MEDICAL INSURANCE SOCIETY LIMIT

10058010723

INCOME STATEMENT

for the year ended 31 March 2009

	Note	2009 $	2008 $
GROSS WRITTEN PREMIUM		52,508,745	48,985,426
Less: Reinsurance Premiums		9,246,687	8,817,417
Increase in Unearned Premium Reserve		2,023,452	1,000,318
NET EARNED PREMIUM		41,238,606	39,167,691
OPERATING EXPENSES			
Claims		38,996,368	32,876,376
Reinsurance Recoveries		(6,212,923)	(3,470,728)
Other Recoveries		(3,066,501)	(2,274,172)
Net Claims Incurred	4	29,716,944	27,131,476
Administration Expenses		5,740,648	4,854,367
Administration Fees paid to Parent Company	6	7,039,233	6,251,149
Audit Fee		42,386	35,030
Interest		-	2,164
Total Operating Expenses		42,539,211	38,274,186
(DEFICIT) / SURPLUS ON UNDERWRITING		(1,300,605)	893,505
INVESTMENT INCOME			
Interest Paid on Intercompany Lending	6	(454,146)	(515,141)
Short Term Deposits		467,495	646,027
Domestic Fixed Interest		326,415	799,164
International Fixed Interest		(1,700,665)	(6,907)
International Equities / Absolute Return		(1,614,536)	(1,282,287)
Total Investment Losses		(2,975,437)	(359,144)
Commission and Sundry Income		24,997	24,262
NET (DEFICIT) / SURPLUS BEFORE TAXATION		(4,251,045)	558,623
Taxation Expense	7	22,975	8,546
NET (DEFICIT) / SURPLUS AFTER TAXATION		(4,274,020)	550,077

CHECKED

NPC# 23

27 JUL 2009

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

MEDICAL INSURANCE SOCIETY LIMITED

STATEMENT OF CHANGES IN EQUITY

for the year ended 31 March 2009

	Note	2009 Share Capital $	2009 Retained Earnings $	2009 Total $
OPENING BALANCE 1 APRIL 2008	19	10,000,000	19,017,120	29,017,120
Current Year Deficit		-	(4,274,020)	(4,274,020)
CLOSING BALANCE 31 MARCH 2009		10,000,000	14,743,100	24,743,100

	Note	2008 Share Capital $	2008 Retained Earnings $	2008 Total $
OPENING BALANCE 1 APRIL 2007	19	10,000,000	18,467,043	28,467,043
Current Year Surplus		-	550,077	550,077
CLOSING BALANCE 31 MARCH 2008		10,000,000	19,017,120	29,017,120

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

MEDICAL INSURANCE SOCIETY LIMITED

BALANCE SHEET

as at 31 March 2009

	Note	2009 $	2008 $
FUNDS EMPLOYED			
EQUITY			
10,000,000 $1 Ordinary shares	19	10,000,000	10,000,000
Retained Earnings		14,743,100	19,017,120
Total Equity		24,743,100	29,017,120
CURRENT LIABILITIES			
Payables	8	3,526,989	3,026,351
Advance from Parent Company	6	4,264,939	6,738,013
Provision for Taxation		24,020	-
Total Current Liabilities		7,815,948	9,764,364
DEFERRED TAX	7	1,168,621	651,681
PROVISIONS			
Provision for Unearned Premium	9	20,500,736	18,477,284
Provision for Outstanding Claims	4	25,309,566	24,302,344
Total Provisions		45,810,302	42,779,628
TOTAL FUNDS EMPLOYED		79,537,971	82,212,793
ASSETS			
CURRENT ASSETS			
Cash and Cash Equivalents	10	3,270,000	2,230,000
Receivables	11	800,940	732,388
Premiums Outstanding	12	14,920,413	14,397,095
Taxation Paid in Advance		-	986,860
Reinsurance Recoveries Outstanding	13	8,595,091	7,343,742
Claims Recoveries Outstanding	14	1,655,220	1,215,199
Total Current Assets		29,241,664	26,905,284
INVESTMENTS	15	50,296,307	55,307,509
TOTAL ASSETS		79,537,971	82,212,793

Approved for issue for and on behalf of the Board of Medical Insurance Society Limited.

.... Director

.... Director

Wellington, 27 May 2009

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

MEDICAL INSURANCE SOCIETY LIMITED

STATEMENT OF CASH FLOWS

for the year ended 31 March 2009

	Note	2009 $	2008 $
CASH FLOWS FOR OPERATING ACTIVITIES			
Receipts from Policyholders		51,985,427	47,781,247
Sundry Income		24,997	24,262
Payment of Claims (Net of Reinsurance Recoveries)		(30,401,092)	(27,590,832)
Payments to Suppliers		(14,590,527)	(13,324,926)
Interest on Short Term Deposits		488,214	666,746
Income from Investment Funds		(3,016,613)	(517,857)
Administration Fees Paid to Parent Company		(7,039,233)	(6,251,149)
Interest on Advances to Parent Company		(454,146)	(515,141)
Taxation Refund / (Payment of Taxation)		1,504,845	(422,073)
Net Cash Flows for Operating Activities	17	(1,498,128)	(149,723)
CASH FLOWS FROM INVESTING ACTIVITIES			
Contributions to Investment Funds		(2,500,000)	(5,000,000)
Withdrawals from Investment Funds		7,511,202	6,417,477
Net Cash Flows from Investing Activities		5,011,202	1,417,477
CASH FLOWS (FOR) / FROM FINANCING ACTIVITIES			
Advances (to) / from Parent Company		(2,473,074)	242,246
Net Cash Flows (for) / from Financing Activities		(2,473,074)	242,246
NET INCREASE IN CASH HELD		1,040,000	1,510,000
Opening Cash Balance brought forward		2,230,000	720,000
CASH AND CASH EQUIVALENTS CARRIED FORWARD		3,270,000	2,230,000
CASH AND CASH EQUIVALENTS COMPRISE			
Short Term Deposits		3,270,000	2,230,000
		3,270,000	2,230,000

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

1. STATEMENT OF ACCOUNTING POLICIES

(a) Principal Activity

Medical Insurance Society Limited (the "Company") is a wholly owned subsidiary of Medical Assurance Society New Zealand Limited (the "Society"). It provides income protection and general insurance services to Members of the Society.

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.

(b) 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 1993. The financial statements have also been prepared on a historical cost basis except for assets backing insurance activities which have been measured at fair value.

The financial statements are presented in New Zealand dollars.

(c) Statement of Compliance

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

Applicable standards or interpretations that have not been adopted:
NZ IFRS 8 *Operating Segments* is not yet effective and has not been adopted for the reporting period to 31 March 2009. The standard specifies how an entity should report information about its operating segments in annual financial reports. It is a disclosure statement, so will have no impact on the amounts included in the financial statements. However its application (effective 1 January 2009) may result in changes to the operating segments disclosures.

NZ IAS 1 *Presentation of Financial Statements* (revised 2007) is not yet effective and has not been adopted for the reporting period to 31 March 2009. The revised standard requires information in the financial statements to be aggregated on the basis of shared characteristics and to introduce requirements regarding the presentation of the statement of comprehensive income. The standard is effective for reporting periods commencing after 1 January 2009.

(d) Premium Revenue and Provision for Unearned Premium

Premium revenue comprises amounts charged to policyholders for insurance policies. Premium 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 the Income Statement 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).

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

(e) Claims and Provision for Outstanding Claims

Claims expense represents payments for claims plus the movement in the Provision for Outstanding Claims. Claims represent the benefits paid or payable to the policyholder on the occurrence of an event giving rise to loss or accident according to the terms of the policy. Claims expenses are recognised in the Income Statement 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 Balance Sheet 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 4. The expected future payments includes primarily those in relation to claims reported but not yet paid, incurred but not reported ("IBNR") and the direct costs of settling those claims.

(f) Provision for Unexpired Risk / Liability Adequacy Test

If applicable and determined by way of a Liability Adequacy Test, provision is made for unexpired risks where the expected value of claims attributed to the unexpired periods of policies in force at the reporting date, exceeds the Provision for Unearned Premium in relation to such policies.

The Provision for Unexpired Risk 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.

(g) 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.

(h) 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.

(i) Receivables

Receivables comprises various non-premium receivables which generally have 30-90 day terms. They are initially recognised at fair value, and subsequently measured at amortised cost less any allowance for impairment.

(j) 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 less any allowance for impairment.

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

(k) Reinsurance Recoveries and Claims Recoveries Outstanding

During the normal course of the Company'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 Balance Sheet.

The details of the impairment assessment relative to the third party recoveries are set out in Note 14.

(l) Investments

Investment funds, managed for the Company 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 the Income Statement.

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

Interest and dividend income, fund distributions and fair value movements are recorded in the Investment Income section of the Income Statement and are split by asset class.

1. STATEMENT OF ACCOUNTING POLICIES continued ...

(m) Financial Instruments

In the normal course of business, the Company'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 for hedging purposes and are accounted for, at fair value, as part of the investment portfolio valuation.

(n) 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 sheet date.

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

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 sheet 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 sheet 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 sheet 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 balance sheet.

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

1. **STATEMENT OF ACCOUNTING POLICIES continued ...**

(o) Cash Flow Statement

The Cash Flow Statement has been prepared using the direct approach.

(p) Comparatives

Certain comparatives have been changed to allow for consistency and comparison with the current financial year.

(q) Changes in Accounting Policies

There have been no material changes in accounting policies during the current reporting period.

2. **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 Company'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 judgments, estimates and assumptions made by management in the preparation of these financial statements are outlined below -

Outstanding claims liability.

A liability is recorded at reporting date for the estimated cost of claims incurred but not settled at that time. It includes the cost of claims incurred but not yet reported to the Company.

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

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

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

Reinsurance and Other Recoveries assets.

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

3. **SEGMENTAL REPORTING**

The Company operates in two principal areas of business, disability insurance and non-disability insurance. The former is often referred to as income protection cover. The latter comprises the following risk classes; motor vehicle, boat, domestic (house and contents), business risk, contract risks and goods in transit.

There are no inter-segment transactions and there is no attribution of expenses, assets or liabilities to the respective business segments.

All business activities are carried out in New Zealand so there is no geographic segment reporting.

	Disability Insurance 2009 $	Non-Disability Insurance 2009 $	Total 2009 $
Net Earned Premium	9,548,693	31,689,913	41,238,606
Incurred Claims	5,629,052	24,087,892	29,716,944
Loss Ratio	59.0%	76.0%	72.1%

3. SEGMENTAL REPORTING continued ...

	Disability Insurance 2008 $	Non-Disability Insurance 2008 $	Total 2008 $
Net Earned Premium	9,831,726	29,335,965	39,167,691
Incurred Claims	3,563,648	23,567,828	27,131,476
Loss Ratio	36.2%	80.3%	69.3%

Neither the assets, liabilities, cash flows or expenses of the Company are allocated on the basis of segment, such that segmental reporting is restricted to premiums and claims as above.

4. CLAIMS

Claims Expense

	2009 $	2008 $
Claims paid during the year	35,362,670	29,895,914
Recoveries received during the year	(4,961,578)	(2,514,961)
Provision for Outstanding Claims at year end (new claims incurred during the year)	22,629,570	21,917,886
Additional Provisioning at year end for Outstanding Claims (net of reinsurance) incurred in prior years	371,051	360,834
Reinsurance and Other Recoveries Outstanding at year end	(10,250,311)	(8,558,941)
Increase in IBNR (claims incurred but not reported) Provision at year end	381,692	123,954
Provision for Outstanding Claims at previous year end (excluding IBNR)	(22,278,720)	(23,512,416)
Reinsurance and Other Recoveries Outstanding at previous year end	8,558,941	9,209,327
(Decrease) / Increase in Risk Provision	(96,371)	209,879
Net Claims Expense per Income Statement	29,716,944	27,131,476

Provision for Outstanding Claims

	2009 $	2008 $
Expected Future Claim Payments (undiscounted)	25,749,177	28,614,418
Discount to Present Value	2,844,927	6,335,698
Provision for Outstanding Claims exclusive of IBNR Claims	22,904,250	22,278,720
IBNR Claims at year end	2,405,316	2,023,624
Provision for Outstanding Claims per Balance Sheet	25,309,566	24,302,344

The non-disability portion of the Outstanding Claims Provision has predominantly been determined by the Company's Claims personnel, whilst the disability portion is determined by actuarial valuation.

The effective date of the actuarial report on the disability portion of the provision is 31 March 2009. The report was prepared by Peter Davies, FIA, a Fellow of the New Zealand Society of Actuaries ("NZSA") on 2 April 2009. He is satisfied as to the accuracy of the data upon which the calculations have been made. There were no *qualifications to the report.*

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

In provisioning for disability claims (it is not an issue for non-disability claims given that they are all likely to be settled within a twelve month timeframe), a discount rate of 5.34% has been used at 31 March 2009 (31 March 2008 6.42%). This is the risk free rate for the term most closely approximating the weighted average claim term of this business. Some of the policies to which the discounting relates have escalation clauses built in - some are at 5% p.a. whilst others are tied to the CPI. Where escalation has been elected by the policyholder, amounts provisioned have been increased accordingly, prior to discounting.

4. CLAIMS continued ...

For both the disability and non-disability provisioning, on a case by case basis, 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 the Company as a whole. However an assessment of the uncertainty and the determination of a risk margin is done by individual class of business (Disability, Motor Vehicle, Domestic 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 17.6% (2008 17.8%), which results in an 80.0% (2008 80.0%) level of sufficiency or probability of adequacy.

The average weighted expected term to settlement from the reporting date of all claims included within the provision is 5.90 years (2008 8.52 years). It should be noted that in terms of the total number of claims, the vast majority are settled within a month of being reported, many within one to two days. The average weighted term to settlement is so long owing to the fact that in dollar terms, approximately 80% of the provision relates to disability claims. Most of these are long tail claims, several of which are provisioned out as far as 20 years hence. Regular payments, generally monthly, are made against these provisions.

5. DIRECTORS' FEES

No Directors' fees are provided for or are payable.

6. RELATED PARTY TRANSACTIONS

a) Details of material related party transactions are as disclosed in the Income Statement and the Balance Sheet.

b) During the year, the related party transactions were with the parent company of the Medical Assurance Society New Zealand Limited Group ("the Group") and took the form of Advances, Administration Fees and Interest. Interest on advances is charged at the 90 day bank bill rate plus 1%. None of the amounts owing between the Company and the Group have been written off or forgiven during the year. The Administration Fees relate to management costs incurred on behalf of the Company by the Group.

c) The advance from the parent company of $4,264,939 (2008 $6,738,013) is unsecured.

d) No staff are directly employed by Medical Insurance Society Limited. All staff including key management personnel are employees of the parent company, and the amounts detailed below have been paid by the parent company.

	2009 $	2008 $
Short term director / employee benefits (paid to directors and members of the Executive Management team)	2,102,390	1,856,710

e) All transactions with Society Members and the key management personnel of the parent, are at market rates.

7. TAXATION

	2009 $	2008 $
Net (Deficit) / Surplus before Taxation	(4,251,045)	558,623
Taxation at 30% (2008: 33%)	(1,275,314)	184,346
Taxation Effect of Non Assessable Investment Income	698,453	650,554
Prior period adjustment relating to Insurance Reserves and Provisions	741,347	-
Imputation Credits	(141,511)	(754,185)
Other Credits	-	(7,001)
Adjustment for change in tax rates	-	(65,168)
Taxation Expense for the year	22,975	8,546
Taxation Expense is represented by:		
Current Tax	(493,965)	(597,763)
Deferred Tax	516,940	606,309
Taxation Expense per Income Statement	22,975	8,546

7. TAXATION continued ...

Deferred Taxation Liability Comprises:

Deferred Tax

31 March 2009	Opening Balance	Prior Period Adjustment	Tax Rate Change	Income Statement	Total
Deferred Tax Liabilities	$	$	$	$	$
Insurance Reserves and Provisions	(1,490,385)	(76,613)	-	(204,827)	(1,771,825)
	(1,490,385)	(76,613)	-	(204,827)	(1,771,825)
Deferred Tax Assets					
Provisions and Accruals	109,472	(6,209)	-	(103,263)	-
Insurance Reserves and Provisions	714,612	-	-	(714,612)	-
Other	14,620	-	-	(8,772)	5,848
Tax losses to carry forward	-	-	-	597,356	597,356
	838,704	(6,209)	-	(229,291)	603,204
Net Deferred Tax Liability	(651,681)	(82,822)	-	(434,118)	(1,168,621)

Deferred Tax

31 March 2008	Opening Balance	Prior Period Adjustment	Tax Rate Change	Income Statement	Total
Deferred Tax Liabilities	$	$	$	$	$
Provisions and Accruals	(53,588)	-	-	53,588	-
Insurance Reserves and Provisions	(2,048,082)	(21,193)	149,038	429,852	(1,490,385)
	(2,101,670)	(21,193)	149,038	483,440	(1,490,385)
Deferred Tax Assets					
Provisions and Accruals	94,610	(9,811)	(10,947)	35,620	109,472
Insurance Reserves and Provisions	711,789	-	(71,461)	74,284	714,612
Other	40,213	-	(1,462)	(24,131)	14,620
Investments	5,614	-	-	(5,614)	-
	852,226	(9,811)	(83,870)	80,159	838,704
Net Deferred Tax Liability	(1,249,444)	(31,004)	65,168	563,599	(651,681)

Imputation Credit Account ("ICA")	2009	2008
	$	$
Opening balance	1,983,605	1,983,605
Movement during the period	-	-
Closing balance	1,983,605	1,983,605

As a member of the Medical Assurance Society Consolidated Group for tax purposes, all credits and debits in the current year are not recorded in the above ICA, but rather in the ICA of Medical Assurance Society New Zealand Limited as the nominated member of the Medical Assurance Society Consolidated Group.

8. PAYABLES

	2009	2008
	$	$
Government Levies	577,085	559,550
GST Payable	1,732,379	1,713,245
Other Payables	1,217,525	753,556
	3,526,989	3,026,351

All payables are due within twelve months of balance sheet date. The carrying amounts reasonably approximate fair value.

9. PROVISION FOR UNEARNED PREMIUM

	2009	2008
	$	$
Balance at the beginning of the financial year	18,477,284	17,476,965
Premiums written during the year	52,508,746	48,985,426
Premiums earned during the year	(50,485,294)	(47,985,107)
Balance at the end of the financial year	20,500,736	18,477,284

Liability Adequacy Test

Actuary Peter Davies, in his report dated 17 May 2009, has reported on the Liability Adequacy Test undertaken by him as at 31 March 2009. He has concluded that the Provision for Unearned Premium as at that date, is not deficient (2008: 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.

10. CASH AND CASH EQUIVALENTS

	2009	2008
	$	$
Short Term Deposits	3,270,000	2,230,000
	3,270,000	2,230,000

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

11. RECEIVABLES

	2009	2008
	$	$
Reinsurance Premiums Paid in Advance	787,321	720,510
Interest Due	13,619	11,878
	800,940	732,388

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

12. PREMIUMS OUTSTANDING

	2009	2008
	$	$
Premiums Owing by Policyholders	14,920,413	14,397,095
	14,920,413	14,397,095

A significant number of policyholders elect to pay premiums in instalments spread evenly over the term of the cover. Accordingly, at any one time, including balance date, there will be large outstandings relative to premium which has been billed but not collected.

Where any instalments are overdue (direct debits dishonoured) or alternatively where annual payments are overdue, the related debts are assessed for impairment and where it is evident adjusted immediately.

The carrying amounts reasonably approximate fair value.

13. REINSURANCE RECOVERIES OUTSTANDING

	2009	2008
	$	$
Claims Recoveries Owing by Reinsurers	8,595,091	7,343,742
	8,595,091	7,343,742

The Company'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 is obtained to establish potential exposures to earthquake claims and to assess how much any claim or series of claims the Company can retain for its own account. The catastrophe cover is designed to offer protection for the maximum probable loss of a large (return period of 400 to 600 years) earthquake striking Wellington. The retention level (the maximum amount borne by the Company) is $2,500,000.

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

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

The carrying amounts reasonably approximate fair value.

14. CLAIMS RECOVERIES OUTSTANDING

	2009	2008
	$	$
Claims Recoveries Owing by Third Parties	1,655,220	1,215,199
	1,655,220	1,215,199

Whilst the majority of claims recoveries come from reinsurers, the Company 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, nil impairment (2008 nil).
-accounts placed with a collection agency, 72.00% impairment (2008 72.00%).
-amounts for which a regular payment arrangement has been agreed with the debtor, nil impairment (2008 nil impairment).

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

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

15. INVESTMENTS

	2009	2008
	$	$
Domestic Fixed Interest	33,712,977	18,859,024
International Fixed Interest	11,582,413	22,690,878
International Equities	5,000,917	13,757,607
Total Investments	50,296,307	55,307,509
Realised Investment (Losses) / Income	(1,620,113)	1,602,033
Unrealised Investment Losses	(1,355,324)	(1,961,177)
Total Investment Losses	(2,975,437)	(359,144)

The Company's investment securities are all financial assets classified as FVTPL. Any changes in fair value are immediately recognised.

During the year, all funds have been managed by either former fund managers ING (NZ) Limited, and / or incumbents New Zealand Assets Management Limited, Goldman Sachs JBWere and Bancorp Treasury Services Limited. The majority of the total sum invested, is invested into securities held in the name of the Company, via a custodian. The remaining funds are invested into unitised or pooled vehicles.

16. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arms 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.

The methodologies and assumptions used when determining fair value depend on the terms and risk characteristics of the various instruments and include the following -

Cash and Cash Equivalents
For cash and short term funds, balances with other financial institutions with maturities of less than three months and other types of short term financial assets, the carrying value of these financial instruments are considered to approximate their fair values as they are short term in nature or are receivable on demand.
Other Financial Assets
For all other financial assets, the carrying value is considered to be a reasonable estimate of fair value. Neither Taxation Paid in Advance, Claims Recoveries Outstanding, nor Reinsurance Recoveries Outstanding are considered to be financial assets.
Payables and Other Financial Liabilities
The carrying value of Payables, and Advance from Parent Company approximate their fair values as they are short term in nature or payable on demand. Neither Deferred Tax, nor GST, nor insurance provisions are considered to be financial liabilities.

The table below summarises the carrying amounts and fair values of each class of financial asset and financial liability:

	2009 Carrying Amount	2009 Fair Value	2008 Carrying Amount	2008 Fair Value
Financial Assets	**$**	**$**	**$**	**$**
Cash and Cash Equivalents	3,270,000	3,270,000	2,230,000	2,230,000
Receivables	800,940	800,940	732,388	732,388
Premiums Outstanding	14,920,413	14,920,413	14,397,095	14,397,095
Investments	50,296,307	50,296,307	55,307,509	55,307,509
	69,287,660	69,287,660	72,666,992	72,666,992

	2009 Carrying Amount	2009 Fair Value	2008 Carrying Amount	2008 Fair Value
Financial Liabilities	**$**	**$**	**$**	**$**
Payables	1,794,610	1,794,610	1,313,106	1,313,106
Advance from Parent Company	4,264,939	4,264,939	6,738,013	6,738,013
	6,059,549	6,059,549	8,051,119	8,051,119

17. RECONCILIATION OF CASH FLOWS

	2009	2008
	$	**$**
Reported (Deficit) / Surplus after Tax	(4,274,020)	550,077
Add Non-Cash Items:		
Addition to Unearned Premium	2,023,452	1,000,319
Increase / (Decrease) in Outstanding Claims	1,007,222	(1,109,742)
Increase / (Decrease) in Deferred Tax	516,940	(597,763)
Change in Operating Assets and Liabilities		
Provision for Taxation	1,010,880	184,236
Accounts Payable	500,638	(151,128)
Premiums Outstanding	(523,318)	(1,204,180)
Receivables, Reinsurance Recoveries Outstanding and Claims Recoveries Outstanding	(1,759,922)	1,178,458
Net Cash Outflows for Operating Activities	(1,498,128)	(149,723)

18. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The Company'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 entity does not directly enter into derivative financial instruments contracts. However its fund managers do, principally to protect the value of investments against adverse currency movements. They are prevented by policy guidelines established by the Group's Investment Committee from entering into such contracts for speculative purposes.

The main risks arising from the financial instruments and the business the Company engages in, are; insurance risk, credit risk, investment risk, currency 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 Company 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 Company's exposure to large single claims and accumulations of claims that arise from a singular event
- the monitoring of a reinsurer's credit risk rating to control exposure to reinsurance counterparty default
- the reduction in the variability in loss experience through diversification over classes of insurance business
- the modelling and monitoring of concentrations of risk which are particularly relevant in the case of natural disasters and catastrophes and accordingly must be recognised in the development of the reinsurance programme.

Credit Risk

The Company is exposed to two forms of credit risk, one in relation to its insurance operations, the other to the investments which back those insurance operations.

To the former, credit risk is the risk that policyholders, reinsurers, or other third parties which have a contractual liability to the Company, default on their financial obligations.

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

Balance Sheet credit exposures -	2009	2008
	$	$
Receivables	800,940	732,388
Premiums Outstanding	14,920,413	14,397,095
Investments	50,296,307	55,307,509
	66,017,660	70,436,992

Concentrations of credit risk by industry -	2009	2008
	$	$
Finance, investment and insurance	51,097,247	56,039,897
Health and community services	14,920,413	14,397,095
	66,017,660	70,436,992

18. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT continued ...

Whilst the Company may be subjected to credit losses up to the notional principal amounts of the assets as above in the event of non-performance by its counterparties, it does not expect such losses to occur other than as already provided for.

There are no material exposures to any one counterparty.

Credit risk relative to investments is the risk that movements in either interest rates or stockmarkets will have an adverse impact on the profitability and financial stability of the Company.

The investment portfolio, which potentially exposes the Company to credit risk consists of short term deposits, domestic and international fixed interest securities and international equities. The maximum exposure to credit risk is the carrying value of these financial instruments.

The significant counterparties are the Company's fund managers New Zealand Assets Management Limited, Goldman Sachs JBWere and Bancorp Treasury Services Limited, all of which the directors consider to be financial institutions of high quality.

Investment funds in part back the insurance operations and in part support share capital and retained earnings. Investment mandates have been structured accordingly and are formalised by way of a Statement of Investment Policies and Objectives. The Investment Committee (of the Medical Assurance Society Group) meets regularly to develop and review investment strategy and monitor manager performance.

Balance Sheet investment exposures -	**2009**	**2008**
	$	**$**
Cash and Cash Equivalents	3,270,000	2,230,000
Domestic Fixed Interest	33,712,977	18,859,024
International Fixed Interest	11,582,413	22,690,878
International Equities	5,000,917	13,757,607
	53,566,307	57,537,509

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 entity.

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.

Balance Sheet currency exposures -

	2009	**2008**
	$	**$**
International Fixed Interest	11,582,413	22,690,878
International Equities	5,000,917	13,757,607
	16,583,330	36,448,485

18. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT continued ...

Market Risk

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

Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its liabilities, principally claims payments, as and when they fall due. Liquidity risk is reviewed on an ongoing basis.

There are a number of key policies in place which mitigate liquidity risk, including;
- the adherence to a conservative dividend policy (despite strong profitability no dividend has been paid to the parent since 2002)
- the immediate availability of significant levels of funding by way of access to inter-company accounts
- conservative reinsurance retention levels
- the ability to access investment funds via the fund managers at short notice.

The table which follows analyses the Company's financial instruments at balance sheet date, into the relevant maturity groupings.

	0-6 months $	6-12 months $	1-2 years $	2-5 years $	Over 5 years $	Total $
31 March 2009						
Financial Assets						
Cash and Cash Equivalents	3,270,000	-	-	-	-	3,270,000
Receivables	800,940	-	-	-	-	800,940
Premiums Outstanding	13,677,045	1,243,368	-	-	-	14,920,413
	17,747,985	1,243,368	-	-	-	18,991,353
Financial Liabilities						
Payables	1,794,610	-	-	-	-	1,794,610
Advance from Parent Company	4,264,939	-	-	-	-	4,264,939
	6,059,549	-	-	-	-	6,059,549
31 March 2008						
Financial Assets						
Cash and Cash Equivalents	2,230,000	-	-	-	-	2,230,000
Receivables	732,388	-	-	-	-	732,388
Premiums Outstanding	13,197,337	1,199,758	-	-	-	14,397,095
	16,159,725	1,199,758	-	-	-	17,359,483
Financial Liabilities						
Payables	1,313,106	-	-	-	-	1,313,106
Advance from Parent Company	6,738,013	-	-	-	-	6,738,013
	8,051,119	-	-	-	-	8,051,119

18. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT continued ...

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

There are a number of key policies in place which mitigate operating risk, including;
- the management and staff are responsible for identifying, assessing and managing operational risks in accordance with their roles and responsibilities.
- the Group Internal Audit / Risk Manager is charged with assisting staff identify risks and ensure the sufficiency of and ongoing presence of suitable mitigants.

Sensitivity Analysis
The Company has two risks which are price sensitive to an extent that they may impact earnings materially - Insurance Risk and Credit Risk (as it pertains to investments). These risks have been considered above.

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

The table below looks at how the direct risk variables can influence profit or loss and equity.

Risk Variable	Occurrence	Impact on Profit and Equity
Insurance Risk - upward movement in the discount rate.	Movement of 1% in the discount rate.	($380,000) March 2008 ($330,000)
Insurance Risk - downward movement in the discount rate.	Movement of 1% in the discount rate.	420,000 March 2008 360,000
Insurance Risk - termination rates increase.	Termination rates increase by 10%.	(530,000) March 2008 (480,000)
Insurance Risk - termination rates decrease.	Termination rates decrease by 10%.	590,000 March 2008 540,000
Credit Risk - short term deposit rates increase.	Short term deposit rates increase by 1%.	33,000 March 2008 22,000
Credit Risk - short term deposit rates decrease.	Short term deposit rates decrease by 1%.	(33,000) March 2008 (22,000)
Credit Risk - domestic bond interest rates increase.	Bond rates increase by 0.50%.	(111,000) March 2008 *
Credit Risk - domestic bond interest rates decrease.	Bond rates decrease by 0.50%.	114,000 March 2008 *
Credit Risk - international bond interest rates increase.	Bond rates increase by 0.50%.	(437,000) March 2008 *
Credit Risk - international bond interest rates decrease.	Bond rates decrease by 0.50%.	452,000 March 2008 *
Credit Risk - international equity prices increase.	Equities increase by 10%.	503,000 March 2008 *
Credit Risk - international equity prices increase.	Equities decrease by 10%.	(503,000) March 2008 *
Currency Risk - NZD appreciates in value.	NZD appreciates by 10% against the AUD. NZD appreciates by 10% against the USD.	(1,657,000) March 2008 * (919,000) March 2008 *
Currency Risk - NZD depreciates in value.	NZD depreciates by 10% against the AUD. NZD depreciates by 10% against the USD.	1,356,000 March 2008 * 752,000 March 2008 *

* = analysis not performed in 2008 as in investments were held in pooled funds.

18. 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	Fair Value Through Profit or Loss	Other Financial Liabilities	Total
	$	$	$	$
31 March 2009				
Assets				
Cash and Cash Equivalents	3,270,000	-	-	3,270,000
Receivables	800,940	-	-	800,940
Premiums Outstanding	14,920,413	-	-	14,920,413
Investments	-	50,296,307	-	50,296,307
	18,991,353	50,296,307	-	69,287,660
Liabilities				
Payables and Provisions	-	-	3,526,989	3,526,989
Advance from Parent Company	-	-	4,264,939	4,264,939
Provison for Unearned Premium	-	-	20,500,736	20,500,736
	-	-	28,292,664	28,292,664
31 March 2009				
Assets				
Cash and Cash Equivalents	2,230,000	-	-	2,230,000
Receivables	732,388	-	-	732,388
Premiums Outstanding	14,397,095	-	-	14,397,095
Investments	-	55,307,509	-	55,307,509
	17,359,483	55,307,509	-	72,666,992
Liabilities				
Payables and Provisions	-	-	3,026,351	3,026,351
Advance from Parent Company	-	-	6,738,013	6,738,013
Provison for Unearned Premium	-	-	18,477,284	18,477,284
	-	-	28,241,648	28,241,648

19. CONTRIBUTED EQUITY

	2009	2008
	$	$
	10,000,000	10,000,000

All shares carry the same voting rights.

Ordinary shares have no par value.

Capital Management

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

Directors may change the amount of dividends to be paid to shareholders (if any), return capital to shareholders, issue new shares or sell assets to reduce debt.

There are no current plans to issue further shares.

19. CONTRIBUTED EQUITY continued...

Capital Management continued ...

Through its membership of the Insurance Council of New Zealand, the Company is required to maintain a minimum level of solvency (expressed as Shareholders' Equity as a percentage of Net Written Premium). Solvency is significantly higher than the level required.

20. CONTINGENT LIABILITIES

The Company is subject to several legal disputes at 31 March 2009. 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 Company. The impact of any subsequent judgements is unlikely to be significant to the financial statements.

21. CREDIT RATING

The Company has an A- (Strong) insurer financial strength rating from Standard & Poor's.

22. CORPORATE INFORMATION

REGISTERED OFFICE
19 - 21 Broderick Road
Johnsonville
Wellington
PO Box 13042

The ultimate parent of the Company is Medical Assurance Society New Zealand Limited, which owns 100% of the ordinary shares.

The Company is incorporated and domiciled in New Zealand.

Ernst & Young

Chartered Accountants

Auditor's Report

To the Shareholders of Medical Insurance Society Limited

We have audited the financial statements on pages 1 to 20. The financial statements provide information about the past financial performance of the company and its financial position as at 31 March 2009. This information is stated in accordance with the accounting policies set out on pages 5 to 8.

This report is made solely to the company's shareholders, as a body, in accordance with Section 205(1) of the Companies Act 1993. Our audit has been undertaken so that we might state to the company's shareholders those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's shareholders as a body, for our audit work, for this report, or for the opinions we have formed.

Directors' Responsibilities
The directors are responsible for the preparation of financial statements which comply with generally accepted accounting practice in New Zealand and give a true and fair view of the financial position of the company as at 31 March 2009 and of its financial performance and cash flows for the year ended on that date.

Auditor's Responsibilities
It is our responsibility to express an independent opinion on the financial statements presented by the directors and report our opinion to you.

Basis of Opinion
An audit includes examining, on a test basis, evidence relevant to the amounts and disclosures in the financial statements. It also includes assessing:

- the significant estimates and judgements made by the directors in the preparation of the financial statements; and
- whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We conducted our audit in accordance with generally accepted auditing standards in New Zealand. We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatements, whether caused by fraud or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Other than in our capacity as auditor we have no relationship with, or interest in, the company.

Unqualified Opinion
We have obtained all the information and explanations we have required.
In our opinion:

- proper accounting records have been kept by the company as far as appears from our examination of those records; and
- the financial statements on pages 1 to 20:
  - comply with generally accepted accounting practice in New Zealand;
  - comply with International Financial Reporting Standards; and
  - give a true and fair view of the financial position of the company as at 31 March 2009 and its financial performance and cash flows for the year ended on that date.

Our audit was completed on 27 May 2009 and our unqualified opinion is expressed as at that date.

Ernst + Young

Wellington