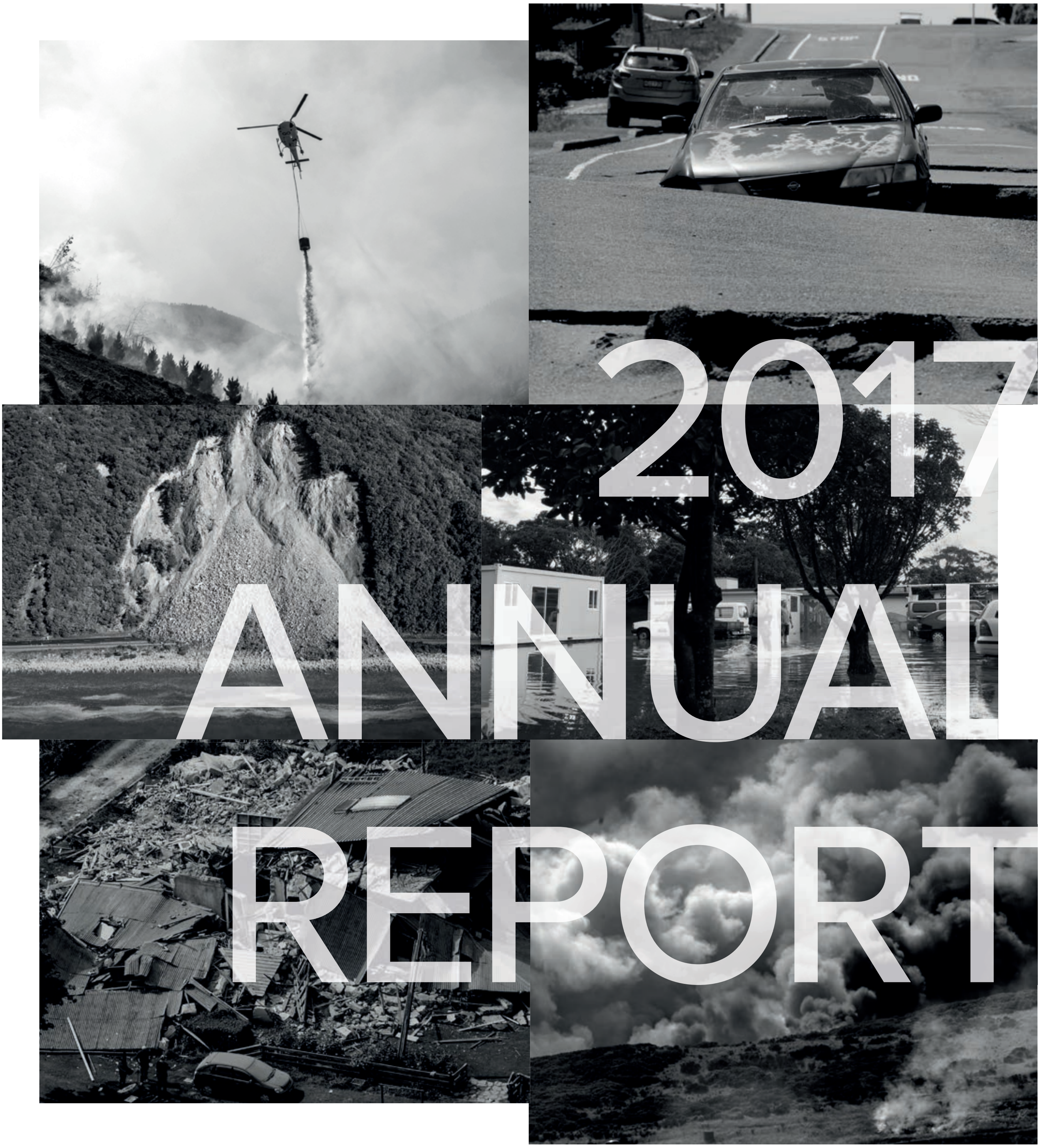
MAS



Cover (clockwise from top left): 1. Helicopters fighting the Port Hills fires. 2. A damaged bridge in Kaikoura. 3. Flooding at Matipo Primary School. 4. The Port Hills fire above Kennedys Reserve. 5. The Elms homestead near Kaikoura after the earthquake. 6. Slips on SH1 south of Kaikoura after the earthquake.

This page: Slips on SH1 south of Kaikoura after the earthquake.

All images courtesy of Fairfax Media NZ.


GO

Helicopters fighting the Port Hills fires.

Image courtesy of Fairfax Media NZ.

Contents

Chairman's Report to Members

This year I will be stepping down as a Director and Chair of MAS, so it is my pleasure to report that MAS has delivered a strong surplus of $16.2 million. The year featured increased insurance claims which were offset by strong investment returns. We expect investment returns to be volatile year-on-year. This positive result in 2017 demonstrates the benefits of a diversified strategy and sound capital management. Our reserves across the MAS Group have grown to around $181 million, even after paying out claims for Canterbury and Kaikoura earthquakes. A full analysis of our 2017 financials is set forth in the following pages.

General Insurance

In 2017 we saw strong growth across all personal product lines as Members continued to see value in our full replacement offering nationwide. Once again, the year was notable for the increased number of claims. Significant factors included the increased frequency of adverse weather events across the country, the Kaikoura earthquake, and a sharp increase in both the number of motor vehicle claims as well as the average value of those claims. Motor vehicle numbers are increasing in high density areas, with newer vehicles having sophisticated technology that is expensive to repair.

Pleasingly, and for the first time since 2012, the General Insurance company made an underwriting surplus. We also achieved industry leading results assessing and settling Kaikoura earthquake claims, acting as an agent for EQC. By 31 March 2017, over 90% of claims had been assessed (compared with the industry average of 20%), and over 37% of claims settled (industry average of 6%). The decision to appoint a team with earthquake experience focusing solely on Kaikoura claims was instrumental in delivering this outcome for our Members.

MAS has made steady progress in settling Canterbury claims with around 50 now classified as "unresolved". Over half of these claims have come to us from EQC since April 2015 and are in various stages in the settlement process. We appreciate many of these remaining claims are complex and are working closely with affected Members to expedite the reinstatement of their properties or provide a cash settlement where this is preferred.

Life and Disability Insurance

Our Life and Disability Insurance business continued to make a valuable contribution to the operating earnings of MAS in 2017. Gross premium income grew by 5.6% to $36.1 million while claim payments were $3.8 million higher than in 2016.

We have seen strong new business growth over the last 12 months and particularly pleasing was the increase in the number of Members taking up Income Protection cover, up 29% on 2016. Income Protection plays an important role in our Members' overall asset protection programme, ensuring income can continue at a time where their health limits their ability to work, be this in the short term or for a longer period.

In 2017 we supported over 200 Members with total gross claim payments of $15.7 million. This sum will have made a significant difference to these Members and their families at a time where financial stress could otherwise be overwhelming.

It is a dynamic time for the life insurance industry with the adoption of more digital technologies and more personalised product solutions being developed. MAS is focused on ensuring Members have market leading solutions and 2016 saw the enhancement of our full range of Professional Life Plan covers. During 2017 we will focus on the integration of new technologies to further enhance Member interactions.

Retirement Savings and KiwiSaver

2017 was a great year for investors in the MAS Retirement Savings and KiwiSaver Plans. It was pleasing to see strong returns from the multi-sector portfolios of between 5.6% and 15.6%[1] with very strong returns coming from international equities. The combined value of investments in these plans now exceeds $1.2 billion and more than 20,000 investors now trust their superannuation needs with MAS.

During the year, Retirement Savings and KiwiSaver Plans were transitioned into the Financial Markets Conduct Act 2013. The main purpose of the Act is to promote and facilitate the development of fair, efficient and transparent markets, ensuring confident and informed participation from all parties.

Medical Securities Limited

In early 2016 MAS established a referral arrangement with Westpac New Zealand Limited to provide Members with the full range of their personal, practice, commercial and residential finance needs. This arrangement was established following our decision to withdraw from providing loans directly as we felt it was no longer possible to provide Members with the competitive terms they deserved. Under this arrangement Members can access a preferential service and MAS package. Westpac has to date provided over $100.0 million of personal and business finance facilities.

A significant portion of Members holding pre-existing facilities through MSL have opted to refinance on to the MAS package – in many cases taking the opportunity to restructure facilities and benefiting from interest savings and contributions towards costs of refinancing. MSL receivables reduced from $134.5 million to $55.0 million in 2017.

Membership

In 2017 we welcomed over 2,200 new Members and their families from health and other professions as MAS membership grew close to 30,000. We continue to serve more than 90% of all registered doctors, our founding professional group. We are also pleased to now provide services to over 9,000 non-medical professionals and their families.

Member benefit and satisfaction is central to who we are as a mutual. We were very pleased to be awarded the Consumer People's Choice Award for 2016 across our house, contents, car, and life insurance products. Thank you for your support.

Our Members tell us they enjoy the opportunity to network at various events provided by MAS. In 2017 we sponsored many events with the highlights being our "MAS Talks" events and the very popular MAS Movie Night.

1 After fees but before tax.

The Board

After 37 years as a Director, the past 21 years as Chair, I will be retiring effective from 30 August 2017. Auckland-based GP, Dr Harley Aish, has been appointed as Chair-elect. Dr Aish was first appointed as a MAS Trustee in 2013 and, in addition, is Chairman of ProCare Health and a Director of Howick Baptist Healthcare. He brings a wealth of knowledge and experience to the role and I have no doubt that the membership is in good hands under his guidance.

I would like to acknowledge the quality and commitment of the past and current Trustees who have acted as Directors of MAS and its subsidiaries. I leave MAS in the very experienced and competent hands of the current Trustees, management, and staff, all of whom are determinedly focused on providing the best for our Members.

Looking ahead

While we can be proud of these achievements, we must look towards the future. MAS Trustees continue to consider how we might make a broader contribution to the wellbeing of the society we all live in. The starting point for us is to ensure our investment beliefs for Member and MAS funds are consistent with the overall principle of not investing in assets which are harmful to people or the environment.

We recently advised all investors of our intention to divest existing holdings in companies whose core or majority business is in the sale of armaments, tobacco, or the exploration, extraction, refining or processing of fossil fuels. We have been mindful of the need to ensure there are no material adverse risks to investors, and we are confident the changes implemented by Trustees will represent a significant move in the right direction. You will see more announcements in this area in September.

In recent issues of *On MAS*, we have shared stories of the many MAS Members working hard to have a positive impact in the health and wellbeing of their communities. It would seem appropriate that we look closer at how MAS might be able to play a greater role in this space and we look forward to engaging with Members in the coming months about how we might do that.

As I close, I reflect on the pace of change that technology has brought about, particularly over the last decade. The Board and management are mindful of the need for MAS to continue to innovate to ensure we meet the expectations of our Members. You can expect to see developments in our technical capability over the next 12–24 months enabling MAS to better serve our Members.

Finally, I'd like to thank the membership for placing your business with MAS and wish you and your families every success. It has been an honour and privilege to have served you all.

Richard Tyler
Chairman

Financial Report

	Note	2017 $000	2016 $000
FIRE AND GENERAL INSURANCE REVENUE			
Gross Premium Revenue		69,197	64,502
Reinsurance Premiums		(16,532)	(16,308)
Change in Provision for Unearned Premium		(2,951)	102
Net Premium Revenue		49,714	48,296
Claims		(78,150)	(65,972)
Reinsurance Recoveries		37,287	12,514
Other Recoveries		5,462	3,996
Net Claims	5	(35,401)	(49,462)
Net Revenue from Fire and General Insurance		14,313	(1,166)
LIFE ASSURANCE REVENUE			
Premium Revenue		36,138	34,212
Reinsurance Premiums		(10,394)	(9,819)
Net Premium Revenue		25,744	24,393
Claims, Surrenders and Maturities		(12,826)	(12,254)
Reinsurance Recoveries		6,120	6,287
Decrease in Life Policy Liabilities	11	1,015	2,253
Net Revenue from Life Assurance		20,053	20,679
LENDING REVENUE			
Mortgage and Loan Interest Revenue		8,127	13,768
Movement in Fair Value of Derivatives		118	(329)
Interest Expense	13	(3,400)	(6,213)
Reversal of Credit Impairment	14	29	111
Net Revenue from Lending		4,874	7,337
FUNDS MANAGEMENT REVENUE		11,032	9,723
EXPENSES			
Salaries		(21,435)	(20,370)
Administration Expenses	20	(23,820)	(18,825)
Total Expenses		(45,255)	(39,195)
NET INCOME / (LOSS) FROM OPERATIONS		5,017	(2,622)
Investment and Sundry Income	22	14,899	6,468
NET SURPLUS BEFORE TAXATION		19,916	3,846
Taxation Expense	23	(3,747)	(1,540)
NET SURPLUS AFTER TAXATION		16,169	2,306
Other Comprehensive Income Net of Taxation		–	–
TOTAL COMPREHENSIVE INCOME		16,169	2,306

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

	Note	2017 Share Capital $000	2017 Retained Earnings $000	2017 Asset Revaluation Reserve $000	2017 Total $000
OPENING BALANCE 1 APRIL 2016	24	110	163,436	1,659	165,205
Current Year Surplus		–	16,169	–	16,169
Other Comprehensive Income		–	–	–	–
Total Comprehensive Income		–	16,169	–	16,169
CLOSING BALANCE 31 MARCH 2017		110	179,605	1,659	181,374

	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

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

	Note	2017 $000	2016 $000
FUNDS EMPLOYED			
EQUITY			
1 Non-Voting Share	24	100	100
10,000 Voting Shares	24	10	10
Retained Earnings		179,605	163,436
Asset Revaluation Reserve		1,659	1,659
TOTAL EQUITY		181,374	165,205
LIABILITIES			
Bank Overdraft	26	6	–
Payables	25	12,248	11,759
Provision for Taxation		–	12
Derivative Financial Instruments	15	217	336
Provision for Unearned Premium	6	34,721	31,769
Debenture Stock and Savings Plan	16	–	80,141
Bank Borrowing	18	42,000	3,500
Notes	17	–	30,000
Provision for Outstanding Claims	5,12	93,822	94,148
Life Policy Liabilities	11	(646)	369
Deferred Tax	23	6,080	3,448
TOTAL FUNDS EMPLOYED		369,822	420,687
ASSETS			
Cash and Cash Equivalents	26	3,970	14,457
Receivables and Prepayments	27	5,029	3,328
Taxation Paid in Advance		1,015	–
Investments	28	207,432	170,916
Derivative Financial Instruments	15	–	1
Premiums Outstanding	7	27,736	26,235
Reinsurance Recoveries Outstanding	8	46,195	42,636
Claims Recoveries Outstanding	9	3,822	4,125
Mortgages and Loans	14	54,969	134,464
Property, Plant and Equipment	29	5,374	5,637
Intangibles	30	13,936	18,470
Deferred Acquisition Costs	31	344	418
TOTAL ASSETS		369,822	420,687

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

Director
Wellington, 28 June 2017

Director

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

	Note	2017 $000	2016 $000
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from Policyholders		103,910	98,614
Interest and Fee Income Received on Mortgages and Loans		8,367	13,922
Loan Repayments		90,434	73,614
Loan Advances		(10,910)	(48,805)
Interest Received on Short Term Deposits		194	1,417
Other Revenue and Income from Investment Funds		23,786	14,649
Rent Received		12	12
Payments to Suppliers and Employees		(64,410)	(61,715)
Reinsurance Recoveries		39,848	65,300
Payment of Claims		(85,537)	(122,560)
(Payment of Taxation) / Taxation Refund		(2,142)	654
Interest on Bank Overdraft		(2)	(2)
Interest Paid on Funding		(3,478)	(6,291)
Net Cash Flows from Operating Activities	37	100,072	28,809
CASH FLOWS FOR INVESTING ACTIVITIES			
Contributions to Investment Funds		(64,517)	(66,508)
Withdrawals from Investment Funds		28,000	58,089
Purchase of Property, Plant, Equipment and Intangibles		(2,407)	(3,564)
Net Cash Flows for Investing Activities		(38,924)	(11,983)
CASH FLOWS FOR FINANCING ACTIVITIES			
Issue of Debenture Stock / Savings Plan Deposits Received		–	65,310
Repayment of Debenture Stock / Savings Plan Withdrawals		(80,141)	(88,887)
Repayment of Notes		(30,000)	(25,000)
Increase in Bank Borrowing		38,500	3,500
Net Cash Flows for Financing Activities		(71,641)	(45,077)
NET DECREASE IN CASH HELD		(10,493)	(28,251)
Opening Cash Balance brought forward		14,457	42,708
CASH AND CASH EQUIVALENTS CARRIED FORWARD		3,964	14,457
CASH AND CASH EQUIVALENTS COMPRISE			
Bank Overdraft		(6)	–
Cash and Deposits		3,970	14,457
	26	3,964	14,457

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

The 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").

The following new standards, amendments to standards or interpretations have been issued but are not yet effective for the period ended 31 March 2017, and have not been applied in preparing these financial statements. MAS have given consideration to the impact of the following standards but haven't progressed the assessment to a point where the impact (if any) can be quantified.

The final version of NZ IFRS 9 *Financial Instruments* brings together the classification and measurement, impairment and hedge accounting phases of the International Accounting Standards Board's project. The standard will replace NZ IAS 39 *Financial Instruments: Recognition and Measurement* and all previous versions of NZ IFRS 9. Despite the requirement to apply NZ IFRS 9 in its entirety, entities may elect to early apply only the requirements for the presentation of gains and losses on financial liabilities designated as at fair value through profit or loss without applying the other requirements in the standard. An entity that elects to do so is required to disclose that fact and provide the related disclosures set out in paragraphs 10–11 of NZ IFRS 7 *Financial Instruments: Disclosures*.

The Company intends to adopt IFRS 9 in its entirety for the reporting period commencing 1 April 2018. The Group is yet to assess the impact of adopting NZ IFRS 9.

NZ IFRS 15 *Revenue from Contracts with Customers*. The standard establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. IFRS 15 has a lesser impact on insurance companies as insurance revenue is covered under the scope of IFRS 4 *Insurance Contracts.* Consideration will be given to the impact on other revenue streams.

The standard is effective for reporting periods beginning 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). In instances where MAS is a lessee a right to use asset will be recognised and a liability recognised for the present value of the lease cash flows. For operating leases where a lease expense is currently recognised in profit and loss under the new standard this would change to being a depreciation charge and interest expense. An indication of the quantum of the liability that would be recognised under the new standard for operating leases is effectively included in the operating lease commitments note.

IFRS 17 *Insurance Contracts*, which replaces IFRS 4 *Insurance Contracts*, is a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. It combines a balance sheet measurement of insurance contract liabilities with the recognition of profit over the period that services are provided. Certain changes in the estimates of future cash flows and the risk adjustment are also recognised over the period that services are provided. The standard is effective for reporting periods beginning after 1 January 2021; early application is permitted. The Group is yet to assess the impact of adopting of IFRS 17.

2. Accounting Policies continued...

(c) Basis of Consolidation

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

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

(d) Premium Revenue and Provision for Unearned Premium

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

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

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

(g) Provision for Unearned Premium / Liability Adequacy Test

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

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

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

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

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

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

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

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

2. Accounting Policies continued...

(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; and
- the realisable value of security and likelihood of successful repossession.

The estimated individual impairment loss is measured as the difference between the asset's 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:

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

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

2. Accounting Policies continued...

(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.

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.

2. Accounting Policies continued...

(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 rights 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 in profit and loss using the effective interest rate method.

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

(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 collectability 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.

2. Accounting Policies continued...

(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.

(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

Revenue from Funds Management 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 — 3—10 years

The Group has reduced the estimated useful economic life and amortisation period of the core insurance operating system software to two years from 1 April 2017. Refer to Note 30.

(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.

3. Significant Accounting Judgements, Estimates and Assumptions continued...

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 premiums. 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; and
- the amounts credited to policyholders' accounts compared to the returns on invested assets through asset and liability management and tactical asset allocation.

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

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.

(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 distributed by Medical Assurance Society New Zealand Limited. Medical Funds Management Limited provides management services for these plans.

Advances to and from subsidiary companies are 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 3.00% for all subsidiaries (2016: 3.34% 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

	2017 $000	2016 $000
Claims Expense		
Claims paid during the year	69,794	110,645
Recoveries received during the year	(33,108)	(60,559)
Provision for Outstanding Claims at year end (new claims incurred during the year)	29,111	32,081
Provisioning at year end for Outstanding Claims incurred in prior years	46,012	46,508
Reinsurance and Other Recoveries Outstanding at year end	(38,350)	(34,473)
Decrease in IBNR (claims incurred but not reported) Provision at year end	573	(147)
Provision for Outstanding Claims at previous year end (excluding IBNR)	(70,020)	(118,302)
Reinsurance and Other Recoveries Outstanding at previous year end	34,473	82,277
Decrease in Risk Margin	(3,084)	(8,568)
Net Claims Expense per Statement of Comprehensive Income	35,401	49,462

	2017 $000	2016 $000
Provision for Outstanding Claims		
Expected Future Claim Payments (undiscounted)	58,884	53,783
IBNR Claims at year end	1,955	1,382
Risk Margin	13,155	16,237
Provision for Outstanding Claims	73,994	71,402

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:

	2017	2016
Risk margin – earthquake claims	28.11%	38.95%
Risk margin – non earthquake	11.60%	13.30%
Weighted average expected term to settlement – non earthquake	within 1 year	within 1 year
Weighted average expected term to settlement – earthquake	within 1 year	within 1 year
Discount rate for earthquake claims	n/a	n/a

5. Claims – Medical Insurance Society Limited continued...

Risk Margin

The initial amount calculated is the central estimate (the mean of the distribution of the probable outcomes). That is, it is intended to contain no deliberate, or conscious, over or under estimation. Over and above the central estimate, and to reflect the inherent uncertainty in determining it, a risk margin is added in arriving at the carrying amount of the liability. This increases the probability that the liability will ultimately prove to be sufficient. The potential uncertainties include those relating to the actuarial model and assumptions, the quality of the underlying data used, general statistical uncertainty and the insurance environment.

The risk margin is applied to the net outstanding claims for MIS as a whole. However an assessment of the uncertainty and the determination of a risk margin is done by individual class of business (Motor Vehicle, House, Contents etc).

The entity risk margin is assessed to be less than the sum of the individual classes, reflecting the benefit of diversification in general insurance. The percentage risk margin applied is 11.60% (2016: 13.30%) for non-earthquake claims and 28.11% (2016: 38.95%) for earthquake claims. The level of sufficiency or probability of adequacy is 75.00% (2016: 75.00%).

Claims Development Table

The following table shows the development of net undiscounted outstanding claims relative to the current estimate of ultimate claims costs for the five most recent years. The majority of the claims that pre-date 2013 are Canterbury earthquake claims.

		Incident Year					
	Prior	**2013 $000**	**2014 $000**	**2015 $000**	**2016 $000**	**2017 $000**	**Total $000**
At end of incident year		28,221	30,135	27,882	32,357	43,723	
One year later		30,040	31,433	29,066	34,402	–	
Two years later		29,912	31,194	29,198	–	–	
Three years later		29,907	31,453	–	–	–	
Four years later		29,483	–	–	–	–	
Current estimated claim cost		29,483	31,453	29,198	34,402	43,723	
Payments		(29,064)	(31,411)	(28,928)	(33,519)	(30,850)	
Central estimate	44,397	419	42	270	883	12,873	58,884
IBNR net of risk margin							1,955
Risk margin							13,155
Gross outstanding claims liabilities							73,994
Recoveries from reinsurers and third parties							(38,350)
Net outstanding claims liabilities							35,644

6. Provision For Unearned Premium – Medical Insurance Society Limited

	2017 $000	**2016 $000**
Balance at the beginning of the financial year	31,769	31,871
Premiums written during the year	69,197	64,502
Premiums earned during the year	(66,245)	(64,604)
Balance at the end of the financial year	34,721	31,769

6. Provision For Unearned Premium – Medical Insurance Society Limited continued...

Liability Adequacy Test

Appointed Actuary Peter Davies, in his report dated 22 May 2017, has reported on the Liability Adequacy Test undertaken by him as at 31 March 2017. He has concluded that the Provision for Unearned Premium as at that date is not deficient (2016: 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

	2017 $000	2016 $000
Premiums Owing by Policyholders of MIS Policies	16,160	15,107
Premiums Owing by Policyholders of MLA Policies	11,576	11,128
	27,736	26,235

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 premiums 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

	2017 $000	2016 $000
Gross Recoveries – Medical Insurance Society Limited	34,528	30,347
Gross Recoveries – Medical Life Assurance Society Limited	12,910	13,516
Discount to Present Value	(1,243)	(1,227)
Reinsurance Recoveries Outstanding	46,195	42,636

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

	2017 $000	2016 $000
Claims Recoveries Owing by Third Parties	3,822	4,125
	3,822	4,125

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 (2016: nil impairment);
- accounts placed with a collection agency, 65.00% impairment (2016: 65.00%); and
- amounts for which a regular payment arrangement has been agreed with the debtor, nil impairment (2016: nil impairment).

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

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

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 2017.

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

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

Disclosure of Assumptions

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

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

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

Discount Rates

The 10-year NZ Government Stock rate at the valuation date was 3.19% (2016: 2.91%), net of tax at 28.00% (2016: 28.00%), giving a net discount rate of 2.30% per annum (2016: 2.10%).

Disability outstanding claims have been valued using the 5-year Government stock rate of 3.15% gross of tax (2016: 2.28%), reflecting the expected duration of future payments on existing claims.

Inflation Rates

Inflation impacts on the valuation in broadly two ways. Some contracts provide for the increase of future benefits in line with the Consumer Price Index ("CPI"), subject to a minimum materiality level. The CPI is assumed to increase at 2.50% per annum (2016: 2.50%). The assumed rate of expense inflation is 2.00% per annum (2016: 2.00%).

Element Impacted	Assumed Rate
Benefit indexation	2.50% (2016: 2.50%)
Expenses	2.00% (2016: 2.00%)

It is further assumed that benefit indexation will be utilised by up to 90.00% of indexed assurances (2016: 90.00%) which is in line with MLA's recent experience.

It has also been assumed that the sums insured of all Yearly Renewable Term, Total Permanent Disablement and Trauma policies will increase by 2.00% per year (2016: 2.00%) resulting from clients requesting increases in their level of cover.

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

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 $361 (2016: $299) gross per cover and $442 (2016: $330) gross per cover for disability policies. Certain policy groups have non-standard allowances. These expenses are assumed to be increased in line with the indexation assumption above.

Acquisition expenses. The standard acquisition expense allowance for policies written is $900 for new life covers (2016: $1,002) and $1,668 (2016: $1,725) for disability covers. The unit expenses are based upon a broad analysis of MLA's actual expenses for the year. Maintenance costs of permanent assurances equal 2.2 times those for risk policies. This is approximately the same relativity as was used in the previous valuation.

Investment expenses. Investment expenses equalled 0.12% of funds under management (2016: 0.13%).

The breakdown of actual expenses is as follows:

	2017 $000	2016 $000
Maintenance expenses	9,873	7,473
Acquisition expenses	3,030	2,805
Investment expenses	62	73
	12,965	10,351

Taxation

Future rates of taxation have been assumed to continue at the current level of company tax in New Zealand of 28.00% (2016: 28.00%).

Mortality and Morbidity

The basic rates of mortality assumed for life products were:

Males	90% of IA95-97M (2016: 90% of IA95-97M)
Females	90% of IA95-97F (2016: 90% of IA95-97F)

Modifications have been made from these base tables to reflect smoker / non-smoker habits and duration in force (2016: same modifications as made in 2017). Mortality and morbidity rates are loaded above age 60 (2016: no additional loading).

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 (2016: 85.00%).

Increased loadings are applied to mortality and morbidity risks above the age of 60 to allow for selective lapsing (2016: no loadings applied).

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

Discontinuances

Risk insurances including: Term Life Dread Disease Total Permanent Disablement	Yearly renewable contracts 5.50% per annum (2016: 5.50%), level term contracts 1.00% per annum (2016: 1.00%) until age 65. A terminal age of 75 (renewable term life), 70 (renewable Trauma), and 65 (Total and Permanent Disability) is assumed to apply (2016: terminal age of 65). Cancellation rates are increased above age 60 (2016: no adjustment)
Traditional participating business	5.00% per annum (2016: 5.00%)
Disability business	5.00% per annum (2016: 4.00%)

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

Future Participating Business

MLA's philosophy is to set bonus rates such that over longer periods, the returns to participating policyholders will be commensurate with the investment returns on the assets held. Distributions are split between policyholders and shareholders with shareholders entitled to 25% of the distribution to policyholders. Assumed rates of future bonuses 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	$7.60 per mille (2016: $6.00 per mille)
Bonus rate on existing bonuses	$13.00 per mille (2016: $10.00 per mille)

The increase in the level of supportable bonuses arises from the increase in the assumed discount rate over the past year, combined with an increase in investment returns on those investments that back the participating policies.

11. Policy Liabilities– Medical Life Assurance Society Limited

	2017 $000	2016 $000
Gross future claims	365,130	222,657
Future reinsurance premiums	170,167	137,417
Future reinsurance recoveries	(200,152)	(109,084)
Future policy bonuses	760	626
Future expenses	82,599	68,816
Future profit margins	83,483	85,985
Balance of future premiums	(502,775)	(406,188)
Policy Liabilities before bonus	(788)	229
Bonus declared at year end	142	140
Total Policy Liabilities at period end	(646)	369
Total Policy Liabilities at previous period end	369	2,622
Decrease in Policy Liabilities per Statement of Comprehensive Income	1,015	2,253

11. Policy Liabilities– Medical Life Assurance Society Limited continued...

MLA operates a sub-fund in respect of its participating policyholders as required under the Insurance (Prudential Supervision) Act and Regulations. The progress of the participating sub-fund over the year has been as follows:

	2017 $000	2016 $000
Participating fund at previous balance date	4,943	5,165
Investment income less claims and expenses	270	(187)
Profit distributed to shareholders	(36)	(35)
Participating fund at balance date	**5,177**	**4,943**
Policyholder retained earnings at previous balance date	297	401
Profit distributed as bonuses to participating policyholders	(142)	(140)
Policyholder share of profit (80%)	202	35
Policyholder retained earnings at balance date	**358**	**297**
Shareholder retained earnings at previous balance date	74	100
Profit distributed to shareholders	(36)	(35)
Shareholder share of profit (20%)	51	9
Shareholder retained earnings at balance date	**89**	**74**

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

Bonus on sum insured	2.4% (2016: 2.4%)
Bonus on existing bonuses	3.8% (2016: 3.8%)

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

12. Outstanding Claims – Medical Life Assurance Society Limited

The following table shows the development of net undiscounted outstanding claims relative to the current estimate of ultimate disability claims costs for the five most recent years. Due to the long tail nature of disability claims, MLA has a number of active claims that pre-date 2013.

				Incident Year			
	Prior	2013 $000	2014 $000	2015 $000	2016 $000	2017 $000	Total $000
At end of incident year		6,574	5,270	5,839	7,561	6,549	
One year later		5,304	6,266	5,272	7,475	–	
Two years later		7,067	6,186	5,933	–	–	
Three years later		5,507	5,438	–	–	–	
Four years later		4,869	–	–	–	–	
Current estimated claim cost	72,609	4,869	5,438	5,933	7,475	6,549	
Payments	(60,918)	(4,671)	(4,724)	(4,004)	(4,163)	(2,379)	
Undiscounted central estimate	11,691	198	714	1,929	3,312	4,170	22,014
Discount to present value	(1,332)	(18)	(101)	(225)	(398)	(412)	(2,486)
Discounted central estimate	10,359	180	613	1,704	2,914	3,758	19,528

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

	2017 $000	2016 $000
Disability claims outstanding	19,528	21,105
Life claims outstanding	300	1,641
	19,828	22,746

13. Interest Expense

	2017 $000	2016 $000
Debenture Interest	1,780	3,615
Savings Plan Interest	26	463
Note Interest	641	2,060
Bank Interest	830	6
Interest Paid on Derivatives	123	69
Total Interest Expense	3,400	6,213

14. Mortgages and Loans

	2017 $000	2016 $000
Mortgages and Loans	65,275	170,219
Provision for Credit Impairment	(142)	(154)
Unearned Income	(10,164)	(35,601)
Net Mortgages and Loans	54,969	134,464
Mortgages and Loans – current	24,689	40,337
Mortgages and Loans – non-current	30,422	94,281
Less Provision for Credit Impairment	(142)	(154)
Net Mortgages and Loans	54,969	134,464
IMPAIRED LOAN PROVISION		
Collective Loan Provision	138	146
Specific Loan Provision	4	8
Total Loan Provision	142	154
COLLECTIVE LOAN PROVISION		
Opening Balance	145	282
Movement in Collective Loan Provision	(7)	(137)
Closing Balance	138	145
SPECIFIC LOAN PROVISION		
Opening Balance	8	19
Less: Specific Loan Provision Subsequently Written Off	–	(7)
Less: Reversal of Specifically Impaired Assets	(4)	(11)
Addition to Specific Impairment Provision	–	7
Closing Balance	4	8

$292 of interest income was received on specifically impaired loans for the period ending 31 March 2017 (2016: $4,482).

	2017 $000	2016 $000
CREDIT IMPAIRMENT		
Movement in Collective Provision	(7)	(137)
Movement in Specific Provision	(5)	(11)
Impaired Assets Written Off	36	67
Recoveries on Impaired Assets Written Off	(53)	(29)
Credit Impairment per profit and loss	(29)	(111)

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
2017					
Instalments in Arrears	4	1	0	4	9
Principal in Arrears	–	–	–	–	–
Associated Loan Principal	149	39	31	5	223
2016					
Instalments in Arrears	13	–	–	1	14
Principal in Arrears	2	–	–	1	3
Associated Loan Principal	349	–	–	10	359

Approximately 12% (2016: 30%) 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). Unsecured lending principally relates to the Creditline product.

The past due mortgages and loans not impaired represent 0.34% of mortgages and loans outstanding (2016: 0.21%).

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

From 1 April 2016 no new lending has been offered by MSL. All personal and business lending is now available through the MAS Member Package provided by its banking partner.

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 ongoing 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 2017	6,900	–	217
Interest Rate Derivatives 2016	8,200	1	336

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 ongoing 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

	2017 $000	2016 $000
Savings Plan (Unsecured) – current	–	13,140
First Ranking Debenture Stock – current	–	67,001
	–	80,141

The weighted average interest rate of Debenture Stock and Savings Plan at 31 March 2016 was 3.52%. The Company repaid all remaining Debenture Stock and Savings Plan balances in September 2016.

17. Notes – Medical Securities Limited

	2017 $000	2016 $000
Floating Rate Notes – current	–	30,000
	–	30,000

The Floating Rate Note matured in December 2016 and was repaid at that time.

18. Bank Borrowing – Medical Securities Limited

	2017 $000	2016 $000
Bank Borrowing	42,000	3,500
	42,000	3,500

The Company has a $42 million (2016: $75 million) facility that expires on 3 February 2018. MSL has provided a general security agreement over its assets and uncalled capital to support derivative transactions and borrowings from its banking partner.

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

The weighted average interest rate of the funds drawn on the facility at 31 March 2017 was 3.31% (2016: 3.06%).

19. Compensation Paid To Key Management Personnel

	2017 $000	2016 $000
Salaries and other short-term employee benefits	2,843	2,680
MAS Directors fees	614	618
MSL independent directors fees	22	73
Total compensation	3,479	3,371

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

	2017 $000	2016 $000
Included in Administration Expenses are the following:		
Rental of Premises	634	623
Interest on Bank Overdraft	2	2
Donations	7	–
Fees to auditors – for the audit of financial statements	200	207
Fees to auditors – for other assurance and related services	38	42
Fees to auditors – for other services	31	23
Directors' Fees	636	691
Loss on Disposal of Property, Plant, Equipment and Intangibles	378	2
Depreciation and Amortisation	5,291	3,134

Other assurance and related audit fees relate to reviews of regulatory reporting and agreed upon procedures (2016: 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 2.81 years (2016: 0.99 years) with renewal terms included in the contracts. Motor vehicle leases have an average life of 1.89 years (2016: 1.16 years).

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

	2017 $000	2016 $000
Less than one year	778	684
Between one and two years	713	232
Between two and five years	557	189
Total Operating Lease Commitments	2,048	1,105

22. Investment and Sundry Income

	2017 $000	2016 $000
Gain from Investment Funds	12,992	5,120
Rent Received	12	12
Interest on Term Deposits	115	137
Sundry Income	1,780	1,199
Total Investment and Sundry Income	14,899	6,468
Realised Income	7,819	7,274
Unrealised Income	7,080	(806)
Total Investment and Sundry Income	14,899	6,468

23. Taxation

	2017 $000	2016 $000
Net Surplus before Taxation	19,916	3,846
Taxation at 28%	5,576	1,077
Prior Period Adjustment	0	(63)
Taxation Effect of Permanent Differences	(1,707)	605
Tax Credits	(122)	(79)
Taxation Expense for the Year	3,747	1,540
Taxation Expense for the Year comprises:		
Current Taxation	1,115	37
Deferred Tax	2,632	1,503
Taxation Expense per Statement of Comprehensive Income	3,747	1,540

23. Taxation continued...

Deferred Tax

31 March 2017	Opening Balance $000	Prior Period Adjustment $000	Statement of Comprehensive Income $000	Total $000
Deferred Tax Liabilities				
Property, Plant and Equipment	(2,679)	–	118	(2,561)
Insurance Reserves and Provisions	(3,753)	–	(533)	(4,286)
	(6,432)	–	(415)	(6,847)
Deferred Tax Assets				
Provisions and Accruals	809	(14)	(28)	767
Losses to carry forward	2,175	14	(2,189)	(0)
	2,984	0	(2,217)	767
Net Deferred Tax Liability	(3,448)	0	(2,632)	(6,080)

31 March 2016	Opening Balance $000	Prior Period Adjustment $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)

Imputation Credit Account ("ICA")	2017 $000	2016 $000
Closing Balance	39,265	36,373

24. Contributed Equity

	2017 $000	2016 $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 2017, MIS was not in breach of any of its regulatory requirements, nor has it been at any stage during the current reporting period (2016: no breaches).

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

	2017 $000	2016 $000
Actual Solvency Capital	38,633	32,630
Minimum Solvency Capital	16,489	14,200
Solvency Margin	22,144	18,430
Solvency Ratio	2.34	2.30

24. Contributed Equity continued...

The solvency position of the Medical Life Assurance Statutory Fund is exactly the same as for the entity. At 31 March 2017 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 2016). MLA's solvency position as per the solvency standard is as follows:

	2017 $000	2016 $000
Actual Solvency Capital	46,831	41,600
Minimum Solvency Capital	36,619	31,174
Solvency Margin	10,212	10,426
Solvency Ratio	1.28	1.33

Medical Securities Limited ("MSL")
MSL requested that the Reserve Bank of New Zealand ("RBNZ") cancel its NBDT licence during the year. The RBNZ cancelled the licence on 30 September 2016 and MSL is no longer subject to the NBDT regulations. MSL was not in breach of any of its regulatory requirements or its covenants at any stage during the current reporting period (no breaches during the year ended 31 March 2016).

25. Payables

	2017 $000	2016 $000
Government Levies	832	786
GST Payable	2,087	2,166
Employee Benefits – current	1,264	1,373
Incentive Bonus	553	392
Other Payables	5,995	5,549
Employee Benefits – non-current	1,517	1,492
	12,248	11,759

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

	2017 $000	2016 $000
Bank Overdraft	(6)	–
Cash at Bank	3,970	14,457
	3,964	14,457

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

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

27. Receivables and Prepayments

	2017 $000	2016 $000
Reinsurance Premiums Paid in Advance	12	256
Recoveries Due from EQC for Kaikoura earthquakes	1,489	–
Interest Due	14	429
Management Fee for Funds Management	2,987	2,522
Other	527	120
	5,029	3,328

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

Following the 14 November 2016 Kaikoura earthquake, MIS entered into a Memorandum of Understanding with EQC whereby MIS would act as an agent on EQC's behalf and would be responsible for lodging, assessing and settling certain claims arising out of the Kaikoura earthquakes for its customers.

The EQC recovery recorded above reflects the amount due from EQC for claims paid and claim handling expenses incurred on EQC's behalf.

28. Investments

	2017 $000	2016 $000
Short Term Domestic Securities and Deposits	96,720	122,951
Domestic Fixed Interest	31,515	11,625
International Fixed Interest (Unit Trust)	19,148	10,814
Australasian Equities (Managed Fund)	17,932	13,404
Alternative Investments	2,132	–
International Equities (Exchange Traded Funds)	39,985	12,122
Total Investments	207,432	170,916
Life Assurance Investment Funds (MLA)	52,520	47,834
General Insurance Investment Funds (MIS)	91,571	82,154
Other Investment Funds	63,341	40,928
Total Investments	207,432	170,916

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 2016	2,480	1,835	9,979	14,294
Additions	–	–	287	287
Disposals	–	–	(5)	(5)
Balance as at 31 March 2017	2,480	1,835	10,261	14,576
ACCUMULATED DEPRECIATION AND IMPAIRMENT LOSSES				
Balance as at 1 April 2016	–	46	8,611	8,657
Depreciation charge	–	46	504	550
Disposals	–	–	(5)	(5)
Balance as at 31 March 2017	–	92	9,110	9,202
Net Book Value 31 March 2017	2,480	1,743	1,151	5,374

	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

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.

29. Property, Plant and Equipment continued...

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

	2017 $000	2016 $000
Land	821	821
Buildings	4,611	4,611
Accumulated Depreciation on Buildings	(3,513)	(3,398)
	1,098	1,213

30. Intangibles

	Software $000	Work in Progress $000	Total $000
COST			
Balance as at 1 April 2016	32,299	3,824	36,123
Additions	327	1,792	2,119
Transfers	3,580	(3,580)	–
Disposals	(599)	(1,535)	(2,134)
Balance as at 31 March 2017	35,607	501	36,108
ACCUMULATED AMORTISATION AND IMPAIRMENT LOSSES			
Balance as at 1 April 2016	17,653	–	17,653
Amortisation charge	4,741	–	4,741
Disposals	(222)	–	(222)
Balance as at 31 March 2017	22,172	–	22,172
Net Book Value 31 March 2017	13,435	501	13,936

	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)	–
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
Balance as at 31 March 2016	17,653	–	17,653
Net Book Value 31 March 2016	14,646	3,824	18,470

30. Intangibles continued...

Work in Progress

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

Impairment of Software

The Group has reviewed the carrying value of its software intangible assets (both in production and Work in Progress) for indicators of impairment as at 31 March 2017. The assessment of indicators included: reviewing the feasibility of completing the software development so it would be available for use; the intention to complete the software development; and whether the software would generate probable economic benefits.

The review was undertaken in light of revised expectations for future technology platforms required to support growth in the General and Life Insurance businesses. The Directors concluded that impairment of certain software intangible assets was required as at 31 March 2017. An impairment and accelerated amortisation charge totalling $3.8 million was recorded at 31 March 2017, and has been recognised in these financial statements (2016: nil) relating to internally generated software and Work in Progress.

31. Deferred Acquisition Costs – Medical Insurance Society Limited

	2017 $000	2016 $000
Opening balance	418	486
Acquisition costs deferred during the year	344	418
Current period amortisation	(418)	(486)
Closing balance	344	418

32. Commitments

	2017 $000	2016 $000
Commitments to extend credit (Members' undrawn revolving credit facilities)	18,770	23,297
Capital commitments relating to development of software systems	–	875
	18,770	24,172

33. Contingent Liabilities

The Group is subject to several legal disputes at 31 March 2017. 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 provided a general security agreement over its assets and uncalled capital to support derivative transactions and borrowings from its banking partner.

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 creditworthiness 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, nor Claims 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.

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.

	2017 Carrying Amount $000	2017 Fair Value $000	2016 Carrying Amount $000	2016 Fair Value $000
FINANCIAL ASSETS				
Derivative Financial Instruments	–	–	1	1
Investments	207,432	207,432	170,916	170,916
Net Mortgages and Loans	54,969	55,705	134,464	134,778
Total Financial Assets	262,401	263,137	305,381	305,695
FINANCIAL LIABILITIES				
Debenture Stock and Savings Plan	–	–	80,141	81,053
Derivative Financial Instruments	217	217	336	336
Total Financial Liabilities	217	217	80,477	81,389

34. Fair Value Of Financial Assets and Liabilities continued...

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 2017				
Assets measured at fair value				
Derivative Financial Instruments	–	–	–	–
Short Term Domestic Securities and Deposits	–	96,720	–	96,720
Domestic Fixed Interest	–	31,104	412	31,515
International Fixed Interest (Unit Trust)	–	19,148	–	19,148
Australasian Equities (Managed Fund)	17,932	–	–	17,932
Alternative Investments	–	2,133	–	2,133
International Equities (Exchange Traded Funds)	39,985	–	–	39,985
Liabilities measured at fair value				
Derivative Financial Instruments	–	217	–	217

	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

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 is 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 is it based on available market data.

There have been no transfers between the levels during the financial year (2016: no transfers).

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 ongoing, Directors formally review the major risks faced by the entire Group every six months.

The Group enters into financial derivatives to minimise the exposure to interest rate and currency movements. Currency hedges are principally entered into to protect the value of investments against adverse currency movements. Policy guidelines established by the Investment Committee prevent entering into such contracts for speculative purposes.

The main risks arising from the financial instruments and the business the Group engages in are; insurance risk, credit risk, investment risk, currency risk, market risk, liquidity risk and operating risk.

Insurance Risk

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

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

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

Credit Risk

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

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

- assessing each loan application against a Board-approved lending policy;
- where applicable, securing the loan against property / chattels, taking into consideration the type and location of the security, the loan to value ratio and loan servicing ability of the borrower; and
- employing staff who 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, cover, and hence exposure to claim is cancelled;
- the placement of reinsurance cover with a number of reinsurers; and
- the monitoring of a reinsurer's credit risk rating to control exposure to reinsurance counterparty default.

Mortgages and Loans are secured primarily by first mortgages or by chattel securities. Included within the Statement of Financial Position are unsecured loans of $13.2 million (2016: $18.1 million).

35. Financial Instruments and Risk Management continued...

Statement of Financial Position credit exposures:

	2017 $000	2016 $000
Cash at Bank / Short Term Deposits	3,970	14,457
Derivative Financial Instruments	–	1
Investments	207,432	170,916
Mortgages and Loans	60,905	134,618
Receivables	5,029	3,328
	277,336	323,320
Other Credit Exposures:		
General Security agreement issued to banking partner	42,136	–
Security Stock issued to banking partners	–	78,900
Guarantees provided	–	99
Commitments given to Members to extend credit	18,770	23,297
	60,906	102,296

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

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

	2017 %	2016 %
Auckland	30.09	27.39
Hamilton	18.84	17.91
Palmerston North	10.29	12.13
Wellington	16.14	14.12
Christchurch	18.94	23.74
Dunedin	5.70	4.71
Total	100.00	100.00

	2017 $000	2016 $000
Amount owed by the Group's six largest lending debtors	6,718	22,646

Six largest lending exposures as a proportion of Mortgages and Loans	12.22%	16.84%
Six largest lending exposures as a proportion of Total Equity	3.70%	13.71%

35. Financial Instruments and Risk Management continued...

Counterparty exposures

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

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

	2017	2016
10%–20% of equity	2	3
> 20% of equity	1	1

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

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

Statement of Financial Position investment exposures

	2017 $000	2016 $000
Cash and Cash Equivalents	3,970	14,457
Short Term Domestic Securities and Deposits	96,720	122,951
Domestic Fixed Interest	31,515	11,625
International Fixed Interest (Unit Trust)	19,148	10,814
Australasian Equities (Managed Fund)	17,932	13,404
Alternative Investments	2,132	–
International Equities (Exchange Traded Funds)	39,985	12,122
	211,402	185,374

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 2017							
Cash and Short Term Deposits	–	77.4%	22.1%	0.5%	–	–	100,690
Fixed Interest	19.9%	24.7%	11.5%	35.8%	3.9%	4.2%	50,664
Reinsurance Recoveries	–	53.7%	44.5%	–	–	1.8%	46,195
31 MARCH 2016							
Cash and Short Term Deposits	–	96.4%	3.6%	–	–	–	137,409
Fixed Interest	24.6%	21.3%	14.2%	27.9%	4.8%	7.2%	22,440
Reinsurance Recoveries	–	44.2%	53.9%	–	–	1.9%	42,636

35. Financial Instruments and Risk Management continued...

Funding Risk

Geographic spread of Debenture Stock and Savings Plan funding:

	2017 %	2016 %
Auckland	–	25.66
Hamilton	–	19.13
Palmerston North	–	10.67
Wellington	–	20.44
Christchurch	–	15.54
Dunedin	–	8.56
Total	–	100.00

Funding Risk

All Debenture Stock and Savings Plan funds were repaid during the financial year. The principal source of funding is a bank borrowing facility which expires in February 2018.

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):

	2017 $000	2016 $000
AUD	9,921	7,006
EUR	4,828	890
GBP	–	614
USD	13,879	39,151
	28,628	47,661

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 ongoing basis by:

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

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

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 2017							
Financial Assets							
Cash at Bank	3,970	–	–	–	–	–	3,970
Investments	–	176,791	1,544	7,515	21,582	–	207,432
Mortgages and Loans	12,805	7,786	6,782	10,676	14,980	12,183	65,212
Receivables	5,029	–	–	–	–	–	5,029
	21,804	184,577	8,326	18,191	36,562	12,183	281,643
Undrawn Bank Borrowing Facility	–	–	–	–	–	–	–
Financial Liabilities							
Bank Overdraft	6	–	–	–	–	–	6
Instruments	–	58	53	93	13	–	217
Bank Borrowing	–	37,464	5,069	–	–	–	42,533
Other Liabilities	10,202	–	–	–	–	–	10,202
	10,208	37,522	5,122	93	13	–	52,958
Undrawn Revolving Credit Facilities	18,770						

	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
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	359,074
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						

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; and
- the Group Internal Audit Manager is charged with assisting staff identify risks and ensuring the sufficiency of and ongoing presence of suitable mitigants.

Interest Rate Risk

Interest rate risk is the risk that the value / future value of a financial instrument will fluctuate because of changes in interest rates. The Group uses natural offsets (matching assets with liabilities) 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 2017						
Financial Assets						
Cash at Bank	3,970	–	–	–	–	3,970
Investments	207,432	–	–	–	–	207,432
Receivables	–	–	–	–	5,029	5,029
	211,402	–	–	–	5,029	216,431
Financial Liabilities						
Bank Overdraft	6	–	–	–	–	6
Derivative Financial Instruments	217	–	–	–	–	217
Bank Borrowing	37,000	5,000	–	–	–	42,000
Other Liabilities	–	–	–	–	10,202	10,202
	37,223	5,000	–	–	10,202	52,425

	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
Derivative Financial Instruments	1	–	–	–	–	1
Investments	170,916	–	–	–	–	170,916
Mortgages and Loans	112,916	5,420	7,707	8,575	–	134,618
Receivables	–	–	–	–	3,328	3,328
	298,290	5,420	7,707	8,575	3,328	323,320
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	12,536	13,750	–	80,141
Other Liabilities	–	–	–	–	9,713	9,713
	73,056	14,635	12,536	13,750	9,713	123,690

35. Financial Instruments and Risk Management continued...

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

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

		2017		2016	
Risk Variable	**Movement**	**Effect on future margins $000**	**Effect on policy liabilities $000**	**Effect on future margins $000**	**Effect on policy liabilities $000**
INSURANCE RISK (MLA):					
Discount rate	Increase by 1%	7,660	530	10,110	3,790
	Decrease by 1%	(8,590)	(420)	(11,400)	(4,120)
Claims	Increase by 10%	16,020	–	12,640	–
	Decrease by 10%	(15,910)	–	(12,670)	–
Lapses / Surrenders	Increase by 10%	8,030	–	6,530	–
	Decrease by 10%	(8,920)	–	(4,860)	–
Expenses	Increase by 10%	6,650	–	6,700	–
	Decrease by 10%	(6,650)	–	(6,700)	–

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 Discount 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	
		2017 $000	**2016 $000**
INSURANCE RISK (MIS):			
Change in outstanding claims	Increase by 1%	(297)	(277)
	Decrease by 1%	297	277

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

35. Financial Instruments and Risk Management continued...

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

		Impact on Profit and Equity	
		2017 $000	**2016 $000**
MARKET RISK:			
Short term deposit rates	Increase by 1%	29	104
	Decrease by 1%	(29)	(104)
Bond interest rates	Increase by 0.50%	(219)	(120)
	Decrease by 0.50%	219	120
Unit prices	Unit price increases by 10%	1,379	779
	Unit price decreases by 10%	(1,379)	(779)
Currency risk	NZD appreciates by 10% against the USD	(1,104)	(2,892)
	NZD depreciates by 10% against the USD	1,104	2,892
	NZD appreciates by 10% against the AUD	(791)	(566)
	NZD depreciates by 10% against the AUD	791	566
	NZD appreciates by 10% against the EUR	(377)	(80)
	NZD depreciates by 10% against the EUR	377	80
	NZD appreciates by 10% against the GBP	–	(55)
	NZD depreciates by 10% against the GBP	–	55

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.

35. Financial Instruments and Risk Management continued...

Classification of Financial Instruments

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

	Loans and Receivables $000	Fair Value through Profit or Loss $000	Other Financial Liabilities $000	Total $000
31 MARCH 2017				
Financial Assets				
Cash at Bank	3,970	–	–	3,970
Investments	–	207,432	–	207,432
Derivative Financial Instruments	–	–	–	–
Premiums Outstanding	27,736	–	–	27,736
Mortgages and Loans	54,969	–	–	54,969
Receivables	5,029	–	–	5,029
Reinsurance Recoveries Outstanding	46,195	–	–	46,195
	137,899	207,432	–	345,331
Financial Liabilities				
Bank Overdraft	–	–	6	6
Derivative Financial Instruments	–	217	–	217
Notes	–	–	–	–
Debenture Stock / Savings Plan	–	–	–	–
Bank Borrowing	–	–	42,000	42,000
Other Liabilities	–	–	10,202	10,202
	–	217	52,208	52,425

	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
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

36. Credit Rating

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

37. Reconciliation Of Cash Flows

	2017 $000	2016 $000
Reported Surplus after Taxation	16,169	2,306
Add / (Deduct) Non-Cash Items:		
Depreciation and Amortisation	5,291	3,134
Loss on Disposal of Property, Plant, Equipment and Intangibles	378	2
Fair Value Change in Derivatives	(118)	329
Revaluation of Land and Buildings	–	–
Credit Impairment / (Reversal of Credit Impairment)	(29)	(111)
Addition to Unearned Premium	2,952	(102)
Change in Deferred Acquisition Costs	74	67
Change in Deferred Taxation	2,632	1,504
Write off of software	1,535	–
Changes in Assets and Liabilities:		
Payables	489	609
Receivables	(1,701)	(177)
Mortgages and Loans	79,524	24,809
Outstanding Claims	(23)	(48,330)
Reinsurance Recoveries	(3,559)	46,499
Life Policy Liabilities	(1,015)	(2,253)
Premiums Outstanding	(1,501)	(166)
Provision for Taxation	(1,026)	689
Net Cash Flows from Operating Activities	100,072	28,810

Independent 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

Opinion

We have audited the financial statements of Medical Assurance Society New Zealand Limited (“the Company”) and its subsidiaries (together “the Group”) on pages 8 to 51, which comprise the consolidated statement of financial position of the Group as at 31 March 2017, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended of the Group, and the notes to the consolidated financial statements including a summary of significant accounting policies.

In our opinion, the consolidated financial statements on pages 8 to 51 present fairly, in all material respects, the consolidated financial position of the Group as at 31 March 2017 and its consolidated financial performance and cash flows for the year then ended in accordance with New Zealand Equivalents to International Financial Reporting Standards and International Financial Reporting Standards.

This report is made solely to the Company's shareholders, as a body. Our audit has been undertaken so that we might state to the company's shareholders those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the Company's shareholders as a body, for our audit work, for this report, or for the opinions we have formed.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (New Zealand). Our responsibilities under those standards are further described in the *Auditor’s Responsibilities for the Audit of the Financial Statements* section of our report.

We are independent of the Group in accordance with Professional and Ethical Standard 1 (revised) *Code of Ethics for Assurance Practitioners* issued by the New Zealand Auditing and Assurance Standards Board, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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

We provided agreed upon procedures services in relation to deposit repayments, remuneration advice and regulatory 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.

Directors’ Responsibilities for the Financial Statements

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

In preparing the consolidated financial statements, the directors are responsible for assessing, on behalf of the entity, the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or cease operations, or have no realistic alternative but to do so.

Auditor’s Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards on Auditing (New Zealand) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

Ernst + Young

Wellington
28 June 2017

Five-Year Summary

	2017 $000	2016 $000	2015 $000	2014 $000	2013 $000
STATEMENT OF COMPREHENSIVE INCOME					
FIRE AND GENERAL INSURANCE					
Gross Premium Income	69,197	64,502	64,263	62,364	75,200
Net Earned Premium	49,714	48,296	46,486	41,096	52,001
Net Claims	(35,401)	(49,462)	(40,147)	(48,036)	(39,932)
Net Income from Fire and General Insurance	14,313	(1,166)	6,339	(6,940)	12,069
LIFE ASSURANCE					
Gross Premium Income	36,138	34,212	32,723	31,230	14,396
Net Premium Income	25,744	24,393	23,927	22,534	10,624
Claims, Surrenders and Maturities	(6,706)	(5,967)	(8,318)	(4,485)	(2,054)
Decrease in Life Policy Liabilities	1,015	2,253	2,664	508	797
Net Income from Life Assurance	20,053	20,679	18,273	18,557	9,367
LENDING					
Interest and Sundry Income	8,245	13,768	15,400	15,382	17,179
Interest and Lending Expense	(3,371)	(6,431)	(7,615)	(7,467)	(8,907)
Net Income from Lending	4,874	7,337	7,785	7,915	8,272
FUNDS MANAGEMENT					
Revenue from Funds Management	11,032	9,723	8,126	6,405	5,056
Group Operating Expenses	(41,285)	(39,195)	(36,103)	(31,383)	(30,449)
Impairment of IT intangibles[2]	(3,970)	–	–	–	–
Net Income/(Loss) from Operations	5,017	(2,622)	4,420	(5,446)	4,315
Investment and Sundry Income	14,899	6,468	12,836	7,559	9,992
Surplus before Tax	19,916	3,846	17,256	2,113	14,307
Tax (Expense)/Credit	(3,747)	(1,540)	(875)	2,009	(1,638)
Surplus after Tax	16,169	2,306	16,381	4,122	12,669
STATEMENT OF FINANCIAL POSITION					
Total Assets	369,822	420,687	511,647	561,842	587,835
Total Liabilities	188,448	255,482	348,748	416,014	446,130
Equity	181,374	165,205	162,899	145,828	141,705
OTHER INFORMATION					
Fire and General Claims as a percentage of Net Earned Premium	71.2%	102.4%	86.4%	116.9%	76.8%
Operating Expenses as a percentage of Total Income	29.6%	30.5%	27.1%	25.5%	25.0%
Equity as a percentage of Total Income	130.0%	128.4%	122.2%	118.6%	116.3%
Number of Members	29,809	28,529	27,448	26,179	24,585

2 During the year the Group reviewed its future technology requirements to support its strategic objectives for the General and Life Insurance businesses. As a result of this review it has impaired and accelerated the useful life of its current core insurance system.

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, or due and payable, is as follows:

Dr R J Tyler	$125,438
Mr A C Hercus	$92,046
Dr H E Aish	$61,479
Dr K A Baddock	$41,156
Ms D R Dinsdale	$61,479
Dr F A Frizelle	$55,205
Mr L R Knowles	$63,911
Dr H W Rodenburg	$53,044
Mr B C Sutton	$64,241

Dr K A Baddock was appointed to the Board on 1 April 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	$9,084
Mr J K W Isles	$9,084

Mr H M Clentworth and Mr J K Isles retired on 30 September 2016.

Dr Tyler has additionally received $3,000 (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.

Directors received no other payments.

Employee Remuneration

	Number of employees	
	2017	**2016**
100,000–110,000	9	17
110,000–120,000	23	11
120,000–130,000	18	15
130,000–140,000	5	6
140,000–150,000	2	3
150,000–160,000	4	5
160,000–170,000	3	5
170,000–180,000	7	2
180,000–190,000	1	2
220,000–230,000	2	1
230,000–240,000	2	3
240,000–250,000	–	2
250,000–260,000	–	2
260,000–270,000	2	–
270,000–280,000	1	–
280,000–290,000	1	–
300,000–310,000	1	–
310,000–320,000	–	1
770,000–780,000	–	1
780,000–790,000	1	–

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 2017 there were five Practitioner Trustees (who are elected by Members) and four Commercial Trustees (who are appointed by the Practitioner Trustees). Members approve the appointment of Commercial Trustees.

There is a further Director on the Board of Medical Securities Limited ('MSL'), the MAS Chief Executive Officer, 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 10 times during the financial year ended 31 March 2017.

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 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), Dr Harley Aish, Ms Danelle Dinsdale, Mr Alastair Hercus, Mr Brett Sutton, and Mr Brendan O'Donovan, the Licensed Independent Trustee of the Medical Assurance Society Retirement Savings Plan.

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 Mede Cen Limited, Partner of Johnsonville Medical Centre and Shareholder of Wellington After-Hours Medical Service 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, and Howick Baptist Healthcare Limited.

Kate Baddock

Director: Medical Assurance Society New Zealand Limited.

Fields of Expertise: General practice and primary health care.

Other Boards and Health Sector Activity: Chair of the New Zealand Medical Association, a member of the Executive Board of General Practice New Zealand, and a member of the General Practice Leaders Forum.

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).

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. Trustee of Cotter Medical History Trust, Canterbury Charity Hospital Trust, and Bowel and Liver Trust. Patron of Canterbury Ostomy Society.

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 Limited, Stevenson Group Limited, and Mint Asset Management.

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

Kylie McQuellin
General Manager, Business Transformation

Mike Paine
General Manager, Information Technology

Lyndal Preston
General Manager, Member Support

Martin Stokes
Chief Executive Officer

Registered Office

19–21 Broderick Road
Johnsonville, Wellington
PO Box 13042

Telephone 0800 800 627

Fax 04 477 0109

Auditor

Ernst & Young

Solicitors

Minter Ellison Rudd Watts

Bankers

ANZ
Westpac

Call us today:

0800 800 627

Visit us online at **mas.co.nz**