

ANNUAL REPORT 2017



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:

Care

UniMed cares about its staff and will invest in their development.

Members first

UniMed will design products and services to meet the current and future needs of its Members in a sustainable manner.

Diversity

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.

Transparency

UniMed staff, officers and representatives will behave in a transparent and fair manner.

Accountability

UniMed charges realistic premiums. It manages administration costs carefully so that Members receive the maximum value for their premiums.

Ethics

UniMed will manage Members' claims in a fair and equitable manner. It will act with integrity.

Sustainability

UniMed will ensure that its financial management is prudent and sustainable.

Excellence

UniMed will strive for excellence in its service delivery.

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Company Directory

As at 30 June 2017

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, Building 1,
61 Constellation Drive,
Mairangi Bay, Auckland

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 Thursday 26 October 2017 at 6.00pm.

BUSINESS

1. Apologies.
2. To confirm the Minutes of the 2016 Annual General Meeting.
3. To receive and consider the annual financial statements and Auditor's report for the year ended 30 June 2017.
4. To appoint an auditor for the ensuing year.
5. To record the election of a Board member.
6. To fix the remuneration for the Board.
7. 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. To be effective the proxy form must be deposited at the Society's office (165 Gloucester Street, Christchurch) by 6pm on 25 October 2017.

By order of the Board



E Richardson

Administration Secretary
PO Box 1721
Christchurch 8140
30 September 2017

Board Chair & Chief Executive's Report



It is our pleasure once again to present a joint report to Members and other interested parties.

Licensed by the Reserve Bank, UniMed is a not-for-profit mutual society, formed in 1979 to provide our Members with access to affordable and equitable health care funding. The best interests of our Members remain at the front of our minds, and we are free from the pressures of shareholders wanting us to make large profits to pay them dividends. Challenges facing us however, include demographic changes and an ageing population, increased expectations about levels of health care, and the increase in medical costs to keep pace with useful new technologies. This results in our ongoing need to balance costs and premiums and to ensure continuation of our prudent investment strategy which has served us well over the past 38 years.

We are naturally pleased to be able to report another year of solid progress and service to the membership, adding further to the Society's reserves which underpin our insurance operations and ensure that we will be 'here when you need us'. As an average we target to return 85 percent of all premiums to the membership by way of claims' reimbursements and the most recently completed year saw an 83.3% return of premiums. This has assisted in balancing the targeted average because the preceding year's claims had accounted for 86.8% of Members' contributions.

Our vision is that "UniMed Members will continue to access value for money private health care funding, assisting them to lead healthy productive lives". As providers

of group and individual medical insurance, we play an important part in the New Zealand health system, protecting our Members and enabling them to connect with affordable services. We also seek to strengthen UniMed's relationships with health care partners for the benefit of our Members.

The preceding year's work on upgrading the various plan options to which our Members can elect to subscribe has continued, even though the changes have been more modest over the reporting period. However, it was pleasing to be able to introduce the new UniCare Advantage plan which contains many upgraded individual benefit sections. As designed, it has been progressively rolled out over our portfolio.

Board Chair & Chief Executive's Report (continued)

FINANCIAL STRENGTH

All insurers in New Zealand are now licensed by the Reserve Bank of New Zealand and as part of that process, we are required to obtain a credit rating on an annual basis. This credit rating not only independently assesses the financial strength of an insurer but also its governance and management structure, and a whole raft of other very important areas all designed to ensure the stability of a licensed insurer. Your board is pleased with the steady performance of UniMed during the past year which included retention of the "A" financial strength rating by independent rating firm AM Best, and finishing the year ahead of budget with positive performances in investments and underwriting.

TECHNOLOGY

Over the year we have continued to roll out our new membership servicing and distribution channel including the increased use of mobile technology to enable our people around the country to provide an enhanced experience when Members need to interact with their Society.

Additionally, considerable time and effort has gone into a project to deliver a new secure Member self-service portal via our website,

all designed to make it even easier for Members to interact with the Society. This project has a targeted completion date with the Portal being available for Members' use at the end of the first quarter 2018.

The Society's website is accessed by Members for a host of reasons, so during the year we have invested in a new and improved website which will be available before the end of 2017.

Our final technology project during the year has been the building of an improved DataMart. This will enable far quicker extraction and analysis of data in order to refine and guide the decision-making of both management and governance as we jointly plot the best way forward for our membership and the Society.

GOVERNANCE

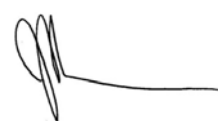
Meeting eight times over the past year, the board was assisted by the Audit and Risk committee, chaired by board member Tim McGuinness, the Nominations Committee and the Employment and Remuneration Committee. The Board continues to strengthen UniMed's best practice governance through a programme of regular reviews of plans and policies, board performance evaluation, and professional development activities.

The Board is conscious of the potential future impacts on UniMed

of the speed of change around us all, including disruptive technologies and digitisation. There is an important role to protect and grow Members' funds and to ensure we continue to provide excellent health insurance coverage and service. We recognise our responsibilities including the need to keep abreast of technological and other developments which will impact on both Members and the business.

Our Christchurch Head Office, rebuilt post quake and overlooking sites yet to be rebuilt, has proved to be a good home for our staff. We still have some vacant space in the building as this part of the city has been slow to repopulate.

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.

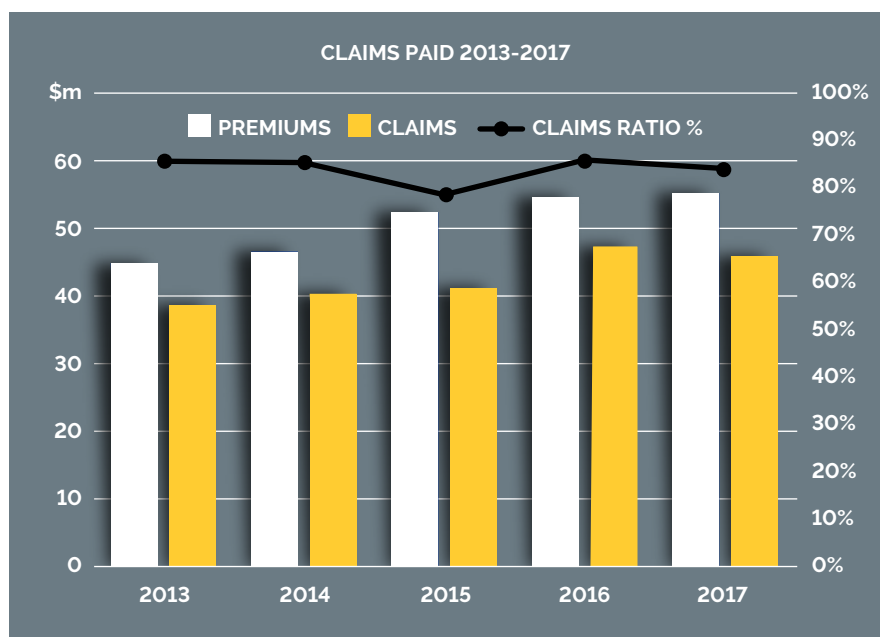
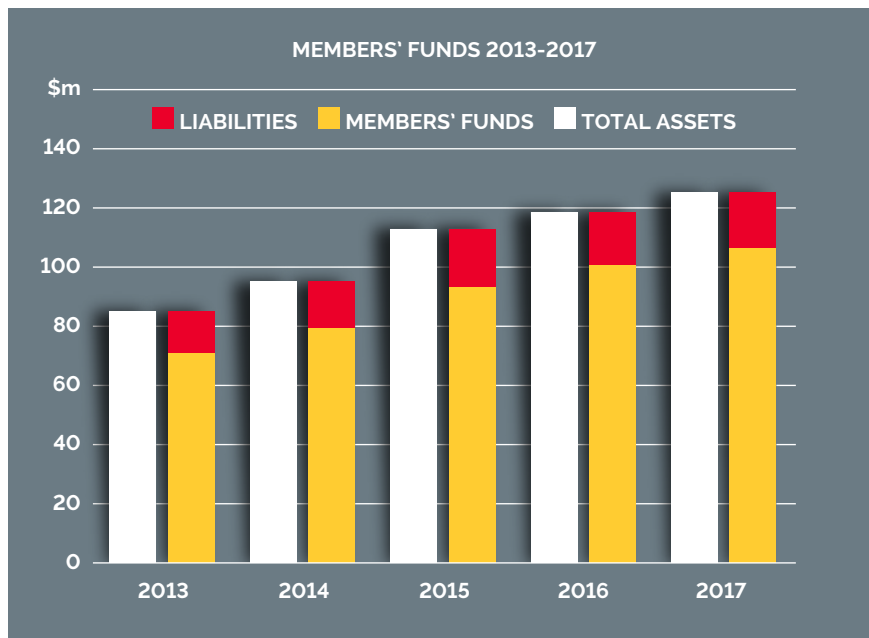
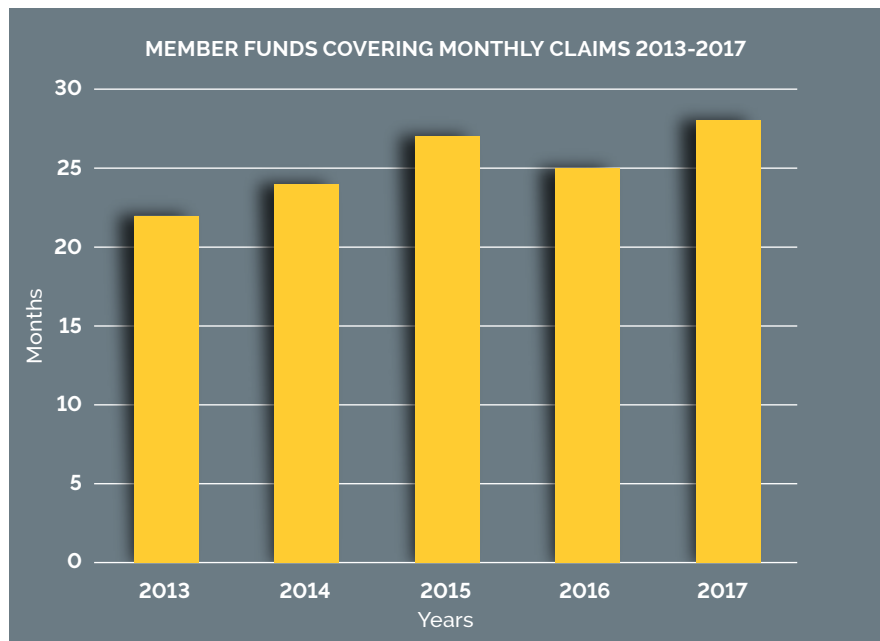


Jane Huria
Chair



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.

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 2017 –

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 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 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.



From left to right:
Angus McConnell
David Rowland
Jane Huria
Glenn Barnes
Tim McGuinness

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.

BOARD COMMITTEES

The Board has three standing committees: Audit and Risk, Nominations, and an Employment and Remuneration committee.

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), Glenn Barnes and David Rowland.

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.

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.

Profiles of Board of Directors

As at 30 June 2017 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, Fortuna Group Ltd, Pegasus Health (Charitable) Limited and the Court Theatre. She is also a Ngāi Tahu appointed member of the Greater Christchurch Partnership Committee. Jane resides in Christchurch.

Glenn Barnes

Glenn was elected as a director in October 2010 and is a member of the Audit & 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 (DWU), a position he has held since 2000, and represents the DWU on the NZ Labour Party Affiliates Council. 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 the Trustee of the Dairy Industry Superannuation Scheme, a trustee director of the New Zealand Fire Service Superannuation Scheme, the Police Superannuation Scheme, the Westpac New Zealand Staff Superannuation Scheme and the NZAS Retirement Fund. He was previously on the Board of the Government Superannuation Fund, the Earthquake Commission and Whai Rawa Fund Limited. These positions followed senior executive and funds management positions with Royal & SunAlliance and Norwich Union / State Insurance for over 15 years. He is a member of the New Zealand Institute of Directors and a licensed independent trustee. Tim resides in Wellington.

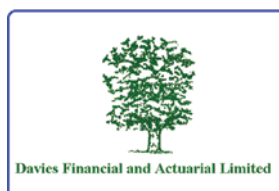
David Rowland ANZIV (Ret), SNZPI, NZCQA,

David was elected as a Director in October 2010 and is a member of the Audit and Risk Committee and previously the Chair of the Building Committee. Qualified as a Registered Valuer (Ret) he is the Managing Director of Rowland Consulting Ltd. He is a member of the New Zealand Institute of Directors, retired Associate of the NZ Institute of Valuers, a Senior Member of the NZ Property Institute and an Executive Member of the Canterbury/Westland Branch of the Cancer Society. David was formerly a Property Consultant with the Christchurch City Council and has held a number of senior management positions of large property related businesses including Housing New Zealand and Government Property Services Ltd. David resides in Christchurch.

DIRECTOR MEETING ATTENDANCE FOR THE YEAR ENDED 30 JUNE 2017

	Board	AGM	Strategic Planning Workshop	Audit & Risk Committee	Employment & Remuneration Committee	Nominations Committee
Meetings Held	8	1	1	3	2	2
Jane Huria	8	1	1	-	2	2
Glenn Barnes	8	1	1	3	2	-
Angus McConnell	7	1	1	-	-	2
Tim McGuinness	8	1	1	3	-	-
David Rowland	8	1	1	3	-	-

Appointed Actuary's Report



14th September 2017

To: The Directors
Union Medical Benefits Society Limited

From: Peter Davies
Appointed Actuary

Re: Union Medical Benefits Society Limited: Report as at 30th June 2017 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 2017. "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 2017 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, Building 1, 61 Constellation Drive, Mairangi Bay
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

OPINION

We have audited the financial statements of Union Medical Benefits Society Limited (the Society), which comprise the statement of financial position as at 30 June 2017, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Society as at 30 June 2017, and its financial performance and its cash flows for the year then ended in accordance with New Zealand equivalents to International Financial Reporting Standards ("NZ IFRS") for Public Benefit Entities (PBE Standards).

This report is made solely to the Society's Members, as a body. Our audit work has been undertaken so that we might state to the Society's Members those matters which we are required to state to them in the Auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Society's Members, as a body, for our audit work, for this report, or for any of the opinions we have formed.

BASIS FOR OPINION

We conducted our audit in accordance with International Standards on Auditing (New Zealand) ("ISAs (NZ)"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Society in accordance with Professional and Ethical Standard 1 (Revised) Code of Ethics for Assurance Practitioners issued by the New Zealand Auditing and Assurance Standards Board and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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

INFORMATION OTHER THAN THE FINANCIAL STATEMENTS AND AUDITOR'S REPORT

The Board Members of the Society are responsible for the Annual Report, which includes information other than the financial statements and Auditor's report which we obtained prior to the date of this Auditor's report.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained during the audit, or otherwise appears to be materially misstated. We have nothing to report in this regard.

BOARD MEMBERS' RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS

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

In preparing the financial statements, the Board Members are responsible, on behalf of the Society, for assessing the Society's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board Members either intend to liquidate the Society or cease operations, or have no realistic alternative but to do so.

The Board Members are responsible for overseeing the Society's financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (NZ) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs (NZ), we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Society's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of the use of the going concern basis of accounting by the Board Members and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Society's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our Auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our Auditor's report. However, future events or conditions may cause the Society to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the Board Members regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Board Members with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent Auditor's report is Gordon Hansen.

PKF Goldsmith Fox Audit

Christchurch, New Zealand

20 September 2017

Financial Statements

Union Medical Benefits Society Limited
Statement of comprehensive income
For the year ended 30 June 2017

	Note	2017 \$	2016 \$
Underwriting			
Members' premiums		55,214,004	54,716,394
Claims paid and provided for	2	45,978,079	47,474,133
Underwriting surplus		9,235,925	7,242,261
Underwriting operating expenses	3	6,959,668	5,969,796
Underwriting operating surplus		2,276,257	1,272,465
Building			
Rental		45,821	20,025
Net building operating expenses	4	174,893	121,416
Building operating surplus		(129,072)	(101,391)
Investments			
Net investment surplus	5	4,026,742	5,970,526
Operating surplus		6,173,927	7,141,600
Total comprehensive income for the year		6,173,927	7,141,600

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 2017

	Note	2017 \$	2016 \$
Current assets			
Cash and cash equivalents	6	1,740,173	1,457,775
Premiums and other receivables	7	5,114,907	6,761,342
Taxation	8	472,519	338,604
Investments	9	105,019,481	96,440,460
Total current assets		112,347,080	104,998,181
Non-current assets			
Property, plant and equipment	10	11,903,419	11,940,010
Intangible assets	11	1,286,146	1,544,128
Total non-current assets		13,189,565	13,484,138
Total assets		125,536,645	118,482,319
Current liabilities			
Trade and other payables	12	606,369	665,635
Employee benefits	13	1,261,822	314,007
Unearned premium provision	14	9,504,235	9,027,628
Unreported claims provision	14	7,790,505	8,266,972
		19,162,931	18,274,242
Net assets		106,373,714	100,208,077
Members' funds			
Members' capital	15	69,828	78,118
Accumulated funds	16	106,303,886	100,129,959
Total Members' funds		106,373,714	100,208,077



J Huria
Board Chair



T McGuinness
Audit & Risk Committee Chair

19 September 2017

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 2017

	Members' capital	Retained earnings	Total
	\$	\$	\$
2017			
Opening balance at 1 July	78,118	100,129,959	100,208,077
Total comprehensive income	-	6,173,927	6,173,927
Members' contribution	(8,290)	-	(8,290)
Closing balance at 30 June	69,828	106,303,886	106,373,714
2016			
Opening balance at 1 July	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	78,118	100,129,959	100,208,077

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 2017

	Note	2017 \$	2016 \$
Cash flows from operating activities			
Cash was provided from:			
Members' contributions		57,328,757	53,290,777
Building rental		45,821	(6,178)
Investment income		2,773,606	2,991,855
		60,148,184	56,276,454
Cash was applied to:			
Payments for claims		46,454,546	49,315,321
Payments to suppliers for goods and services		3,332,860	2,632,823
Payments to employees		2,960,009	2,957,640
		52,747,415	54,905,784
Net cash flows from operating activities	17	7,400,769	1,370,670
Cash flows from investing activities			
Cash was provided from:			
Sale of fixed assets		-	77,383
Sale of investments		-	-
Net insurance proceeds		-	-
		-	77,383
Cash was applied to:			
Purchase of property, plant and equipment		140,076	1,121,610
Purchase of intangibles		-	198,064
Net payments for investments		6,978,295	1,092,045
		7,118,371	2,411,719
Net cash flows from investing activities		(7,118,371)	(2,334,336)
Net increase/(decrease) in cash held		282,398	(963,666)
Plus opening cash brought forward		1,457,775	2,421,441
Closing cash		1,740,173	1,457,775

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 2017

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 product and service is 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).

These financial statements were approved by the Board of Directors on 19 September 2017.

Basis of preparation

The financial statements have been prepared in accordance with Generally Accepted Accounting Practice in New Zealand (NZ GAAP). They comply with the New Zealand equivalents to International Reporting Standards for Public Benefit Entities (PBE 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.

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 9)
- actuarial quantification of insurance liabilities (see note 14)
- certain financial instruments (see note 23)

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 14: Actuarial information
- Note 19: Solvency and capital adequacy
- Note 23: Risk management

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

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.

Underwriting claims

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

Financial Statements (continued)

Union Medical Benefits Society Limited Notes to the financial statements For the year ended 30 June 2017

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), 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.

Standards issued but not yet effective and not early adopted

The impact of the following reporting standards on the Society are still to be determined.

NZ IFRS 9 Financial Instruments - Effective for annual reporting periods beginning on or after 1 January 2018. The Society has chosen not to early adopt this standard.

NZ IFRS 15 Revenue from Contracts with Customers - Effective for annual reporting periods beginning on or after 1 January 2018.

NZ IFRS 16 Leases - Effective for annual reporting periods beginning on or after 1 January 2019.

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 change in value.

Premium and other receivables

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

Premiums outstanding

Many policyholders 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. Under the PBE IPAS 29 definition of financial assets the Society's outstanding premiums and other receivables meet the classification of "loans and receivables". 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.

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 comprehensive income" 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. Fair value is determined in the manner described in note 23.

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

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:

Land and buildings	0.0%
Building fit-out	8.3% - 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 2017

Intangible assets

Intangible assets represent software. Software development expenditure that meets the criteria for recognition as an intangible asset is capitalised over its expected future 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 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 statement of financial position when it is probable that settlement will be required and they can be measured reliably. Accruals made in respect of employee benefits expected to be settled within 12 months are measured at their nominal values using the remuneration rate expected to apply at the time of settlement. Contributions to defined superannuation plans are expensed when incurred.

Post employment benefits

The Society's obligation for post employment entitlements comprises post retirement health insurance benefits. The financial value of the obligation is calculated as the present value of estimated future cash flows. In determining future cash flows, consideration is given to future increases in health insurance premiums and historical data with respect to employee departures, periods of service, and mortality rates. The discount rate is the market yield rate on relevant New Zealand Government stock at the end of the reporting period.

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.

Financial Statements (continued)

Union Medical Benefits Society Limited Notes to the financial statements For the year ended 30 June 2017

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.

Taxation

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

The Society met all of its taxation obligations during the financial year.

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 period ended 30 June 2016.

2 CLAIMS PAID AND PROVIDED FOR

	2017	2016
	\$	\$
Claims incurred relating to risks borne in current and previous years	46,454,546	46,900,951
Movement in provision for unreported claims	(476,467)	573,182
Total claims paid and provided for	45,978,079	47,474,133

3 UNDERWRITING OPERATING EXPENSES

	2017	2016
	\$	\$
Employee benefit expenses	4,016,630	2,771,965
Auditor's fees - audit of financial statements	36,000	27,640
Auditor's fees - other	7,240	3,500
Directors' fees	206,528	271,260
Depreciation	176,145	163,449
Amortisation of intangible assets	257,982	261,743
Rental of external premises	29,867	117,418
Selling expenses	1,107,446	1,026,449
Office expenses	298,440	137,850
Consultancy expenses	156,126	203,729
Disposal of fixed assets	87	(5,041)
Other expenses	667,177	989,834
Total underwriting operating expenses	6,959,668	5,969,796

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

4 BUILDING OPERATING EXPENSES

	2017	2016
	\$	\$
Property management	13,930	10,950
Building operating expenses	60,342	33,147
Rates	70,708	75,347
Insurance	37,646	4,935
Operating expenses recovered	(7,733)	(2,963)
Total building operating expenses	174,893	121,416

Financial Statements (continued)

Union Medical Benefits Society Limited Notes to the financial statements For the year ended 30 June 2017

5 INVESTMENT INCOME	2017	2016
	\$	\$
Interest and dividend income	2,657,110	3,289,127
Realised gains/(losses) on fair value investment	116,497	-
Unrealised gains/(losses) on investments fair value through statement of comprehensive income	1,600,726	2,998,563
Portfolio management fees	(347,591)	(317,164)
Total investment income	4,026,742	5,970,526

6 CASH AND CASH EQUIVALENTS	2017	2016
	\$	\$
Cash at bank and on hand	708,849	1,297,107
Cash on call	1,031,324	160,668
Total cash and cash equivalents	1,740,173	1,457,775

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	2017	2016
	\$	\$
Premiums receivable	4,942,376	6,607,924
Interest receivable	17,378	12,707
Prepayments	119,205	114,509
Colliers trust account	35,948	26,202
Total premium and other receivables	5,114,907	6,761,342

During 2017 there were no bad debts (2016: \$Nil) however a provision has been made for bad debts of \$200,000 in 2017 (2016: \$200,000).

8 TAXATION	2017	2016
	\$	\$
GST receivable	472,519	338,604
Total taxation	472,519	338,604

9 INVESTMENTS	2017	2016
	\$	\$
Cash	37,518,793	30,447,862
Fixed interest	49,502,257	50,305,866
NZ equities	9,518,246	8,523,827
International equities	8,480,185	7,162,905
Total investments	105,019,481	96,440,460

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.

Financial Statements (continued)

Union Medical Benefits Society Limited Notes to the financial statements For the year ended 30 June 2017

10 PROPERTY, PLANT & EQUIPMENT

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

2017	Freehold land	Buildings	Fixtures, fittings & equipment	Motor vehicles	Total
	at cost	at cost	at cost	at cost	
	\$	\$	\$	\$	\$
Gross carrying amount					
Balance 1 July	1,867,175	9,048,916	1,153,089	95,310	12,164,490
Additions	1,920	77,805	60,351	-	140,076
Disposals at cost	-	-	(17,997)	-	(17,997)
Balance 30 June	1,869,095	9,126,721	1,195,443	95,310	12,286,569
Accumulated depreciation					
Balance 1 July	-	-	182,891	41,589	224,480
Current year depreciation	-	12,931	149,247	13,967	176,145
Depreciation on disposals	-	-	(17,475)	-	(17,475)
Balance 30 June	-	12,931	314,663	55,556	383,150
Total book value	1,869,095	9,113,790	880,780	39,754	11,903,419

2016	Freehold land	Buildings	Fixtures, fittings & equipment	Motor vehicles	Total
	at cost	at cost	at cost	at cost	
	\$	\$	\$	\$	\$
Gross carrying amount					
Balance 1 July	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	1,867,175	9,048,916	1,153,089	95,310	12,164,490
Accumulated depreciation					
Balance 1 July	-	-	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	-	-	182,891	41,589	224,480
Total book value	1,867,175	9,048,916	970,198	53,721	11,940,010

The Society commissioned Ford Baker Valuation Limited, Registered Valuers, to undertake a valuation of the land and building occupying 165 Gloucester Street dated 31 March 2017. The basis of the valuation is the price that would be received to sell the asset in an orderly transaction between market participants at the measurement date. The land was valued at \$2,865,000 and the building was valued at \$9,435,000, being a total of \$12,300,000.

The Society continues to carry the land and buildings in the financial statements at historical cost.

Financial Statements (continued)

Union Medical Benefits Society Limited Notes to the financial statements For the year ended 30 June 2017

11 INTANGIBLE ASSETS

	2017	2016
	\$	\$
	Computer software	Computer software
Opening cost at 1 July	1,805,871	1,607,807
Additions	-	198,064
	1,805,871	1,805,871
Opening accumulated amortisation & impairment	261,743	-
Amortisation for the year	257,982	261,743
	519,725	261,743
Closing carrying amount at 30 June	1,286,146	1,544,128

Intangible assets is a non-current asset 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.

12 TRADE AND OTHER PAYABLES

	2017	2016
	\$	\$
Accounts payable	606,369	665,635
Total trade and other payables	606,369	665,635

13 EMPLOYEE BENEFITS

Employee entitlements

Employee entitlements represent the current obligations to employees in respect of outstanding salaries, leave entitlements, and other short term benefits.

Post employment benefits

The Society's obligation for post employment entitlements comprises post retirement health insurance benefits. The financial value of the obligation is calculated as the present value of estimated future cash flows. In determining future cash flows, consideration is given to future increases in health insurance premiums and historical data with respect to employee departures, periods of service, and mortality rates. The discount rate is the market yield rate on relevant New Zealand Government stock at the end of the reporting period.

In the current year the Society has current employment benefits of \$30,699 (2016: \$Nil) and post employment benefits liability for the current year was \$1,056,621 (2016: \$Nil).

During the 2007 AGM it was noted that, on a Director completing the maximum of three elected terms of three years, a Director would be entitled to the provision of health insurance.

The resolution captured a mix of current and future Directors. This obligation was to be considered annually, however at the end of a period of three terms of three years or nine (9) years from the date of the resolution, the obligation for providing the medical insurance for life was to begin.

This time limit matured during the 2016/2017 financial year. As the Society is now adopting IAS 19 for Post Employment Benefits there is also a requirement to recognise a potential liability for the current elected Directors who would be entitled to the medical insurance if they complete their three terms.

Consequently, independent actuary Peter Davies was engaged by the Board to provide an estimate of the future obligations of the Society for both the former and current Directors who are or may become entitled to the above benefit.

Financial Statements (continued)

Union Medical Benefits Society Limited Notes to the financial statements For the year ended 30 June 2017

14 ACTUARIAL INFORMATION

	2017	2016
	\$	\$
Provision for unearned premium	9,504,235	9,027,628
Provision for unreported claims	7,790,505	8,266,972

Estimates of the outstanding claims as at 30 June 2017 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% (2016: 7.5%) allowance for claim management expenses, and an 11% risk margin (2016: 11%), which provides a 90% likelihood of sufficiency (2016: 90%).

15 MEMBERS' CAPITAL

	2017	2016
	\$	\$
This represents the capital paid up by current Members of the Society		
Opening balance 1 July	78,118	79,966
Add additions (repayments) during the year	(8,290)	(1,848)
Closing balance	69,828	78,118

	Shares	Shares
This represents the shares held by current Members of the Society		
Opening balance 1 July	39,059	39,983
Add additions (repayments) during the year	(2,002)	(924)
Closing balance	37,057	39,059

The Society's rules require that each policyholder also be a shareholder in Union Medical Benefits Society Limited. This is achieved by issuing each new Member one (1) share when a new policy is underwritten, at a cost of \$2.00. The Directors resolved in December 2016 to cease charging new Members the \$2.00 cost for the issued share.

16 ACCUMULATED FUNDS

	2017	2016
	\$	\$
Opening balance 1 July	100,129,959	92,988,359
Total comprehensive income	6,173,927	7,141,600
Closing Balance	106,303,886	100,129,959

Financial Statements (continued)

Union Medical Benefits Society Limited Notes to the financial statements For the year ended 30 June 2017

17 CASH FLOW RECONCILIATION

	2017	2016
	\$	\$
Total comprehensive income	6,173,927	7,141,600
Plus (less) non cash items:		
Net (gains)/losses on investments at fair value through the statement of comprehensive income	(1,734,641)	(2,998,563)
Amortisation of intangibles	257,982	261,743
Depreciation	176,144	163,449
Add items classified as investing activities:		
(Gain)/loss on disposal of property, plant and equipment	523	(5,041)
	4,873,935	4,563,188
Plus (less) movements in working capital:		
Increase/(decrease) in accounts payable	(59,265)	(2,399,465)
(Increase)/decrease in accounts receivable	1,646,435	(1,801,922)
Increase/(decrease) in employee entitlements	947,814	85,585
Increase/(decrease) in unearned premium provision	476,607	351,950
Increase/(decrease) in unreported claims provision	(476,467)	573,182
Increase/(decrease) in Members' capital	(8,290)	(1,848)
Total movements in working capital	2,526,834	(3,192,518)
Net cash flows from operating activities	7,400,769	1,370,670

18 CREDIT RATING

On 23 June 2017 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 2017 the Society's capital of \$106,373,714 (2016 \$100,208,077) 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 (RBNZ) on 23 May 2013. The Society is subject to solvency 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 period ending 30 June 2017 the Society complied with all externally imposed capital requirements.

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

At 30 June	2017	2016
	\$	\$
Actual solvency capital	105,087,568	98,404,324
Minimum solvency capital	19,677,121	18,215,552
Solvency margin	85,410,447	80,188,772
Solvency coverage ratio	534%	540%
There have been no material changes to the Society's policy for management of capital during the financial year.		

Financial Statements (continued)

Union Medical Benefits Society Limited Notes to the financial statements For the year ended 30 June 2017

20 CONTINGENT LIABILITIES

There are no contingent liabilities at balance date. (2016: \$Nil).

21 LEASE AND CAPITAL COMMITMENTS

Lease commitments

Leases are defined as an operating lease where they do not transfer substantially all the risks and rewards incidental to ownership. The Society has no lease commitments as at 30 June 2017. (2016: \$Nil)

Capital commitments

There are capital commitments as at 30 June 2017 of \$92,600, (2016: \$69,227)

22 SIGNIFICANT EVENTS AFTER BALANCE DATE

There are no significant events after balance date.

23 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 its risk management policy which the RBNZ monitors.

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

Insurance risks

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

Risk management objectives, policies, and processes for mitigating risk

The primary objective in managing risk is, as far as possible, to manage claims costs 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 14.

The scope of insurance risk is managed by the terms and conditions of the policy. The main insurance benefit involves the reimbursement of medical and surgical expenses depending upon the plan option.

The level of benefits specified in the contract is a key determinant of the amount of future claims although the exact level of claims is uncertain.

Other variables affecting the level of claims include the underlying morbidity of the lives insured, the nature of treatment given, and the costs of treatment.

Concentration of insurance risk

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

Financial Statements (continued)

Union Medical Benefits Society Limited Notes to the financial statements For the year ended 30 June 2017

23 Risk management continued

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, 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 Limited investment portfolio and the 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.

	2017	2016
	\$	\$
Corporate rated		
AAA	5,431,301	12,511,614
AA	52,472,818	41,750,342
A	19,975,344	21,411,996
BBB	5,225,263	5,291,448
Below BBB	99,798	-
Non-rated	21,814,957	15,475,059
	105,019,481	96,440,460

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.

2017	0-6 months	7-12 months	1-2 years	over 2 years
	\$	\$	\$	\$
Cash and cash equivalents	1,740,173	-	-	-
Trade and other receivables	5,587,426	-	-	-
Investments	105,019,481	-	-	-
Total current assets	112,347,080	-	-	-
Financial liabilities				
Trade and other payables	1,868,191	-	-	-
Total trade and other payables	1,868,191	-	-	-

Financial Statements (continued)

Union Medical Benefits Society Limited Notes to the financial statements For the year ended 30 June 2017

23 Risk management continued

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 current assets	104,998,181	-	-	-
Financial liabilities				
Trade and other payables	979,642	-	-	-
Total trade and other payables	979,642	-	-	-

The cash and cash equivalents are available on call and are adjusted for unpresented 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.

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	(Decrease)	Increase	(Decrease)
	10%	(10%)	10%	(10%)
2017	(474,518)	579,966	(474,518)	579,966
2016	(358,292)	437,912	(358,292)	437,912

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	(Decrease)	Increase	(Decrease)
	1%	(1%)	1%	(1%)
2017	(2,830,732)	2,830,732	(2,830,732)	2,830,732
2016	(2,442,458)	2,442,458	(2,442,458)	2,442,458

Financial Statements (continued)

Union Medical Benefits Society Limited Notes to the financial statements For the year ended 30 June 2017

23 Risk management continued

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.

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, 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.

24 KEY MANAGEMENT PERSONNEL COMPENSATION

Key management personnel of the Society include the Board of Directors and the senior managers of the Society. The total remuneration of key management personnel from the Society are:

	2017	2016
	\$	\$
Compensation		
Salaries and other short-term benefits	1,123,649	851,039
Directors fees paid (5 FTE)	206,528	271,260
Post employment benefits	1,056,621	-

Transactions between related parties are on normal commercial terms and conditions. There were no loans payable or receivable from related parties at year end (2016: \$Nil).

25 SEGMENT INFORMATION

The Society operates three segments within New Zealand as follows:

2017	Health insurance	Building	Investments	Total
Segment Assets	9,534,279	10,982,885	105,019,481	125,536,645
Segment Liabilities	19,162,931	-	-	19,162,931
Revenue	55,214,004	45,821	4,374,333	59,634,158
Expenses	(52,937,747)	(174,893)	(347,591)	(53,460,231)
Net Earnings	2,276,257	(129,072)	4,026,742	6,173,927
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)
Net Earnings	1,272,465	(101,391)	5,970,526	7,141,600

Contacts

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



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.