

ANNUAL RETURN FRIENDLY SOCIETY

Friendly Societies and Credit Unions Act 1982



10058262680

This Return is to be completed and sent within three months of the end of the financial year to the Registrar of Friendly Societies and Credit Unions, Private Bag 92061, Auckland Mail Centre, Auckland 1142.

The purpose of the Return is to obtain up-to-date information, and to present certain details in a consistent manner for all friendly societies for ease of analysis. It is also used to compile overall friendly society statistics. Please complete all sections. This Return may be typed or neatly handwritten.

Organisation Number:

1803018

Name of Friendly Society:

Southern Cross Medical Care Society

Name of Branch (Where applicable):

Registered Office:

181 Grafton Road, Auckland

Postal Address:

Private Bag 99934, Newmarket

Financial Year Ended (DD/MM/YYYY):

30/06/2009

NAMES AND ADDRESSES OF OFFICERS (as at the date of the Return; continue of separate sheet if necessary).

	Name	Residential Address
Committee of Management	G S Hawkins	56 Almorah Road, Epsom, Auckland 1023
	Dr. D D Baird	43 Carlton Gore Road, Grafton, Auckland 1023
	C B Durbin	27A Burwood Crescent, Remuera, Auckland
	Dr. S C Macken *	2/7 Lonsdale Street, Ellerslie, Auckland
	D J May	59 Wairere Road, Belmont, Lower Hutt
	P J Meyer	Matere, 18 Pallister Road, Roseneath, Wellington
Trustees	J G Todd *	275 Beach Road, Campbell's Bay, Auckland
	M J Verbiest	17F, 9 Chew's Lane, Wellington Central 6011
	J G Todd *	As Above
	C B Durbin	As Above
	D J May	As Above
Secretary	Dr. I B McPherson	Apartment 4A, The Parc, 120 Customs Street West, Auckland
Treasurer	M J Veal	5 Kildare Avenue, Glendowie, Auckland

* Retired on 30 June 2009.

MEMBERSHIP

Total number of members at beginning of year

834967

Number who joined during year

72958

Number who died during year

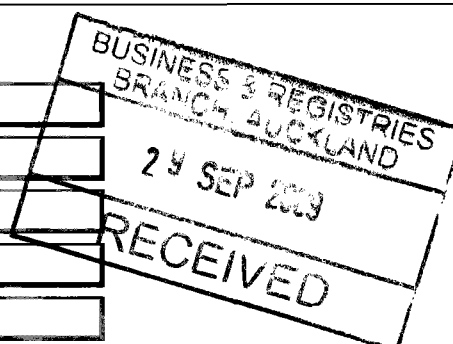
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Number who left during year

64803

Total number of members at end of year

843122



STATEMENT OF FINANCIAL PERFORMANCE ("REVENUE ACCOUNT")

(in respect of all business undertaken by the society/branch during the financial year)

Reserves

(Whole dollars only)

Total Members' ~~Equity~~ at beginning of year *01/07/08*

\$ 329133000 ✓

INCOME

\$

Contributions or levies

544190000 ✓

Funeral benefits repaid by central body

Other transfers from a central body or branch

1 Investment Income

38107000 ✓

2 Other income (specify significant items)

Total Income \$ 582297000 ✓

EXPENDITURE

\$

Sickness benefits

Annuity benefits

Funeral benefits

3 Assurance

Medical benefits

525553000 ✓

Management expenses

70915000 ✓

Expenses incurred on properties

Levies to central body

Other transfers to a central body or branch

4 Other expenditure (specify significant items)

Land and Building Revaluation

1700000 ✓

Total Expenditure \$ 598168000 ✓

Reserves

Total Members' ~~Equity~~ at beginning of year *01/07/09*

\$ 313262000 ✓

1 Include all interest, dividends (including United Friendly Societies Dispensary dividends), rents, etc.

2 Include separately any significant items, such as profit on sale of assets, commissions, donations, etc.

3 Include all benefits paid from a Life Assurance Fund, whether upon death, maturity or surrender.

4 Include separately any significant items, such as depreciation, loss on sale of assets, social expenses, etc.

STATEMENT OF FINANCIAL POSITION ("BALANCE SHEET")

ASSETS

(Whole dollars only)

Land and buildings	9200000
Mortgages	
Government securities	1574000
Local Authority and SOE securities	95961000
Term deposits	123459000
Bank accounts and cash on hand	858000
Furniture, fittings & other fixed assets	10473000
Sundry debtors / Accounts receivable	52442000
5 Society investment fund	
5 District investment fund	
Other assets (specify significant items)	
Other Bonds	190415000
	<i>Total Assets \$</i> 484382000 ✓
Less credit union investment fund	
6 Less branch investment fund	
Less funds held on behalf of a central body or branch	
	<i>Total Members Assets \$</i> 484382000 ✓ (A)
7 LIABILITIES & EQUITY	
Sickness and funeral fund	
Assurance fund	
Medical fund	
Surplus fund	
Benevolent fund	
Distress fund	
Management fund	
Other funds (specify) Member's Reserves	313262000
Sundry creditors / Accounts payable	24306000
Bank loans / Overdraft	
Reserves (specify)	146814000
PAYE / GST / Tax payable	
Other liabilities (specify significant items)	
	<i>Total Liabilities & Equity \$</i> 484382000 ✓ (B)

NOTE: TOTALS (A) & (B) MUST BE IDENTICAL

- 5 Applicable only to a branch of a central body
- 6 Applicable only to a central body
- 7 Include any funds in deficit as negative liabilities - e.g. "(\$ X)"

I hereby certify that this Return is in accordance with the audited financial statements of the society/branch. A signed copy of the annual financial statements and auditor's report are enclosed. Fee enclosed \$ 2000.....

 Secretary

28/09/09 Date

GUIDANCE NOTES FOR COMPLETING AN ANNUAL RETURN FOR A FRIENDLY SOCIETY

An annual return form is enclosed. This form is used for friendly societies, benevolent societies and fidelity insurance societies, registered under Part II of the Friendly Societies and Credit Unions Act 1982 ("the Act"). Separate forms are available for UFS Dispensaries and Working Men's Clubs registered under the Act.

Section 70 of the Act requires you to file one copy of the annual return, duly completed, together with a copy of your audited financial statements, within **three months** of the end of the financial year of your society or branch.

The annual return form has been amended slightly from May 2005. Old forms must not be used. The current forms have 5/05 at the bottom of the final page.

Please complete the annual return accurately.

Annual Financial Statements and Annual Returns

It is important to distinguish between the "annual financial statements" (or "accounts") and the "annual return" for a society or branch. The "annual financial statements" should show:

- A statement of financial performance (also known as "Income Statement"), and if more than one fund is being operated, separate revenue accounts for each fund.
- A statement of financial position (also known as "Balance Sheet").
- For societies which are classed as "issuers" (see below), a statement of movements in equity and a statement of cash flows.
- A statement of accounting policies and such explanatory notes as are necessary to understand the financial statements.
- An auditor's report.

The format of the annual financial statements should reflect generally accepted accounting practice.

The statement of financial position in the annual financial statements should include all items which the society, or branch, owns on behalf of its members. In respect of consolidated funds administered by a central body, and for which a branch acts only as an agent for the transfer of levies and benefits between members and the central body, the central body should fully account for all of the funds and revenue, and the branch should exclude all such items.

The "annual return" required under section 70 of the Act is a "fixed format" form, designed to present accounting and other information in a consistent manner for all societies, for ease of analysis.

The annual financial statements must be audited. The annual return does not need to be audited, but should show similar details as the audited financial statements.

Financial Reporting Act 1993

For societies which are classed as "issuers" under the Financial Reporting Act 1993, financial statements must satisfy the requirements of that Act. In particular, financial statements must comply with all relevant financial reporting standards, and give a true and fair view of the matters to which they relate. Any society which operates an assurance fund, or otherwise seeks savings from members, is classed as an "issuer".

The copy of the audited financial statements which is sent to the Registrar of Friendly Societies and Credit Unions must be signed and dated by two directors.

Societies with separately registered branches

For societies with branches there are two acceptable ways of filing annual returns:

1. A separate annual return may be completed for each society and for each branch. The basic filing fee for each return would be determined separately (see below); or
2. One annual return may be completed, under section 70(4) of the Act, covering the society and all or some of its registered branches. What this means is that, for the branches so comprised in the society return, the membership, statement of financial performance and statement of financial position details are added together and included with those for the society itself, as a consolidated group.

A separate sheet of paper for each branch so comprised should be included showing details of the place of the registered office, the postal address, and a list of the names and addresses and designations of officers. The separate audited financial statements for each branch are also required.

A lower filing fee (see below) will generally apply for each branch so comprised in the annual return of its society.

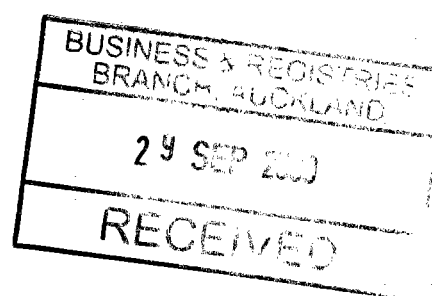
SOUTHERN CROSS MEDICAL CARE SOCIETY

SOUTHERN CROSS MEDICAL CARE SOCIETY

ANNUAL REPORT

FOR THE YEAR ENDED

30 JUNE 2009



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SOUTHERN CROSS MEDICAL CARE SOCIETY

CONSOLIDATED INCOME STATEMENT for the year ended 30 June 2009

	Note	Group		Society	
		2009	2008	2009	2008
		\$000	\$000	\$000	\$000
Premium revenue		544,190	523,267	544,190	523,267
Net claims expense	3	525,553	464,209	525,553	464,209
Underwriting surplus		18,637	59,058	18,637	59,058
Operating expenses	4	72,899	72,077	70,915	70,981
Operating surplus/(deficit)		(54,262)	(13,019)	(52,278)	(11,923)
Investment and other income	5	39,882	20,846	38,107	19,860
Surplus/(deficit) before taxation		(14,380)	7,827	(14,171)	7,937
Taxation	6	-	-	-	-
Surplus/(deficit) for the year		(14,380)	7,827	(14,171)	7,937

CONSOLIDATED STATEMENT OF MOVEMENTS IN RESERVES for the year ended 30 June 2009

		Group		Society	
		2009	2008	2009	2008
		\$000	\$000	\$000	\$000
Surplus/(deficit) for the year		(14,380)	7,827	(14,171)	7,937
Movement in asset revaluation reserve		(1,700)	300	(1,700)	300
Total recognised income and expense		(16,080)	8,127	(15,871)	8,237
Reserves at the start of the year		329,332	321,205	329,133	320,896
Reserves at the end of the year	7	313,252	329,332	313,262	329,133


The accompanying notes form part of these financial statements

SOUTHERN CROSS MEDICAL CARE SOCIETY

CONSOLIDATED BALANCE SHEET as at 30 June 2009

		Group		Society	
	Note	2009	2008	2009	2008
		\$000	\$000	\$000	\$000
Assets					
Cash and cash equivalents		976	1,092	858	985
Premium and other receivables	8	52,276	51,701	52,442	55,659
Investments	9	411,409	413,494	411,409	413,494
Investment in subsidiaries	10	-	-	-	-
Property and equipment	11	13,560	14,511	13,556	14,482
Intangible assets	12	6,185	5,149	6,117	5,037
Total assets		484,406	485,947	484,382	489,657
Liabilities					
Payables	13	17,159	15,306	17,125	19,216
Employee benefits	14	7,181	6,785	7,181	6,784
Insurance contract liabilities	15	146,814	134,524	146,814	134,524
Total liabilities		171,154	156,615	171,120	160,524
Net assets		313,252	329,332	313,262	329,133
Reserves		313,252	329,332	313,262	329,133

For and on behalf of the Board


G S Hawkins
Chairman

1-9-2009 Date


D J May
Director

1-9-2009 Date

The accompanying notes form part of these financial statements

SOUTHERN CROSS MEDICAL CARE SOCIETY

CONSOLIDATED STATEMENT OF CASH FLOWS for the year ended 30 June 2009

		Group		Society	
	Note	2009	2008	2009	2008
		\$000	\$000	\$000	\$000
Cash flows from operating activities					
Premium revenue		544,662	520,141	544,662	520,141
Income from investments		31,353	34,216	31,339	34,178
Other income		2,225	1,000	50	50
Payment of claims		(512,207)	(466,102)	(512,207)	(466,102)
Payments to employees		(37,242)	(34,338)	(35,539)	(32,503)
Payments to suppliers		(34,000)	(32,438)	(33,519)	(33,290)
Net cash flows from operating activities	19	(5,209)	22,479	(5,214)	22,474
Cash flows from investing activities					
Net proceeds/(payments) for property and equipment		(2,397)	(869)	(2,403)	(865)
Payments for intangible assets		(2,579)	(4,798)	(2,579)	(4,450)
Net proceeds/(payments) for investments		10,069	(16,435)	10,069	(16,735)
Net cash flows from investing activities		5,093	(22,102)	5,087	(22,050)
Net increase/(decrease) in cash and cash equivalents		(116)	377	(127)	424
Opening cash and cash equivalents		1,092	715	985	561
Closing cash and cash equivalents		976	1,092	858	985

The accompanying notes form part of these financial statements

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 30 June 2009

1. Statement of accounting policies

Reporting entity

Southern Cross Medical Care Society (the "Society") is a friendly society domiciled in New Zealand, registered under the Friendly Societies and Credit Unions Act 1982.

The Society's registered office is 181 Grafton Road, Auckland.

Financial statements for the Society and consolidated financial statements are presented. The consolidated financial statements of Southern Cross Medical Care Society as at, and for the year ended, 30 June 2009 comprise the Society and its subsidiaries: Southern Cross Health Services Limited, Southern Cross Healthcare Limited (non-trading) and Activa Health Limited (together referred to as the "Group").

The statutory base for the Society is the Friendly Societies and Credit Unions Act 1982. The statutory base for the subsidiaries is the Companies Act 1993 and the Financial Reporting Act 1993.

The Society's primary activity is the provision of health insurance.

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 public benefit entities. NZ IFRS requires all entities to determine whether they are a public benefit entity or a profit oriented entity for reporting purposes. The Directors consider that the Society is more closely aligned with the characteristics of a public benefit entity than a profit oriented entity.

The balance sheet has been presented in the order of decreasing liquidity.

The financial statements were approved by the Board of Directors on 1 September 2009.

Basis of measurement

The financial statements are prepared on the historical cost basis except that the following are stated at their fair value: investments, land and buildings, and insurance contract liabilities.

Functional and presentation currency

These financial statements are presented in New Zealand dollars (\$), which is the Group's functional and presentation currency. 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.

NOTES TO THE FINANCIAL STATEMENTS cont'd
for the year ended 30 June 2009

1. Statement of accounting policies (Continued)

Information about significant areas of estimation, uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements are described in the following notes:

- Note 15: Insurance contract liabilities
- Note 16: Actuarial information
- Note 17: Risk Management

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

Basis of Consolidation

Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies, generally accompanying a control of more than one half of the voting rights. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

All intra-group balances and transactions are eliminated in preparing the consolidated financial statements.

Restatement of comparative information

Where necessary, comparative information has been restated to conform with changes in presentation in the current year.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and current account balances in bank accounts. Under NZ IFRS definitions of financial assets, cash and cash equivalents are classified as "financial assets at fair value through income statement".

Premium and other receivables

Premium and other receivables are stated at their cost less impairment losses. Impairment losses for uncollectible premiums are written off against premium revenue in the year in which they are incurred. Under NZ IFRS definitions of financial assets, premium and other receivables are classified as "loans and receivables".

Investments

The Group designates its investments as "financial assets at fair value through income statement" at inception. Investments are purchased with the intention of being held until maturity.

Investments designated as fair value through income statement at inception are those that are held to match insurance contract liabilities. The designation of these assets to be at fair value through income statement eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from recognising any gains or losses through reserves.

All investments are carried at fair value using the bid price with changes in fair value recognised in the income statement. Transaction costs are recognised in the income statement on transaction date.

As investments are held until maturity, and then reinvested, only the net purchased or matured amount is disclosed in the statement of cash flows.

All purchases of investments are recognised on the date of the trade. Investments are de-recognised on the date of maturity or sale of the investment.

NOTES TO THE FINANCIAL STATEMENTS cont'd
for the year ended 30 June 2009

1. Statement of accounting policies (Continued)

Investment in subsidiaries

Investment in subsidiaries is stated at cost less impairment losses.

Property and equipment

Items of property and equipment, with the exception of land and buildings, are measured at cost, less accumulated depreciation and impairment losses.

Land and buildings are revalued to fair value as determined by an independent registered valuer. Any increase in value is recognised in the asset revaluation reserve. Any decrease in value is recorded in the income statement after utilising previous revaluations, if any, for that asset in the asset revaluation reserve.

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

Subsequent costs are added to the carrying amount of an item of property or equipment when that cost is incurred if it is probable that the future economic benefits embodied within the item will flow to the Group and the cost of the item can be measured reliably. All other costs are recognised in the income statement as an expense as incurred.

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

Depreciation is recognised in the income statement on a straight-line basis over the estimated useful lives of each part of an item of property or equipment. The estimated useful lives for the current and comparative periods are as follows:

- | | |
|----------------------|---------------------|
| • Computer equipment | 25% - 33% per annum |
| • Other fixed assets | 15% - 20% per annum |

The estimated useful life of assets is reassessed annually.

Proceeds on sale of property and equipment relate to motor vehicles traded in and replaced with new vehicles. Therefore, only net payments are disclosed in the statement of cash flows.

Intangible Assets

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. Costs incurred in researching and evaluating a project up to the point of formal commitment to a project are treated as research costs and are expensed as incurred. 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.

The recoverability of the carrying amount of the asset is reviewed each reporting date by determining whether there is an indication that the carrying value may be impaired. If any such indication exists, the item is tested for impairment by comparing the recoverable amount of the asset to its carrying value.

An impairment loss is recognised whenever the carrying value exceeds the recoverable amount. Impairment losses are recognised in the income statement and may be reversed where there has been a change in the estimates used to determine the recoverable amount.

NOTES TO THE FINANCIAL STATEMENTS cont'd
for the year ended 30 June 2009

1. Statement of accounting policies (Continued)

Foreign currency transactions

Transactions in foreign currencies that are settled in the accounting period are translated at the settlement rate. Transactions in foreign currency that are not settled in the accounting period, resulting in monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to New Zealand dollars at the foreign exchange rate ruling at that date. Foreign exchange differences arising on their translation are recognised in the income statement.

Impairment

The carrying amounts of the Group'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.

The estimated recoverable amount of assets is the greater of: fair value less costs to sell, or value in use.

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 income statement, except for property carried at fair value, which is reversed through the asset revaluation reserve.

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 Society has determined that all health insurance policies provided to members are insurance contracts.

Income recognition

Premiums

Gross earned premiums from insurance contracts are recognised evenly over the current billing period of the contract. Revenue is recognised on the date from which the policy is effective. Premiums billed but unearned are recorded as unearned premiums.

Fee and other income

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

Investment income

Interest income is recognised in the income statement as it accrues and is calculated by using the effective interest rate method. Transaction costs that are an integral part of the effective yield of the investment are recognised as an adjustment to the effective interest rate of the instrument.

Realised and unrealised gains and losses recorded in the income statement on investments include gains and losses on financial assets classified as fair value through income statement. Gains and losses on the sale of investments are classified as the difference between net sales proceeds and the fair value recorded on occurrence of the sale transaction.

NOTES TO THE FINANCIAL STATEMENTS cont'd
for the year ended 30 June 2009

1. Statement of accounting policies (Continued)

Leases

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

Acquisition costs

The costs incurred in acquiring and recording insurance contracts are deferred in recognition that they represent future benefits. Acquisition costs are initially recorded in the income statement. Any amounts that give rise to premiums in subsequent reporting periods are deferred as an asset and amortised over the period covered by the premium paid.

Trade and other payables

Trade and other payables are stated at cost. Under NZ IFRS definitions, trade and other payables are classified as "other liabilities at amortised cost".

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).

Provisions

A provision is recognised when the Group has 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 pre-tax rate that reflects current market rates and, where appropriate, the risks specific to the obligation.

Outstanding claims provision

The liability for outstanding claims comprises claims incurred but not settled at the balance sheet date, whether reported or not. A central estimate is made of claims reported but not paid, claims incurred but not reported and claims incurred but not adequately reported. 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.

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 over the period until the next premium due date and is recognised as premium income. A liability adequacy test is performed 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. The test has been performed by the Society on all its policies as a whole as risks are broadly similar and are managed together as a single portfolio. The central estimate of claims and administration expenses is calculated. In addition, a risk margin is added to reflect the inherent uncertainty in estimating the claims. The total is compared with the unearned premium liability. Any deficiency is recognised in the income statement after first writing down any deferred acquisition costs. The deficiency (if any) in excess of deferred acquisition costs is recognised in the balance sheet as an unexpired risk provision.

NOTES TO THE FINANCIAL STATEMENTS cont'd
for the year ended 30 June 2009

1. Statement of accounting policies (Continued)

Employee benefits

Employee entitlements

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

Employee benefits

The Group's net obligation in respect of long service leave is the amount of future benefits that employees have earned in return for their service in current and prior periods. The financial value of the obligation is calculated based on estimated future cash flows and is discounted to its present value. In determining future cash flows, consideration is given to historical data with respect to employee departures, periods of service and estimated future increases in wage and salary rates. The discount rate is the market yield rate on relevant New Zealand Government stock at the balance sheet date.

Post employment benefits

The Group's obligation for post employment entitlements comprises post retirement health insurance benefits. The financial value of the obligation is calculated as the present value of estimated future cash flows. In determining future cash flows, consideration is given to future increases in health insurance premiums, historical data with respect to employee departures, periods of service, mortality and lapse rates. The discount rate is the market yield rate on relevant New Zealand Government stock at the balance sheet date.

Income tax expense

The Society is exempt from income tax due to its status as a friendly society. However, the subsidiaries are subject to income tax.

For subsidiary companies the income tax expense comprises current and deferred tax and is recognised in the income statement. Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years. Deferred tax is recognised using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which temporary differences can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Goods and services tax (GST)

The income statement has been prepared so that all components are stated exclusive of GST. All items in the balance sheet are stated net of GST, with the exception of receivables and payables, which include GST invoiced.

Change in accounting estimates

If a change in accounting estimates gives rise to a change in an asset or liability, it is recognised by adjusting the carrying amount of the related asset or liability item in the period of the change. Otherwise, it is recognised prospectively by including it in the income statement in the period of the change and future periods, as applicable.

During the year, the useful life of computer software was reviewed. Some assets previously being amortised over a shorter period are now amortised over a five year period. The effect on the June 2009

NOTES TO THE FINANCIAL STATEMENTS cont'd
for the year ended 30 June 2009

1. Statement of accounting policies (Continued)

financial statements is to reduce the amortisation expense by \$421,000, and accordingly increase the value of intangible assets in the balance sheet by the same amount.

2. New financial reporting standards approved but not yet effective

The following new or amended financial reporting standards and interpretations, which are applicable to the Group, have been issued by the Financial Reporting Standards Board and are applicable to the Group but are not yet effective:

NZ IFRS 3 – Business combinations

NZ IAS 1 – Presentation of financial statements

NZ IAS 27 – Consolidated and separate financial statements

NZ IFRS 3 and NZ IAS 27 are effective for annual reporting periods after 1 July 2009 and will be adopted by the Group for the financial year commencing 1 July 2009. As this standard specifies the accounting treatment of certain business combinations from 1 July 2009, it is not possible to determine the possible impact on future financial statements.

NZ IAS 1 is effective for annual reporting periods after 1 July 2009 and will be adopted by the Group for the financial year commencing 1 July 2009. As this standard refers to presentation matters, it will not have any financial impact on future financial statements.

3. Net claims expense

	Group		Society	
	2009	2008	2009	2008
	\$000	\$000	\$000	\$000
Claims incurred relating to risks borne in current financial year	521,339	461,468	521,339	461,468
Claims incurred relating to risks borne in previous financial years	(1,752)	2,023	(1,752)	2,023
Movement in provision for claims handling costs	(467)	(105)	(467)	(105)
Movement in risk margin	127	(2,143)	127	(2,143)
Net claims incurred	519,247	461,243	519,247	461,243
Movement in provision for unexpired risk	6,306	2,966	6,306	2,966
	525,553	464,209	525,553	464,209

SOUTHERN CROSS MEDICAL CARE SOCIETY

NOTES TO THE FINANCIAL STATEMENTS cont'd for the year ended 30 June 2009

4. Operating expenses

Operating expenses include:	Group		Society	
	2009 \$000	2008 \$000	2009 \$000	2008 \$000
Auditor's remuneration				
– Audit fees	155	139	155	139
– Other services	10	20	10	20
Depreciation	1,631	1,782	1,612	1,758
Amortisation of intangible assets	1,167	1,598	1,123	1,205
Impairment loss on intangible assets	376	1,741	376	1,280
Impairment loss on other fixed assets recognised in income statement	-	51	-	51
Directors' fees	362	362	362	362
Employee benefits expense	37,638	34,868	35,936	33,052
Contributions to defined contribution pension plan	63	68	63	68
Rental of premises	2,203	1,785	2,203	1,780
Acquisition costs	10,840	9,045	10,840	9,045
Impairment loss on investment in subsidiaries	-	-	-	334
Provision for impairment loss on amounts receivable from subsidiaries	-	-	650	1,931
(Gains)/losses on disposal of property and equipment	17	(8)	17	(8)

Auditor's remuneration for other services consists of accounting advisory services, reviewing regulatory returns and providing services at the AGM.

5. Investment and other income

	Group		Society	
	2009 \$000	2008 \$000	2009 \$000	2008 \$000
Interest income	30,087	34,580	30,073	34,544
Net gains/(losses) on investments at fair value through income statement	7,984	(14,734)	7,984	(14,734)
Fee and other income	1,811	1,000	50	50
	<u>39,882</u>	<u>20,846</u>	<u>38,107</u>	<u>19,860</u>

NOTES TO THE FINANCIAL STATEMENTS cont'd
for the year ended 30 June 2009

6. Taxation

Reconciliation of effective tax rate	Group	
	2009	2008
	\$000	\$000
Net surplus/(deficit) before tax	(14,380)	7,827
Income tax payable at the domestic tax rate of 30% (2008: 33%)	(4,314)	2,583
Tax on non-deductible expenses	1	3
Tax on exempt (income)/loss	4,056	(3,367)
Tax effect of change in unrecognised temporary differences	(81)	228
Tax on current year losses for which no deferred tax asset was recognised	338	553
	-	-

The aggregate amount of temporary differences arising in the subsidiaries for which deferred tax asset have not been recognised is \$413,000 at 30 June 2009 (30 June 2008: deferred tax asset \$691,000).

The Group has unrecognised tax losses carried forward of \$29,860,000 at 30 June 2009 (30 June 2008: \$28,748,000).

7. Statement of reserves

	Retained surpluses	Group Asset revaluation reserve	Total reserves
	\$000	\$000	\$000
Reconciliation of movement in reserves			
At 30 June 2009			
Opening balance	327,632	1,700	329,332
Revaluation recognised in reserves	-	(1,700)	(1,700)
Surplus/(deficit) for the year	(14,380)	-	(14,380)
Closing balance	313,252	-	313,252
At 30 June 2008			
Opening balance	319,805	1,400	321,205
Revaluation recognised in reserves	-	300	300
Surplus/(deficit) for the year	7,827	-	7,827
Closing balance	327,632	1,700	329,332

SOUTHERN CROSS MEDICAL CARE SOCIETY

NOTES TO THE FINANCIAL STATEMENTS cont'd for the year ended 30 June 2009

7. Statement of reserves (Continued)

	Retained surpluses	Society Asset revaluation reserve	Total reserves
	\$000	\$000	\$000
Reconciliation of movement in reserves			
At 30 June 2009			
Opening balance	327,433	1,700	329,133
Revaluation recognised in reserves	-	(1,700)	(1,700)
Surplus/(deficit) for the year	(14,171)	-	(14,171)
Closing balance	313,262	-	313,262
At 30 June 2008			
Opening balance	319,496	1,400	320,896
Revaluation recognised in reserves	-	300	300
Surplus/(deficit) for the year	7,937	-	7,937
Closing balance	327,433	1,700	329,133

8. Premium and other receivables

	Group		Society	
	2009	2008	2009	2008
	\$000	\$000	\$000	\$000
Premium accounts receivable	40,793	39,953	40,793	39,953
Interest receivable	5,535	6,801	5,535	6,801
Other accounts receivable	5,635	4,821	5,048	4,289
Amounts owed by related parties	313	126	1,066	4,616
	52,276	51,701	52,442	55,659

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

NOTES TO THE FINANCIAL STATEMENTS cont'd
for the year ended 30 June 2009

9. Investments

At fair value through income statement

	Group		Society	
	2009	2008	2009	2008
	\$000	\$000	\$000	\$000
At valuation				
New Zealand Government stock	1,574	1,557	1,574	1,557
State owned enterprise bonds	6,216	7,739	6,216	7,739
Local body stock	89,745	82,648	89,745	82,648
Other bonds	190,415	195,790	190,415	195,790
Bank deposits, commercial paper and floating rate notes	123,459	125,760	123,459	125,760
	411,409	413,494	411,409	413,494
Current assets	184,572	100,135	184,572	100,135
Non-current assets	226,837	313,359	226,837	313,359
	411,409	413,494	411,409	413,494

New Zealand Government stock is held by the Public Trustee, of which \$500,000 is a deposit required under the Insurance Companies' Deposits Act 1953.

10. Investment in subsidiaries

	Group		Society	
	2009	2008	2009	2008
	\$000	\$000	\$000	\$000
Opening balance	-	-	-	334
Impairment	-	-	-	(334)
Closing balance	-	-	-	-

Investment in subsidiaries is stated at cost less impairment losses. Impairment losses arise as a result of the investment in subsidiaries being adjusted to the value of the net tangible assets of the subsidiaries.

A provision for impairment has been made for loans and advances to subsidiaries to the extent the loans and advances exceed the net tangible assets of the subsidiaries.

The Directors have resolved to provide sufficient financial support as may be necessary to enable the subsidiary companies to trade as going concerns.

Investment in subsidiaries is a non-current asset.

NOTES TO THE FINANCIAL STATEMENTS cont'd
for the year ended 30 June 2009

11. Property and Equipment

	Land and buildings	Computer equipment	Group Other fixed assets	Work in progress	Total
	\$000	\$000	\$000	\$000	\$000
At 30 June 2009					
Cost / valuation	9,200	16,831	6,231	589	32,851
Accumulated depreciation	-	(14,692)	(4,599)	-	(19,291)
Closing balance	9,200	2,139	1,632	589	13,560

Reconciliation of movement in property and equipment

Opening balance	10,900	1,232	2,047	332	14,511
Additions / (transfers from work in progress)	-	2,017	373	257	2,647
Disposals	-	-	(267)	-	(267)
Depreciation for the year	-	(1,110)	(521)	-	(1,631)
Revaluation recognised in reserves	(1,700)	-	-	-	(1,700)
Closing balance	9,200	2,139	1,632	589	13,560

	Land and buildings	Computer equipment	Group Other fixed assets	Work in progress	Total
	\$000	\$000	\$000	\$000	\$000
At 30 June 2008					
Cost / valuation	10,900	14,775	6,328	332	32,335
Accumulated depreciation	-	(13,543)	(4,281)	-	(17,824)
Closing balance	10,900	1,232	2,047	332	14,511

Reconciliation of movement in property and equipment

Opening balance	10,600	2,046	1,947	574	15,167
Additions / (transfers from work in progress)	-	374	768	(242)	900
Disposals	-	-	(23)	-	(23)
Depreciation for the year	-	(1,188)	(594)	-	(1,782)
Impairment recognised in income statement	-	-	(51)	-	(51)
Revaluation recognised in reserves	300	-	-	-	300
Closing balance	10,900	1,232	2,047	332	14,511

SOUTHERN CROSS MEDICAL CARE SOCIETY

NOTES TO THE FINANCIAL STATEMENTS cont'd for the year ended 30 June 2009

11. Property and equipment (Continued)

	Land and buildings	Computer equipment	Society Other fixed assets	Work in progress	Total
	\$000	\$000	\$000	\$000	\$000
At 30 June 2009					
Cost / valuation	9,200	16,762	6,225	589	32,776
Accumulated depreciation	-	(14,624)	(4,596)	-	(19,220)
Closing balance	9,200	2,138	1,629	589	13,556

Reconciliation of movement in property and equipment

Opening balance	10,900	1,213	2,037	332	14,482
Additions / (transfers from work in progress)	-	2,018	373	257	2,648
Disposals	-	-	(262)	-	(262)
Depreciation for the year	-	(1,093)	(519)	-	(1,612)
Revaluation recognised in reserves	(1,700)	-	-	-	(1,700)
Closing balance	9,200	2,138	1,629	589	13,556

	Land and buildings	Computer equipment	Society Other fixed assets	Work in progress	Total
	\$000	\$000	\$000	\$000	\$000
At 30 June 2008					
Cost / valuation	10,900	14,705	6,305	332	32,242
Accumulated depreciation	-	(13,492)	(4,268)	-	(17,760)
Closing balance	10,900	1,213	2,037	332	14,482

Reconciliation of movement in property and equipment

Opening balance	10,600	2,012	1,932	574	15,118
Additions / (transfers from work in progress)	-	371	767	(242)	896
Disposals	-	-	(23)	-	(23)
Depreciation for the year	-	(1,170)	(588)	-	(1,758)
Impairment recognised in income statement	-	-	(51)	-	(51)
Revaluation recognised in reserves	300	-	-	-	300
Closing balance	10,900	1,213	2,037	332	14,482

NOTES TO THE FINANCIAL STATEMENTS cont'd
for the year ended 30 June 2009

11. Property and equipment (Continued)

Land and buildings were independently valued at \$9,200,000 on 30 June 2009 (2008: \$10,900,000) by Telfer Young (Auckland) Ltd, a qualified, independent registered valuer. The basis used is current investment market valuation based on an estimated market rental and capitalisation rate. A downward revaluation of \$1,700,000 was recorded at 30 June 2009 (2008: upward revaluation of \$300,000).

Other fixed assets include motor vehicles, office equipment and leasehold improvements.

Property and equipment is a non-current asset.

12. Intangible assets

	Computer software \$000	Group Work in progress \$000	Total \$000
At 30 June 2009			
Cost / valuation	24,336	2,005	26,341
Accumulated amortisation	(20,156)	-	(20,156)
Closing balance	4,180	2,005	6,185

Reconciliation of movement in intangible assets

Opening balance	4,089	1,060	5,149
Additions / (transfers from work in progress)	1,258	1,321	2,579
Amortisation for the year	(1,167)	-	(1,167)
Impairment loss recognised in income statement	-	(376)	(376)
Closing balance	4,180	2,005	6,185

	Computer software \$000	Group Work in progress \$000	Total \$000
At 30 June 2008			
Cost / valuation	24,002	1,060	25,062
Accumulated amortisation	(19,913)	-	(19,913)
Closing balance	4,089	1,060	5,149

Reconciliation of movement in intangible assets

Opening balance	2,298	1,392	3,690
Additions / (transfers from work in progress)	3,850	948	4,798
Amortisation for the year	(1,598)	-	(1,598)
Impairment loss recognised in income statement	(461)	(1,280)	(1,741)
Closing balance	4,089	1,060	5,149

NOTES TO THE FINANCIAL STATEMENTS cont'd
for the year ended 30 June 2009

12. Intangible assets

	Computer \$000	Society Work in \$000	Total \$000
At 30 June 2009			
Cost / valuation	24,186	2,005	26,191
Accumulated amortisation	(20,074)	-	(20,074)
Closing balance	<u>4,112</u>	<u>2,005</u>	<u>6,117</u>

Reconciliation of movement in intangible assets

Opening balance	3,977	1,060	5,037
Additions / (transfers from work in progress)	1,258	1,321	2,579
Amortisation for the year	(1,123)	-	(1,123)
Impairment loss recognised in income statement	-	(376)	(376)
Closing balance	<u>4,112</u>	<u>2,005</u>	<u>6,117</u>

	Computer software \$000	Society Work in progress \$000	Total \$000
At 30 June 2008			
Cost / valuation	23,157	1,060	24,217
Accumulated amortisation	(19,180)	-	(19,180)
Closing balance	<u>3,977</u>	<u>1,060</u>	<u>5,037</u>

Reconciliation of movement in intangible assets

Opening balance	1,930	1,142	3,072
Additions / (transfers from work in progress)	3,252	1,198	4,450
Amortisation for the year	(1,205)	-	(1,205)
Impairment loss recognised in income statement	-	(1,280)	(1,280)
Closing balance	<u>3,977</u>	<u>1,060</u>	<u>5,037</u>

Intangible assets is a non-current asset.

Impairment losses arise from software development projects that do not have a positive quantifiable financial benefit. Where indicators of impairment exist, the future financial benefit is recalculated using a net present value analysis. Where the net present value is not positive, impairment is recognised.

SOUTHERN CROSS MEDICAL CARE SOCIETY

NOTES TO THE FINANCIAL STATEMENTS cont'd for the year ended 30 June 2009

13. Payables

	Group		Society	
	2009	2008	2009	2008
	\$000	\$000	\$000	\$000
Accounts payable	17,153	15,306	17,050	15,210
Amounts owed to related parties	6	-	75	4,006
	17,159	15,306	17,125	19,216

Payables is a current liability.

14. Employee benefits

	Group		Society	
	2009	2008	2009	2008
	\$000	\$000	\$000	\$000
Employee entitlements	5,101	5,015	5,101	5,014
Employee benefits	730	530	730	530
Post-employment benefits	1,350	1,240	1,350	1,240
	7,181	6,785	7,181	6,784
Current	5,286	5,162	5,286	5,161
Non-Current	1,895	1,623	1,895	1,623
	7,181	6,785	7,181	6,784

15. Insurance contract liabilities

	Group		Society	
	2009	2008	2009	2008
	\$000	\$000	\$000	\$000
Provision for outstanding claims (refer note 15a)	72,113	67,441	72,113	67,441
Provision for unearned premium (refer note 15c)	61,578	60,306	61,578	60,306
Provision for unexpired risk (refer note 15d)	12,383	6,077	12,383	6,077
Other insurance provisions	740	700	740	700
	146,814	134,524	146,814	134,524

NOTES TO THE FINANCIAL STATEMENTS cont'd
for the year ended 30 June 2009

15. Insurance contract liabilities (Continued)

a. Provision for outstanding claims

	Group		Society	
	2009	2008	2009	2008
	\$000	\$000	\$000	\$000
Central estimate of outstanding claims liability	66,771	61,759	66,771	61,759
Claims handling costs	2,003	2,470	2,003	2,470
Risk margin	3,339	3,212	3,339	3,212
Closing balance	<u>72,113</u>	<u>67,441</u>	<u>72,113</u>	<u>67,441</u>

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

b. Reconciliation of movements in provision for outstanding claims

	Group		Society	
	2009	2008	2009	2008
	\$000	\$000	\$000	\$000
Opening balance	67,441	72,300	67,441	72,300
Amounts utilised during the year	(58,249)	(64,649)	(58,249)	(64,649)
Additional provision /(reversal of unused provision)	(1,752)	2,023	(1,752)	2,023
Amounts provided during the year	65,013	60,015	65,013	60,015
Movement in claims handling costs	(467)	(105)	(467)	(105)
Movement in risk margin	127	(2,143)	127	(2,143)
Closing balance	<u>72,113</u>	<u>67,441</u>	<u>72,113</u>	<u>67,441</u>

c. Reconciliation of movements in provision for unearned premium

	Group		Society	
	2009	2008	2009	2008
	\$000	\$000	\$000	\$000
Opening balance	60,306	58,794	60,306	58,794
Premiums written in the year	545,462	524,779	545,462	524,779
Premiums earned during the year	(544,190)	(523,267)	(544,190)	(523,267)
Closing balance	<u>61,578</u>	<u>60,306</u>	<u>61,578</u>	<u>60,306</u>

NOTES TO THE FINANCIAL STATEMENTS cont'd
for the year ended 30 June 2009

15. Insurance contract liabilities (Continued)

d. Provision for unexpired risk

	Group		Society	
	2009	2008	2009	2008
	\$000	\$000	\$000	\$000
Present value of expected future cash flows for claims and expenses	71,344	64,214	71,344	64,214
Risk margin	2,853	2,568	2,853	2,568
Unearned premiums	(61,578)	(60,306)	(61,578)	(60,306)
Write-down of deferred acquisition costs	(236)	(399)	(236)	(399)
Closing balance	12,383	6,077	12,383	6,077

e. Reconciliation of movement in provision for unexpired risk

	Group		Society	
	2009	2008	2009	2008
	\$000	\$000	\$000	\$000
Opening balance	6,077	3,111	6,077	3,111
Reversal of opening balance	(6,077)	(3,111)	(6,077)	(3,111)
Net liability for unexpired risk recognised during the year	9,766	3,908	9,766	3,908
Risk margin	2,853	2,568	2,853	2,568
Write-down of deferred acquisition costs	(236)	(399)	(236)	(399)
Closing balance	12,383	6,077	12,383	6,077

16. Actuarial information

Estimates of the outstanding claims and unexpired risk as at 30 June 2009 have been determined by John Feyter B.Sc, a Fellow of the New Zealand Society of Actuaries and were presented to the directors of the Society in a report dated 19 August 2009. There were no qualifications to the report. The calculations of the provisions for outstanding claims and unexpired risk each comply with both NZ IFRS 4: 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:

Outstanding claims liabilities are measured as the central estimate of the present value of expected future payments for claims incurred but not settled at 30 June 2009, whether reported or not, together with related claims handling costs and an additional risk margin to allow for the inherent uncertainty in the central claims estimate. The central estimate of the outstanding claims has been calculated using historical experience to determine the pattern of claims development.

NOTES TO THE FINANCIAL STATEMENTS cont'd
for the year ended 30 June 2009

16. Actuarial information (Continued)

A projected payment per member method has been adopted for estimating outstanding claims payments. Calculations are based on recent claims experience. Payment per member factors are selected to achieve a sensible progression of past incurred claims.

Estimation of outstanding claims liabilities includes an allowance for claims incurred but not reported, claims incurred but not adequately reported, unpaid reported claims and future claims handling costs associated with paying claims.

A risk margin has been added to reflect the inherent uncertainty in the central estimate. An analysis of the volatility of the historical experience has been used in determining the risk margin. Future volatility is assumed to be consistent with historical volatility. A risk margin of 5% of the central estimate was established at 30 June 2009 (30 June 2008: 5%). The risk margin was determined with the objective of achieving at least 75 per cent probability of sufficiency of the outstanding claims provision.

Key assumptions:

1. Future patterns of claims development will be similar to historical patterns depending on the type of policy, type of claim and development month.
2. Monthly seasonality factors used for claims incurred. These were calculated from the 3 years' previous claims experience, and range from 71% to 112% (30 June 2008: 71% to 112%) of the monthly average.
3. Historical claims inflation of 0% to 5% p.a. (30 June 2008: 0% to 7%) depending on the type of policy and type of claim, based on previous claims experience.
4. An additional factor of 6.4% (30 June 2008: 0%) was applied to reflect a claims development trend implied from most recent payment data.

Claims handling costs include internal and external costs incurred in connection with the negotiation and settlement of claims. Internal costs include all direct expenses of the claims department and any part of the general administrative costs directly attributable to the claims function. Claims handling costs were determined to be 3% (30 June 2008: 4%) of the underlying claims amounts based on an analysis of administration expenses.

The average weighted term from 30 June 2009 to the expected settlement date for claims included in the liability for outstanding claims is 75 days (30 June 2008: 77 days). Accordingly, expected future payments are not discounted due to the short tail nature of the liabilities.

b. Unexpired risk provision and liability adequacy test

A liability adequacy test was performed to determine whether the unearned premium liability is adequate to cover the present value of the expected future cash flows arising from rights and obligations under current insurance contracts, plus an additional risk margin to reflect the inherent uncertainty in the central estimate. The future cashflows are future claims, associated claims handling costs and other administration costs relating to the business.

If the present value of the expected future cash flows plus the additional risk margin to reflect the inherent uncertainty in the central estimate exceeds the unearned premium liability less related intangible assets and related deferred acquisition costs then the unearned premium liability is deemed to be deficient.

The unexpired risk liability has been calculated as the projected premium deficiency for current in-force business until the next policy billing date on or after 1 July 2009.

NOTES TO THE FINANCIAL STATEMENTS cont'd
for the year ended 30 June 2009

16. Actuarial information (Continued)

The calculation of the risk margin has been based on an analysis of the volatility of historical claims experience within the time period covered by the unearned premiums. A risk margin of 4% of the present value of expected future cash flows has been applied at 30 June 2009 (30 June 2008: 4%). The risk margin was determined with the objective of achieving at least 75 per cent probability of sufficiency of the unexpired risk liability.

Key assumptions:

1. Monthly seasonality factors used for claims incurred. These were calculated from the 3 years' previous claims experience, and range from 75% to 109% (2008: 73% to 113%) of the monthly average.
2. Projected claims inflation of 11.5% p.a., plus 4% for the effect of ageing, based on current expectations (2008: 6.5% plus 4% for ageing)
3. Expenses based on the business plan for 2009/10, including allowance for amortisation of deferred acquisition costs.

No explicit allowance has been made for cancellations or transfers. These are allowed for implicitly in the inflation assumption.

Expected future payments are not discounted due to the short tail nature of the liabilities.

17. Risk management

The Group 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 (interest rate risk and foreign currency risk), and non-financial risks (operational risk and compliance risk). The Directors and management recognise the importance of having an effective risk management policy in place. The risks and any objectives, policies and processes to manage the risks are described below.

a. Insurance risk

The Society assumes insurance risk through its health 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.
- A long-term pricing strategy adopted by the Board which supports pricing based on underlying risk.
- Regular monitoring of financial and operating results and detailed investigations into the morbidity and persistency experience of the portfolio.
- Maintaining a target solvency margin in excess of the minimum required by the standard established by the Health Funds Association of New Zealand. The solvency margin ensures the Society is able to withstand a period of adverse insurance or investment experience and still maintain a satisfactory financial position (refer to Note 22).

NOTES TO THE FINANCIAL STATEMENTS cont'd
for the year ended 30 June 2009

17. Risk management (Continued)

II. Sensitivity to insurance risk

The financial results of the Society 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 16.

The scope of insurance risk is managed by the terms and conditions of the policy. The main insurance benefit involves the reimbursement of medical and surgical expenses depending upon the plan option.

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.

Other variables affecting the level of claims include the underlying morbidity of the lives insured, the nature of treatment given and the costs of treatment.

III. Concentration of insurance risk

Management defines concentration of risk by type of insurance business and geographic region. The Society transacts health insurance business in New Zealand and, therefore, the concentration of risk by type of insurance and geographic region cannot be avoided. Insurance risks are well diversified within the health insurance portfolio with claims costs spread across many different types of surgery and medical events. There is no significant exposure to individual large claims.

b. Financial risks

I. Credit risk

In the normal course of its business the Group incurs credit risk from its health insurance operations and from investment in financial assets. There are no significant concentrations of credit risk.

The Group maintains a credit policy which is used to manage the exposure to credit risk. Limits on counter-party exposures have been set and are monitored on an ongoing basis. The credit quality of counter parties is assessed based on published credit ratings issued by Standard & Poor's or equivalent ratings agencies. Where local authorities do not have a formal credit rating, security is obtained from their ability to levy rates.

NOTES TO THE FINANCIAL STATEMENTS cont'd
for the year ended 30 June 2009

17. Risk management (Continued)

The credit quality of investment counter parties is as follows:

	Group		Society	
	2009	2008	2009	2008
	\$000	\$000	\$000	\$000
New Zealand Government rated:				
AAA	1,574	1,557	1,574	1,557
State owned enterprises rated:				
AA	5,180	4,850	5,180	4,850
BBB	1,036	912	1,036	912
Local authorities rated:				
AA	13,120	12,514	13,120	12,514
Non-rated	147,202	100,627	147,202	100,627
Corporates rated:				
AAA	17,051	42,883	17,051	42,883
AA	106,182	162,676	106,182	162,676
A	90,620	59,946	90,620	59,946
BBB	22,030	17,196	22,030	17,196
Below BBB	880	-	880	-
Non-rated	6,534	10,333	6,534	10,333
	411,409	413,494	411,409	413,494

The maximum exposure to credit risk at balance date is the amount of financial assets stated in the balance sheet.

These exposures are net of any recognised provisions for impairment losses. The Group does not require any collateral or security to support financial assets due to the quality of the counter-party organisations.

II. Liquidity risk

The Group 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 Directors set limits on the minimum proportion of maturing funds available to meet such calls to cover claims and expenses at unexpected levels of demand.

The contractual maturities of investments are as follows:

	Group		Society	
	2009	2008	2009	2008
	\$000	\$000	\$000	\$000
On call	1,500	650	1,500	650
0-6 months	134,994	61,857	134,994	61,857
7-12 months	48,078	37,628	48,078	37,628
1-2 years	53,483	66,818	53,483	66,818
2-5 years	169,101	204,822	169,101	204,822
Beyond 5 years	4,253	41,719	4,253	41,719
	411,409	413,494	411,409	413,494

NOTES TO THE FINANCIAL STATEMENTS cont'd
for the year ended 30 June 2009

17. Risk management (Continued)

The cash and cash equivalents are available on call. All premium and other receivables are due within one month of balance date.

Liabilities are all short term or payable on demand. Investments could be liquidated at any time to settle liabilities.

c. Market risks

I. Foreign currency risk

At 30 June 2009, the Group had assets of \$171,000 and no liabilities denominated in foreign currencies (30 June 2008: assets of \$106,000 and no liabilities). Given that the foreign currency risk exposure is minimal, the Group does not enter into any derivative contracts to manage this risk.

II. Interest rate risk

The Group invests in both fixed and variable rate financial instruments such as bonds, commercial paper and floating rate notes. There is a risk that any movement in interest rates can have an effect on the profitability and cash flows of the Group. The Group maintains a spread of investment types and maturity profiles to mitigate this risk.

Fair value risk

The fair value of fixed rate investments can fluctuate depending on changes in interest rates. The Group's policy is to hold all investments until maturity. This eliminates any effects of fair value changes to the investments upon realisation, however unrealised fair value changes are recognised in the income statement for each period. The following analysis shows the impact of any changes in interest rates on the profitability:

	Group and Society	
	2009	2008
	\$000	\$000
Impact of increase by 100 basis points on income statement	(6,326)	(7,354)
Impact of decrease by 100 basis points on income statement	6,524	7,593

Cash flow interest rate risk

The cash flows from the Group's investments in the short term are susceptible to changes in interest rates. However, as the majority of investments are fixed rate, and these investments are held until maturity, this exposure is mitigated. The following analysis shows the impact of any changes in interest rates on the cash flows:

	Group and Society	
	2009	2008
	\$000	\$000
Impact of increase by 100 basis points on cash flows	1,888	1,459
Impact of decrease by 100 basis points on cash flows	(1,888)	(1,459)

SOUTHERN CROSS MEDICAL CARE SOCIETY

NOTES TO THE FINANCIAL STATEMENTS cont'd for the year ended 30 June 2009

17. Risk management (Continued)

d. Fair values of financial assets and financial liabilities

All financial assets and financial liabilities included in the balance sheet are carried at amounts that approximate fair value.

18. Related parties

a. Identity and relationship of related parties:

♦ Southern Cross Medical Care Society ("Society")	Parent
♦ Southern Cross Health Services Limited ("Health Services")	100% subsidiary of Society
♦ Activa Health Limited ("Activa")	100% subsidiary of Society
♦ Southern Cross Healthcare Limited (non-trading)	100% subsidiary of Society
♦ Directors of Southern Cross Medical Care Society	Are Trustees of Southern Cross Health Trust
♦ Southern Cross Health Trust ("Trust")	Related party of Society
♦ Southern Cross Benefits Limited ("Benefits")	100% subsidiary of Trust
♦ Southern Cross Hospitals Limited ("Hospitals")	100% subsidiary of Trust

All these related entities have 30 June balance dates.

The Society and the Trust are separate legal entities operating at "arm's length".

The Society contracts healthcare services on behalf of its members from all providers, including the Trust, on a contestable and contractual basis.

The Society charges Benefits a fee for enabling marketing opportunities to the membership.

All Group and related parties provide their normal services to the other Group and related parties on normal commercial terms.

The amount of transactions between the Group entities are:

	Purchases		Sales	
	2009	2008	2009	2008
	\$000	\$000	\$000	\$000
Society	2,983	3,599	67	34
Health Services	9	4	68	53
Activa	58	30	2,915	3,546

The outstanding balances between the Group entities are:

	Payables		Receivables	
	2009	2008	2009	2008
	\$000	\$000	\$000	\$000
Society	69	4,006	759	4,498
Health Services	686	551	6	7
Activa	73	3,947	63	3,999

Some goods and services are purchased by the Group and other related parties on a combined basis. These costs are on-charged to the other related parties at cost.

NOTES TO THE FINANCIAL STATEMENTS cont'd
for the year ended 30 June 2009

18. Related parties (Continued)

The amount of transactions with other related parties are:

	Group		Society	
	2009	2008	2009	2008
	\$000	\$000	\$000	\$000
Sale of services	2,817	3,471	2,779	3,440
Purchase of services	92	116	92	116

The outstanding balances with other related parties are:

	Group		Society	
	2009	2008	2009	2008
	\$000	\$000	\$000	\$000
Balance outstanding on sales	313	126	307	118
Balance outstanding on purchases	6	-	6	-

All related party balances are repayable on normal trading terms. No related party transactions have taken place at nil or nominal value. No related party balances have been written off or forgiven during the year.

Included within related party receivables of the Society are amounts receivable from subsidiary companies which are repayable on demand. However, these are not currently intended to be called for payment. Provision has been made for any receivables considered to be impaired.

b. Remuneration of Directors

Directors' fees paid by the Society for the year ended 30 June 2009 were as follows:

Director	2009	2008
	Amount (\$)	Amount (\$)
Dr D D Baird – appointed 1 July 2007	45,700	46,700
C B Durbin	45,700	46,700
Dr D H Gray - retired 1 September 2008	7,783	46,700
G S Hawkins (Chairman) - appointed 1 October 2008	34,275	-
Dr S C Macken - retired 30 June 2009	45,700	46,700
D J May	45,700	46,700
P J Meyer	45,700	46,700
J G Todd - retired 30 June 2009	57,060	81,700
M J Verbiest - appointed 1 October 2008	34,275	-

Trustee

C B Durbin
D J May
J G Todd - retired 30 June 2009

Where Directors are directors of subsidiary companies of the Society, they do not receive any fees for these appointments.

NOTES TO THE FINANCIAL STATEMENTS cont'd
for the year ended 30 June 2009

18. Related parties (Continued)

The Society provides Trustees and Directors with directors' and officers' liability insurance cover for liabilities to other parties that may arise from their positions as Trustees and Directors.

The Directors received health insurance benefits of \$18,000 for the year ended 30 June 2009 (2008: \$17,000). Retired Directors received health insurance benefits of \$23,000 for the year ended 30 June 2009 (2008: \$26,000).

c. Remuneration of key management personnel
(excluding Directors' remuneration disclosed separately)

	Group		Society	
	2009	2008	2009	2008
	\$000	\$000	\$000	\$000
Salaries and other short-term benefits	2,280	2,312	2,280	2,312
Post-employment benefits	2	3	2	3
	<u>2,282</u>	<u>2,315</u>	<u>2,282</u>	<u>2,315</u>

Key management personnel include the chief executive officer, chief operating officers and senior executives.

SOUTHERN CROSS MEDICAL CARE SOCIETY

NOTES TO THE FINANCIAL STATEMENTS cont'd for the year ended 30 June 2009

19. Reconciliation of net surplus with net cash flows from operating activities

	Group		Society	
	2009	2008	2009	2008
	\$000	\$000	\$000	\$000
Net surplus/(deficit)	(14,380)	7,827	(14,171)	7,937
Add/(less) non-cash items:				
Depreciation	1,631	1,782	1,612	1,758
Amortisation of computer software	1,167	1,598	1,123	1,205
Impairment loss on computer software	376	1,741	376	1,280
Impairment loss on other fixed assets	-	51	-	51
Impairment loss on investment in subsidiaries	-	-	-	334
Provision for impairment loss on amounts receivable from subsidiaries	-	-	650	1,931
Add items classified as investing activities:				
(Gain)/loss on disposal of property and equipment	17	(8)	17	(8)
Movement in valuation of investments	(7,984)	14,734	(7,984)	14,734
Add/(less) movements in working capital items:				
Receivables	(575)	(2,995)	2,567	(8,783)
Payables	1,853	890	(2,091)	5,157
Other insurance provisions	40	(10)	40	(10)
Provision for outstanding claims	4,672	(4,859)	4,672	(4,859)
Provision for unearned premium	1,272	1,512	1,272	1,512
Provision for founding members' reward	-	(3,280)	-	(3,280)
Provision for unexpired risk	6,306	2,966	6,306	2,966
Provision for employee benefits	396	530	397	549
Net cash flows from operating activities	(5,209)	22,479	(5,214)	22,474

NOTES TO THE FINANCIAL STATEMENTS cont'd
for the year ended 30 June 2009

20. Credit rating

On 21 February 2009 Standard & Poor's reaffirmed the Society's Insurer Financial Strength Rating of A+. This signifies the insurer "has strong financial security characteristics".

21. Actuarial report

The five yearly actuarial report as required under section 74 of the Friendly Societies and Credit Unions Act 1982 was filed with the Registrar on 13 July 2006.

22. Solvency and capital adequacy

The Society is a not-for-profit organisation. As a consequence of its legal structure the Society has no recourse to external capital and therefore internally generated capital is of paramount importance. The Society's capital of \$313.3 million (2008: \$329.1 million) is equal to the reserves as disclosed in the financial statements.

The Society is required to deposit \$500,000 with the Public Trustee in accordance with the Insurance Companies' Deposits Act 1953. The Society is not subject to any other externally imposed capital requirements.

The Directors' policy for managing capital is to have a strong capital base to establish security for members and enable the Society to conduct its business whilst maintaining financial soundness. The policy in respect of capital management is regularly reviewed by the Directors.

The Society calculates its capital adequacy requirements using the Capital Adequacy Standard issued by Australia's Private Health Insurance Administration Council (PHIAC). The PHIAC Capital Adequacy Standard has been constructed for the purpose of determining a minimum amount of capital required to support business plans and maintain financial soundness.

The Directors consider the current level of capital is sufficient for the requirement of maintaining financial soundness.

There have been no material changes to the Society's policy for the management of capital during the financial year.

The New Zealand authorities have proposed a new regulatory regime for insurers, to be supervised by the Reserve Bank of New Zealand. This is scheduled to take effect in 2010. One component of the proposal is a New Zealand solvency standard for non-life insurers. This new regime will be incorporated into the Society's capital management policy once implemented.

23. Segmental reporting

The Group operates in one industry and geographic segment, that is the provision of health insurance in New Zealand.

NOTES TO THE FINANCIAL STATEMENTS cont'd
for the year ended 30 June 2009**24. Lease commitments**

At 30 June 2009 commitments under operating leases in respect of payments due to be made in the following years were:

	Group		Society	
	2009	2008	2009	2008
	\$000	\$000	\$000	\$000
Within 1 year	2,254	1,100	2,254	1,100
Between 1 and 2 years	1,708	360	1,708	360
Between 2 and 5 years	2,011	787	2,011	787
Greater than 5 years	2,079	128	2,079	128
	8,052	2,375	8,052	2,375

25. Capital commitments

The Group had capital commitments of \$1,034,000 at 30 June 2009 (2008: \$740,000).

26. Contingent liabilities

The Group had no contingent liabilities at 30 June 2009 (2008: Nil).



Audit report

To the members of Southern Cross Medical Care Society

We have audited the financial statements on pages 1 to 32. The financial statements provide information about the past financial performance of the Society and Group and its financial position as at 30 June 2009. This information is stated in accordance with the accounting policies set out on pages 4 to 10.

Directors' Responsibilities

The Directors are responsible for the preparation of financial statements which give a true and fair view of the financial position of the Society and Group as at 30 June 2009 and the results of its operations and cash flows for the year ended on that date.

Auditors' responsibilities

It is our responsibility to express an independent opinion on the financial statements presented by the Directors and report our opinion to you.

Basis of opinion

An audit includes examining, on a test basis, evidence relevant to the amounts and disclosures in the financial statements. It also includes assessing:

- the significant estimates and judgements made by the Directors in the preparation of the financial statements;
- whether the accounting policies are appropriate to the Society and Group's circumstances, consistently applied and adequately disclosed.

We conducted our audit in accordance with New Zealand Auditing Standards. We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to obtain reasonable assurance that the financial statements are free from material misstatements, whether caused by fraud or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Our firm has also provided other services to the Society and Group in relation to accounting advisory services. Partners and employees of our firm may be members of the Society and deal with the Society and Group on normal terms within the ordinary course of trading activities of the business of the Society and Group. These matters have not impaired our independence as auditors of the Society and Group. The firm has no other relationship with, or interest in, the Society or Group.

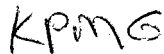
Unqualified opinion

We have obtained all the information and explanations we have required.

In our opinion the financial statements on pages 1 to 32:

- comply with New Zealand generally accepted accounting practice;
- give a true and fair view of the financial position of the Society and Group as at 30 June 2009 and the results of their operations and cash flows for the year ended on that date.

Our audit was completed on 1 September 2009 and our unqualified opinion is expressed as at that date.

A handwritten signature of 'KPMG' in a cursive, stylized font.

Auckland