

2013

ANNUAL REPORT



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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.



Company Directory

as at 30 June 2013

NATURE OF BUSINESS

Medical Health Insurers
Aged Care Facility Managers
Property Owners

REGISTERED OFFICE

Unit 12
211 Ferry Road
Christchurch 8011

INCORPORATION

Industrial and Provident Societies Act 1908

BOARD

Brian Anthony Wooller (Chairman)
David William Eastlake (Deputy Chairman)
Glenn John Barnes
Brian James Edgeler
(retired 7 November 2012)
Dennis Bruce Emery
David William Rowland

BANKERS

Bank of New Zealand
81 Riccarton Road
Christchurch 8014

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 Rendezvous Hotel, 166 Gloucester Street, Christchurch on Tuesday 29 October 2013 at 6.00pm.

BUSINESS

1. Apologies.
2. To confirm the Minutes of the 2012 Annual General Meeting.
3. To receive and consider the Annual Financial Statements and Auditor's Report for the year ended 30 June 2013.
4. To record the re-election of Glenn Barnes and David Rowland to the Board. In accordance with the Society's Rules, Glenn Barnes (Hamilton), and David Rowland (Christchurch) retire by rotation and being eligible; have offered themselves for re-election to the Board. Nominations were called for members of the Board on 10 August 2013. No other candidates were validly nominated, so Glenn Barnes and David Rowland 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

5 October 2013



Chairman's Report



It is pleasing to report that the Society's membership has been relatively stable over the previous 12 months, which reflects the value our membership places on services provided by UniMed. This is through our outstanding claims and pre-approval regime; the choice of where, when, and by whom the medical treatment required is carried out; and our competitive premiums.

We have begun a process to establish a solid business case to rebuild the Society's head office in its original location on Gloucester Street in the Christchurch Central Business District. A fine balance exists between the most appropriate use of members' funds and good quality offices for our staff. We have undertaken a thorough concept design phase and are poised to proceed if the figures are right.

We have once again been subject to a very searching examination by the rating agency AM Best and it is extremely pleasing to have our A- rating maintained. This is an endorsement of the Society's prudent management and governance over the years and gives all members confidence regarding the Society's ability to continue as a viable insurer. Further to last year's report, the Society has been licensed by the Reserve Bank, which means that we meet all the exacting standards required by the Insurance (Prudential Supervision) Act 2010. I sincerely thank our Senior Management Team for all the hard work they put into this project so the Board could debate and sign off all the required detail for the Reserve Bank.

One of the requirements for licensing was to ensure the Board represented a wide range of complementary skills; to this end, we began a search for two additional candidates to reflect this. Members may recall that last year we amended the constitution to allow for non elected Directors to be appointed. I am extremely pleased to report that the Board has appointed Jane Huria, of Christchurch, and Tim McGuinness, of Wellington, as Directors. Both Jane and Tim bring much experience in both governance and financial skills.

In closing, I thank the Board for their support and wise counsel over the past year. I also would like to sincerely thank all of UniMed's loyal and dedicated staff. I have got to know many of them over the past year and, without exception, they are warm and welcoming.

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

A handwritten signature in blue ink, appearing to read 'B. Wooller'. The signature is fluid and cursive, written over a white background.

Brian Wooller
Chairman

Chief Executive Officer's Report



It is with pleasure that I present my report to members for the recently completed financial year ending 30 June 2013, which marks the Society's 34th year of operations. It has been a busy year for staff and the Board as we continue to ensure your needs are being met while also planning for the future.

IN BRIEF

- Members' premium payments increased by 5.7% to \$44.59M.
- Claims paid and provided for increased 7.8% to \$38.74M.
- Following a write-down on computer software, the insurance operations just failed to break even. But after earnings from our aged care operations, along with investment income, we finished the year with a surplus of \$3.66M, which is compatible with the budget set.
- Members continue to receive very good value for their premium payment as 86.9% of every premium dollar earned during the year was returned to members by way of claims payments.
- Reconfirmation of A- (stable) rating of UniMed from AM Best

OPERATING ENVIRONMENT

For most of the year under review, a constrained economic environment placed pressure on both our employer sponsored schemes and individual members.

Many members enjoy access to the benefits of health plans provided by UniMed via their workplace, often with the premium being paid by the employer as part of the employment terms. Even in the tighter financial times, it is pleasing to report that all employer / company group schemes have renewed.

There is no doubt that the Canterbury earthquakes have increased awareness of the need for insurance. At the same time, however, personal and company budgets are under pressure because of steeply increased material damages insurance cover. Against this backdrop, it is pleasing that our renewal and retention rates have remained strong.

RATING AND LICENSING

We have received from our Rating Agency, AM Best Ltd, confirmation of renewal of our Financial Strength Rating at A- (Stable) and Issuer Credit Rating of A- (Stable). This is an endorsement that our Society continues to operate and progress in a prudent manner – vitally important given the long-term relationship between members and their insurer. It is now a requirement that all insurers such as UniMed obtain and hold a Licence under the Insurance (Prudential Supervision) Act 2010 as overseen by the Reserve Bank of New Zealand. We obtained a full licence in advance of the September 2013 deadline.

As part of the licence application process, the Board conducted a review of the desirable skill sets among Directors with a view to the challenges ahead. I am very pleased to announce that Jane Huria and Tim McGuinness, two highly experienced Directors, joined our Board in July 2013. We welcome their expertise and look forward to their contribution.

continued overleaf...

Chief Executive Officer's Report cont.

INSURANCE PLANS REVIEW

A full review of the plans we offer members was undertaken during the year so we can update the value of the benefits in light of current charges. This is a delicate balancing act between coverage levels and premiums levied to meet the subsequent claims for treatment costs. Many members are already enjoying the enhanced benefit schedules, which cater for new treatment options now available within the private sector. The balance of members have these available to them at the time of their annual renewal over the coming months.

PROJECTS

We are currently working on a number of projects.

The issue of how to best utilise the land we own in the newly zoned Christchurch CBD is under scrutiny. We are considering a four level office building covering our previous site plus the two immediately adjoining properties. All are currently vacant following the demolition of the buildings.

Concept designs are currently being assessed by the Board to ensure that the risks and rewards are fully understood and any project risks are mitigated as far as possible. It is proposed that UniMed staff would be housed on one floor with the other three floors available for lease. Our current temporary office facilities, while adequate as an interim measure immediately following the Canterbury earthquakes, are not suitable as a permanent location. If the ultimate decision is to proceed with a new office building, we would like to shift in late 2014 or early 2015. Ultimately, if the rebuild project does not proceed, we will seek alternative leased office accommodation at a similar time.

On the IT front, we are also continuing to build a new insurance administration platform.

THE FUTURE

UniMed continues to remain a strong financial organisation, providing members with cost efficient medical insurance while maintaining prudent reserves and solvency.

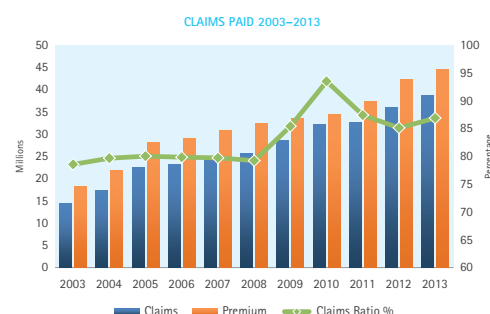
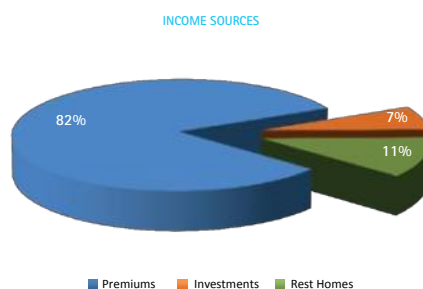
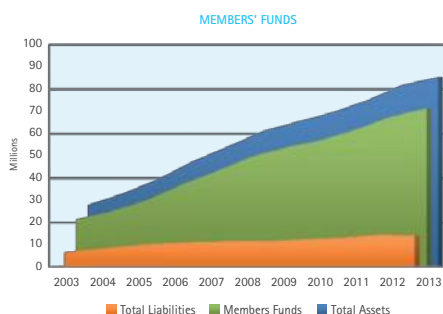
However, an ageing population means that over the next 20 years there will be an ever increasing squeeze between sharply increasing medical costs faced by the country and a growing inability to fund such increases. We have lobbied Government on the many very real advantages of providing tax relief on health insurance premiums to those over age 65. This could assist them to maintain their health insurance cover at a time when premium obligations increase and are often funded from fixed retirement incomes. The issue of Fringe Benefit Tax (FBT) being payable by employers on premiums paid for their staff's health insurance is a disincentive for them to provide this mutually beneficial assistance. On your behalf, we will continue to advocate with Government for the removal of FBT from medical insurance premiums.

I would like to thank the Chairman and the Directors of the Society for their support of the senior team over the past year. I would also like to take this opportunity to particularly acknowledge and thank all UniMed staff for their dedication and hard work, enabling us to continue our 'second-to-none' service levels to our members.



Dermot H Martin
Chief Executive

Graphical Highlights



Statement of Corporate Governance

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

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

BOARD OF DIRECTORS

UniMed is governed by a Board of Directors which has been elected by Members of the Society. From 16 July 2012 the Rules of the Society were changed to allow the appointment of two directors in addition to elected members. The maximum number of directors elected and appointed is seven. The control, management and administration of the Society 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 20 June 2013) 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 2013 are:
Brian Wooller (Chairman)
David Eastlake (Deputy Chairman)
Glenn Barnes
Dennis Emery
David Rowland

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

BOARD ROLE AND CHARTER

The Board operates in accordance with the Industrial and Provident Societies Act 1908, all relevant legislation but 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 the performance of the Society,
- Identifying and taking all actions to protect and strengthen the Society's financial position,
- Ensuring the Society has appropriate risk management and regulatory compliance policies and procedures in place,
- Monitoring the performance of the Society,
- Appointing the CEO,
- Acting as the Society's investment committee, and ensuring the 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 conducts an annual review of the Society's strategy. The Board approves the strategic and operational plans and annual budget.

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

Included in those principles is the requirement that:

- All Directors operate in a transparent and openly compliant manner,
- All Directors compile, and regularly update, a Statement of Business Interests 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 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.

Statement of Corporate Governance cont.



From left to right: David Eastlake; Dennis Emery (standing); Glenn Barnes; David Rowland (standing); and Brian Wooller.

BOARD COMMITTEES

The Board has two standing committees: Audit and Risk, and the Nomination committee. An ad hoc Building Committee has also been established.

Audit and Risk Committee

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

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

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

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

Nomination Committee

The Nomination 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 ad hoc committee and currently comprises Dennis Emery (Chairman), Glenn Barnes and David Rowland.

Building Committee

The primary objective of the Building Committee is to establish the viability of replacing the head office building at 165 Gloucester Street that was demolished after the 2011 earthquakes.

The Building Committee is an ad hoc committee comprising David Rowland (Chairman), Brian Wooller, David Eastlake and Dermot Martin (CEO).

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

As at 30 June 2013 the Society's Directors were:

Brian Wooller Chairman

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

David Eastlake Deputy Chairman

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

Glenn Barnes

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

Dennis Emery Audit & Risk Chairman

Dennis was first elected a director in 1987 and subsequently in 1994. He was last elected October 2011. 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 Feilding) and was a Board Member of the Mid Central District Health Board. He is a Member of the New Zealand Institute of Directors. Dennis resides in Palmerston North.

David Rowland ANZIV, SNZPI, NZCQA

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

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

Jane Huria LLB

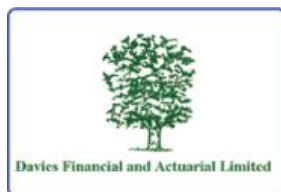
Jane is Managing Director of HSR Governance Limited a governance consulting business established in 1999 that works with many public sector agencies, companies and trusts, and other organisations. Jane is a fellow of the New Zealand Institute of Directors and currently Deputy Chair of the Electoral Commission,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

Tim McGuinness BCA

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

| Record of attendance at Board Meetings | Board | Audit & Risk Committee | Building Committee | Nominations Committee |
|--|-------|------------------------|--------------------|-----------------------|
| Meetings Held | 12 | 9 | 8 | 1 |
| Brian Wooller | 11 | 4 | 7 | |
| Brian Edgeler (resigned 7.11.2012) | 4 | | | |
| David Eastlake | 12 | 3 | 4* | |
| Dennis Emery | 11 | 9 | | 1 |
| Glenn Barnes | 12 | 9 | | 1 |
| David Rowland | 12 | 9 | 7 | 1 |
| *Exempt from attendance of 4 meetings. | | | | |

Appointed Actuary's Report



11th September 2013

To: The Directors
Union Medical Benefits Society Limited

From: Peter Davies
Appointed Actuary

Re: **Union Medical Benefits Society Limited: Report as at 30th June 2013
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 2013. "Actuarial information" includes the following:
 - claim provisions and unexpired risk / unearned premium provisions;
 - solvency calculations in terms of the RBNZ Solvency Standard;
 - balance sheet and other information allowed for in the calculation of the company's solvency position; and
 - disclosures regarding the methodology and assumptions used for calculating claim provisions, unexpired risk provisions, and other disclosures.
2. No limitations have been placed on my work.
3. I am independent with respect to Union Medical Benefits Society Limited as defined under professional standard ISA (NZ) 620 of the External Reporting Board.
4. I have been provided with all information that I have requested in order to carry out this review.
5. In my view the actuarial information contained in the financial statements has been appropriately included, and the actuarial information used in the preparation of the financial statements has been appropriately used.
6. Union Medical Benefits Society Limited exceeded the minimum solvency requirements of the RBNZ solvency standard for non-life insurers as at 30th June 2013 by a substantial margin. The Society is projected to exceed the minimum requirement at all times over the next three years.

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

Yours sincerely



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

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 2013, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Board Members Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

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

Opinion

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

- Comply with generally accepted accounting practice in New Zealand;
- Give a true and fair view of the financial position of Union Medical Benefits Society Limited as at 30 June 2013 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

17 September 2013

Christchurch, New Zealand

Financial Statements

Union Medical Benefits Society Limited Statement of Comprehensive Income for the year ended 30 June 2013

| | Note | 2013 \$ | 2012 \$ |
|--|------|------------------|------------------|
| Underwriting | | | |
| Members' premiums | | 44,593,487 | 42,205,684 |
| Claims paid and provided for | 2 | 38,747,921 | 35,935,911 |
| Underwriting surplus | | 5,845,566 | 6,269,773 |
| Underwriting operating expenses | 3 | 6,006,687 | 4,302,266 |
| Underwriting operating surplus | | (161,121) | 1,967,507 |
| Aged Care | | | |
| Aged Care residents' fees | | 5,034,226 | 5,336,667 |
| Aged Care operating expenses | 4 | 4,766,920 | 4,902,976 |
| Aged Care operating surplus | | 267,306 | 433,691 |
| Investments | | | |
| Investment income | 5 | 3,554,323 | 2,777,301 |
| Building | | | |
| Building Income | 6 | - | 593,609 |
| Operating Surplus | | 3,660,508 | 5,772,107 |
| Other Comprehensive Income | | - | - |
| Total Comprehensive Income for the year | | 3,660,508 | 5,772,107 |

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

Union Medical Benefits Society Limited
Statement of Financial Position
As at 30 June 2013

| | Note | 2013 \$ | 2012 \$ |
|----------------------------------|------|-------------------|-------------------|
| Current assets | | | |
| Cash and cash equivalents | 7 | 2,455,085 | 3,624,970 |
| Premium and Other Receivables | 8 | 3,861,249 | 6,256,262 |
| Investments | 9 | 43,028,299 | 60,217,626 |
| Total current assets | | 49,344,633 | 70,098,858 |
| Non-current assets | | | |
| Investments | 9 | 31,328,311 | 6,359,607 |
| Property, plant and equipment | 10 | 4,573,543 | 4,621,790 |
| Other intangible assets | 11 | 140,867 | 992,686 |
| Total non-current assets | | 36,042,721 | 11,974,083 |
| Total assets | | 85,387,354 | 82,072,941 |
| Current liabilities | | | |
| Accounts Payables | 12 | 313,612 | 687,545 |
| Employee benefits | 13 | 463,732 | 450,347 |
| Unearned premium provision | 14 | 5,488,320 | 5,762,429 |
| Unreported claims provision | 14 | 7,745,058 | 7,454,151 |
| Total current liabilities | | 14,010,722 | 14,354,472 |
| Net assets | | 71,376,632 | 67,718,468 |
| Members' funds | | | |
| Members' capital | 15 | 77,216 | 79,560 |
| Reserves | 16 | 2,752,000 | 2,752,000 |
| Accumulated funds | 17 | 68,547,416 | 64,886,908 |
| Total members funds | | 71,376,632 | 67,718,468 |



B Wooller
Chairman



D Eastlake
Deputy Chairman

17 September 2013

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 2013

| | Members capital | Reserves | Retained earnings | Total |
|--|-----------------|------------------|-------------------|-------------------|
| 2013 | | | | |
| Opening balance at 1 July 2012 | 79,560 | 2,752,000 | 64,886,908 | 67,718,468 |
| Total Comprehensive Income | - | - | 3,660,508 | 3,660,508 |
| Members' contribution | (2,344) | - | - | (2,344) |
| Closing balance at 30 June 2013 | 77,216 | 2,752,000 | 68,547,416 | 71,376,632 |
| 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 |

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 2013

| | Note | 2013 \$ | 2012 \$ |
|---|------|-------------------|-------------------|
| Cash flows from operating activities | | | |
| Cash was provided from: | | | |
| Members' contributions | | 44,324,979 | 41,853,405 |
| Rest home residents' fees | | 5,090,935 | 5,334,057 |
| Investment income | | 3,964,523 | 2,469,932 |
| Building division income | | - | - |
| | | 53,380,437 | 49,657,394 |
| Cash was applied to: | | | |
| Payments for claims | | 38,420,761 | 35,173,176 |
| Payments to suppliers for goods and services | | 3,976,647 | 3,614,013 |
| Payments to employees | | 5,666,300 | 5,664,541 |
| | | 48,063,708 | 44,451,730 |
| Net cash flows from operating activities | 18 | 5,316,729 | 5,205,664 |
| Cash flows from investing activities | | | |
| Cash was provided from: | | | |
| Net Insurance proceeds | | 1,520,590 | - |
| | | 1,520,590 | - |
| Cash was applied to: | | | |
| Purchase of property, plant and equipment | | 131,722 | 551,232 |
| Purchase of Intangibles | | 96,104 | 461,123 |
| Net Payments for Investments | | 7,779,378 | 3,590,468 |
| | | 8,007,204 | 4,602,823 |
| Net cash flows from investing activities | | 6,486,614 | 4,602,823 |
| Net increase/(decrease) in cash held | | (1,169,885) | 602,841 |
| Plus opening cash brought forward | | 3,624,970 | 3,022,129 |
| Closing cash brought forward | | 2,455,085 | 3,624,970 |

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

Financial Statements cont.

Union Medical Benefits Society Limited

Notes to the Financial Statements

For the year ended 30 June 2013

1 STATEMENT OF ACCOUNTING POLICIES

Reporting Entity

Union Medical Benefits Society Limited (the Society) is an Incorporated Society registered under the Industrial and Provident Societies Act 1908. Its principal products and services are health insurance, 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 full licence by the Reserve Bank of New Zealand (RBNZ) to operate as an insurer subject to the Insurance (Prudential Supervision) Act 2010. As a consequence of being a licensed insurer the Society will be deemed to be an issuer under the Financial Reporting Act 1993 from 23 May 2013.

These financial statements were approved by the Board of Directors on 17 September 2013.

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 oriented 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 2013

Adoption of New and Revised Standards and Interpretations

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

Accounting Standards and Interpretations Issued But Not Yet Effective

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

Cash and Cash Equivalents

Cash and cash equivalents comprise cash on hand, cash in banks, 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 change 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 income statement.

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

Interest and dividend income, fund distributions and fair value movements are recorded in the investment income section of the Statement of Comprehensive Income.

A financial asset is classified as held for trading if:

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

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

Gains or losses on financial assets held for trading are recognised in the income statement and the related assets are classified as current assets in the balance sheet.

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

Financial Statements cont.

Union Medical Benefits Society Limited

Notes to the Financial Statements

For the year ended 30 June 2013

Property Plant & Equipment

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

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

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

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

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

Impairment of Assets

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

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

Foreign Currency

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

Liabilities and Provisions

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

Trade and Other Payables

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

Employee Benefits

A liability for benefits accruing to employees in respect of wages and salaries, annual leave, long service leave and sick leave is accrued and recognised in the balance sheet when it is probable that settlement will be required and 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.

Financial Statements cont.

Union Medical Benefits Society Limited

Notes to the Financial Statements

For the year ended 30 June 2013

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 Societies 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 2012.

2 CLAIMS PAID AND PROVIDED FOR

| | 2013 | 2012 |
|---|-------------------|-------------------|
| | \$ | \$ |
| Claims incurred relating to risks borne in current and previous years | 38,457,014 | 35,481,760 |
| Movement in provision for unreported claims | 290,907 | 454,151 |
| Total claims paid and provided for | 38,747,921 | 35,935,911 |

3 UNDERWRITING OPERATING EXPENSES

| | 2013 | 2012 |
|---|------------------|------------------|
| | \$ | \$ |
| Employee benefit expenses | 2,297,613 | 2,120,209 |
| Contributions to Employees' health insurance plan | 35,369 | 40,929 |
| Auditor's fees – Audit of Financial Statements | 15,500 | 15,250 |
| Directors' fees | 175,776 | 282,586 |
| Depreciation | 39,493 | 50,532 |
| Amortisation of intangible assets | 11,101 | 11,451 |
| Impairment of intangible assets | 936,822 | - |
| Rental of external premises | 219,747 | 134,391 |
| Other expenses | 2,275,266 | 1,646,918 |
| Total Underwriting operating expenses | 6,006,687 | 4,302,266 |

4 AGED CARE OPERATING EXPENSES

| | 2013 | 2012 |
|--|------------------|------------------|
| | \$ | \$ |
| Employee benefit expenses | 3,346,703 | 3,358,807 |
| Auditor's fees – Audit of Financial Statements | 5,000 | 5,250 |
| Directors' fees | 49,840 | 76,343 |
| Depreciation | 140,587 | 132,784 |
| Impairment of intangible assets | - | 98,317 |
| Other expenses | 1,224,790 | 1,231,475 |
| Total Aged Care operating expenses | 4,766,920 | 4,902,976 |

Financial Statements cont.

Union Medical Benefits Society Limited

Notes to the Financial Statements

For the year ended 30 June 2013

5 INVESTMENT INCOME

| | 2013 | 2012 |
|--|------------------|------------------|
| | \$ | \$ |
| Interest and dividend income | 3,028,646 | 2,746,665 |
| Realised gains/(losses) on fair value investment | 369,371 | 352,297 |
| Unrealised gains/(losses) on investments fair value through income statement | 309,379 | (218,478) |
| Portfolio Management Fees | (153,073) | (103,182) |
| Total Investment Income | 3,554,323 | 2,777,301 |

6 BUILDING INCOME

| | 2013 | 2012 |
|------------------------------|----------|----------------|
| | \$ | \$ |
| Other Income | - | 13,484 |
| Gain on Disposal | - | 593,609 |
| Building Expenses | - | (13,484) |
| Total Building Income | - | 593,609 |

7 CASH AND CASH EQUIVALENTS

| | 2013 | 2012 |
|--|------------------|------------------|
| | \$ | \$ |
| Cash at bank and on hand | (584,627) | (13,057) |
| Cash on call | 3,039,712 | 3,638,027 |
| Total Cash and Cash Equivalents | 2,455,085 | 3,624,970 |

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.

8 PREMIUM AND OTHER RECEIVABLES

| | 2013 | 2012 |
|--|------------------|------------------|
| | \$ | \$ |
| Premiums receivable | 3,147,183 | 3,419,504 |
| Insurance Proceeds Receivables | - | 1,805,212 |
| Rest Home Fees receivable | 282,282 | 338,991 |
| Interest receivable | 135,933 | 546,133 |
| Prepayments | 67,200 | 61,111 |
| GST | 89,653 | - |
| Other | 138,998 | 85,311 |
| Total Premium and Other Receivables | 3,861,249 | 6,256,262 |

There were no bad debts however provision for bad debts decreased by \$45,377 to \$139,000 in 2013 (2012: \$184,377).

9 INVESTMENTS AT FAIR VALUE

| | 2013 | 2012 |
|--------------------------|-------------------|-------------------|
| | \$ | \$ |
| Cash | 19,051,254 | 12,878,897 |
| Fixed Interest | 37,895,012 | 50,521,227 |
| NZ Government Stock | 500,000 | 500,000 |
| NZ Property | 6,590,224 | - |
| NZ Equities | 5,101,269 | 1,351,042 |
| Australian Equities | - | 384,952 |
| International Equities | 5,218,850 | - |
| Other | - | 941,115 |
| Total Investments | 74,356,610 | 66,577,233 |
| Current portion | 43,028,299 | 60,217,626 |
| Non-current portion | 31,328,311 | 6,359,607 |

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

Financial Statements cont.

Union Medical Benefits Society Limited

Notes to the Financial Statements

For the year ended 30 June 2013

10 PROPERTY PLANT & EQUIPMENT

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

| 2013 | Freehold land At cost | Buildings At cost | Fixtures fittings & equipment At cost | Motor vehicles At cost | Total |
|-----------------------------|--------------------------|----------------------|---|---------------------------|------------------|
| | \$ | \$ | \$ | \$ | \$ |
| Gross carrying amount | | | | | |
| Balance 1 July 2012 | 919,562 | 4,579,593 | 2,169,447 | 157,008 | 7,825,610 |
| Additions | - | 53,331 | 78,390 | - | 131,721 |
| Disposals at cost | - | - | - | - | - |
| Balance 30 June 2013 | 919,562 | 4,632,924 | 2,247,837 | 157,008 | 7,957,331 |
| Accumulated depreciation | | | | | |
| Balance 1 July 2012 | - | 1,626,123 | 1,458,087 | 119,610 | 3,203,820 |
| Current year depreciation | - | 89,419 | 80,824 | 9,726 | 179,969 |
| Depreciation on disposals | - | - | - | - | - |
| Balance 30 June 2013 | - | 1,715,542 | 1,538,911 | 129,336 | 3,383,789 |
| Total book value | 919,562 | 2,917,382 | 708,927 | 27,672 | 4,573,543 |
| 2012 | | | | | |
| | \$ | \$ | \$ | \$ | \$ |
| 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 | 4,621,791 |

The latest valuation of the Society's land at 165 Gloucester Street at net current value by Ford Baker Valuation Limited, Registered Valuers, dated 8 August 2013 is \$850,000. The land at 165 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 going concern value by Ford Baker Valuation Limited Registered Valuers dated 4 September 2013 is \$2,320,000 (2012 \$2,900,000).

The latest independent valuation of the Society's land and buildings of Granger House and Richard Seddon Hospital in Greymouth at going concern value by Ford Baker Valuation Limited Registered Valuers dated 4 September 2013 is \$3,190,000 (2012 \$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 2013

11 INTANGIBLE ASSETS

| | Computer Software | Goodwill Rest Home |
|--|----------------------|-----------------------|
| | \$ | \$ |
| Balance at 1 July 2012 | | |
| Cost | 1,188,489 | - |
| Additions | 96,104 | - |
| | 1,284,593 | - |
| Opening Accumulated amortisation & impairment | (195,803) | - |
| Impairment loss recognised in income statement | (936,822) | - |
| Amortisation for the year | (11,101) | - |
| | (1,143,726) | - |
| Closing carrying amount at 30 June 2013 | 140,867 | - |
| 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 | - |

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

12 TRADE AND OTHER PAYABLES

| | 2013 | 2012 |
|---------------------------------------|----------------|----------------|
| | \$ | \$ |
| GST | - | 410,186 |
| Accounts Payable | 313,612 | 277,359 |
| Total trade and other payables | 313,612 | 687,545 |

13 EMPLOYEE BENEFITS

| | 2012 | 2011 |
|--------------------------------|----------------|----------------|
| | \$ | \$ |
| Wages accrual | 114,808 | 115,548 |
| Provision for Annual Leave | 348,924 | 334,799 |
| Total employee benefits | 463,732 | 450,347 |

Financial Statements cont.

Union Medical Benefits Society Limited

Notes to the Financial Statements

For the year ended 30 June 2013

14 ACTUARIAL INFORMATION

| | 2013 | 2012 |
|--------------------------------|-----------|-----------|
| | \$ | \$ |
| Provision for Unearned Premium | 5,488,320 | 5,762,429 |

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

| | 2013 | 2012 |
|---------------------------------|-----------|-----------|
| | \$ | \$ |
| Provision for unreported claims | 7,745,058 | 7,454,151 |

Estimates of the outstanding claims as at 30 June 2013 have been carried out by Peter Davies B.Bus.Sc., a Fellow of the 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

| | 2013 | 2012 |
|---|---------|--------|
| | \$ | \$ |
| This represents the capital paid up by current members of the Society | | |
| Opening balance 1 July | 79,560 | 76,276 |
| Add additions (repayments) during the year | (2,344) | 3,284 |
| Closing balance 30 June | 77,216 | 79,560 |

16 RESERVES

The reserves represent a Claim Fluctuation Reserve and a Catastrophe Reserve. These Reserves were created to provide for major claims arising from unusual or abnormal events.

There are no restrictions on transfers within these reserves.

| | 2013 | 2012 |
|----------------------------|-----------|-----------|
| | \$ | \$ |
| 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

| | 2013 | 2012 |
|-------------------------|------------|------------|
| | \$ | \$ |
| Opening balance 1 July | 64,886,908 | 59,114,801 |
| Net earnings | 3,660,508 | 5,772,107 |
| Closing balance 30 June | 68,547,416 | 64,886,908 |

Financial Statements cont.

Union Medical Benefits Society Limited Notes to the Financial Statements For the year ended 30 June 2013

| 18 CASH FLOW RECONCILIATION | 2013 | 2012 |
|---|------------------|------------------|
| | \$ | \$ |
| Net earnings | 3,660,508 | 5,772,107 |
| Plus (less) non cash items: | | |
| Depreciation | 179,969 | 183,316 |
| Depreciation Recovered | - | (311,960) |
| Net Gain on disposal of building | - | (593,609) |
| Amortisation & Impairment of intangibles | 947,923 | 109,768 |
| | 4,788,400 | 5,159,622 |
| Plus (less) movements in working capital: | | |
| Increase/(decrease) in accounts payable | (373,934) | 308,584 |
| (Increase)/decrease in accounts receivable | 2,395,013 | (2,602,597) |
| Increase/(decrease) in employee entitlements | 13,385 | (144,596) |
| Increase in unearned premium provision | (274,109) | 506,626 |
| Increase in provision for unreported claims | 290,907 | 454,151 |
| Increase/(decrease) Accounts Receivables classified as investing activities | (1,520,590) | 1,520,590 |
| Increase/(decrease) in members' capital | (2,344) | 3,284 |
| Net cash flows from operating activities | 5,316,728 | 5,205,664 |

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 \$71,376,632 (2012 \$67,718,468) 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 was granted a full licence as at 23 May 2013. The Society, upon full licencing is subject to new solvency requirements issued by the Reserve Bank of New Zealand.

The Society was required to deposit \$500,000 with the Public Trustee in accordance with the Insurance Companies' Deposits Act 1953. With the Society obtaining a full licence this deposit is due to be refunded, this had not yet occurred at balance date. The Society is not subject to any 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 2013 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 contingent liabilities at balance date. (2012: \$ Nil).

Capital Commitments

At year end UniMed had entered into a conditional contract to purchase land adjacent to 165 Gloucester Street for \$750,000. The contract was confirmed on 28 August 2013. (2012: \$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:

| | 2013 | 2012 |
|--|-------------|-------------|
| | \$ | \$ |
| Within 1 year | 129,028 | 131,110 |
| After 1 year but not more than 3 years | 10,217 | 113,138 |

Financial Statements cont.

Union Medical Benefits Society Limited

Notes to the Financial Statements

For the year ended 30 June 2013

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. Geo-technical tests have been carried out on the Gloucester Street site and have come back satisfactory, discussions are underway regarding the make up of the new building with an aim of completion in December 2014.

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

Insurance Risks

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

Risk Management Objectives, Policies and Processes for Mitigating Risk

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

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

Sensitivity to Insurance Risk

The financial results of the Society are primarily affected by the level of claims incurred relative to that implicit in the premiums. The assumptions used in the valuation of the outstanding claims provision and the liability adequacy test directly affect the level of estimated claims incurred. The key assumptions used are detailed in note 14. The scope of insurance risk is managed by the terms and conditions of the policy. The main insurance benefit involves the reimbursement of medical and surgical expenses depending upon the plan option. The level of benefits specified in the contract is a key determinant of the amount of future claims although the exact level of claims is uncertain. Other variables affecting the level of claims include the underlying morbidity of the lives insured, the nature of treatment given and the costs of treatment.

Concentration of Insurance Risk

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

Financial Risks

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:

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.

Financial Statements cont.

Union Medical Benefits Society Limited Notes to the Financial Statements For the year ended 30 June 2013

The credit quality of investment counter parties is as follows:

| | 2013 | 2012 |
|-----------------|-------------------|-------------------|
| | \$ | \$ |
| Corporate rated | | |
| AAA | 8,351,141 | 948,960 |
| AA+ | 500,000 | 2,565,376 |
| AA | 13,586,196 | 5,843,523 |
| AA- | 22,474,040 | 48,374,429 |
| A+ | 1,393,077 | 288,343 |
| A | 6,448,361 | 2,617,831 |
| A- | - | 943,384 |
| BBB+ | - | 805,560 |
| BBB | 4,382,224 | 1,997,599 |
| Below BBB | 310,552 | 437,988 |
| Non-rated | 16,911,019 | 1,754,241 |
| | 74,356,610 | 66,577,234 |

Liquidity Risk Management

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

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

As at 30 June 2013

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

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 | - | - | - |

Financial Statements cont.

Union Medical Benefits Society Limited

Notes to the Financial Statements

For the year ended 30 June 2013

Market Risk

Foreign Currency Risk Management

The Society does have within its investment portfolio investments in international companies 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 | | Equity | |
|------|-----------------|--------------------|-----------------|--------------------|
| | Increase 10% | (Decrease) -10% | Increase 10% | (Decrease) -10% |
| 2013 | 2,100,082 | -2,100,082 | 2,100,082 | -2,100,082 |
| 2012 | 30,161 | -30,161 | 30,161 | -30,161 |

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 | | Equity | |
|------|----------------|-------------------|----------------|-------------------|
| | Increase 1% | (Decrease) -1% | Increase 1% | (Decrease) -1% |
| 2013 | 190,513 | -190,513 | 190,513 | -190,513 |
| 2012 | 165,227 | -165,227 | 165,227 | -165,227 |

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.

Financial Statements cont.

Union Medical Benefits Society Limited

Notes to the Financial Statements

For the year ended 30 June 2013

23 CREDIT RATING

On 3 July 2013 AM Best Company reaffirmed the Society an Insurer Financial Strength Rating of A- (Stable) and Issuer Credit Rating of A- (Stable).

24 KEY MANAGEMENT PERSONNEL COMPENSATION

| | 2013 | 2012 |
|------------------------------|---------|---------|
| | \$ | \$ |
| Compensation | | |
| Short term employee benefits | 963,918 | 993,986 |

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 (2012: nil).

25 SEGMENT INFORMATION

The Society operates four segments within New Zealand as follows:

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

Contacts

HEAD OFFICE

Union Medical Benefits Society Ltd
211 Ferry Road, Christchurch
PO Box 1721, Christchurch 8140
Phone (03) 365 4048
Freephone 0800 600 666
accounts@unimed.co.nz
claims@unimed.co.nz
sales@unimed.co.nz
www.unimed.co.nz

BRANCH OFFICES

Invercargill:

PO Box 515, Invercargill 9840
Phone (03) 218 3524
Fax (03) 218 3524

Wellington:

PO Box 30577, Lower Hutt 5040
Phone (04) 566 6396
Fax (04) 566 6374

New Plymouth:

PO Box 8169, New Plymouth 4342
Phone (06) 755 4007
Fax (06) 755 4006

Hamilton:

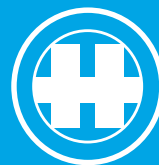
PO Box 1492, Hamilton 3240
Phone (07) 838 0331
Fax (07) 838 0332

Auckland:

PO Box 90443, Auckland 1142
Phone (09) 630 5933
Fax (09) 630 4377

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.

INSURANCE
& SAVINGS
OMBUDSMAN



HEALTH FUNDS ASSOCIATION
OF NEW ZEALAND INC.