No one values you more

2016

ANNUAL REPORT

MAS

CONTENTS

FINANCIAL REPORT

GOVERNANCE

CHAIRMAN'S REPORT TO MEMBERS

I am pleased to report MAS has delivered a small surplus of $2.3 million in a challenging year dominated by record high insurance claims and volatile investment markets. This positive result in 2016 demonstrates the benefit of a diversified strategy and sound capital management. Reserves now stand at $165.2 million, around 40% higher than five years ago. A full analysis of our 2016 financials is set forth on the following pages.

Medical Insurance Society Limited

In 2016 we saw strong growth in personal lines policies as existing and new Members continued to see value in our full replacement house insurance proposition. However the year was also notable for a record level of claims ($66.0 million) as we provisioned around $1.02 for every $1.00 of premium income. Significant factors included a number of 'weather bomb' events around the country, the higher incidence of house fires, and material increases in car repair costs. In the year ahead we will be activating relatively modest increases to house, car, and contents insurance premiums to ensure we cover increased claim costs.

The loss of $10.9 million from general insurance activity also reflected ongoing escalation in claim costs from the Canterbury earthquakes. The combined estimated costs from the earthquakes (business and domestic) had reached $375.8 million by 31 March 2016, of which $333.3 million has been paid to Members. Claims still to be fully settled, including a number which have only recently come to us from EQC, are at various stages in the settlement process. We acknowledge the impact of these events on affected Members, and are working closely with them to expedite the reinstatement of their properties or provide a cash settlement where this is preferred.

Medical Life Assurance Society Limited

Life insurance activity made an important contribution to the operating earnings of MAS in 2016. Gross premium income grew by just under 5% to $34.2 million while claims were marginally down on the previous year. Ensuring that Members have adequate levels of life and income insurance cover is a focus for our advisers across the country. Research shows New Zealanders in general are underinsured, especially in relation to their income. Although MAS Members will be better insured than most, we still find too many cases where cover is inadequate. It is pleasing to note the total number of in force policies was up 13% on the previous year.

We are also constantly reviewing the level of coverage provided to Members under disability and critical illness covers. These covers have recently been updated to provide more extensive and market leading protection to Members, and where relevant, their families.

Medical Funds Management Limited

The contribution to MAS from funds management activities is important and a milestone was reached as the combined values of the Retirement Savings and KiwiSaver plans passed $1 billion. More than 16,000 investors now have their funds at MAS as we help them to achieve their retirement objectives.

The final few months of 2016 were volatile in world investment markets and this flowed through to providing more modest returns for funds, especially those with higher allocations to international equities.

Medical Securities Limited

Since 1975, MAS has provided many Members with their personal, business and home finance needs through its finance company subsidiary MSL. Following the global financial crisis in 2008, new rules regulating the non-bank deposit taking sector made it difficult for smaller scale lenders like MSL to compete effectively with large banks.

In response, MAS entered into a partnership with ANZ Bank in 2009 to provide an attractive home loan package to Members. By 2015, this successful partnership had progressed to the point where over 80% of all lending to Members was attributable to this arrangement, with the balance provided directly by MSL.

Given these developments, the Board reviewed whether continuing to provide personal and commercial loans directly was in the best interests of MAS and its Members. Consideration included the cost of providing these products directly, the inability to provide consistently competitive rates and the significant amount of MAS Group capital tied up in supporting the business.

We concluded it did not make good sense for MAS to continue to provide these loans directly. We considered the interests of both MAS and its Members would be better served by establishing a deeper partnership for banking services. Following a tender process we announced the establishment of a new partnership with Westpac New Zealand Limited to provide Members with the full range of their personal, practice, commercial and home finance needs.

The wind down of our direct lending and deposit services will continue into 2017. During this period our focus will be on ensuring Members can transition to the new arrangement with minimal inconvenience.

The Board

During 2016 two long serving members of MAS and its subsidiary boards retired. Hamilton Dentist Dr Katie Ayers had served as a Practitioner Trustee since 2008. Wellington based businessman Craig Thompson became a Commercial Trustee in 1990. They have served MAS well and I would like to thank them both for all their wisdom and guidance.

Two new members of the Board bring a wealth of health industry and investment management experience to MAS. Dr Kate Baddock (appointed 1 April 2016) will be well known to members of the medical profession and is currently Deputy Chair of the NZMA and a member of the Medical Council. Brett Sutton (appointed 15 February 2016) has had a long career in the financial services industry including roles with the NZ Super Fund.

Membership

In 2016 we welcomed just over 2,000 new Members and their families from health and other professions as MAS Membership grew to over 28,500. It is pleasing to note over 92% of doctors, our founding professional group, are Members of MAS despite significant workforce changes in the last two decades.

Member benefit and satisfaction is central to who we are as a mutual. Our advisers and support teams are focused on building long term partnerships with our Members to better understand their requirements and to help protect what is important to them in their fast changing worlds. In 2016 we launched several new initiatives to provide Members with more convenience and choice in their dealings with MAS including online claims and a claims App. The online claims option was introduced in December 2015, and by March around a third of Member claims were being made using this digital channel option.

Members tell us they enjoy the opportunity to network at various events provided by MAS. In 2016 we sponsored over 140 events ranging from the well received TedX style “MAS Talks” series right through to popular premiers of the latest edition of the Star Wars saga.

Looking Ahead

Our focus in the year ahead will be on continuing to develop our products to better meet Member needs and provide more convenient service options. Initiatives include the introduction of investment funds with flexible redraw capability. This will be available online through MAS and will suit those Members who want some of their money placed in investment markets rather than sitting on bank deposit. We will revamp our Business Risk insurance suite, including the addition of a new cyber protection product to help protect Members against this growing risk. In addition we are reviewing our disability insurance offering to ensure it will continue to meet the changing needs of our Members over the longer term.

We also plan to further develop online and mobile solutions for our Members. Through investment in systems to support this functionality, it is our medium term objective to provide Members with more convenience and choice in how they deal with MAS.

We have grown rapidly over the past five years, significantly expanding membership into the wider professional markets. We are well positioned to build on our strengths by ensuring that our capability for providing outstanding service and advice to our Members sets us apart.

We thank you for your loyalty and look forward to expanding our services to you in 2017 and beyond.

Richard Tyler
Chairman

FINANCIAL REPORT

Medical Assurance Society New Zealand Limited

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 March 2016

	Note	2016 $000	2015 $000
FIRE AND GENERAL INSURANCE REVENUE			
Gross Premium Revenue		64,502	64,263
Reinsurance Premiums		(16,308)	(17,187)
Change in Provision for Unearned Premium		102	(590)
Net Premium Revenue		48,296	46,486
Claims		(65,972)	(57,518)
Reinsurance Recoveries		12,514	6,101
Other Recoveries		3,996	11,270
Net Claims	5	(49,462)	(40,147)
Net Revenue from Fire and General Insurance		(1,166)	6,340
LIFE ASSURANCE REVENUE			
Premium Revenue		34,212	32,723
Reinsurance Premiums		(9,819)	(8,796)
Net Premium Revenue		24,393	23,927
Claims, Surrenders and Maturities		(12,254)	(13,196)
Reinsurance Recoveries		6,287	4,878
Decrease in Life Policy Liabilities	11	2,253	2,664
Net Revenue from Life Assurance		20,679	18,272
LENDING REVENUE			
Mortgage and Loan Interest Revenue		13,768	15,401
Movement in Fair Value of Derivatives		(329)	(398)
Interest Expense	13	(6,213)	(7,346)
Reversal of Credit Impairment	14	111	129
Net Revenue from Lending		7,337	7,785
FUNDS MANAGEMENT REVENUE			
Revenue from Funds Management and Financial Planning		9,723	8,125
EXPENSES			
Salaries		(20,370)	(17,309)
Administration Expenses	20	(18,825)	(18,794)
Total Expenses		(39,195)	(36,103)
NET (LOSS)/INCOME FROM OPERATIONS		(2,622)	4,420
Investment and Sundry Income	22	6,468	13,138
Property Revaluation		–	(302)
NET SURPLUS BEFORE TAXATION		3,846	17,256
Taxation Expense	23	(1,540)	(875)
NET SURPLUS AFTER TAXATION		2,306	16,381
OTHER COMPREHENSIVE INCOME			
Gain on Revaluation of Land and Buildings		–	616
Tax Impact of Revaluation of Land and Buildings		–	74
OTHER COMPREHENSIVE INCOME AFTER TAXATION		–	690
TOTAL COMPREHENSIVE INCOME		2,306	17,071

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

Medical Assurance Society New Zealand Limited

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 31 March 2016

	Note	2016 Share Capital $000	2016 Retained Earnings $000	2016 Asset Revaluation Reserve $000	2016 Total $000
OPENING BALANCE 1 APRIL 2015	24	110	161,130	1,659	162,899
Current Year Surplus		–	2,306	–	2,306
Other Comprehensive Income		–	–	–	–
Total Comprehensive Income		–	2,306	–	2,306
CLOSING BALANCE 31 MARCH 2016		110	163,436	1,659	165,205

	Note	2015 Share Capital $000	2015 Retained Earnings $000	2015 Asset Revaluation Reserve $000	2015 Total $000
OPENING BALANCE 1 APRIL 2014	24	110	144,749	969	145,828
Current Year Surplus		–	16,381	–	16,381
Other Comprehensive Income		–	–	690	690
Total Comprehensive Income		–	16,381	690	17,071
CLOSING BALANCE 31 MARCH 2015		110	161,130	1,659	162,899

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

Medical Assurance Society New Zealand Limited

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

as at 31 March 2016

	Note	2016 $000	2015 $000
FUNDS EMPLOYED			
EQUITY			
1 Non-Voting Share	24	100	100
10,000 Voting Shares	24	10	10
Retained Earnings		163,436	161,130
Asset Revaluation Reserve		1,659	1,659
TOTAL EQUITY		165,205	162,899
LIABILITIES			
Payables	25	11,759	11,149
Provision for Taxation		12	–
Derivative Financial Instruments	15	336	204
Provision for Unearned Premium	6	31,769	31,871
Debenture Stock and Savings Plan	16	80,141	103,718
Bank Borrowing	18	3,500	–
Notes	17	30,000	55,000
Provision for Outstanding Claims	5,12	94,148	142,240
Life Policy Liabilities	11	369	2,622
Deferred Tax	23	3,448	1,944
TOTAL FUNDS EMPLOYED		420,687	511,647
ASSETS			
Cash and Cash Equivalents	26	14,457	42,708
Receivables and Prepayments	27	3,328	3,151
Taxation Paid in Advance		–	678
Investments	28	170,916	162,497
Derivative Financial Instruments	15	1	198
Premiums Outstanding	7	26,235	26,069
Reinsurance Recoveries Outstanding	8	42,636	89,135
Claims Recoveries Outstanding	9	4,125	3,887
Mortgages and Loans	14	134,464	159,162
Property, Plant and Equipment	29	5,637	5,940
Intangibles	30	18,470	17,737
Deferred Acquisition Costs	31	418	486
TOTAL ASSETS		420,687	511,647

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

Director

Director

Wellington, 29 June 2016

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

Medical Assurance Society New Zealand Limited

CONSOLIDATED STATEMENT OF CASH FLOWS

for the year ended 31 March 2016

	Note	2016 $000	2015 $000
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from Policyholders		98,614	96,289
Interest and Fee Income Received on Mortgages and Loans		13,922	15,439
Loan Repayments		73,614	68,850
Loan Advances		(48,805)	(58,866)
Interest Received on Short Term Deposits		1,417	1,432
Other Revenue and Income from Investment Funds		14,649	19,154
Rent Received		12	31
Payments to Suppliers and Employees		(61,715)	(57,877)
Reinsurance Recoveries		65,300	88,219
Payment of Claims		(122,560)	(121,361)
Taxation Refund/(Payment of Taxation)		654	(875)
Interest on Bank Overdraft		(2)	(2)
Interest Paid on Funding		(6,291)	(7,327)
Net Cash Flows from Operating Activities	37	28,809	43,105
CASH FLOWS FOR INVESTING ACTIVITIES			
Contributions to Investment Funds		(66,508)	(69,627)
Withdrawals from Investment Funds		58,089	42,500
Proceeds from Sale of Property, Plant and Equipment		–	0
Purchase of Property, Plant, Equipment and Intangibles		(3,564)	(3,932)
Net Cash Flows for Investing Activities		(11,983)	(31,060)
CASH FLOWS FOR FINANCING ACTIVITIES			
Issue of Debenture Stock/Savings Plan Deposits Received		65,310	75,745
Repayment of Debenture Stock/Savings Plan Withdrawals		(88,887)	(81,836)
Repayment of Notes		(25,000)	–
Increase in Bank Borrowing		3,500	–
Net Cash Flows for Financing Activities		(45,077)	(6,091)
NET (DECREASE)/INCREASE IN CASH HELD		(28,251)	5,954
Opening Cash Balance brought forward		42,708	36,754
CASH AND CASH EQUIVALENTS CARRIED FORWARD		14,457	42,708
CASH AND CASH EQUIVALENTS COMPRISE			
Cash and Deposits		14,457	42,708
	26	14,457	42,708

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

1. CORPORATE INFORMATION

REGISTERED OFFICE
19–21 Broderick Road
Johnsonville
Wellington

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

Head Office is situated in Johnsonville, Wellington and there are seven branch sites throughout New Zealand in; Auckland (two), Hamilton, Palmerston North, Wellington, Christchurch and Dunedin.

These financial statements are the consolidated financial statements of MAS and its subsidiaries as detailed in Note 4.

MAS is incorporated and domiciled in New Zealand.

2. ACCOUNTING POLICIES

(a) Basis of Preparation

These financial statements have been prepared in accordance with generally accepted accounting practice in New Zealand and the requirements of the Companies Act 1993 and the Financial Reporting Act 2013. The financial statements have also been prepared on a historical cost basis except for certain assets and liabilities as outlined in the accounting policies.

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

(b) Statement of Compliance

These financial statements have been prepared in accordance with generally accepted accounting practice in New Zealand. They comply with New Zealand equivalents to International Financial Reporting Standards ("NZ IFRS"), and other applicable Financial Reporting Standards, as appropriate for profit-orientated entities. These financial statements also comply with International Financial Reporting Standards ("IFRS").

Applicable standards or interpretations that have not been adopted:

NZ IFRS 9 (2009) Financial Instruments has not been adopted for the reporting period to 31 March 2016. The standard uses a single approach to classify and measure financial assets to determine whether an asset should be measured at amortised cost or fair value. The standard is intended to reduce complexity and increase investor understanding of the accounting of financial assets.

NZ IFRS 9 (2010) Financial Instruments supersedes NZ IFRS (2009). The existing NZ IAS 39 Financial Instruments: Recognition and Measurement requirements for the classification of financial liabilities and the ability to use the fair value option have been retained. However, where the fair value option is used for financial liabilities, the change in fair value is accounted for as follows:

- the change attributable to changes in credit risk are presented in other comprehensive income ("OCI")
- the remaining change is presented in profit or loss.

If this approach creates or enlarges an accounting mismatch in the profit or loss, the effect of the changes in credit risk are also presented in profit or loss.

NZ IFRS 9 (2013) Financial Instruments is a revised version of NZ IFRS 9. The revised standard enables entities to elect to apply only the accounting for gains and losses from own credit risk without applying the other requirements of NZ IFRS 9 at the same time.

The mandatory effective date for adopting IFRS 9 is for reporting periods commencing on or after 1 January 2018.

NZ IFRS 15 Revenue from Contracts with Customers. This standard establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers.

The mandatory effective date for adopting these amendments is for reporting periods commencing on or after 1 January 2018.

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).

2. ACCOUNTING POLICIES continued...

The standard is required to be applied for reporting periods beginning after 1 January 2019 and may be adopted early, but not before NZ IFRS 15 is applied.

(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 Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

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

(d) Premium Revenue and Provision for Unearned Premium

Gross Premium Revenue comprises amounts charged to policyholders for insurance policies. It is expressed net of levies and charges which are collected on behalf of the Fire Service and the Earthquake Commission, and net of Goods and Services Tax.

Premium revenue is recognised in profit and loss when it has been earned. That is, from the date of attachment of the risk, over the period of the policy (which is generally one year). Given the absence of any significant seasonal factors, exposure to risk is assumed to be even over the policy period and premium is recognised accordingly.

At reporting date, an adjustment has been made for that portion of premium revenue received and receivable which has not been earned. That is, recognising that in general, the term of the policy will extend into the following financial year. This premium which will be earned in subsequent reporting periods, is recognised in the Statement of Financial Position as a Provision for Unearned Premium.

(e) Reinsurance

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

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

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

Claims expense represents payments for claims and the movement in the Provision for Outstanding Claims. Claims represent the benefits paid or payable to the policyholder on the occurrence of an event giving rise to loss or accident according to the terms of the policy. Claims expenses are recognised in profit and loss as losses are incurred which is usually the point in time when the event giving rise to the claim occurs.

The liability for any outstanding claims is carried in the Statement of Financial Position as the Provision for Outstanding Claims. It is measured as the central estimate of the present value of the expected future payments against all claims incurred at reporting date. A risk margin is also included over and above the central estimate, to allow for the inherent uncertainty in the central estimate of the outstanding claims liability. The details of risk margins and the process for their determination are set out in Note 5. The expected future payments include those in relation to claims reported but not yet paid, incurred but not reported ("IBNR") and the direct costs of settling those claims.

(g) Provision for Unearned Premium / Liability Adequacy Test

At each reporting date a Liability Adequacy Test is performed to determine whether there is any overall excess of expected claims and deferred acquisition costs over unearned premiums. If these estimates show that the carrying amount of the unearned premiums (less related deferred acquisition costs) is inadequate, the deficiency is recognised in profit and loss.

The proportion of premiums not earned at reporting date is recognised in the Statement of Financial Position as Provision for Unearned Premium. The Provision for Unearned Premium is calculated separately for each group of contracts which are subject to broadly similar risks and managed together as a single portfolio. Any unexpired risk liability is recognised immediately.

The expected value of claims is calculated as the present value of the expected cash flows relating to future claims and includes a risk margin to reflect the inherent uncertainty in the central estimate.

2. ACCOUNTING POLICIES continued...

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

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

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

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

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

(i) Lending Interest Income and Interest Expense

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

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

(j) Borrowing Costs

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

(k) Mortgages and Loans

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

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

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

(l) Impairment Provisions

Impairment of Mortgages and 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. Losses expected from future events, no matter how likely, are not recognised.

Individually Assessed Mortgages and 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 procedure is applied to all accounts that are considered individually significant. In determining impairment losses on these loans, the following factors are considered:

- the entity's aggregate exposure to the Member
- the viability of the Member's business model and their capability to trade successfully out of financial difficulties and generate sufficient cash flow to service debt obligations
- the amount and timing of expected receipts and recoveries
- the realisable value of security and likelihood of successful repossession.

The estimated individual impairment loss is measured as the difference between the assets carrying amount and the estimated future cash flows discounted to their present value at the original effective interest rate. Any loss is charged to the Statement of Comprehensive Income.

Collectively Assessed Mortgages and Loans
Impairment is assessed on a collective basis in two circumstances:

2. ACCOUNTING POLICIES continued...

- to cover for losses which have been incurred but have not yet been identified on loans subject to individual assessments
- 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 estimated collective loss.

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

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

Mortgage and Loan Write-offs
When a mortgage or loan is uncollectible, it is written off against the Provision for Credit Impairment. Subsequent recoveries of amounts previously written off are taken to profit and loss.

Restructured Loans
As Members' circumstances change, they sometimes request that existing contractual terms be varied. It is most unusual that terms are restructured due to financial difficulties. Where such restructuring has taken place, it acts as a trigger in terms of the assessment of credit impairment.

Third Party Recoveries
Where third parties are responsible for occurrences which lead to fire and general insurance claims being made there is often a contractual right to recovery from that party. The resultant asset is assessed for impairment (on an individual basis) and adjusted to reasonably approximate fair value.

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

(m) Income and Other Taxes, and Deferred Tax

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities based on the current period's taxable income. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the balance date.

Deferred income tax is provided on all temporary differences at the balance date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognised for all taxable temporary differences except:

- when the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and that, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; or
- when the taxable temporary difference is associated with investments in subsidiaries, associates or interests in joint ventures, and the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets are recognised for all deductible temporary differences, carry-forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carry-forward of unused tax credits and unused tax losses can be utilised, except:

- when the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; or
- when the deductible temporary difference is associated with investments in subsidiaries, associates or interests in joint ventures, in which case a deferred tax asset is only recognised to the extent that it is probable that the temporary difference will reverse in the foreseeable future and taxable profit will be available against which the temporary difference can be utilised.

The carrying amount of deferred income tax assets is reviewed at each balance date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

2. ACCOUNTING POLICIES continued...

Unrecognised deferred income tax assets are reassessed at each balance date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance date.

Deferred tax assets and deferred tax liabilities are offset only if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred tax assets and liabilities relate to the same taxable entity and the same taxation authority.

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

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

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

(n) Payables

Payables are recognised when the entity becomes obliged to make future payments resulting from the purchases of goods and services.

Payables are carried at amortised cost. They represent liabilities for goods and services provided to the entity prior to the end of the financial year but which are unpaid at reporting date.

(o) Employee Benefits

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

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

(p) Derivative Financial Instruments

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

Derivative financial instruments are recognised initially at fair value on the date at which a derivative contract is entered into and are subsequently remeasured to fair value. Fair values of interest rate swaps and options are determined by reference to market values for similar instruments. Any gains or losses arising from changes in the fair value of derivatives are taken directly to profit and loss for the year.

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.

(q) Liabilities including Debenture Stock and Savings Plan, Commercial Paper, Bank Borrowing and Notes

Liabilities are recorded initially at fair value, and subsequently measured at amortised cost. Interest expense is recognised profit and loss using the effective interest rate method.

Liabilities are derecognised when the obligation under the liability is discharged, cancelled or expired.

2. ACCOUNTING POLICIES continued...

(r) 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.

(s) 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.

(t) Receivables

Receivables, which generally have terms of 30-90 days, are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less any allowances for impairment. Given the short term nature of most receivables, the recoverable amount approximates fair value.

(u) Investments

Investment funds, managed for the Group by several fund managers, are initially recorded at fair value. They are classified as financial assets at fair value through profit or loss ("FVTPL") and any movements in fair value are taken immediately to profit and loss.

The assets are valued at fair value each reporting date based on the current bid price where one is available. In the absence of a bid price, valuation is based on recent arm's length transactions.

Interest and dividend income, fund distributions and fair value movements are recorded in the Investment and Sundry Income section of profit and loss.

Investment funds are split by asset class in Note 28.

(v) Premiums Outstanding

A significant number of policyholders elect to spread premium payments over the term of the cover. Accordingly, at any one time there is a large balance of premiums which are outstanding but not overdue. They are initially recognised at fair value and subsequently measured at amortised cost, using the effective interest method, less any allowance for impairment.

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

(w) Reinsurance Recoveries and Claims Recoveries Outstanding

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 and/or other third parties (which may include other insurers). At any point in time there will be amounts owing by these counterparties which will be represented by assets on the Statement of Financial Position.

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

The details of the impairment assessment relative to the third party recoveries are set out in Note 9.

(x) Policy Acquisition Costs

(i) General insurance
Policy acquisition costs comprise the costs of acquiring new business, including sales costs, underwriting costs and policy issue costs. These costs are deferred when they can be reliably measured and it is probable that they will give rise to premium revenue that will be recognised in subsequent reporting periods. Costs are amortised systematically in accordance with the expected pattern of the incidence of risk to which they relate. This pattern of amortisation corresponds to the earning pattern of the corresponding premium revenue.

An impairment review is performed at each reporting date as part of the Liability Adequacy Test. When the recoverable amount is less than the carrying value an impairment loss is recognised in the Statement of Comprehensive Income.

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

2. ACCOUNTING POLICIES continued...

(y) Assets Backing Insurance Liabilities

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

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

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

(z) Revenue from Funds Management and Financial Planning

Revenue from Funds Management and Financial Planning primarily represents fees for the management of the Medical Assurance Society Retirement Savings Plan and Medical Assurance Society KiwiSaver Plan.

Revenue is recognised to the extent that it is probable that economic benefits will flow to the Group and that revenue can be measured reliably.

(aa) Property, Plant and Equipment, and Depreciation

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

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

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

(ab) 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 10 years

(ac) Changes in Accounting Policies

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

3. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

These financial statements are prepared in accordance with New Zealand equivalents of the International Financial Reporting Standards and other authoritative accounting pronouncements. In applying the entity's accounting policies management continually evaluates judgements, estimates and assumptions based on experience and other factors. All judgements, estimates and assumptions are based on the most current set of circumstances available to management. Actual results may differ from the judgements, estimates and assumptions.

Significant judgements, estimates and assumptions made by management in the preparation of these financial statements are outlined below. Further details are also provided within the relevant note disclosure.

Outstanding Claims Liability
The outstanding claims liability is measured as the central estimate of the present value of expected future claims payments (included claims incurred and not reported) plus a risk margin.

The estimated cost of claims includes expenses to be incurred in settling those claims, net of the expected value of salvage and other recoveries. Medical Insurance Society Limited ("MIS") takes all reasonable steps to ensure that it has appropriate information regarding its claims exposures. Given the uncertainty in establishing claims provisions, it is almost certain that the final outcome will prove to be different from the original liability established.

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.

Deferred Acquisition Costs
Direct and indirect costs incurred during the year arising from the writing or renewing of insurance contracts are deferred to the extent that these costs are recoverable out of future premium. The main acquisition costs incurred by the Group are salary costs and underwriting costs.

For general insurance contracts, costs are typically deferred over a year. Changes in the contract life are treated as a change in accounting estimates.

Reinsurance and Other Recoveries Assets
As for claims, reinsurance and other recoveries must be estimated at reporting date. The recoverability of these assets is assessed on a periodic basis to ensure that as best can be determined, the balance is reflective of the amounts which will ultimately be received, taking into consideration factors such as counterparty credit risk.

Recovery of Deferred Tax Assets
Deferred tax assets are recognised for deductible temporary differences as management considers that it is probable that future taxable profits will be available to utilise those temporary differences.

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

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

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

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

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

Allowances for Lending Impairment Loss
i) Specific provision. At each reporting period the Group reviews individually significant mortgages and loans for evidence of impairment.

Where loan receivables are outstanding beyond the normal contractual terms, the likelihood of the recovery of these loans is assessed by management. The specific impairment loss is estimated with reference to the loan to value ratio ("LVR"), the probability of recovery, the cost of possible acquisition through enforcement of security, and related costs and sale proceeds.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS continued...

ii) Collective provision. A collective provision is calculated for:

- loans subject to individual assessment to cover losses incurred but not yet identified
- portfolios of loans with similar characteristics that are not considered individually significant.

The collective provision is estimated using available market data and historical loss experience.

Derivative Financial Instruments Valuation

Derivative instruments are valued at fair value. The fair value of derivatives has been determined by reference to approximate price valuations received from registered banks. Valuations take account of relevant market conditions.

4. RELATED PARTY TRANSACTIONS

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

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

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

Advances to and from subsidiary companies are payable on demand with the exception of the advance to Medical Securities Limited which is subject to a two year repayment agreement. As at 31 March interest was charged at 3.34% for all subsidiaries (2015: 4.63% was charged for all subsidiaries).

All inter-Group transactions are eliminated on consolidation.

All transactions with Members, directors and staff are at market rates.

5. CLAIMS – MEDICAL INSURANCE SOCIETY LIMITED

	2016 $000	2015 $000
CLAIMS EXPENSE		
Claims paid during the year	110,645	111,151
Recoveries received during the year	(60,559)	(84,918)
Provision for Outstanding Claims at year end (new claims incurred during the year)	32,081	41,473
Additional Provisioning at year end for Outstanding Claims (net of reinsurance) incurred in prior years	46,508	87,909
Reinsurance and Other Recoveries Outstanding at year end	(34,473)	(82,277)
Decrease in IBNR (claims incurred but not reported) Provision at year end	(147)	(95)
Provision for Outstanding Claims at previous year end (excluding IBNR)	(118,302)	(181,712)
Reinsurance and Other Recoveries Outstanding at previous year end	82,277	159,696
Decrease in Risk Margin	(8,568)	(11,080)
Net Claims Expense per Statement of Comprehensive Income	49,462	40,147
PROVISION FOR OUTSTANDING CLAIMS		
Expected Future Claim Payments (undiscounted)	53,783	95,855
IBNR Claims at year end	1,382	1,529
Risk Margin	16,237	24,807
Discount to Present Value	–	(2,360)
Provision for Outstanding Claims	71,402	119,832

Assumptions adopted in calculation of claim provisions

A significant portion of the general insurance claims provisions relate to earthquake claims. The claims estimate is subject to a degree of uncertainty as a number of issues are yet to be resolved.

The following key assumptions have been used in determining general insurance net outstanding claims liabilities:

	2016	2015
Risk margin – earthquake claims	38.95%	26.90%
Risk margin – non earthquake	13.30%	12.49%
Weighted average expected term to settlement – non earthquake	within 1 year	within 1 year
Weighted average expected term to settlement – earthquake	within 1 year	within 1 year
Discount rate for earthquake claims	n/a	3.50%

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 13.30% (2015: 12.49%) for non earthquake claims and 38.95% (2015: 26.90%) for earthquake claims. The level of sufficiency or probability of adequacy is 75.00% (2015: 75.00%).

5. CLAIMS – MEDICAL INSURANCE SOCIETY LIMITED continued...

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.

	INCIDENT YEAR						
	Prior	2012 $000	2013 $000	2014 $000	2015 $000	2016 $000	Total $000
At end of incident year		41,526	28,221	30,135	27,882	32,357	
One year later		45,513	30,040	31,433	29,066	–	
Two years later		49,243	29,912	31,194	–	–	
Three years later		54,128	29,907	–	–	–	
Four years later		52,332	–	–	–	–	
Current estimated claim cost		52,332	29,907	31,194	29,066	32,357	
Payments		(50,044)	(28,393)	(31,041)	(28,623)	(25,083)	
Undiscounted central estimate	42,111	2,288	1,514	153	443	7,274	53,783
Discount to present value	–	–	–	–	–	–	–
Discounted central estimate	42,111	2,288	1,514	153	443	7,274	53,783
IBNR net of risk margin							1,382
Risk margin							16,237
Gross outstanding claims liabilities							71,402
Recoveries from reinsurers and third parties							(34,473)
Net outstanding claims liabilities							36,930

6. PROVISION FOR UNEARNED PREMIUM – MEDICAL INSURANCE SOCIETY LIMITED

	2016 $000	2015 $000
Balance at the beginning of the financial year	31,871	31,281
Premiums written during the year	64,502	64,263
Premiums earned during the year	(64,604)	(63,673)
Balance at the end of the financial year	31,769	31,871

Liability Adequacy Test

Appointed Actuary Peter Davies, in his report dated 2 June 2016, has reported on the Liability Adequacy Test undertaken by him as at 31 March 2016. He has concluded that the Provision for Unearned Premium as at that date, is not deficient (2015: no deficiency). In forming this opinion he has assessed the current estimates of the present value of the expected future cash flows relating to future claims arising from the rights and obligations under all current contracts. Included within the claims figure is a risk margin to reflect the inherent uncertainty in the central estimate. His conclusion is that the provision exceeds the prospective claims value. The financial statements have not been adjusted to recognise the surplus.

7. PREMIUMS OUTSTANDING

	2016 $000	2015 $000
Premiums Owing by Policyholders of MIS Policies	15,107	15,221
Premiums Owing by Policyholders of MLA Policies	11,128	10,848
	26,235	26,069

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

	2016 $000	2015 $000
Gross Recoveries – Medical Insurance Society Limited	30,347	79,418
Gross Recoveries – Medical Life Assurance Society Limited	12,289	10,744
Discount to Present Value	-	(1,028)
Reinsurance Recoveries Outstanding	42,636	89,135

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

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

The carrying amounts reasonably approximate fair value.

Medical Insurance Society Limited

MIS's insurance operations are protected from the impact of large losses and catastrophic events, by way of a comprehensive reinsurance programme arranged with some of the world's strongest reinsurance companies and syndicates.

The programme is developed, once external professional advice, involving comprehensive modelling, is obtained to establish potential exposures to earthquake claims and to assess how much any claim or series of claims MIS can retain for its own account. MIS's catastrophe cover exceeds the Reserve Bank of New Zealand's solvency requirements for reinsurance cover for a 1 in 1,000 year event.

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

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

The carrying amounts reasonably approximate fair value.

9. CLAIMS RECOVERIES OUTSTANDING – MEDICAL INSURANCE SOCIETY LIMITED

	2016 $000	2015 $000
Claims Recoveries Owing by Third Parties	4,125	3,887
	4,125	3,887

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 insurers.

Such amounts are assessed for impairment on an individual basis and where it is evident, adjusted immediately. Further to that, on a collective basis, based on historical levels of impairment, impairment is recognised as follows:

- amounts owing by other insurers (including EQC), nil impairment (2015: nil impairment)
- accounts placed with a collection agency, 65.00% impairment (2015: 65.00%)
- amounts for which a regular payment arrangement has been agreed with the debtor, nil impairment (2015: nil impairment).

The carrying amounts, adjusted for impairment as above, reasonably approximate fair value.

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

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 2016.

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

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

Disclosure of Assumptions

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

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

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

Discount Rates

The 10-year NZ Government Stock rate at the valuation date was 2.91% (2015: 3.23%), net of tax at 28.00% (2015: 28.00%), giving a net discount rate of 2.10% per annum (2015: 2.33%).

Disability outstanding claims have been valued using the 5-year Government stock rate of 2.28% (2015: 3.15%), reflecting the expected duration of future payments on existing claims.

10. ACTUARIAL POLICIES AND METHODS – MEDICAL LIFE ASSURANCE SOCIETY LIMITED continued...

Inflation Rates

Inflation impacts on the valuation in broadly two ways. Some contracts provide for the increase of future benefits in line with the Consumer Price Index ("CPI"). The CPI is assumed to increase at 2.50% per annum (2015: 2.50%). The assumed rate of expense inflation is 2.00% per annum (2015: 2.00%).

Element Impacted	Assumed Rate
Benefit indexation	2.50% (2015: 2.50%)
Expenses	2.00% (2015: 2.00%)

It is further assumed that benefit indexation will be utilised by up to 90.00% of indexed assurances (2015: 90.00%) which is in line with the MLA's recent experience.

It has also been assumed that the sums insured of all Yearly Renewable Term, Total Permanent Disablement and Trauma policies will increase by 2.00% per year (2015: 2.00%) resulting from clients requesting increases in their level of cover.

Commissions

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

Future Expenses

Maintenance expenses. The standard maintenance expense allowance for risk policies is $299 (2015: $266) gross per policy and $330 (2015: $303) for disability policies. Certain policy groups have non-standard allowances. These expenses are assumed to be increased in line with the indexation assumption above.

Acquisition expenses. The standard acquisition expense allowance for policies written is $1,002 for life policies (2015: $1,173) and $1,725 (2015: $1,696) for disability policies. The unit expenses are based upon a broad analysis of MLA's actual expenses for the year. Maintenance costs of permanent assurances equal 2.2 times those for risk policies. This is approximately the same relativity as was used in the previous valuation.

Investment expenses. Investment expenses equalled 0.13% of funds under management (2015: 0.15%).

The breakdown of actual expenses is as follows:

	2016 $000	2015 $000
Maintenance expenses	7,473	6,569
Acquisition expenses	2,805	2,713
Investment expenses	73	89
	10,351	9,370

Taxation

Future rates of taxation have been assumed to continue at the current level of company tax in New Zealand of 28.00% (2015 28.00%).

Mortality and Morbidity

The basic rates of mortality assumed were:

Males	90% of IA95-97M (2015: 90% of IA95-97M)
Females	90% of IA95-97F (2015: 90% of IA95-97F)

Modifications have been made from these base tables to reflect smoker/non-smoker habits and duration in force (2015: same modifications as made in 2016).

The experience for dread disease and total and permanent disability contracts is assumed to equal 85.00% of the reinsurance risk premium rates, net of GST (2015: 85.00%).

The basic rates of morbidity assumed for disability products are based on CIDA tables and adjusted for MLA's experience.

10. ACTUARIAL POLICIES AND METHODS – MEDICAL LIFE ASSURANCE SOCIETY LIMITED continued...

Discontinuances

Risk insurances including: • Term Life • Dread Disease • Total Permanent Disablement	Yearly renewable contracts 5.50% per annum (2015: 5.50%), level term contracts 1.00% per annum (2015: 1.00%) until age 65 when all policies are assumed to cease
Traditional participating business	5.00% per annum (2015: 5.00%)
Disability business	2.50% per annum (2015: 2.50%)

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 the shareholder with the shareholder entitled to 25% of the distribution to policyholders. Assumed rates of future bonus have been set so that the present value of the policy liabilities equals the present value of the assets supporting the business. Allowance is made for the shareholder's right to participate in the distributions.

Assumed future bonus rates for participating policies were:

Bonus rate on sum assured	$6.00 per mille (2015: $9.00 per mille)
Bonus rate on existing bonuses	$10.00 per mille (2015: $15.00 per mille)

The reduction in the level of supportable bonuses arises from the reduction in the assumed discount rate over the past year, combined with a reduction in the level of investment returns over the year.

11. POLICY LIABILITIES – MEDICAL LIFE ASSURANCE SOCIETY LIMITED

	2016 $000	2015 $000
Gross future claims	222,657	234,646
Future reinsurance premiums	137,417	146,162
Future reinsurance recoveries	(109,084)	(118,577)
Future policy bonuses	626	877
Future expenses	68,816	83,274
Future profit margins	85,985	105,802
Balance of future premiums	(406,188)	(449,703)
Policy Liabilities before bonus	229	2,481
Bonus declared at year end	140	141
Total Policy Liabilities at period end	369	2,622
Total Policy Liabilities at previous period end	2,622	5,285
Decrease in Policy Liabilities per Statement of Comprehensive Income	2,253	2,664

12. OUTSTANDING CLAIMS – MEDICAL LIFE ASSURANCE SOCIETY LIMITED

The following table shows the development of net undiscounted outstanding claims relative to the current estimate of ultimate disability claims costs for the five most recent years. Due to the long tail nature of disability claims, MLA has a number of active claims that pre-date 2012.

	Incident Year						
	Prior	2012 $000	2013 $000	2014 $000	2015 $000	2016 $000	Total $000
At end of incident year		7,086	6,574	5,270	5,839	7,561	
One year later		10,040	5,304	6,266	5,272		
Two years later		10,545	7,067	6,186			
Three years later		12,005	5,507				
Four years later		11,707					
Current estimated claim cost	60,813	11,707	5,507	6,186	5,272	7,561	
Payments	(51,554)	(7,203)	(4,627)	(4,463)	(3,466)	(2,197)	
Undiscounted central estimate	9,259	4,505	880	1,723	1,806	5,364	23,537
Discount to present value	(888)	(555)	(160)	(204)	(181)	(446)	(2,434)
Discounted central estimate	8,371	3,950	720	1,519	1,625	4,918	21,103

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

	2016 $000	2015 $000
Disability claims outstanding	21,103	21,401
Life claims outstanding	1,642	1,007
	22,746	22,408

13. INTEREST EXPENSE

	2016 $000	2015 $000
Debenture Interest	3,615	4,085
Savings Plan Interest	463	610
Note Interest	2,060	2,651
Bank Interest	6	–
Interest Paid on Derivatives	69	–
Total Interest Expense	6,213	7,346

14. MORTGAGES AND LOANS

	2016 $000	2015 $000
Mortgages and Loans	170,219	202,683
Provision for Credit Impairment	(154)	(302)
Unearned Income	(35,601)	(43,219)
Net Mortgages and Loans	134,464	159,162
Mortgages and Loans – current	40,337	49,854
Mortgages and Loans – non current	94,281	109,610
Less Provision for Credit Impairment	(154)	(302)
Net Mortgages and Loans	134,464	159,162
IMPAIRED LOAN PROVISION		
Collective Loan Provision	146	282
Specific Loan Provision	8	19
Total Loan Provision	154	302
COLLECTIVE LOAN PROVISION		
Opening Balance	282	488
Movement in Collective Loan Provision	(137)	(205)
Closing Balance	145	282
SPECIFIC LOAN PROVISION		
Opening Balance	19	33
Less: Specific Loan Provision Subsequently Written Off	(7)	(26)
Less: Reversal of Specifically Impaired Assets	(11)	(1)
Addition to Specific Impairment Provision	7	14
Closing Balance	8	19

$4,482 of interest income was received on specifically impaired loans for the period ending 31 March 2016 (2015: $7,695).

	2016 $000	2015 $000
CREDIT IMPAIRMENT		
Movement in Collective Provision	(137)	(205)
Movement in Specific Provision	(11)	(14)
Impaired Assets written off	67	120
Recoveries on Impaired Assets Written Off	(30)	(30)
Credit Impairment per profit and loss	(111)	(129)

14. MORTGAGES AND LOANS continued...

Past Due Mortgages and Loans Not Impaired

	Less than 30 days $000	Between 30 and 60 days $000	Between 61 and 90 days $000	Greater than 90 days $000	Total $000
2016					
Instalments in Arrears	13	–	–	1	14
Principal in Arrears	2	–	–	1	3
Associated Loan Principal	349	–	–	10	359
2015					
Instalments in Arrears	24	7	5	41	76
Principal in Arrears	–	–	–	1	1
Associated Loan Principal	365	32	18	141	556

Approximately 30.00% (2015: 85.00%) of the associated principal of loans past due are secured against collateral. In the majority of cases these are secured against a specific security (motor vehicle or business equipment). The unsecured loans principally relate to the Creditline product.

The past due assets for the Group represent 0.21% of gross loans outstanding (2015: 0.27%).

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

15. DERIVATIVE FINANCIAL INSTRUMENTS

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

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

	Contract / Notional Amount $000	Fair Value Assets $000	Fair Value Liabilities $000
Interest Rate Derivatives 2016	8,200	1	336
Interest Rate Derivatives 2015	38,950	198	204

Derivative financial instruments are designated as financial assets and liabilities in the Statement of Financial Position.

Movement in Fair Value of Derivatives

Given that the Group's liabilities re-price at different intervals than its assets re-price, it enters into swap arrangements to minimise the risk of interest rate movements.

The Group is required to fair value swaps on an on-going basis. Depending on how interest rates move, it is exposed to valuation gains or losses. These valuation gains/losses will only crystallise if the derivatives are closed out prior to their contractual maturity date. In the absence of that happening, the gains/losses will reverse out over the tenure of the swap arrangements.

16. DEBENTURE STOCK AND SAVINGS PLAN – MEDICAL SECURITIES LIMITED

	2016 $000	2015 $000
Savings Plan (Unsecured) – current	13,140	18,617
First Ranking Debenture Stock – current	67,001	57,748
First Ranking Debenture Stock – non current	–	27,353
	80,141	103,718

Debenture Stock is secured in terms of an Amending and Supplemental Trust Deed dated 17 June 1988 between MSL and Trustees Executors Limited as Trustees for the Debenture stockholders. The Debenture Stock is secured by all the assets of MSL. Debenture stock holders have security over the assets of MSL, subject to prior permitted charges (currently none), and claims given priority by legislation. Debenture stockholders rank equally with other first ranking security issued under the Trust Deed.

The weighted average interest rate of Debenture Stock and Savings Plan at 31 March 2016 was 3.52% (2015 4.50%). Savings Plan is an on-call investment and outstanding balances are repayable on demand. Debenture stock is a term investment and is repayable on the expiry date. On 4 February 2016 MSL entered into a partnership with Westpac and all new personal and business lending is now provided by Westpac. MSL has notified all Debenture stock holders that they may withdrawal their deposits at any time.

17. NOTES – MEDICAL SECURITIES LIMITED

	2016 $000	2015 $000
Floating Rate Notes – current	30,000	25,000
Floating Rate Notes – non current	–	30,000
	30,000	55,000

Floating Rate Note holders rank equally with other first ranking security issued under the Trust Deed.

The weighted average interest rate of the Notes as at 31 March 2016 was 3.71% (2015: 4.91%).

18. BANK BORROWING – MEDICAL SECURITIES LIMITED

	2016 $000	2015 $000
Bank Borrowing	3,500	–
	3,500	–

MSL has a $75 million facility that expires on 3 February 2018. Amounts drawn on the facility rank equally with other first ranking security issued under the Trust Deed.

The weighted average interest rate of the funds drawn on the facility at 31 March 2016 was 3.06%.

19. COMPENSATION PAID TO KEY MANAGEMENT PERSONNEL

	2016 $000	2015 $000
Salaries and other short-term employee benefits	2,680	2,060
MAS directors fees	618	582
MSL independent directors fees	73	74
Total compensation	3,371	2,716

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.

20. ADMINISTRATION EXPENSES

	2016 $000	2015 $000
Included in Administration Expenses are the following:		
Rental of Premises	623	601
Interest on Bank Overdraft	2	2
Fees to auditors – for the audit of financial statements	207	196
Fees to auditors – for other assurance and related services	42	50
Fees to auditors – for other services	23	12
Directors' Fees	691	656
Loss on Disposal of Property, Plant, Equipment and Intangibles	2	130
Depreciation and Amortisation	3,134	3,026

Other assurance and related audit fees relate principally to the audit of prospectuses and review of regulatory and trustee reporting. Audit fees for other services is principally for remuneration advice.

21. OPERATING LEASE COMMITMENTS

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

The property leases have an average life of 0.99 years (2015: 1.99 years) with renewal terms included in the contracts.

Motor vehicle leases have an average life of 1.16 years (2015: 1.70 years).

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

	2016 $000	2015 $000
Less than one year	684	830
Between one and two years	232	641
Between two and five years	189	360
Greater than five years	–	–
Total Operating Lease Commitments	1,105	1,831

22. INVESTMENT AND SUNDRY INCOME

	2016 $000	2015 $000
Gain from Investment Funds	5,120	11,237
Rent Received	12	31
Interest on Term Deposits	137	168
Sundry Income	1,199	1,702
Total Investment and Sundry Income	6,468	13,138
Realised Income	7,274	(7,753)
Unrealised Income	(806)	20,892
Total Investment and Sundry Income	6,468	13,138

23. TAXATION

	2016 $000	2015 $000
Net Surplus before Taxation	3,846	17,256
Taxation at 28%	1,077	4,832
Prior Period Adjustment	(63)	164
Taxation Effect of Permanent Differences	605	(4,057)
Tax Credits	(79)	(68)
Other	–	4
Taxation Expense for the Year	1,540	875
Taxation Expense for the Year comprises:		
Current Taxation	37	74
Deferred Tax	1,503	801
Taxation Expense per Statement of Comprehensive Income	1,540	875

Deferred Tax

31 March 2016	Opening Balance $000	Prior Period Adjustment $000	Revaluation Reserve $000	Statement of Comprehensive Income $000	Total $000
Deferred Tax Liabilities					
Property, Plant and Equipment	(2,404)	–	–	(275)	(2,679)
Insurance Reserves and Provisions	(1,962)	–	–	(1,791)	(3,753)
Other	(9)	–	–	9	–
	(4,375)	–	–	(2,057)	(6,432)
Deferred Tax Assets					
Provisions and Accruals	700	13	–	96	809
Losses to carry forward	1,731	56	–	388	2,175
Other	0	–	–	(0)	–
	2,431	69	–	484	2,984
Net Deferred Tax Liability	(1,944)	69	–	(1,573)	(3,448)

31 March 2015	Opening Balance $000	Prior Period Adjustment $000	Revaluation Reserve $000	Statement of Comprehensive Income $000	Total $000
Deferred Tax Liabilities					
Property, Plant and Equipment	(2,452)	–	74	(26)	(2,404)
Insurance Reserves and Provisions	(1,440)	–	–	(521)	(1,962)
Other	(15)	–	–	6	(9)
	(3,908)	–	74	(541)	(4,375)
Deferred Tax Assets					
Provisions and Accruals	655	75	–	(30)	700
Losses to carry forward	2,036	(199)	–	(105)	1,731
Other	0	–	–	(0)	0
	2,690	(124)	–	(136)	2,431
Net Deferred Tax Liability	(1,217)	(124)	74	(677)	(1,944)

Imputation Credit Account ("ICA")	2016 $000	2015 $000
Closing Balance	36,373	36,004

24. CONTRIBUTED EQUITY

	2016 $000	2015 $000
1 Non-Voting Share	100	100
10,000 Voting Shares	10	10
	110	110

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

Capital Management

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

Directors have no plans to issue further shares.

Capital Requirements

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

Medical Life Assurance Society Limited ("MLA") and Medical Insurance Society Limited ("MIS")
Both MIS and MLA are licensed insurers under the Insurance (Prudential Supervision) Act 2010 ("IPSA"). Conditions are imposed as part of licensing including maintaining a solvency margin of at least $0. That is, actual solvency capital as determined under the solvency standard should be at or above the minimum solvency capital level.

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

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

At 31 March 2016, MIS was not in breach of any of its regulatory requirements, nor has it been at any stage during the current reporting period (2015: no breaches).

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

	2016 $000	2015 $000
Actual Solvency Capital	32,630	36,501
Minimum Solvency Capital	14,200	18,436
Solvency Margin	18,430	18,064
Solvency Ratio	2.30	1.98

The solvency position of the Medical Life Assurance Statutory Fund is exactly the same as for the entity. At 31 March 2016 MLA was not in breach of any of its regulatory requirements or its covenants, nor has it been at any stage during the current reporting period (no breaches during the year ended 31 March 2015). MLA's solvency position as per the solvency standard is as follows:

	2016 $000	2015 $000
Actual Solvency Capital	41,600	56,590
Minimum Solvency Capital	31,174	40,295
Solvency Margin	10,426	16,296
Solvency Ratio	1.33	1.40

Medical Securities Limited ("MSL")
MSL is subject to non-bank deposit taker ("NBDT") regulation and Trust Deed requirements that require it to maintain a sufficient level of capital. MSL ensures that before any decisions are made that materially impact either profit or capital, the impacts on these regulations are considered. At 31 March 2016 MSL's capital ratio was 11.60% (31 March 2015: 13.90%). It is required to maintain a capital ratio of at least 8.0% at all times. At 31 March 2016 MSL was not in breach of any of its regulatory requirements or its covenants, nor has it been at any stage during the current reporting period (no breaches during the year ended 31 March 2015).

25. PAYABLES

	2016 $000	2015 $000
Government Levies	786	765
GST Payable	2,166	2,191
Employee Benefits – current	1,373	1,154
Incentive Bonus	392	402
Other Payables	5,550	5,367
Employee Benefits – non current	1,492	1,270
	11,759	11,149

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

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

26. CASH AND CASH EQUIVALENTS

	2016 $000	2015 $000
Cash at Bank	14,457	10,958
Short Term Deposits	–	31,750
	14,457	42,708

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

Short Term Deposits are made for varying terms between one day and three months, depending on the immediate cash requirements of the entity, and other treasury considerations.

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

27. RECEIVABLES AND PREPAYMENTS

	2016 $000	2015 $000
Reinsurance Premiums Paid in Advance	256	83
Interest Due	429	718
Management Fee for Funds Management	2,522	2,243
Other	121	107
	3,328	3,151

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

28. INVESTMENTS

	2016 $000	2015 $000
Short Term Domestic Securities and Deposits	122,951	96,559
Domestic Fixed Interest	11,625	13,536
International Fixed Interest (Unit Trust)	10,814	10,431
Australasian Equities (Managed Fund)	13,404	11,568
International Equities (Exchange Traded Funds)	12,122	30,404
Total Investments	170,916	162,497
Life Assurance Investment Funds	47,834	61,366
Insurance Investment Funds	82,154	89,241
Other Investment Funds	40,928	11,890
Total Investments	170,916	162,497

The Group's investment securities are all financial assets classified as fair value through profit or loss. Any changes in fair value are immediately recognised.

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.

29. PROPERTY, PLANT AND EQUIPMENT

	Land $000	Buildings $000	Furniture, Fittings and Equipment $000	Total $000
COST / VALUATION				
Balance as at 1 April 2015	2,480	1,835	9,695	14,010
Additions	–	–	424	424
Transfers out of Work in Progress	–	–	(35)	(35)
Disposals	–	–	(104)	(104)
Balance as at 31 March 2016	2,480	1,835	9,980	14,295
ACCUMULATED DEPRECIATION AND IMPAIRMENT LOSSES				
Balance as at 1 April 2015	–	–	8,070	8,070
Depreciation charge	–	46	644	690
Disposals	–	–	(102)	(102)
Balance as at 31 March 2016	–	46	8,612	8,658
Net Book Value 31 March 2016	2,480	1,789	1,368	5,637

	Land $000	Buildings $000	Furniture, Fittings and Equipment $000	Total $000
COST / VALUATION				
Balance as at 1 April 2014	1,600	2,649	9,331	13,580
Additions	–	95	657	752
Work in Progress	–	–	35	35
Transfers out of Work in Progress	–	(159)	(213)	(372)
Disposals	–	–	(115)	(115)
Revaluations	880	(750)	–	130
Balance as at 31 March 2015	2,480	1,835	9,695	14,010
ACCUMULATED DEPRECIATION AND IMPAIRMENT LOSSES				
Balance as at 1 April 2014	–	125	7,344	7,469
Depreciation charge	–	59	833	892
Disposals	–	–	(107)	(107)
Revaluations	–	(184)	–	(184)
Balance as at 31 March 2015	–	–	8,070	8,070
Net Book Value 31 March 2015	2,480	1,835	1,625	5,940

Revaluation of Land and Buildings

The most recent market valuation of Land and Buildings was completed by Martin J Veale, ANZIV, SPINZ, a registered valuer from TelferYoung (Wellington) Limited on 31 March 2015. The resultant fair value figure of $4.3 million was recognised by writing down the carrying value of the Buildings at 31 March 2015 by $0.7 million and the value of the Land was increased by $0.9 million. The effective date of the revaluation was 31 March 2015. 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.

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

	2016 $000	2015 $000
Land	821	821
Buildings	4,611	4,611
Accumulated Depreciation on Buildings	(3,398)	(3,282)
	1,213	1,329

30. INTANGIBLES

	Software $000	Work in Progress $000	Total $000
COST			
Balance as at 1 April 2015	31,574	1,372	32,946
Additions	377	2,800	3,177
Transfers	348	(348)	–
Disposals	–	–	–
Balance as at 31 March 2016	32,299	3,824	36,123
ACCUMULATED AMORTISATION AND IMPAIRMENT LOSSES			
Balance as at 1 April 2015	15,209	–	15,209
Amortisation charge	2,444	–	2,444
Disposals	–	–	–
Balance as at 31 March 2016	17,653	–	17,653
Net Book Value 31 March 2016	14,646	3,824	18,470

	Software $000	Work in Progress $000	Total $000
COST			
Balance as at 1 April 2014	25,978	7,189	33,167
Additions	222	3,296	3,518
Transfers	9,112	(9,112)	–
Disposals	(3,739)	–	(3,739)
Balance as at 31 March 2015	31,574	1,372	32,946
ACCUMULATED AMORTISATION AND IMPAIRMENT LOSSES			
Balance as at 1 April 2014	16,692	–	16,692
Amortisation charge	2,134	–	2,134
Disposals	(3,617)	–	(3,617)
Balance as at 31 March 2015	15,209	–	15,209
Net Book Value 31 March 2015	16,365	1,372	17,737

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

	2016 $000	2015 $000
Opening balance	486	386
Acquisition costs deferred during the year	418	486
Current period amortisation	(486)	(386)
Closing balance	418	486

32. COMMITMENTS

	2016 $000	2015 $000
Commitments to extend credit (Members' undrawn revolving credit facilities)	23,297	28,017
Capital commitments relating to development of software systems	875	2,795
	24,172	30,812

33. CONTINGENT LIABILITIES

The Group is subject to several legal disputes at 31 March 2016. 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.

MSL has issued $3.9 million of security stock to support derivative transactions undertaken with its banking partners. $75.0 million of security stock has been issued in relation to a bank borrowing facility. Security stock issued to banking partners provides for the payment of all present and future liabilities in relation to MSL's derivatives and bank borrowings. The stock is only secured against the lower of the nominal amount of stock issued or the amount of liabilities owing to the bank (approximately $3.7 million at 31 March 2016). MSL has also provided rent guarantees with a maximum exposure of $0.1 million.

34. 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:

Certain Short Term Financial Assets

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.

Derivative Financial Instruments

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

Mortgages and Loans

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

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

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

Other Financial Assets

For all other financial assets, the carrying value is considered to be a reasonable estimate of fair value. Neither Deferred Tax, Taxation Paid in Advance, Claims Recoveries Outstanding, nor Reinsurance Recoveries Outstanding are considered to be financial assets.

Borrowings, Debenture Stock, Notes and Savings Plan Liabilities

For liabilities with maturities of three months or less, the carrying amounts are considered to approximate fair values as they are short term in nature.

For liabilities with maturities of three months or longer, fair values have been estimated using the discounted cash flow approach by reference to rates currently offered for similar liabilities of similar remaining maturities.

34. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES continued...

Payables and Other Financial Liabilities

This category includes Payables for which the carrying amount is considered to approximate their fair value, as they are short term in nature or payable on demand. Income tax liabilities, provisions and accrued charges, and insurance provisions are not considered financial liabilities.

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

	2016 Carrying Amount $000	2016 Fair Value $000	2015 Carrying Amount $000	2015 Fair Value $000
FINANCIAL ASSETS				
Derivative Financial Instruments	1	1	198	198
Investments	170,916	170,916	162,497	162,497
Net Mortgages and Loans	134,464	134,778	159,162	158,695
Total Financial Assets	305,381	305,695	321,857	321,390
FINANCIAL LIABILITIES				
Debenture Stock and Savings Plan	80,141	81,053	103,718	104,343
Derivative Financial Instruments	336	336	204	204
Total Financial Liabilities	80,477	81,389	103,922	104,548

Fair Value Hierarchy

The following table shows an analysis of fair value hierarchy for those financial assets and liabilities where fair value has been disclosed. The only assets and liabilities that the Group recognises on a fair value basis are its investments (refer to Classification of Financial Instruments in Note 35 for details of the classification categories).

	Level 1 $000	Level 2 $000	Level 3 $000	Total $000
31 MARCH 2016				
Assets measured at fair value				
Derivative Financial Instruments	–	1	–	1
Short Term Domestic Securities and Deposits	–	122,951	–	122,951
Domestic Fixed Interest	–	11,425	200	11,625
International Fixed Interest (Unit Trust)	–	10,814	–	10,814
Australasian Equities (Managed Fund)	13,404	–	–	13,404
International Equities (Exchange Traded Funds)	12,122	–	–	12,122
Liabilities measured at fair value				
Derivative Financial Instruments	–	336	–	336
31 MARCH 2015				
Assets measured at fair value				
Derivative Financial Instruments	–	198	–	198
Short Term Domestic Securities and Deposits	–	96,559	–	96,559
Domestic Fixed Interest	–	12,935	602	13,536
International Fixed Interest (Unit Trust)	–	10,431	–	10,431
Australasian Equities (Managed Fund)	11,568	–	–	11,568
International Equities (Exchange Traded Funds)	30,404	–	–	30,404
Liabilities measured at fair value				
Derivative Financial Instruments	–	204	–	204

34. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES continued...

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1 – 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.

Level 2 – measured using industry standard valuation techniques and are based on market observable inputs.

Level 3 – determined in part, or in whole, using valuation techniques based on assumptions that are neither supported by prices from observable current market transactions in the same instrument, nor are they based on available market data.

There have been no transfers between the levels during the financial year (2015: a transfer into Level 3 (from Level 2) occurred during the financial year as the investment ceased to be actively traded resulting in the Group's investment advisers determining a value based on coupon payments and probability of settlement at maturity).

35. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The Group's risk management is carried out in accordance with policies set by the Board. These policies provide a clear structure for managing financial and operational risks.

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

The Group directly enters into financial derivatives to minimise the exposure to interest rate movements. The Group's fund managers enter into currency derivatives, principally to protect the value of investments against adverse currency movements. They are prevented by policy guidelines established by the Group's Investment Committee from entering into such contracts for speculative purposes.

The Group's activities expose it primarily to the financial risks of; insurance, credit, funding, investment, currency, market, interest rate, and liquidity.

Insurance Risk

Insurance risk is the risk that either inadequate or inappropriate product design, pricing, underwriting, reserving, claims management or reinsurance management will expose the Group to financial loss and, in the worst case a consequent inability to meet its liabilities when they fall due.

There are a number of key policies in place which mitigate insurance risk, including;

- the recruitment, retention and on-going training of suitably qualified personnel
- the use of management information systems that provide reliable data on the risks to which the business is exposed
- the use of external actuarial expertise to assist in determining premium levels and monitoring claims patterns
- the use of reinsurance to limit the Group's exposure to large single claims and accumulations of claims that arise from a singular event
- the monitoring of a reinsurer's credit risk rating to control exposure to reinsurance counterparty default
- the reduction in the variability in loss experience through diversification over classes of insurance business
- the modelling and monitoring of concentrations of risk which are particularly relevant in the case of natural disasters and catastrophes and accordingly must be recognised in the development of the reinsurance programme.

Credit Risk

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

The Group manages credit risk in lending operations by:

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

The Group manages credit risk in insurance operations by:

- the use of standard credit control techniques which ensure that premium payments are made within a reasonable timeframe, or cover and hence exposure to claim is cancelled
- the placement of reinsurance cover with a number of reinsurers
- the monitoring of a reinsurer's credit risk rating to control exposure to reinsurance counterparty default.

35. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT continued...

Mortgages and Loans are secured primarily by first mortgages or by chattel securities. Included within the Statement of Financial Position are unsecured loans of $18.1 million (2015: $22.6 million).

Statement of Financial Position credit exposures:

	2016 $000	2015 $000
Cash at Bank/Short Term Deposits	14,457	42,708
Derivative Financial Instruments	1	198
Investments	170,916	162,497
Mortgages and Loans	134,618	159,464
Receivables	3,328	3,151
	323,320	368,018
Other Credit Exposures:		
Security stock issued to banking partners	78,900	3,900
Guarantees provided	99	599
Commitments given to Members to extend credit	23,297	28,017
	102,296	32,517

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

	2016 %	2015 %
Auckland	27.39	28.74
Hamilton	17.91	22.64
Palmerston North	12.13	11.15
Wellington	14.12	11.46
Christchurch	23.74	21.75
Dunedin	4.71	4.26
Total	100.00	100.00

	2016 $000	2015 $000
Amount owed by the Group's six largest lending debtors	22,646	27,519
Six largest lending exposures as a proportion of Mortgages and Loans	16.84%	17.29%
Six largest lending exposures as a proportion of Total Equity	13.71%	16.89%

Counterparty exposures

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

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

	2016	2015
10%–20% of equity	3	2
> 20% of equity	1	2

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

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

35. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT continued...

Statement of Financial Position investment exposures

	2016 $000	2015 $000
Cash and Cash Equivalents	14,457	42,708
Short Term Domestic Securities and Deposits	122,951	96,559
Domestic Fixed Interest	11,625	13,536
International Fixed Interest (Unit Trust)	10,814	10,431
Australasian Equities (Managed Fund)	13,404	11,568
International Equities (Exchange Traded Funds)	12,122	30,404
	185,373	205,206

The following table provides information on the credit risk exposure for financial assets with external credit ratings of the Group. Investment grade financial assets are classified within the range of AAA to BBB, with AAA being the highest possible rating. The 'Not rated' column discloses those assets not rated by external ratings agencies and principally comprises fixed interest investments with local government authorities.

	AAA	AA	A	BBB	Below BBB	Not rated	Carrying value $000
31 MARCH 2016							
Cash and Short Term Deposits	–	96.3%	3.7%	–	–	–	137,409
Fixed Interest	24.6%	21.3%	14.2%	27.9%	4.8%	7.2%	22,439
Reinsurance Recoveries	–	44.2%	53.9%	–	–	1.9%	42,636
31 MARCH 2015							
Cash and Short Term Deposits	–	96.4%	3.6%	–	–	–	139,267
Fixed Interest	3.4%	6.4%	17.0%	28.6%	1.6%	43.0%	23,967
Reinsurance Recoveries	–	39.2%	59.1%	–	–	1.7%	89,135

Funding Risk

Geographic spread of Debenture Stock and Savings Plan funding:

	2016 %	2015 %
Auckland	25.66	22.64
Hamilton	19.13	20.27
Palmerston North	10.67	14.53
Wellington	20.44	19.90
Christchurch	15.54	15.34
Dunedin	8.56	7.32
Total	100.00	100.00

35. 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 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):

	2016 $000	2015 $000
AUD	7,006	6,223
EUR	890	3,029
GBP	614	1,534
USD	39,151	11,672
	47,661	22,459

Market Risk

Market risk is the risk of loss of current and future earnings from adverse moves in currency, interest rates and the prices of other financial contracts.

There is a tendency for insurers operating within a specific market to be restricted to a certain extent by that market, in terms of premium increases they may wish to apply. The Group, due to the makeup of its customer base, whilst not immune, is less inclined to be restricted by such considerations. Any impact is likely to be insignificant such that premium rates are excluded from the sensitivity analysis.

Liquidity Risk

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

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

- using multiple sources of funding with different maturity profiles
- forecasting expected future liquidity and ensuring a sufficient liquidity 'buffer' is maintained at all times
- receiving external risk management advice on managing the maturity profile.

Further, the Group does not expect that all Members on-call funds (Savings Plan balances) will be withdrawn.

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

35. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT continued...

Liquidity profile of financial instruments:

	On Demand $000	0–6 months $000	6–12 months $000	1–2 years $000	2–5 years $000	Over 5 years $000	Total $000
31 MARCH 2016							
Financial Assets							
Cash at Bank	14,457	–	–	–	–	–	14,457
Short Term Deposits	–	–	–	–	–	–	–
Investments	–	159,907	674	7,397	2,937	–	170,916
Derivative Financial Instruments	–	1	–	–	–	–	1
Mortgages and Loans	18,672	16,067	14,616	27,619	45,075	48,324	170,372
Receivables	3,328	–	–	–	–	–	3,328
	36,457	175,975	15,290	35,016	48,012	48,324	359,075
Undrawn Bank Borrowing Facility	71,500	–	–	–	–	–	71,500
Financial Liabilities							
Derivative Financial Instruments	–	66	60	106	104	–	336
Debenture Stock/Savings Plan	20,917	59,224	–	–	–	–	80,141
Bank Borrowing	–	3,510	–	–	–	–	3,510
Notes	–	437	30,176	–	–	–	30,613
Other Liabilities	9,713	–	–	–	–	–	9,713
	30,630	63,237	30,236	106	104	–	124,313
Undrawn Revolving Credit Facilities	23,297						

	On Demand $000	0–6 months $000	6–12 months $000	1–2 years $000	2–5 years $000	Over 5 years $000	Total $000
31 MARCH 2015							
Financial Assets							
Cash at Bank	10,958	–	–	–	–	–	10,958
Short Term Deposits	–	31,750	–	–	–	–	31,750
Investments	–	149,712	629	8,061	4,096	–	162,497
Derivative Financial Instruments	–	49	45	86	17	–	198
Mortgages and Loans	21,438	20,278	17,253	29,826	56,448	54,883	200,126
Receivables	3,151	–	–	–	–	–	3,151
	35,547	201,789	17,928	37,973	60,561	54,883	408,680
Financial Liabilities							
Derivative Financial Instruments	–	32	32	56	84	–	204
Debenture Stock/Savings Plan	29,616	23,119	26,931	13,494	19,473	–	112,633
Notes	–	1,344	25,940	30,913	–	–	58,196
Other Liabilities	8,959	–	–	–	–	–	8,959
	38,574	24,495	52,902	44,463	19,557	–	179,992
Undrawn Revolving Credit Facilities	28,017						

35. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT continued...

Operating Risk

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

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

- the management and staff are responsible for identifying, assessing and managing operational risks in accordance with their roles and responsibilities
- the Group Internal Audit Manager is charged with assisting staff identify risks and ensure the sufficiency of and on-going presence of suitable mitigants.

Interest Rate Risk

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

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

	0–6 months $000	6–12 months $000	1–2 years $000	2–5 years $000	Not Interest Bearing $000	Total $000
31 MARCH 2016						
Financial Assets						
Cash at Bank	14,457	–	–	–	–	14,457
Short Term Deposits	–	–	–	–	–	–
Derivative Financial Instruments	1	–	–	–	–	1
Investments	170,916	–	–	–	–	170,916
Mortgages and Loans	112,915	5,420	5,420	8,575	–	134,617
Receivables	–	–	–	–	3,328	3,328
	298,289	5,420	5,420	8,575	3,328	323,319
Financial Liabilities						
Derivative Financial Instruments	336	–	–	–	–	336
Notes	30,000	–	–	–	–	30,000
Bank Borrowing	3,500					3,500
Debenture Stock/Savings Plan	39,220	14,635	14,635	13,750	–	80,141
Other Liabilities	–	–	–	–	9,713	9,713
	73,056	14,635	14,635	13,750	9,713	123,690

35. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT continued...

	0–6 months $000	6–12 months $000	1–2 years $000	2–5 years $000	Not Interest Bearing $000	Total $000
31 MARCH 2015						
Financial Assets						
Cash at Bank	10,958	–	–	–	–	10,958
Short Term Deposits	31,750	–	–	–	–	31,750
Derivative Financial Instruments	198	–	–	–	–	198
Investments	162,497	–	–	–	–	162,497
Mortgages and Loans	135,966	1,666	6,307	15,525	–	159,464
Receivables	–	–	–	–	3,151	3,151
	341,369	1,666	6,307	15,525	3,151	368,018
Financial Liabilities						
Derivative Financial Instruments	204	–	–	–	–	204
Notes	55,000	–	–	–	–	55,000
Debenture Stock/Savings Plan	51,996	24,343	11,694	15,684	–	103,718
Other Liabilities	–	–	–	–	8,959	8,959
	107,201	24,343	11,694	15,684	8,959	167,880

Sensitivity Analysis (Medical Assurance Society Limited "MLA")

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

		2016		2015	
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:					
Discount rate	Increase by 1%	8,420	3,140	8,210	3,360
	Decrease by 1%	(9,480)	(3,370)	(9,260)	(3,570)
Claims	Increase by 10%	6,160	–	7,030	–
	Decrease by 10%	(6,190)	–	(7,060)	–
Lapses/Surrenders	Increase by 10%	5,510	–	6,290	–
	Decrease by 10%	(5,880)	–	(6,710)	–
Expenses	Increase by 10%	4,170	–	4,760	–
	Decrease by 10%	(4,170)	–	(4,760)	–

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

Sensitivity Analysis (Medical Insurance Society New Zealand Limited "MIS")

		IMPACT ON PROFIT AND EQUITY	
RISK VARIABLE	**MOVEMENT**	**2016 $000**	**2015 $000**
INSURANCE RISK (MIS):			
Discount rate	Increase by 1%	–	262
	Decrease by 1%	–	(267)

35. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT continued...

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

RISK VARIABLE	MOVEMENT	IMPACT ON PROFIT AND EQUITY 2016 $000	2015 $000
MARKET RISK:			
Short term deposit rates	Increase by 1%	104	307
	Decrease by 1%	(104)	(307)
Bond interest rates	Increase by 0.50%	(120)	(141)
	Decrease by 0.50%	120	141
Unit prices	Unit price increases by 10%	779	751
	Unit price decreases by 10%	(779)	(751)
Currency Risk	NZD appreciates by 10% against the USD	(2,892)	(1,557)
	NZD depreciates by 10% against the USD	2,892	1,557
	NZD appreciates by 10% against the AUD	(566)	(838)
	NZD depreciates by 10% against the AUD	566	838
	NZD appreciates by 10% against the EUR	(80)	(412)
	NZD depreciates by 10% against the EUR	80	412
	NZD appreciates by 10% against the GBP	(55)	(209)
	NZD depreciates by 10% against the GBP	55	209

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

Classification of Financial Instruments

The carrying amounts of Assets and Liabilities have been classified into the categories defined in IAS 39 in the tables below.

	Loans and Receivables $000	Fair Value through Profit or Loss $000	Other Financial Liabilities $000	Total $000
31 MARCH 2016				
Financial Assets				
Cash at Bank	14,457	–	–	14,457
Short Term Deposits	–	–	–	–
Investments	–	170,916	–	170,916
Derivative Financial Instruments	–	1	–	1
Premiums Outstanding	26,235	–	–	26,235
Mortgages and Loans	134,464	–	–	134,464
Receivables	3,328	–	–	3,328
Reinsurance Recoveries Outstanding	42,636	–	–	42,636
	221,120	170,917	–	392,037
Financial Liabilities				
Derivative Financial Instruments	–	336	–	336
Notes	–	–	30,000	30,000
Debenture Stock/Savings Plan	–	–	80,141	80,141
Bank Borrowing	–	–	3,500	3,500
Other Liabilities	–	–	9,713	9,713
	–	336	123,354	123,690

35. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT continued...

	Loans and Receivables $000	Fair Value through Profit or Loss $000	Other Financial Liabilities $000	Total $000
31 MARCH 2015				
Financial Assets				
Cash at Bank	10,958	–	–	10,958
Short Term Deposits	31,750	–	–	31,750
Investments	–	162,497	–	162,497
Derivative Financial Instruments	–	198	–	198
Premiums Outstanding	26,069	–	–	26,069
Mortgages and Loans	159,162	–	–	159,162
Receivables	3,151	–	–	3,151
Reinsurance Recoveries Outstanding	89,135	–	–	89,135
	320,225	162,695	–	482,920
Financial Liabilities				
Derivative Financial Instruments	–	204	–	204
Notes	–	–	55,000	55,000
Debenture Stock/Savings Plan	–	–	103,718	103,718
Other Liabilities	–	–	8,959	8,959
	–	204	167,676	167,880

36. CREDIT RATING

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

37. RECONCILIATION OF CASH FLOWS

	2016 $000	2015 $000
Reported Surplus after Taxation	2,306	16,381
Add/(Deduct) Non-Cash Items:		
Depreciation and Amortisation	3,134	3,026
Loss on Disposal of Property, Plant, Equipment and Intangibles	2	130
Fair Value Change in Derivatives	329	398
Revaluation of Land and Buildings	–	302
Credit Impairment/(Reversal of Credit Impairment)	(111)	(129)
Addition to Unearned Premium	(102)	590
Change in Deferred Acquisition Costs	67	(100)
Change in Deferred Taxation	1,504	801
Changes in Assets and Liabilities:		
Payables	609	669
Receivables	(177)	(208)
Mortgages and Loans	24,809	9,984
Outstanding Claims	(48,330)	(61,918)
Reinsurance Recoveries	46,499	77,240
Life Policy Liabilities	(2,253)	(2,664)
Premiums Outstanding	(166)	(597)
Provision for Taxation	689	(801)
Net Cash Flows from Operating Activities	28,809	43,105

AUDITOR'S REPORT

Building a better working world

CHARTERED ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT

TO THE SHAREHOLDERS OF MEDICAL ASSURANCE SOCIETY NEW ZEALAND LIMITED

REPORT ON THE FINANCIAL STATEMENTS

We have audited the group financial statements of Medical Assurance Society New Zealand Limited and its subsidiaries ("the Group") on pages 7 to 48, which comprise the statement of financial position of the Group as at 31 March 2016, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended of the Group, and a summary of significant accounting policies and other explanatory information.

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.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The directors are responsible on behalf of the company for the preparation and fair presentation of the financial statements in accordance with New Zealand Equivalents to International Financial Reporting Standards and International Financial Reporting Standards, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on the financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing (New Zealand). These auditing standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we have considered the internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates, as well as evaluating the overall presentation of the financial statements.

We believe we have obtained sufficient and appropriate audit evidence to provide a basis for our audit opinion.

We provide remuneration advice and other assurance services to the Group. 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.

OPINION

In our opinion, the financial statements on pages 7 to 48 present fairly, in all material respects, the financial position of the Group as at 31 March 2016 and the financial performance and cash flows of the Group for the year then ended in accordance with New Zealand Equivalents to International Financial Reporting Standards and International Financial Reporting Standards.

Ernst + Young

29 June 2016
Wellington

FIVE-YEAR SUMMARY

	2016 ($000's)	2015 ($000's)	2014 ($000's)	2013 ($000's)	2012 ($000's)
STATEMENT OF COMPREHENSIVE INCOME					
FIRE AND GENERAL INSURANCE					
Gross Premium Income	64,502	64,263	62,364	75,200	71,384
Net Earned Premium	48,296	46,486	41,096	52,001	48,983
Net Claims	(49,462)	(40,147)	(48,036)	(39,932)	(33,786)
Net Income from Fire and General Insurance	(1,166)	6,339	(6,940)	12,069	15,197
LIFE ASSURANCE					
Gross Premium Income	34,212	32,723	31,230	14,396	13,169
Net Premium Income	24,393	23,927	22,534	10,624	9,701
Claims, Surrenders and Maturities	(5,967)	(8,318)	(4,485)	(2,054)	(1,003)
Decrease in Life Policy Liabilities	2,253	2,664	508	797	1,732
Net Income from Life Assurance	20,679	18,273	18,557	9,367	10,430
LENDING					
Interest and Sundry Income	13,768	15,400	15,382	17,179	20,252
Interest and Lending Expense	(6,431)	(7,615)	(7,467)	(8,907)	(9,726)
Net Income from Lending	7,337	7,785	7,915	8,272	10,526
FUNDS MANAGEMENT					
Revenue from Funds Management and Financial Planning	9,723	8,126	6,405	5,056	4,177
Group Operating Expenses	(39,195)	(36,103)	(31,383)	(30,449)	(30,463)
Net Income/(Loss) from Operations	(2,622)	4,420	(5,446)	4,315	9,867
Investment and Sundry Income	6,468	12,836	7,559	9,992	3,435
Surplus before Tax	3,846	17,256	2,113	14,307	13,302
Tax (Expense)/Credit	(1,540)	(875)	2,009	(1,638)	(2,533)
Surplus after Tax	2,306	16,381	4,122	12,669	10,769
STATEMENT OF FINANCIAL POSITION					
Total Assets	420,687	511,647	561,842	587,835	549,546
Total Liabilities	255,482	348,748	416,014	446,130	420,510
Equity	165,205	162,899	145,828	141,705	129,036
OTHER INFORMATION					
Fire and General Claims as a percentage of Net Earned Premium	102.4%	86.4%	116.9%	76.8%	69.0%
Operating Expenses as a percentage of Total Income	30.5%	27.1%	25.5%	25.0%	27.1%
Equity as a percentage of Total Income	128.4%	122.2%	118.6%	116.3%	114.8%
Number of Members	28,529	27,448	26,179	24,585	23,648

STATUTORY INFORMATION

Directors' Interests

None of the directors of MAS have conducted transactions with the company other than on normal terms and conditions. Dr Richard Tyler has acted as Medical Adviser during the year.

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 during the year, or due and payable, is as follows:

Dr R J Tyler	$133,102
Mr A C Hercus	$98,827
Dr H E Aish	$56,891
Dr K M S Ayers	$51,085
Ms D R Dinsdale	$56,891
Dr F A Frizelle	$44,585
Mr L R Knowles	$63,337
Dr H W Rodenburg	$53,035
Mr B C Sutton	$7,349
Mr C J Thompson	$48,905

Mr C J Thompson retired on 20 November 2015 and Dr K M S Ayers retired on 31 March 2016.

Fees were also paid to two directors who were solely on the Medical Securities Limited Board. These fees have been approved by that Company's Board and were paid as follows:

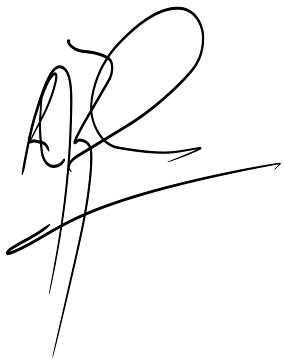
Mr H M Clentworth	$36,335
Mr J K W Isles	$40,285

Dr Tyler has additionally received $4,200 (at standard rates) for medical advisory work performed for MAS during the year.

The cost of travel to Board meetings for out-of-town directors has been met by MAS.

Employee Remuneration

$770,000–$780,000	1 employee
$310,000–$320,000	1 employee
$250,000–$260,000	2 employees
$240,000–$250,000	2 employees
$230,000–$240,000	3 employees
$220,000–$230,000	1 employee
$180,000–$190,000	2 employees
$170,000–$180,000	2 employees
$160,000–$170,000	5 employees
$150,000–$160,000	5 employees
$140,000–$150,000	3 employees
$130,000–$140,000	6 employees
$120,000–$130,000	15 employees
$110,000–$120,000	11 employees
$100,000–$110,000	17 employees



Richard Tyler
Chairman

CORPORATE GOVERNANCE STATEMENT

Board Structure

The Board of Medical Assurance Society New Zealand Limited ('MAS') supervises the management of the company and its subsidiary companies. The Board is comprised of the trustees of the Medical Assurance Society Members' Trust ('the Trust'). At 31 March 2016 there were five Practitioner Trustees (who are elected by Members) and four Commercial Trustees (who are appointed by the Practitioner Trustees). Members approve the appointment of Commercial Trustees.

There are a further three directors on the Board of Medical Securities Limited ('MSL'). The appointment of two of them (Mr Howard Clentworth and Mr John Isles) ensures compliance with the Reserve Bank of New Zealand Act independent directors requirements. The third director solely on the Board of MSL is the MAS Chief Executive Officer, Mr 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. Our directors seek to develop and preserve the special relationship between MAS and Members of the Trust.

The Board approves MAS's strategic objectives, annual budgets and the overall framework within which business is conducted. It oversees the management of MAS to ensure that our activities are carried out in the best interests of our 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 2016.

Board Committees

The Board has established three committees, namely for audit and risk, investment and senior remuneration.

The function of the **Audit and Risk Committee** is to assist the Board in carrying out its responsibilities relative to accounting practices, policies and controls under the Companies Act 1993 and the Financial Reporting Act 2013. It meets with MAS's external auditors twice during the year to review financial statements and the audit of the year-end financial statements (and any issues raised by them), and to receive assurances and satisfy itself as to auditor independence. The Committee has unrestricted access to the external auditors and to the Internal Audit Manager.

While the Board reviews risk, and particularly any emerging risks, each time it meets, the Committee formally assesses all significant risks in a structured manner twice a year.

The current composition of the Audit and Risk Committee is Mr Lindsay Knowles (Chairman), Dr Harley Aish, Mr Alastair Hercus, Mr Brett Sutton and Dr Richard Tyler.

The function of the **Investment Committee** is to review the performance of the Group's fund managers, and provide guidance relative to asset class benchmarks and ranges. The Committee meets with our fund managers on a regular basis.

The current composition of the Investment Committee is Dr Richard Tyler (Chairman), Ms Danelle Dinsdale, Mr Alastair Hercus and Mr Brett Sutton.

The **Senior Remuneration Committee** meets to consider the senior management team's remuneration. In the absence of any extenuating circumstances, the Committee will meet only once each year.

The current composition of the Senior Remuneration Committee is Dr Richard Tyler (Chairman), Mr Alastair Hercus and Dr Helen Rodenburg.

BOARD OF DIRECTORS
MEDICAL ASSURANCE SOCIETY GROUP

RICHARD TYLER Chairman

DIRECTOR: Medical Assurance Society New Zealand Limited, Medical Insurance Society Limited, Medical Life Assurance Society Limited, Medical Funds Management Limited, Medical Securities Limited.

FIELDS OF EXPERTISE: General practice and the governance of primary health and primary healthcare organisations, medical adviser on underwriting for Medical Life Assurance Society Limited and personal health.

OTHER BOARDS AND HEALTH SECTOR ACTIVITY: Director of BPAC NZ Limited, Director of Medecen Limited, Partner of Johnsonville Medical Centre and Shareholder of Wellington After Hours Limited.

ALASTAIR HERCUS Deputy Chairman

DIRECTOR: Medical Assurance Society New Zealand Limited, Medical Insurance Society Limited, Medical Life Assurance Society Limited, Medical Funds Management Limited, Medical Securities Limited.

FIELDS OF EXPERTISE: Law, public policy, health sector, cooperatives and mutuals.

OTHER BOARDS AND HEALTH SECTOR ACTIVITY: Partner and former board member of Buddle Findlay, legal adviser to various public sector health organisations, and member of the Advisory Group for Cancer Trials New Zealand, an organisation established by the Faculty of Medical and Health Sciences at the University of Auckland to provide a national resource to facilitate clinical trial research in cancer. Chartered Member of the Institute of Directors.

HARLEY AISH

DIRECTOR: Medical Assurance Society New Zealand Limited, Medical Insurance Society Limited, Medical Life Assurance Society Limited, Medical Funds Management Limited.

FIELDS OF EXPERTISE: General practice and primary-secondary integration, especially guidelines and new models of care.

OTHER BOARDS AND HEALTH SECTOR ACTIVITY: Director of ProCare Health Limited.

HOWARD CLENTWORTH

INDEPENDENT DIRECTOR: Medical Securities Limited.

FIELDS OF EXPERTISE: Obstetrics and gynaecology.

OTHER BOARDS AND HEALTH SECTOR ACTIVITY: Director of Digital Impressions Limited and Heyrex Limited. Chairman, Boulcott Clinic and Committee Member, NZMA Specialist Council.

DANELLE DINSDALE

DIRECTOR: Medical Assurance Society New Zealand Limited, Medical Insurance Society Limited, Medical Life Assurance Society Limited, Medical Funds Management Limited.

FIELDS OF EXPERTISE: Technology law, change management in finance and technology sectors, and corporate governance.

OTHER BOARDS AND HEALTH SECTOR ACTIVITY: Crown Fibre Holdings Limited, Hawke's Bay Regional Investment Company Limited (Adviser, Ruataniwha Water Storage Scheme), Ultra Fast Fibre Limited and Cranford Hospice Foundation.

FRANK FRIZELLE

DIRECTOR: Medical Assurance Society New Zealand Limited, Medical Insurance Society Limited, Medical Life Assurance Society Limited, Medical Funds Management Limited.

FIELDS OF EXPERTISE: Colorectal surgery, academic surgery and medical editing.

OTHER BOARDS AND HEALTH SECTOR ACTIVITY: HOD University Department of Surgery, University of Otago, Christchurch, Editor in Chief New Zealand Medical Journal, Director of Christchurch Colorectal Limited, Southern Endoscopy Limited and Geordie Hill Station Limited.

BOARD OF DIRECTORS
MEDICAL ASSURANCE SOCIETY GROUP CONTINUED

JOHN ISLES

INDEPENDENT DIRECTOR: Medical Securities Limited.

FIELDS OF EXPERTISE: General commerce, public policy issues, Māori lands and Treaty Settlements.

OTHER BOARDS AND HEALTH SECTOR ACTIVITY: Director of Woolyarns Holdings Limited, Interweave New Zealand Limited and TR Group Limited.

LINDSAY KNOWLES

DIRECTOR: Medical Assurance Society New Zealand Limited, Medical Insurance Society Limited, Medical Life Assurance Society Limited, Medical Funds Management Limited.

FIELDS OF EXPERTISE: Commerce including accounting, finance, sales and marketing.

OTHER BOARDS AND HEALTH SECTOR ACTIVITY: Director of Acme Supplies Limited and Cranford Hospice (Hawke's Bay), and Chairman of Howick Baptist Healthcare Limited.

HELEN RODENBURG

DIRECTOR: Medical Assurance Society New Zealand Limited, Medical Insurance Society Limited, Medical Life Assurance Society Limited, Medical Funds Management Limited.

FIELDS OF EXPERTISE: General practice, primary health care, especially clinical quality and primary mental health. Health service development.

OTHER BOARDS AND HEALTH SECTOR ACTIVITY: Island Bay Medical Centre and Clinical Director of Long-Term Conditions, Ministry of Health. Chartered Member of the Institute of Directors. Shareholder of Wellington After-Hours Medical Service Limited.

BRETT SUTTON

DIRECTOR: Medical Assurance Society New Zealand Limited, Medical Insurance Society Limited, Medical Life Assurance Society Limited, Medical Funds Management Limited.

FIELDS OF EXPERTISE: Commerce, finance, accounting, funds management.

OTHER BOARDS AND HEALTH SECTOR ACTIVITY: Director of Datacom Group, Stevenson Group, Rangitane Holdings, Mint Asset Management and Rangitane Investments Limited. Trustee of Special Olympics NZ.

Appointed 15 February 2016

CRAIG THOMPSON

DIRECTOR: Medical Assurance Society New Zealand Limited, Medical Insurance Society Limited, Medical Life Assurance Society Limited, Medical Funds Management Limited, Medical Securities Limited.

FIELDS OF EXPERTISE: Commerce, including finance, accounting and marketing.

OTHER BOARDS AND HEALTH SECTOR ACTIVITY: Director of Accent Group Limited, Woolyarns Holdings Limited, Curtain Studio Limited and RCG Corporation Limited.

Retired 20 November 2015

KATIE AYERS

DIRECTOR: Medical Assurance Society New Zealand Limited, Medical Insurance Society Limited, Medical Life Assurance Society Limited, Medical Funds Management Limited.

FIELDS OF EXPERTISE: Paediatric dentistry and dental public health.

OTHER BOARDS AND HEALTH SECTOR ACTIVITY: Specialist Paediatric Dentist, Dental Approving Officer and Oral Health Advisor for Midland DHBs, Director of Acka Health Limited, Director of Anglesea OMS Limited, Specialist Representative on New Zealand Dental Association Board, Officer of New Zealand Dental Association Executive, and Trustee of Braemar Hospital Charitable Trust.

Retired 31 March 2016

NORTHERN REGION

Regional Manager: Kevin Trevett

NORTH SHORE

Air New Zealand Building
Smales Farm Office Park
Takapuna
PO Box 33443

Fax 09 487 0449

AUCKLAND

3 Ferncroft Street
Grafton
PO Box 9905

Fax 09 524 0101

HAMILTON

62 Tristram Street
PO Box 436

Fax 07 839 4293

CENTRAL REGION

Regional Manager: David Gordon

PALMERSTON NORTH

6–8 Linton Street
PO Box 2096

Fax 06 356 7067

WELLINGTON

19–21 Broderick Road
PO Box 13042

Fax 04 494 7020

SOUTH ISLAND REGION

Regional Manager: Steve Weston

CHRISTCHURCH

158 Leinster Road
Merivale
PO Box 36260

Fax 03 355 5407

DUNEDIN

27–29 Albany Street
PO Box 6365

Fax 03 474 1480

DIRECTORY

Senior Management Team

Paul Barton
General Manager, Risk and Compliance

David Chote
General Manager, Sales

Mike Davy
General Manager, Marketing and Products

Matthew Judge
Chief Financial Officer

Ross McMillan
General Manager, Human Resources

Mike Paine
General Manager, Information Technology

Lyndal Preston
General Manager, Member Support

Martin Stokes
Chief Executive Officer

REGISTERED OFFICE

19–21 Broderick Road
Johnsonville, Wellington
PO Box 13042

Telephone 0800 800 627

Fax 04 477 0109

AUDITOR

Ernst & Young

SOLICITORS

Minter Ellison Rudd Watts

BANKERS

ANZ
Westpac