

# Medical Insurance Society Limited

## Annual report for the financial year ended 31 March 2018

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## Directors' report

The Board of Directors presents the Directors' report together with the financial report of Medical Insurance Society Limited (the Company) for the financial year ended 31 March 2018.

### Directors

The following persons were directors of the Company during the financial year and up to the date of this report:

Dr H E Aish	Dr F A Frizelle
Mr A C Hercus	Mr L R Knowles
Dr K A Baddock (appointed 1 May 2017)	Dr H W Rodenburg
Ms D R Dinsdale	Mr B C Sutton
Dr R J Tyler (retired 30 August 2017)	

Director remuneration is paid for by MAS, the parent company. Directors were in office for the entire period unless otherwise stated.

### Registered office

19 – 21 Broderick Road  
Johnsonville, Wellington  
PO Box 13042

### Auditor

Ernst & Young

### Principal activity

The Company provides general insurance products to Members of Medical Assurance Society Limited ("MAS").

### Review of operations

The net loss after income tax for the year-ended 31 March 2018 was \$2,913,000 (2017: net profit after tax of \$3,944,000).

The Company continues to be impacted by earthquake claims which have adversely impacted the underwriting profit for the year by \$10,890,000 (2017: profit positive \$116,000).

### Directors' remuneration, interests and employee remuneration

The Company, with its shareholder's approval, has applied the reporting exemptions available under section 211(3) of the Companies Act 1993.

### Dividends

During the financial year, the Company did not declare or pay any dividends (2017: nil).

### Subsequent Events

On 15 May 2018 a communication was sent to all Members of MAS outlining a proposal that would see MAS making a greater contribution to the health and wellbeing of New Zealanders.

It is proposed that MAS establishes a Charitable Trust with the purpose of funding health education, promotion and research in New Zealand. The proposal would involve the Group applying for charitable status and, if approved, the Group would be granted income tax exemption. Eligible Members will be asked to vote on this proposal at the August 2018 AGM.

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**MEDICAL INSURANCE SOCIETY LIMITED**  
**STATEMENT OF COMPREHENSIVE INCOME**  
for the year ended 31 March 2018

	Note	2018 \$000	2017 \$000
<b>GROSS WRITTEN PREMIUM</b>		74,328	69,197
Less: Reinsurance Premiums		(17,982)	(16,532)
Increase in Unearned Premium Reserve		(2,310)	(2,951)
<b>NET EARNED PREMIUM</b>		54,036	49,714
<b><u>OPERATING EXPENSES</u></b>			
Claims		(64,688)	(78,150)
Reinsurance Recoveries		13,459	37,287
Other Recoveries		2,864	5,462
Net Claims Incurred	4	(48,365)	(35,401)
Administration Expenses	5	(2,615)	(2,291)
Administration Fees paid to Parent Company	6	(11,286)	(10,432)
Total Operating Expenses		(62,266)	(48,124)
<b>(LOSS) / SURPLUS ON UNDERWRITING</b>		(8,230)	1,590
<b><u>INVESTMENT INCOME</u></b>			
Interest Received on Intercompany Advances	6	18	5
Cash and Short Term Deposits		69	78
Domestic Fixed Interest		3,498	3,417
Net Investment Income	16	3,585	3,500
Commission and Sundry Income		563	386
<b>NET (LOSS) / SURPLUS BEFORE TAXATION</b>		(4,082)	5,476
Taxation Credit / (Expense)	7	1,169	(1,532)
<b>NET (LOSS) / SURPLUS AFTER TAXATION</b>		(2,913)	3,944
Other Comprehensive Income Net of Taxation		-	-
<b>TOTAL COMPREHENSIVE (LOSS) / INCOME</b>		(2,913)	3,944

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

**MEDICAL INSURANCE SOCIETY LIMITED**

**STATEMENT OF CHANGES IN EQUITY**

for the year ended 31 March 2018

	Note	2018 Share Capital \$000	2018 Retained Earnings \$000	2018 Total \$000
<b>OPENING BALANCE 1 APRIL 2017</b>		38,000	632	38,632
Current Year Deficit		-	(2,913)	(2,913)
Other Comprehensive Income		-	-	-
Total Comprehensive Income		-	(2,913)	(2,913)
<b>CLOSING BALANCE 31 MARCH 2018</b>	19	38,000	(2,281)	35,719

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

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 2018

	Note	2018 \$000	2017 \$000
<b><u>FUNDS EMPLOYED</u></b>			
<b><u>EQUITY</u></b>			
Ordinary Shares	19	38,000	38,000
Retained Earnings		(2,281)	632
<b>Total Equity</b>		<b>35,719</b>	<b>38,632</b>
<b><u>LIABILITIES</u></b>			
Payables	8	5,978	3,996
Advance from Parent Company	6	-	1,585
<b>Total Current Liabilities</b>		<b>5,978</b>	<b>5,581</b>
Deferred Tax	7	155	96
<b><u>Provisions</u></b>			
Provision for Unearned Premium	9	37,031	34,721
Provision for Outstanding Claims	4	67,741	73,994
<b>Total Provisions</b>		<b>104,772</b>	<b>108,715</b>
<b><u>TOTAL FUNDS EMPLOYED</u></b>		<b>146,624</b>	<b>153,024</b>
<b><u>ASSETS</u></b>			
Cash and Cash Equivalents	10	4,230	3,970
Receivables	11	149	1,507
Advance to Parent Company	6	61	-
Premiums Outstanding	12	17,908	16,161
Current Tax Asset		2,292	1,121
Reinsurance Recoveries Outstanding	13	28,091	34,528
Claims Recoveries Outstanding	14	2,774	3,822
Deferred Acquisition Costs	15	551	344
Investments	16	90,568	91,571
		<b>146,624</b>	<b>153,024</b>
<b><u>TOTAL ASSETS</u></b>		<b>146,624</b>	<b>153,024</b>

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

 Director  
 Director

Wellington, 27 June 2018

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

**MEDICAL INSURANCE SOCIETY LIMITED**

**STATEMENT OF CASH FLOWS**

for the year ended 31 March 2018

	Note	2018 \$000	2017 \$000
<b><u>CASH FLOWS FROM OPERATING ACTIVITIES</u></b>			
Receipts from Policyholders		72,580	68,144
Sundry Income		564	386
Reinsurance Recoveries Received		19,896	33,106
Payment of Claims		(67,029)	(69,794)
Payments to Suppliers		(17,466)	(20,011)
Interest on Cash and Cash Equivalents		70	75
Income from Investment Funds		3,498	3,417
Administration Fees Paid to Parent Company		(11,286)	(10,432)
Interest Received on Advances to Parent Company		18	5
Taxation Refund / (Payment of Taxation)		58	(1,165)
Net Cash Flows from Operating Activities	21	903	3,731
<b><u>CASH FLOWS FROM / (FOR) INVESTING ACTIVITIES</u></b>			
Contributions to Investment Funds		(26,998)	(31,417)
Withdrawals from Investment Funds		28,000	22,000
Net Cash Flows from / (for) Investing Activities		1,002	(9,417)
<b><u>CASH FLOWS (FOR) / FROM FINANCING ACTIVITIES</u></b>			
Net Advances from / (to) Parent Company		(1,645)	4,046
Net Cash Flows (for) / from Financing Activities		(1,645)	4,046
<b>NET INCREASE / (DECREASE) IN CASH HELD</b>		260	(1,640)
Opening Cash Balance brought forward		3,970	5,610
<b>CASH AND CASH EQUIVALENTS CARRIED FORWARD</b>		4,230	3,970
<b><u>CASH AND CASH EQUIVALENTS COMPRISE</u></b>			
Cash at Bank	10	4,230	3,970
		4,230	3,970

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

## **MEDICAL INSURANCE SOCIETY LIMITED**

### **NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS for the year ended 31 March 2018**

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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 ("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 branch sites throughout New Zealand.

##### **(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 2018, and have not been applied in preparing these financial statements.

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 company does not expect it to have a significant impact on the financial statements.

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* and investment income is covered under financial instruments standards.

The company does not expect it to have a significant impact on the financial statements.

The standard is effective for the reporting period commencing 1 April 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 JBWere and Bancorp Treasury Services Limited, 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 interest rate swaps. 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) 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.

There is significant uncertainty to the net claims arising from the Canterbury earthquakes and significant judgment is required in regards to elements such as; increases in building claim costs, apportionment between earthquake events, claim handling expenses and future additional claims being received from EQC. Due to these uncertainties a higher risk margin is carried for earthquake claims than for non-earthquake claims.

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.

#### 4. CLAIMS

	2018 \$000	2017 \$000
Claims paid during the year	67,029	69,794
Recoveries received during the year	(19,896)	(33,106)
Provision for Outstanding Claims at year end (new claims incurred during the year)	21,806	29,109
Provisioning at year end for Outstanding Claims incurred in prior years	43,956	46,012
Reinsurance and Other Recoveries Outstanding at year end	(30,865)	(38,350)
Increase /(Decrease) in IBNR (claims incurred but not reported) Provision at year end	175	573
Provision for Outstanding Claims at previous year end (excluding IBNR)	(72,039)	(70,020)
Reinsurance and Other Recoveries Outstanding at previous year end	38,350	34,473
Decrease in Risk Margin	(151)	(3,084)
Net Claims Expense per profit and loss	48,365	35,401

#### Provision for Outstanding Claims

	2018 \$000	2017 \$000
Expected Future Claim Payments (undiscounted)	52,607	58,884
IBNR Claims at year end	2,130	1,955
Risk Margin	13,004	13,155
Provision for Outstanding Claims per Statement of Financial Position	67,741	73,994

#### **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:

	2018	2017
Risk margin - earthquake claims	25.00% - 32.98%	25.00% - 28.11%
Risk margin - non earthquake	12.70%	11.60%
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 12.70% (2017: 11.60%) for non earthquake claims and 25.00% - 32.98% (2017: 25.00% - 28.11%) for earthquake claims. The level of sufficiency or probability of adequacy is 75.00% (2017: 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 2014 are Canterbury earthquake claims.

	Prior	2014 \$000	2015 \$000	Incident Year 2016 \$000	2017 \$000	2018 \$000	Total \$000
At end of incident year		30,135	27,882	32,357	47,588	37,272	
One year later		31,433	29,066	34,402	52,788		
Two years later		31,194	29,198	34,559			
Three years later		31,453	29,130				
Four years later		31,493					
Current estimated claim cost		31,493	29,130	34,559	52,788	37,272	
Payments		(31,482)	(29,018)	(34,279)	(49,118)	(28,621)	
Central estimate	39,883	11	112	280	3,670	8,651	52,607
IBNR net of risk margin							2,130
Risk margin							13,004
Gross outstanding claims liabilities							67,741
Recoveries from reinsurers and other third parties							(30,865)
Net outstanding claims liabilities							36,876

<b>5. ADMINISTRATION EXPENSES</b>	<b>2018</b>	<b>2017</b>
Included within Administration Expenses are:	<b>\$000</b>	<b>\$000</b>
Auditor Remuneration		
- Auditing of Financial Statements	63	51
- Prudential Regulation Audit	14	14

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 \$0.1 million (2017: advance from the parent of \$1.6 million) is unsecured.
- d) No staff are directly employed by the Company. All staff 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.

	<b>2018</b>	<b>2017</b>
	<b>\$000</b>	<b>\$000</b>
Salaries and other short-term employee benefits	3,103	2,843
MAS directors fees	644	614
Total Compensation	3,747	3,457

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

<b>7. TAXATION</b>	<b>2018</b>	<b>2017</b>
	<b>\$000</b>	<b>\$000</b>
Net (Deficit) / Surplus before Taxation	(4,082)	5,476
Taxation at 28%	(1,143)	1,533
Taxation effect of permanent differences	(14)	15
Imputation Credits	(12)	(16)
Taxation (Credit) / Expense for the Year	(1,169)	1,532
Taxation (Credit) / Expense for the Year comprises:		
Current Tax	(1,228)	(622)
Deferred Tax	59	2,154
Taxation (Credit) / Expense per Statement of Comprehensive Income	(1,169)	1,532

#### Deferred Tax

31 March 2018	Opening Balance	Prior Period Adjustment	Statement of Comprehensive Income	Total
	\$000	\$000	\$000	\$000
<b>Deferred Tax Liabilities</b>				
Insurance Reserves and Provisions	(96)	-	(59)	(155)
Net Deferred Tax Liability	(96)	-	(59)	(155)



7. **TAXATION continued...**

**Deferred Tax**

31 March 2017

	Opening Balance	Prior Period Adjustment	Statement of Comprehensive Income	Total
	\$000	\$000	\$000	\$000
<b>Deferred Tax Liabilities</b>				
Insurance Reserves and Provisions	(117)	-	21	(96)
<b>Deferred Tax Assets</b>				
Insurance Reserves and Provisions	2,175	14	(2,189)	-
Net Deferred Tax Asset	2,058	14	(2,168)	(96)

**Imputation Credit Account ("ICA")**

	2018 \$000	2017 \$000
Opening balance	-	162
Movement during the period	-	(162)
Closing balance	-	-

As a member of the Medical Assurance Society Consolidated Group for tax purposes, movements 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.

8. **PAYABLES**

	2018 \$000	2017 \$000
Government Levies	1,174	832
GST Payable	2,015	1,037
Other Payables	2,789	2,127
	5,978	3,996

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:

	2018 \$000	2017 \$000
Balance at the beginning of the financial year	34,721	31,769
Premiums written during the year	74,328	69,197
Premiums earned during the year	(72,018)	(66,245)
Balance at the end of the financial year	37,031	34,721

**Liability Adequacy Test**

Appointed Actuary Peter Davies, in his report dated 11 June 2018, has reported on the Liability Adequacy Test undertaken by him as at 31 March 2018. He has concluded that the Provision for Unearned Premium as at that date, is not deficient (2017: 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**

	2018 \$000	2017 \$000
On Call Deposits	4,230	3,970
	4,230	3,970

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

**11. RECEIVABLES AND PREPAYMENTS**

	2018	2017
	\$000	\$000
Reinsurance Premiums Paid in Advance	120	12
Interest Due on Short Term Deposits	6	5
Recoveries due from EQC for Kaikoura earthquakes	22	1,490
	<u>149</u>	<u>1,507</u>

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**

	2018	2017
	\$000	\$000
Premiums Owing by General Insurance Policyholders	17,908	16,161
	<u>17,908</u>	<u>16,161</u>

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**

	2018	2017
	\$000	\$000
Gross Reinsurance Recoveries Outstanding	28,091	34,528
	<u>28,091</u>	<u>34,528</u>

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**

	2018	2017
	\$000	\$000
Gross Claims Recoveries Owing by Third Parties	5,142	4,725
Impairment of recoveries	(2,368)	(600)
	<u>2,774</u>	<u>4,125</u>

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, 40.00% impairment (2017: nil)
- accounts placed with a collection agency, 80.00% impairment (2017: 65.00%)
- amounts for which a regular payment arrangement has been agreed with the debtor, 40.00% impairment (2017: 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.

<b>15. DEFERRED ACQUISITION COSTS</b>	<b>2018</b>	<b>2017</b>
	<b>\$000</b>	<b>\$000</b>
Opening balance	344	418
Acquisition costs deferred during the year	551	344
Current period amortisation	(344)	(418)
Closing balance	551	344
<b>16. INVESTMENTS</b>	<b>2018</b>	<b>2017</b>
	<b>\$000</b>	<b>\$000</b>
On Call and Term Deposits	78,158	78,208
Domestic Fixed Interest	12,411	13,363
Total Investments	90,568	91,571
Realised Investment Income	3,428	3,100
Unrealised Investment Income	157	400
Total Investment Income	3,585	3,500

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.

The fair value for fixed interest investments is determined by reference to quoted prices in active markets for similar assets or liabilities. Where not available or the market is considered to be lacking sufficient depth to be active, fair value is determined by reference to other significant inputs that are based on observable market data, for example interest rate yield curves and the maturity profile.

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.

Taxation Paid in Advance, Deferred Tax, Claims Recoveries Outstanding and GST are considered to be financial statements.

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).

	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
	<b>\$000</b>	<b>\$000</b>	<b>\$000</b>	<b>\$000</b>
<b>31 March 2018</b>				
<b>Assets measured at fair value</b>				
On Call and Term Deposits	-	78,158	-	78,158
Domestic Fixed Interest	-	12,411	-	12,411
<b>31 March 2017</b>				
<b>Assets measured at fair value</b>				
On Call and Term Deposits	-	78,208	-	78,208
Domestic Fixed Interest	-	12,951	412	13,363
<b>Reconciliation of Level 3 Investments</b>				<b>Total</b>
				<b>\$000</b>
Value at 31 March 2017 (Level 3)				412
Total gains recognised in the statement of comprehensive income				148
Settlements				560
Value at 31 March 2018 (Level 3)				-



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

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.

There have been no transfers between the levels during the financial year (2017: 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 -

	2018	2017
	\$000	\$000
Cash and Cash Equivalents	4,230	3,970
Receivables	149	1,507
Premiums Outstanding	17,908	16,161
Reinsurance Recoveries	28,091	34,528
Investments	90,568	91,571
	140,946	147,736

## 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. 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:	<b>2018</b>	<b>2017</b>
	<b>\$000</b>	<b>\$000</b>
Cash and Cash Equivalents	4,230	3,970
Deposits and Short Term Securities	78,158	78,208
Domestic Fixed Interest	12,411	13,363
	<b>94,798</b>	<b>95,541</b>

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.

	<b>2018</b>	<b>2017</b>
10% - 20% of reinsurance recoveries	2	2
Total reinsurance recoveries	28,091	34,528

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.

	AAA	AA	A	BBB	Below BBB	Not rated	Carrying Value \$000
<b>31 March 2018</b>							
Cash and Cash Equivalents	-	100.0%	-	-	-	-	4,230
Short Term Securities	-	89.0%	11.0%	-	-	-	78,158
Domestic Fixed Interest	-	43.4%	-	48.4%	-	8.2%	12,411
Reinsurance Recoveries	-	36.6%	60.9%	-	-	2.5%	28,091
	AAA	AA	A	BBB	Below BBB	Not rated	Carrying Value \$000
<b>31 March 2017</b>							
Cash and Cash Equivalents	-	100.0%	-	-	-	-	3,970
Short Term Securities	-	71.5%	28.5%	-	-	-	78,208
Domestic Fixed Interest	-	29%	-	61.3%	-	10.2%	13,363
Reinsurance Recoveries	-	38.1%	59.5%	-	-	2.4%	34,528

### 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



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

	0-12 months	1-2 years	2-5 years	Over 5 years	Total
	\$000	\$000	\$000	\$000	\$000
<b>31 March 2018</b>					
<b>Financial Assets</b>					
Cash and Cash Equivalents	4,230	-	-	-	4,230
Advance to Parent Company	61	-	-	-	61
Receivables	149	-	-	-	149
Premiums Outstanding	17,908	-	-	-	17,908
Investments	78,158	-	2,366	10,045	90,568
	100,505	-	2,366	10,045	112,916
<b>Financial Liabilities</b>					
Payables	3,963	-	-	-	3,963
	3,963	-	-	-	3,963
<b>31 March 2017</b>					
<b>Financial Assets</b>					
Cash and Cash Equivalents	3,970	-	-	-	3,970
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
<b>Financial Liabilities</b>					
Payables	2,959	-	-	-	2,959
Advance from Parent Company	1,585	-	-	-	1,585
	4,544	-	-	-	4,544

## 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	
		2018 \$000	2017 \$000
<b>Insurance Risk:</b>			
Change in outstanding claims	Increase by 1%	(285)	(297)
	Decrease by 1%	285	297
<b>Market Risk:</b>			
Short term deposit rates	Increase by 1%	30	29
	Decrease by 1%	(30)	(29)
Bond interest rates	Increase by 0.50%	(134)	(43)
	Decrease by 0.50%	134	43

## 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
<b>31 March 2018</b>				
<b>Assets</b>				
Cash and Cash Equivalents	4,230	-	-	4,230
Advance to Parent Company	61	-	-	61
Receivables and Prepayments	149	-	-	149
Reinsurance Recoveries Outstanding	28,091	-	-	28,091
Premiums Outstanding	17,908	-	-	17,908
Investments	-	90,568	-	90,568
	50,439	90,568	-	141,007
<b>Liabilities</b>				
Payables and Provisions	-	-	3,963	3,963
	-	-	3,963	3,963
<b>31 March 2017</b>				
<b>Assets</b>				
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
<b>Liabilities</b>				
Payables and Provisions	-	-	2,959	2,959
Advance from Parent Company	-	-	1,585	1,585
	-	-	4,544	4,544

## 19. CONTRIBUTED EQUITY

	2018	2017
Ordinary Shares at 1 April	38,000,000	38,000,000
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 2018 the Company was not in breach of any of its regulatory requirements, nor has it been at any stage during the current reporting period (2017: no breaches).

**19. CONTRIBUTED EQUITY continued...**

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

	2018 \$000	2017 \$000
Actual Solvency Capital	35,720	38,633
Minimum Solvency Capital	16,701	16,489
Solvency Margin	19,019	22,144
Solvency Ratio	2.14	2.34

**20. CONTINGENT LIABILITIES**

The Company is subject to several legal disputes at 31 March 2018. 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. Provisions are not required with respect to these matters as it is not probable that a future sacrifice of economic benefits will be required or the amount is not reliably measurable. If settlement becomes probable, a provision is recognised.

**21. RECONCILIATION OF CASH FLOWS**

	2018 \$000	2017 \$000
Reported (Deficit) / Surplus after Taxation	(2,913)	3,944
Add Non-Cash Items:		
Increase in Unearned Premium	2,310	2,951
(Decrease) / Increase in Outstanding Claims	(6,253)	2,592
Increase in Deferred Tax	58	2,154
Change in Operating Assets and Liabilities		
Provision for Taxation	(1,170)	(1,788)
Accounts Payable	1,775	52
Premiums Outstanding	(1,748)	(1,053)
Receivables, Reinsurance Recoveries Outstanding and Claims Recoveries Outstanding	8,844	(5,121)
Net Cash Flows from Operating Activities	903	3,731

**22. SUBSEQUENT EVENT**

On 15 May 2018 a communication was sent to all Members of MAS outlining a proposal that would see MAS making a greater contribution to the health and wellbeing of New Zealanders.

It is proposed that MAS establishes a Charitable Trust with the purpose of funding health education, promotion and research in New Zealand. The proposal would involve the Group applying for charitable status and, if approved, the Group would be granted income tax exemption. Eligible Members will be asked to vote on this proposal at the August 2018 AGM. If MAS was registered as a Charitable Trust the deferred tax balances at that point in time would be derecognised.



## Independent Auditor's Report

### To the Shareholder of Medical Insurance Society Limited

#### Opinion

We have audited the financial statements of Medical Insurance Society Limited ('the Company') on pages 2 to 19, which comprise the statement of financial position of the Company as at 31 March 2018, 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 2 to 19 present fairly, in all material respects, the financial position of the Company as at 31 March 2018 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 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 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.

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

#### Information other than the financial statements and auditor's report

The directors 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 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.

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.

### **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.

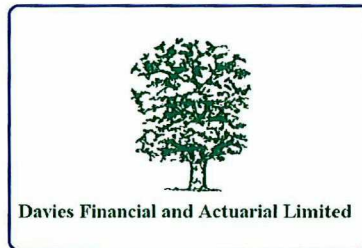
A further description of our responsibilities for the audit of the financial statements is located at the External Reporting Board website: <https://www.xrb.govt.nz/standards-for-assurance-practitioners/auditors-responsibilities/audit-report-6/>. This description forms part of our auditor's report.

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



Wellington  
27 June 2018





20<sup>th</sup> June 2018

To: The Directors  
Medical Insurance Society Limited

From: Peter Davies  
Appointed Actuary

**Re: Medical Insurance Society Limited: Report as at 31<sup>st</sup> March 2018 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 31<sup>st</sup> March 2018. "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.

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 minimum solvency requirement under the RBNZ Solvency Standard for Non-Life Insurance 2014, as at 31<sup>st</sup> March 2018. 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

A handwritten signature in blue ink, appearing to read 'Peter', with a long horizontal flourish underneath.

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