mas

Annual Report 2020


“Resilience
in times of
uncertainty.”

Lake Wanaka

Photo credit: Martin Stokes

Contents

03 Chairman's Report to Members
06 MAS in the Community
08 MAS Foundation Report
10 Our Board of Directors
12 MAS Foundation Trustees

15 Financial Report
16 Consolidated Statement of Comprehensive Income
17 Consolidated Statement of Changes in Equity
18 Consolidated Statement of Financial Position
19 Consolidated Statement of Cash Flows
20 Notes to and forming part of the financial statements
60 Independent Auditor's Report
61 Five-year Summary
62 Statutory Information
63 Corporate Governance Statement

Your mutual is supporting its Members now, more than ever.

It is my pleasure to present the 99th Annual Report for MAS. While the last quarter of the year has been dominated by both the humanitarian and economic impact of COVID-19, your mutual has emerged in a strong position to continue the support Members will be looking for in these times of uncertainty.

Despite the volatile state of world investment markets in the last quarter of the 2019-2020 Financial Year, MAS has delivered a satisfactory pre-tax surplus of $7 million. By the end of the year, the MAS Group reserves had grown to $214 million, and our strong financial position was acknowledged in October by an outlook upgrade from Standard & Poor's to A-/Positive for our Life and General Insurance businesses.

This resilience meant we were in a strong position to support Members who were affected by the lockdown and who will continue to feel its effects for some time to come. We were able to put together a relief package for Members under financial pressure, which was built around a $2 million hardship fund, supported by a pass-back of savings on motor vehicle claims and a range of health and wellbeing services and tools, including the MAS Wellbeing Portal.

One of the highlights of the year was being voted the Consumer People's Choice for house, car, contents and life insurance for the fourth year in a row. This honour reflects the effort everyone at MAS puts into dealing with inquiries and claims in a fair, efficient and friendly manner, and we're thrilled to have received this award again. On a similar note, this year saw our Net Promoter Score – a measure of how many of our Members would recommend us as an insurer – reach some of the highest levels in our industry.

Like most New Zealand businesses, however, the lockdown affected our ability to respond to Members as quickly as we would have liked and there were some delays in processing claims. As our society and economy have reopened, these disruptions have eased, allowing us to return to the service levels that our Members expect. We will continue to look at how we can improve our processing of Member queries and claims in similarly disruptive situations in future.

The COVID-19 experience was a timely reminder of the importance of the work we began this year to define our social purpose and develop our Corporate Social Responsibility (CSR) strategy. As a mutual, our support for the communities in which our Members live and work has always been important to us, but we intend to make this even more central to our purpose.

In practical terms, this intent has already borne fruit with the establishment this year of the MAS Foundation, the appointment of its first Trustees and its Head of Foundation, and its first ten grants, which went to community organisations and initiatives designed to combat COVID-19 in at-risk New Zealand communities (see page 08).

However, the Foundation's work is only one example of our sense of social responsibility, which extends to our responsible investment strategy; the community partnerships we already have in place and look to establish in the future; our commitment to sustainability; and the Here for Good volunteering days our staff use to support local organisations. The year ahead will see us further develop our CSR strategy and contribute even more to our community.

Life and Disability Insurance

On the Life side of our business, we now provide life and disability cover for more than 12,000 Members, paying just over $15 million in claims to support Members and their families at times of significant illness, injury or death.

In last year's Annual Report, I noted the review of the New Zealand life insurance industry conducted by the Financial Markets Authority and the Reserve Bank of New Zealand. We were well placed to respond given our history of putting the interests of our

Members first. I would like to thank the MAS staff who were involved in responding to this review, and the considerable time and effort they put into this work.

During the year, we continued to embed new initiatives aimed at ensuring Members have the right insurance for their needs, and that we communicate clearly and effectively with our Members. One tangible example of this work is the Plain English programme we launched this year, which has seen us rewrite and redesign our policy documents for our Life and Disability and General Insurance products, as well as putting our staff through Plain English training.

General Insurance

It was another strong year for our General Insurance business, with gross written premium increasing by more than $7 million from the prior year to $87 million. We received almost 14,500 claims, representing an increase of $4 million on the previous year.

One of the main changes in our General Insurance business this year was the introduction of risk-based pricing for residential houses. Prompted in part by the increasing cost of reinsurance on international markets, the new pricing model takes account of the risk profiles of different regions of the country, ensuring that Members' premiums more fairly reflect the risks their properties face in the suburb in which they live.

Retirement Savings and KiwiSaver

Whereas other MAS services were largely insulated from the impact of COVID-19, Members' investments were significantly affected where these included exposure to equity markets.

Despite the decline in the fourth quarter, this was more than offset by healthy returns in the first three quarters of the financial year. By year end, our Member funds under management had grown slightly from the previous financial year to $1.6 billion.

Looking forward, the pandemic raises further questions about the long-term future of fossil fuel industries. This is due to an accelerated decline in fossil fuel powered personal and commercial transport usage, and a renewed commitment to climate action. Thanks to our responsible investing strategy, we had already divested from these investments, and we look forward to more New Zealand businesses following our lead.

But it is not enough to simply divest from these harmful investments. This year, we also began proactively investing in companies with outstanding environmental, social and governance (ESG) practices. Not only do we believe that focusing on ESG practices is the right thing to do as a responsible investor, there's increasing evidence that this helps reduce risk and improve long-term returns.

Looking to the future

Thanks to our strong financial position going into the COVID-19 crisis, we were able to remain focussed on supporting Members. There are some key lessons to learn and we are turning our minds to how we must adapt to what might be a very different future from the one we had all imagined.

To do this, we will focus on three main areas over the next year.

The first is continuing to improve the experience our Members have when they deal with us. That work encompasses many things – from enhancing our policies, to making our claims process simpler and more responsive, to making it easier to get a quote for a new policy. During the lockdown, our Members eagerly adopted new ways of meeting with our advisers, including video meetings, and we will continue to explore these options. Put simply, our goal will be to support our Members, wherever and however they want to engage with us.

The second focus will be on growing the mutual. The larger we are as an insurer, the greater our capacity to spread risk, to absorb shocks like the one we've just been through, and to innovate in how we support our Members during future emergencies. In doing this, we will keep hold of the approach and personal connections that have earned us the loyalty of generations of MAS Members over the past century. We would encourage all Members to give us the opportunity to introduce ourselves to friends and colleagues who might be interested in the services we provide.

The third focus for the year will be making further progress with our CSR strategy. I look forward to seeing the initiatives the MAS Foundation will fund in the year ahead, and your mutual will also focus on the health and wellbeing of Members, their families and our people. It is important that MAS plans further action to mitigate the effects of climate change, and we have a strong desire to do even more to ensure MAS is recognised as a diverse and inclusive business.

I would like to thank Board Members for their efforts this year and extend a special thank you to departing member Alastair Hercus for his contributions. Alastair's place is being taken by Suzanne Wolton, who we look forward to working with in the years to come.

Thank you too to all the wonderful staff at MAS, who have worked under particularly trying circumstances in recent months to help the membership.

And, of course, thank you to our Members for your continued support. We are deeply grateful, in particular, to all those Members who are doing so much serving on the front line of the pandemic response here in New Zealand, and to their families and friends who supported them during this period.

Harley Aish
Chairman

$7.1m	Pre-tax surplus
$214.2m	MAS Group reserves
10.8%	Membership growth
37,165	Members
67	Net Promoter Score
4 years	in a row Consumer People's Choice
$86.9m	General Insurance gross premium
$42.1m	Life and Disability Insurance gross premiums
$1.6bn	Member funds under management
A-/Positive	Standard & Poor's Rating (MIS and MLA)

mas in the Community

Looking after our Members, staff, and their communities.

$1.6bn

Value of funds responsibly invested on behalf of 18,000 Members

70 Number of Here for Good Days

contributed by more than a hundred MAS staff to organisations and charities around New Zealand

Partnered

New partnerships set up with Sustainable Business Network, Te Ora, and Engineering without Borders

mas foundation

Launched

MAS Foundation launched and Trustees appointed

$2m

Value of Hardship Fund set up as part of MAS's COVID-19 Relief Package

300

Number of inquiries from Members in first two months of COVID-19 Relief package

266

Number of Members who purchased their first home using KiwiSaver funds. Up from 208 last year.

800+

Members registered for MAS Health and Wellbeing Portal, launched as part of our COVID-19 Relief Package

3

Number of free counselling sessions available to each MAS Member through EAP Counselling Services

$350,000

Total value of grants made by MAS Foundation in April to support COVID-19 programmes around New Zealand

The MAS Foundation is helping support the health and wellbeing of New Zealanders.

Tēnā koutou and welcome to the inaugural Chair's report for the MAS Foundation.

In 2018, MAS Members voted overwhelmingly to establish a charitable organisation to help MAS do more to support the health and wellbeing of New Zealanders. This vision has now become a reality with the establishment of the MAS Foundation at the end of 2019.

Typically, a philanthropic organisation like the MAS Foundation would take months if not years to appoint trustees, establish its operational framework, set its strategic direction, and begin making grants. However, the arrival of COVID-19 in New Zealand acted as a catalyst for the Foundation's work, and saw us move rapidly from appointing our trustees, to their starting work in February 2020, to making grants worth around $350,000 – within three months.

The Foundation's ability to be so responsive to our communities is the most pleasing aspect of our work so far. Within a few months of being established, we have already made a significant contribution to the way some of New Zealand's most vulnerable communities deal with the immediate impact of the virus, and to prepare for the recovery phase.

Our support for the Pacific Leadership Forum in South Auckland is one example of the work the Foundation hopes to support in the future. The Forum represents a network of senior Pasifika leaders from inter-denominational church and community groups across New Zealand, and MAS Foundation funding is helping the Forum educate their communities about the virus and help them adapt to the post-COVID-19 environment.

In a similar vein, we supported Te Kōhao Health, which provides healthcare, education, and social and justice services to around 8,500 people across the Waikato region. They made their medications free during COVID-19 and delivered these to their patients free of charge, and the Foundation funding helped Te Kōhao take care of whānau as winter approached, including providing food, blankets and other necessities.

As well as supporting community groups, we also made grants to organisations working on innovative technological solutions to some of the challenges posed by COVID-19.

We funded social enterprise Ark Discovery to support the development and deployment of the Āmio chatbot, which answered hundreds of thousands of simple, COVID-19-related questions via Facebook Messenger. Funding was also provided to the National Institute for Health Innovation to help develop a national online platform to make COVID-19 clinical evidence reviews and information-sharing faster and less labour-intensive.

As lockdown restrictions have lifted, we have started turning our thoughts to the longer-term strategy for the Foundation, and the change we hope to help bring about.

This strategy will take time to develop but our emphasis will be on finding and supporting innovative ways to break cycles of disadvantage in

Ark Discovery co-founders (from left)
Sanjeev Krishna, Cole Rudolph and Canaan Aumua.

communities that have previously been under-served by our health system. For us to make meaningful, lasting change, we will look to partner with organisations over extended periods rather than providing one-off grants. This reflects a global shift in philanthropy towards impact investing – often described as a form of venture capital for social change.

The key will be to identify organisations or initiatives that will have a significant impact on the community. In turn, this requires us to work closely with other philanthropic funders, community organisations, and governmental and non-governmental agencies to identify gaps in existing funding, and opportunities for our funding to make a difference.

To help with this, we were fortunate to appoint Dr Emma Lawrey to serve as the inaugural Head of Foundation.

Emma qualified as a Fellow of the Australasian College of Emergency Medicine in 2014. Over the past few years, Emma has been working at the Auckland City Hospital Emergency Department and as a disaster preparedness and response consultant for the Emergency Medical Team Initiative at the World Health Organisation. She is currently the Clinical Director of the New Zealand Medical Assistance Team, which deploys a field hospital nationally and internationally to help with emergency responses – most recently in Samoa helping with the measles outbreak.

Emma has detailed knowledge of the health sector in New Zealand, and a thorough understanding of the needs of underserved communities. The Foundation Trustees look forward to working closely with Emma in future, and drawing on her networks and professional experience.

As well as welcoming Emma, I want to thank philanthropic consultant Michelle Wanwimolruk for the work she has done establishing the Foundation. Michelle has worked tirelessly on the Foundation during 2019, and we are deeply grateful for her expertise.

Finally, I wish to thank the MAS membership and the Foundation Trustees for their support so far. The initial proposal to establish a charitable organisation was greeted with great enthusiasm at the 2018 AGM, and Michelle received a flood of applications from Members keen to contribute their time and energy when we advertised for Trustees. This encouragement is perhaps unsurprising for an organisation and a membership centred around the ideals of community service and mutual support. But it is exactly what New Zealand needs in 2020.

Jennifer Gill, ONZM
Chair, MAS Foundation Trustees

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
Chairperson

Appointed to the Board 26 June 2013
Appointed as Chair 30 August 2017

Harley has been working as a General Practitioner in Otara, South Auckland since 1997. He has been in various local and national Primary Care Governance roles since 2000. His current Governance roles are Chair of ProCare Networks Ltd (since 2014), Director of MAS Group (since 2013), and he also serves as an interim appointed Trustee to the MAS Foundation.

Brett Sutton
Deputy Chairperson

Appointed to the Board 15 February 2016
Appointed as Deputy Chair 28 September 2019

Brett is an experienced independent director. He is currently Chair of the Stevenson Group and Mint Asset Management, and Deputy Chair of the Co-Operative Bank. His previous employment experience included senior investment roles at the NZ Superannuation Fund and the Todd Corporation.

Kate Baddock
Board Member

Appointed 1 April 2016

Kate is Chair of the New Zealand Medical Association, a Fellow of the Royal NZ College of General Practitioners, and a member of both the Institute of Directors and Auckland Medicolegal Society. She gained her medical degree at the University of Otago and currently works as a GP and partner at Kawau Bay Health in Warkworth. She teaches undergraduate medical students, postgraduate doctors, and registrars in General Practice training programmes.

Danelle Dinsdale
Board Member

Appointed 28 August 2013

Danelle is a commercial lawyer who has spent the last 12 years overseas advising boards and senior executives on change management, mostly in the insurance and banking sectors. Since returning to New Zealand, she has been working on a portfolio of commercial property and agricultural interests. She is a Director for both Crown Fibre Holdings Limited and Hawkes Bay Regional Investment Company Ltd. Danelle is on the sub-committee for the Ruataniwha Water Storage Dam and prior to becoming a director of MAS, Danelle served as an independent director for Medical Securities Limited (MSL) from 30 November 2010 to August 2013.

Frank Frizelle
Board Member

Appointed 28 August 2013

Frank is Professor of Surgery at Otago University and colorectal surgeon at Christchurch hospital and in private practise. He is editor of the New Zealand Medical Journal. He is also the Patron of Canterbury Ostomy Society and serves as a Trustee for the Cotter Medical History, the Canterbury Charity Hospital and the Christchurch Cancer Foundation. Frank is also a director of Geordie Hill Station, and Christchurch Colorectal. He is a Chartered Member of the NZ Institute of Directors.

Lindsay Knowles
Board Member

Appointed 25 June 2014

Lindsay is managing director of a family import distribution business, Acme Supplies Limited. He is an experienced independent director having served on several other boards in varied industries and his previous employment experience included 15 years as a corporate banker with ANZ Bank New Zealand Limited, specialising in capital markets debt raising and asset securitisation. Lindsay is a CA member of Chartered Accounts Australia and New Zealand and a Chartered Member of the Institute of Directors.

Alexandra Muthu
Board Member

Appointed 30 August 2017

Alexandra is an Occupational and Environmental Physician. She is Chair of the Royal Australasian College of Physicians Australasian Faculty of Occupational and Environmental Medicine (RACP, AFOEM) in New Zealand, a member of AFOEM Council and RACP New Zealand Committee, and is deputy Director of Training. She is a Chartered Member of the NZ Institute of Directors, Independent Member of the Advisory Board for the University of Auckland Masters of Health Leadership, and a Teaching Fellow for the Victoria University of Wellington Masters of Health. Prior roles include Clinical Director responsible for clinical governance of the new National Telehealth Service (2015-16), Air New Zealand (2010-15) and Mayo Clinic USA (2008-10).

Doug Hill
Board Member

Appointed 29 August 2018

Doug is a General Practitioner and a Director of Broadway Medical Centre, Dunedin. He has a special interest in GPSI medicine in dual roles of Orthopaedics and skin cancer surgery.

Doug's roles outside of General Practice are Chair of Columba College Board of Proprietors and Chair of Wellsouth Primary Health Network. He is a member of the NZ Advisory Board of the Skin Cancer College of Australasia. He is also a chartered fellow of the NZ Institute of Directors. Doug is a previous winner of The Otago Institute of Directors Aspiring Director Award.

Suzanne Wolton
Board Member

Appointed 29 April 2020

Suzanne is a professional director, senior leader, speaker, chartered accountant, qualified hypnotherapist and financial services expert. She has more than 25 years' experience as a board member and senior executive in some of New Zealand's and the UK's leading organisations.

Jennifer Gill

Jennifer has had a long and distinguished career in philanthropy in New Zealand. She recently retired as CEO of Foundation North, which is a major funding body for community groups in Auckland and Northland.

Jennifer has had extensive experience as a trustee and chair of a number of philanthropic trusts including Philanthropy New Zealand and the J R McKenzie Trust, and she is currently a Trustee of the Vodafone Foundation. In 2017, Jennifer was made an Officer of the New Zealand Order of Merit for services to philanthropy and was the inaugural winner of the Philanthropy NZ - Perpetual Guardian Lifetime Achievement in Philanthropy Award.

Sharon Shea

Ngāti Ranginui, Ngāti Haua, Ngāti Hine and Ngāti Hako

Sharon is widely recognised as a leader in health and disability sector strategy, resilience and positive psychology, equity strategy and practice, change management, and systems and service design.

She holds a variety of Board memberships including Ministerial appointed roles. These roles include chairing the Māori Expert Advisory Group for the Health and Disability System Review, and serving on the boards of the Auckland and Northland DHBs, and Healthcare Applications Ltd. She was recently awarded an MNZM for services to Māori health and development.

Dr Julia Ioane

Folasaitu Dr Julia Ioane is a bilingual New Zealand-born-Samoan, raised in South Auckland with a Matai title from the village of Fasitoouta, Samoa. Dr Ioane is a Senior Lecturer in Psychology at Massey University and a registered clinical psychologist. She has board and governance experience in both the public and not-for-profit sectors. Dr Ioane promotes research that is practice-informed and evidence-based to ensure it has a meaningful impact on our communities; and that health education and promotion is delivered appropriately and inclusively for all diverse communities in Aotearoa New Zealand.

O le ala i le pule o le tautua (In order to lead, one must serve).

Professor Boyd Swinburn

Boyd is an internationally recognised public health physician, with more than 30 years' experience in health research (obesity prevention, food policy, cardiovascular), whole-of-community programs to improve obesity and child nutrition, and food policy advocacy. He is Professor of Population Nutrition and Global Health at the University of Auckland; a co-chair of the high-profile Lancet Commission on Obesity; and Chair of Health Coalition Aotearoa. Professor Swinburn has been an advisor on many government committees, WHO consultations, and large scientific studies internationally. He has an excellent understanding of current health funders in Aotearoa and has advised and received funding from health-focused philanthropic organisations internationally including Bloomberg Philanthropy.

Dr Carrie Bryers

Ngāpuhi

Carrie has a diverse background in Māori health, nursing and medicine. She is an advanced trainee in Public Health and recently completed her Master of Public Health (First Class Honours). Her dissertation focussed on Māori health inequities.

With a focus on eliminating health inequities and upholding Te Tiriti, Dr Bryers's work includes hauora Māori research, health promotion, education and the wider determinants of health.

Dr Harley Aish

Interim MAS Board delegate

Report

Financial Report

Consolidated Statement Of Comprehensive Income for the year ended 31 March 2020

	Note	2020 $000	2019 $000
Fire and General Insurance Revenue			
Gross Premium Revenue		86,941	79,565
Reinsurance Premiums		(21,261)	(18,706)
Change in Provision for Unearned Premium		(3,455)	(2,613)
Net Premium Revenue		62,225	58,246
Claims		(48,824)	(45,274)
Reinsurance Recoveries		3,076	5,365
Other Recoveries		2,258	1,833
Net Claims	5	(43,490)	(38,076)
Net Revenue from Fire and General Insurance		18,735	20,170
Life Assurance Revenue			
Premium Revenue		42,140	40,159
Reinsurance Premiums		(12,593)	(10,690)
Net Premium Revenue		29,547	29,469
Claims, Surrenders and Maturities		(22,785)	(21,687)
Reinsurance Recoveries		9,980	11,046
(Increase) / Decrease in Life Policy Liabilities	11	(200)	1,802
Net Revenue from Life Assurance		16,542	20,630
Lending Revenue			
Loan Interest Revenue		758	2,019
Movement in Fair Value of Derivatives		23	103
Interest Expense	13	(540)	(568)
Credit Recovery / (Impairment)	14	63	(218)
Net Revenue from Lending		304	1,336
Funds Management Revenue		16,768	14,672
Other Revenue from Contracts with Customers	21	1,848	1,840
Expenses			
Salaries		(25,077)	(22,629)
Administration Expenses	22	(23,665)	(35,536)
Total Expenses		(48,742)	(58,165)
Net Income from Operations		5,455	483
Investment and Sundry Income	23	1,656	16,399
Net Surplus before Taxation		7,111	16,882
Taxation Credit / (Expense)	24	5,361	(2,153)
Net Surplus After Taxation		12,472	14,729
Other Comprehensive Income and Expense			
Loss on revaluation of Buildings		(153)	–
Movement in Cashflow Hedges		–	24
Other Comprehensive Income and Expense After Taxation		(153)	24
Total Comprehensive Income		12,319	14,753

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 2020

	Note	2020 Share Capital $000	2020 Retained Earnings $000	2020 Cashflow Hedge Reserve $000	2020 Asset Revaluation Reserve $000	2020 Total $000
Opening balance 1 April 2019		110	199,451	–	2,330	201,891
Current Year Surplus		–	12,472	–	–	12,472
Other Comprehensive Income and Expense		–	–	–	(153)	(153)
Total Comprehensive Income		–	12,472	–	(153)	12,319
Closing balance 31 March 2020	25	110	211,923	–	2,177	214,210

	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 and Expense		–	–	24	–	24
Total Comprehensive Income		–	14,729	24	–	14,753
Closing balance 31 March 2019	25	110	199,451	–	2,330	201,891

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 2020

	Note	2020 $000	2019 $000
Funds Employed			
Equity			
1 Non-Voting Share	25	–	100
10,000 Voting Shares	25	110	10
Retained Earnings		211,923	199,451
Asset Revaluation Reserve		2,177	2,330
Total Equity		214,210	201,891
Liabilities			
Trade and Other Payables	17	15,166	12,761
Provision for Taxation		1,789	657
Other Insurance Liabilities	18	2,780	2,517
Derivative Financial Instruments	15	–	23
Fees in Advance		248	221
Employee Benefits Provision	19	3,282	3,171
Provision for Unearned Premium	6	43,099	39,644
Bank Borrowing	16	–	7,000
Provision for Outstanding Claims	5, 12	74,676	71,906
Life Policy Liabilities	11	(3,694)	(3,894)
Deferred Tax	24	–	6,854
Lease Liabilities	32	11,020	–
Total Funds Employed		362,576	342,751
Assets			
Cash and Cash Equivalents	26	3,686	4,490
Trade and Other Receivables	27	1,799	3,970
Other Insurance Assets		44	100
Investments	28	259,982	236,204
Prepayments		629	45
Premiums Outstanding	7	33,739	31,810
Reinsurance Recoveries Outstanding	8	32,092	33,846
Claims Recoveries Outstanding	9	871	1,333
Loans	14	3,234	13,129
Property, Plant and Equipment	29	8,135	8,255
Intangibles	30	7,287	9,111
Deferred Acquisition Costs	31	708	458
Right-of-use Assets	32	10,370	–
Total Assets		362,576	342,751

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

Director **Director**

Wellington, 24 June 2020

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 2020

	Note	2020 $000	2019 $000
Cash Flows From Operating Activities			
Receipts from Policyholders		127,188	118,177
Interest Revenue Received on Loans		802	2,023
Loan Repayments		9,921	18,586
Loan Advances		(7)	(4,768)
Interest Received on Short Term Deposits		48	76
Other Revenue and Income from Investment Funds		22,594	32,821
Rent Received		17	14
Payments to Suppliers and Employees		(75,475)	(78,924)
Reinsurance Recoveries Received		14,810	23,657
Payment of Claims		(66,119)	(83,578)
(Payment of Taxation) / Taxation Refund		(361)	380
Interest Paid on Funding		(547)	(568)
Net Cash Flows From Operating Activities	35	32,871	27,896
Cash Flows For Investing Activities			
Contributions to Investment Funds		(75,957)	(78,954)
Withdrawals from Investment Funds		52,179	64,884
Proceeds from Sale of Property, Plant and Equipment		4	6
Purchase of Property, Plant, Equipment and Intangibles		(1,600)	(2,250)
Net Cash Flows For Investing Activities		(25,374)	(16,314)
Cash Flows For Financing Activities			
Payment of Principal Portion of Lease Liability		(1,301)	–
Decrease in Bank Borrowing		(7,000)	(11,500)
Net Cash Flows For Financing Activities		(8,301)	(11,500)
Net (Decrease) / Increase in Cash Held		(804)	82
Opening Cash Balance Brought Forward		4,490	4,408
Cash And Cash Equivalents Carried Forward		3,686	4,490
Cash And Cash Equivalents Comprise			
Cash And Deposits		3,686	4,490
	26	3,686	4,490

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 2020

1. Corporate Information

REGISTERED OFFICE

19-21 Broderick Road
Johnsonville
Wellington

Medical Assurance Society New Zealand Limited ("the Company", "the Parent" or "MAS") operates on mutual principles within New Zealand, and the control is vested in its Members. The subsidiaries engage in the provision of financial services to Members of MAS and support health research, education and promotion in New Zealand.

These financial statements are the consolidated financial statements of the Parent and its subsidiaries as detailed in Note 4. The Parent together with its subsidiaries are referred to as the Group in this financial report.

The Parent is incorporated and domiciled in New Zealand and is an FMC reporting entity under the Financial Markets Conduct Act 2013.

The head office is situated in Wellington and there are branch sites throughout New Zealand.

2. Accounting Policies

(a) Statement of Compliance and Basis of Preparation

These financial statements have been prepared in accordance with generally accepted accounting practice in New Zealand ("NZ GAAP"). 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 financial statements have been prepared in accordance with the Companies Act 1993, the Financial Markets Conduct Act 2013 and the Charities Act 2005.

The Parent was registered as a charity under the Charities Act 2005 on the 1st of December 2019. The registration number is CC57178. The Group is registered as the "MAS Charitable Group" and all subsidiaries are members of the Charitable Group. The Parent remains a profit-oriented entity for financial reporting purposes.

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

(b) Presentation Currency

Both the functional and presentation currency is New Zealand dollars ($). The financial statements are presented in New Zealand dollars and rounded to the nearest thousand dollars unless stated otherwise.

(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, or when the Parent has the ability to appoint and remove Directors or Trustees of the entity.

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

(d) General Insurance: Gross 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 and Emergency New Zealand and the Earthquake Commission ("EQC"), and net of Goods and Services Tax ("GST").

Premium revenue is recognised in the Statement of Comprehensive Income 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.

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

(e) Reinsurance Premiums and Reinsurance Recoveries

Premiums ceded to reinsurers under reinsurance contracts are recorded as an expense and are recognised over the period of indemnity of the contract. Ceded reinsurance does not relieve the Group from its obligations to policyholders.

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. Fair value is equal to the carrying value of the reinsurance assets.

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

2. Accounting Policies – Continued

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 Group does not consider any of its reinsurance recoveries to be impaired.

(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 the Statement of Comprehensive Income as 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) General Insurance: 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: Premium Revenue

There are no specific deposit components in the premiums payable and hence the entire premium amount is treated as revenue.

Premium revenue is recognised in the Statement of Comprehensive Income 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).

(i) 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.

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.

(j) 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.

(k) Loan Interest Revenue and Interest Expense

Loan Interest Revenue and Interest Expense are recognised in the Statement of Comprehensive Income 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.

(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.

2. Accounting Policies – Continued

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. All reasonable and supportable information is considered at each reporting date. Forward looking information is considered when it is available without undue cost and effort.

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

Impairment is assessed on a collective basis in two circumstances:

- to cover for losses which have been incurred but have not yet been identified on loans subject to individual assessments; and
- for groups of loans that are not considered individually significant, these are placed in pools of similar assets with similar risk characteristics.

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 in the Statement of Financial Position and the movement in the provision for the reporting period is reflected in the Statement of Comprehensive Income as part of Credit Impairment.

Where impairment losses recognised in previous periods are subsequently decreased or no longer exist, such impairments are reversed in the Statement of Comprehensive Income.

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 the Statement of Comprehensive Income.

Claims Recoveries Outstanding

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) 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 and accrued daily for management services provided to the Plans, based on the daily funds under management balance. In the comparative year and for part of the current year, revenue was calculated quarterly.

(n) Other Revenue from Contracts with Customers

Other Revenue from Contracts with Customers is comprised of fee income from Creditline products, fee income from mortgage referrals and revenue from other services including administration services and HealthyPractice® operations.

Revenue is recognised at an amount that reflects the consideration to which the Group expects to be entitled in exchange for transferring services to customers. Creditline fees are calculated every six months for services provided during the period. Mortgage referral fee income is recognised when a mortgage is drawn down and a fee is payable to the Group. Revenue from other services is recognised monthly as services are provided.

(o) Income and Other Taxes, and Deferred Taxation

Provision for Taxation

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.

The Group became a registered Charitable group on 1 December 2019. As such, its activities from that date are no longer subject to income tax. The effect of this for the year ended 31 March 2020 is outlined in Note 24.

2. Accounting Policies – Continued

Other Taxes

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

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

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

Deferred Taxation

Deferred income tax is provided on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. As the Group's activities are no longer subject to income tax, all deferred tax balances have been derecognised at 31 March 2020.

(p) 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.

(q) 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.

(r) 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.

(s) 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.

The Group 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 the Statement of Comprehensive Income when the asset is derecognised, modified or impaired. The Group uses a provision matrix to calculate expected credit losses (ECLs) for Trade and Other Receivables and Claims Recoveries Outstanding. ECLs on Loans comprises the specific provision and collective provision.

Investments

Investment funds, which are 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 Group'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 28.

2. Accounting Policies – Continued

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 27.

Claims Recoveries Outstanding

Classified as a financial asset measured at amortised cost. During the normal course of the Group'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. The details of the impairment assessment and total expected credit losses are set out in Note 2(l).

ii) Financial Liabilities

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

Trade and Other Payables

Classified as a financial liability measured at amortised cost. Payables are recognised when the Group becomes obliged to make future payments resulting from the purchases of goods and services. They represent liabilities for goods and services provided to the Group prior to the end of the financial year but which are unpaid at reporting date.

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.

(t) Derivative Financial Instruments and Hedge Accounting

The Group enters into derivative financial instruments (interest rate swaps) to mitigate the risks associated with interest rate movements.

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 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 the Statement of Comprehensive Income for the period.

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.

(u) 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. All outstandings are constantly reviewed for collectability and immediately written off where deemed to be uncollectible. Fair value is equal to the carrying value of the premiums receivable.

(v) 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.

The Company derecognises a financial asset when the contractual rights to cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Company is recognised as a separate asset or liability.

(w) 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.

2. Accounting Policies – Continued

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.

(x) Assets Backing Insurance Liabilities

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

All investment assets of Medical Insurance Society Limited, the Group's general insurance company, are 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.

(y) Property, Plant and Equipment, and Depreciation

Land and Buildings are revalued at appropriate intervals to fair value, which is determined by reference to the asset's highest and best use by an independent valuer. Revaluations are made with sufficient regularity to ensure that carrying value does not materially differ from fair value. 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

(aa) Lease Liabilities and Right-of-use Assets

At the commencement date of a lease, the Group recognises a lease liability and right-of-use asset. The lease liability is measured at the present value of the lease payments that are not paid at that date, discounted by the Group's incremental borrowing rate. The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the liability, reducing the carrying amount to reflect lease payments made and adjusting for any lease modifications or changes in lease payments.

The right-of-use asset is initially measured at cost, which comprises the amount of the initial measurement of the lease liability, any lease payments made before the commencement date and any initial direct costs incurred. The right-of-use asset is subsequently measured at cost less accumulated depreciation and any impairment losses, and adjusted for any adjustments to the lease liability.

The Group has elected to apply the recognition exemptions for short-term leases and low value assets. Short-term leases are leases with terms of 12 months or less.

(ab) Changes in Accounting Policies and Disclosures

The Group adopted NZ IFRS 16 Leases for the first time from 1 April 2019. The nature and effect of the changes as a result of adoption of these new accounting standards are described below.

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). The Group is a party to lease contracts for properties and motor vehicles. The Group's weighted average incremental borrowing rate at the date of application was 3.60%. The impact of adopting the standard on the Statement of Financial Position as at 1 April 2019 was the recognition of lease liabilities of $11.10m and right-of-use assets of $10.69m. The Group applied the standard using the modified retrospective approach. The comparative balances were not adjusted. The Group elected to apply the practical expedients in the standard for short-term leases. The reconciliation of the operating lease commitments at 31 March 2019 and the opening balance of the lease liabilities at 1 April 2019 is disclosed in Note 32.

2. Accounting Policies – Continued

The following new standard has been issued but is not yet effective for the period ended 31 March 2020, and has not been applied in preparing these financial statements. The Company has given consideration to the impact of the following standard 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 2023. Early application is permitted.

(ac) 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 Group'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, litigation, reopening of claims, apportionment between earthquake events, claim handling expenses and future additional claims being received from EQC. Due to these uncertainties a higher risk margin is carried for earthquake claims than for non-earthquake claims.

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

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

Reinsurance and Other Recoveries Assets

As is the case for claims, reinsurance and other recoveries must be estimated at reporting date. The recoverability of these assets is assessed on a periodic basis to ensure that as best can be determined, the

3. Significant accounting judgements, estimates and assumptions - Continued

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; and
- 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.

Impact of Coronavirus (COVID-19)

On 11 March 2020, the World Health Organization declared the outbreak of coronavirus (COVID-19) a pandemic and two weeks later the New Zealand Government declared a State of National Emergency. The country was moved to COVID-19 Alert Level 4 and put into lockdown. As a result of both the outbreak and the response of Governments in dealing with the pandemic, economic uncertainties have arisen which are likely to affect the Group's operations and financial results going forward.

While there remains a significant amount of uncertainty, the possible effects on the Group as a result of the COVID-19 pandemic include:

- A reduction in the number of new policies issued or current Members reducing the extent of their cover;
- Members experiencing financial hardship may have difficulty paying their premiums and repaying their loans;
- Claims experience differing to what has occurred historically;
- A reduction in fee revenue earned for managing the Retirement Savings Plan and the KiwiSaver Plan; and
- Greater volatility in the value of investments and fluctuations in interest rates.

At this time it is difficult to determine the full effect of the COVID-19 pandemic or Governments' varying efforts to combat the outbreak and support businesses, and there could be other related matters that affect the Group. To the extent possible we have considered the likely impact of COVID-19 in areas such as our provisioning for doubtful debts and in considering any impairment triggers relevant to PP&E and intangible assets.

In April 2020, the Group has established a $2.0m Relief Fund to ensure Members in hardship remain protected. The Relief Fund includes premium relief for the Group's insurance products. Additionally, motor vehicle policyholders were notified that any claims savings due to a reduction in motor claims during the lockdown would be passed back to policyholders. The mechanism for returning claims savings to policyholders is yet to be determined.

To date there has not been a significant impact on the Group's financial performance or position, aside from volatility in investment values and interest rates.

Leases

Key estimates and assumptions used in calculating lease liabilities and right-of-use assets are the incremental borrowing rates and the lease terms. The Group considers economic and credit risk factors, and the underlying right-of-use asset when determining the incremental borrowing rates. Lease terms are determined using the non-cancellable period of the lease and the lease renewals, when the Group is reasonably certain the renewal option will be exercised.

4. Related Party Transactions

Medical Assurance Society New Zealand Limited ("MAS") is the holding company of the following wholly owned subsidiary companies:

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

MAS controls the following entity:

- MAS Foundation ("the Foundation").

The Foundation was registered as a charity under the Charities Act 2005 on the 1st of December 2019. One non-voting distribution share in the capital of MAS has been issued to the Foundation. The Foundation is controlled by MAS as the Directors of MAS are able to appoint and remove the Trustees of the Foundation.

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

Advances to and from subsidiary companies are unsecured and repayable on demand. Interest on advances is charged at the 90 day bank bill rate plus 1%. As at 31 March 2020 interest was charged at 1.49% for all subsidiaries (2019: 2.85%).

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

5. Claims – Medical Insurance Society Limited

Claims Expense	**2020 $000**	**2019 $000**
Claims paid during the year	50,874	66,585
Recoveries received during the year	(8,270)	(16,442)
Provision for Outstanding Claims at year end (new claims incurred during the year)	17,758	20,665
Provisioning at year end for Outstanding Claims incurred in prior years	19,374	23,137
Reinsurance and Other Recoveries Outstanding at year end	(12,665)	(18,319)
Change in IBNR (claims incurred but not reported) Provision at year end	(8)	(294)
Provision for Outstanding Claims at previous year end (excluding IBNR)	(41,292)	(65,611)
Reinsurance and Other Recoveries Outstanding at previous year end	18,319	30,865
Decrease in Risk Margin	(600)	(2,510)
Net Claims Expense per Statement of Comprehensive Income	43,490	38,076

Provision for Outstanding Claims	**2020 $000**	**2019 $000**
Expected Future Claim Payments	26,638	30,798
IBNR Claims at year end	1,828	1,836
Risk Margin	9,894	10,494
Provision for Outstanding Claims	38,360	43,128

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:

	2020	**2019**
Risk margin – earthquake	25.00% - 61.20%	25.00% - 53.30%
Risk margin – non earthquake	12.60%	15.10%
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

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 12.60% (2019: 15.10%) for non earthquake claims and 25.00% - 61.20% (2019: 25.00% - 53.30%) for earthquake claims. The level of sufficiency or probability of adequacy is 75.00% (2019: 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 2016 are Canterbury earthquake claims.

		Incident Year					
Ultimate Claim Cost Estimate	**Prior**	**2016 $000**	**2017 $000**	**2018 $000**	**2019 $000**	**2020 $000**	**Total $000**
At end of incident year		32,357	47,588	37,272	37,762	41,949	
One year later		34,402	52,788	39,442	40,400		
Two years later		34,559	53,491	39,873			
Three years later		34,428	53,918				
Four years later		34,518					
Current estimate		34,518	53,918	39,873	40,400	41,949	
Payments		(34,515)	(53,600)	(39,719)	(39,815)	(34,686)	
Undiscounted central estimate	18,313	3	318	154	585	7,263	26,637
Discount to present value	–	–	–	–	–	–	–
Central estimate	18,313	3	318	154	585	7,263	26,637
IBNR net of risk margin							1,828
Risk margin							9,894
Gross outstanding claims liabilities							38,360
Recoveries from reinsurers and third parties							(12,665)
Net outstanding claims liabilities							25,695

6. Provision For Unearned Premium - Medical Insurance Society Limited

	2020 $000	2019 $000
Balance at the beginning of the financial year	39,644	37,031
Premiums written during the year	86,941	79,565
Premiums earned during the year	(83,486)	(76,952)
Balance at the end of the financial year	43,099	39,644

Liability Adequacy Test

The Appointed Actuary, Peter Davies, FIA, a Fellow of the New Zealand Society of Actuaries ("NZSA"), has reported on the Liability Adequacy Test undertaken by him as at 31 March 2020. He has concluded that the Provision for Unearned Premium as at that date, is not deficient (2019: 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. He is satisfied with the nature, extent, and accuracy of the data used for this valuation. The financial statements have not been adjusted to recognise the surplus.

7. Premiums Outstanding

	2020 $000	2019 $000
Premiums Owing by Policyholders of MIS Policies	20,482	18,931
Premiums Owing by Policyholders of MLA Policies	13,257	12,879
	33,739	31,810

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

	2020 $000	2019 $000
Gross Recoveries – Medical Insurance Society Limited	11,794	16,986
Gross Recoveries – Medical Life Assurance Society Limited	20,927	17,753
Discount to Present Value	(629)	(893)
Reinsurance Recoveries Outstanding	32,092	33,846

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.

9. Claims Recoveries Outstanding – Medical Insurance Society Limited

	2020 $000	2019 $000
Gross Claims Recoveries Owing by Third Parties	3,956	3,710
Allowance for Expected Credit Losses	(3,085)	(2,377)
Net Claim Recoveries Outstanding	871	1,333

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 and recognising current economic conditions, losses are recognised as follows:

- amounts owing by other insurers, 55.00% impairment (2019: 40.00%)
- accounts placed with a collection agency, 90.00% impairment (2019: 80.00%)
- amounts for which a regular payment arrangement has been agreed with the debtor, 55.00% impairment (2019: 40.00%))
- amounts referred to the Disputes Tribunal, 100% impairment (2019: 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 2020.

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
Income protection business	Premiums

Discount Rates

The discount rate assumed equals the risk-free rate of return on 10-year NZ government stock as at the valuation date of 1.08% (2019:1.80%), net of tax at 0.00% (2019: 28.00%), giving a net discount rate of 1.08% per annum (2019: 1.30%).

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"), subject to a minimum materiality level. The CPI for lump sum policy increases is assumed to be 2.50% per annum (2019: 2.50%). The assumed indexation for income protection benefits varies between 0.40% and 1.40% depending on the product (2019: between 0.30% and 2.30%). The assumed rate of expense inflation is 2.00% per annum (2019: 2.00%).

Element Impacted	Assumed Rate
Benefit indexation – Lump sum risk benefits	2.50% (2019: no change)
Benefit indexation – Income Protection	0.4%-1.40% (2019: no change)
Expenses	2.00% (2019: no change)

The lump sum indexation assumption applies to those products that offer indexation benefits, and those policyholders with that product that have opted for the indexation benefit (2019: no change).

The income protection indexation assumption applies to all covers of each respective product type (2019: no change)

It has been assumed that the sums insured of all yearly renewable term Life, TPD and Trauma policies will remain at current levels (2019: 0.00% increase).

Commissions

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

Future Expenses

Maintenance expenses
The standard maintenance expense allowance for lump sum risk policies is $383 (2019: $354) gross per cover per year. Certain policy groups have non-standard allowances. These expenses are assumed to be increased in line with the indexation assumption above. The maintenance expense allowance for income protection covers is $509 (2019: $448) per cover per year.

Acquisition expenses
The standard acquisition expense allowance for new lump sum covers written is $932 (2019: $1,005). The standard acquisition expense allowance for new income protection covers written is $2,007 (2019: $1,894). The unit expenses are based upon a broad analysis of the Company's actual expensens for the year. Maintenance costs of permanent assurances are estimated to equal 2.2 times those for risk policies. This is the same relativity as was used in the previous valuation.

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

Investment expenses
Investment expenses equalled 0.10% of funds under management (2019: 0.11%).

The breakdown of actual expenses is as follows:

	2020 $000	2019 $000
Maintenance expenses	11,286	10,370
Acquisition expenses	3,044	3,319
Investment expenses	70	67
	14,400	13,756

Taxation

Future rates of taxation have been assumed to be zero, with the Company now having charitable status (2019: corporate tax rate of 28% assumed).

Mortality and Morbidity

The basic rates of mortality assumed for life products were:

Males	63% of IA95-97M (2019: no change)
Females	63% of IA95-97F (2019: no change)

Modifications have been made from these base tables to reflect smoker/non-smoker habits and duration in force (unchanged from 2019).

The experience for dread disease and total and permanent disability contracts is assumed to equal 85% of the reinsurance risk premium rates, net of GST (2019: 85%).

Increased loadings are applied to mortality and morbidity risks above the age of 60 to allow for selective lapsing (no change from 2019 loadings).

Income protection claim frequencies and claim terminations are based on adjustments to the CIDA table, reflecting the Company's experience (no change from 2019).

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 (2019: no change) Level term contracts: 6.00% per annum (2019: 5.00% per annum)
Traditional participating business	5.00% per annum (2019: no change)
Income Protection	6.00% per annum (2019: no change)

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 assumed to be 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 shareholders' right to participate in the distributions.

Assumed future bonus rates for participating policies were:

Bonus rate on sum assured	$1.03 per mille (2019: $4.20 per mille)
Bonus rate on existing bonuses	$1.75 per mille (2019: $7.10 per mille)

The reduction in the level of supportable bonus arises from the break-even investment performance over the past year, coupled with significantly reduced long-term interest rates.

11. Policy Liabilities– Medical Life Assurance Society Limited

	2020 $000	2019 $000
Gross future claims	296,152	255,611
Future reinsurance premiums	204,958	166,278
Future reinsurance recoveries	(153,049)	(126,018)
Future policy bonuses	102	427
Future expenses	120,281	96,066
Future profit margins	145,622	121,802
Balance of future premiums	(617,760)	(518,198)
Policy Liabilities before bonus	(3,694)	(4,032)
Bonus declared at year end	–	138
Total Policy Liabilities at period end	(3,694)	(3,894)
Total Policy Liabilities at previous period end	(3,894)	(2,092)
(Increase) / Decrease in Policy Liabilities per Statement of Comprehensive Income	(200)	1,802

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:

	2020 $000	2019 $000
Participating fund at previous balance date	4,745	4,968
Investment income less claims and expenses	(363)	(188)
Profit distributed to shareholders	–	(35)
Participating fund at balance date	**4,382**	**4,745**
Policyholder retained earnings at previous balance date	198	268
Profit distributed as bonuses to participating policyholders	–	(138)
Policyholder share of profit (80%)	(93)	68
Policyholder retained earnings at balance date	**105**	**198**
Shareholder retained earnings at previous balance date	48	66
Profit distributed to shareholders	–	(35)
Shareholder share of profit (20%)	(22)	17
Shareholder retained earnings at balance date	**26**	**48**

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

Bonus on sum insured	0.00% (2019: 2.40%)
Bonus on existing bonuses	0.00% (2019: 3.80%)

12. Outstanding Claims – Medical Life Assurance Society Limited

The following table shows the development of 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 2016. The outstanding claims liability has been determined by the Appointed Actuary. There are a number of significant judgements made in determining the claims estimate including the expected duration of disablement and the amount of benefit payable to the claimant. The average future duration of disability claims is 4.6 years (2019: 4.6 years).

				Incident Year			
Ultimate Claim Cost Estimate	**Prior**	**2016 $000**	**2017 $000**	**2018 $000**	**2019 $000**	**2020 $000**	**Total $000**
At end of incident year		7,561	6,549	7,577	7,065	9,636	
One year later		7,475	10,151	9,018	8,389		
Two years later		7,360	11,447	11,349			
Three years later		7,792	13,299				
Four years later		9,211					
Current estimate	90,628	9,211	13,299	11,349	8,389	9,636	
Payments	(81,250)	(6,051)	(6,752)	(4,828)	(4,983)	(2,817)	
Undiscounted central estimate	9,378	3,160	6,547	6,521	3,406	6,819	35,831
Discount to present value	(294)	(86)	(316)	(382)	(127)	(206)	(1,410)
Discounted central estimate	9,084	3,074	6,231	6,139	3,279	6,613	34,421

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

	2020 $000	**2019 $000**
Disability claims outstanding	34,421	26,222
Life claims outstanding	1,895	2,556
	36,316	28,778

13. Interest Expense

	2020 $000	**2019 $000**
Bank Interest	50	456
Interest Paid on Derivatives	24	112
Interest Expense on Lease Liabilities	466	–
Total Interest Expense	540	568

14. Loans

	2020 $000	2019 $000
Loans	3,557	13,591
Provision for Credit Impairment	(323)	(462)
Net Loans	3,234	13,129
Loans – current	902	7,636
Loans – non current	2,655	5,955
Less Provision for Credit Impairment	(323)	(462)
Net Loans	3,234	13,129
Impaired Loan Provision		
Collective Loan Provision	159	232
Specific Loan Provision	164	230
Total Loan Provision	323	462
Collective Loan Provision		
Opening Balance	232	144
Movement in Collective Loan Provision	(73)	88
Closing Balance	159	232
Specific Loan Provision		
Opening Balance	230	101
Less: Specific Loan Provision Subsequently Written Off	(101)	(34)
Less: Reversal of Specifically Impaired Assets	(26)	(32)
Addition to Specific Impairment Provision	61	195
Closing Balance	164	230

$19,127 of income was received on specifically impaired loans for the period ending 31 March 2020 (2019: $32,518).

	2020 $000	2019 $000
Credit Impairment		
Movement in Collective Provision	(73)	88
Movement in Specific Provision	(66)	129
Impaired Assets Written Off	101	39
Recoveries on Impaired Assets Written Off	(25)	(38)
Credit (Recovery) / Impairment per Statement of Comprehensive Income	(63)	218

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 currently has no derivative financial instruments as the swap contract ended in April 2019.

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

	Contract / Notional Amount	Fair Value Assets	Fair Value Liabilities
Interest Rate Derivatives 2020	–	–	–
Interest Rate Derivatives 2019	2,500	–	23

16. Bank Borrowing – Medical Securities Limited

	2020 $000	2019 $000
Bank Borrowing	–	7,000
Total Bank Borrowing	–	7,000

The bank borrowing facility was repaid in full in September 2019 and subsequently cancelled.

17. Trade and Other Payables

	2020 $000	2019 $000
Government Levies Payable	2,530	3,174
GST Payable	3,825	3,383
Incentive Bonus Payable	665	584
Trade and Other Payables	8,146	5,621
Total Trade and Other Payables	15,166	12,761

All payables are due within twelve months of balance date.

18. Other Insurance Liabilities

	2020 $000	2019 $000
Reinsurance Premium Payable	1,566	1,339
Premiums Received in Advance	1,214	1,178
Total Other Insurance Liabilities	2,780	2,517

19. Employee Benefits Provision

	2020 $000	2019 $000
Employee Benefits - Current	1,284	1,259
Employee Benefits - Non-Current	1,998	1,912
	3,282	3,171

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(q) for further details.

20. Compensation Paid To Key Management Personnel

	2020 $000	2019 $000
Salaries and other short-term employee benefits	3,353	3,261
MAS directors' fees	671	658
Total compensation	4,024	3,919

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.

21. Other Revenue From Contracts With Customers

	2020 $000	2019 $000
Type of Service		
Creditline Fee Income	–	85
Mortgage Referral Fee Income	302	272
Other Services	1,546	1,483
Total Other Revenue from Contracts with Customers	1,848	1,840
Timing of Revenue Recognition		
Services transferred over time	1,355	1,414
Services transferred at a point in time	493	426
Total Other Revenue from Contracts with Customers	1,848	1,840

Other services includes administration services and HealthyPractice® operations.

22. Administration Expenses

	2020 $000	2019 $000
Included in Administration Expenses are the following:		
Fees to auditors - for the audit of financial statements	166	167
Fees to auditors - for other assurance and related services	35	34
Fees to auditors - for other services	33	36
Directors' fees	671	658
Loss on disposal of property, plant, equipment and intangibles	111	45
Depreciation and amortisation	4,409	3,588
Reversal of prior years impairment of intangibles	–	(6,297)
Impairment of intangibles	–	7,108
Donations	60	34

Other assurance and related audit fees relate to reviews of regulatory reporting (2019: principally to reviews of regulatory reporting). Fees to auditors for other services is principally for remuneration advice.

Depreciation and amortisation includes $1.076m of depreciation charges on the right-of-use lease assets.

23. Investment And Sundry Income

	2020 $000	2019 $000
Income from Investment Funds	1,548	16,173
Rent Received	17	14
Interest on Term Deposits	48	76
Sundry Income	43	136
Total Investment and Sundry Income	1,656	16,399
Realised Income	6,498	14,406
Unrealised (Loss) / Income	(4,842)	1,993
Total Investment and Sundry Income	1,656	16,399

24. Taxation

	2020 $000	2019 $000
Net Surplus before Taxation	7,111	16,882
Taxation at 28%	1,991	4,727
Prior Period Adjustment	(15)	151
Taxation Effect of Permanent Differences	(1,522)	(2,677)
Taxation Credits / Imputation Credits	(45)	(48)
Deferred taxation no longer recognised[1]	(7,450)	–
Taxation effect of net surplus not subject to taxation[1]	1,680	–
Taxation (Credit) / Expense for the Year	(5,361)	2,153
Taxation (Credit) / Expense for the Year comprises:		
Current Taxation	1,493	3,761
Deferred Tax	(6,854)	(1,608)
Taxation (Credit) / Expense per Statement of Comprehensive Income	(5,361)	2,153

[1]The Group became a registered charity on 1 December 2019. As such, its activities from that date are no longer subject to income tax and the Group's deferred tax assets and liabilities as at 30 November 2019 have been derecognised.

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

Imputation Credit Account ("ICA")	2020 $000	2019 $000
Closing Balance	40,173	39,163

24. Taxation – Continued

Deferred Tax

31 March 2020	Opening Balance $000	Tax Rate Change $000	Statement of Comprehensive Income $000	Total $000
Deferred Tax Liabilities				
Property, Plant and Equipment	(2,472)	–	2,472	–
Insurance Reserves and Provisions	(5,360)	–	5,360	–
Other	(84)	–	84	–
	(7,916)	–	7,916	–
Deferred Tax Assets				
Provisions and Accruals	1,062	–	(1,062)	–
	1,062	–	(1,062)	–
Net Deferred Tax Asset	(6,854)	–	6,854	–

31 March 2019	Opening Balance $000	Tax Rate Change $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)

25. Contributed Equity

	2020 $000	2019 $000
1 Non-Voting Share	–	100
1 Non-Voting Distribution Share	–	–
10,000 Voting Shares	110	10
	110	110

The non-voting share ($100k) was cancelled during the year. The non-voting distribution share was issued to the Foundation during the year at a cost of $0. All voting shares carry the same voting rights. Directors have no plans to issue further shares.

Capital Management

When managing capital, management's objective is to ensure the Group continues as a going concern adheres to regulator requirements, and maintains optimal returns to shareholders (Members and the Foundation) and benefits for other stakeholders. The Foundation receives distributions from the Group and funds health initiatives in line with the Group's charitable purpose.

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

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 solvency margins have been determined in accordance with the requirements of the solvency standards issued under the Insurance (Prudential Supervision) Act 2010.

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

At 31 March 2020, MIS was not in breach of any of its regulatory requirements, nor has it been at any stage during the current reporting period (2019: no breaches).

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

	2020 $000	2019 $000
Actual Solvency Capital	43,240	43,510
Minimum Solvency Capital	18,011	15,305
Solvency Margin	25,229	28,205
Solvency Ratio	2.40	2.84

The Medical Life Assurance Statutory Fund encompasses all the assets and liabilities of MLA. The solvency position of the statutory fund is the same as MLA.

At 31 March 2020, MLA was not in breach of any of its regulatory requirements, nor has it been at any stage during the current reporting period (2019: no breaches).

MLA's solvency position as per the solvency standard is as follows:

	2020 $000	2019 $000
Actual Solvency Capital	63,151	57,854
Minimum Solvency Capital	48,046	44,768
Solvency Margin	15,105	13,086
Solvency Ratio	1.31	1.29

26. Cash and Cash Equivalents

	2020 $000	2019 $000
Bank Overdraft	–	–
Cash at Bank	3,686	4,490
	3,686	4,490

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 $1.0 million is secured by a first mortgage over its commercial property at Broderick Road, Johnsonville.

27. Trade and Other Receivables

	2020 $000	2019 $000
GST Receivable	141	52
Management Fee Receivable for Funds Management	1,425	3,842
Trade and Other Receivables	233	76
	1,799	3,970

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 2020 (March 2019: zero) as no credit losses are expected within the next 12 months.

28. Investments

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.

	2020 $000	2019 $000
On Call and Term Deposits	121,888	153,283
Domestic Fixed Interest	33,969	28,339
International Fixed Interest (Unit Trust)	50,735	47,634
Australasian Equities (Managed Fund)	17,121	1,644
International Equities	36,269	5,304
Total Investments	259,982	236,204
Life Assurance Investment Funds (MLA)	68,576	64,472
General Insurance Investment Funds (MIS)	98,426	96,012
Other Investment Funds	92,980	75,720
Total Investments	259,982	236,204

29. Property, Plant and Equipment

	Land $000	Buildings $000	Furniture, Fittings and Equipment $000	Total $000
Cost / Valuation				
Balance as at 1 April 2019	2,975	2,305	10,339	15,619
Additions	–	–	885	885
Disposals	–	–	(1,461)	(1,461)
Revaluations	–	(210)	–	(210)
Balance as at 31 March 2020	2,975	2,095	9,763	14,833
Accumulated Depreciation and Impairment Losses				
Balance as at 1 April 2019	–	58	7,306	7,364
Depreciation charge	–	–	737	737
Disposals	–	–	(1,345)	(1,345)
Revaluations	–	(58)	–	(58)
Balance as at 31 March 2020	–	–	6,698	6,698
Net Book Value 31 March 2020	2,975	2,095	3,065	8,135

29. Property, Plant and Equipment – Continued

	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
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

Revaluation of Land and Buildings

The most recent market valuation of Land and Buildings was completed by Martin Veale, ANZIV, SPINZ, a registered valuer from TelferYoung (Wellington) Limited on 31 March 2020. The valuation approach used was the Income Approach. The resulting fair value figure of $5.1 million was recognised by decreasing the carrying value of the Buildings at 31 March 2020 by $0.2 million. The value of the land was unchanged. Significant unobservable inputs used in the valuation include the capitalisation rate/yield. Changes to the inputs may result in a significantly higher or lower fair value measurement. The effective date of the revaluation was 31 March 2020.

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.

There were no transfers in levels during the year (2019: no transfers).

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

	2020 $000	2019 $000
Land	821	821
Buildings	4,611	4,611
Accumulated Depreciation on Buildings	(3,859)	(3,743)
	752	868

30. Intangibles

	Software $000	Work in Progress $000	Total $000
Cost			
Balance as at 1 April 2019	36,000	7,165	43,165
Additions	74	698	772
Transfers	57	(57)	–
Disposals	(2,702)	–	(2,702)
Balance as at 31 March 2020	33,429	7,806	41,235
Accumulated Amortisation and Impairment Losses			
Balance as at 1 April 2019	26,946	7,108	34,054
Amortisation charge	2,596	–	2,596
Disposals	(2,702)	–	(2,702)
Balance as at 31 March 2020	26,840	7,108	33,948
Net Book Value 31 March 2020	6,589	698	7,287

	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)
Balance as at 31 March 2019	36,000	7,165	43,165
Accumulated Amortisation and Impairment Losses			
Balance as at 1 April 2019	30,457	–	30,457
Amortisation and impairment	2,798	7,108	9,906
Reversal of impairment recognised in prior years	(6,297)	–	(6,297)
Disposals	(12)	–	(12)
Balance as at 31 March 2019	26,946	7,108	34,054
Net Book Value 31 March 2019	9,054	57	9,111

Work in Progress

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

31. Deferred Acquisition Costs – Medical Insurance Society Limited

	2020 $000	2019 $000
Opening balance	458	551
Acquisition costs deferred during the year	708	458
Current period amortisation	(458)	(551)
Closing balance	708	458

32. Lease Liabilities And Right-Of-Use Assets

Under NZ IFRS 16 Leases, the Group recognises a lease liability and right-of-use asset in the Statement of Financial Position at commencement of a lease, except when the lease is a short-term lease. The Group is a party to lease contracts for properties, motor vehicles and printers.

The Group applied the practical expedient for short-term leases and recognised payments associated with short-term leases of properties, motor vehicles and printers on a straight-line basis as an expense in the Statement of Comprehensive Income. The expense for the year ended 31 March 2020 was $274,000 (2019: $77,000).

The Group recognised $466,000 of interest expense on the lease liabilities and $1.076m of depreciation expense on the right-of-use assets for the year. The estimated useful life of right-of-use assets is the term of the lease.

Right-of-use assets	**Properties $000**	**Motor Vehicles $000**	**Total $000**
Cost			
Balance at 1 April 2019	10,497	197	10,694
Additions	393	359	752
Balance at 31 March 2020	10,890	556	11,446
Accumulated Depreciation			
Balance at 1 April 2019	–	–	–
Depreciation Expense	857	219	1,076
Balance at 31 March 2020	857	219	1,076
Net Book Value 31 March 2020	10,033	337	10,370

	2020 $000	**2019 $000**
Lease liabilities		
Current	895	–
Non-Current	10,125	–
Total lease liabilities	11,020	–

The following table provides a reconciliation of operating lease commitments at 31 March 2019 to opening balance of lease liabilities at 1 April 2019:

Operating lease commitments at 31 March 2019	12,429
Impact of discounting at the incremental borrowing rate	(3,538)
Impact of change in lease payments	1,339
Impact of reassessing lease terms	1,052
Short-term leases not recognised as a lease liability	(179)
Opening balance of lease liabilities at 1 April 2019	11,103

33. 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 Assets

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 value of Loans approximates fair value, as it is based on the discounted estimated future cash flows net of the provision for credit impairment.

Other Financial Assets

For all other financial assets, the carrying value is considered to be a reasonable estimate of fair value. 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, fees in advance and other insurance liabilities are not considered to be financial liabilities.

The following table 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.

	2020 Carrying Amount $000	2020 Fair Value $000	2019 Carrying Amount $000	2019 Fair Value $000
Financial Assets				
Investments	259,982	259,982	236,204	236,204
Total Financial Assets	259,982	259,982	236,204	236,204
Financial Liabilities				
Derivative Financial Instruments	–	–	23	23
Total Financial Liabilities	–	–	23	23

33. Fair Value of Financial Assets and Liabilities – Continued

Fair Value Hierarchy

The following table shows an analysis of financial instruments recorded at fair value by level of the fair value hierarchy. 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 34 for details of the classification categories).

	Level 1 $000	Level 2 $000	Level 3 $000	Total $000
31 March 2020				
Assets measured at fair value				
On Call and Term Deposits	–	121,888	–	121,888
Domestic Fixed Interest	–	33,969	–	33,969
International Fixed Interest (Unit Trust)	–	50,735	–	50,735
Australasian Equities (Managed Fund)	–	17,121	–	17,121
International Equities	36,269	–	–	36,269
Liabilities measured at fair value				
Derivative Financial Instruments	–	–	–	–

	Level 1 $000	Level 2 $000	Level 3 $000	Total $000
31 March 2019				
Assets measured at fair value				
Derivative Financial Instruments	–	–	–	–
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

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

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

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

There have been no transfers between the levels during year (2019: no transfers).

34. Financial Instruments and Risk Management

The Group's risk management is carried out in accordance with policies set by the board of directors ("the Board"). These policies provide a clear structure for managing financial, operational and other risks. Whilst their review of risk is ongoing, directors formally review the major risks faced by the entire Group every six months.

The main risks arising from the financial instruments and the business the Group engages in are insurance risk, credit risk, currency risk, market risk, liquidity risk, operating risk and interest rate 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 ongoing 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; and
- 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 Group is exposed to credit risk in relation to its lending operations, its insurance operations and the investments which back those insurance operations.

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; and
- 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 its 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; and
- the monitoring of a reinsurer's credit risk rating to control exposure to reinsurance counterparty default.

34. Financial Instruments and Risk Management – Continued

Statement of Financial Position credit exposures:

	2020 $000	2019 $000
Cash and Cash Equivalents	3,686	4,490
Trade and Other Receivables	1,799	3,970
Other Insurance Assets	44	100
Investments	259,982	236,204
Premiums Outstanding	33,739	31,810
Reinsurance Recoveries Outstanding	32,092	33,846
Claims Recoveries Outstanding	3,956	3,710
Loans	3,557	13,591
	338,855	327,721

The Group provided a general security agreement to its banking partner, which ended in February 2020. The agreement provided for the payment of present and future liabilities in relation to the Group's derivatives and bank borrowings. The bank borrowing was repaid in full during the year and all derivatives were settled.

Loans are secured primarily by first mortgages or by chattel securities. Included within the Statement of Financial Position are unsecured loans of $475,000 (2019: $6.6 million).

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

	2020 %	2019 %
Auckland	16.75	32.73
Hamilton	39.97	25.00
Palmerston North	1.69	4.52
Wellington	17.77	14.41
Christchurch	13.37	13.14
Dunedin	10.45	10.20
Total	100.00	100.00

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.

	2020 $000	2019 $000
Amount owed by the Group's six largest lending debtors	1,769	3,430
Six largest lending exposures as a proportion of Loans	49.88%	12.67%
Six largest lending exposures as a proportion of Total Equity	0.83%	1.83%

34. Financial Instruments and Risk Management – Continued

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 AA-.

	2020	2019
10%–20% of equity	1	1
> 20% of equity	1	2

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

Investment funds in part back the insurance operations and in part support share capital and retained earnings. Investment mandates have been structured accordingly and are formalised by way of 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

	2020 $000	2019 $000
Cash and Cash Equivalents	3,686	4,490
On Call and Term Deposits	121,888	153,283
Domestic Fixed Interest	33,969	28,339
International Fixed Interest (Unit Trust)	50,735	47,634
Australasian Equities (Managed Fund)	17,121	1,644
International Equities	36,269	5,304
	263,668	240,694

The following table provides information on the credit risk exposure for financial assets with external credit ratings. 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 2020							
Cash and Short Term Deposits	–	69.6%	30.4%	–	–	–	125,574
Fixed Interest	35.5%	7.1%	13.2%	35.6%	2.9%	5.7%	84,704
Reinsurance Recoveries	–	77.1%	21.8%	–	–	1.1%	32,092
31 March 2019							
Cash and Short Term Deposits	–	100.0%	–	–	–	–	157,773
Fixed Interest	38.3%	9.7%	13.8%	32.8%	4.1%	1.3%	75,973
Reinsurance Recoveries	–	68.0%	30.6%	–	–	1.4%	33,846

34. Financial Instruments and Risk Management – Continued

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 $5.5m (2019: $4.8m).

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 Group will encounter difficulty in meeting commitments associated with financial instruments. The Group manages its liquidity risk on an ongoing basis by:

- maintaining sufficient liquid assets;
- conservative reinsurance retention levels;
- the ability to access investment funds via the fund managers at short notice; and
- forecasting expected future liquidity and ensuring a sufficient liquidity 'buffer' is maintained at all times.

The following table 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 not all amounts will not agree to the carrying value on the Statement of Financial Position. The Group manages cash flows on a contractual basis.

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 2020						
Financial Assets						
Cash at Bank	3,686	–	–	–	–	3,686
Trade and Other Receivables	1,799	–	–	–	–	1,799
Investments	211,463	19,952	1,830	21,576	5,161	259,982
Claims Recoveries Outstanding	–	36	227	–	608	871
Loans	719	568	713	643	1,313	3,956
Right-of-use Assets	564	542	955	2,520	5,789	10,370
	218,231	21,098	3,725	24,739	12,871	280,664
Financial Liabilities						
Trade and Other Payables	1,799	–	–	–	–	1,799
Derivative Financial Instruments	–	–	–	–	–	–
Bank Borrowing	–	–	–	–	–	–
Lease Liabilities	455	440	783	2,266	7,076	11,020
	2,254	440	783	2,266	7,076	12,819

34. Financial Instruments and Risk Management – Continued

	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						
Cash at Bank	4,490	–	–	–	–	4,490
Trade and Other Receivables	3,970	–	–	–	–	3,970
Investments	182,552	9,041	17,834	14,943	11,834	236,204
Claims Recoveries Outstanding	–	30	390	–	913	1,333
Loans	8,307	1,403	1,684	1,756	1,599	14,749
	199,319	10,474	19,908	16,699	14,346	260,746
Financial Liabilities						
Trade and Other Payables	12,761	–	–	–	–	12,761
Derivative Financial Instruments	–	23	–	–	–	23
Bank Borrowing	7,018	–	–	–	–	7,018
	19,779	23	–	–	–	19,802

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:

- management and staff are responsible for identifying, assessing and managing operational risks in accordance with their roles and responsibilities; and
- the Group Internal Assurance Manager and the Risk and Compliance Team are charged with assisting staff in identifying risks and ensuring the sufficiency of and ongoing 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) to minimise the mismatches within policy limits set by the Board. The Group is exposed to interest rate movements through its investments in short term deposits, fixed interest and cash, as well as through its lending operations.

34. Financial Instruments and Risk Management – Continued

Sensitivity Analysis

The Group has two risks which are price sensitive to an extent that they may impact earnings materially. These are Insurance Risk and Market Risk (as it pertains to investments). The following 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.

In the previous year, the analysis demonstrated the impact on profit after tax. This has been changed to profit before tax to align with the change in the Group's tax status during the year.

Sensitivity Analysis:
(Medical Life Assurance Society Limited "MLA")

		2020		2019	
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%	16,540	2,130	10,520	1,690
	Decrease by 1%	(19,610)	(2,420)	(11,910)	(1,880)
Claims	Increase by 10%	11,770	–	12,590	–
	Decrease by 10%	(11,710)	–	(12,520)	–
Lapses / Surrenders	Increase by 10%	24,150	–	12,250	–
	Decrease by 10%	(28,910)	–	(14,260)	–
Expenses	Increase by 10%	8,630	–	7,540	–
	Decrease by 10%	(8,630)	–	(7,540)	–

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 Limited "MIS")

		Impact on Profit and Equity	
Risk Variable	**Movement**	**2020 $000**	**2019 $000**
Insurance Risk (MIS):			
Change in outstanding claims	Increase by 1%	(266)	(188)
	Decrease by 1%	266	188

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

34. Financial Instruments and Risk Management – Continued

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

		Impact on Profit and Equity	
Risk Variable	**Movement**	**2020 $000**	**2019 $000**
Market Risk (Group):			
Short term deposit rates	Increase by 1%	37	32
	Decrease by 1%	(37)	(32)
Bond interest rates	Increase by 0.50%	(1,864)	(1,801)
	Decrease by 0.50%	1,864	1,801
Unit prices	Unit price increases by 10%	5,073	4,763
	Unit price decreases by 10%	(5,073)	(4,763)
Currency risk	NZD appreciates by 10% against foreign currencies	(547)	(204)
	NZD depreciates by 10% against foreign currencies	547	204

Classification of Financial Instruments

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

	2020 $000	**2019 $000**
Financial Assets		
Financial assets at amortised cost		
Trade and Other Receivables	1,799	3,970
Claims Recoveries Outstanding	871	1,333
Loans	3,234	13,129
Financial assets at fair value through profit or loss		
Investments	259,982	236,204
	265,886	254,636
Financial Liabilities		
Financial liabilities at amortised cost		
Trade and Other Payables	15,166	12,761
Derivative Financial Instruments	–	23
Bank Borrowing	–	7,000
Lease Liabilities	11,020	–
	26,186	19,784

35. Reconciliation of Cash Flows

	2020 $000	2019 $000
Reported Surplus after Taxation	12,472	14,729
Add / (Deduct) Non-Cash Items:		
Depreciation, Impairment and Amortisation	4,409	4,399
Loss on Disposal of Property, Plant, Equipment and Intangibles	(4)	45
Fair Value Change in Derivatives	(23)	(103)
Revaluation of Buildings	58	-
Credit Impairment	(38)	218
Addition to Unearned Premium	3,455	2,613
Change in Deferred Acquisition Costs	(250)	93
Change in Deferred Taxation Liability	(6,854)	1,608
Changes in Operating Assets and Liabilities:		
Trade and Other Payables, Provisions and Liabilities	3,681	2,147
Trade and Other Receivables and Prepayments	1,643	1,807
Loans	9,933	13,818
Outstanding Claims	3,232	(18,450)
Reinsurance Recoveries	1,754	7,246
Life Policy Liabilities	200	(1,802)
Premiums Outstanding	(1,929)	(1,397)
Provision for Taxation	1,132	925
Net Cash Flows from Operating Activities	32,871	27,896

36. 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-/Positive financial strength rating from Standard & Poor's.

37. Contingent Liabilities

The Group is subject to several legal disputes at 31 March 2020. 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.

At 31 March 2019, the Group had provided a general security agreement over its assets to support derivative transactions and borrowings from its banking partner. The agreement ended in February 2020.

38. Subsequent Events

No material events have occurred after the reporting period.

To date there has not been a significant impact on the Group's financial performance or position as a result of Coronavirus (COVID-19), aside from volatility in investment values and interest rates. Details of the possible impact are outlined in Note 3.

In April 2020 MAS communicated to its Members that in response to COVID-19 a number of initiatives had been put in place. These included establishing the MAS Relief Fund and notifying motor vehicle policyholders that any claims savings due to a reduction in motor claims during the lockdown would be passed back to policyholders.

The MAS Relief Fund provided for individual Members experiencing hardship to apply for premium relief on policies for three months. Both the Relief Fund and the pass back of motor claim savings are not expected to have a material impact on the financial results for the year ended 31 March 2021. The mechanism for returning claims savings to policyholders is yet to be determined.

Subsequent to balance date, the Group took control of Medical Mortgages Limited ("MML") as it owns 100% of the ordinary shares. There was no consideration transferred. MML is a non-trading company and no material impact is expected on the Group's financial performance or position for the year ended 31 March 2021.

Independent Auditor's Report

EY
Building a better working world

Opinion

We have audited the financial statements of Medical Assurance Society New Zealand Limited ("the company") and its subsidiaries (together "the Group") on pages 16 to 59, which comprise the consolidated statement of financial position of the Group as at 31 March 2020, 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 16 to 59 present fairly, in all material respects, the consolidated financial position of the Group as at 31 March 2020 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.

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 2020

Five-year Summary

Statement of Comprehensive Income	2020 $000	2019 $000	2018 $000	2017 $000	2016 $000
Fire and General Insurance					
Gross Premium Income	86,941	79,565	74,328	69,197	64,502
Net Earned Premium	62,225	58,246	54,036	49,714	48,296
Net Claims	(43,490)	(38,076)	(48,365)	(35,401)	(49,462)
Net Income from Fire and General Insurance	18,735	20,170	5,671	14,313	(1,166)
Life Assurance					
Gross Premium Income	42,140	40,159	38,524	36,138	34,212
Net Premium Income	29,547	29,469	27,418	25,744	24,393
Claims, Surrenders and Maturities	(12,805)	(10,641)	(9,516)	(6,706)	(5,967)
(Increase) / Decrease in Life Policy Liabilities	(200)	1,802	1,446	1,015	2,253
Net Income from Life Assurance	16,542	20,630	19,348	20,053	20,679
Net Income from Lending Operations	304	1,336	2,385	4,312	6,577
Funds Management Revenue	16,768	14,672	13,000	11,032	9,723
Income from other services	1,848	1,840	1,829	1,942	2,087
Group Operating Expenses	(48,742)	(58,165)	(49,316)	(45,255)	(39,195)
Net Income / (Loss) from Operations	5,455	483	(7,083)	6,397	(1,295)
Investment and Sundry Income	1,656	16,399	12,046	13,519	5,141
Surplus before Tax	7,111	16,882	4,963	19,916	3,846
Tax Credit / (Expense)	5,361	(2,153)	154	(3,747)	(1,540)
Surplus after Tax	12,472	14,729	5,117	16,169	2,306

Statement of Financial Position

Total Assets	362,576	342,751	354,269	369,822	420,687
Total Liabilities	148,366	140,860	167,131	188,448	255,482
Equity	214,210	201,891	187,138	181,374	165,205

Other Information

Fire and General Claims as a percentage of Net Earned Premium	69.9%	65.4%	89.5%	71.2%	102.4%
Operating Expenses as a percentage of Total Income	32.8%	37.9%	34.8%	32.8%	30.8%
Equity as a percentage of Total Income	144.2%	131.7%	132.0%	131.3%	129.7%
Number of Members	37,165	33,546	31,543	29,809	28,529

Statutory Information

Directors' Interests

All transactions between MAS and individual directors have been conducted on an arm's length basis.

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	$133,914
KA Baddock	$63,069
DR Dinsdale	$71,678
FA Frizelle	$62,502
AC Hercus	$78,715
DJ Hill	$48,612
LR Knowles	$69,206
AR Muthu	$64,374
BC Sutton	$79,220
Total	$671,291

AC Hercus retired from all MAS Group entities effective 26 February 2020.

BC Sutton was appointed Deputy Chairman on 28 September 2019.

Employee Remuneration

	Number of employees	
	2020	**2019**
100,000-110,000	18	12
110,000-120,000	9	7
120,000-130,000	10	18
130,000-140,000	14	13
140,000-150,000	8	8
150,000-160,000	7	4
160,000-170,000	2	7
170,000-180,000	7	4
180,000-190,000	3	2
190,000-200,000	3	1
200,000-210,000	1	–
210,000-220,000	2	–
220,000-230,000	1	1
230,000-240,000	–	2
240,000-250,000	3	1
250,000-260,000	1	1
290,000-300,000	–	1
300,000-310,000	2	2
310,000-320,000	2	–
320,000-330,000	–	1
330,000-340,000	1	1
370,000-380,000	–	1
390,000-400,000	1	–
820,000-830,000	–	1
870,000-880,000	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 2020 there were five Practitioner Trustees (who are elected by Members) and three 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 2020.

Board Committees

The Board has established four committees. Those committee are:

- Audit and Risk
- Investment
- Nominations, and
- 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. As at 31 March 2020, the Committee is comprised of Lindsay Knowles (Chair), Doug Hill, 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. As at 31 March 2020, the Committee is comprised of Brendan O'Donovan (Chair), Kate Baddock, Brett Sutton, Danelle Dinsdale, and Harley Aish.

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 Kate Baddock (Chair), Brett Sutton, Frank Frizelle, and Doug Hill.

The Remuneration Committee meets to consider the senior management team's remuneration. The Committee is currently comprised of Harley Aish (Chair), Brett Sutton, 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:
Krissy Winter

Christchurch
Unit 8
71 Gloucester Street
Christchurch Central
PO Box 36260

Dunedin
27–29 Albany Street
PO Box 6365

Directory

Senior Management Team

David Chote
Chief Sales Officer

Mike Davy
General Manager,
Marketing and Products

Matthew Judge
Chief Finance and Risk Officer

Ross McMillan
General Manager,
Human Resources

Mike Paine
Chief Information Officer

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
BNZ
Westpac

mas