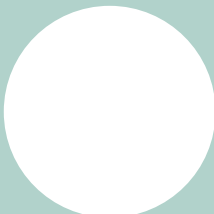
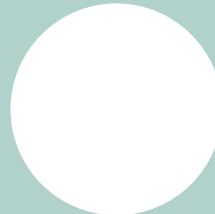
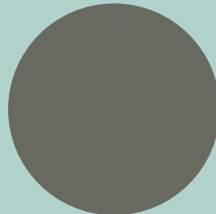
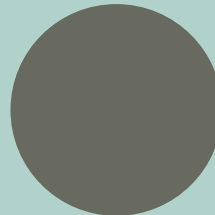
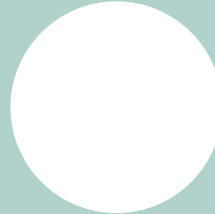
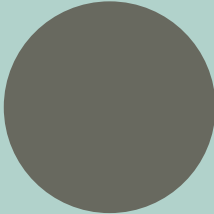


ANNUAL REPORT 2020





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

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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:

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.

Company Directory

As at 30 June 2020

NATURE OF BUSINESS

Medical health insurers
Commercial property owners

REGISTERED OFFICE

165 Gloucester Street
Christchurch 8011

INCORPORATION

Industrial and Provident Societies
Act 1908

BOARD

Chris Flatt
Jane Huria (Chair)
Ben Kepes
Angus McConnell
Tim McGuinness
Peter Tynan

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 Rydges Latimer Christchurch, 30 Latimer Square, Christchurch 8011 on Thursday 5 November at 6.00 pm.

BUSINESS

1. Apologies.
2. To confirm the minutes of the 2019 Annual General Meeting.
3. To receive and consider the annual financial statements and auditor's report for the year ended 30 June 2020.
4. To appoint an auditor for the ensuing year.
5. To record the re-election of Angus McConnell to the Board. In accordance with the Society's Rules, Angus McConnell (Hamilton) retires by rotation and being eligible; has offered himself for re-election to the Board. Nominations were called for members of the Board on 29 August 2020. No other candidates were validly nominated, so Angus McConnell will be deemed to be re-elected at the Annual General Meeting.
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 <http://www.unimed.co.nz/about-unimed/governance-and-management/>

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 4 November 2020.

By order of the Board



E Richardson

Administration Secretary
PO Box 1721
Christchurch 8140

10 October 2020

**Rydges Latimer
Christchurch,
30 Latimer Square,
Christchurch 8011**

**Thursday 5 November
at 6.00 pm.**

Board Chair & Chief Executive's Report

"Even in the tighter financial times, it is pleasing to report that our renewal and retention rates remain strong."



It is our pleasure to report to Members on the progress that our Society has made during the most recently completed financial year ending 30 June 2020.

RESPONSE TO COVID-19

At the time of writing, the full economic impact of the Covid-19 pandemic is still unfolding and the effect on global and local economies remains uncertain. It is, therefore, pleasing to advise that UniMed has again managed to strengthen our overall financial position. This demonstrates the balanced approach to managing our business and the longstanding record of financial strength has been justified and is of comfort for an indeterminate future that will clearly be dominated by the impacts of this pandemic. With the announcement of a Level 4 lockdown for New Zealand, we implemented our Business Continuity policy and UniMed staff were able to work remotely from home with virtually no impact on our service level to Members.

During the initial lockdown, UniMed returned surplus funds to Members by way of a two-week premium credit applied to all policies. These funds were the result of cancelled claims during the lockdown period for procedures that will now never take place. The Society also introduced several enhanced benefits for six months and provided a range of options to Members and sponsoring employers requiring hardship relief.

For most of the year under review, a constrained economic environment placed pressure on both our employer sponsored schemes and individual Members. Many Members enjoy access to the benefits of health insurance provided by UniMed via their employers as part of their employment terms. Even in the tighter financial times, it is pleasing to report that our renewal and retention rates remain strong.

FOR THE YEAR ENDING 30 JUNE 2020

- Members' premium payments increased by 8.8% to \$70,261,780
- Claims paid and provided for increased 8.3% to \$56,007,417
80 cents of every premium dollar earned was returned to Members by way of claims payments. 10 cents to run ourselves and 10 cents to be added to Members' Funds.
- Total comprehensive income for the year amounted to \$12,763,016 – all of which is retained within the Society. As stated above, this maintains a strong financial base to offset less than satisfactory underwriting years. It is these reserves that underpin the insurance risk we assume on behalf of all Members.
- "A" (Excellent) Financial Strength Rating reconfirmed by AM Best.

TECHNOLOGY

UniMed is conscious of the potential future impacts of the speed of change, including digital technologies and digitisation. To that end, we recently appointed a Chief Information Officer (CIO) with responsibility for assisting the senior management team and Directors define and deliver our digital technology strategy, architecture and roadmap to ensure UniMed is strongly positioned for the future. The CIO will lead UniMed's continuous journey of transformation into a more digitally enriched environment, keeping pace with industry and technology changes to enhance the customer experience, increase internal efficiencies and facilitate business growth. At the same time, we will always ensure that our traditional channels remain available for Members who wish to continue interacting with UniMed as they have always done.

CANSTAR AWARD WINNERS

It was particularly satisfying to be awarded the Canstar Most Satisfied Customers Health Insurance Award for 2020. While there has long been a very strong ethos at UniMed around being a membership focused organisation, it is very heartening when our Members take the time to vote and feed back to an independent external body via a nationwide survey that they like and appreciate what we are doing. UniMed's win was the first time any health insurer achieved the maximum available five stars in all eight categories. Thank you.

GOVERNANCE

There have been a number of governance changes this year. At the Annual General Meeting in October 2019, Glenn Barnes and David Rowland (who both joined the Board in 2010) retired. On behalf of the Board and management, we thank them both for their service and contribution to the Society. At the same meeting, Chris Flatt and Peter Tynan were elected to the Board as new Directors. In addition to the scheduled meetings throughout the year, the Board established weekly meetings during Alert Level 4 lockdown to oversee the Society's response to Covid-19.

ACKNOWLEDGEMENTS

Having led the organisation through a time of significant transformation, challenges, and change, our Chief Executive Dermot Martin has decided to retire at the end of 2020 after 33 years at UniMed. Dermot has been instrumental in leading UniMed's growth into one of the "big four" health insurance providers in New Zealand. The hallmark of his leadership is his focus on UniMed's membership and always putting them front and centre across the organisation.

He is an excellent leader and is responsible for the robust position in which the Society finds itself today. The Board is grateful for Dermot's focus on membership and his dedication to UniMed. He has built a strong leadership team who will protect the legacy he has created to help the business provide certainty for its Members in the future.

There is no doubt that UniMed is a very different place than it was when Dermot first started as General Manager. The Board wishes to acknowledge and thank Dermot for the significant contribution he has made to UniMed's success.

With commitment, knowledge and enthusiasm, the Board and senior management have continued to work well together over the past 12 months and we would like to thank our teams for their loyalty and hard work. UniMed's staff have faced and continue to face significant challenges and we acknowledge our thanks for all they do for our Members.

We've said from the outset that we're here for you. As a not for profit society, our focus is to look after you and support you all and our future is strong because of your continued support.

"It was particularly satisfying to be awarded the Canstar Most Satisfied Customers Health Insurance Award for 2020."



Jane Huria
Chair



Dermot H Martin
Chief Executive

2020 Highlights

PERFORMANCE

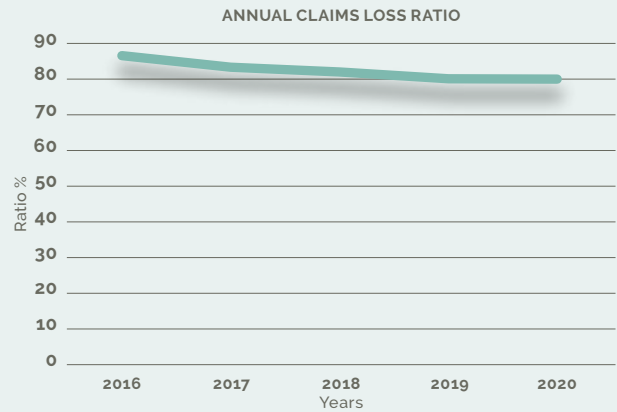
	2019	2020
Premium Income	\$64.57 million	\$70.26 million
Claims Paid	\$51.74 million	\$56.01 million
Operating Costs	\$6.94 million	\$6.87 million

\$2.8m

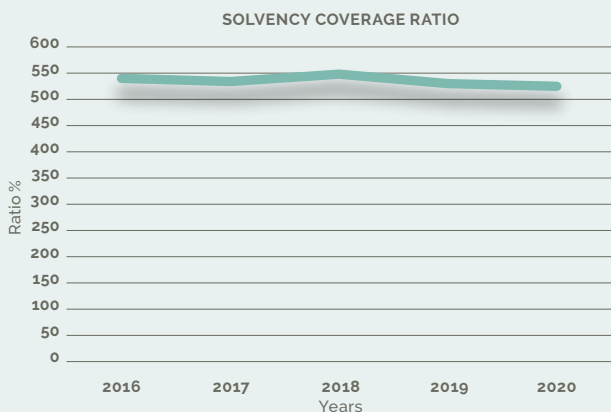
Premium
Credit
paid out

+8.3%

Claims
Paid



SECURITY



	2019	2020
Solvency Margin	\$105.54 million	\$116.06 million
Investment value	\$133.29 million	\$150.79 million
Investment \$ return	\$7.24 million	\$8.09 million
Investment % return	5.4%	6.7%

+13.13%
Investment
value

6.7%
Return on
Investments

Financial
Strength Rating:
A
(excellent)
from AM Best
Company

MEMBERSHIP

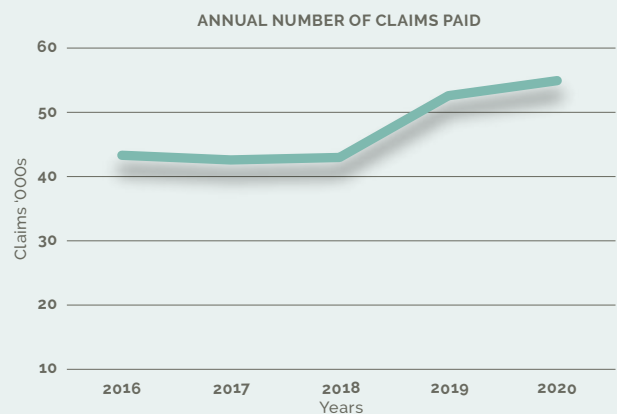
	2019	2020
Members' funds	\$131.38 million	\$144.15 million
Policies	48,930	49,660

+9.72%

Members'
funds

+1.5%

Policies



Statement of Corporate Governance

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

BOARD OF DIRECTORS

UniMed is governed by a Board of Directors which has been elected by Members of the Society. From 27 October 2015 the Rules of the Society were changed to allow the appointment of three directors in addition to elected members. The maximum number of directors elected and appointed is eight. 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 2020 –

The elected Directors are: Chris Flatt, Angus McConnell, Peter Tynan.

The appointed Directors are: Jane Huria (Chair), Ben Kepes, 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.

Together with management, the Board undertakes an annual review of the Society's strategy.

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.

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

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 & Risk Committee comprises Tim McGuinness (Chair), Angus McConnell, and Peter Tynan.

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, 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 Ben Kepes.

Employment and Remuneration Committee

The Employment and Remuneration Committee operates under its own Charter approved by the Board.

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 & Remuneration Committee currently comprises Chris Flatt (Chair), and Angus McConnell.

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.

DIRECTOR MEETING ATTENDANCE FOR THE YEAR ENDED 30 JUNE 2020

	Board	AGM	Audit & Risk	Employment & Remuneration	Nominations
Jane Huria	7	1		2	2
Glenn Barnes ¹	3	1		2	
Chris Flatt ²	4	1			
Ben Kepes	7	1			
Angus McConnell	7	1	3		
Tim McGuinness	7	1	3		
David Rowland ^{1,3}	3	1			2
Peter Tynan ²	4	1	3		

¹Retired from the Board October 2019. ²Elected to the Board October 2019. ³Seconded to committee in 2019.

Profiles of Board of Directors

AS AT 30 JUNE 2018 THE SOCIETY'S DIRECTORS ARE:



JANE HURIA



CHRIS FLATT



BEN KEPES



ANGUS MCCONNELL



TIM MCGUINNESS



PETER TYNAN

Jane Huria LLB, Chair

Jane was appointed as a Director in June 2013 and is a Chartered Fellow of the Institute of Directors. In 2012 she was awarded the CNZM for services to corporate governance.

Jane has had 25 years' experience as a company director and trustee. She serves on the boards of Naylor Love, Fortuna Group Ltd, Pegasus Health (Charitable) Ltd, Canterbury Cricket Trust, and Paenga Kupenga. She is also a Ngāi Tahu appointed member of the Greater Christchurch Partnership Committee. Jane resides in Christchurch and affiliates to Ngāi Tūāhuriri.

Chris Flatt BSocSc (Hons), LLB (Hons), ACIS

Chris was elected as a Director in October 2019. He has been the National Secretary of the NZ Dairy Workers' Union Inc – Te Runanga Wai U (DWU) since August 2012.

Chris is currently a director on several other boards including the Primary Industries Workforce Development Council (WDC) Interim Establishment Board, Norman Kirk House Ltd and the Waikato Trade Union Centre Ltd. He has previously served as a director of the Primary Industry Training Organisation (Primary ITO) for six years and as a director of the NZITO for two years prior to its merger with Primary ITO. Chris is also a current trustee of the Workers' Education Trust (Charitable Trust) and the Waikato Community Trust (Trust Waikato).

Chris is currently an Associate Member of Governance New Zealand (formerly NZ Chartered Company Secretaries) and was the General Secretary of the NZ Labour Party from 2009 to 2012. He has also

worked as a private practice employment lawyer in law firms in both Auckland and Sydney and holds a Bachelor of Social Sciences (Hons) and Bachelor of Laws (Hons) from the University of Waikato. Chris resides in Cambridge.

Ben Kepes

Ben was appointed as a Director in September 2018. He is a co-founder of a successful workwear and outdoor equipment brand and undertakes significant work in the community, emergency, and not-for-profit sectors.

He is a technology analyst, commentator, and consultant and has built up a significant following as a globally-recognised subject matter expert in the technology sector. He has consulted extensively in the USA including for companies such as Microsoft and Amazon.

He has served on the advisory boards of a number of technology startups in New Zealand, Australia, Europe and the US, and the UK and is an experienced board member currently sitting on the boards of a number of non-profit, member-owned and privately held companies in New Zealand and overseas. He has won a number of accolades including being a recipient of the Sir Peter Blake Leadership Award in 2016. Ben resides in Canterbury.

Angus McConnell

Angus was elected as a Director in October 2014. He has recently retired from his role as Assistant Secretary of the NZ Dairy Workers' Union (DWU), a position he held since 2000. He has held governance roles with the Lottery Grants Board and Trust Waikato. Angus resides in Karangahake.

Tim McGuinness BCA

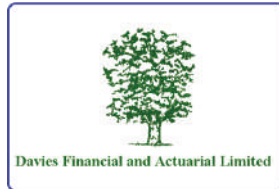
Tim was appointed as a Director in June 2013. He is currently Chair of the Trustee of the Dairy Industry Superannuation Scheme, a trust director of the Westpac New Zealand Staff Superannuation Scheme, and the NZAS Retirement Fund. He was previously on the Board of the Government Superannuation Fund, the Earthquake Commission, Whai Rawa Fund Limited, a trustee director of the Police Superannuation Scheme, and the New Zealand Fire Service Superannuation Scheme.

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 and a licensed independent trustee. Tim resides in Wellington.

Peter Tynan

Peter was elected as a Director in October 2019. He currently holds the position of CEO at Foundation North, the Community Trust serving Northland and Auckland. He was most recently Interim CEO at the Royal College of General Practitioners, and prior to that, CEO at the Kaipara District Council based in Northland. He was CEO at Southern Cross Health Society from 2012 to 2017, and has held a number of senior executive positions in various organisations, including American Express and the Mount Cook Group. He is a former Board member of the Health Funds NZ and the International Federation of Health Plans (IFHP), and has spent time on the Auckland Hockey Association Board. Peter resides in Auckland.

Appointed Actuary's Report



14th September 2020

To: The Directors
Union Medical Benefits Society Limited

From: Peter Davies
Appointed Actuary

Re: Union Medical Benefits Society Limited: Report as at 30th June 2020 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 2020. "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 2020 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

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), on pages 15 to 32, which comprise the statement of financial position as at 30 June 2020, 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 2020, and its financial performance and its cash flows for the year then ended in accordance with New Zealand Public Benefit Entity Accounting Standards (Not for Profit).

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 the opinion 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

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements in the current year. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, but we do not provide a separate opinion on these matters. For the matters below, our description of how our audit addressed each matter is provided in that context.

Why Significant	How our audit addressed the key audit matter
<p>Investments</p> <p>As at 30 June 2020, the carrying value of investments was \$150,788,991. This is a significant balance as it forms 88% of total assets and accordingly, we considered it a Key Audit Matter. The most significant component of the above balance is \$145,886,098 of managed investments, treated as liquid and plays an important role in maintaining solvency margins required by the RBNZ.</p>	<p>Our procedures included but were not limited to:</p> <ul style="list-style-type: none"> • Verification of existence and ownership of recorded investments with investment managers; • Confirmed market value movements to external sources; • Ensured investment income is appropriately reported in the financial statements; • Obtained the type 2 report for the investment managers noting any key findings relating to the service organisation's effectiveness of controls.

Why Significant	How our audit addressed the key audit matter
<p>Unearned Premium Provision</p> <p>As at 30 June 2020, there is an unearned provision of \$12,225,690, being 45% of total current liabilities, which comprises of a number of items with the most significant being \$9,084,536 unearned billings, and a \$2,438,490 provision for level premiums above age 60.</p> <p>The unearned premiums provision is an important estimate as the premiums are billed in advance for the period of cover and accordingly, we considered the provision a Key Audit Matter.</p> <p>Additionally, the provision for level premiums above age 60 requires the board to exercise significant judgement in estimating future commitments based on the expected number of terminations due to cancellations or death.</p>	<p>Our procedures included but were not limited to:</p> <ul style="list-style-type: none"> • Tested the financial reporting system to gain confidence that it was operating effectively; • Performed an ageing analysis for unearned premiums; • Engaged an independent actuary to peer view the actuarial report obtained by the Society; • Assessed key assumptions for reasonableness used by the Society's actuary; • Ensured the recommended provision is appropriately reflected in the financial statements.
<p>Unreported Claims Provision</p> <p>As at 30 June 2020 there is a provision of \$9,566,778 to provide for unreported claims being 35% of total current liabilities. The provision is considered a key matter as it requires the board to exercise significant judgement in estimating the provision.</p>	<p>Our procedures included but were not limited to:</p> <ul style="list-style-type: none"> • Engaged an independent Actuary to peer view the actuarial report obtained by the Society; • Assessed key assumptions for reasonableness used by the Society's actuary; • Ensured the recommended provision is appropriately reflected in the financial statements.
<p>Deferred claims (Covid-19)</p> <p>As at 30 June 2020 there is a provision of \$3,956,578 to provide for unreported claims being 14% of total current liabilities. The provision is considered a key matter as it requires the board to exercise significant judgement in estimating the provision.</p> <p>As described in the deferred claims provision (covid-19) policy on page 26, during New Zealand's government mandated lockdown period covering March to May 2020 there was reduced access to elective surgery and primary health providers which resulted in some events being deferred past balance date. The financial impact for the Society was a significant reduction in claims during March, April and May 2020. It was recognised that these claims have only been deferred until capacity is available in the health sector and they will eventuate at a later date. This provision includes expected claim payments plus associated claims handling costs and a risk margin.</p>	<p>Our procedures included but were not limited to:</p> <ul style="list-style-type: none"> • Engaged an independent Actuary to peer view the actuarial report obtained by the Society; • Assessed key assumptions for reasonableness used by the Society's actuary; • Ensured the recommended provision is appropriately reflected in the financial statements.

Information Other than the Financial Statements and Auditor's Report

The Board is responsible for the Annual Report, which includes information other than the financial statements and Auditor's report, The Annual Report is expected to be made available to us after the date of this auditor's report.

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

In connection with our audit of the financial statements, our responsibility is to read the other information when it becomes available 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.

Boards' Responsibilities for the Financial Statements

The Board is responsible on behalf of the Society for the preparation and fair presentation of the financial statements in accordance with New Zealand Public Benefit Entity Accounting Standards (Not for Profit), and for such internal control as the Board determines 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 is 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 either intends to liquidate the Society or cease operations, or have no realistic alternative but to do so.

The Board is 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 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 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 Dawn Alexander.

PKF Goldsmith Fox Audit.

Christchurch, New Zealand

17 September 2020

Financial Statements

Union Medical Benefits Society Limited Statement of comprehensive income For the year ended 30 June 2020

	Note	2020 \$	2019 \$
Insurance			
Members' premiums		70,261,780	64,572,988
Claims paid and provided for	2	56,007,417	51,737,425
Insurance surplus		14,254,363	12,835,563
Insurance operating expenses	3	6,870,257	6,943,377
Gross insurance operating surplus		7,384,106	5,892,186
Covid-19 premium credit			
Covid-19 premium credit	4	2,771,221	-
Net insurance operating surplus		4,612,885	5,892,186
Building			
Rental		200,549	135,001
Net building operating expenses	5	137,504	225,469
Building operating surplus/(deficit)		63,045	(90,468)
Investments			
Net investment surplus	6	8,087,086	7,242,896
Operating surplus		12,763,016	13,044,614
Total comprehensive income for the year		12,763,016	13,044,614

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

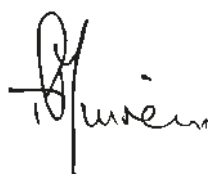
Financial Statements (continued)

Union Medical Benefits Society Limited Statement of financial position As at 30 June 2020

	Note	2020 \$	2019 \$
Current assets			
Cash and cash equivalents	7	4,475,930	2,430,151
Premiums and other receivables	8	3,289,943	5,572,503
Taxation	9	616,656	256,621
Investments	10	150,788,991	133,293,457
Total current assets		159,171,520	141,552,732
Non-current assets			
Property, plant and equipment	11	11,679,297	11,779,812
Intangible assets	12	628,852	935,782
Total non-current assets		12,308,149	12,715,594
Total assets		171,479,669	154,268,326
Current liabilities			
Trade and other payables	13	942,451	580,717
Employee benefits	14	641,685	598,660
Deferred claims (Covid-19)	15	3,956,578	-
Unearned premium provision	16	12,225,690	11,266,827
Unreported claims provision	16	9,566,778	10,438,651
Total current liabilities		27,333,182	22,884,855
Net assets		144,146,487	131,383,471
Members' funds			
Members' capital	17	-	-
Accumulated funds	18	144,146,487	131,383,471
Total members' funds		144,146,487	131,383,471



J Huria
Board Chair
17 September 2020



T McGuinness
Audit & Risk Committee Chair
17 September 2020

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 2020

	Note	Members' capital \$	Accumulated funds \$	Total \$
2020				
Opening balance at 1 July		-	131,383,471	131,383,471
Total comprehensive income		-	12,763,016	12,763,016
Members' contribution	17	-	-	-
Closing balance at 30 June		-	144,146,487	144,146,487
2019				
Opening balance at 1 July		-	118,338,857	118,338,857
Total comprehensive income		-	13,044,614	13,044,614
Members' contribution		-	-	-
Closing balance at 30 June		-	131,383,471	131,383,471

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 2020

	Note	2020 \$	2019 \$
Cash flows from operating activities			
Cash was provided from:			
Members' contributions		70,731,982	64,386,786
Building rental		200,549	135,001
Investment income		2,532,395	2,977,933
		73,464,926	67,499,720
Cash was applied to:			
Payments for claims		52,922,711	49,133,133
Payments to suppliers for goods and services		3,580,028	4,049,286
Payments to employees		3,298,357	3,233,187
		59,801,096	56,415,606
Net cash flows from operating activities	19	13,663,830	11,084,114
Cash flows from investing activities			
Cash was provided from:			
Sale of fixed assets		-	-
Sale of investments		-	-
		-	-
Cash was applied to:			
Purchase of property, plant and equipment		114,666	215,091
Purchase of intangibles		-	3,315
Net payments for investments		11,503,385	11,883,832
		11,618,051	12,102,238
Net cash flows from investing activities		(11,618,051)	(12,102,238)
Net increase/(decrease) in cash held		2,045,779	(1,018,124)
Plus opening cash brought forward		2,430,151	3,448,275
Closing cash		4,475,930	2,430,151

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 2020

1 STATEMENT OF ACCOUNTING POLICIES

Reporting entity

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

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

These financial statements were approved by the Board of Directors on 17 September 2020.

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

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 10)
- actuarial quantification of insurance liabilities (see note 16)
- certain financial instruments (see note 25)

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 15 Deferred claims (Covid-19)
- Note 16 Actuarial information
- Note 21 Solvency and capital adequacy
- Note 25 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.

Insurance 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 2020

Adoption of new and revised standards and interpretations

The Society adopted all mandatory new and amended standards and their interpretations in the current year. No new or amended standard or their interpretation had a material impact on the Society's assets and liabilities.

- The new standard adopted was PBE IPSAS 39 - Employee Benefits

Standards issued but not yet effective and not early adopted

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

PBE IFRS 9 Financial Instruments – Effective for annual report periods beginning on or after 1 January 2021

PBE FRS 48 – Service Performance Reporting – Effective for annual report periods beginning on or after 1 January 2021

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 25.

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 2020

1 STATEMENT OF ACCOUNTING POLICIES (continued)

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 comprehensive income 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.

Deferred claim provision (Covid-19)

During New Zealand's government mandated lockdown period covering March to May 2020, there was reduced access to elective surgery and primary health providers which resulted in some events being deferred past balance date. The financial impact for the Society was a significant reduction in claims during March, April and May 2020. It was recognised that these claims have only been deferred until capacity is available in the health sector and they will eventuate at a later date. This provision includes expected claim payments plus associated claims handling costs and a risk margin.

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.

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 2019.

Financial Statements (continued)

Union Medical Benefits Society Limited Notes to the financial statements For the year ended 30 June 2020

2 CLAIMS PAID AND PROVIDED FOR

	2020	2019
	\$	\$
Claims incurred relating to risks borne in current and previous years	56,879,290	49,133,133
Movement in provision for unreported claims	(871,873)	2,604,292
Total claims paid and provided for	56,007,417	51,737,425

3 INSURANCE OPERATING EXPENSES

	2020	2019
	\$	\$
Employee benefit expenses	3,298,357	3,233,187
Auditor's fees - Audit of financial statements	39,720	43,740
Auditor's fees - Other	3,500	3,501
Directors' fees	297,168	299,196
Depreciation	197,860	179,908
Amortisation of intangible assets	306,930	306,930
Rental of external premises	10,077	14,829
Selling expenses	1,228,390	1,146,163
Office expenses	376,007	363,757
Consultancy expenses	176,629	187,746
Other expenses	935,619	1,164,420
Total insurance operating expenses	6,870,257	6,943,377

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

4 COVID-19 PREMIUM CREDIT

	2020	2019
	\$	\$
Covid-19 premium credit	2,764,977	-
Extra Covid-19 Benefits reimbursed to Groups	6,244	-
Total Covid-19 premium credit	2,771,221	-

In response to the Covid-19 pandemic, the New Zealand Government initiated a countrywide system of alert levels. At Alert Levels 3 & 4 public and private hospitals were ordered to restrict surgical admissions to critical admissions only as they were to be on call in the event of a widespread outbreak of Covid-19.

Due to these restrictions and the general request that those in New Zealand remain in self-imposed isolation, UniMed experienced an unprecedented drop in claims during this time. The Appointed Actuary provided the Board with advice that while the majority of the claims have only been delayed until full services resume, a portion of these claims will never eventuate. In recognition of this, the Board approved a Premium Credit equal to two weeks of premium.

The Board also approved a number of one-off Covid-19 benefits to all policyholders and Groups. Claims made by individual policyholders are recorded as claims paid however, payments for benefits made to Groups have been recorded as Extra Covid-19 Benefits.

Financial Statements (continued)

Union Medical Benefits Society Limited
Notes to the financial statements
For the year ended 30 June 2020

5 BUILDING OPERATING EXPENSES

	2020	2019
	\$	\$
Property management	15,514	15,414
Building operating expenses	49,905	127,872
Rates	77,093	73,383
Insurance	44,076	41,229
Operating expenses recovered	(49,084)	(32,429)
Total building operating expenses	137,504	225,469

6 INVESTMENT SURPLUS

	2020	2019
	\$	\$
Interest and dividend income	2,532,395	2,977,933
Realised gains/(losses) on fair value investment	-	-
Unrealised gains/(losses) on investments fair value through statement of comprehensive income	5,992,149	4,688,258
Portfolio management fees	(437,458)	(423,295)
Total investment surplus	8,087,086	7,242,896

7 CASH AND CASH EQUIVALENTS

	2020	2019
	\$	\$
Cash at bank and on hand	1,964,610	538,696
Cash on call	2,511,320	1,891,455
Total cash and cash equivalents	4,475,930	2,430,151

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

8 PREMIUM AND OTHER RECEIVABLES

	2020	2019
	\$	\$
Premiums receivable	3,074,213	5,384,331
Interest receivable	7,685	1,112
Prepayments	121,758	149,472
Other Receivables	62,100	-
Colliers trust account	24,187	37,588
Total premium and other receivables	3,289,943	5,572,503

During 2020 there were no bad debts (2019: \$Nil) however a provision has been made for bad debts of \$200,000 in 2020 (2019: \$200,000).

Financial Statements (continued)

Union Medical Benefits Society Limited
Notes to the financial statements
For the year ended 30 June 2020

9 TAXATION

	2020	2019
	\$	\$
GST receivable	616,656	256,621
Total taxation	616,656	256,621

10 INVESTMENTS

	2020	2019
	\$	\$
Cash	55,447,301	45,297,406
Fixed interest	70,589,470	62,957,686
NZ equities	12,499,648	13,779,012
International equities	12,252,572	11,259,353
Total investments	150,788,991	133,293,457

Funds are managed primarily by Nikko Asset Management New Zealand Limited. The Society's investment securities are all financial assets classified at 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.

11 PROPERTY, PLANT & EQUIPMENT

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

2020	Freehold land	Buildings	Fixtures fittings & equipment	Motor vehicles	Total
	at cost	at cost	at cost	at cost	
	\$	\$	\$	\$	\$
Gross carrying amount					
Balance 1 July	1,869,095	9,130,994	1,403,762	95,310	12,499,161
Additions	-	-	3,331	111,335	114,666
Disposals at cost	-	-	-	(76,248)	(76,248)
Balance 30 June	1,869,095	9,130,994	1,407,093	130,397	12,537,579
Accumulated depreciation					
Balance 1 July	-	39,451	606,357	73,541	719,349
Current year depreciation	-	13,281	173,703	10,876	197,860
Depreciation on disposals	-	-	-	(58,927)	(58,927)
Balance 30 June	-	52,732	780,060	25,490	858,282
Total book value	1,869,095	9,078,262	627,033	104,907	11,679,297

Financial Statements (continued)

Union Medical Benefits Society Limited Notes to the financial statements For the year ended 30 June 2020

11 PROPERTY, PLANT & EQUIPMENT (continued)

2019	Freehold land	Buildings	Fixtures fittings & equipment	Motor vehicles	Total
	at cost	at cost	at cost	at cost	
	\$	\$	\$	\$	\$
Gross carrying amount					
Balance 1 July	1,869,095	9,130,994	1,188,670	95,310	12,284,069
Additions	-	-	215,092	-	215,092
Balance 30 June	1,869,095	9,130,994	1,403,762	95,310	12,499,161
Accumulated depreciation					
Balance 1 July	-	26,170	447,378	65,893	539,441
Current year depreciation	-	13,281	158,979	7,648	179,908
Balance 30 June	-	39,451	606,357	73,541	719,349
Total book value	1,869,095	9,091,544	797,405	21,769	11,779,812

The Society commissioned Ford Baker Valuation Limited, Registered Valuers, to undertake a desktop valuation of the land and building occupying 165 Gloucester Street, dated 11 August 2020. 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 and building was valued at \$10,500,000.

The Society continues to value the land and buildings in the financial statement at historical cost.

12 INTANGIBLE ASSETS

	2020	2019
	\$	\$
Computer software		
Opening cost at 1 July	2,021,043	2,017,728
Additions	-	3,315
	2,021,043	2,021,043
Opening accumulated amortisation & impairment	1,085,261	778,331
Amortisation for the year	306,930	306,930
	1,392,191	1,085,261
Closing carrying amount at 30 June	628,852	935,782

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.

Financial Statements (continued)

Union Medical Benefits Society Limited
Notes to the financial statements
For the year ended 30 June 2020

13 TRADE AND OTHER PAYABLES

	2020	2019
	\$	\$
Accounts Payable	942,451	580,717
Total trade and other payables	942,451	580,717

14 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 \$8,182 (2019: \$32,434) and post employment benefits liability for the current year is \$187,987 (2019: \$253,633).

15 DEFERRED CLAIMS (COVID-19)

	2020	2019
	\$	\$
Total deferred claims (Covid-19)	3,956,578	-

The Covid-19 pandemic saw the New Zealand Government initiate a series of Alert Levels to control the spread of the virus. While New Zealand was at Levels 3 and 4 the movements of the population were significantly restricted and medical facilities were reduced to only undertaking urgent medical procedures in the event they were required to deal with a spike in Covid-19 related medical conditions. The impact of this on UniMed was a reduction in the number and value of claims received.

As the medical conditions giving rise to these claims has not been removed, it is the Society's expectation that these claims will still occur, as they have only been delayed due to a lack of available resources. The Board considered it appropriate to create a provision in the 2020 financial accounts to acknowledge this liability. It is forecasted that the delayed claims will be received during the 2020/2021 financial year.

The Appointed Actuary undertook a review of the prior year's performance to provide an estimate for the provision. The provision has not been discounted due to the short-term nature of the deferred claims. This provision includes a 7.0% allowance for claim management expenses, and a 10% risk margin.

16 ACTUARIAL INFORMATION

	2020	2019
	\$	\$
Provision for unearned premium	12,225,690	11,266,827
Provision for unreported claims excluding HCP policies	7,941,683	7,903,850
Provision for unreported claims on HCP policies	1,625,095	1,521,639
Provision for unreported claims on HCP policies incurred pre 31 December 2018	-	1,013,162
Provision for unreported claims	9,566,778	10,438,651

Financial Statements (continued)

Union Medical Benefits Society Limited

Notes to the financial statements

For the year ended 30 June 2020

16 ACTUARIAL INFORMATION (continued)

Estimates of the outstanding claims as at 30 June 2020 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 7.0% (2019: 7.5%) allowance for claim management expenses, and an 10% risk margin (2019: 10%), which provides a 90% likelihood of sufficiency (2019: 90%).

On the 1st January 2019 UniMed acquired the policies previously underwritten by The Education Belevant Society Incorporated (EBS) under their brand, HealthCare Plus. To recognise the liability for EBS claims incurred before the acquisition date but not received, EBS passed to UniMed funds equal to the amount estimated by the Appointed Actuary. As at 31 December 2019 the Appointed Actuary confirmed the balance remaining from this advance and this was paid to EBS.

UniMed and EBS have entered into a profit sharing arrangement with respect to the HealthCare Plus products, whereby after appropriate operating costs, solvency charge, and recovery of transition costs, a maximum of 1.5% of premium is payable each financial year. There was no payment made as at 30 June 2020 after these deductions.

17 MEMBERS' CAPITAL

	2020	2019
This represents the capital paid up by current Members of the Society	\$	\$
Opening balance 1 July	-	-
Add additions (repayments) during the year	-	-
Closing balance at 30 June	-	-
	Shares	Shares
This represents the shares held by current members of the Society		
Opening balance 1 July	48,889	36,207
Add additions (repayments) during the year	679	12,682
Closing balance at 30 June	49,568	48,889

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. The issued shares have no nominal value.

18 ACCUMULATED FUNDS

	2020	2019
	\$	\$
Opening balance 1 July	131,383,471	118,338,857
Total comprehensive income	12,763,016	13,044,614
Closing Balance at 30 June	144,146,487	131,383,471

Financial Statements (continued)

Union Medical Benefits Society Limited Notes to the financial statements For the year ended 30 June 2020

19 CASH FLOW RECONCILIATION

	2020	2019
	\$	\$
Total comprehensive income	12,763,016	13,044,614
Plus (less) non cash items:		
Net (gains)/losses on investments at fair value through the statement of comprehensive income	(5,992,149)	(4,688,258)
Amortisation of intangibles	306,930	306,930
Depreciation	197,860	179,908
Add items classified as investing activities:		
(Gain)/loss on disposal of property, plant and equipment	17,321	-
	7,292,977	8,843,194
Plus (less) movements in working capital:		
Increase/(decrease) in trade and other payables	361,734	(224,176)
(Increase)/decrease in premiums and other receivables	2,282,561	(990,496)
Increase/(decrease) in employee benefits	43,026	100,892
Increase/(decrease) in deferred claims (covid-19)	3,956,578	-
Increase/(decrease) in unearned premium provision	958,863	804,295
Increase/(decrease) in unreported claims provision	(871,873)	2,604,292
(Increase)/decrease in taxation	(360,036)	(53,887)
Total movements in working capital	6,370,853	2,240,920
Net cash flows from operating activities	13,663,830	11,084,114

20 CREDIT RATING

On 24 July 2020 AM Best Company confirmed the Society's Insurer Financial Strength Rating of A (Excellent) and Issuer Credit Ratings a (Excellent).

21 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 2020 the Society's capital of \$144,146,487 (2019: \$131,383,471) 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 2020 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.

	2020	2019
	\$	\$
Actual solvency capital	143,517,635	130,377,182
Minimum solvency capital	27,460,953	24,838,884
Solvency margin	116,056,682	105,538,298
Solvency coverage ratio	523%	526%

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 2020

22 CONTINGENT LIABILITIES

There are no contingent liabilities at balance date. (2019: \$Nil).

23 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 2020, (2019: \$Nil)

Capital commitments

There are capital commitments as at 30 June 2020 of \$Nil, (2019: \$Nil)

24 SIGNIFICANT EVENTS AFTER BALANCE DATE

There are no significant events after balance date.

As a result of the Covid-19 outbreak, global and local financial markets have become more volatile however, nothing has happened post year end that affects the statements shown here. It is expected that this event will have an ongoing impact on the market value of the portfolio and it is likely that the investment income will be reduced for future financial periods.

25 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 costs and, in particular, those costs varying from what was assumed in the setting of premium rates.

Risk management objectives, policies and processes for mitigating risk

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

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

Sensitivity to insurance risk

The financial results of the Society are primarily affected by the level of claims incurred relative to that implicit in the premiums. The assumptions used in the valuation of the outstanding claims provision and the liability adequacy test directly affect the level of estimated claims incurred. The key assumptions used are detailed in note 16.

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 surgical and medical

Financial Statements (continued)

Union Medical Benefits Society Limited Notes to the financial statements For the year ended 30 June 2020

25 RISK MANAGEMENT (continued)

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 comprises 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

	2020	2019
	\$	\$
Corporate rated		
AAA	14,699,365	16,866,431
AA	58,168,313	53,939,493
A	41,780,943	30,389,776
BBB	10,413,463	7,059,392
Non-rated	25,726,907	25,038,365
	150,788,991	133,293,457

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.

2020	0-6 months	7-12 months	1-2 years	over 2 years
	\$	\$	\$	\$
Financial Assets				
Cash and cash equivalents	4,475,930	-	-	-
Premiums and other receivables	3,689,943	-	-	-
Taxation	616,656			
Investments	150,788,991	-	-	-
Total financial assets	159,171,520	-	-	-
Financial liabilities				
Trade, other payables and employee benefits	1,584,136	-	-	-
Total financial liabilities	1,584,136	-	-	-

Financial Statements (continued)

Union Medical Benefits Society Limited
Notes to the financial statements
For the year ended 30 June 2020

25 RISK MANAGEMENT (continued)

2019	0-6 months	7-12 months	1-2 years	over 2 years
	\$	\$	\$	\$
Financial Assets				
Cash and cash equivalents	2,430,151	-	-	-
Premiums and other receivables	5,572,503	-	-	-
Taxation	256,621			
Investments	133,293,457	-	-	-
Total financial assets	141,552,732	-	-	-
Financial liabilities				
Trade, other payables and employee benefits	1,179,377	-	-	-
Total financial liabilities	1,179,377	-	-	-

The cash and cash equivalents are available on call and are adjusted for unpresented cheques. All trade, other payables and employee benefits 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.

Fair value hierarchy

The Cash and cash equivalents and Investments values above are Level 1, and the Premiums and other receivables are Level 2.

There were no transfers between Level 1 and Level 2 during the year (2019: Nil).

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)
	1%	(1%)	1%	(1%)
2020	(1,113,870)	1,361,397	(1,113,870)	1,361,397
2019	(1,023,578)	1,251,039	(1,023,578)	1,251,039

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%)
2020	(4,493,418)	4,493,418	(4,493,418)	4,493,418
2019	(3,757,839)	3,757,839	(3,757,839)	3,757,839

Financial Statements (continued)

Union Medical Benefits Society Limited Notes to the financial statements For the year ended 30 June 2020

25 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 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.

26 KEY MANAGEMENT PERSONNEL COMPENSATION

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

	2020	2019
Compensation	\$	\$
Salaries and other short-term benefits	1,131,646	1,123,581
Directors fees paid	297,168	299,196
Post employment benefits	187,987	253,633

Transactions between related parties are on normal commercial terms and conditions and there were no loans payable or receivable from related parties at year end (2019: \$Nil).

27 SEGMENT INFORMATION

The Society operates three segments within New Zealand as follows:

2020	Health Insurance	Building	Investments	Total
Segment Assets	9,743,321	10,947,357	150,788,991	171,479,669
Segment Liabilities	27,333,182	-	-	27,333,182
Revenue	67,490,559	200,549	8,524,544	76,215,652
Expenses	(62,877,674)	(137,504)	(437,458)	(63,452,636)
Net Earnings	4,612,885	63,045	8,087,086	12,763,016
2019	Health Insurance	Building	Investments	Total
Segment Assets	10,014,230	10,960,639	133,293,457	154,268,326
Segment Liabilities	22,884,855	-	-	22,884,855
Revenue	64,572,988	135,001	7,666,191	72,374,179
Expenses	(58,680,801)	(225,469)	(423,295)	(59,329,565)
Net Earnings	5,892,186	(90,468)	7,242,896	13,044,614



Contact

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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.

