MEDICAL INSURANCE SOCIETY LIMITED

STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 March 2017

	Note	2017 $000	2016 $000
GROSS WRITTEN PREMIUM		69,197	64,502
Less: Reinsurance Premiums		(16,532)	(16,308)
(Increase) / Decrease in Unearned Premium Reserve		(2,951)	102
NET EARNED PREMIUM		49,714	48,296
OPERATING EXPENSES			
Claims		(78,150)	(65,972)
Reinsurance Recoveries		37,287	12,514
Other Recoveries		5,462	3,995
Net Claims Incurred	4	(35,401)	(49,463)
Administration Expenses	5	(2,291)	(2,397)
Administration Fees paid to Parent Company	6	(10,432)	(14,244)
Total Operating Expenses		(48,124)	(66,104)
SURPLUS / (LOSS) ON UNDERWRITING		1,590	(17,808)
INVESTMENT INCOME			
Interest Received / (Paid) on Intercompany Advances	6	5	(0)
Cash and Short Term Deposits		78	101
Domestic Fixed Interest		3,417	2,502
Net Investment Income	16	3,500	2,603
Commission and Sundry Income		386	117
NET SURPLUS / (LOSS) BEFORE TAXATION		5,476	(15,088)
Taxation (Expense) / Credit	7	(1,532)	4,231
NET SURPLUS / (LOSS) AFTER TAXATION		3,944	(10,857)
Other Comprehensive Income Net of Taxation		-	-
TOTAL COMPREHENSIVE INCOME / (LOSS)		3,944	(10,857)

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 2017

	Note	2017 Share Capital $000	2017 Retained Earnings $000	2017 Total $000
OPENING BALANCE 1 APRIL 2016	19	38,000	(3,312)	34,688
Current Year Surplus		-	3,944	3,944
Other Comprehensive Income		-	-	-
Total Comprehensive Income		-	3,944	3,944
CLOSING BALANCE 31 MARCH 2017		38,000	632	38,632

	Note	2016 Share Capital $000	2016 Retained Earnings $000	2016 Total $000
OPENING BALANCE 1 APRIL 2015	19	30,500	7,546	38,046
Current Year Deficit		-	(10,857)	(10,857)
Other Comprehensive Income		-	-	-
Total Comprehensive Income		-	(10,857)	(10,857)
Issue of Share Capital	19	7,500	-	7,500
CLOSING BALANCE 31 MARCH 2016		38,000	(3,312)	34,688

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 2017

	Note	2017 $000	2016 $000
FUNDS EMPLOYED			
EQUITY			
Ordinary Shares	19	38,000	38,000
Retained Earnings		632	(3,312)
Total Equity		38,632	34,688
LIABILITIES			
Payables	8	3,996	4,018
Advance from Parent Company	6	1,585	-
Provision for Taxation		-	666
Total Current Liabilities		5,581	4,684
Deferred Tax	7	96	-
Provisions			
Provision for Unearned Premium	9	34,721	31,769
Provision for Outstanding Claims	4	73,994	71,402
Total Provisions		108,715	103,172
TOTAL FUNDS EMPLOYED		153,024	142,544
ASSETS			
Cash and Cash Equivalents	10	3,970	5,610
Receivables	11	1,507	263
Advance to Parent Company	6	-	2,460
Premiums Outstanding	12	16,161	15,107
Taxation Paid in Advance		1,121	-
Reinsurance Recoveries Outstanding	13	34,528	30,347
Claims Recoveries Outstanding	14	3,822	4,125
Deferred Acquisition Costs	15	344	418
Investments	16	91,571	82,154
		153,024	140,486
Deferred Tax	7	-	2,058
TOTAL ASSETS		153,024	142,544

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

....Director

....Director

Wellington, 28 June 2017

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

EY

MEDICAL INSURANCE SOCIETY LIMITED

STATEMENT OF CASH FLOWS

for the year ended 31 March 2017

	Note	2017 $000	2016 $000
CASH FLOWS FROM / (FOR) OPERATING ACTIVITIES			
Receipts from Policyholders		68,144	64,616
Sundry Income		386	117
Reinsurance Recoveries Received		33,106	60,558
Payment of Claims		(69,794)	(110,645)
Payments to Suppliers		(20,011)	(18,919)
Interest on Cash and Cash Equivalents		75	97
Income from Investment Funds		3,417	2,502
Administration Fees Paid to Parent Company		(10,432)	(14,244)
Interest Received / (Paid) on Advances to / (from) Parent Company		5	(0)
(Payment of Taxation) / Taxation Refund		(1,165)	4,468
Net Cash Flows from / (for) Operating Activities	21	3,731	(11,450)
CASH FLOWS (FOR) / FROM INVESTING ACTIVITIES			
Contributions to Investment Funds		(31,417)	(50,502)
Withdrawals from Investment Funds		22,000	57,589
Net Cash Flows (for) / from Investing Activities		(9,417)	7,087
CASH FLOWS FROM FINANCING ACTIVITIES			
Net Advances from / (to) Parent Company		4,046	(2,867)
Issue of Shares to Parent Company		-	7,500
Net Cash Flows from Financing Activities		4,046	4,633
NET (DECREASE) / INCREASE IN CASH HELD		(1,640)	270
Opening Cash Balance brought forward		5,610	5,340
CASH AND CASH EQUIVALENTS CARRIED FORWARD		3,970	5,610
CASH AND CASH EQUIVALENTS COMPRISE			
Cash at Bank	10	3,970	5,610
		3,970	5,610

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

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 ("MAS"), 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. The financial statements have also been prepared on a historical cost basis except for certain assets and liabilities as outlined in the accounting policies.

The financial statements are presented in New Zealand dollars and rounded to the nearest thousand dollars unless stated otherwise.

(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 2017, and have not been applied in preparing these financial statements. The Company has given consideration to the impact of the following standards but haven't progressed the assessment to a point where the impact (if any) can be quantified.

The final version of NZ IFRS 9 *Financial Instruments*, brings together the classification and measurement, impairment and hedge accounting phases of the International Accounting Standards Board's project. The standard will replace NZ IAS 39 *Financial Instruments*: *Recognition and Measurement* and all previous versions of NZ IFRS 9. Despite the requirement to apply NZ IFRS 9 in its entirety, entities may elect to early apply only the requirements for the presentation of gains and losses on financial liabilities designated as at fair value through profit or loss without applying the other requirements in the standard. An entity that elects to do so is required to disclose that fact and provide the related disclosures set out in paragraphs 10-11 of NZ IFRS 7 *Financial Instruments: Disclosures*.

The Company intends to adopt IFRS 9 in its entirety for the reporting period commencing 1 April 2018. The Group is yet to assess the impact of adopting NZ IFRS 9.

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. IFRS 15 has a lesser impact on insurance companies as insurance revenue is covered under the scope of IFRS 4 *Insurance Contracts*. Consideration will be given to the impact on other revenue streams.

The standard is effective for reporting periods beginning after 1 January 2018.

2. ACCOUNTING POLICIES continued...

(c) Statement of Compliance continued...

IFRS 17 *Insurance Contracts*, which replaces IFRS 4 *Insurance Contracts*, is a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. It combines a balance sheet measurement of insurance contract liabilities with the recognition of profit over the period that services are provided. Certain changes in the estimates of future cash flows and the risk adjustment are also recognised over the period that services are provided. The standard is effective for reporting periods beginning after 1 January 2021; early application is permitted. The group is yet to assess the impact of adopting of IFRS 17.

(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 in 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.

(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.

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

(k) Reinsurance Recoveries and Claims Recoveries Outstanding continued...

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

The Company has not adopted any standards during the period that give rise to material changes in either the financial position or in the disclosures required in the notes to the accounts.

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

	2017 $000	2016 $000
Claims paid during the year	69,794	110,645
Recoveries received during the year	(33,106)	(60,558)
Provision for Outstanding Claims at year end (new claims incurred during the year)	29,109	32,081
Provisioning at year end for Outstanding Claims incurred in prior years	46,012	46,508
Reinsurance and Other Recoveries Outstanding at year end	(38,350)	(34,473)
Increase /(Decrease) in IBNR (claims incurred but not reported) Provision at year end	573	(147)
Provision for Outstanding Claims at previous year end (excluding IBNR)	(70,020)	(118,302)
Reinsurance and Other Recoveries Outstanding at previous year end	34,473	82,277
Decrease in Risk Margin	(3,084)	(8,568)
Net Claims Expense per profit and loss	35,401	49,463

Provision for Outstanding Claims

	2017 $000	2016 $000
Expected Future Claim Payments (undiscounted)	58,884	53,781
IBNR Claims at year end	1,955	1,383
Risk Margin	13,155	16,239
Provision for Outstanding Claims per Statement of Financial Position	73,994	71,402

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:

	2017	2016
Risk margin - Canterbury earthquake claims	28.11%	38.95%
Risk margin - non earthquake	11.60%	13.28%
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	n/a

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 11.60% (2016: 13.28%) for non earthquake claims and 28.11% (2016: 38.95%) for Canterbury earthquake claims. The level of sufficiency or probability of adequacy is 75.00% (2016: 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. The majority of the claims that pre-date 2013 are Canterbury earthquake claims.

				Incident Year			
	Prior	2013 $000	2014 $000	2015 $000	2016 $000	2017 $000	Total $000
At end of incident year		28,221	30,135	27,882	32,357	43,723	
One year later		30,040	31,433	29,066	34,402		
Two years later		29,912	31,194	29,198			
Three years later		29,907	31,453				
Four years later		29,483					
Current estimated claim cost		29,483	31,453	29,198	34,402	43,723	
Payments		(29,064)	(31,411)	(28,928)	(33,519)	(30,850)	
Central estimate	44,399	418	42	270	883	12,872	58,884
IBNR net of risk margin							1,955
Risk margin							13,155
Gross outstanding claims liabilities							73,994
Recoveries from reinsurers and other third parties							(38,350)
Net outstanding claims liabilities							35,644

5. **ADMINISTRATION EXPENSES**

	2017 $000	2016 $000
Included within Administration Expenses are:		
Auditor Remuneration		
- Auditing of Financial Statements	51	50
- Prudential Regulation Audit	14	13

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 from the parent company of $1.6 million (2016: advance to the parent of $2.5 million) 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.

	2017 $000	2016 $000
Salaries and other short-term employee benefits	2,843	2,680
MAS directors fees	614	618
Total Compensation	3,457	3,298

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

7. **TAXATION**

	2017 $000	2016 $000
Net Surplus / (Deficit) before Taxation	5,476	(15,088)
Taxation at 28%	1,533	(4,225)
Taxation effect of permanent differences	15	12
Imputation Credits	(16)	(18)
Taxation Expense / (Credit) for the Year	1,532	(4,231)
Taxation Expense / (Credit) for the Year comprises:		
Current Tax	(622)	(3,773)
Deferred Tax	2,154	(457)
Taxation Expense / (Credit) per Statement of Comprehensive Income	1,532	(4,231)

Deferred Tax

31 March 2017	Opening Balance	Prior Period Adjustment	Statement of Comprehensive Income	Total
Deferred Tax Assets	$000	$000	$000	$000
Insurance Reserves and Provisions	2,175	14	(2,189)	-
	2,175	14	(2,189)	-
Deferred Tax Liabilities				
Insurance Reserves and Provisions	(117)	-	21	(96)
	(117)	-	21	(96)
Net Deferred Tax Liability	2,058	14	(2,168)	(96)

7. **TAXATION continued...**

Deferred Tax

31 March 2016

	Opening Balance $000	Prior Period Adjustment $000	Statement of Comprehensive Income $000	Total $000
Deferred Tax Liabilities				
Insurance Reserves and Provisions	(136)	-	19	(117)
	(136)	-	19	(117)
Deferred Tax Assets				
Tax losses to carry forward	1,681	56	439	2,175
	1,681	56	439	2,175
Net Deferred Tax Asset	1,545	56	457	2,058

Imputation Credit Account ("ICA")

	2017 $000	2016 $000
Opening balance	162	1,407
Movement during the period	(162)	(1,246)
Closing balance	-	162

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**

	2017 $000	2016 $000
Government Levies	832	786
GST Payable	1,037	1,211
Other Payables	2,127	2,020
	3,996	4,018

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:

	2017 $000	2016 $000
Balance at the beginning of the financial year	31,769	31,871
Premiums written during the year	69,197	64,502
Premiums earned during the year	(66,245)	(64,604)
Balance at the end of the financial year	34,721	31,769

Liability Adequacy Test

Appointed Actuary Peter Davies, in his report dated 22 May 2017, has reported on the Liability Adequacy Test undertaken by him as at 31 March 2017. He has concluded that the Provision for Unearned Premium as at that date, is not deficient (2016: 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**

	2017 $000	2016 $000
On Call Deposits	3,970	5,610
	3,970	5,610

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

EY

11. RECEIVABLES AND PREPAYMENTS

	2017 $000	2016 $000
Reinsurance Premiums Paid in Advance	12	256
Interest Due on Short Term Deposits	5	7
Recoveries due from EQC for Kaikoura earthquakes	1,490	-
	1,507	263

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

Following the 14 November 2016 Kaikoura earthquake, the Company entered into a Memorandum of Understanding with EQC whereby the Company would act as agent on EQC's behalf and would be responsible for lodging, assessing and settling certain claims arising out of the Kaikoura earthquakes for its customers.

The amounts recorded above reflects the amount due from EQC for claims paid and claim handling expenses incurred on EQC's behalf.

12. PREMIUMS OUTSTANDING

	2017 $000	2016 $000
Premiums Owing by General Insurance Policyholders	16,161	15,107
	16,161	15,107

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

	2017 $000	2016 $000
Gross Reinsurance Recoveries Outstanding	34,528	30,347
	34,528	30,347

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

	2017 $000	2016 $000
Claims Recoveries Owing by Third Parties	3,822	4,125
	3,822	4,125

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.

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 (2016: nil)
-accounts placed with a collection agency, 65.00% impairment (2016: 65.00%)
-amounts for which a regular payment arrangement has been agreed with the debtor, nil impairment (2016: 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

	2017 $000	2016 $000
Opening balance	418	486
Acquisition costs deferred during the year	344	418
Current period amortisation	(418)	(486)
Closing balance	344	418

16. INVESTMENTS

	2017 $000	2016 $000
On Call and Term Deposits	78,208	80,129
Domestic Fixed Interest	13,363	2,025
Total Investments	91,571	82,154
Realised Investment Income	3,100	2,716
Unrealised Investment Income	400	(113)
Total Investment Income	3,500	2,603

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, nor Claims Recoveries Outstanding are considered to be financial assets. Neither Deferred Tax, nor GST, nor insurance provisions are considered to be financial liabilities.

The carrying amounts of Investments is equal to or a reasonable approximation of their fair value.

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 $000	Level 2 $000	Level 3 $000	Total $000
31 March 2017				
Assets measured at fair value				
On Call and Term Deposits	-	78,208	-	78,208
Domestic Fixed Interest	-	12,951	412	13,363
31 March 2016				
Assets measured at fair value				
On Call and Term Deposits	-	80,129	-	80,129
Domestic Fixed Interest	-	1,825	200	2,025

EY

17. <u>FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES continued ...</u>

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 (2016: no transfers).

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.

The Company enters into financial derivatives to minimise the exposure to interest rate and currency movements. Currency hedges are principally entered into to protect the value of investments against adverse currency movements. Policy guidelines established by the Investment Committee prevent 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 -

	2017	2016
	$000	$000
Cash and Cash Equivalents	3,970	5,610
Receivables	1,507	263
Premiums Outstanding	16,161	15,107
Reinsurance Recoveries	34,528	30,347
Investments	91,571	82,154
	147,736	133,481

EY

18. **FINANCIAL INSTRUMENTS AND RISK MANAGEMENT continued ...**

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 meets regularly to develop and review investment strategy and monitor manager performance.

Statement of Financial Position investment exposures:	2017 $000	2016 $000
Cash and Cash Equivalents	3,970	5,610
Deposits and Short Term Securities	78,208	80,129
Domestic Fixed Interest	13,363	2,025
	95,541	87,764

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.

	2017	2016
10% - 20% of reinsurance recoveries	2	2
Total reinsurance recoveries	34,528	30,347

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

31 March 2017	AAA	AA	A	BBB	Below BBB	Not rated	Carrying Value $000
Cash and Cash Equivalents	-	100.0%	-	-	-	-	3,970
Short Term Securities	-	71.5%	28.5%	-	-	-	78,208
Domestic Fixed Interest	-	28.5%	-	61.3%	-	10.2%	13,363
Reinsurance Recoveries	-	38.1%	59.5%	-	-	2.4%	34,528

31 March 2016	AAA	AA	A	BBB	Below BBB	Not rated	Carrying Value $000
Cash and Cash Equivalents	-	100.0%	-	-	-	-	5,610
Short Term Securities	-	94.3%	5.7%	-	-	-	80,129
Domestic Fixed Interest	-	-	-	41.2%	-	58.8%	2,025
Reinsurance Recoveries	-	41.6%	56.4%	-	-	2.0%	30,347

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.

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.

18. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT continued ...

	0-12 months $000	1-2 years $000	2-5 years $000	Over 5 years $000	Total $000
31 March 2017					
Financial Assets					
Cash and Cash Equivalents	3,970	-	-	-	3,970
Advance to Parent Company	-	-	-	-	-
Receivables	1,507	-	-	-	1,507
Premiums Outstanding	16,161	-	-	-	16,161
Investments	78,620	-	818	12,133	91,571
	100,257	-	818	12,133	113,208
Financial Liabilities					
Payables	2,959	-	-	-	2,959
Advance from Parent Company	1,585	-	-	-	1,585
	4,544	-	-	-	4,544

	0-12 months $000	1-2 years $000	2-5 years $000	Over 5 years $000	Total $000
31 March 2016					
Financial Assets					
Cash and Cash Equivalents	5,610	-	-	-	5,610
Advance to Parent Company	2,460	-	-	-	2,460
Receivables	263	-	-	-	263
Premiums Outstanding	15,107	-	-	-	15,107
Investments	80,129	200	-	1,825	82,154
	103,570	200	-	1,825	105,595
Financial Liabilities					
Payables	2,806	-	-	-	2,806
	2,806	-	-	-	2,806

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.
- employing suitably qualified personnel to assist staff in identifying 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 2017 $000**	**2016 $000**
Insurance Risk:			
Change in outstanding claims	Increase by 1%	(297)	(277)
	Decrease by 1%	297	277
Market Risk:			
Short term deposit rates	Increase by 1%	29	40
	Decrease by 1%	(29)	(40)
Bond interest rates	Increase by 0.50%	(43)	(16)
	Decrease by 0.50%	43	16

18. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT continued ...

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
	$000	$000	$000	$000
31 March 2017				
Assets				
Cash and Cash Equivalents	3,970	-	-	3,970
Receivables and Prepayments	1,507	-	-	1,507
Reinsurance Recoveries Outstanding	34,528	-	-	34,528
Premiums Outstanding	16,161	-	-	16,161
Investments	-	91,571	-	91,571
	56,165	91,571	-	147,736
Liabilities				
Payables and Provisions	-	-	2,959	2,959
Advance from Parent Company	-	-	1,585	1,585
	-	-	4,544	4,544
31 March 2016				
Assets				
Cash and Cash Equivalents	5,610	-	-	5,610
Advance to Parent Company	2,460	-	-	2,460
Receivables and Prepayments	263	-	-	263
Reinsurance Recoveries Outstanding	30,347			30,347
Premiums Outstanding	15,107	-	-	15,107
Investments	-	82,154	-	82,154
	53,788	82,154	-	135,942
Liabilities				
Payables and Provisions	-	-	2,806	2,806
	-	-	2,806	2,806

19. CONTRIBUTED EQUITY

	2017	2016
Ordinary Shares at 1 April	38,000,000	30,500,000
Ordinary Shares issued during the year	-	7,500,000
Ordinary Shares at 31 March	38,000,000	38,000,000
Ordinary Share Capital	$ 38,000,000	$ 38,000,000

Ordinary shares have no par value.

Capital Management policies and objectives

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 2017 the Company was not in breach of any of its regulatory requirements, nor has it been at any stage during the current reporting period (2016: no breaches).

19. CONTRIBUTED EQUITY continued...

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

	2017 $000	2016 $000
Actual Solvency Capital	38,633	32,630
Minimum Solvency Capital	16,489	14,200
Solvency Margin	22,144	18,430
Solvency Ratio	2.34	2.30

20. CONTINGENT LIABILITIES

The Company is subject to several legal disputes at 31 March 2017. 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

	2017 $000	2016 $000
Reported Surplus / (Deficit) after Taxation	3,944	(10,857)
Add Non-Cash Items:		
Increase / (Decrease) in Unearned Premium	2,951	(102)
Increase / (Decrease) in Outstanding Claims	2,592	(48,429)
Increase / (Decrease) in Deferred Tax	2,154	(513)
Change in Operating Assets and Liabilities		
Provision for Taxation	(1,788)	751
Accounts Payable	52	(48)
Premiums Outstanding	(1,053)	114
Receivables, Reinsurance Recoveries Outstanding and Claims Recoveries Outstanding	(5,121)	47,635
Net Cash Flows from / (for) Operating Activities	3,731	(11,450)

Chartered Accountants

Independent Auditor's Report to the Shareholder of Medical Insurance Society Limited

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Medical Insurance Society Limited ("the Company") on pages 1 to 18 which comprise the statement of financial position of the Company as at 31 March 2017, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended of the Company, and the notes to the financial statements including a summary of significant accounting policies.

In our opinion, the financial statements on pages 1 to 18 present fairly, in all material respects, the financial position of the Company as at 31 March 2017 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.

This report is made solely to the Company's shareholder. Our audit has been undertaken so that we might state to the Company's shareholder those matters we are required to state to it 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 shareholder, for our audit work, for this report, or for the opinions we have formed.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (New Zealand). 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 Company 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.

We provide regulatory assurance services to the Company. We have no other relationship with, or interest in, the Company. 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.

Information other than the Financial Statements and Auditor's Report

The directors of the company are responsible for the Annual Report, which includes information other than the financial statements and auditor's report.

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

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained during the audit, or otherwise appears to be materially misstated.

If, based upon the work we have performed on the other information obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Directors' Responsibilities for the Financial Statements

The directors are responsible, on behalf of the entity, 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.

In preparing the financial statements, the directors are responsible for assessing on behalf of the entity the Company'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 directors either intend to liquidate the Company or cease operations, or have no realistic alternative but to do so.

Building a better working world

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 International Standards on Auditing (New Zealand) 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.

A further description of our responsibilities for the audit of the financial statements is located at the External Reporting Board website: https://www.xrb.govt.nz/standards-for-assurance-practitioners/auditors-responsibilities. This description forms part of our auditor's report.

The engagement partner on the audit resulting in this independent auditor's report is David Borrie.

Ernst & Young

Wellington
28 June 2017

Davies Financial and Actuarial Limited

19th June 2017

To: The Directors
Medical Insurance Society Limited

From: Peter Davies
Appointed Actuary

Re: Medical Insurance Society Limited: Report as at 31st March 2017 under Sections 77 and 78 of the Insurance (Prudential Supervision) Act 2010

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

1. I have reviewed the actuarial information included in the audited accounts for Medical Insurance Society Limited as at 31st March 2017. "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, Building 1, 61 Constellation Drive, Mairangi Bay 0632 Telephone (09) 489-3551 e-mail: pdavies@actuary.co.nz
P.O. Box 35-258, Browns Bay, Auckland 0753 Facsimile: (09) 489-6613 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 2017. The company is also 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

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

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