

Education Benevolent Society Incorporated

Annual Financial Statements

For the Year Ended 30 June 2016

Education Benevolent Society Incorporated
Annual Financial Statements
For the Year Ended 30 June 2016

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Education Benevolent Society Incorporated

Directory

For the Year Ended 30 June 2016

Nature of Business Providing health insurance to the education sector.

Board Members
Ross Wilson -Chairman
Margaret Kinsey - Deputy Chair
Darrell Ward
Richard Kittelty
Alison O'Connell
Samantha Stephen

Auditor Crowe Horwath New Zealand Audit Partnership

Bankers Bank of New Zealand

Rating Agency A M Best, Hong Kong

Education Benevolent Society Incorporated

Statement of Comprehensive Revenue and Expense For the year ended 30 June 2016

	Notes	2016 \$	2015 \$
Revenue			
Contributions		3,923,432	3,740,460
Commission on Hospital cover & Life cover		694,640	734,145
Investment income	8	169,250	595,029
Other income		16,139	9,480
Total revenue		4,803,462	5,079,113
Expenses			
Benefits			
Benefits paid	4	3,408,248	3,282,093
Investment Expenses			
Amortisation of bonds		-	9,123
Portfolio monitoring fee		17,745	10,858
		17,745	19,981
Professional Expenses			
Accounting fees		12,715	9,185
Audit fees		24,375	18,270
Actuarial and Legal Services	18	118,369	20,831
Health Funds Association New Zealand Membership		11,625	11,665
Insurance ombudsman		1,988	2,009
Strategic review and implementation	18	59,541	63,088
Ratings agency		23,808	24,713
		252,421	149,762
Other Administration and overhead expenses			
Staff salaries & related expenses		801,538	612,736
Rent & related occupancy		50,937	48,740
Depreciation and amortisation		37,081	33,856
Movement in IBNP provision	15	75,798	65,422
Bank charges		5,619	5,774
Computer expenses	17	88,941	69,706
Office administration		101,258	85,561
Printing, stationery, advertising		68,996	37,711
		1,230,168	959,506
Total expenditure		4,908,582	4,411,342
Surplus / (deficit) for the year		(105,121)	667,771
Other Comprehensive Revenue and Expense		-	-
Total Comprehensive Revenue and Expense for the year		(105,121)	667,771

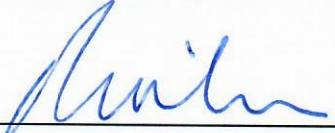
These financial statements should be read in conjunction with the notes to the financial statements.



Education Benevolent Society Incorporated

Statement of Financial Position As at 30 June 2016

	Notes	2016 \$	2015 \$
ASSETS			
Current			
Cash and cash equivalents	5	525,024	1,052,570
Trade debtors and other receivables		16,451	15,693
Prepayments		44,568	27,414
Accrued interest		121,848	140,352
Current investments	7	6,100,529	5,400,000
Total current assets		6,808,419	6,636,029
Non-Current			
Non-current investments	7	4,174,475	4,196,638
Software	11	216,865	199,750
Property, plant and equipment	6	10,214	5,365
Total non-current assets		4,401,554	4,401,753
Total assets		11,209,973	11,037,782
LIABILITIES			
Current			
IBNP Claims Provision	15	1,372,520	1,296,722
Trade creditors and other payables		171,765	79,305
Employee entitlements		154,535	52,055
Contributions received in advance		160,100	153,526
Total current liabilities		1,858,920	1,581,607
Total liabilities		1,858,920	1,581,607
Net assets		9,351,054	9,456,174
EQUITY			
Accumulated funds		9,351,054	9,456,174
Total equity		9,351,054	9,456,174

 Chairperson

30.9.2016 Date

 Chief Executive

30/9/16 Date

These financial statements should be read in conjunction with the notes to the financial statements.



Education Benevolent Society Incorporated

Statement of Changes in Equity For the year ended 30 June 2016

	Notes	2016 \$	2015 \$
Accumulated Funds			
Opening balance previously reported		9,456,174	8,788,403
Amendment		-	-
Revised opening balance		9,456,174	8,788,403
Surplus / (deficit) for the year		(105,121)	667,771
Closing balance of accumulated funds		9,351,054	9,456,174
Total equity			
		9,351,054	9,456,174

These financial statements should be read in conjunction with the notes to the financial statements.



Education Benevolent Society Incorporated

Statement of Cash Flows

For the year ended 30 June 2016

	Notes	2016 \$	2015 \$
Cash flows from operating activities			
<i>Cash was provided from/(applied to):</i>			
Contributions received		3,930,006	3,747,952
Commission on Hospital cover & Life cover		710,606	734,145
Other income		16,139	9,480
Benefits paid		(3,484,047)	(3,282,093)
Other expenses		(1,150,592)	(1,119,715)
Net cash flows from/(used in) operating activities	9	22,112	89,769
Cash flows from investing activities			
<i>Cash was provided from/(applied to):</i>			
Investment income		274,362	333,385
Sale/(purchase) of investments		(764,977)	270,856
Purchase of property, plant and equipment		(59,045)	(876)
Net cash flows from/(used in) investing activities		(549,659)	603,365
Net increase/(decrease) in cash and cash equivalents		(527,547)	693,133
Cash and cash equivalents at the beginning of the year		1,052,570	359,436
Cash and cash equivalents at the end of the year		525,024	1,052,570

These financial statements should be read in conjunction with the notes to the financial statements.



Education Benevolent Society Incorporated

Notes to the financial statements

1 Reporting entity

Education Benevolent Society Incorporated is a society incorporated under the Incorporated Societies Act 1908. Its registered office is Level 5, Education House, West Block, Te Aro, Wellington. The financial statements comprise the financial statements of Education Benevolent Society Incorporated (the "Society") for the year ended 30 June 2016.

The Society operates solely in New Zealand and its main activity consists of providing partial reimbursement of health care costs to its subscribers. Bereavement, birth and sick leave without pay grants are also provided. The Society was issued a full Insurance Licence by the Reserve Bank of New Zealand in April 2013.

The Society has designated itself as a public benefit entity (PBE) for financial reporting purposes.

The financial statements were authorised for issue by the Board of Directors on 30 September 2016.

2 Basis of Preparation

(a) Statement of compliance

The financial statements have been prepared on a going concern basis, in accordance with New Zealand Generally Accepted Accounting Practices ("NZ GAAP"). They comply with Public Benefit Entity Standards ("PBE Standards") as appropriate for Tier 1 Not-For-Profit entities. The financial statements have been prepared in accordance with Tier 1 PBE Standards.

The annual financial statements for the year ended 30 June 2016 presented are the Society's first set of financial statements presented in accordance with PBE standards.

(b) Basis of measurement

The financial statements have been prepared on a historical costs basis, except for assets and liabilities that have been measured at fair value.

(c) Presentation currency

The financial statements are presented in New Zealand dollars.

(d) Changes in accounting policies

The accounting policies adopted are consistent with those of the previous financial year.

(e) Standards issued and not yet effective and not early adopted

In 2015, the External Reporting Board issued Disclosure Initiative (Amendments to PBE IPSAS 1), 2015 Omnibus Amendments to PBE Standards, and Amendments to PBE Standards and Authoritative Notice as a Consequence of XRB A1 and Other Amendments. These amendments apply to PBEs with reporting periods beginning on or after 1 January 2016. The Society will apply these amendments in preparing its 30 June 2017 financial statements. The Society expects there will be no effect in applying these amendments.

(f) Use of estimates and judgements

In preparing these financial statements, the Society has made estimates and assumptions concerning the future. These estimates and assumptions may differ from the subsequent actual results. Estimates and assumptions are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Where material, information on significant judgements, estimates and assumptions is provided in the relevant accounting policy or note disclosure.



Education Benevolent Society Incorporated

Notes to the financial statements

3 Summary of significant accounting policies

The significant accounting policies used in the preparation of these financial statements are summarised below:

(a) Cash and cash equivalents

Cash and cash equivalents include cash on hand, deposits held on call with banks, other short-term highly liquid investments with original maturities of three months or less.

(b) Property, plant and equipment

All property, plant and equipment is measured at cost, less accumulated depreciation and any impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the asset.

The following straight-line depreciation rates have been applied at each class of property, plant and equipment:

Computer equipment	10 - 40%
Furniture and fittings	20%

The residual value and useful life of property, plant and equipment is reassessed annually.

(c) Income recognition

Income is recognised in the Statement of Comprehensive Revenue and Expense to the extent that it is probable that the economic benefits will flow to the Society and income can be readily measured.

Contributions & Hospital Cover Commission

All contributions and hospital cover commission income is recorded in the period to which the cover relates. At year end an apportionment is made for contributions and commissions:

- received prior to balance date and relating to the next financial year as income in advance, and
- received after balance date that relate to the current financial year and recorded as accrued income.

Interest Income & Dividends

Interest income is recognised using the effective interest method.

Dividends are recognised when the right to receive the payment has been established.

(d) Valuation and treatment of liabilities to subscribers

A provision is made for unreported claims based on past claims history of claims paid together with an assessment of the time taken to receive and settle claims not reported, and to settle claims in progress at each reporting date.

PBE IFRS 4 *Insurance Contracts* sets out the methodology for measuring policy liabilities. An Actuarial valuation of the Society's outstanding liabilities at balance date and pertaining to the year then ended is carried out every year. An incurred but not paid ("IBNP") provision is included as a current liability in the Society's Statement of Financial Position, with any movements against prior year being recorded in surplus or deficit via the Statement of Comprehensive Revenue and Expense.

Actuarial valuations as at 30 June 2015 and 30 June 2016 have been carried out by appointed independent actuary Peter Davies (of Davies Financial and Actuarial Limited).

The IBNP provision has been determined in accordance with PBE IFRS 4 and the New Zealand Society of Actuaries Professional Standard No. 30 - Valuation of General Insurance Claims. The IBNP liability is determined using a conventional chain ladder calculation to derive claim payment patterns, in conjunction with the benefits paid expense for the 12 months ended 30 June 2016.

A provision, known as a "processing expense", is made for claims administration costs and charged at a rate of 7.5% on top of the base IBNP provision. Movements against prior year are recognised in surplus or deficit via the Statement of Comprehensive Revenue and Expense.



Education Benevolent Society Incorporated

Notes to the financial statements

Valuation and treatment of liabilities to subscribers (continued)

The calculation of the IBNP Claims Provision includes the following additional charges:

- (i) Allowance for claim handling costs - Direct and indirect claim handling costs are to be included in claim provisions. An allowance of 7.50% (2015: 7.50%) has been provided for. This is charged on top of the base IBNP provision. Movements against prior year for this provision are recognised in surplus or deficit via the Statement of Comprehensive Revenue and Expense. This allowance has been assessed as reasonable based on the size of the Society, its overall level of expenses, the nature of claims incurred, and the experience of other similar entities.
- (ii) Risk margin - A risk margin is to be included in claim provisions, an allowance of 4.00% (2015: 4.00%) has been provided for. With a coefficient of variation of 4.55% (2015: 4.1%), and assuming a normal distribution of claim reserves, this produces a result which has a 75% likelihood of sufficiency (75% is the minimum margin prescribed by the RBNZ for its solvency standards). This is charged on top of the base IBNP provision. Movements against prior year for this provision are recognised in surplus or deficit via the Statement of Comprehensive Revenue and Expense.
- (iii) The assumptions used in the calculation of the IBNP provision are reviewed at each reporting date. A summary of the significant actuarial methods and assumptions used is set out in Note 15.

(e) Foreign currency translation

Transactions in foreign currencies are converted at the New Zealand rate of exchange at the date of the transaction. At balance sheet date any foreign monetary assets and liabilities are translated at the closing rate and variations arising from these transactions are included in the investment income as either realised or unrealised movement.

(f) Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument in another entity.

Financial instruments are comprised of trade debtors and other receivables, cash and cash equivalents, other financial assets and trade creditors and other payables.

Initial recognition and measurement

Financial assets and financial liabilities are recognised initially at fair value plus transaction costs attributable to the acquisition, except for those carried at fair value through surplus or deficit, which are measured at fair value.

Financial assets and financial liabilities are recognised when the Society becomes a party to the contractual provisions of the financial instrument.

Derecognition of financial instruments

Financial assets are derecognised when the contractual rights to the cash flows from the financial asset expire, or if the Society transfers the financial asset to another party without retaining control of substantial all risks and rewards of the asset.

A financial liability is derecognised when it is extinguished, discharged, cancelled or expires.



Education Benevolent Society Incorporated

Notes to the financial statements

Subsequent measurement of financial assets

The subsequent measurement of financial assets depends on their classification, which is primarily determined by the purpose for which the financial assets were acquired. Management determines the classification of financial assets at initial recognition into one of four categories, and re-evaluates this designation at each reporting date.

All financial assets are subject to review for impairment at least at each reporting date. Different criteria to determine impairment are applied to each category of financial assets, which are described below.

The classification of financial instruments into one of the categories below determines the basis for subsequent measurement and whether any resulting movements in value are recognised in the reported surplus / deficit or other comprehensive revenue and expense.

The Society has categorised its financial instruments into two categories for financial reporting purposes:

(i) Loans and receivables

Loans and receivables have fixed or determinable payments. After initial recognition these are measured at amortised cost using the effective interest method, less provision for impairment. The Society's cash and cash equivalents, trade and most other receivables fall into this category of financial instruments.

Receivables are considered for impairment when they are past due or when other objective evidence is received that a specific counterparty will default.

(ii) financial assets at fair value through surplus or deficit

The investments held in managed funds is part of a portfolio of identified financial instruments that are managed together to generate returns for the Society. It was deemed appropriate that these investments be classified as "financial assets at fair value through surplus or deficit".

Financial assets classified as "financial assets at fair value through surplus or deficit" are, subsequent to initial recognition, measured at fair value with gains or losses recognised in the surplus or deficit for the year.

(g) Goods & Services Tax

Accounts are shown net of Goods and Services Tax, except Accounts Payable and Accounts Receivable which are stated GST inclusive.

(h) Taxation

No taxation has been provided for on the basis that the Society is exempt under sections CZ18 of the Income Tax Act 2007 because of its recognition as a sickness, accident and death benefit fund.

(g) Employee entitlements

Current entitlements

Employee benefits, previously earned from past services, that the Society expect to be settled within 12 months of reporting date are measured based on accrued entitlements at current rates of pay.

These include salaries and wages accrued up to the reporting date and annual leave earned, but not yet taken at the reporting date.

(h) Intangible assets

Intangible assets consist of computer software acquired to assist in the administration of member services. Intangible assets are measured at cost less accumulated amortisation and impairment losses.

Amortisation is recognised on a straight-line basis over the estimated useful life of the asset.

The following amortisation rate has been applied:

Computer software	10%
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Education Benevolent Society Incorporated

Notes to the financial statements

4 Benefits expense

The table below shows the number and monetary value of paid applications.

Type	2016		2015	
	Number	\$	Number	\$
Bereavement	60	58,261	68	59,130
Birth	107	19,130	108	19,130
Complementary	4,909	464,957	4,735	420,784
Hospital	568	221,083	524	193,369
Hospital Excess	658	243,508	691	249,330
Major Diagnostic	286	93,384	294	86,015
Medical	13,556	1,811,488	13,879	1,808,669
Medical Appliance	290	44,704	285	34,470
Optical	2,828	399,936	2,791	353,077
Orthodontic	183	34,770	186	52,003
Sick Leave Without Pay	48	8,722	61	8,256
Dental	122	7,106	-	-
Vaccinations	32	1,027	-	-
Benefits Paid	23,647	3,408,077	23,622	3,284,234
Increase (decrease) in year end accruals		171		(2,141)
Total benefit expense		3,408,248		3,282,093

5 Cash and cash equivalents

	2016	2015
	\$	\$
Cash at Bank	60,769	52,950
Call Deposits	464,256	999,620
Total	525,024	1,052,570

The carrying amount of cash and cash equivalents approximates their fair value.

Cash at bank earn interest at 0.55% (2015: 0.25%)

Call deposits earn interest at 3.55% (2015: 2.75%)

6 Property, plant and equipment

	2016	2015
	\$	\$
Computer equipment		
<u>Cost</u>		
Opening	41,031	46,565
Additions	16,430	424
Disposal	-	(5,958)
Closing cost	57,461	41,031
<u>Accumulated depreciation</u>		
Opening	(38,743)	(39,270)
Depreciation	(8,776)	(5,431)
Depreciation written back on disposal	-	5,958
Closing accumulated depreciation	(47,519)	(38,743)
Carrying value	9,942	2,288



Education Benevolent Society Incorporated

Notes to the financial statements

	2016 \$	2015 \$
Furniture and fittings		
<u>Cost</u>		
Opening	25,500	25,047
Additions	-	453
Closing cost	25,500	25,500
<u>Accumulated depreciation</u>		
Opening	(22,423)	(19,497)
Depreciation	(2,805)	(2,926)
Closing accumulated depreciation	(25,228)	(22,423)
Carrying value	272	3,077
Total property, plant and equipment	10,214	5,365

7 Investments

	2016 \$	2015 \$
Current		
BNZ Term Deposits	5,400,000	5,400,000
Rabo Bank Term Deposits	700,529	-
Total current	6,100,529	5,400,000
Non Current		
Monitored Portfolio with Spicers / Mint	4,174,475	4,196,638
Total non-current	4,174,475	4,196,638
Total investments	10,275,004	9,596,638

	2016 \$	2015 \$
Monitored Portfolio		
<i>Nature of investments</i>		
Cash management account	1,210,598	993,214
New Zealand equity investments	500,937	364,933
Overseas equity investments	208,724	2,460,764
New Zealand fixed interest investments	1,628,045	216,066
Overseas fixed interest investments	626,171	161,660
Total Monitored Investment Portfolio	4,174,475	4,196,638

The Society changed its investment manager from Spicers to Mint on 1 February 2016.

Impairment

The Society has assessed all investments for impairment as at 30 June 2016. The Society concluded that there was no impairment of any investment at 2016 balance date (2015: \$Nil impairment).



Education Benevolent Society Incorporated

Notes to the financial statements

8 Investment income

	2016 \$	2015 \$
Unrealised fair value (gain)/loss on managed fund portfolio	(86,608)	269,963
Interest on fixed interest investments	249,191	307,517
Interest on at call funds within cash and cash equivalents	6,667	17,548
Total investment income	169,250	595,029

9 Reconciliation of net operating cash flow to surplus for the year

	2016 \$	2015 \$
Surplus / (deficit) for the year	(105,121)	667,771
<i>Less investment income classified as a financing activity</i>	<i>(274,362)</i>	<i>(333,385)</i>
<i>Non cash movements</i>		
Unrealised fair value (gain)/loss on managed fund portfolio	86,608	(269,963)
Provisions for claims	75,798	65,422
Depreciation and amortisation	37,081	33,856
Amortisation of bonds	-	9,123
<i>Movements in working capital</i>		
(Increase)/decrease in trade debtors and other receivables	27,068	5,404
(Increase)/decrease in prepayments	(16,178)	5,332
Increase/(decrease) in trade creditors and other payables	184,645	(104,199)
Increase/(decrease) in contributions received in advance	6,574	10,407
Net Cash Flow from Operating Activities	22,112	89,769

10 Lease Commitments

The Society has the following lease commitments:

	2016 \$	2015 \$
Not later than one year	46,400	46,400
Two to five years	86,444	132,844
More than five years	-	-
Total operating lease commitments	132,844	179,244

11 Intangibles

	2016 \$	2015 \$
Software		
<u>Cost</u>		
Opening	255,000	255,000
Additions	42,615	-
Closing cost	297,615	255,000
<u>Accumulated depreciation</u>		
Opening	(55,250)	(29,750)
Depreciation	(25,500)	(25,500)
Closing accumulated depreciation	(80,750)	(55,250)
Total intangible assets	216,865	199,750



Education Benevolent Society Incorporated

Notes to the financial statements

12 Related party transactions

(i) Employees

During the 2016 year, employees of the Society were also subscribers. The employees' subscription fees were fully subsidised by the Society. Apart from this the Society deals with the employees on the same terms and conditions applied to all subscribers.

(ii) Board Members

During the financial year, the following Board Members of the Society were also subscribers:

Darrell Ward
Richard Kittelty
Samantha Stephen
Margaret Kinsey

The following benefits were paid to key management personnel during the year. Board fees in relation to Margaret Kinsey were paid to the PPTA, and those for Samantha Stephen to the TEU as reimbursement for their time.

Salaries & other short term benefits

Termination benefits
Post-employment benefits
Other long-term benefits

Total remuneration
Number of persons (FTEs) recognised
as key management personnel

Key Personnel	
2016	2015
\$	\$
176,944	137,762
86,829	-
-	-
-	-
263,773	137,762
1.7	1.7

The Society deals with the Board on the same terms and conditions applied to all subscribers.

The Society has a related party relationship with its key management personnel. Key management personnel include the Board of Management and the General Manager.



Education Benevolent Society Incorporated

Notes to the financial statements

13 Financial Instruments

(a) Carrying value of financial instruments

The carrying amount of all material financial position assets and liabilities are considered to be equivalent to fair value.

Fair value is the amount for which an item could be exchanged, or a liability settled, between knowledgeable and willing parties in an arm's length transaction.

(b) Classification of financial instruments

All financial assets held by the Society are classified as "loans and receivables" are carried at cost less accumulated impairment losses, except for investments portfolio held with Mint (refer to note 7).

The Mint Investment Portfolio is classified as "financial assets at fair value through surplus or deficit" with fair value movements recognised in the surplus or deficit for the year.

All financial liabilities held by the Society are carried at amortised cost using the effective interest rate method.

(c) Financial instrument risk management

The Society has exposure to the following risks from its use of financial instruments:

- Credit risk
- Liquidity risk
- Market risk

The Society has a series of policies to manage the risk associated with financial instruments. Policies have been established which do not allow transactions that are speculative in nature to be entered into and the Society is not actively engaged in the trading of financial instruments. As part of this policy, limits of exposure have been set and are monitored on a regular basis.

(i) Credit Risk

Credit risk is the risk that the other party to a financial transaction will fail to discharge their obligation resulting in the Society incurring a financial loss. The policy is that members are not entitled to claim payouts unless their subscriptions paid are up-to-date (subscriptions are paid in advance). Therefore, credit risk is not considered significant.

The Society places its cash and short term investments with high credit quality financial institutions and sovereign bodies and this limits the amount of credit exposure to any one financial institution.

Fixed interest investments within the managed fund portfolio (Note 7) have a credit rating of AA+ to BBB-.

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

(ii) Liquidity risk

Liquidity risk is the risk that the Society may encounter difficulties meeting its financial obligations as they fall due.

The Society's liquidity policy is based upon ensuring significant liquid assets are held so as to meet benefit entitlements of the subscribers. Risks are managed by continuous reviewing of financial performance, maturity profiles of financial assets, and maintaining adequate reserves and liquidity support facilities.

All financial assets held can be converted into cash on a short-term basis.

The Society has no long-term liabilities or funding commitments.



Education Benevolent Society Incorporated

Notes to the financial statements

(iii) Market risk

Market risk is the risk that the carrying amount (and the ultimate amount realised upon sale) of investment portfolio financial instruments will fluctuate because of changes in market value of investments. The market value of investments carried by the Society are subject to the following variables:

- interest rates;
- currency rates; and
- equity prices.

Interest rate risk

Interest rate risk is the risk that cash flows from a financial instrument will fluctuate because of changes in market interest rates. The Society are exposed to interest rate risk on fixed interest investments.

The Society is exposed to interest rate risk in that further rate movements will affect the market value of its fixed interest assets. Risk management activities are undertaken in respect of financial assets. There is no interest risk in respect to liabilities of the Society as it has no known borrowings and does not pay interest to subscribers.

The Society holds the following fixed interest investments (as disclosed in Note 7):

		2016 \$	2015 \$
Term Deposits	Classified as loans and receivables and carried at amortised cost	6,100,529	5,400,000
Managed Funds, fixed interest investments	Classified as financial assets at fair value through surplus or deficit and carried at fair value	2,254,217	377,726
Total fixed interest investments		8,354,746	5,777,726

The Society's fixed interest investments pay interest at fixed rates and therefore the interest risk on cash flow fluctuation is not considered to be significant.

Sensitivity analysis on Fixed Interest Investment Market Risk

If interest rates increased by 1% it is estimated the fair value of New Zealand fixed interest investments would decrease by 3.30% and overseas fixed interest investments would decrease by 6.10%. The following analysis illustrates the sensitivity on the Society's surplus or deficit as a result of a 1% movement in interest rates. There has been no material change in interest rate sensitivity from 2015 (3.30%, 6.10%).

Fixed interest investment carried at fair value	2016		
	Carrying amount of \$	Impact on surplus/deficit	
		+1%	-1%
New Zealand fixed interest investments	1,628,045	53,725	(53,725)
Overseas fixed interest investments	626,171	38,196	(38,196)
Total	2,254,217	91,922	(91,922)

Fixed interest investment carried at fair value	2015		
	Carrying amount of \$	Impact on surplus/deficit	
		+1%	-1%
New Zealand fixed interest investments	216,066	7,130	(7,130)
Overseas fixed interest investments	161,660	9,861	(9,861)
Total	377,726	16,991	(16,991)

Currency rate risk

Currency risk is the risk that the fair value of financial instruments will fluctuate due to a change in foreign exchange rates.

Most of the Society transactions are carried out in NZD. Exposure to currency exchange rate movements arise from the Society's investments carried in foreign currencies.

All offshore investments held under the managed fund portfolio are New Zealand Dollar hedged, therefore the foreign currency risk on these investments is not significant.



Education Benevolent Society Incorporated

Notes to the financial statements

Equity price risk

Equity price risk is the risk that the fair value of financial instruments will fluctuate due to a changes in market demand for listed equities investments held.

The Society holds the following equity investments (as disclosed in Note 7):

	2016 \$	2015 \$
New Zealand equity investments	500,937	364,933
Overseas equity investments	208,724	2,460,764
Total investments in equity investments	709,661	2,825,698

Sensitivity analysis

The following analysis illustrates the sensitivity on surplus or deficit in regards to the Society's Spicers Investment Portfolio market demand price movements. It assumes a +/- 10% change in fair value of investments, based on previous history of portfolio performance.

	2016		
	Carrying amount of investments \$	Fair value movement impact	
		+10%	-10%
Equity investments	709,661	70,966	(70,966)

	2015		
	Carrying amount of investments \$	Fair value movement impact	
		+10%	-10%
Equity investments	2,825,698	282,570	(282,570)

(d) Fair Value

Included in the financial assets of the Society are equities and fixed interest securities measured at fair value at each reporting date. The source of fair value inputs as defined by PBE IPSAS 30 *Financial Instruments: Disclosures* is determined by reference to quoted prices in an active market for identical assets or liabilities (Tier 1). All other financial assets are carried at cost less impairment (if any), which approximates their fair value.

The fair value of investments can be influenced by changes in interest rates, currency values and market demand.



Education Benevolent Society Incorporated

Notes to the financial statements

14 Solvency Statement and Reserve Bank Conditions for License

The Insurance (Prudential Supervision) Act 2010 ("the Act") was enacted in September 2010. The Society was granted a full license under the Act in April 2013.

At balance date the Society meets the Reserve Bank's criteria for adequate margin of solvency in excess of best estimate liabilities to subscribers.

The Board's policy for managing capital is to have a strong capital base consistent with regulatory requirements, the Society's risks, and the Board's risk appetite. The Board has a low appetite for risk in respect of Capital management. Capital Management is regularly reviewed by the Board in line with the Risk Management Framework and Policies.

Capital funding requirements as reported to the Reserve Bank

	2016 \$	2015 \$
Total equity as reported in the financial statements	9,351,054	9,456,174
Solvency calculation adjustments	(217,843)	(202,040)
Solvency capital	9,133,211	9,254,134
Calculated minimum capital requirement	1,216,310	1,774,625
Solvency surplus on calculated minimum	7,916,901	7,479,509
Overall minimum capital requirement	3,000,000	3,000,000
Solvency surplus on \$3 Million	6,133,211	6,254,134

15 IBNP Claims Provision

The effective date of the actuarial report on the IBNP provision is 30 June 2016. The actuarial report was prepared by Peter Davies, a Fellow of the New Zealand Society of Actuaries (of Davies Financial and Actuarial Limited), consulting actuary to the Society. The IBNP provision has been determined in accordance with the methods and assumptions disclosed in these financial statements and with the standards established by the New Zealand Society of Actuaries and the Reserve Bank of New Zealand.

The actuary is satisfied as to the nature, sufficiency and accuracy of the data used to determine the outstanding claim liability. The actuarial report contained no qualifications.

The IBNP provision at year-end for insurance claims incurred but not yet paid as at 30 June 2016 has been estimated by the actuary as \$1,372,520 (2015: \$1,296,722).

	2016 \$	2015 \$
IBNP Opening balance	1,296,722	1,231,300
Movement in IBNP provision	75,798	65,422
Closing balance	1,372,520	1,296,722

IBNP Claims Provision

	2016 \$	2015 \$
Central estimate	1,227,656	1,159,859
Expense margin	92,074	86,989
Risk margin	52,789	49,874
Closing balance	1,372,520	1,296,722



Education Benevolent Society Incorporated

Notes to the financial statements

A hindsight analysis of the IBNP Provision shows:

	Previous Year's Estimate (June 2015)	Prior year's estimate (June 2014)
	\$	\$
Central Estimate determined at the time	1,159,859	1,101,342
Outstanding as assessed a year later	1,077,370	1,036,536
Surplus difference between actual claims and estimated provision	82,489	64,806

Provision assumptions:

(i) IBNP provision has been determined in accordance with Professional Standard No. 30 - Valuation of General Insurance Claims - issued by the New Zealand Society of Actuaries for reporting under PBE IFRS with effect from 30 September 2014.

(ii) The claim handling cost rate (as required per PBE IFRS 4) assumed was 7.5% of outstanding claims (2015: 7.5%), which has been determined based on the size of the Society, its overall level of expenses, and the nature of claims incurred.

(iii) The risk margin rate (as required per PBE IFRS 4) assumed was 4.00% of outstanding claims (2015: 4.0%), which has been determined based on the past level of variability.

(iv) Future patterns of claims will be similar to historical patterns depending on the type of policy and type of claim.

(v) Processing of claims will continue to be consistent at the Society.

Sensitivity analysis

The key assumptions and sensitivities in the calculation of the provision are the risk margin rate and the duration of claim settlement.

Settlement time	30-Jun-16	Sensitivity	
		Settlement time takes 10% longer	Settlement time takes 10% shorter
IBNP Provision	1,372,520	2,020,368	984,473

Settlement time	30-Jun-15	Sensitivity	
		Settlement time takes 10% longer	Settlement time takes 10% shorter
IBNP Provision	1,296,722	1,897,201	928,086

Risk Margin	30-Jun-16	Sensitivity	
		Risk margin + 1%	Risk margin -1%
IBNP Provision	1,372,520	1,385,717	1,359,323

Risk Margin	30-Jun-15	Sensitivity	
		Risk margin + 1%	Risk margin -1%
IBNP Provision	1,296,722	1,309,190	1,284,254



Education Benevolent Society Incorporated

Notes to the financial statements

16 Insurance Risk Management

The Society's insurance risk is from insurance products within the health insurance sector.

The Board has a low to moderate appetite for insurance risk. Insurance risk is managed through the Society's Risk Management Process by:

- writing low risk cover with benefit maxima,
- strong capital management;
- a pricing policy reviewed annually, and
- robust claims management.

The Society 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 analysis in relation to insurance risk variables is provided in Note 15.

Unexpired risk provision and liability adequacy test

A liability adequacy test was performed by the Actuary as at 30 June 2016, 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 claim-handling costs and other administration costs related 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 estimates exceeds the unearned premium liability, the unearned premium liability is deemed to be deficient.

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 7% of the present value of expected future cash flows has been applied as at 30 June 2016 (2015: 7%).

The resulting future claim liability is 99.2% of unearned premiums. Since this is less than 100%, the provision for premiums in advance (disclosed as contributions received in advance) is sufficient.

Key assumptions:

Benefits as % of subscriptions	88.3% (2015: 87.1%)
Risk margin	7% (2015: 7%)
Admin Loading	5% (2015: 5%)

17 Computer expenses

The higher computer expenditure in the period ended 30 June 2016 relates to the additional software development costs from enhanced reporting processes.

18 Professional Expenses

A strategic review was conducted in the period ended 30 June 2014 to obtain professional advice on the future direction of the Society. Costs incurred for the years ended 30 June 2015 and 30 June 2016 relate to the implementation of the review outcomes. Non-recurring actuarial and legal expenses in this financial year relate to reviewing and upgrading of the risk management framework and other governance issues.

19 Credit Rating

The Society credit rating issued by A M Best is B++ Good as at March 2016 (2015: B++ Good)

20 Significant after balance date events

There are no significant events subsequent to the balance date and up to the time of preparation of these financial statements, which materially impact on the position as it existed at that date (2015: None).



INDEPENDENT AUDITOR'S REPORT

To the Members of Education Benevolent Society Incorporated

Report on the Financial Statements

We have audited the financial statements of Education Benevolent Society Incorporated on pages 3 to 20, which comprise the statement of financial position as at 30 June 2016, the statement of comprehensive revenue and expense, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Board's Responsibility for the Financial Statements

The Board members are responsible on behalf of the entity for the preparation and fair presentation of the financial statements in accordance with Public Benefit Entity Standards and for such internal control as the Board members 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 the financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing (New Zealand). Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the 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 made by management, 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.

Other than in our capacity as auditor and the provision of some tax compliance advice we have no relationship with, or interests in, the Society.



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Opinion

In our opinion, the financial statements on pages 3 to 20 present fairly, in all material respects, the financial position of Education Benevolent Society Incorporated as at 30 June 2016, and its financial performance and its cash flows for the year then ended in accordance with Public Benefit Entity Standards.

Crowe Horwath New Zealand Audit Partnership
CHARTERED ACCOUNTANTS
30 September 2016

