

# ANNUAL REPORT 2014



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*It's the security of knowing we're there.*



# Direction & Values

## VISION

UniMed Members will continue to access value for money private health care.

## MISSION

UniMed will grow sustainably, providing Members with access to affordable and equitable health care funding.

## GUIDING VALUES

UniMed is guided by its values. Its plans, policies and processes will reflect these values. Members, staff and stakeholders can expect to be treated in accordance with these values.

<i>Care</i>	UniMed cares about its staff and will invest in their development.
<i>Members First</i>	UniMed will design products and services to meet the current and future needs of its Members in a sustainable manner.
<i>Diversity</i>	UniMed recognises the diversity of its Members and their needs. UniMed will develop and provide a range of products and services to meet these needs.
<i>Transparency</i>	UniMed staff, officers and representatives will behave in a transparent and fair manner.
<i>Accountability</i>	UniMed charges realistic premiums. It manages administration costs carefully so that Members receive the maximum value for their premiums.
<i>Ethics</i>	UniMed will manage Members' claims in a fair and equitable manner. It will act with integrity.
<i>Sustainability</i>	UniMed will ensure that its financial management is prudent and sustainable.
<i>Excellence</i>	UniMed will strive for excellence in its service delivery.



# Company Directory

as at 30 June 2014

## NATURE OF BUSINESS

Medical Health Insurers  
Property Owners

## REGISTERED OFFICE

Unit 12  
211 Ferry Road  
Christchurch 8011

## INCORPORATION

Industrial and Provident Societies Act 1908

## BOARD

Brian Anthony Wooller (Chairman)  
David William Eastlake (Deputy Chairman)  
Glenn John Barnes  
Dennis Bruce Emery  
Jane Christine Huria  
Timothy Patrick McGuinness  
David William Rowland

## BANKERS

Bank of New Zealand  
81 Riccarton Road  
Christchurch 8014

## AUDITOR

PKF Goldsmith Fox Audit  
100 Moorhouse Avenue  
Christchurch 8011

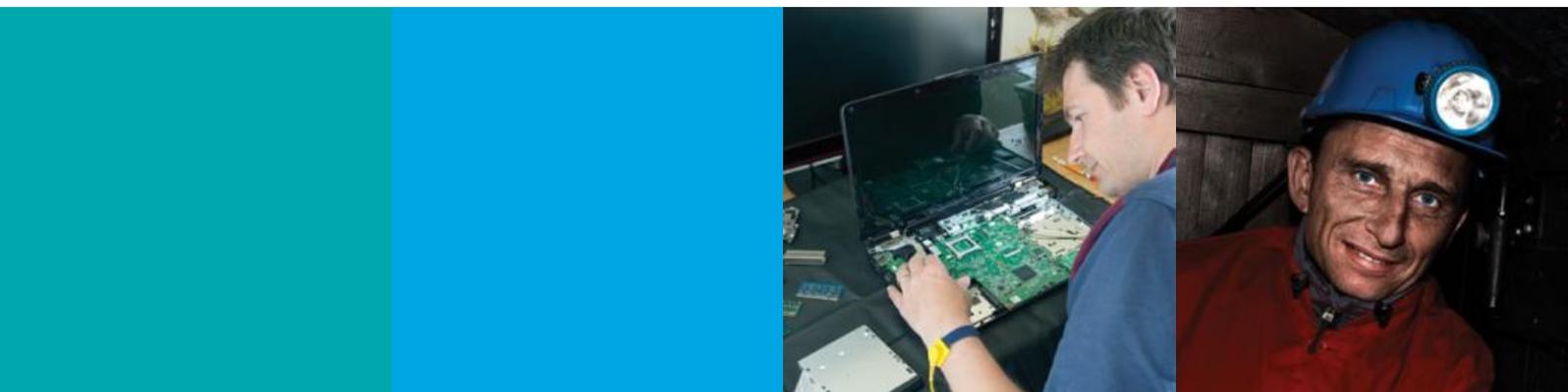
## LAWYERS

Lane Neave Lawyers  
Unit D 15 Sir Gil Simpson Drive  
Christchurch 8053

Simpson Grierson  
Level 11 HSBC Tower  
62 Worcester Boulevard  
Christchurch 8013

## ACTUARY

Peter Davies B.Bus Sc., FIA  
Davies Financial and Actuarial Limited  
Level 1 Shea Terrace  
Takapuna 0622



# Notice of Annual General Meeting

The Annual General Meeting of Members of the Union Medical Benefits Society Limited will be held at the Rydges Latimer Christchurch, 30 Latimer Square, Christchurch 8011 on Tuesday 28 October 2014 at 6.00pm.

## BUSINESS

1. Apologies.
2. To confirm the Minutes of the 2013 Annual General Meeting.
3. To receive and consider the annual financial statements and Auditor's Report for the year ended 30 June 2014.
4. To record the election of Angus McConnell to the Board. In accordance with the Society's Rules, nominations were called for members of the Board on 23 August 2014. No other candidates were validly nominated, so Angus McConnell will be deemed to be elected at the Annual General Meeting.
5. To appoint an auditor for the ensuing year.
6. To fix the remuneration for the Board.

Proxy – Any member who is entitled to attend and vote at a meeting is entitled to appoint a proxy to attend and vote instead of him/her. The proxy appointed must also be a member of the Society. Proxy forms are available from the Society's Head Office or on the Society's web site [www.unimed.co.nz](http://www.unimed.co.nz) and must be lodged with the Administration Secretary not later than 24 hours before the Annual General Meeting.

By order of the Board



E Richardson  
Administration Secretary  
PO Box 1721, Christchurch 8140

4 October 2014



# Chairman's Report

**It is pleasing to report that the Society's membership has been relatively stable over the past 12 months. I believe that this is a reflection of the value that our members place on services provided by UniMed; for example, the outstanding claims and pre-approval regime, the choice provided as to where, when and by whom the medical treatment required is carried out, and our competitive premiums.**

After a thorough process to establish a solid business case to rebuild the Society's Head Office in its original CBD location on Gloucester Street, in early 2014 the Board approved contracts for the rebuild. At the time of writing, the building is well underway and we are expecting to take possession in March 2015 and to move in within four to six weeks subsequently.

We have once again been subject to a very searching examination by the rating agency, AM Best, and it is extremely pleasing

to have our A- rating maintained. This is an endorsement of the Society's prudent management and governance over the years and gives all Members confidence of the Society's ability to continue being a viable insurer.

As noted last year, the Board appointed two Directors. This was a major change, as previously all Directors were elected to their positions. The two appointed Directors, Jane Huria and Tim McGuinness, have met all expectations and are using their skills for the benefit of UniMed. This year, we farewell the Board's Deputy Chair, Dave Eastlake, who has served tirelessly for in excess of 25 years. He has always acting in the best interest of the Society's Members; his dry wit and sage guidance will be greatly missed. Another long-serving Director, Dennis Emery, also retires this year after serving for two periods on the Board. We greatly valued Dennis' governance skills .

In closing, I would express my thanks to the Board for their support and wise counsel over the past year. I also would like to sincerely thank all of UniMed's loyal and dedicated staff, many of whom I have come to know over the past 12 months. Without exception I find them warm and welcoming.

To all the Society's Members, thank you for your ongoing support and I look forward to continuing our service to you in the ensuing years.



Brian Wooller  
Chairman



# Chief Executive Officer's Report

It is with pleasure that I am able to report to members that the 2014 financial year was not only a busy one for your Society, but also marked the end of an era.

## IN BRIEF:

- Earned premium increased by 4.7% to \$46.708M.
- During the financial year ending 30 June 2014, claims paid to Members and provided for, reached a new record of \$40.159M, an increase of 3.6% on the preceding year.
- Members' medical treatment costs utilised 86% of the premium received which in turn, after operating expenses, meant an underwriting surplus of \$1.260M from insurance operations was added to Members' funds.
- During the year UniMed's Rating Agency AM Best confirmed that our financial strength rating would remain unchanged at A- (Excellent).
- Total operating surplus from all activities amounted to \$8.302M once investment income of \$5.527M (up 56% over the 2013 year) and \$1.514M depreciation was recovered following the sale of UniMed's Aged Care facilities.
- Total Members' funds (net assets) stood at \$79.679M as at 2014 balance date demonstrating a very strong financial position, underpinning our solvency ratio and ensuring that the inevitable ebb and flow of any insurance activity can be accommodated.

## END OF AN ERA

Following a strategic review in 2013 the Directors decided to sell UniMed's two aged care facilities in Greymouth. I am pleased to advise members that this was successfully concluded with the owners taking over responsibility from 1 April 2014 for all staff, residents and patients, as well as the physical facilities.

The first of the two aged care facilities was purchased some 20 years ago and the second, 10 years later, so our association with the West Coast of the South Island has been a long one. I would like to take this opportunity of thanking all the staff who have provided care

to the elderly of the Coast in typical 'Coaster' fashion over all those years and will, no doubt, continue to do so.

## A NEW HOME

We are just over the half way mark (September 2014) in the construction of our new building in the Christchurch CBD, with the base build scheduled to be completed by the end of March 2015.

Following our fitout of the top floor in our new four level building, it is planned to have all UniMed's Head Office and Christchurch branch staff under the one roof again by the end of April 2015 – for the first time since February 2011.

We are busy marketing the balance of the space in the building. Early interest has come from a number of organisations that like ourselves, were forced out of the CBD in 2011 but are committed to playing their part in repopulating the inner city areas.

## AN AGEING POPULATION

We often hear or read about the 'ageing' of the New Zealand population and the pressures this will put on future taxpayers to fund State-funded superannuation. But there is nowhere near as much discussion about how the same ageing population will have its healthcare needs funded in the years ahead. We, at UniMed, think that New Zealand needs to engage in just such a conversation.

In 2013 the Treasury again warned in its long term fiscal statement about growing unsustainability of public health spending in New Zealand. It has signalled that over coming decades people are going to have to pay a much bigger share of their healthcare costs than they do at the moment.

At present, the private share of health spending is just 17% - well below the OECD average of 28% and even further behind Australia which is at 33%. In my view it is inevitable that the private share in New Zealand will rise, although the way in which it will increase is as yet far from clear, nor do we know how much of it will be funded by insurance.

Treasury has suggested a 'toolbox' of potential options – including greater rationing, user charges and the Government withdrawing

from providing some health services altogether. No doubt there will be plenty of examples from overseas as to what measures work well to limit public spending growth, and importantly which measures don't have acceptable consequences in terms of worsening the health inequalities, particularly in regards to access.

At present in New Zealand the 30% of people with health insurance are collectively funding around \$1 billion in healthcare each year – the vast bulk of this is for elective surgery. Private funding of elective surgery has grown rapidly as successive Governments have failed to keep pace with demographics and increased elective surgical need. To my mind it follows that if that 30% could be increased, then health insurance would fund more health in the future, and the public sector would find it a little easier to keep up with the escalating public demand as our population ages. We continue to lobby for tax deductibility of premiums, even at the age 65 mark, along with the removal of FBT from employer-sponsored schemes – all to no avail, as yet.

The people of New Zealand need to have a conversation around how they want their healthcare delivered in the future and who will pay for what. We will continue our efforts to contribute to any such discussion as it is already overdue and in my view the delivery and funding pressures will only become greater with the passing of time.



# Chief Executive Officer's Report (continued)

## PROJECTS

Aside from the construction of our new multi-storied office building, good progress is being made on a 15-month IT project planned for implementation in March 2015. This new platform will mean that we can further enhance our service to members – our claims turnaround of 2-3 days for the majority of Members' claims still remains the gold standard in the sector.

During the year we completed a project around the introduction of a new cover plan targeted at the younger demographic. It concentrates on what younger New Zealanders have told us they wanted – day to day medical costs, dental and glasses but not private surgical hospitalisation.

Our website has had a complete makeover and I am sure Members will find it even more user-friendly than previously. All our plans and various benefit schedules are available from the website, as are a number of forms including a claim form. Further enhancements are planned all designed to improve two-way communication between our Members and their Society.

## LONG SERVING

Dave Eastlake and Dennis Emery, both long serving Directors will be retiring at this year's Annual General Meeting in October. While both have contributed their time and expertise for over 15 years, I believe it is very worthy of mention that Dave Eastlake has served for 27 years. This takes him back to the very formative early years of our Society when we were a much less substantial organisation. Dave and his fellow early Directors, through their skills and foresight, can take a lot of credit for the strong and vibrant organisation that UniMed is today. I am sure all Members join with me in expressing their thanks to Dave and Dennis for the guidance they have provided to our Society for so many years.

## THE FUTURE

Looking ahead over the next year or two, there remain plenty of challenges to ensure that we continue to adhere to our historic tenets of ensuring we remain a strong financial organisation, thereby enabling us to provide Members with the most cost efficient medical insurance cover possible while maintaining prudent reserves and adequate solvency.

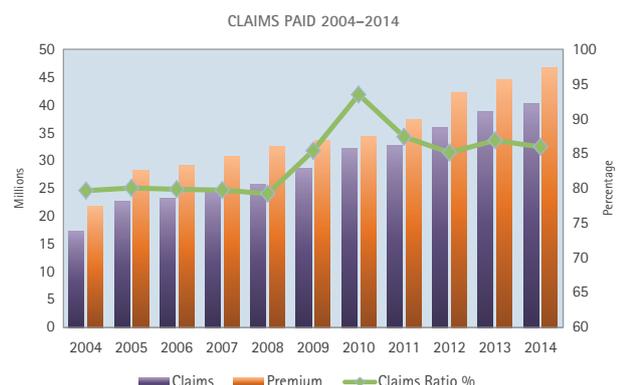
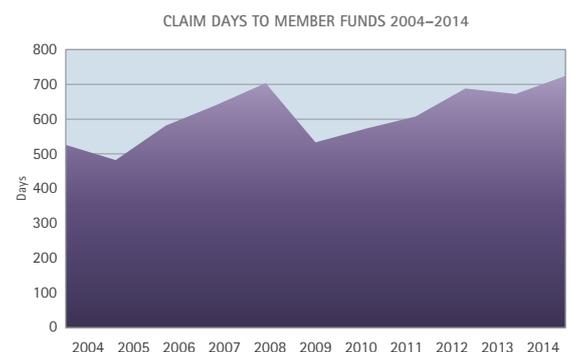
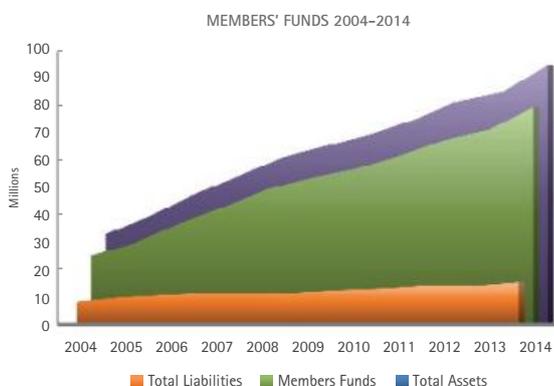
Highlights in the coming year will obviously be the move into our own premises after being somewhat 'displaced' over the last four years. Also, the completion of the long running IT project will improve efficiencies in our primary role of providing membership services to you, our Members, but also I believe will enhance job satisfaction amongst our people.

I would like to take the opportunity to thank the Chairman and Directors for their support for me and the senior team over the past year. I would also take this opportunity to acknowledge and thank all UniMed staff for their dedication and hard work over the year. It has enabled us to continue to provide sector-leading service which, I know from all the favourable comments we receive from Members, is really appreciated, particularly when they are unwell.



Dermot H Martin  
Chief Executive

## Graphical Highlights



# Statement of Corporate Governance

The Union Medical Benefits Society Limited (trading as UniMed) is incorporated under the Industrial & Provident Societies Act 1908.

UniMed adheres to principles designed to ensure sound governance of its affairs, including, most recently but not limited to, the provisions of the Insurance (Prudential Supervision) Act 2010, and the specific Reserve Bank of New Zealand Governance Guidelines for licensed insurers issued under that Act.

## BOARD OF DIRECTORS

UniMed is governed by a Board of Directors which has been elected by Members of the Society. From 16 July 2012 the Rules of the Society were changed to allow the appointment of two directors in addition to elected members. The maximum number of directors elected and appointed is seven. The control, management and administration of the Society are vested in the Board.

The Board is the Society's overall and final decision making authority.

All current directors have been assessed by the Board in accordance with the Society's Fit and Proper Person policy and have to be certified as meeting the Reserve Bank of New Zealand's Fit and Proper Standard for directors of Licensed Insurers.

All current directors consider and declare themselves to be independent, in that they are free from any associations that could materially interfere with the exercise of independent judgement.

At 30 June 2014 -

The elected directors are:

Brian Wooller (Chairman)  
David Eastlake (Deputy Chairman)  
Glenn Barnes  
Dennis Emery, and  
David Rowland

The appointed directors are:

Jane Huria, and  
Tim McGuinness

## BOARD ROLE AND CHARTER

The Board operates in accordance with the Industrial & Provident Societies Act 1908 and all relevant legislation but more specifically the Insurance (Prudential Supervision) Act 2010, the Society's Rules, and the Board Charter which detail the Board's role, procedures, areas of focus, and relationship to management.

In order to provide additional governance transparency to its processes the Board has adopted its own Code of Conduct and Ethics Policy.

The role of the Board is to effectively represent and promote the interests of Members by continually evaluating and ensuring the ongoing appropriateness of the Society's Mission and Purpose. Means by which the Board seeks to achieve this include:

- ensuring the Society's goals are clearly established, and that appropriate strategies and business plans are in place for achieving them,
- establishing policies for enhancing the performance of the Society,
- identifying and taking all actions to protect and strengthen the Society's financial position,
- ensuring the Society has appropriate risk management and regulatory compliance policies and procedures in place,
- monitoring the performance of the Society,
- appointing the CEO,
- acting as the Society's investment committee, and ensuring the ongoing appropriateness of the Society's Statement of Investment Policy and Objectives (SIPO),
- ensuring the Society's financial statements are a true and fair representation and conform to all legal requirements,
- ensuring the Board and management adhere to, and demonstrate, high ethical standards.

As part of its ongoing governance role the Board regularly evaluates the wider economic, political, social and legal issues and any other relevant external matters that may influence or affect the development of the Society or the interests of its Members.

Together with management, the Board conducts an annual review of the Society's strategy. The Board approves the strategic and operational plans and annual budget.

As an external measure of establishing good governance practices, the Board endorses the principles set out in the Code of Practice for Directors as approved by the Institute of Directors in New Zealand Inc.

Included in those principles is the requirement that:

- all directors operate in a transparent and openly compliant manner,
- all directors compile and regularly update a Statement of Business Interests. This is used to ensure that any actual or potential conflicts of interest are disclosed and steps taken to avoid such conflict by excusing themselves from debate and where appropriate, being denied access to the relevant Board papers,
- all directors participate in an annual assessment of their individual performance,
- the Board's collective performance is also reviewed annually as is the requirement to meet the standards of the Society's Fit and Proper Person Policy.

## DELEGATION FRAMEWORK

Responsibility for the day-to-day operation and administration of the Society is delegated by the Board to the Chief Executive Officer (CEO) and senior management. The CEO is authorised to make decisions in accordance with the strategy, plans, budgets and the specific delegation framework approved by the Board.

# Statement of Corporate Governance (continued)

## BOARD COMMITTEES

The Board has three standing committees: Audit and Risk, Nominations, and an Employment & Remuneration committee. An ad-hoc Building Committee has also been established.

### *Audit and Risk Committee*

The Audit and Risk Committee operates under its own charter approved by the Board.

The Audit and Risk Committee's objectives are to assist the Board in discharging its responsibilities in relation to oversight of financial and risk assurance matters including internal and external audit and compliance functions.

Specific responsibilities include reviewing the content and disclosure of the Annual Report's financial statements including accounting policies and practices, recommending the appointment of external auditors, reviewing the annual external audit plans, ensuring that adequate internal control systems are in place, and ensuring that management has established a risk management framework to effectively identify, treat, monitor and report key business risks.

The Audit and Risk Committee comprises Tim McGuinness (Chairman), Glenn Barnes, Dennis Emery and David Rowland.

### *Nominations Committee*

The Nominations Committee operates under its own Charter approved by the Board.

The Nomination Committee's objectives are to assist the Board in planning the Board's composition, evaluating the capabilities required of prospective directors, identifying those prospective directors, assessing directors and relevant officers in accordance with the Society's Fit and Proper Person Policy, establishing the degree of independence, developing succession plans for the Board, and making recommendations to the Board accordingly. The Committee will consult with external advisors including executive search consultants and other independent sources of information and advice as it considers necessary for carrying out its responsibilities.

The Nominations Committee currently comprises Brian Wooller (Chairman), Jane Huria and Dennis Emery.

### *Employment and Remuneration Committee*

The Employment and Remuneration Committee's objectives are to assist the Board in the establishment of remuneration policies and practice for remuneration setting of the Society's CEO and directors. The Employment and Remuneration Committee currently comprises Brian Wooller (Chairman) and Jane Huria.

### *Building Committee*

The primary objective of the Building Committee is to ensure that the replacement head office building is completed within budget and fully leased.

The Building Committee comprises David Rowland (Chairman), David Eastlake and Brian Wooller.

Other committees may be established if the Board deem it necessary.

Investments are monitored by the Board against its Statement of Investment Policies and Objectives. The Board consults with external advisors for advice as it considers necessary to meet its objectives.

## EXTERNAL AUDIT INDEPENDENCE

The Board is responsible for appointing the external Auditor (subject to Members' approval at the AGM). The Audit and Risk Committee is responsible for making recommendations to the Board concerning their appointment and the terms of their engagement.

## APPOINTED ACTUARY INDEPENDENCE

The Board is responsible for the appointment of the Appointed Actuary.

The Audit and Risk Committee is responsible for making recommendations to the Board concerning the Actuary's appointment and the terms of their engagement.



*From left to right: (standing) David Rowland; Jane Huria, Timothy McGuinness, Dennis Emery; (seated) David Eastlake; Glenn Barnes; and Brian Wooller.*

# Profiles of Board of Directors

As at 30 June 2014 the Society's directors' were:

## Brian Wooller Chairman

Brian was appointed Chairman of the Board in October 2011. He was elected as a director in October 2003, last re-elected in October 2012, and is also Chairman of the Nominations and Employment and Remuneration Committees. Brian has been an Organiser of the Dairy Workers' Union from 1998 until his retirement in 2012. He is a Member of the New Zealand Institute of Directors. Brian resides in Christchurch.

## David Eastlake Deputy Chairman

David was elected a director in October 1987 and has served as a director continuously since that date. He was appointed Deputy Chairman in 2011 and is a member of the Building Committee. David was General Secretary of the New Zealand Meat Workers and Related Trade Union from 2002 until 2012. He is a Member of the New Zealand Institute of Directors. David resides in Christchurch.

## Glenn Barnes

Glenn was elected as a director in October 2010 and is a member of the Audit and Risk Committee. He has been an Industrial Organiser with the Dairy Workers Union since 1988 and is currently chair of the Hamilton West Labour Electoral Committee. He is a Member of the New Zealand Institute of Directors. Glenn resides in Hamilton.

## Dennis Emery

Dennis was first elected a director in 1987 and subsequently in 1994. He was last elected in October 2011. Dennis has held a number of governance positions, including Chair of Nga Kaitiaki O Ngati Kauwhata Inc., (an Iwi Authority in Fielding) and was a Board Member of the Mid Central District Health Board. He is a Member of the New Zealand Institute of Directors. Dennis resides in Palmerston North.

## David Rowland ANZIV, SNZPI, NZCOA

David was elected a director in October 2010 and is a member of the Audit and Risk Committee and Chair of the Building Committee. He is a Registered Valuer and currently a Property Consultant with the Christchurch City Council. He is an Associate of the NZ Institute of Valuers, Senior Member of the Property Institute, Member of the New Zealand Institute of Directors and on the Executive of the Cancer Society. David has held a number of senior management positions of large property related businesses including Housing New Zealand and Government Property Services Limited. David resides in Christchurch.

Subsequent to the 30 June 2013 financial year end, on 29 July 2013, under Rule 24(b) two independent directors were appointed to the Board. They were:

## Jane Huria LLB

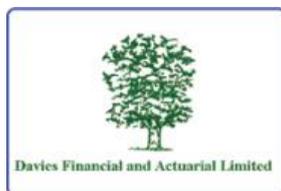
Jane is Managing Director of HSR Governance Limited a governance consulting business established in 1999 that works with many public sector agencies, companies and trusts, and other organisations. Jane is a fellow of the New Zealand Institute of Directors and currently Deputy Chair of the Electoral Commission, Chair of the Advisory Board of the Christchurch Earthquake Appeal Trust, on the Boards of the Red Cross Commission Canterbury Earthquake 2011 Trust, Fortuna Group Limited, Heritage Farms New Zealand Limited and a Trustee of Winter Games NZ. In 2012 Jane was awarded the CNZM for services to corporate governance. Jane resides in Christchurch.

## Tim McGuinness BCA

Tim is currently Chairman of Trustees of the Dairy Industry Superannuation Scheme Limited and Fonterra Superannuation Scheme, a trustee of the New Zealand Fire Service Superannuation Scheme and the Police Superannuation Scheme, and a director of Whai Rawa Fund Limited. He was on the board of the Government Superannuation Fund Authority for 10 years (Chairman for 3 years) and the Earthquake Commission for 8 years. These positions followed senior executive and funds management positions with Royal & Sun Alliance and Norwich Union / State Insurance for over 15 years. He is a Member of the New Zealand Institute of Directors. Tim resides in Wellington.

Director meeting attendance for the year ended 30 June 2014	Board	AGM	Strategic Planning Workshop	Audit & Risk Committee	Nominations Committee	Employment & Remuneration Committee	Building Project Control Group
Meetings Held	8	1	1	4	2	1	7
Brian Wooller	8	1	1			1	6
David Eastlake	8	1	1				6
Glenn Barnes	8	1	1	4	2		
Dennis Emery	8	1	1	4	2		
Jane Huria	8		1			1	
Tim McGuinness	8	1	1	3			
David Rowland	7	1	1	4			7

# Appointed Actuary's Report



8th September 2014

To: The Directors  
Union Medical Benefits Society Limited

From: Peter Davies  
Appointed Actuary

Re: **Union Medical Benefits Society Limited: Report as at 30th June 2014  
under Sections 77 and 78 of the Insurance (Prudential Supervision) Act 2010**

You have asked me to prepare this report in terms of the above sections of the Act, and I would like to comment further as follows:

1. I have reviewed the actuarial information included in the audited accounts for Union Medical Benefits Society Limited as at 30th June 2014. "Actuarial information" includes the following:
  - claim provisions and unexpired risk / unearned premium provisions;
  - solvency calculations in terms of the RBNZ Solvency Standard;
  - balance sheet and other information allowed for in the calculation of the company's solvency position; and
  - disclosures regarding the methodology and assumptions used for calculating claim provisions, unexpired risk provisions, and other disclosures.
2. No limitations have been placed on my work.
3. I am independent with respect to Union Medical Benefits Society Limited as defined under professional standard ISA (NZ) 620 of the External Reporting Board.
4. I have been provided with all information that I have requested in order to carry out this review.
5. In my view the actuarial information contained in the financial statements has been appropriately included, and the actuarial information used in the preparation of the financial statements has been appropriately used.
6. Union Medical Benefits Society Limited exceeded the minimum solvency requirements of the RBNZ solvency standard for non-life insurers as at 30th June 2014 by a substantial margin. The Society is projected to exceed the minimum requirement at all times over the next three years.

I would be very happy to answer any queries concerning this report.

Yours sincerely



Peter Davies B.Bus.Sc., FIA, FNZSA  
Appointed Actuary

# Auditor's Report

**PKF Goldsmith Fox Audit**  
Chartered Accountants



## INDEPENDENT AUDITOR'S REPORT

To the Members of Union Medical Benefits Society Limited

### REPORT ON THE FINANCIAL STATEMENTS

We have audited the financial statements of Union Medical Benefits Society Limited on pages 12 to 28, which comprise the statement of financial position as at 30 June 2014, the statement of comprehensive income, 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 Members Responsibility for the Financial Statements*

The Board Members are responsible for the preparation of financial statements in accordance with generally accepted accounting practice in New Zealand and that give a true and fair view of the matters to which they relate, 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 these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing (New Zealand). Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of financial statements that give a true and fair view of the matters to which they relate 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 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.

Partners and employees of our firm also deal with Union Medical Benefits Society Limited on normal terms within the ordinary course of business of the company. This matter has not impaired our independence as auditor. Other than this and being auditor, PKF Goldsmith Fox Audit has no other relationship with, or interest in Union Medical Benefits Society Limited.

#### *Opinion*

In our opinion, the financial statements on pages 12 to 28:

- Comply with generally accepted accounting practice in New Zealand;
- Give a true and fair view of the financial position of Union Medical Benefits Society Limited as at 30 June 2014 and its financial performance and its cash flows for the year ended on that date.

#### *Report on Other Legal and Regulatory Requirements*

In accordance with section 16 of the Financial Reporting Act 1993, we report that:

- We have obtained all the information and explanations that we have required.
- In our opinion proper accounting records have been kept by Union Medical Benefits Society Limited as far as appears from an examination of those records.

*PKF Goldsmith Fox Audit*

16 September 2014  
Christchurch, New Zealand

# Financial Statements

**Union Medical Benefits Society Limited**  
**Statement of Comprehensive Income**  
for the year ended 30 June 2014

	Note	2014 \$	2013 \$
<b>Underwriting</b>			
Members' premiums		46,708,879	44,593,487
Claims paid and provided for	2	40,159,787	38,747,921
Underwriting surplus		6,549,092	5,845,566
Underwriting operating expenses	3	5,288,601	6,006,687
<b>Underwriting operating surplus</b>		<b>1,260,491</b>	<b>(161,121)</b>
<b>Aged Care</b>			
Aged Care residents' fees		3,762,460	5,034,226
Aged Care operating expenses	4	2,247,878	4,766,920
<b>Aged Care operating surplus</b>		<b>1,514,582</b>	<b>267,306</b>
<b>Investments</b>			
Investment income	5	5,527,551	3,554,323
<b>Operating Surplus</b>		<b>8,302,624</b>	<b>3,660,508</b>
Other Comprehensive Income		-	-
<b>Total Comprehensive Income for the year</b>		<b>8,302,624</b>	<b>3,660,508</b>

These financial statements are to be read in conjunction with the Notes to the Financial Statements.

**Union Medical Benefits Society Limited**  
**Statement of Financial Position**  
As at 30 June 2014

	Note	2014 \$	2013 \$
<b>Current assets</b>			
Cash and cash equivalents	6	-	2,455,085
Premium and other receivables	7	4,138,286	3,861,249
Investments	8	69,583,214	43,028,299
<b>Total current assets</b>		<b>73,721,500</b>	<b>49,344,633</b>
<b>Non-current assets</b>			
Investments	8	17,239,859	31,328,311
Property, plant and equipment	9	3,969,208	4,573,542
Other intangible assets	10	178,862	140,867
<b>Total non-current assets</b>		<b>21,387,929</b>	<b>36,042,720</b>
<b>Total assets</b>		<b>95,109,429</b>	<b>85,387,353</b>
<b>Current liabilities</b>			
Cash and cash equivalents	6	320,256	-
Accounts payables	11	707,610	313,611
Employee benefits	12	254,488	463,732
Unearned premium provision	13	6,043,041	5,488,320
Unreported claims provision	13	8,105,006	7,745,058
<b>Total current liabilities</b>		<b>15,430,401</b>	<b>14,010,721</b>
<b>Net assets</b>		<b>79,679,028</b>	<b>71,376,632</b>
<b>Members' funds</b>			
Members' capital	14	76,988	77,216
Reserves	15	2,752,000	2,752,000
Accumulated funds	16	76,850,040	68,547,416
<b>Total members funds</b>		<b>79,679,028</b>	<b>71,376,632</b>



B Wooller  
Chairman



D Eastlake  
Deputy Chairman

16 September 2014

These financial statements are to be read in conjunction with the Notes to the Financial Statements.

# Financial Statements (continued)

## Union Medical Benefits Society Limited Statement of Changes in Equity For the year ended 30 June 2014

	Members capital	Reserves	Retained earnings	Total
	\$	\$	\$	\$
<b>2014</b>				
Opening balance at 1 July 2013	77,216	2,752,000	68,547,416	71,376,632
Total comprehensive income	-	-	8,302,624	8,302,624
Members' contribution	(228)	-	-	(228)
<b>Closing balance at 30 June 2014</b>	<b>76,988</b>	<b>2,752,000</b>	<b>76,850,040</b>	<b>79,679,028</b>
<b>2013</b>				
Opening balance at 1 July 2012	79,560	2,752,000	64,886,908	67,718,468
Total comprehensive income	-	-	3,660,508	3,660,508
Members' contribution	(2,344)	-	-	(2,344)
<b>Closing balance at 30 June 2013</b>	<b>77,216</b>	<b>2,752,000</b>	<b>68,547,416</b>	<b>71,376,632</b>

These financial statements are to be read in conjunction with the Notes to the Financial Statements.

# Financial Statements (continued)

## Union Medical Benefits Society Limited

### Statement of Cash Flows

For the year ended 30 June 2014

	Note	2014 \$	2013 \$
<b>Cash flows from operating activities</b>			
Cash was provided from:			
Members' contributions		46,611,378	44,324,979
Aged care residents' fees		4,019,190	5,090,935
Investment income		2,738,210	3,964,523
		<b>53,368,778</b>	<b>53,380,437</b>
Cash was applied to:			
Payments for claims		39,799,839	38,420,761
Payments to suppliers for goods and services		4,057,173	3,976,647
Payments to employees		5,120,896	5,666,300
		<b>48,977,908</b>	<b>48,063,708</b>
<b>Net cash flows from operating activities</b>	17	4,390,870	5,316,729
<b>Cash flows from investing activities</b>			
Cash was provided from:			
Sale of fixed assets		4,867,581	-
Net insurance proceeds		211,090	1,520,590
		<b>5,078,671</b>	<b>1,520,590</b>
Cash was applied to:			
Purchase of property, plant and equipment		2,605,322	131,722
Purchase of Intangibles		157,581	96,104
Net Payments for Investments		9,481,979	7,779,378
		<b>12,244,882</b>	<b>8,007,204</b>
<b>Net cash flows from investing activities</b>		(7,166,211)	(6,486,614)
Net increase/(decrease) in cash held		(2,775,341)	(1,169,885)
Plus opening cash brought forward		2,455,085	3,624,970
<b>Closing cash brought forward</b>		<b>(320,256)</b>	<b>2,455,085</b>

These financial statements are to be read in conjunction with the Notes to the Financial Statements.

# Financial Statements (continued)

## Union Medical Benefits Society Limited

### Notes to the Financial Statements

For the year ended 30 June 2014

## 1 STATEMENT OF ACCOUNTING POLICIES

### Reporting entity

Union Medical Benefits Society Limited (the Society) is an Incorporated Society registered under the Industrial and Provident Societies Act 1908. Its principal products and services are health insurance and commercial building ownership. The residential aged care business was sold on 1 April 2014. It is a not for profit oriented Society domiciled and incorporated in New Zealand.

The Society is a reporting entity for the purposes of the Financial Reporting Act 1993 and its financial statements comply with that Act. The Society has been granted a full licence by the Reserve Bank of New Zealand (RBNZ) to operate as an insurer subject to the Insurance (Prudential Supervision) Act 2010. As a consequence of being a licensed insurer the Society will be deemed to be an issuer under the Financial Reporting Act 1993 from 23 May 2013.

These financial statements were approved by the Board of Directors on 16 September 2014.

### Basis of preparation

The financial statements have been prepared in accordance with Generally Accepted Accounting Practice in New Zealand ('NZ GAAP'). They comply with New Zealand equivalents to International Financial Reporting Standards ('NZ IFRS') and other applicable Financial Reporting standards as appropriate for non profit orientated entities. The financial statements comply with International Financial Reporting Standards ("IFRS").

### Basis of measurement

The financial statements have been prepared on a historical cost basis, except for the following are stated at their fair value:

- certain financial instruments (See Note 22)
- actuarial quantification of insurance liabilities (See Note 13)
- investments (See Note 8)

The functional and presentational currency is New Zealand Dollars (\$).

### Critical estimates and accounting

In the process of applying the Society's accounting policies, management is required to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances and are reviewed on an ongoing basis. The results of these actions form the basis of making the judgements about the carrying value of assets and liabilities of the Society. Actual results may differ from these estimates under different assumptions and conditions.

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 13: Actuarial Information
- Note 22: Financial instruments

### Specific accounting policies

The following specific accounting policies which materially affect the measurement of financial performance and the financial position have been applied:

#### Revenue recognition

##### Members' contributions

Premium revenue represents those members' contributions relating to the year under review. A significant number of our members pay on a weekly to monthly in advance basis which is accounted for under the unearned premium provision.

##### Aged care residents' fees and other Income

Aged Care residents' fees and other income are recognised on an accruals basis. The aged care facilities were sold on 1 April 2014.

##### Investment income

Interest income is recognised in the statement of comprehensive income 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 determining the surplus in the Statement of Comprehensive Income include gains and losses on financial assets classified as financial assets at fair value through profit and loss.

##### Repairs and maintenance

Repairs and maintenance costs are accounted for in the period that they are incurred.

# Financial Statements (continued)

## Union Medical Benefits Society Limited

### Notes to the Financial Statements

For the year ended 30 June 2014

#### Underwriting claims

Claims paid and provided for represent payments made on claims and the movements in the outstanding claims and unexpired risk provisions.

#### Adoption of new and revised standards and interpretations

The Society has adopted all mandatory new and amended standards and interpretations in the current year. None of the new and amended standards and interpretations had an impact on these financial statements.

#### Accounting Standards and Interpretations Issued but not yet effective

At the date of authorisation of these financial statements, certain new standards, amendments and interpretations to existing standards have been issued which were not yet effective at Balance Sheet date, and which the Society has not adopted early. The Society has assessed the relevance of all such new standards, interpretations and amendments and has determined that there would be no material impact to the amounts recognised or disclosed in the financial statements.

#### Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, cash in banks and on demand deposits, and other short-term highly liquid investments, with an original maturity of 3 months or less, that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

#### Premium and other receivables

Premium and other receivables are recognised initially at fair value less any allowance for impairment. Given the short term nature of most receivables, the recoverable amount approximates the fair value.

#### Premiums outstanding

Many policy holders elect to spread premium payments over the term of cover. Accordingly, this can result in a large balance of premiums which are outstanding but not overdue. They are initially recognised at fair value, and subsequently amortised, using the effective interest method, less any allowance for impairment.

All outstanding balances are reviewed for collectibility and immediately written off where deemed to be uncollectible.

#### Investments

Investments are purchased with the intention of being held until maturity.

Investments are recognised and derecognised on trade date where the purchase or sale of an investment is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned. Investments are initially measured at fair value less transaction costs except for those financial assets classified as fair value through profit or loss which are initially valued at fair value.

Financial assets held by the Society are classified into the following specified categories: financial assets 'at fair value' through profit or loss, 'available-for-sale' financial assets, and 'trade receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

As the intention is for investments to be held until maturity and then reinvested, only the net purchased or matured amount is disclosed in the cash flow statement.

#### Financial assets at fair value through profit or loss ("FVTPL")

Financial assets in this category are either financial assets held for trading or financial assets designated as at fair value through profit or loss in the income statement.

Investment funds, which are managed for the Society by fund managers, are initially recorded at fair value. They are classified as FVTPL and any movements in fair value are taken immediately to the statement of comprehensive income. The assets are valued at each reporting date based on the current bid price where one is available. In the absence of a bid price, valuation is based on recent arms length transactions.

Interest and dividend income, fund distributions and fair value movements are recorded in the investment income section of the statement of comprehensive income.

A financial asset is classified as held for trading if:

- (i) it has been acquired principally for the purpose of selling in the near future; or
- (ii) it is a part of an identified portfolio of financial instruments that the Society manages together and has a recent actual pattern of short-term profit-taking; or
- (iii) it is a derivative that is not designated and effective as a hedging instrument.

All derivatives entered into by the Society are classified as held for trading as the Society does not apply hedge accounting.

Gains or losses on financial assets held for trading are recognised in the Statement of Comprehensive Income and the related assets are classified as current assets in the balance sheet.

Financial assets at fair value through the Statement of Comprehensive Income are stated at fair value, with any resultant gain or loss recognised in the Statement of Comprehensive Income. The net gain or loss recognised in the Statement of Comprehensive Income includes any dividend or interest earned on the financial asset. Fair value is determined in the manner described in note 22.

# Financial Statements (continued)

## Union Medical Benefits Society Limited

### Notes to the Financial Statements

For the year ended 30 June 2014

#### Property plant & equipment

Property plant and equipment is measured at cost less accumulated depreciation and any accumulated impairment losses. Depreciation rates vary, according to the nature of the asset and its economic life, and are as follows:

Buildings and chattels	0.0% - 13.0% SL and 2.0% - 31.2% DV
Motor vehicles	25.0% - 31.2% DV
Fixtures and fittings	7.5% - 60.0% DV
Office furniture and equipment	14.4% - 50.0% DV
Computer equipment	14.4% - 48.0% DV

The assets' useful life and amortisation methods are reviewed annually, and adjusted if appropriate at each financial year end. An item of property plant and equipment is de-recognised upon disposal or when no further future economic benefits are expected from use. Any gains or losses on disposal are determined by comparing proceeds with the carrying amount. These are then taken to the statement of comprehensive income.

#### Intangible assets

Intangible assets represent software. Software development expenditure that meets the criteria for recognition as an intangible asset is capitalised over its expected useful life, subject to annual impairment testing.

Additions are initially measured at cost, and thereafter are carried at cost less accumulated amortisation and any accumulated impairment losses. Other development expenditures that do not meet the criteria are recognised as expenses as incurred. Intangible assets with finite lives will be amortised over their estimated useful lives. All intangible assets are tested at least annually for impairment or whenever there are indications that an asset may be impaired. Amortisation is recognised in the Statement of Financial Position on a diminishing value basis over the estimated useful life of the intangible asset, from the date it is available for use. The estimated useful life for software is considered to be 7.5 years.

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

#### Impairment of assets

At each reporting date, the Society reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any).

Any impairment loss is recognised in the Statement of Comprehensive Income immediately.

#### Foreign currency

All foreign currency transactions during the year are brought into account using the exchange rate ruling at the date of the transaction. Monetary assets denominated in foreign currencies are retranslated at the rate of exchange ruling at balance sheet date.

#### Liabilities and provisions

Current liabilities and provisions are stated at the expected amounts payable and include the following:

##### Trade and other payables

Trade and other payables are recognised when the Society becomes obliged to make future payments resulting from the purchase of goods and services. Given their short term nature balances are not discounted as cost approximates amortised costs.

##### Employee benefits

A liability for benefits accruing to employees in respect of wages and salaries, annual leave, long service leave and sick leave is accrued and recognised in the balance sheet when it is probable that settlement will be required and can be measured reliably. Accruals made in respect of employee benefits expected to be settled within 12 months are measured at their nominal values using the remuneration rate expected to apply at the time of settlement. Contributions to defined superannuation plans are expensed when incurred.

##### Unearned premium provision

At balance date an adjustment has been made for that portion of premium revenue received which has not been earned. That is, recognising that in general the term of the policy will extend into the following financial year. This premium which will be earned in subsequent reporting periods, is recognised in the Statement of Financial Position as an unearned premium provision.

##### Unreported claims provision

This provision represents the estimated amount of benefits unclaimed as at balance date for accounts incurred but not settled. A provision is made of claims reported but not paid, claims incurred but not reported and claims incurred but not adequately reported. This provision includes expected claim payments plus associated claims handling costs. A risk margin is added to reflect the inherent uncertainty in the estimates of claims.

# Financial Statements (continued)

## Union Medical Benefits Society Limited

### Notes to the Financial Statements

For the year ended 30 June 2014

#### Goods and services tax

The financial statements have been prepared on a GST exclusive basis, except where a claim for recovery of the GST is not allowed by the Inland Revenue Department. In these cases and in respect of receivables and payables, the amounts are shown inclusive of GST.

#### Leased assets

Leases are defined as an operating lease where they do not transfer substantially all the risks and rewards incidental to ownership. Operating lease payments are recognised as an expense in the Statement of Comprehensive Income on a straight-line basis over the lease term.

#### Taxation

The Society is exempt from income tax due to its status under the Income Tax Act 2007.

#### Changes in accounting policies

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

#### Comparatives

The comparative information presented is for the year ended 30 June 2013.

## 2 CLAIMS PAID AND PROVIDED FOR

	2014	2013
	\$	\$
Claims incurred relating to risks borne in current and previous years	39,799,839	38,457,014
Movement in provision for unreported claims	359,948	290,907
<b>Total claims paid and provided for</b>	<b>40,159,787</b>	<b>38,747,921</b>

## 3 UNDERWRITING OPERATING EXPENSES

	2014	2013
	\$	\$
Employee benefit expenses	2,376,460	2,297,613
Contributions to employees' health insurance plan	34,183	35,369
Auditor's fees - audit of financial statements	17,000	15,500
Directors' fees	242,216	175,776
Depreciation	52,575	39,493
Amortisation of intangible assets	14,420	11,101
Impairment of intangible assets	105,166	936,822
Rental of external premises	217,053	219,747
Other expenses	2,229,528	2,275,266
	<b>5,288,601</b>	<b>6,006,687</b>

## 4 AGED CARE OPERATING EXPENSES

	2014	2013
	\$	\$
Employee benefit expenses	2,501,009	3,346,703
Auditor's fees - audit of financial statements	4,000	5,000
Directors' fees	47,686	49,840
Loss on sale of Rest Homes	273,726	-
Depreciation	-	140,587
Depreciation recovered	(1,652,519)	-
Other expenses	1,073,976	1,224,790
	<b>2,247,878</b>	<b>4,766,920</b>

# Financial Statements (continued)

## Union Medical Benefits Society Limited

### Notes to the Financial Statements

For the year ended 30 June 2014

#### 5 INVESTMENT INCOME

	2014	2013
	\$	\$
Interest and dividend income	2,780,710	3,028,646
Realised gains/(losses) on fair value investment	40,597	369,371
Unrealised gains/(losses) on investments fair value through income statement	2,984,484	309,379
Portfolio management fees	(278,240)	(153,073)
<b>Total Investment Income</b>	<b>5,527,551</b>	<b>3,554,323</b>

#### 6 CASH AND CASH EQUIVALENTS

	2014	2013
	\$	\$
Cash at bank and on hand	(1,505,603)	(584,627)
Cash on call	1,185,347	3,039,712
<b>Total cash and cash equivalents</b>	<b>(320,256)</b>	<b>2,455,085</b>

Cash at bank earns interest at floating rates based on daily deposit rates. The carrying amounts of cash and cash equivalents represent fair value. There are no restrictions on cash and cash equivalents.

#### 7 PREMIUM AND OTHER RECEIVABLES

	2014	2013
	\$	\$
Premiums receivable	3,774,140	3,147,183
Aged care fees receivable net	25,552	282,282
Interest receivable	219,029	135,933
Prepayments	4,876	67,200
GST	114,689	89,653
Other	-	138,998
<b>Total premium and other receivables</b>	<b>4,138,286</b>	<b>3,861,249</b>

There were no material bad debts however provision for bad debts increased to \$172,238 in 2014 (2013: \$139,000).

#### 8 INVESTMENTS AT FAIR VALUE

	2014	2013
	\$	\$
Cash	19,787,354	19,051,254
Fixed interest	47,147,574	37,895,012
NZ government stock	500,000	500,000
NZ property	7,262,184	6,590,224
NZ equities	5,991,554	5,101,269
International equities	6,134,407	5,218,851
<b>Total Investments</b>	<b>86,823,073</b>	<b>74,356,610</b>
Current portion	69,583,214	43,028,299
Non-current portion	17,239,859	31,328,311

Funds are managed primarily by Tyndall New Zealand Limited. The Society's investment securities are all financial assets classified as fair value through the profit and loss. Any changes in the fair value are recognised immediately.

# Financial Statements (continued)

## Union Medical Benefits Society Limited

### Notes to the Financial Statements

For the year ended 30 June 2014

#### 9 PROPERTY PLANT & EQUIPMENT

Property plant and equipment is stated at cost less accumulated depreciation.

2014	Freehold land At cost	Buildings At cost	Fixtures fittings & equipment At cost	Motor vehicles At cost	Total
	\$	\$	\$	\$	\$
Gross carrying amount					
Balance 1 July 2013	919,562	4,632,924	2,247,837	157,008	7,957,331
Additions	750,040	2,294,094	2,000	-	3,046,134
Disposals at cost	(389,052)	(4,590,590)	(1,639,792)	(47,532)	(6,666,966)
<b>Balance 30 June 2014</b>	<b>1,280,550</b>	<b>2,336,428</b>	<b>610,045</b>	<b>109,476</b>	<b>4,336,499</b>
Accumulated depreciation					
Balance 1 July 2013	-	1,715,542	1,538,911	129,336	3,383,789
Current year depreciation	-	-	47,523	5,052	52,575
Depreciation on disposals	-	(1,715,542)	(1,314,240)	(39,291)	(3,069,073)
<b>Balance 30 June 2014</b>	<b>-</b>	<b>-</b>	<b>272,194</b>	<b>95,097</b>	<b>367,291</b>
<b>Total book value</b>	<b>1,280,550</b>	<b>2,336,428</b>	<b>337,851</b>	<b>14,379</b>	<b>3,969,208</b>
2013	Freehold land At cost	Buildings At cost	Fixtures fittings & equipment At cost	Motor vehicles At cost	Total
	\$	\$	\$	\$	\$
Gross carrying amount					
Balance 1 July 2012	919,562	4,579,593	2,169,447	157,008	7,825,610
Additions	-	53,331	78,390	-	131,721
Disposals at cost	-	-	-	-	-
<b>Balance 30 June 2013</b>	<b>919,562</b>	<b>4,632,924</b>	<b>2,247,837</b>	<b>157,008</b>	<b>7,957,331</b>
Accumulated depreciation					
Balance 1 July 2012	-	1,626,123	1,458,087	119,610	3,203,820
Current year depreciation	-	89,419	80,824	9,726	179,969
Depreciation on disposals	-	-	-	-	-
<b>Balance 30 June 2013</b>	<b>-</b>	<b>1,715,542</b>	<b>1,538,911</b>	<b>129,336</b>	<b>3,383,789</b>
<b>Total book value</b>	<b>919,562</b>	<b>2,917,382</b>	<b>708,926</b>	<b>27,672</b>	<b>4,573,542</b>

The land at 165 Gloucester Street is recorded in the financial statements at cost. The latest valuation of the Society's land at 165 Gloucester Street at fair market value by Ford Baker Valuation Limited, Registered Valuers, dated 8 August 2013 is \$850,000. Additional land at 159 and 167 Gloucester Street was purchased during the current financial year.

Kowhai Manor Rest Home and Granger House Rest Home and Richard Seddon Hospital were sold on 1 April 2014.

# Financial Statements (continued)

## Union Medical Benefits Society Limited Notes to the Financial Statements For the year ended 30 June 2014

### 10 INTANGIBLE ASSETS

	Computer Software \$
<b>Balance at 1 July 2013</b>	
Cost	1,284,593
Additions	157,581
Disposal	(1,112,927)
	329,247
Opening accumulated amortisation & impairment	(1,143,726)
Impairment loss recognised in income statement	-
Amortisation for the year	(14,420)
Impairment for the year	(105,166)
Amortisation on Disposal	1,112,927
	(150,385)
<b>Closing carrying amount at 30 June 2014</b>	<b>178,862</b>
<b>Balance at 1 July 2012</b>	
Cost	1,188,489
Additions	96,104
	1,284,593
Opening Accumulated amortisation & impairment	(195,803)
Impairment loss recognised in income statement	(936,822)
Amortisation for the year	(11,101)
	(1,143,726)
<b>Closing carrying amount at 30 June 2013</b>	<b>140,867</b>

There are no restrictions over the title of intangible assets, nor are any intangible assets pledged as security for liabilities.

### 11 TRADE AND OTHER PAYABLES

	2014	2013
	\$	\$
Accounts payable	707,610	313,611

### 12 EMPLOYEE BENEFITS

	2014	2013
	\$	\$
Wages accrual	87,171	114,808
Provision for annual leave	167,317	348,924
	254,488	463,732

# Financial Statements (continued)

## Union Medical Benefits Society Limited

### Notes to the Financial Statements

For the year ended 30 June 2014

#### 13 ACTUARIAL INFORMATION

	2014	2013
	\$	\$
Provision for unearned premium	6,043,041	5,488,320

Unearned premium is the portion of premium written in an accounting period which is deemed to relate to cover one or more subsequent accounting periods.

	2014	2013
	\$	\$
Provision for unreported claims	8,105,006	7,745,058

Estimates of the outstanding claims as at 30 June 2014 have been carried out by Peter Davies B.Bus.Sc., a Fellow of the New Zealand Society of Actuaries. The calculation of the provision for outstanding claims complies with NZ IFRS 4 Insurance Contracts and Professional Standard No. 4 of the New Zealand Society of Actuaries. The actuary is satisfied as to the nature, sufficiency and accuracy of the data used to determine these provisions.

The provisions were determined based on past patterns of claim payments using a chain-ladder method, and include a volatility allowance and a provision for future claim processing.

The Provision for Outstanding Claims has not been discounted due to the short-term nature of the claims experienced by the Society.

A risk margin has been added to reflect the inherent uncertainty in the 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. This provision includes a 7.5% (2013: 7.5%) allowance for claim management expenses, and an 18% (2013: 18%) risk margin, which provides a 90% (2013: 90%) likelihood of sufficiency.

#### 14 MEMBERS' CAPITAL

	2014	2013
	\$	\$
This represents the capital paid up by current Members of the Society		
Opening balance 1 July	77,216	79,560
Add additions (repayments) during the year	(228)	(2,344)
Closing balance 30 June	76,988	77,216

#### 15 RESERVES

The reserves represent a claim fluctuation reserve and a catastrophe reserve. These reserves were created to provide for major claims arising from unusual or abnormal events.

There are no restrictions on transfers within these reserves.

	2014	2013
	\$	\$
Claims fluctuation reserve		
Balance at 30 June	1,752,000	1,752,000
Catastrophe reserve		
Balance at 30 June	1,000,000	1,000,000
<b>Total reserves 30 June</b>	<b>2,752,000</b>	<b>2,752,000</b>

The catastrophe reserve is in relation to existing policies.

#### 16 ACCUMULATED FUNDS

	2014	2013
	\$	\$
Opening balance 1 July	68,547,416	64,886,908
Net earnings	8,302,624	3,660,508
Closing balance 30 June	76,850,040	68,547,416

# Financial Statements (continued)

## Union Medical Benefits Society Limited Notes to the Financial Statements For the year ended 30 June 2014

### 17 CASH FLOW RECONCILIATION

	2014	2013
	\$	\$
Net earnings	8,302,624	3,660,508
Plus (less) non cash items:		
Unrealised gains on investments	(2,984,484)	-
Depreciation	52,575	179,969
Loss on sale of rest homes	273,726	-
Depreciation recovered	(1,652,519)	-
Amortisation & impairment of intangibles	119,586	947,923
	4,111,508	4,788,400
Plus (less) movements in working capital:		
Increase/(decrease) in accounts payable	393,999	(373,934)
(Increase)/decrease in accounts receivable	(277,037)	2,395,013
Increase/(decrease) in employee entitlements	(209,244)	13,385
Increase in unearned premium provision	554,720	(274,109)
Increase in provision for unreported claims	359,948	290,908
Increase/(decrease) accounts receivables classified as investing activities	(542,796)	(1,520,590)
Increase/(decrease) in members' capital	(228)	(2,344)
Total movements in working capital	279,362	528,329
<b>Net cash flows from operating activities</b>	<b>4,390,870</b>	<b>5,316,729</b>

### 18 CREDIT RATING

On 26 June 2014 AM Best Company reaffirmed the Society an Insurer Financial Strength Rating of A- Excellent and Issuer Credit Rating of a- excellent.

### 19 SOLVENCY AND CAPITAL ADEQUACY

The Society is a not-for-profit organisation. As a consequence of its legal structure the Society has no recourse to external capital and therefore internally generated capital is of high importance. The Society's capital of \$79,679,028 (2013: \$71,376,632) is equal to the Members' Funds as disclosed in the financial statements.

The Insurance (Prudential Supervision) Act 2010 was enacted in September 2010 from which the Society was granted a full licence by the Reserve Bank of New Zealand on 23 May 2013. The Society is subject to new solvency margin requirements detailed in the Solvency Standard for Non-Life Insurance Business issued by the RBNZ. This standard 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. During the year ended 30 June 2014 the Society complied with all externally imposed capital requirements. At 30 June 2014 the solvency margin (actual solvency capital less minimum solvency capital required) was \$64,897,916 (2013 \$57,679,298) and the solvency ratio (actual solvency capital divided by minimum solvency capital required) was 5.44 (2013 5.25).

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 as a going concern. This policy is regularly reviewed by the Directors in line with the guidelines issued by the RBNZ.

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

### 20 COMMITMENTS

There are no contingent liabilities at balance date. (2013: \$ Nil).

#### Capital commitments

At year end the Society had entered into a contract with Intellimin Ltd to purchase a new computer system with an estimated value of \$1,796,471. Of this amount \$150,000 has been paid. At year end the Society had entered into a contract to construct a new building at 165 Gloucester Street with an estimated cost of \$8,622,114. Of this amount \$2,252,770 has been paid. (2013: \$750,000 to purchase land)

#### Operating Lease Commitments

UniMed has entered into commercial leases for offices due to the impact of the 22 February 2011 earthquake on its offices at 165 Gloucester Street in Christchurch. Each of these leases had a three year life with the majority expiring in August 2014 and thereafter moving to a month by month payment. The future minimum rent payable under non-cancellable operating leases are as follows:

# Financial Statements (continued)

## Union Medical Benefits Society Limited Notes to the Financial Statements For the year ended 30 June 2014

	2014	2013
	\$	\$
Within 1 year	58,015	129,028
After 1 year but not more than 3 years	-	10,217

### 21 SIGNIFICANT EVENTS AFTER BALANCE DATE

There are no events subsequent to balance date that would have or may have an effect on the operations of the Society, the results of the Society operations or state of the affairs of the Society.

Discussions are ongoing regarding the insurance claims for the chattels and buildings.

### 22 RISK MANAGEMENT

The Society is exposed to a number of risks in the normal course of business. There are risks associated with underwriting an insurance business (insurance risk), as well as financial risk (credit and liquidity risk), market risks (foreign currency and interest rate risk) and non-financial risk (compliance and operational risk). The Directors and management of the Society understand and recognise the importance of having a strong risk management policy in place. The Insurance (Prudential Supervision) Act 2010 requires insurers to manage a risk management policy which the RBNZ monitors.

The risks and objectives, policies, and processes to manage these insurance and financial risks are described below.

#### Insurance risks

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

#### *Risk management objectives, policies and processes for mitigating risk*

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

- underwriting policies and processes which evaluate new risks and offer terms that do not endanger the portfolio.
- strict claims management procedures to ensure the payment of claims is in accordance with policy conditions.
- a long-term pricing strategy adopted by the Board which supports pricing based on underlying risk.
- regular monitoring of financial and operating results and detailed investigations into the morbidity and persistency experience of the portfolio.
- maintaining a target solvency margin in excess of the minimum required by the standard established by the Reserve Bank of New Zealand. The solvency margin ensures the Society is able to withstand a period of adverse insurance or investment experience and still maintain a satisfactory financial position.

#### *Sensitivity to insurance risk*

The financial results of the Society are primarily affected by the level of claims incurred relative to that implicit in the premiums.

The assumptions used in the valuation of the outstanding claims provision and the liability adequacy test directly affect the level of estimated claims incurred. The key assumptions used are detailed in note 13.

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

The level of benefits specified in the contract is a key determinant of the amount of future claims although the exact level of claims is uncertain.

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

#### *Concentration of insurance risk*

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

#### Financial risks

##### *Credit risk management*

Credit risk is the risk of financial loss to the Society if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Society's premium receivables and investments.

The Society does not enter into any off balance sheet debt financial instruments. All financial instruments are recognised in the financial statements. The Society classifies its financial instruments into the following categories at initial recognition:

# Financial Statements (continued)

## Union Medical Benefits Society Limited

### Notes to the Financial Statements

For the year ended 30 June 2014

Premium receivable from individual policyholders.

Concentrations of credit risk are considered low due to the large number of customers comprising the customer base.

#### Other

With respect to credit risk arising from the other financial assets of the Society which comprise cash and cash equivalents and financial assets, the Directors consider the exposure to any concentration of credit risk to be minimal given that the largest financial assets are the Tyndall Investment portfolio and bank term deposits, which are placed with high credit quality financial institutions.

The credit quality of investment counter parties is as follows:

	2014	2013
	\$	\$
Corporate rated		
AAA	7,455,534	8,351,141
AA+	5,292,681	500,000
AA	28,016,430	13,586,196
AA-	9,546,295	22,474,040
A+	2,408,191	1,393,077
A	7,981,868	6,448,361
BBB	5,395,465	4,382,224
Below BBB	321,313	310,552
Non-rated	19,914,176	16,911,019
Other	491,120	-
	<b>86,823,073</b>	<b>74,356,610</b>

#### Liquidity risk management

Liquidity risk is the risk that the Society will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Society's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Society's reputation. The Society manages liquidity risk by maintaining adequate reserves and banking facilities, by continuously monitoring forecast and actual cash flows, and matching the maturity profiles of financial assets and liabilities.

The following table details the contractual maturities of financial assets and liabilities at balance date on an undiscounted basis. Actual maturities are expected to be the same as contractual maturities.

As at 30 June 2014	0-6 months	7-12 months	1-2 years	over 2 years
Trade and other receivables	4,138,286	-	-	-
Investments	66,893,384	2,689,830	-	17,239,859
<b>Total assets</b>	<b>71,031,670</b>	<b>2,689,830</b>	<b>-</b>	<b>17,239,859</b>
Financial liabilities				
Cash and cash equivalents	320,256	-	-	-
Trade and other payables	962,098	-	-	-
<b>Total liabilities</b>	<b>1,282,354</b>	<b>-</b>	<b>-</b>	<b>-</b>

As at 30 June 2013	0-6 months	7-12 months	1-2 years	over 2 years
Cash and cash equivalents	2,455,085	-	-	-
Trade and other receivables	3,861,249	-	-	-
Investments	41,411,382	1,616,917	-	31,328,311
<b>Total assets</b>	<b>47,727,716</b>	<b>1,616,917</b>	<b>-</b>	<b>31,328,311</b>
Financial liabilities				
Trade and other payables	777,344	-	-	-
<b>Total liabilities</b>	<b>777,344</b>	<b>-</b>	<b>-</b>	<b>-</b>

# Financial Statements (continued)

## Union Medical Benefits Society Limited

### Notes to the Financial Statements

For the year ended 30 June 2014

#### Market risk

##### Foreign currency risk management

The Society does have investments in international companies subject to foreign exchange risk within its investment portfolio. The Society, through its Portfolio Manager, has entered into hedging contracts to reduce the impact of changes in foreign currencies. At balance date no foreign exchange hedges were outstanding. Exchange differences are recognised in the Statement of Comprehensive Income in the period in which they arise.

A sensitivity analysis has been performed on the impact of a 10% appreciation / depreciation of the NZ dollar relative to foreign currency financial instruments.

	Net Surplus		Equity	
	Increase 10%	(Decrease) -10%	Increase 10%	(Decrease) -10%
2014	\$2,337,427	\$(2,337,427)	\$2,337,427	\$(2,337,427)
2013	\$2,100,082	\$(2,100,082)	\$2,100,082	\$(2,100,082)

##### Interest rate risk

The Society invests in both fixed and variable rate financial instruments. There is a risk that any movement in interest rates can have an effect on the profitability and cash flows of the Society. The Society maintains a spread of investment types to mitigate this risk. The Society's revenue from investments in the short term is susceptible to changes in interest rates.

However, as the majority of investments are fixed rate term deposits, bonds and capital notes, and these investments are generally held until maturity, this exposure is mitigated.

At reporting date, if interest rates had been 100 basis points higher or lower with all other variables held constant, net surplus and equity would have been affected as follows:

	Net Surplus		Equity	
	Increase 1%	(Decrease) -1%	Increase 1%	(Decrease) -1%
2014	\$197,874	\$(197,874)	\$197,874	\$(197,874)
2013	\$190,513	\$(190,513)	\$190,513	\$(190,513)

##### Fair values

The estimated fair values of the Society's financial instruments are considered to be materially the same as their carrying amounts as disclosed in the Statement of Financial Position.

All investments disclosed in note 8 are classified as level 1 in the fair value hierarchy. The Tyndall investment portfolio assets are valued based on closing market prices as reported to investors.

Cash and cash equivalents are classified as level 1 (2013: Level 1) in the fair value hierarchy.

There has been no transfer between levels in the Fair Value hierarchy.

##### Capital risk management

The Society's policy is to maintain a strong equity base so as to maintain Members, creditor and market confidence.

The solvency capital that the Society is required to maintain is the minimum solvency capital amount calculated, in accordance with the solvency standard.

The Directors believe that this requirement has been met.

The Society's policies in respect of capital management and allocation are reviewed regularly by the Board of Directors.

The Society manages liquidity risk by maintaining adequate reserves and banking facilities and by continuously monitoring forecast and actual cash flows and matching maturity profiles of financial assets and liabilities. The Society also regularly reviews insurance premiums to ensure they are set at an appropriate level to cover insurance claims.

There have been no material changes in the Society's management of capital during the period.

# Financial Statements (continued)

## Union Medical Benefits Society Limited

### Notes to the Financial Statements

For the year ended 30 June 2014

#### 23 KEY MANAGEMENT PERSONNEL COMPENSATION

	2014	2013
	\$	\$
Compensation		
Short term employee benefits	885,921	768,582

Key management employees are classified as any persons, including directors, having the authority and responsibility for planning, directing and controlling activities of the Society.

Transactions between related parties are on normal commercial terms and conditions, there were no loans payable or receivable from related parties at year end (2013: nil).

#### 24 SEGMENT INFORMATION

The Society operates four segments within New Zealand as follows:

2014	Health Insurance	Building	Aged Care	Investments	Total
Segment Assets	5,174,336	3,086,468	25,552	86,823,073	95,109,429
Segment Liabilities	15,387,401	-	43,000	-	15,430,401
Revenue	46,708,879	-	3,762,460	5,805,791	56,277,130
Expenses	45,448,388	-	2,247,878	278,240	47,974,506
<b>Net Earnings</b>	<b>1,260,491</b>	<b>-</b>	<b>1,514,582</b>	<b>5,527,551</b>	<b>8,302,624</b>
Cash flows					
Operating cash flows	1,260,141	-	392,519	2,738,210	4,390,870
Investing cash flows	(909,621)	(1,642,192)	4,867,581	(9,481,979)	(7,166,211)
<b>Total cash flows</b>	<b>350,520</b>	<b>(1,642,192)</b>	<b>5,260,100</b>	<b>(6,743,769)</b>	<b>(2,775,341)</b>

Aged Care Segment was discontinued on 1 April 2014.

2013	Health Insurance	Building	Aged Care	Investments	Total
Segment Assets	6,635,135	530,511	3,865,098	74,356,610	85,387,354
Segment Liabilities	13,656,408	-	354,314	-	14,010,722
Revenue	44,593,487	-	5,034,226	3,707,396	53,335,109
Expenses	44,754,608	-	4,766,920	153,073	49,674,601
<b>Net Earnings</b>	<b>(161,121)</b>	<b>-</b>	<b>267,306</b>	<b>3,554,323</b>	<b>3,660,508</b>

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UniMed is proud to be a participant of the Insurance & Savings Ombudsman scheme and a founding member of the Health Funds Association of New Zealand Inc.

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