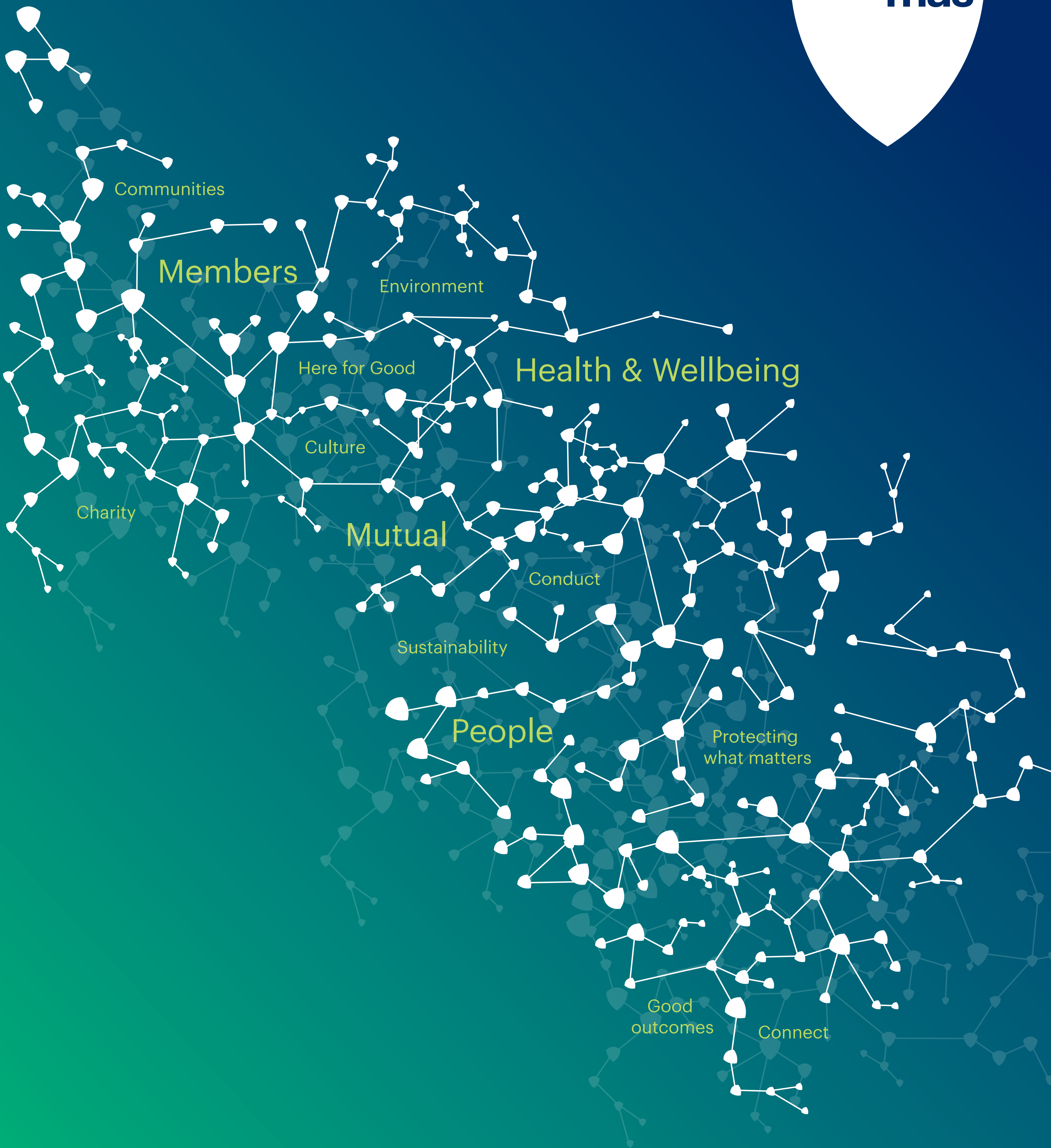
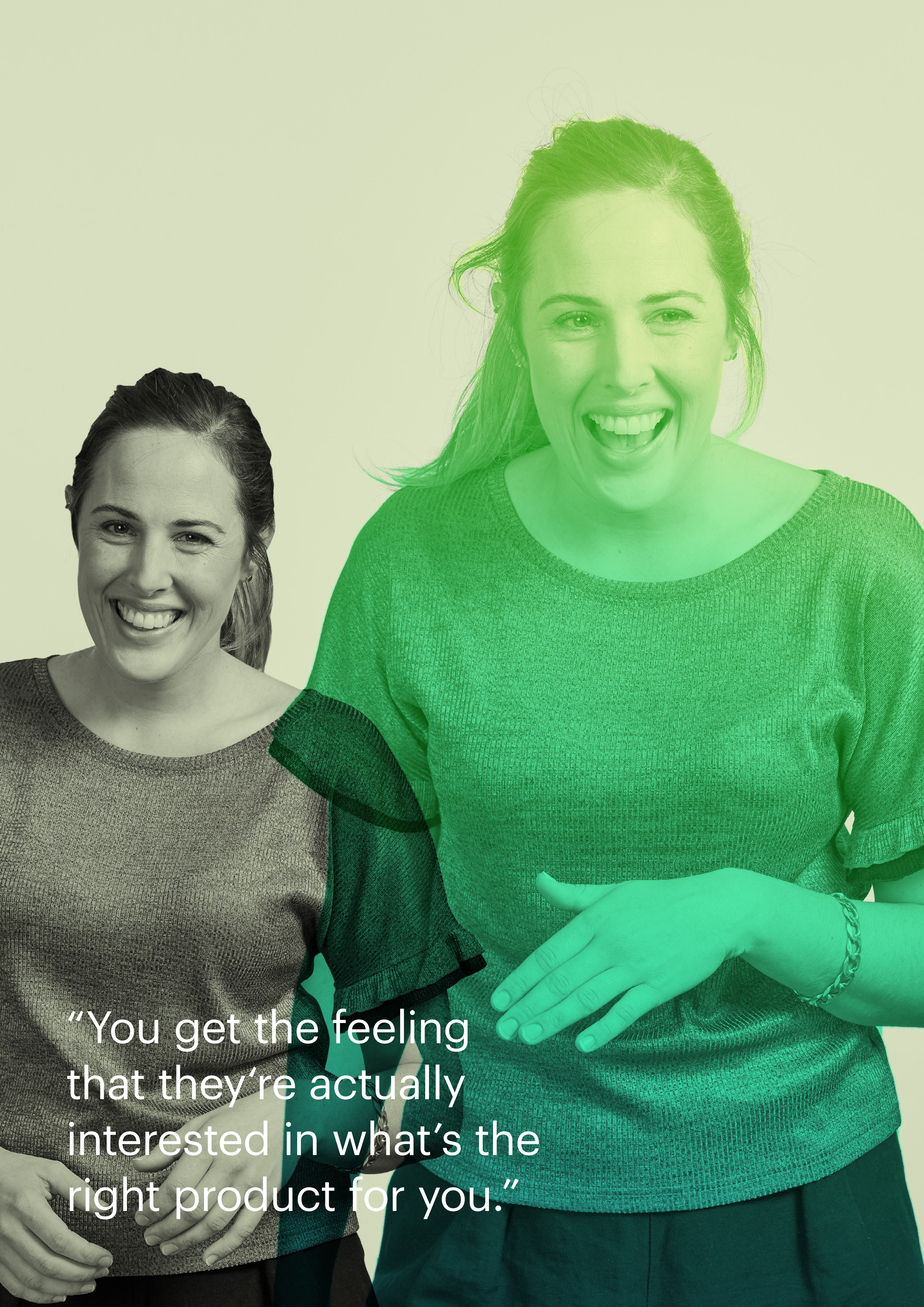
mas



We exist to protect what matters most in our Members' worlds.

Annual Report 2019



"You get the feeling that they're actually interested in what's the right product for you."

Contents

Your mutual is in good health

It is my pleasure to present the 98th Annual Report for MAS. As we near our centenary, your mutual is in good health, with solid underlying growth across all businesses and an overall pre-tax surplus this year of $16.9m.

Importantly, we're seeing strong growth in membership, and increasing diversity as we attract new professional groups. Member satisfaction grew to an all time high, and for the third year in a row we were voted Consumer People's Choice for house, car, contents and life insurance.

MAS Group reserves grew to $201.9m and our general insurance business continues to perform strongly. An underwriting profit reflects progress on resolving Members claims from the Canterbury earthquakes, fewer significant weather related events and strong policy growth across all personal product lines.

In the 2018/2019 financial year, we continued to offer competitive insurance options to Members nationwide, including new products such as our market-first cyber bullying benefit and retaining wall cover. We will closely monitor the move toward risk based pricing in the insurance industry.

On the Life side of our business, we met the financial needs of more Members and their families than ever before. It shows we're there when our Members need us most. We also updated our Recovery Insurance to increase the level of free Trauma cover for children. Trauma cover provides financial protection against the consequences of suffering a defined serious health condition.

Following on from the Australian Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry last year, the Financial Markets Authority and Reserve Bank of New Zealand completed a review of the New Zealand life insurance industry. While no major issues were reported for MAS, good conduct remains at the forefront of our agenda. We're progressing a significant programme of work to identify how we can best meet the needs of our Members, starting with our Life business. We're well placed due to attributes like our mutuality and commission-free advice.

We'll continue to introduce more environmental, social and governance (ESG) factors to our responsible investing approach, while also focusing on maximising returns for Members of the KiwiSaver and Retirement Savings Plans.

Last year, Members gave us overwhelming support for a Charitable Trust to fund health research, promotion and education. Our application is now with Charities Services for approval.

As well as setting up a charity, we're doing many more things to be 'Here for Good'. We continue to support our Members, staff and communities with partnerships, donations and events, and new services, like the pilot of an online Health and Wellbeing portal. We've invested more in our free counselling services for Members and staff, and introduced staff mental health and volunteer days.

We will continue to build an organisation that attracts and retains people with the right diversity, skills and experience to deliver our business strategies for the future.

We told you last year we were making a significant investment in Information Systems to offer Members more modern ways to engage with us. In December, the Board made the difficult decision to terminate a major IT project when it became clear the cost would significantly exceed the original estimate. The cost has been written off and while this is a setback, existing systems are still robust. We still plan to introduce more digital communications and tools for Members in the coming year.

As we look to the future, we're focused on building a mutual that will be around for many years to come. We need to grow, and to do this we must reach out to new groups of professionals and younger generations of New Zealanders. We'll do this without losing the qualities that have made us successful for nearly 100 years - our commitment to providing the best possible service to our Members.

I would like to thank Board Members for their continued commitment to MAS and welcome Dr Doug Hill who joined the Board this year.

Finally, I'd like to give a special thanks to all the staff at MAS for their ongoing dedication to our Members and the mutual, and to our Members for their support and business.

Harley Aish
Chairman

$16.9m	Pre-tax surplus
$201.9	MAS Group reserves
6.4%	Membership growth
33,546	Members
62	Net promoter score
3 years	Consumer People's Choice
>200	Members supported with $21.3m in Life & Disability Claims
$79.6m	General insurance gross written premium
$40.2m	Life and disability insurance gross written premium
$1.53b	Member funds under management

Our Board of Directors

MAS – Medical Assurance Society Members' Trust and Medical Assurance Society New Zealand Ltd

MIS – Medical Insurance Society Ltd

MLA – Medical Life Assurance Society Ltd

MFM – Medical Funds Management Ltd

MSL – Medical Securities Ltd

Harley Aish
Chairman

Director: MAS, MIS, MLA, MFM, MSL.

Fields of Expertise: General practice and primary-secondary integration, especially guidelines and new models of care.

Other Boards and Health Sector Activity: Chairman of ProCare Health Ltd. Director, Howick Baptist Healthcare Ltd.

Alastair Hercus
Deputy Chairman

Director: MAS, MIS, MLA, MFM, MSL.

Fields of Expertise: Law, corporate governance, public policy, health sector, cooperatives and mutuals.

Other Boards and Health Sector Activity: Partner and former board member of Buddle Findlay. Legal adviser to various public sector health organisations. Member of the Advisory Group for Cancer Trials New Zealand, an organisation established by the Faculty of Medical and Health Sciences at the University of Auckland to provide a national resource to facilitate clinical trial research in cancer. Member, MBIE Risk and Advisory Committee. Chartered Member of the Institute of Directors.

Kate Baddock

Director: MAS, MIS, MLA, MFM.

Fields of Expertise: General practice, governance, and primary health care.

Other Boards and Health Sector Activity: Chair of the New Zealand Medical Association. Member of the Institute of Directors. Member of the Auckland Medicolegal Society. Fellow of the Royal NZ College of General Practitioners. Contracted primary provider negotiator to PSAAP. Chair of the General Practice Leaders Forum.

Danelle Dinsdale

Director: MAS, MIS, MLA, MFM.

Fields of Expertise: Technology law, change management in finance and technology sectors, corporate governance.

Other Boards and Health Sector Activity: Director, Crown Infrastructure Partners Ltd.

Frank Frizelle

Director: MAS, MIS, MLA, MFM.

Fields of Expertise: Colorectal surgery, academic surgery and medical editing.

Other Boards and Health Sector Activity: HOD University Department of Surgery, University of Otago, Christchurch, Editor in Chief New Zealand Medical Journal, Director, Geordie Hill Station Ltd, Director, Christchurch Colorectal Ltd, Director, Southern Endoscopy Ltd, Trustee of Cotter Medical History Trust, Trustee of Canterbury Charity Hospital Trust, Patron of Canterbury Ostomy Society.

Alexandra Muthu

Director: MAS and from 1 December 2018 MIS, MLA, and MFM.

Fields of Expertise: Occupational and environmental medicine, doctors health, medicolegal and telehealth.

Other boards and Health Sector Activity: Chair of the New Zealand Dust Diseases Taskforce. Chair of the Australasian Faculty of Occupational and Environmental Medicine (AFOEM) New Zealand Committee. Member of AFOEM Council, Royal Australasian College of Physicians NZ Committee and University of Auckland Masters of Health Leadership Advisory Board. Teaching Fellow, Masters of Health, Victoria University of Wellington. Chartered Member of the Institute of Directors.

Brett Sutton

Director: MAS, MIS, MLA, MFM.

Fields of Expertise: Commerce, finance, accounting, funds management.

Other Boards and Health Sector Activity: Chair, Mint Asset Management Ltd. Chair, Stevenson Holdings Ltd and wholly owned subsidiaries. Chair, Te Puia Tapapa Fund Investment Committee. Independent Director, The Co-operative Bank. Independent Director, Woolyarn Holdings Ltd.

Lindsay Knowles

Director: MAS, MIS, MLA, MFM.

Fields of Expertise: Commerce including accounting, finance, sales and marketing.

Other Boards and Health Sector Activity: Director, Acme Supplies Ltd.

Doug Hill

Director: MAS (from 29 August 2018).

Fields of Expertise: General Practice with special interests in orthopaedics and skin cancer surgery. Primary-secondary integration including development of GPSI based models of care. Governance in primary healthcare and integrated schools.

Other Boards and Health Sector Activity: Director and General Practitioner, Broadway Medical Centre. President and Chair, Board of Governors, Columba College. Chair, Wellsouth Primary Health Network. NZ Advisory Board Member, Skin Cancer College of Australasia. Chartered Fellow, Institute of Directors.

Helen Rodenburg

Director: MAS (until 29 August 2018), MIS, MLA, MFM (until 3 September 2018).

Fields of Expertise: General practice, primary health care, especially clinical quality and primary mental health. Health service development.

Other Boards and Health Sector Activity: Partner, Island Bay Medical Centre. Chartered Member, Institute of Directors. Shareholder of Wellington After-Hours Medical Service Limited.

Here for good.

Looking after our Members, staff, and their communities.

Community

$34,000
donated to charitable causes

MAS scholarships
$6,000 helping fund expenses for medical students

88%
of voting Members support MAS setting up a **charity** to fund health research, promotion and education

Partnering with **Wahine Connect** to support the wellbeing of women in the health sector

Here for Good days enabled 29 staff to donate their time to 15 charities in NZ

Health & Wellbeing

Tracksuit programme provides daily health data, content and challenges for MAS staff

Piloting a new **Health and Wellbeing programme** for all Members, providing daily health data, content and challenges

Cyber-bullying benefit introduced to contents policies, providing up to $5,000 support for victims

Actively promoting and creating content for **Mental Health Week**

Mental health days introduced for staff to recognise importance of mental health in the workplace

$172k
spent funding **free counselling services** to support MAS Members and staff

Good outcomes

6.4%
Membership growth in the last year.

0%
Commission Free advice with your best interests at heart

>200
Members assisted through Life and disability claims

3 years
Consumer NZ People's Choice for house, car, contents and life insurance 2016, 2017 & 2018

Sustainability

New green building for MAS head office in Wellington CBD

40%
Less paper used in the last 2 years

Responsible Investing

$236m
of MAS funds responsibly invested

$1.5b
of Member funds **responsibly invested**

Moving to consider ESG performance of companies we invest in allows MAS to support companies that do less harm and more good

Financial Report

Consolidated Statement of Comprehensive Income for the Year Ended 31 March 2019

	Note	2019 $000	2018 $000
Fire and General Insurance Revenue			
Gross Premium Revenue		79,565	74,328
Reinsurance Premiums		(18,706)	(17,982)
Change in Provision for Unearned Premium		(2,613)	(2,310)
Net Premium Revenue		58,246	54,036
Claims		(45,274)	(64,688)
Reinsurance Recoveries		5,365	13,459
Other Recoveries		1,833	2,864
Net Claims	5	(38,076)	(48,365)
Net Revenue from Fire and General Insurance		20,170	5,671
Life Assurance Revenue			
Premium Revenue		40,159	38,524
Reinsurance Premiums		(10,690)	(11,106)
Net Premium Revenue		29,469	27,418
Claims, Surrenders and Maturities		(21,687)	(17,898)
Reinsurance Recoveries		11,046	8,382
Decrease in Life Policy Liabilities	11	1,802	1,446
Net Revenue from Life Assurance		20,630	19,348
Lending Revenue			
Loan Interest Revenue		2,019	3,424
Movement in Fair Value of Derivatives		103	91
Interest Expense	13	(568)	(1,055)
Credit Impairment	14	(218)	(75)
Net Revenue from Lending		1,336	2,385
Funds Management Revenue		14,672	13,000
Other Revenue from Contracts with Customers	36	1,840	1,829
Expenses			
Salaries		(22,629)	(22,920)
Administration Expenses	18	(35,536)	(26,396)
Total Expenses		(58,165)	(49,316)
Net Income/(Loss) from Operations		483	(7,083)
Investment and Sundry Income	20	16,399	11,744
Property Revaluation		–	302
Net Surplus before Taxation		16,882	4,963
Taxation (Expense)/Credit	21	(2,153)	154
Net Surplus After Taxation		14,729	5,117
Other Comprehensive Income			
Gain on Revaluation of Land and Buildings		–	671
Movement in Cashflow Hedges		24	(24)
Other Comprehensive Income After Taxation		24	647
Total Comprehensive Income		14,753	5,764

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

Consolidated Statement of Changes In Equity for the Year Ended 31 March 2019

	Note	2019 Share Capital $000	2019 Retained Earnings $000	2019 Cashflow Hedge Reserve $000	2019 Asset Revaluation Reserve $000	2019 Total $000
Opening balance 1 April 2018		110	184,722	(24)	2,330	187,138
Current Year Surplus		–	14,729	–	–	14,729
Other Comprehensive Income		–	–	24	–	24
Total Comprehensive Income		–	14,729	24	–	14,753
Closing balance 31 March 2019	22	110	199,451	–	2,330	201,891

	Note	2018 Share Capital $000	2018 Retained Earnings $000	2018 Cashflow Hedge Reserve $000	2018 Asset Revaluation Reserve $000	2018 Total $000
Opening balance 1 April 2017		110	179,605	–	1,659	181,374
Current Year Surplus		–	5,117	–	–	5,117
Other Comprehensive Income		–	–	(24)	671	647
Total Comprehensive Income		–	5,117	(24)	671	5,764
Closing balance 31 March 2018	22	110	184,722	(24)	2,330	187,138

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

Consolidated Statement of Financial Position
As at 31 March 2019

	Note	2019 $000	2018 $000
Funds Employed			
Equity			
1 Non-Voting Share	22	100	100
10,000 Voting Shares	22	10	10
Retained Earnings		199,451	184,722
Asset Revaluation Reserve		2,330	2,330
Cashflow Hedge Reserve		–	(24)
Total Equity		201,891	187,138
Liabilities			
Other Insurance Liabilities	23(a)	2,517	1,417
Trade and Other Payables	23(b)	12,761	11,707
Provision for Taxation		657	–
Derivative Financial Instruments	15	23	126
Fees in Advance		221	222
Employee Benefits Provision	23(c)	3,171	3,177
Provision for Unearned Premium	6	39,644	37,031
Bank Borrowing	16	7,000	18,500
Provision for Outstanding Claims	5,12	71,906	91,797
Life Policy Liabilities	11	(3,894)	(2,092)
Deferred Tax	21	6,854	5,246
Total Funds Employed		342,751	354,269
Assets			
Cash and Cash Equivalents	24	4,490	4,408
Trade and Other Receivables	25	3,970	3,690
Taxation Paid in Advance		–	268
Investments	26	236,204	222,134
Prepayments		45	2,089
Premiums Outstanding	7	31,810	30,413
Reinsurance Recoveries Outstanding	8	33,846	41,092
Claims Recoveries Outstanding	9	1,333	2,774
Other Insurance Assets		100	143
Loans	14	13,129	27,165
Property, Plant and Equipment	27	8,255	6,933
Intangibles	28	9,111	12,609
Deferred Acquisition Costs	29	458	551
Total Assets		342,751	354,269

Approved for issue for and on behalf of the Board of Medical Assurance Society New Zealand Limited.

Director **Director**

Wellington, 26 June 2019

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

Consolidated Statement of Cash Flows for the Year Ended 31 March 2019

	Note	2019 $000	2018 $000
Cash Flows From Operating Activities			
Receipts from Policyholders		118,177	109,969
Interest and Fee Income Received on Loans		2,023	3,755
Loan Repayments		18,586	34,196
Loan Advances		(4,768)	(6,364)
Interest Received on Short Term Deposits		76	70
Other Revenue and Income from Investment Funds		32,821	25,156
Rent Received		14	12
Payments to Suppliers and Employees		(78,924)	(65,153)
Reinsurance Recoveries		23,657	26,943
Payment of Claims		(83,578)	(80,699)
Taxation Refund / (Payment of Taxation)		380	(17)
Interest Paid on Funding		(568)	(1,133)
Net Cash Flows From Operating Activities	35	27,896	46,735
Cash Flows For Investing Activities			
Contributions to Investment Funds		(78,954)	(53,880)
Withdrawals from Investment Funds		64,884	39,178
Proceeds from Sale of Property, Plant and Equipment		6	–
Purchase of Property, Plant, Equipment and Intangibles		(2,250)	(8,089)
Net Cash Flows For Investing Activities		(16,314)	(22,791)
Cash Flows For Financing Activities			
Decrease in Bank Borrowing		(11,500)	(23,500)
Net Cash Flows For Financing Activities		(11,500)	(23,500)
Net Increase in Cash Held		82	444
Opening Cash Balance Brought Forward		4,408	3,964
Cash And Cash Equivalents Carried Forward		4,490	4,408
Cash And Cash Equivalents Comprise			
Cash And Deposits		4,490	4,408
	24	4,490	4,408

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

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

Medical Assurance Society New Zealand Limited ("the Company" or "MAS") operates on mutual principles within New Zealand, and the control is vested in its Members. The subsidiary companies engage in the provision of financial services to Members of MAS.

Head Office is situated in Wellington and there are branch sites throughout New Zealand.

These financial statements are the consolidated financial statements of MAS and its subsidiaries as detailed in Note 4 (collectively "the Group").

MAS is incorporated and domiciled in New Zealand.

2. Accounting Policies

(a) 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.

(b) 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 IASB has announced a proposed one-year delay to the effective date. The Group is yet to assess the impact of adopting the standard.

NZ IFRS 16 Leases is the new standard on the recognition, measurement, presentation and disclosure of leases. The standard replaces NZ IAS 17 Leases and requires lessees to account for all leases under a single on-balance sheet model (subject to certain exemptions). In instances where MAS is a lessee a right to use asset will be recognised and a liability recognised for the present value of the lease cash flows. For operating leases where a lease expense is currently recognised in profit and loss under the new standard this would change to being a depreciation charge and interest expense. An indication of the quantum of the liability that would be recognised under the new standard for operating leases is effectively included in the operating lease commitments note. Preliminary assessments indicate the treatment of office buildings, motor vehicles, and other equipment leases will change. Based on the leases held as at 31 March 2019 the potential financial impact of changes will result in the creation of a 'right of use asset' of approximately $12 million, with a corresponding lease liability amount to be recognised, in effect as a gross up to the balance sheet, of approximately $12 million.

(c) Basis of Consolidation

The Group financial statements incorporate the financial statements of Medical Assurance Society New Zealand Limited and its subsidiaries. Control is achieved when the Parent is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

The financial statements of the subsidiaries are prepared for the same reporting period as the Parent company, using consistent accounting policies. All inter-company transactions, balances and unrealised profits are eliminated on consolidation.

(d) Premium Revenue and Provision for Unearned Premium

Gross Premium Revenue comprises amounts charged to policyholders for insurance policies. It 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). Given the absence of any significant seasonal factors, exposure to risk is assumed to be even over the policy period and premium is recognised accordingly.

At reporting date, an adjustment has been made for that portion of premium revenue received and receivable

2. Accounting Policies – Continued

which has not been earned. That is, recognising that in general, the term of the policy will extend into the following financial year. This premium which will be earned in subsequent reporting periods, is recognised in the Statement of Financial Position as a Provision for Unearned Premium.

(e) Reinsurance

Premiums ceded to reinsurers under reinsurance contracts are recorded as an expense and are recognised over the period of indemnity of the contract. Amounts recoverable from reinsurers are estimated in a manner consistent with the outstanding claims provision or in accordance with the reinsurance contract.

Ceded reinsurance does not relieve the Group from its obligations to policyholders.

(f) General Insurance: Claims and Provision for Outstanding Claims

Claims expense represents payments for claims and 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 5. The expected future payments include those in relation to claims reported but not yet paid, incurred but not reported ("IBNR") and the direct costs of settling those claims.

(g) 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 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.

(h) Life Insurance: Payments under Policies and Claims Outstanding

Claims

Claims are recognised as an expense as soon as the liability to a policyholder under a life insurance risk contract has been established.

Surrenders

Surrenders occur where a policyholder with a participating policy elects to withdraw from any future contractual position. The policy gets cancelled, and a surrender value is paid to the policyholder and recognised as an expense. Policy Liabilities are reduced accordingly.

Maturities

Where a participating policy reaches its maturity date, the value of that policy is paid out and recognised as an expense. Policy Liabilities are reduced accordingly.

The liability for any outstanding claims is carried in the Statement of Financial Position. This liability relates solely to claims made under a risk policy where liability has been accepted, but payments remain outstanding at balance date.

(i) Lending Interest Income and Interest Expense

Interest Income and Interest Expense are recognised in profit and loss as they accrue, using the effective interest method.

The effective interest method calculates the amortised cost of a financial asset or financial liability and allocates the interest income or interest expense, including any fees and directly related transaction costs, over the expected life of the financial asset or liability. The application of the method has the effect of recognising income and expense on the financial asset or liability evenly in proportion to the amount outstanding over the period to maturity or repayment.

(j) Borrowing costs

Borrowing costs associated with obtaining loan facilities are deferred and recognised as an expense over the life of the loan.

2. Accounting Policies – Continued

(k) Loans

Loans are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans are initially recognised at fair value including transaction costs that are directly attributable to the issue of the loan. They are subsequently measured at amortised cost using the effective interest method, less any impairment loss.

Loans are derecognised when the rights to receive cash flows from the asset have expired.

Loans include direct finance provided to Members such as revolving credit accounts.

(l) Impairment provisions

Expected Credit Losses on Loans

Losses for impaired loans are recognised immediately when there is objective evidence that impairment of a loan or portfolio of loans has occurred. Impairment losses are calculated on individual loans and loans assessed collectively. Expected credit losses ("ECL") represent the present value of all cash shortfalls related to default events expected over the next 12 months or over the life of the loan where there has been a significant increase in credit risk since initial recognition.

Individually Assessed Loans

At each balance date, the entity assesses on a case by case basis whether there is any objective evidence that a loan is impaired. This assessment considers factors such as; amount of debt, repayment and dishonour history, and the time since loan origination. Where an increase in credit risk has been significant, a loss allowance at an amount equal to lifetime ECL is recognised. If no significant increase in credit risk is recognised, a loss allowance equal to a 12 month ECL continues to be recognised.

Collectively Assessed Loans

Individually assessed loans for which no evidence of loss has been specifically identified on an individual basis are grouped together according to their credit risk characteristics for the purpose of calculating an expected credit loss over the next 12 months.

Provision for Credit Impairment

The Provision for Credit Impairment (specific and collective) is deducted from loans and advances in the Statement of Financial Position and the movement in the provision for the reporting period is reflected in profit and loss as Credit Impairment.

Where impairment losses recognised in previous periods are subsequently decreased or no longer exist, such impairments are reversed in profit and loss.

Loan Write-offs

When a loan is uncollectible, it is written off against the Provision for Credit Impairment. Subsequent recoveries of amounts previously written off are taken to profit and loss.

Third Party Recoveries

Where third parties are responsible for occurrences which lead to fire and general insurance claims being made there is often a contractual right to recovery from that party. The details of the impairment assessment are set out in Note 9.

Impairment of Property, Plant, Equipment and Intangibles

The Group conducts an annual review of asset values to determine whether there are any indicators of impairment. This review considers economic, technological and business changes that may impact on an asset's value. If any indicators of impairment exist, the asset's value is written down to its recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell, or its value in use.

(m) 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:

2. Accounting Policies – Continued

- 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.

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 Receivables or Trade 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.

(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) Employee Benefits Provision

(i) Wages, annual leave and sick leave

Liabilities for wages, annual leave and accumulating sick leave expected to be settled within 12 months of the reporting date are recognised in respect of employees' services up to the reporting date. They are measured at the amounts expected to be paid when the liabilities are settled.

(ii) Long service leave

The liability for long service leave is recognised and measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date. Consideration is given to expected future wage and salary levels and periods of service of current and former employees. Expected future payments are discounted using New Zealand Government Stock rates that most closely match the maturity term.

(p) Policy Liabilities

Life insurance policy liabilities are calculated using the Margin on Services ("MoS") methodology in accordance with the New Zealand Society of Actuaries' Professional Standard No. 20 - Valuation of Life Insurance Policy Liabilities and NZ IFRS 4 Insurance Contracts of the External Reporting Board.

(q) 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.

(r) 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.

2. Accounting Policies – Continued

Investments

Investment funds, managed for the Group 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. 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. Investment funds are split by asset class in Note 26.

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.

Trade and Other Receivables

Classified as a financial asset measured at amortised cost. The details of the impairment assessment and total expected credit losses are set out in Note 25.

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 details of the impairment assessment and total expected credit losses are set out in Note 9.

Loans

Classified as a financial asset measured at amortised cost.

ii) Financial Liabilities

Financial liabilities are classified as subsequently measured at amortised cost or financial liabilities at fair value through profit or loss.

Trade and Other Payables

Classified as a financial liability measured at amortised cost.

Derivative Financial Instruments

Classified as a financial liability at fair value through profit or loss.

Bank Borrowing

Classified as a financial liability measured at amortised cost.

(s) Derivative Financial Instruments and Hedge Accounting

The Group enters into derivative financial instruments to mitigate the risks associated with interest rate and currency movements. They include swaps and options and combinations of these instruments.

Derivative financial instruments are recognised initially at fair value on the date at which a derivative contract is entered into and are subsequently remeasured to fair value. Fair values of interest rate swaps and options are determined by reference to market values for similar instruments. Any gains or losses arising from changes in the fair value of derivatives are taken directly to profit and loss for the year except for the effective portion of cash flow hedges, which is recognised in OCI and later reclassified to profit and loss when the hedged item affects profit or loss.

At the inception of a hedge relationship the Group formally designates and documents the hedge relationship to which the Group wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge. The Group has no hedge relationships to which hedge accounting applies at 31 March 2019.

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

All regular way purchases and sales of financial assets are recognised on the trade date. That is, the date that the Group commits to purchase the asset. Regular way purchases or sales are purchases or sales of financial assets under contracts that require delivery of the assets within the period established generally by regulation or convention in the market place. Financial assets are derecognised when the right to receive cash flows from the financial assets have expired or been transferred.

(t) 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, using the effective interest method, less any allowance for impairment.

2. Accounting Policies – Continued

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

(u) Reinsurance Recoveries

During the normal course of the Group'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.

Amounts recoverable from reinsurers are estimated in a manner consistent with the outstanding claims provision or settled claims associated with the reinsurer's policies and are in accordance with the related reinsurance contract. 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.

(v) Policy Acquisition Costs

(i) General insurance

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 the Statement of Comprehensive Income.

(ii) Life insurance

The actuary's assessment of life insurance contract liabilities takes account of the deferral and future recovery of acquisition costs. These costs are capitalised by way of movement in Life Policy Liabilities, then amortised over the period in which they will be recoverable.

(w) Assets Backing Insurance Liabilities

All investment assets of Medical Life Assurance Society Limited, the Group's life company, are assets backing the policy liabilities of the life insurance business.

All investment assets of Medical Insurance Society Limited have been identified as assets backing the insurance liabilities of the general insurance business.

All investment assets backing insurance liabilities are measured at fair value through profit or loss.

(x) Revenue from Funds Management

Revenue from Funds Management primarily represents fees for the management of the Medical Assurance Society Retirement Savings Plan and the Medical Assurance Society KiwiSaver Plan ("the Plans").

Revenue is recognised at an amount that reflects the consideration to which the Group expects to be entitled in exchange for transferring services to the Plans. Revenue is calculated quarterly for management services provided to the Plans during the quarter.

(y) Property, Plant and Equipment, and Depreciation

Land and Buildings are revalued at appropriate intervals, not exceeding three years, to fair value, which is determined by reference to the asset's highest and best use by an independent valuer. Revaluation surpluses are recognised in Other Comprehensive Income to the extent they offset previous devaluations recognised in net surplus. Except as above, revaluation surpluses are taken directly to the Asset Revaluation Reserve. Decreases in value are debited directly to the Asset Revaluation Reserve to the extent that they reverse previous surpluses within the individual asset concerned and are otherwise recognised as expenses.

All other fixed assets are held at cost and are depreciated on a straight line basis over their estimated economic lives as follows:

• Buildings	50 years
• Furniture, Fittings and Equipment	3 - 10 years

(z) Intangibles

Intangible assets represent software and software work in progress and are initially measured at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses.

Intangibles are amortised over their estimated useful life as follows:

• General use software	5 years
• Core systems	3 - 10 years

The Group has increased the estimated useful economic life and amortisation period of the core insurance operating system software and the core CRM system. Refer to Note 28.

2. Accounting Policies – Continued

(aa) Changes in Accounting Policies

The Group 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. The changes in the classification of the Group's financial assets and liabilities are summarised in Note 33.

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 Group. The Group's revenue from contracts with customers was assessed as Funds Management Revenue and Other Revenue from Contracts with Customers. No changes to revenue recognition or restatement of comparative balances was required. Other significant revenue streams were unaffected as insurance premiums are accounted for under IFRS 4 Insurance Contracts, while investment income is accounted for under IFRS 9.

(ab) 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 entity'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. Further details are also provided within the relevant note disclosure.

Outstanding Claims Liability

The outstanding claims liability is measured as the central estimate of the present value of expected future claims payments (included claims incurred and 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. Medical Insurance Society Limited ("MIS") 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 regarding the net claims arising from the Canterbury earthquakes and significant judgement is required for 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.

3. Significant accounting judgements, estimates and assumptions - Continued

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.

Policy Liabilities

Policy liabilities for life insurance contracts are calculated using statistical or mathematical methods. They are made by a suitably qualified person, and are based on recognised actuarial methods, with due regard to relevant actuarial standards.

The methodology takes into account the risks and uncertainties of the particular classes of life insurance business written.

The key factors that affect the estimation of these liabilities and related assets are:

- the cost of providing benefits and administering these insurance contracts
- mortality and morbidity experience on life insurance products, including enhancements to policyholder benefits
- discontinuance experience
- the amounts credited to policyholders' accounts compared to the returns on invested assets through asset and liability management and tactical asset allocation.

In addition, factors such as competition, interest rates, taxes and market and general economic conditions affect the level of these liabilities. Details of specific actuarial policies and methods adopted are contained in Note 10.

Software intangibles

Assessing the useful life and any impairment of core software systems involves judgement and estimation. The application of NZ IAS 38 Intangible Assets includes accounting considerations required for capitalisation of IT projects. Areas of judgement include consideration of impairment indicators, economic useful life, future IT investment plans and previous impairment decisions.

4. Related Party Transactions

Medical Assurance Society New Zealand Limited is the holding company of the following fully owned subsidiary companies:

- Medical Insurance Society Limited ("MIS")
- Medical Life Assurance Society Limited ("MLA")
- Medical Securities Limited ("MSL")
- Medical Funds Management Limited ("MFM").

The Medical Assurance Society Retirement Savings Plan and the Medical Assurance Society KiwiSaver Plan are two registered superannuation schemes that are distributed by Medical Assurance Society New Zealand Limited. Medical Funds Management Limited provides management services for these plans.

Advances to and from subsidiary companies are unsecured and repayable on demand with the exception of the advance to Medical Securities Limited which is subject to a two year repayment agreement. Interest on advances is charged at the 90 day bank bill rate plus 1%. As at 31 March 2019 interest was charged at 2.85% for all subsidiaries (2018: 2.96%).

All inter-Group transactions are eliminated on consolidation. All transactions with Members, directors and staff are at market rates.

5. Claims – Medical Insurance Society Limited

Claims Expense	2019 $000	2018 $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)
Change 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 $000	2018 $000
Expected Future Claim Payments	30,798	52,607
IBNR Claims at year end	1,836	2,130
Risk Margin	10,494	13,004
Provision for Outstanding Claims	43,128	67,741

Assumptions adopted in calculation of claim provisions

A significant portion of the general insurance claims provision relates 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
Risk margin – earthquake	25.00% - 53.30%	25.00% - 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

5. Claims – Medical Insurance Society Limited - Continued

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 MIS 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			
Ultimate Claim Cost Estimate	**Prior**	**2015 $000**	**2016 $000**	**2017 $000**	**2018 $000**	**2019 $000**	**Total $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 estimate		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 third parties							(18,319)
Net outstanding claims liabilities							24,809

6. Provision For Unearned Premium - Medical Insurance Society Limited

	2019 $000	2018 $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.

7. Premiums Outstanding

	2019 $000	2018 $000
Premiums Owing by Policyholders of MIS Policies	18,931	17,908
Premiums Owing by Policyholders of MLA Policies	12,879	12,505
	31,810	30,413

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.

8. Reinsurance Recoveries Outstanding

	2019 $000	2018 $000
Gross Recoveries – Medical Insurance Society Limited	16,986	28,091
Gross Recoveries – Medical Life Assurance Society Limited	17,753	14,325
Discount to Present Value	(893)	(1,324)
Reinsurance Recoveries Outstanding	33,846	41,092

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

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

The carrying amounts reasonably approximate fair value.

Medical Insurance Society Limited

MIS'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 MIS can retain for its own account. MIS'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 MIS's reinsurers.

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

The carrying amounts reasonably approximate fair value.

9. Claims Recoveries Outstanding – Medical Insurance Society Limited

	2019 $000	2018 $000
Gross Claims Recoveries Owing by Third Parties	3,710	4,542
Allowance for Expected Credit Losses	(2,377)	(1,768)
Net Claim Recoveries Outstanding	1,333	2,774

Whilst the majority of claims recoveries come from reinsurers, MIS 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.

MIS 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.

10. Actuarial Policies and Methods – Medical Life Assurance Society Limited

The effective date of the actuarial report on the policy liabilities and prudential reserves is 31 March 2019.

The actuarial report was prepared by the Appointed Actuary, Peter Davies, FIA, a Fellow of the New Zealand Society of Actuaries ("NZSA"). The actuary is satisfied as to the accuracy of the data upon which the calculations of policy liabilities have been made.

The amount of policy liabilities has been determined in accordance with the methods and assumptions disclosed in these financial statements and with the standards established by the NZSA.

Disclosure of Assumptions

Policy liabilities have been determined in accordance with Professional Standard No. 20 of the NZSA.

The profit carriers used for the major product groups in order to achieve the systematic release of planned margins are:

Major Product Group	Profit Carrier
Risk insurances including: • Term Life • Dread Disease • Total Permanent Disablement	Premiums
Traditional participating business	Bonuses
Disability business	Premiums

Discount Rates

The 10-year NZ Government Stock rate at the valuation date was 1.80% (2018: 2.72%), net of tax at 28.00% (2018: 28.00%), giving a net discount rate of 1.30% per annum (2018: 1.96%).

Disability outstanding claims have been valued using the 5-year Government stock rate of 1.45% gross of tax (2018: 2.29%), reflecting the expected duration of future payments on existing claims.

Inflation Rates

Inflation impacts on the valuation in broadly two ways. Some contracts provide for the increase of future benefits in line with the Consumer Price Index ("CPI"). The CPI is assumed to increase at 2.50% per annum (2018: 2.50%). The assumed rate of expense inflation is 2.00% per annum (2018: 2.00%).

Element Impacted	Assumed Rate
Benefit indexation	2.50% (2018: 2.50%)
Expenses	2.00% (2018: 2.00%)

It is further assumed that benefit indexation will be utilised by up to 90.00% of indexed assurances (2018: 90.00%) which is in line with MLA's recent experience.

It has also been assumed that the sums insured of all Yearly Renewable Term, Total Permanent Disablement and Trauma policies will not increase (2018: 2.00% resulting from clients requesting increases in their level of cover).

Commissions

As MLA does not remunerate by way of commission, no allowance is required.

Future Expenses

Maintenance expenses. The standard maintenance expense allowance for risk policies is $354 (2018: $398) gross per cover and $448 (2018: $507) gross per cover for disability policies. Certain policy groups have non-standard allowances. These expenses are assumed to be increased in line with the indexation assumption above.

Acquisition expenses. The standard acquisition expense allowance for policies written is $1,005 for new life covers (2018: $763) and $1,894 (2018: $1,544) for disability covers. The unit expenses are based upon a broad analysis of MLA's actual expenses for the year. Maintenance costs of permanent assurances equal 2.2 times those for risk policies. This is approximately the same relativity as was used in the previous valuation.

Investment expenses. Investment expenses equalled 0.11% of funds under management (2018: 0.11%).

The breakdown of actual expenses is as follows:

	2019 $000	2018 $000
Maintenance expenses	10,370	11,445
Acquisition expenses	3,319	2,765
Investment expenses	67	59
	13,756	14,269

Taxation

Future rates of taxation have been assumed to continue at the current level of company tax in New Zealand of 28.00% (2018: 28.00%).

10. Actuarial Policies and Methods – Medical Life Assurance Society Limited - Continued

Mortality and Morbidity

The basic rates of mortality assumed for life products were:

Males	63% of IA95-97M (2018: 90% of IA95-97M)
Females	63% of IA95-97F (2018: 90% of IA95-97F)

The mortality assumption has been revised to 63% of IA95-97 to reflect the Company's favourable claims experience over the past ten years.

Modifications have been made from these base tables to reflect smoker / non-smoker habits and duration in force (2018: same modifications as made in 2019). Increased loadings are applied to mortality and morbidity risks above the age of 60 to allow for selective lapsing (2018: same loading as applied in 2019).

The experience for dread disease and total and permanent disability contracts is assumed to equal 85.00% of the reinsurance risk premium rates, net of GST (2018: 85.00%).

For Disability contracts and claims in payment, the assumed rates of claim frequency and continuance are based on the CIDA tables, adjusted in line with the Company's own experience. No changes were made to these assumptions compared to the previous year.

Discontinuances

Risk insurances including: • Term Life • Dread Disease • Total Permanent Disablement	Yearly renewable contracts 5.50% per annum with additional selective lapses above age 60 (2018: no change) Level term contracts: 1% per annum (2018: no change)
Traditional participating business	5.00% per annum (2018: 5.00%)
Disability business	6.00% per annum (2018: 5.00%)

Future participating business

MLA's philosophy is to set bonus rates such that over longer periods, the returns to participating policyholders will be commensurate with the investment returns on the assets held. Distributions are split between policyholders and shareholders with shareholders entitled to 25% of the distribution to policyholders. Assumed rates of future bonus have been set so that the present value of the policy liabilities equals the present value of the assets supporting the business. Allowance is made for the shareholder's right to participate in the distributions.

Assumed future bonus rates for participating policies were:

Bonus rate on sum assured	$4.20 per mille (2018: $2.90 per mille)
Bonus rate on existing bonuses	$7.10 per mille (2018: $5.40 per mille)

The marginal increase in the level of supportable bonuses arises from the reduction in projected future renewal costs, combined with a relatively high number of surrenders over the past year.

11. Policy Liabilities– Medical Life Assurance Society Limited

	2019 $000	2018 $000
Gross future claims	255,611	389,544
Future reinsurance premiums	166,278	184,094
Future reinsurance recoveries	(126,018)	(206,759)
Future policy bonuses	427	337
Future expenses	96,066	102,674
Future profit margins	121,802	86,435
Balance of future premiums	(518,198)	(558,564)
Policy Liabilities before bonus	(4,032)	(2,239)
Bonus declared at year end	138	147
Total Policy Liabilities at period end	(3,894)	(2,092)
Total Policy Liabilities at previous period end	(2,092)	(646)
Decrease in Policy Liabilities per Statement of Comprehensive Income	1,802	1,446

MLA operates a sub-fund in respect of its participating policyholders as required under the Insurance (Prudential Supervision) Act and Regulations.

The progress of the participating sub-fund over the year has been as follows:

	2019 $000	2018 $000
Participating fund at previous balance date	4,968	5,177
Investment income less claims and expenses	(188)	(172)
Profit distributed to shareholders	(35)	(37)
Participating fund at balance date	**4,745**	**4,968**
Policyholder retained earnings at previous balance date	265	358
Profit distributed as bonuses to participating policyholders	(138)	(147)
Policyholder share of profit (80%)	68	55
Policyholder retained earnings at balance date	195	266
Shareholder retained earnings at previous balance date	66	89
Profit distributed to shareholders	(35)	(37)
Shareholder share of profit (20%)	17	14
Shareholder retained earnings at balance date	**48**	**66**

Based on the recommendations of the Actuary, the Board has approved a bonus declaration for participating policyholders as follows:

Bonus on sum insured	2.40% (2018: 2.40%)
Bonus on existing bonuses	3.80% (2018: 3.80%)

The cost of this bonus declaration is provided for in the above table.

12. Outstanding Claims – Medical Life Assurance Society Limited

The following table shows the development of net undiscounted outstanding claims relative to the current estimate of ultimate disability claims costs for the five most recent years. Due to the long tail nature of disability claims, MLA has a number of active claims that pre-date 2015.

		Incident Year					
Ultimate Claim Cost Estimate	**Prior**	**2015 $000**	**2016 $000**	**2017 $000**	**2018 $000**	**2019 $000**	**Total $000**
At end of incident year		5,839	7,561	6,549	7,577	7,065	
One year later		5,272	7,475	10,151	9,018		
Two years later		5,933	7,360	11,447			
Three years later		7,012	7,792				
Four years later		7,109					
Current estimate	83,008	7,109	7,792	11,447	9,018	7,065	
Payments	(74,815)	(4,967)	(5,328)	(5,699)	(4,197)	(2,142)	
Undiscounted central estimate	8,193	2,142	2,464	5,748	4,821	4,923	28,291
Discount to present value	(541)	(150)	(152)	(495)	(508)	(223)	(2,069)
Discounted central estimate	7,652	1,992	2,312	5,253	4,313	4,700	26,222

Life claims are excluded from the above analysis as they are typically settled within a short timeframe of the claim being recognised.

	2019 $000	**2018 $000**
Disability claims outstanding	26,222	24,056
Life claims outstanding	2,556	–
	28,778	24,056

13. Interest Expense

	2019 $000	**2018 $000**
Bank Interest	456	928
Interest Paid on Derivatives	112	127
Total Interest Expense	568	1,055

14. Loans

	2019 $000	2018 $000
Loans	13,591	27,410
Provision for Credit Impairment	(462)	(245)
Net Loans	13,129	27,165
Loans – current	7,636	15,899
Loans – non current	5,955	11,511
Less Provision for Credit Impairment	(462)	(245)
Net Loans	13,129	27,165
Impaired Loan Provision		
Collective Loan Provision	232	144
Specific Loan Provision	230	101
Total Loan Provision	462	245
Collective Loan Provision		
Opening Balance	144	138
Movement in Collective Loan Provision	88	6
Closing Balance	232	144
Specific Loan Provision		
Opening Balance	101	3
Less: Specific Loan Provision Subsequently Written Off	(34)	-
Less: Reversal of Specifically Impaired Assets	(32)	(3)
Addition to Specific Impairment Provision	195	101
Closing Balance	230	101

$32,518 of income was received on specifically impaired loans for the period ending 31 March 2019 (2018: $33,665).

14. Loans – Continued

	2019 $000	2018 $000
Credit Impairment		
Movement in Collective Provision	88	6
Movement in Specific Provision	129	98
Impaired Assets Written Off	39	-
Recoveries on Impaired Assets Written Off	(38)	(29)
Credit Impairment per Statement of Comprehensive Income	218	75

Past Due Loans Not Impaired

	Less than 30 days $000	Between 30 and 60 days $000	Between 61 and 90 days $000	Greater than 90 days $000	Total $000
2019					
Instalments in Arrears	–	–	–	–	–
Associated Loan Principal	–	–	–	–	–
2018					
Instalments in Arrears	3	–	–	1	4
Associated Loan Principal	81	–	–	12	93

The past due loans not impaired represent 0.00% of loans outstanding (2018: 0.30%).

Loans classed as past due are considered to be temporarily past due and all balances are deemed collectible.

15. Derivative Financial Instruments

Interest rate swaps are commitments to exchange one set of cash flows for another. Swaps result in an economic exchange of interest rates. No exchange of principal takes place.

The Group's credit risk on derivatives is limited to those derivatives recognised as a fair value asset. The Group minimises the risk by entering into derivative contracts with rated New Zealand banks. This risk is monitored on an on-going basis with reference to the current fair value of the derivatives, the proportion of the notional amounts of the contracts with counterparties, and the liquidity of the market. All derivative contracts are transacted with banks who hold AA- credit rating from Standard & Poor's.

	Contract / Notional Amount $000	Fair Value Assets $000	Fair Value Liabilities $000
Interest Rate Derivatives 2019	2,500	–	23
Interest Rate Derivatives 2018	4,900	–	126

All derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.

16. Bank Borrowing – Medical Securities Limited

	2019 $000	2018 $000
Bank Borrowing	7,000	18,500
	7,000	18,500

MSL has a $7.0 million (2018: $18.5 million) facility that expires on 3 February 2020. MSL has provided a general security agreement over its assets and uncalled capital to support derivative transactions and borrowings from its banking partner.

The bank borrowing facility requires a compliance certificate to be provided monthly. MSL has complied with all the requirements of its bank borrowing facility agreement.

The weighted average interest rate of the funds drawn on the facility at 31 March 2019 was 3.41% (2018: 3.38%).

17. Compensation Paid To Key Management Personnel

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

No shares nor pension entitlements are provided to directors or staff.

Key management personnel is defined as directors and members of the Executive Management Team.

18. Administration Expenses

	2019 $000	2018 $000
Included in Administration Expenses are the following:		
Rental of Premises	1,371	663
Fees to auditors - for the audit of financial statements	202	199
Fees to auditors - for other assurance and related services	34	34
Fees to auditors - for other services	36	21
Directors' Fees	658	644
Loss on Disposal of Property, Plant, Equipment and Intangibles	45	60
Depreciation and Amortisation	3,588	4,318
Reversal of prior years impairment of intangibles	(6,297)	–
Impairment of intangibles	7,108	4,512
Donations	34	–

Other assurance and related audit fees relate to reviews of regulatory reporting (2018: principally to reviews of regulatory reporting). Fees to auditors for other services is principally for remuneration advice.

19. Operating Lease Commitments

Commercial leases on certain premises and on motor vehicles are entered into where it is not in the best interest of MAS to purchase these assets.

The property leases have an average life of 3.59 years (2018: 1.98 years) with renewal terms included in the contracts. Motor vehicle leases have an average life of 1.14 years (2018: 1.85 years).

Future minimum rentals payable under non-cancellable operating leases are as follows:

	2019 $000	2018 $000
Less than one year	1,315	908
Between one and two years	993	568
Between two and five years	2,617	298
Greater than five years	7,504	-
Total Operating Lease Commitments	12,429	1,774

20. Investment and Sundry Income

	2019 $000	2018 $000
Gain from Investment Funds	16,173	11,283
Rent Received	14	12
Interest on Term Deposits	76	69
Sundry Income	136	380
Total Investment and Sundry Income	16,399	11,744
Realised Income	14,406	8,373
Unrealised Income	1,993	3,371
Total Investment and Sundry Income	16,399	11,744

21. Taxation

	2019 $000	2018 $000
Net Surplus before Taxation	16,882	4,963
Taxation at 28%	4,727	1,390
Prior Period Adjustment	151	6
Taxation Effect of Permanent Differences	(2,677)	(1,357)
Tax Credits	(48)	(193)
Taxation Expense / (Credit) for the Year	2,153	(154)
Taxation Expense / (Credit) for the Year comprises:		
Current Taxation	3,761	(1,073)
Deferred Tax	(1,608)	918
Taxation Expense / (Credit) per Statement of Comprehensive Income	2,153	(154)

Taxation Effect of Permanent Differences primarily relates to non-taxable accounting investment income.

21. Taxation – Continued

Deferred Tax

31 March 2019	Opening Balance $000	Revaluation Reserve $000	Statement of Comprehensive Income $000	Total $000
Deferred Tax Liabilities				
Property, Plant and Equipment	(1,169)	–	(1,303)	(2,472)
Insurance Reserves and Provisions	(4,878)	–	(482)	(5,360)
Other	(84)	–	–	(84)
	(6,131)	–	(1,785)	(7,916)
Deferred Tax Assets				
Provisions and Accruals	885	–	177	1,062
	885	–	177	1,062
Net Deferred Tax Liability	(5,246)	–	(1,608)	(6,854)

31 March 2018	Opening Balance $000	Revaluation Reserve $000	Statement of Comprehensive Income $000	Total $000
Deferred Tax Liabilities				
Property, Plant and Equipment	(2,561)	–	1,392	(1,169)
Insurance Reserves and Provisions	(4,286)	–	(592)	(4,878)
Other	–	(84)	–	(84)
	(6,847)	(84)	800	(6,131)
Deferred Tax Assets				
Provisions and Accruals	767	–	118	885
	767	–	118	885
Net Deferred Tax Liability	(6,080)	(84)	918	(5,246)

Imputation Credit Account (“ICA”)	2019 $000	2018 $000
Closing Balance	39,163	39,187

22. Contributed Equity

	2019 $000	2018 $000
1 Non-Voting Share	100	100
10,000 Voting Shares	10	10
	110	110

All voting shares carry the same voting rights, and rights to share in any surplus upon winding-up.

Capital Management

When managing capital, management's objective is to ensure the Group continues as a going concern as well as to maintain optimal returns to shareholders (Members) and benefits for other stakeholders.

Directors have no plans to issue further shares.

Capital Requirements

The Group as a group is not subject to any externally imposed capital requirements. However, a number of the subsidiary companies are. These requirements include:

Medical Life Assurance Society Limited ("MLA") and Medical Insurance Society Limited ("MIS")

Both MIS and MLA are licensed insurers under the Insurance (Prudential Supervision) Act 2010 ("IPSA").

Conditions are imposed as part of licencing including maintaining 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.

The Medical Life Assurance Statutory Fund encompasses all the assets and liabilities of Medical Life Assurance Society Limited.

MIS and MLA have capital management plans and reporting processes in place to assist the entities in maintaining continuous and full compliance with the solvency standard.

At 31 March 2019, MIS 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).

MIS' solvency position as per the solvency standard is as follows:

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

The solvency position of the Medical Life Assurance Statutory Fund is exactly the same as for the entity. At 31 March 2019 MLA was not in breach of any of its regulatory requirements or its covenants, nor has it been at any stage during the current reporting period (no breaches during the year ended 31 March 2018). MLA's solvency position as per the solvency standard is as follows:

	2019 $000	2018 $000
Actual Solvency Capital	57,854	50,127
Minimum Solvency Capital	44,768	40,849
Solvency Margin	13,086	9,278
Solvency Ratio	1.29	1.23

23. Liabilities

23(a). Other Insurance Liabilities	2019 $000	2018 $000
Reinsurance Premium Payable	1,339	14
Premiums Received in Advance	1,178	1,403
	2,517	1,417

23(b). Trade and Other Payables	2019 $000	2018 $000
Government Levies Payable	3,174	1,174
GST Payable	3,383	3,087
Trade and Other Payables	5,621	6,866
Incentive Bonus Payable	584	580
	12,761	11,707

All payables are due within twelve months of balance date.

23(c). Employee Benefits Provision	2019 $000	2018 $000
Employee Benefits - current	1,259	1,274
Employee Benefits - non current	1,912	1,903
	3,171	3,177

Employee Benefits - current includes annual leave and long service leave that the employee is entitled to.

Employee Benefits - non current represents a provision for the expected future long service leave that will be payable. Refer to Note 2(o) for further details.

24. Cash and Cash Equivalents

	2019 $000	2018 $000
Bank Overdraft	–	–
Cash at Bank	4,490	4,408
	4,490	4,408

Cash at Bank earns interest at floating rates based on daily deposit rates. The carrying amounts of Cash and Cash Equivalents represent fair value.

The parent company's bank overdraft facility of $1 million is secured by a first mortgage over its commercial property at Broderick Road, Johnsonville.

25. Trade and Other Receivables

	2019 $000	2018 $000
Trade and Other Receivables	76	107
GST Receivable	52	178
Management Fee for Funds Management	3,842	3,405
	3,970	3,690

Trade receivables are non-interest bearing and are generally on terms of 30 days. The allowance for expected credit losses has been assessed as zero at March 2019 (March 2018: zero) as no credit losses are expected within the next 12 months.

26. Investments

	2019 $000	2018 $000
Short Term Domestic Securities and Deposits	153,283	89,702
Domestic Fixed Interest	28,339	29,240
International Fixed Interest (Unit Trust)	47,634	23,778
Australasian Equities (Managed Fund)	1,644	18,911
International Equities	5,304	60,503
Total Investments	236,204	222,134
Life Assurance Investment Funds (MLA)	64,472	53,998
General Insurance Investment Funds (MIS)	96,012	90,568
Other Investment Funds	75,720	77,568
Total Investments	236,204	222,134

The Group'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.

During the year, the Group has been advised by JBWere (NZ) Limited and Bancorp Treasury Services Limited on the management of investments. The majority of the total sum invested, is invested into securities held in the name of the investing entity, via a custodian. The remaining funds are invested into unitised or pooled vehicles.

27. Property, Plant and Equipment

	Land $000	Buildings $000	Furniture, Fittings and Equipment $000	Total $000
Cost / Valuation				
Balance as at 1 April 2018	2,975	2,305	9,226	14,506
Additions	–	–	2,141	2,141
Work in Progress	–	–	–	–
Disposals	–	–	(1,028)	(1,028)
Balance as at 31 March 2019	2,975	2,305	10,339	15,619
Accumulated Depreciation and Impairment Losses				
Balance as at 1 April 2018	–	–	7,573	7,573
Depreciation charge	–	58	732	790
Disposals	–	–	(999)	(999)
Balance as at 31 March 2019	–	58	7,306	7,364
Net Book Value 31 March 2019	2,975	2,247	3,033	8,255

	Land $000	Buildings $000	Furniture, Fittings and Equipment $000	Total $000
Cost / Valuation				
Balance as at 1 April 2017	2,480	1,835	10,261	14,576
Additions	–	–	485	485
Work in Progress	–	–	623	623
Disposals	–	–	(2,143)	(2,143)
Revaluations	495	470	–	965
Balance as at 31 March 2018	2,975	2,305	9,226	14,506
Accumulated Depreciation and Impairment Losses				
Balance as at 1 April 2017	–	92	9,110	9,202
Depreciation charge	–	–	530	530
Disposals	–	–	(2,067)	(2,067)
Revaluations	–	(92)	–	(92)
Balance as at 31 March 2018	–	–	7,573	7,573
Net Book Value 31 March 2018	2,975	2,305	1,653	6,933

Revaluation of Land and Buildings

The most recent market valuation of Land and Buildings was completed by Martin J Veale, ANZIV, SPINZ, a registered valuer from TelferYoung (Wellington) Limited on 31 March 2018. The resultant fair value figure of $5.3 million was recognised by increasing the carrying value of the Buildings at 31 March 2018 by $0.5 million and increasing the value of the Land by $0.5 million. The effective date of the revaluation was 31 March 2018.

Fair value is the amount for which the assets could be exchanged between a knowledgeable willing buyer and a knowledgeable willing seller in an arm's length transaction as at the valuation date. The fair value is assessed as a level 3 disclosure under the fair value hierarchy.

27. Property, Plant and Equipment – Continued

If Land and Buildings were measured using the cost model
the carrying amounts would be as follows:

	2019 $000	2018 $000
Land	821	821
Buildings	4,611	4,611
Accumulated Depreciation on Buildings	(3,743)	(3,628)
	868	983

28. Intangibles

	Software $000	Work in Progress $000	Total $000
Cost			
Balance as at 1 April 2018	35,958	7,108	43,066
Additions	53	57	111
Transfers	–	–	–
Disposals	(12)	–	(12)
Impairment	–	(7,108)	(7,108)
Balance as at 31 March 2019	36,000	57	36,057
Accumulated Amortisation and Impairment Losses			
Balance as at 1 April 2018	30,457	–	30,457
Amortisation and impairment	2,798	–	2,798
Reversal of impairment recognised in prior years	(6,297)	–	(6,297)
Disposals	(12)	–	(12)
Balance as at 31 March 2019	26,946	–	26,946
Net Book Value 31 March 2019	9,054	57	9,111

	Software $000	Work in Progress $000	Total $000
Cost			
Balance as at 1 April 2017	35,607	501	36,108
Additions	449	7,108	7,557
Transfers	501	(501)	–
Disposals	(599)	–	(599)
Balance as at 31 March 2018	35,958	7,108	43,066
Accumulated Amortisation and Impairment Losses			
Balance as at 1 April 2017	22,172	–	22,172
Amortisation and impairment	8,301	–	8,301
Disposals	(16)	–	(16)
Balance as at 31 March 2018	30,457	–	30,457
Net Book Value 31 March 2018	5,501	7,108	12,609

28. Intangibles – Continued

Work in Progress

Work in Progress represents the development costs of software which has not been completed at the end of the financial period.

Impairment / Reversal of Impairment of Software

During the year, the Group ceased its project to develop a new core policy administration system and impaired $7.1m of work in progress relating to this development.

Increased operating expenditure recognised as a result of this project was $13.2m (2018: $2.3m). The Group has reviewed the carrying value of its existing core system software intangible assets and reassessed the useful life and value to the Group. The Group concluded that amounts previously impaired for these systems should be reversed and that the systems useful life has been reassessed as four years. A reversal of impairment totalling $6.3m was recorded at 31 March 2019 (2018: impairment charge of $4.5m) and has been recognised in these financial statements relating to internally generated software and Work in Progress.

29. Deferred Acquisition Costs – Medical Insurance Society Limited

	2019 $000	2018 $000
Opening balance	551	344
Acquisition costs deferred during the year	458	551
Current period amortisation	(551)	(344)
Closing balance	458	551

30. Commitments

	2019 $000	2018 $000
MSL commitments to extend credit (Members' undrawn revolving credit facilities)	–	14,066
	–	14,066

MSL has ceased providing commitments to extend credit to Members. MSL has no other commitments at 31 March 2019 (2018: nil). Refer to Note 19 for Operating Lease Commitments.

31. Contingent Liabilities

The Group 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 Group. 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.

MSL has provided a general security agreement over its assets and uncalled capital to support derivative transactions and borrowings from its banking partner.

32. Fair Value of Financial Assets and Liabilities

Fair Value Methodologies

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 Deposits, balances with other financial institutions with maturities of less than three months and other types of short term financial assets, the carrying values 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 Asset

The fair value for fixed interest investments (Domestic and Unit Trust) 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.

Equities

Equities (Managed Fund and International) 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.

Derivative Financial Instruments

For Derivative Financial Instruments carrying value is fair value, being the settlement value as at balance date.

Loans

The carrying values of Loans is net of provision for credit impairment and income yet to be earned. The estimated fair value of Loans is based on the discounted amount of estimated future cash flows and accordingly has been adjusted for individual and collective impairment.

Estimated contractual cash flows for performing loans are discounted at estimated current bank credit spreads to determine fair value. For loans with doubt as to collection, expected cash flows (inclusive of the value of security) are discounted using a rate which includes a premium for the uncertainty of the flows.

The difference between estimated fair values of loans and advances and their carrying value reflects changes in interest rates and the credit worthiness of borrowers since loan origination.

Other Financial Assets

For all other financial assets, the carrying value is considered to be a reasonable estimate of fair value. Taxation Paid in Advance, Prepayments and Other Insurance Assets are not considered to be financial assets.

Borrowings

The Bank Borrowing amounts reasonably approximate fair value.

Financial Liabilities

The carrying value of Trade and Other Payables is considered to approximate its fair value, as they are short term in nature or payable on demand. Deferred tax, provisions and accrued charges, fees in advance, and insurance provisions and other liabilities are not considered to be financial liabilities.

32. Fair Value of Financial Assets and Liabilities – Continued

The table below summarises the carrying amounts and fair values of each class of financial assets and liabilities. Those assets and liabilities where the carrying amount reasonably approximates fair value are not included in the table.

	2019 Carrying Amount $000	2019 Fair Value $000	2018 Carrying Amount $000	2018 Fair Value $000
Financial Assets				
Investments	236,204	236,204	222,134	222,134
Net Loans	13,129	13,129	27,165	27,304
Total Financial Assets	249,333	249,333	249,299	249,438
Financial Liabilities				
Derivative Financial Instruments	23	23	126	126
Total Financial Liabilities	23	23	126	126

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 Group recognises on a fair value basis are its investments and derivative financial instruments (refer to Classification of Financial Instruments in Note 33 for details of the classification categories).

	Level 1 $000	Level 2 $000	Level 3 $000	Total $000
31 March 2019				
Assets measured at fair value				
Short Term Domestic Securities and Deposits	–	153,283	–	153,283
Domestic Fixed Interest	–	28,339	–	28,339
International Fixed Interest (Unit Trust)	–	47,634	–	47,634
Australasian Equities (Managed Fund)	–	1,644	–	1,644
International Equities	5,304	–	–	5,304
Liabilities measured at fair value				
Derivative Financial Instruments	–	23	–	23

32. Fair Value of Financial Assets and Liabilities – Continued

	Level 1 $000	Level 2 $000	Level 3 $000	Total $000
31 March 2018				
Assets measured at fair value				
Short Term Domestic Securities and Deposits	–	89,702	–	89,702
Domestic Fixed Interest	–	29,240	–	29,240
International Fixed Interest (Unit Trust)	–	23,778	–	23,778
Australasian Equities (Managed Fund)	–	18,911	–	18,911
International Equities	60,503	–	–	60,503
Liabilities measured at fair value				
Derivative Financial Instruments	–	126	–	126

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 Level 1 and Level 2 during the year (2018: no transfers).

33. Financial Instruments and Risk Management

The Group's risk management is carried out in accordance with policies set by 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 Group enters into financial derivatives to minimise the exposure to interest rate movements.

The main risks arising from the financial instruments and the business the Group 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 Group 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 Group'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

Credit risk is the risk of loss that arises from a counterparty failing to meet their contractual commitment in full and on time, or from losses arising from the change in value of a trading instrument as a result of changes in credit risk on that instrument. The entity obtains sufficient collateral, or other security where appropriate, as a means of mitigating the risk of financial loss from defaults.

The Group no longer offers new lending. Credit risk on lending operations was managed by:

- assessing each loan application against a Board-approved lending policy
- where applicable, securing the loan against property / chattels, taking into consideration the type and location of the security, the loan to value ratio and loan servicing ability of the borrower
- employing staff that are experienced and suitably qualified in this type of business and ensuring any problem loans are promptly addressed.

The Group manages credit risk in insurance operations by:

- 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.

Loans are secured primarily by first mortgages or by chattel securities. Included within the Statement of Financial Position are unsecured loans of $6.6 million (2018: $10.0 million).

33. Financial Instruments and Risk Management – Continued

Statement of Financial Position credit exposures:

	2019 $000	2018 $000
Cash at Bank / Short Term Deposits	4,490	4,408
Reinsurance Recoveries	33,846	41,092
Investments	236,204	222,134
Loans	13,591	27,410
Trade and Other Receivables	3,970	3,690
Premiums Outstanding	31,810	30,413
Claims Recoveries Outstanding	3,710	4,542
Other Insurance Assets	100	143
	327,721	333,832
Other Credit Exposures:		
General Security agreement issued to banking partner	7,017	18,583
Commitments given to Members to extend credit	–	14,066
	7,017	32,649

A general security agreement has been issued to a banking partner which provides for the payment of all present and future liabilities in relation to MSL's derivatives and bank borrowings.

Concentrations of credit risk by geographical area of Loans: (as defined by MAS branch boundaries)

	2019 %	2018 %
Auckland	32.73	30.26
Hamilton	25.00	22.72
Palmerston North	4.52	7.16
Wellington	14.41	16.76
Christchurch	13.14	15.73
Dunedin	10.20	7.37
Total	100.00	100.00

	2019 $000	2018 $000
Amount owed by the Group's six largest lending debtors	2,279	3,430
Six largest lending exposures as a proportion of Loans	17.36%	12.67%
Six largest lending exposures as a proportion of Total Equity	1.13%	1.83%

33. Financial Instruments and Risk Management – Continued

Counterparty exposures

While the Group may be subject to credit losses up to the notional principal amount in the event of non-performance by its counterparties, it does not expect such losses to occur other than as already provided for.

The following table discloses the number of counterparties the Group has an exposure to in excess of 10% of equity. All of the Group's counterparty exposures in excess of 10% of equity hold a Standard & Poor's credit rating (or equivalent) of at least A-.

	2019	2018
10%–20% of equity	1	1
> 20% of equity	2	1

The investment portfolio, which potentially exposes the Group to credit risk, consists of short term deposits, and indirectly through investments in unitised products which invest in short term domestic securities and deposits, domestic and international fixed interest securities and international equities. The maximum exposure to credit risk is the carrying value of these financial instruments.

Investment mandates have been structured accordingly and are formalised by way of Statements of Investment Policy and Objectives ("SIPOs"). The Group's Investment Committee meets regularly to develop and review investment strategy and monitor manager performance.

Statement of Financial Position investment exposures

	2019 $000	2018 $000
Cash and Cash Equivalents	4,490	4,408
Short Term Domestic Securities and Deposits	153,283	89,702
Domestic Fixed Interest	28,339	29,240
International Fixed Interest (Unit Trust)	47,634	23,778
Australasian Equities (Managed Fund)	1,644	18,911
International Equities	5,304	60,503
	240,694	226,542

33. Financial Instruments and Risk Management – Continued

The following table provides information on the credit risk exposure for financial assets with external credit ratings of the Group. 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 and principally comprises fixed interest investments with local government authorities.

	AAA	AA	A	BBB	Below BBB	Not rated	Carrying value $000
31 March 2019							
Cash and Short Term Deposits	–	100.0%	–	–	–	–	157,773
Fixed Interest	32.8%	11.9%	14.9%	34.9%	3.5%	2.0%	75,973
Reinsurance Recoveries	–	68.0%	30.6%	–	–	1.4%	33,846
31 March 2018							
Cash and Short Term Deposits	–	90.9%	9.1%	–	–	–	94,110
Fixed Interest	29.5%	29.1%	7.4%	28.5%	3.6%	1.9%	53,018
Reinsurance Recoveries	–	56.7%	41.6%	–	–	1.7%	41,092

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 Group.

Currency movements will have a direct impact on the cost of settling claims and the value of international investments (overseas fixed interest securities and shares). The former is relatively insignificant in terms of financial impact and no effort is made to directly mitigate this risk. This is because any adverse impact on the cost of claims (a lower NZD) will be more than offset by the appreciation in the value of foreign currency denominated investments (unless fully hedged).

To mitigate currency risk relative to the investment portfolio, the Group's Investment Committee has developed currency hedging ranges which the respective fund managers must adhere to.

Statement of Financial Position currency exposures (after hedging) are $4.8m (2018: $32.9m).

Market Risk

Market risk is the risk of loss of current and future earnings from adverse moves in currency, interest rates 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 Group, 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 are excluded from the sensitivity analysis.

Liquidity Risk

Liquidity risk is the risk that the entity will encounter difficulty in meeting commitments associated with financial instruments.

The Group manages its liquidity risk on an on-going basis by:

- using multiple sources of funding with different maturity profiles
- forecasting expected future liquidity and ensuring a sufficient liquidity 'buffer' is maintained at all times.

The table below analyses the Group's financial assets and liabilities at balance date into the relevant maturity groupings based on the remaining period to the contractual maturity date. The amounts disclosed below are undiscounted contractual cash flows and therefore will not agree to the carrying values on the Statement of Financial Position. The Group manages cash flows on a contractual basis.

33. Financial Instruments and Risk Management – Continued

Liquidity profile of financial instruments:

	0 – 6 months $000	6 – 12 months $000	1 – 2 years $000	2 – 5 years $000	Over 5 years $000	Total $000
31 March 2019						
Financial Assets						
Cash at Bank	4,490	–	–	–	–	4,490
Claims Recoveries Outstanding	–	30	390	–	913	1,333
Investments	182,552	9,041	17,834	14,943	11,834	236,204
Loans	8,306	6,443	–	–	–	14,749
Trade and Other Receivables	3,970	–	–	–	–	3,970
	199,318	15,514	18,224	14,943	12,747	260,746
Financial Liabilities						
Derivative Financial Instruments	–	23	–	–	–	23
Bank Borrowing	7,018	–	–	–	–	7,018
Trade and Other Payables	12,761	–	–	–	–	12,761
	19,779	23	–	–	–	19,802
Undrawn Revolving Credit Facilities	–					

	0 – 6 months $000	6 – 12 months $000	1 – 2 years $000	2 – 5 years $000	Over 5 years $000	Total $000
31 March 2018						
Financial Assets						
Cash at Bank	4,408	–	–	–	–	4,408
Claims Recoveries Outstanding	–	39	1,954	–	781	2,774
Investments	194,421	–	9,127	18,586	–	222,134
Loans	13,942	3,162	4,659	5,331	3,654	30,748
Trade and Other Receivables	3,690	–	–	–	–	3,690
	216,461	3,201	15,740	23,917	4,435	263,754
Financial Liabilities						
Derivative Financial Instruments	64	47	15	–	–	126
Bank Borrowing	18,548	–	–	–	–	18,548
Trade and Other Payables	11,707	–	–	–	–	11,707
	30,318	47	15	–	–	30,381
Undrawn Revolving Credit Facilities	14,066					

33. Financial Instruments and Risk Management – Continued

Operating Risk

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

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

- the management and staff are responsible for identifying, assessing and managing operational risks in accordance with their roles and responsibilities

- the Group Internal Assurance Manager and the Risk and Compliance Team are charged with assisting staff identify risks and ensure the sufficiency of and on-going presence of suitable mitigants.

Interest Rate Risk

Interest rate risk is the risk that the value / future value of a financial instrument will fluctuate because of changes in interest rates. The Group uses natural offsets (matching assets with liabilities) and interest rate swaps and options, to minimise the mismatches within policy limits set by the Board.

The interest rate risk profile below has been prepared on the basis of interest rate terms or contractual re-pricing, whichever is the earlier.

	0 – 6 months $000	6 – 12 months $000	1 – 2 years $000	2 – 5 years $000	Not Interest Bearing $000	Total $000
31 March 2019						
Financial Assets						
Cash at Bank	4,490	–	–	–	–	4,490
Claims Recoveries Outstanding	–	–	–	–	1,333	1,333
Investments	194,419	41,785	–	–	–	236,204
Loans	13,569	22	–	–	–	13,591
Trade and Other Receivables	–	–	–	–	3,970	3,970
	212,478	41,807	–	–	5,303	259,588
Financial Liabilities						
Derivative Financial Instruments	23	–	–	–	–	23
Bank Borrowing	7,000	–	–	–	–	7,000
Trade and Other Payables	–	–	–	–	12,761	12,761
	7,023	–	–	–	12,761	19,784

	0 – 6 months $000	6 – 12 months $000	1 – 2 years $000	2 – 5 years $000	Not Interest Bearing $000	Total $000
31 March 2018						
Financial Assets						
Cash at Bank	4,408	–	–	–	–	4,408
Claims Recoveries Outstanding	–	–	–	–	2,774	2,774
Investments	222,134	–	–	–	–	222,134
Loans	25,830	680	796	–	–	27,306
Trade and Other Receivables	–	–	–	–	3,690	3,690
	252,372	680	796	–	6,464	260,312
Financial Liabilities						
Derivative Financial Instruments	126	–	–	–	–	126
Bank Borrowing	18,500	–	–	–	–	18,500
Trade and Other Payables	–	–	–	–	11,707	11,707
	18,626	–	–	–	11,707	30,333

33. Financial Instruments and Risk Management – Continued

Sensitivity Analysis:
Medical Life Assurance Society Limited "MLA"

The table below looks at how a range of reasonably possible movements in key risk variables, with all other variables held constant, can influence profit or loss and equity.

		2019		2018	
Risk Variable	**Movement**	**Effect on future margins $000**	**Effect on policy liabilities $000**	**Effect on future margins $000**	**Effect on policy liabilities $000**
Insurance Risk (MLA):					
Discount rate	Increase by 1%	10,520	1,690	7,600	800
	Decrease by 1%	(11,910)	(1,880)	(8,290)	(650)
Claims	Increase by 10%	12,590	–	17,810	–
	Decrease by 10%	(12,520)	–	(17,680)	–
Lapses / Surrenders	Increase by 10%	12,250	–	7,810	–
	Decrease by 10%	(14,260)	–	(8,640)	–
Expenses	Increase by 10%	7,540	–	8,180	–
	Decrease by 10%	(7,540)	–	(8,180)	–

Insurance risk exists relative to impacts on the provisioning for outstanding disability claims and the determination of the policy liabilities at period end. Both movements in discounts rates and variations in termination rates can have a material impact on profit and equity.

Sensitivity Analysis:
Medical Insurance Society New Zealand Limited "MIS"

		Impact on Profit and Equity	
		2019 $000	**2018 $000**
Insurance Risk (MIS):			
Change in outstanding claims	Increase by 1%	(188)	(285)
	Decrease by 1%	188	285

Insurance risk exists relative to impacts on the provisioning for outstanding claims.

33. Financial Instruments and Risk Management – Continued

Sensitivity Analysis:
Medical Assurance Society New Zealand Limited "the Group"

		Impact on Profit and Equity 2019 $000	2018 $000
Market Risk:			
Short term deposit rates	Increase by 1%	32	32
	Decrease by 1%	(32)	(32)
Bond interest rates	Increase by 0.50%	(1,801)	(735)
	Decrease by 0.50%	1,801	735
Unit prices	Unit price increases by 10%	1,938	1,712
	Unit price decreases by 10%	(1,938)	(1,712)
Currency risk	NZD appreciates by 10% against foreign currencies	–	(2,368)
	NZD depreciates by 10% against foreign currencies	–	2,368

The Group is exposed to interest rate movements through investments in short term deposits, fixed interest and cash, as well as through its lending operations where significant portions of both lending and borrowings are linked to the 90 day bank bill rate. The sensitivity analysis for changes in the fair value of debt securities has been based on a 50bp movement in interest rates at balance date across the average maturity of the portfolio, with all other variables held constant.

Classification of Financial Instruments

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

		NZIFRS 9 Classification		Outside Scope of NZ IFRS 9	
	$000	Amortised Cost $000	Fair Value through Profit or Loss $000	Insurance Asset $000	Prepayments $000
31 March 2019					
Assets					
NZ IAS 39 Classification					
Receivables*	4,115	3,970	–	100	45
Investments	236,204	–	236,204	–	–
Claims Recoveries Outstanding	1,333	1,333	–	–	–
Loans**	13,075	13,129	–	–	–

	$000	Amortised Cost $000	Fair Value through Profit or Loss $000	Insurance Liability $000	Employee Benefits Provision $000
31 March 2019					
Liabilities					
NZ IAS 39 Classification					
Payables***	18,449	12,761	–	2,517	3,171
Derivative Financial Instruments	23	–	23	–	–
Bank Borrowing	7,000	7,000	–	–	–

33. Financial Instruments and Risk Management – Continued

		NZ IFRS 9 Classification		Outside Scope of NZ IFRS 9	
	$000	**Amortised Cost $000**	**Fair Value through Profit or Loss $000**	**Insurance Asset $000**	**Prepayments $000**
31 March 2018					
Assets					
NZ IAS 39 Classification					
Receivables****	5,815	3,690	–	143	2,089
Investments	222,134	–	222,134	–	–
Claims Recoveries Outstanding	2,774	2,774	–	–	–
Loans**	27,062	27,165	–	–	–

	$000	**Amortised Cost $000**	**Fair Value through Profit or Loss $000**	**Insurance Liability $000**	**Employee Benefits Provision $000**
31 March 2018					
Liabilities					
NZ IAS 39 Classification					
Payables****	16,307	11,707	–	1,417	3,177
Derivative Financial Instruments	126	–	126	–	–
Bank Borrowing	18,500	18,500	–	–	–

*Receivables is now classified as Trade and Other Receivables in the Statement of Financial Position.
**Change in carrying amount of Loans is a result of including Interest Receivable in Loans balance.
***Payables is now classified as Trade and Other Payables in the Statement of Financial Position.
****Receivables and Payables total per NZ IAS 39 does not reconcile to NZ IFRS 9 amounts as some comparative information was reclassified to achieve consistency with the current year.

34. Credit Rating

Two of the Group's subsidiaries are required to be rated. Medical Insurance Society Limited and Medical Life Assurance Society Limited have an A-/Stable financial strength rating from Standard & Poor's.

35. Reconciliation of Cash Flows

	2019 $000	**2018 $000**
Reported Surplus after Taxation	14,729	5,117
Add / (Deduct) Non-Cash Items:		
Depreciation, Impairment and Amortisation	4,399	8,830
Loss on Disposal of Property, Plant, Equipment and Intangibles	45	60
Fair Value Change in Derivatives	(103)	(91)
Revaluation of Land and Buildings	-	(302)
Credit Impairment	218	75
Addition to Unearned Premium	2,613	2,310
Change in Deferred Acquisition Costs	93	(207)
Change in Deferred Taxation	1,608	(918)

35. Reconciliation of Cash Flows – Continued

	2019 $000	2018 $000
Changes in Assets and Liabilities:		
Trade and Other Payables, Provisions and Liabilities	2,147	4,059
Trade and Other Receivables and Prepayments	1,807	(780)
Loans	13,818	27,832
Outstanding Claims	(18,450)	(977)
Reinsurance Recoveries	7,246	5,103
Life Policy Liabilities	(1,802)	(1,446)
Premiums Outstanding	(1,397)	(2,677)
Provision for Taxation	925	747
Net Cash Flows from Operating Activities	27,896	46,735

36. Other Revenue from Contracts with Customers

	2019 $000	2018 $000
Type of Service		
Credit line Fee Income	85	96
Mortgage Referral Fee Income	272	302
Other services	1,483	1,431
Total Other Revenue from Contracts with Customers	1,840	1,829

	2019 $000	2018 $000
Timing of Revenue Recognition		
Services transferred over time	1,414	1,502
Services transferred at a point in time	426	327
Total Other Revenue from Contracts with Customers	1,840	1,829

Other services includes administration services and HealthyPractice® operations.

37. 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 MAS is registered as a charitable entity, the deferred tax balances at that point in time would be derecognised.

Independent Auditor's Report

Opinion

We have audited the financial statements of Medical Assurance Society New Zealand Limited ("the company") and its subsidiaries (together "the Group") on pages 10 to 55, which comprise the consolidated statement of financial position of the Group as at 31 March 2019, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended of the Group, and the notes to the consolidated financial statements including a summary of significant accounting policies.

In our opinion, the consolidated financial statements on pages 10 to 55 present fairly, in all material respects, the consolidated financial position of the Group as at 31 March 2019 and its consolidated 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 shareholders, as a body. Our audit has been undertaken so that we might state to the company's shareholders those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's shareholders as a body, for our audit work, for this report, or for the opinions we have formed.

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 Group 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 provided remuneration advice to the Group and regulatory assurance services to certain subsidiaries. We have no other relationship with, or interest in, the Group. Partners and employees of our firm may deal with the Group on normal terms within the ordinary course of trading activities of the business of the Group.

Information other than the Financial Statements and Auditor's Report

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

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

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

Directors' Responsibilities for the Financial Statements

The directors are responsible, on behalf of the entity, for the preparation and fair presentation of the consolidated 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing, on behalf of the entity, the Group'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 Group 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 consolidated 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 consolidated financial statements.

A further description of our responsibilities for the audit of the consolidated financial statements is located at the External Reporting Board website: https://www.xrb.govt.nz/Site/Auditing_Assurance_Standards/Current_Standards/Page7.aspx. This description forms part of our auditor's report.

Ernst + Young

Chartered Accountants
Wellington
26 June 2019

Five-year Summary

Statement of Comprehensive Income	2019 $000	2018 $000	2017 $000	2016 $000	2015 $000
Fire and General Insurance					
Gross Premium Income	79,565	74,328	69,197	64,502	64,263
Net Earned Premium	58,246	54,036	49,714	48,296	46,486
Net Claims	(38,076)	(48,365)	(35,401)	(49,462)	(40,147)
Net Income from Fire and General Insurance	20,170	5,671	14,313	(1,166)	6,339
Life Assurance					
Gross Premium Income	40,159	38,524	36,138	34,212	32,723
Net Premium Income	29,469	27,418	25,744	24,393	23,927
Claims, Surrenders and Maturities	(10,641)	(9,516)	(6,706)	(5,967)	(8,318)
Decrease in Life Policy Liabilities	1,802	1,446	1,015	2,253	2,664
Net Income from Life Assurance	20,630	19,348	20,053	20,679	18,273
Net Income from Lending Operations	1,336	2,385	4,312	6,577	7,047
Funds Management Revenue	14,672	13,000	11,032	9,723	8,126
Income from other services	1,840	1,829	1,942	2,087	2,007
Group Operating Expenses[1]	(58,165)	(49,316)	(45,255)	(39,195)	(36,103)
Net Income / (Loss) from Operations	483	(7,083)	6,397	(1,295)	5,689
Investment and Sundry Income	16,399	12,046	13,519	5,141	11,567
Surplus before Tax	16,882	4,963	19,916	3,846	17,256
Tax (Expense) / Credit	(2,153)	154	(3,747)	(1,540)	(875)
Surplus after Tax	14,729	5,117	16,169	2,306	16,381

Statement of Financial Position					
Total Assets	342,751	354,269	369,822	420,687	511,647
Total Liabilities	140,860	167,131	188,448	255,482	348,748
Equity	201,891	187,138	181,374	165,205	162,899

Other Information					
Fire and General Claims as a percentage of Net Earned Premium	65.4%	89.5%	71.2%	102.4%	86.4%
Operating Expenses as a percentage of Total Income	37.9%	34.8%	32.8%	30.8%	27.3%
Equity as a percentage of Total Income	131.7%	132.0%	131.3%	129.7%	123.3%
Number of Members	33,546	31,543	29,809	28,529	27,448

1. Refer to Note 28 of the financial statements for further details on the impact of software impairment.

Statutory Information

Directors' Interests

None of the directors of MAS have conducted transactions with the company other than on normal terms and conditions.

Use of Company Information

The Board received no requests from directors to use company information that would not otherwise have been available to them in their capacity as directors.

Share Dealings

The Group has no tradable shares.

Directors' Remuneration and Benefits

Directors' remuneration paid by the parent company, or due and payable, is as follows:

HE Aish	$134,309
KA Baddock	$61,155
DR Dinsdale	$69,099
FA Frizelle	$61,169
AC Hercus	$96,462
DJ Hill	$25,625
LR Knowles	$67,849
AR Muthu	$51,225
HW Rodenburg	$22,910
BC Sutton	$68,201
Grand Total	$658,004

DJ Hill appointed 29 August 2018.

HW Rodenburg retired from Parent Company 29 August 2018.

Employee Remuneration

	Number of employees	
	2019	**2018**
100,000-110,000	12	11
110,000-120,000	7	15
120,000-130,000	18	16
130,000-140,000	13	14
140,000-150,000	8	4
150,000-160,000	4	5
160,000-170,000	7	5
170,000-180,000	4	2
180,000-190,000	2	3
190,000-200,000	1	1
210,000-220,000	–	1
220,000-230,000	1	1
230,000-240,000	2	–
240,000-250,000	1	1
250,000-260,000	1	1
260,000-270,000	–	2
280,000-290,000	–	1
290,000-300,000	1	–
300,000-310,000	2	–
310,000-320,000	–	1
320,000-330,000	1	1
330,000-340,000	1	–
350,000-360,000	–	1
370,000-380,000	1	–
790,000-800,000	–	1
820,000-830,000	1	–

Harley Aish
Chairman

Corporate Governance Statement

Board Structure

The Board of Medical Assurance Society New Zealand Limited ('MAS') supervises the management of MAS and its subsidiary companies. The Board is comprised of the trustees of the Medical Assurance Society Members' Trust ('the Trust'). At 31 March 2019 there were five Practitioner Trustees (who are elected by Members) and four Commercial Trustees (who are appointed by the Practitioner Trustees). Members approve the appointment of Commercial Trustees. There is a further director on the board of Medical Securities Limited ('MSL'), the MAS Chief Executive Officer, Martin Stokes.

Our Goals

MAS strives to provide a sound and secure business conducted for the benefit of current and future Members of the Trust. Our purpose is to provide high-quality services in a cooperative relationship with our Members, consistent with our stability and growth and in accordance with sound business practice. We do not seek to provide dividends or similar financial returns to Members. The Board seeks to develop and preserve the special relationship between MAS and Members of the Trust.

The Board approves MAS' strategic objectives, annual budgets and the overall framework within which business is conducted. It oversees the management of MAS to ensure that MAS' activities are carried out in the best interests of Members. It also monitors the achievement of goals and plans, but delegates day-to-day management to the Chief Executive Officer. The Board approves transactions relating to any capital expenditure that exceeds delegated authorities, overall financial policy and policy on dividend payment by subsidiary companies to MAS.

The Board encourages open and frank discussion and confidentiality. It is entitled to seek independent professional advice to assist it in meeting its responsibilities and MAS pays for this advice.

A clear separation is maintained between the roles of Chairman and Chief Executive Officer. The Chairman's role is to manage and lead the Board effectively, and to maintain communications with the Chief Executive Officer. There are no Executive Directors other than the Chief Executive Officer who is on the Board of MSL.

Board Operations and Membership

Each trustee of the Trust is authorised and directed to act as a Director of MAS. The Trust Deed sets out policies and procedures covering the appointment and removal, proceedings, powers and duties, and remuneration and expenses of trustees. The Board met ten times during the financial year ended 31 March 2019.

Board Committees

The Board has established five committees. Those committee are:

- Audit and Risk
- Investment
- MAS Charitable Trust
- Nominations, and
- Senior Remuneration.

Committees are governed by separate charters which are available for inspection on MAS' website.

The Audit and Risk Committee meets to assist the Board on financial matters, particularly the financial reporting processes, the system of internal control, the audit process, MAS' process for identifying and managing risk, and monitoring compliance with statutes and MAS policies. The Committee is currently comprised of Lindsay Knowles (Chair), Alastair Hercus, Brett Sutton, and Harley Aish.

The Investment Committee meets to review investment strategies and policies to ensure that assets are well managed within appropriate risk boundaries and portfolios meet the performance objectives of MAS and MAS' Members. The Committee is currently comprised of Brendon O'Donovan (Chair), Alastair Hercus, Brett Sutton, Danelle Dinsdale, and Harley Aish.

The MAS Charitable Trust Committee meets to assist the Board in executing the Charitable Proposal approved by MAS Members at the 2018 Annual General Meeting. The Committee is currently comprised of Alastair Hercus (Chair), Alexandra Muthu, Danelle Dinsdale, Frank Frizelle, and Kate Baddock.

The Nominations Committee meets to manage the appointment and reappointment process for MAS Group trustees and directors and make recommendations to the MAS Board accordingly. The Committee is currently comprised of Harley Aish (Chair), Alexandra Muthu, Danelle Dinsdale, and Doug Hill.

The Senior Remuneration Committee meets to consider the senior management team's remuneration. The Committee is currently comprised of Harley Aish (Chair), Alastair Hercus, and Danelle Dinsdale.

Northern Region

Regional Manager:
Kevin Trevett

Auckland
61 Constellation Drive
Building 1, Level 1
Rosedale
PO Box 33443

Hamilton
62 Tristram Street
PO Box 436

Central Region

Regional Manager:
David Gordon

Wellington
19–21 Broderick Road
PO Box 13042

South Island Region

Regional Manager:
Chris Cakebread (Acting)

Christchurch
Unit 8
71 Gloucester Street
Christchurch Central
PO Box 36260

Dunedin
27–29 Albany Street
PO Box 6365

Directory

Senior Management Team

Paul Barton
Chief Risk Officer

David Chote
General Manager, Sales

Mike Davy
General Manager,
Marketing and Products

Matthew Judge
Chief Financial Officer

Ross McMillan
General Manager,
Human Resources

Kylie McQuellin
General Manager,
Business Transformation

Mike Paine
General Manager,
Information Technology

Lyndal Preston
General Manager,
Member Support

Martin Stokes
Chief Executive Officer

Registered Office

19–21 Broderick Road
Johnsonville, Wellington
PO Box 13042
Telephone 0800 800 627
Fax 04 477 0109

Auditor

Ernst & Young

Solicitors

Minter Ellison Rudd Watts

Bankers

ANZ
Westpac