
SOUTHERN CROSS BENEFITS LIMITED

ANNUAL REPORT

FOR THE YEAR ENDED

30 June 2017

CONTENTS

2017 ANNUAL REPORT	PAGES
Annual report disclosures	1
Governance statement	2
Statement of comprehensive income and changes in equity	3
Statement of financial position	4
Statement of cash flows	5
Notes to the financial statements	6-18
Independent auditor's report	19-20
Appointed Actuary report	21-22

ANNUAL REPORT DISCLOSURES
as at 30 June 2017

The Directors present their Annual Report including the Financial Statements of Southern Cross Benefits Limited (the "Company") for the year ended 30 June 2017.

Dividend	Dividends of \$3 million were paid during the year. No further Dividend is proposed.
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 \$6,312,000.
Register of Directors	G W Gent E M Hickey K B Taylor T D Moore (appointed 1 July 2017)
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 14b 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
	E M Hickey Director

Date: 11 October 2017

Date: 11 October 2017

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 Compliance and Risk Manager, who reports to the Chief Financial Officer. The CEO is also the Chief Risk Officer. The associated responsibilities with these roles is formally imbedded into the respective position descriptions. The Company has a Management Risk Committee which meets monthly and consists of the Senior Management Team and Compliance and Risk Manager. 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. Mr Gent is a Northland dairy farmer with a wealth of governance experience. He is chairman of Dairy Holdings Limited; a director of New Zealand Institute for Plant and Food Research; and Mayor of Kaipara District Council. Mr Gent is also Chairman of Southern Cross Health Trust and the Southern Cross Medical Care Society.

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. 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, ONZM

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 Butland Holdings Limited, Gough & Hamer Limited and Auckland Council Investments Limited. He is a director of the Reserve Bank of New Zealand and Port Marlborough Limited.

Terry Moore (appointed 1 July 2017)

ACA

Terry Moore is the CEO of Southern Cross Benefits parent organisation Southern Cross Health Trust and is also CEO of Southern Cross Hospitals Limited. Terry is an executive member of the New Zealand Private Surgical Hospitals Association (NZPSHA) and he is a Director of 13 medical services joint ventures and private hospital companies.

SOUTHERN CROSS BENEFITS LIMITED

STATEMENT OF COMPREHENSIVE INCOME AND CHANGES IN EQUITY

for the year ended 30 June 2017

	Note	2017 \$000	2016 \$000
Net premiums	6	66,275	63,469
Net claims expense	5	(36,275)	(44,396)
Underwriting surplus		30,000	19,073
Operating expenses	8	(24,683)	(23,573)
Other operating income		100	29
Operating profit / (loss)		5,417	(4,471)
Investment and other income	7	895	1,202
Net profit / (loss) from operation		6,312	(3,269)
Other comprehensive income:			
Movement on foreign currency translation reserve		(105)	(753)
Net comprehensive income / (loss) for the year		6,207	(4,022)
Equity opening balance		19,326	19,348
Shares issued	9	-	4,000
Dividend paid	9	(3,000)	-
Equity closing balance		22,533	19,326

The accompanying notes form part of these financial statements



SOUTHERN CROSS BENEFITS LIMITED

STATEMENT OF FINANCIAL POSITION

as at 30 June 2017

	Note	2017 \$000	2016 \$000
Assets			
Cash and cash equivalents	10	8,179	11,378
Premium receivable and other assets	11	11,115	6,869
Investments	7	37,899	34,356
Fixed assets	12	817	730
Intangible assets	12	3,676	4,083
Total assets		61,686	57,416
Liabilities			
Payables and other liabilities	13	4,073	3,822
Insurance contract liabilities	3	35,080	34,268
Total liabilities		39,153	38,090
Net assets		22,533	19,326
Equity			
Share capital	9	4,600	4,600
Retained earnings		19,448	16,136
Foreign currency translation reserve		(1,515)	(1,410)
Equity		22,533	19,326

For and on behalf of the Board

G W Gent Chairman _____

Date: 11 October 2017

E M Hickey Director _____

Date: 11 October 2017

The accompanying notes form part of these financial statements



SOUTHERN CROSS BENEFITS LIMITED

STATEMENT OF CASH FLOWS

for the year ended 30 June 2017

	2017	2016
	\$000	\$000
Cash flows from / (to) operating activities		
Receipt of premiums from customers	69,262	67,211
Receipts of reinsurance recoveries	594	2,503
Distribution, interest and other income received	915	1,031
Payment of claims	(38,152)	(44,877)
Payment of reinsurance premiums	(2,551)	(1,887)
Payments to employees	(6,627)	(6,286)
Payments to suppliers	(17,515)	(15,461)
Net cash flows from operating activities	5,926	2,234
Cash flows from / (to) investing activities		
Proceeds from sale of other fixed assets	-	31
Payments for fixed assets	(280)	(278)
Payments for intangible assets and valuation	(341)	(2,111)
Net payments for investments	(3,444)	(42)
Net cash flows (to) investing activities	(4,065)	(2,400)
Cash flows from / (to) financing activities		
Shares issued to parent	-	4,000
Advances made to parent	(2,000)	-
Dividend paid	(3,000)	-
Net cash flows (to) / from financing activities	(5,000)	4,000
Net (decrease) / increase in cash and cash equivalents	(3,139)	3,834
Opening cash and cash equivalents	11,378	7,890
Effect of exchange rate movement on foreign currency balances	(60)	(346)
Closing cash and cash equivalents	8,179	11,378

RECONCILIATION OF NET PROFIT / (LOSS) WITH NET CASH FLOWS FROM OPERATING ACTIVITIES

	2017	2016
	\$000	\$000
Net profit / (loss) after taxation	6,311	(3,269)
Adjustments for:		
Depreciation and amortisation	941	1,213
Loss on sale of other fixed assets and impairment	-	267
Foreign currency exchange movement	23	118
Movement in valuation of investments	(84)	(199)
Changes in assets and liabilities:		
Receivables and accrued interest	(2,292)	(1,055)
Payables and employee benefits	249	499
Insurance contract liabilities	778	4,660
Net cash flows from operating activities	5,926	2,234

The accompanying notes form part of these financial statements



NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2017

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 primary activity is the provision of travel and pet insurance and its registered office is Level 12 AMP Centre, 29 Customs Street West, Auckland.

The Company is a licenced insurer under the Insurance (Prudential Supervision) Act 2010.

The Company also operates in Australia selling outbound travel insurance and is regulated by the Australian Prudential Regulation Authority ("APRA") and the Australian Securities and Investment Commission ("ASIC").

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

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

Under financial reporting standards, the Company is deemed to be a Tier 1 for-profit entity for financial reporting purposes.

The financial statements are:

- presented as at and for the year ended 30 June 2017.
- presented for the Company, including the Australian branch and pet insurance business.
- prepared in accordance with New Zealand generally accepted accounting practice ("NZ GAAP").
- in compliance with New Zealand equivalents to International Financial Reporting Standards ("NZ IFRS") and International Financial Reporting Standards ("IFRS").
- prepared in compliance with the Insurance (Prudential Supervision) Act 2010, Companies Act 1993, the Financial Markets Conduct Act 2013 and the Financial Reporting Act 2013.
- prepared on the historical cost basis except that the following are stated at their fair value: Investments, cash and cash equivalents and insurance contract liabilities.
- 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.

stated net of GST, with the exception of receivables and payables which include GST invoiced.

ACCOUNTING POLICIES AND STANDARDS

No changes to accounting policies have been made during the year and policies have been consistently applied to all periods presented in these financial statements.

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.

FINANCIAL REPORTING STANDARDS ISSUED BUT NOT YET EFFECTIVE

The impacts of the following reporting standards on the Company are still to be determined.

- NZ IFRS 9 Financial Instruments: effective for annual reporting periods beginning on or after 1 January 2018.
- NZ IFRS 15 Revenue from Contracts with Customers: effective for annual reporting periods beginning on or after 1 January 2018.
- NZ IFRS 16 Leases: effective for annual reporting periods beginning on or after 1 January 2019.
- NZ IFRS 17 Insurance Contracts: effective for annual reporting periods beginning on or after 1 January 2021.

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.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2017

USE OF ESTIMATES AND JUDGEMENTS (continued)

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 (note 3) and risk management (note 4).

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.

TAXATION

The Company is exempt from New Zealand income tax due to its charitable status and the Australian Tax Office has ruled income taxes are not payable by the Australian branch.

2 FINANCIAL SOUNDNESS

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 the RBNZ and by APRA for the Australian branch. An additional capital buffer of \$2 million (2016: \$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 2017 for the Australia branch was AUD \$8.211m (2016: AUD \$7.394m) 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 are detailed below.

	2017	2016
	\$000	\$000
Minimum solvency capital	8,270	8,188
Actual Solvency capital	11,455	10,457
Solvency Margin	3,185	2,269
Solvency Ratio	1.39	1.28

In April 2017 Standard & Poor's lowered the Company's Insurer Financial Strength Rating from A+ to A. This signifies the insurer "has strong financial security characteristics".

3 INSURANCE CONTRACT LIABILITIES

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.

Estimates of the provision for outstanding claims for Southern Cross Benefits Limited as at 30 June 2017 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. The calculation of the provision for outstanding claims complies with both NZ IFRS 4: Insurance Contracts and Professional Standard No. 30: General Insurance Business of the New Zealand Society of Actuaries.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2017

3 INSURANCE CONTRACT LIABILITIES (continued)

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

Insurance contract liabilities

	2017	2016
	\$000	\$000
Provision for outstanding claims (refer note 3a)	9,813	10,444
Provision for unearned premium (refer note 3b)	25,267	23,824
	35,080	34,268

a. Provision for outstanding claims

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% (2016: 9%) has been added to the central estimate of the outstanding claim costs for the New Zealand travel business and 12% (2016: 12%) 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% (2016: 7%).

A further provision of 7% (2016: 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% (2016: 8%) for the Australian business and 0% (2016: 0%) for the pet insurance business.

These additional margins provide a 75% probability of adequacy.

	2017	2016
	\$000	\$000
Central estimate of outstanding claims liability	8,407	8,927
Claims handling costs	560	588
Risk margin	846	929
Provision for outstanding claims	9,813	10,444

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

	2017	2016
	\$000	\$000
Central estimate of reinsurance recoveries on outstanding claims liability	643	203
Risk margin	68	19
Reinsurance recoveries on outstanding claims	711	222

Reinsurance recoveries on outstanding claims liabilities are included in other assets in the statement of financial position.

Reconciliation of movement in provision for outstanding claims net of reinsurance recoveries	2017	2016
	\$000	\$000
Opening balance	10,222	8,403
Amounts utilised during the year	(7,423)	(8,695)
Additional provision / (reversal of unused provision)	(979)	1,949
Amounts provided during the year	7,442	8,309
Movement in claims handling costs	(28)	90
Movement in risk margin	(132)	166
Closing balance	9,102	10,222



NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2017

3 INSURANCE CONTRACT LIABILITIES (continued)

b. Provision for unearned premium	2017 \$000	2016 \$000
Opening balance	23,824	21,005
Premiums written in the year	70,522	68,122
Premiums earned during the year	(69,079)	(65,303)
Closing balance	25,267	23,824

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.

The Appointed Actuary has reviewed the adequacy of the unearned premium provision at 30 June 2017. 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.

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.

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, deferred acquisition costs for the pet insurance business of \$7,000 was written down (2016: \$10,000). An unexpired risk liability of \$47,000 was recognised (2016: \$373,000).

	2017			2016		
	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%	21.0%
Probability of adequacy (LAT and OCR)	75.0%	75.0%	75.0%	75.0%	75.0%	75.0%

	2017		2016	
	New Zealand \$000	Australia \$000	New Zealand \$000	Australia \$000
Sensitivity				
Net IBNP (including margins)	5,799	2,124	5,896	3,348
20% increase in the initial claims ratio for recent event months	7,324	2,582	6,722	3,775
20% decrease in the initial claims ratio for recent event months	4,259	1,666	5,070	2,921

For the pet insurance business, a 10% increase / decrease in the payment per active policy method would give rise to a 10% increase / decrease in the outstanding claims provision.

This sensitivity analysis does not indicate upper or lower bounds of all possible outcomes. Future experience could be considerably more adverse (or favourable) than the scenarios presented.



NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2017

4 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.

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 assumed when pricing the premiums of the policies. 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 3.

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 main insurance benefits for the Pet insurance business involves the reimbursement of medical and surgical expenses depending upon the plan. 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.

The Pet insurance business has little to no concentration risk given it's New Zealand based nature and limitation to cats and dogs only. High impact events such as pandemics or conditions which are concentrated in certain breeds are excluded under the policy.



NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2017

4 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 \$26.3 million (2016 \$22.3 million) and Colonial First State Cash Fund \$12.3 million (2016 \$12.1 million).

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 Company has a reinsurance management strategy in place to manage the credit risk from its reinsurance programme.

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 2017 (2016: 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 counter-parties is as follows:

	2017	2016
	\$000	\$000
AAA	1,127	685
AA	36,419	38,044
A	5,644	5,622
BBB	3,526	1,845
Non-rated	9,349	4,931
	56,065	51,127

The cash and cash equivalents balances are held with a counter-party rated AA - (30 June 2016: AA -). The BBB rated counter-parties are related to the invested funds managed by AMP Capital.

The non-rated balances, relate to premium receivables due from a large number of counter-parties and reinsurance recoveries on outstanding claims liabilities.

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 and for the Australian operation funds are invested in the Colonial First State Cash Fund. These funds are available on call. Cash and cash equivalents are also available on call. The majority of premium accounts receivable, with the exception of unbilled premiums on pet policies and seasonal worker policies, are due within one month of balance date for the travel insurance business and within two months of balance date for the pet insurance business. Unbilled premiums of \$4.7 million are paid by instalments and are due within 12 months of balance date (30 June 2016: \$3.5 million). 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 15).

c. Market risks**I. Foreign currency risk**

At 30 June 2017, the New Zealand operations had assets of NZD \$13,000 and no liabilities denominated in foreign currencies (30 June 2016: assets of \$14,000 and no liabilities).

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 (2016: immaterial).



NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2017

4 RISK MANAGEMENT (continued)

c. Market risks (continued)

I. Foreign currency risk (continued)

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 \$14.7 million and \$6.9 million respectively (2016: assets of \$16.2 million and liabilities of \$8.9 million).

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 \$78,000 (2016: \$74,000) 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 Funds and Colonial First State Cash Fund and through the underlying investments in these funds has indirect exposure to interest rate risk. There is a risk that any movement in interest rates can have an effect on the profitability and cash flows of the Company. The Company maintains 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.

(ii) Fair value interest rate risk (unit 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.

Impact of change in interest rates

	2017 \$000	2016 \$000	2017 \$000	2016 \$000
	Increase / (decrease) in cash flows		Increase / (decrease) in profitability	
Increase by 100 basis points	334	336	231	259
Decrease by 100 basis points	(334)	(336)	(231)	(259)

d. Fair values of financial assets and financial liabilities

All financial assets and financial liabilities included in the statement of financial position are carried at amounts that approximate fair value. The fair value hierarchy below measures financial assets by the level into which the fair value measurement is categorised.

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.

The Company's investments in funds are level 2 investments. 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.

Cash and cash equivalents are level 1 investments.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2017

5 NET CLAIMS EXPENSE

The net claims expense represents payments made on claims and the movements in the outstanding claims and unexpired risk provisions.

The component of claims expense relating to risk ceded to reinsurers is recognised as reinsurance claim recoveries in the profit or loss and as reinsurance recoveries in the statement of financial position.

	2017 \$000	2016 \$000
Claims expense	37,439	46,718
Reinsurance claims recovery	(1,164)	(2,322)
Net claims expense	36,275	44,396
Claims incurred relating to risk borne in current financial year (gross)	38,723	44,274
Claim recoveries relating to risk borne in current financial year	(1,309)	(2,083)
Claims incurred relating to risk borne in the current financial year (net)	37,414	42,191
Claims incurred relating to risk borne in previous financial year (gross)	(1,124)	2,188
Claim recoveries relating to risk borne in previous financial year	145	(239)
Claims incurred relating to risk borne in previous financial year (net)	(979)	1,949
Movement in provision for claims handling cost	(28)	90
Movement in risk margin	(132)	166
Net claims expense	36,275	44,396

6 PREMIUM REVENUE

Gross written premiums from insurance contracts are recognised evenly over the period covered by the contract. For the travel operations, revenue is recognised from the date on which the travel period commences. Premiums written 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. For the pet operations, revenue is recognised from the date on which the policy is effective. Premiums written but unearned are recorded as unearned premium liability. Where premiums are billed and paid by instalments, the premium to be billed up to the next renewal date is recognised as unbilled premium receivable.

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.

	2017 \$000	2016 \$000
Premium income	69,079	65,303
Reinsurers' share of premium	(2,804)	(1,834)
Net premiums	66,275	63,469

7 INVESTMENTS

The Company designates its investments as "financial assets at fair value through the profit or loss" at inception and they are held to match insurance contract liabilities. This 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.

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 2). Restrictions are imposed on these investments and the Company's ability to utilise them. At balance date \$12.3 million (2016: \$12.1 million) in a cash fund was held in this category.

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



NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2017

7 INVESTMENTS (continued)

Interest income is recognised in the profit or loss as it accrues and is recognised by using the effective interest rate method. Distributions from investments in funds are recognised on a present entitlement basis. See note 4 for details of investments held at 30 June 2017.

Investment and other income	2017	2016
	\$000	\$000
Interest income	82	122
Distribution income	729	882
Net gain on investment at fair value through profit or loss	84	198
	895	1,202

8 OPERATING EXPENSES

	2017	2016
	\$000	\$000
Auditor's remuneration:		
– Audit of financial statements	118	116
– Other services	38	36
Depreciation (note 12)	193	181
Amortisation of intangibles (note 12)	748	1,012
Employee benefits expense	6,586	6,296
Rental of premises	692	575
Bank charges	752	747
Acquisition costs	2,910	2,827
Impairment loss	-	265
Other direct expenses	8,053	7,109
Other overhead expenses	4,593	4,409
	24,683	23,573

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.

9 EQUITY

Share capital comprises 4,600,000 (2016: 4,600,000) authorised, issued and fully paid ordinary shares. All ordinary shares have equal voting rights, and share equally in dividends and surplus on winding up. The Company paid a dividend of \$3,000,000 to the Trust during the year (30 June 2016: nil) at \$0.65 per share.

10 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".

11 PREMIUM RECEIVABLES AND OTHER ASSETS

The recoverability of reinsurance recoveries receivable 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.

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. For the pet operations, the costs in acquiring insurance contracts are immaterial and recorded in the profit or loss.

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

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".

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2017

11 PREMIUM RECEIVABLES AND OTHER ASSETS (continued)

	2017 \$000	2016 \$000
Premium accounts receivable	5,702	4,494
Reinsurance recoveries receivable (note 11a)	372	296
Deferred acquisition costs (note 11b)	1,139	1,475
Deferred reinsurance assets	660	-
Advance to Southern Cross Health Trust (note 14)	2,000	-
Other assets	1,242	604
	11,115	6,869
a. Reconciliation of movements in reinsurance recoveries receivable	2017 \$000	2016 \$000
Opening balance	296	302
Gross reinsurance recoveries on claims paid during the year	670	2,497
Reinsurance recoveries settled by reinsurer during the year	(594)	(2,503)
Closing balance	372	296
b. Reconciliation of movements in deferred acquisition cost	2017 \$000	2016 \$000
Opening balance	1,475	1,262
Gross commissions paid during the year	2,581	3,050
Pet deferred acquisition cost write down	(7)	(10)
Commissions incurred during the year	(2,910)	(2,827)
Closing balance	1,139	1,475

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

12 FIXED ASSETS AND INTANGIBLES

Fixed assets and intangibles are non-current assets.

FIXED ASSETS	Leasehold Improvement \$000	Other fixed assets \$000	Total \$000
At 30 June 2017			
Cost	849	1,906	2,755
Accumulated depreciation	(409)	(1,529)	(1,938)
Closing balance	440	377	817
At 30 June 2016			
Cost	736	1,739	2,475
Accumulated depreciation	(341)	(1,404)	(1,745)
Closing balance	395	335	730

Other fixed assets include furniture and fittings, equipment and motor vehicles.

INTANGIBLE ASSETS	Other Intangibles \$000	Computer Software \$000	Work in progress \$000	Total \$000
At 30 June 2017				
Cost	918	10,216	-	11,134
Accumulated amortisation and impairment	(489)	(6,969)	-	(7,458)
Closing balance	429	3,247	-	3,676
At 30 June 2016				
Cost	918	8,121	1,755	10,794
Accumulated amortisation and impairment	(433)	(6,278)	-	(6,711)
Closing balance	485	1,843	1,755	4,083

Other intangibles include Goodwill and Customer Base.



NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2017

12 FIXED ASSETS AND INTANGIBLES (continued)

Recognition and measurement, including impairment

Fixed assets and intangibles other than Goodwill are measured at cost, less accumulated depreciation or amortisation and impairment losses. Goodwill is not amortised but is assessed at each reporting date for indicators of 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).

Fixed Assets

Fixed assets are measured at cost, less accumulated depreciation and impairment losses.

Where material parts of an item of fixed assets have different useful lives, they are accounted for as separate items of fixed assets.

Subsequent costs are added to the carrying amount of an item of fixed assets 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 fixed assets. 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 |

Computer Software and Work in Progress

Most of the computer software and work in progress is internally generated.

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.

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.

In 2016, an impairment loss of \$265k was recognised in computer software. At 30 June 2017, no impairment exists.

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.

Goodwill

Goodwill is attributable mainly to the opportunities for growth enabled by marketing the Pet insurance product to the members of the Southern Cross Medical Care Society ("Society") and relates entirely to the pet insurance business purchased in 2012, being the cash-generating unit (CGU) as defined in NZ IAS 36. The carrying amount that relates to this CGU at 30 June 2017 is \$168,000 (2016: \$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 2017 (2016: nil).



NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2017

12 FIXED ASSETS AND INTANGIBLES (continued)

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 8% (2016: 8%) 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 2017	18.5%	24.7%	19.9%	18.3%	17.0%
Pets Covered 2016	13.5%	15.1%	12.5%	10.5%	7.2%

Key assumptions underlying the valuation relate to management's assessment of new business growth, claims cost escalation, premium increases 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 PAYABLES AND OTHER LIABILITIES

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

	2017 \$000	2016 \$000
Accounts payable	2,474	2,521
Employee benefits	568	609
Other liabilities	1,031	692
	4,073	3,822

Payables is a current liability except for \$177,000 (2016: \$219,000) of non-current deferred lease income within other liabilities.

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

14 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
♦ Southern Cross Medical Care Society ("Society")	Related party to Parent
♦ Southern Cross Insurance Services Limited (previously Activa Health Limited)	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 2017, such costs to the Company totalled \$20,000 (2016: \$281,000).

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 \$66,000 (2016: \$61,000).



NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2017

14 RELATED PARTIES (continued)

During the year, the Company made unsecured, non-interest bearing cash advances of \$2 million (2016: none) to the Health Trust with no defined terms of repayment.

The handling of policy and administration expenses for the pet insurance business is managed by Southern Cross Insurance Services Limited by way of a management agreement with the Company and costs are reimbursed monthly as a percentage of gross earned premiums. The total value of Southern Cross Insurance Services Limited charges in respect of this contract for the year were \$2,719,000 (2016: \$1,980,000). Overhead costs incurred by the pet insurance business were recharged to Southern Cross Insurance Services Limited monthly totalling \$311,000 (2016: \$296,000).

<i>The amount of transactions with other related parties</i>	2017	2016
	\$000	\$000
Sales of services	311	296
Purchase of services	3,042	2,329
Advances to parent	2,000	-

The outstanding balances with other related parties

Receivables	2,043	26
Payables	297	222

b. Remuneration of Directors

The Company did not pay any Directors' fees for 2017 (2016: 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	2017	2016
	\$000	\$000
Salaries and other short-term benefits	869	883

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.

15 LEASE COMMITMENTS

Leases are defined as an operating lease where they do not transfer substantially all the risks and rewards incidental to ownership.

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

	2017	2016
	\$000	\$000
Within 1 year	570	416
Between 1 and 2 years	589	432
Between 2 and 5 years	1,845	1,389
Greater than 5 years	129	638
	3,133	2,875

16 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 2018 but has the ability to be extended annually (2016: \$200,000 Australian dollars).

The Company has two bank bonds in place as requirements of the premises lease agreements. The maximum value of these bonds is currently \$260,000 (2016: \$230,000).

17 CAPITAL COMMITMENTS

The Company had no capital commitments at 30 June 2017 (2016: Nil)





Independent Auditor's Report

To the shareholder of Southern Cross Benefits Limited

Report on the financial statements

Opinion

In our opinion, the accompanying financial statements of Southern Cross Benefits Limited (the company) on pages 3 to 18:

- i. present fairly in all material respects the company's financial position as at 30 June 2017 and its financial performance and cash flows for the year ended on that date; and
- ii. comply with New Zealand Equivalents to International Financial Reporting Standards and International Financial Reporting Standards.

We have audited the accompanying financial statements which comprise:

- the statement of financial position as at 30 June 2017;
- the statements of comprehensive income and changes in equity, and cash flows for the year then ended; and
- notes, including a summary of significant accounting policies and other explanatory information.



Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (New Zealand) ('ISAs (NZ)'). We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

We are independent of the company in accordance with Professional and Ethical Standard 1 (Revised) Code of Ethics for Assurance Practitioners issued by the New Zealand Auditing and Assurance Standards Board and the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

Our responsibilities under ISAs (NZ) are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

Our firm has also provided other assurance 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 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.



Other Information

The directors, on behalf of the company, are responsible for the other information included with the financial statements. Other information includes the annual report disclosures, governance statement and appointed actuary's report. Our opinion on the financial statements does not cover any other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.



Use of this independent auditor's report

This report is made solely to the shareholder as a body. Our audit work has been undertaken so that we might state to the shareholder those matters we are required to state to them in the independent auditor's 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 shareholder as a body for our audit work, this report, or any of the opinions we have formed.



Responsibilities of the Directors for the financial statements

The Directors, on behalf of the company, 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;
- implementing necessary internal control to enable the preparation of a set of financial statements that is fairly presented and free from material misstatement, whether due to fraud or error; and
- assessing the ability to continue as a going concern. This includes disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate or to cease operations, or have no realistic alternative but to do so.



Auditor's responsibilities for the audit of the financial statements

Our objective is:

- to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error; and
- to issue an independent auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs NZ will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error. They are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of these financial statements is located at the External Reporting Board (XRB) website at:

https://www.xrb.govt.nz/Site/Auditing_Assurance_Standards/Current_Standards/Page6.aspx.

This description forms part of our independent auditor's report.



Jamie Munro

For and on behalf of

KPMG

Auckland

11 October 2017



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 2017.

The financial statements for SCBL were authorised for issue by the Board of Directors on 11 October 2017 and the accompanying independent auditors' report was issued on 11 October 2017.

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 2017:

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 2017" dated 18 September 2017; and
- "Southern Cross Benefits Limited – Australian Branch Insurance Liabilities at 30 June 2017" dated 15 September 2017.

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 11 September 2017. 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) of the Insurance Act at 30 June 2017;
- 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

13 October 2017

