219
EXPENDITURE			
Benefits			
Benefits paid	4	3,282,093	3,260,166
Investment Expenses			
Amortisation of bonds		9,123	11,523
Portfolio monitoring fee		10,858	9,837
		19,981	21,360
Professional Expenses			
Accounting fees		9,185	7,798
Audit fees		18,270	17,300
Consulting fees		32,496	17,307
Insurance ombudsman		2,009	2,038
Strategic review and implementation	18	63,088	91,255
Ratings agency		24,713	24,915
		149,761	160,613
Other Administration and overhead expenses			
Staff salaries & related expenses		637,235	609,347
Rent & related occupancy		48,740	46,790
Depreciation and amortisation		33,856	37,556
Movement in IBNR provision	15	65,422	762
Bank charges		5,774	5,436
Computer expenses	17	69,706	99,086
Office administration		61,064	57,039
Printing, stationery, advertising		37,711	39,957
		959,508	895,973
Total Expenditure		4,411,343	4,338,112
Surplus for the year		667,771	830,107
Other Comprehensive Income		-	-
Total Comprehensive Income for the year		667,771	830,107

These financial statements should be read in conjunction with the notes to the financial statements.

Education Benevolent Society Incorporated

Statement of Financial Position

As at 30 June 2015

	Notes	2015 \$	2014 \$
ASSETS			
Current Assets			
Cash and cash equivalents	5	1,052,570	359,436
Trade debtors and other receivables		15,693	12,778
Prepayments		27,414	32,746
Accrued interest		140,352	148,671
Current investments	7	5,400,000	6,609,123
Total current Assets		6,636,029	7,162,754
Non-Current Assets			
Non-current investments	7	4,196,638	2,997,531
Software	11	199,750	225,250
Property, plant and equipment	6	5,365	12,845
Total non-current Assets		4,401,753	3,235,626
Total assets		11,037,782	10,398,380
LIABILITIES			
Current Liabilities			
IBNR Claims Provision	15	1,296,722	1,231,300
Trade creditors and other payables		79,304	190,332
Employee entitlements		52,055	45,226
Contributions received in advance		153,526	143,119
Total current liabilities		1,581,607	1,609,977
Total Liabilities		1,581,607	1,609,977
Net Assets		9,456,174	8,788,403
ACCUMULATED FUNDS AND OTHER RESERVES			
Accumulated funds		9,456,174	8,788,403
Total equity		9,456,174	8,788,403


 _____ Chairperson

30/10/15 Date


 _____ General Manager

30/10/15 Date

Education Benevolent Society Incorporated

Statement of Changes in Equity For the year ended 30 June 2015

	Notes	2015 \$	2014 \$
Accumulated Funds			
Opening balance previously reported		8,788,403	7,625,717
Amendment	21	-	332,579
Revised opening balance		8,788,403	7,958,296
Surplus for the year		667,771	830,107
Closing balance of Accumulated Funds		9,456,174	8,788,403
Total Equity		9,456,174	8,788,403

These financial statements should be read in conjunction with the notes to the financial statements.

Education Benevolent Society Incorporated

Statement of Cash Flows

For the year ended 30 June 2015

	Notes	2015 \$	2014 \$
Cash flows from operating activities			
<i>Cash was provided from/(applied to):</i>			
Contributions received		3,747,952	3,784,800
Hospital cover commission		734,145	726,357
Other income		9,480	772
Benefits paid		(3,282,093)	(3,260,166)
Other expenses		(1,119,715)	(965,304)
Net cash flows from/(used in) operating activities	9	89,769	286,459
Cash flows from investing activities			
<i>Cash was provided from/(applied to):</i>			
Investment income		333,385	248,038
Sale/(purchase) of investments		270,856	(929,893)
Purchase of property, plant and equipment		(876)	(10,171)
Net cash flows from/(used in) investing activities		603,365	(692,026)
Net increase/(decrease) in cash and cash equivalents		693,133	(405,567)
Cash and cash equivalents at the beginning of the year		359,436	765,002
Cash and cash equivalents at the end of the year		1,052,570	359,436

These financial statements should be read in conjunction with the notes to the financial statements.

Education Benevolent Society Incorporated

Notes to the financial statements

1 Reporting entity

The financial statements presented are for the Education Benevolent Society Incorporated (the "Society") for the year ended 30 June 2015.

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.

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

The Society was issued a full Insurance License by the Reserve Bank of New Zealand in April 2013.

The financial statements of the Society have been prepared in accordance with the Financial Reporting Act 2013.

2 Basis of Preparation

(a) Statement of compliance

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 not-for-profit entities. To ensure consistency with the current period, comparative figures have been restated where appropriate.

(b) Measurement Basis

The financial statements have been prepared on a historical costs basis, except for assets and liabilities that have been measured at fair value.

The accrual basis of accounting has been used unless otherwise stated and the financial statements have been prepared on a going concern basis.

(c) Presentation currency

The financial statements are presented in New Zealand dollars, which is the Society's functional currency. All numbers presented have been rounded to the nearest dollar, unless otherwise stated.

(d) Changes in accounting policies

The accounting policies adopted are consistent with those of the previous financial year, except for changes in the classification in financial instruments as disclosed in Note 21. The change in classification had no impact of the previously reported Net Asset position of the Society.

The impact of new and amended standards and interpretations applied in the year was limited to additional note disclosures.

(e) Comparatives

The comparative financial period is 12 months. Comparatives have been reclassified from that reported in the 30 June 2014 financial statements where appropriate to ensure consistency with the presentation of the current year's position and performance.

Education Benevolent Society Incorporated

Notes to the financial statements

(f) New standards and interpretations issued but not yet adopted

A number of new standards and interpretations have been issued but are not yet effective for the current year-end. The reported results and financial position of the Society is not expected to change on adoption of these pronouncements as they do not result in any significant changes to the Society's existing accounting policies. Adoption will, however, result in changes to information currently disclosed in the financial statements.

The Society does not intend to adopt any of the new pronouncements before their effective dates.

NZ IFRS 9 – Financial instruments (effective date from 1 January 2018)

The IASB and the XRB aim to replace NZ IAS 39 Financial Instruments: Recognition and Measurement in its entirety with replacement standard - NZ IFRS 9 Financial Instruments. The new standard is being issued in phases, with early adoption available as each phase is issued.

NZ IFRS 9 simplifies the classifications of financial assets into those to be carried at amortised cost and those to be carried at fair value – the 'available for sale' and 'held-to-maturity' categories no longer exists.

The new categories of financial assets are:

Amortised cost: those assets with 'basic' loan features',

Fair value through other comprehensive income: this treatment is optional for equity instruments not held for trading, although this choice is made at initial recognition and is irrevocable,

Fair Value through profit and Loss: all other financial instruments not in the previous two categories.

Management have yet to assess the impact the standard is likely to have on the recognition and measurement of financial assets held by the Society. However, they do not expect to have a significant impact on the measurement of financial assets.

NZ IFRS 15 – Revenue from Contracts with Customers (effective date from 1 January 2017)

The new standard establishes principles for reporting about the nature, amount, timing and uncertainty of revenue arising from an entity's contracts with customers. It prescribes when an entity will recognise revenue, how much revenue to recognise, and what disclosures to make about revenue.

Based on the nature of income received by the Society and current recognition principles, the new standard is not expected to have a significant impact on the timing of current revenue recognition. However management are still conducting further analysis of the impact of this new standard.

(g) Use of estimates and judgements

The preparation of financial statements in conformity with NZ IFRS 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. Where material, information on significant judgements, estimates and assumptions is provided in the relevant accounting policy or note disclosure.

The estimates and underlying assumptions are based on historical experience and various other factors believed to be reasonable under the circumstances. Estimates are subject to ongoing review and actual results may differ from these estimates. Revisions to accounting estimates are recognised in the year in which the estimate is revised and in any future years affected.

Education Benevolent Society Incorporated

Notes to the financial statements

3 Summary of significant accounting policies

The accounting policies of the Society been applied consistently to all years presented in these financial statements.

The significant accounting policies used in the preparation of these financial statements are summarised below:

(a) Cash and cash equivalents

Cash and cash equivalents include cash on hand, deposits held on call with banks, other short-term highly liquid investments with original maturities of three months or less.

(b) Property, plant and equipment

All property, plant and equipment is measured at cost, less accumulated depreciation and any impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the asset.

The following depreciation rates have been applied at each class of property, plant and equipment:

Computer equipment	10 - 40%
Furniture and fittings	20%

The residual value and useful life of property, plant and equipment is reassessed annually.

(c) Income recognition

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 exceptions 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.

(d) 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 each reporting 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 Statement of Financial Position, with any movements against prior year being recorded in profit or loss via the Statement of Comprehensive Income.

Actuarial valuations as at 30 June 2014 and 30 June 2015 have been carried out by appointed independent actuary Peter Davies (of Davies Financial and Actuarial Limited).

Education Benevolent Society Incorporated

Notes to the financial statements

Valuation and treatment of liabilities to subscribers (continued)

The IBNR provision has been determined in accordance with NZ IFRS 4 and the New Zealand Society of Actuaries Professional Standard No. 30 - 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 12 months ended 30 June 2015.

A provision, known as a "processing expense", is made for claims administration costs and charged at a rate of 7.5% on top of the base IBNR provision. Movements against prior year are recognised in profit or loss via the Statement of Comprehensive Income.

The calculation of the INBR Claims Provision includes 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% (2014: 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% (2014: 4.00%) has been provided for. With a coefficient of variation of 4.1% (2014: 5.1%), 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.
- (iii) 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.

(e) Foreign currency translation

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.

(f) Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument in another entity.

Financial instruments are comprised of trade debtors and other receivables, cash and cash equivalents, other financial assets and trade creditors and other payables .

Initial recognition and measurement

Financial assets and financial liabilities are recognised initially at fair value plus transaction costs attributable to the acquisition, except for those carried at fair value through profit or loss, which are measured at fair value.

Financial assets and financial liabilities are recognised when the Society becomes a party to the contractual provisions of the financial instrument.

Education Benevolent Society Incorporated

Notes to the financial statements

Derecognition of financial instruments

Financial assets are derecognised when the contractual rights to the cash flows from the financial asset expire, or if the Society transfers the financial asset to another party without retaining control of substantial all risks and rewards of the asset.

A financial liability is derecognised when it is extinguished, discharged, cancelled or expires.

Subsequent measurement of financial assets

The subsequent measurement of financial assets depends on their classification, which is primarily determined by the purpose for which the financial assets were acquired. Management determines the classification of financial assets at initial recognition into one of four categories, and re-evaluates this designation at each reporting date.

All financial assets are subject to review for impairment at least at each reporting date. Different criteria to determine impairment are applied to each category of financial assets, which are described below.

The classification of financial instruments into one of the four categories below, determines the basis for subsequent measurement and whether any resulting movements in value are recognised in the reported surplus/ deficit or other comprehensive income.

The Society has currently categorised its financial instruments into two categories for financial reporting purposes:

(i) Loans and receivables

Loans and receivables have fixed or determinable payments. After initial recognition these are measured at amortised cost using the effective interest method, less provision for impairment. The Society's cash and cash equivalents, trade and most other receivables fall into this category of financial instruments.

Receivables are considered for impairment when they are past due or when other objective evidence is received that a specific counterparty will default.

(ii) financial assets at fair value through profit or loss

The investments held in managed funds is part of a portfolio of identified financial instruments that are managed together to generate returns for the Society. It was deemed appropriate that these investments be classified as "financial assets at fair value through profit or loss".

Financial assets classified as "financial assets at fair value through profit or loss" are subsequent to initial recognition, measured at fair value with gains or losses recognised in the surplus or deficit for the year.

(g) Goods & Services Tax

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

(h) 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.

Education Benevolent Society Incorporated

Notes to the financial statements

(g) Employee entitlements

Current entitlements

Employee benefits, previously earned from past services, that the Society expect to be settled within 12 months of reporting date are measured based on accrued entitlements at current rates of pay.

These include salaries and wages accrued up to the reporting date and annual leave earned, but not yet taken at the reporting date.

(h) Intangible assets

Intangible assets consist of computer software acquired to assist in the administration of member services.

Intangible assets are measured at cost less accumulated amortisation and impairment losses.

Amortisation is recognised on a straight-line basis over the estimated useful life of the asset.

The following amortisation rates have been applied:

Computer software	10%
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Education Benevolent Society Incorporated

Notes to the financial statements

4 Benefits expense

The table below shows the number and monetary value of paid applications.

Type	2015		2014	
	Number	\$	Number	\$
Bereavement	68	59,130	72	60,870
Birth	108	19,130	133	22,956
Complementary	4,735	420,784	4,645	411,925
Hospital	524	193,369	524	184,281
Hospital Excess	691	249,330	747	259,740
Major Diagnostic	294	86,015	296	83,921
Medical	13,879	1,808,669	13,775	1,768,004
Medical Appliance	285	34,470	279	35,181
Optical	2,791	353,077	2,911	371,470
Orthodontic	186	52,003	165	46,665
Sick Leave Without Pay	61	8,256	56	9,588
Benefits Paid	23,622	3,284,234	23,603	3,254,601
Increase (decrease) in year end accruals		(2,141)		5,565
Total benefit expense		3,282,093		3,260,166

5 Cash and cash equivalents

	2015	2014
	\$	\$
Cash at Bank	52,949	88,663
Call Deposits	999,620	270,773
Total	1,052,570	359,436

The carrying amount of cash and cash equivalents approximates their fair value.

Cash at bank earn interest at 0.25% (2014: 0.25%)

Call deposits earn interest at 2.75% (2014: 4.81%)

6 Property, plant and equipment

Computer equipment	2015	2014
	\$	\$
<u>Cost</u>		
Opening	46,565	36,394
Additions	424	10,171
Disposal	(5,958)	-
Closing cost	41,031	46,565
<u>Accumulated depreciation</u>		
Opening	(39,270)	(30,050)
Depreciation	(5,431)	(9,220)
Depreciation written back on disposal	5,958	-
Closing accumulated depreciation	(38,743)	(39,270)
Carrying value	2,288	7,295

Education Benevolent Society Incorporated

Notes to the financial statements

	2015	2014
	\$	\$
Furniture and fittings		
<u>Cost</u>		
Opening	25,047	25,047
Additions	453	-
Closing cost	25,500	25,047
<u>Accumulated depreciation</u>		
Opening	(19,497)	(16,662)
Depreciation	(2,926)	(2,835)
Closing accumulated depreciation	(22,423)	(19,497)
Carrying value	3,077	5,550
Total property, plant and equipment	5,365	12,845

7 Investments

	2015	2014
	\$	\$
Current		
BNZ Term Deposits	5,400,000	6,100,000
Public Trust Insurance Deposit	-	509,123
Total current	5,400,000	6,609,123
Non Current		
Monitored Portfolio with Spicers	4,196,638	2,997,531
Total non-current	4,196,638	2,997,531
Total investments	9,596,638	9,606,654

	2015	2014
	\$	\$
Monitored Portfolio with Spicers		
<i>Nature of investments</i>		
Cash management account	993,214	57,735
New Zealand equity investments	364,933	288,181
Overseas equity investments	2,460,764	2,297,134
New Zealand fixed interest investments	216,066	200,153
Overseas fixed interest investments	161,660	154,329
Total Spicers Investment Portfolio	4,196,638	2,997,531

Public Trust Insurance Deposit

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 \$56,344.77, resulting in a settlement amount of \$556,344.77. The maturity date of the bonds was 15 April 2015. The premium was amortised over the term of the bonds using the effective interest rate method. For the period to 30 June 2015, amortisation of \$9,123 (2014: \$11,523) has been recognised.

Impairment

The Society has assessed all investments for impairment as at 30 June 2015. The Society concluded that there was no impairment of any investment at 2015 balance date (2014: \$Nil impairment).

Education Benevolent Society Incorporated

Notes to the financial statements

8 Investment income

	2015	2014
	\$	\$
Unrealised fair value gain/(loss) on managed fund portfolio	269,963	391,804
Interest on fixed interest investments	307,518	260,179
Interest on at call funds within cash and cash equivalents	17,548	20,995
Total investment income	595,029	672,978

9 Reconciliation of net operating cash flow to surplus for the year

	2015	2014
	\$	\$
Surplus for the year	667,771	830,107
<i>Less investment income classified as a financing activity</i>	<i>(333,385)</i>	<i>(248,038)</i>
<i>Non cash movements</i>		
Unrealised fair value gain/(loss) on managed fund portfolio	(269,963)	(391,804)
Provisions for claims	65,422	762
Depreciation and amortisation	33,856	37,556
Amortisation of bonds	9,123	11,253
<i>Movements in working capital</i>		
(Increase)/decrease in trade debtors and other receivables	5,404	(36,858)
(Increase)/decrease in prepayments	5,332	(26,851)
Increase/(decrease) in trade creditors and other payables	(104,199)	89,923
Increase/(decrease) in contributions received in advance	10,407	20,410
Net Cash Flow from Operating Activities	89,769	286,459

10 Lease Commitments

The Society has the following lease commitments:

	2015	2014
	\$	\$
Not later than one year	46,400	46,400
Two to five years	132,844	179,244
More than five years	-	-
Total operating lease commitments	179,244	225,644

11 Intangibles

	2015	2014
	\$	\$
Software		
<u>Cost</u>		
Opening	255,000	255,000
Closing cost	255,000	255,000
<u>Accumulated depreciation</u>		
Opening	(29,750)	(4,250)
Depreciation	(25,500)	(25,500)
Closing accumulated depreciation	(55,250)	(29,750)
Total intangible assets	199,750	225,250

Education Benevolent Society Incorporated

Notes to the financial statements

12 Related party transactions

(i) Employees

During the 2015 year, employees of the Society were also subscribers. The employees' subscription fees were fully subsidised by the Society via the payroll system. Apart from this the Society deals with the employees on the same terms and conditions applied to all subscribers.

(ii) Board Members

During the financial year, the following Board Members (and former Board Members) of the Society were also subscribers:

Darrell Ward
Richard Kittelty
Samantha Stephen
Margaret Kinsey
Liz Parata
Marian Cadman
Bruce Kirkham
Tom McGrath
Andrew Casidy

The following fees were paid to Board Members during the year

Ross Wilson -Chairman (appointed December 2014)
Darrell Ward
Richard Kittelty
Alison O'Connell (appointed April 2015)
Samantha Stephens (appointed June 2015)
Margaret Kinsey
Liz Patara (resigned November 2014)
Marian Cadman (resigned May 2015)
Bruce Kirkham (resigned November 2014)
Tom McGrath (resigned November 2014)
Andrew Casidy (resigned November 2014)

Board fees	
2015	2014
\$	\$
11,936	-
4,200	-
2,800	-
2,350	-
-	-
2,235	-
-	-
1,750	-
-	-
-	-
-	-
25,271	-

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

The Society has a related party relationship with its key management personnel. Key management personnel include the Board of Management.

Remuneration of fees of \$25,271 have been paid to members of the Board of Management (2014: \$Nil). Board fees in relation to Margaret Kinsey were paid to the PPTA as a reimbursement of her time.

Education Benevolent Society Incorporated

Notes to the financial statements

13 Financial Instruments

(a) Carrying value of financial instruments

The carrying amount of all material financial position assets and liabilities are considered to be equivalent to fair value.

Fair value is the amount for which an item could be exchanged, or a liability settled, between knowledgeable and willing parties in an arm's length transaction.

(b) Classification of financial instruments

All financial assets held by the Society are classified as "loans and receivables" are carried at cost less accumulated impairment losses, except for investments portfolio held with Spicers (refer to note 7).

The Spicers Investment Portfolio is classified as "financial assets at fair value through profit or loss" with fair value movements recognised in the surplus or deficit for the year.

All financial liabilities held by the Society are carried at amortised cost using the effective interest rate method.

(c) Financial instrument risk management

The Society has exposure to the following risks from its use of financial instruments:

- Credit risk
- Liquidity risk
- Market risk

The Society has a series of policies to manage the risk associated with financial instruments. Policies have been established which do not allow transactions that are speculative in nature to be entered into and the Society is not actively engaged in the trading of financial instruments. As part of this policy, limits of exposure have been set and are monitored on a regular basis.

(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 not considered significant.

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.

Fixed interest investments within the managed fund portfolio (Note 7) have a credit rating of AA+ to BBB-.

The maximum exposure to credit risk at the end of the reporting year is the amount of financial assets stated in the statement of financial position.

(ii) 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. Risks are managed by continuous reviewing of financial performance, maturity profiles of financial assets, and maintaining adequate reserves and liquidity support facilities.

All financial assets held can be converted into cash on a short-term basis.

The Society has no long-term liabilities or funding commitments.

Education Benevolent Society Incorporated

Notes to the financial statements

(iii) Market risk

Market risk is the risk that the carrying amount (and the ultimate amount realised upon sale) of investment portfolio financial instruments will fluctuate because of changes in market value of investments. The market value of investments carried by the Society are subject to the following variables:

- interest rates
- currency rates; and
- equity prices .

Interest rate risk

Interest rate risk is the risk that cash flows from a financial instrument will fluctuate because of changes in market interest rates. The Society are exposed to interest rate risk on fixed interest investments.

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.

The Society holds the following fixed interest investments (as disclosed in Note 7):

		2015	2014
		\$	\$
BNZ Term Deposits	Classified as loans and receivables and carried at amortised cost	5,400,000	6,100,000
Managed Funds, fixed interest investments	Classified as financial assets at fair value through profit or loss and carried at fair value	377,726	354,482
Total fixed interest investments		5,777,726	6,454,482

The Society's fixed interest investments pay interest at fixed rates and therefore the interest risk on cash flow fluctuation is not considered to be significant.

Sensitivity analysis on Fixed Interest Investment Market Risk

If interest rates increased by 1% it is estimated the fair value of New Zealand fixed interest investments would decrease by 3.30% and overseas fixed interest investments would decrease by 6.10% . The following analysis illustrates the sensitivity on the Society's profit as a result of a 1% movement in interest rates.

Fixed interest investment carried at fair value	2015		
	Carrying amount of	Impact on profit	
		+1%	-1%
\$	\$	\$	
New Zealand fixed interest investments	216,066	7,130	(7,130)
Overseas fixed interest investments	161,660	9,861	(9,861)
Total	377,726	16,991	(16,991)

Fixed interest investment carried at fair value	2014		
	Carrying amount of	Impact on profit	
		+1%	-1%
\$	\$	\$	
New Zealand fixed interest investments	200,153	6,605	(6,605)
Overseas fixed interest investments	154,329	9,414	(9,414)
Total	354,482	16,019	(16,019)

Currency rate risk

Currency risk is the risk that the fair value of financial instruments will fluctuate due to a change in foreign exchange rates.

Most of the Society transactions are carried out in NZD. Exposure to currency exchange rate movements arise from the Society's investments carried in foreign currencies.

All offshore investments held under the managed fund portfolio are New Zealand Dollar hedged, therefore the foreign currency risk on these investments is not significant.

Education Benevolent Society Incorporated

Notes to the financial statements

Equity price risk

Equity price risk is the risk that the fair value of financial instruments will fluctuate due to a changes in market demand for listed equities investments held.

The Society holds the following equity investments (as disclosed in Note 7):

	2015	2014
	\$	\$
New Zealand equity investments	364,933	288,181
Overseas equity investments	2,460,764	2,297,134
Total investments in equity investments	2,825,698	2,585,315

Sensitivity analysis

The following analysis illustrates the sensitivity on profit in regards to the Society's Spicers Investment Portfolio market demand price movements. It assumes a +/- 10% change in fair value of investments, based on previous history of portfolio performance.

	2015	
	Carrying amount of investments	Fair value movement impact
	+10%	-10%
	\$	\$
Equity investments	2,825,698	(282,570)

	2014	
	Carrying amount of investments	Fair value movement impact
	+10%	-10%
	\$	\$
Equity investments	2,585,315	(258,532)

(d) Fair Value

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 13 *Fair Value* is determined by reference to quoted prices in an active market for the same instrument (Tier 1). All other financial assets are carried at cost less impairment (if any), which approximates their fair value.

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

Education Benevolent Society Incorporated

Notes to the financial statements

14 Solvency Statement and Reserve Bank Conditions for License

The Insurance (Prudential Supervision) Act 2010 ("the Act") was enacted in September 2010. The Society was granted a full license under the Act in April 2013.

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.

Capital funding requirements as reported to the Reserve Bank	2015 \$	2014 \$
Total equity as reported in the financial statements	9,456,174	8,788,403
Solvency calculation adjustments	(202,040)	(233,420)
Solvency capital	9,254,134	8,554,983
Calculated minimum capital requirement	1,774,625	1,691,943
Solvency surplus on calculated minimum	7,479,509	6,863,040
Overall minimum capital requirement	3,000,000	3,000,000
Solvency surplus on \$3 Million	6,254,134	5,554,983

15 IBNR Claims Provision

The effective date of the actuarial report on the IBNR provision is 30 June 2015. 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.

The actuary is satisfied as to the nature, sufficiency and accuracy of the data used to determine the outstanding claim liability. The actuarial report contained no qualifications.

The IBNR provision at year-end for insurance claims incurred but not yet claimed as at 30 June 2015 has been estimated by the actuary as \$1,296,722 (2014: \$1,231,300).

	2015 \$	2014 \$
IBNR Opening balance	1,231,300	1,230,538
Movement in IBNR provision	65,422	762
Closing balance	1,296,722	1,231,300

IBNR Claims Provision	2015 \$	2014 \$
Central estimate	1,159,859	1,101,342
Expense margin	86,989	82,601
Risk margin	49,874	47,358
Closing balance	1,296,722	1,231,300

Education Benevolent Society Incorporated

Notes to the financial statements

A hindsight analysis of the IBNR Provision shows:

	Previous Year's Estimate (June 2014)	Prior year's estimate (June 2013)
	\$	\$
Central Estimate determined at the time	1,101,342	1,100,660
Outstanding as assessed a year later	1,036,536	1,059,784
Surplus difference between actual claims and estimated provision	64,806	40,877

Provision assumptions:

(i) IBNR provision has been determined in accordance with Professional Standard No. 30 - Valuation of General Insurance Claims - issued by the New Zealand Society of Actuaries for reporting under NZ IFRS with effect from 30 September 2014.

(ii) The claim handling cost rate (as required per NZ IFRS 4) assumed was 7.5% of outstanding claims (2014: 7.5%), which has been determined based on the size of the Society, its overall level of expenses, and the nature of claims incurred.

(iii) The risk margin rate (as required per NZ IFRS 4) assumed was 4.00% of outstanding claims (2014: 4.0%), which has been determined based on the past level of variability.

(iv) Future patterns of claims will be similar to historical patterns depending on the type of policy and type of claim.

(v) Processing of claims will continue to be consistent at the Society.

Sensitivity analysis

The key assumptions and sensitivities in the calculation of the provision are the risk margin rate and the duration of claim settlement.

Settlement time	30-Jun-15	Sensitivity	
		Settlement time takes 10% longer	Settlement time takes 10% shorter
IBNR Provision	1,296,722	1,897,201	928,086

Settlement time	30-Jun-14	Sensitivity	
		Settlement time takes 10% longer	Settlement time takes 10% shorter
IBNR Provision	1,231,300	1,783,547	888,780

Risk Margin	30-Jun-15	Sensitivity	
		Risk margin + 1%	Risk margin - 1%
IBNR Provision	1,296,722	1,309,190	1,284,254

Risk Margin	30-Jun-14	Sensitivity	
		Risk margin + 1%	Risk margin - 1%
IBNR Provision	1,231,300	1,243,139	1,219,461

Education Benevolent Society Incorporated

Notes to the financial statements

16 Insurance Risk Management

The Society's insurance risk is concentrated to insurance products provided within the health insurance sector.

The Society's objectives regarding the management of risks arising from all insurance contracts is to ensure:

- there is a sufficient financial buffer, as set by the Reserve Bank, to absorb any claims volatility;
- strong underwriting that aligns with industry standards;
- a pricing strategy that covers the underlying risk of insurance products;
- strong operations through robust claims and member processes.

The Society further mitigates the risks arising from insurance contracts by structuring its investment portfolio and financial policies to allow for sufficient cash flow during periods of volatility.

Sensitivity analysis in relation to insurance risk variables is provided in Note 15.

Unexpired risk provision and liability adequacy test

A liability adequacy test was performed by the Actuary as at 30 June 2015, to determine whether the unearned premium liability is adequate to cover the present value of the expected future cash flows arising from rights and obligations under current insurance contracts, plus an additional risk margin to reflect the inherent uncertainty in the central estimate. The future cash flows are future claims, associated claim-handling costs and other administration costs related 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 estimates exceeds the unearned premium liability, the unearned premium liability is deemed to be deficient.

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 7% of the present value of expected future cash flows has been applied as at 30 June 2015 (2014: 7%).

The resulting future claim liability is 98.5% of unearned premiums. Since this is less than 100%, the provision for premiums in advance (disclosed as contributions received in advance) is sufficient.

Key assumptions:

Benefits as % of subscriptions	87.1% (2014: 86.6%)
Risk margin	7% (2014: 7%)
Admin Loading	5% (2014: 5%)

17 Computer expenses

The higher computer expenditure in the period ended 30 June 2014 relates to additional software development costs expensed during the 2014 financial year.

18 Review costs

A strategic review was conducted in the period ended 30 June 2014 to obtain professional advice on the future direction of the Society. Cost incurred for the year ended 30 June 2015 relate to the implementation of the review outcomes.

19 The Society credit rating issued by A M Best is B++ Stable as at March 2015 (2014: BB+ Stable)

Education Benevolent Society Incorporated

Notes to the financial statements

20 Significant after balance date events

There are no significant events subsequent to the balance date and up to the time of preparation of these financial statements, which materially impact on the position as it existed at that date (2014: None).

21 Prior period adjustment

The classification of financial assets determines the accounting treatment of movements in the fair value of the financial instrument subsequent to initial recognition.

Previous classification of investments

The Society has previously classified its investment balances held in managed funds as "available-for-sale financial assets" for financial reporting purposes. Under this classification fair value movements are recorded in other comprehensive income and reported within the "investment fair value reserve", except for impairment losses which are recognised in the reported surplus or deficit for the year.

When the asset is disposed of or is determined to be impaired the cumulative gain or loss recognised in other comprehensive income is reclassified from the equity reserve to the surplus or deficit and presented as a reclassification adjustment within other comprehensive income.

Any associated interest income or dividends are recognised in profit or loss within "investment income".

Amended classification of investments

The investments held in managed funds is part of a portfolio of identified financial instruments that are managed together to generate returns for the Society. In the current year, it was deemed appropriate that these investments be classified as "financial assets at fair value through profit or loss".

Financial assets classified as "financial assets at fair value through profit or loss" are subsequent to initial recognition, measured at fair value with gains or losses recognised in the surplus or deficit for the year.

Impact on financial statements

The Society has accounted for investment balances in managed funds as "financial assets at fair value through profit or loss", within these financial statements from 1 April 2014.

The change in classification has had no impact on the previously reported Net Asset balance, but did impact the following previously reported balances.

<i>Statement of Comprehensive Income</i>	2014		
	Previously reported	Amendment	Revised balance
	\$	\$	\$
Surplus for the year	438,302	391,803	830,107
Other comprehensive income	391,804	(391,803)	-
<u>Total comprehensive income</u>	<u>830,106</u>	<u>-</u>	<u>830,107</u>

No impact on previously reported total comprehensive income.

Education Benevolent Society Incorporated

Notes to the financial statements

<i>Statement of financial position</i>	2013		
	Previously reported	Amendment	Revised balance
	\$	\$	\$
Accumulated funds	7,625,717	332,579	7,958,296
Investment fair value revaluation reserve	332,579	(332,579)	-
Total equity	7,958,296	-	7,958,296

<i>Statement of financial position</i>	2014		
	Previously reported	Amendment	Revised balance
	\$	\$	\$
Accumulated funds	8,064,019	724,383	8,788,402
Investment fair value revaluation reserve	724,383	(724,383)	-
Total equity	8,788,402	-	8,788,402

No impact on previously reported total equity.

