

ANNUAL REPORT 2016





UniMed
YOUR HEALTH INSURER

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Direction and Values

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 be expected to be treated 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

As at 30 June 2016

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 Barnes
Jane Huria (Chair)
Angus McConnell
Tim McGuinness
David Rowland

BANKERS

Bank of New Zealand
81 Riccarton Road
Christchurch 8011

AUDITOR

PKF Goldsmith Fox Audit
100 Moorhouse Avenue
Christchurch 8011

SOLICITORS

Lane Neave Lawyers
141 Cambridge Terrace
Christchurch 8013

Simpson Grierson
Level 1, 151 Cambridge Terrace
Christchurch 8013

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 8011 on Tuesday 25 October 2016 at 6.00 pm.

BUSINESS

1. Apologies.
2. To confirm the minutes of the 2015 Annual General Meeting.
3. To receive and consider the annual financial statements and auditor's report for the year ended 30 June 2016.
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 20 August 2016. No other candidates were validly nominated, so Glenn Barnes and David Rowland will be deemed to be elected at the Annual General Meeting.
5. To appoint an auditor for the ensuing year.
6. To fix the remuneration for the Board.

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 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 and written notice. A proxy form is available from the Society or on the Society's website: www.unimed.co.nz. To be effective the proxy must be deposited at the Society's office (165 Gloucester Street, Christchurch 8011) by 6.00 pm on 24 October 2016.

By order of the Board



E Richardson
Administration Secretary
PO Box 1721
Christchurch 8140

1 October 2016

Board Chair and Chief Executive Officer's Report



As representatives of the Board and Management of the Society, it is our pleasure to present this year's Annual Report.

Previously there have been separate Chair and Chief Executive Reports that always ran the risk of being somewhat repetitive, so to streamline practices, we have this year decided on a joint review on behalf of governance and management.

We can report that overall the Society has had another very positive year, particularly given the progress with the enhancements to our products and services to our Members. At the same time, we have achieved a modest underwriting surplus despite the cost of claims rising ahead of premium income.

As previously reported, UniMed moved its Head Office to the top floor of our four storey office building in May 2015, following the loss of the previous premises in the February 2011 earthquake. As Christchurch Members (or those who have visited Christchurch) will be acutely aware, there are still many empty areas of land in the CBD that previously supported commercial buildings. The area immediately to the east of our new building is currently a carpark and may well remain so for quite some time. To brighten up this otherwise large

expanse of concrete – and as a contribution to the cityscape of Christchurch – we commissioned a mural. It depicts two children playing hide and seek, and is this year's Annual Report cover.

The review period included the resignation of the long-term UniMed supporter, Board member, and latterly the Chairman of the Board, Brian Wooller. Brian's long association with the Society and very positive leadership as Chairman for over four years was noted by many of the speakers at his farewell function. UniMed's Deputy Chair, Jane Huria, was unanimously confirmed as UniMed's new Chair at the first available opportunity by the balance of Directors.

FULL ANALYSIS

UniMed's Board, Management, and staff confirm our focus and commitment to providing good policy coverage via our various plans and always striving to keep administration costs as low as possible. During the review period, we conducted a full analysis of the scope and extent of the various individual claimable benefits across our whole range of plans available to Members. Several benefits were subsequently adjusted to more accurately reflect current charges that Members are incurring. New areas of coverage

were also introduced in some plan options. These changes are being rolled out across the total membership, usually at the time of policy renewal dates, during the latter part of 2016 and into early 2017.

We also undertook a full review of the Terms and Conditions attached to all Members' coverage. This resulted in several changes, all focused on updating these to be more responsive to the ever changing needs and pressures of the private health sector. These changes are also being progressively rolled out to all Members, usually in conjunction with the benefit changes referred to above and at the time of annual renewal of Members' insurance contracts. This means all Members will have their coverage operating under the revised Terms and Conditions by early 2017.

We are always very conscious of premium costs to our Members. Although claims numbers and the dollar value of Members' claims is not totally predictable, we do work hard to keep our administration costs as low as possible, while still continuing to provide the level of service Members expect. As a mutual organisation, we do not have shareholders benefiting from dividends paid from profits. Our focus is to return benefit to Members through effective plan options, and premiums as low as is reasonable to, at least, meet your



claims. This return to Members has been well demonstrated during the review period where 86.7 cents in every premium dollar received was used to reimburse or cover Members' medical treatment costs. The remaining 13.3 cents per dollar of premium was used to pay for administration and to add to reserves.

GOOD GOVERNANCE

From a governance perspective, the Board has looked to oversee and support a year of consolidation after a number of years of considerable change. This includes a shift to a new administration software platform. A very large project, it has positioned UniMed very well for the digital future. The Board conducts its affairs under a comprehensive suite of sound policies and processes, which underpin good governance at UniMed, further enhanced by a robust Board performance self-evaluation process and professional development opportunities. We are always seeking to add to the skills and expertise that the Board and Management bring to the organisation.

As part of UniMed's commitment to good governance during the year, we hosted a governance intern, Chris Bailey, who won a highly contested Institute of Directors Emerging Director Award. Part of the prize was a year's internship with UniMed. We

thank Chris for his strong contribution during his time with us and wish him well with his governance career.

There are several substantial projects contained in the 2016-2017 business plan, many of which build upon the new digital opportunities available to UniMed on the back of its transition to the new administration platform. We look forward to progressively rolling out enhancements that we know Members will value and appreciate.

ACC REVIEWS

A service to Members into which we have put more time and resource is in the area of Members' ACC reviews. There are a substantial number of instances each year where a Member requires surgery and from the person's history, it would seem appropriate that this treatment is funded by the ACC. Sometimes, for various reasons, the ACC has declined liability and UniMed assists the Member work their way through the ACC appeal process if appropriate.

A successful appeal benefits the individual Member in that they are often then eligible for income replacement compensation during their treatment and recovery period. This also helps UniMed Members because the ACC has funded the required treatment rather than UniMed

which assists with keeping downward pressure on claims' costs which is the main driver of future premium increases.

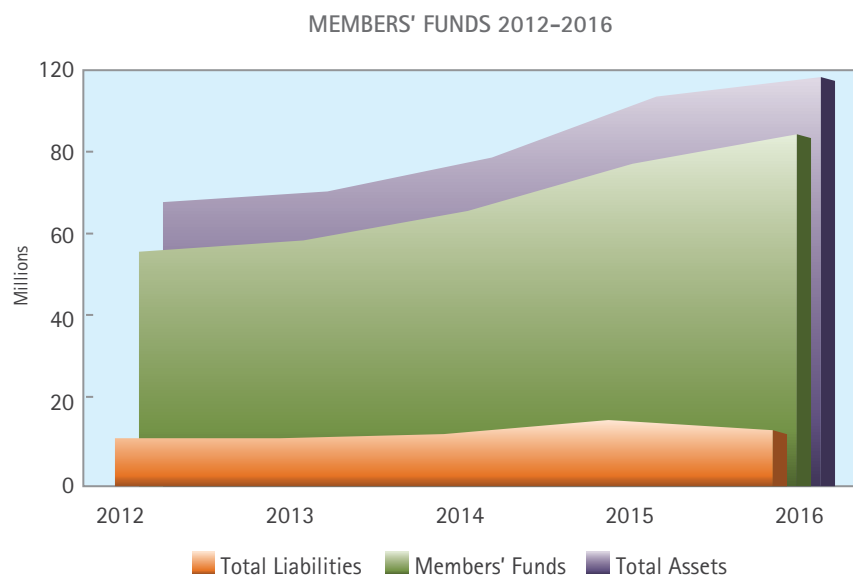
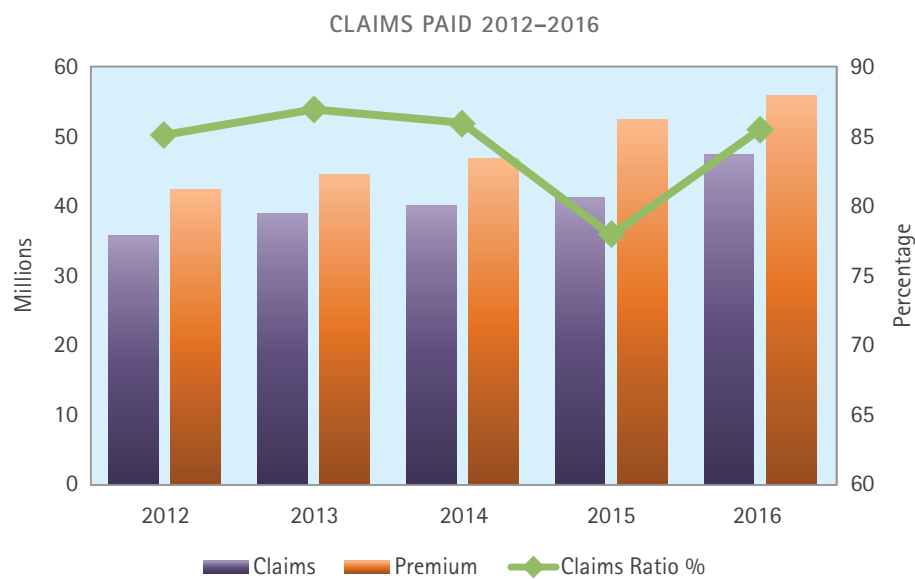
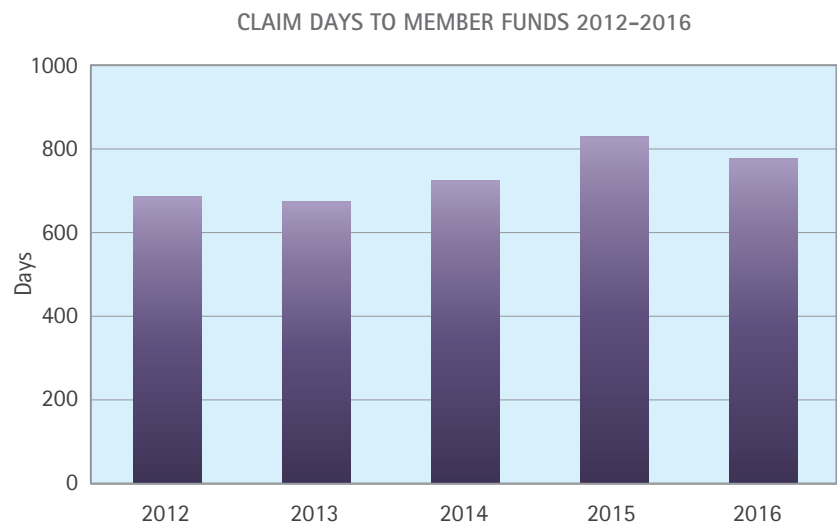
We are pleased to be able to report that UniMed's annual credit rating assessment was reconfirmed as A (Excellent). This demonstrates independent approval from a qualified external body of the processes undertaken by the Board and Management along with staff to run UniMed on behalf of its Members in an appropriate and sustainable manner.

The Board and Senior Management have worked well together over the past year with a strong balance of experience, commitment, and enthusiasm spread throughout the organisation. We would like to thank our respective teams for their dedication and hard work, which has culminated in another satisfactory result for the Society.

Jane Huria
Chair

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 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 2016 –

The elected directors are:

Glenn Barnes
Angus McConnell
David Rowland

The appointed directors are:

Jane Huria (Chair)
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 Chief Executive Officer.
- 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 that 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 effect 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 strategies and operational plans and budget.

As an external measure of establishing good governance practices, the Board endorses the principles as 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 conflicts 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 was established to oversee the rebuild of the Head Office at 165 Gloucester Street.

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 (Chair), Glenn Barnes and David Rowland.

Nominations Committee

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

The Nominations Committee's objectives are to assist the Board in planning the Board's composition, evaluating the capabilities required of 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 Jane Huria (Chair) and Angus McConnell.

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 Jane Huria (Chair) and Glenn Barnes.

Building Committee

The primary objective of the Building Committee is to ensure that the replacement Head Office building was completed within budget. This has been achieved and the Committee was dis-established in July 2016.

The Building Committee comprised David Rowland (Chair) and Brian Wooller.

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, Tim McGuinness, Jane Huria (Chair from 3 May 2016), Brian Wooller (Chair to date of resignation, 21 March 2016), Angus McConnell and Glenn Barnes.

Profiles of Board of Directors

As at 30 June 2016 the Society's directors are:

Jane Huria LLB Chair

Jane is a Fellow of the Institute of Directors and in 2012 she was awarded the CNZM for services to corporate governance. She serves on the boards of Naylor Love Construction 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 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.

Angus McConnell JP

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, 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. 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.

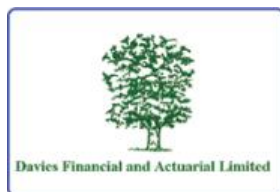
David Rowland ANZIV, SNZPI, NZCQC

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 the Managing Director of Rowland Consulting Limited, a Registered Valuer and formerly a Property Consultant with the Christchurch City Council. He is a member of the New Zealand Institute of Directors, Associate of the NZ Institute of Valuers and a Senior Member of the Property Institute and an Executive Member of the Canterbury/Westland Branch 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.

DIRECTOR MEETING ATTENDANCE FOR THE YEAR ENDED 30 JUNE 2016

	Board	AGM	Strategic Planning Workshop	Audit & Risk Committee	Employment & Remuneration Committee	Nominations Committee	Building Project Control Group
Meetings Held	8	1	1	4	2	2	2
Jane Huria	7	1	1	-	2	2	-
Glenn Barnes	8	1	1	4	-	-	-
Angus McConnell	8	1	1	-	-	2	-
Tim McGuinness	8	1	1	4	-	-	-
David Rowland	7	1	1	4	-	-	2
Brian Wooller (resigned 21/03/2016)	5	1	-	-	2	-	2

Appointed Actuary's Report



5th September 2016

To: The Directors

Union Medical Benefits Society Limited

From: Peter Davies

Appointed Actuary

Re: Union Medical Benefits Society Limited: Report as at 30th June 2016 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 2016. "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 2016 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

Level 1, 3 Shea Terrace, Takapuna 0622
P.O. Box 35-258, Browns Bay, Auckland 0753

Telephone (09) 489-3551
Facsimile: (09) 489-6613

e-mail: pdavies@actuary.co.nz
home page: www.actuary.co.nz

Auditor's 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 2016, 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 Public Benefit Entity Standards 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 Society. 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 present fairly, in all material respects the financial position of Union Medical Benefits Society Limited as at 30 June 2016 and of its financial performance and its cash flows for the year ended thereon, in accordance with Public Benefit Entity Standards.

PKF Goldsmith Fox Audit

22 September 2016

Christchurch, New Zealand

Financial Statements

Union Medical Benefits Society Limited Statement of comprehensive income For the year ended 30 June 2016

	Note	2016 \$	2015 \$
Underwriting			
Members' premiums		54,716,394	52,720,917
Claims paid and provided for	2	47,474,133	41,105,969
Underwriting surplus		7,242,261	11,614,948
Underwriting operating expenses	3	5,969,796	5,115,959
Underwriting operating surplus		1,272,465	6,498,989
Building			
Rental		20,025	-
Building operating expenses	4	121,416	-
Building operating surplus		(101,391)	-
Investments			
Net investment surplus	5	5,970,526	6,887,330
Operating surplus		7,141,600	13,386,319
Other comprehensive income		-	-
Total comprehensive income for the year		7,141,600	13,386,319

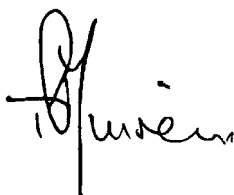
These financial statements are to be read in conjunction with the Notes to the financial statements.

Union Medical Benefits Society Limited
Statement of financial position
As at 30 June 2016

	Note	2016 \$	2015 \$
Current assets			
Cash and cash equivalents	6	1,457,775	2,421,441
Premium and other receivables	7	7,099,946	5,398,888
Investments	8	96,440,460	92,349,852
Total current assets		104,998,181	100,170,181
Non-current assets			
Property, plant and equipment	9	11,940,010	10,968,232
Intangible assets	10	1,544,128	1,607,807
Total non-current assets		13,484,138	12,576,039
Total assets		118,482,319	112,746,220
Current liabilities			
Accounts payable	11	665,635	3,080,005
Employee benefits	12	314,007	228,422
Unearned premium provision	13	9,027,628	8,675,678
Unreported claims provision	13	8,266,972	7,693,790
Total current liabilities		18,274,242	19,677,895
Net assets		100,208,077	93,068,325
Members' funds			
Members' capital	14	78,118	79,966
Accumulated funds	15,16	100,129,959	92,988,359
Total Members' funds		100,208,077	93,068,325



J Huria
Board Chair



T McGuinness
Chair Audit & Risk Committee

22 September 2016

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 2016

	Members' capital	Retained earnings	Total
	\$	\$	\$
2016			
Opening balance at 1 July 2015	79,966	92,988,359	93,068,325
Total comprehensive income	-	7,141,600	7,141,600
Members' contribution	(1,848)	-	(1,848)
Closing balance at 30 June 2016	78,118	100,129,959	100,208,077
2015			
Opening balance at 1 July 2014	76,988	79,602,040	79,679,028
Total comprehensive income	-	13,386,319	13,386,319
Members' contribution	2,978	-	2,978
Closing balance at 30 June 2015	79,966	92,988,359	93,068,325

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 2016

	Note	2016 \$	2015 \$
Cash flows from operating activities			
Cash was provided from:			
Members' contributions		53,290,777	51,441,917
Building		(6,178)	-
Investment income		2,991,855	3,326,307
		56,276,454	54,768,224
Cash was applied to:			
Payments for claims		49,315,321	36,694,014
Payments to suppliers for goods and services		2,632,823	2,685,909
Payments to employees		2,957,640	2,729,044
		54,905,784	42,108,967
Net cash flows from operating activities	17	1,370,670	12,659,257
Cash flows from investing activities			
Cash was provided from:			
Insurance proceeds		-	969,564
Sale of fixed assets		77,383	-
		77,383	969,564
Cash was applied to:			
Purchase of fixed assets		1,121,610	7,654,425
Purchase of intangibles		198,064	1,453,373
Net payments for investments		1,092,045	1,779,326
		2,411,719	10,887,124
Net cash flows from investing activities		(2,334,336)	(9,917,560)
Net increase/(decrease) in cash held		(963,666)	2,741,697
Plus opening cash brought forward		2,421,441	(320,256)
Closing cash		1,457,775	2,421,441

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

Financial Statements (continued)

Union Medical Benefits Society Limited

Notes to the financial statements

For the year ended 30 June 2016

1 STATEMENT OF ACCOUNTING POLICIES

Reporting entity

Union Medical Benefits Society Limited (the Society) is an Incorporated Society registered under the Industrial and Provident Society Act 1908. Its principal products and services are health insurance and commercial building ownership. The Society is domiciled and incorporated in New Zealand and is a Public Benefit Entity.

The Society has been granted a full 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 market conduct reporting entity under Part 7 of the Financial Markets Conduct Act 2013 (FMC Act).

These financial statements were approved by the Board of Directors on 22 September 2016.

Basis of preparation

The financial statements have been prepared in accordance with Generally Accepted Accounting Practice in New Zealand ("NZ GAAP"). They comply with Public Benefit Entity ("PBE Standards") standards as appropriate for Tier 1 not-for-profit public benefit entities and the requirements of the IPS Act.

The financial statements have been prepared in accordance with Tier 1 PBE Standards

These financial statements are the first financial statements presented in accordance with the new PBE accounting standards.

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:

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

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 judgements

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 comprehensive income.

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 2016

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

PBE Standards for Tier 1 and Tier 2 Public Benefit Entities – The package of PBE Standards was first issued in May 2013 and subsequently replaced with a revised package (with enhancements for not-for-profit PBEs) in October 2014. This package is applicable for Tier 1 and Tier 2 PBEs, and consists of the following standards:

- Standard XRB A1 Accounting Standards Framework, which is the overarching standard that sets out the accounting standards framework;
- A suite of 39 PBE Standards; and
- The Public Benefit Entities (conceptual) Framework.

The new PBE Standards are based on International Public Sector Accounting Standards, which are themselves based on IFRS.

This is the Society's first year of reporting under the new standards. However as the Society had previously applied NZ IFRS PBE, there were no major changes to accounting policies.

Standards issued and not yet effective and not early adopted

In 2015, the External Reporting Board issued Disclosure Initiative (Amendments to PBE IPSAS 1).

These amendments apply to PBEs with reporting periods beginning on or after 1 January 2016. The Society will apply these amendments in preparing its 30 June 2017 financial statements. The Society expects there will be no effect in applying these amendments.

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 is 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 PBE IPSAS 29 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 in the Statement 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 Statement 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 & 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%
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)

Union Medical Benefits Society Limited

Notes to the financial statements

For the year ended 30 June 2016

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 (July 2015). 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. All the Society's operating leases are held on a month to month basis.

Financial Statements (continued)

Union Medical Benefits Society Limited

Notes to the financial statements

For the year ended 30 June 2016

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 2015.

2 CLAIMS PAID AND PROVIDED FOR

	2016	2015
	\$	\$
Claims incurred relating to risks borne in current and previous years	46,900,951	41,517,185
Movement in provision for unreported claims	573,182	(411,216)
Total claims paid and provided for	47,474,133	41,105,969

3 UNDERWRITING OPERATING EXPENSES

	2016	2015
	\$	\$
Employee benefit expenses	2,730,022	2,665,211
Contributions to employees health insurance plan	41,943	37,766
Auditor's fees – audit of financial statements	27,640	27,000
Auditor's fees – other	3,500	3,000
Directors' fees	271,260	293,288
Depreciation	163,449	65,756
Amortisation of intangible assets	261,743	7,312
Impairment of intangible assets	-	17,116
Rental of external premises	117,418	190,464
Selling expenses	1,026,449	1,054,102
Office expenses	137,850	246,181
Consultancy expenses	203,729	302,500
Insurance (earthquake) settlement proceeds	-	(969,564)
Disposal of fixed assets	(5,041)	312,510
Other expenses	989,834	863,317
Total underwriting operating expenses	5,969,796	5,115,959

Auditor's remuneration for other services disclosed above consists of reviewing solvency returns.

4 BUILDING OPERATING EXPENSES

	2016	2015
	\$	\$
Property management	10,950	-
Building operating expenses	33,147	-
Rates	75,347	-
Insurance	4,935	-
Opex recovered	(2,963)	-
Total building operating expenses	121,416	-

Financial Statements (continued)

Union Medical Benefits Society Limited

Notes to the financial statements

For the year ended 30 June 2016

5 INVESTMENT INCOME

	2016	2015
	\$	\$
Interest and dividend income	3,289,127	3,139,877
Realised gains/(losses) on fair value investment	-	828,287
Unrealised gains/(losses) on investments fair value through Statement of comprehensive income	2,998,563	3,208,218
Portfolio management fees	(317,164)	(289,052)
Total investment income	5,970,526	6,887,330

6 CASH AND CASH EQUIVALENTS

	2016	2015
	\$	\$
Cash at bank and on hand	1,297,107	397,825
Cash on call	160,668	2,023,616
Total cash and cash equivalents	1,457,775	2,421,441

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

	2016	2015
	\$	\$
Premiums receivable	6,607,924	4,267,547
Interest receivable	12,707	32,599
Prepayments	114,509	104,482
GST	338,604	903,260
Colliers trust account	26,202	-
Deposit property	-	91,000
Total premium and other receivables	7,099,946	5,398,888

There were no material bad debts however provision for bad debts was decreased to \$200,000 in 2016 (2015: \$500,000).

8 INVESTMENTS AT FAIR VALUE

	2016	2015
	\$	\$
Cash	30,447,862	27,071,066
Fixed interest	50,305,866	52,258,652
NZ equities	8,523,827	6,279,387
International equities	7,162,905	6,740,747
Total investments	96,440,460	92,349,852

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 comprehensive income. Any changes in the fair value are recognised immediately.

Investments held by Nikko Asset Management Limited are available on demand and have been classified as current assets. 2015 comparatives have been restated to reflect this change.

Financial Statements (continued)

Union Medical Benefits Society Limited

Notes to the financial statements

For the year ended 30 June 2016

9 PROPERTY, PLANT & EQUIPMENT

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

2016	Freehold land at cost	Buildings at cost	Fixtures, fittings & equipment at cost	Motor vehicles at cost	Total
	\$	\$	\$	\$	\$
Gross carrying amount					
Balance 1 July 2015	1,280,550	8,554,689	1,098,213	106,288	11,039,740
Additions	610,955	546,779	54,876	-	1,212,610
Disposals at cost	(24,330)	(57,593)	-	(10,978)	(92,901)
Gain on sale	-	5,041	-	-	5,041
Balance 30 June 2016	1,867,175	9,048,916	1,153,089	95,310	12,164,490
Accumulated depreciation					
Balance 1 July 2015	-	-	38,104	33,404	71,508
Current year depreciation	-	-	144,787	18,662	163,449
Depreciation on disposals	-	-	-	(10,477)	(10,477)
Balance 30 June 2016	-	-	182,891	41,589	224,480
Total book value	1,867,175	9,048,916	970,198	53,721	11,940,010

2015	Freehold land at cost	Buildings at cost	Fixtures, fittings & 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

Financial Statements (continued)

Union Medical Benefits Society Limited

Notes to the financial statements

For the year ended 30 June 2016

10 INTANGIBLE ASSETS

	Computer software \$ 2016	Computer software \$ 2015
Balance at 1 July		
Cost	1,607,807	329,247
Additions	198,064	1,453,373
Disposal	-	(174,813)
	1,805,871	1,607,807
Opening accumulated amortisation & impairment	-	150,385
Amortisation for the year	261,743	7,312
Impairment for the year	-	-
Amortisation on disposal	-	(157,697)
	-	-
Closing carrying amount at 30 June	1,544,128	1,607,807

Intangible assets is a non-current asset and is made up of computer software. There are no restrictions over the title of intangible assets, nor are any intangible assets pledged as security for liabilities.

11 TRADE AND OTHER PAYABLES

	2016 \$	2015 \$
Accounts payable	665,635	3,080,005

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

12 EMPLOYEE BENEFITS

	2016 \$	2015 \$
Wages accrual	9,080	60,031
Provision for annual leave	304,927	168,391
Total employee benefits liability	314,007	228,422

13 ACTUARIAL INFORMATION

	2016 \$	2015 \$
Provision for unearned premium	9,027,628	8,675,678
	\$	\$
Provision for unreported claims	8,266,972	7,693,790

Estimates of the outstanding claims as at 30 June 2016 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 unreported 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% (2015: 7.5%) allowance for claim management expenses, and a 11% risk margin (2015: 15%), which provides a 90% likelihood of sufficiency (2015: 90%).

Financial Statements (continued)

Union Medical Benefits Society Limited

Notes to the financial statements

For the year ended 30 June 2016

14 MEMBERS' CAPITAL

		2016		2015
This represents the capital paid up by current Members of the Society	Shares	\$	Shares	\$
Opening balance 1 July	39,983	79,966	38,494	76,988
Add additions (repayments) during the year	(924)	(1,848)	1,489	2,978
Closing balance 30 June	39,059	78,118	39,983	79,966

15 RESERVES

The Financial statements as at 30 June 2015 presented two specific reserves named claim fluctuation reserve and catastrophe reserve. These reserves were created from accumulated funds in prior years to show provisioning for major claims arising from unusual or abnormal events. These reserves held no actual status and were not required for reporting or statutory purposes. The Board resolved to amalgamate these two reserves with the Society's accumulated funds. The 2015 comparatives have been altered to reflect this change.

16 ACCUMULATED FUNDS

	2016	2015
	\$	\$
Opening balance 1 July	92,988,359	79,602,040
Total comprehensive income	7,141,600	13,386,319
Closing balance 30 June	100,129,959	92,988,359

17 CASH FLOW RECONCILIATION

	2016	2015
	\$	\$
Total comprehensive income	7,141,600	13,386,319
Plus (less) non cash items:		
Net (gains) / losses on investments at fair value through comprehensive income	(2,998,563)	(3,208,218)
Amortisation of intangibles	261,743	7,312
Depreciation	163,449	65,756
Add items classified as investing activities :		
(Gains) loss on disposal of property and equipment	(5,041)	(657,054)
Impairment of intangibles	-	17,116
Movement in receivables and payables relating to investing activities	-	(262,051)
	4,563,188	9,349,180
Plus (less) movements in working capital:		
Increase/(decrease) in accounts payable	(2,399,465)	2,372,396
(Increase)/decrease in accounts receivable	(1,801,922)	(1,260,602)
Increase/(decrease) in employee entitlements	85,585	(26,066)
Increase/(decrease) in unearned premium provision	351,950	2,632,637
Increase (decrease) in provision for unreported claims	573,182	(411,216)
Increase/(decrease) in Members' capital	(1,848)	2,928
Total movements in working capital	(3,192,517)	3,310,077
Net cash flows from operating activities	1,370,670	12,659,257

Financial Statements (continued)

Union Medical Benefits Society Limited

Notes to the financial statements

For the year ended 30 June 2016

18 CREDIT RATING

On 21 June 2016 AM Best Company confirmed the Society's Insurer Financial Strength Rating of A (Excellent) and Issuer Credit Rating 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. At 30 June 2016 the Society's capital of \$100,208,077 (2015: \$93,068,325) 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 2016 the Society complied with all externally imposed capital requirements.

At 30 June	2016 \$	2015 \$
Actual solvency capital	98,404,324	91,046,011
Minimum solvency capital	18,215,552	18,176,967
Solvency margin	80,188,772	72,869,044
Solvency coverage ratio	540%	501%

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.

20 CONTINGENT LIABILITIES AND CAPITAL COMMITMENTS

There are no contingent liabilities at balance date. (2015: \$ Nil).

Capital commitments

The Society had entered into a contract to construct a new building at 165 Gloucester Street with an estimated cost of \$8,808,057. At the year end the amount of \$69,227 remained committed, (2015: \$2,589,796 remained committed).

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.

Financial Statements (continued)

Union Medical Benefits Society Limited

Notes to the financial statements

For the year ended 30 June 2016

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, 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 manage claims cost within reasonable and proper limits. 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 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 Ltd investment portfolio and bank term deposits, which are placed with high credit quality financial institutions.

The following table summarises the underlying investments credit quality held by the unit trust manager and registered banks.

Financial Statements (continued)

Union Medical Benefits Society Limited

Notes to the financial statements

For the year ended 30 June 2016

	2016	2015
	\$	\$
Corporate rated		
AAA	12,511,614	10,223,524
AA	39,024,830	42,665,731
AA-	2,725,512	8,673,802
A+	-	-
A	20,326,432	10,442,900
A-	1,085,564	-
BBB	5,291,448	5,421,606
Below BBB	-	140,081
Non-rated	15,475,059	14,782,208
Total investments	96,440,460	92,349,852

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 2016	0-6 months	7-12 months	1-2 years	over 2 years
	\$	\$	\$	\$
Cash and cash equivalents	1,457,775	-	-	-
Trade and other receivables	7,099,946	-	-	-
Investments	96,440,460	-	-	-
Total financial assets	104,998,181	-	-	-
Trade and other payables	979,642	-	-	-
Total financial liabilities	979,642	-	-	-
 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	92,349,852	-	-	-
Total financial assets	100,170,181	-	-	-
Trade and other payables	3,308,427	-	-	-
Total financial liabilities	3,308,427	-	-	-

The cash and cash equivalents are available on call and are adjusted for unrepresented cheques. 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.

Financial Statements (continued)

Union Medical Benefits Society Limited

Notes to the financial statements

For the year ended 30 June 2016

Market risk

Foreign currency risk management

The Society does have investments in international companies within its investment portfolio and is subject to foreign exchange risk. Through its Portfolio Manager the Society 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%)
2016	(358,292)	437,912	(358,292)	437,912
2015	(295,028)	360,590	(295,028)	360,590

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%)
2016	(2,442,458)	2,442,458	(2,442,458)	2,442,458
2015	(2,124,749)	2,124,749	(2,124,749)	2,124,749

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 asset value is based on closing market prices as reported to investors.

Cash and cash equivalents are classified as level 1 (2015: Level 1) in the fair value hierarchy.

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

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 (continued)

Union Medical Benefits Society Limited

Notes to the financial statements

For the year ended 30 June 2016

23 KEY MANAGEMENT PERSONNEL COMPENSATION

Key management personnel of the Society include the Board of Directors and the Senior Management Team of the Society. The total remuneration of key management personnel and number of individuals, on a full time equivalent basis, receiving remuneration from the Society are;

	2016	2015
	\$	\$
Compensation		
Directors (6 FTE)	271,260	293,288
Senior management team (4 FTE)	851,039	837,027
Total key management personnel compensation	1,122,299	1,130,315

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 (2015: nil).

24 SEGMENT INFORMATION

The Society operates three segments within New Zealand as follows:

2016	Health insurance	Building	Investments	Total
Segment assets	11,125,768	10,916,091	96,440,460	118,482,319
Segment liabilities	18,274,242	-	-	18,274,242
Revenue	54,716,394	20,025	6,287,690	61,024,109
Expenses	(53,443,929)	(121,416)	(317,164)	(53,882,509)
Total comprehensive income	1,272,465	(101,391)	5,970,526	7,141,600

Cash flows				
Operating cash flows	(1,297,843)	(6,178)	2,674,691	1,370,670
Investing cash flows	(198,064)	(1,044,227)	(1,092,045)	(2,334,336)
Total cash flows	(1,495,907)	(1,050,405)	1,582,646	(963,666)

2015	Health insurance	Building	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)
Total comprehensive income	6,498,989	-	6,887,330	13,386,319

Cash flows				
Operating cash flows	9,332,950	-	3,326,307	12,659,257
Investing cash flows	(2,106,106)	(6,032,128)	(1,779,326)	(9,917,560)
Total cash flows	7,226,844	(6,032,128)	1,546,981	2,741,697

Contacts

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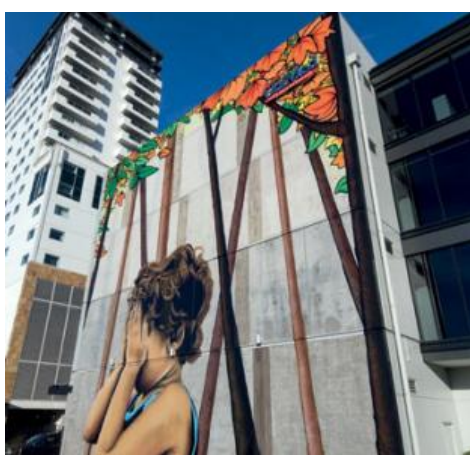
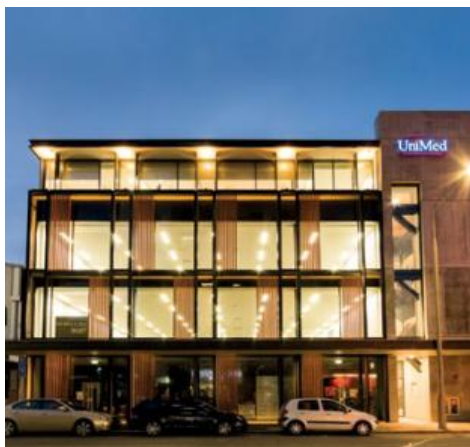
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UniMed is proud to be a participant of the Insurance & Financial Services Ombudsman Scheme and a founding member of the Health Funds Association of New Zealand Inc.