

Medical Insurance Society Limited

Annual report for the financial year ended 31 March 2019

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Exemptions

Medical Insurance Society Limited, with the approval of its shareholder Medical Assurance Society New Zealand Limited, has applied the reporting exemptions available under section 211(3) of the Companies Act 1993.

MEDICAL INSURANCE SOCIETY LIMITED
STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 March 2019

	Note	2019 \$000	2018 \$000
GROSS WRITTEN PREMIUM		79,565	74,328
Less: Reinsurance Premiums		(18,706)	(17,982)
Increase in Unearned Premium Reserve		(2,613)	(2,310)
NET EARNED PREMIUM		58,246	54,036
<u>OPERATING EXPENSES</u>			
Claims		(45,274)	(64,688)
Reinsurance Recoveries		5,365	13,459
Other Recoveries		1,833	2,864
Net Claims Incurred	4	(38,076)	(48,365)
Administration Expenses	5	(2,052)	(2,615)
Administration Fees paid to Parent Company	6	(11,046)	(11,286)
Total Operating Expenses		(51,174)	(62,266)
SURPLUS / (LOSS) ON UNDERWRITING		7,072	(8,230)
<u>INVESTMENT INCOME</u>			
Interest Received on Intercompany Advances	6	46	18
Cash and Short Term Deposits		76	69
Domestic Fixed Interest		3,444	3,498
Net Investment Income	17	3,566	3,585
Commission and Sundry Income		169	563
NET SURPLUS / (LOSS) BEFORE TAXATION		10,807	(4,082)
Taxation (Expense) / Credit	7	(3,019)	1,169
NET SURPLUS / (LOSS) AFTER TAXATION		7,788	(2,913)
Other Comprehensive Income Net of Taxation		-	-
TOTAL COMPREHENSIVE (LOSS) / INCOME		7,788	(2,913)

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 2019

	Note	2019 Share Capital \$000	2019 Retained Earnings \$000	2019 Total \$000
OPENING BALANCE 1 APRIL 2018		38,000	(2,281)	35,719
Current Year Surplus		-	7,788	7,788
Other Comprehensive Income		-	-	-
Total Comprehensive Income		-	7,788	7,788
CLOSING BALANCE 31 MARCH 2019	21	38,000	5,507	43,507

		2018 Share Capital \$000	2018 Retained Earnings \$000	2018 Total \$000
OPENING BALANCE 1 APRIL 2017		38,000	632	38,632
Current Year Deficit		-	(2,913)	(2,913)
Other Comprehensive Income		-	-	-
Total Comprehensive Income		-	(2,913)	(2,913)
CLOSING BALANCE 31 MARCH 2018	21	38,000	(2,281)	35,719

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 2019

	Note	2019 \$000	2018 \$000
<u>FUNDS EMPLOYED</u>			
<u>EQUITY</u>			
Ordinary Shares	21	38,000	38,000
Retained Earnings		5,507	(2,281)
Total Equity		43,507	35,719
<u>LIABILITIES</u>			
Trade and Other Payables	8	6,972	4,744
Advance from Parent Company	6	1,690	-
Provision for Taxation		1,211	-
Other Insurance Liabilities	10	1,845	1,234
Total Current Liabilities		11,718	5,978
Deferred Tax	7	129	155
<u>Provisions</u>			
Provision for Unearned Premium	9	39,644	37,031
Provision for Outstanding Claims	4	43,128	67,741
Total Provisions		82,772	104,772
<u>TOTAL FUNDS EMPLOYED</u>		138,126	146,624
<u>ASSETS</u>			
Cash and Cash Equivalents	11	4,306	4,236
Other Insurance Assets	12	100	143
Advance to Parent Company	6	-	61
Premiums Outstanding	13	18,931	17,908
Current Tax Asset		-	2,292
Reinsurance Recoveries Outstanding	14	16,986	28,091
Claims Recoveries Outstanding	15	1,333	2,774
Deferred Acquisition Costs	16	458	551
Investments	17	96,012	90,568
TOTAL ASSETS		138,126	146,624

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


Director

Director

Wellington, 26 June 2019

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 2019

	Note	2019 \$000	2018 \$000
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>			
Receipts from Policyholders		78,542	72,580
Sundry Income		169	564
Reinsurance Recoveries Received		16,442	19,896
Payment of Claims		(66,585)	(67,029)
Payments to Suppliers		(17,783)	(17,460)
Interest on Cash and Cash Equivalents		76	70
Income from Investment Funds		3,444	3,498
Administration Fees Paid to Parent Company		(11,046)	(11,286)
Interest Received on Advances to Parent Company		46	18
Taxation Refund		458	58
Net Cash Flows from Operating Activities	22	3,763	909
<u>CASH FLOWS (FOR) / FROM INVESTING ACTIVITIES</u>			
Contributions to Investment Funds		(32,000)	(26,998)
Withdrawals from Investment Funds		26,556	28,000
Net Cash Flows (for) / from Investing Activities		(5,444)	1,002
<u>CASH FLOWS FROM / (FOR) FINANCING ACTIVITIES</u>			
Net Advances from / (to) Parent Company		1,751	(1,645)
Net Cash Flows from / (for) Financing Activities		1,751	(1,645)
NET INCREASE IN CASH HELD		70	266
Opening Cash Balance brought forward		4,236	3,970
CASH AND CASH EQUIVALENTS CARRIED FORWARD		4,306	4,236
<u>CASH AND CASH EQUIVALENTS COMPRISE</u>			
On Call Deposits	11	4,306	4,236
		4,306	4,236

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 2019

1. CORPORATE INFORMATION

REGISTERED OFFICE

19 - 21 Broderick Road
Johnsonville
Wellington

The parent and ultimate parent of Medical Insurance Society Limited ("the Company" or "MIS") is Medical Assurance Society New Zealand Limited ("the Parent" or "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 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 Companies Act 1993 and 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-oriented 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 are not yet effective for the period ended 31 March 2019, and have not been applied in preparing these financial statements. The Company has given consideration to the impact of the following standards but hasn't progressed the assessment to a point where the impact (if any) can be quantified.

NZ IFRS 17 Insurance Contracts, which replaces NZ IFRS 4 Insurance Contracts, is a comprehensive new accounting standard which establishes principles for the recognition, measurement, presentation and disclosure of insurance contracts. The standard is effective for reporting periods beginning after 1 January 2022; early application is permitted. The Company is yet to assess the impact of adopting the standard.

(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 ("GST").

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.

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

(e) Claims and Provision for Outstanding Claims continued...

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) Financial Instruments - Initial Recognition and Subsequent Measurement

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. All financial assets and liabilities are recognised initially at fair value plus, in the case of a financial asset or liability not at fair value through profit or loss, transaction costs.

i) Financial Assets

Financial assets are classified as subsequently measured at amortised cost, fair value through other comprehensive income (OCI), or fair value through profit or loss.

Investments

Investment funds, which are managed by JBWere and Bancorp Treasury Services Limited, are classified as financial assets at fair value through profit or loss and any movements in fair value, interest and dividend income, and fund distributions are recognised in the statement of comprehensive income as Investment Income. Investment Income is split by asset class.

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. The Company's policy is to manage investments to give the best possible yield whilst taking a prudent approach to risk.

The Company measures financial assets at amortised cost if:

(a) the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows and

(b) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets at amortised cost are subsequently measured using the effective interest (EIR) method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired.

Advance to Parent Company

Classified as a financial asset measured at amortised cost. The allowance for expected credit losses has been assessed as zero at 31 March 2018 as there were no actual or expected credit losses. The assessment is not applicable at 31 March 2019 as the Advance is a Financial Liability.

Claims Recoveries Outstanding

Classified as a financial asset measured at amortised cost. During the normal course of the Company's activities, claims are paid which will result in a contractual right to seek recovery from third parties (which may include other insurers). The detail of the impairment assessment and total expected credit losses are set out in Note 15.

ii) Financial Liabilities

Financial liabilities are classified as subsequently measured at amortised cost or financial liabilities at fair value through profit or loss. All financial liabilities are measured at amortised cost using the EIR method. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the EIR amortisation process.

Advance from Parent Company

Classified as a financial liability measured at amortised cost.

2. ACCOUNTING POLICIES continued...

(g) Financial Instruments - Initial Recognition and Subsequent Measurement continued...

Trade and Other Payables

Classified as a financial liability measured at amortised cost.

(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) 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.

(j) Reinsurance Recoveries

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. 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.

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.

(k) Assets Backing Insurance Liabilities

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

(l) 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.

2. ACCOUNTING POLICIES continued...

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

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.

Other taxes

Revenues, expenses and assets are recognised net of the amount of 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 Trade and Other 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.

(m) 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.

(n) Other Insurance Assets and Liabilities

Reinsurance Premium Payable

Accrued but not yet paid reinsurance premiums.

Premiums Received in Advance

Premium revenue received in advance from policyholders for policies starting subsequent to balance date.

Reinsurance Premiums Paid in Advance

Reinsurance premiums already paid for the period subsequent to balance date.

(o) Changes in Accounting Policies

The Company adopted NZ IFRS 9 and NZ IFRS 15 for the first time from 1 April 2018. The nature and effect of the changes as a result of adoption of these new accounting standards are described below.

NZ IFRS 9 *Financial Instruments* replaces NZ IAS 39 *Financial Instruments: Recognition and Measurement* for annual periods beginning on or after 1 January 2018, bringing together all three aspects of the accounting for financial instruments: classification and measurement; impairment; and hedge accounting. No restatement of comparative balances was required; however, comparative information was reclassified based on changes in the classification of financial assets and liabilities.

The classification and measurement requirements of NZ IFRS 9 did not have a significant impact. Changes in the classification of the Company's assets and liabilities are summarised below:

Assets As at 31 March 2019		NZ IFRS 9 Classification		Outside Scope of NZ IFRS 9	
		Amortised Cost	Fair Value Through Profit or Loss	Insurance Asset	Cash and Cash Equivalents
NZ IAS 39 Classification	\$000	\$000	\$000	\$000	\$000
Receivables*	106	-	-	100	6
Claims Recoveries Outstanding	1,333	1,333	-	-	-
Investments	96,012	-	96,012	-	-
Cash and Cash Equivalents*	4,300	-	-	-	4,306

*Change in carrying amount of Cash and Cash Equivalents is a result of reclassifying Interest Receivable.

Liabilities As at 31 March 2019		Amortised Cost	Fair Value Through Profit or Loss	Insurance Liability
		\$000	\$000	\$000
NZ IAS 39 Classification	\$000	\$000	\$000	\$000
Payables**	8,817	6,972	-	1,845
Advance from Parent Company	1,690	1,690	-	-

**Payables is now classified as Trade and Other Payables in the Statement of Financial Position.

2. ACCOUNTING POLICIES continued...

(o) Changes in Accounting Policies continued...

Assets As at 31 March 2018		NZ IFRS 9 Classification		Outside Scope of NZ IFRS 9	
		Amortised Cost	Fair Value Through Profit or Loss	Insurance Asset	Cash and Cash Equivalents
NZ IAS 39 Classification	\$000	\$000	\$000	\$000	\$000
Receivable	149	-	-	143	6
Advance to Parent Company	61	61	-	-	-
Claims Recoveries Outstanding	2,774	2,774	-	-	-
Investments	90,568	-	90,568	-	-
Cash and Cash Equivalents	4,230	-	-	-	4,236

Liabilities As at 31 March 2018		Amortised Cost		Insurance Liability	
		Amortised Cost	Fair Value Through Profit or Loss	Insurance Liability	
NZ IAS 39 Classification	\$000	\$000	\$000	\$000	
Payables	5,978	4,744	-	1,234	

NZ IFRS 15 Revenue from Contracts with Customers replaces NZ IAS 18 Revenue for annual periods beginning on or after 1 January 2018. NZ IFRS 15 establishes a five-step model to account for revenue arising from contracts with customers and requires that revenue be recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The standard did not have a material impact on the Company as it does not affect any significant revenue streams. Insurance premiums are accounted for under IFRS 4 Insurance Contracts, while investment income is accounted for under IFRS 9. No restatement of comparative balances was required.

(p) Comparatives

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

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 judgement 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	\$000	\$000
Claims paid during the year	66,585	67,029
Recoveries received during the year	(16,442)	(19,896)
Provision for Outstanding Claims at year end (new claims incurred during the year)	20,665	21,806
Provisioning at year end for Outstanding Claims incurred in prior years	23,137	43,956
Reinsurance and Other Recoveries Outstanding at year end	(18,319)	(30,865)
Increase /(Decrease) in IBNR (claims incurred but not reported) Provision at year end	(294)	175
Provision for Outstanding Claims at previous year end (excluding IBNR)	(65,611)	(72,039)
Reinsurance and Other Recoveries Outstanding at previous year end	30,865	38,350
Decrease in Risk Margin	(2,510)	(151)
Net Claims Expense per Statement of Comprehensive Income	38,076	48,365

Provision for Outstanding Claims

	2019	2018
	\$000	\$000
Expected Future Claim Payments (undiscounted)	30,798	52,607
IBNR Claims at year end	1,836	2,130
Risk Margin	10,494	13,004
Provision for Outstanding Claims per Statement of Financial Position	43,128	67,741

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:

	2019	2018
	25.00% -	25.00% -
Risk margin - earthquake claims	53.30%	32.98%
Risk margin - non earthquake	15.10%	12.70%
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 15.10% (2018: 12.70%) for non earthquake claims and 25.00% - 53.30% (2018: 25.00% - 32.98%) for earthquake claims. The level of sufficiency or probability of adequacy is 75.00% (2018: 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 2015 are Canterbury earthquake claims.

		Incident Year					
	Prior	2015	2016	2017	2018	2019	Total
		\$000	\$000	\$000	\$000	\$000	\$000
At end of incident year		27,882	32,357	47,588	37,272	37,762	
One year later		29,066	34,402	52,788	39,442		
Two years later		29,198	34,559	53,491			
Three years later		29,130	34,428				
Four years later		29,151					
Current estimated claim cost		29,151	34,428	53,491	39,442	37,762	
Payments		(29,071)	(34,396)	(52,897)	(39,111)	(30,101)	
Undiscounted central estimate	22,100	80	32	594	331	7,661	30,798
Discount to present value	-	-	-	-	-	-	-
Central estimate	22,100	80	32	594	331	7,661	30,798
IBNR net of risk margin							1,836
Risk margin							10,494
Gross outstanding claims liabilities							43,128
Recoveries from reinsurers and other third parties							(18,319)
Net outstanding claims liabilities							24,809

5. ADMINISTRATION EXPENSES	2019	2018
Included within Administration Expenses are:	\$000	\$000
Auditor Remuneration		
- Auditing of Financial Statements	50	50
- Prudential Regulation Audit	14	14

No Directors' fees are provided for or are payable.

6. RELATED PARTY TRANSACTIONS

(a) Medical Insurance Society Limited is a wholly owned subsidiary of Medical Assurance Society New Zealand Limited. Related parties comprise companies within the Medical Assurance Society New Zealand Limited Group ("the Group").

(b) During the year, related party transactions with the Parent company took the form of Advances / Repayment of Advance, Administration Fees and Interest. Interest on advances is charged at the 90 day bank bill rate plus 1%. The Administration Fees relate to management costs incurred on behalf of the Company by the Parent.

(c) The audit fee disclosed Note 5 is paid by the Parent company.

(d) The advance from the Parent company of \$1.7 million (2018: advance to the Parent of \$0.1 million) is unsecured and repayable on demand. None of the amounts owing between the Company and the Parent have been written off or forgiven during the year (2018: nil).

(e) No staff are directly employed by the Company. All staff, including those that are 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.

	2019	2018
	\$000	\$000
Salaries and other short-term employee benefits	3,261	3,103
MAS directors fees	658	644
Total Compensation	3,919	3,747

(f) All transactions with Members and the key management personnel of the Parent are at market rates.

(g) Any transactions with Directors of the Company and key management personnel (including Directors) of Medical Assurance Society New Zealand Limited are at market rates. There are no loans to Directors and key management personnel.

(h) The Parent company has provided a guarantee of \$7.0 million to MIS to allow for additional funds if needed.

	2019	2018
	\$000	\$000
Material transactions during the period with related parties:		
Interest received on advances to the Parent Company	46	18
Administration fees paid to the Parent Company	(11,046)	(11,286)
Outstanding balances with related parties at period end:		
Advance (from) / to the Parent Company	(1,690)	61

7. TAXATION	2019	2018
	\$000	\$000
Net Surplus / (Deficit) before Taxation	10,807	(4,082)
Taxation at 28%	3,026	(1,143)
Taxation effect of permanent differences	5	(14)
Imputation Credits	(12)	(12)
Taxation Expense / (Credit) for the Year	3,019	(1,169)
Taxation Expense / (Credit) for the Year comprises:		
Current Tax	2,993	(1,228)
Deferred Tax	26	59
Taxation Expense / (Credit) per Statement of Comprehensive Income	3,019	(1,169)

7. **TAXATION continued...**

Deferred Tax

31 March 2019	Opening Balance	Prior Period Adjustment	Statement of Comprehensive Income	Total
	\$000	\$000	\$000	\$000
Deferred Tax Liabilities				
Insurance Reserves and Provisions	(155)	-	26	(129)
Net Deferred Tax Liability	(155)	-	26	(129)

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

8. **TRADE AND OTHER PAYABLES**

	2019	2018
	\$000	\$000
Government Levies Payable	3,174	1,174
GST Payable	2,181	2,015
Trade and Other Payables	1,617	1,555
	6,972	4,744

All payables are due within twelve months of balance date. Payables are incurred by the Parent and charged through the Intercompany advance. For terms and conditions with related parties, refer to Note 6. The levy amounts payable disclosed above include some amounts owed in respect of levies relating to previous years as a result of an administrative error.

9. **PROVISION FOR UNEARNED PREMIUM**

The following table is a reconciliation of Unearned Premium:

	2019	2018
	\$000	\$000
Balance at the beginning of the financial year	37,031	34,721
Premiums written during the year	79,565	74,328
Premiums earned during the year	(76,952)	(72,018)
Balance at the end of the financial year	39,644	37,031

Liability Adequacy Test

The Appointed Actuary has reported on the Liability Adequacy Test undertaken by him as at 31 March 2019. He has concluded that the Provision for Unearned Premium as at that date, is not deficient (2018: 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. **OTHER INSURANCE LIABILITIES**

	2019	2018
	\$000	\$000
Reinsurance Premium Payable	835	-
Premiums Received in Advance	1,010	1,234
	1,845	1,234

11. **CASH AND CASH EQUIVALENTS**

	2019	2018
	\$000	\$000
On Call Deposits	4,306	4,236
	4,306	4,236

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

12. OTHER INSURANCE ASSETS	2019	2018
	\$000	\$000
Reinsurance Premiums Paid in Advance	-	120
Recoveries due from EQC for Kaikoura earthquakes	100	23
	<hr/>	<hr/>
	100	143
	<hr/>	<hr/>

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.

13. PREMIUMS OUTSTANDING	2019	2018
	\$000	\$000
Premiums Owing by General Insurance Policyholders	18,931	17,908
	<hr/>	<hr/>
	18,931	17,908
	<hr/>	<hr/>

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.

14. REINSURANCE RECOVERIES OUTSTANDING	2019	2018
	\$000	\$000
Gross Reinsurance Recoveries Outstanding	16,986	28,091
	<hr/>	<hr/>
	16,986	28,091
	<hr/>	<hr/>

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.

15. CLAIMS RECOVERIES OUTSTANDING	2019	2018
	\$000	\$000
Gross Claims Recoveries Owing by Third Parties	3,710	5,142
Allowance for expected credit losses	(2,377)	(2,368)
	<hr/>	<hr/>
Net Claim Recoveries Outstanding	1,333	2,774
	<hr/>	<hr/>

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 insurer or EQC.

The Company recognises a loss allowance for expected credit losses on claim recoveries owed by third parties. The loss allowance is measured based on the lifetime expected credit losses, as significant increases in credit risk occur after initial recognition as the older a claim, the lower the likelihood of claim recovery from third parties.

Credit losses are assessed on a collective basis, considering all reasonable and supportable information at each reporting date. Forward looking information is considered when it is available without undue cost and effort.

Based on historical credit loss experience, losses are recognised as follows:

- amounts owing by other insurers, 40.00% impairment (2018: 40.00%)
- accounts placed with a collection agency, 80.00% impairment (2018: 80.00%)
- amounts for which a regular payment arrangement has been agreed with the debtor, 40.00% impairment (2018: 40.00%)
- amounts referred to the Disputes Tribunal, 100% impairment (2018: 100%).

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

16. DEFERRED ACQUISITION COSTS	2019	2018
	\$000	\$000
Opening balance	551	344
Acquisition costs deferred during the year	458	551
Current period amortisation	(551)	(344)
	-----	-----
Closing balance	458	551
	-----	-----
17. INVESTMENTS	2019	2018
	\$000	\$000
On Call and Term Deposits	84,130	78,158
Domestic Fixed Interest	11,882	12,411
	-----	-----
Total Investments	96,012	90,568
	-----	-----
Realised Investment Income	2,899	3,427
Unrealised Investment Income	667	157
	-----	-----
Total Investment Income	3,566	3,585
	-----	-----

The Company's investment securities are all financial assets classified as fair value through profit or loss. Fair value adjustments and realised gains or losses are recognised in the Statement of Comprehensive Income.

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.

18. 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. Furthermore, market prices or rates of discount are not available for many of the financial instruments valued and surrogates have been used which may not reflect the price that would apply in an actual sale.

The methodologies and assumptions used when determining fair value depend on the terms and risk characteristics of the various instruments and include the following:

Cash and Cash Equivalents

For cash and short term funds, balances with other financial institutions with maturities of less than three months and other types of short term financial assets, the carrying value of these financial instruments are considered to approximate their fair values as they are short term in nature or are receivable on demand.

Fixed Interest Assets

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.

Other Financial Assets

For all other financial assets, the carrying value is considered to be a reasonable estimate of fair value.

Financial Liabilities

The carrying value of Trade and Other Payables and Advance from Parent Company approximate their fair values as they are short term in nature or payable on demand. Neither Deferred Tax nor insurance provisions are considered to be financial liabilities.

Fair Value Hierarchy

The following table shows an analysis of financial instruments recorded at fair value in the Statement of Financial Position by level of the fair value hierarchy. 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 19 for details of the classification categories).

	Level 1	Level 2	Level 3	Total
	\$000	\$000	\$000	\$000
31 March 2019				
Financial Assets				
On Call and Term Deposits	-	84,130	-	84,130
Domestic Fixed Interest	-	11,882	-	11,882
	-----	-----	-----	-----
	-	96,012	-	96,012
	-----	-----	-----	-----
31 March 2018				
Financial Assets				
On Call and Term Deposits	-	78,158	-	78,158
Domestic Fixed Interest	-	12,411	-	12,411
	-----	-----	-----	-----
	-	90,568	-	90,568
	-----	-----	-----	-----

18. 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.

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 (2018: no transfers).

19. 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, operational and other risks.

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

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 -

	2019	2018
	\$000	\$000
Cash and Cash Equivalents	4,306	4,236
Other Insurance Assets	100	143
Premiums Outstanding	18,931	17,908
Reinsurance Recoveries	16,986	28,091
Investments	96,012	90,568
	136,335	140,946

19. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT continued ...

Credit risk relative to investments is the risk that movements in either interest rates or stock markets 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 and 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:	2019	2018
	\$000	\$000
Cash and Cash Equivalents	4,306	4,236
Deposits and Short Term Securities	84,130	78,158
Domestic Fixed Interest	11,882	12,411
	100,318	94,805

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.

	2019	2018
10% - 20% of reinsurance recoveries	2	2
Total reinsurance recoveries	16,986	28,091

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

31 March 2019	AAA	AA	A	BBB	Below BBB	Not rated	Carrying Value \$000
Cash and Cash Equivalents	-	100.0%	-	-	-	-	4,306
Short Term Securities	-	64.3%	35.7%	-	-	-	84,130
Domestic Fixed Interest	-	-	20.2%	71.3%	-	8.5%	11,882
Reinsurance Recoveries	-	36.3%	61.0%	-	-	2.7%	16,986

31 March 2018	AAA	AA	A	BBB	Below BBB	Not rated	Carrying Value \$000
Cash and Cash Equivalents	-	100.0%	-	-	-	-	4,236
Short Term Securities	-	89.0%	11.0%	-	-	-	78,158
Domestic Fixed Interest	-	43%	-	48.4%	-	8.2%	12,411
Reinsurance Recoveries	-	36.6%	60.9%	-	-	2.5%	28,091

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.

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

	0-12 months	1-2 years	2-5 years	Over 5 years	Total
	\$000	\$000	\$000	\$000	\$000
31 March 2019					
Financial Assets					
Advance to Parent Company	-	-	-	-	-
Claims Recoveries Outstanding	30	390	-	913	1,333
Investments	84,130	-	7,776	4,106	96,012
	84,160	390	7,776	5,019	97,345
Financial Liabilities					
Trade and Other Payables	6,972	-	-	-	6,972
Advance from Parent Company	1,690	-	-	-	1,690
	8,662	-	-	-	8,662
31 March 2018					
Financial Assets					
Advance to Parent Company	61	-	-	-	61
Claims Recoveries Outstanding	39	1,954	-	781	2,774
Investments	78,157	-	2,366	10,045	90,568
	78,257	1,954	2,366	10,826	93,403
Financial Liabilities					
Trade and Other Payables	4,744	-	-	-	4,744
Advance from Parent Company	-	-	-	-	-
	4,744	-	-	-	4,744

Maturity groupings of Claims Recoveries Outstanding are determined as follows:

- accounts placed with a collection agency: Over 5 years
- amounts for which a regular payment arrangement has been agreed with the debtor: Over 5 years
- amounts owing by other insurers and third parties: 1-2 years
- other amounts: 0-12 months

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	
		2019 \$000	2018 \$000
<u>Insurance Risk:</u>			
Change in outstanding claims	Increase by 1%	(188)	(285)
	Decrease by 1%	188	285
<u>Market Risk:</u>			
Short term deposit rates	Increase by 1%	31	30
	Decrease by 1%	(31)	(30)
Bond interest rates	Increase by 0.50%	(160)	(134)
	Decrease by 0.50%	160	134

19. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT continued ...

Classification of Financial Instruments

Financial Assets and Financial Liabilities have been classified into the categories defined in NZ IFRS 9 in the tables below.

	2019 \$000	2018 \$000
Financial Assets		
Financial assets at amortised cost		
Advance to Parent Company	-	61
Claims Recoveries Outstanding	1,333	2,774
Financial assets at fair value through profit or loss		
Investments	96,012	90,568
	<hr/> 97,345	<hr/> 93,403
Financial Liabilities		
Financial liabilities at amortised cost		
Advance from Parent Company	1,690	-
Trade and Other Payables	6,972	4,744
	<hr/> 8,662	<hr/> 4,744

20. CONTINGENT LIABILITIES

The Company is subject to several legal disputes at 31 March 2019. 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. CONTRIBUTED EQUITY

	2019	2018
Ordinary Shares at 1 April	38,000,000	38,000,000
Ordinary Shares at 31 March	<hr/> 38,000,000	<hr/> 38,000,000
Ordinary Share Capital	<hr/> \$ 38,000,000	<hr/> \$ 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 2019 the Company was not in breach of any of its regulatory requirements, nor has it been at any stage during the current reporting period (2018: no breaches).

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

	2019 \$000	2018 \$000
Actual Solvency Capital	43,510	35,720
Minimum Solvency Capital	15,305	16,701
Solvency Margin	<hr/> 28,205	<hr/> 19,019
Solvency Ratio	<hr/> 2.84	<hr/> 2.14

22. RECONCILIATION OF CASH FLOWS

	2019	2018
	\$000	\$000
Reported Surplus / (Deficit) after Taxation	7,788	(2,913)
Add Non-Cash Items:		
Increase in Unearned Premium	2,613	2,310
Decrease in Outstanding Claims	(24,613)	(6,253)
(Decrease) / Increase in Deferred Tax	(26)	58
Change in Operating Assets and Liabilities		
Provision for Taxation	3,503	(1,170)
Trade and Other Payables	2,932	1,775
Premiums Outstanding	(1,023)	(1,748)
Insurance Assets, Reinsurance Recoveries Outstanding and Claims Recoveries Outstanding	12,589	8,850
Net Cash Flows from Operating Activities	3,763	909

23. SUBSEQUENT EVENTS

At the August 2018 MAS Annual General Meeting, MAS Members voted in favour of a proposal to establish a Charitable Trust with the purpose of funding health education, promotion and research in New Zealand. An application has been submitted to Charities Services. If the application is approved and MIS is registered as a charitable entity, 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 20, which comprise the statement of financial position of the company as at 31 March 2019, 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 20 present fairly, in all material respects, the financial position of the company as at 31 March 2019 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.

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.

Key audit matters

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

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the financial statements* section of the audit report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial statements.

Valuation of outstanding claims liabilities

Why significant

The company's liability for outstanding claims, which includes an estimate of incurred but not reported claims (IBNR) and a risk margin, represents 46% of total liabilities.

The estimation of the value of outstanding claims involves significant judgement and is based on an actuarial model of the expected cost of claims incurred on, or prior to, balance date. Assumptions included in the model can generally be categorised as either economic assumptions such as inflation and discount rates or non-economic assumptions relating to claims development and cost. Non-economic assumptions are often based on historical data relating to the volume, amount and pattern of claims settlement.

The liability for outstanding claims includes an estimate of the company's remaining liability for claims from the Canterbury earthquakes that occurred in late 2010 and early 2011. The estimates of the value of these claims involves significant judgement as the tail of claims from these events generally contains claims with a higher level of complexity. For the earthquake that occurred in February 2011 the company has fully utilised the associated reinsurance cover so any change in the underlying claims estimates has a direct impact on profit or loss.

Disclosures relating to outstanding claims liabilities, including key assumptions, are included in Note 4 of the financial statements.

How our audit addressed the key audit matter

Our procedures included:

- ▶ Evaluating and testing key controls over the claims assessment and settlement process and over selected IT systems;
- ▶ On a sample basis validating the costs recorded for claims closed in the year;
- ▶ Assessing cost estimates for a sample of claims from the 2010 and 2011 Canterbury earthquakes against the most recent claim information;
- ▶ Comparing the data used by the appointed actuary to the company's underlying claims system;
- ▶ Using our actuarial specialists to review the outstanding claims liability valuation report prepared by the appointed actuary and evaluate the appropriateness of the methodologies and assumptions used in the valuation;
- ▶ Evaluating the objectivity and expertise of the appointed actuary; and
- ▶ Considering the adequacy of disclosures for the outstanding claims liability.

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, 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

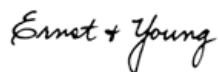
The directors are responsible, on behalf of the company, for the preparation and fair presentation of the financial statements in accordance with New Zealand equivalents to International Financial Reporting Standards and International Financial Reporting Standards, and for such internal control as the 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 company 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 the auditor's responsibilities for the audit of the financial statements is located at the External Reporting Board's website: <https://www.xrb.govt.nz/standards-for-assurance-practitioners/auditors-responsibilities/audit-report-2/>. 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.



Chartered Accountants
Wellington
26 June 2019



12th June 2019

To: The Directors
Medical Insurance Society Limited

From: Peter Davies
Appointed Actuary

Re: Medical Insurance Society Limited: Report as at 31st March 2019 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 2019. "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 31st March 2019. 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 Davies B.Bus.Sc., FIA, FNZSA
Appointed Actuary