ACCURO **ANNUAL REPORT 2013**

taking care
accuro
health insurance

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Company directory

Board of Directors
Geoff Annals (Chair)
Jane Bawden (Deputy Chair)
Bridgit Sissons
Aaron J Mills
Edward Schuck
Tony Haycock

Chief Executive Officer
Bruce Morrison

Actuary
Peter Davies BBus, SC, FIA, FNZSA

Solicitor
Quigg Partners

Bankers
Westpac Banking Corporation

Auditor
BDO Wellington

Investment managers
National Bank Private Banking

Registered office
Level 1, 79 Boulcott Street
Wellington

Incorporation
Industrial and Provident Societies Act 1908

Chair's report

It is a real pleasure to report, for the third year running, that Accuro continues to grow. Of course, the Society is exposed to the same challenges all health insurers face, and it is important to acknowledge that, while Accuro continues to grow, overall, more New Zealanders than ever are choosing to rely solely on our public health system and to abandon private health insurance as premiums continue to rise, driven by rapidly rising treatment costs. The public health system is world class, but choosing against health insurance is taking a gamble that either you won't develop a health need that is unavailable from taxpayer-funded services or, if you do, you will be able to meet your own costs of treatment. This is a high-stakes gamble when such needs are not so uncommon they can be disregarded or so inexpensive most could meet them. As a not-for-profit society, our aim is to keep offering high-quality health insurance at a fair price. We believe this is essential so you don't have to gamble on staying healthy. This is a challenge requiring the Society to find the right balance between sufficient premium income to pay all members' claims while retaining sufficient surplus to cover costs and to maintain capital reserves as a buffer against high claims volatility, but not so high as to discourage members from retaining membership. This year, the Society relied on that buffer to weather a sequence of high claims months. At the same time, many members told us the premium increases were too high. The ever-rising costs of healthcare are a problem all New Zealanders face. Your Society will continue to focus on delivering best possible value.

Accuro products remain at the top of industry surveys and continue to gain recommended status from Consumer New Zealand. This reflects the essential ethos of our Society as a community of members working together to the mutual benefit of all our members. As a result, Accuro is a Society others choose to join. Continuous growth in a shrinking health insurance market is an affirmation of our ethos that all members and staff can take confidence and indeed pride in. Certainly, the Board is proud of Accuro and its staff and is grateful for the continued support of our members in achieving ongoing success as a small insurer with a big reputation.

Special acknowledgement for this achievement must be made to outgoing Chief Executive Officer Bruce Morrison. Bruce lives and breathes the Accuro membership ethos. Bruce has ensured that every process, product and practice of our Society is focused on 'doing the right thing for members'. This genuine member focus and thorough integrity are the qualities that have marked Bruce's leadership. Bruce has given outstanding service to the Society, and his outstanding leadership has not only shaped and energised Accuro but has also been constructive and influential within the wider health insurance industry. We give Bruce acknowledgement and thanks for his contribution to the wellbeing of members and to a better health insurance industry. We wish him and his family every success and joy in the future.

Thank you to the Board and all the staff of Accuro for their dedicated commitment throughout the year. With sadness, I acknowledge the death of serving Director Bernie Wood in April this year. Bernie was a treasured member of the Accuro family, having been a Board member since 2005 and, prior to that, Chief Executive Officer for 10 years. Finally, I am delighted to welcome Jane Bawden into the role of Board Chair.

Geoff Annals

Board Chair until 23 September 2013

Chief Executive Officer's report

It is with pride and sadness that I write this report on the 2013 year to our members. Accuro has, through continued excellence in service, retained its remarkable position as the only health insurer to show continual growth in membership each quarter for the past year – a statistic that now holds true for three full years. The attraction of new members to the Society is vital in maintaining a vibrant organisation that can continue to meet member obligations and needs. This becomes increasingly more important, as future governments will find it harder and harder to meet all the health requirements of New Zealanders. I am particularly proud of the support the Board, management and staff have provided me in allowing Accuro to take an industry lead in working with politicians and officials in seeking a balanced public/private solution to the growing strains in our health systems. While increasing premiums remain the number one concern facing members, we believe this will be best addressed as we work together with the public providers to create a more efficient use of all our health resources to support those who are most in need and also those who are willing to help themselves through health cover.

We continue to evaluate all the alternative offers available in the marketplace and have been successful in holding premiums lower than other insurers while keeping benefits to members at the forefront of the industry. It is still very clear that a number of members would appreciate different options to be made available to reduce the ongoing inflation rates of premiums. This has been an area of development in the past, and more work is still being carried out. It is important for members to discuss those desires and concerns with Accuro personnel at any stage, and we encourage that interaction.

The sadness I spoke of relates to my decision to leave Accuro as Chief Executive Officer. The past three years have been a genuine privilege to be part of such a wonderful organisation. The Board and staff are 100% committed to delivering the best solutions for members, and I would have been even more reluctant to leave had it not been for the decision of our Chair to accept the role as Chief Executive Officer in my place. I know that Geoff Annals has a real passion and dedication to Accuro and its future. There is no doubt that my family and I will remain members of Accuro. I will continue to closely follow the developments of this great Society.

Bruce Morrison

Chief Executive Officer until 20 September 2013

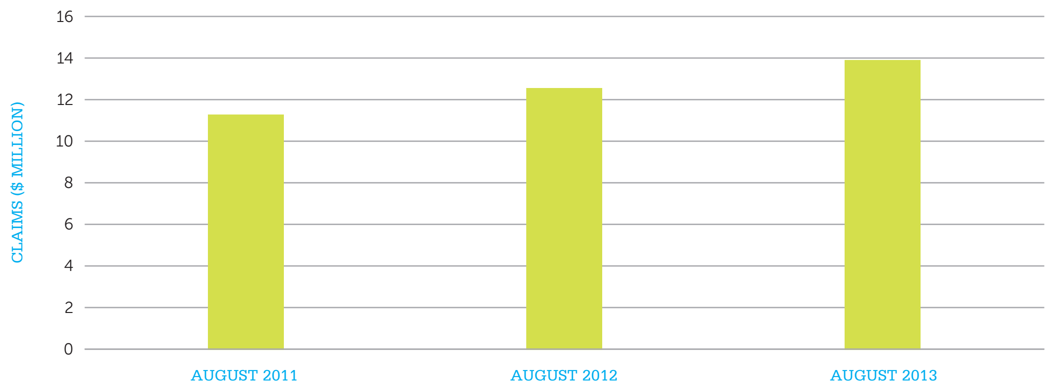
Spotlight on the financial year

For the year ended 31 August 2013

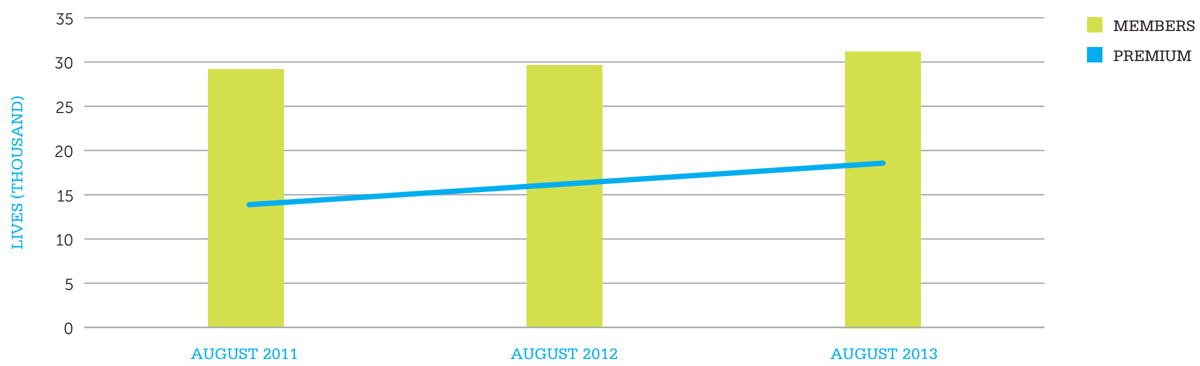
Financial position	$000
Members' funds	4,031
Represented by:	
Cash and cash equivalents	1,057
Receivables and other	841
Investments	6,200
Property and equipment	95
Software	114
Total assets	8,307
Payables (liabilities)	(4,276)
Net assets	4,031
Solvency ratio	130%
Standard & Poor's credit rating	BB+

Financial performance	$000
Premiums	18,374
Other income	268
Investment income	244
Total income	18,886
Claims paid	(13,792)
Other expenses	(5,235)
Total expenses	(19,027)
Overall surplus (deficit)	(141)

Claims paid to members



Total annual premium and membership trend



Board of Directors

Geoff Annals RN BSocSci

Chair

Geoff is a registered nurse with 20 years' experience working in the public sector in a range of clinical and management positions including as General Manager of Waikato Hospital. Geoff has been a Director of Accuro since 2002 and retired as Chair to take up the role of Chief Executive Officer in September 2013. He was Chief Executive of the New Zealand Nurses Organisation prior to his appointment at Accuro and is a member of the Institute of Directors.

Jane Bawden LLM (Hons)

Deputy Chair

Jane Bawden is a barrister with extensive experience in the health and disability sector. She has worked with a variety of providers including District Health Boards and private hospitals. Jane also has a background in commercial litigation in both New Zealand and the UK.

Jane is a member of the Institute of Directors and the Auckland Medico-Legal Association. She is a director of Howick Baptist Healthcare Limited and 139 On Union Limited retirement village. Jane has recently been appointed to the national adverse event expert advisory group of the Health Quality and Safety Commission.

Bridgit Sissons BA (Hons) PGDipCom (Dist)

Director

Bridgit has worked extensively in New Zealand and the US developing and implementing communication strategies for well known companies, start-ups and agencies. She has broad experience in corporate affairs, public relations, internal communications and stakeholder management, with over 18 years in the strategic communications industry.

Bridgit currently works as a consultant in Wellington, where she is also a member of the Institute of Directors. She has been a member of the Accuro Board of Directors since 2008.

Board of Directors continued

Edward Schuck PhD

Director

Ed is principal of Fidato Advisory, a provider of investment advisory and management consulting services to institutional investors and wealth management businesses in New Zealand. He is also a director of MMC Limited, a provider of administration services to fund managers.

Prior to starting his own business in 2009, Ed was managing director of Russell Investments in New Zealand, a global provider of investment advice and asset management services. Ed joined Russell in late 1999 after a six-year period as a senior lecturer in finance and investment at the University of Auckland.

As a result of his keen interest in promoting investment in private capital, Ed works closely with the New Zealand Private Equity & Venture Capital Association as well as the Property Council of New Zealand. He is also actively involved with the Young Enterprise Trust as a member of its Supporters' Council.

Tony Haycock MB ChB PGDip IH

Director

Tony is a medical doctor with 36 years' experience and expertise gained within the health sector. His experience includes 13 years in general practice medicine and 18 years of health project management, health planning, health publishing, health IT, and general health consultancy.

Tony has been actively involved in a number of successful health-related start-up companies. He is currently engaged in consultancy project work as an independent for his own company, Health-e-Consulting Ltd, and part-time employment with ACC as a medical advisor.

Aaron Mills BMS MSocSci (Hons)

Director

Aaron is a professional human resources practitioner with experience in the health and disability sector, the public service (Ministry of Health, Department of the Prime Minister and Cabinet, State Services Commission) and university sector (employed at Victoria University of Wellington).

Aaron has professional affiliations with the New Zealand Psychological Society (member), the Shared Services & Outsourcing Network (member) and the Institute of Directors (member). He is an Associate Fellow of the Human Resources Institute (HRINZ).

Statement of corporate governance

Board of Directors

The Board of Directors is the governing body of Accuro and consists of four elected Directors and up to three co-opted Directors (directorships are for two-year terms). The Board is responsible for the direction of the Society and management oversight. The two key establishing and guiding documents for Accuro are the Rules of the Society (which establishes the Board and its power) and the Governance Charter (which regulates and guides its function). As at 31 August 2013, the Board comprised Geoff Annals (Chair), Jane Bawden (Deputy Chair), Edward Schuck (Risk, Audit, Investment and Compliance (RAIC) Committee Chair), Bridgit Sissons, Aaron Mills and Anthony Haycock with co-opted directorships being held by Jane Bawden, Edward Schuck and Anthony Haycock. The passing of Bernie Wood, an Accuro Director, in late April resulted in three elected Directors governing the Board. Given the composite strength of the remaining Board and the costs associated with electing a new Director, the Board chose to maintain the status quo until the December AGM.

Governance framework

In conjunction with management, the Board operates under a number of statutory obligations. The primary legislative requirements for the Society are contained in, but not limited to, the Industrial and Provident Societies Act 1908, the Financial Reporting Act 1993 and the Insurance (Prudential Supervision) Act 2010. The governance framework in association with Accuro's risk management framework ensure that Accuro's processes and policies are aligned to ensure compliance with legislative requirements.

The Board and management team are governed by the overarching Governance Charter (2011). The Governance Charter represents a transparent set of standards under which Accuro operates and includes such things as the Code of Ethics and Fit and Proper Policy.

Board meetings and standing committees

The Board meets on a two-monthly basis to discuss the Society's affairs and strategic developments.

The Board has also established a Risk, Audit, Investment and Compliance (RAIC) Committee, which presides over technical and advisory matters relating to a broad remit. The RAIC Committee operates on a two-monthly basis, in advance of Board meetings and provides a direct interface between the Board and management. The RAIC Committee is responsible for informing the Board of all matters arising from its remit and is governed by its responsibilities set out in the Governance Charter and the RAIC Committee Charter.

Understanding how medical inflation affects premiums

Over the last few years, our members have seen increases in their premiums. There are many factors that have increased premiums, and the major ones are:

- rising medical inflation (increasing consultation, treatment and equipment costs)
- new medical technologies (more costly to provide)
- an ageing population (with higher average claim amounts).

The cost of healthcare is rising all the time, and a large part of this is due to medical advances and new treatments becoming available. These advances are very beneficial for our members; however, they affect how much insurers have to charge for private medical insurance.

We believe our members should have access to the best. The table below illustrates the increases in recent years. These figures all relate to the year ending 31 August.

High-value claims

Cardiothoracic	2012	2013	Increase
Average by value	$9,347	$14,366	54%
Highest individual claim	$61,123	$69,973	14%
Total claims paid	$345,873	$574,668	66%

Mastectomies	2012	2013	Increase
Average by value	$9,941	$13,111	32%
Highest individual claim	$56,296	$32,527	(42%)
Total claims paid	$129,233	$262,229	102%

Highest single claim

	2013
Repair of mitral valve	$69,973

Claim count for orthopaedic

	2012	2013	Increase
Knee replacement	30	38	27%
Hip replacement	17	23	35%
Specialist consultation	132	194	47%
Shoulder surgery	18	23	27%
Surgery to the foot	26	32	23%

Average costs

	2012	2013	Increase
Gastroscopy	$1,026	$1,181	15%
Arthroscopy of the knee	$3,878	$6,222	60%
Spinal surgery	$22,311	$28,481	28%
Repair of hernia	$4,987	$6,330	27%

Financial statements

Statement of comprehensive income

For the year ended 31 August 2013

	Note	2013 NZ IFRS $000	2012 Restated NZ IFRS $000
Premium revenue		18,374	16,216
Claims expense	10	(13,792)	(12,446)
Underwriting surplus		**4,582**	**3,770**
Operating expenses	2	(5,235)	(4,520)
Investment income	3	244	371
Other income	3	268	294
Profit/(loss) attributed to members		**(141)**	**(85)**
Other comprehensive income		**–**	**–**
Total comprehensive income (loss) attributed to members		(141)	(85)

Statement of changes in reserves

For the year ended 31 August 2013

	2013 NZ IFRS $000	2012 Restated NZ IFRS $000
Opening balance/retained surplus/total reserves	4,172	4,258
Profit/(loss) attributed to members	(141)	(85)
Other comprehensive income	–	–
Total comprehensive income attributed to members	(141)	(85)
Closing balance/retained surplus/total reserves	**4,031**	**4,172**

The financial statements should be read in conjunction with the notes on pages 12 to 34.

Statement of financial position

As at 31 August 2013

	Note	31 August 2013 NZ IFRS $000	31 August 2012 Restated NZ IFRS $000	1 September 2011 Restated NZ IFRS $000
Assets				
Cash and cash equivalents	4	1,057	1,074	532
Premium and other receivables	5	841	801	367
Investments	6	6,200	5,800	6,866
Property and equipment	7	95	58	73
Intangible assets	8	114	144	60
Total assets		**8,307**	**7,877**	**7,898**
Liabilities				
Trade and other payables	9	367	287	430
Employee benefits		284	213	191
Provision for unearned premiums	10	1,876	1,385	1,137
Provision for outstanding claims	10	1,749	1,820	1,882
Total liabilities		**4,276**	**3,705**	**3,640**
Net assets		**4,031**	**4,172**	**4,258**
Represented by				
Reserves		**4,031**	**4,172**	**4,258**

Jane Bawden Chair
25 October 2013

Bridgit Sissons Deputy Chair
25 October 2013

Bruce Morrison was Chief Executive Officer of Accuro Health Insurance until 20 September 2013.

Geoff Annals was the Chair of the Board for the 2013 financial year and has been described as such in this document. He resigned his position as Chair on 9 September 2013 and took up the role of Chief Executive Officer on 23 September 2013.

Jane Bawden was elected Chair by the Board on 9 September 2013 and has subsequently signed off this document.

The financial statements should be read in conjunction with the notes on pages 12 to 34.

Statement of cash flows

For the year ended 31 August 2013

	Note	2013 NZ IFRS $000	2012 NZ IFRS $000
Cash flows from operating activities			
Cash receipts from customers		19,015	16,629
Cash paid as claims		(13,864)	(12,508)
Cash paid to suppliers and employees		(4,870)	(4,876)
Interest received		170	398
Net cash flows from operating activities	13	451	(357)
Cash flows from investing activities			
Proceeds from sale of investments		5,800	1,067
Acquisitions of investments		(6,200)	–
Acquisitions of property and equipment		(68)	(168)
Net cash flows used in investing activities		(468)	899
Net increase/(decrease) in cash and cash equivalents		(17)	542
Opening cash and cash equivalents	4	1,074	532
Closing cash and cash equivalents		**1,057**	**1,074**
Bank call accounts		1,057	1,074

The financial statements should be read in conjunction with the notes on pages 12 to 34.

Notes to the financial statements

For the year ended 31 August 2013

1. Statement of accounting policies

Reporting entity

Health Service Welfare Society Limited (the Society) trading as Accuro Health Insurance is registered under the Industrial and Provident Societies Act 1908. The Society is incorporated in New Zealand.

The Society is domiciled in New Zealand. The registered office and principal place of business is 79 Boulcott Street, Wellington.

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

During the reporting period, the Society was operating under a licence granted by the Reserve Bank of New Zealand to operate as an insurer subject to the Insurance (Prudential Supervision) Act 2011. The Society is deemed to be an issuer under the Financial Reporting Act 1993 from 1 September 2012.

Nature of the business

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

Basis of preparation

The financial statements have been prepared in accordance with New Zealand general accepted accounting practice (NZ GAAP).

Under the specific criteria and definitions of the financial reporting standards, the Directors have classified the Society as a public benefit entity for financial reporting purposes.

The financial statements comply with New Zealand equivalents to International Financial Reporting Standards (NZ IFRS) as appropriate for not-for-profit entities.

The statements of financial position have been presented in the order of decreasing liquidity. All balances are current, except for investments, intangible assets, and property and equipment.

The financial statements were approved by the Board of Directors on 25 October 2013.

These are the Society's first financial statements prepared in accordance with NZ IFRS, and *NZ IFRS 1 First-time adoption of international financial reporting standards* has been applied.

An explanation of how the transition to NZ IFRS has affected the reported financial position and financial performance and cash flow of the Society is provided in note 16.

New financial reporting standards approved but not yet effective

A number of standards and interpretations that have recently been issued or amended, but are not yet effective, have not been adopted by the Society for the annual reporting period ending 31 August 2013. Those which are likely to impact the Society are outlined in the following:

NZ IFRS 9: Financial instruments – This standard will eventually replace *NZ IAS 39: Financial instruments – recognition and measurement* (NZ IAS 39) and is expected to be adopted by the company in the period ending 30 September 2015 when it becomes effective. The standard is not expected to materially affect the company's financial statements.

Basis of measurement

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

Functional and presentation currency

These financial statements are presented in New Zealand dollars ($), which is the Society'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. Note 10 details several of the major assumptions. Actual results may differ from these estimates.

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

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

- Note 10 Insurance contract liabilities
- Note 11 Risk management

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

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits with maturities of three months or less from the acquisition date that are subject to an insignificant risk of changes in their fair value and are used by the Society in the management of its short-term commitments.

Under the NZ IFRS definition of financial assets, cash and cash equivalents are classified as loans and receivables.

Premiums and other receivables

Premiums and other receivables are initially measured at cost and subsequently measured at amortised cost using the effective interest rate method, less any impairment losses. Impairment losses for uncollectable premiums are expensed in the year in which the impairment occurs.

Under the NZ IFRS definition of financial assets, premiums and other receivables are classified as loans and receivables.

Investments

The management of the investment portfolio was previously outsourced to National Bank Private Banking and comprised investment grade New Zealand fixed interest securities. These financial assets were designated as financial assets at fair value through profit and loss on inception.

During the 2013 financial year, this portfolio was realised and reinvested in term deposits with New Zealand banks or their subsidiaries. Term deposits with a term greater than three months are classified as investments. These financial assets are recognised as loans and receivables.

Property and equipment

Items of property and equipment are measured at cost, less accumulated depreciation and impairment losses.

Subsequent expenditure that replaces a component or enhances the item of property or equipment is 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 Society and the cost of the item can be measured reliably. All other costs are recognised as an expense in determining the profit or loss.

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 of property and equipment is recognised in the profit or loss on a straight-line basis over the estimated useful lives of each component of the asset as follows:

- Computer equipment 25–33% per annum, 3–4 years
- Other fixed assets 20–33% per annum, 3–5 years
- Leasehold improvements Based on the remaining life of the lease, 1–6 years

The estimated useful life of assets, residual value and depreciation method are reassessed annually.

The sale proceeds and purchase costs of property and equipment is disclosed in the statement of cash flows.

Subsequent expenditure on assets is recognised as an expense in the profit or loss.

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.

Amortisation of intangible assets are recognised in determining the surplus or deficit in the profit or loss on a straight-line basis over the estimated useful lives of each component of the asset as follows:

- Software 20–33% per annum, 3–5 years

The estimated useful life of assets, residual value and depreciation method are reassessed annually.

The sale proceeds and purchase costs of intangible assets are disclosed in the statement of cash flows.

Subsequent expenditure on assets is recognised as an expense in the profit or loss.

The recoverability of the carrying amount of the asset is reviewed at 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.

Foreign currency transactions

Transactions in foreign currencies are translated to New Zealand dollars at exchange rates at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to New Zealand dollars at the spot exchange rate at reporting date. All differences arising on settlement or translation of monetary items are taken to the profit or loss. The Society is New Zealand-based and, as such, has minimal foreign currency activity.

Impairment

Non-financial assets impairment

The carrying amounts and residual values of property and equipment and intangible assets are reviewed at the end of each reporting period 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 an asset 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 profit or loss.

Non-derivative financial assets

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset and that the loss event(s) had an impact on the estimated future cash flows of that asset that can be estimated reliably.

Objective evidence that financial assets are impaired includes default or delinquency by a debtor, restructuring of an amount due to the Society on terms that the Society would not consider otherwise, indications that a debtor will enter bankruptcy, adverse changes in the payment status of debtors, economic conditions that correlate with defaults or the disappearance of an active market for a security.

Financial assets measured at amortised cost

The Society considers evidence of impairment for financial assets measured at amortised cost (loans and receivables) at both a specific asset and collective level. All individually significant assets are assessed for specific impairment. Those found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Assets that are not individually significant are collectively assessed for impairment by grouping together assets with similar risk characteristics.

In assessing collective impairment, the Society uses historical trends of the probability of default, the timing of recoveries and the amount of loss incurred, adjusted for management's judgement as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows, discounted at the asset's original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account against loans and receivables. Interest on the impaired asset continues to be recognised. When an event occurring after the impairment was recognised causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

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 an unearned premium liability in the statement of financial position as provision for unearned premiums.

Fees 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 profit or loss as it accrues using the effective interest rate method.

Premiums and discounts 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 on investments, recorded in the profit or loss, include gains and losses on financial assets classified as financial assets at fair value through profit or loss. Gains and losses on the sale of investments are classified as the difference between net sale proceeds and the carrying value recorded at the date of the sale transaction. Unrealised gains and losses are classified as the difference between the fair value at the reporting date and the previous carrying value.

Leases

The Society as a lessee defines its leases as operating leases where they do not substantially transfer all the risks and rewards incidental to ownership.

Payments made under operating leases are recognised in determining the surplus or deficit in the statement of financial performance on a straight-line basis over the term of the lease.

Any inducement payments received as part of an operating lease agreement are deferred and recognised on a straight-line basis over the term of the lease.

Policy acquisition costs

The commission costs incurred in acquiring and recording insurance contracts may give rise to future benefits from premiums. Acquisition costs are initially recorded in profit or loss. Any amounts that give rise to premiums in subsequent reporting periods are deferred as an asset and amortised over the period covered by the premium paid.

Trade and other payables

Trade and other payables are categorised as other financial liabilities. Trade and other payables are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortised cost using the effective interest rate method.

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 Society 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 rate that reflects current market rates and, where appropriate, the risks specific to the obligation.

Outstanding claims provision

A central estimate is made of claims reported but not paid, claims incurred but not reported and claims incurred but not received.

The liability for outstanding claims includes expected claim payment plus associated claims handling costs.

Unexpired risk provision and liability adequacy test

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 is performed on all the 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. The total is compared with the unearned premium liability. Any deficiency is recognised as an expense in the profit or loss.

Employee entitlements

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

Income tax expense

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

Goods and services tax (GST)

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

Financial instruments

Financial assets at fair value through profit or loss

A financial asset is classified at fair value through profit or loss if it is classified as held for trading or is designated as such upon initial recognition. Financial assets are designated as at fair value through profit or loss if the Society manages such investments and makes purchase and sale decisions based on their fair value in accordance with the Society's documented risk management or investment strategy. Attributable transaction costs are recognised in profit or loss as incurred. Financial assets at fair value through profit or loss are measured at fair value, and changes therein, which takes into account any dividend income, are recognised in profit or loss.

Financial assets designated at fair value through profit or loss comprise of investments.

Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, loans and receivables are measured at amortised cost using the effective interest rate method, less any impairment losses.

Loans and receivables comprise cash and cash equivalents, trade and other receivables, and investments.

Non-derivative financial liabilities

All other financial liabilities are recognised initially on the trade date, which is the date that the Society becomes a party to the contractual provisions of the instrument.

The Society derecognises a financial liability when its contractual obligations are discharged, cancelled or expire.

The Society classifies non-derivative financial liabilities into the other financial liabilities category. Such financial liabilities are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortised cost using the effective interest rate method.

Other financial liabilities comprise trade and other payables.

Change in accounting estimates

A change in an accounting estimate that gives rise to a change in an asset or liability is recognised by adjusting the carrying amount of the related asset or liability item in the period of the change. Other changes in accounting estimates are recognised prospectively in the profit or loss.

Change in accounting policies

In compliance with the Reserve Bank of New Zealand licensing requirements, the Society has adopted NZ IFRS. The accounting policies set out above have been applied consistently to all periods presented in these financial statements and in preparing the opening NZ IFRS statement of financial position as at 1 September 2011 for the purpose of the transition to NZ IFRS, unless otherwise indicated.

2. Operating expenses

	2013 $000	2012 $000
Operating expenses include:		
Independent auditor's remuneration – BDO Wellington:		
Audit of financial statements	28	28
Other services	6	7
Depreciation	30	31
Amortisation of intangible assets	40	39
Directors' fees	73	101
Employee benefits expense	2,489	2,365
Contributions to KiwiSaver	98	110
Rental of premises	96	99
Provision for impairment of receivables	48	55

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

	2013 $000	2012 $000
Directors' fees and expenses:		
Geoff Annals	23	27
Jane Bawden	16	14
Melissa Clark-Reynolds	–	12
Anne Hare	7	22
Bridgit Sissons	13	14
Bernie Wood	8	12
Edward Schuck	7	–
Aaron Mills	6	–
	80	**101**
Directors' expenses	4	4
	84	**105**
In addition, member Directors received a subsidy on their health insurance premiums of	4	4
Health insurance claims paid to member Directors	3	1
Remuneration of key management personnel		
Key management personnel included Chief Executive Officer and senior executives		
Remuneration	937	861
KiwiSaver contributions	41	44
Health insurance premiums paid	8	11
Health insurance claims paid	8	5

The Society does not provide loans or advances to key management personnel. At each reporting date, the amounts outstanding to key management personnel comprise salaries and earned leave.

3. Investment and other income

	2013 $000	2012 $000
Investment income		
Fair value through profit or loss – gains (losses)	–	(19)
Fair value through profit or loss – interest	–	390
Loans and receivables – interest	244	–
Total investment income	**244**	**371**
Management fees	172	192
ACC recoveries	96	102
Total other income	**268**	**294**

4. Cash and cash equivalents

	2013 $000	2012 $000
Held in operating bank accounts on rates ranging from 2–3%	1,057	1,074

5. Premium receivables

	2013 $000	2012 $000
Premium receivables	472	471
Salary deductions to be allocated	–	(1)
Provision for impairment	(10)	(66)
Net realisable amount	**462**	**404**
Prepayments	20	67
Acquisition costs	285	330
Accrued interest	74	–
	841	**801**

The fair value of premiums approximates the carrying amount. Receivables are a current asset. Premium receivables are 90 days or less. When a member is in arrears, the cover is suspended, and if they are in arrears for more than 90 days, their policy and membership lapses and the premium is written off. The exception is where a payment plan is in place. The total of premium receivables past due and not impaired is $42,000 (2012: $20,000).

Analysis of premium receivables	**2013 $000**	**2012 $000**
Opening provision	66	232
Additional provision	9	55
Impairment recognised	(64)	(221)
Closing provision	**11**	**66**

6. Investments

	2013 $000	**2012 $000**
At fair value through profit or loss:		
Bonds (portfolio managed by the ANZ Bank)	–	2,203
Government stock	–	1,454
Local authority stock	–	630
Other	–	1,513
Total	–	5,800
Loans and receivables		
Term deposits	6,200	–
Total	6,200	5,800
Total investments	**6,200**	**5,800**

During 2013, the Society realised the portfolio fixed-interest investments managed by the ANZ Wealth Management Group and reinvested this money in term deposits with a range of New Zealand banks and their subsidiaries. Cash and cash equivalents are all held with trading banks at the daily call rate applicable.

Analysis of investments	**2013 $000**	**2012 $000**
Current		
Term deposits under 12 months	**4,400**	**–**
Outsourced bond and fixed-interest portfolio	**–**	**620**
Non-current		
Term deposits over 12 months, under 24 months	**1,800**	**–**
Outsourced bond and fixed-interest investment portfolio	**–**	**5,180**
	6,200	**5,800**

The average interest rate for term deposits at 31 August 2013 was 4.22%. The annual portfolio return for 31 August 2012 was 4.74%.

In 2012, the investment portfolio management was outsourced to ANZ and comprised mainly bonds that were subject to daily market rates.

In 2013, this function was taken in-house, and the funds were invested in bank term deposits that have a contract amount that is their face or issue value.

7. Property and equipment

	31 August 2013			31 August 2012		
	Computer and equipment $000	**Other fixed assets $000**	**Total $000**	**Computer and equipment $000**	**Other fixed assets $000**	**Total $000**
Cost	52	79	131	89	158	247
Accumulated depreciation	(19)	(17)	(36)	(66)	(123)	(189)
Closing balance	**33**	**62**	**95**	**23**	**35**	**58**
Opening balance	23	35	58	23	50	73
Additions	25	42	67	9	7	16
Transfers from work in progress	–	–	–	–	–	–
Disposals	–	–	–	–	–	–
Depreciation	(15)	(15)	(30)	(9)	(22)	(31)
Closing balance	**33**	**62**	**95**	**23**	**35**	**58**

8. Intangible assets

	31 August 2013			31 August 2012		
	Software $000	**Work in progress $000**	**Total $000**	**Software $000**	**Work in progress $000**	**Total $000**
Cost	184	–	184	263	50	313
Accumulated depreciation	(70)	–	(70)	(169)	–	(169)
Closing balance	**114**	**–**	**114**	**94**	**50**	**144**
Opening balance	94	50	144	60	–	60
Additions	29	–	–	72	50	122
Transfers from work in progress	50	(50)	–	–	–	–
Disposals	(19)	–	(19)	–	–	–
Depreciation	(40)	–	(40)	(39)	–	(39)
Closing balance	**114**	**–**	**114**	**94**	**50**	**144**

9. Trade and other payables

	2013 $000	2012 $000
Trade payables	200	150
Other payables	167	137
	367	**287**

All payables are settled within 30 days unless there is an agreed retention. The deferred lease is now included in other payables.

10. Insurance contract liabilities

	2013 $000	2012 $000
Provision for outstanding claims (refer to note 10a)	1,749	1,820
Provision for unearned premium (refer to note 10c)	1,876	1,385
	3,625	**3,205**
10a		
Central estimate	1,557	1,620
Expense margin	78	81
Risk margin	114	119
	1,749	**1,820**
10b		
Opening claims provision	1,820	1,882
Amounts utilised during the period	(1,593)	(1,701)
Additional provision/(reversal of unused provision)	(27)	41
Amounts provided during the year	1,556	1,620
Movement in risk margin	(5)	(53)
Movement in claims handling costs	(2)	31
	1,749	**1,820**
10c		
Claims expense		
Insurance claims paid	13,864	12,508
Movement in provisions for outstanding claims	(72)	(62)
	13,792	**12,446**
10d		
Opening provision for unearned premium	1,385	1,137
Premiums written during the year	18,865	16,464
Less premiums earned during the year	(18,374)	(16,216)
Closing provision of unearned income	**1,876**	**1,385**

Claims are predominantly short-term in nature and are generally settled within 12 months of being incurred. Accordingly, amounts are not discounted.

Capital and solvency requirement

The Society is a registered industrial and provident society. As a consequence of its legal structure, the Society has no recourse to external capital. The Society's capital of $4.0 million (2012: $4.2 million) is equal to the reserves as disclosed in the financial statements.

From 31 December 2012, as a provisional licence holder, the Society was subject to new solvency margin requirements. From 21 February 2013, as a consequence of being a fully licensed insurer, the Solvency Standard for Non-life Insurance Business issued by the Reserve Bank requires the Society to retain a solvency margin of greater than zero, meaning that the actual solvency capital position exceeds the minimum required under the solvency standard.

Based on the information provided to the consulting actuary, he has determined that the total minimum solvency provision for the Society as at 31 August 2013 is $1.1 million. The minimum required by the non-life solvency standard released by the Reserve Bank is $3 million.

During the year ended 30 June 2013, the Society complied with all 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 Society has embedded in its capital management framework the necessary tests to ensure continuous and full compliance with the solvency standard. The key internal benchmark is to maintain the solvency margin at 18–25% of annualised premium income. At 31 August 2013, this margin was 21% of annualised premium income. The policy in respect of capital management is regularly reviewed by the Directors in line with the guidelines issued by the Reserve Bank.

	2013 $000	2012 $000
The Society's adjusted available capital	3,914	4,148
	130%	138%

Provision for claims

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

- The effective date of the assessment in the actuarial report was 31 August 2013.
- The name and qualification of the actuary is Peter Davies of Davies Financial and Actuarial Limited, Fellow of the Society of Actuaries New Zealand.
- The standards of the New Zealand Society of Actuaries were used to determine the amount of the outstanding claims liability.
- The actuary is satisfied as to the nature, sufficiency and accuracy of the data used to determine the outstanding claims liability.
- The actuarial report contained no qualifications.

Outstanding claims liabilities are assessed as the central estimate of the present value of expected future payments for claims incurred but not settled at 31 August 2013, 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.

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 7% of the central estimate was established at 31 August 2013 (31 August 2012: 7%). The risk margin was determined with the objective of achieving at least 75% probability of sufficiency of the outstanding claims provision.

A hindsight analysis of the provision shows:

	2013 $000	2012 $000
Central estimate	1,620	1,660
Total claims made in hindsight	(1,593)	(1,702)
	27	**(42)**

Key assumptions

- Future patterns of claims development will be similar to historical patterns depending on the type of policy, type of claim and development month.
- Processing of claims will continue to be consistent at the Society.

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 5% (31 August 2012: 5%) of the underlying claims amounts based on an analysis of administration expenses.

The expected settlement date for 90% of claims included in the liability is less than 90 days for hospital claims (31 August 2011: less than 90 days) and 11 months for primary/medical claims (31 August 2012: less than 11 months). Accordingly, expected future payments are not discounted due to the short-tail nature of the liabilities.

The above provisions have been included in the total of claims paid and accrued in the statement of financial performance.

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 cash flows 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, the unearned premium liability is deemed to be deficient.

An unexpired risk liability is calculated as the projected premium deficiency for current in-force business until the next policy billing date on or after 1 September 2013. There is no unexpired risk liability for the year ended 31 August 2013 (2012: 0).

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 31 August 2013 (31 August 2012: 4%). The risk margin was determined with the objective of achieving at least 75% probability of sufficiency of the unexpired risk liability.

Key assumptions:

- An average loss ratio for the remaining deferred revenue period of 74% (2012: 76%).
- An expense allowance of 10% (2012: 10%).
- A commission component of 12% of the unearned premium.

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

11. Risk management

Insurance risk

Accuro has adopted a risk management strategy that is set by the Board and managed operationally by Accuro staff, which provides a holistic view of risk exposure across all levels of the business. Such a strategy has allowed Accuro to run a sustainable and progressive business with a strong future.

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

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

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

Sensitivity risk represents impact of variables on Accuro's key metrics. 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 directly affect the level of estimated claims incurred. The key assumptions used are detailed in note 10. The sensitivity of the outstanding claims provision to changes in the claims settlement pattern is:

	2013 $000	2012 $000
Base assumptions	1,749	1,820
Claims settlement time + 10%	2,417	2,483
Claims settlement time - 10%	1,099	1,238

Concentration risk within Accuro is defined as a concentration in insurance contracts under one entity. An entity could be a group or third party such as an adviser. Although Accuro's insurance risk is varied, there is a particular focus on ensuring that concentration does not occur. By doing so, Accuro ensures limited exposure to one-off large losses from singular events.

Credit risk

The credit quality of investment counterparties is as follows:

	2013 $000	2012 $000
A-rated	6,200	5,064
B-rated	–	281
Unrated	–	455
	6,200	**5,800**

The above $6.2 million is the face value of term deposits with New Zealand trading banks or their subsidiaries. The 2012 investments were part of a New Zealand fixed-interest portfolio managed by ANZ.

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

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

Premium receivables are due from a very large number of counterparties, ranging from corporates to individual members. Analysing these by credit quality would not be feasible, as the majority of counterparties will be unrated.

Liquidity risk

The Society 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 portfolio is managed to ensure funds are available to meet such calls to cover claims and expenses at unexpected levels of demand.

	2013 $000	2012 $000
The contractual maturities of investments are as follows:		
Under 12 months	4,400	620
Between 1 and 2 years	1,800	999
Between 2 and 3 years	–	1,116
Between 3 and 4 years	–	783
Between 4 and 5 years	–	634
Over 5 years	–	1,648
	6,200	**5,800**
In addition to the above investments, the Society has on-call funds of:	1,057	1,074
The contractual maturity of financial liabilities are as follows:		
Trade and other payables		
Under 12 months	200	150
	200	**150**

Foreign currency risk

The Society's members' investments and business activities are New Zealand-based, and there is minimal exposure to foreign currency risk.

Interest rate risk

The Society 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 could have an effect on the profitability and cash flows. The Society maintains a spread of investment types and maturity profiles to mitigate this risk.

Cash flow interest rate risk

The cash flows from the Society'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 (based on average investments held).

	2013 $000	2012 $000
Full-year impact of 1% interest rate change on interest earnings in profit and loss and equity	60	63

The Society used 1% in its sensitivity analysis as this is considered a possible material variation in the base interest rates.

12. Fair values

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

Classification and fair values

The fair values of financial assets and liabilities, together with the carrying amounts shown in the statement of financial position, are as follows.

	Designated at fair value through P&L	Loans and receivables	Other financial liabilities	Total carrying amount	Fair value
2013					
Assets					
Cash and cash equivalents	–	1,057	–	1,057	1,057
Trade and other receivables	–	472	–	472	472
Investments	–	6,200	–	6,200	6,200
Total assets	**–**	**7,729**	**–**	**7,729**	**7,729**
Liabilities					
Trade and other payables	–	–	200	200	200
Total liabilities	**–**	**–**	**200**	**200**	**200**
2012					
Assets					
Cash and cash equivalents	–	1,074	–	1,074	1,074
Trade and other receivables	–	471	–	471	471
Investments	5,800	–	–	5,800	5,800
Total assets	**5,800**	**1,545**	**–**	**7,345**	**7,345**
Liabilities					
Trade and other payables	–	–	150	150	150
Total liabilities	**–**	**–**	**150**	**150**	**150**

Fair value of financial instruments

For financial instruments that are not carried at fair value, the carrying amount is a reasonable approximation of fair value. The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Level 1 to 3 based on the degree to which the fair value is observable:

- Level 1 fair value measurements are those derived from quoted prices in active markets for identical assets and liabilities.
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability either directly (as prices) or indirectly (derived from prices).
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the assets or liabilities that are not based on observable market data.

Fair value of financial instruments

	Level 1	Level 2	Level 3	Total
Society 2013				
Financial assets	–	–	–	–
Total	–	–	–	–
Society 2012				
Financial assets	–	–	–	–
Investments	–	5,800	–	5,800
Total	**–**	**5,800**	**–**	**5,800**

13. Reconciliation of profit/(loss) with net cash flows from operating activities

	2013 $000	2012 $000
Reported profit (loss)	**(141)**	**(86)**
Non-cash items		
Bad debts expense	48	30
Depreciation/amortisation expense	70	70
Movement in claims provision	(71)	(62)
Fixed asset register adjustment	(61)	–
Unrealised capital gains	–	(1)
Movements in working capital		
Premiums and other receivables	(40)	(434)
Premiums in advance	491	248
Trade and other payables	81	(144)
Employee benefits	74	21
	451	**(357)**
Net cash inflow from operating activities	**451**	**(357)**

14. Operating lease obligations

	2013 $000	2012 $000
Obligations payable after reporting date on non-cancellable operating leases are as follows:		
Not later than 1 year	194	141
1–5 years	433	130
Later than 5 years	134	415
	761	**686**

The major component of the Society's non-cancellable leases above relates to a six-year lease at a fixed rate for the first floor of 79 Boulcott Street. This lease runs until November 2018, at which stage, the Society has two further rights of renewal until the lease expires on 31 October 2024.

Capital commitments

Capital commitments at period end	–	30

15. Contingent liabilities

	2013 $000	2012 $000
The Society had no contingent liabilities at reporting date that would require disclosure	Nil	Nil

16. Adoption of NZ IFRS

The Society has adopted NZ IFRS reporting standards from 1 September 2011 as applicable for public benefit entities.

The opening position as at 1 September 2011 and the results for the 2012 financial year have been restated.

The accounting policies set out in the notes to the financial statements have been applied in preparing the financial statements for the year ended 31 August 2013, the comparative information presented in these financial statements for the year ended 31 August 2012 and in the preparation of an opening IFRS statement of financial position at 1 September 2012 (the Society's date of transition).

In preparing its opening NZ IFRS statement of financial position, the Society has adjusted amounts previously reported in financial statements prepared in accordance with previous New Zealand GAAP. An explanation of how the transition from previous NZ GAAP to NZ IFRS has affected the Society's financial position and financial performance is set out in the following tables and the notes accompanying the tables.

Reconciliation of equity

	31 August 2012			1 September 2011		
	OLD GAAP $000	Transition $000	NZIFRS $000	OLD GAAP $000	Transition $000	NZIFRS $000
Assets						
Cash and cash equivalents	1,074	–	1,074	532	–	532
Premium and other receivables	801	–	801	367	–	367
Investments	5,800	–	5,800	6,866	–	6,866
Property and equipment	58	–	58	73	–	73
Intangible assets	295	(151)	144	183	(123)	60
Total assets	**8,028**	**(151)**	**7,877**	**8,020**		**7,898**
Liabilities						
Trade and other payables	286	–	286	430	–	430
Employee benefits	213	–	213	191	–	191
Premiums in advance	1,385	–	1,385	1,137	–	1,137
Provisions for outstanding claims	1,701	(119)	1,820	1,711	(171)	1,882
Total liabilities	**3,585**	**(119)**	**3,704**	**3,469**	**(171)**	**3,640**
Net assets	**4,443**	**(271)**	**4,172**	**4,551**	**(294)**	**4,258**
Represented by						
Reserves	**4,443**	**(271)**	**4,172**	**4,551**	**(294)**	**4,258**

The transitional adjustments relate to two items. Under NZ IFRS, the Society's actuary is required to provide for an additional risk margin on claims. This results in an additional expense and provision of $171,000 on 1 September 2011.

NZ IAS 38 section 67's capitalisation criteria related to the development of internally generated assets is much more stringent, and as such, the Society's internally developed software cost is being reduced by $151,000.

The effect of the above adjustments on retained earnings is as follows:

	31 August 2012 $000	1 September 2011 $000
Previous OLD GAAP audited reserves	4,442	4,552
Claims provision	(119)	(171)
Intangible assets	(151)	(123)
Restated IFRS reserves	4,172	4,258

The adoption of NZ IFRS 4 increased the opening IBNR provision by approximately $171,000. The Society's actuary already includes this increased provision in calculating the Society's solvency for the Reserve Bank.

The adoption of NZ IFRS 4 will increase the level of disclosure related to insurance contract liabilities (refer to note 10) and risk (refer to note 11).

Reconciliation of profit

	Restated 2012		
	OLD GAAP $000	Transition $000	NZIFRS $000
Premium revenue	16,216	–	16,216
Claims expense	(12,498)	(52)	(12,446)
Underwriting surplus	**3,718**	**(52)**	**3,770**
Operating expenses	(4,491)	29	(4,520)
Investment income	371	–	371
Other income	294	–	294
Profit/(loss) attributed to members	**(108)**	**(23)**	**(85)**
Other comprehensive income	–	–	–
Total comprehensive income (loss) attributed to members	(108)	(23)	(85)

Reinstatement of cash flow

The 2012 comparative cash flows have been restated to be consistent with the 2013 presentation. The 2012 cash flows for premium revenue ($16,335,000) and other income ($294,000) have been combined and restated as cash receipts from customers ($16,629,000). The 2012 cash flows for operating expenses ($4,755,000) and Tower payments ($121,000) have been combined and restated as cash paid to suppliers and employees ($4,876,000). The restatements do not have an impact on the 2012 reported surplus/(deficit) before income tax.

17. Rating

The Society credit rating issued by Standard & Poor's is BB+.

18. Related-party transactions

All the Society's dealings are at arm's length. The Society does provide health insurance to nurses and has a contract with the NZ Nurses Organisation (NZNO). The Society Board Chair Geoff Annals was the Chief Executive Officer of the NZNO in 2012 and for part of the 2013 financial year.

19. Subsequent events

There have been no subsequent events since the balance date that would have an effect on these reported results.

BDO

INDEPENDENT AUDITOR'S REPORT

To the Members of Health Service Welfare Society Limited (trading as Accuro Health Insurance).

Report on the Financial Statements

We have audited the financial statements of Health Service Welfare Society Limited on pages 9 to 34, which comprise the statement of financial position as at 31 August 2013, and the statement of movements in equity, statement of financial performance and statement of cash flow's for the period then ended, and a summary of significant accounting policies and other explanatory information.

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

Director's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing (New Zealand). Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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

Opinion

In our opinion, the financial statements on pages 9 to 34, present fairly, in all material respects, the financial position of Health Service Welfare Society Limited as at 31 August 2013, its financial performance and its cash flows for the period then ended in accordance with generally accepted accounting practice in New Zealand.

BDO Wellington

BDO WELLINGTON

25 October 2013
50 Customhouse Quay
Wellington
New Zealand

Matters Relating to the Electronic Presentation of the Audited Financial Statements

This auditor's report relates to the financial statements Health Service Welfare Society Limited for the year ended August 31 2013, included on Health Service Welfare Society Limited's website. The directors are responsible for the maintenance and integrity of the entity's website. We have not been engaged to report on the integrity of the entity's website. We accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website. The auditor's report refers only to the financial statements named above. It does not provide an opinion on any other information which may have been hyperlinked to or from these financial statements. If readers of this report are concerned with the inherent risks arising from electronic data communication they should refer to the published hard copy of the audited financial statements and related auditor's report dated 25 October 2013 to confirm the information included in the audited financial statements presented on this website. Legislation in New Zealand governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.