



**MOTOR VEHICLES INSURANCE LIMITED**  
Annual Report

31 December 2019

# **MOTOR VEHICLES INSURANCE LIMITED**

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## **Annual Report**

**31 December 2019**

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## **MOTOR VEHICLES INSURANCE LIMITED**

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### **Company Information**

**31 December 2019**

Motor Vehicles Insurance Limited is a registered company under the Papua New Guinea Companies Act 1997 and is incorporated and domiciled in Papua New Guinea.

Registered Office	MTRS Building Section 35, Allotment 40 Kunai Street, Hohola National Capital District Papua New Guinea
Directors	Dr. Ken Ngangan Eno Daera Ian Prentice Bonny Ninai
Secretary	Delmai Bona
Auditors	Auditor General Of Papua New Guinea
Bankers	Bank of South Pacific Limited Westpac (PNG) Limited ANZ Banking Group (PNG) Limited Kina Bank Limited

# MOTOR VEHICLES INSURANCE LIMITED

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## Directors' Report 31 December 2019

The directors present their financial statements of Motor Vehicles Insurance Limited (the "Company") for the year ended 31 December 2019 and the state of affairs of the Company.

### Principal activities

The principal activity of the Company is the underwriting of compulsory third party insurance and investment portfolio management.

There were no other significant changes in the nature of the activities of the Company during the year.

### Results

The net profit after taxation for the period was K107,218,636 (2018: K73,901,277)

### Dividends

Dividends refer to note 18.

### Directors

The directors at the date of signing the report of the Company are listed on page 28. Directors' interests and shareholdings are disclosed in note 21.

No director was a shareholder of the Company as at 31 December 2019 and no director had any material interest in any contract or arrangement with the Company or any related entity during the year.

### Remuneration of directors

The Directors and employees remuneration information is disclosed in note 21.

### Interests register

No transactions were recorded in the register during the year.

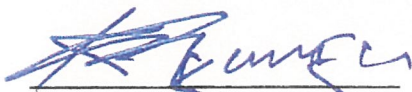
### Remunerations above K100,000 per annum

Disclosures are made at Note 21.

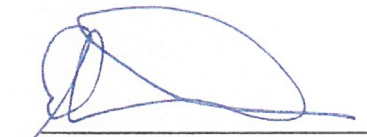
### Donations

Donations made during the year amounted to K2,062,878 (2018: K688,912)

For and on behalf of the board of directors



Dr. Ken NGANGAN  
Director



Mr. Eno DAERA  
Director

Dated this 30 day of June 2020.

## MOTOR VEHICLES INSURANCE LIMITED

### Statement of financial position

As at 31 December 2019

(Expressed in Papua New Guinea Kina)

	Notes	2019	2018
<b>ASSETS</b>			
Cash and cash equivalents	26	218,585,530	258,388,555
Prepayments and other receivables	16	5,582,099	3,313,238
<b>Total current assets</b>		<b>224,167,629</b>	<b>261,701,793</b>
Property, plant and equipment	12	16,664,459	13,483,712
Fair value through profit or loss	15(i)	417,125,572	365,360,093
Held-to-maturity investments	15(ii)	50,665,773	9,975,843
Investment in subsidiaries	15(iii)	84,717,507	73,956,993
Other investments	15(iv)	11,720,173	22,750,412
Deferred tax assets	13	370,871	639,823
<b>Total non-current assets</b>		<b>581,264,355</b>	<b>486,166,876</b>
<b>Total assets</b>		<b>805,431,984</b>	<b>747,868,669</b>
<b>LIABILITIES</b>			
Insurance contract liabilities	11	147,336,927	133,045,788
Employee benefits	20	468,760	556,630
Trade and other payables	19	8,878,337	27,316,640
Income tax payable/(benefit)	14	(3,523,081)	3,377,398
<b>Total current liabilities</b>		<b>153,160,943</b>	<b>164,296,456</b>
Employee benefits	20	1,142,288	1,062,096
<b>Total non-current liabilities</b>		<b>1,142,288</b>	<b>1,062,096</b>
<b>Total liabilities</b>		<b>154,303,231</b>	<b>165,358,552</b>
<b>Net assets</b>		<b>651,128,753</b>	<b>582,510,117</b>
<b>EQUITY</b>			
Share capital	17	33,519,070	33,519,070
Reserves		33,527,881	33,527,881
Retained earnings		584,081,802	515,463,166
<b>Total equity</b>		<b>651,128,753</b>	<b>582,510,117</b>

The statement of financial position is to be read in conjunction with the notes to, and forming part of, the financial statements set out on pages 9 to 33.



## MOTOR VEHICLES INSURANCE LIMITED

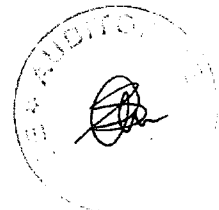
### Statement of comprehensive income

For the year ended 31 December 2019

(Expressed in Papua New Guinea Kina)

	Notes	2019	2018
Gross earned premium revenue	7	71,694,990	70,817,544
Outward reinsurance premium	7	(783,101)	(702,671)
<b>Net premium revenue</b>		<b>70,911,889</b>	<b>70,114,873</b>
Net claims expenses	11	(36,194,967)	(26,379,593)
<b>Underwriting profit</b>		<b>34,716,922</b>	<b>43,735,280</b>
Net investment income on assets backing insurance liabilities	8	53,721,631	24,012,645
<b>Insurance profit</b>		<b>88,438,553</b>	<b>67,747,925</b>
Net registrations and licensing income		2,652,529	2,423,950
Finance income	10	54,409,968	46,794,901
Loss on disposal of fixed assets		-	1,840
Administrative expenses	9	(35,727,927)	(35,562,947)
<b>Profit before income tax</b>		<b>109,773,123</b>	<b>81,405,670</b>
Income tax expense	14	(2,554,487)	(7,504,393)
<b>Profit after income tax</b>		<b>107,218,636</b>	<b>73,901,277</b>
Other comprehensive income		-	-
<b>Total comprehensive income for the year</b>		<b>107,218,636</b>	<b>73,901,277</b>

The statement of comprehensive income is to be read in conjunction with the notes to, and forming part of, the financial statements set out on pages 9 to 33.



## MOTOR VEHICLES INSURANCE LIMITED

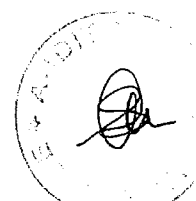
### Statement of changes in equity

For the year ended 31 December 2019

(Expressed in Papua New Guinea Kina)

	Note	Share capital	Reserves	Retained earnings	Total equity
<b>Balance at 1 January 2018</b>		33,519,070	33,527,881	466,569,651	533,616,602
Total comprehensive income for the year		-	-	73,901,277	73,901,277
Prior period adjustment		-	-	(7,762)	(7,762)
Dividends paid	18	-	-	(25,000,000)	(25,000,000)
<b>Balance December 31, 2018</b>		<b>33,519,070</b>	<b>33,527,881</b>	<b>515,463,166</b>	<b>582,510,117</b>
Total comprehensive income for the year		-	-	107,218,636	107,218,636
Dividends paid	18	-	-	(38,600,000)	(38,600,000)
<b>Balance December 31, 2019</b>		<b>33,519,070</b>	<b>33,527,881</b>	<b>584,081,802</b>	<b>651,128,753</b>

The statement of changes in equity is to be read in conjunction with the notes to, and forming part of, the financial statements set out on pages 9 to 33.



## MOTOR VEHICLES INSURANCE LIMITED

### Statement of cash flows

For the year ended 31 December 2019

(Expressed in Papua New Guinea Kina)

	Note	2019	2018
<b>Cash flows from operating activities</b>			
Net profit		107,218,636	73,901,277
<i>Adjustments for:</i>			
Interest income	10	(4,556,681)	(1,680,856)
Dividend income	10	(49,853,287)	(45,114,045)
Provision/(recoveries) for bad debts		(39,962)	230,046
Change in fair value of investments	15	(40,735,240)	1,902,680
Income tax expenses	14	2,554,487	7,504,393
Depreciation of property, plant and equipment	12	856,086	1,047,194
		<b>15,444,039</b>	<b>37,790,689</b>
<b>Movements in working capital:</b>			
Prepayment and other receivable		(2,522,771)	7,569,652
Insurance contract liabilities		14,291,139	5,683,485
Employee benefit		(7,678)	-
Trade and other payables		(18,438,303)	3,277,409
Taxes paid		(8,892,142)	-
		<b>(125,716)</b>	<b>54,321,235</b>
Interest received		3,866,751	1,680,856
<b>Net cash from operating activities</b>		<b>3,741,035</b>	<b>56,002,091</b>
<b>Cash flows from investing activities</b>			
Dividends received		49,853,287	45,114,045
Purchase of property, plant and equipment	12	(4,036,833)	(710,886)
Recapitalization of share investments	15(iii)	(10,760,514)	(2,333,540)
Purchase of non-share investments	15(ii)	(40,000,000)	16,395
<b>Net cash from/(used by) investing activities</b>		<b>(4,944,060)</b>	<b>42,086,014</b>
<b>Cash flows from financing activity</b>			
Dividends paid	18	(38,600,000)	(25,000,000)
<b>Net cash used by financing activity</b>		<b>(38,600,000)</b>	<b>(25,000,000)</b>
<b>Net increase in cash and cash equivalents</b>		<b>(39,803,025)</b>	<b>73,088,105</b>
Cash and cash equivalents at 1 January		258,388,555	185,300,450
<b>Cash and cash equivalents at year-end</b>	26	<b>218,585,530</b>	<b>258,388,555</b>

The statement of cash flow is to be read in conjunction with the notes to, and forming part of, the financial statements set out on pages 9 to 33.



# **MOTOR VEHICLES INSURANCE LIMITED**

## **Notes to the financial statements**

**As at 31 December 2019**

*(Expressed in Papua New Guinea Kina)*

### **1 REPORTING ENTITY**

Motor Vehicles Insurance Limited (the "Company") is a company domiciled in Papua New Guinea. The address of the Company's registered office is MTRS Building, Section 35, Allotment 40 Kunai Street, Hohola National Capital District, Papua New Guinea. The Company primarily is involved in the underwriting of compulsory third party insurance, investment portfolio management and reinsurance.

### **2 BASIS OF PREPARATION**

#### **A General Accounting Policies**

##### **(a) Statement of compliance**

The financial statements of the Company have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the Accounting Standards Board of Papua New Guinea (ASB) and the requirements of the Papua New Guinea Companies Act 1997. The accounting policies have been applied consistently to all periods presented in these financial statements and have been applied consistently by Company entities.

The financial statements have been authorised for issue by the Board of Directors on 30/06/2020

##### **(b) Basis of preparation**

The financial statements have been prepared primarily on the historical cost basis and do not take into account changing money values except for the following material items in the statement of financial position:

- (1) financial instruments at fair value through profit or loss are measured at fair value, and
- (2) available-for-sale financial assets are measured at fair value.

The Company has consistently applied the accounting policies and these are consistent with those of the previous year.

##### **(c) Functional and presentation currency**

The financial statements are presented in the Papua New Guinea currency, the Kina which is the Company's functional currency.

##### **(d) Use of estimates and judgments**

The preparation of financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in future periods if affected.

Information about critical judgments in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements includes the following notes:

Note 5 Financial risk management	Note 15 Investments
Note 11 Outstanding claims	Note 20 Employee benefit
Note 12 Property, plant and equipment	Note 22 Risk management

# **MOTOR VEHICLES INSURANCE LIMITED**

## **Notes to the financial statements**

**As at 31 December 2019**

*(Expressed in Papua New Guinea Kina)*

### **(e) Application of new and amended standards**

**New and amended standards that are effective for the current year**

- IFRS 16 Leases
- Annual Improvements to IFRSs 2015-2017 Cycle (amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23)

The new and amended standards have been adopted in the current year. Unless otherwise disclosed, their adoption has had no material impact on the amounts reported in this financial statements.

## **3 SPECIFIC ACCOUNTING POLICIES**

### **(a) Foreign currencies**

Transactions in foreign currencies are translated to the respective functional currencies of Company entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the reporting period. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

### **(b) Premium Revenue**

Insurance premiums comprise amounts charged to motor vehicle owners in respect of third party insurance and are recognised over the period to which the policy relates.

The earned portion of premiums received is recognised as revenue. Unearned premium is calculated by apportioning the total premium revenue using the twenty-fourths method.

### **(c) Outwards reinsurance**

Premiums paid to re-insurers are recognised as an expense in accordance with the pattern of reinsurance service received. Accordingly, a portion of outwards reinsurance premiums are treated at reporting date as a prepayment.

### **(d) Claims**

Claims paid net of provisions in respect of outstanding claims are included as claims incurred. The provision includes reported claims not yet paid, incurred but not yet reported (IBNR) and the anticipated direct and indirect costs of settling the claims. Claims outstanding are assessed by a review of individual claim files and estimating changes in the ultimate costs of settling claims, IBNR's are calculated using statistics based on past experience and trends, and are subject to an independent actuarial assessment.

The liability for outstanding claims for all classes is measured as the present value of the expected future payments. These are estimated on the basis of the ultimate costs of settling claims, which is affected by the factors arising during the period of settlement such as normal and "superimposed inflation". The expected future payments are discounted to present value at balance sheet date using market determined, risk adjusted discount rates. A prudential margin is included in the liability for outstanding claims to cover possible adverse future developments for all classes of claims.

### **(e) Reinsurance and other recoveries receivable**

Reinsurance and other recoveries receivable on paid claims, reported claims not yet paid and IBNR's are recognised as revenue. All recoveries receivable on outstanding claims are measured as the present value of the expected future receipts calculated on the same basis as the outstanding claims liability.



# MOTOR VEHICLES INSURANCE LIMITED

## Notes to the financial statements

As at 31 December 2019

(Expressed in Papua New Guinea Kina)

### (f) Acquisition costs

A portion of commissions paid and other acquisition costs relating to unearned premium revenue are recognised as assets in recognition that they represent a future benefit. Deferred acquisition costs are amortised over the period expected to benefit from the expenditure.

### (g) Investments other than investment in subsidiaries and associates

All marketable investments except for government inscribed stocks are measured at market value at each reporting date. Changes in market value are recognised as income or expense in the profit or loss account.

Investments that are acquired principally for the purpose of generating a profit from short term fluctuations in prices are classified as trading investments and included in current assets. Investment intended to be held for an indefinite period of time, which may be sold in response to needs of liquidity or to changes in interest rates, are classified as available for sale; and included in non-current assets.

Other investments are carried at cost. Provision is only made where, in the opinion of the directors, there is permanent diminution in value.

All purchases and sales of investments are recognised on the trade date, which is the date the Company commits to purchase or sell the asset. Cost of purchase includes transaction costs. Trading and available for sale investments are carried at amortised cost using the effective yield method. Realised and unrealised gains and losses arising from changes in the fair value of trading investments and of available for sale investments are include in profit or loss in the period in which they arise.

Investment revenue is brought to account on an accrual basis except for dividends on shares which are brought to account on receipt. On disposal of an investment, the difference between the net disposal proceeds and the carrying value is charged or credited to the profit or loss account.

### (h) Property, plant and equipment

The cost of purchased property, plant and equipment is the value of the consideration given to acquire the assets and the value of other directly attributable costs which have been incurred in bringing the assets to the location and condition necessary for their intended service.

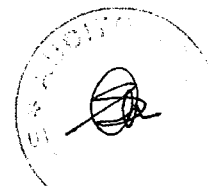
Depreciation is calculated over the depreciable amount, which is the cost of an asset, or other amount substituted for cost, less its residual value. Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of property, plant and equipment, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the assets.

Buildings	3%
Leasehold improvements	3%
Office equipment	10% - 20%
Motor vehicles	20%
Furniture and fittings	10%
Computer software and hardware	33%

Property, plant and equipment is depreciated on a straight-line method from the date of acquisition over their expected useful economic lives as follows:

Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with carrying amounts and are included in other income on the statement of comprehensive income. Repairs and maintenance is charged to profit or loss when the expenditure is incurred.



# MOTOR VEHICLES INSURANCE LIMITED

## Notes to the financial statements

As at 31 December 2019

(Expressed in Papua New Guinea Kina)

### (i) Cash and cash equivalents

Cash includes cash on hand and current accounts in banks. Cash equivalents are short term, highly liquid investments such as short-term deposits and bank accepted bills of exchange with maturity period of three months or less. Cash in bank earns interest at the respective bank deposit rates.

### (j) Financial instruments

The Company classifies its investments in the following categories: (i) financial assets at fair value through profit or loss, (ii) loans and receivables, (iii) held-to-maturity investments, and (iv) available-for-sale financial assets. The classification of its investments at initial recognition and, in the case of assets classified as held-to-maturity, re-evaluates this designation at each reporting date.

Financial instruments are recognised initially at fair value, plus for instruments not at fair value through profit or loss, any directly attributable transaction costs. Subsequent to initial recognition, financial instruments are measured as described below.

A financial instrument is recognised if the Company becomes a party to the contractual provisions of the instrument. Financial assets are derecognised if the Company's contractual rights to the cash flows from the financial assets expire or if the Company transfers the financial asset to another party without retaining control of substantially all risks and rewards of the asset. Regular way purchases and sales of financial assets are accounted for at trade date, that is, the date the Company commits itself to purchase or sell the asset. Financial liabilities are derecognised if the Company's obligations specified in the contract expire or are discharged or cancelled.

#### (i) *Financial assets at fair value through profit or loss*

An instrument is classified as at fair value through profit or loss if it is acquired for the purposes of selling, and which may be disposed of in response to the needs for liquidity or changes in interest rates, exchange rates or equity prices or is designated as such upon initial recognition.

Financial assets classified as held at fair value through profit or loss include investments in equity securities which are classified as non-current assets due to lack of liquidity in active markets.

Upon initial recognition, attributable transaction costs are recognised in income or loss when incurred. Financial instruments at fair value through profit or loss are measured at fair value, and changes therein are recognised in net income or loss in the statement of comprehensive income. The determination of fair values is based on quoted market prices or dealer price quotations for financial instruments traded in active markets.

#### (ii) *Held-to-maturity investments*

Financial assets and liabilities with fixed dates of maturity that management has the intent and ability to hold to maturity are classified as held-to-maturity. Financial assets classified as held-to-maturity include Government debt instruments and corporate bonds. Investments held-to-maturity are measured at amortised cost using the effective interest method, less any impairment losses.

The amortised cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment.

Any sale or reclassification of a more than insignificant amount of held-to-maturity investments not close to their maturity would result in the reclassification of all held-to-maturity investments as available for sale, and prevent the Company from classifying investment securities as held-to-maturity for the current and the following two financial years.



# MOTOR VEHICLES INSURANCE LIMITED

## Notes to the financial statements

As at 31 December 2019

(Expressed in Papua New Guinea Kina)

(iii) *Loans and receivables*

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market and are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition loans and receivables are measured at amortised cost using the effective interest method, less any impairment losses.

Receivables arising from insurance contracts, other receivables and cash and cash equivalents are classified in this category.

(iv) *Offsetting*

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

(v) *Disclosures pertaining to fair values for financial instruments*

The Company measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

- Level 1: Quoted market price (unadjusted) in an active market for an identical instrument.
- Level 2: Valuation techniques based on observable inputs, either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted market prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.
- Level 3: Valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

Disclosures in respect of fair values of financial instruments are included in note 22(g).

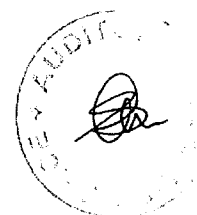
**(k) Impairment**

(i) *Financial assets*

A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

Objective evidence that financial assets (including equity securities) are impaired can include default or delinquency by a debtor, restructuring of an amount due to the Company on terms that the Company would not consider otherwise, or indications that a debtor or issuer will enter bankruptcy. Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in Company's that share similar credit risk characteristics.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the original effective interest rate. All impairment losses are recognised in net income or loss and reflected in an allowance account against receivables. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through net income or loss in the statement of comprehensive income.



# MOTOR VEHICLES INSURANCE LIMITED

## Notes to the financial statements

As at 31 December 2019

(Expressed in Papua New Guinea Kina)

Impairment losses on available-for-sale investment securities are recognised by transferring the cumulative loss that has been recognised in other comprehensive income, and presented in the fair value reserve in equity, to income or loss. The cumulative loss that is removed from other comprehensive income and recognised in income or loss is the difference between the acquisition cost, net of any principal repayment and amortisation, and the current fair value, less any impairment loss previously recognised in net income or loss. Changes in impairment provisions attributable to time value are reflected as a component of interest income.

If, in a subsequent period, the fair value of an impaired available for sale debt security increases and the increase can be related objectively to an event occurring after the impairment loss was recognised in income or loss, then the impairment loss is reversed, with the amount of the reversal recognised in income or loss. However, any subsequent recovery in the fair value of an impaired available for sale equity security is recognised in other comprehensive income.

(ii) *Non-financial assets*

The carrying amounts of non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated. An impairment loss is recognised if the carrying amount of an asset exceeds its recoverable amount. Impairment losses are recognised in income or loss. Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognised.

(l) **Employee benefits plans**

(i) *Short-term employee benefits*

Liabilities recognised in respect of employee benefits expected to be settled within 12 months are measured at their nominal values using the remuneration rate expected to apply at the time of settlement.

(ii) *Other long-term employee benefits*

Liabilities recognised in respect of employee benefits which are not expected to be settled within 12 months are measured as the present value of the estimated future cash outflows to be made by the Company in respect of services provided by employees up to reporting date.

(m) **Finance income and finance costs**

Finance income comprises interest income on funds invested, dividend income that is recognised in profit or loss. Interest income is recognised as it accrues in profit or loss, using the effective interest method. Dividend income is recognised in profit or loss on the date that the Company's right to receive payment is established, which in the case of quoted securities is the ex-dividend date.

Finance costs comprise interest expense on borrowings, unwinding of the discount on provisions and impairment losses recognised on financial assets. Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognised in profit or loss using the effective interest method.

Foreign currency gains and losses are reported on a net basis.



## **MOTOR VEHICLES INSURANCE LIMITED**

### **Notes to the financial statements**

**As at 31 December 2019**

*(Expressed in Papua New Guinea Kina)*

#### **(n) Income tax**

##### *(i) Current tax*

Current tax is calculated by reference to the amount of income taxes payable or recoverable in respect of the taxable profit or tax loss for the period. It is calculated using tax rates and tax laws that have been enacted or substantively enacted by reporting date. Current tax for current and prior periods is recognised as a liability (or asset) to the extent that it is unpaid (or refundable).

##### *(ii) Deferred tax*

Deferred tax is accounted for using the comprehensive balance sheet liability method in respect of temporary differences arising from differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax base of those items.

In principle, deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets are recognised to the extent that it is probable that sufficient taxable amounts will be available against which deductible temporary differences or unused tax losses and tax offsets can be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period(s) when the asset and liability giving rise to them are realised or settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by reporting date. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Company expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

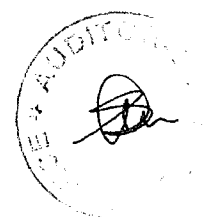
##### *(iii) Current and deferred tax for the period*

Current and deferred tax is recognised as an expense or income in the income statement, except when it relates to items credited or debited directly to equity, in which case the deferred tax is also recognised directly in equity.

#### **(o) Provisions**

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at reporting date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognised as an asset if it is virtually certain that recovery will be received and the amount of the receivable can be measured reliably.



# **MOTOR VEHICLES INSURANCE LIMITED**

## **Notes to the financial statements**

**As at 31 December 2019**

*(Expressed in Papua New Guinea Kina)*

### **(p) Related parties**

Related parties are classified as related companies, shareholders, directors and key management personnel who have the authority and responsibility for planning, directing and controlling the activities of the Company.

### **(q) Dividends**

Dividends proposed or declared after the reporting date are not recognised at the reporting date.

### **(r) Share capital**

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares and share options are recognised as a deduction from equity, net of any tax effects.

## **4 CRITICAL ACCOUNTING JUDGEMENTS AND ESTIMATES**

The Company makes estimates and assumptions in respect of certain key assets and liabilities. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectation of future events that are believed to be reasonable under the circumstances. The key areas in which critical estimates are applied are described below.

All the Company's assets are available to support the Company's insurance liabilities.

The ultimate liability arising from claims made under insurance contracts

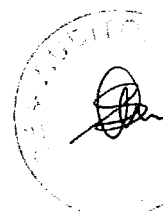
Provision is made at year end for the estimated cost of claims incurred, but not settled at the Statement of Financial Position date, including the cost of claim incurred but not yet reported ('IBNR') to the Company.

The estimated cost of claims includes direct expenses to be incurred in settling the claims gross of the expected value of the salvage and other recoveries. The Company takes all reasonable steps to ensure that it has appropriate information regarding its exposures. However, given the uncertainty in establishing claims provisions, it is likely that the final outcome will prove to be different from the original liability established.

The estimation of IBNR is generally subject to a greater degree of uncertainty than the estimation of the cost of settling claims already notified to the Company, where more information about the claim event is generally available. IBNR claims may often not be apparent to the insured until many years after the events giving rise to the claims has happened. Allowance is made, however, for changes or uncertainties which may create distortions in the underlying statistics or which might cause the cost of unsettled claims to increase or reduce when compared with the cost of previously settled claims including:

- Changes in company processes which might accelerate or slow down the development and/or recording of paid or incurred claims, compared with the statistics with previous periods
- Changes in the legal environment
- The effects of inflation
- Changes in mix of business
- The impact of large losses
- Movements in industry benchmarks
- Medical and technological developments

A component of these estimation techniques is usually the estimation of the cost of notified but not paid claims. In estimating the cost of these, the company has regard to the claim circumstances as reported, and information about the cost of settling claims with similar characteristics in previous periods.



# **MOTOR VEHICLES INSURANCE LIMITED**

## **Notes to the financial statements**

**As at 31 December 2019**

*(Expressed in Papua New Guinea Kina)*

Large claims impacting each relevant business class are generally assessed separately, being measured on a case by case basis or projected separately in order to allow for the possible distortive effect of the development and incidence of these large claims.

Provisions are calculated gross of any reinsurance recoveries. A separate estimate is made of the amount that will be recoverable from reinsurers based upon the gross provisions.

### **Assets from reinsurance contracts**

Assets arising from reinsurance contracts are also computed using the above methods. In addition, the recoverability of these assets is assessed on a periodic basis to ensure the balance is reflective of the amounts that will ultimately be recovered.

### **(a) Roles of the actuary and external auditors**

The actuary has been appointed by the Board of Directors to carry out an actuarial valuation of management's estimate of the Company's policy liabilities and report thereon to the Board of Directors. Actuarially determined policy liabilities consist of the provisions for, and reinsurance recovery of, unpaid claims and adjustment expenses on insurance policies in force. The valuation is made in accordance with accepted actuarial practice, as well as any other matter specified in any directive that may be made by regulatory authorities. The actuary's valuation is contingent upon the reliability of the information supplied by the management of the Company. The actuary's report outlines the scope of the valuation and the actuary's opinion.

The external auditors are the Auditor General of PNG (required by Audit Act) to conduct an independent and objective audit of the financial statements of the Company in accordance with International Standards on Auditing and report thereon to the shareholders. In carrying out their audit, the auditors also make use of the work of the appointed actuary and the actuary's report on the Company's actuarially determined policy liabilities. The auditors' report outlines the scope of their audit and their opinion.

### **Run-off Loss Ratios**

These were selected having regard to emerging experience for older underwriting years and to the pricing levels and conditions achieved in more recent underwriting years (where experience to date may not yet be sufficiently reliable, particularly for long-tailed lines of business).

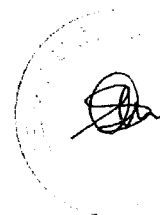
### **Expense Rate**

A 12% loading for claims handling expenses is supported by analysis of the current level of the company's Claims department expenses viz-a-viz the level and duration of the unpaid liabilities.

### **(b) Sensitivity analysis**

The sensitivity of the Company's profit and equity to key valuation assumptions is tabulated below:

<b>Variable</b>	<b>Movement in Variable</b>	<b>Projected Claims Cost (K'000)</b>	<b>Earned Premium (K'000)</b>
Run-off Loss Ratio	34%	23,672	69,014
		<b>Effect in Net Profit (K'000)</b>	
Expense Rate	12%	8,700	



# **MOTOR VEHICLES INSURANCE LIMITED**

## **Notes to the financial statements**

**As at 31 December 2019**

*(Expressed in Papua New Guinea Kina)*

### **(c) Risk margin**

There are many sources of uncertainty as to the eventual (final) values of outstanding claims, including but not restricted to: quality of data used in the valuation; appropriateness of the valuation model and assumptions; impact of past legislative reform; future legislative changes; future economic and environmental factors; etc. A risk margin increases the company's reserves to a level that is intended to have a 80% probability of adequacy.

The risk margin applied to the Company's business is 20% for the year ended 31 December 2019 and 31 December 2018.

### **(d) Underwriting policies and reinsurance agreements**

The Company follows the policy of underwriting and reinsuring all major contracts of insurance with a sum insured or limit of liability over K1 million, which limits the retained liability of the Company. The reinsurance of contracts does not, however, relieve the Company of its primary obligation to the policyholders. In the event that the reinsurers are unable to meet their obligations under the reinsurance agreements, the Company would also be liable for the reinsured amount. The Company's credit risk management procedures are detailed in note 22.

## **5 FINANCIAL RISK MANAGEMENT**

The Company's activities expose it to a variety of financial risks, including effects of changes in market prices, foreign currency exchange rates and interest rates. The Company monitors these financial risks and seeks to minimise the potential adverse effects on the financial performance of the Company. The Company does not use any derivative financial instrument to hedge these exposures.

### **(a) Foreign exchange risk**

The Company undertakes transactions denominated in foreign currencies from time to time and resulting from these activities, exposures in foreign currencies arise. It is not the Company's policy to hedge these foreign currency risks. The Company, following the liberalization of foreign exchange controls in PNG, now operates bank accounts in foreign currencies to mitigate the foreign exchange risks.

### **(b) Interest rate risk**

The Company has short term cash investments at market interest rates, and accordingly the Company's income and cash flows are exposed to changes in market rates.

### **(c) Credit risk**

The Company has no significant concentrations of credit risk. The Company has policies in place to ensure that sales of services are made to customers with an appropriate credit history, and that limit the amount of credit exposure to any one financial institution.

### **(d) Liquidity risk**

The Company aims to prudently manage liquidity risk by maintaining sufficient cash and other liquid assets or the availability of funding through uncommitted credit facilities.

### **(e) Fair value estimation**

The face value less any estimated credit adjustments for financial assets and liabilities are assumed to approximate their fair values.



# MOTOR VEHICLES INSURANCE LIMITED

## Notes to the financial statements

As at 31 December 2019

(Expressed in Papua New Guinea Kina)

### 6 DETERMINATION OF FAIR VALUES

A number of the Company's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and / or disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

#### (i) Property plant and equipment

The fair value of property, plant and equipment recognised as a result of a business combination is based on market values. The market value of property is the estimated amount for which a property could be exchanged on the date of valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably and willingly. The fair value of items of plant, equipment, fixtures and fittings is based on the market approach and cost approaches using quoted market prices for similar items when available and replacement cost when appropriate.

#### (ii) Trade and other receivables

The fair value of trade and other receivables is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date. This fair value is determined for disclosure purposes.

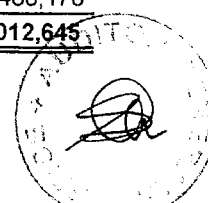
#### (iii) Investment in equity securities

The fair value of financial assets at fair value through profit or loss, held-to-maturity investments and available-for-sale financial assets is determined by reference to their quoted closing bid price at the reporting date. The fair value of held-to-maturity investments is determined for disclosure purposes only.

#### (iv) Non-derivative financial liabilities

The fair value of financial assets at fair value through profit or loss, held-to-maturity investments and available-for-sale financial assets is determined by reference to their quoted closing bid price at the reporting date. The fair value of held-to-maturity investments is determined for disclosure purposes only.

7	Revenue	2019	2018
	Gross written premium	74,986,129	71,001,029
	Movement in unearned premium	(3,291,139)	(183,485)
	Gross earned premium revenue	<u>71,694,990</u>	<u>70,817,544</u>
	Reinsurance premium	(783,101)	(702,671)
	Movement in unearned reinsurance premium	-	-
	Outward reinsurance premium	<u>(783,101)</u>	<u>(702,671)</u>
8	Net investments and other income	2019	2018
	Fair value movement of investments	51,765,479	18,615,239
	Recovery of bad debts	-	3,592,072
	Commissions	1,524,066	1,337,156
	Other income/ (expenses) - net	432,086	468,178
		<u>53,721,631</u>	<u>24,012,645</u>



# MOTOR VEHICLES INSURANCE LIMITED

## Notes to the financial statements

As at 31 December 2019

(Expressed in Papua New Guinea Kina)

### 9 Administrative expenses

Administrative expenses for the year are as follows:

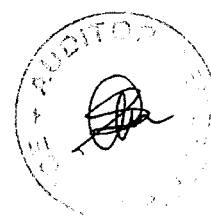
	Note	2019	2018
Personnel		14,205,697	13,506,981
Communication		3,644,636	3,260,136
Outside services		2,086,522	2,819,138
Community services obligations		2,037,431	1,368,405
Transportation		1,785,063	3,753,475
Office expenses		1,324,906	1,212,223
Legal		1,224,959	959,069
Repairs		1,141,498	1,247,676
Security		956,982	1,337,200
Utilities		883,617	956,331
Depreciation	12	856,086	1,047,194
Bank charges		846,750	735,996
Rental		699,218	1,031,822
Directors expenses		390,970	370,551
Audit fees		361,678	415,100
Advertising		328,659	230,046
Bad and doubtful debts		39,962	-
Others		2,913,293	1,311,604
		<u>35,727,927</u>	<u>35,562,947</u>

### 10 Finance income and costs

	2019	2018
<b>Finance income</b>		
Dividend income	49,853,287	45,114,045
Interest income	4,556,681	1,680,856
<b>Finance income</b>	<u>54,409,968</u>	<u>46,794,901</u>

### 11 Net claims incurred and outstanding claims

	2019	2018
Claims incurred for the year	25,194,967	20,879,593
Outstanding claims movement	8,300,000	2,334,471
Claims incurred but not reported movement	2,700,000	3,165,529
	<u>36,194,967</u>	<u>26,379,593</u>



## MOTOR VEHICLES INSURANCE LIMITED

### Notes to the financial statements

As at 31 December 2019

(Expressed in Papua New Guinea Kina)

#### Assumptions, change in assumptions and sensitivity

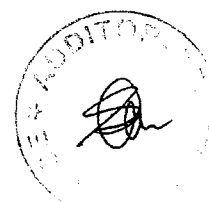
##### (i) Process used to decide on assumptions

The reserving process commences at the moment an insured reports a claim and there is prima facie evidence that the Company is liable under the policy. An initial reserve is established at that point based on the best information available. Assuming liability is subsequently confirmed, the reserve is revised whenever more detailed information becomes available concerning the nature of the injury or physical damage involved. The setting of reserves is the responsibility of the agency's claims manager who will use external legal or other expert advice where appropriate. Where the initial reserve exceeds the agency's claims settling threshold, the adequacy of the reserve will also be discussed with the Company. An established reserve is expected to be sufficient to meet the final cost of a claim whenever it is finally determined.

A provision for IBNR claims has been established for each class of business and is monitored for accuracy at every six months. In determining the accuracy of the provision, management reviews the historical cost of IBNR claims and amends the provision, where necessary, taking into account statistical trends and changes in the shape and size of the portfolio.

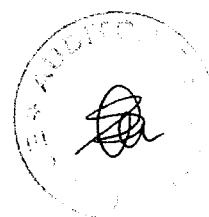
All claims reserves are established on a gross basis and the Company accounts to proportional reinsurers for their share through quarterly returns. Claims recoveries against excess of loss reinsurers are made on a case by case basis on proof of payment being established.

	2019	2018
<b>Insurance Contract Liabilities</b>		
Provision for claims reported by policyholders	51,725,033	45,261,648
Provision for IBNR losses	57,074,967	52,538,352
<b>Total claims reported and IBNR losses</b>	108,800,000	97,800,000
Provisions for unearned premiums	38,536,927	35,245,788
<b>Total insurance contract liabilities</b>	147,336,927	133,045,788



**MOTOR VEHICLES INSURANCE LIMITED****Notes to the financial statements****As at 31 December 2019***(Expressed in Papua New Guinea Kina)***12 Property, plant and equipment**

	Land	Buildings	Office equipment	Motor vehicles	Work in progress	Total
<b>Cost</b>						
At 1 January 2018	7,091,007	10,243,530	18,421,495	938,526	-	36,694,558
Additions	-	90,000	392,026	-	228,860	710,886
Disposals/ Write-off	-	-	-	-	-	-
At 31 December 2018	7,091,007	10,333,530	18,813,521	938,526	228,860	37,405,444
Additions	-	487,184	455,336	27,272	3,067,041	4,036,833
Disposals/ transfers	-	228,860	-	-	(228,860)	-
<b>At 31 December 2019</b>	<b>7,091,007</b>	<b>11,049,574</b>	<b>19,268,857</b>	<b>965,798</b>	<b>3,067,041</b>	<b>41,442,277</b>
<b>Depreciation and impairment losses</b>						
At 1 January 2018	599,743	4,698,155	16,896,145	680,495	-	22,874,538
Charge for the year	2,947	323,410	599,380	121,457	-	1,047,194
Disposals	-	-	-	-	-	-
At 31 December 2018	602,690	5,021,565	17,495,525	801,952	-	23,921,732
Charge for the year	69,337	239,878	457,980	88,891	-	856,086
Disposals/ Write-off	-	-	-	-	-	-
<b>At 31 December 2019</b>	<b>672,027</b>	<b>5,261,443</b>	<b>17,953,505</b>	<b>890,843</b>	<b>-</b>	<b>24,777,818</b>
<b>Net book value</b>						
At 31 December 2019	<b>6,418,980</b>	<b>5,788,131</b>	<b>1,315,352</b>	<b>74,955</b>	<b>3,067,041</b>	<b>16,664,459</b>
At 31 December 2018	<b>6,488,317</b>	<b>5,311,965</b>	<b>1,317,996</b>	<b>136,574</b>	<b>228,860</b>	<b>13,483,712</b>



# MOTOR VEHICLES INSURANCE LIMITED

## Notes to the financial statements

As at 31 December 2019

(Expressed in Papua New Guinea Kina)

### 13 Deferred tax assets and liabilities

(a) Deferred tax assets and deferred tax liabilities at 31 December 2019 and 2018 are attributable to the items detailed in the tables below:

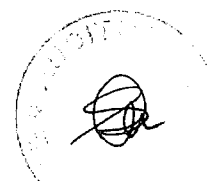
2019	Asset	Liability	Net
Prepayment	-	(154,085)	(154,085)
Provision for doubtful debts	92,107	-	92,107
Provision for leave	485,092	-	485,092
Other	(26,443)	(25,800)	(52,243)
Net tax assets / liabilities	<u>550,756</u>	<u>(179,885)</u>	<u>370,871</u>
2018	Asset	Liability	Net
Prepayment	-	(144,524)	(144,524)
Provision for doubtful debts	97,464	-	97,464
Provision for leave	471,049	-	471,049
Other	299,833	(83,999)	215,834
Net tax assets / liabilities	<u>868,346</u>	<u>(228,523)</u>	<u>639,823</u>

(b) Movements in deferred tax assets and liability

2019	Asset	Liability	Net
Opening Balance at 1 January	868,346	(228,523)	639,823
Recognised in income statement	(317,590)	48,638	(268,952)
Closing balance	<u>550,756</u>	<u>(179,885)</u>	<u>370,871</u>
2018	Asset	Liability	Net
Opening Balance at 1 January	1,060,892	(311,439)	749,453
Recognised in income statement	(192,546)	82,916	(109,630)
Closing balance	<u>868,346</u>	<u>(228,523)</u>	<u>639,823</u>

### 14 Income tax

Income tax expense	2019	2018
Current tax expense		
- Current year	<u>2,285,535</u>	<u>7,394,763</u>
	2,285,535	7,394,763
Change in deferred taxes		
- Deferred tax expense / (income) relating to the origination and reversal of temporary differences	<u>268,952</u>	<u>109,630</u>
Income tax expense	<u>2,554,487</u>	<u>7,504,393</u>
The prima facie tax charge on the profit for the year is reconciled to the tax expense as follows:		
Accounting profit before tax	<u>109,773,123</u>	<u>81,405,670</u>
Tax on the profit for the year at 30%	32,931,937	24,421,701
Movements in investments - non deductible	(15,529,644)	(5,584,572)
Dividend rebate	(14,955,986)	(13,534,214)
Others	108,180	2,201,478
	<u>2,554,487</u>	<u>7,504,393</u>



## MOTOR VEHICLES INSURANCE LIMITED

### Notes to the financial statements

As at 31 December 2019

(Expressed in Papua New Guinea Kina)

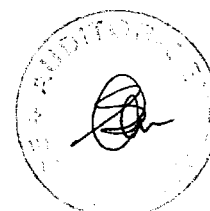
14	Income tax (continued)	Note	2019	2018
	<b>Provision for income taxes payable/(benefit)</b>			
	At 1 January		3,377,398	-
	Income tax expense (benefit) for the year		2,285,535	7,394,763
	Payments and credits during the year		(8,892,142)	(9,416,266)
	Transfer to Prepayments - Income tax receivable		(293,872)	2,021,503
	At 31 December		<u>(3,523,081)</u>	<u>3,377,398</u>
15	<b>Investments and financial assets</b>		<b>2019</b>	<b>2018</b>
(i)	<b>Fair value through profit or loss</b>			
	<b>Non-current</b>			
	Fair value through profit or loss			
	Listed		398,736,211	346,970,732
	Unlisted		18,389,361	18,389,361
		(a)	<u>417,125,572</u>	<u>365,360,093</u>
(ii)	<b>Held-to-maturity investments</b>			
	<b>Non-current</b>			
	Held-to-maturity investments	(b)	<u>50,665,773</u>	<u>9,975,843</u>
(iii)	<b>Investment in subsidiary</b>			
	<b>Non-current</b>			
	Investment in subsidiaries	(c)	<u>84,717,507</u>	<u>73,956,993</u>
(iv)	<b>Other investments</b>			
	<b>Non-current</b>			
	Non-share investments	(d)	<u>11,720,173</u>	<u>22,750,412</u>

**(a) Fair value through profit or loss**

Assets measured at fair value through profit or loss includes listed and unlisted stocks such as Bank of South Pacific, Credit Corporation, Kina Asset Management, Westpac PNG and Pacific International Hospital.

**(b) Held-to-maturity investments**

Held-to-maturity investments include treasury bills and statutory deposits held with the Bank of Papua New Guinea.



## **MOTOR VEHICLES INSURANCE LIMITED**

### **Notes to the financial statements**

**As at 31 December 2019**

*(Expressed in Papua New Guinea Kina)*

**(c) Investment in subsidiary**

	<b>2019</b>	<b>2018</b>
Pacific MMI Insurance Limited (PMMI)	67,000,001	56,239,487
Pacific Re Limited	17,717,506	17,717,506
	<u><b>84,717,507</b></u>	<u><b>73,956,993</b></u>

The Company, in accordance with the National Executive Council (NEC), invested an additional amount of K10.8 million (2018: K2.3 million) to recapitalize PMMI in 2019.

**(d) Non-share investments**

The K50m was a grant paid to National Capital District Commission under the Road Investment Grant at an annual interest rate of 15% pa. Clause 6 of the agreement states that K50m paid to MVIL to NCD was a grant. The board of MVIL has approved this grant on 6 July 2013.

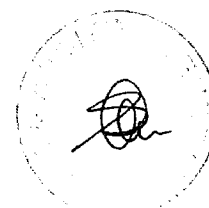
As at 31 December 2019, the remaining balance of the grant amounted to K11,720,173 after partial settlement by NCD through offset made against the accrued State share on registration from previous years.

<b>16 Prepayments and other receivables</b>	<b>2019</b>	<b>2018</b>
Withholding tax receivable	364,719	364,719
Advances to employees	236,476	277,045
Prepaid expenses	2,779,340	2,103,045
Other receivables	2,201,564	568,429
	<u><b>5,582,099</b></u>	<u><b>3,313,238</b></u>

**17 Share capital**

Issued ordinary share capital		
33,519,070 shares on issue	<u><b>33,519,070</b></u>	<u><b>33,519,070</b></u>

In accordance with the provisions of the Companies Act 1997 the share capital does not have a par value. All issued shares are fully paid.



# MOTOR VEHICLES INSURANCE LIMITED

## Notes to the financial statements

As at 31 December 2019

(Expressed in Papua New Guinea Kina)

### 18 Dividends

The Company paid a total dividend of K38.6 million in 2019 (final Dividend for 2017 net profits after tax K1.6 million and K37 million for 2018 net profits after tax) (2018: K25 million).

19 Trade and other payables	2019	2018
Trade creditors	3,667,405	7,023,365
Goods and services tax	183,000	-
Accrued expenses	3,542,513	12,662,991
Group tax payable	161,467	(3,640)
Other creditors	1,323,952	7,633,924
	<u>8,878,337</u>	<u>27,316,640</u>

### 20 Employee benefit plans

#### Post - employee benefit plan

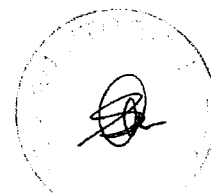
The Company contributes to superannuation plans for employees. The plan for general employees is a defined contribution type, whereby the Company matches contributions to the scheme made by employees at the rate of 6% of the employee's base salary. Employee contributions are based on various percentages of their gross salaries.

Employee benefits	2019	2018
<i>Current</i>	-	-
Annual leave	468,760	556,630
<i>Non-current</i>		
Long service leave	1,142,288	1,062,096
Total employee benefits	<u>1,611,048</u>	<u>1,618,726</u>

#### Employee benefit plans

The movement in the long service leave during the year as follows;

Balance at 1 January	1,062,096	973,145
Increase in provision	220,930	162,038
Payments made	(140,738)	(73,087)
Balance at 31 December	<u>1,142,288</u>	<u>1,062,096</u>



## MOTOR VEHICLES INSURANCE LIMITED

### Notes to the financial statements

As at 31 December 2019

(Expressed in Papua New Guinea Kina)

#### 21 Related party transactions

<i>Remuneration of directors</i>	2019	2018
Eno Daera	119,000	96,750
Bonny Ninai	95,000	76,500
Ian Prentice	95,000	67,492
Ken Ngangan	-	-
	<u>309,000</u>	<u>240,742</u>

#### *Remuneration of key management personnel*

The number of management staff whose remuneration, including salaries and benefits (superannuation, accommodation, leave fares, insurance, school fees, club subscriptions and other entitlements), was within the specified bands is as follows:

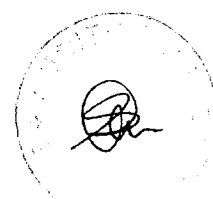
	2019	2018
0 - K150,000	123	131
K150,001 - K160,000	3	2
K210,001 - K220,000	3	2
K310,001 - K320,000	1	1
The number of employees as at each respective financial reporting date is	<u>130</u>	<u>136</u>

#### *Transactions with subsidiaries*

All transactions are in the normal course of business and on normal commercial terms and conditions and repayable on demand. All transactions are unsecured.

#### 22 Risk management

The Company is exposed to insurance risk and financial risk through its insurance assets and insurance liabilities, financial assets and financial liabilities. The insurance risk covers such things as the vagaries of the weather, the unpredictability of serious injury losses and fortuitous events such as outbreaks of fire. The main components of the financial risk are credit risk, liquidity risk and interest-rate risk. The Company's financial performance is affected by its capacity to understand and effectively manage these risks. The Company's challenge is not only to measure and monitor these risks but also to manage them as profit opportunities. A critical goal of the Company is to ensure that its financial assets are always more than sufficient to fund the obligations arising from its insurance contracts. The following notes expand on the nature of the aforementioned risks and the manner in which the Company manages them.



# **MOTOR VEHICLES INSURANCE LIMITED**

## **Notes to the financial statements**

**As at 31 December 2019**

*(Expressed in Papua New Guinea Kina)*

### **(a) Insurance risk**

Insurance risk is the risk that an insured event might occur. At the individual policy level and also at the portfolio level, there is uncertainty in terms of both frequency of occurrence and severity of loss. For any given portfolio of insurance contracts, where the theory of probability is applied to pricing and loss reserving, the principal risk that the Company faces is that claims and other costs might exceed premiums earned. This could occur because the frequency or severity of claims is greater than estimated or that estimated original policy rates prove not to be sustainable or a combination of both.

Experience shows that the greater the commonality of risk within a class of business, the smaller will be the relative variability in the expected outcome.

In addition, a more diversified portfolio is less vulnerable to a deterioration in the loss experience in any particular class of business. The Company has developed its underwriting strategy to produce a diversified portfolio of insurance risks. Within each of the individual classes of business it has sought to achieve, wherever possible, a sufficiently large population of risks to reduce the variability of the expected outcome.

#### **Casualty insurance risks**

##### *(i) Frequency and severity of claims*

The frequency and severity of claims can be affected by several factors. Claims frequency can be influenced by changes in the size, composition and quality of a portfolio. Changes in social/economic conditions can also severely impact claims frequency. Claim severity is impacted by such things as general inflation. In the case of liability claims, the most significant factor is the increasing level of awards for personal injury.

The Company manages these risks by means of its well developed underwriting and reinsurance strategies and also by adopting a proactive approach to claims handling. The underwriting strategy attempts to ensure that the portfolio remains biased towards high quality risks. Underwriting guidelines are in place to enforce appropriate risk selection criteria. The reinsurance arrangements include both proportional and catastrophe excess of loss coverage. The effect of such reinsurance arrangements is to limit the total net insurance loss that the Company can suffer in any one year.

##### *(ii) Sources of uncertainty in the estimation of future claim*

Claims on casualty contracts are payable on a claims-occurrence basis. The Company is liable for all insured events that occur during the term of the contract, even if the loss is discovered after the end of the contract term. As a result, liability claims are settled over a long period of time and an element of the claims provision relates to IBNR and unexpired risks. Given the uncertainty in establishing claims provisions, it is likely in many cases that the final cost of a claim will vary significantly from the initial reserve. In calculating the estimated cost of outstanding claims (both reported or not), the Company uses various industry standard loss estimation techniques and the experience of its agents in settling claims of similar type.



# MOTOR VEHICLES INSURANCE LIMITED

## Notes to the financial statements

As at 31 December 2019

(Expressed in Papua New Guinea Kina)

### Property insurance contracts

#### (i) Frequency and severity of claims

For property insurance contracts, climatic changes are giving rise to more frequent severe extreme weather events (e.g. flooding) and their consequences. The Company has the right to re-price each individual risk on renewal. It also has the ability to impose or increase deductibles. Contracts are priced on the basis of the commercial replacement value of the properties and contents insured. The sum insured represents the maximum amount payable under a policy. The cost of repairing or rebuilding properties, the cost of providing indemnity for damaged or stolen contents and the time taken to restart business operations (business interruption insurances) are the key factors that influence the value of claims under these policies. The most likely cause of major loss under the property portfolio arises from serious weather related event.

#### (ii) Sources of uncertainty in the estimation of future claim

The development of large losses/catastrophes is analysed separately. Property claims can be estimated with greater reliability due to the shorter settlement period for these claims and relatively little IBNR is held at year-end.

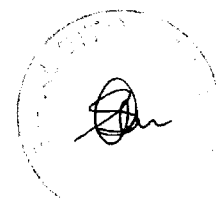
### (b) Credit risk

Credit risk arises from the failure of counterparty to perform according to the terms of the contract. In the normal course of business, the Company seeks to limit its exposure to losses that may arise from any single occurrence. Reinsurance is primarily placed using a combination of proportional and excess of loss treaties. Obtaining reinsurance does not, however, relieve the Company of its primary obligations to the policyholders, therefore the Company is exposed to the risk that the reinsurers may be unable to fulfil their obligations under the contracts.

The Company seeks to mitigate this risk by placing its reinsurance coverage with large multi-national companies and syndicates. The Company, with the assistance of its reinsurance broker, also evaluates the financial condition of its reinsurers and monitors the credit risk of the reinsurers on an ongoing basis to minimise its exposure to significant losses from insurer insolvency. The Company's placement of reinsurance is diversified such that it is neither dependent on a single reinsurer nor are the operations of the Company substantially dependent upon any single reinsurance contract.

The maximum exposure to credit risk at the reporting date was:

	2019	2018
Cash and cash equivalents	218,585,530	258,388,555
Prepayments and other receivables	5,582,099	3,313,238
	<u>224,167,629</u>	<u>261,701,793</u>



## MOTOR VEHICLES INSURANCE LIMITED

### Notes to the financial statements

As at 31 December 2019

(Expressed in Papua New Guinea Kina)

#### 22 Risk management (continued)

##### (c) Liquidity risk

The objective of liquidity management is to ensure the availability of sufficient funds to honour all of the Company's financial commitments including claims. The Company maintains a level of liquid assets, which mature or could be sold immediately to meet cash requirements for normal operating purposes.

The following are the contractual maturities of financial liabilities, including estimated interest payments and excluding the impact of netting agreements:

##### Amounts at 31 December 2019

Non-derivative financial liabilities	Carrying amount (K'000)	Contracted cash flows (K'000)	Less than one year (K'000)	1 – 2 years (K'000)	2 – 5 years (K'000)	more than 5 years (K'000)
Trade and other payables	8,878	8,878	8,878	-	-	-
<b>Total</b>	<b>8,878</b>	<b>8,878</b>	<b>8,878</b>	<b>-</b>	<b>-</b>	<b>-</b>

##### Amounts at 31 December 2018

Non-derivative financial liabilities	Carrying amount (K'000)	Contracted cash flows (K'000)	Less than one year (K'000)	1 – 2 years (K'000)	2 – 5 years (K'000)	more than 5 years (K'000)
Trade and other payables	27,317	27,317	23,272	1,436	1,404	1,205
<b>Total</b>	<b>27,317</b>	<b>27,317</b>	<b>23,272</b>	<b>1,436</b>	<b>1,404</b>	<b>1,205</b>

##### (d) Interest-rate risk

Interest rate risk arises primarily from the Company's investments. However, changes in investment values attributable to interest rate changes are mitigated by corresponding and partially offsetting changes in the economic value of insurance provisions.

The Company manages its interest rate risk by matching, where possible, the duration and profile of assets and liabilities to minimise the impact of mismatches between the value of assets and liabilities from interest rate movements.

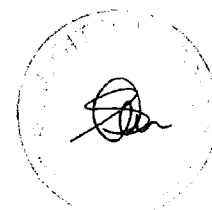
Interest bearing financial assets are primarily represented by short term investments, which have been contracted at fixed interest rates for the duration of the term.

At the reporting date the interest profile of the Company's interest-bearing financial instruments was:

Financial assets	2019	2018
Short term deposits	-	5,194,383
	<u>-</u>	<u>5,194,383</u>

##### Fair value sensitivity analysis for fixed rate instruments

The Company does not account for any fixed rate financial assets and liabilities at fair value through profit or loss. Therefore a change in market interest rates at the reporting date would not affect profit or loss.



## MOTOR VEHICLES INSURANCE LIMITED

### Notes to the financial statements

As at 31 December 2019

(Expressed in Papua New Guinea Kina)

#### (e) Capital management

The Company's objectives when managing capital are:

(i) To comply with the insurance capital requirements that the Office of the Insurance Commissioner requires based on a Risk Based Capital requirement.

(ii) To safeguard the Company's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders; and

(iii) To provide an adequate return to shareholders by pricing insurance and investment contracts commensurately with the level of risk.

#### (f) Fair value of financial instruments

Fair value amounts represent estimates of the arm's-length consideration that would currently be agreed between knowledgeable, willing parties who are under no compulsion to act and is best evidenced by a quoted market price, if one exists. Where quoted market prices are not available, the fair values of these instruments are determined using a generally accepted alternative method. These estimates are subjective in nature and involve uncertainties and matters of significant judgement and therefore, cannot be determined with precision.

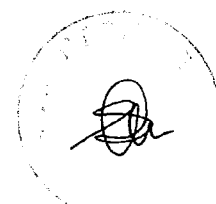
The fair values of financial assets and financial liabilities are broadly equivalent to the carrying amounts shown in the statement of financial position due to one or all of the following reasons:

- (i) Immediate or short-term maturity;
- (ii) Carrying amount approximates or equals market value.

Because of the interest-free nature and uncertainty surrounding the timing of the settlement of balances due from related parties, provision for claims payable and due to reinsurers, management is unable to estimate the fair value of these financial instruments.

The fair values of financial assets and liabilities, together with the carrying amounts shown in the statement of financial position are as follows:

	Fair values		Carrying amounts	
	2019	2018	2019	2018
	K	K	K	K
Unearned premiums	-	-	-	-
Fair value through profit or loss	417,125,572	365,360,093	417,125,572	365,360,093
Held-to-maturity investments	50,665,773	9,975,843	50,665,773	9,975,843
Other investments	11,720,173	22,750,412	11,720,173	22,750,412
Trade and other payables	8,878,337	27,316,640	8,878,337	27,316,640
<b>Total</b>	<b>470,633,181</b>	<b>370,769,708</b>	<b>470,633,181</b>	<b>370,769,708</b>



# MOTOR VEHICLES INSURANCE LIMITED

## Notes to the financial statements

As at 31 December 2019

(Expressed in Papua New Guinea Kina)

### (g) Fair value hierarchy

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows.

- Level 1: quoted prices in active markets for identical assets or liabilities
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (ie. as prices) or indirectly (derived from prices)
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs)

	Level 1	Level 2	Level 3	Total
<b>31 December 2019</b>				
<b>Financial assets</b>				
Cash and cash equivalents	218,585,530	-	-	218,585,530
Fair value through profit or loss	398,736,211	18,389,361	-	417,125,572
	<u>617,321,741</u>	<u>18,389,361</u>	<u>-</u>	<u>635,711,102</u>
<b>Financial liabilities</b>				
Trade and other payables	-	-	8,878,337	8,878,337
	<u>-</u>	<u>-</u>	<u>8,878,337</u>	<u>8,878,337</u>
	Level 1	Level 2	Level 3	Total
<b>31 December 2018</b>				
<b>Financial assets</b>				
Cash and cash	258,388,555	-	-	258,388,555
Fair value through profit or loss	346,970,732	18,389,361	-	365,360,093
	<u>605,359,287</u>	<u>18,389,361</u>	<u>-</u>	<u>623,748,648</u>
<b>Financial liabilities</b>				
Trade and other payables	-	-	27,316,640	27,316,640
	<u>-</u>	<u>-</u>	<u>27,316,640</u>	<u>27,316,640</u>

### 23 Commitments

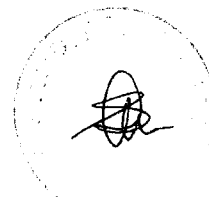
The Company had capital commitments of K nil not otherwise provided for in the financial statements as at 31 December 2019 (2018: K nil).

### 24 Contingencies

In the normal course of its business, the Company is involved in various legal proceedings arising out of and incidental to its operations. Management of the Company does not anticipate that the losses, if any, incurred as a result of these legal proceedings will materially affect the financial position of the Company.

### 25 Events subsequent to the reporting date

No matter or circumstance has arisen since 31 December 2019 that has significantly affected or may significantly affect the company's operations, results of those operations or the company's state of affairs in future years.



# MOTOR VEHICLES INSURANCE LIMITED

## Notes to the financial statements

As at 31 December 2019

(Expressed in Papua New Guinea Kina)

### 26 Cash and cash equivalents

- a) For the purpose of the statement of cash flows, cash and cash equivalents includes, cash on hand and at bank and short-term deposits at call, net of outstanding bank overdrafts. Cash and cash equivalents as at the end of the financial year as shown in the statement of cash flows is reconciled to the related items in the statement of financial position as follows:

	2019	2018
Cash on hand	32,900	37,289
Cash in banks	218,552,630	253,156,883
Short term investments	-	5,194,383
	<u>218,585,530</u>	<u>258,388,555</u>

- b) Reconciliation of cash and cash equivalents as per balance sheet to cash flow statement

	2019	2018
Cash and cash equivalents as per:		
Cash flow statement	218,585,530	258,388,555
Statement of financial position	218,585,530	258,388,555
Difference	<u>-</u>	<u>-</u>

