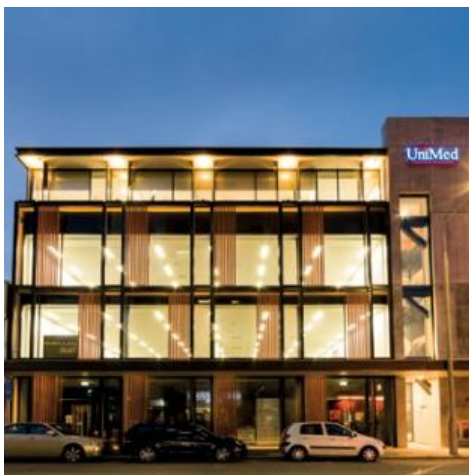
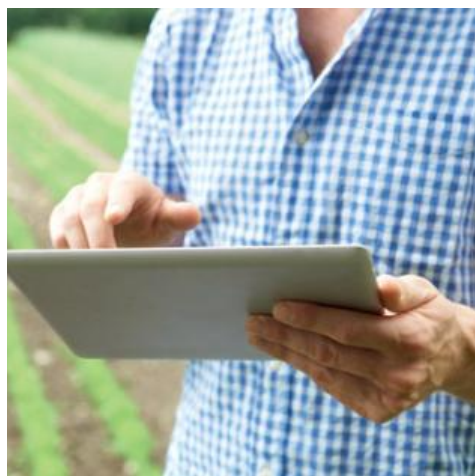
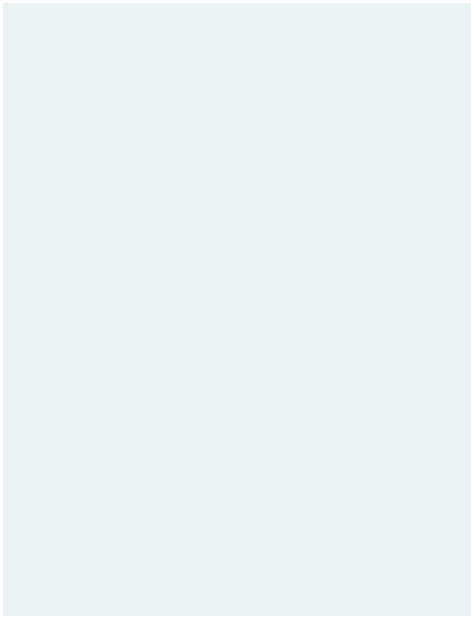
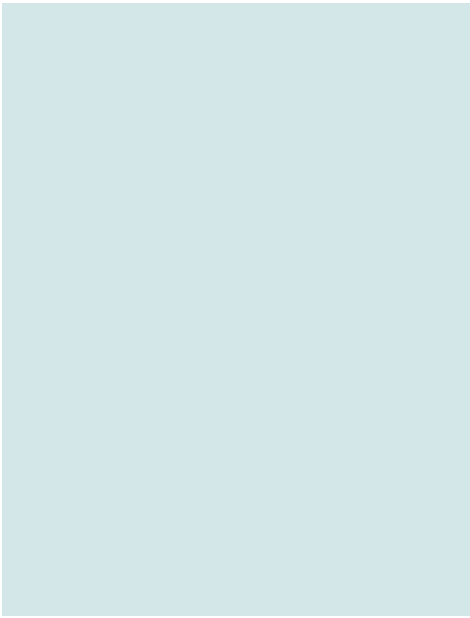
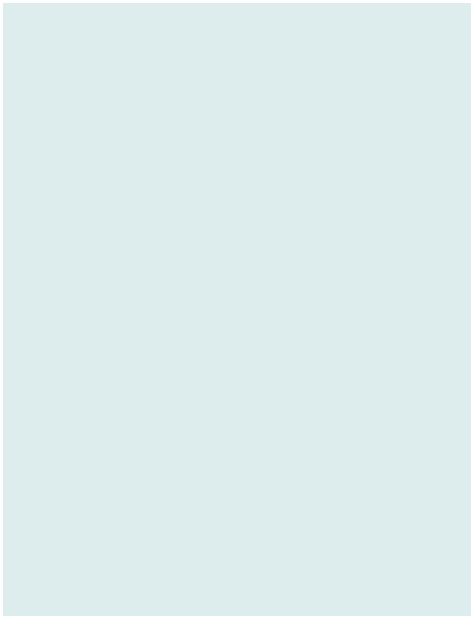


# ANNUAL REPORT 2015







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## Direction and Values

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### VISION

UniMed Members will continue to access value for money private health care.

### MISSION

UniMed will grow sustainably, providing Members with access to affordable and equitable health care funding.

### GUIDING VALUES

UniMed is guided by its values. Its plans, policies and processes will reflect these values. Members, staff and stakeholders can expect to be treated in accordance with these values.

<i>Care</i>	UniMed cares about its staff and will invest in their development.
<i>Members First</i>	UniMed will design products and services to meet the current and future needs of its Members in a sustainable manner.
<i>Diversity</i>	UniMed recognises the diversity of its Members and their needs. UniMed will develop and provide a range of products and services to meet these needs.
<i>Transparency</i>	UniMed staff, officers and representatives will behave in a transparent and fair manner.
<i>Accountability</i>	UniMed charges realistic premiums. It manages administration costs carefully so that Members receive the maximum value for their premiums.
<i>Ethics</i>	UniMed will manage Members' claims in a fair and equitable manner. It will act with integrity.
<i>Sustainability</i>	UniMed will ensure that its financial management is prudent and sustainable.
<i>Excellence</i>	UniMed will strive for excellence in its service delivery.

# Company Directory

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as at 30 June 2015

## NATURE OF BUSINESS

Medical health insurers  
Commercial property owners

## REGISTERED OFFICE

165 Gloucester Street  
Christchurch 8011

## INCORPORATION

Industrial and Provident Societies Act 1908

## BOARD

Glenn John Barnes  
Jane Huria (Deputy Chairperson)  
Angus McConnell  
Tim McGuinness  
David William Rowland  
Brian Anthony Wooller (Chairperson)

## BANKERS

Bank of New Zealand  
5 Sir William Pickering Drive  
Burnside  
Christchurch 8001

## AUDITOR

PKF Goldsmith Fox Audit  
100 Moorhouse Avenue  
Christchurch 8011

## SOLICITORS

Lane Neave Lawyers  
137 Victoria Street  
Christchurch 8013

Simpson Grierson  
Level 11, HSBC Tower  
62 Worcester Boulevard  
Christchurch 8011

## ACTUARY

Peter Davies B.Bus Sc., F.I.A.  
Davies Financial and Actuarial Limited  
Level 1, Shea Terrace  
Takapuna

# Notice of Annual General Meeting

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The Annual General Meeting of Members of the Union Medical Benefits Society Limited will be held at the Rendezvous Hotel, 166 Gloucester Street, Christchurch 8011 on Tuesday 27 October 2015 at 6.00pm.

## BUSINESS

1. Apologies.
2. To confirm the minutes of the 2014 Annual General Meeting.
3. To receive and consider the annual financial statements and auditor's report for the year ended 30 June 2015.
4. To appoint an auditor for the ensuing year.
5. To fix the remuneration for the Board.
6. To consider and (if thought fit) to pass, with or without modification, amendments to the Rules of the Society.

## BACKGROUND, RESOLUTIONS AND VOTING

The full notice of meeting, including background to and text of resolutions to be put to the meeting, can be found at <http://www.unimed.co.nz/members-area/agm-information.html>

Any member entitled to attend and vote at the meeting may vote either by being present in person or by proxy. A proxy must be appointed by a signed, written notice. A proxy form is available from the Society or on the Society's website: [www.unimed.co.nz](http://www.unimed.co.nz). To be effective the proxy form must be deposited at the Society's office (165 Gloucester Street, Christchurch) by 6pm on 26 October 2015.

By order of the Board



E Richardson  
Administration Secretary  
PO Box 1721  
Christchurch 8140

3 October 2015





# Chairman's Report

Many thanks must go to Dave Rowland, Director and Chair of the Building Subcommittee. Dave's knowledge of the building industry, consent process and the like, were invaluable.

After our annual visit from the rating agency AM Best, our financial strength credit rating was raised from A- (Excellent) to A (Excellent), a testament to our Society's governance and management over the years.

During the year UniMed assumed responsibility for the health insurance needs of those individuals and families who have been contributing to State Insurance's health insurance offering, in some cases for many years, with the transfer of responsibility taking place from 1 December 2014.

We were very pleased to welcome these former State Insurance health subscribers to UniMed. This followed State's decision to concentrate fully on alternative lines of general insurance. It was particularly gratifying that State Insurance approached UniMed, after identifying us as a specialist health insurer with a strong reputation for membership service.

UniMed once again received Canstar Blue's 'Most Satisfied Customers Health Insurance' award, an absolute credit to all who work for us. Well done!

As always, the Board has worked diligently to ensure the Society is in a better place than previously, and I am delighted to tell you that this has been another strong year for UniMed.

The Society's Chief Financial Officer Adrian Mouldy is retiring early in the New Year. The Board will miss your thoroughness, Adrian, and your advice over governance. We wish you all the best for the future.

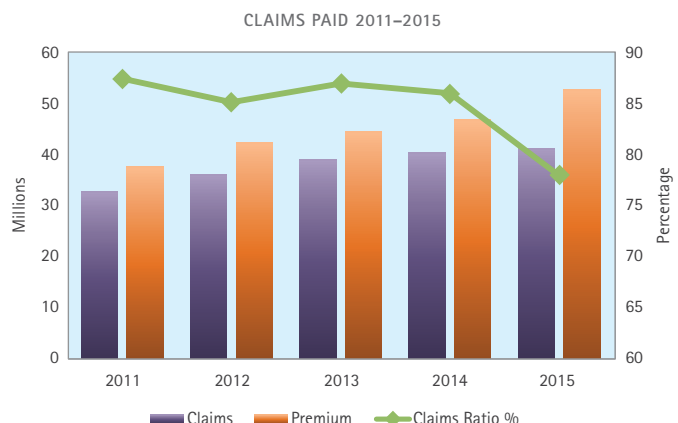
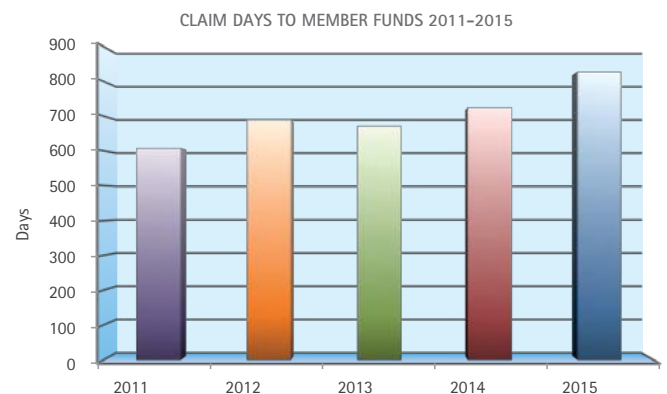
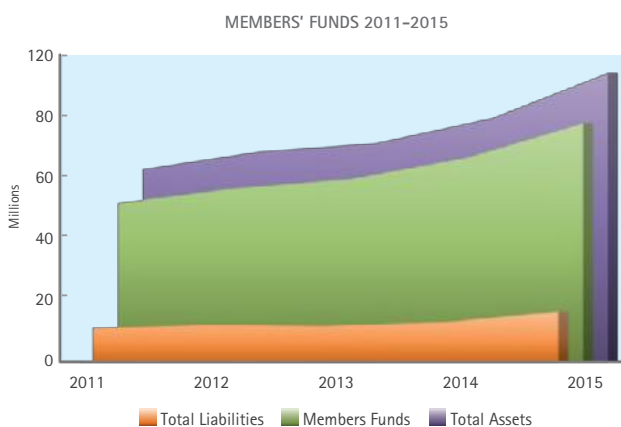
Brian Wooller  
Chairman

**Once again it is my privilege to report on behalf of your board to you, our Members.**

It has been an historic year as in June the Society moved into our rebuilt head office on Gloucester Street. Whilst not without some tribulations on the way - as expected with a rebuild in the current Central Business District of earthquake-ruined Christchurch - the build has been delivered under budget and now needs only some minor cosmetic remediation.

I cannot let this opportunity pass without noting the Board's heartfelt appreciation to our wonderful staff, whose positivity throughout the time since February 2011 has been exemplary. I know they are delighted with the new office.

## Graphical Highlights





# Chief Executive Officer's Report

It is my pleasure to report to Members on the progress that our Society has made during the most recently completed financial year, ending 30 June 2015.

## IN BRIEF:

- Earned premium increased 12.9% to \$52.72M during the financial year under review.
- Claims paid to Members and provided for, reached a new record of \$41.11M – an increase of 2.4% on the preceding year.
- We welcomed, en masse, a transfer of the previous State Health Insurance Members into UniMed. This contributed some \$2.30M by way of earned premium to balance date, which is reflected in the strong earned premium increase noted above.
- During the year UniMed's Rating Agency AM Best advised that our Financial Strength Rating would increase from an A- (Excellent) to an A (Excellent).
- Total operating surplus from all activities (including one-offs referred to later in my report) amounted to \$13.39M once investment income of \$6.89M (up 24.6% over the 2014 year) is added.
- Total Members' Funds (net assets) stood at \$93.07M as at 2015 balance date which is a clear demonstration of our Society's very strong financial position underpinning our solvency ratio and, in turn, reflected by our Financial Strength Rating from AM Best.

## OUR NEW BUILDING

It is a real pleasure to report that UniMed's Head Office function has moved into the top floor of the Society's new four level office building in central Christchurch. This was built on the site previously occupied (but expanded) by our two storey building that did not survive the 2011 earthquakes.

The remaining space in the building is being actively marketed by several real estate agencies. Demand for office space within the CBD is currently not particularly strong and the professional advice is that this state of affairs could remain for another 12-18 months as many previous CBD occupiers still have terms to run in their temporary suburban accommodation.

## #1 CHALLENGE

One of UniMed's guiding values, in achieving our vision of ensuring that members will continue to access value for money private health care, is putting members first. "UniMed will design products and services to meet the current and future needs of its members in a sustainable manner".

The greatest challenge to this for UniMed, and the whole private health insurance sector, is the inescapable fact that regular increases in premiums have occurred at a faster pace than general inflation with associated salary and wage increases. Affordability of premiums to our Members is, therefore, a major issue.

The premiums that our Members are asked to pay are a direct reflection of the cost of Members' medical treatment expenses (after allowance for administration and reserving) as provided for under the varying plan options available. The principal drivers of ever increasing claims payments are:

- the number of claims per thousand members that UniMed is required to fund,
- the actual cost of the procedures and

treatments (doctors' and hospitals' charges increase ahead of general inflation)

- the ever advancing technology that make more and more treatments available.
- the ever ageing UniMed membership which, in turn, is a reflection of the same increasing average age of the New Zealand population.

This challenge – between Members' legitimate expectations of their medical treatment costs being met with the ability to fund that, from premiums – reflects a wider issue for the whole of New Zealand. How will the health care needs of our ageing population be met over the next 5, 10, and 15 years and beyond by a predicted decreasing number of taxpayers? This calls into question the current split between public and private provision and funding of medical treatment.

Planning for future health care financing is becoming increasingly urgent as the gap between health care demand and public funding capacity widens. Treasury has projected public financed health care costs to grow by 4% of GDP in coming decades – a funding gap of around \$10 billion in today's terms.

Over the past year, UniMed played its part via the Industry Association in funding independent research exploring what scope existed for private health insurance to make a greater contribution to funding future health care costs in New Zealand. This research approached the issue from several angles – looking at the public policy rationale as well as overseas experience in a number of countries with comparable health systems.

At a high level, the research found that the countries making the best use of private health insurance, as a funding contributor to health care, are achieving a contribution to total health care costs of between 10% and 15%.

# Chief Executive Officer's Report (continued)

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New Zealand is currently at 5%. If New Zealand were to match this level of funding, it would mean that private health insurance would be funding around \$3 billion in health care each year instead of the present \$1 billion. Put another way, it could feasibly fund anything up to \$2 billion of the \$10 billion gap identified by Treasury.

Even if New Zealand could match Australia's performance at just over 8% of health expenditure, this would see the contribution to health care from health insurance nearly double.

All else aside, I believe it is reasonable to conclude that private health insurance will continue to play an important complementary role to the public health system given the ever increasing calls for health care funded via Vote Health.

## AWARD WINNERS AGAIN

It was very satisfying to again be awarded the Canstar Blue Award for Most Satisfied Customers Health Insurance 2014 for the second consecutive year. While there has long been a very strong ethos at UniMed around being a membership focused organisation, it is very encouraging to us all when an external body recognises this commitment via a nationwide survey of subscribers.

## NEW IT PLATFORM

After having operated our previous health insurance administration software for in excess of 15 years, it was pleasing to shift to a new platform in May 2015, marking the culmination of a multi-year project.

There were a few bumps during the first months but these have now been largely ironed out. We look forward to progressively utilising the abilities of the new platform to further enhance our service to Members, present and future.

The new platform will enable us to offer different ways for Members to interact with UniMed over a range of services and products. The ability for Members to track the progress of their claim, private hospitalisation approval,

or receive all correspondence electronically are some of the innovations we look forward to rolling out.

## RATINGS UPGRADE

Following our annual review, our Rating Agency AM Best advised that our Financial Strength Rating would increase from an A-(Excellent) to an A (Excellent). This marks the culmination of considerable effort at UniMed to constantly refine our governance structure, risk mitigation programme and balance sheet strength to arrive at this very strong financial position underpinning our solvency ratio. Existing and intending Members can be assured that the inevitable ebb and flow of any insurance activity can be well accommodated within the strength of the Society's balance sheet.

## PLAN REVIEWS

We have a range of plans from our new offering, Health Positive, which is designed to meet the different needs of under 30-year-olds (low hospitalisation and easy access to day-to-day healthcare coverage) through to plans that offer very extensive private hospitalisation coverage, medical specialist visits, and testing along with dental and optical benefits. These all need ongoing attention and review to ensure that they meet the needs of the Members, as far as possible.

Every two or three years, we make small tweaks to the individual benefits contained within the range of plans to better reflect current charges. Next year we will conduct a 'full service' review, and expect that the newly revamped plans will be progressively introduced to Members during late 2016 and through 2017.

## ONE-OFF ADJUSTMENTS

The financial year under review was somewhat different to most years in that it contained a higher level of 'one-off' adjustments, all of which were positive for the annual result. This led to the considerably higher than normal \$13M total operating surplus. These one-off adjustments included finalising

UniMed's insurance claims relating to the 2011 earthquakes, adjustment for reserving for incurred but not received claims, coupled with a one-off payment from State Insurance for the transfer of responsibility for this group of new UniMed Members' ongoing health insurance needs.

UniMed's budget and forward expectations for the 2016-2017 year are a return to a more normal pattern as the positive one-off adjustments will not be repeated in the current financial year.

## THE FUTURE

The 2016-2017 year will be one of consolidation following four years' of upheaval, which included the construction and moving into our own new office block coupled with the completion of the long-term IT project and switchover to the new platform late in the last financial year.

A year of consolidation does not mean that we are not focused on always moving forward in continuing to improve our service to Members. We will advocate with both Government and medical providers to ensure that our Members' interests are always recognised and considered while ensuring we deliver cost efficient medical insurance cover.

I would like to thank the Chairman and Directors for their support of the senior management team over the past year. I would take this opportunity to acknowledge all UniMed staff for their dedication and hard work over the year and, in particular, to acknowledge the extended service of Adrian Mouldy, our Chief Financial Officer who retires in February 2016.



Dermot H Martin  
Chief Executive



# Statement of Corporate Governance

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The Union Medical Benefits Society Limited (trading as UniMed) is incorporated under the Industrial & 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 are vested in the Board.

The Board is the Society's overall and final decision making authority.

All current directors have been assessed by the Board in accordance with the Society's Fit and Proper Person policy and have been 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.

At 30 June 2015 -

The elected directors are:

Brian Wooller (Chairman)  
Glenn Barnes  
Angus McConnell, and  
David Rowland

The appointed directors are:

Jane Huria (Deputy Chairperson), and  
Tim McGuinness

## BOARD ROLE AND CHARTER

The Board operates in accordance with the Industrial and Provident Societies Act 1908 and 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.

The role of the Board is to effectively represent and promote the interests of Members by continually evaluating and ensuring the ongoing 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 ongoing 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 ongoing 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 compile and regularly update a Statement of Business Interests. 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,

## 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 (continued)

## BOARD COMMITTEES

The Board has three standing committees: Audit and Risk, Nominations, and an Employment and Remuneration 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 Tim McGuinness (Chairperson), Glenn Barnes, and David Rowland.

### *Nominations 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 Person 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 Nominations Committee currently comprises Brian Wooller (Chairperson) and Jane Huria.

### *Employment and Remuneration Committee*

The Employment and Remuneration Committee's objectives are to assist the Board in the establishment of remuneration policies and practices for remuneration setting of the Society's CEO and directors. The Employment and Remuneration Committee currently comprises Brian Wooller (Chairperson) and Jane Huria.

### *Building Committee*

The primary objectives of the Building Committee are to ensure that the replacement head office building is completed within budget and fully leased.

The Building Committee comprises David Rowland (Chairperson), and Brian Wooller.

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 the external Auditor subject to Members' approval at the AGM. The Audit and Risk Committee is responsible for making recommendations to the Board concerning their appointment and the terms of their engagement.

## APPOINTED ACTUARY INDEPENDENCE

The Board is responsible for the appointment of the independent Appointed Actuary.

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



*From left to right: David Rowland, Timothy McGuinness, Jane Huria, Brian Wooller, Angus McConnell and Glenn Barnes.*

# Profiles of Board of Directors

As at 30 June 2015 the Society's directors are:

## *Brian Wooller Chairperson*

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 2012 and is also Chairman of the Nominations and Employment and Remuneration Committees. Brian has been an Organiser of the Dairy Workers Union from 1998 until his retirement in 2012. He is a Member of the New Zealand Institute of Directors. Brian resides in Christchurch.

## *Jane Huria LLB Deputy Chairperson*

Jane is a Fellow of the New Zealand Institute of Directors and in 2012 she was awarded the CNZM for services to corporate governance. She is Deputy Chair of the Electoral Commission, and serves on the boards of Naylor Love Construction Limited, Fortuna Group Limited, Heritage Farms New Zealand Limited, Pegasus Health (Charitable) Limited, and the Court Theatre. Jane resides in Christchurch and is a member of the Independent Hearings Panel for the Christchurch Replacement District Plan.

## *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 NZ Dairy Workers Union since 1988 and was formerly chair of the Hamilton West Labour Electoral Committee. He is currently a Member of the New Zealand Institute of Directors. 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 and Chair of the 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.

## *Angus McConnell*

Angus was elected a director in October 2014. He is the Assistant Secretary of the NZ Dairy Workers Union, a position he has held since 2000 and a Junior Vice President of the NZ Council of the NZ Labour Party. He has held governance roles with the Lottery Grants Board and Trust Waikato. Angus resides in Hamilton.

## *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 the Police Superannuation Scheme, the Westpac NZ Staff Superannuation Scheme and the Rio Tinto New Zealand Retirement Plan 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.

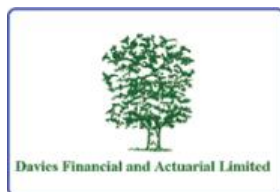
## DIRECTOR MEETING ATTENDANCE FOR THE YEAR ENDED 30 JUNE 2015

	Board	AGM	Strategic Planning Workshop	Audit & Risk Committee	Employment & Remuneration Committee	Building Project Control Group	IT Project Committee
Meetings Held	8	1	1	4	3	10	11
Brian Wooller	8	1	1		3	10	
Glenn Barnes	8	1	1	4			
Jane Huria	7	1	1		3		11
Angus McConnell	4		1				
Tim McGuinness	7	1	1	4			
David Rowland	8	1	1	4		10	



# Appointed Actuary's Report

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8th September 2015

To: The Directors

Union Medical Benefits Society Limited

From: Peter Davies

Appointed Actuary

Re: Union Medical Benefits Society Limited: Report as at 30th June 2015 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 2015. "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 2015 by a substantial margin. The Society is projected to exceed the minimum requirement at all times over the next four years.

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

Yours sincerely



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

# Auditor's Report

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**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, which comprise the statement of financial position as at 30 June 2015, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a statement of accounting policies and other explanatory information.

## BOARD MEMBERS RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The Directors are responsible for the preparation and fair presentation of these financial statements in accordance with New Zealand Equivalents to International Financial Reporting Standards for Public Benefit Entities and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

## AUDITOR'S 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 present fairly, in all material respects the financial position of Union Medical Benefits Society Limited as at 30 June 2015 and of its financial performance and its cash flows for the year ended thereon, in accordance with New Zealand Equivalents to International Financial Reporting Standards for Public Benefit Entities.

*PKF Goldsmith Fox Audit*

15 September 2015  
Christchurch, New Zealand

# Financial Statements

## Union Medical Benefits Society Limited Statement of Comprehensive Income for the year ended 30 June 2015

	Note	2015 \$	2014 \$
<b>Underwriting</b>			
Members' premiums		52,720,917	46,708,879
Claims paid and provided for	2	41,105,969	40,159,787
Underwriting surplus		11,614,948	6,549,092
Underwriting operating expenses	3	5,115,959	5,288,601
<b>Underwriting operating surplus</b>		<b>6,498,989</b>	<b>1,260,491</b>
<b>Aged Care</b>			
Aged Care residents' fees		-	3,762,460
Aged Care operating expenses	4	-	2,247,878
<b>Aged Care operating surplus</b>		<b>-</b>	<b>1,514,582</b>
<b>Investments</b>			
Investment income	5	6,887,330	5,527,551
<b>Operating surplus</b>		<b>13,386,319</b>	<b>8,302,624</b>
Other comprehensive income		-	-
<b>Total comprehensive income for the year</b>		<b>13,386,319</b>	<b>8,302,624</b>

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 2015

	Note	2015 \$	2014 \$
<b>Current assets</b>			
Cash and cash equivalents	6	2,421,441	-
Premium and other receivables	7	5,398,888	4,138,286
Investments	8	40,220,744	69,583,214
<b>Total current assets</b>		<b>48,041,073</b>	<b>73,721,500</b>
<b>Non-current assets</b>			
Investments	8	52,129,109	17,239,859
Property, plant and equipment	9	10,968,232	3,969,208
Other intangible assets	10	1,607,807	178,862
<b>Total non-current assets</b>		<b>64,705,147</b>	<b>21,387,929</b>
<b>Total assets</b>		<b>112,746,220</b>	<b>95,109,429</b>
<b>Current liabilities</b>			
Cash and cash equivalents	6	-	320,256
Accounts payables	11	3,080,005	707,610
Employee benefits	12	228,422	254,488
Unearned premium provision	13	8,675,678	6,043,041
Unreported claims provision	13	7,693,790	8,105,006
<b>Total current liabilities</b>		<b>19,677,895</b>	<b>15,430,401</b>
<b>Net assets</b>		<b>93,068,325</b>	<b>79,679,028</b>
<b>Members' funds</b>			
Members' capital	14	79,966	76,988
Reserves	15	2,752,000	2,752,000
Accumulated funds	16	90,236,359	76,850,040
<b>Total Members' funds</b>		<b>93,068,325</b>	<b>79,679,028</b>



B Wooller  
Chairman



T McGuinness  
Chairman Audit & Risk Committee

15 September 2015

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

# Financial Statements (continued)

## Union Medical Benefits Society Limited Statement of Changes in Equity For the year ended 30 June 2015

	Members' capital	Reserves	Retained earnings	Total
	\$	\$	\$	\$
<b>2015</b>				
Opening balance at 1 July 2014	76,988	2,752,000	76,850,040	79,679,028
Total comprehensive income	-	-	13,386,319	13,386,319
Members' contributions	2,978	-	-	2,978
<b>Closing balance at 30 June 2015</b>	<b>79,966</b>	<b>2,752,000</b>	<b>90,236,359</b>	<b>93,068,325</b>
<b>2014</b>				
Opening balance at 1 July 2013	77,216	2,752,000	68,547,416	71,376,632
Total comprehensive income	-	-	8,302,624	8,302,624
Members' contributions	(228)	-	-	(228)
<b>Closing balance at 30 June 2014</b>	<b>76,988</b>	<b>2,752,000</b>	<b>76,850,040</b>	<b>79,679,028</b>

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

# Financial Statements (continued)

## Union Medical Benefits Society Limited Statement of Cash Flows For the year ended 30 June 2015

	Note	2015 \$	2014 \$
<b>Cash flows from operating activities</b>			
Cash was provided from:			
Members' contributions		51,441,917	46,611,378
Aged care residents' fees		-	4,019,190
Investment income		3,326,307	2,738,210
		<b>54,768,224</b>	<b>53,368,778</b>
Cash was applied to:			
Payments for claims		36,694,014	39,799,839
Payments to suppliers for goods and services		2,685,909	4,057,173
Payments to employees		2,729,043	5,120,896
		<b>42,108,967</b>	<b>48,977,908</b>
<b>Net cash flows from operating activities</b>	17	12,659,257	4,390,870
<b>Cash flows from investing activities</b>			
Cash was provided from:			
Insurance proceeds		969,564	211,090
Sale of fixed assets		-	4,867,581
		<b>969,564</b>	<b>5,078,671</b>
Cash was applied to:			
Purchase of fixed assets		7,654,425	2,605,322
Purchase of intangibles		1,453,373	157,581
Net Payments for investments		1,779,326	9,481,979
		<b>10,887,124</b>	<b>12,244,882</b>
<b>Net cash flows from investing activities</b>		(9,917,560)	(7,166,211)
Net increase/(decrease) in cash held		2,741,697	(2,775,341)
Plus opening cash brought forward		(320,256)	2,455,085
<b>Closing cash</b>		<b>2,421,441</b>	<b>(320,256)</b>

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



# Financial Statements (continued)

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## Union Medical Benefits Society Limited

### Notes to the Financial Statements

For the year ended 30 June 2015

## 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 and commercial building ownership. The Society is domiciled and incorporated in New Zealand and is a public benefit entity.

The Society was granted a licence by the Reserve Bank of New Zealand ("RBNZ") on 23 May 2013 to operate as an insurer subject to the Insurance (Prudential Supervision) Act 2010 ("IPS Act"). As a consequence of being a licensed insurer, the Society is deemed to be a financial markets conduct reporting entity under Part 7 of the Financial Markets Conduct Act 2013 ("FMC Act").

The statutory base for the preparation of the financial statements is the Financial Reporting Act 2013, the FMC Act and the IPS Act.

These financial statements were approved by the Board of Directors on 15 September 2015.

### 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 International Financial Reporting Standard for Public Benefit Entities (NZ IFRS PBE), and the requirements of the IPS Act.

### Basis of measurement

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

- certain financial instruments (See Note 22)
- actuarial quantification of insurance liabilities (See Note 13)
- investments (See Note 8)

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

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. They are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised.

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 13: Actuarial Information
- Note 19 Solvency and capital adequacy
- 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 in advance basis. Premiums billed but unearned are recorded as an unearned premium liability.

##### 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.

# Financial Statements (continued)

## Union Medical Benefits Society Limited

### Notes to the Financial Statements

For the year ended 30 June 2015

#### Underwriting claims

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

#### Adoption of new and revised standards and interpretations

The Society has adopted all mandatory new and amended standards and interpretations in the current year. As the XRB (External Reporting Board) has effectively frozen the financial reporting requirements for PBEs (Public Benefit Entities) until PBE's transition to the PBE Standards no disclosure has been made about new or amended NZ IFRS that exclude PBEs from their scope.

#### 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 most significant is the new Accounting Standards Framework (incorporating a Tier Structure and separate suite of accounting standards for PBEs) which has been issued by the XRB. Under the new Accounting Standards Framework the Society will transition to the new Not-for-Profit Public Benefit Entities (NFP PBE) Standards that will be based mainly on International Public Sector Accounting Standards (IPSAS). The effective date for the new NFP PBE Standards is for reporting periods on or after 1 April 2015. Therefore the Society will have to prepare its financial statements in accordance with the new NFP PBE Standards for the first time for the annual reporting period ending 30 June 2016. The Society has not been able to determine the impact of these transitions to the new NFP PBE Standards that are currently being developed by the XRB. Due to the change in Accounting Standards Framework for PBEs, all new NZ IFRS amendments to existing NZ IFRS will not be applicable to PBEs.

#### 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, with an original maturity of 3 months or less, 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. Premium and other receivables are stated at their cost less any impairment losses. Impairment losses for uncollectible premiums are written off against premium revenue in the year in which they are incurred. Under the NZ IFRS definition of financial assets, premium and other receivables are classified as "loans and receivables".

#### Investments

All purchases of investments are recognised on the date at which they are originated. Transaction costs are recognised as an expense in determining the surplus or deficit before tax in the statements of comprehensive income on transaction date. Investments are derecognised on the date of maturity or sale of an investment.

The Society designates its investments as "financial assets at fair value through profit or loss" at inception. That is, changes in fair value are recognised in determining the surplus or deficit in the statements of comprehensive income.

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.

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 cash flow statement.

#### Property plant and 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	0.0%
Building fit-out	12.5% SL
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.

# Financial Statements (continued)

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## Union Medical Benefits Society Limited

### Notes to the Financial Statements

For the year ended 30 June 2015

#### Intangible assets

Intangible assets represent software. Software development expenditure that meets the criteria for recognition as an intangible asset is capitalised over its expected useful life, subject to annual 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 straight line 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 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 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 statement of financial position 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.



# Financial Statements (continued)

## Union Medical Benefits Society Limited

### Notes to the Financial Statements

For the year ended 30 June 2015

#### Taxation

The Society is exempt from income tax due to its status under the Income Tax Act 2007.

#### 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 2014.

## 2 CLAIMS PAID AND PROVIDED FOR

	2015	2014
	\$	\$
Claims incurred relating to risks borne in current and previous years	41,517,185	39,799,839
Movement in provision for unreported claims	(411,216)	359,948
<b>Total claims paid and provided for</b>	<b>41,105,969</b>	<b>40,159,787</b>

## 3 UNDERWRITING OPERATING EXPENSES

	2015	2014
	\$	\$
Employee benefit expenses	2,665,211	2,376,460
Contributions to employees' health insurance plan	37,766	34,183
Auditor's fees – audit of financial statements	27,000	14,200
Auditor's fees – other	3,000	2,800
Directors' fees	293,288	242,216
Depreciation	65,757	52,575
Amortisation of intangible assets	7,312	14,420
Impairment of intangible assets	17,116	105,166
Rental of external premises	190,464	217,053
Insurance (earthquake) settlement proceeds	(969,564)	-
Disposal of fixed assets	312,510	-
Other expenses	2,466,099	2,229,528
<b>Total underwriting operating expenses</b>	<b>5,115,959</b>	<b>5,288,601</b>

Auditor's remuneration for other services disclosed above consists of a review of the annual solvency return.

## 4 AGED CARE OPERATING EXPENSES

	2015	2014
	\$	\$
Employee benefit expenses	-	2,501,009
Auditor's fees – audit of financial statements	-	4,000
Directors' fees	-	47,686
Loss on sale of Rest Homes	-	273,726
Depreciation recovered	-	(1,652,519)
Other expenses	-	1,073,976
<b>Total aged care operating expenses</b>	<b>-</b>	<b>2,247,878</b>

# Financial Statements (continued)

## Union Medical Benefits Society Limited Notes to the Financial Statements For the year ended 30 June 2015

### 5 INVESTMENT INCOME

	2015	2014
	\$	\$
Interest and dividend income	3,139,877	2,780,710
Realised gains/(losses) on fair value investment	828,287	40,597
Unrealised gains/(losses) on investments fair value through income statement	3,208,218	2,984,484
Portfolio management fees	(289,052)	(278,240)
<b>Total investment income</b>	<b>6,887,330</b>	<b>5,527,551</b>

### 6 CASH AND CASH EQUIVALENTS

	2015	2014
	\$	\$
Cash at bank and on hand	397,825	(1,505,603)
Cash on call	2,023,616	1,185,347
<b>Total cash and cash equivalents</b>	<b>2,421,441</b>	<b>(320,256)</b>

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

### 7 PREMIUM AND OTHER RECEIVABLES

	2015	2014
	\$	\$
Premiums receivable	4,267,547	3,774,140
Aged care fees receivable net	-	25,552
Interest receivable	32,599	219,029
Prepayments	104,482	4,876
GST	903,260	114,689
Deposit property	91,000	-
<b>Total premium and other receivables</b>	<b>5,398,888</b>	<b>4,138,286</b>

There were no material bad debts however provision for bad debts increased to \$500,000 in 2015 (2014: \$300,000).

### 8 INVESTMENTS AT FAIR VALUE

	2015	2014
	\$	\$
Cash	27,071,066	19,787,354
Fixed interest	52,258,654	47,147,574
NZ government stock	-	500,000
NZ property	-	7,262,184
NZ equities	6,279,387	5,991,554
International equities	6,740,746	6,134,407
<b>Total investments</b>	<b>92,349,853</b>	<b>86,823,073</b>

Current portion	40,220,744	69,583,214
Non-current portion	52,129,109	17,239,859

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

# Financial Statements (continued)

## Union Medical Benefits Society Limited Notes to the Financial Statements For the year ended 30 June 2015

### 9 PROPERTY PLANT AND EQUIPMENT

Property plant and equipment is stated at cost less accumulated depreciation.

2015	Freehold land At cost	Buildings At cost	Fixtures fittings and equipment At cost	Motor vehicles At cost	Total
	\$	\$	\$	\$	\$
Gross carrying amount					
Balance 1 July 2014	1,280,550	2,336,428	610,045	109,476	4,336,499
Additions	-	6,218,261	1,063,719	95,310	7,377,290
Disposals at cost	-	-	(575,551)	(98,498)	(674,049)
Balance 30 June 2015	1,280,550	8,554,689	1,098,213	106,288	11,039,740
Accumulated depreciation					
Balance 1 July 2014	-	-	272,194	95,097	367,291
Current year depreciation	-	-	42,636	23,120	65,756
Depreciation on disposals	-	-	(276,726)	(84,813)	(361,539)
Balance 30 June 2015	-	-	38,104	33,404	71,508
Total book value	1,280,550	8,554,689	1,060,109	72,884	10,968,232

2014	Freehold land At cost	Buildings At cost	Fixtures fittings and equipment At cost	Motor vehicles At cost	Total
	\$	\$	\$	\$	\$
Gross carrying amount					
Balance 1 July 2013	919,562	4,632,924	2,247,837	157,008	7,957,331
Additions	750,040	2,294,094	2,000	-	3,046,134
Disposals at cost	(389,052)	(4,590,590)	(1,639,792)	(47,532)	(6,666,966)
Balance 30 June 2014	1,280,550	2,336,428	610,045	109,476	4,336,499
Accumulated depreciation					
Balance 1 July 2013	-	1,715,542	1,538,911	129,336	3,383,789
Current year depreciation	-	-	47,523	5,052	52,575
Depreciation on disposals	-	(1,715,542)	(1,314,240)	(39,291)	(3,069,073)
Balance 30 June 2014	-	-	272,194	95,097	367,291
Total book value	1,280,550	2,336,428	337,851	14,379	3,969,208

# Financial Statements (continued)

## Union Medical Benefits Society Limited Notes to the Financial Statements For the year ended 30 June 2015

### 10 INTANGIBLE ASSETS

	Computer software 2015 \$	Computer software 2014 \$
Balance at 1 July		
Cost	329,247	1,284,593
Additions	1,453,373	157,581
Disposal	(174,813)	(1,112,927)
	1,607,807	329,247
Opening accumulated amortisation and impairment	150,385	1,143,726
Amortisation for the year	7,312	14,420
Impairment for the year	-	105,166
Amortisation on disposal	(157,697)	(1,112,927)
	-	150,385
<b>Closing carrying amount at 30 June</b>	<b>1,607,807</b>	<b>178,862</b>

The intangible assets are non current assets.

### 11 TRADE AND OTHER PAYABLES

	2015 \$	2014 \$
Accounts payable	3,080,005	707,610

Payables have increased over last year due to the claims processing timing differences of \$ 2.5M on the implementation of new computer software.

### 12 EMPLOYEE BENEFITS

	2015 \$	2014 \$
Wages accrual	60,031	87,171
Provision for annual leave	168,391	167,317
<b>Total employee benefits</b>	<b>228,422</b>	<b>254,488</b>

### 13 ACTUARIAL INFORMATION

	2015 \$	2014 \$
Provision for unearned premium	8,675,678	6,043,041
	\$	\$
<b>Provision for unreported claims</b>	<b>7,693,790</b>	<b>8,105,006</b>

Estimates of the outstanding claims as at 30 June 2015 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 (PBE) 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% (2014: 7.5%) allowance for claim management expenses, and a 15% risk margin (2014: 18%), which provides a 90% likelihood of sufficiency (2014: 90%).

# Financial Statements (continued)

## Union Medical Benefits Society Limited Notes to the Financial Statements For the year ended 30 June 2015

### 14 MEMBERS' CAPITAL

	2015	2014
This represents the capital paid up by current Members of the Society	\$	\$
Opening balance 1 July	76,988	77,216
Add additions (repayments) during the year	2,978	(228)
Closing balance 30 June	79,966	76,988

### 15 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.

	2015	2014
	\$	\$
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
<b>Total reserves 30 June</b>	<b>2,752,000</b>	<b>2,752,000</b>

The catastrophe reserve is in relation to existing policies.

### 16 ACCUMULATED FUNDS

	2015	2014
	\$	\$
Opening balance 1 July	76,850,040	68,547,416
Total Comprehensive Income	13,386,319	8,302,624
Closing balance 30 June	90,236,359	76,850,040



# Financial Statements (continued)

## Union Medical Benefits Society Limited Notes to the Financial Statements For the year ended 30 June 2015

### 17 CASH FLOW RECONCILIATION

	2015	2014
	\$	\$
Total comprehensive income	13,386,319	8,302,624
Plus (less) non cash items:		
Net (gain) / loss on investments at fair value through the profit or loss	(3,208,218)	(2,984,484)
Amortisation of intangibles	7,312	-
Depreciation	65,756	52,575
Add items classified as investing activities :		
(Gain) loss on disposal of property and equipment	(657,054)	(1,652,519)
Loss on sale of rest homes	-	273,726
Impairment of intangibles	17,116	119,586
Movement in receivables and payables relating to investing activities	(262,051)	(542,796)
	9,349,180	3,568,712
Plus (less) movements in working capital:		
Increase/(decrease) in accounts payable	2,372,396	393,999
(Increase)/decrease in accounts receivable	(1,260,602)	(277,037)
Increase/(decrease) in employee entitlements	(26,066)	(209,244)
Increase in unearned premium provision	2,632,637	554,720
Increase (decrease) in provision for unreported claims	(411,216)	359,948
Increase/(decrease) in Members' capital	2,928	(228)
Total movements in working capital	3,310,077	822,158
<b>Net cash flows from operating activities</b>	<b>12,659,256</b>	<b>4,390,870</b>

### 18 CREDIT RATING

On 2 July 2015 AM Best Company increased the Society's Insurer Financial Strength Rating from A- to A (Excellent) and Issuer Credit Rating, A- to A (Excellent).

### 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 \$93,068,325 (2014: \$79,679,028) is equal to the Members' Funds as disclosed in the financial statements.

The Insurance (Prudential Supervision) Act 2010 was enacted in September 2010 from which the Society was granted a full licence by the Reserve Bank of New Zealand on 23 May 2013. The Society is subject to solvency margin requirements detailed in the Solvency Standard for Non-Life Insurance Business issued by the RBNZ. This standard requires the Society to retain a solvency margin of greater than zero, meaning that the actual solvency capital position exceeds the minimum required under the solvency standard. During the year ended 30 June 2015 the Society complied with all externally imposed capital requirements. At 30 June 2015 the solvency margin (actual solvency capital less minimum solvency capital required) was \$72,869,044 (2014 \$64,897,916) and the solvency ratio (actual solvency capital divided by minimum solvency capital required) was 5.01 (2014 5.44).

The Directors' policy for managing capital is to have a strong capital base to establish security for Members and enable the Society to conduct its business as a going concern. This policy is regularly reviewed by the Directors in line with the guidelines issued by the RBNZ.

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

# Financial Statements (continued)

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## Union Medical Benefits Society Limited

### Notes to the Financial Statements

For the year ended 30 June 2015

#### 20 COMMITMENTS

There are no contingent liabilities at balance date. (2014: \$ Nil).

##### *Capital commitments*

At year end the Society had entered into a contract with Intellimin Ltd to purchase a new computer system with an estimated value of \$1,796,471; of this amount \$1,603,373 has been paid (2014: \$150,000).

At year end the Society had entered into a contract to construct a new building at 165 Gloucester Street with an estimated cost of \$8,808,057; of this amount \$6,218,261 has been paid (2014: \$2,252,770).

At year end the Society had entered into an agreement to purchase a building adjoining the Gloucester Street site; a deposit of \$91,000 had been paid with an additional \$819,000 required at settlement. The property has attached to it an existing insurance claim in relation to the February 2011 earthquake, which will be transferred to the Society.

#### 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.

#### 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 Insurance (Prudential Supervision) Act 2010 requires insurers to manage a risk management policy which the RBNZ monitors.

The risks and objectives, and 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 costs 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 13.

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 Statements (continued)

## Union Medical Benefits Society Limited

### Notes to the Financial Statements

For the year ended 30 June 2015

#### Financial risks

##### 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.

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:

**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 assets are the Nikko Asset Management NZ Investment portfolio and bank term deposits, which are placed with high credit quality financial institutions.

The credit quality of investment counter parties is as follows:

	2015	2014
	\$	\$
Corporate rated		
AAA	10,223,524	7,455,534
AA	42,665,731	33,309,111
AA-	8,673,802	9,546,295
A+	-	2,408,191
A	10,442,900	7,981,868
BBB	5,421,606	5,395,465
Below BBB	140,081	321,313
Non-rated	1,242,020	19,914,176
Other	13,540,188	491,120
	92,349,852	86,823,073

##### 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 and 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 2015	0-6 months	7-12 months	1-2 years	over 2 years
	\$	\$	\$	\$
Cash and cash equivalents	2,421,441			
Trade and other receivables	5,398,888			
Investments	40,220,744		2,196,023	49,933,086
<b>Total assets</b>	<b>48,041,073</b>	<b>0</b>	<b>2,196,023</b>	<b>49,933,086</b>
Financial liabilities				
Trade and other payables	3,308,427			
<b>Total liabilities</b>	<b>3,308,427</b>	<b>0</b>	<b>0</b>	<b>0</b>

# Financial Statements (continued)

## Union Medical Benefits Society Limited Notes to the Financial Statements For the year ended 30 June 2015

As at 30 June 2014	0-6 months	7-12 months	1-2 years	over 2 years
	\$	\$	\$	\$
Trade and other receivables	4,138,286	-	-	-
Investments	66,893,384	2,689,830	-	17,239,859
<b>Total assets</b>	<b>71,031,670</b>	<b>2,689,830</b>	<b>-</b>	<b>17,239,859</b>
Financial liabilities				
Cash and cash equivalents	320,256	-	-	-
Trade and other payables	962,098	-	-	-
<b>Total liabilities</b>	<b>1,282,354</b>	<b>-</b>	<b>-</b>	<b>-</b>

The cash and cash equivalents are available on call. All trade and other receivables are due within one month of the end of the reporting period. Financial liabilities are all short term or payable on demand. Investments could be liquidated at any time to settle liabilities.

### Market risk

#### Foreign currency risk management

The Society does have investments in international instruments 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. 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 unhedged foreign currency financial instruments.

	Net Surplus		Equity	
	Increase 10%	(Decrease) -10%	Increase 10%	(Decrease) -10%
2015	242,144	(242,144)	242,144	(242,144)
2014	197,874	(197,874)	197,874	(197,874)

#### 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 affected as follows:

	Net Surplus		Equity	
	Increase 1%	(Decrease) -1%	Increase 1%	(Decrease) -1%
2014	197,874	(197,874)	197,874	(197,874)
2013	190,513	(190,513)	190,513	(190,513)

#### 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 statement of financial position.

All investments disclosed in note 8 are classified as level 1 in the fair value hierarchy. The Nikko Asset Management New Zealand Limited assets value is based on closing market prices as reported to investors.

Cash and cash equivalents are classified as level 1 (2014: Level 1) in the fair value hierarchy.

There have been no transfers between levels in the Fair Value hierarchy.

# Financial Statements (continued)

## Union Medical Benefits Society Limited

### Notes to the Financial Statements

For the year ended 30 June 2015

#### 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 KEY MANAGEMENT PERSONNEL COMPENSATION

	2015	2014
	\$	\$
Compensation		
Short term employee benefits	1,423,603	1,175,823

Key management employees are classified as any persons, including Directors, having the authority and responsibility for planning, directing and controlling activities of the Society. NZ IAS (PBE) 24 requires Directors' fees to be included within key management personnel compensation. It should be noted that all Directors are non-executive and are not involved in the day to day operations 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 (2014: nil).

#### 24 SEGMENT INFORMATION

The Society operates four segments within New Zealand as follows:

2015	Health Insurance	Building	Aged Care	Investments	Total
Segment Assets	10,561,129	9,835,239	-	92,349,852	112,746,220
Segment Liabilities	19,423,217	254,678	-	-	19,677,895
Revenue	52,720,917	-	-	7,176,382	59,897,299
Expenses	(46,221,928)	-	-	(289,052)	(46,510,980)
<b>Total Comprehensive Income</b>	<b>6,498,989</b>	<b>-</b>	<b>-</b>	<b>6,887,330</b>	<b>13,386,319</b>
Cash flows					
Operating cash flows	9,332,950	-	-	3,326,307	12,659,257
Investing cash flows	(2,106,106)	(6,032,127)	-	(1,779,326)	(9,917,560)
<b>Total cash flows</b>	<b>7,226,844</b>	<b>(6,032,127)</b>	<b>-</b>	<b>1,546,980</b>	<b>2,741,697</b>
2014	Health Insurance	Building	Aged Care	Investments	Total
Segment Assets	5,174,336	3,086,468	25,552	86,823,073	95,109,429
Segment Liabilities	15,387,401	-	43,000	-	15,430,401
Revenue	46,708,879	-	3,762,460	5,805,791	56,277,130
Expenses	45,448,388	-	2,247,878	278,240	47,974,506
<b>Net Earnings</b>	<b>1,260,491</b>	<b>-</b>	<b>1,514,582</b>	<b>5,527,551</b>	<b>8,302,624</b>
Cash flows					
Operating cash flows	1,260,141	-	392,519	2,738,210	4,390,870
Investing cash flows	(909,621)	(1,642,192)	4,867,581	(9,481,979)	(7,166,211)
<b>Total cash flows</b>	<b>350,520</b>	<b>(1,642,192)</b>	<b>5,260,100</b>	<b>(6,743,769)</b>	<b>(2,775,341)</b>

Aged Care Segment was discontinued on 1 April 2014.



# Contacts

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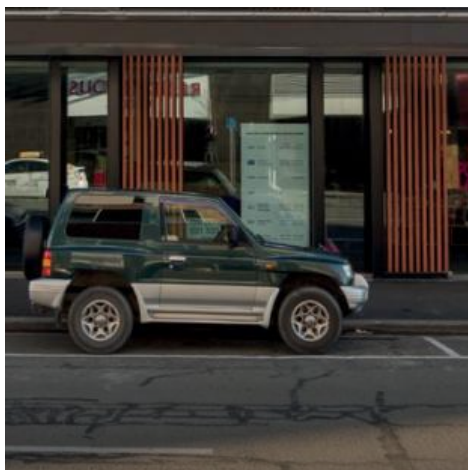
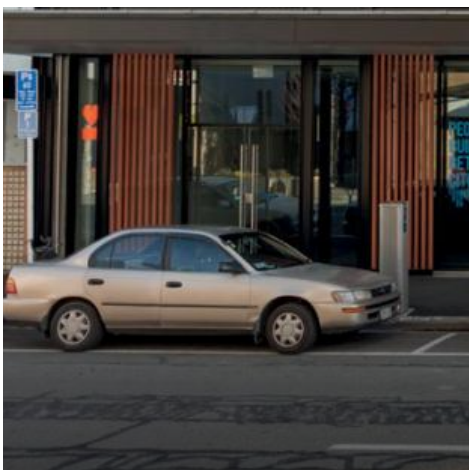
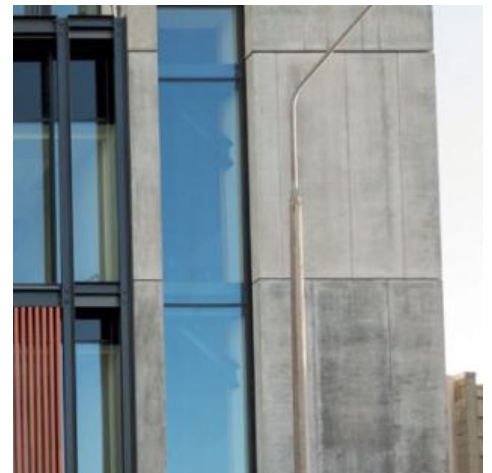
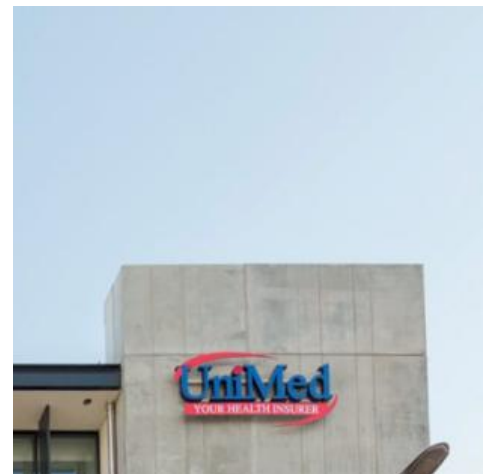
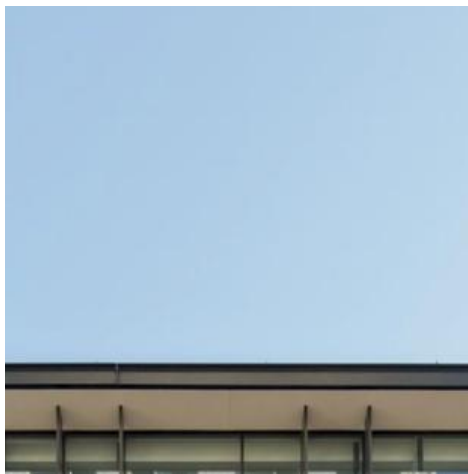
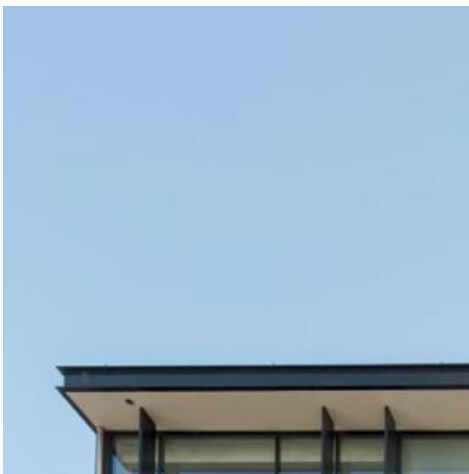
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