MEDICAL INSURANCE SOCIETY LIMITED

STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 March 2016

	Note	2016 $	2015 $
GROSS WRITTEN PREMIUM		64,502,158	64,263,425
Less: Reinsurance Premiums		(16,307,631)	(17,186,734)
Decrease / (Increase) in Unearned Premium Reserve		101,701	(590,206)
NET EARNED PREMIUM		48,296,228	46,486,485
<u>OPERATING EXPENSES</u>			
Claims		(65,971,854)	(57,517,855)
Reinsurance Recoveries		12,514,184	6,100,620
Other Recoveries		3,994,670	11,270,443
Net Claims Incurred	4	(49,463,000)	(40,146,792)
Administration Expenses	5	(2,396,989)	(2,017,218)
Administration Fees paid to Parent Company	6	(14,244,023)	(12,408,501)
Total Operating Expenses		(66,104,012)	(54,572,511)
LOSS ON UNDERWRITING		(17,807,784)	(8,086,026)
<u>INVESTMENT INCOME</u>			
Interest (Paid) / Received on Intercompany Advances	6	(79)	17,799
Short Term Deposits		100,609	122,536
Domestic Fixed Interest		2,502,336	3,163,526
Net Investment Income	16	2,602,866	3,303,861
Commission and Sundry Income		116,868	107,013
NET LOSS BEFORE TAXATION		(15,088,050)	(4,675,152)
Taxation Credit	7	4,230,636	1,342,291
NET LOSS AFTER TAXATION		(10,857,414)	(3,332,861)
Other Comprehensive Income Net of Taxation		-	-
TOTAL COMPREHENSIVE LOSS		(10,857,414)	(3,332,861)

The accompanying notes form part of and should be read in conjunction with these financial statements.

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MEDICAL INSURANCE SOCIETY LIMITED

STATEMENT OF CHANGES IN EQUITY

for the year ended 31 March 2016

	Note	2016 Share Capital $	2016 Retained Earnings $	2016 Total $
OPENING BALANCE 1 APRIL 2015	19	30,500,000	7,545,690	38,045,690
Current Year Deficit		-	(10,857,414)	(10,857,414)
Other Comprehensive Income		-	-	-
Total Comprehensive Income		-	(10,857,414)	(10,857,414)
Issue of Share Capital	19	7,500,000	-	7,500,000
CLOSING BALANCE 31 MARCH 2016		38,000,000	(3,311,724)	34,688,276

	Note	2015 Share Capital $	2015 Retained Earnings $	2015 Total $
OPENING BALANCE 1 APRIL 2014	19	30,500,000	10,878,551	41,378,551
Current Year Deficit		-	(3,332,861)	(3,332,861)
Other Comprehensive Income		-	-	-
Total Comprehensive Income		-	(3,332,861)	(3,332,861)
CLOSING BALANCE 31 MARCH 2015		30,500,000	7,545,690	38,045,690

The accompanying notes form part of and should be read in conjunction with these financial statements.

MEDICAL INSURANCE SOCIETY LIMITED

STATEMENT OF FINANCIAL POSITION

as at 31 March 2016

	Note	2016 $	2015 $
FUNDS EMPLOYED			
EQUITY			
Ordinary Shares	19	38,000,000	30,500,000
Retained Earnings		(3,311,724)	7,545,690
Total Equity		34,688,276	38,045,690
CURRENT LIABILITIES			
Payables	8	4,017,517	4,133,264
Advance from Parent Company	6	-	406,413
Provision for Taxation		666,014	-
Total Current Liabilities		4,683,531	4,539,677
PROVISIONS			
Provision for Unearned Premium	9	31,769,359	31,871,060
Provision for Outstanding Claims	4	71,402,480	119,831,518
Total Provisions		103,171,839	151,702,578
TOTAL FUNDS EMPLOYED		142,543,646	194,287,945
ASSETS			
Cash and Cash Equivalents	10	5,610,000	5,340,000
Receivables	11	263,233	93,662
Advance to Parent Company	6	2,460,457	-
Premiums Outstanding	12	15,107,182	15,220,781
Taxation Paid in Advance		-	84,755
Reinsurance Recoveries Outstanding	13	30,347,194	78,390,702
Claims Recoveries Outstanding	14	4,125,418	3,886,754
Deferred Acquisition Costs	15	418,182	485,509
Investments	16	82,153,850	89,240,612
		140,485,516	192,742,775
DEFERRED TAX	7	2,058,130	1,545,170
TOTAL ASSETS		142,543,646	194,287,945

Approved for issue for and on behalf of the Board of Medical Insurance Society Limited.

....Director

....Director

Wellington, 29 June 2016

The accompanying notes form part of and should be read in conjunction with these financial statements.

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MEDICAL INSURANCE SOCIETY LIMITED

STATEMENT OF CASH FLOWS

for the year ended 31 March 2016

	Note	2016 $	2015 $
CASH FLOWS (FOR) / FROM OPERATING ACTIVITIES			
Receipts from Policyholders		64,615,757	64,070,688
Sundry Income		116,868	107,013
Reinsurance Recoveries Received		60,557,692	84,918,398
Payment of Claims		(110,644,886)	(111,151,007)
Payments to Suppliers		(18,918,878)	(18,329,601)
Interest on Short Term Deposits		96,876	118,803
Income from Investment Funds		2,502,336	3,163,526
Administration Fees Paid to Parent Company		(14,244,023)	(12,408,501)
Interest (Paid) / Received on Advances to Parent Company		(79)	17,799
Taxation Refund		4,468,445	1,519,993
Net Cash Flows (for) / from Operating Activities	21	(11,449,892)	12,027,111
CASH FLOWS FROM / (FOR) INVESTING ACTIVITIES			
Contributions to Investment Funds		(50,502,336)	(53,163,526)
Withdrawals from Investment Funds		57,589,098	40,000,000
Net Cash Flows from / (for) Investing Activities		7,086,762	(13,163,526)
CASH FLOWS FROM FINANCING ACTIVITIES			
Net Advances (to) / from Parent Company		(2,866,870)	3,466,415
Issue of Shares to Parent Company		7,500,000	-
Net Cash Flows from Financing Activities		4,633,130	3,466,415
NET INCREASE IN CASH HELD		270,000	2,330,000
Opening Cash Balance brought forward		5,340,000	3,010,000
CASH AND CASH EQUIVALENTS CARRIED FORWARD		5,610,000	5,340,000
CASH AND CASH EQUIVALENTS COMPRISE			
Cash at Bank	10	5,610,000	5,340,000
		5,610,000	5,340,000

The accompanying notes form part of and should be read in conjunction with these financial statements.

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1. CORPORATE INFORMATION

REGISTERED OFFICE
19 - 21 Broderick Road
Johnsonville
Wellington

The ultimate parent of Medical Insurance Society Limited ("the Company" or "MIS") is Medical Assurance Society New Zealand Limited, which owns 100% of the ordinary shares. The parent together with its subsidiaries are referred to as the Group in this financial report.

The Company is incorporated and domiciled in New Zealand and is a reporting entity under the Financial Markets Conduct Act 2013.

Standard & Poor's has assigned Medical Insurance Society Limited an A-/Stable insurer financial strength rating.

2. ACCOUNTING POLICIES

(a) Principal Activity

The Company provides general insurance products to Members of MAS.

Head Office is situated in Johnsonville, Wellington and there are seven branch sites throughout New Zealand in Auckland (two), Hamilton, Palmerston North, Wellington, Christchurch and Dunedin.

(b) Basis of Preparation

These financial statements have been prepared in accordance with generally accepted accounting practice in New Zealand and the requirements of the Financial Markets Conduct Act 2013 and the Financial Reporting Act 2013. The financial statements have also been prepared on a historical cost basis except for assets backing insurance activities which have been measured at fair value.

The financial statements are presented in New Zealand dollars.

(c) Statement of Compliance

These financial statements have been prepared in accordance with generally accepted accounting practice in New Zealand. They comply with New Zealand equivalents to International Financial Reporting Standards ("NZ IFRS"), and other applicable Financial Reporting Standards, as appropriate for profit-orientated entities. These financial statements also comply with International Financial Reporting Standards ("IFRS").

The following new standards, amendments to standards or interpretations have been issued but not yet effective for the period ended 31 March 2016, and have not been applied in preparing these financial statements:

NZ IFRS 9 (2009) *Financial Instruments* has not been adopted for the reporting period to 31 March 2016. The standard uses a single approach to classify and measure financial assets to determine whether an asset should be measured at amortised cost or fair value. The standard is intended to reduce complexity and increase investor understanding of the accounting of financial assets.

NZ IFRS 9 (2010) *Financial Instruments* supersedes NZ IFRS (2009). The existing NZ IAS 39 *Financial Instruments: Recognition and Measurement* requirements for the classification of financial liabilities and the ability to use the fair value option have been retained. However, where the fair value option is used for financial liabilities, the change in fair value is accounted for as follows:
- the change attributable to changes in credit risk are presented in other comprehensive income ("OCI")
- the remaining change is presented in profit or loss.

If this approach creates or enlarges an accounting mismatch in the profit or loss, the effect of the changes in credit risk are also presented in profit or loss.

NZ IFRS 9 (2013) *Financial Instruments* is a revised version of NZ IFRS 9. The revised standard enables entities to elect to apply only the accounting for gains and losses from own credit risk without applying the other requirements of NZ IFRS 9 at the same time.

The mandatory effective date for adopting IFRS 9 is for reporting periods commencing after 1 January 2018.

NZ IFRS 15 Revenue from Contracts with Customers. The standard establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. The standard is effective for reporting periods beginning after 1 January 2017.

2. ACCOUNTING POLICIES continued...

(c) Statement of Compliance continued...

NZ IFRS 16 *Leases* is the new standard on the recognition, measurement, presentation and disclosure of leases. The standard replaces NZ IAS 17 Leases and requiree lessees to account for all leases under a single on-balance sheet model (subject to certain exemptions).

The standard is required to be applied for reporting periods beginning after 1 January 2019 and may be adopted early, but not before NZ IFRS 15 is applied.

(d) Premium Revenue and Provision for Unearned Premium

Premium revenue comprises amounts charged to policyholders for insurance policies. Premium is expressed net of levies and charges which are collected on behalf of the Fire Service and the Earthquake Commission, and net of Goods and Services Tax.
Premium revenue is recognised in profit and loss when it has been earned. That is, from the date of attachment of the risk, over the period of the policy (which is generally one year).

Unearned premiums are those proportions of premium written in a year, that relate to periods of risk after the balance date. Unearned premiums are calculated on a daily pro rata basis. The proportion attributable to subsequent periods is deferred as a Provision for Unearned Premium.

(e) Claims and Provision for Outstanding Claims

Claims expense represents payments for claims plus the movement in the Provision for Outstanding Claims. Claims represent the benefits paid or payable to the policyholder on the occurrence of an event giving rise to loss or accident according to the terms of the policy. Claims expenses are recognised profit and loss as losses are incurred which is usually the point in time when the event giving rise to the claim occurs.

The liability for any outstanding claims is carried in the Statement of Financial Position as the Provision for Outstanding Claims. It is measured as the central estimate of the present value of the expected future payments against all claims incurred at reporting date. A risk margin is also included over and above the central estimate, to allow for the inherent uncertainty in the central estimate of the outstanding claims liability. The details of risk margins and the process for their determination are set out in Note 4. The expected future payments includes primarily those in relation to claims reported but not yet paid, incurred but not reported ("IBNR") and the direct costs of settling those claims.

(f) Provision for Unearned Premium / Liability Adequacy Test

At each reporting date a liability adequacy test is performed to determine whether there is any overall excess of expected claims and deferred acquisition costs over unearned premiums. If these estimates show that the carrying amount of the unearned premiums (less related deferred acquisition costs) is inadequate, the deficiency is recognised in profit and loss.

The proportion of premiums not earned in profit and loss at reporting date is recognised in the Statement of Financial Position as Provision for Unearned Premium. The Provision for Unearned Premium is calculated separately for each group of contracts which are subject to broadly similar risks and managed together as a single portfolio. Any unexpired risk liability is recognised immediately.

The expected value of claims is calculated as the present value of the expected cash flows relating to future claims and includes a risk margin to reflect the inherent uncertainty in the central estimate.

(g) Payables

Payables are recognised when the entity becomes obliged to make future payments resulting from the purchases of goods and services.

Payables are carried at amortised cost. They represent liabilities for goods and services provided to the entity prior to the end of the financial year but which are unpaid at reporting date.

(h) Cash and Cash Equivalents

Cash and cash equivalents include liquid assets and amounts due from other financial institutions, with an original term to maturity of less than three months.

(i) Receivables

Receivables comprises various non-premium receivables which generally have 30-90 day terms. They are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method, less any allowances for impairment.

(j) Premiums Outstanding

A significant number of policyholders elect to spread premium payments over the term of the cover. Accordingly, at any one time there is a large balance of premiums which are outstanding but not overdue. They are initially recognised at fair value, and subsequently measured at amortised cost less any allowance for impairment.

All outstandings are constantly reviewed for collectability and immediately written off where deemed to be uncollectible.

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2. **ACCOUNTING POLICIES continued...**

(k) Reinsurance Recoveries and Claims Recoveries Outstanding

During the normal course of the Company's activities claims are paid which will result in a contractual right to seek recovery from its reinsurers and / or other third parties (which may include other insurers). At any point in time there will be amounts owing by these counterparties which will be represented by assets on the Statement of Financial Position.

The details of the impairment assessment relative to the third party recoveries are set out in Note 14. Reinsurance assets are reviewed for impairment at each reporting date or more frequently when an indication of impairment arises during the reporting year. The Company does not consider any of its reinsurance recoveries to be impaired.

(l) Assets Backing Insurance Liabilities

All investment assets of the Company have been identified as assets backing the insurance liabilities of the Company.

(m) Investments

Investment funds, managed for the Company by several fund managers, are initially recorded at fair value. They are classified as financial assets at fair value through profit or loss ("FVTPL") and any movements in fair value are taken immediately to profit and loss.

The assets are valued at fair value each reporting date based on the current bid price where one is available. In the absence of a bid price, valuation is based on recent arms length transactions.

Interest and dividend income, fund distributions and fair value movements are recorded in the Investment Income section of profit and loss and are split by asset class.

(n) Financial Instruments

In the normal course of business, the Company's fund managers enter into transactions involving financial instruments in order to manage exposure to risk. These include foreign exchange contracts, financial futures, swaps and options. These instruments are for hedging purposes and are accounted for, at fair value, as part of the investment portfolio valuation.

(o) Income and Other Taxes, and Deferred Tax

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities based on the current period's taxable income. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the balance date.

Deferred income tax is provided on all temporary differences at the balance date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognised for all taxable temporary differences except:
- when the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and that, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; or
- when the taxable temporary difference is associated with investments in subsidiaries, associates or interests in joint ventures, and the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets are recognised for all deductible temporary differences, carry-forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carry-forward of unused tax credits and unused tax losses can be utilised, except:
- when the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; or
- when the deductible temporary difference is associated with investments in subsidiaries, associates or interests in joint ventures, in which case a deferred tax asset is only recognised to the extent that it is probable that the temporary difference will reverse in the foreseeable future and taxable profit will be available against which the temporary difference can be utilised.

The carrying amount of deferred income tax assets is reviewed at each balance date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

Unrecognised deferred income tax assets are reassessed at each balance date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance date.

Deferred tax assets and deferred tax liabilities are offset only if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred tax assets and liabilities relate to the same taxable entity and the same taxation authority.

2. ACCOUNTING POLICIES continued...

(o) Income and Other Taxes, and Deferred Tax continued ...

Other taxes
Revenues, expenses and assets are recognised net of the amount of goods and services taxes ("GST") except when the GST incurred on a purchase of goods and services is not recoverable from Inland Revenue, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable.

The net amount of GST recoverable from, or payable to, Inland Revenue is included as part of Receivables or Payables in the Statement of Financial Position.

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, Inland Revenue.

(p) Policy Acquisition Costs

Policy acquisition costs comprise the costs of acquiring new business, including sales costs, underwriting costs and policy issue costs. These costs are deferred when they can be reliably measured and it is probable that they will give rise to premium revenue that will be recognised in subsequent reporting periods. Costs are amortised systematically in accordance with the expected pattern of the incidence of risk to which they relate. This pattern of amortisation corresponds to the earning pattern of the corresponding premium revenue.

An impairment review is performed at each reporting date as part of the Liability Adequacy Test. When the recoverable amount is less than the carrying value an impairment loss is recognised in profit and loss.

(q) Comparatives

Where necessary, comparative information has been reclassified to achieve consistency with the current year.

(r) Changes in Accounting Policies

There have been no changes in accounting policies during the current reporting period other than those new standards adopted, as disclosed in Note 2(c).

3. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

These financial statements are prepared in accordance with New Zealand equivalents of the International Financial Reporting Standards and other authoritative accounting pronouncements. In applying the Company's accounting policies management continually evaluates judgements, estimates and assumptions based on experience and other factors. All judgements, estimates and assumptions are based on the most current set of circumstances available to management. Actual results may differ from the judgements, estimates and assumptions.

Significant judgements, estimates and assumptions made by management in the preparation of these financial statements are outlined below.

Outstanding Claims Liability.
The outstanding claims liability is measured as the central estimate of the present value of expected future claims payments (including claims incurred but not reported) plus a risk margin.

The estimated cost of claims includes expenses to be incurred in settling those claims, net of the expected value of salvage and other recoveries. The Company takes all reasonable steps to ensure that it has appropriate information regarding its claims exposures. Given the uncertainty in establishing claims provisions, it is almost certain that the final outcome will prove to be different from the original liability established.

All claims reported are estimated with due regard to the claim circumstance as reported by the insured, legal representative, assessor, loss adjuster and / or other third party, and then combined, where appropriate, with historical evidence on the cost of settling similar claims. Estimates are reviewed regularly and are updated as and when new information arises.

The ultimate net outstanding claims provision also includes an additional (risk) margin to allow for the uncertainty within the estimation process.

Reinsurance and Other Recoveries Assets.
As is the case for claims, reinsurance and other recoveries must be estimated at reporting date. The recoverability of these assets is assessed on a periodic basis to ensure that as best can be determined, the balance is reflective of the amounts which will ultimately be received, taking into consideration factors such as counterparty credit risk.

Deferred Acquisition Costs.
Direct and indirect costs incurred during the year arising from the writing or renewing of insurance contracts are deferred to the extent that these costs are recoverable out of future premium. The main acquisition costs incurred by the Company are salary costs and underwriting costs. Costs are typically deferred over a year.

4. CLAIMS

	2016	2015
	$	$
Claims paid during the year	110,644,886	111,151,007
Recoveries received during the year	(60,557,692)	(84,918,398)
Provision for Outstanding Claims at year end (new claims incurred during the year)	32,080,513	41,473,058
Provisioning at year end for Outstanding Claims incurred in prior years	46,507,628	87,908,975
Reinsurance and Other Recoveries Outstanding at year end	(34,472,612)	(82,277,456)
Decrease in IBNR (claims incurred but not reported) Provision at year end	(146,782)	(94,884)
Provision for Outstanding Claims at previous year end (excluding IBNR)	(118,302,080)	(181,712,033)
Reinsurance and Other Recoveries Outstanding at previous year end	82,277,456	159,696,476
Decrease in Risk Margin	(8,568,317)	(11,079,953)
Net Claims Expense per profit and loss	49,463,000	40,146,792

Provision for Outstanding Claims

	2016	2015
	$	$
Expected Future Claim Payments (undiscounted)	53,780,888	95,855,291
IBNR Claims at year end	1,382,656	1,529,438
Risk Margin	16,238,936	24,807,253
Discount to Present Value	-	(2,360,464)
Provision for Outstanding Claims per profit and loss	71,402,480	119,831,518

Assumptions adopted in calculation of claim provisions

A significant portion of the claims provision relate to earthquake claims. The claims estimate is subject to a degree of uncertainty as a number of issues are yet to be resolved.

The following key assumptions have been used in determining general insurance net outstanding claims liabilities:

	2016	2015
Risk margin - earthquake claims	38.95%	26.90%
Risk margin - non earthquake	13.28%	12.49%
Weighted average expected term to settlement - non earthquake	within 1 year	within 1 year
Weighted average expected term to settlement - earthquake	within 1 year	within 1 year
Discount rate for earthquake claims	n/a	3.50%

Risk margin

The initial amount calculated is the central estimate (the mean of the distribution of the probable outcomes). That is, it is intended to contain no deliberate, or conscious over or under estimation. Over and above the central estimate, and to reflect the inherent uncertainty in determining it, a risk margin is added in arriving at the carrying amount of the liability. This increases the probability that the liability will ultimately prove to be sufficient. The potential uncertainties include those relating to the actuarial model and assumptions, the quality of the underlying data used, general statistical uncertainty and the insurance environment.

The risk margin is applied to the net outstanding claims for the Company as a whole. However an assessment of the uncertainty and the determination of a risk margin is done by individual class of business (Motor Vehicle, House, Contents etc.). The entity risk margin is assessed to be less than the sum of the individual classes, reflecting the benefit of diversification in general insurance. The percentage risk margin applied is 13.30% (2015: 12.49%) for non earthquake claims and 38.95% (2015: 26.90%) for earthquake claims. The level of sufficiency or probability of adequacy is 75.00% (2015: 75.00%).

Claims Development Table

The following table shows the development of net undiscounted outstanding claims relative to the current estimate of ultimate claims costs for the five most recent years.

				Incident Year			
	Prior	2012	2013	2014	2015	2016	Total
At end of incident year		41,526,435	28,220,673	30,134,763	27,882,072	32,356,682	
One year later		45,513,140	30,040,356	31,433,037	29,065,768		
Two years later		49,243,028	29,912,127	31,193,619			
Three years later		54,128,332	29,907,137				
Four years later		52,331,735					
Current estimated claim cost		52,331,735	29,907,137	31,193,619	29,065,768	32,356,682	
Payments		(50,044,441)	(28,393,264)	(31,041,409)	(28,622,649)	(25,083,432)	
Undiscounted central estimate	42,111,132	2,287,294	1,513,873	152,210	443,119	7,273,250	53,780,878
Discount to present value	-	-	-	-	-	-	-
Discounted central estimate	42,111,132	2,287,294	1,513,873	152,210	443,119	7,273,250	53,780,878
IBNR net of risk margin							1,382,656
Risk margin							16,238,936
Gross outstanding claims liabilities							71,402,470
Recoveries from reinsurers and other third parties							(34,472,612)
Net outstanding claims liabilities							36,929,858

5. ADMINISTRATION EXPENSES

	2016	2015
Included within Administration Expenses are:	$	$
Auditor Remuneration		
- Auditing of Financial Statements	50,224	49,650
- Prudential Regulation Audit	13,025	13,025

No Directors' fees are provided for or are payable.

6. RELATED PARTY TRANSACTIONS

a) Details of material related party transactions are as disclosed in profit and loss and the Statement of Financial Position.

b) During the year, the related party transactions were with the parent company of the Medical Assurance Society New Zealand Limited Group ("the Group") and took the form of; Advances, Administration Fees and Interest. Interest on advances is charged at the 90 day bank bill rate plus 1%. None of the amounts owing between the Company and the Group have been written off or forgiven during the year. The Administration Fees relate to management costs incurred on behalf of the Company by the Group.

The audit fee disclosed in profit and loss is paid for by the parent company.

c) The advance to the parent company of $2,460,457 (2015: advance from the parent of $406,413) is unsecured.

d) No staff are directly employed by the Company. All staff including key management personnel are employees of the parent company, and the amounts detailed below have been paid by the parent company. Key management personnel is defined as directors and members of the Executive Management Team.

	2016	2015
	$	$
Salaries and other short-term employee benefits	2,680,264	2,060,027
MAS directors fees	618,000	581,825
Total Compensation	3,298,264	2,641,852

e) All transactions with Members and the key management personnel of the parent, are at market rates.

7. TAXATION

	2016	2015
	$	$
Net Deficit before Taxation	(15,088,050)	(4,675,152)
Taxation at 28%	(4,224,654)	(1,309,043)
Taxation effect of permanent differences	12,015	(10,974)
Imputation Credits	(17,997)	(22,274)
Taxation Credit for the Year	(4,230,636)	(1,342,291)
Taxation Credit for the Year comprises:		
Current Tax	(3,773,186)	(1,724,985)
Deferred Tax	(457,450)	382,694
Taxation Credit per Statement of Comprehensive Income	(4,230,636)	(1,342,291)

Deferred Tax

31 March 2016	Opening Balance	Prior Period Adjustment	Statement of Comprehensive Income	Total
Deferred Tax Liabilities	$		$	$
Insurance Reserves and Provisions	(135,919)	-	18,829	(117,090)
	(135,919)	-	18,829	(117,090)
Deferred Tax Assets				
Tax losses to carry forward	1,681,089	55,510	438,621	2,175,220
	1,681,089	55,510	438,621	2,175,220
Net Deferred Tax Liability	1,545,170	55,510	457,450	2,058,130

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7. **TAXATION continued...**

Deferred Tax

31 March 2015	Opening Balance	Prior Period Adjustment	Statement of Comprehensive Income	Total
	$	$	$	$
Deferred Tax Assets				
Tax losses to carry forward	2,035,783	(199,149)	(155,545)	1,681,089
	2,035,783	(199,149)	(155,545)	1,681,089
Deferred Tax Liabilities				
Insurance Reserves and Provisions	(107,919)	-	(28,000)	(135,919)
	(107,919)	-	(28,000)	(135,919)
Net Deferred Tax Asset	1,927,864	(199,149)	(183,545)	1,545,170

Imputation Credit Account ("ICA")	2016	2015
	$	$
Opening balance	1,407,400	1,465,619
Movement during the period	(1,245,639)	(58,219)
Closing balance	161,761	1,407,400

As a member of the Medical Assurance Society Consolidated Group for tax purposes, all credits in the current year are not recorded in the above ICA, but rather in the ICA of Medical Assurance Society New Zealand Limited as the nominated member of the Medical Assurance Society Consolidated Group. Debits are allocated across the members' ICAs on a first in first out basis.

8. **PAYABLES**

	2016	2015
	$	$
Government Levies	785,967	764,810
GST Payable	1,211,147	1,401,103
Other Payables	2,020,403	1,967,351
	4,017,517	4,133,264

All payables are due within twelve months of balance date. The carrying amounts reasonably approximate fair value.

9. **PROVISION FOR UNEARNED PREMIUM**

The following table is a reconciliation of Unearned Premium:	2016	2015
	$	$
Unearned Premium - General Insurance		
Balance at the beginning of the financial year	31,871,060	31,280,854
Premiums written during the year	64,502,158	64,263,425
Premiums earned during the year	(64,603,859)	(63,673,219)
Balance at the end of the financial year	31,769,359	31,871,060

Liability Adequacy Test

Actuary Peter Davies, in his report dated 2 June 2016, has reported on the Liability Adequacy Test undertaken by him as at 31 March 2016. He has concluded that the Provision for Unearned Premium as at that date, is not deficient (2015: no deficiency). In forming this opinion he has assessed the current estimates of the present value of the expected future cash flows relating to future claims arising from the rights and obligations under all current contracts. Included within the claims figure is a risk margin to reflect the inherent uncertainty in the central estimate. His conclusion is that the provision exceeds the prospective claims value. The financial statements have not been adjusted to recognise the surplus.

10. CASH AND CASH EQUIVALENTS

	2016	2015
	$	$
On Call Deposits	5,610,000	5,340,000
	5,610,000	5,340,000

All funds are held with registered banks and are available on call.

11. RECEIVABLES AND PREPAYMENTS

	2016	2015
	$	$
Reinsurance Premiums Paid in Advance	255,966	82,781
Interest Due on Short Term Deposits	7,267	10,881
	263,233	93,662

The carrying amounts of receivables reasonably approximate fair value. Any past due but not impaired receivables are insignificant.

12. PREMIUMS OUTSTANDING

	2016	2015
	$	$
Premiums Owing by General Insurance Policyholders	15,107,182	15,220,781
	15,107,182	15,220,781

A significant number of policyholders elect to pay premiums in instalments spread evenly over the term of the cover. Accordingly, at any one time, including balance date, there will be large outstandings relative to premium which has been billed but not collected.

Where any instalments are overdue (direct debits dishonoured) or alternatively where annual payments are overdue, the related debts are assessed for impairment and where it is evident adjusted immediately.

The carrying amounts reasonably approximate fair value.

13. REINSURANCE RECOVERIES OUTSTANDING

	2016	2015
	$	$
General Insurance		
Gross Reinsurance Recoveries Outstanding	30,347,194	79,418,273
Discount to present value	-	(1,027,571)
	30,347,194	78,390,702

The Company's insurance operations are protected from the impact of large losses and catastrophic events, by way of a comprehensive reinsurance programme arranged with some of the world's strongest reinsurance companies and syndicates.

The programme is developed, once external professional advice, involving comprehensive modelling, is obtained to establish potential exposures to earthquake claims and to assess how much any claim or series of claims the Company can retain for its own account. The Company's catastrophe cover exceeds the Reserve Bank of New Zealand's solvency requirements for reinsurance cover for a 1 in 1,000 year event.

At any time, balance date included, the settlement of claims will have led to a receivable being created relative to the amount recoverable from the Company's reinsurers.

Such amounts due are assessed for impairment and where it is evident, adjusted immediately.

The carrying amounts reasonably approximate fair value.

14. CLAIMS RECOVERIES OUTSTANDING

	2016	2015
	$	$
Claims Recoveries Owing by Third Parties	4,125,418	3,886,754
	4,125,418	3,886,754

Whilst the majority of claims recoveries come from reinsurers, the Company often has a contractual right to recover from other third parties. These third parties may be individuals or entities who were at fault and responsible for the claim made, or may be their insurers.

14. CLAIMS RECOVERIES OUTSTANDING continued...

Such amounts are assessed for impairment on an individual basis and where it is evident, adjusted immediately. Further to that, on a collective basis, based on historical levels of impairment, impairment is recognised as follows:
-amounts owing by other insurers (including EQC), nil impairment (2015: nil)
-accounts placed with a collection agency, 65.00% impairment (2015: 65.00%)
-amounts for which a regular payment arrangement has been agreed with the debtor, nil impairment (2015: nil impairment).

The carrying amounts, adjusted for impairment as above, reasonably approximate fair value.

Amounts that reduce the liability to the insured such as excesses, are not claims recoveries and are offset against claims expense.

15. DEFERRED ACQUISITION COSTS

	2016	2015
	$	$
Opening balance	485,509	385,626
Acquisition costs deferred during the year	418,182	485,509
Current period amortisation	(485,509)	(385,626)
Closing balance	418,182	485,509

16. INVESTMENTS

	2016	2015
	$	$
On Call and Term Deposits	80,128,851	86,313,631
Domestic Fixed Interest	2,024,999	2,926,981
Total Investments	82,153,850	89,240,612
Realised Investment Income	2,715,946	2,435,107
Unrealised Investment Income	(113,080)	868,754
Total Investment Income	2,602,866	3,303,861

The Company's investment securities are all financial assets classified as fair value through profit or loss. Any changes in fair value are immediately recognised.

All funds are managed by JBWere and Bancorp Treasury Services Limited. The funds are invested into securities held in the name of the Company, via a custodian.

17. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

The fair values are based on relevant information available as at balance date. While judgement is used in obtaining the fair value of financial instruments, there are inherent weaknesses in any estimation technique. Many of the estimates involve uncertainties and matters of significant judgement, and changes in underlying assumptions could significantly affect these estimates.

For cash and short term deposits, advance to/from Parent Company, receivables and payables the carrying value is considered to be a reasonable estimate of fair value due to the short term maturities of these instruments.
Neither Taxation Paid in Advance, Deferred Tax, Claims Recoveries Outstanding, nor Reinsurance Recoveries Outstanding are considered to be financial assets. Neither Deferred Tax, nor GST, nor insurance provisions are considered to be financial liabilities.

The following table summarises the carrying amounts and fair values of financial assets and financial liabilities. Those assets and liabilities which are not carried at fair value and the carrying amount reasonably approximates fair value are not included in the table.

17. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES continued ...

	2016 Carrying Amount	2016 Fair Value	2015 Carrying Amount	2015 Fair Value
Financial Assets	$	$	$	$
Investments	82,153,850	82,153,850	89,240,612	89,240,612
	82,153,850	82,153,850	89,240,612	89,240,612

Fair Value Hierarchy

The following table shows an analysis of fair value hierarchy for those financial assets and liabilities where fair value has been disclosed. The only assets and liabilities that the Company recognises on a fair value basis are its investments (refer to Classification of Financial Instruments in Note 18 for details of the classification categories).

	Level 1	Level 2	Level 3	Total
	$	$	$	$
31 March 2016				
Assets measured at fair value				
On Call and Term Deposits	-	80,128,851	-	80,128,851
Domestic Fixed Interest	-	1,824,999	200,000	2,024,999
31 March 2015				
Assets measured at fair value				
On Call and Term Deposits	-	86,313,631	-	86,313,631
Domestic Fixed Interest	-	2,325,281	601,700	2,926,981

A level 1 financial asset or liability comprises those assets and liabilities that are valued by reference to published quotes in an active market and the price reflects actual and regularly occurring market transactions on an arm's length basis.

A level 2 financial asset or liability is measured using industry standard valuation techniques and are based on market observable inputs but where the prices have not been determined in an active market.

A level 3 financial asset or liability value is determined in part, or in whole, using valuation techniques based on assumptions that are neither supported by prices from observable current market transactions in the same instrument, nor are they based on available market data.

There have been no transfers between the levels during the financial year (2015: a transfer into Level 3 (from Level 2) occurred during the financial year as the investment ceased to be actively traded resulting in the Company's investment advisers determining a value based on coupon payments and probability of settlement at maturity).

18. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The Company's risk management is carried out in accordance with policies set by the Company's board of directors ("the board"). These policies provide a clear structure for managing financial and operational risks.

Whilst their review of risk is on-going, directors formally review the major risks faced by the entire Group every six months.

18. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT continued...

The entity does not directly enter into derivative financial instruments contracts. However its fund managers do, principally to protect the value of investments against adverse currency movements. They are prevented by policy guidelines established by the Investment Committee from entering into such contracts for speculative purposes.

The main risks arising from the financial instruments and the business the Company engages in, are; insurance risk, credit risk, investment risk, currency risk, market risk, liquidity risk and operating risk.

Insurance Risk
Insurance risk is the risk that either inadequate or inappropriate product design, pricing, underwriting, reserving, claims management or reinsurance management will expose the Company to financial loss and, in the worst case a consequent inability to meet its liabilities when they fall due.

There are a number of key policies in place which mitigate insurance risk, including;
- the recruitment, retention and on-going training of suitably qualified personnel
- the use of management information systems that provide reliable data on the risks to which the business is exposed
- the use of external actuarial expertise to assist in determining premium levels and monitoring claims patterns
- the use of reinsurance to limit the Company's exposure to large single claims and accumulations of claims that arise from a singular event
- the monitoring of a reinsurer's credit risk rating to control exposure to reinsurance counterparty default
- the reduction in the variability in loss experience through diversification over classes of insurance business
- the modelling and monitoring of concentrations of risk which are particularly relevant in the case of natural disasters and catastrophes and accordingly must be recognised in the development of the reinsurance programme.

Credit Risk
The Company is exposed to two forms of credit risk, one in relation to its insurance operations, the other to the investments which back those insurance operations.

To the former, credit risk is the risk that policyholders, reinsurers, or other third parties which have a contractual liability to the Company, default on their financial obligations.

There are a number of key policies in place which mitigate credit risk, including;
- the use of standard credit control techniques which ensure that premium payments are made within a reasonable timeframe or cover and hence exposure to claim is cancelled
- the placement of reinsurance cover with a number of reinsurers
- the monitoring of a reinsurer's credit risk rating to control exposure to reinsurance counterparty default.

Statement of Financial Position credit exposures -

	2016	**2015**
	$	**$**
Cash and Cash Equivalents	5,610,000	5,340,000
Receivables	263,233	93,662
Premiums Outstanding	15,107,182	15,220,781
Reinsurance Recoveries	30,347,194	78,390,702
Investments	82,153,850	89,240,612
	133,481,459	188,285,757

Credit risk relative to investments is the risk that movements in either interest rates or stockmarkets will have an adverse impact on the profitability and financial stability of the Company.

The investment portfolio, which potentially exposes the Company to credit risk consists of short term deposits, domestic and international fixed interest securities and international equities. The maximum exposure to credit risk is the carrying value of these financial instruments.

Investment funds in part back the insurance operations and in part support share capital and retained earnings. Investment mandates have been structured accordingly and are formalised by way of a Statement of Investment Policies and Objectives. The Investment Committee (of the Medical Assurance Society Group) meets regularly to develop and review investment strategy and monitor manager performance.

EY

18. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT continued ...

Statement of Financial Position investment exposures:	2016	2015
	$	$
Cash and Cash Equivalents	5,610,000	5,340,000
Deposits and Short Term Securities	80,128,851	86,313,631
Domestic Fixed Interest	2,024,999	2,926,981
	87,763,850	94,580,612

Concentration of credit risk arises when the Company has a large exposure to an individual counterparty or enters into a number of contracts or financial instruments with entities that are engaged in similar business activities or exposed to similar economic factors. Investment concentration risk is managed through credit rating limits and counterparty limits.

The Company's reinsurance programme ensures that treaties are spread over a number of reinsurers thereby spreading the counterparty risk. Credit risk relating to the amounts due from reinsurers is minimised as the Company diversifies its reinsurance treaties over a number of reinsurers all of whom hold at least an A- credit rating at the time of placement. The following table discloses the number of reinsurance counterparties the Company has an exposure to in excess of 10% of total reinsurance recoveries.

	2016	2015
10% - 20% of reinsurance recoveries	2	3
Total reinsurance recoveries	$ 30,347,194	$ 78,390,702

Credit risk relative to investments is the risk that movements in either interest rates or stockmarkets will have an adverse impact on the profitability and financial stability of the Company.

The following table provides information on the credit risk exposure for financial assets with external credit ratings of the Company. Investment grade financial assets are classified within the range of AAA to BBB, with AAA being the highest possible rating. The 'Not rated' column discloses those assets not rated by external ratings agencies.

31 March 2016	AAA	AA	A	BBB	Below BBB	Not rated	Carrying Value $
Cash and Cash Equivalents	-	100.0%	-	-	-	-	5,610,000
Deposits and Short Term Securities		93.6%	6.4%	-	-	-	80,128,851
Domestic Fixed Interest	-	-	-	41.2%	-	58.8%	2,024,999
Reinsurance Recoveries	-	41.6%	56.4%	-	-	2.0%	30,347,194

31 March 2015	AAA	AA	A	BBB	Below BBB	Not rated	Carrying Value $
Cash and Cash Equivalents	-	100.0%	-	-	-	-	5,340,000
Deposits and Short Term Securities		94.1%	5.9%	-	-	-	86,313,631
Domestic Fixed Interest	-	-	17.0%	27.7%	-	55.3%	2,926,981
Reinsurance Recoveries	-	36.4%	61.8%	-	-	1.8%	78,390,702

Currency Risk

Currency risk is the risk that movements in the New Zealand dollar ("NZD") will have an adverse impact on the profitability and financial stability of the entity. The Company is not exposed to material foreign exchange risk. However, movements in currency can have an impact on the cost of settling claims.

18. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT continued ...

Market Risk

Market risk is the risk of loss of current and future earnings from adverse moves in currency and the prices of other financial contracts.

There is a tendency for insurers operating within a specific market to be restricted to a certain extent by that market, in terms of premium increases they may wish to apply. The Company, due to the makeup of its customer base, whilst not immune, is less inclined to be restricted by such considerations. Any impact is likely to be insignificant such that premium rates is excluded from the sensitivity analysis.

Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its liabilities, principally claims payments, as and when they fall due. Liquidity risk is reviewed on an on-going basis.

There are a number of key policies in place which mitigate liquidity risk, including;
- the immediate availability of significant levels of funding by way of access to inter-company accounts
- conservative reinsurance retention levels
- the ability to access investment funds via the fund managers at short notice.

The table which follows analyses the Company's financial instruments at balance date, into the relevant maturity groupings based on the remaining period to the contractual maturity date.

	0-12 months	1-2 years	2-5 years	Over 5 years	Total
	$	$	$	$	$
31 March 2016					
Financial Assets					
Cash and Cash Equivalents	5,610,000	-	-	-	5,610,000
Advance to Parent Company	2,460,457	-	-	-	2,460,457
Receivables	263,233	-	-	-	263,233
Premiums Outstanding	15,107,182	-	-	-	15,107,182
Investments	80,128,851	200,000	-	1,824,999	82,153,850
	103,569,723	200,000	-	1,824,999	105,594,722
Financial Liabilities					
Payables	2,806,370	-	-	-	2,806,370
	2,806,370	-	-	-	2,806,370

	0-12 months	1-2 years	2-5 years	Over 5 years	Total
	$	$	$	$	$
31 March 2015					
Financial Assets					
Cash and Cash Equivalents	5,340,000	-	-	-	5,340,000
Receivables	93,662	-	-	-	93,662
Premiums Outstanding	15,220,781	-	-	-	15,220,781
Investments	86,812,631	-	601,700	1,826,281	89,240,612
	107,467,074	-	601,700	1,826,281	109,895,055
Financial Liabilities					
Payables	2,732,161	-	-	-	2,732,161
Advance from Parent Company	406,413	-	-	-	406,413
	3,138,574	-	-	-	3,138,574

18. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT continued …

Operating Risk

Operating risk is the risk of financial loss resulting from either external events, inadequate or failed systems or processes, or insufficiently skilled and trained staff.

There are a number of key policies in place which mitigate operating risk, including:

- the management and staff are responsible for identifying, assessing and managing operational risks in accordance with their roles and responsibilities.
- the Risk and Compliance team is charged with assisting staff identify risks and ensure the sufficiency of and on-going presence of suitable mitigants.

Sensitivity Analysis

The Company has two risks which are price sensitive to an extent that they may impact earnings materially - Insurance Risk and Market Risk (as it pertains to investments). These risks have been considered above.

Insurance risk exists relative to impacts on the provisioning for outstanding claims. The table below looks at how the direct risk variables can influence profit or loss and equity.

Risk Variable	**Movement**	**Impact on Profit and Equity** 2016 $	2015 $
Insurance Risk:			
Discount rate	Increase by 1%	-	262,000
	Decrease by 1%	-	(267,000)
Market Risk:			
Short term deposit rates	Increase by 1%	40,000	38,000
	Decrease by 1%	(40,000)	(38,000)
Bond interest rates	Increase by 0.50%	(16,000)	(27,000)
	Decrease by 0.50%	16,000	27,000

Classification of Financial Instruments

The carrying amounts of Assets and Liabilities have been classified into the categories defined in IAS 39 in the tables below.

	Loans and Receivables $	**Fair Value Through Profit or Loss** $	**Other Financial Liabilities** $	**Total** $
31 March 2016				
Assets				
Cash and Cash Equivalents	5,610,000	-	-	5,610,000
Advance to Parent Company	2,460,457	-	-	2,460,457
Receivables and Prepayments	263,233	-	-	263,233
Reinsurance Recoveries Outstanding	30,347,194	-	-	30,347,194
Premiums Outstanding	15,107,182	-	-	15,107,182
Investments	-	82,153,850	-	82,153,850
	53,788,066	82,153,850	-	135,941,916

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18. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT continued ...

	Loans and Receivables	Fair Value Through Profit or Loss	Other Financial Liabilities	Total
	$	$	$	$
31 March 2016				
Liabilities				
Payables and Provisions	-	-	4,017,517	4,017,517
Advance from Parent Company	-	-	-	-
	-	-	4,017,517	4,017,517
31 March 2015				
Assets				
Cash and Cash Equivalents	5,340,000	-	-	5,340,000
Receivables and Prepayments	93,662	-	-	93,662
Reinsurance Recoveries Outstanding	78,390,702			78,390,702
Premiums Outstanding	15,220,781	-	-	15,220,781
Investments	-	89,240,612	-	89,240,612
	99,045,145	89,240,612	-	188,285,757
Liabilities				
Payables and Provisions	-	-	4,133,264	4,133,264
Advance from Parent Company	-	-	406,413	406,413
	-	-	4,539,677	4,539,677

19. CONTRIBUTED EQUITY

	2016	2015
Ordinary Shares at 1 April	30,500,000	30,500,000
Ordinary Shares issued during the year	7,500,000	-
Ordinary Shares at 31 March	38,000,000	30,500,000
Ordinary Share Capital	$ 38,000,000	$ 30,500,000

Ordinary shares have no par value.

Capital Management policies and objectives

During the year the Company issued a further 7,500,000 shares at $1 per share to its parent company.

When managing capital, management's objective is to ensure the entity continues as a going concern, adheres to regulator requirements as well as to maintain optimal returns to shareholders and benefits for other stakeholders.

Directors may change the amount of dividends to be paid to shareholders (if any), return capital to shareholders, issue new shares or sell assets to reduce debt.

The Company is a licenced insurer under the Insurance (Prudential Supervision) Act 2010 and is required to retain a solvency margin of at least $0. That is, actual solvency capital as determined under the solvency standard should be at or above the minimum solvency capital level.

MIS has a capital management plan and reporting process in place to assist in maintaining continuous and full compliance with the solvency standard. At 31 March 2016 the Company was not in breach of any of its regulatory requirements, nor has it been at any stage during the current reporting period (2015: no breaches).

The Company's solvency position as per the solvency standards is as follows:

	2016	2015
	$	$
Actual Solvency Capital	32,630,146	36,500,520
Minimum Solvency Capital	14,200,029	18,436,267
Solvency Margin	18,430,117	18,064,253
Solvency Ratio	2.30	1.98

20. CONTINGENT LIABILITIES

The Company is subject to several legal disputes at 31 March 2016. The disputes are of a type common to any entity engaged in similar activities. Where such disputes lead to formal proceedings they will be defended by the Company.

21. RECONCILIATION OF CASH FLOWS

	2016	2015
	$	$
Reported Deficit after Taxation	(10,857,414)	(3,332,861)
Add Non-Cash Items:		
(Decrease) / Increase in Unearned Premium	(101,701)	590,206
Decrease in Outstanding Claims	(48,429,038)	(63,504,837)
(Decrease) / Increase in Deferred Tax	(512,960)	382,694
Change in Operating Assets and Liabilities		
Provision for Taxation	750,769	(204,992)
Accounts Payable	(48,420)	469,989
Premiums Outstanding	113,599	(192,737)
Receivables, Reinsurance Recoveries Outstanding and Claims Recoveries Outstanding	47,635,273	77,819,649
Net Cash Flows (for) / from Operating Activities	(11,449,892)	12,027,111

Building a better working world

Chartered Accountants

Independent Auditor's Report

To the Shareholders of Medical Insurance Society Limited

Report on the Financial Statements

We have audited the financial statements of Medical Insurance Society Limited on pages 1to 20, which comprise the statement of financial position of Medical Insurance Society Limited as at 31 March 2016, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

This report is made solely to the company's shareholders, as a body. Our audit has been undertaken so that we might state to the company's shareholders those matters we are required to state to them in an 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 company and the company's shareholders as a body, for our audit work, for this report, or for the opinions we have formed.

Directors' Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we have considered the internal control relevant to the company's preparation and fair presentation of the financial statements 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 company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates, as well as evaluating the overall presentation of the financial statements.

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

We provide other assurance services to the company. We have no other relationship with, or interest in, Medical Insurance Society Limited.

Partners and employees of our firm may deal with the company on normal terms within the ordinary course of trading activities of the business of the company.

Opinion

In our opinion, the financial statements on pages 1to 20 present fairly, in all material respects, the financial position of Medical Insurance Society Limited as at 31 March 2016 and its financial performance and cash flows for the year then ended in accordance with New Zealand Equivalents to International Financial Reporting Standards and International Financial Reporting Standards.

Marcus P. Olsen

29 June 2016
Wellington

Davies Financial and Actuarial Limited

17th June 2016

To: The Directors
Medical Insurance Society Limited

From: Peter Davies
Appointed Actuary

Re: Medical Insurance Society Limited: Report as at 31st March 2016 under Sections 77 and 78 of the Insurance (Prudential Supervision) Act 2010

You have asked me to prepare this report in terms of the above sections of the Act, and I would like to comment further as follows:

1. I have reviewed the actuarial information included in the audited accounts for Medical Insurance Society Limited as at 31st March 2016. "Actuarial information" includes the following:

   - claim provisions and unexpired risk 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.

Level 1, 3 Shea Terrace, Takapuna 0622
P.O. Box 35-258, Browns Bay, Auckland 0753
Telephone (09) 489-3551
Facsimile: (09) 489-6613
e-mail: pdavies@actuary.co.nz
home page: www.actuary.co.nz

3. I am independent with respect to Medical Insurance 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. Medical Insurance Society Limited exceeded the RBNZ minimum solvency margin requirement as at 31st March 2016. The company is also projected to exceed the minimum requirement at all times over the next three years.

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

Yours sincerely

Peter

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

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