



UNION MEDICAL BENEFITS SOCIETY LIMITED

Annual Report 2010

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

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Mission statement

Our vision

To enhance our standing as a high quality medical insurer with innovative and responsive management maintaining a close focus on the ever changing needs of the membership.

Our members and how we will treat them

Our members will receive consistent quality, caring personal service. We shall maintain personal convenient practices to ensure our plans are characterised by their ease of understanding with no hidden associated costs.

We aim to achieve satisfactory returns from realistic premiums so that funds are reinvested back into UniMed providing members with improved benefits and a financially strong Society.

Our people are essential to our success

We employ responsible, dedicated and caring people who understand the importance of their role. We offer them challenging tasks/careers, equal opportunities, satisfying work and competitive rewards.

We expect their loyalty and support. We value all those who contribute to UniMed's success.

The community

We will be a responsible Society playing our part as a member of the communities we serve.

Our values

We conduct our business in a caring and professional manner and will act with the highest degree of ethics and integrity at all times. We strive for excellence and will seek out new opportunities to ensure we remain financially strong and grow.

Company directory

as at 30 June 2010

Nature of business	Medical health insurers Aged care facility managers
Registered office	UniMed House 163 Gloucester Street Christchurch
Incorporation	Industrial and Provident Society Act 1908
Board	Robert John Todd (Chairman) Brian Anthony Wooller (Vice Chairman) Brian James Dorgan David William Eastlake Brian James Edgeler Dennis Bruce Emery David Bernard O'Connell Leonard Ray Potroz John Murphy Smith
Bankers	Bank of New Zealand Armagh Street Christchurch
Auditor	PKF Goldsmith Fox Audit 250 Oxford Terrace Christchurch
Solicitors	Lane Neave 119 Armagh Street Christchurch Duncan Cotterill Cnr Worcester Boulevard & Oxford Terrace Christchurch
Actuary	Peter Davies B.Bus Sc., F.I.A. Davies Financial and Actuarial Limited Level 1, Shea Terrace Auckland

Notice of annual general meeting

The annual general meeting of Members of the **Union Medical Benefits Society Limited** will be held at the Latimer Function Centre, Latimer Hotel, 30 Latimer Square, Christchurch on Wednesday 27 October 2010 at 6.00pm.

Business

1. Apologies.
2. To confirm the Minutes of the 2009 annual general meeting.
3. To receive and consider the annual financial statements and Auditor's report for the year ended 30 June 2010.
4. To elect up to three Board members. In accordance with the Society's Rules, Brian Dorgan (Timaru) and Brian Edgeler (Christchurch) retire by rotation and are eligible to offer themselves for re-election to the Board.

Nominations for members to serve on the Board are called for and should be made to the Administration Secretary within ten days of this notice. A nomination form is available from the Head Office of the Society and must be signed by the nominee member, the nominating member, and the seconding member.

5. To appoint an auditor for the ensuing year.
6. To fix the remuneration of the Board.
7. To transact any other business that may be brought before the meeting in accordance with the Rules of the Society.

Any members intending to bring forward a subject for discussion or to move a motion must give notice in writing to the Administration Secretary at least seven clear days before the date fixed for the annual general meeting and such notice shall specify the subject or set out the motion to be moved.

Proxy – Any member who is entitled to attend and vote at a meeting is entitled to appoint a proxy to attend and vote instead of him/her. The proxy appointed must also be a member of the Society. Proxy forms are available from the Society's Head Office and must be lodged with the Administration Secretary not later than 24 hours before the annual general meeting.

By order of the Board

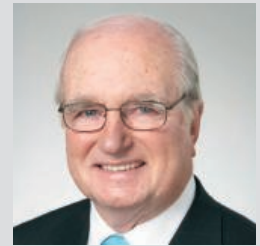


E Richardson
Administration Secretary
PO Box 1721
Christchurch

25 September 2010

Chairman's report

Robert John Todd



It is my pleasure to present the Annual Report for the 2009 – 2010 financial year.

Financials

Although the net surplus for the year is less than last year, the balance sheet remains strong and although the market is still volatile, our return on investments has seen an improvement on last year, and our thanks go to Barry Dent our Funds Advisor, for his guidance.

The Board was again confronted with the most difficult decision about the need to increase premiums and to what level. This was due to the significant increase in claims and whilst reluctant to do so, there was no other option but to increase premiums for the future viability of the Society.

I have advocated for some time that medical insurance premiums should be subject to some form of tax relief and hopefully the Government will soon acknowledge this fact and act accordingly. The Minister of Revenue has signalled recently that such a proposition is possible.

Rest Homes

The two Rest Homes, Kowhai Manor and Granger House, continue to provide excellent care and facilities for those in need of Rest home accommodation on the West Coast, and achieved satisfactory returns for the year. On behalf of the Board I thank the Managers and staff for their dedication, compassion and attention in providing for the comfort of residents and patients whose families are able to be secure in the knowledge that their loved ones are receiving the first class care they so richly deserve.

General

Following their retirement by rotation, it was a pleasure to welcome back to the Board David O'Connell, John Smith and Brian Wooller after their successful re-election at the 2009 Annual General Meeting. All are experienced Board members who make significant and valuable contributions in their governance roles to the benefit of the Society. The role of a Board member is one of considerable responsibility as good governance is a strategic task of setting the organisation's goals, direction limitations and accountability frameworks. Effective governance improves the organisation's results both financial and social and ensures the assets are protected and the funds used appropriately.

The Future

The introduction of the Insurance (Prudential Supervision) Act which incorporates the necessity for organisations such as ourselves to become subject to a credit rating by an independent credit rating agency will impact on the environment in which we currently operate and will present some challenges to the Board and management. There will be a requirement for formally reporting Capital Adequacy and Solvency Ratios to the Reserve Bank of New Zealand on a regular basis and the effective management of business risk will now become even more of a Board priority. However, you can be assured that our mission statement will continue to be the lead document from which future policies and decisions are made.

Acknowledgements

On behalf of the Board may I thank our Chief Executive Dermot Martin, the management team and staff for the considerable contribution they make to the Society's success in providing a first class service to members. Each plays a critical role and their commitment and dedication is appreciated by the Board. May I also thank our professional advisors for their guidance and advice.

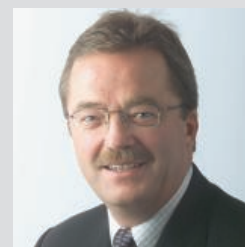
Finally, I thank the Board for their support, commitment and contribution throughout the year and the confidence they have placed in me as Chairman.

A handwritten signature in black ink, appearing to read 'R. J. Todd'.

Bob Todd
Chairman

Chief Executive's report

Dermot Martin



Dear Members

In what has generally been seen as a hard year for both you as members and for your Society, there have been some very positive areas which reflect the ongoing strength and soundness of your Society.

This year UniMed has again managed to strengthen its overall financial position whilst at the same time it has increased its payout to members. This result continues to build on the Society's long-standing record of financial strength and demonstrates that its balanced approach to how it manages business has been fully justified in a year which has been very testing to all of the health insurance industry.

The last 12 months have seen the most dramatic increase in claims' costs that I have witnessed in all my years with the Society. It is of great comfort to us all that even after the increased trends in claims' costs and the follow on from the global financial meltdown, your Society has withstood these financial shocks and has continued to further develop as a strong financial entity.

Some key highlights which demonstrate this:

- Because we are a not-for-profit Society, UniMed was able to pay out 93.5 cents in claims for every dollar it received in premiums. This was an exceptional level of payout.
- UniMed continued to reduce the amount it spends (as a percentage of premiums received) on administering your Society, despite an increase in the number of claims. This administration figure compares incredibly well with others and we see our approach to controlling our costs as a key factor in your Society continuing to deliver on its value-for-money approach.
- The number of lives UniMed covered slightly decreased from 72,164 to 72,042 or 0.17%. This compares very favourably with the industry as a whole which lost 5,750 lives or 0.41%.
- Your Society's total assets increased from \$65.5 million to \$69.7 million and UniMed's members' funds (the ready ability to pay future claims) increased from \$53.8 million to \$57.1 million which represents 19 months of average claims over the past year.

All of these measures compare very positively against other health insurers and show that the Society, with continued prudent direction and management, is in a strong condition to meet your ongoing needs as members.

Of course we have to continue to balance short term needs of members against the long term needs, as they arise.

Since balance date the Directors authorised an increase in premiums to reflect the increase in present claims' costs and in preparation for future expected claims. In applying these increases, I want to assure members that we continue to monitor very carefully the trends and underlying issues shown by the underwriting outcomes for members. We seek only to apply increases as a last resort.

Because we apply different increases to different members based on the outcome of their chosen plan, you can be assured that members' benefits and premiums are always carefully and rigorously analysed. Our focus continues to be on providing you with value for your premiums, exceptional service and the security of "knowing we're there".

Our focus also continues to build up the strength of the Society in a variety of ways and this year has seen significant progress in looking at future trends and in how our business should be administered to meet your future and evolving needs. This year we have begun the work to look at our technology systems in more depth, particularly in preparing ourselves for the increasingly electronic and enhanced customer service standards that you are seeking.

One of the most significant impacts on the Society in recent years has been the passing of "The Insurance (Prudential Supervision) Act". This Act is going to have considerable impact on the conduct, regulation and oversight of the Health Insurance industry, including your Society, and requires UniMed to undergo a review of its credit worthiness by an independent credit rating agency. This is something which UniMed welcomes as it believes it has always adopted a sound and stable approach to running the Society.

In preparation for this compulsory credit rating for all health insurers, UniMed has started to implement a thorough review of all its processes and financial measures. UniMed, because of its status as a not-for-profit Society, and by consistently adhering to its Purpose and Mandate, has managed to develop a very strong financial state including achieving a very high solvency position. UniMed continues to adopt a prudent and conservative approach to the acceptance and management of business and as a result expects to come out of the credit rating review very positively.

We place an incredible amount of value and effort on running a very efficient, but customer friendly business for you. We are mindful that every dollar we can save in expenses has a positive impact on you as members, because it helps to reduce our need for pricing increases.

UniMed continually strives to achieve a balance between quite complex issues that face the Health Insurance industry. It tries to do this for the long-term benefit of members, but these benefits are not always immediately obvious. For example:

- UniMed always tries to adapt to new changes in medical technology and methods of surgical treatment, but in doing so it has to weigh up the cost and the impact on other calls on its funds for other members.

Chief Executive's report cont.

Dermot Martin

- UniMed recognises that we have to continually balance the health insurance needs of an ageing member population with their specific health treatment requirements, compared to all other members. We try to achieve this balance through a combination of attractive but sound pricing for all, recognition of beneficial and up-to-date product benefits and to continually balance both the short and long term needs of all the Society's members.
- Over recent years there has been a progressive shift of health-related expenditure from the public to the private sector, and more recently particularly in the area of the level of treatments paid for by ACC. As part of the Health Funds Association in New Zealand, UniMed plays an active part in looking after your interests so that any cost shifting does not unnecessarily fall on members' funds.
- UniMed, through the Health Funds Association, is seeking to explore with Government the taxation treatment and possible rebates on members' premiums for those aged over 65. We are determined to play our part in keeping the industry viable so that you can retain the freedom of choice of affordable health insurance.
- We continually look at all methods to ensure that providers of medical services do not take advantage of health insurers to increase their prices above what is reasonable. UniMed continually monitors provider fees and charges and wherever possible, without any loss of quality, moderates them so that medical inflation does not destroy our products' viability. We do not wish to unnecessarily limit members' choice of provider but we do have to continually balance the freedom of choice and management of cost.

Other Initiatives

In an effort to deliver on our "value for money proposition" UniMed continually monitors the level of its pricing and product coverage, and it will continue to offer new and varied products that are affordable, priced according to risk and have benefits that meet emerging needs.

To keep our products affordable and viable to members we have introduced some additional choices in regard to the levels of excess on members' policies. UniMed believes that some agreed sharing of risk between members and the Society is one way of ensuring pricing remains acceptable to members and we see the provision of more risk sharing choices as a key factor that members value.

Aged Care Facilities

The Society has continued with its management and ownership of its Aged Care facilities in Greymouth. There continue to be difficulties in finding suitably qualified staff but I am very grateful and want to publicly acknowledge the magnificent efforts of our clinical staff and the outstanding service they provide to our aged care residents. Our operations in Greymouth continue to be impacted by the balance we have to achieve between the costs we need to recover and our residents' needs for satisfactory service, accommodation and care. To a large degree our facilities' operations are affected by government funding policies which are regularly subjected to central government and regional health board decisions. We continue to monitor the ever-changing situation and we seek to ensure that we are in a position to provide both the level of care residents require, and to achieve the necessary return to ensure ongoing viability.

The Future

UniMed's future is strong because of your continued support and our belief that together the members and the Society have built a sound and customer-focussed insurer. Whatever changes may occur, UniMed will seek to continue to build on its strengths and apply sound operational principles.

We believe that over the coming years the benefits of your membership will prove to be very valuable, in a world of changing health policies and funding issues.

As a not-for-profit organisation we have no other focus but you and continuing to enhance the strength of your Society. Whatever changes occur in our environment, with the continued oversight of our Directors, adherence to our founding principles and the incredible commitment of our staff, I believe together we have an assured future.

UniMed's staff have faced, and continue to face, significant challenges and I want to acknowledge my personal thanks for all they do on your behalf.



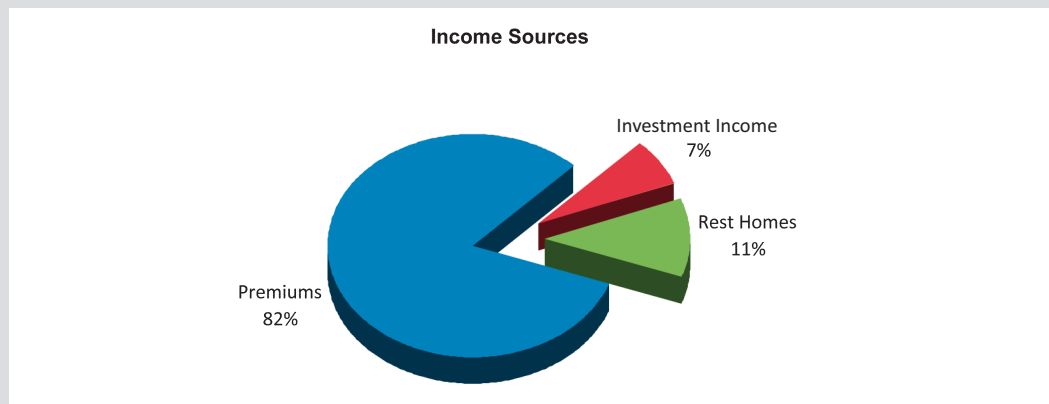
Dermot H Martin
Chief Executive Officer

Graphical highlights

for the year ended 30 June 2010

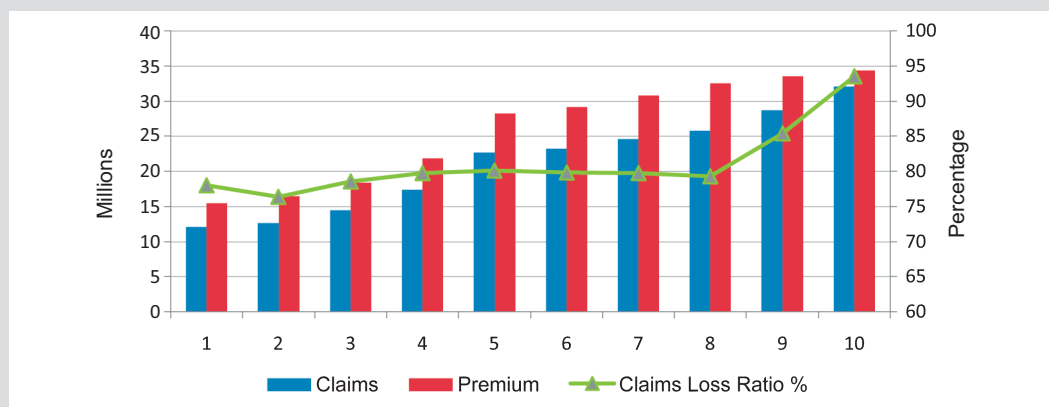
Income sources

The steady financial performance of the Society is a result of all of its activities. Providing quality, affordable health insurance remains its core activity but is well supported by contributions from its other business interests.



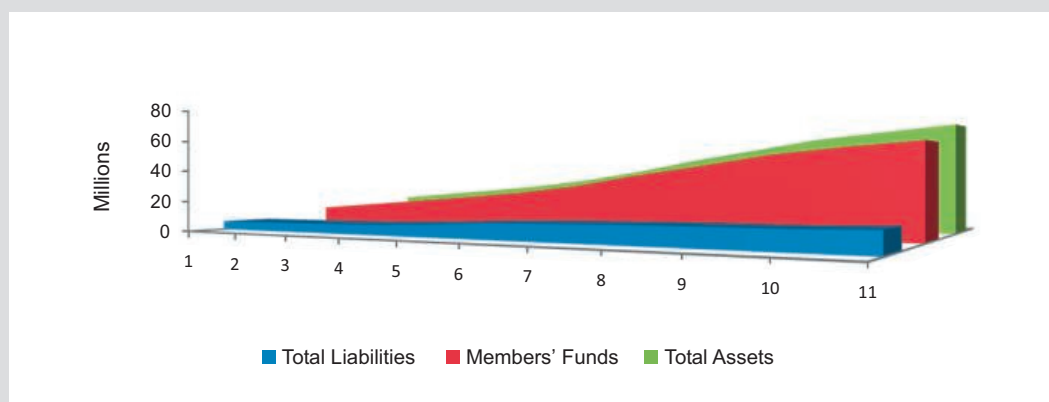
Claims paid

The dollar value to members of claims paid continues to grow each year. This year UniMed was able to pay 93.5 cents in the dollar.



Members' funds

The Members' Funds is the equity in the business. Important measures of financial health are the ratios of debt to equity and total assets. This chart shows the growing strength of Members' Funds relative to the total liabilities of the Society.



Audit report

to the members of Union Medical Benefits Society Limited

PKF Goldsmith Fox Audit
Chartered Accountants



AUDIT REPORT TO THE MEMBERS OF UNION MEDICAL BENEFITS SOCIETY LIMITED

We have audited the financial statements on pages 9 to 21. The financial statements provide information about the past financial performance and financial position of Union Medical Benefits Society Limited as at 30 June 2010. This information is stated in accordance with the accounting policies set out in the notes to the financial statements.

Management Committee Responsibilities

The Management Committee is responsible for the preparation of the financial statements which gives a true and fair view of the financial position of the Society as at 30 June 2010 and of the results of operations and cash flows for the year ended 30 June 2010.

Auditors' Responsibilities

It is our responsibility to express an independent opinion on the financial statements presented by the Management Committee and report our opinion to you.

Basis of Opinion

An audit includes examining, on a test basis, evidence relevant to the amounts and disclosures in the financial statements. It also includes assessing:

- the significant estimates and judgements made by the Management Committee in the preparation of the financial statements, and
- whether the accounting policies are appropriate to the Society's circumstances, consistently applied and adequately disclosed.

We conducted our audit in accordance with generally accepted auditing standards in New Zealand. We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatements, whether caused by fraud or error. In forming our opinion, we also evaluated the overall adequacy of the presentation of information in the financial statements.

Other than in our capacity as auditors we have no relationship with or interests in the Society.

Unqualified Opinion

We have obtained all the information and explanations we have required.

In our opinion:

- proper accounting records have been kept by the Society as far as appears from our examination of those records; and
- the attached financial statements
 - complies with generally accepted accounting practice in New Zealand;
 - complies with New Zealand Equivalents to International Financial Reporting Standards;
 - gives a true and fair view of the financial position of the Society as at 30 June 2010 and the results of its operations and cash flows for the year ended on that date.

Our audit was completed on 13 October 2010 and our unqualified opinion is expressed as at that date.

PKF Goldsmith Fox Audit
CHRISTCHURCH

Union Medical Benefits Society Limited
Statement of comprehensive income
For the year ended 30 June 2010

	Note	2010 \$	2009 \$
Underwriting			
Premium revenue		34,334,595	33,551,379
Claims paid and provided for	2	32,098,913	28,657,977
Underwriting surplus		2,235,682	4,893,402
Underwriting operating expenses	3	3,836,815	4,093,926
Underwriting operating surplus/(deficit)		(1,601,133)	799,476
Aged Care			
Aged Care residents fees		4,946,709	4,648,013
Aged Care operating expenses	4	4,297,667	4,095,555
Aged Care operating surplus		649,042	552,458
Investments			
Investment revenue	5	4,175,513	2,842,418
Other			
Other income		32,746	21,913
Surplus for the year		3,256,168	4,216,265
Other Comprehensive Income		-	-
Total comprehensive income for the year		3,256,168	4,216,265

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

Union Medical Benefits Society Limited

Balance sheet

As at 30 June 2010

	Note	2010 \$	2009 \$
Current assets			
Cash and cash equivalents	6	7,878,338	6,966,826
Trade and other receivables	7	4,307,360	4,276,536
Investments	8	36,057,557	20,212,950
Total current assets		48,243,255	31,456,312
Non-current assets			
Investments	8	16,140,066	28,435,229
Property, plant and equipment	9	4,993,114	5,228,732
Goodwill	10	196,576	322,804
Other intangible assets	10	112,768	31,119
Total non-current assets		21,442,524	34,017,884
Total assets		69,685,779	65,474,196
Current liabilities			
Trade and other payables	11	1,561,138	1,366,692
Employee benefits	12	449,642	502,326
Unearned premium provision		4,074,390	3,970,943
Unreported claims provision	13	6,510,000	5,800,000
Total current liabilities		12,595,170	11,639,961
Net assets		57,090,609	53,834,235
Members' funds			
Members' capital	14	73,270	73,064
General reserves	15	2,752,000	2,752,000
Accumulated funds	16	54,265,339	51,009,171
Total members funds		57,090,609	53,834,235



RJ Todd
Chairman



BA Wooller
Vice Chairman

13th October 2010

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

Union Medical Benefits Society Limited
Statement of changes in equity
For the year ended 30 June 2010

	Members capital	General reserves	Retained earnings	Total
2010				
Opening balance at 1 July 2009	73,064	2,752,000	51,009,171	53,834,235
Surplus for the year	-	-	3,256,168	3,256,168
Other comprehensive income	-	-	-	-
Total comprehensive income	-	-	3,256,168	3,256,168
Members contribution	206	-	-	206
At 30 June 2010	<u>73,270</u>	<u>2,752,000</u>	<u>54,265,339</u>	<u>57,090,609</u>
2009				
Opening balance at 1 July 2008	75,976	2,752,000	46,792,906	49,620,882
Surplus for the year	-	-	4,216,265	4,216,265
Other comprehensive income	-	-	-	-
Total comprehensive income	-	-	4,216,265	4,216,265
Members contribution	(2,912)	-	-	(2,912)
At 30 June 2009	<u>73,064</u>	<u>2,752,000</u>	<u>51,009,171</u>	<u>53,834,235</u>

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

Union Medical Benefits Society Limited

Cash flows statement

For the year ended 30 June 2010

	2010	2009
	\$	\$
Cash flows from operating activities		
Cash was provided from:		
Members contributions	34,646,172	33,571,537
Rest home residents fees	4,996,488	4,630,921
Sundry income	32,952	21,913
Investment income	4,082,288	2,423,894
	43,757,900	40,648,265
Cash was applied to:		
Payments for claims	31,343,718	28,321,302
Payments to suppliers for goods and services	3,235,089	3,009,832
Payments to employees	4,631,392	4,640,084
	39,210,199	35,971,218
Net cash flows from operating activities	4,547,701	4,677,047
Cash flows from investing activities		
Purchase of property, plant and equipment	25,697	114,215
Purchase of computer software	95,000	28,822
Purchase of investments	3,549,444	3,173,359
	3,670,141	3,316,396
Cash was provided from:		
Sale of property plant & equipment	33,952	30,836
Net cash flows from investing activities	3,636,189	3,285,560
Net increase/(decrease) in cash held	911,512	1,391,487
Plus opening cash brought forward	6,966,826	5,575,339
Closing cash brought forward	7,878,338	6,966,826

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

Union Medical Benefits Society Limited
Notes to the financial statements for the year ended 30 June 2010

1 Statement of Accounting Policies

1 (a) Reporting entity

Union Medical Benefits Society Limited (the Society) is an Incorporated Society domiciled in New Zealand, registered under the Industrial and Provident Society Act 1908. Its principal products and services are health insurance and residential aged care ownership. The Society is a reporting entity for the purposes of the Financial Reporting Act 1993 and its financial statements comply with that Act.

The financial statements were approved by the Board of Directors on 13 October 2010

1 (b) Basis of preparation

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

1 (c) Basis of measurement

The financial statements have been prepared on the basis of historical cost basis, except for:

- certain financial instruments that are carried at fair value
- actuarial quantification of insurance liabilities

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

1 (d) Foreign currency

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

1 (e) Use of estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual results may differ from these estimates.

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

- Note 13: Unreported claims provision
- Note 21: Financial instruments

The accounting policies set out below have been applied in preparing the financial statements for the year ended 30 June 2010, the comparative information presented is for the year ended 30 June 2009.

1 (f) Standards approved but not yet effective

NZ IFRS Standards which have been issued but are not yet effective and have not been adopted for the financial statements ending on 30 June 2010 are as follows:

	Effective date	Application date
NZ IAS 7: Statement of Cash Flows	1 January 2009	01 July 2010
NZ IFRS 9 : Financial Instruments	1 January 2013	01 July 2013

NZ IAS 7: 'Statement of Cash Flow' the amendments explicitly state that only expenditure resulting from a recognised asset can be classified as cash flow from investing activities. The amendments are not expected to have any material effect and the Society is currently in compliance with this requirement.

NZ IFRS 9: 'Financial Instruments'. This standard is part of the AASB's project to replace IAS 39 Financial Instruments: Recognition and Measurement. The standard applies to financial assets, their classification and measurement. All financial assets are required to be classified on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial asset. Financial assets are initially measured at fair value. In the case of a financial asset not valued at fair value through profit or loss, particular transaction costs are subsequently measured at amortised cost or fair value. These amendments are expected only to affect the presentation of the financial statements and have no material impact on the measurement and recognition of amounts in the financial statements.

1 (g) Specific accounting policies

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

1(h) Revenue recognition

(i) Premium revenue

Premium revenue represents those members' contributions relating to the year under review.

At balance date, an adjustment has been made for that portion of premium revenue received and receivable which has not been earned. That is, recognising that in general, the term of the policy will extend into the following financial year. This premium which will be earned in subsequent reporting periods, is recognised in the Balance Sheet as a Provision for Unearned Premium. A significant number of our members pay on a weekly to monthly basis.

Union Medical Benefits Society Limited
Notes to the financial statements for the year ended 30 June 2010

ii) Rest home residents fees

Rest home residents fees are recognised on an accruals basis.

iii) Investment income

Interest income is recognised in the statement of comprehensive income as it accrues, using the effective interest rate method. Dividends on available-for-sale equity instruments are recognised in the statement of comprehensive income when the Society's right to receive payment is established.

1(i) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, cash in banks and on demand deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. Under the NZ IFRS definition of financial assets, cash and cash equivalents are classified as 'fair value through the profit or loss'.

1(j) Trade and other receivables

Trade and other receivables which generally have a 30 - 60 day term, are recognised initially at fair value less any allowance for impairment. Given the short term nature of most receivables, the recoverable amount approximates the fair value. Under the NZ IFRS definition of assets, trade and other receivables are classified as 'loans and receivables'.

Premiums outstanding

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

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

Impairment losses for uncollectible premiums are written off against premium revenue in the year in which they are incurred.

1(k) Investments

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

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

Financial assets at fair value through the profit or loss

This Society designates its investments as 'financial assets at fair value through the profit or loss' at inception and any movements in fair value are immediately taken to the statement of comprehensive income. The assets are valued at each reporting date on the current bid price where one is available. In the absence of a bid price, valuation is based on recent arms length transactions. Interest and dividend income, fund distributions and fair value movements are recorded in the investment income section of the Statement of comprehensive income.

A financial asset is classified as held for trading if:

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

All derivatives entered into by the Society are classified as held for trading as the Society does not apply hedge accounting. Gains or losses on financial assets held for trading are recognised in the statement of comprehensive income and the related assets are classified as current assets in the balance sheet.

Available-for-sale financial assets

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified as financial assets at fair value through profit or loss, or loans or receivables.

Certain shares held by the Society are classified as being available-for-sale and are stated at fair value. The fair value of shares is the quoted price at balance sheet date. Gains and losses arising from changes in fair value are recognised directly in the statement of comprehensive income.

1(l) Property Plant & Equipment, and Depreciation

Property plant and equipment is measured at cost less accumulated depreciation and any accumulated impairment losses.

Depreciation rates vary, according to the nature of the asset and its economic life and are as follows:

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

Union Medical Benefits Society Limited
Notes to the financial statements for the year ended 30 June 2010

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

1(m) Goodwill

Goodwill represents the excess of the purchase price of acquisition over the fair value of net assets, acquired at the time of acquisition of a business combination. Goodwill is assessed annually for impairment and to the extent that it is no longer probable that it will be recovered from future economic benefits of the investment it is recognised immediately as an expense.

1(n) Intangible assets

Intangible assets represent software. Additions are initially measured at cost, and thereafter carried at cost less accumulated amortisation and any accumulated impairment losses.

Intangible assets are amortised over their estimated useful life as follows:

Software 40.0% - 60.0% DV

1(o) Impairment of assets

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

The estimated recoverable amount of an asset is the greater of fair value less costs to sell, and value in use.

Any impairment loss is recognised when the carrying amount of an asset exceeds its recoverable amount. Impairment losses are recognised in the statement of comprehensive income immediately.

1(p) Liabilities and provisions

Current Liabilities and Provisions are stated at the expected amounts payable and include the following:

Trade and other payables

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

Under the NZ IFRS definition of financial liabilities, trade and other payables are classified as 'other liabilities at amortised cost'.

Employee benefits

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

Provision for unreported claims

This provision represents the estimated amount of benefits unclaimed as at balance date for accounts incurred but not settled. The time lag in the lodging of claims after members incur expenses varies.

1(q) Goods and services tax

All balances are presented net of goods and services tax (GST), except for receivables and payables which are presented inclusive of GST.

1(r) Leased assets

Operating lease payments are recognised as an expense on a straight-line basis over the lease term.

1(s) Taxation

The Society is exempt from income tax.

1(t) Changes in accounting policies

There have been no changes to accounting policies during the reporting period other than the application of the following new standards and interpretations:

- NZ IAS 1 (Revised): Presentation of Financial Statements
- NZ IFRS 7: Financial Instruments: Disclosures
- NZ IFRS 8: Operating Segments

Presentation of certain comparatives have been changed to allow for consistency and comparison with the current financial year.

2 Claims paid and provided for	2010	2009
	\$	\$
Claims incurred relating to risks borne in current and previous years	31,388,913	28,657,977
Movement in provision for unreported claims	710,000	
Total claims paid and provided for	32,098,913	28,657,977

Union Medical Benefits Society Limited
Notes to the financial statements for the year ended 30 June 2010

3 Underwriting operating expenses	2010	2009
	\$	\$
Employee benefit expenses	1,810,817	1,883,518
Contributions to defined health insurance plan	34,792	30,904
Auditors fees	14,825	12,050
Directors fees	174,750	174,750
Depreciation expense	63,828	98,039
Amortisation of intangible assets	27,940	167,700
Rental of premises	61,321	63,083
Other expenses	1,648,542	1,663,882
Total underwriting operating expenses	3,836,815	4,093,926

4 Aged Care operating expenses	2010	2009
	\$	\$
Employee benefit expenses	2,831,060	2,773,472
Contributions to defined health insurance plan	2,039	510
Auditors fees	5,250	4,500
Directors fees	58,250	58,250
Depreciation expense	163,788	172,567
Amortisation of intangible assets	98,288	98,288
Other expenses	1,138,992	987,968
Total aged care operating expenses	4,297,667	4,095,555

5 Investment revenue	2010	2009
	\$	\$
Investment income	2,860,680	3,580,148
Realised gains/(losses) on fair value investment	316,123	45,234
Unrealised gains/(losses) on investments fair value through income statement	998,710	(782,964)
Total investment income	4,175,513	2,842,418

6 Cash and cash equivalents	2010	2009
	\$	\$
Cash at bank and on hand	1,047,929	994,758
Cash on call	6,749,366	5,041,027
International cash on hand	81,043	931,041
Total cash and cash equivalents	\$7,878,338	\$6,966,826

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

7 Trade and other receivables	2010	2009
	\$	\$
Premiums receivable	2,641,706	2,758,631
Aged care fees receivable	219,384	269,369
Interest receivable	1,257,239	1,164,014
Prepayments	59,378	44,245
Other	129,653	40,277
Total trade and receivables	\$4,307,360	\$4,276,536

8 Investments at fair value	2010	2009
	\$	\$
Fixed Interest	45,015,880	35,082,580
International Fixed interest	-	233,620
Bonds & Notes (a)	1,018,692	9,782,952
NZ Funds & Equities	24,896	887,169
Australian Funds & Equities	2,254,647	1,307,209
International Funds & Equities	3,883,508	1,354,649
Total investments	52,197,623	48,648,179
Current portion	36,057,557	20,212,950
Non-current portion	16,140,066	28,435,229

Funds are managed primarily by the Bank of New Zealand, with the addition of \$8.0 million invested in a fixed interest fund managed by Tyndall Investment Management New Zealand Limited. The Society's investment securities are all financial assets classified as fair value through the profit and loss. Any changes in the fair value are recognised immediately.

9 Property plant & equipment

Property Plant and Equipment is stated at cost less accumulated depreciation.

Union Medical Benefits Society Limited

Notes to the financial statements for the year ended 30 June 2010

2009/10	Freehold land at cost	Buildings at cost	Fixtures fittings & equipment at cost	Motor vehicles at cost	Total
Gross carrying amount					
Balance 1 July 2009	919,562	5,555,602	1,547,787	139,230	8,162,181
Additions	-	-	25,697	-	25,697
Disposals at cost	-	(49,028)	-	-	(49,028)
Balance 30 June 2010	919,562	5,506,574	1,573,484	139,230	8,138,850
Accumulated depreciation					
Balance 1 July 2009	-	1,596,318	1,265,763	71,368	2,933,449
Current year depreciation	-	143,832	66,183	17,348	227,363
Depreciation on disposals	-	(15,076)	-	-	(15,076)
Balance 30 June 2010	-	1,725,074	1,331,946	88,716	3,145,736
Net book value	919,562	3,781,500	241,538	50,514	4,993,114

2008/09	Freehold land at cost or valuation	Buildings at cost or valuation	Fixtures fittings & equipment at cost	Motor vehicles at cost	Total
Gross carrying amount					
Balance 1 July 2008	913,891	5,577,652	1,472,230	129,487	8,093,260
Additions	5,671	-	75,557	32,987	114,215
Disposals at cost	-	(22,050)	-	(23,244)	(45,294)
Balance 30 June 2009	919,562	5,555,602	1,547,787	139,230	8,162,181
Accumulated depreciation					
Balance 1 July 2008	-	1,450,575	1,179,903	64,539	2,695,017
Current year depreciation	-	145,743	85,860	21,293	252,896
Depreciation on disposals	-	-	-	(14,464)	(14,464)
Balance 30 June 2009	-	1,596,318	1,265,763	71,368	2,933,449
Net book value	919,562	3,959,284	282,024	67,862	5,228,732

The latest independent valuation of the Society's land and buildings in Christchurch at net current value by Ford Baker Valuation Limited, Registered Valuers dated 1 October 2010 is \$1,930,000 (2009 - \$1,910,000).

The latest independent valuation of the Society's land and buildings of Kowhai Manor Rest Home in Greymouth at net current value by Ford Baker Valuation Limited Registered Valuers is \$2,900,000 (2009 - \$2,945,000).

The latest independent valuation of the Society's land and buildings of Granger House and Richard Seddon Hospital in Greymouth at net current value by Ford Baker Valuation Limited Registered Valuers is \$4,600,000 (2009 - \$4,680,000).

In the Board's opinion the valuations obtained represent fair value. There are no restrictions on legal titles of assets.

10 Intangible Assets

	Computer software	Goodwill Aged Care	Goodwill Underwriting	Total Goodwill
Balance at 1 July 2009				
Cost	194,571	982,880	838,490	1,821,370
Additions	95,000	-	-	-
Closing cost	289,571	982,880	838,490	1,821,370
Opening accumulated amortisation & impairment	163,452	688,016	810,550	1,498,566
Impairment loss recognised in income statement	-	98,288	27,940	126,228
Amortisation for the year	13,351	-	-	-
Total accumulated amortisation & impairment	176,803	786,304	838,490	1,624,794
Closing carrying amount at 30 June 2010	112,768	196,576	-	196,576
Balance at 1 July 2008				
Cost	165,749	982,880	838,490	1,821,370
Additions	28,822	-	-	-
Closing cost	194,571	982,880	838,490	1,821,370
Opening accumulated amortisation & impairment	145,742	589,728	642,850	1,232,578
Impairment loss recognised in income statement	-	98,288	167,700	265,988
Amortisation for the year	17,710	-	-	-
Total accumulated amortisation & impairment	163,452	688,016	810,550	1,498,566
Closing carrying amount at 30 June 2009	31,119	294,864	27,940	322,804

There are no restrictions over the title of intangible assets, nor are any intangible assets pledged as security for liabilities. Software is assessed as having a finite life and is amortised using diminishing value rates over the useful life of the asset. After initial recognition, goodwill is measured at cost less any accumulated impairment losses.

Union Medical Benefits Society Limited
Notes to the financial statements for the year ended 30 June 2010

11 Trade and other payables	2010	2009
	\$	\$
Claims payable	951,272	1,009,524
GST	269,759	153,065
Other	340,107	204,103
Total trade and other payables	1,561,138	1,366,692

12 Employee benefits	2010	2009
	\$	\$
Wages accrual	133,874	225,406
Provision for annual leave	315,768	276,920
Total employee benefits payable	449,642	502,326

13 Unreported claims provision	2010	2009
	\$	\$
Provision for unreported claims	6,510,000	5,800,000

Estimates of the outstanding claims as at 30 June 2010 have been carried out by Peter Davies B.Bus.Sc., a Fellow of the New Zealand Society of Actuaries. The calculation of the provision for outstanding claims complies with NZ IFRS 4 Insurance Contracts' and Professional Standard No. 4 of the New Zealand Society Of Actuaries. The actuary is satisfied as to the nature, sufficiency and accuracy of the data used to determine these provisions.

The provisions were determined based on past patterns of claim payments using a chain-ladder method, and include a volatility allowance and a provision for future claim processing. The Provision for Outstanding Claims has not been discounted due to the short-term nature of the claims experienced by the Society.

14 Members capital	2010	2009
This represents the capital paid up by current members of the Society	\$	\$
Opening balance 01 July	73,064	75,976
Add additions (repayments) during the year	206	(2,912)
Closing balance 30 June	73,270	73,064

15 General reserves

This reserve represents a Claim Fluctuation Reserve which has been created to provide for major claims arising from unusual or abnormal events . There are no restrictions on transfers within these reserves.

	2010	2009
	\$	\$
Balance at 30 June	2,752,000	2,752,000

16 Accumulated funds

	2010	2009
	\$	\$
Opening balance 01 July	51,009,171	46,792,906
Net earnings	3,256,168	4,216,265
Closing balance 30 June	54,265,339	51,009,171

17 Cash flow reconciliation

	2010	2009
	\$	\$
Net earnings	3,256,168	4,216,265
Plus (less) non cash items:		
Depreciation	227,363	252,896
Impairment	126,228	-
Amortisation	13,351	283,698
	3,623,110	4,752,859
Plus (less) movements in working capital:		
(Increase)/decrease in accounts receivable	194,446	(123,705)
Increase/(decrease) in accounts payable	(30,824)	(291,748)
Increase/(decrease) in employee entitlements	(52,684)	118,792
Increase in unearned premium provision	103,447	223,761
Increase in provision for unreported claims	710,000	-
Increase/(decrease) in members' capital	206	(2,912)
Net cash flows from operating activities	4,547,701	4,677,047

18 Solvency and capital adequacy

The Society is a not-for-profit organisation. As a consequence of its legal structure the Society has no recourse to external capital and therefore internally generated capital is of high importance. The society's capital of \$57,090,609 (2009 \$53,834,235) is equal to the Members Funds as disclosed in the financial statements.

The Society is required to deposit \$500,000 with the Public Trustee in accordance with the Insurance Companies' Deposits Act 1953. The Society is not subject to any other externally imposed capital requirements.

Union Medical Benefits Society Limited
Notes to the financial statements for the year ended 30 June 2010

The Directors' policy for managing capital is to have a strong capital base to establish security for members and enable the Society to conduct its business as a going concern.

The Society calculates its capital adequacy requirements using the capital adequacy standard issued by the Reserve Bank of New Zealand under the Insurance (Prudential Supervision) Act 2010. A calculation done as at 30 June 2010 showed that the Society had assets in excess of the level specified by the standard.

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

19 Capital commitments

There are no capital commitments or contingent liabilities at balance date. (2009: \$ Nil).

20 Significant events after balance date

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

21 Financial instruments

The Society does not enter into any off balance sheet debt financial instruments. All financial instruments are recognised in the financial statements.

Credit risk management

Financial assets which potentially subject the Society to credit risk consist of bank balances, accounts receivable, and balances due from the Inland Revenue Department.

The Society's maximum exposure to credit risk at balance date is the amount stated for these accounts in the Balance Sheet.

The directors consider the exposure to any concentration of credit risk to be minimal, given that the largest financial asset is the bank balance, which is placed with a high credit quality financial institution.

The credit quality of the Society's counter parties is assessed based on published credit ratings.

The credit quality of investment counter parties is as follows:

	2010		2009	
	Cash & Cash Equivalents	Investments	Cash & Cash Equivalents	Investments
New Zealand Government Rated				
AAA		1,995,369		2,764,695
Corporates rated				
AAA		7,035,205	7,293,648	
AA	7,878,338	31,272,268	6,966,826	30,113,016
A		8,705,515		4,168,003
BBB		1,856,151		1,897,304
Below BB		814,165		766,987
Non-rated		518,950		1,644,526
Total	7,878,338	52,197,623	6,966,826	48,648,179

The maximum exposure to credit risk at the end of the reporting period is the amount of the financial assets stated in the statements of financial position. The Society does not require any collateral or security to support financial assets due to the quality of counter party organisations.

Foreign currency risk

The Society has within its investment portfolio investments in international companies and foreign cash balances, and is subject to foreign exchange risk. The Society through its Portfolio Manager has entered into hedging contracts to reduce the impact of changes in foreign currencies. Exchange differences are recognised in the income statement in the period in which they arise.

At 30 June the Society had assets of \$3,964,551 and no liabilities denominated in foreign currencies (30 June 2009: assets of \$837,374 and no liabilities). The Society enters into derivative contracts to manage this risk.

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

	Net Surplus		Equity	
	Increase	(Decrease)	Increase	(Decrease)
	10%	-10%	10%	-10%
2010	281,468	(281,468)	281,468	(281,468)
2009	284,016	(284,016)	284,016	(284,016)

Liquidity risk

Liquidity risk is the risk that the Society will not be able to meet its financial obligations as they fall due. The directors are responsible for the liquidity risk management and as such have built an appropriate liquidity risk framework for the management of short, medium and long term funding and liquidity management requirements. The Society manages liquidity risk by maintaining adequate reserves and banking facilities by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities. The following table details the contractual maturities of financial assets and liabilities at balance date on an undiscounted basis. Actual maturities are expected to be the same as contractual maturities.

Union Medical Benefits Society Limited
Notes to the financial statements for the year ended 30 June 2010

As at 30 June 2010

	0-6 months	7-12 months	1-2 years	over 2 years
Cash and cash equivalents	7,878,338	-	-	-
Trade and other receivables	4,307,360	-	-	-
Investments	25,623,255	10,434,302	1,091,451	15,048,615
Total assets	37,808,953	10,434,302	1,091,451	15,048,615
Financial liabilities				
Trade and other payables	4,307,360	-	-	-
Total liabilities	4,307,360	-	-	-

As at 30 June 2009

	0-6 months	7-12 months	1-2 years	over 2 years
Cash and cash equivalents	6,966,826	-	-	-
Trade and other receivables	4,276,536	-	-	-
Investments	16,453,582	3,759,368	11,456,026	16,979,203
Total assets	27,696,944	3,759,368	11,456,026	16,979,203
Financial liabilities				
Trade and other payables	1,727,033	141,986	-	-
Total liabilities	1,727,033	141,986	-	-

Fair value

The carrying amounts of the financial instruments in the Society's balance sheet are the same as their fair value in all material aspects. The fair value of investments is calculated using quoted prices in active markets, therefore the Society has categorised all assets as level 1 under the fair value hierarchy contained within the amendment of NZ IFRS 7.

Interest rate risk

Interest rate risk is the risk that the value of financial instruments will fluctuate based on changes in interest rates. The Society's revenue from investments in the short term is susceptible to changes in interest rates. However, as the majority of investments are fixed rate term deposits, bonds and capital notes, and these investments are generally held until maturity, this exposure is mitigated. At reporting date, if interest rates had been 100 basis points higher or lower with all other variables held constant, net surplus and equity would have been effected as follows:

	Net Surplus		Equity	
	Increase	(Decrease)	Increase	(Decrease)
	1%	-1%	1%	-1%
2010	78,783	(78,783)	78,783	(78,783)
2009	69,668	(69,668)	69,668	(69,668)

Equity price risk

Equity price risk is the risk that the fair values of equities will decrease as a result of changes in the equity indices and individual value of stocks. The Society holds all of its equities at fair value through the profit and loss. Equity investments are actively managed and monitored by fund managers. At reporting date, if world equity prices had been 5% higher or lower with all other variables held constant, net surplus and equity would have been effected as follows:

	Net Surplus		Equity	
	Increase	(Decrease)	Increase	(Decrease)
	5%	-5%	5%	-5%
2010	359,087	(359,087)	359,087	(359,087)
2009	354,903	(354,903)	354,903	(354,903)

Capital risk management

Capital includes share capital, reserves and retained earnings. The objective of the companies capital management is to ensure that the Society will be able to continue as a going concern. The capital structure consists of debt, cash, cash equivalents and equity comprising accumulated funds. The Society does not require collateral or other security to support financial instruments with credit risk.

22 Key management personnel compensation

	2010	2009
	\$	\$
Compensation		
Short term employee benefits	890,711	886,151

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

Transactions between the Society and key management personnel are on normal commercial terms and conditions, there were no loans payable or receivable at year end (2009: nil). There were no bad debts or provision for bad debts required in 2010 (2009: nil).

23 Segment Information

The Society operates in two divisions within New Zealand

	Health Insurance	Aged Care	Total
2010	\$	\$	\$
Segment Assets:	47,878,914	21,806,865	69,685,779
Segment Liabilities	12,112,285	482,885	12,595,170
Revenue	38,542,354	4,946,709	43,489,563
Expenses	35,935,728	4,297,667	40,233,395
Net Earnings	2,607,126	649,042	3,256,168
2009	\$	\$	\$
Segment Assets:	45,205,091	20,269,105	65,474,196
Segment Liabilities	11,148,427	491,534	11,639,961
Revenue	36,415,710	4,648,013	41,063,723
Expenses	32,751,903	4,095,555	36,847,458
Net Earnings	3,663,807	552,458	4,216,265

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