SOUTHERN CROSS BENEFITS LIMITED

ANNUAL REPORT

FOR THE YEAR ENDED

30 June 2015

CONTENTS

ANNUAL REPORT DISCLOSURES
as at 30 June 2015

The Directors present their Annual Report including the Financial Statements of Southern Cross Benefits Limited (the "Company") for the year ended 30 June 2015.

Dividend	The Directors recommend that no dividend be paid for the year ended 30 June 2015.
Nature of business	The Company is in the business of providing a range of travel insurance products. The Company has a branch in Australia which provides outbound travel insurance in Australia. The Company also operates in the New Zealand Pet Insurance market.
Results	The Company recorded a profit of $111,000.
Register of Directors	C B Durbin G W Gent Chairman (appointed 5 December 2014) G S Hawkins (retired 4 December 2014) E M Hickey I B McPherson (retired 31 July 2014) K Taylor
Use of Company Information	The Board received no notices during the year from Directors requesting to use Company information received in their capacity as Directors which would not have been otherwise available to them.
Share Dealings	No Director acquired or disposed of any interest in shares in the Company during the year.
Directors' Remuneration	The Directors received no remuneration from the Company as set out in Note 19b to the financial statements.
Indemnity and Insurance	The Company has insured its Directors and Officers for liabilities to other parties that may arise from their positions as Directors and Officers.
Auditor	KPMG.

For and on behalf of the Board

G W Gent
Chairman
Date: 25 September 2015

E M Hickey
Director
Date: 25 September 2015

GOVERNANCE STATEMENT

The Directors of the Company ensure that robust corporate governance policies, practices and processes are in place. Responsibility for the day-to-day operation and administration of the Company is delegated by the Board to the Chief Executive Officer and senior management. The CEO is authorised to make decisions in accordance with the strategy, plans, budgets and the specific delegation framework approved by the Board. The Company maintains a healthy risk culture under the frameworks of formal risk management, compliance, capital, investment, and delegated authority policies. Management report on these and other operational matters in a monthly report to the Board.

The Board delegates certain powers, duties and responsibilities to the Risk, Audit, and Remuneration Committees. All Directors of the Company are considered to be independent per RBNZ guidelines. No executives of the Company hold a seat on the Board. All Directors and senior managers are required to meet Fit and Proper standards as prescribed by company policy.

Some key functions of the Board include:

- ensuring the Company's goals are clearly established and that strategies and business plans are in place for achieving them
- ensuring the Company's financial statements are true and fair and otherwise conform with legal requirements
- identifying steps necessary to protect the Company's financial position and brand
- appointing the CEO
- monitoring the performance of management
- ensuring the Board and management adhere to high ethical standards

The Company employs a Risk & Compliance Manager, who reports to the Financial Controller. The CEO is also the Chief Risk Officer. The associated responsibilities with these roles is formally imbedded into the respective position descriptions. In addition, the Company engages PWC as their Internal Auditor (outsourced) and the Board and Audit Committee approve an annual plan for independent review of the key risk areas of the business.

The Company monitors on a monthly basis its compliance with prudential capital requirements in accordance with RBNZ and APRA regulatory requirements.

Profiles of the Company's Directors are noted below.

Greg Gent
ONZM

Chairman
Greg Gent joined the Southern Cross Benefits Board and was elected Chairman in 2014. He is also a Trustee of the Society. Mr Gent is a Northland dairy farmer with a wealth of governance experience. From 2001 to 2011 he was a director of New Zealand's largest co-operative business, Fonterra. Prior to Fonterra's formation he was chairman of Northland Dairy and Kiwi Co-op Dairies. He is chairman of Farmers Mutual Group and Pengxin New Zealand Farm Management Limited; a director of New Zealand Institute for Plant and Food Research; and was a member of the Northland District Health Board from 2010 to mid-2015. Mr Gent is also Chairman of Southern Cross Health Trust.

GOVERNANCE STATEMENT (continued)

Carole Durbin
BCom, LLB(Hons), FInstD

Carole Durbin was appointed to the Southern Cross Benefits Board in August 2006. She is also a Trustee of the Southern Cross Health Trust and a Director of the Southern Cross Medical Care Society. Ms Durbin is a director of New Zealand owned Fidelity Life. A part-time consultant to Simpson Grierson, one of New Zealand's leading legal firms, Ms Durbin has also held a number of previous Board appointments including DamWatch Services Ltd, Simpson Grierson, Transpower NZ, software developer Synergy International (now Fronde) and was an Earthquake Commissioner. Until October 2009 she was chair of Mighty River Power, having been on that board since 1998. She is a Fellow of the Institute of Directors.

Elizabeth Hickey
MCom(Hons), FCA, MInstD, MNZM

Ms Hickey is a chartered accountant and member of the Institute of Directors who joined the Southern Cross Benefits Board in February 2014. Ms Hickey is a trustee of the University of Auckland Foundation, and a director of Diabetes New Zealand Inc. Her past governance experience includes being a director of Radio New Zealand, Genesis Power and Environmental Science and Research. She has served on both the New Zealand and international boards of the World Association of Girl Guides and Girl Scouts, and is a Fellow and past-President of the NZ Institute of Chartered Accountants. Ms Hickey is also a Trustee of Southern Cross Health Trust and a Director of the Southern Cross Medical Care Society.

Keith Taylor
BSc, BCA, FIA, FInstD

Keith Taylor was elected to the Southern Cross Benefits Board in February 2014 and is also a Trustee of the Southern Cross Health Trust and a Director of Southern Cross Medical Care Society. Mr Taylor has over 30 years' experience in the insurance and financial services industries as a chief executive, chief financial officer and actuary. He is chair of the Government Superannuation Fund, Gough Holdings Limited and Speirs Group, and deputy chair of the Reserve Bank of New Zealand and the Earthquake Commission. He is a director of Port Marlborough and Butland Holdings, and a member of the Carey Baptist College Board. He has previously been a director of property, insurance, trustee and investment companies in both New Zealand and Australia.

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
for the year ended 30 June 2015

	Note	2015 $000	2014 $000
Net premiums	3	56,890	48,868
Net claims expense	4	35,862	29,836
Underwriting surplus		21,028	19,032
Operating expenses	5	22,315	19,188
Other operating income		34	42
Operating loss		(1,253)	(114)
Investment and other income	6	1,366	950
Net profit before taxation		113	836
Taxation expense	7	2	3
Net profit after taxation		111	833
Other comprehensive income:			
Movement on foreign currency translation reserve		495	(1,155)
Net comprehensive income / (loss) for the year		606	(322)

The accompanying notes form part of these financial statements

STATEMENT OF CHANGES IN EQUITY
for the year ended 30 June 2015

2015

	Share Capital $000	Retained Earnings $000	Foreign Currency Translation Reserve $000	Total Reserves $000
Opening balance	600	19,294	(1,152)	18,742
Total comprehensive income:				
Profit after taxation	-	111	-	111
Other comprehensive income:				
Movement in foreign currency translation reserve	-	-	495	495
Total comprehensive income	-	111	495	606
Closing balance	600	19,405	(657)	19,348

2014

	Share Capital $000	Retained Earnings $000	Foreign Currency Translation Reserve $000	Total Reserves $000
Opening balance	600	18,461	3	19,064
Total comprehensive income:				
Profit after taxation	-	833	-	833
Other comprehensive income:				
Movement in foreign currency translation reserve	-	-	(1,155)	(1,155)
Total comprehensive income	-	833	(1,155)	(322)
Closing balance	600	19,294	(1,152)	18,742

The accompanying notes form part of these financial statements

STATEMENTS OF FINANCIAL POSITION
as at 30 June 2015

	Note	2015 $000	2014 $000
Assets			
Cash and cash equivalents		7,890	4,619
Premium receivable and other assets	9	5,108	4,331
Investments	10	35,137	35,435
Equipment	11	223	205
Intangible assets and goodwill	12	3,304	3,552
Leasehold improvements	13	442	502
Total assets		52,104	48,644
Liabilities			
Payables and other liabilities	14	2,749	3,021
Employee benefits	15	599	477
Insurance contract liabilities	16	29,408	26,404
Total liabilities		32,756	29,902
Net assets		19,348	18,742
Equity			
Share capital	8	600	600
Retained earnings		19,405	19,294
Foreign currency translation reserve		(657)	(1,152)
Total Equity		19,348	18,742

For and on behalf of the Board

G W Gent **Chairman** ____________________ Date: 25 September 2015

E M Hickey **Director** ____________________ Date: 25 September 2015

The accompanying notes form part of these financial statements

STATEMENTS OF CASH FLOWS
for the year ended 30 June 2015

	Note	2015 $000	2014 $000
Cash flows from operating activities			
Receipts from customers		60,290	52,996
Payments to employees		(6,704)	(5,232)
Payments to suppliers		(14,759)	(12,608)
Payment of claims		(36,680)	(29,365)
Receipts of reinsurance recoveries		1,048	209
Distribution and interest income received		1,087	804
Payment of reinsurance premiums		(1,913)	(1,548)
Payment of withholding tax		2	4
Other income		34	42
Net cash flows from operating activities	20	2,405	5,302
Cash flows to investing activities			
Payments for equipment and leasehold improvement		(111)	(130)
Payments for intangible assets		(569)	(1,593)
Net payments from/(for) investments		1,419	(5,203)
Advance from Southern Cross Health Trust		-	700
Net cash flows from/(to) investing activities		739	(6,226)
Net increase in cash and cash equivalents		3,144	(924)
Opening cash and cash equivalents		4,619	5,831
Effect of exchange rate movement on foreign currency balances		127	(288)
Closing cash and cash equivalents		7,890	4,619

The accompanying notes form part of these financial statements

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 30 June 2015

1 STATEMENT OF ACCOUNTING POLICIES

REPORTING ENTITY

Southern Cross Benefits Limited (the "Company") is a limited liability company domiciled and incorporated in New Zealand. It is a wholly owned subsidiary of the Southern Cross Health Trust.

The Company's registered office is Level 18 AMP Centre, 29 Customs Street West, Auckland.

The statutory base is the Insurance (Prudential Supervision) Act 2010, Companies Act 1993 and the Financial Reporting Act 2013.

The Company is registered as a charity under the Charities Act 2005, as part of the Southern Cross Health Trust group registration.

The Company's primary activity is the provision of travel and pet insurance.

The Company also operates in Australia selling outbound travel insurance. This activity is conducted through a branch structure which is a Category C Direct Offshore Foreign Insurer ("DOFI") regulated by the Australian Prudential Regulation Authority ("APRA") and the Australian Securities and Investment Commission ("ASIC"). The Company also operates in the New Zealand pet insurance market.

In February 2013, the Company was granted a full licence by the Reserve Bank of New Zealand ("RBNZ") to operate as an insurer subject to the Insurance (Prudential Supervision) Act 2010.

Financial statements are presented for the Company, including the Australian branch and pet insurance business.

The Company had a 50% share in a non-trading joint venture, Fusion Insurance Services Limited which was dissolved on 30 March 2015.

The Company, with its shareholder's approval, has applied the exemption available under section 211 (3) of the Companies Act 1993 in not disclosing the information required under section 211 (1) paragraphs (e), (g) and (h) of the Companies Act 1993.

BASIS OF PREPARATION

The financial statements have been prepared in accordance with New Zealand generally accepted accounting practice ("NZ GAAP"). They comply with New Zealand equivalents to International Financial Reporting Standards ("NZ IFRS") and other applicable financial reporting standards, as appropriate for profit oriented entities.

From 1 April 2014, the new Financial Reporting Act 2013 ("FRA 2013") came into force replacing the Financial Reporting Act 1993. This is effective for the Company's 30 June 2015 year end and the change in legislation has had no material impact on the Company's obligation to prepare general purpose financial statements.

The External Reporting Board of New Zealand's new accounting standards framework which establishes the financial standards to be applied to entities with statutory financial reporting obligations, is effective for the Company's 30 June 2015 year end. Under this framework, the Company has continued to apply NZ IFRS as applicable for Tier 1 for-profit entities. There has been no material impact on the preparation and disclosures included in the financial statements.

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 30 June 2015

1 STATEMENT OF ACCOUNTING POLICIES (continued)

BASIS OF PREPARATION (continued)

The statement of financial position has been presented in the order of decreasing liquidity.

The financial statements were approved by the Board of Directors on 25 September 2015.

BASIS OF MEASUREMENT

The financial statements are prepared on the historical cost basis except that the following are stated at their fair value: Financial assets at fair value through profit or loss and insurance contract liabilities.

FUNCTIONAL AND PRESENTATION CURRENCY

These financial statements are presented in New Zealand dollars, which is the functional and presentation currency. The functional currency for the Australian branch is Australian dollars. Transactions in the branch are translated to New Zealand dollars as discussed in the foreign currency transactions accounting policy. All financial information presented in New Zealand dollars has been rounded to the nearest thousand, unless otherwise stated.

USE OF ESTIMATES AND JUDGEMENTS

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised.

Information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements relate to insurance contract liabilities (notes 16 and 17) and risk management (note 18).

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

ADOPTION OF NEW ACCOUNTING STANDARDS

New reporting standards, amendments to standards and interpretations that became effective in the current financial year were not applicable to the Company or had no material impact on these financial statements.

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 30 June 2015

1 STATEMENT OF ACCOUNTING POLICIES (continued)

BUSINESS COMBINATIONS

Business combinations are accounted for using the acquisition method as at the acquisition date, which is the date on which control is transferred to the Company. Control is when the Company is exposed, or has rights, to variable returns from its involvement with an investee and has the ability to affect those returns through its power over the entity.

The Company measures goodwill at the acquisition date as:
- the fair value of the consideration transferred; plus
- the recognised amount of any non-controlling interests in the acquiree; plus
- if the business combination is achieved in stages, the fair value of the pre-existing equity interest in the acquiree; less
- the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

When the excess is negative, a bargain purchase gain is recognised immediately in profit or loss.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts generally are recognised in profit or loss.

Transaction costs, other than those associated with the issue of debt or equity securities, that the Company incurs in connection with a business combination are expensed as incurred.

Any contingent consideration payable is measured at fair value at the acquisition date. Subsequent changes in the fair value of the contingent consideration are recognised in profit or loss.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise cash on hand, current and call account balances in bank accounts. Under the NZ IFRS definition of financial assets, cash and cash equivalents are classified as "financial assets at fair value through profit or loss".

PREMIUM AND OTHER RECEIVABLES

Premium and other receivables are stated at their cost less impairment losses. Impairment losses for uncollectable premiums are recorded as bad debt expense in the profit or loss. Under the NZ IFRS definition of financial assets, premium and other receivables are classified as "loans and receivables".

INVESTMENTS

The Company designates its investments as "financial assets at fair value through the profit or loss" at inception.

Investments designated as fair value through the profit or loss at inception are those that are held to match insurance contract liabilities. The designation of these assets to be at fair value through the profit or loss eliminates or significantly reduces a measurement or recognition inconsistency between assets and liabilities.

All investments are carried at fair value using the market bid price or valuation based on market observable data with changes in fair value recognised in the profit or loss. Transaction costs are recognised in the profit or loss on transaction date.

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 30 June 2015

1 STATEMENT OF ACCOUNTING POLICIES (continued)

INVESTMENTS (continued)

All purchases of investments are recognised on the date of the trade.

EQUIPMENT AND LEASEHOLD IMPROVEMENT

Equipment and leasehold improvements are measured at cost, less accumulated depreciation and impairment losses.

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

Subsequent costs are added to the carrying amount of an item of equipment and leasehold improvement when that cost is incurred if it is probable that the future economic benefits embodied with the item will flow to the Company and the cost of the item can be measured reliably. All other costs are recognised in the profit or loss as an expense as incurred.

Depreciation is recognised in the profit or loss on a straight-line basis over the estimated useful lives of each part of an item of equipment and leasehold improvement. The depreciation rates for the current and comparative periods are as follows:

- Computer equipment 25% - 33% per annum
- Furniture and fittings 15% - 20% per annum
- Office equipment 15% - 20% per annum
- Leasehold improvements 8.33% per annum

The carrying value of each class of asset is assessed annually. If the estimated recoverable amount of each class of asset is less than its carrying amount, the class of asset is written down to its recoverable amount and an impairment loss is recognised in the statement of profit or loss and comprehensive income.

INTANGIBLE ASSETS

Computer Software

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

During the year, a portion of computer software required an adjustment to the amortisation period. This is due to new software being implemented that will replace the relevant computer software before the end of the original amortisation period. This has resulted in a shorter amortisation period for the relevant computer software and accelerated amortisation during this shorter period.

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

Goodwill

Goodwill that arises upon the acquisition of businesses is presented with intangible assets. Measurement of goodwill at initial recognition is described under Business Combinations within note 1. Goodwill is subsequently measured at cost less accumulated impairment losses.

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 30 June 2015

1 STATEMENT OF ACCOUNTING POLICIES (continued)

INTANGIBLE ASSETS (continued)

Customer Base

Customer base represents the value of a customer base acquired, through its ability to generate future cash flows from retained business. It is recognised as an intangible asset when a business is acquired and when the criteria for recognition are met. A customer base is initially recognised at cost which is the fair value at the acquisition date and subsequently carried at cost less accumulated amortisation and any accumulated impairment losses. The capitalised costs are amortised on a straight line basis over the period when future economic benefits are expected to flow to the Company. This period is determined to be ten years.

Insurance contracts acquired

The value of insurance contracts acquired represents the expected future cash flows arising from the insurance contracts acquired. Insurance contracts acquired are recognised as an intangible asset when a business is acquired and when the criteria for recognition are met. Insurance contracts acquired are initially recognised at cost which is the fair value at the acquisition date and are subsequently carried at cost less accumulated amortisation and any accumulated impairment losses. The capitalised costs are amortised over the remaining life of the insurance contracts.

FOREIGN CURRENCY TRANSACTIONS

Transactions in foreign currencies that are settled in the reporting period are translated at the settlement rate. Transactions in foreign currency that are not settled in the reporting period, resulting in monetary assets and liabilities denominated in foreign currencies at the reporting date, are translated to New Zealand dollars at the foreign exchange rate at that date. Foreign exchange differences arising on their translation are recognised in the profit or loss.

Foreign operations

Activities of the Australian branch are recorded in Australian dollars, its functional currency. Profit or loss items are translated to New Zealand dollars at an average exchange rate for each month. The assets and liabilities of the branch are initially translated to New Zealand dollars at the foreign exchange rate on the date they arise. At balance date, all the assets and liabilities are re-translated at the exchange rate on that date.

Foreign exchange differences arising from this translation are recognised in other comprehensive income and the foreign currency translation reserve.

IMPAIRMENT

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

An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount. Impairment losses directly reduce the carrying amount of the asset and are recognised in the profit or loss. The estimated recoverable amount of assets is the greater of fair value less costs to sell, or value in use.

For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units).

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 30 June 2015

1 STATEMENT OF ACCOUNTING POLICIES (continued)

IMPAIRMENT (continued)

Goodwill is tested for impairment annually, whether or not there is evidence of impairment (refer note 12).

INSURANCE CONTRACTS

Insurance contracts are defined as those containing significant insurance risk at the inception of the contract.

Once a contract has been classified as an insurance contract, it remains an insurance contract for the remainder of its lifetime, even if the insurance risk reduces significantly during the period.

The Company has determined that all travel and pet insurance policies provided to customers are insurance contracts.

REINSURANCE

Reinsurance premium expense ("Premiums ceded to reinsurers")

Premiums ceded to reinsurers are recognised as reinsurer's share of the premium and deducted from gross premiums. The recognition of the expense in the profit or loss is in accordance with the pattern of reinsurance service received.

Reinsurance claim recoveries

The component of claims expense relating to policies ceded to reinsurers is recognised as reinsurance claim recoveries in the profit or loss and as reinsurance recoveries in the statement of financial position. The recoverability of these assets is assessed at the reporting date and impairment is recognised where there is objective evidence that the Company may not receive the amounts due to it and these amounts can be reliably measured.

INCOME RECOGNITION

Premiums

Gross earned premiums from insurance contracts are recognised evenly over the period covered by the contract. For the travel operations, revenue is recognised on the date from which the travel period commences. Premiums billed but unearned are recorded as unearned premiums. Premiums are stated net of fire service levies and stamp duty. Where premiums are billed and paid by instalments, the premium to be billed up to the next renewal date is recognised as a receivable and unearned premium liability.

Fee and other income

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

Investment income

Interest income is recognised in the profit or loss as it accrues and is calculated by using the effective interest rate method. Investment income on financial assets held at fair value through the profit or loss are recorded in accordance with the policies described for in Investments (note 1). Distributions from investments in funds are recognised on a present entitlement basis.

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 30 June 2015

1 STATEMENT OF ACCOUNTING POLICIES (continued)

LEASES

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

ACQUISITION COSTS

For the travel operations, the costs incurred in acquiring insurance contracts are deferred in recognition that they represent future benefits. Acquisition costs are initially recorded in the profit or loss.

Any amounts that give rise to premiums in subsequent reporting periods are deferred as an asset and amortised over the period covered by the insurance contract.

NET CLAIMS EXPENSE

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

OUTSTANDING CLAIMS PROVISION

The liability for outstanding claims comprises claims incurred but not settled at the reporting date, whether reported or not. A central estimate is made of claims incurred but not paid. The central estimate includes expected claim payments plus associated claims handling costs. In addition a risk margin is added to reflect the inherent uncertainty in the estimate of claims and claims handling costs.

PAYABLES

Payables are stated at cost. Under NZ IFRS definition of financial liabilities, payables are classified as "other liabilities at amortised cost".

PROVISIONS

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

UNEXPIRED RISK PROVISION AND LIABILITY ADEQUACY TEST

The liability for unearned premiums arises from premiums received for risks that have not yet expired. The provision is released evenly over the duration of the travel period for travel insurance contracts and the duration of the insurance contract for pet insurance contracts and is recognised as premium income. A liability adequacy test is performed on each of the travel and pet insurance businesses to assess whether there is any deficiency in the unearned premium liability arising from expected claims and administration costs during the period covered by the unearned premium. For the New Zealand travel insurance business, the test has been performed on the aggregate portfolio as risks are broadly similar and are managed together as a single portfolio. The Pet and Australian operations are mono-lined businesses so the test has been performed on each of them as a whole.

The central estimate of claims and administration expenses is calculated. In addition, a risk margin is added to reflect the inherent uncertainty in the estimate of future claims. The total is compared with the unearned premium liability. Any deficiency is recognised in profit or loss after first writing down any deferred acquisition costs. The deficiency (if any) in excess of deferred acquisition costs is recognised in the statement of financial position as an unexpired risk liability and in the statement of profit and loss and other comprehensive income as claims expense.

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 30 June 2015

1 STATEMENT OF ACCOUNTING POLICIES (continued)

EMPLOYEE BENEFITS

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

TAXATION

The Company is exempt from New Zealand income tax due to its charitable status. Australian income taxes are not payable by the Australian branch due to a ruling by the Australian Tax Office ("ATO") in the 2012 financial year. The income tax expense recognised in the statement of profit or loss comprises non-resident withholding tax paid on interest income on bank balances in Australia.

GOODS AND SERVICES TAX (GST)

The statement of profit or loss and other comprehensive income has been prepared so that all components are stated exclusive of GST. All items in the statement of financial position are stated net of GST, with the exception of receivables and payables, which include GST invoiced.

CHANGE IN ACCOUNTING ESTIMATES

If a change in an accounting estimate gives rise to a change in an asset or liability, or relates to equity, it is recognised by adjusting the carrying amount of the asset, liability or equity item in the period of the change. Otherwise, it is recognised prospectively by including it in the statement of profit or loss and other comprehensive income in the period of the change and future periods, as applicable.

COMPARATIVES

Certain comparative information has been reclassified to ensure consistency with the current years presentation.

Bank deposits held for investment purposes have been reclassifed from investments to cash and cash equivalents in the statement of financial position and in the statement of cashflows.

2 NEW FINANCIAL REPORTING STANDARDS APPROVED BUT NOT YET EFFECTIVE

The following new or amended standards and interpretations, which are applicable to the Company, are not yet effective for the year ended 30 June 2015, and have not been applied in preparing these financial statements:

NZ IFRS 9 - Financial Instruments:

NZ IFRS 9, issued in September 2014, replaces the existing guidance in NZ IAS 39 Financial Instruments: Recognitition and Measurement. NZ IFRS 9 includes revised guidance on the classification and measurement of financial instruments, including a new expected credit loss model for calculating impairment on financial assets and the new general hedge accounting requirements. It also carries forward guidance on recognition and derecognition of financial instruments from NZ IAS 39.

The above revisions to NZ IFRS 9 are effective for annual reporting periods beginning on or after 1 January 2018. The impact of the requirements of this standard on the Company is still to be determined.

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 30 June 2015

3 REVENUE

	2015 $000	2014 $000
Premium income	58,720	50,659
Reinsurers' share of premium	(1,830)	(1,791)
Net premiums	56,890	48,868

4 NET CLAIMS EXPENSE

	2015 $000	2014 $000
Claims expense	37,111	30,145
Reinsurance claims recovery	(1,249)	(309)
Net claims expense	35,862	29,836
Claims incurred relating to risk borne in current financial year (gross)	36,754	29,812
Claim recoveries relating to risk borne in current financial year	(678)	(254)
Claims incurred relating to risk borne in the current financial year (net)	36,076	29,558
Claims incurred relating to risk borne in previous financial year (gross)	190	234
Claim recoveries relating to risk borne in previous financial year	(571)	(55)
Claims incurred relating to risk borne in previous financial year (net)	(381)	179
Movement in provision for claims handling cost	19	39
Movement in risk margin	148	60
Net claims expense	35,862	29,836

5 OPERATING EXPENSES

	2015 $000	2014 $000
Auditor's remuneration:		
– Audit of financial statements	115	115
– Other services	36	55
Depreciation (notes 11 and 13)	153	128
Amortisation of computer software (note 12)	762	683
Amortisation of customer base (note 12)	55	56
Employee benefits expense	6,826	5,244
Rental of premises	620	538
Bank charges	722	671
Acquisition costs	2,340	1,550
Other direct expenses	8,720	8,254
Other overhead expenses	1,966	1,894
	22,315	19,188

Other direct expenses include items such as IT costs, marketing and underwriting expenses.

Auditor's remuneration for other services consists of reviewing regulatory returns to the RBNZ and annual APRA reporting on the Australian branch.

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 30 June 2015

6 INVESTMENT AND OTHER INCOME

	2015 $000	2014 $000
Interest income	82	62
Distribution Income	1,011	740
Net gain on investment at fair value through profit or loss	421	227
Loss on disposal of assets	-	(2)
Foreign exchange loss	(148)	(77)
	1,366	950

7 TAXATION

	2015 $000	2014 $000
Australian income tax on interest earned	2	3
	2	3

8 EQUITY

Share capital comprises 600,000 (2014: 600,000) authorised, issued and fully paid ordinary shares. All ordinary shares have equal voting rights, and share equally in dividends and surplus on winding up. No Dividends were paid during the year (30 June 2014 nil).

9 PREMIUM RECEIVABLES AND OTHER ASSETS

	2015 $000	2014 $000
Premium accounts receivable	3,256	2,694
Reinsurance recoveries	302	101
Deferred acquisition costs	1,262	1,066
Interest receivable	11	5
Other assets	240	369
Amounts owed by related parties (refer note 19)	37	96
	5,108	4,331

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 30 June 2015

9 PREMIUM RECEIVABLES AND OTHER ASSETS (continued)

a. Reconciliation of movements in reinsurance recoveries

	2015 $000	2014 $000
Opening balance	101	1
Gross reinsurance recoveries during the year	1,249	309
Reinsurance recoveries settled by reinsurer during the year	(1,048)	(209)
Closing balance	302	101

b. Reconciliation of movements in deferred acquisition cost

	2015 $000	2014 $000
Opening balance	1,066	698
Gross commissions paid during the year	2,536	1,918
Pet deferred acquisition cost write down	(20)	(229)
Commissions incurred during the year	(2,320)	(1,321)
Closing balance	1,262	1,066

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

10 INVESTMENTS

At fair value through profit or loss

	2015 $000	2014 $000
Investment in funds	35,137	35,435
	35,137	35,435

Details of the investment in funds is provided in note 18.

The Company is required to hold designated levels of investments in Australia to comply with the capital adequacy requirements of APRA in relation to the activities of the Australian branch (refer note 22). Restrictions are imposed on these investments and the Company's ability to utilise them. At balance date $12,827,000 (2014: $11,838,000) in a cash fund was held in this category.

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 30 June 2015

11 EQUIPMENT

	Computer equipment	Office equipment and motor vehicle	Furniture and fittings	Total
	$000	$000	$000	$000
At 30 June 2015				
Cost	587	443	479	1,509
Accumulated depreciation	(515)	(369)	(402)	(1,286)
Closing balance	72	74	77	223
Reconciliation of movement in equipment				
Opening balance	76	57	72	205
Additions	35	44	32	111
Depreciation for the year	(39)	(27)	(27)	(93)
Closing balance	72	74	77	223

	Computer equipment	Office equipment and motor vehicle	Furniture and fittings	Total
	$000	$000	$000	$000
At 30 June 2014				
Cost	552	399	447	1,398
Accumulated depreciation	(476)	(342)	(375)	(1,193)
Closing balance	76	57	72	205
Reconciliation of movement in equipment				
Opening balance	32	66	76	174
Additions	67	11	20	98
Depreciation for the year	(23)	(20)	(24)	(67)
Closing balance	76	57	72	205

Equipment is a non-current asset.

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 30 June 2015

12 INTANGIBLE ASSETS

	Insurance contracts acquired $000	Goodwill $000	Customer Base $000	Computer Software $000	Work in progress $000	Total $000
At 30 June 2015						
Cost	191	168	559	7,401	419	8,738
Accumulated amortisation	(191)	-	(186)	(5,057)	-	(5,434)
Closing balance	-	168	373	2,344	419	3,304
Reconciliation of movement in intangible assets						
Opening balance	-	168	428	2,858	98	3,552
Additions	-	-	-	-	569	569
Transfers from work in progress	-	-	-	248	(248)	-
Amortisation for the year	-	-	(55)	(762)	-	(817)
Closing balance	-	168	373	2,344	419	3,304

	Insurance contracts acquired $000	Goodwill $000	Customer Base $000	Computer Software $000	Work in progress $000	Total $000
At 30 June 2014						
Cost	191	168	559	7,153	98	8,169
Accumulated amortisation	(191)	-	(131)	(4,295)	-	(4,617)
Closing balance	-	168	428	2,858	98	3,552
Reconciliation of movement in intangible assets						
Opening balance	-	168	484	1,878	170	2,700
Additions	-	-	-	-	1,593	1,593
Transfers from work in progress	-	-	-	1,665	(1,665)	-
Disposals	-	-	-	(2)	-	(2)
Amortisation for the year	-	-	(56)	(683)	-	(739)
Closing balance	-	168	428	2,858	98	3,552

The majority of the computer software and work in progress is internally generated. Intangible assets and goodwill are non-current assets.

Goodwill

Goodwill arose in February 2012 upon acquisition of Ellenco Pet Insurance Limited's customer contracts, systems, intellectual property and operating assets.

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 30 June 2015

12 INTANGIBLE ASSETS (continued)

This goodwill is attributable mainly to the opportunities for growth enabled by marketing the product to the members of the Southern Cross Medical Care Society ("Society") and relates entirely to the pet insurance business, being the cash-generating unit (CGU) as defined in NZ IAS 36. The carrying amount that relates to this CGU at 30 June 2015 is $168,000 (2014: $168,000).

Goodwill is assessed at each reporting date for indicators of impairment as it is not amortised. No impairment losses on goodwill were recognised during 2015 (2014: nil).

The recoverable amount of the CGU is determined based on value-in-use calculations, determined by discounting the future cash flows to be generated from the CGU. These calculations use discounted cash flow projections based on past experience, actual operating results and profit forecasts approved by management as part of the rolling operating plan process. The rolling operating plan covers a detailed three year time frame, approved by management. Profit forecasts greater than three years are estimated by management based on their assessment of sustainable growth. The discounted cash flow model has used a five year profit projection, a discount rate (pre-tax) of 10.0% (2014: 12.0%) and annual growth rates for pets covered (as detailed in the following table). The discount rates were based on the average risk-free rate obtained from the yield on 10-year bonds issued by the New Zealand Government adjusted for a risk premium to reflect the risk of the specific CGU. The projected growth in pets covered and cash flows were based on realising the opportunities for growth enabled by marketing the product to the members of the Society in conjunction with technology improvements enabling higher capacity.

Growth rate projections:

	Year 1	Year 2	Year 3	Year 4	Year 5
Pets Covered 2015	19.5%	12.4%	9.7%	9.7%	9.7%
Pets Covered 2014	29.9%	28.3%	24.1%	10.0%	10.9%

Key assumptions underlying the valuation relate to management's assessment of new business growth, claims cost escalation, premium increases, commission rates and operating expenses. Management utilise local market data as well as Group expertise and experience to validate key assumptions.

The key assumptions described above may change as economic and market conditions change. The Company estimates that reasonably possible changes in these assumptions are not expected to cause the recoverable amount of the CGU to decline below the carrying amount.

13 LEASEHOLD IMPROVEMENTS

	2015 $000	2014 $000
Cost	720	720
Accumulated amortisation	(278)	(218)
Closing balance	442	502

Reconciliation of movement in leasehold improvements

	2015	2014
Opening balance	502	531
Additions/disposals	-	32
Depreciation for the year	(60)	(61)
Closing balance	442	502

Leasehold improvement is a non-current asset

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 30 June 2015

14 PAYABLES AND OTHER LIABILITIES

	2015 $000	2014 $000
Accounts payable and other liabilities	2,351	2,243
Witholding tax payable	36	32
Reinsurance premiums payable	176	255
Amounts owed to related parties (refer note 19)	186	491
	2,749	3,021

Payables is a current liablity except for $260,000 (2014: $302,000) of non-current deferred lease income within Accounts Payable.

15 EMPLOYEE BENEFITS

	2015 $000	2014 $000
Employee benefits	599	477
	599	477

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

16 INSURANCE CONTRACT LIABILITIES

	2015 $000	2014 $000
Provision for outstanding claims (refer note 16a)	8,403	7,810
Provision for unearned premium (refer note 16c)	21,005	18,594
	29,408	26,404

a. Provision for outstanding claims

	2015 $000	2014 $000
Central estimate of outstanding claims liability	7,161	6,735
Claims handling costs	498	479
Risk margin	744	596
Closing balance	8,403	7,810

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

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 30 June 2015

16 INSURANCE CONTRACT LIABILITIES (continued)

b. Reconciliation of movement in provision for outstanding claims

	2015 $000	2014 $000
Opening balance	7,810	7,007
Amounts utilised during the year	(6,161)	(6,004)
Additional provision/(reversal of unused provision)	(381)	179
Amounts provided during the year	6,968	6,529
Movement in claims handling costs	19	39
Movement in risk margin	148	60
Closing balance	8,403	7,810

c. Reconciliation of movement in provision for unearned premium

	2015 $000	2014 $000
Opening balance	18,594	15,254
Premiums written in the year	61,131	53,999
Premiums earned during the year	(58,720)	(50,659)
Closing balance	21,005	18,594

17 ACTUARIAL INFORMATION

Estimates of the provision for outstanding claims for Southern Cross Benefits Limited as at 30 June 2015 have been determined by Win-Li Toh, MA (Oxon) of Taylor Fry Consulting Actuaries, a Fellow of the New Zealand Society of Actuaries and a Fellow of the Institute of Actuaries of Australia. Comparative results were determined by Peter Davies B.Bus.Sc. FIA, a Fellow of the New Zealand Society of Actuaries. The calculation of the provision for outstanding claims complies with Appendix D of NZ IFRS 4 – Financial Reporting of Insurance Contracts, and Professional Standard No. 4 – General Insurance Business, of the New Zealand Society of Actuaries.

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

a. Outstanding claims provision

For travel insurance, claims outstanding for two months or more are determined using a standard chain ladder method. Claims outstanding in respect of the most recent two months are determined by applying an estimated loss ratio and the percentage estimated as unpaid to the gross earned premiums for the month. Additional allowance is made in the New Zealand and Australian outstanding claims provisions for large claims and associated reinsurance recoveries. For Pet insurance, a payments per active policy approach is adopted to value outstanding claims. Future claim payments are not discounted, as the expected duration to settlement is relatively short, and virtually all claims are settled within a year.

An additional margin of 9% (2014: 9%) has been added to the central estimate of the outstanding claim costs for the New Zealand travel business and 12% (2014: 9%) for the Australian business, to take account of the uncertainties inherent in the setting of claim provisions. The additional margin for the pet insurance business is 7% (2014: 7%).

A further provision of 7% (2014: 7%) of the central estimate of the outstanding claims has been made for direct and indirect claim management costs for the New Zealand travel business, 8% (2014: 6%) for the Australian business and 0% (2014: 5%) for the pet insurance business.

These additional margins provide a 75% probability of adequacy.

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 30 June 2015

17 ACTUARIAL INFORMATION (continued)

b. Unexpired risk provision and liability adequacy test

The Actuary has reviewed the adequacy of the unearned premium provision at 30 June 2015. In performing this test, an additional margin has been added to the central estimate of the future claim costs, to take account of the uncertainties inherent in the central estimate. A further allowance has been made for direct and indirect claim management costs and also policy administration costs.

For the travel insurance businesses, if the loss ratio was to increase by 10%, the premium liability will also increase by 10%. As there is a significant margin between the premium liability and the unearned premium provision, the liability adequacy test in respect of unearned premiums can cover quite significant levels of variability in the loss ratio. For the pet insurance business, the premium liability including risk margins is higher than the unearned premium net of deferred acquisition costs, therefore any increase in the loss ratio will have a direct impact to profitability.

In the Actuary's view, the liability adequacy tests identified surpluses for the travel insurance business but a shortfall for the pet insurance business. Accordingly a deferred acquisition cost of $20,000 was written down (2014: $229,000). An unexpired risk liability of $341,000 was recognised (2014: $0).

	2015			2014		
	Pet	New Zealand	Australia	Pet	New Zealand	Australia
Percentage Risk margin on expected future cash flows relating to future claims	12.3%	15.8%	21.0%	12.3%	15.8%	15.8%
Probability of adequacy (LAT and OCR)	75.0%	75.0%	75.0%	75.0%	75.0%	75.0%

	2015			2014		
	Pet	New Zealand	Australia	Pet	New Zealand	Australia
	$000	$000	$000	$000	$000	$000
Sensitivity						
IBNP (including margins)	777	5,043	2,583	699	5,110	2,002
IBNP if settlement 10% longer	854	5,800	2,823	865	7,181	2,709
IBNP if settlement 10% shorter	699	4,363	2,356	580	3,877	1,535

18 RISK MANAGEMENT

The Company is exposed to a number of risks in the normal course of business. Primarily there is the risk of conducting an insurance business (insurance risk). Other risks include financial risks (credit risk and liquidity risk), market risks (foreign currency risk, interest rate risk and price risk), and non-financial risks (operational risk and compliance risk). The directors and management recognise the importance of having an effective risk management policy. The risks and any objectives, policies and processes to manage the risks are described below in summary; a detailed risk register and risk management framework underpin this summary.

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 30 June 2015

18 RISK MANAGEMENT (continued)

a. Insurance risk

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

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

The primary objective in managing risk is, as far as possible, to reduce the magnitude and volatility of claims costs. A secondary objective is to ensure funds are available to pay claims and maintain the solvency of the business if there is adverse deviation in experience. Key policies and methods for mitigating risk include:

* Underwriting policies and processes which evaluate new risks and offer terms that do not endanger the portfolio.
* Strict claims management procedures to ensure the payment of claims is in accordance with policy conditions and the Delegated Authority Policy.
* Maintaining a reinsurance programme for the travel insurance business which protects the Company against single large claims in excess of the Company's retention, and against a catastrophic event involving multiple claims.
* A long-term pricing strategy which supports pricing based on underlying risk.
* Monthly monitoring of financial and operating results and detailed investigations into the claims experience of the portfolio.
* Adherence to a formal capital management plan monitored monthly to ensure minimum prudential capital requirements are complied with.
* Implementation of a risk management strategy, which is in accordance with the prudential standards issued by RBNZ and APRA.

II. Sensitivity to insurance risk

The financial results of the Company are primarily affected by the level of claims incurred relative to that implicit in the premiums. The assumptions used in the valuation of the outstanding claims provision and the liability adequacy test directly affect the level of estimated claims incurred. The key assumptions used are detailed in note 17.

The scope of insurance risk is managed by the terms and conditions of the policy. The main insurance benefit for the travel insurance business involves the reimbursement of losses during travel for medical expenses in addition to the losses relating to personal property, cancellation, personal accident, personal liability, and rental vehicle excesses. The level of benefits specified in the contract is a key determinant of the amount of future claims although the exact level of claims is uncertain.

III. Concentration of insurance risk

The Company transacts travel insurance business in New Zealand for inbound and outbound customers, and in Australia for outbound customers. The nature of its business means that this concentration of risk cannot be avoided. Management defines concentration of risk by geographic region, specific destination, and unknown and unforeseen accumulations of insured on a single transport carrier. The Company is most at risk to the global commercial aviation industry and its ability to offer continuous operations given the impacts of oil prices, pandemics, natural disasters and terrorism, which lends itself to a single event resulting in a high volume of relatively low dollar value cancellation / delay claims.

The Company's travel related concentration risks are mitigated by its catastrophe, pandemic and terrorism reinsurance treaties for the travel insurance business, to protect it from high severity losses and catastrophic events. Reinsurance is placed to cover losses in excess of agreed retentions.

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 30 June 2015

18 RISK MANAGEMENT (continued)

b. Financial risks

I. Credit risk

In the normal course of its business the Company incurs credit risk from its travel and pet insurance operations and from investment in financial assets. There are no significant concentrations of credit risk other than the AMP Capital Cash and Short Duration Funds $22,310,000 (2014 $23,597,000) and Colonial First State Cash Fund $12,827,000 (2014 $11,838,000).

The Company has internal controls in place to manage premium accounts receivable credit risk and an investment policy is also maintained which is used to manage the exposure to credit risk.

The maximum exposure to credit risk at reporting date is the amount of financial assets reported in the statement of financial position.

These exposures are net of any recognised provisions for impairment losses. There were no impairments at 30 June 2015 (2014: none). The Company does not require any collateral or security to support financial assets due to the quality of the counter-party organisations. The credit quality of counter-parties is assessed based on published credit ratings, issued by Standard & Poor's or equivalent ratings agencies.

The credit quality of investment counter-parties is as follows:

2015	AAA $000	AA $000	A $000	BBB $000	Non-rated $000	Total $000
Cash and cash equivalents	-	7,890	-	-	-	7,890
Premiums and other receivables:						-
- Premium accounts receivable	-	-	-	-	3,256	3,256
- Reinsurance recoveries	-	-	302	-	-	302
- Interest receivable	-	11	-	-	-	11
- Other accounts receivable	44	74	-	-	122	240
- Amounts due by related parties	-	-	-	-	37	37
Investments	369	28,439	5,232	1,097	-	35,137
	413	36,414	5,534	1,097	3,415	46,873

2014	AAA $000	AA $000	A $000	BBB $000	Non-rated $000	Total $000
Cash and cash equivalents	-	4,619	-	-	-	4,619
Premiums and other receivables:						
- Premium accounts receivable	-	-	-	-	2,694	2,694
- Reinsurance recoveries	-	-	101	-	-	101
- Interest receivable	-	5	-	-	-	5
- Other accounts receivable	41	174	-	-	154	369
- Amounts due by related parties	-	-	-	-	96	96
Investments	103	29,304	4,776	1,252	-	35,435
	144	34,102	4,877	1,252	2,944	43,319

A look-through approach has been taken to assess the credit ratings of the investments in funds for this credit quality analysis.

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 30 June 2015

18 RISK MANAGEMENT (continued)

b. Financial risks (continued)

II. Liquidity risk

The Company is exposed to daily calls on its available cash resources from claims and administration expenses. Liquidity risk is the risk that payment of obligations may not be met in a timely manner at a reasonable cost. The investment policy sets out criteria to ensure funds are available to meet calls to cover claims and expenses at unexpected levels of demand.

For the New Zealand operation invested funds are managed by AMP Capital. These funds are available on call along with the Australian Branch investment in the Colonial First State Cash Fund. The cash and cash equivalents are available on call. All premium accounts receivable, with the exception of unbilled premiums on pet policies, are due within one month of balance date and within two months for the pet insurance business. Unbilled premiums of $2,383,000 are paid by instalments and are due within 12 months of balance date (30 June 2014: $1,722,000). Substantially all liabilities are payable within one year of balance date.

Lease payments are made monthly in advance and closely align with the contractual cash flow obligations of the lease (refer note 23).

c. Market risks

I. Foreign currency risk

At 30 June 2015, the New Zealand operations had assets of NZD $121,000 and no liabilities denominated in foreign currencies (30 June 2014: assets of $101,000 and no liabilities). Foreign currency bank balances are maintained to meet future claim expenses in these currencies, thereby creating a natural hedge.

The balances held in foreign currencies are:

	NEW ZEALAND DOLLAR EQUIVALENT	
	2015	2014
	$000	$000
Australian dollar	5	14
Canadian dollar	2	46
United States dollar	114	41
	121	101

A movement of 100 basis points on these exchange rates would have an immaterial impact on the statement of profit or loss and other comprehensive income.

The Company's Australian branch exposes it to currency risk, as the branch's functional currency is Australian dollars. The New Zealand dollar equivalents of the Australian assets and liabilities at reporting date amounted to $16,319,000 and $8,420,000 respectively (30 June 2014: assets of $15,145,000 and liabilities of $7,568,000).

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 30 June 2015

18 RISK MANAGEMENT (continued)

c. Market risks (continued)

As the Australian operation is considered an ongoing investment, no hedging of the foreign currency exposure is undertaken. Any movement in the Australian dollar exchange rate is reflected in the foreign currency translation reserve. A movement of 100 basis points on the Australian dollar exchange rate at year end would have an impact of $79,000 (2014: $76,000) on the net assets of the Company and the foreign currency translation reserve.

II. Interest rate risk

During the year, the Company invested in AMP Capital and Colonial First State Cash Fund and has indirect exposure to interest rate risk. There was a risk that any movement in interest rates could have affected the profitability and cash flows of the Company. The Company maintained an investment policy to mitigate this risk.

(i) *Cash flow interest rate risk*

The cash flows from investments of the Company in the short term are susceptible to changes in interest rates. The variable interest rate instruments pose cash flow interest rate risk and the following analysis shows the impact of notional changes in interest rates on cash flows and profit or loss:

	2015 $000	2014 $000
Impact of increase in interest rates by 100 basis points on cashflows and profit or loss	309	282
Impact of decrease in interest rates by 100 basis points on cashflows and profit or loss	(309)	(282)

(ii) Price risk

The Company is exposed to price risk through unit price changes of its investments in the AMP Capital and Colonial First State funds. The Company manages its price risk by ensuring all activities are transacted in accordance with the funds investment statements and the Company's investment policy which focuses on low risk investments. The following analysis shows the impact of changes in prices on profitability:

	2015 $000	2014 $000
Impact of increase in interest rates by 100 basis points on profit or loss statement	215	222
Impact of decrease in interest rates by 100 basis points on profit or loss statement	(215)	(222)

d. Fair values of financial assets and financial liabilities

All financial assets and financial liabilities included in the statements of financial position are carried at amounts that approximate fair value.

The table below analyses financial assets measured at fair value at the end of the reporting period, by the level in the fair value hierarchy into which the fair value measurement is categorised.

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 30 June 2015

18 RISK MANAGEMENT (continued)

d. Fair values of financial assets and financial liabilities (continued)

Definition of the fair value hierarchy

Level 1: Valuation based on quoted market prices (unadjusted) in an active market.
Level 2: Valuation techniques based on observable market data, either directly (as prices) or indirectly (derived from prices).
Level 3: Valuation techniques not based on observable market data.

30 June 2015	Level 1 $000	Level 2 $000	Level 3 $000	Total $000
Investment in funds	-	35,137	-	35,137
Total investments	-	**35,137**	-	**35,137**

30 June 2014	Level 1 $000	Level 2 $000	Level 3 $000	Total $000
Investment in funds	-	35,435	-	35,435
Total investments	-	**35,435**	-	**35,435**

The level 2 investments held by the company represent investments in funds. The fair value of the funds is derived from the fair value of the underlying investments within the funds, which are calculated based on inputs that are based on observable market data. The fair value of the funds is calculated and supplied by AMP Capital Investors (New Zealand) Limited for the New Zealand travel operation and Colonial First State Asset Management for the Australian Branch.

The Company determines whether there have been any transfers of investments between Level 1 and Level 2 of the fair value hierarchy at the end of the financial year. There have been no transfers of investments between Level 1 and Level 2 during the financial year (2014: none).

19 RELATED PARTIES

a. Identity and relationship of related parties:

♦ Southern Cross Health Trust ("Health Trust")	Parent of the Company
♦ Southern Cross Hospitals Limited ("Hospitals")	100% subsidiary of Health Trust
♦ Southern Cross Primary Care Limited ("Primary Care")	100% subsidiary of Health Trust
♦ Fusion Insurance Services Limited (dissolved 30 March 2015)	50% Joint Venture of the Company
♦ Southern Cross Medical Care Society ("Society")	Related party to Parent
♦ Activa Health Limited ("Activa")	Subsidiary of Society

All these related entities have 30 June balance dates.

The Company, the Hospitals and the Society are separate legal entities which work together in certain areas such as information technology, legal, payroll and HR, under fully costed service level agreements which dictate the expectations of each entity. In 2015, such costs to the Company totalled $714,000 (2014: $922,000).

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 30 June 2015

19 RELATED PARTIES (continued)

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

The Company purchased health insurance for its employees from the Society, to the value of $75,000 (2014: $64,000).

The pet insurance business is operated by the Society under a management contract with the Company. The total value of Society charges in respect of this contract for the year were $1,729,000 (2014: $1,374,000). These costs were charged on an incurred basis. From April 2015, the handling of policy and administration expenses was transferred to Activa by way of a management agreement with the Company and costs are reimbursed monthly as a percentage of gross earned premiums.

The amount of transactions with related parties are:

Purchases

	2015 $000	2014 $000
Activa	406	-
Society	2,112	2,360

Sales

	2015 $000	2014 $000
Activa	131	-

The outstanding balances with related parties are:

Balances due from related parties

	2015 $000	2014 $000
Accounts receivable - related parties		
Activa	36	-
Health Trust	-	94
Hospital	1	2
	37	96

Balances due to related parties

	2015 $000	2014 $000
Accounts payable - related parties		
Activa	158	-
Society	20	491
Health Trust	8	-
	186	491

All related party balances are repayable on normal trading terms and are unsecured.

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 30 June 2015

19 RELATED PARTIES (continued)

b. Remuneration of Directors

The Company did not pay any Directors' fees for 2015 (2014: nil). The Company provides Directors with directors' and officers' liability insurance cover for liabilities to other parties that may arise from their positions as directors.

c. Remuneration of key management personnel

	2015 $000	2014 $000
Salaries and other short-term benefits	1,069	732

Key management personnel include the chief executive officer and senior executives. The Company does not provide loans, advances or post-employment benefits to key management personnel. At each reporting date there are amounts outstanding to key management personnel comprising salaries, earned leave and short-term incentives.

20 RECONCILIATION OF NET SURPLUS WITH NET CASH FLOWS FROM OPERATING ACTIVITIES

	2015 $000	2014 $000
Net profit after taxation	111	833
Add/(less) non-cash items:		
Depreciation	153	128
Amortisation of intangible assets	817	739
Loss on fixed assets disposal	-	2
Foreign currency exchange movement	148	77
Movement in valuation of investments	(421)	(227)
Add/(less) movements in working capital items:		
Premiums receivable and other assets	(1,060)	(1,403)
Payables and other liabilities	(307)	1,022
Employee benefits	122	11
Provision for outstanding claims	431	780
Provision for unearned premium	2,411	3,340
Net cash flows from operating activities	2,405	5,302

21 CREDIT RATING

In May 2015 Standard & Poor's reaffirmed the Company's Insurer Financial Strength Rating of A+. This signifies the insurer "has strong financial security characteristics".

22 FINANCIAL SOUNDNESS

The Reserve Bank of New Zealand (RBNZ) awarded a full licence to the Company in February 2013 in line with the Insurance (Prudential Supervision) Act 2010.

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 30 June 2015

22 FINANCIAL SOUNDNESS (continued)

The minimum solvency capital the Company is required to retain under the Solvency Standard for Non-life Insurance Business issued by the RBNZ, is per the table below. The Company has adopted a formal capital management plan to maintain a strong capital base and satisfy capital adequacy standards as prescribed by APRA for the Australian branch and the RBNZ. An additional capital buffer of $2 million (2014: $2 million) for the Company has been determined by the Directors as sufficient for maintaining financial soundness.

During the year the Company has complied with all externally imposed capital requirements.

Actual solvency capital at 30 June 2015 for the Australia branch was AUD $7,374,470 (2014: AUD $7,540,239) calculated in accordance with APRA requirements. Minimum solvency capital required to be retained by the Branch to satisfy APRA requirements is AUD $5 million.

Solvency capital requirements for the Company is detailed below.

	2015 $000	2014 $000
Minimum solvency capital	7,794	8,228
Actual Solvency capital	10,802	10,253
Solvency Margin	3,008	2,025
Solvency Ratio	1.39	1.25

23 LEASE COMMITMENTS

The company entered into an agreement in August 2010 to lease new premises for 12 years commencing October 2010. The commitments under operating leases in respect of payments due to be made in the following years are:

	2015 $000	2014 $000
Within 1 year	393	381
Between 1 and 2 years	407	393
Between 2 and 5 years	1,326	1,271
Greater than 5 years	1,122	1,584
	3,248	3,629

24 CAPITAL COMMITMENTS

The Company had no capital commitments at 30 June 2015 (2014: Nil).

25 CONTINGENT LIABILITIES

The Company has a standby letter of credit arrangement as a requirement of its merchant acquiring facility in Australia. The maximum value of this facility is $200,000 Australian dollars. The letter of credit expires in January 2016 but has the ability to be extended annually (2014: $200,000 Australian dollars).

The Company has a bank bond in place as a requirement of the lease agreement for the new premises. The maximum value of this bond is currently $300,000 (2014: $350,000) and it reduces in value on 1 October 2015 to $200,000.

KPMG

Independent auditor's report

To the shareholder of Southern Cross Benefits Limited

We have audited the accompanying financial statements of Southern Cross Benefits Limited ("the company") on pages 4 to 32. The financial statements comprise the statement of financial position as at 30 June 2015, the statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' responsibility for the financial statements

The directors are responsible for the preparation and fair presentation of the financial statements in accordance with generally accepted accounting practice in New Zealand (being New Zealand Equivalents to International Financial Reporting Standards) and International Financial Reporting Standards, 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 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 company'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 company'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.

Our firm has also provided other services to the company in relation to the review of the annual solvency return and assurance over APRA reporting. Subject to certain restrictions, partners and employees of our firm may also deal with the company on normal terms within the ordinary course of trading activities of the business of the company. These matters have not impaired our independence as auditor of the company. The firm has no other relationship with, or interest in, the company.

Opinion

In our opinion, the financial statements on pages 4 to 32 comply with generally accepted accounting practice in New Zealand and present fairly, in all material respects, the financial position of Southern Cross Benefits Limited as at 30 June 2015 and its financial performance and cash flows for the year then ended in accordance with New Zealand Equivalents to International Financial Reporting Standards and International Financial Reporting Standards.

KPMG

25 September 2015
Auckland

Taylor Fry

Appointed actuary's report to the Directors of Southern Cross Benefits Limited

This report is provided under section 78 of the Insurance (Prudential Supervision) Act 2010 ("the Insurance Act"), and relates to a review of the actuarial information in, or used in the preparation of, the financial statements of Southern Cross Benefits Limited ("SCBL") for the year ended 30 June 2015.

I have been advised by SCBL that the financial statements for SCBL are scheduled to be authorised for issue by the Board of Directors on 25 September 2015 and that the accompanying independent auditors' report is scheduled to be issued on 28 September 2015.

a) Name of appointed actuary conducting the review

I, Win-Li Toh, of Taylor Fry Consulting Actuaries ("Taylor Fry") am a Fellow of the New Zealand Society of Actuaries and have conducted this review in my role as appointed actuary to SCBL.

b) Work done by the actuary included in the financial statements

The actuarial information used in the financial statements comprises the following items, determined in accordance with the New Zealand Equivalent to International Financial Reporting Standard 4 ("NZ IFRS 4") as at 30 June 2015:

1. Outstanding claims provision at a 75% probability of sufficiency;
2. Unearned premium / unexpired risk provision;
3. Deferred acquisition cost asset;
4. Solvency capital requirement, calculated in accordance with the Solvency Standard for Non-life Insurance Business issued by the Reserve Bank of New Zealand ("RBNZ").

The Statement of Financial Position consolidates the outstanding claims provision and the unearned premium / unexpired risk provision as a single line item "insurance contract liabilities". The information received, methods, assumptions and limitations of the estimation of insurance liabilities are set out in two reports:

- "Southern Cross Benefits Limited – New Zealand Insurance liabilities at 30 June 2015" dated 13 August 2015; and
- "Southern Cross Benefits Limited – Australian Branch Insurance Liabilities at 30 June 2015" dated 11 August 2015.

These reports set out the results of applying the Liability Adequacy Test. I note the financial statements include the results of applying the Liability Adequacy Test for the Travel Insurance and Pet Insurance businesses separately.

The components of the solvency capital requirement were advised to SCBL in the form of the Insurer Solvency Return on 7 September 2015. This is to be submitted to the RBNZ.

c) Scope and limitations of review

This report is prepared for the Directors of SCBL, solely for the purposes set out in section 78 of the Insurance Act and for no other purpose.

d) Confirmation of independence

Other than that of appointed actuary, I confirm that I have no relationship with, or any other interests in SCBL.

e) Information received

I consider that I have been provided with all relevant information and explanations from SCBL.

f) Opinion

In my opinion:

- SCBL is maintaining the solvency margin that applies under section 21(2)(b) at 30 June 2015;
- The actuarial information contained in the financial statements for SCBL has been appropriately included in those statements; and
- The actuarial information used in the preparation of the financial statements for SCBL has been used appropriately.

Win-Li Toh
Fellow of the New Zealand Society of Actuaries

10 September 2015