

ANNUAL REPORT 2012



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



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.

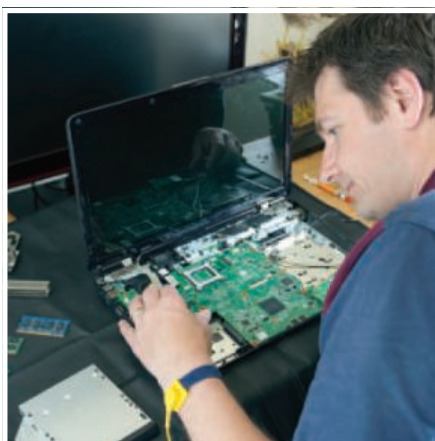
We expect their loyalty and support. We value all those who contribute to UniMed's success.

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.



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Company Directory

as at 30 June 2012

NATURE OF BUSINESS

Medical Health Insurers
Aged Care Facility Managers
Property Owners

REGISTERED OFFICE

Unit 12
211 Ferry Road
Christchurch 8041

INCORPORATION

Industrial and Provident Society Act 1908

BOARD

Brian Anthony Wooller (Chairman)
David William Eastlake (Deputy Chairman)
Glenn John Barnes
Brian James Edgeler
Dennis Bruce Emery
David Bernard O'Connell
(retired 31 March 2012)
David William Rowland
John Murphy Smith
(retired 31 March 2012)
Robert John Todd
(retired 31 March 2012)

BANKERS

Bank of New Zealand
Level 1 5 Sir William Pickering Drive
Christchurch 8053

AUDITOR

PKF Goldsmith Fox Audit
67 Main North Road
Kaiapoi

LAWYERS

Lane Neave
Unit D 15 Sir Gil Simpson Drive
Christchurch 8053

Duncan Cotterill
1 Sir William Pickering Drive
Christchurch 8053

ACTUARY

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



Notice of Annual General Meeting

The Annual General Meeting of Members of the Union Medical Benefits Society Limited will be held at the Ashley Hotel, 106 Mandeville Street, Riccarton, Christchurch on Wednesday 7 November 2012 at 6.00pm.

BUSINESS

1. Apologies.
2. To confirm the Minutes of the 2011 Annual General Meeting.
3. To receive and consider the annual financial statements and Auditor's report for the year ended 30 June 2012.
4. To record the re-election of Brian Wooller to the Board. In accordance with the Society's Rules, Brian Wooller (Christchurch) retires by rotation and being eligible; has offered himself for re-election to the Board. Nominations were called for members of the Board on 7 September 2012. No other candidates were validly nominated, so Brian Wooller will be deemed to be re-elected at the Annual General Meeting.
5. To appoint an auditor for the ensuing year.
6. To fix the remuneration for the Board.

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

By order of the Board



E Richardson
Administration Secretary
PO Box 1721
Christchurch 8140

13 October 2012

Chairman's Report

Our Society completed the 2012 financial year with another solid result, much in line with forecast. This enabled the prudent allocation of funds to provide for solvency requirements and strengthening of members' funds.

RATING STRENGTH CONTINUES

It was pleasing to note that our previous financial rating from AM Best of A- (Excellent) and issuer credit rating of "a-" was reaffirmed in July 2012. My fellow Directors and I view this continuation of a strong rating as an endorsement of sound governance and management focus, both over recent years but also in the future.

A further important milestone in the Society's history was successfully obtaining a Provisional Licence with no caveats from the Reserve Bank of New Zealand, under the new requirements of the Insurance (Prudential Supervision) Act 2010. The internal project to ensure full licensing by the required date of September 2013 is well advanced.

Over the past 18 months, your Board has conducted a full review of its structure and collective skill sets against the expected backdrop of the health funding environment in the years ahead. This review, in part, identified the need for the Society's governance structure to evolve, including the way in which Board members are identified. In the past, all Directors could only be elected from within the Society membership.

CHANGES TO THE RULES

We believe that to ensure the full range of skills and experience needed by UniMed's governance body are available in the future, it is no longer sensible to always draw solely from within our membership. Therefore, a number of changes to the Rules of the Society were drawn up in the early part of this year and unanimously adopted at a Special General Meeting on 16 July 2012. This change gives effect to our view that a combination of elected Directors from within the membership – plus the ability to appoint suitable candidates on three year terms from outside the Society's

membership – is more appropriate for the new environment. This will greatly assist in ensuring that the collective skill sets of future UniMed Boards are appropriate and meet legislative requirements.

NEW APPOINTMENTS

In anticipation of some new appointments during the latter part of 2012 and early 2013, three Directors retired at the end of March 2012 and one further Director will retire at this year's Annual General Meeting in November.

I would like to acknowledge Bob Todd, a long serving Director and past Chairman of the Society, David O'Connell, a further long serving Director and John Smith, a more recent appointee, for their unstinting service to our Society over many years. Their contribution has been considerable and is appreciated.

A further long serving Director, Brian Edgeler, has indicated his wish to retire at this year's AGM and again I would like to record my appreciation for his commitment and service to UniMed over many years.

HEAD OFFICE

As I have previously reported, the Society's Head Office building in the Christchurch CBD was significantly damaged during the February 2011 earthquake. The effects of this displacement continue to be felt by staff who, despite this, have continued to provide excellent service to our members. The Society has recently received a satisfactory market value payment from its insurers under its material damage policy on the Gloucester Street property, following demolition, and continues to own the land which has been zoned within the new and smaller Christchurch CBD.

With the new Christchurch Central Recovery Plan providing surety as to the

future shape of the city, we will work with professional advisers to consider the establishment of a new Head Office for the Society.

STRENGTH IN NUMBERS

UniMed's entire membership, be they individuals, families or our employer sponsored groups, are not immune from the current difficult financial times. I am pleased to be able to report that our membership numbers have held up very well. I believe this is a reflection of the value our membership places on UniMed's services, which provide them with a choice as to when and by whom to have required medical treatment. With the ageing demographics predicted over the next 10-15 years within New Zealand, the pressures on our world renowned public health system will only increase to the extent where increasing personal responsibility for medical care and treatment will increasingly fall on us all as individuals. UniMed stands ready to assist in supporting its members' access to medical treatment when necessary, without major financial considerations driving treatment choices.

In closing I would like to express my thanks to the Board for their wise counsel and support over the past year and also take the opportunity to extend to all Society staff thanks for their hard work throughout the year.

To our membership, thank you for your continued support and we look forward to continuing our service to you in the years ahead.



• Brian Wooller
Chairman

Chief Executive Officer's Report

It is now 33 years since our first members entrusted their health care funding needs to the newly established Society back in 1979. We are delighted that many of those founding members are still members today.

I am able to report that the Society has completed another successful and very busy year. Some of the highlights include:

- Total members' premiums increased 10.5% to \$42.205M.
- Members' claims paid and provided for increased by 8.88% to \$35.935M.
- Our insurance operations' expenses reduced to 10.20% of members' premiums, a record low from the previous year's 11.27% which, in turn, was a record at that time. This means that a very competitive industry rate of just over 10c in every premium dollar paid by members is utilised in administering the insurance operations of the Society.
- Our Aged Care facilities continue to provide excellent service but are subject to rising cost pressures. Increases in funding have been minimal via our Government contracts, and below that necessary to match unavoidable expense increases. This has resulted in a reduced operating surplus of \$0.433M from the previous year's corresponding figure of \$0.600M.
- In line with the worldwide trend of decreasing interest rates and investment returns, the Society's investment income reduced to \$2.777M (2011 - \$3.441M) despite an increase in funds invested on behalf of members. Suppressed investment returns for the foreseeable future are forecast.
- Total comprehensive income for the Society rose from \$4.849M for the previous year to a satisfactory \$5.772M, enabling appropriate allocations to reserves, solvency and members' funds. The comprehensive result included a write back of

\$0.593M depreciation in connection with the demolition and associated insurance payment for the Society's Head Office building in the Christchurch CBD.

In summary, the Society had a solid financial year largely based on a continuation of the same strategy and operating plan to which we have adhered for the previous three years.

ONGOING CAREFUL BALANCE

The balance between premiums charged, claims settled to members and the need to maintain the Society's financial security for our members, is always carefully considered and subject to many factors. In the main, our strategy is to maintain the same emphasis in the future as we have previously.

OPERATING ENVIRONMENT

The current economic constraints affecting New Zealand, which mirror worldwide financial difficulties, have meant that the total insured population of New Zealand has contracted modestly over the past year. It is, therefore, encouraging to report that UniMed's membership increased over the year under review, going against industry trends.

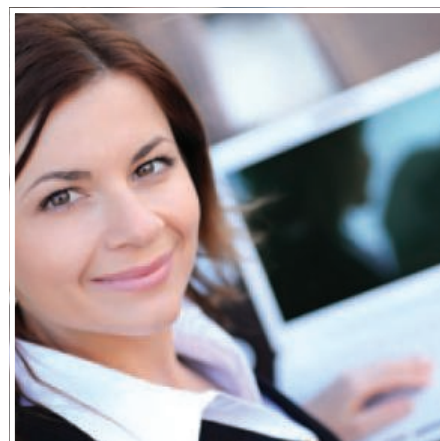
RATING AND LICENSING

We have received from our Rating Agency, AM Best Ltd, confirmation of renewal of our financial rating at A- (Excellent) and issuer credit rating of "a-". This is an endorsement that our Society continues to operate and progress in a prudent manner, which is vitally important given the long-term relationship between members and their insurer.

As required under the Insurance (Prudential Supervision) Act 2010, UniMed sought and received a Provisional Licence

in the latter part of 2011 and is tracking appropriately to obtain Full Licence status from the Reserve Bank of New Zealand on or before September 2013. This is a major project requiring considerable input from my senior team and will result in an even stronger Society, well-positioned to confidently face the future.

I would like to extend a warm welcome to the previous IAG insured clients via the BNZ group. These new members of the Society have now all successfully transferred their health insurance requirements over to UniMed with this passing of responsibility being completed some six months ago. It was particularly pleasing to note a very low level of loss of members in the transfer of insurance coverage. We look forward to meeting the health funding needs of these new members in the years ahead.



"The Society had a solid financial year largely based on a continuation of the same strategy and operating plan..."

Chief Executive Officer's Report cont.

AGED CARE

Our two aged care facilities continue to be under considerable pressure, particularly in the financial area. The majority of their funding comes from the Government via the local DHB with only very modest increases in those funding levels. These increases are insufficient to meet growing staff and operational costs. This critically important service to older New Zealanders is far from appropriately funded and we, as a country, urgently need to reassess our commitment to our elderly and their appropriate health and residential needs. As the number of people requiring the type of services provided by our facilities will greatly increase in the near future, the question of how this will be managed remains unanswered. Our staff continue to provide excellent care for our residents and patients.



"This new computer system will help us to provide even higher levels of service and efficiency to our members."

IMPACT OF EARTHQUAKE

As reported in previous Annual Reports, our Head Office building in the Christchurch CBD was extensively damaged in the February 2011 earthquake and I can now report that it has been deemed irreparable and has been demolished. We are in receipt of a satisfactory interim insurance payment and still own the land. Details provided by the Christchurch Central Recovery Plan confirm that our land is well sited and over the coming months, we expect to make a decision about our future accommodation needs. Currently all staff are together on one site, delivering our traditionally high service levels to members. I want to note that this has only been possible due to the amazing effort of our staff as current facilities are not ideal and have required extra dedication.

FUTURE TECHNOLOGY

Our long awaited conversion to a new insurance administration IT platform is nearing. This new computer system will help us to provide even higher levels of service and efficiency to our members. While we currently have a reliable and robust IT system, the transfer to the new platform is eagerly anticipated by all staff as this project has become more protracted than originally planned. This was mainly because of the disruption caused by the earthquakes and the loss of our Head Office building.

STAFF AND BOARD CHANGES

There are a number of retirements from senior staff and Board members that I would like to take this opportunity to acknowledge. Brian Leith, our Manager of Insurance Operations for 20 years, commences his well-deserved retirement at the end of this year. Brian has been instrumental in ever improving the

Society's insurance operation and services to members over his long career with us and his dedication, insurance knowledge and practical attitude to meeting our members' needs will be missed. I am pleased to advise that Ali Wilkinson has joined our senior management team, and will partly assume many of Brian's previous responsibilities. Ali comes to us with wide and appropriate experience in health insurance, both in New Zealand and offshore.

As has been noted in the Chairman's report, four Directors will have retired between March this year and our AGM in November – I would like to extend my thanks to all four for their support and wise guidance over many years, particularly to Bob Todd who was our Chairman for five years.

I would like to particularly acknowledge and thank the Society's management team and all staff for their dedication and hard work over the past year on behalf of members.

A handwritten signature in blue ink, appearing to read 'Dermot H Martin'.

Dermot H Martin
Chief Executive

Statement of Corporate Governance

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

BOARD OF DIRECTORS

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

The Board has the overall and final decision making authority within the Society.

All current directors have been assessed by the Board (at 13 December 2011) in accordance with the Society's Fit and Proper policy and have to be certified as meeting the Reserve Bank of New Zealand's Fit and Proper Standard for directors of Licensed Insurers.

All current directors consider and declare themselves to be independent, in that they are free from any associations that could materially interfere with the exercise of independent judgement. The directors in office at 30 June 2012 are: Brian Wooller (Chairman)
David Eastlake (Deputy Chairman)
Glen Barnes
Dennis Emery
Brian Eastlake
David Rowland

As part of and in preparation for the changing governance requirements three directors resigned during the year.

BOARD ROLE AND CHARTER

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

In order to provide additional

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

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

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

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

interests of its Members.

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

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

Included in those principles is the requirement that:

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

DELEGATION FRAMEWORK

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

BOARD COMMITTEES

The Board has one standing committee: Audit and Risk, and an interim Nomination committee.

Statement of Corporate Governance cont.

Audit and Risk Committee

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

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

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

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

Nomination Committee

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

The Nomination Committee's objectives are to assist the Board in planning the Board's composition, evaluating the capabilities required of prospective Directors, identifying those prospective Directors, assessing Directors and relevant officers in accordance with the Society's Fit and Proper Policy, establishing the degree of independence, developing succession plans for the Board, and making recommendations to the Board accordingly. The Committee will consult with external advisors including executive search consultants and other independent sources of information and advice as it considers necessary for carrying out its responsibilities. The Nomination Committee is an adhoc committee and currently comprises Dennis Emery (Chairman), Glen Barnes and David Rowland.

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

Investments are monitored by the Board against its Statement of Investment

Policies and Objectives. The Board consults with external advisors for advice as it considers necessary to meet its objectives.

EXTERNAL AUDIT INDEPENDENCE

The Board is responsible for appointing (subject to Members approval at the AGM) the External Auditor.

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

APPOINTED ACTUARY INDEPENDENCE

The Board is responsible for appointing the Appointed Actuary.

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

PROFILES OF BOARD OF DIRECTORS

Brian Wooller (Chairman)

Brian was appointed Chairman of the Board in October 2011. He was elected as a director in October 2003 and last re-elected in October 2009. Brian has been an Organiser of the Dairy Workers Union from 1998 until his retirement this year. Brian resides in Christchurch.

David Eastlake (Deputy Chairman)

David was elected a director in October 1987 and has served as a director continuously since that date. He was appointed Deputy Chairman in 2011. David has been General Secretary of the New Zealand Meat Workers and Related Trade Union since 2002. David resides in Christchurch.

Brian Edgeler

Brian was first elected a director in October 1989. He was last elected in October 2010. Brian has been a director of a number of small to medium sized businesses. He has been Secretary-Treasurer of the Canterbury Meat Workers Union. Brian resides in Christchurch.

Dennis Emery (Audit & Risk Chairman)

Dennis was first elected a director in 1994. He was last elected October 2010. Dennis is currently Chair of the Audit and Risk Committee. Dennis has held a number of governance positions, including Chair of Nga Kaitiaki O Ngati Kauwhata Inc., (an Iwi Authority in Fielding), Chair of Te Hono-ki-Raukawa Trust, (an Iwi Treaty coalition group) and Board Member of the Mid Central District Health Board. Dennis resides in Palmerston North.

Glen Barnes

Glenn was elected as a director in October 2010 and is a member of the Audit and Risk Committee. He has been an Industrial Organiser with the Dairy Workers Union since 1988. Glenn resides in Hamilton.

David Rowland ANZIV, SNZPI, NZCQA

David was elected a director in October 2010 and is a member of the Audit and Risk Committee. He is a Registered Valuer and currently a Property Consultant with the Christchurch City Council. David has held a number of senior management positions of large property related businesses including Housing New Zealand and Government Property Services Limited. David resides in Christchurch.

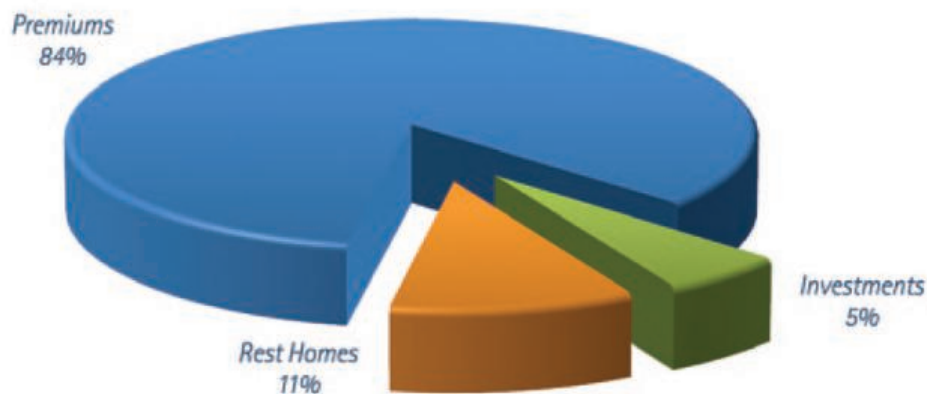
RECORD OF ATTENDANCE AT BOARD MEETINGS	Board	Audit & Risk Committee	Nominations Committee
Meetings Held	8	5	1
Brian Wooller	7	1	-
Brian Edgeler	8	-	-
David Eastlake	7	-	-
Dennis Emery	7	5	1
Glen Barnes	7	5	1
David Rowland	8	5	1
Bob Todd (resigned 31/03/2012)	5	-	-
John Smith (resigned 31/03/2012)	5	-	-
David O'Connell (resigned 31/03/2012)	5	-	-

Graphical Highlights

for the year ended 30 June 2012

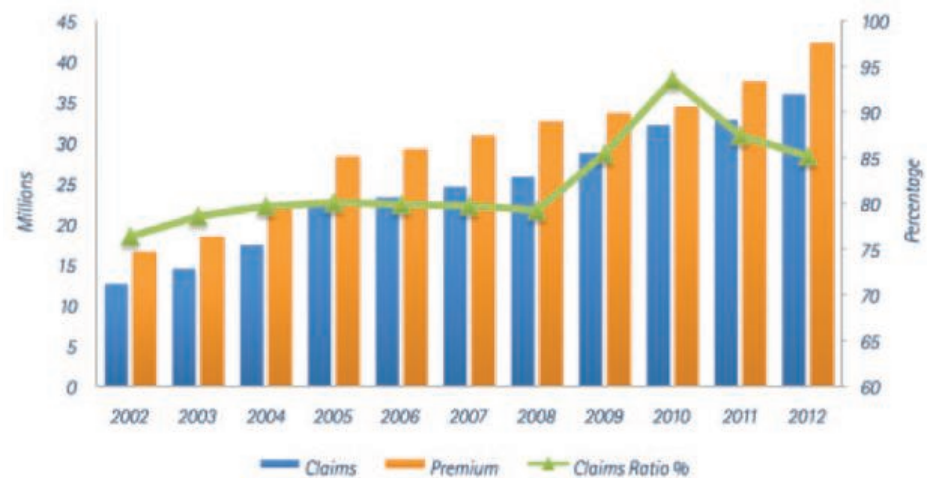
INCOME SOURCES

Quality affordable health insurance is derived from its premiums. To assist in restraining premium costs to members, UniMed supplements its premium income from investments and other business interests.



CLAIMS PAID

This chart illustrates the sharp increase in value of members claims paid in the 2008 - 2009 and 2009 - 2010 years, returning to more normal levels of increase in the most recent 2011 - 2012 year.



MEMBERS' FUNDS

The Members' funds is the equity in the business. An important measure of financial health is the ratio of debt to equity and total assets. This chart shows the financial strength of the Society relative to its liabilities.



Appointed Actuary's Report



1st October 2012

To: The Directors
Union Medical Benefits Society Limited

From: Peter Davies
Appointed Actuary

Re: **Union Medical Benefits Society Limited: Report as at 30th June 2012
under Sections 77 and 78 of the Insurance (Prudential Supervision) Act 2010**

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

1. I have reviewed the actuarial information included in the audited accounts for Union Medical Benefits Society Limited as at 30th June 2012. "Actuarial information" includes the following:
 - claim provisions and unexpired risk / unearned premium provisions;
 - solvency calculations in terms of the RBNZ Solvency Standard;
 - balance sheet and other information allowed for in the calculation of the company's solvency position and
 - disclosures regarding the methodology and assumptions used for calculating claim provisions, unexpired risk provisions, and other disclosures.
2. No limitations have been placed on my work.
3. I am independent with respect to Union Medical Benefits Society Limited as defined under professional standard ISA (NZ) 620 of the New Zealand Institute of Chartered Accountants.
4. I have been provided with all information that I have requested in order to carry out this review.
5. In my view the actuarial information contained in the financial statements has been appropriately included, and the actuarial information used in the preparation of the financial statements has been appropriately used.
6. Union Medical Benefits Society Limited had no solvency margin requirement as at 30th June 2012 in terms of its provisional licence, however its solvency margin did exceed the minimum required under the RBNZ solvency standard at that date by a significant margin. The company is also projected to exceed the minimum requirement at all times over the next three years.

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

Yours sincerely



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

Audit Report

PKF Goldsmith Fox Audit
Chartered Accountants



INDEPENDENT AUDITOR'S REPORT

To the Members of Union Medical Benefits Society Limited

REPORT ON THE FINANCIAL STATEMENTS

We have audited the financial statements of Union Medical Benefits Society Limited on pages 12 to 28, which comprise the statement of financial position as at 30 June 2012, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Board Members' Responsibility for the Financial Statements

The Board Members are responsible for the preparation of financial statements in accordance with generally accepted accounting practice in New Zealand and that give a true and fair view of the matters to which they relate, and for such internal control as the Board Members determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing (New Zealand). Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of financial statements that give a true and fair view of the matters to which they relate in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates, as well as evaluating the presentation of the financial statements.

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

Other than in our capacity as auditor we have no relationship with, or interests in, Union Medical Benefits Society Limited.

Opinion

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

- Comply with generally accepted accounting practice in New Zealand;
- Give a true and fair view of the financial position of Union Medical Benefits Society Limited as at 30 June 2012 and its financial performance and its cash flows for the year ended on that date.

Report on Other Legal and Regulatory Requirements

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

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

PKF Goldsmith Fox Audit

8 October 2012
Christchurch, New Zealand

Financial Statements

Union Medical Benefits Society Limited Statement of Comprehensive Income for the year ended 30 June 2012

	Note	2012 \$	2011 \$
Underwriting			
Members' premiums		42,205,684	37,765,259
Claims paid and provided for	2	35,935,911	32,743,182
Underwriting surplus		6,269,773	5,022,077
Underwriting operating expenses	3	4,302,266	4,257,412
Underwriting operating surplus		1,967,507	764,665
Aged Care			
Aged Care residents' fees		5,336,667	5,270,090
Aged Care operating expenses	4	4,902,976	4,669,854
Aged Care operating surplus		433,691	600,236
Investments			
Investment income	5	2,777,301	3,441,810
Building			
Building Income	6	593,609	42,750
Operating Surplus		5,772,107	4,849,461
Other Comprehensive Income		-	-
Total Comprehensive Income for the year		5,772,107	4,849,461

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

Financial Statements cont.

Union Medical Benefits Society Limited Statement of Financial Position As at 30 June 2012

	Note	2012 \$	2011 \$
Current assets			
Cash and cash equivalents	7	3,624,970	3,022,129
Premium and Other Receivables	8	6,256,262	3,653,664
Investments	9	60,217,626	55,662,687
Total current assets		70,098,858	62,338,480
Non-current assets			
Investments	9	6,359,607	7,324,079
Property, plant and equipment	10	4,621,790	4,868,895
Goodwill	11	-	98,318
Other intangible assets	11	992,686	543,013
Total non-current assets		11,974,083	12,834,305
Total assets		82,072,941	75,172,785
Current liabilities			
Accounts Payables	12	687,545	378,962
Employee benefits	13	450,347	594,943
Unearned premium provision	14	5,762,429	5,255,803
Unreported claims provision	14	7,454,151	7,000,000
Total current liabilities		14,354,472	13,229,708
Net assets		67,718,468	61,943,077
Members' funds			
Members' capital	15	79,560	76,276
Reserves	16	2,752,000	2,752,000
Accumulated funds	17	64,886,908	59,114,801
Total members funds		67,718,468	61,943,077



D Eastlake
Deputy Chairman



D Rowland
Director

8 October 2012

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

Financial Statements cont.

Union Medical Benefits Society Limited Statement of Changes in Equity For the year ended 30 June 2012

	Members capital	Reserves	Retained earnings	Total
2012				
Opening balance at 1 July 2011	76,276	2,752,000	59,114,801	61,943,077
Total Comprehensive Income	-	-	5,772,107	5,772,107
Members' contribution	3,284	-	-	3,285
Closing balance at 30 June 2012	79,560	2,752,000	64,886,908	67,718,468
2011				
Opening balance at 1 July 2010	73,270	2,752,000	54,265,340	57,090,609
Total Comprehensive Income	-	-	4,849,461	4,849,462
Members contribution	3,006	-	-	3,006
Closing balance at 30 June 2011	76,276	2,752,000	59,114,801	61,943,077

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

Financial Statements cont.

Union Medical Benefits Society Limited

Cash Flows Statement

For the year ended 30 June 2012

	2012	2011
	\$	\$
Cash flows from operating activities		
Cash was provided from:		
Members' contributions	41,989,816	38,885,234
Rest home residents' fees	5,334,057	5,160,417
Investment income	2,469,932	4,269,623
Building division income	-	42,750
	49,793,805	48,358,024
Cash was applied to:		
Payments for claims	35,481,760	33,435,358
Payments to suppliers for goods and services	2,845,269	3,463,308
Payments to employees	5,664,541	5,026,122
	43,991,570	41,924,788
Net cash flows from operating activities	5,802,235	6,433,236
Cash flows from investing activities		
Purchase of property, plant and equipment	551,232	62,508
Purchase of Intangibles	461,123	437,794
Net Payments for Investments	3,174,684	10,789,143
	4,187,039	11,289,445
Net cash flows from investing activities	4,187,039	11,289,445
Net increase/(decrease) in cash held	602,841	(4,856,209)
Plus opening cash brought forward	3,022,129	7,878,338
Closing cash brought forward	3,624,970	3,022,129

Financial Statements cont.

Union Medical Benefits Society Limited

Notes to the Financial Statements

For the year ended 30 June 2012

1. STATEMENT OF ACCOUNTING POLICIES

Reporting entity

Union Medical Benefits Society Limited (the Society) is an Incorporated Society registered under the Industrial and Provident Society Act 1908. Its principal products and services are health insurance, residential aged care and commercial building ownership. It is a not for profit oriented company domiciled and incorporated in New Zealand. The Society is a reporting entity for the purposes of the Financial Reporting Act 1993 and its financial statements comply with that Act.

The Society has been granted a provisional licence by the Reserve Bank of New Zealand (RBNZ) to operate as an insurer subject to the Insurance (Prudential Supervision) Act 2010.

These financial statements were approved by the Board of Directors on 8 October 2012.

Basis of preparation

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

Basis of measurement

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

- certain financial instruments (See Note 22)
- actuarial quantification of insurance liabilities (See Note 14)
- investments (See Note 9)

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

Critical estimates and accounting

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

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

- Note 14: Actuarial Information
- Note 22: Financial instruments

Specific accounting policies

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

Revenue Recognition

Members' contributions

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

Rest home residents' fees and other Income

Rest home residents' fees and other income are recognised on an accruals basis.

Investment income

Interest income is recognised in the statement of comprehensive income as it accrues, using the effective interest rate method. Premiums and discounts that are an integral part of the effective yield of the investment are recognised as an adjustment to the effective interest rate of the instrument.

Realised and unrealised gains and losses on investments, recorded in determining the surplus in the Statement of Comprehensive Income include gains and losses on financial assets classified as financial assets at fair value through profit and loss.

Repairs and Maintenance

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

Underwriting Claims

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

Financial Statements cont.

Union Medical Benefits Society Limited

Notes to the Financial Statements

For the year ended 30 June 2012

Standards approved but not yet effective

At the date of the approval of the financial statements the following standards have been approved but are not yet effective:

	Effective date	Application date
NZ IFRS 9 - Financial Instruments: Classification and Measurement	1-Jan-15	1-Jul-15
NZ IFRS 13 - Fair Value Measurement	1-Jan-13	1-Jul-13
NZ IAS 1 - Presentation of Financial Statements	1-Jul-12	1-Jul-12
NZ IAS 19 - Employee Benefits	1-Jan-13	1-Jan-13

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.

NZ IFRS 13: Fair Value Measurement provides guidelines for determining the fair value of assets and liabilities. The impact of this change is not anticipated to have a material effect on the financial statements.

NZ IAS 1: Presentation of Financial Statements introduces changes to the presentation of items other comprehensive income. The impact identified from the amendments title of statement of comprehensive income will be renamed to statements of profit or loss and other comprehensive income.

NZ IAS 19: Employee Benefits amends the definition of short term and long term employee benefits, and adds additional disclosures and changes the timing of recognition and measurement basis of certain employment benefits.

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.

Premium and other Receivables

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

Premiums outstanding

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

Investments

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

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

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

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

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

Financial assets in this category are either financial assets held for trading or financial assets designated as at fair value through profit or loss in the Statement of Comprehensive Income.

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

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

Financial Statements cont.

Union Medical Benefits Society Limited

Notes to the Financial Statements

For the year ended 30 June 2012

A financial asset is classified as held for trading if:

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

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

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

Property Plant & Equipment

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

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

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

Goodwill

Goodwill represents the excess of the purchase price of acquisition over the fair value of net assets, acquired at the time of acquisition. 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.

Intangible assets

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

Additions are initially measured at cost, and thereafter are 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
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The recoverability of the carrying amount of the asset is reviewed at each reporting date by determining whether there is an indication that the carrying value may be impaired.

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

Impairment of assets

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

Any impairment loss is recognised in the statement of comprehensive income immediately.

Foreign currency

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

Liabilities and provisions

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

Trade and other payables

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

Financial Statements cont.

Union Medical Benefits Society Limited

Notes to the Financial Statements

For the year ended 30 June 2012

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.

Unearned Premium Provision

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

Unreported Claims Provision

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

Goods and Services Tax

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

Leased assets

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

Taxation

The Society is exempt from income tax due to its status under the Industrial and Provident Society Act 1908.

Changes in accounting policies

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

Comparatives

The comparative information presented is for the year ended 30 June 2011.

2 CLAIMS PAID AND PROVIDED FOR

	2012	2011
Claims incurred relating to risks borne in current and previous years	\$	\$
Movement in provision for unreported claims	35,481,760	32,253,182
Total claims paid and provided for	454,151	490,000
	35,935,911	32,743,182

3 UNDERWRITING OPERATING EXPENSES

	2012	2011
	\$	\$
Employee benefit expenses	2,120,209	2,010,687
Contributions to Employees' health insurance plan	40,929	40,678
Auditor's fees – Audit of Financial Statements	15,250	15,304
Directors' fees	282,586	217,000
Depreciation	50,532	22,724
Amortisation of intangible assets	11,451	7,549
Rental of external premises	134,391	56,430
Other expenses	1,646,918	1,887,040
	4,302,266	4,257,412

Financial Statements cont.

Union Medical Benefits Society Limited Notes to the Financial Statements For the year ended 30 June 2012

4 AGED CARE OPERATING EXPENSES

	2012	2011
	\$	\$
Employee benefit expenses	3,358,807	3,118,529
Contributions to Employees' health insurance plan	-	1,529
Auditor's fees - Audit of Financial Statements	5,250	5,250
Directors' fees	76,343	73,116
Depreciation	132,784	138,543
Impairment of intangible assets	98,317	98,288
Other expenses	1,231,475	1,234,599
Total	4,902,976	4,669,854

5 INVESTMENT INCOME

	2012	2011
	\$	\$
Interest and dividend income	2,746,665	2,360,790
Realised gains/(losses) on fair value investment	352,297	956,703
Unrealised gains/(losses) on investments fair value through income statement	(218,478)	234,568
Portfolio Management Fees	(103,182)	(110,251)
Total Investment Income	2,777,301	3,441,810

6 BUILDING INCOME

	2012	2011
	\$	\$
Rent - Underwriting Division	-	79,525
Other Income	13,484	-
Depreciation	-	(25,431)
Gain on Disposal	593,609	-
Building Expenses	(13,484)	(11,344)
Total Building Income	593,609	42,750

7 CASH AND CASH EQUIVALENTS

	2012	2011
	\$	\$
Cash at bank and on hand	(13,057)	(225,773)
Cash on call	3,638,027	3,210,625
International Cash on hand	-	37,277
Total Cash and Cash Equivalents	3,624,970	3,022,129

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.

Financial Statements cont.

Union Medical Benefits Society Limited Notes to the Financial Statements For the year ended 30 June 2012

8 PREMIUM AND OTHER RECEIVABLES

	2012	2011
	\$	\$
Premiums receivable	3,419,504	2,693,727
Insurance Proceeds Receivables	1,805,212	-
Rest Home Fees receivable	338,991	336,381
Interest receivable	546,133	238,764
Prepayments	61,111	30,416
GST	-	99,050
Other	85,311	255,326
Total Premium and Other Receivables	6,256,262	3,653,664

There were no bad debts however provision for bad debts increased by \$42,687 to \$184,377 in 2012 (2011: \$141,690).

9 INVESTMENTS AT FAIR VALUE

	2012	2011
	\$	\$
Cash	12,878,897	-
Fixed Interest	50,521,227	48,965,108
NZ Government Stock	500,000	500,000
International Fixed interest	-	5,799,321
NZ Equities	1,351,042	24,152
Australian Equities	384,952	2,880,102
International Equities	-	3,846,396
Other	941,115	971,687
Total Investments	66,577,233	62,986,766
Current portion	60,217,626	55,662,687
Non-current portion	6,359,607	7,324,079

The New Zealand Government stock is held by Public Trustee as a deposit required under the Insurance Companies Deposit Act 1953 (repealed on 7 March 2012).

Funds are managed primarily by the BNZ, with the addition of \$9.517 million invested in a fixed interest fund managed by Tyndall Investment New Zealand Limited. The Society's investment securities are all financial assets classified as fair value through the profit and loss. Any changes in the fair value are recognised immediately.

Financial Statements cont.

Union Medical Benefits Society Limited Notes to the Financial Statements For the year ended 30 June 2012

10 PROPERTY PLANT & EQUIPMENT

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

2012	Freehold land At cost	Buildings At cost	Fixtures fittings & equipment At cost	Motor vehicles At cost	Total
	\$	\$	\$	\$	\$
Gross carrying amount					
Balance 1 July 2011	919,562	5,506,574	1,618,215	157,008	8,201,359
Additions	-	-	551,232	-	551,232
Disposals at cost	-	(926,981)	-	-	(926,981)
Balance 30 June 2012	919,562	4,579,593	2,169,447	157,008	7,825,610
Accumulated depreciation					
Balance 1 July 2011	-	1,840,682	1,385,311	106,471	3,332,464
Current year depreciation	-	97,401	72,776	13,139	183,316
Depreciation on disposals	-	(311,960)	-	-	(311,960)
Balance 30 June 2012	-	1,626,123	1,458,087	119,610	3,203,820
Total book value	919,562	2,953,470	711,361	37,398	4,621,790

2011	Freehold land At cost	Buildings At cost	Fixtures fittings & equipment At cost	Motor vehicles At cost	Total
	\$	\$	\$	\$	\$
Gross carrying amount					
Balance 1 July 2010	919,562	5,506,574	1,573,484	139,230	8,138,850
Additions	-	-	44,731	17,778	62,509
Disposals at cost	-	-	-	-	-
Balance 30 June 2010	919,562	5,506,574	1,618,215	157,008	8,201,359
Accumulated depreciation					
Balance 1 July 2010	-	1,722,884	1,334,136	88,716	3,145,736
Current year depreciation	-	117,798	51,175	17,755	186,728
Depreciation on disposals	-	-	-	-	-
Balance 30 June 2011	-	1,840,682	1,385,311	106,471	3,332,464
Total book value	\$919,562	\$3,665,892	\$232,904	\$50,537	\$4,868,895

The last independent valuation of the Society's land and building at 163 Gloucester Street, Christchurch at net current value by Ford Baker Valuation Limited, Registered Valuers dated 31 August 2010 was \$1,910,000 (land \$900,000; buildings \$1,010,000)

The 163 Gloucester Street building was severely damaged by the earthquake on 22 February 2011 which resulted in it being demolished during May 2012. As a result the building has been fully impaired in the 30 June 2012 financial statements.

The building is insured for full replacement value with an initial settlement of \$1,805,212 received in July 2012. This net settlement has been recorded in the financial statements as insurance proceeds receivable.

The latest valuation of the Society's land at 163 Gloucester Street at net current value by Ford Baker Valuation Limited, Registered Valuers, dated 10 September 2012 is \$752,400. The land at 163 Gloucester Street is recorded in the financial statements at cost.

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 (2011 \$2,900,000).

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 (2011 \$4,600,000).

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

Financial Statements cont.

Union Medical Benefits Society Limited Notes to the Financial Statements For the year ended 30 June 2012

11 INTANGIBLE ASSETS

	Computer Software	Goodwill Rest Home
	\$	\$
Balance at 1 July 2011		
Cost	727,365	982,880
Additions	461,124	-
	1,188,489	982,880
Opening Accumulated amortisation & impairment	(184,352)	(884,563)
Impairment loss recognised in income statement	-	(98,317)
Amortisation for the year	(11,451)	-
	(195,803)	(982,880)
Closing carrying amount at 30 June 2012	992,686	-
Balance at 1 July 2010		
Cost	289,571	982,880
Additions	437,794	-
	727,365	982,880
Opening Accumulated amortisation & impairment	(176,803)	(786,304)
Impairment loss recognised in income statement	-	(98,258)
Amortisation for the year	(7,549)	-
	(184,352)	(884,562)
Closing carrying amount at 30 June 2011	543,013	98,318

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. The software development expenses are capitalised. Amortisation will commence on rollout. After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is not amortised but is subject to impairment testing on an annual basis.

12 TRADE AND OTHER PAYABLES

	2012	2011
	\$	\$
GST	410,186	-
Accounts Payable	277,359	378,962
Total trade and other payables	687,545	378,962

13 EMPLOYEE BENEFITS

	2012	2011
	\$	\$
Wages accrual	115,548	261,319
Provision for Annual Leave	334,799	333,624
	450,347	594,943

Financial Statements cont.

Union Medical Benefits Society Limited Notes to the Financial Statements For the year ended 30 June 2012

14 ACTUARIAL INFORMATION

	2012	2011
	\$	\$
Provision for Unearned Premium	5,762,429	5,255,803

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

	2012	2011
	\$	\$
Provision for unreported claims	7,454,151	7,000,000

Estimates of the outstanding claims as at 30 June 2012 have been carried out by Peter Davies B.Bus.Sc., a Fellow of the New Zealand Society of Actuaries. The calculation of the provision for outstanding claims complies with NZ IFRS 4 Insurance Contracts' and Professional Standard No. 4 of the New Zealand Society of Actuaries. The actuary is satisfied as to the nature, sufficiency and accuracy of the data used to determine these provisions.

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

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

A risk margin has been added to reflect the inherent uncertainty in the estimate. An analysis of the volatility of the historical experience has been used in determining the risk margin. Future volatility is assumed to be consistent with historical volatility. This provision includes a 7.5% allowance for claim management expenses, and an 18% risk margin, which provides a 90% likelihood of sufficiency.

15 MEMBERS' CAPITAL

	2012	2011
	\$	\$
This represents the capital paid up by current members of the Society		
Opening balance 1 July	76,276	73,270
Add additions (repayments) during the year	3,284	3,006
Closing balance 30 June	79,560	76,276

16 RESERVES

The reserves represents a Claim Fluctuation Reserve and a Catastrophe Reserve. These Reserves were created to provide for major claims arising from unusual or abnormal events. There are no restrictions on transfers within these reserves.

	2012	2011
	\$	\$
Claims Fluctuation Reserve		
Balance at 30 June	1,752,000	1,752,000
Catastrophe Reserve		
Balance at 30 June	1,000,000	1,000,000
Total reserves 30 June	2,752,000	2,752,000

17 ACCUMULATED FUNDS

	2012	2011
	\$	\$
Opening balance 1 July	59,114,801	54,265,339
Net earnings	5,772,107	4,849,462
Closing balance 30 June	64,886,908	59,114,801

Financial Statements cont.

Union Medical Benefits Society Limited Notes to the Financial Statements For the year ended 30 June 2012

18 CASH FLOW RECONCILIATION

	2012	2011
	\$	\$
Net earnings	5,772,107	4,849,461
Plus (less) non cash items:		
Depreciation	183,316	186,727
Net Insurance Proceeds	(593,609)	-
Amortisation & Impairment of intangibles	109,768	105,808
	5,471,582	5,141,996
Plus (less) movements in working capital:		
Increase/(decrease) in accounts payable	308,574	(1,182,176)
Increase/(decrease) in accounts receivable	(2,602,598)	653,696
Increase/(decrease) in employee entitlements	(144,596)	145,301
Increase in unearned premium provision	506,626	1,181,412
Increase in provision for unreported claims	454,151	490,000
Accounts Receivables as classified as investing activities	1,805,212	-
Increase/(decrease) in members' capital	3,284	3,006
Net cash flows from operating activities	5,802,235	6,433,235

19 SOLVENCY AND CAPITAL ADEQUACY

The Society is a not-for-profit organisation. As a consequence of its legal structure the Society has no recourse to external capital and therefore internally generated capital is of high importance. The Society's capital of \$67,718,468 (2011 \$61,943,077) is equal to the Members' Funds as disclosed in the financial statements.

The Insurance (Prudential Supervision) Act 2010 was enacted in September 2010. The Society has been granted a provisional licence under the Act with no conditions. Full licensing must be obtained by 7 September 2013. The Society, upon full licensing will be subject to new solvency requirements issued by the Reserve Bank of New Zealand (RBNZ). In the interim the Society will be subject to new solvency margin requirements issued by the RBNZ from 31 December 2012.

The Society was required to deposit \$500,000 with the Public Trustee in accordance with the Insurance Companies' Deposits Act 1953 (repealed on 7 March 2012). This deposit will be refunded after a full licence has been obtained. The Society is not subject to any other externally imposed capital requirements.

The Directors' policy for managing capital is to have a strong capital base to establish security to 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 RBNZ under the Insurance (Prudential Supervision) Act 2010. As at 30 June 2012 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.

20 COMMITMENTS

There are no capital commitments or contingent liabilities at balance date. (2011: \$ Nil).

Operating Lease Commitments

UniMed has entered into commercial leases for offices due to the impact of the 22 February 2011 earthquake on its offices at 165 Gloucester Street in Christchurch. Each of these leases has a three year life. The future minimum rent payable under non-cancellable operating leases are as follows:

	2012	2011
	\$	\$
Within 1 year	131,110	72,500
After 1 year but not more than 3 years	113,138	152,195

21 SIGNIFICANT EVENTS AFTER BALANCE DATE

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

Discussions are on-going regarding the insurance claims for the chattels and buildings. There are still unknown factors surrounding the ability to rebuild on the Gloucester Street site.

Financial Statements cont.

Union Medical Benefits Society Limited

Notes to the Financial Statements

For the year ended 30 June 2012

22 RISK MANAGEMENT

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

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

Financial Risk

Credit risk management

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

Premium receivable from individual policyholders.

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

Other

With respect to credit risk arising from the other financial assets of the Society, which comprise cash and cash equivalents and financial assets.

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

The credit quality of investment counter parties is as follows:

	2012	2011
	\$	\$
Corporate rated		
AAA	948,960	9,339,859
AA+	2,565,376	-
AA	5,843,523	34,505,738
AA-	48,374,429	-
A+	288,343	-
A	2,617,831	7,098,855
A-	943,384	-
BBB+	805,560	-
BBB	1,997,599	3,061,518
Below BBB	437,988	290,609
Non-rated	1,754,241	8,690,187
	66,577,234	62,986,766

Liquidity risk management

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

Financial Statements cont.

Union Medical Benefits Society Limited

Notes to the Financial Statements

For the year ended 30 June 2012

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

As at 30 June 2012

	0-6 months	7-12 months	1-2 years	over 2 years
Cash and cash equivalents	3,624,970	-	-	-
Trade and other receivables	6,256,262	-	-	-
Investments	41,054,988	19,162,639	713,240	5,646,366
Total assets	50,936,220	19,162,639	713,240	5,646,366
Financial liabilities				
Trade and other payables	1,137,892	-	-	-
Total liabilities	1,137,892	-	-	-

As at 30 June 2011

	0-6 months	7-12 months	1-2 years	over 2 years
Cash and cash equivalents	3,022,129	-	-	-
Trade and other receivables	3,653,664	-	-	-
Investments	38,679,279	16,983,408	1,632,046	5,692,033
Total assets	45,355,072	16,983,408	1,632,046	5,692,033
Financial liabilities				
Trade and other payables	973,905	-	-	-
Total liabilities	973,905	-	-	-

Market Risk

Foreign currency risk management

The Society does have investments in international companies within its investment portfolio 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. At balance date no foreign exchange hedges were outstanding. Exchange differences are recognised in the statement of comprehensive income in the period in which they arise.

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

	Net Surplus Increase 10%	Net Surplus (Decrease) -10%	Equity Increase 10%	Equity (Decrease) -10%
2012	30,161	-30,161	30,161	-30,161
2011	3,728	-3,728	3,728	-3,728

Interest rate risk

The Society invests in both fixed and variable rate financial instruments. There is a risk that any movement in interest rates can have an effect on the profitability and cash flows of the Society. The Society maintains a spread of investment types to mitigate this risk. The Society's revenue from investments in the short term is susceptible to changes in interest rates. However, as the majority of investments are fixed rate term deposits, bonds and capital notes, and these investments are generally held until maturity, this exposure is mitigated.

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

	Net Surplus Increase 1%	Net Surplus (Decrease) -1%	Equity Increase 1%	Equity (Decrease) -1%
2012	165,227	-165,227	165,227	-165,227
2011	30,221	-30,221	30,221	-30,221

Financial Statements cont.

Union Medical Benefits Society Limited

Notes to the Financial Statements

For the year ended 30 June 2012

Fair values

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

Capital risk management

The Society's policy is to maintain a strong equity base so as to maintain members, creditor and market confidence. The solvency capital that the Society is required to maintain is the minimum solvency capital amount calculated, in accordance with the solvency standard. The Directors believe that this requirement has been met. The Society's policies in respect of capital management and allocation are reviewed regularly by the Board of Directors. The Society manages liquidity risk by maintaining adequate reserves and banking facilities and by continuously monitoring forecast and actual cash flows and matching maturity profiles of financial assets and liabilities. The Society also regularly reviews insurance premiums to ensure they are set at an appropriate level to cover insurance claims. There have been no material changes in the Society's management of capital during the period.

23 CREDIT RATING

On 3 July 2012 AM Best Company reaffirmed the Society an Insurer Financial Strength Rating of A- (Excellent) and Issuer Credit Rating of a-. The outlook for both ratings is stable.

24 KEY MANAGEMENT PERSONNEL COMPENSATION

	2012	2011
	\$	\$
Compensation		
Short term employee benefits	993,986	901,624

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

Transactions between related parties are on normal commercial terms and conditions, there were no loans payable or receivable from related parties at year end (2011: nil).

25 SEGMENT INFORMATION

The Society operates four segments within New Zealand as follows:

2012	Health Insurance	Building	Aged Care	Investments	Total
Segment Assets	11,361,497	530,511	4,133,724	66,577,234	82,602,966
Segment Liabilities	13,997,831	-	439,736	-	14,437,567
					0
Revenue	42,799,293	13,484	5,336,667	2,880,484	51,029,928
Expenses	40,238,179	13,484	4,902,976	103,183	45,257,822
Net Earnings	2,561,114	-	433,691	2,777,301	5,772,106
2011	Health Insurance	Building	Aged Care	Investments	Total
Segment Assets	6,524,966	1,184,426	4,285,967	62,986,766	74,982,125
Segment Liabilities	12,908,783	-	482,752	-	13,391,535
Revenue	37,765,259	79,525	5,270,090	3,552,061	46,666,935
Expenses	37,000,594	36,775	4,669,854	110,251	41,817,474
Net Earnings	764,665	42,750	600,236	3,441,810	4,849,461

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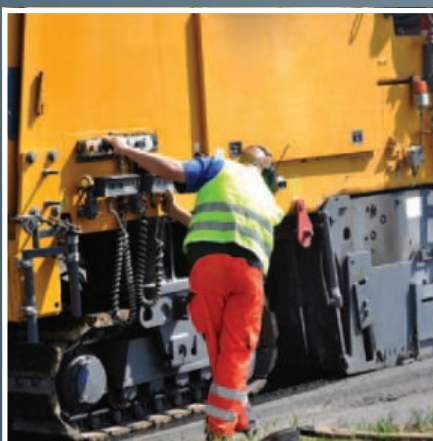
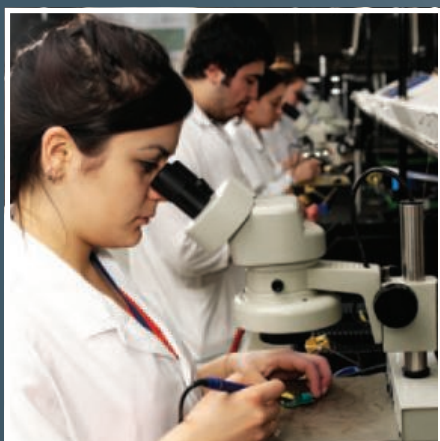
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UniMed is proud to be a participant of the Insurance & Savings Ombudsman scheme and a founding member of the Health Funds Association of New Zealand Inc.

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