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FINANCIAL STATEMENTS  
for the 12 months ended  
31 May 2014

# Manchester Unity Friendly Society

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# Manchester Unity Friendly Society

## Statement of Comprehensive Income

for the financial year ended 31 May 2014

|   | Note | Group and parent |              |
|---|------|------------------|--------------|
|   |      | 2014             | 2013         |
|   |      | \$'000           | \$'000       |
| <b>Income and Expenses</b>                                |      |                  |              |
| Investment income including gains and losses              | 2a   | 3,364            | 4,989        |
| Other income  | 2a   | 391              | 265          |
| Other expenses  | 2b   | (2,695)          | (2,736)      |
|   |      | <b>1,061</b>     | <b>2,518</b> |
| Interest on District and Lodge deposits                   |      | (164)            | (139)        |
| Appropriations to Member Benefit Fund Liabilities         | 12   | (379)            | (377)        |
|   |      | <b>518</b>       | <b>2,002</b> |
| <b>Insurance Funds</b>                                    |      |                  |              |
| Member insurance contributions                            | 2a   | 1,634            | 1,739        |
| Member insurance withdrawals and claims                   | 2b   | (3,622)          | (3,824)      |
| Change in life insurance contract obligations             |      |                  |              |
| - Contributions   |      | (1,634)          | (1,739)      |
| - Withdrawals   |      | 3,622            | 3,824        |
| - Society management fees                                 |      | 249              | 259          |
| - Other acquisition costs                                 |      | 33               | 35           |
| - Transfers   |      | 107              | 204          |
| - Appropriations  |      | (1,878)          | (1,671)      |
|   | 14b  | 499              | 913          |
| <b>Net surplus/(deficit) for the year before taxation</b> |      | <b>(971)</b>     | <b>830</b>   |
| Taxation  | 3    | -                | -            |
| <b>Net surplus/(deficit) for the year after taxation</b>  |      | <b>(971)</b>     | <b>830</b>   |
| Other comprehensive income                                |      | -                | -            |
| <b>Total comprehensive income attributable to members</b> |      | <b>(971)</b>     | <b>830</b>   |

The accompanying notes form an integral part of these financial statements.



# Manchester Unity Friendly Society

## Statement of Financial Position

as at 31 May 2014

|  | Note  | Group and parent<br>2014<br>\$'000 | 2013<br>\$'000 |
|--|-------|------------------------------------|----------------|
| <b>Assets</b>  |       |                                    |                |
| Cash and cash equivalents  | 4     | 7,110                              | 6,597          |
| Other financial assets designated at fair value through profit or loss | 5     | 52,381                             | 52,596         |
| Trade and other receivables  | 5     | 1,154                              | 1,272          |
| Other assets   | 6     | 50                                 | 43             |
| Investment property  | 7     | 20,327                             | 21,634         |
| Property, plant & equipment  | 8     | 77                                 | 19             |
| Intangible assets  | 9     | 4                                  | 8              |
| <b>Total assets</b>  |       | <b>81,103</b>                      | <b>82,169</b>  |
| <b>Liabilities</b>   |       |                                    |                |
| Trade and other payables   | 10    | 395                                | 432            |
| Other liabilities - contributions in advance                           |       | 97                                 | 115            |
| Other financial liabilities  |       |                                    |                |
| -District, Lodge and other deposits                                    | 11    | 3,160                              | 3,079          |
| -Member benefit fund liabilities                                       | 12    | 10,466                             | 10,080         |
| Provisions   | 13    | 45                                 | 55             |
| Member insurance contract obligations                                  | 14(b) | 47,833                             | 48,332         |
| <b>Total liabilities</b>   |       | <b>61,998</b>                      | <b>62,093</b>  |
| <b>Net assets</b>  |       | <b>19,105</b>                      | <b>20,076</b>  |
| <b>Equity</b>  |       |                                    |                |
| Retained earnings  | 15    | 5,274                              | 4,886          |
| <b>Reserves</b>  |       |                                    |                |
| -District and lodge relief fund  |       | 968                                | 968            |
| -Society benevolent and emergency relief fund                          |       | 597                                | 643            |
| <b>Restricted reserves</b>   |       |                                    |                |
| -Lodge reserve   | 24    | 480                                | 476            |
| <b>Other reserves</b>  |       |                                    |                |
| -Medical services reserve  |       | 2,511                              | 2,404          |
| -Medical services fund   |       | 750                                | 750            |
| -General reserve   |       | 8,525                              | 9,950          |
| Total Other Reserves   |       | 11,786                             | 13,104         |
| <b>Total reserves</b>  | 16    | <b>13,831</b>                      | <b>15,190</b>  |
| <b>Total equity</b>  |       | <b>19,105</b>                      | <b>20,076</b>  |

The Directors of Manchester Unity Friendly Society authorised these financial statements for issue on 24 July 2014

On behalf of the Board

Ingrid Taylor  
CHAIR

Michael Ambrose  
DIRECTOR

Signed: 24 July 2014

The accompanying notes form an integral part of these financial statements.



## Manchester Unity Friendly Society

### Statement of Changes in Equity

for the financial year ended 31 May 2014

|   | Note | Group and parent<br>2014<br>\$'000 | 2013<br>\$'000 |
|---|------|------------------------------------|----------------|
| Opening equity  |      | 20,076                             | 19,246         |
| Net surplus/(deficit) for the year and total comprehensive income attributable to members | 15   | (971)                              | 830            |
| <b>Closing equity</b>   |      | <b>19,105</b>                      | <b>20,076</b>  |

The accompanying notes form an integral part of these financial statements.

# Manchester Unity Friendly Society

## Cash Flow Statement

for the financial year ended 31 May 2014

|   | Note | Group and parent<br>2014<br>\$'000 | 2013<br>\$'000 |
|---|------|------------------------------------|----------------|
| <b>Cash flows from operating activities</b>   |      |                                    |                |
| Member contributions-insurance contracts  |      | 1,634                              | 1,731          |
| Interest received   |      | 3,202                              | 3,314          |
| Dividends received  |      | 168                                | 156            |
| Rental received   |      | 1,521                              | 1,538          |
| Member benefit fund contributions   |      | 494                                | 369            |
| Other income  |      | 391                                | 81             |
| Member withdrawals-insurance contracts  |      | (3,647)                            | (3,824)        |
| Member benefit fund withdrawals   |      | (534)                              | (440)          |
| Payments to suppliers and employees   |      | (2,654)                            | (2,357)        |
| Interest paid   |      | (164)                              | (139)          |
| <b>Net cash inflow/(outflow) from operating activities</b>                                    | 22   | 411                                | 429            |
| <b>Cash flows from investing activities</b>   |      |                                    |                |
| Proceeds from sale of leasehold properties  |      | -                                  | 703            |
| Proceeds from sale of holiday homes   |      | 438                                | 1,145          |
| Proceeds from realisation of financial assets designated at fair value through profit or loss |      | 7,126                              | 7,986          |
| Member IAB loan repayments  |      | 19                                 | 36             |
| Maturity/(Purchase) of bank term deposits   |      | 5,850                              | (5,530)        |
| Purchase of property, plant & equipment   |      | (86)                               | -              |
| Purchase of intangible assets   |      | -                                  | (8)            |
| Purchase of investment properties   |      | -                                  | -              |
| Purchase of financial assets  |      | (13,317)                           | (3,626)        |
| Member IAB loan advances  |      | (10)                               | (10)           |
| Deposits received from Districts, Lodges and Credit Unions                                    |      | 146                                | 1,144          |
| Deposit repayments to Districts, Lodges and Credit Unions                                     |      | (64)                               | (117)          |
| <b>Net cash inflow/(outflow) from investing activities</b>                                    |      | 102                                | 1,723          |
| Net increase/ (decrease) in cash held   |      | 513                                | 2,152          |
| Opening cash and cash equivalents   |      | 6,597                              | 4,445          |
| <b>Closing cash and cash equivalents</b>  | 4    | <b>7,110</b>                       | <b>6,597</b>   |

The accompanying notes form an integral part of these financial statements.



# Manchester Unity Friendly Society

## Notes to the Financial Statements

for the financial year ended 31 May 2014

### 1. Summary of accounting policies

#### Reporting entity

Manchester Unity Friendly Society (Manchester Unity/the Society) is a Friendly Society registered pursuant to the Friendly Societies and Credit Unions Act 1982. Its principal purpose is to provide financial products, including insurance products, affordable holiday accommodation and fraternal services for the benefit of its members. Manchester Unity is an issuer for the purposes of the Financial Reporting Act 1993 and its financial statements comply with that Act. Its registered office is located at 142 Lambton Quay, Wellington, New Zealand.

Manchester Unity (the parent) and Unity Ltd comprise the Manchester Unity Friendly Society Group (the group). Values in these financial statements represent those of the parent and the group which are substantially the same.

The financial statements do not include the operations of Manchester Unity Friendly Society Districts, Lodges and Credit Union, which are separately registered and accounted for.

#### Statement of compliance

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 profit-oriented entities. The financial statements comply with the International Financial Reporting Standards (IFRS).

#### Basis of preparation

The financial statements have been prepared on the basis of historical cost, except for investment properties and those financial instruments which are measured at fair value. Cost is based on the consideration given in exchange for assets.

The functional and reporting currency used in preparation of the financial statements is New Zealand dollars, rounded to the nearest thousand.

Accounting policies are selected and applied in a manner which ensures that the resulting financial information satisfies the concepts of relevance and reliability, thereby ensuring that the substance of the underlying transactions or other events is reported.

#### Significant accounting policies

The following significant accounting policies have been adopted in the preparation and presentation of the financial statements.

#### Principles of consolidation

The group financial statements are prepared by combining the financial statements of all the entities that comprise the group, being Manchester Unity and its subsidiary. Details of the subsidiary are in note 17.

On acquisition, the assets, and liabilities of a subsidiary are measured at their fair values. Any excess of the cost of acquisition over the fair value is recognised as goodwill. All intercompany balances and transactions are eliminated in full on consolidation.

#### Contributions revenue

Contributions are recognised in the statement of comprehensive income from the attachment date in accordance with the pattern of incidence of risk expected over the term of the contract.

#### Contributions in advance

Contributions in advance relates only to the medical services fund and includes the written contribution policies, gross of commission payable to intermediaries, attributable to subsequent periods. The change in the contributions in advance is taken to the statement of comprehensive income in order that revenue is recognised over the period of risk.



# Manchester Unity Friendly Society

## Notes to the Financial Statements

for the financial year ended 31 May 2014

### **Member insurance contract obligations**

An insurance contract is defined as a contract under which one party (the insurer) accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder if a specified uncertain future event (the insured event) adversely affects the policyholder.

The Society's member insurance contracts obligations are accounted for in accordance with NZ IFRS 4 - Insurance Contracts Appendix C - "Life Insurance Entities".

The valuation of insurance contract obligations is calculated using the Margin on Services ("MoS") methodology in accordance with New Zealand Society of Actuaries Professional Standard 3, Determination of Life Insurance Policy Liabilities. MoS is designed to recognise profits on insurance contracts as services are provided to policyholders.

Profits are deferred and amortised over the life of policies, while losses are recognised immediately as they arise.

Those products which expose the group to insurance risk are outlined in note 14(a). While some of these products include an insurance component and a deposit component, the Directors after obtaining advice from the Actuary, have determined that these components cannot be unbundled. Therefore the deposit components (contributions and withdrawals) and the insurance components (premiums and claims) are included in the statement of comprehensive income as contributions and withdrawals.

### **Interest and dividends**

For financial instruments measured at fair value, interest income is recognised on an accruals basis either daily, or on a yield to maturity basis. All other interest revenue is recognised on a time proportionate basis that takes into account the effective yield on the financial asset. Dividend revenue is recognised when the right to receive payment has been established.

### **Rental income**

Rental income from investment properties is accounted for on a straight line basis over the term of the lease.

### **Financial assets**

Financial assets are recognised and derecognised on settlement date and are initially measured at fair value including any transaction costs.

### **Financial assets at fair value through profit or loss**

The group's cash, fixed interest securities, and equity instruments are managed as one portfolio and have been determined as being held to back member insurance contract obligations and other activities and are therefore designated as 'at fair value through profit or loss'.

They are stated at fair value, with any resultant gain or loss recognised in comprehensive income, except that interest income and dividends are shown separately, and accrued interest is separated from the fair value of cash and fixed interest instruments and included in trade and other receivables. Fair value is determined in the manner described in note 23(i).

### **Cash and cash equivalents**

Cash and cash equivalents comprise cash on hand, cash in banks and investments in money market instruments.

### **Loans and receivables**

Trade and other receivables, loans, mortgages and other receivables are recorded at amortised cost less impairment.

### **Investment in subsidiary**

The parent financial statements recognise the investment in its subsidiary at cost less impairment.



# Manchester Unity Friendly Society

## Notes to the Financial Statements

for the financial year ended 31 May 2014

### Financial assets (cont'd)

#### Inventory

Inventory is valued at the lower of cost and net realisable value. Cost is assigned on a first in first out basis. Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution.

#### Investment property

The group's investment properties have been determined as being held to back member insurance contract obligations and other activities. They are measured at fair value at the reporting date. Gains or losses arising from changes in the fair value of investment properties are included in the statement of comprehensive income in the period in which they arise.

#### Unrealised gains/losses

Unrealised gains/losses on investment properties and financial assets at fair value through profit or loss are not represented by cash funds. Accordingly the Directors do not consider it appropriate to make such gains and losses available for distribution.

Gains and losses are transferred from retained earnings to the general reserve account and released to retained earnings when the asset is realised.

#### Property, plant & equipment

Property, plant & equipment is stated at cost less accumulated depreciation and impairment. Cost includes expenditure that is directly attributable to the acquisition of an item.

Depreciation is provided on items of property, plant & equipment. Depreciation is calculated on a straight line basis so as to write off the net cost over its expected useful life to its estimated residual value. Leasehold improvements are depreciated over the period of the lease or estimated useful life whichever is the shorter, using the straight line method.

The estimated useful lives, residual values and depreciation method is reviewed at the end of each annual reporting period. The following estimated useful lives are used in the calculation of depreciation:

|                        | Years |
|------------------------|-------|
| Plant & equipment      | 5     |
| Leasehold improvements | 6     |
| Computer hardware      | 3     |

#### Intangibles

Software is a finite life intangible and is recorded at cost less accumulated amortisation and impairment. Amortisation is charged on a straight-line basis over its estimated useful life of three years.

The estimated useful life and amortisation method is reviewed at the end of each annual reporting period.

#### Impairment of assets

At each reporting date, the group reviews the carrying amount of its 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).

Recoverable amount is the higher of fair value less costs to sell, and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using an appropriate discount rate.

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at fair value, in which case the impairment loss is treated as a revaluation decrease.

# Manchester Unity Friendly Society

## Notes to the Financial Statements

for the financial year ended 31 May 2014

### **Impairment of assets (cont'd)**

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but only to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset. A reversal of an impairment loss is recognised in profit or loss immediately, unless the relevant asset is carried at fair value, in which case the reversal is treated as a revaluation increase.

### **Financial liabilities**

#### ***Trade and other payables***

Trade and other payables are recognised when the group becomes obliged to make future payments resulting from the purchase of goods and services. Trade and other payables are recorded at amortised cost.

#### ***District, Lodge and other deposits***

The group manages deposits received from Districts and Lodges which are then invested on their behalf.

District, Lodge and Credit Union deposits are recognised as a financial liability upon receipt of the funds. Subsequent to initial recognition, the carrying value of the deposits is measured at amortised cost. This is considered to be equivalent to fair value as the majority of deposits are held on call or on short maturity dates (less than 1 year).

#### ***Member benefit fund liabilities***

Details of the individual benefit funds held by the group for members are detailed in note 12.

Member benefit fund liabilities are recognised as a financial liability upon receipt of the funds. As Manchester Unity does not have an unconditional right to defer payment of these funds, they are recognised at their initial value plus appropriations made. This value represents the amount that may be called.

### **Leases**

#### ***Parent as lessee***

All operating lease payments, where substantially all the risks and benefits remain with the lessor, are charged as an expense on a straight line basis over the lease term, unless another systematic method of allocation is more appropriate.

#### ***Parent as lessor***

Rental income from investment properties is recognised in comprehensive income on a straight-line basis over the term of the lease.

### **Goods and services tax**

Revenues, expenses, assets and liabilities are recognised net of the amount of goods and services tax (GST), except for receivables and payables which are recognised inclusive of GST.

Cash flows are included in the cash flow statement on a net basis. The GST component of cash flows arising from investing and financing activities which is recoverable from, or payable to, the Inland Revenue Department is classified as an operating cash flow.

### **Provisions**

Provisions are recognised when the group has a present obligation as a result of a past event, the future sacrifice of economic benefits is probable, and the amount of the provision can be measured reliably. Provisions are recognised as the best estimate of the consideration required to settle the present obligation at balance date, taking into account the risks and uncertainties surrounding the obligation.



# Manchester Unity Friendly Society

## Notes to the Financial Statements

for the financial year ended 31 May 2014

### **Taxation**

Taxation is accounted for on the following basis:

#### **Current tax**

Current tax is calculated by reference to the amount of income taxes payable or recoverable in respect of the taxable profit or loss for the period. It is calculated using tax rates and tax laws that have been enacted or substantively enacted by reporting date. Current tax for current and prior periods is recognised as a liability (or asset) to the extent that it is unpaid (or refundable).

#### **Deferred tax**

Deferred tax is accounted for using the comprehensive balance sheet method in respect of temporary differences arising from differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax base of those items.

Deferred tax assets arising from deductible temporary differences are only recognised to the extent it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences in the foreseeable future.

### **Appropriations**

Manchester Unity's investment policy is for all funds to be invested in a mix of asset classes including investment properties, fixed interest securities, equities and short term cash deposits. The investment income, excluding any unrealised gains or losses, and other income (after deduction of management, administrative, fraternal, property, interest and other expenses) is available for appropriation to member insurance contract obligations, member share funds, other member benefit funds and reserves. In accordance with the Board Charter the Directors will determine the appropriations to these funds and the transfers to reserves on an annual basis.

### **Reserves**

Certain monies are held aside in reserves, as disclosed in note 16. Movements in these reserves are recognised as transfers to and from retained earnings.

### **Cash flow statement**

For the purpose of the cash flow statement, cash and cash equivalents include cash on hand and in banks and term deposit investments with less than 90 days to maturity, net of outstanding bank overdrafts. The following terms are used in the cash flow statement:

Operating activities: are the principal revenue producing activities of the Society and other activities that are not investing or financing activities.

Investing activities: are the acquisition and disposal of long term assets, deposits received from and repaid to Districts and Lodges and other investments not included in cash equivalents.

### **Critical accounting estimates and judgements**

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amount of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an on going basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and any future periods affected.

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

- Note 7 - valuation of investment properties (estimation)
- Note 14 - unbundling of premiums and claims (judgement)

# Manchester Unity Friendly Society

## Notes to the Financial Statements

for the financial year ended 31 May 2014

### Standards or interpretations adopted

NZ IFRS 13 - "Fair Value Measurement" replaces the fair value measurement guidance contained in individual IFRSs with a single source of fair value measurement guidance. It defines fair value, establishes a framework for measuring fair value and sets out disclosure requirements for fair value measurements. It explains how to measure fair value when it is required or permitted by other IFRSs. It does not introduce new requirements to measure assets or liabilities at fair value nor does it eliminate the practicality exceptions to fair value measurements that currently exist in certain standards.

The adoption of the amendments had no impact on recognition or measurement of financial assets and changes are limited to presentation and disclosures.

### Standards or interpretations not yet effective

Various standards, amendments and interpretations have been issued by the External Reporting Board but have not been adopted by the group as they are not yet effective. The table below sets out the standards, amendments and interpretations which are considered to be relevant to the Society and Group but are not expected to have a material impact on the Society or Group's financial position and results in the period of initial application.

| Standard/Interpretation                    | Effective for annual reporting periods beginning on or after | Expected to be initially applied in the financial year ending |
|--|--|---|
| NZ IFRS 9 'Financial Instruments'          | 1 January 2017   | 31 May 2018   |
| *Revised NZ IFRS 9 'Financial Instruments' | 1 January 2017   | 31 May 2018   |

### Comparative amounts

The presentation and classification of items in the financial statements is consistent in the current period with the prior year.

### Change in accounting policies

There have been no changes in accounting policies during the year.



# Manchester Unity Friendly Society

## Notes to the Financial Statements

for the financial year ended 31 May 2014

### 2. Comprehensive income attributable to members

#### (a) Revenue

|   | 2014<br>\$'000 | 2013<br>\$'000 |
|---|----------------|----------------|
| <b>Revenue from continuing operations<br/>consisted of the following items:</b>                     |                |                |
| <b>Member insurance contributions:</b>  |                |                |
| Increasing Assurance Benefit  | 287            | 302            |
| Funeral Fund  | 347            | 381            |
| Medical Services Fund   | 945            | 997            |
| Society Sickness Benefit  | -              | 1              |
| Education Support Plan  | 55             | 58             |
| <b>Total member insurance contributions</b>   | <b>1,634</b>   | <b>1,739</b>   |
| <b>Investment and other income</b>  |                |                |
| <b>Investment properties - rental income:</b>   |                |                |
| Commercial properties rental income   | 1,122          | 1,081          |
| Leasehold properties rental income  | 270            | 283            |
| Holiday accommodation rental income   | 130            | 173            |
| <b>Total rental income</b>  | <b>1,521</b>   | <b>1,538</b>   |
| <b>Interest income:</b>   |                |                |
| Bank deposits   | 825            | 700            |
| Income from loans and receivables   | 38             | 40             |
| Fixed interest securities   | 2,207          | 2,474          |
| <b>Total interest income</b>  | <b>3,070</b>   | <b>3,214</b>   |
| <b>Dividend income</b>  | <b>168</b>     | <b>159</b>     |
| <b>Investment gains and losses</b>  |                |                |
| Revaluation of investment property  | (854)          | (316)          |
| Realised gain/(loss) on disposal of investment property   | (14)           | 197            |
| Realised gain/(loss) on sale of financial assets<br>designated at fair value through profit or loss | -              | 47             |
| Change in fair value of financial assets designated at<br>fair value through profit or loss         | (528)          | 151            |
| <b>Total investment gains and losses</b>  | <b>(1,395)</b> | <b>78</b>      |
| <b>Total investment income including gains and<br/>losses</b>                                       | <b>3,364</b>   | <b>4,989</b>   |
| <b>Other income:</b>  |                |                |
| Unity Ltd revenue from web hosting  | -              | -              |
| Management fee Unity Ltd  | -              | 13             |
| Member management fees  | 224            | 136            |
| Other income  | 167            | 116            |
| <b>Total other income</b>   | <b>391</b>     | <b>265</b>     |



# Manchester Unity Friendly Society

## Notes to the Financial Statements

for the financial year ended 31 May 2014

### 2. Comprehensive income attributable to members (cont'd)

#### (b) Comprehensive income before tax

|  | Note | 2014<br>\$'000 | 2013<br>\$'000 |
|--|------|----------------|----------------|
| <b>Comprehensive income for the period has been arrived at after charging the following expenses from continuing operations:</b> |      |                |                |
| <b>Member insurance withdrawals and claims:</b>  |      |                |                |
| Increasing Assurance Benefit   |      | 1,813          | 2,058          |
| Funeral Fund   |      | 1,112          | 1,087          |
| Medical Services Fund  |      | 652            | 648            |
| Society Sickness Benefit   |      | 16             | 13             |
| Education Support Plan   |      | 29             | 19             |
| <b>Total insurance withdrawals and claims</b>  |      | <b>3,622</b>   | <b>3,824</b>   |
| <b>Other expenses</b>  |      |                |                |
| Directors' fees and expenses   |      | 236            | 216            |
| Operational plan for the future  |      | 8              | 3              |
| Employee expenses  | A    | 1,130          | 1,149          |
| Auditors remuneration - audit fees*  | B    | 73             | 84             |
| Other professional fees  | C    | 323            | 260            |
| Fraternal Council  |      | 139            | 127            |
| Rent and other occupancy expenses  |      | 125            | 206            |
| Travel expenses  |      | 30             | 30             |
| Office administration  |      | 113            | 130            |
| Insurance  |      | 83             | 84             |
| Communications   |      | 41             | 46             |
| Marketing expenses   |      | -              | 6              |
| Computer expenses  |      | 37             | 35             |
| Other expenses   |      | 102            | 72             |
| Direct property expenses of investment properties:   |      |                |                |
| - Commercial properties  |      | 46             | 67             |
| - Leasehold properties   |      | -              | 1              |
| - Holiday accommodation properties   |      | 94             | 122            |
| Depreciation (note 8)  |      | 30             | 28             |
| Amortisation of software (note 9)  |      | 5              | 8              |
| Society Benevolent Fund grants   |      | 46             | 26             |
| Commissions expense  |      | 33             | 35             |
| <b>Total other expenses</b>  |      | <b>2,695</b>   | <b>2,736</b>   |

Note A - Includes contributions to Kiwisaver a defined contribution pension plan of \$21,000 (2013;\$12,000).

The Society has no other obligation to provide pension benefits to employees.

Note B - The auditor of Manchester Unity is Deloitte.

Note C - In addition to the statutory audit fee Deloitte also received \$9,000 (2013; \$15,000) for the Reserve Bank solvency return assurance and \$48,000 (2013; \$800) for tax related advice.

# Manchester Unity Friendly Society

## Notes to the Financial Statements

for the financial year ended 31 May 2014

### 3. Taxation

|  | 2014<br>\$'000 | 2013<br>\$'000 |
|--|----------------|----------------|
| Net surplus for the year before taxation | (971)          | 830            |
| Tax @ 28%                                | (272)          | 232            |
| Movement in tax losses                   | 272            | (232)          |
|  | -              | -              |

Society has \$2,942,000 (2013; \$3,220,000) unrecognised tax losses to carry forward.

In addition to the above subsidiary Unity Ltd has \$1,650,000 (2013; \$1,650,000) accumulated tax losses.

No transfer has been made to the statement of comprehensive income. As stated in the policy on taxation, a debit balance in the deferred tax account arising from tax differences or income tax losses is only recognised if their realisation is probable.

### 4. Cash and cash equivalents

|  | 2014<br>\$'000 | 2013<br>\$'000 |
|--|----------------|----------------|
| Cash on hand                           | 3              | (4)            |
| Short term bank deposits               | 7,107          | 6,601          |
| <b>Total cash and cash equivalents</b> | <b>7,110</b>   | <b>6,597</b>   |

The maturity profile of these assets is shown in note 23(d).

### 5. Other financial assets

|  | 2014<br>\$'000 | 2013<br>\$'000 |
|--|----------------|----------------|
| <b>Trade and other receivables:</b>  |                |                |
| Member contributions in arrears  | 16             | 19             |
| Trade and other sundry receivables   | 7              | 215            |
| Interest receivable  | 644            | 542            |
| First mortgage securities  | 397            | 400            |
| IAB loans and advances   | 90             | 96             |
| <b>Total trade and other receivables</b>                                       | <b>1,154</b>   | <b>1,272</b>   |
| <b>Other financial assets designated at fair value through profit or loss:</b> |                |                |
| Government stock   | 2,068          | 2,157          |
| Local authority stock  | 2,177          | 3,675          |
| Corporate stock  | 34,954         | 28,093         |
| Total NZ fixed interest securities   | 39,199         | 33,925         |
| Bank term deposits   | 9,280          | 15,130         |
| NZ equities  | 2,213          | 1,899          |
| Australian equities  | 1,688          | 1,642          |
| <b>Total financial assets designated at fair value through profit or loss</b>  | <b>52,381</b>  | <b>52,596</b>  |

The maturity of these assets is shown in note 23(d).



# Manchester Unity Friendly Society

## Notes to the Financial Statements

for the financial year ended 31 May 2014

### 6. Other assets

|                           | Note | 2014<br>\$'000 | 2013<br>\$'000 |
|---------------------------|------|----------------|----------------|
| <b>Current:</b>           |      |                |                |
| Inventory                 |      | 22             | 20             |
| Prepayments               |      | 15             | 10             |
| Investment in subsidiary  | 17   | 13             | 13             |
| <b>Total other assets</b> |      | <b>50</b>      | <b>43</b>      |

### 7. Investment property

|   | 2014<br>\$'000 | 2013<br>\$'000 |
|---|----------------|----------------|
| <b>Commercial properties:</b>               |                |                |
| Balance at beginning of financial year      | 13,661         | 13,848         |
| Additions from subsequent expenditure       | -              | 13             |
| Other acquisitions and disposals            | (18)           | -              |
| Net gain/(loss) from fair value adjustments | (933)          | (200)          |
| Balance at end of financial year            | <b>12,710</b>  | <b>13,661</b>  |
| <b>Leasehold properties:</b>                |                |                |
| Balance at beginning of financial year      | 4,164          | 4,446          |
| Additions from subsequent expenditure       | -              | 0              |
| Net gain/(loss) from fair value adjustments | 57             | 112            |
| Balance at end of financial year            | <b>4,221</b>   | <b>4,164</b>   |
| <b>Holiday accommodation properties:</b>    |                |                |
| Balance at beginning of financial year      | 3,809          | 5,294          |
| Additions from subsequent expenditure       | -              | -              |
| Other acquisitions and disposals            | (435)          | (1,257)        |
| Net gain/(loss) from fair value adjustments | 22             | (228)          |
| Balance at end of financial year            | <b>3,396</b>   | <b>3,809</b>   |
| <b>Total investment property</b>            | <b>20,327</b>  | <b>21,634</b>  |

There are two commercial properties with a total fair value of \$1,370,000 (2013; \$1,392,600) that are held for the benefit of members of Loyal Nelson Lodge and Loyal Manawatu Lodge - refer note 24.

The fair value of the group's investment property is determined at 31 May each year on the basis of valuations carried out at that date by independent registered valuers experienced in the New Zealand property market. These reports are based on both:

- Information provided by the Society such as lease terms and conditions, current rents etc. Some of this information comes from information systems subject to the Society's overall control.
- Assumptions and valuation models used by the valuers - the assumptions such as yields and discount rates are typically market related. These are based on their professional judgment and market observation.

The information provided to the valuers and the assumptions and the valuations models used by the valuers are reviewed by management. This includes a review of fair value movements over the period. On completion of this process management make a recommendation to the audit committee. The audit committee considers the valuation report as a part of their overall responsibilities.



## Manchester Unity Friendly Society

### Notes to the Financial Statements

for the financial year ended 31 May 2014

#### 7. Investment property (cont.)

The independent valuers were:

|                             | Abbreviation |
|-----------------------------|--------------|
| Darroch Limited             | Darroch      |
| Quotable Value NZ Ltd       | QV           |
| J P Morgan & Associates Ltd | Morgans      |
| Duke & Cook Ltd             | Duke & Cook  |

|   | Valuer      | Fair value<br>1 June 2013<br>\$'000 | Capital<br>movements<br>\$'000 | Fair value<br>changes<br>\$'000 | Fair value<br>31 May 2014<br>\$'000 |
|---|-------------|-------------------------------------|--------------------------------|---------------------------------|-------------------------------------|
| <b>Commercial properties</b>            |             |                                     |                                |                                 |                                     |
| <b>Retail</b>                           |             |                                     |                                |                                 |                                     |
| Ngaio Road, Waikanae                    | Darroch     | 3,550                               | -                              | 50                              | 3,600                               |
| Wickstead Terrace, Wanganui             |             | 18                                  | (18)                           | -                               | -                                   |
| Lombard Street, Palmerston North        | Morgans     | 543                                 | -                              | (13)                            | 530                                 |
| Bridge Street, Nelson                   | QV          | 850                                 | -                              | (10)                            | 840                                 |
|   |             | 4,961                               | (18)                           | 27                              | 4,970                               |
| <b>Retail development</b>               |             |                                     |                                |                                 |                                     |
| Kent Terrace, Wellington                | Darroch     | 2,700                               | -                              | 100                             | 2,800                               |
| <b>Warehouse/office</b>                 |             |                                     |                                |                                 |                                     |
| Quadrant Drive, Lower Hutt              | Darroch     | 6,000                               | -                              | (1,060)                         | 4,940                               |
|   |             | 13,661                              | (18)                           | (933)                           | 12,710                              |
| <b>Leasehold properties</b>             |             |                                     |                                |                                 |                                     |
|   | Darroch     | 4,164                               | -                              | 57                              | 4,221                               |
| <b>Holiday accommodation properties</b> |             |                                     |                                |                                 |                                     |
|   | Darroch     | 3,809                               | (435)                          | 22                              | 3,396                               |
|   |             | 21,634                              | (453)                          | (854)                           | 20,327                              |
|   | Valuer      | Fair value<br>1 June 2013<br>\$'000 | Capital<br>movements<br>\$'000 | Fair value<br>changes<br>\$'000 | Fair value<br>31 May 2014<br>\$'000 |
| <b>Retail</b>                           |             |                                     |                                |                                 |                                     |
| Ngaio Road, Waikanae                    | Darroch     | 3,600                               | -                              | (50)                            | 3,550                               |
| Wickstead Terrace, Wanganui             |             | 18                                  | -                              | -                               | 18                                  |
| Lombard Street, Palmerston North        | Morgans     | 530                                 | 13                             | -                               | 543                                 |
| Bridge Street, Nelson                   | Duke & Cook | 850                                 | -                              | -                               | 850                                 |
|   |             | 4,998                               | 13                             | (50)                            | 4,961                               |
| <b>Retail development</b>               |             |                                     |                                |                                 |                                     |
| Kent Terrace, Wellington                | Darroch     | 2,850                               | -                              | (150)                           | 2,700                               |
| <b>Warehouse/office</b>                 |             |                                     |                                |                                 |                                     |
| Quadrant Drive, Lower Hutt              | Darroch     | 6,000                               | -                              | -                               | 6,000                               |
|   |             | 13,848                              | 13                             | (200)                           | 13,661                              |
| <b>Leasehold properties</b>             |             |                                     |                                |                                 |                                     |
|   | Darroch     | 4,446                               | (394)                          | 112                             | 4,164                               |
| <b>Holiday accommodation properties</b> |             |                                     |                                |                                 |                                     |
|   | Darroch     | 5,294                               | (1,257)                        | (228)                           | 3,809                               |
|   |             | 23,588                              | (1,638)                        | (316)                           | 21,634                              |

During the year there were no transfers of property between levels of fair value hierarchy.

# Manchester Unity Friendly Society

## Notes to the Financial Statements

for the financial year ended 31 May 2014

### 7. Investment property (cont.)

| Class of property                | Fair value hierarchy | Fair value at 31 May 2014 | Valuation techniques used                                   | Inputs used to measure fair value  | Range of significant unobservable inputs   |
|----------------------------------|----------------------|---------------------------|---|--|--|
| Retail                           | Level 3              | \$4,970,000               | Income capitalisation<br>Discounted cash flow               | Net market rent \$/m <sup>2</sup><br>Capitalisation rate initial yield<br><br>Capitalisation rate effective yield<br><br>Other income capitalisation rate<br>Discount rate<br><br>Terminal capitalisation rate<br>Rental growth rate (pa)<br>Expenses growth rate (pa) | \$105 to \$295<br>8.10% to 10.03%<br><br>8.04% to 9.22%<br><br>8.50%<br>10.00%<br><br>10.75%<br>2.49%<br>2.25% |
| Retail/development potential     | Level 3              | \$2,800,000               | Income capitalisation approach<br>Sales comparison approach | Net market rent \$/m <sup>2</sup><br><br>Capitalisation rate - effective yield<br>Discount rate - rental shortfall holding income<br><br>Land value \$/m <sup>2</sup>  | \$295<br><br>5.57%<br>9.00%<br><br>\$2,588   |
| Warehouse/Office                 | Level 3              | \$4,940,000               | Income capitalisation<br>Discounted cash flow               | Net market rent \$/m <sup>2</sup><br>Capitalisation rate initial yield<br><br>Capitalisation rate effective yield<br><br>Other income capitalisation rate<br>Discount rate<br><br>Terminal capitalisation rate<br>Rental growth rate (pa)<br>Expenses growth rate (pa) | \$107<br>10.73%<br><br>11.18%<br><br>9.00%<br>11.00%<br><br>10.00%<br>2.50%<br>2.25%                           |
| Leasehold properties             | Level 3              | \$4,221,000               | Discounted cash flow  | Site land values<br><br>Discount rate<br>Capitalisation rate initial yield<br><br>Capitalisation rate effective yield  | \$155,000 - \$210,000<br>9.50%<br>6.39%<br><br>6.13%   |
| Holiday accommodation properties | Level 2              | \$3,396,000               | Sales comparison approach                                   |  | N/A  |



# Manchester Unity Friendly Society

## Notes to the Financial Statements

for the financial year ended 31 May 2014

### 7. Investment property (cont.)

#### Valuation methodologies

Income capitalisation approach

The income approach (investment valuation approach) is the prime determinant of fair value for properties of this nature. This approach involves capitalising the actual contract and/or potential net income at an appropriate market derived rate of return to arrive at a capitalised value. This value is then adjusted for property specific factors including inter alia: rental surplus/shortfall, vacancy, real estate agents lease commissions, inducements, refurbishment expenses, strengthening, unrecovered operating expenses and capital expenditure.

Discounted cash flow analysis

The discounted cash flow (DCF) analysis calculates the market value of the subject property as the present value of the future cash flows from the property discounted using an appropriate risk adjusted rate of return (or discount rate). Whereas the investment approach capitalises income at a specific point in time, the DCF permits us to make allowances for such factors as vacancies, refurbishment costs and growth in rental rates over a period of time. The estimated cash flows including the reversionary value estimate in the final year of the DCF are then discounted to provide the property's net present value.

Sales comparison approach

A valuation methodology whereby the subject property is compared to recently sold properties of a similar nature with fair value determined through the application of positive and negative adjustments for their differing attributes.

#### Unobservable inputs

Net market rent

The annual amount for which a tenancy within a property is expected to achieve under a new arm's length leasing transaction, excluding a fair share of property operating expenses, if any.

Capitalisation rate

The rate of return, determined through analysis of comparable, market-related sales transactions, which is applied to a property's sustainable net income to derive value.

Other income capitalisation rate

The rate of return which is applied to other, typically short term or uncontracted, sources of property income to derive value and which is assessed with consideration to the risks in achieving each income source.

#### Unobservable inputs within the discounted cash flow analysis

Discount rate

The rate which is applied to a property's sustainable net income at the end of an assumed holding period to derive an estimated future market value.

Reversionary capitalisation rate

The rate which is applied to a property's sustainable net income at the end of an assumed holding period to derive an estimated future market value.

Rental growth rate

The annual growth rate applied to market rents over an assumed holding period.

Expenses growth rate

The annual growth rate applied to property operating expenses over an assumed holding period.

The following table shows the impact on the fair value of a change in a significant unobservable input:

| Significant inputs                   | Fair value measurement sensitivity |                   |
|--------------------------------------|------------------------------------|-------------------|
|                                      | Increase in input                  | Decrease in input |
| Gross market rent per m <sup>2</sup> | Increase                           | Decrease          |
| Core capitalisation rate             | Decrease                           | Increase          |
| Other income capitalisation rate     | Decrease                           | Increase          |
| Discount rate                        | Decrease                           | Increase          |
| Terminal capitalisation rate         | Decrease                           | Increase          |
| Rental growth rate                   | Increase                           | Decrease          |
| Expenses growth rate                 | Decrease                           | Increase          |

# Manchester Unity Friendly Society

## Notes to the Financial Statements

for the financial year ended 31 May 2014

### 8. Property, plant & equipment

|   | Plant & equipment<br>\$'000 | Leasehold improvements<br>\$'000 | Computer hardware<br>\$'000 | Total<br>\$'000 |
|---|-----------------------------|----------------------------------|-----------------------------|-----------------|
| <b>Cost:</b>                                    |                             |                                  |                             |                 |
| Balance at 31 May 2012                          | 101                         | 396                              | 357                         | 854             |
| <b>Additions</b>                                | -                           | -                                | -                           | -               |
| Disposals                                       | (35)                        | (76)                             | -                           | (111)           |
| Balance at 31 May 2013                          | 66                          | 320                              | 357                         | 743             |
| Additions                                       | 3                           | -                                | 86                          | 89              |
| Disposals                                       | -                           | -                                | (1)                         | (1)             |
| Balance at 31 May 2014                          | 69                          | 320                              | 442                         | 831             |
| <b>Accumulated depreciation and impairment:</b> |                             |                                  |                             |                 |
| Balance at 31 May 2012                          | (94)                        | (370)                            | (337)                       | (801)           |
| <b>Additions</b>                                | (15)                        | (5)                              | (8)                         | (28)            |
| Disposals                                       | 50                          | 55                               | -                           | 105             |
| Balance at 31 May 2013                          | (59)                        | (320)                            | (345)                       | (724)           |
| Additions                                       | (4)                         | -                                | (26)                        | (30)            |
| Disposals                                       | -                           | -                                | -                           | 0               |
| Balance at 31 May 2014                          | (63)                        | (320)                            | (371)                       | (754)           |
| <b>Net book value:</b>                          |                             |                                  |                             |                 |
| <b>At 31 May 2013</b>                           | <b>7</b>                    | <b>-</b>                         | <b>12</b>                   | <b>19</b>       |
| <b>At 31 May 2014</b>                           | <b>6</b>                    | <b>-</b>                         | <b>71</b>                   | <b>77</b>       |

### 9. Intangible assets

|   | 2014<br>\$'000 | 2013<br>\$'000 |
|---|----------------|----------------|
| <b>Software</b>                                 |                |                |
| <b>Cost:</b>                                    |                |                |
| Opening balance                                 | 264            | 268            |
| Additions                                       | 1              | 8              |
| Disposals                                       | -              | (12)           |
| Closing balance                                 | 265            | 264            |
| <b>Accumulated amortisation and impairment:</b> |                |                |
| Opening balance                                 | (256)          | (256)          |
| Amortisation expense                            | (5)            | (8)            |
| Disposals                                       | -              | 8              |
| Closing balance                                 | (261)          | (256)          |
| <b>Net book value</b>                           | <b>4</b>       | <b>8</b>       |

### 10. Trade and other payables

|   |            |            |
|---|------------|------------|
| Trade creditors and accruals                    | 395        | 432        |
| <b>Total trade and other payables - current</b> | <b>395</b> | <b>432</b> |

Payables are paid within the credit timeframe.



# Manchester Unity Friendly Society

## Notes to the Financial Statements

for the financial year ended 31 May 2014

### 11. District, Lodge and other deposits

|   | 2014<br>\$'000 | 2013<br>\$'000 |
|---|----------------|----------------|
| <b>Unsecured:</b>   |                |                |
| Deposits - District and Lodges                              | 3,160          | 3,078          |
| <b>Total - District, Lodge and other deposits - current</b> | <b>3,160</b>   | <b>3,078</b>   |

### 12. Member benefit fund liabilities

|                           | Member share<br>funds<br>\$'000 | Educational<br>benefit fund<br>\$'000 | Hawke's Bay<br>endowment<br>fund<br>\$'000 | Total<br>\$'000 |
|---------------------------|---------------------------------|---------------------------------------|--|-----------------|
| <b>2014</b>               |                                 |                                       |  |                 |
| Opening balance           | 10,059                          | 0                                     | 21   | 10,080          |
| Contributions             | 541                             | -                                     | -  | 541             |
| Withdrawals               | (534)                           | -                                     | -  | (534)           |
| Appropriations            | 378                             | -                                     | 1  | 379             |
| Closing balance - current | <b>10,444</b>                   | <b>-</b>                              | <b>22</b>                                  | <b>10,466</b>   |
| <b>2013</b>               |                                 |                                       |  |                 |
| Opening balance           | 9,599                           | 35                                    | 20   | 9,654           |
| Contributions             | 524                             | -                                     | -  | 524             |
| Withdrawals               | (440)                           | (35)                                  | -  | (475)           |
| Appropriations            | 376                             | -                                     | 1  | 377             |
| Closing balance - current | <b>10,059</b>                   | <b>-</b>                              | <b>21</b>                                  | <b>10,080</b>   |

At 31 May 2014 the Directors declared an appropriation of 4.00% (2013; 3.50%) of balances held. Lodges that have consolidated with "ring-fenced" assets have the appropriation to their share fund adjusted to take account of the earnings of those "ring-fenced" assets - refer note 24.

#### (a) Member share funds

A member share fund is created when a District or Lodge votes to consolidate their surplus funds pursuant to Rule 38 and place them under the administration of Manchester Unity.

|                                 | 2014<br>\$'000 | 2013<br>\$'000 |
|---------------------------------|----------------|----------------|
| <b>Current:</b>                 |                |                |
| Ashburton                       | 479            | -              |
| Auckland District               | 317            | 313            |
| Banks Peninsula Branch          | 708            | 717            |
| Egmont Lodge                    | 1,611          | 1,623          |
| Hastings Lodge                  | 859            | 859            |
| Manawatu Lodge                  | 591            | 630            |
| Manchester Lodge                | 71             | 57             |
| Masterton Lodge                 | 721            | 725            |
| Napier Lodge                    | 1,901          | 1,899          |
| Nelson Lodge                    | 2,905          | 2,963          |
| Rose of Sharon Lodge            | 150            | 144            |
| United Westland Lodge           | 97             | 96             |
| Woodville Lodge                 | 35             | 34             |
| <b>Total Member share funds</b> | <b>10,444</b>  | <b>10,059</b>  |

## Manchester Unity Friendly Society

### Notes to the Financial Statements

for the financial year ended 31 May 2014

#### 12. Member benefit fund liabilities (cont'd)

##### (b) Educational benefit fund

This fund was established for members who wished to put aside money for their children's education. The fund is administered by the Board of Directors under Rule 61 of the General Rules.

Interest is credited to the fund annually in the form of an appropriation.

The funds become available to the beneficiary on attainment of their 20th birthday.

##### (c) Hawke's Bay endowment fund

An endowment fund held by Society on behalf of the Hawkes Bay Lodges.

#### 13. Provisions

|                                     | 2014<br>\$'000 | 2013<br>\$'000 |
|-------------------------------------|----------------|----------------|
| Provision for employee entitlements | 45             | 55             |
| <b>Total provisions</b>             | <b>45</b>      | <b>55</b>      |

Employee entitlements includes holiday pay and is expected to be settled within the next financial year.



# Manchester Unity Friendly Society

## Notes to the Financial Statements

for the financial year ended 31 May 2014

### 14. Member insurance contract obligations

#### (a) Details of member insurance contract products

Manchester Unity Friendly Society is a licenced insurer under the Insurance (Prudential Supervision) Act 2010.

Manchester Unity Friendly Society has a BB-, outlook stable, credit rating issued by Standard and Poors on 17 June 2014.

Manchester Unity provides a variety of discretionary and non-discretionary investment and insurance products and services to its members. Discretionary funds are policies where at managements discretion, member insurance benefits or original cover can be increased through the addition of bonuses.

| Name of product                                     | Description  |
|---|--|
| Medical Services Fund (MSF)                         | Provides three tiers of health care insurance to members, primary, comprehensive, and surgical only.<br><br>Administered by the Board of Directors under General Rule 34.  |
| Funeral Fund and Increased Funeral Fund (FAB, IFAB) | Provides funeral cover up to a maximum of \$10,000.<br>This plan is closed to new members.<br>Existing members are unable to increase their cover under this plan.<br>Benefits include funeral cover taken plus bonuses.<br>IFAB represents the bonuses accruing to the members on their FAB.<br><br>Administered by the Board of Directors under General Rules 27, 28, 29 and 30.   |
| Increasing Assurance Benefit (IAB)                  | Provides short-term or long-term investment, financial protection and death cover.<br><br>There is a choice of plans:<br>Endowment - benefits paid after the attainment of a specified age (benefits include original cover taken plus bonuses).<br>Whole of life - benefits paid on death but partial withdrawal of bonuses is available after age 65.<br>Term life - benefits are paid on death, no bonuses accrue.<br>These plans are closed to new members.<br><br>Administered by the Board of Directors under General Rule 32.   |
| Education Support Plan (save2learn)                 | The Education Support plan has been in operation since 2005. It is a pooled investment fund that permits subscribers to make provision for their children or grandchildren's education costs at secondary or tertiary level. The plan includes provision for payment of contributions in the event of death or temporary disablement of the principal contributor. Tertiary means university, college education polytechnic providers or other tertiary course approved by the New Zealand Ministry of Education.<br><br>Secondary - this policy pays out when your child enters year nine of schooling or their 13th birthday whichever is later. It is designed to help cover the cost of uniforms and extra curricular activities such as music or sports trips and equipment.<br>Tertiary - this policy pays out at the beginning of tertiary study or your child's 18th birthday whichever is the later. It is designed to help cover the cost of fees, text books and some living expenses that are involved when studying at this level.<br><br>Both types of policy are eligible for bonuses the level of which will depend on the returns allocated to the fund by Manchester Unity and are not guaranteed.<br><br>This plan is closed to new members.<br><br>Administered by the Board of Directors under General Rule 62. |



# Manchester Unity Friendly Society

## Notes to the Financial Statements

for the financial year ended 31 May 2014

### 14. Member insurance contract obligations (cont'd)

#### (a) Details of member insurance contract products

| Name of product               | Description  |
|-------------------------------|--|
| Society Sickness Benefit Fund | This fund was previously the Hawkes Bay Sickness fund. It is closed to new members and is now administered by Manchester Unity Friendly Society. It provides sickness and annuity benefits to the level of funds previously contributed plus interest. |
|                               | Administered by the Board of Directors under General Rule 37.  |

#### (b) Fund transactions

The Society is exempt from the Insurance (Prudential Supervision) Act 2010 requirement to hold assets backing the member insurance contract obligations in a separate statutory fund. The assets supporting the member insurance contract obligations are comingled with the Society's other assets and managed as a single investment portfolio.

The following table outlines the transactions that flow through the funds as taken into consideration by the actuary in determining the member insurance contract obligation for each product at 31 May 2014.

|   | Medical<br>Services<br>Fund * | Funeral<br>Fund | Increased<br>Funeral<br>Fund | Increasing<br>Assurance<br>Benefit | Society<br>Sickness<br>Benefit | Education<br>Support<br>Plan | Total   |
|---|-------------------------------|-----------------|------------------------------|------------------------------------|--------------------------------|------------------------------|---------|
|   | \$'000                        | \$'000          | \$'000                       | \$'000                             | \$'000                         | \$'000                       | \$'000  |
| <b>2014</b>                                   |                               |                 |                              |                                    |                                |                              |         |
| Members funds at 31 May 2013                  | 200                           | 7,737           | 15,811                       | 23,947                             | 268                            | 369                          | 48,332  |
| Contributions                                 | 945                           | 347             | -                            | 287                                | -                              | 55                           | 1,634   |
| Withdrawals                                   | (652)                         | (408)           | (704)                        | (1,813)                            | (16)                           | (29)                         | (3,622) |
| Society management fees                       | (167)                         | (56)            | -                            | (26)                               | -                              | -                            | (249)   |
| Other acquisition costs                       | (19)                          | -               | -                            | (14)                               | -                              | -                            | (33)    |
| Transfers                                     | (107)                         | -               | -                            | -                                  | -                              | -                            | (107)   |
| Appropriations                                | -                             | 308             | 618                          | 927                                | 10                             | 15                           | 1,878   |
| Change in life insurance contract obligations | -                             | 191             | (86)                         | (639)                              | (6)                            | 41                           | (499)   |
| Members funds at 31 May 2014                  | 200                           | 7,928           | 15,725                       | 23,308                             | 262                            | 410                          | 47,833  |

|   | Medical<br>Services<br>Fund * | Funeral<br>Fund | Increased<br>Funeral<br>Fund | Increasing<br>Assurance<br>Benefit | Society<br>Sickness<br>Benefit | Education<br>Support<br>Plan | Total   |
|---|-------------------------------|-----------------|------------------------------|------------------------------------|--------------------------------|------------------------------|---------|
|   | \$'000                        | \$'000          | \$'000                       | \$'000                             | \$'000                         | \$'000                       | \$'000  |
| <b>2013</b>                                   |                               |                 |                              |                                    |                                |                              |         |
| Members funds at 31 May 2012                  | 250                           | 7,565           | 15,936                       | 24,905                             | 271                            | 318                          | 49,245  |
| Contributions                                 | 997                           | 381             | -                            | 302                                | 1                              | 58                           | 1,739   |
| Withdrawals                                   | (648)                         | (416)           | (671)                        | (2,058)                            | (13)                           | (19)                         | (3,824) |
| Society management fees                       | (175)                         | (57)            | -                            | (27)                               | -                              | -                            | (259)   |
| Other acquisition costs                       | (20)                          | -               | -                            | (15)                               | -                              | -                            | (35)    |
| Transfers                                     | (204)                         | -               | -                            | -                                  | -                              | -                            | (204)   |
| Appropriations                                | -                             | 264             | 546                          | 840                                | 9                              | 12                           | 1,671   |
| Change in life insurance contract obligations | -                             | 172             | (125)                        | (958)                              | (3)                            | 51                           | (913)   |
| Members funds at 31 May 2013                  | 200                           | 7,737           | 15,811                       | 23,947                             | 268                            | 369                          | 48,332  |

\* This fund is not actuarially valued.



# Manchester Unity Friendly Society

## Notes to the Financial Statements

for the financial year ended 31 May 2014

### 14. Member insurance contract obligations (cont'd)

#### (c) Objectives for managing insurance risk

Life insurance contracts involve the acceptance of significant insurance risk. Insurance risk is defined as significant if and only if, an insured event could cause an insurer to pay significant benefits to a wide range of scenarios, excluding scenarios that lack commercial substance (i.e. have no discernible effect on the economics of the transaction). Insurance contracts include those where the insured benefit is payable on the occurrence of a specified event such as death, injury or disability caused by accident or illness. The insured benefit is either not linked or only partly linked to the market value of the investment held by Society, and the financial risks are substantially borne by the Society.

#### Discretionary business

Insurance risk is managed and mitigated by the following:

- The Society can adjust bonus rates and other additions to member insurance contracts, appropriation rates to member funds and surrender values where payable.
- The broad geographical spread of members means there is no concentration of insurance risk.
- For life insurance the amount of sum insured that can be issued under any policy is limited.

Having reviewed the above the Board has agreed that reinsurance is not required for the insurance portfolio.

#### Medical Services Fund

For medical products insurance risk is managed by ensuring underwriting procedures adequately identify potential risk, that claims management practices are well controlled and by limiting each policy term to one year.

The Society has a Medical Services Reserve which is held for financial soundness in mitigating the Society's insurance risk with regards these obligations. Refer to note 16.

#### (d) Actuarial valuation of member insurance contract obligations

The valuation of member insurance contract obligations was carried out as at 31 May 2014 by independent actuary Charles Cahn BSc, FIAA, FNZSA. The actuary is satisfied as to the nature, sufficiency and accuracy of the data used to determine the insurance contract obligations.

#### Method of Valuation and Profit Carrier

For products valued by the projection method, the member insurance contract obligations were determined by deducting the present value of future contributions less expenses from the present value of the sums assured and supportable additions. For discretionary products, the member insurance contract obligations also includes the members' unvested benefit liability.

For products valued by the accumulation method, the member insurance contract obligations are either the fund value (discretionary products) or the value of outstanding claims (non discretionary products).

As there are no transfers of profits to retained earnings, from discretionary funds, profit carriers are not needed.

The valuation methods for the various related product groups are given below:

| Related Product Group   | Valuation Method |
|---|------------------|
| Increasing Assurance Benefit Fund (Discretionary)                   | Projection       |
| Funeral Fund and the Increased Funeral Benefit Fund (Discretionary) | Projection       |
| Sick Fund (Discretionary)   | Accumulation     |
| Education Support Plan (Discretionary)                              | Accumulation     |
| Medical Services Fund (Non Discretionary)                           | Accumulation     |

#### Disclosure of Assumptions

The key assumptions used in the calculation of the member insurance contract obligations, with changes from last year noted, are summarised as follows:

#### (i) Discount Rate

The discount rate representing the assumed long term rate of appropriation to the funds was 4.50% per annum (2013; 4.00%).



# Manchester Unity Friendly Society

## Notes to the Financial Statements

for the financial year ended 31 May 2014

### 14. Member insurance contract obligations (cont'd)

#### (d) Actuarial valuation of member insurance contract obligations (cont'd)

##### (ii) Expenses

Expenses were assumed at rates consistent with the rules for management transfers from the funds.

##### (iii) Taxation

The Society pays no tax therefore no allowance for taxation has been made.

##### (iv) Mortality

- For the Increasing Assurance Benefit Fund the mortality tables used were based on the New Zealand Insured Lives table 2005 – 2007 for males and females. This allows for the mortality to be in line with market experience.
- For the Funeral Fund and the Increased Funeral Benefit Fund, the mortality tables used were based on the New Zealand Life tables 2010 – 2012 total population tables for males and females, adjusted for the actual experience of the Funds.

##### (v) Discontinuance

Rates of discontinuance and lapse assumed were based on the actual experience.

##### (vi) Surrender Values

Surrender values were assumed in accordance with the current actual surrender basis.

##### (vii) Rates of future supportable additions

- For the Increasing Assurance Benefit Fund the assumed rates of supportable bonus were 1.88% of sum assured and 3.76% of existing bonus (2013; 1.62% and 3.24%).
- For the Funeral Fund and the Increased Funeral Benefit Fund, the assumed rates of supportable additions were 0.82% of the Funeral Benefit and 1.65% of the Increased Funeral Benefit (2013; 0.50% and 1.00%).

##### (viii) Crediting policy

It has been assumed that the existing approach to appropriations which is based on the average balance of the funds held over the financial year will continue.

#### Sensitivity to Changes in Assumptions

Assumption changes have no impact on the member insurance contract obligations as the member insurance contract obligations are the total values of the insurance funds.

#### Components of member insurance contract obligations

|                                     | IAB<br>\$'000 | Funeral Funds<br>\$'000 | Other Funds<br>\$'000 | Total<br>\$'000 |
|-------------------------------------|---------------|-------------------------|-----------------------|-----------------|
| <b>2014 Value of</b>                |               |                         |                       |                 |
| Future policy benefits              | 16,654        | 20,932                  | -                     | 37,586          |
| Future additions                    | 6,284         | 3,666                   | -                     | 9,950           |
| Future expense transfers            | 283           | 518                     | -                     | 801             |
| Future profit margins               | -             | -                       | -                     | -               |
| Future contributions                | (1,903)       | (3,171)                 | -                     | (5,074)         |
| Accumulation method                 | -             | -                       | 872                   | 872             |
| Members' unvested benefit liability | 1,990         | 1,708                   | -                     | 3,698           |
| <b>Total</b>                        | <b>23,308</b> | <b>23,653</b>           | <b>872</b>            | <b>47,833</b>   |
| <b>2013 Value of</b>                |               |                         |                       |                 |
| Future policy benefits              | 18,106        | 22,321                  | -                     | 40,427          |
| Future additions                    | 5,904         | 2,428                   | -                     | 8,332           |
| Future expense transfers            | 247           | 798                     | -                     | 1,045           |
| Future profit margins               | -             | -                       | -                     | -               |
| Future contributions                | (2,190)       | (3,529)                 | -                     | (5,719)         |
| Accumulation method                 | -             | -                       | 836                   | 836             |
| Members' unvested benefit liability | 1,881         | 1,530                   | -                     | 3,411           |
| <b>Total</b>                        | <b>23,948</b> | <b>23,548</b>           | <b>836</b>            | <b>48,332</b>   |



# Manchester Unity Friendly Society

## Notes to the Financial Statements

for the financial year ended 31 May 2014

### 14. Member insurance contract obligations (cont'd)

#### (d) Actuarial valuation of member insurance contract obligations (cont'd)

##### Maturity profile member insurance contract obligations

The following table details the estimated timing of the undiscounted net cash outflows in relation to the member insurance contract obligations.

|                   | 2014<br>\$'000 | 2013<br>\$'000 |
|-------------------|----------------|----------------|
| Current           | 2,782          | 2,822          |
| 1-5 years         | 10,785         | 10,343         |
| More than 5 years | 44,186         | 46,541         |
|                   | <b>57,753</b>  | <b>59,706</b>  |

##### Solvency

Solvency has been calculated in accordance with the Solvency Standard for Life Insurers issued in August 2011 by the Reserve Bank of New Zealand under the Insurance (Prudential Supervision) Act 2010. At 31 May 2014, the Actual Solvency Capital was \$18,624,000 (2013; \$19,583,000) and the Minimum Solvency Capital was \$7,747,000 (2013; \$12,295,000) resulting in a Solvency Margin of \$10,877,000 (2013; \$7,287,000) and a Current Solvency Ratio of 2.40 (2013; 1.59).

### 15. Retained earnings

|  |       | 2014<br>\$'000 | 2013<br>\$'000 |
|--|-------|----------------|----------------|
| Balance at beginning of financial year                                 | Note  | 4,886          | 2,936          |
| Total comprehensive income/(loss) attributable to members              |       | (971)          | 830            |
| Transfer from Society Benevolent Fund                                  | 16(b) | 46             | 26             |
| Transfers from/(to) Medical Services Reserve                           | 16(c) | (107)          | (204)          |
| Transfer from/(to) Lodge Reserve                                       | 16(e) | (16)           | (72)           |
| Share Fund Appropriation from Lodge Reserve                            | 24    | 12             | 78             |
| Transfers from/(to) the General Reserve                                |       |                |                |
| - Release of realised gain on disposal of leasehold property           | 16(f) | -              | 374            |
| - Release of realised gain on disposal of holiday homes                | 16(f) | 43             | 753            |
| - Revaluation of investment properties                                 |       | 854            | 316            |
| - Unrealised profit/(loss) on change in fair value of financial assets |       | 528            | (151)          |
|  | 16(f) | <b>1,424</b>   | <b>1,293</b>   |
| Balance at the end of financial year                                   |       | <b>5,274</b>   | <b>4,886</b>   |

##### Voting rights

Voting rights are allocated to Districts and Lodges on a pro-rata basis, based on membership, in accordance with the General Rules.

# Manchester Unity Friendly Society

## Notes to the Financial Statements

for the financial year ended 31 May 2014

### 16. Reserves

|  |       | 2014<br>\$'000 | 2013<br>\$'000 |
|--|-------|----------------|----------------|
|  | Note  |                |                |
| District and Lodge Relief Fund               | 16(a) | 968            | 968            |
| Society Benevolent and Emergency Relief Fund | 16(b) | 597            | 643            |
| Medical Services Reserve                     | 16(c) | 2,511          | 2,404          |
| Medical Services Fund                        | 16(d) | 750            | 750            |
| Lodge Reserve                                | 16(e) | 480            | 476            |
| General Reserve                              | 16(f) | 8,525          | 9,950          |
| <b>Total reserves</b>                        |       | <b>13,831</b>  | <b>15,190</b>  |

#### (a) District and Lodge Relief Fund

|  |    |            |            |
|--|----|------------|------------|
| Balance at the beginning of financial year |    | 968        | 968        |
| Distributions to members                   |    | -          | -          |
| Transfer to retained earnings              | 15 | -          | -          |
| Balance at the end of financial year       |    | <b>968</b> | <b>968</b> |

The District and Lodge Relief Fund is administered by the Board of Directors under General Rule 39.  
The fund exists for the purpose of assisting the Districts and Lodges.

#### (b) Society Benevolent and Emergency Relief Fund

|  |    |            |            |
|--|----|------------|------------|
| Balance at the beginning of financial year |    | 643        | 669        |
| Net payments to members                    |    | (46)       | (26)       |
| Allocation of surplus                      |    | -          | -          |
| Transfer from/(to) retained earnings       | 15 | (46)       | (26)       |
| Balance at the end of financial year       |    | <b>597</b> | <b>643</b> |

The Society Benevolent Fund is administered by the Board of Directors under General Rule 35.  
The fund is held for the purpose of making grants to members of the Society and their families for such benevolent charitable, educational, philanthropic or cultural purposes as the Directors see appropriate.

#### (c) Medical Services Reserve

|  |    |              |              |
|--|----|--------------|--------------|
| Balance at the beginning of financial year |    | 2,404        | 2,200        |
| Transfers from/(to) retained earnings      | 15 | 107          | 204          |
| Balance at the end of financial year       |    | <b>2,511</b> | <b>2,404</b> |

The medical services reserve was established from prior year unallocated profits.  
Amounts are transferred from the reserve to retained earnings to offset liabilities incurred as and when required.

#### (d) Medical Services Fund

|  |    |            |            |
|--|----|------------|------------|
| Balance at the beginning of financial year |    | 750        | 750        |
| Transfers from/(to) retained earnings      | 15 | -          | -          |
| Balance at the end of financial year       |    | <b>750</b> | <b>750</b> |

The Medical services fund was set up under Rule 34 to provide three tiers of health care insurance to contributing members being primary, comprehensive, and surgical only.



# Manchester Unity Friendly Society

## Notes to the Financial Statements

for the financial year ended 31 May 2014

### 16. Reserves (cont'd)

|  |      | 2014<br>\$'000 | 2013<br>\$'000 |
|--|------|----------------|----------------|
| <b>(e) Lodge Reserves</b>                  | Note |                |                |
| Balance at the beginning of financial year |      | 476            | 482            |
| Transfer from/(to) retained earnings       | 15   | 16             | 72             |
| Appropriation to share funds               | 24   | (12)           | (78)           |
| Balance at the end of financial year       | 24   | <b>480</b>     | <b>476</b>     |

For details of this reserve refer to Note 24.

### (f) General reserve

|  |    |              |              |
|--|----|--------------|--------------|
| Balance at the beginning of financial year                           |    | 9,950        | 11,242       |
| Release of realised gain on disposal of leasehold property           | 15 | -            | (374)        |
| Release of realised gain on disposal of holiday homes                | 15 | (43)         | (753)        |
| Revaluation of investment properties                                 |    | (854)        | (316)        |
| Unrealised profit/(loss) on change in fair value of financial assets |    | (528)        | 151          |
| Transfer from/(to) retained earnings                                 | 15 | (1,424)      | (1,293)      |
| Balance at the end of financial year                                 |    | <b>8,525</b> | <b>9,950</b> |

The general reserve represents unrealised gains/losses made on Manchester Unity's investment properties, equities and fixed interest securities since acquisition of the assets. The unrealised gains/losses are not represented by cash funds. Accordingly the Directors do not consider it appropriate to make the reserve available for distribution to members' funds. When the assets are realised, gains/losses made since acquisition date are transferred from the general reserve to retained earnings.

### 17. Investment in subsidiary

UNITY Limited is a 100% owned subsidiary of Manchester Unity and ceased trading on 31 May 2013. Manchester Unity wrote down its investment in UNITY Limited at 31 May 2002 and 31 May 2003.

#### Subsidiary owned at 31 May 2014

|  |             | Interest held<br>2014<br>\$'000 | 2013<br>\$'000         |
|--|-------------|---------------------------------|------------------------|
| UNITY Limited  | Non trading | 100%                            | 100%                   |
| UNITY Limited is a New Zealand incorporated company. |             |                                 |                        |
| <b>UNITY Limited:</b>                                |             | <b>2014<br/>\$'000</b>          | <b>2013<br/>\$'000</b> |
| Investment in UNITY Limited                          |             | 500                             | 500                    |
| Convertible notes issued 2002                        |             | 1,127                           | 1,127                  |
| Convertible notes issued 2003                        |             | 296                             | 296                    |
| Adjustment to carrying value 2002                    |             | (1,566)                         | (1,566)                |
| Adjustment to carrying value 2003                    |             | (344)                           | (344)                  |
|  |             | <b>13</b>                       | <b>13</b>              |

UNITY Limited convertible notes were issued on the following terms:

15% interest rate payable annually at the discretion of Manchester Unity, and is convertible into share capital at the option of Manchester Unity. The convertible notes do not confer on the holders any right to vote at any meeting of the company.

# Manchester Unity Friendly Society

## Notes to the Financial Statements

for the financial year ended 31 May 2014

### 18. Related parties

#### Related Party Disclosures

The Directors of Manchester Unity during the financial year were:

- G J Allanson
- M G Ambrose
- P L Haglund
- J H Lowe
- I R Taylor
- P W Schumacher - resigned 17 September 2013

#### Transactions with Directors and Director Related Entities

Since the end of the previous financial year no Director has received any benefit (other than set out below) by reason of a contract made by Manchester Unity or its subsidiary with a Director, or a firm of which the Director is a member or with a company in which the Director has a substantial interest.

#### Other Transactions

During the financial year Manchester Unity provided accounting and administration services to the Manchester Unity Districts and Lodges for no consideration.

During the financial year interest on deposits held was paid to Manchester Unity Districts and, Lodges totalling \$164,000 (2013; \$139,000). The term of investments ranged from call to 5 years. Interest rates paid on the call deposits are reviewed in line with the deposit rates received by Manchester Unity from financial institutions. At balance date the weighted average annual interest rate being paid was 5.22% (2013; 5.39%).

Subsidiary company UNITY Limited ceased trading on 31 May 2013. During the financial year no management fees were charged (2013; \$12,500).

Outstanding balances with related parties are disclosed in notes 11 and 12.

No amounts were provided for doubtful debts relating to debts due from related parties at reporting date (2013:Nil)

#### Key Management Personnel Compensation

The compensation of the Directors and executives, being the key management personnel of Manchester Unity, is set out below:

|                              | 2014<br>\$'000 | 2013<br>\$'000 |
|------------------------------|----------------|----------------|
| Short-term employee benefits | 507            | 422            |
| <b>Total</b>                 | <b>507</b>     | <b>422</b>     |



# Manchester Unity Friendly Society

## Notes to the Financial Statements

for the financial year ended 31 May 2014

### 19. Leases

|   | 2014<br>\$'000 | 2013<br>\$'000 |
|---|----------------|----------------|
| <b>Leases as lessee</b>                         |                |                |
| <b>Non-cancellable operating lease payments</b> |                |                |
| No longer than one year                         | 89             | 92             |
| Longer than one year and less than five years   | 185            | 95             |
| Longer than five years                          | -              | -              |
|   | <b>274</b>     | <b>187</b>     |

Operating leases disclosed relate to the lease of the Society's Lambton Quay Offices. The current lease for a term of 4 years was signed in June 2013. There is an option to extend the lease for a further 4 years.

The lease agreement contains a clause that market rent reviews are to be carried out every 2 years.

The Society does not have the option to purchase the space at the expiry of the lease period.

#### Leases as lessor

|  | 2014<br>\$'000 | 2013<br>\$'000 |
|--|----------------|----------------|
| <b>Non-cancellable operating lease receivables</b> |                |                |
| Not longer than one year                           | 926            | 1,255          |
| Longer than one year and less than five years      | 1,935          | 2,159          |
| Longer than five years                             | 617            | 831            |
|  | <b>3,478</b>   | <b>4,245</b>   |

Operating leases relate to commercial investment properties and leasehold land. Commercial properties owned by the group have lease terms of between 1 and 10 years. With one exception all leases have rights of renewal, with renewal durations between 3 and 6 years. The lessee's do not have the right to purchase the properties at the end of the lease period.

Leasehold land is leased out on 14 year terms with rights of renewal for the same period in perpetuity. A rent review is conducted at the end of each lease term. The leaseholders do not have the right to purchase the land. From time to time the Trustees approve the freeholding of the properties at a market value set by a registered independent valuer.

### 20. Contingent liabilities and contingent assets

At balance date the group has no contingent liabilities or contingent assets (2013: Nil).

### 21. Commitments for expenditure

#### Capital expenditure commitments

The group had no capital commitments at balance date (May 2013: Nil).

#### Lease commitments

Non-cancellable operating lease commitments are disclosed in note 19 to the financial statements.

#### Other commitments

The parent has a funding commitment to its subsidiary UNITY Limited for \$295,000 in convertible notes (2013: \$295,000).



# Manchester Unity Friendly Society

## Notes to the Financial Statements

for the financial year ended 31 May 2014

### 22. Notes to the cash flow statement

|   | 2014<br>\$'000 | 2013<br>\$'000 |
|---|----------------|----------------|
| <b>Reconciliation of net cash provided by operating activities to net surplus/(deficit) for the period is as follows:</b> |                |                |
| Total comprehensive income  | (971)          | 830            |
| <b>Add/(less) non cash items:</b>   |                |                |
| -revaluation of investment property   | 854            | 316            |
| -depreciation and amortisation  | 35             | 36             |
| -appropriations to member benefit funds   | 379            | 377            |
| -changes in fair value of financial assets through profit or loss account   | 528            | (151)          |
| -change in life insurance contract obligations  | (499)          | (913)          |
| <b>Add/(less) change in operating assets:</b>   |                |                |
| -movement in contributions in advance   | (18)           | (19)           |
| -movement in interest receivable  | (102)          | (12)           |
| -movement in accounts receivable  | 208            | (43)           |
| -movement in contributions in arrears   | 3              | (5)            |
| -movement in other assets   | (6)            | 3              |
| -movement in trade and other payables   | (37)           | 143            |
| -movement in provisions   | (10)           | 11             |
| Member benefit fund contributions less withdrawals ***  | 33             | 99             |
| <b>Add/(less) items reclassified as investing activities:</b>   |                |                |
| -realised loss/(gain) on disposal of financial assets designated at fair value through profit or loss                     | -              | (47)           |
| -gain on sale of investment properties  | 14             | (197)          |
| <b>Net cash inflow/(outflow) from operating activities:</b>   | <b>411</b>     | <b>429</b>     |

\*\*\* The difference between this figure and that in Note 12 is the value of non cash assets transferred by Lodges.

### 23. Financial Instruments

#### (a) Capital management objectives

The group manages its activities to ensure that the group is able to continue as a going concern while maximising the return to members through the prudent investment of funds as discussed below.

#### (b) Financial risk management objectives

Financial risk management activities are undertaken by the group as part of their investment management, in accordance with the investment policy as approved by the Board of Directors. The investment policy is reviewed by the Directors at least annually.

The group does not enter into or trade financial instruments, for speculative purposes. The group's activities expose it primarily to the financial risk of changes in interest rates.

#### (c) Significant accounting policies

Details of the significant accounting policies and methods adopted, including the criteria for recognition, and the basis of measurement applied in respect of each class of financial asset are disclosed in note 1 to the financial statements.

#### (d) Interest rate and liquidity risk

The group is exposed to interest rate risk in that the future interest rate movement will affect the net market value of fixed interest securities, and that rates on short term deposits will drop. Risk management activities are undertaken by Manchester Unity in accordance with the investment policy as disclosed in note 23(b).



# Manchester Unity Friendly Society

## Notes to the Financial Statements

for the financial year ended 31 May 2014

### 23. Financial Instruments (cont'd)

#### (d) Interest rate and liquidity risk management (cont'd)

##### Maturity profile of financial instruments

The following tables detail the group's exposure to interest rate and liquidity risk at 31 May 2014 and 31 May 2013 and are based on undiscounted cash flows:

|   | Weighted<br>average<br>interest<br>rate<br>% | Maturity dates                |                        |                                | Total<br>\$'000 |
|---|--|-------------------------------|------------------------|--------------------------------|-----------------|
|   |  | Less than 1<br>year<br>\$'000 | 1-5<br>years<br>\$'000 | More than 5<br>years<br>\$'000 |                 |
| <b>2014</b>   |  |                               |                        |                                |                 |
| <b>Financial assets:</b>  |  |                               |                        |                                |                 |
| Cash and cash equivalents   | 4.10%  | 7,164                         | -                      | -                              | 7,164           |
| Other financial assets designated at fair value through profit or loss: |  |                               |                        |                                |                 |
| Government stock  | 6.00%  | 1,609                         | 576                    | -                              | 2,185           |
| Local authority stock   | 6.52%  | 729                           | 1,609                  | -                              | 2,338           |
| Corporate stock   | 5.83%  | 5,921                         | 24,304                 | 12,167                         | 42,393          |
| Bank term deposits  | 4.83%  | 8,284                         | 1,534                  | -                              | 9,818           |
| NZ Equity   |  | 2,213                         | -                      | -                              | 2,213           |
| Australian Equity   |  | 1,688                         | -                      | -                              | 1,688           |
| Trade and other receivables:  |  |                               |                        |                                |                 |
| First mortgage securities   | 7.50%  | 427                           | -                      | -                              | 427             |
| IAB Loans and advances  | 7.42%  | 7                             | 4                      | 175                            | 186             |
| Other receivables   |  | 630                           | -                      | -                              | 630             |
|   |  | <b>28,672</b>                 | <b>28,027</b>          | <b>12,342</b>                  | <b>69,041</b>   |
| <b>Financial liabilities:</b>   |  |                               |                        |                                |                 |
| Trade and other payables  |  | 395                           | -                      | -                              | 395             |
| District, Lodge and other deposits                                      | 5.22%  | 2,342                         | 1,014                  | -                              | 3,356           |
| Member benefit fund liabilities   |  | 10,466                        | -                      | -                              | 10,466          |
|   |  | <b>13,203</b>                 | <b>1,014</b>           |                                | <b>14,217</b>   |
| <b>2013</b>   |  |                               |                        |                                |                 |
| <b>Financial assets:</b>  |  |                               |                        |                                |                 |
| Cash and cash equivalents   | 4.15%  | 6,636                         | -                      | -                              | 6,636           |
| Other financial assets designated at fair value through profit or loss: |  |                               |                        |                                |                 |
| Government stock  | 6.00%  | 120                           | 2,185                  | -                              | 2,305           |
| Local authority stock   | 6.69%  | 2,125                         | 2,338                  | 30                             | 4,493           |
| Corporate stock   | 6.29%  | 7,223                         | 16,828                 | 8,013                          | 32,064          |
| Bank term deposits  | 4.46%  | 13,924                        | 1,867                  | -                              | 15,791          |
| NZ Equity   |  | 1,899                         | -                      | -                              | 1,899           |
| Australian Equity   |  | 1,642                         | -                      | -                              | 1,642           |
| Trade and other receivables:  |  |                               |                        |                                |                 |
| First mortgage securities   | 7.50%  | 30                            | 430                    | -                              | 460             |
| IAB Loans and advances  | 7.68%  | 10                            | 18                     | 163                            | 191             |
| Other receivables   |  | 777                           | -                      | -                              | 777             |
|   |  | <b>34,386</b>                 | <b>23,666</b>          | <b>8,206</b>                   | <b>66,258</b>   |
| <b>Financial liabilities:</b>   |  |                               |                        |                                |                 |
| Trade and other payables  |  | 432                           | -                      | -                              | 432             |
| District, Lodge and other deposits                                      | 5.39%  | 1,985                         | 1,173                  | 210                            | 3,368           |
| Member benefit fund liabilities   |  | 10,080                        | -                      | -                              | 10,080          |
|   |  | <b>12,497</b>                 | <b>1,173</b>           | <b>210</b>                     | <b>13,880</b>   |

Interest rate repricing is generally consistent to the maturity date for the financial instruments in the table above.

All financial liability counterparties rank equally.



# Manchester Unity Friendly Society

## Notes to the Financial Statements

for the financial year ended 31 May 2014

### 23. Financial Instruments (cont'd)

#### (d) Interest rate and liquidity risk management (cont'd)

##### Interest rate sensitivity

Manchester Unity invests in fixed interest securities and bank deposits in the main and it is the intention of the Directors to hold the investments to maturity. As a consequence interest rate sensitivity is limited to changes in interest rates earned on bank deposits. Each 1% movement in interest rates up or down will equate to an increase/decrease in comprehensive income and equity attributable to members of \$157,000 (2013; \$210,000).

##### (e) Equity price risk

The parent and group are exposed to equity price risks arising from equity investments. Equity investments are held for strategic rather than trading purposes. The Society does not actively trade its equity investments.

The equity price sensitivity analysis below has been determined based on the exposure to equity prices at 31 May. If equity prices had been 5% higher/lower, the Group and Parent's Comprehensive income for the year ended 31 May would have been \$194,000 higher/lower and "Total equity" would similarly have been \$194,000 higher/lower.

The Group and Parent's sensitivity to equity prices has not changed significantly during the year.

##### (f) Credit risk management

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the group. The group has adopted a policy of only dealing with creditworthy counterparties. The group's exposure and the credit ratings of its counterparties are continuously monitored and the aggregate values of transactions concluded is spread amongst approved counterparties. Credit exposure is controlled by counterparty limits that are reviewed and approved annually by the Board of Directors. At balance date there were 8 counterparties (2013; 8) where the group's investment was greater than 10% of Total Equity. The number of counterparties, their credit rating and the level of exposure is set out in the table below:

| Credit Rating | 2014           |                |                |                | 2013           |                |                |
|---------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|
|               | 10% to<br><20% | 20% to<br><30% | 30% to<br><40% | 60% to<br><70% | 10% to<br><20% | 20% to<br><30% | 30% to<br><40% |
| AA+           | 1              | -              | -              | -              | 1              | -              | -              |
| AA            | -              | 1              | -              | -              | 1              | -              | -              |
| AA-           | -              | 1              | 2              | 1              | -              | 2              | 2              |
| A+            | 1              | -              | -              | -              | 1              | 2              | -              |
| A-            | -              | -              | -              | -              | 1              | -              | -              |
| BBB+          | 1              | -              | -              | -              | 1              | -              | -              |

The group obtains collateral to cover credit risk exposures on IAB loans and advances and mortgages and such collateral includes properties and life insurance policies. Mortgages over properties are advanced at approximately 70% of market valuation. Loans against life insurance policies are advanced at up to 90% of their surrender value. There are no financial assets that are past due or impaired, and no financial assets that would otherwise be past due or impaired whose terms have been renegotiated.

The group has credit risk exposure to a group of counterparties having similar characteristics being New Zealand registered banks. The credit risk on liquid funds and term deposits is considered to be limited as the counterparties are banks with high credit-ratings assigned by international credit-rating agencies. Manchester Unity invests in rated and unrated corporate bonds. The bonds rated by Standard and Poors bonds range from AAA to BBB.

The maximum exposure to credit risk on the financial assets of the group is represented by the carrying amount as recorded in the financial statements.

##### (g) Foreign exchange risk

Overseas equities are held and no foreign exchange cover is in place. A 10% movement in the exchange rate between the Foreign currency the shares are denominated in and New Zealand dollar will equate to a variation in comprehensive income and equity attributable to members of approximately \$143,000 (2013; \$140,000).

##### (h) Liquidity risk management

Liquidity risk is the risk that the group will encounter difficulty in raising funds at short notice to meet its commitments. The group maintains sufficient funds to meet its commitments based on historical and forecasted cash flow requirements. Liquidity risk and exposure is reviewed on an on-going basis.



# Manchester Unity Friendly Society

## Notes to the Financial Statements

for the financial year ended 31 May 2014

### 23. Financial Instruments (cont'd)

#### (i) Fair value of financial assets and liabilities within the scope of NZ IAS-39

The Directors consider that the carrying amount of financial assets and financial liabilities recorded in the financial statements approximates their fair values.

The fair values of financial assets and financial liabilities are determined as follows:

- The fair value of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices.
- Where no market price is available, a yield to maturity valuation is done based on securities of a similar type or duration.

#### (j) Financial assets and financial liabilities by measurement basis

The following table details the group's financial assets and liabilities within the scope of NZ IAS-39 by measurement basis:

Designated as FVTPL:

L&R:

AC:

Financial instruments backing insurance obligations are designated at fair value through profit or loss in accordance with NZ IFRS-4: *Insurance Contracts*

Loans and receivables

Amortised cost

|  | Designated<br>as FVTPL<br>\$'000 | L&R<br>at AC<br>\$'000 | AC<br>\$'000  | Total<br>\$'000 |
|--|----------------------------------|------------------------|---------------|-----------------|
| <b>2014</b>  |                                  |                        |               |                 |
| <b>Financial assets:</b>   |                                  |                        |               |                 |
| Cash and cash equivalents  | 7,110                            | -                      | -             | 7,110           |
| Other financial assets designated at fair value through profit or loss | 52,381                           | -                      | -             | 52,381          |
| Trade and other receivables  | -                                | 1,154                  | -             | 1,154           |
| <b>Total financial assets</b>  | <b>59,491</b>                    | <b>1,154</b>           |               | <b>60,645</b>   |
| <b>Financial liabilities:</b>  |                                  |                        |               |                 |
| Trade and other payables   | -                                | -                      | 395           | 395             |
| District, Lodge and other deposits                                     | -                                | -                      | 3,160         | 3,160           |
| Member benefit fund liabilities  | -                                | -                      | 10,466        | 10,466          |
| <b>Total financial liabilities</b>                                     | <b>-</b>                         | <b>-</b>               | <b>14,022</b> | <b>14,022</b>   |
| <b>2013</b>  |                                  |                        |               |                 |
| <b>Financial assets:</b>   |                                  |                        |               |                 |
| Cash and cash equivalents  | 6,619                            | -                      | -             | 6,619           |
| Other financial assets designated at fair value through profit or loss | 52,596                           | -                      | -             | 52,596          |
| Trade and other receivables  | -                                | 1,273                  | -             | 1,273           |
| <b>Total financial assets</b>  | <b>59,215</b>                    | <b>1,273</b>           | <b>-</b>      | <b>60,488</b>   |
| <b>Financial liabilities:</b>  |                                  |                        |               |                 |
| Trade and other payables   | -                                | -                      | 440           | 440             |
| District, Lodge and other deposits                                     | -                                | -                      | 3,079         | 3,079           |
| Member benefit fund liabilities  | -                                | -                      | 10,080        | 10,080          |
| <b>Total financial liabilities</b>                                     | <b>-</b>                         | <b>-</b>               | <b>13,599</b> | <b>13,599</b>   |

In both asset and liability tables the parent amounts are materially the same as the group reported amounts.

# Manchester Unity Friendly Society

## Notes to the Financial Statements

for the financial year ended 31 May 2014

### 23. Financial Instruments (cont'd)

#### (j) Fair value measurements recognised in the Statement of Financial Position

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable:

Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

|                           | Level 1<br>\$'000 | Level 2<br>\$'000 | Level 3<br>\$'000 | Total<br>\$'000 |
|---------------------------|-------------------|-------------------|-------------------|-----------------|
| <b>2013</b>               |                   |                   |                   |                 |
| Cash and cash equivalents | 7,110             | -                 | -                 | 7,110           |
| Bank term deposits        | -                 | 9,280             | -                 | 9,280           |
| Government bonds          | 2,068             | -                 | -                 | 2,068           |
| Local Authority bonds     | 2,177             | -                 | -                 | 2,177           |
| Corporate bonds           | 34,954            | -                 | -                 | 34,954          |
| Equity Investments        | 3,901             | -                 | -                 | 3,901           |
|                           | <b>50,210</b>     | <b>9,280</b>      | -                 | <b>59,490</b>   |
| <b>2012</b>               |                   |                   |                   |                 |
| Cash and cash equivalents | 6,619             | -                 | -                 | 6,619           |
| Bank term deposits        | -                 | 15,130            | -                 | 15,130          |
| Government bonds          | 2,157             | -                 | -                 | 2,157           |
| Local Authority bonds     | 3,675             | -                 | -                 | 3,675           |
| Corporate bonds           | 28,093            | -                 | -                 | 28,093          |
| Equity Investments        | 3,541             | -                 | -                 | 3,541           |
|                           | <b>44,085</b>     | <b>15,130</b>     | -                 | <b>59,215</b>   |

There were no transfers between Levels 1 and 2 during the year.

#### (k) Solvency risk

There is a risk that a significant adverse change could result in the Society not meeting Reserve Bank of New Zealand solvency benchmark. The most likely such change is a significant reduction in the discount rate which is the 10 year mid swap rate.



## Manchester Unity Friendly Society

### Notes to the Financial Statements

for the financial year ended 31 May 2014

#### 24. Lodge reserve

Two Lodges have transferred land and buildings to Society with a requirement that all income, including capital gains and losses, on those "ring-fenced" assets be held for the benefit of their Lodge members until such time as the Lodge Trustees agree to distribution. At balance date the fair value of the these "ring-fenced" assets was \$1,370,000 (2013; \$1,392,600).

|  | Note | 2014<br>\$'000 | 2013<br>\$'000 |
|--|------|----------------|----------------|
| Balance Lodge Reserve at beginning of year             |      | 476            | 482            |
| Income included in Statement of Comprehensive Income   |      |                |                |
| - Revaluation investment property                      |      | (22)           | -              |
| - Commercial properties rental income                  |      | 70             | 60             |
| - Realised gain/(loss) on sale of financial assets     |      | -              | -              |
| designated at fair value through profit or loss        |      | -              | 47             |
| Expenses included in Statement of Comprehensive Income |      |                |                |
| Direct property expenses of investment properties:     |      |                | -              |
| - Commercial properties                                |      | (32)           | 35             |
| Transfer from/(to) Retained earnings (Note 15)         |      | 16             | 72             |
| Appropriation to Share Funds (Notes 15)                |      | (12)           | (78)           |
| Balance Lodge Reserve at end of year (Note 16(e))      |      | <b>480</b>     | <b>476</b>     |

Normal Society appropriations to Lodge share funds are adjusted to reflect this arrangement.

#### Assets and liabilities transferred on consolidation under Rule 38

|  | 2014<br>\$'000 | 2013<br>\$'000 |
|--|----------------|----------------|
|  | Ashburton      | Hastings       |
| Trade and other receivables  | -              | -              |
| Other financial assets designated at fair value through profit or loss | -              | -              |
| Investment property  | -              | -              |
| Cash and cash equivalents  | 467            | 518            |
|  | <b>467</b>     | <b>518</b>     |
| Member share funds   | <b>467</b>     | <b>518</b>     |

#### 25. Segmental reporting

Manchester Unity operates in one geographic region being New Zealand and is organised into one operating segment being insurance and other activities for which discreet financial information is available that is monitored by the Directors. The Directors assess the underwriting results of the insurance products and monitor them to ensure that surplus reserves are held to fund underwriting losses as may be necessary. Disclosures of revenues, expenses and liabilities, as disclosed in note 14(b), are the level of detail reviewed by the Directors in regards to segmental analysis.

Assets are identified as being held to back the insurance contract obligations and other activities, and are not managed separately to other investments. Investment activity is undertaken to provide a return to the members of Manchester Unity who have purchased a financial product.

Investment returns are achieved through the investment in property, term deposits, fixed interest securities and equities.

#### 26. Subsequent events

There have been no material events subsequent to balance date (2013; NIL).



## **INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF MANCHESTER UNITY FRIENDLY SOCIETY**

### **Report on the Financial Statements**

We have audited the financial statements of Manchester Unity Friendly Society (the "Society") and Group on pages 3 to 37, which comprise the consolidated and separate statements of financial position as at 31 May 2014, and the statements of comprehensive income, statements of changes in equity and cash flow statements for the year then ended, and a summary of significant accounting policies and other explanatory information.

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

### **Board of Directors' Responsibility for the Financial Statements**

The Board of Directors 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 of Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditor's Responsibilities**

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 and 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 Society'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 Society's internal control. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates, as well as 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 taxation related advice, we have no relationship with or interests in Manchester Unity Friendly Society or its subsidiary UNITY Limited.

### **Opinion**

In our opinion, the financial statements on pages 3 to 37:

- comply with generally accepted accounting practice in New Zealand;
- comply with International Financial Reporting Standards; and
- give a true and fair view of the financial position of Manchester Unity Friendly Society and Group as at 31 May 2014, and their financial performance and their cash flows for the year ended on that date.

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

We also report in accordance with section 16 of the Financial Reporting Act 1993. In relation to our audit of the financial statements for the year ended 31 May 2014:

- we have obtained all the information and explanations we have required; and
- in our opinion proper accounting records have been kept by the Society as far as appears from our examination of those records.



**Chartered Accountants**  
24 July 2014  
Wellington, New Zealand



## Greystone Consulting

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26 August 2014

Sanjiv Jetly  
General Manager  
Manchester Unity Friendly Society  
PO Box 5083  
Wellington

Dear Sanjiv

### **Report Under Sections 77 and 78 of the Insurance (Prudential Supervision) Act**

As requested, I attach my report to comply with sections 77 and 78 of the Act.

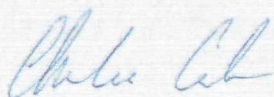
### **Reliance and Limitations**

This letter and attached report is for the use of the Society for the purposes set out above. No use may be made of this letter and attached report by the Society for any other purpose. No use may be made of this letter by any third party for any purpose.

I will not accept any liability or responsibility to any third party recipients of my letter or attached report under any circumstances.

No onwards distribution of this letter by the Society to third parties other than as required by law is permitted. I understand that the attached report will be available as a public document.

Yours sincerely



Charlie Cahn

# Greystone Consulting

## Manchester Unity Friendly Society

### **Review of Actuarial Information In, or Used In Preparation of, the Financial Statements at 31 May 2014**

This report is to provide certain information and certification as required under Sections 77 and 78 of the Insurance (Prudential Supervision) Act 2010 (the Act). This information is actuarial information in, or used in, the preparation of, the financial statements as at 31 May 2014.

I have provided a "Valuation Report" dated 23 July 2014, which contains detailed advice on actuarial information for the financial statements,

The Solvency Standard for Life Insurance Business issued under the Act (the Standard) specifies which is actuarial information.

I have reviewed the following actuarial information:

- The member insurance contract liabilities (referred to in the Standard as Policy Liability).
- The members' unvested benefit liability.(referred to in the Standard as unvested policyholder benefits liability).
- Note 14(d) to the financial statements containing valuation method, disclosure of assumptions, components of member insurance contract obligations, maturity profile of member insurance contract obligations, and solvency, and note 23(k) to the financial statements containing solvency risk..

The Society has no reinsurance and no deferred tax or deferred acquisition assets.

I can advise as follows:

- There were no limitations or restrictions placed on me in carrying out this work, and I have obtained all the information and explanation that I required.
- My relationship with or interest in the Society is limited to that of Appointed Actuary.
- It is the Society's established policy to seek my advice on actuarial information and to adopt my advice in the financial statements.
- The actuarial information provided by me has been prepared in accordance with the New Zealand Equivalent of International Financial Reporting Standard 4, and Professional Standard 3 of the New Zealand Society of Actuaries
- The actuarial information contained in, and used in the preparation of, the financial statements has been appropriately included and used.
- In my opinion, and from an actuarial perspective, the Society is maintaining, at the balance date, the solvency margin as required under the Act.
- The Society has an exemption from the requirement to maintain statutory funds.



Charles Cahn  
FIAA FNZSA  
Appointed Actuary  
6 August 2014