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# **Annual Report**

**Manchester Unity Friendly Society**  
**For the year ended 31 May 2017**

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# Consolidated Statement of Comprehensive Income

Manchester Unity Friendly Society  
For the year ended 31 May 2017

	NOTES	2017	2016
<b>Insurance before movement in life insurance obligations</b>			
Premiums	4	1,370,595	1,446,793
Claims paid & provided for	4	(3,570,555)	(3,767,290)
<b>Total Insurance before movement in life insurance obligations</b>		<b>(2,199,960)</b>	<b>(2,320,497)</b>
<b>Movement in life insurance contract obligations</b>			
Movement in life insurance contract obligations		1,869,260	2,596,158
<b>Total Movement in life insurance contract obligations</b>		<b>1,869,260</b>	<b>2,596,158</b>
<b>Insurance surplus/(deficit) before investment activities</b>		<b>(330,700)</b>	<b>275,661</b>
<b>Investment</b>			
Net investment income	4	3,360,593	3,552,904
Gains/(Losses) from revaluations and disposals	4	466,102	142,010
<b>Total Investment</b>		<b>3,826,695</b>	<b>3,694,913</b>
<b>Operating Expenses</b>			
Operating Expenses	5	(1,971,210)	(1,941,490)
<b>Total Operating Expenses</b>		<b>(1,971,210)</b>	<b>(1,941,490)</b>
<b>Surplus after insurance, investment activities &amp; operating expenses</b>		<b>1,524,784</b>	<b>2,029,084</b>
<b>Holiday Homes and Member Benefits</b>			
Net holiday homes income	6	39,497	37,167
Gains from revaluations and movements	6	365,216	469,565
Member Benefit Expense	6	(217,373)	(55,535)
<b>Total Holiday Homes and Member Benefits</b>		<b>187,339</b>	<b>451,196</b>
<b>Fraternity</b>			
Fraternal Income	7	275,581	286,764
Fraternal Operating Expenses	7	(546,193)	(548,202)
<b>Total Fraternity</b>		<b>(270,613)</b>	<b>(261,438)</b>
<b>Operating surplus/(deficit)</b>		<b>1,441,511</b>	<b>2,218,843</b>
<b>Other Income</b>			
Other Income	8	32,996	43,024
<b>Total Other Income</b>		<b>32,996</b>	<b>43,024</b>
<b>Total comprehensive income for the year</b>		<b>1,474,508</b>	<b>2,261,867</b>

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

# Consolidated Statement of Changes in Equity

Manchester Unity Friendly Society  
For the year ended 31 May 2017

	NOTES	2017	2016
<b>Retained Earnings</b>			
Opening Balance		6,518,939	5,529,626
Movement during the year	18	(97,726)	989,312
<b>Total Retained Earnings</b>		<b>6,421,213</b>	<b>6,518,939</b>
<b>Reserves</b>			
Opening Balance		15,744,934	14,475,880
Movement during the year	19	1,571,104	1,269,054
<b>Total Reserves</b>		<b>17,316,038</b>	<b>15,744,934</b>
<b>Total Equity</b>		<b>23,737,251</b>	<b>22,263,873</b>

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

# Consolidated Statement of Financial Position

## Manchester Unity Friendly Society

As at 31 May 2017

	NOTES	31 MAY 2017	31 MAY 2016
<b>Assets</b>			
Cash & cash equivalents	10	2,755,968	1,448,022
Other financial assets designated at fair value through profit or loss	11	59,969,534	64,209,416
Trade and other receivables	12	482,146	702,348
Other assets	13	45,828	31,055
Investment property	14	18,019,566	16,164,350
Property, Plant and Equipment		53,809	38,118
<b>Total Assets</b>		<b>81,326,852</b>	<b>82,593,310</b>
<b>Liabilities</b>			
Trade and other payables	15	344,798	348,537
District & Lodge deposits		1,518,911	2,529,291
Member benefit fund liabilities	16	12,476,954	12,329,820
Employee entitlements		133,311	136,901
Member insurance contract obligations	17	43,115,628	44,984,888
<b>Total Liabilities</b>		<b>57,589,602</b>	<b>60,329,437</b>
<b>Net Assets</b>		<b>23,737,251</b>	<b>22,263,873</b>
<b>Equity</b>			
Retained earnings	18	6,421,213	6,518,939
<b>Reserves</b>			
District & Lodge relief fund	19	968,222	968,222
Society benevolent & emergency relief fund	19	552,209	568,492
Restricted reserve - Lodge reserve	19	481,250	474,250
Medical services reserve	19	2,549,704	2,508,453
Medical services fund	19	750,000	750,000
Funeral Plan Fund	19	8,605	-
General reserve	19	12,006,048	10,475,517
<b>Total Reserves</b>		<b>17,316,038</b>	<b>15,744,934</b>
<b>Total Equity</b>		<b>23,737,251</b>	<b>22,263,873</b>

The Directors of Manchester Unity Friendly Society authorised these financial statements for issue on 19 July 2017.

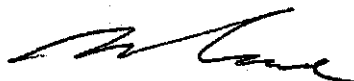
On behalf of the Board:



Graham Allanson

CHAIR OF AUDIT COMMITTEE

Date:



Michael Ambrose

DEPUTY CHAIR OF AUDIT COMMITTEE

Date:

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

# Consolidated Statement of Cash Flows

Manchester Unity Friendly Society  
For the year ended 31 May 2017

	NOTES	2017	2016
<b>Cashflow</b>			
<b>Cash from Operating Activities</b>			
<b>Cash was provided from:</b>			
Insurance premiums		1,376,690	1,449,415
Interest received		2,799,431	3,089,108
Dividends received		3,550	130,695
Rental income		840,174	822,204
Holiday homes income		144,266	146,857
Fraternal income		225,158	219,967
Other income		83,129	109,821
Member benefit fund contributions		677,921	1,268,835
<b>Total Cash was provided from:</b>		<b>6,150,319</b>	<b>7,236,902</b>
<b>Cash was applied to:</b>			
Payments to suppliers and employees		(2,815,765)	(2,872,464)
Payments for claims		(3,569,425)	(3,767,291)
Payments to member benefit funds		(532,453)	(581,126)
Interest paid to District & Lodges		(94,302)	(147,943)
<b>Total Cash was applied to:</b>		<b>(7,011,945)</b>	<b>(7,368,824)</b>
<b>Total Cash from Operating Activities</b>		<b>(861,626)</b>	<b>(131,922)</b>
<b>Cash from Investing Activities</b>			
<b>Cash was provided from:</b>			
Proceeds from sale of investment properties		-	3,914,077
Proceeds from sale of financial assets		48,435,238	35,928,531
Repayment of mortgages & loans		64,107	240
Deposits received from District & Lodges		-	30,000
<b>Total Cash was provided from:</b>		<b>48,499,345</b>	<b>39,872,848</b>
<b>Cash was applied to:</b>			
Purchase of financial assets		(45,272,721)	(38,544,716)
Purchase of Property, Plant & Equipment		(46,672)	(11,437)
Deposit repayments to District & Lodges		(1,010,380)	(451,000)
<b>Total Cash was applied to:</b>		<b>(46,329,773)</b>	<b>(39,007,153)</b>
<b>Total Cash from Investing Activities</b>		<b>2,169,572</b>	<b>865,695</b>
Net Increase/Decrease in Cash Held		1,307,946	733,773
Add Opening Cash Brought Forward		1,448,022	714,250
Closing cash & cash equivalents		2,755,968	1,448,022

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

# Notes to the Financial Statements

## Manchester Unity Friendly Society For the year ended 31 May 2017

### 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, administered by the registered General Rules under that Act. 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 a FMC reporting entity for the purposes of the Financial Markets Conducts Act 2013 and the Financial Reporting Act 2013 and its financial statements comply with these Acts. Its registered office is located at 117 Lambton Quay, Wellington, New Zealand.

Manchester Unity (the Parent) and Unity Limited comprise the Manchester Unity Friendly Society Group (the Group).

### 1. Summary of accounting policies

#### 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 International Financial Reporting Standards (IFRS) and other applicable financial reporting standards as appropriate for profit entities.

#### Basis of Preparation

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

The functional and reporting currency used in preparation of the financial statements is New Zealand dollars.

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.

### 2. Significant Accounting Policies

The significant accounting policies used in the preparation of these financial statements as set out below have been applied consistently to both years presented in these financial statements.

#### 2.1 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, Unity Limited.

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.

#### 2.2 Premiums Revenue

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

### 2.3 Unearned Premiums

Unearned premiums relate only to the medical services fund and include the written contribution policies, gross of commission payable to intermediaries, attributable to subsequent periods. The change in unearned premiums is taken to the consolidated statement of comprehensive income so that revenue is recognised over the period of risk.

### 2.4 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 4 and PS-20, 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 17(c). 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 consolidated statement of comprehensive income as premiums and claims.

### 2.5 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.

### 2.6 Rental Income

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

### 2.7 Fair Value Measurements

Fair value measurements apply to both financial instrument items and non-financial instrument items. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions. Fair value is an exit price regardless of whether that price is directly observable or an estimate using another valuation technique.



## 2.8 Financial Assets

Financial assets are recognised and derecognised on settlement date and are initially measured at fair value including, for those financial assets not at fair value through profit or loss, 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 profit or loss, except that interest income and dividends are shown separately. Fair value is determined in the manner described in note 23.

### *Cash and cash equivalents*

Cash and cash equivalents comprise cash on hand, cash in banks and investments in money market instruments with a maturity term of less than 90 days.

### *Loans and receivables*

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

## 2.9 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 profit or loss in the period in which they arise.

## 2.10 Property, Plant and Equipment

Property, plant and 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 methods are 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

## 2.11 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 and Lodge deposits***

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

District and Lodge 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 16.

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.

## 2.12 Leases

### ***Group 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.

### ***Group as lessor***

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

## 2.13 GST

Revenues, expenses and assets are recognised exclusive of GST except for receivables and payables, which are stated with the amount of GST included.

Cash flows are included in the consolidated statement of cash flows 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.

## 2.14 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.

## 2.15 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 balance sheet liability 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.

## 2.16 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, 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.

## 2.17 Reserves

Certain monies are held aside in reserves, as disclosed in note 19. Movements in these reserves are recognised as transfers to and from retained earnings.

## 2.18 Consolidated statement of cash flows

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

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

## 2.19 Changes in accounting policies

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

### 3. 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 ongoing 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 Note 14 - valuation of investment properties (judgement) and Note 17 - insurance contract liability valuation.

### Standards or interpretations not yet effective

In the current year, the Group has applied all relevant Standards, Amendments and Interpretations to NZ IFRSs issued by the External Reporting Board ('XRB') that are mandatorily effective. The adoption of these Standards, Amendments and Interpretations have no material impact to the consolidated statements.

Various Standards, Amendments and Interpretations have been issued by the XRB at the date of these financial statements but have not been adopted by the Group as they are not yet effective. The table below sets out the Standards which are considered to be relevant to the Group upon their effective date. It is not practicable to determine the impact of these Standards on adoption as the Directors of the Society are in process of completing their impact assessment.

#### Note

IFRS 17 *Insurance Contracts* was issued by the International Accounting Standards Board on 18 May 2017. IFRS 17, which will supersede current accounting for insurance contracts, establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts to ensure that an entity provides relevant information that faithfully represents those contracts. The New Zealand Accounting Standards Board ('NZASB') of the XRB have agreed, in principle, to adopt IFRS 17 as an NZ IFRS and will consider a standard for approval at the next meeting in August 2017.

Standard Interpretation	Effective for annual reporting periods beginning on or after	Expected to be initially applied in the financial year ending
NZIFRS 9 'Financial Instruments'	1 January 2018	31 May 2019
NZIFRS 15 'Revenue from Contracts with Customers'	1 January 2018	31 May 2019
NZIFRS 16 'Leases'	1 January 2019	31 May 2020
IFRS 17 'Insurance Contracts'	1 January 2021	31 May 2022

### 4. Comprehensive Income Attributable to Members

	2017	2016
<b>Insurance</b>		
<b>Increasing Assurance Benefit</b>		
Premiums	209,293	241,735
Claims	(1,898,276)	(1,979,164)
<b>Total Increasing Assurance Benefit</b>	<b>(1,688,984)</b>	<b>(1,737,428)</b>

<b>Funeral Funds</b>		
Premiums	302,675	320,336
Claims	(974,146)	(1,064,076)
<b>Total Funeral Funds</b>	<b>(671,471)</b>	<b>(743,740)</b>
<b>Medical Services Fund</b>		
Premiums	815,690	846,842
Claims	(610,083)	(657,499)
<b>Total Medical Services Fund</b>	<b>205,607</b>	<b>189,343</b>
<b>Society Sickness Benefit</b>		
Claims	(13,910)	(15,363)
<b>Total Society Sickness Benefit</b>	<b>(13,910)</b>	<b>(15,363)</b>
<b>Education Support Plan</b>		
Premiums	33,997	37,880
Claims	(73,804)	(51,189)
<b>Total Education Support Plan</b>	<b>(39,807)</b>	<b>(13,309)</b>
<b>Funeral Plan</b>		
Premiums	8,940	-
Claims	(336)	-
<b>Total Funeral Plan</b>	<b>8,605</b>	<b>-</b>
<b>Total Insurance before movement in life insurance obligations</b>	<b>(2,199,960)</b>	<b>(2,320,497)</b>
	<b>2017</b>	<b>2016</b>
<b>Investment Income</b>		
<b>Rental Income</b>		
Commercial Property Income	562,972	583,376
Leasehold Property Income	297,742	270,950
<b>Total Rental Income</b>	<b>860,714</b>	<b>854,327</b>
<b>Interest Income</b>		
Bank Deposits	566,323	628,841
Fixed Interest Investments	2,060,130	2,213,453
Mortgages & Loans	27,160	29,675
District & Lodge Interest Received	94,302	147,943
<b>Total Interest Income</b>	<b>2,747,915</b>	<b>3,019,912</b>
<b>Dividend Income</b>		
Investments	3,550	130,695
<b>Total Dividend Income</b>	<b>3,550</b>	<b>130,695</b>
<b>Total Investment Income</b>	<b>3,612,179</b>	<b>4,004,934</b>
<b>Investment Expenses</b>		
Commercial properties	63,131	206,205
Leasehold Land	993	7,882
Financial Investment expenses	93,160	90,000
District & Lodge Interest Paid	94,302	147,943
<b>Total Investment Expenses</b>	<b>251,586</b>	<b>452,030</b>
<b>Net investment income</b>	<b>3,360,593</b>	<b>3,552,904</b>

	2017	2016
<b>Gains/(Losses) from Revaluations and Disposals</b>		
<b>Unrealised gains/(losses) from Revaluations and Disposals</b>		
Commercial Property Revaluation	505,000	(10,000)
Leasehold Land Revaluation	985,000	1,239,691
Fixed Interest Investments Revaluation	(98,629)	292,712
<b>Total Unrealised gains/(losses) from Revaluations and Disposals</b>	<b>1,391,371</b>	<b>1,522,403</b>
<b>Realised gain on disposal of investment property and financial assets</b>		
Gain/(Loss) on Sale of Leasehold Land	-	176,872
Gain/(Loss) on Sale of Financial Assets	(925,269)	(289,780)
Gain/(Loss) on Sale of Commercial Properties	-	(1,267,486)
<b>Total Realised gain on disposal of investment property and financial assets</b>	<b>(925,269)</b>	<b>(1,380,394)</b>
<b>Gains/(Losses) from Revaluations and Disposals</b>	<b>466,102</b>	<b>142,010</b>

## 5. Operating Expenses

	2017	2016
<b>Operating Expenses</b>		
Audit Fees for financial statement audit	53,791	63,000
Communications	15,651	18,834
Computer Expenses	94,996	38,014
Depreciation of non current assets	30,693	37,780
Directors fees and expenses	266,074	269,829
Employee Expenses	770,066	742,916
Insurance	89,041	88,042
Office Administration	91,967	81,396
Operational plan for the future	45,824	8,641
Other expenses	85,539	126,905
Other assurance fees paid to auditors	10,500	29,448
Other professional fees	288,626	317,792
Rent and other occupancy expenses	120,084	109,696
Travel	8,360	9,197
<b>Total Operating Expenses</b>	<b>1,971,210</b>	<b>1,941,491</b>

### Employee expenses

Includes contributions to Kiwisaver and a defined contribution pension plan of \$23,267 (2016: \$21,026). The Society has no other obligation to provide pension benefits to employees.

### Auditor

The auditor of Manchester Unity is Deloitte Limited.

In addition to the statutory audit fee Deloitte Limited also received \$5,000 (2016: \$9,000) for the Reserve Bank solvency return assurance and \$5,500 (2016 \$20,448) for tax related compliance services.

## 6. Holiday Homes and Member Benefits

	2017	2016
<b>Holiday Homes</b>		
Holiday Home Income	144,266	146,857
Holiday Home Expenses	(104,770)	(109,691)
Net Holiday Home Income	39,497	37,167
<b>Gains from Revaluations</b>		
Holiday Home Revaluation	365,216	469,565
Total Gains from Revaluations	365,216	469,565
	2017	2016
<b>Member Benefit Expenses</b>		
Education Awards	(33,333)	(36,824)
SBERF Payments	(16,282)	(18,712)
Appropriations - Share Funds	(167,758)	-
Total Member Benefit Expenses	(217,373)	(55,535)

The share funds are pooled as part of the Society's total assets. This appropriation represents the investment return allocated to member share funds as approved by the Board. Total Society investment income (inclusive of the actual income earned on share funds) is reflected in note 4 with the exception of ring fenced funds where the amount allocated is the actual return on the ring-fenced assets.

## 7. Fraternity

	2017	2016
<b>Fraternal Income</b>		
Lodge Management Fees	225,158	219,967
Commission - Fraternal	50,423	50,536
Service Provision Income	-	16,261
Total Fraternal Income	275,581	286,764
	2017	2016
<b>Fraternal Operating Expenses</b>		
Education Grants - Fraternal	5,000	-
Fraternal Council Lodge Travel	13,673	429
Fraternal Council Meeting Costs	15,477	32,449
Fraternally Yours	26,549	37,998
Other - Fraternal	4,008	10,110
Printing, Stationery & Postage - Fraternal	26,700	30,513
Rent - Fraternal	2,994	10,339
Salaries & Wages - Fraternal	277,945	250,236
Lodge Expenses, Functions, Hospitality & Other	87,524	90,209
Grandmaster - Expenses	3,721	5,087
Communications - Fraternal	10,988	11,819
Council Fees	44,917	44,798

	2017	2016
Travel - Fraternal	10,742	17,585
Staff Training & Support - Fraternal	539	6,543
Celebrations - Lodge	15,416	-
Meeting Expenses	-	86
<b>Total Fraternal Operating Expenses</b>	<b>546,193</b>	<b>548,202</b>

## 8. Other Income

	2017	2016
<b>Other Income</b>		
Commissions and Recoveries	32,706	43,024
Other Income	290	-
<b>Total Other Income</b>	<b>32,996</b>	<b>43,024</b>

## 9. Income Tax Expense

<b>Taxable surplus for year</b>		
Surplus before tax	1,474,508	2,261,867
Permanent Tax Differences	(2,187,773)	(1,880,162)
Imputation Credits converted to losses	-	(96,683)
<b>Total Taxable surplus for year</b>	<b>(713,265)</b>	<b>285,022</b>
Losses Carried Forward / Claimed	(2,696,525)	(2,981,547)
Tax Losses to carry forward	(3,409,790)	(2,696,525)
Tax Payable at 28%	-	-

The Society has \$3,409,790 (2016: \$2,696,525) unrecognised tax losses to carry forward.

In addition to the above, subsidiary Unity Limited has \$1,650,000 (2016: \$1,650,000) accumulated tax losses.

As stated in the policy on taxation, a debit balance in the deferred tax account arising from deductible temporary differences or income tax losses is only recognised if their realisation is probable. As at 31 May 2017 and 31 May 2016 this is not probable because there will not be sufficient taxable profits against which to utilise the benefits of the temporary differences in the foreseeable future.

## 10. Cash and cash equivalents

Cash and cash equivalents include the following components;

	2017	2016
<b>Cash and cash equivalents</b>		
Cash at Bank	8,805	9,979
Short term bank deposits	2,747,164	1,438,044
<b>Total Cash and cash equivalents</b>	<b>2,755,968</b>	<b>1,448,022</b>



	2017	2016
<b>11. Other Financial Assets</b>		
<b>Other financial assets designated at fair value through profit or loss</b>		
Fixed Interest Investments	39,129,913	54,936,696
Term Deposit Investments	20,825,421	9,258,520
United Friendly Society Shares	14,200	14,200
<b>Total Other financial assets designated at fair value through profit or loss</b>	<b>59,969,534</b>	<b>64,209,416</b>

	2017	2016
<b>12. Trade and other receivables</b>		
Trade and other sundry receivables	23,310	181,125
Medical Accrued Revenue	27,998	28,228
Interest Receivable	2,184	234
Mortgages	428,654	492,761
<b>Total Trade and other receivables</b>	<b>482,146</b>	<b>702,348</b>

	2017	2016
<b>13. Other Assets</b>		
Prepayments	23,332	9,804
Inventories	22,497	21,251
<b>Total Other Assets</b>	<b>45,828</b>	<b>31,055</b>

	2017	2016
<b>14. Investment Property</b>		
<b>Commercial Property</b>		
<b>Retail</b>		
<b>Ngaio Road, Waikanae</b>		
Opening Fair Value	3,500,000	3,500,000
Acquisitions and Disposals	-	-
Fair Value Revaluation	(50,000)	-
<b>Total Ngaio Road, Waikanae</b>	<b>3,450,000</b>	<b>3,500,000</b>
<b>Lombard Street, Palmerston North</b>		
Opening Fair Value	515,000	525,000
Acquisitions and Disposals	-	-
Fair Value Revaluation	(5,000)	(10,000)
<b>Total Lombard Street, Palmerston North</b>	<b>510,000</b>	<b>515,000</b>
<b>Bridge Street, Nelson</b>		
Opening Fair Value	840,000	840,000
Acquisitions and Disposals	-	-
Fair Value Revaluation	25,000	-
<b>Total Bridge Street, Nelson</b>	<b>865,000</b>	<b>840,000</b>
<b>Total Retail</b>	<b>4,825,000</b>	<b>4,855,000</b>

	2017	2016
<b>Retail Development</b>		
<b>Kent Terrace, Wellington</b>		
Opening Fair Value	2,700,000	2,700,000
Acquisitions and Disposals	-	-
Fair Value Revaluation	535,000	-
<b>Total Kent Terrace, Wellington</b>	<b>3,235,000</b>	<b>2,700,000</b>
<b>Total Retail Development</b>	<b>3,235,000</b>	<b>2,700,000</b>
<b>Warehouse/Office</b>		
<b>Quadrant Drive, Lower Hutt</b>		
Opening Fair Value	-	4,700,000
Acquisitions and Disposals	-	(4,700,000)
Fair Value Revaluation	-	-
<b>Total Quadrant Drive, Lower Hutt</b>	<b>-</b>	<b>-</b>
<b>Total Warehouse/Office</b>	<b>-</b>	<b>-</b>
<b>Total Commercial Property</b>	<b>8,060,000</b>	<b>7,555,000</b>
<b>Leasehold Properties</b>		
Opening Fair Value	5,105,001	4,170,000
Acquisitions and Disposals	-	(304,690)
Fair Value Revaluation	985,000	1,239,691
<b>Total Leasehold Properties</b>	<b>6,090,001</b>	<b>5,105,001</b>
<b>Holiday accommodation properties</b>		
Opening Fair Value	3,504,349	3,034,784
Acquisitions and Disposals	-	-
Fair Value Revaluation	365,216	469,565
<b>Total Holiday accommodation properties</b>	<b>3,869,565</b>	<b>3,504,349</b>
<b>Fair Value of investment property at year end</b>	<b>18,019,566</b>	<b>16,164,350</b>

**The independent valuers were:**

Darroch Limited

Quotable Value NZ Limited

J P Morgan &amp; Associates Limited

During the year there were no transfers of property between levels of fair value hierarchy. These levels are outlined below:

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).

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).

Two commercial properties with a total fair value of \$1,375,000 (2016: \$1,355,000) are held for the benefit of members of Loyal Nelson Lodge and Loyal Manawatu Lodge - refer note 19e.

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.

- 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 judgement and market observation.

The information provided to the valuers and the assumptions and the valuation 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.

Holiday Homes are intended to provide annual returns and realise a capital gain upon sale, and are therefore classified as investment properties.

Class of Property Fair Value Hierarchy Fair Value 31 May	Valuation techniques used	Inputs used to measure fair value	Range of significant unobservable inputs 31 May 2017	Range of significant unobservable inputs 31 May 2016
Retail Level 3 2017: \$4,825,000 2016: \$4,855,000	Income capitalisation approach Discounted cash flow analysis	Net market rent \$/m2 Capitalisation rate contract rentals Capitalisation rate market rentals Discount rate Terminal capitalisation rate Rental growth rate (pa) Expenses growth rate (pa)	\$41 to \$311 7.75% - 9.25% . 7.85% - 9.25% . 9.25% 9.75% 2.20% 2.00%	\$46 to \$190 8.00% - 10.00% . 8.00% - 9.50% . 9.25% 10.00% 2.03% 1.93%
Redevelopment/ Retail Level 3 2017: \$3,235,000 2016: \$2,700,000	Income capitalisation approach Sales comparison approach	Net market rent \$/psm Capitalisation rate market rentals Discount rate - rental Shortfall/Holding Income Land value \$/psm	\$60 to \$205 5.00% - 5.25% . 8.00% \$2,750	\$60 to \$185 5.5% - 5.75% . 9.00% \$2,588
Leasehold Properties Level 3 2017: \$6,090,000 2016: \$5,105,000	Discounted cash flow	Site land values Discount rate Capitalisation rate initial yield Capitalisation rate effective yield	\$225,000-\$250,000 8.00% 5.00% . 5.10%	\$190,000-\$243,000 8.50% 5.94% . 5.21%
Holiday Accommodation Properties Level 2 2017: \$3,869,565 2016: \$3,504,349	Sales comparison approach	Sales (\$psm)	N/A	\$265,000 to \$1,588,000 (converted to square metres for valuation purposes)

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

Fair value measurement sensitivity		
Significant inputs	Increase in input	Decrease in input
Gross market rent per m2	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 (per annum)	Increase	Decrease
Expenses growth rate (per annum)	Decrease	Increase
Sales (\$psm)	Increase	Decrease

## Valuation Methodologies

### Income capitalisation approach

The income approach (investment valuation approach) is the prime determinant of fair value for commercial properties. 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 cashflow analysis

The discounted cashflow (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). 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.

	2017	2016
<b>15. Trade and Other Payables</b>		
Trade creditors and accruals	248,082	257,687
Unearned Premiums	96,715	90,850
<b>Total Trade and Other Payables</b>	<b>344,798</b>	<b>348,537</b>

	2017	2016
<b>16. Member Benefit Fund Liabilities</b>		
<b>Member Share Funds</b>		
Opening Balance	12,306,735	11,444,414
Contributions including transfers	515,270	1,443,448
Withdrawals	(536,241)	(581,127)
Appropriations - Share Funds	167,759	-
<b>Total Member Share Funds</b>	<b>12,453,523</b>	<b>12,306,735</b>
<b>Hawkes Bay Endowment Fund</b>		
Hawkes Bay Endowment Fund	23,432	23,086
<b>Total Hawkes Bay Endowment Fund</b>	<b>23,432</b>	<b>23,086</b>
<b>Total Member Benefit Fund Liabilities</b>	<b>12,476,954</b>	<b>12,329,820</b>

At 31 May 2017 the Directors have declared an appropriation of 1.5% of balances held (2016: 0.0%). 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.

### (a) Member Share Funds

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

	2017	2016
<b>Member Share funds</b>		
Antipodean Branch	464,457	459,553
Ashburton Branch	454,196	466,423
Auckland Branch	296,103	303,192
Banks Peninsula Branch	634,606	642,981
Britannia Lodge	301,036	-
City of Wellington Branch	150,390	147,844
Egmont Lodge	1,549,902	1,581,244
Greytown Lodge	101,151	-
Hastings Lodge	806,793	828,186
Manawatu Lodge	491,012	530,372
Manchester Lodge	69,623	68,570
Masterton Lodge	625,442	677,098
Napier Lodge	1,808,989	1,850,008
Nelson Lodge	2,682,805	2,751,125
Rangiora Lodge	1,090,065	1,093,409
United Westland Lodge	84,845	84,437
Wanganui Lodge	812,302	792,928
Woodville Lodge	29,806	29,365
<b>Total Member Share funds</b>	<b>12,453,522</b>	<b>12,306,735</b>

**(b) Hawkes Bay Endowment Fund**

An endowment fund held by the Society on behalf of the Hawke's Bay Lodges.

**17. 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 Fitch Ratings on 16 March 2017. 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 management's 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. 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. This plan is closed to new members. Existing members are unable to increase their cover under this plan. Benefits include funeral cover taken plus bonuses. IFAB represents the bonuses accruing to the members on their FAB. 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. There is a choice of plans: Endowment - benefits paid after the attainment of a specified age (benefits include original cover taken plus bonuses). Whole of life - benefits paid on death but partial withdrawal of bonuses is available after age 65. Term life - benefits are paid on death, no bonuses accrue. These plans are closed to new members. 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 of education polytechnic providers or other tertiary course approved by the New Zealand Ministry of Education. This plan is closed to new members. Administered by the Board of Directors under General Rule 61.
Society Sickness Benefit Fund	This fund was previously the Hawke's 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.
Funeral Plan	Provides funeral cover up to a maximum of \$10,000. Administered by the Board of Directors under General Rule 62.

**(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 2017.

	2017	2016
<b>Fund Transactions</b>		
<b>Medical Services Fund</b>		
Opening balance Members' Funds	200,000	200,000
Contributions/Premiums	815,690	846,842
Withdrawals/Claims	(610,083)	(657,499)
Society management fees	(147,921)	(152,945)
Other acquisition costs	(16,435)	(16,997)
Transfers	(41,251)	(19,401)
<b>Total Medical Services Fund</b>	<b>200,000</b>	<b>200,000</b>
<b>Funeral Fund</b>		
Opening balance Members' Funds	7,971,987	8,099,970
Contributions/Premiums	302,675	320,336
Withdrawal/Claims	(351,400)	(396,120)
Society management fees	(49,989)	(52,199)
Appropriations	118,099	-
<b>Total Funeral Fund</b>	<b>7,991,372</b>	<b>7,971,987</b>
<b>Increased Funeral Fund</b>		
Opening balance Members' Funds	15,000,903	15,668,863
Withdrawals/Claims	(622,746)	(667,960)
Appropriations	215,672	-
<b>Total Increased Funeral Fund</b>	<b>14,593,829</b>	<b>15,000,903</b>
<b>Increasing Assurance Benefit</b>		
Opening balance Members' Funds	21,129,334	22,900,778
Contributions/Premiums	209,293	241,735
Withdrawals/Claims	(1,898,276)	(1,979,164)
Society management fees	(19,559)	(21,925)
Other acquisition costs	(10,467)	(12,090)
Appropriations	291,155	-
<b>Total Increasing Assurance Benefit</b>	<b>19,701,480</b>	<b>21,129,334</b>
<b>Society Sickness Benefit Fund</b>		
Opening balance Members' Funds	240,972	256,334
Withdrawals/Claims	(13,910)	(15,362)
Appropriations	-	-
<b>Total Society Sickness Benefit Fund</b>	<b>227,062</b>	<b>240,972</b>
<b>Education Support Plan</b>		
Opening balance Members' Funds	441,693	455,002
Contributions/Premiums	33,997	37,880
Withdrawals/Claims	(73,804)	(51,189)
Appropriations	-	-
<b>Total Education Support Plan</b>	<b>401,886</b>	<b>441,693</b>
<b>Funeral Plan</b>		
Opening Balance Members' Fund	-	-
Contributions/Premiums	8,941	-
Withdrawals/Claims	(336)	-



	2017	2016
Transfers	(8,605)	-
Total Funeral Plan	-	-
Closing Balance Member Insurance Contract Obligations	43,115,628	44,984,888

**(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 the 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 to these obligations. Refer to note 19c.

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

The valuation of member insurance contract obligations was carried out as at 31 May 2017 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
Funeral Plan (Non 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 the prior year noted, are summarised as follows:

**(i) Discount Rate**

The discount rate representing the assumed long term rate of appropriation to the funds was 3.0% per annum (2016: 3.0%).

**(ii) Expenses**

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

**(iii) Taxation**

The Society has no tax payable due to prior years tax losses being carried forward, 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 0.78% of sum assured and 1.56% of existing bonus (2016: 0.89% and 1.79%).
- For the Funeral Fund and the Increased Funeral Benefit Fund, the assumed rates of supportable additions were 0.00% of the Funeral Benefit and 0.00% of the Increased Funeral Benefit (2016: 0.00% and 0.00%)

**(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.

	2017	2016
<b>Components of member insurance contract obligations</b>		
<b>IAB</b>		
Future policy benefits	16,373,609	17,514,667
Future additions	2,436,525	2,950,492
Future expense transfers	245,287	262,725
Future contributions	(1,592,079)	(1,723,768)
Members' unvested benefit liability	2,238,139	2,125,219
<b>Total IAB</b>	<b>19,701,481</b>	<b>21,129,335</b>
<b>Funeral Funds</b>		
Future policy benefits	24,038,299	24,554,444
Future additions	-	-
Future expense transfers	520,062	529,270
Future contributions	(3,134,255)	(3,178,292)
Members' unvested benefit liability	1,161,095	1,067,468
<b>Total Funeral Funds</b>	<b>22,585,201</b>	<b>22,972,890</b>
<b>Other Funds</b>		
Accumulation method	828,946	882,663
<b>Total Other Funds</b>	<b>828,946</b>	<b>882,663</b>
<b>Total</b>	<b>43,115,628</b>	<b>44,984,888</b>

**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.

	2017	2016
<b>Maturity profile member insurance contract obligations</b>		
Current	2,761,998	3,316,059
1 - 5 years	9,607,604	10,187,558
More than 5 years	40,839,401	41,754,820
<b>Total Maturity profile member insurance contract obligations</b>	<b>53,209,003</b>	<b>55,258,437</b>

## Solvency

Solvency has been calculated in accordance with the Solvency Standard for Life Insurers issued in December 2014 by the Reserve Bank of New Zealand under the Insurance (Prudential Supervision) Act 2010. At 31 May 2017, the Actual Solvency Capital was \$23,257,000 (2016: \$21,777,000) and the Minimum Solvency Capital was \$14,296,000 (2016: \$13,489,000) resulting in a Solvency Margin of \$8,961,000 (2016: \$8,288,000) and a Current Solvency Ratio of 1.63 (2016: 1.61).

	2017	2016
<b>18. Retained Earnings</b>		
Retained earnings/Accumulated funds	6,518,939	5,529,626
Total comprehensive income/(loss) attributable to members	1,474,508	2,261,867
Transfer from Society Benevolent Fund	16,282	18,712
Transfer from/(to) Medical Services Reserve	(41,251)	(19,400)
Transfer from/(to) Funeral Plan Reserve	(8,605)	-
Transfer from/(to) Share Fund	(8,130)	-
<b>Transfers from/(to) General Reserve</b>		
Release of Realised Gain/(Loss) on Disposal of Financial Assets	226,056	1,127,828
Release of Realised Gain on Disposal of Leasehold Property	-	294,275
Revaluation of Investment Properties	(1,855,216)	(1,699,256)
Unrealised (Profit)/Loss on change in fair value of financial assets	98,629	(292,712)
Release of Realised Gain/(Loss) on Disposal of Commercial Property	-	(702,000)
<b>Total Transfers from/(to) General Reserve</b>	<b>(1,530,531)</b>	<b>(1,271,865)</b>
Balance at the end of the financial year	6,421,213	6,518,939

## Voting rights

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

	2017	2016
<b>19. Reserves</b>		
District and Lodge Relief Fund	968,222	968,222
Society Benevolent and Emergency Relief Fund	552,209	568,492
Medical Services Reserve	2,549,704	2,508,453
Medical Services Fund	750,000	750,000
Lodge Reserve	481,250	474,250
Funeral Plan Reserve	8,605	-
<b>General Reserve</b>		
General Reserves	12,006,048	10,475,517
<b>Total General Reserve</b>	<b>12,006,048</b>	<b>10,475,517</b>
<b>Total Reserves</b>	<b>17,316,038</b>	<b>15,744,934</b>

	2017	2016
<b>(a) District and Lodge Relief Fund</b>		
District and Lodge Relief Reserve	968,222	968,222
<b>Total (a) District and Lodge Relief Fund</b>	<b>968,222</b>	<b>968,222</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.

	2017	2016
<b>(b) Society Benevolent and Emergency Relief Fund</b>		
SBERF Reserve	568,492	587,203
Transfer to Retained Earnings from SBERF	(16,282)	(18,712)
<b>Total (b) Society Benevolent and Emergency Relief Fund</b>	<b>552,209</b>	<b>568,492</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.

	2017	2016
<b>(c) Medical Services Reserve</b>		
Medical Services Reserves	2,508,453	2,489,053
Transfer from Medical Services Fund	41,251	19,400
<b>Total (c) Medical Services Reserve</b>	<b>2,549,704</b>	<b>2,508,453</b>

The medical services reserve was established from historic unallocated profits.

Amounts are transferred from the reserve to retained earnings to offset liabilities incurred as and when required.

	2017	2016
<b>(d) Medical Services Fund</b>		
Medical Services Fund Reserve	750,000	750,000
<b>Total (d) Medical Services Fund</b>	<b>750,000</b>	<b>750,000</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.

	2017	2016
<b>(e) Lodge Reserves</b>		
Opening balance	474,250	477,750
Revaluation adjustment	7,000	(3,500)
<b>Total (e) Lodge Reserves</b>	<b>481,250</b>	<b>474,250</b>

Two Lodges have transferred land and buildings to the Society with a requirement that 35% of capital gains and losses, on those "ring-fenced" assets be held for the benefit of their Lodge members until such a time as the Lodge Trustees agree to distribution. At balance date the fair value of these "ring-fenced" assets was \$1,375,000 (2016: \$1,355,000).

	2017	2016
<b>(f) Funeral Plan Reserve</b>		
Transfer to Funeral Plan Reserve	8,605	-
<b>Total (f) Funeral Plan Reserve</b>	<b>8,605</b>	<b>-</b>
	2017	2016

<b>(g) General reserve</b>		
Balance at the beginning of financial year	10,475,517	9,203,652
Release of Realised (Gain)/Loss on Disposal of Commercial Property to Retained Earnings	-	702,000
Revaluation of Commercial Properties from Retained Earnings	505,000	(10,000)
Release of Realised (Gain)/Loss on Disposal of Financial Assets to Retained Earnings	(226,056)	(1,127,828)
Unrealised Profit/(Loss) on change in fair value of financial assets from Retained Earnings	(98,629)	292,712
Revaluation of Holiday Homes from Retained Earnings	365,216	469,565
Release of Realised (Gain)/Loss on Disposal of Leasehold Property to Retained Earnings	-	(294,275)
Revaluation of Leaseholds from Retained Earnings	985,000	1,239,691
<b>Total (g) General reserve</b>	<b>12,006,048</b>	<b>10,475,517</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.

## 20. Related Parties

### Related Party Disclosures

The Directors of Manchester Unity during the financial year were:

GJ Allanson

MG Ambrose

PL Haglund

JH Lowe

B Robinson

### 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 (2016: Nil).

### 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 \$94,302 (2016: \$147,943). 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 3.91% (2016: 4.78%).

Outstanding balances with related parties are disclosed in notes 16 and 17.

No amounts were provided for doubtful debts relating to debts due from related parties at reporting date (2016: Nil)

### Key Management Personnel Compensation

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

	2017	2016
<b>Key Management Personnel Compensation</b>		
Short-term employee benefits	538,960	517,498
<b>Total Key Management Personnel Compensation</b>	<b>538,960</b>	<b>517,498</b>

## 21. Leases

	2017	2016
<b>(a) Leases as Lessee</b>		
Not later than one year	54,457	95,196
Later than one year and no later than five years	279,140	103,129
Later than five years	93,047	-
<b>Total (a) Leases as Lessee</b>	<b>426,644</b>	<b>198,325</b>

Operating leases disclosed relate to the lease of the Group's Lambton Quay offices. The current lease relating to level 6, 142 Lambton Quay is, for a term of 6 years was signed in June 2013. There is an option to extend the lease for a further 4 years which will not be taken up. This lease expires 30 June 2017.

A new lease for offices at Level 10, 117 Lambton Quay was signed in November 2016 for a term of 6 years.

The lease agreement for Level 10, 117 Lambton Quay contains a clause that market rent reviews is to be carried out on the third anniversary from commencement of the lease.

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

	2017	2016
<b>(b) Leases as Lessor</b>		
Not longer than one year	704,876	700,658
Longer than one year and less than five years	1,884,618	1,342,463
Longer than five years	2,638,792	1,034,758
<b>Total (b) Leases as Lessor</b>	<b>5,228,286</b>	<b>3,077,879</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 lessees 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 lease holders 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.

	2017	2016
<b>22. Notes to the cashflow statement</b>		
<b>Comprehensive Income for period is as follows:</b>		
Total Comprehensive income/(loss)	1,474,508	2,261,867
<b>Total Comprehensive Income for period is as follows:</b>	<b>1,474,508</b>	<b>2,261,867</b>
<b>Add/(less) non cash items:</b>		
Revaluation of investment property	(1,855,216)	(1,699,256)
Depreciation and amortisation	30,981	37,780
Appropriations to member benefit funds	168,888	-
Movement in Accounts Receivable	17,537	-
Changes in fair value of financial assets through profit or loss	98,629	(292,711)
Change in life insurance contract obligations	(1,869,260)	(2,596,158)
<b>Total Add/(less) non cash items:</b>	<b>(3,408,441)</b>	<b>(4,550,345)</b>
<b>Add/(less) change in operating assets</b>		
Increase/(decrease) in unearned premiums	5,865	6,850
Increase/(decrease) in interest accrued	(53,467)	71,970
Increase/(decrease) in accounts receivable	239,458	(178,125)
Increase/(decrease) in premiums in arrears	230	(4,228)
Increase/(decrease) in other assets	(14,773)	8,996
Increase/(decrease) in trade and other payables	(4,932)	3,406
Increase/(decrease) in provisions	(3,589)	8,708
Member benefit fund contributions less withdrawals	(21,754)	858,585
<b>Total Add/(less) change in operating assets</b>	<b>147,038</b>	<b>776,162</b>



	2017	2016
<b>Add/(less) items reclassified as investing activities</b>		
Realised gain on disposal of financial assets at designated fair value	925,269	289,780
Gain on sale of investment properties	-	1,090,614
<b>Total Add/(less) items reclassified as investing activities</b>	<b>925,269</b>	<b>1,380,394</b>
Net cash inflow/(outflow) from operating activities	(861,626)	(131,922)

## 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, exchange rates and equity prices

### (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).

The following tables detail the group's exposure to interest rate and liquidity risk at 31 May 2017 and 31 May 2016.

	2017	2016
<b>Maturity Profile of Investments</b>		
<b>Financial Assets</b>		
<b>Less than 1 year</b>		
Cash and cash equivalents	2,755,968	1,435,538
<b>Other financial assets designated at fair value through profit or loss:</b>		
Government stock	-	485,400
Local authority stock	-	1,352,150
Corporate stock	-	6,683,718
Bank Term Deposits	20,456,176	6,545,549
<b>Total Other financial assets designated at fair value through profit or loss:</b>	<b>20,456,176</b>	<b>15,066,817</b>
<b>Trade and other Receivables</b>		
Mortgages & Loans	39,409	46,554
Other Receivables	53,492	209,587
<b>Total Trade and other Receivables</b>	<b>92,901</b>	<b>256,141</b>
<b>Total Less than 1 year</b>	<b>23,305,045</b>	<b>16,758,496</b>
<b>1 - 5 years</b>		
Cash and cash equivalents	-	-

	2017	2016
<b>Other financial assets designated at fair value through profit or loss:</b>		
Government stock	1,830,044	2,337,874
Local authority stock	1,071,140	2,418,470
Corporate stock	17,434,776	22,599,632
Bank term deposits	369,246	2,861,816
<b>Total Other financial assets designated at fair value through profit or loss:</b>	<b>20,705,206</b>	<b>30,217,792</b>
<b>Trade and other Receivables</b>		
Mortgages & Loans	7,409	417,797
Other Receivables	-	-
<b>Total Trade and other Receivables</b>	<b>7,409</b>	<b>417,797</b>
<b>Total 1 - 5 years</b>	<b>20,712,615</b>	<b>30,635,589</b>
<b>More than 5 years</b>		
Cash and cash equivalents	-	-
<b>Other financial assets designated at fair value through profit or loss:</b>		
Government stock	3,859,061	12,796,255
Local authority stock	5,658,658	5,797,952
Corporate stock	9,290,434	9,127,338
Bank Term Deposits	-	-
<b>Total Other financial assets designated at fair value through profit or loss:</b>	<b>18,808,153</b>	<b>27,721,545</b>
<b>Trade and other Receivables</b>		
Mortgages & Loans	381,836	193,719
Other Receivables	-	-
<b>Total Trade and other Receivables</b>	<b>381,836</b>	<b>193,719</b>
<b>Total More than 5 years</b>	<b>19,189,989</b>	<b>27,915,264</b>
<b>Total Financial Assets</b>	<b>63,207,649</b>	<b>75,309,349</b>
<b>Financial Liabilities</b>		
<b>Less than 1 year</b>		
Trade and other payables	478,109	702,348
District, Lodge and other deposits	618,911	1,888,997
Member benefit fund liabilities	12,476,954	12,329,820
<b>Total Less than 1 year</b>	<b>13,573,974</b>	<b>14,921,165</b>
<b>1 - 5 years</b>		
Trade and other Payables	-	-
District, Lodges and other deposits	600,000	787,092
Member benefit fund liabilities	-	-
<b>Total 1 - 5 years</b>	<b>600,000</b>	<b>787,092</b>
<b>More than 5 years</b>		
Trade and other Payables	-	-
District, Lodge and other deposits	300,000	-
Member benefit fund liabilities	-	-
<b>Total More than 5 years</b>	<b>300,000</b>	<b>-</b>
<b>Total Financial Liabilities</b>	<b>14,473,974</b>	<b>15,708,257</b>

**Weighted Average Interest Rates**

	<b>31 May 2017</b>	<b>31 May 2016</b>
<b>Financial Assets</b>		
Cash and cash equivalents	2.30%	2.37%
Government stock	4.64%	4.57%
Local authority stock	5.38%	4.71%
Corporate stock	5.09%	5.23%
Bank term deposits	4.35%	4.46%
First mortgage securities	5.20%	7.50%
IAB loans and advances	9.00%	9.00%
<b>Financial Liabilities</b>		
District, Lodge and other deposits	3.91%	4.82%

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

All financial liability counterparties rank equally.

**Interest rate sensitivity**

Manchester Unity invests in fixed interest securities and bank deposits 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 profit or loss and equity attributable to members of \$235,812 (2016 \$107,000).

**(e) Equity price risk**

The Group is not exposed to equity price risks arising from equity investments.

**(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 9 counterparties (2016: 9) 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	10% < 20%	20% < 30%	30% < 40%	40% < 50%
<b>31 May 2017</b>				
AA+ - AA-	3	2	1	-
A+ - A-	1	2	-	-
<b>31 May 2016</b>				
AA+ - AA-	4	2	-	1
A+ - A-	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 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 Poor's bonds range from AA+ 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) 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.

#### (h) Fair value of financial assets and liabilities

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 designated at fair value through profit or loss 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:	Financial instruments backing insurance obligations are designated as at fair value through profit or loss in accordance with NZ IFRS-4: <i>Insurance Contracts</i> .
L&R:	Loans and receivables
AC:	Amortised cost

	2017	2016
<b>Financial Assets</b>		
<b>FVTPL</b>		
Cash and cash equivalents	2,755,968	1,448,022
Other financial assets designated at fair value through profit or loss	59,969,534	64,209,416
<b>Total FVTPL</b>	<b>62,725,503</b>	<b>65,657,438</b>
<b>L&amp;R at AC</b>		
Trade and other receivables	482,146	702,348
<b>Total L&amp;R at AC</b>	<b>482,146</b>	<b>702,348</b>
<b>Total Financial Assets</b>	<b>63,207,649</b>	<b>66,359,786</b>

	2017	2016
<b>Financial Liabilities</b>		
<b>AC</b>		
Trade and other payables	478,109	336,053
District Lodge and other deposits	1,518,911	2,529,291
Member benefit fund liabilities	12,476,954	12,329,820
<b>Total AC</b>	<b>14,473,974</b>	<b>15,195,164</b>
<b>Total Financial Liabilities</b>	<b>14,473,974</b>	<b>15,195,164</b>

**(k) Fair value measurements recognised in the Consolidated 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:

	2017	2016
<b>Level One</b>		
Cash and Cash Equivalents	2,755,968	1,448,022
Bank Term Deposits	20,825,421	9,258,520
Bonds	39,129,913	54,936,696
Equity Investments	14,200	14,200
<b>Total Level One</b>	<b>62,725,503</b>	<b>65,657,438</b>

The Society's financial instruments are Level 1 as their values have been derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.

**24. 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 discrete 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 17(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.

**25. Events after the reporting date**

There are no other matters or circumstances since the end of the reporting period, not otherwise dealt with in these financial statements that have significantly or may significantly affect the operations of the Group (2016: Nil).

**26. Contingent assets and liabilities**

There are no contingent assets or liabilities at balance date (2016: Nil).

## **27. Commitments for expenditure**

The group had no capital commitments at balance date (2016: Nil).

### **Lease commitments**

Non-cancellable operating lease commitments are disclosed in note 23 to the financial statements.



## Independent Auditor's Report

### To the Members of Manchester Unity Friendly Society

#### Opinion

We have audited the consolidated financial statements of Manchester Unity Friendly Society and its subsidiary (the 'Society'), which comprise the consolidated statement of financial position as at 31 May 2017, and the consolidated statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements, on pages 3 to 39, present fairly, in all material respects, the consolidated financial position of the Society as at 31 May 2017, and its consolidated financial performance and cash flows for the year then ended in accordance with New Zealand Equivalents to International Financial Reporting Standards ('NZ IFRS') and International Financial Reporting Standards ('IFRS').

#### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing ('ISAs') and International Standards on Auditing (New Zealand) ('ISAs (NZ)'). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report.

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

We are independent of the Society in accordance with Professional and Ethical Standard 1 (Revised) *Code of Ethics for Assurance Practitioners* issued by the New Zealand Auditing and Assurance Standards Board and the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants*, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Our firm carries out other assignments for Manchester Unity Friendly Society in the area of tax related compliance services and review of the Reserve Bank of New Zealand Solvency Return. These services have not impaired our independence as independent auditor of the Society and Group. In addition to this, partners and employees of our firm deal with the Society and its subsidiary on normal terms within the ordinary course of trading activities of the business of the Society and its subsidiary. The firm has no other relationship with, or interest in, the Society or its subsidiary.

#### Directors' responsibilities for the consolidated financial statements

The directors are responsible on behalf of the Society for the preparation and fair presentation of the consolidated financial statements in accordance with NZ IFRS and IFRS, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible on behalf of the Society for assessing the Society's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Society or to cease operations, or have no realistic alternative but to do so.

#### Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs and ISAs (NZ) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

A further description of our responsibilities for the audit of the consolidated financial statements is located on the External Reporting Board's website at:

<https://www.xrb.govt.nz/standards-for-assurance-practitioners/auditors-responsibilities/audit-report-5>

This description forms part of our auditor's report.





**Restriction on use**

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.

*Deloitte Limited*

**Mike Hoshek, Partner**  
**for Deloitte Limited**  
Christchurch, New Zealand  
19 July 2017

This audit report relates to the consolidated financial statements of Manchester Unity Friendly Society (the 'Society') for the year ended 31 May 2017 included on the Society's website. The Directors are responsible for the maintenance and integrity of the Society's website. We have not been engaged to report on the integrity of the Society's website. We accept no responsibility for any changes that may have occurred to the consolidated financial statements since they were initially presented on the website. The audit report refers only to the consolidated financial statements named above. It does not provide an opinion on any other information which may have been hyperlinked to/from these consolidated financial statements. If readers of this report are concerned with the inherent risks arising from electronic data communication they should refer to the published hard copy of the audited consolidated financial statements and related audit report 19 July 2017 confirm the information included in the audited consolidated financial statements presented on this website.

# Greystone Consulting

## Manchester Unity Friendly Society

### Review of Actuarial Information In, or Used In Preparation of, the Financial Statements at 31 May 2017

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 2017.

I have provided a "Valuation Report" dated 12 July 2017, 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  
24 July 2017