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ANNUAL REPORT

2011

For the five months ended 31 August 2011

accuro
health insurance

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Company directory

Board of Directors

Geoff Annals (Chair)
 Anne Hare (Deputy Chair)
 Bridgit Vivian
 Wayne McLachlan
 Jane Bawden
 Melissa Clark-Reynolds

Chief Executive

Bruce Morrison

Actuary

Peter Davies BBus, SC, FIA, FNZSA

Solicitor

Quigg Partners

Bankers

The National Bank of New Zealand Ltd

Auditor

BDO Wellington

Investment Managers

National Bank Private Banking

Registered Office

Level 5, 79 Boulcott Street
 Wellington

Incorporation

Industrial and Provident Societies Act 1908

Chairman's Report

The focus for the Board of Directors during our 'interim' financial year has been to maintain a solid and sustainable base to safeguard our ability to operate under the new legislative regime. A great deal of work has been carried out to ensure that the Society's rules, governance processes and future strategy deliver not only what is required by legislation but also what we believe is required by members.

The seemingly never-ending increase in the costs of providing adequate health insurance protection is driven by factors largely beyond an insurer's control. These factors mean that the costs of common procedures such as hip and knee replacements typically have doubled in the last ten years.

The Board and Management have been looking at those things we can influence and various initiatives to keep premium growth as low as possible while of course also ensuring adequate reserves are maintained. We are also designing new products and services that provide more options for members so they can have more choice in finding the health insurance option that best meets their needs. We are confident that Accuro will continue to provide exceptional value for members when compared to other providers of health insurance in New Zealand.

Our challenge is to track the fine balance between providing high quality, excellent benefits and services, controlling costs and ensuring that the reserves meet prudent and regulated standards. We are confident we can manage that balance with a clear focus on members' needs and financial circumstances and proper regard for the need to build financial reserves at the rate required to meet business and regulatory requirements. Reserves will not be built at the expense of members' needs.

That sentiment, plus the shortened year being a period of higher than average claims months, has resulted in our interim five-month year being a net loss of \$345,000. However the Society is now very solidly positioned with its systems, processes and well trained staff to ensure we can continue to deliver our benefits into the future. As a result we expect our financials will show numbers close to 'break-even' in the near future.

The Board is working very well with the management team and with Bruce, our CEO and I would like to thank my colleagues on the Board and all the staff for the efforts and results over the past period.



Geoff Annals

Chairman of the Board

Chief Executive Officer's report

During the Society's strategic review in early 2011 it was decided to move the financial year (from a March 31 year-end to an August 31 year-end). This decision was made in order to better align the annual review of the majority of members plans with the financial reporting. It was also agreed that an 'interim' Financial Year that encompassed the five months between March 31 2011 and August 31 2011 would be reported rather than wait for 17 months and the 2012 report. This process was approved by the members at the 2011 AGM.

The interim five-month 'year' has been extremely eventful. New legislation has required the Society to meet a set of licensing standards as prescribed by the Reserve Bank of New Zealand. This process has required that significant time be devoted to ensuring that Accuro's processes, governance and solvency were at the standards necessary to remain as a provider of health insurance for its members. Accuro applied for a provisional licence in June 2011. (As at the writing of this report I can advise that Accuro was granted that licence in January 2012). Accuro will now continue with the process of seeking full licencing under the new insurance (Prudential Supervision) Act 2010 which must be completed before September 2013.

In addition to the work on regulation Accuro has shown good membership growth during a time of contraction within the industry. It is concerning, as a health insurer, to note that while New Zealand faces considerable strain on resources (including the health budget) and we are faced with a clearly unsustainable growing proportion of our spend being used to remain healthy (which will be greatly exacerbated with our aging demographics) that fewer New Zealanders are in a position to purchase health insurance. Accuro staff have worked hard in looking at ways to restrain growing costs in health cover as we believe it will become more and more vital in future years. Holding back premium rises as much as possible, while developing other optional products for our members to choose from will be the focus this year. Rather than building reserves at this time we believe it is equally important not to increase premiums to the extent that members are no longer in a position to continue their cover. The high claiming period of the five month year has resulted in a net loss of \$345,000 and it is clear that continuing rises in provider costs will push premiums up again next year. Independent research from three different organisations has clearly shown that our products rank among the best in the country while remaining among the cheapest. This is a result we are very proud of and will aspire to retain.

We expect to 'balance' our premium income with our claims costs without either growing or using up reserves over the coming twelve months.

I would like to thank sincerely the support of an excellent Board and commend and extremely talented staff who are dedicated to looking after members' interests.



Bruce Morrison
Chief Executive Officer

Board of Directors

Geoff Annals RN, BSocSci

Chairman

Geoff is the Chief Executive of the New Zealand Nurses Organisation and has worked in a range of clinical positions at Waikato Hospital, including as General Manager and Director of Nursing. He is also a Registered Nurse and has studied organisational psychology at both a bachelor's and master's level.

Anne Hare BA, DipBus

Deputy Chair

Anne Hare is an NZX Advisor and an Authorised Financial Adviser. In addition to sitting on the Accuro Board, Anne is a Trustee for the Community Trust of Wellington. Anne is a former athlete, with her highest achievement competing in the 1996 Olympics inaugural women's 5,000m final. Anne and husband Chris have two daughters.

Wayne McLachlan RGON, BA

Director

Wayne is a registered nurse, having worked at Otago District Health Board and previously at the Addenbrooke's Hospital in Cambridge, England. Wayne is currently Duty Co-ordinator at Dunedin Hospital. He is married to Lynda and has three teenage daughters.

Bridgit Vivian BA PGDipCom

Director

Bridgit has worked extensively in New Zealand and the US for the last 15 years, developing and implementing communication strategies for well-known companies and agencies. Bridgit has held senior management positions with NZX and now works as a consultant in Wellington.

Jane Bawden LL.M (hons)

Director

Jane is a Barrister with extensive experience in risk advice, financial analysis, relationship management and governance. Jane brings extensive knowledge and experience, along with a legal perspective, to her role as director.

Melissa Clark-Reynolds BA(hons) MCRP

Director

Melissa Clark-Reynolds is widely recognised as an inspirational role model and entrepreneur.

Melissa already has a string of entrepreneurial successes. She established a health and safety and ACC consultancy which became New Zealand's largest private accident compensation insurer – Fusion.

An International Professional Speaker on business, entrepreneurship and technology, Melissa brings a combination of unique skills and experiences to her role as Director.

Statement of corporate governance

Board of Directors

The Board of Directors is the governing body of Accuro and consists of four elected directors and up to three co-opted directors (directorships are for two-year terms). The Board is responsible for the direction of the Society and management oversight. The two key establishing and guiding documents are the Rules of the Society (which establishes the Board and its power) and the Governance Charter (which regulates and guides its function).

As at 31 March 2011 the Board comprised Geoff Annals (Chair), Anne Hare (Deputy Chair and RAIC Chair), Bridgit Vivian, and Wayne McLachlan. No co-opted directorships were held at this date, but two appointments were subsequently made in April 2011 (Jane Bawden and Melissa Clark-Reynolds). One remaining co-opt position is vacant.

Governance Framework

The Board operates, in conjunction with management, under a number of statutory obligations. The primary legislative requirements for the Society are contained in the Industrial Provident & Societies Act 1908, the Financial Reporting Act 1993, and in the future the Insurance (Prudential Supervision) Act 2010 (which will replace, in effect, all previous insurance regulation).

The Board has further, in 2011, conducted a full governance review resulting in a new Governance Charter (replacing Board Charter 2009). The new Governance Charter 2011 changes the focus towards a comprehensive governance framework, including management (operating in conjunction with, and as part of, the Board's governance framework). This development aligns, along with other prudential supervision changes, the Society's overall governance approach.

Board Meetings & Standing Committees

The Board meets on a quarterly basis and discusses the Society's affairs and strategic developments. This is further supplemented, on a fortnightly basis, by a Steering Committee consisting of the chair, Deputy Chair, and Chief Executive Officer. The Board also has an audit committee, in the form of the RAIC Committee mentioned below, to handle technical and advisory matters relating to a broad remit (particularly concentrated on prudential supervision and professional service requirements).

RAIC Committee

The Board has delegated technical matters relating to risk management, regulatory compliance, investment management and audit services to the Risk, Audit, Investment and Compliance (RAIC) Committee. This Committee operates on a quarterly basis, in advance of Board meetings and provides a direct interface between the Board and management. The RAIC Committee is responsible for informing the Board of all matters arising from its remit and is governed by its responsibilities set out in the Governance Charter.

Financial Statements

Statement of Financial Performance For the period ended 31 August 2011

	Note	August (5 Months) 2011 \$000	March (12 months) 2011 \$000
INCOME			
Subscriptions		6,053	13,278
Claims paid and accrued		4,942	10,872
UNDERWRITING SURPLUS		1,111	2,406
Other income		123	238
Investment Income		202	495
NET FUNDS FOR OPERATIONS		1,436	3,140
EXPENDITURE			
Audit fees	23	26	25
Write downs and write offs	7	41	655
Depreciation	10	30	59
Directors fees and expenses	15	41	94
Legal fees		15	151
Operating Expenses		1,587	2,933
Rent		42	157
TOTAL EXPENDITURE		1,782	4,075
DEFICIT FOR THE PERIOD		(346)	(935)

Statement of Movements in Equity For the period ended 31 August 2011

	Note	August (5 Months) 2011 \$000	March (12 months) 2011 \$000
Equity at the beginning of the period		4,897	5,832
Surplus/ (deficit) for the period		(346)	(935)
Equity at the end of the period		4,551	4,897

These financial statements are to be read in conjunction with the notes on pages 10-17

Statement of Financial Position

At 31 August 2011

	Note	August (5 Months) 2011 \$000	March (12 months) 2011 \$000
MEMBERS' FUNDS			
Balance per Statement of Equity		4,551	4,897
TOTAL MEMBERS' FUNDS		4,551	4,897
Represented by			
CURRENT ASSETS			
Bank – call accounts		532	391
Debtors		319	249
Prepayments		48	34
TOTAL CURRENT ASSETS		899	674
NON CURRENT ASSETS			
Investments	8	6,866	7,344
Fixed assets	9	256	177
TOTAL NON CURRENT ASSETS		7,122	7,461
TOTAL ASSETS		8,021	8,135
LIABILITIES			
CURRENT LIABILITIES			
Creditors		298	272
Staff entitlements		191	63
Income in advance		1,138	953
Provision for claims		1,710	1,708
Tower Creditors	14	122	110
GST payable		11	133
TOTAL CURRENT LIABILITIES		3,470	3,239
NET ASSETS		4,551	4,897



Geoff Annals Chairman
9 December 2011



Anne Hare Deputy Chair
9 December 2011

Statement of Cash Flows

For the year ended 31 August 2011

	Note	August (5 Months) 2011 \$000	March (12 months) 2011 \$000
Cash Flow from Operating Activities			
<i>Cash was provided from:</i>			
Accuro members subscriptions received		6,180	13,393
Tower members subscriptions received	14	616	1,438
		6,796	14,831
Other Income		123	239
Investment Income		200	456
		7,119	15,526
<i>Cash was applied to:</i>			
Claims paid		(4,939)	(10,744)
Operating expenses		(1,746)	(3,752)
Tower members subscriptions paid	14	(604)	(1,454)
		(7,290)	(15,950)
Net Cash Inflow/ (Outflow) from Operating Activities	12	(171)	(424)
Net Cash Inflow/ (Outflow) from Investing Activities			
<i>Cash was applied to:</i>			
Transfers to / (from) Investments		480	453
Net Purchase of Fixed Assets		(169)	(64)
Net Cash (Outflow) from Investing Activities		311	389
Net Cash (Decrease)/ Increase in cash held		(140)	(35)
Add: opening cash brought forward		392	427
CASH BALANCE AT END OF THE PERIOD		532	392
<i>Described as:</i>			
Bank – Call accounts		532	392

These financial statements are to be read in conjunction with the notes on pages 10-17

Notes to the Financial Statements

For the period ended 31 August 2011

STATEMENT OF ACCOUNTING POLICIES

1. Reporting Entity

Health Service Welfare Society Limited (the "Society") trading as "Accuro Health Insurance" is registered under the Industrial and Provident Societies Act 1908.

The financial statements of the Society have been prepared according to the Financial Reporting Act 1993.

2. Measurement Base

The accounting principles recognised as appropriate for the measurement and reporting of financial performance and financial position on a historical cost basis, except for the valuation of investments in shares, are followed by the Society.

The Society applies accrual accounting to match expenses and revenue.

3. Specific Accounting Policies

The following specific accounting policies which materially affect the measurement of financial performance and financial position have been applied:

3.1. Revenue Recognition

- **Subscription Income**
Subscriptions which are attributable to the current financial period are recognised as revenue. Where subscriptions are paid in advance, the unearned portion has been shown under income in advance as current liabilities in the Statement of Financial Position. Where subscriptions are payable in arrears, those subscriptions that have not been received are shown as debtors in the Statement of Financial Position.
- **Other Income**
Other income includes claim service fees and management fees. The Society recognises other income when it is received.
- **Investment Income**
Investment income includes net proceeds from dividends, interest received and accrued during the period, adjusted for any gain or losses resulting from changes in the market value of shares.

3.2. Receivables

Receivables have been valued at net realisable value.

3.3. Investments

Fixed Interest Investments are valued at cost plus accrued interest.
Shares are valued at market value as at balance date.

3.4. Fixed Assets

Fixed Assets are shown at cost less accumulated depreciation and have been depreciated on a straight line basis at rates calculated to allocate the assets' cost over their estimated useful lives.

Notes to the Financial Statements (continued)

For the period ended 31 August 2011

The estimated useful lives are:

- | | | |
|--------------------------|-----------|--------------------------|
| • Computer hardware | 3 years | |
| • Computer software | 3-5 years | |
| • Furniture | 5 years | |
| • Plant and equipment | 5 years | |
| • Leasehold improvements | 5 years | Or the life of the lease |

3.5. Income Tax

The Society is registered under the Industrial and Provident Societies Act 1908 with Rules approved and an acknowledgement of Registration dates 26 March 1991. The Society is recognised by the Inland Revenue Department as being exempt from all income tax.

3.6. Shares

The Rules of the Society provide that an application fee of \$1 shall be paid by each member, as determined by the Directors, and that such fee shall be applied in payment for shares in the Society. The Shares in the Society shall be unlimited and shall not be transferable. At this stage the Directors have not called for payment of any of the fees involved.

3.7. Claims Recognition

Claims paid and accrued are recognised in the financial statements when approved after adjusting for the provision for incurred but not paid claims as specified under Note 7 – Provision for claims.

3.8. GST

The Society is registered for GST and these financial statements are prepared on a GST exclusive basis, with the exception of debtors and creditors.

3.9. Financial Instruments

Financial instruments primarily compromise cash at bank, accounts receivable, accounts payable and investments. Financial instruments are recognised in the statement of financial position at their estimated fair values.

4. Changes in Accounting Policies

With the exception to the change of the accounting period end, there have been no changes in accounting policies during this period. All policies have been applied on bases consistent with those used in previous periods.

5. Comparatives

The comparative figures for the 12 month period ended 31 March 2011 are not entirely comparable with the August results since these cover a 5 month period. In addition since Accuro's business is seasonal with the period January to March historically having lower claims cost. Pro-rating the year to March 2011 for 5 months will not give a direct comparative to the August data.

6. Nature of the business

The principal activity of the Society is to provide sickness, accident, hospital, surgical, specialists and medical benefits and bereavement grants to members and their dependants.

Notes to the Financial Statements (continued)

For the period ended 31 August 2011

7. Write downs and write ups

ACC surgical recovery write offs \$0. (2011: \$498k). The Society has also provided an additional \$41k for subscriptions that are in arrears by 90 days or more in that by non-payment the policies have lapsed. (2011: \$157k)

8. Investments

	August (5 Months) 2011 \$000	March (12 months) 2011 \$000
Fixed Interest	6,866	7,343
Total Investments	6,866	7,343

Within the Fixed Interest investments is \$1,200k held in term deposits that matures in the next 12 months (2011: \$1,363k). While \$1,200k of fixed interest investments mature in the next 12 months these have been classified as non-current since these deposits are held with fund managers and since they will remain with the fund manager, they will not be realised to Accuro within the next 12 months.

9. Fixed Assets

	August 2011			March 2011		
	Cost \$000	Accm Depn \$000	Net Book Value \$000	Cost \$000	Accm Depn \$000	Net Book Value \$000
Computer Hardware	76	52	24	67	46	21
Computer Software	191	131	60	157	114	43
Furniture	77	50	27	77	45	32
Equipment	77	55	22	74	53	21
Sub Total	421	288	133	375	258	117
Work in Progress	123	-	123	-	-	-
Total	544	288	256	375	258	117

10. Depreciation expense

	August (5 Months) 2011 \$000	March (12 months) 2011 \$000
Computer Hardware	6	15
Computer Software	17	30
Furniture	5	12
Equipment	2	2
Total Depreciation	30	59

Notes to the Financial Statements (continued)

For the period ended 31 August 2011

11. Provision for claims

An actuarial report has been obtained to assess the Provisions for Claims incurred but not paid (which includes claims not yet notified) at period end:

- The effective date of the assessment in the actuarial report was 31 August 2011.
- The name and qualifications of the actuary is Peter Davies of Davies Financial and Actuarial Limited, Fellow of the Society of Actuaries New Zealand.
- The standards of the New Zealand Society of Actuaries were used to determine the amount of the outstanding claims liability.
- The actuary is satisfied as to the nature, sufficiency and accuracy of the data used to determine the outstanding claims liability.
- With respect to the key assumptions used by the actuary in determining the outstanding claims liability, the actuary has assumed that the notification of claims by members of the Society will follow past patterns for the majority of claims, except where some claims for relatively small amounts may be held back for a longer period than would have been the case had a claims service fee not been applied.
- The actuarial report contained no qualifications.

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. Processing of claims will continue to be consistent at Accuro

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% (31 March 2011: 3%) of the underlying claims amounts based on an analysis of administration expenses.

The average weighted term from 31 August 2011 to the expected settlement date for claims included in the liability for outstanding claims is less than 120 days (30 March 2011: less than 120 days). Accordingly, expected future payments are not discounted due to the short tail nature of the liabilities.

The following provisions have been included in the total of claims paid and accrued in the Statement of Financial Performance:

HOSPITAL PLANS

	August (5 Months) 2011 \$000	March (12 months) 2011 \$000
Opening Balance	1,070	1,041
Deduct period provision	(1,070)	(1,041)
Add current period provision	992	1,070
Movement for the period	(78)	29
Closing Balance	992	1,070

Notes to the Financial Statements (continued)

For the period ended 31 August 2011

The Provision for Hospital Claims at 31 March 2011 was \$1,040 (2010: \$1,041k). This compares to the actual claims subsequently incurred of \$901k (2010: \$964k).

PRIMARY PLANS

	August (5 Months) 2011 \$000	March (12 months) 2011 \$000
Opening Balance	619	539
Deduct period provision	(619)	(539)
Add current period provision	718	638
Movement for the period	80	99
Closing Balance	718	638
Total Hospital and Surgical Provisions	1,710	1,708

The claims provision for Primary at 31 March 2011 was \$619k (2010 - \$538k). This compares to the actual claims subsequently incurred of \$588k (2010 - \$649k).

12. Reconciliation of net surplus with cash inflow from operating activities

	August (5 Months) 2011 \$000	March (12 months) 2011 \$000
Reported Surplus/ Deficit	(346)	(934)
Add/ (Deduct) non-cash items		
(increase)/ Decrease in Accrued Interest	0	9
Write downs and write offs	41	655
Unrealised Capital Loss/ (Growth)	(1)	(48)
Depreciation	30	59
	70	675
Movements in Working Capital		
(Decrease)/ Increase in Creditors	166	(314)
(Decrease)/ Increase in Income in Advance	185	97
(Decrease)/ Increase in Provisions for Claims	3	128
Decrease/ (Increase) in Debtors	(111)	(65)
Decrease in Prepayments	(14)	37
(Decrease)/ Increase in Net GST	(121)	(48)
	106	(165)
Net Cash Inflow from Operating Activities	(171)	(424)

Notes to the Financial Statements (continued)

For the period ended 31 August 2011

13. Operating lease obligations

Obligations payable after balance date on non-cancellable operating leases are as follow:

	August (5 Months) 2011 \$000	March (12 months) 2011 \$000
Due within one year	133	117
Due one to two years	40	64
Due in two plus years	43	30
	216	211

14. Tower health premiums

The Society collects Hospital Cover premiums on behalf of Tower Health Limited and pays these premiums on a monthly basis. During the period ended 31 August 2011 \$616k (2011: \$1,439k) premiums were charged/ collected from Tower Hospital members and \$604k (2011: \$1,454k) premiums were owed/ paid to Tower Hospital. This service ceased on 31 August 2011.

15. Directors' fees and expenses

	August (5 Months) 2011 \$000	March (12 months) 2011 \$000
Geoff Annals	12	23
Wayne McLachlan	5	11
Jane Bowden	5	0
Martin Stokes	3	13
Anne Hare	9	17
Bridgit Vivian	5	11
Naomi Ballantyne	0	3
Directors fees	39	83
Director expenses	2	10
	41	94

16. Solvency provision

Based on the information provided to the Consulting Actuary, he has determined that the total Minimum Solvency Provisions for the Society as at 31 August 2011 is \$3,000k being the minimum required per the latest draft non-life solvency standard released by the Reserve Bank.

The Societies adjusted available capital is \$4,368k or 146% of the minimum requirement (2011: \$4,853k)

Notes to the Financial Statements (continued)

For the period ended 31 August 2011

17. Contingent liabilities

There were no contingent liabilities at period end (2011 – nil).

18. Capital commitment

Capital commitments at period end were \$30k (2011 - \$28K).

19. Delay of the mandatory adoption of International Financial Reporting Standards

In September 2008, the Accounting Standards Review Board (ASRB) issues Release 9 – Delay of the Mandatory Adoption of New Zealand Equivalents to International Financial Reporting Standards (NZ IFRSs) for Certain Small Entities. The ASRB has decided that companies, which satisfy all of the following criteria, are permitted to continue to apply the existing approved New Zealand Financial Reporting Standards (FRSs) and, therefore, are not required to apply NZ IFRSs for periods beginning on or after 1 January 2008, until further notice:

- a. The company is not an insurer, as defined by the sections 4 and 19 of the Financial Reporting Act 1993, in either the current or preceding accounting period;
- b. The company is not required by section 19 of the Financial Reporting Act to file its financial statements with the Registrar of Companies; and
- c. The company is not large, as defined by section 19A (1) b of the Financial Reporting Act 1993.

Companies that are required to prepare financial statements in accordance with GAAP and that meets the above criteria will continue to have a choice between two sets of standards, the existing FRSs or NZ IFRSs.

The Society has not adopted NZ IFRS for the period ended 31 August 2011 because it satisfies all criteria as required by ASRB. However this will change in view of the new Insurance Prudential Supervision Act 2010 as discussed in Note 24.

20. Credit risk

Financial instruments which potentially subject the Society to credit risk principally consist of bank accounts, debtors and investments. Maximum exposures to credit risk as at balance date are the face value of these financial instruments as stated in the statement of financial position. The Society is not exposed to any concentration of credit risk.

Accuro is not required to have a Credit rating. Accuro is in the process of applying for a credit rating to meet the timing and requirements of the new legislation.

21. Fair values

The estimated fair values of the financial instruments are considered to be their carrying value.

22. Rating

Insurers offering policies in New Zealand are required to have a current rating from an approved agency. An insurer which is not party to any contract of disaster or general insurance may elect not to obtain a rating by registering a notice of election not to be rated. HSWS has registered a notice of election not to be rated under the Act and is therefore exempt from the rating regime.

23. Other fees paid to associates of the auditors

Associates of the Auditors provided taxation advisory services at a cost of \$3k (2011: \$5k) and advisory services at a cost of \$4k (2011: \$15k). These fees have been included in operating expenses.

Notes to the Financial Statements (continued)

For the period ended 31 August 2011

24. Subsequent events

The Society has committed to adopt NZIFRS for the period commencing 1 September 2012.

The implementation of NZIFRS is to coincide with the requirements stipulated in the Insurance Prudential Supervision Act 2010. This act requires insurers to apply for a provisional license by 7 March 2012. Insurers must have a full licence by 7 September 2013. At present the society is taking steps to implement the requirements of the Act.



BDO WELLINGTON

INDEPENDENT AUDITOR'S REPORT
To the Members of Health Service Welfare Society Limited
(Trading as Accuro Health Insurance)

Report on the Financial Statements

We have audited the financial statements of Health Service Welfare Society Limited on pages 2 to 12, which comprise the statement of financial position as at 31 August 2011, and the statement of movements in equity, statement of financial performance and statement of cash flows for the period then ended, and a summary of significant accounting policies and other explanatory information.

This report is made solely to the Members, as a body, in accordance with the Constitution of Health Service Welfare Society Limited. Our audit has been undertaken so that we might state to the Members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Members, as a body, for our audit work, for this report, or for the opinions we have formed.

Director's Responsibility for the Financial Statements

The Directors are responsible for the preparation and fair presentation of these financial statements in accordance with generally accepted accounting practice in New Zealand and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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 judgment, 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 entity'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 entity'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 overall 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.

In addition to audit services, our firm provides other services in the areas of taxation advice and business services. Partners and employees of our firm deal with Health Service Welfare Society Limited on normal terms within the ordinary course of trading activities of their business. We have no other relationship with or interests in the Health Service Welfare Society Limited.

Opinion

In our opinion, the financial statements on pages 2 to 12, present fairly, in all material respects, the financial position of Health Service Welfare Society Limited as at 31 August 2011, its financial performance and its cash flows for the period then ended in accordance with generally accepted accounting practice in New Zealand.

BDO WELLINGTON
WELLINGTON
9 DECEMBER 2011