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MEDICAL LIFE ASSURANCE SOCIETY LIMI

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INCOME STATEMENT

Paid

for the year ended 31 March 2009

	Note	2009 $	2008 $
OPERATING REVENUE			
Premiums Received		9,842,303	9,005,995
Reinsurance Premiums		(2,320,131)	(2,137,188)
Net Premium Revenue		7,522,172	6,868,807
PAYMENTS UNDER POLICIES			
Claims		2,313,487	2,504,870
Reinsurance Recoveries		(817,104)	(1,698,838)
		1,496,383	806,032
Surrenders		105,566	155,428
Maturities		221,481	778,646
Annuities Paid		13,719	14,091
Total Payments on Policies		1,837,149	1,754,197
Decrease in Policy Liabilities	11	(1,525,762)	(1,170,008)
OPERATING EXPENSES			
Actuarial Fees		21,300	22,439
Administration Expenses		1,279,265	1,220,393
Administration Fees Paid to Parent Company	6	1,410,881	1,242,637
Audit Fees		27,052	22,882
Investment Management Fees		99,390	21,308
Total Operating Expenses		2,837,888	2,529,659
INVESTMENT INCOME			
Interest Income on Intercompany Lending	6	5,256	10,309
Short Term Deposits		59,075	286,391
Domestic and International Fixed Interest		(179,484)	126,767
Australasian and International Equities		(1,442,787)	(1,001,955)
Sundry Income		10	7,527
Total Investment Income		(1,557,930)	(570,961)
NET SURPLUS BEFORE TAXATION		2,814,967	3,183,998
Taxation Credit	13	(492,188)	(281,036)
NET SURPLUS AFTER TAXATION		3,307,155	3,465,034

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

MEDICAL LIFE ASSURANCE 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	21	100,000	10,824,310	10,924,310
Current Year Surplus		-	3,307,155	3,307,155
CLOSING BALANCE 31 MARCH 2009		100,000	14,131,465	14,231,465

	Note	2008 $ Share Capital	2008 $ Retained Earnings	2008 $ Total
OPENING BALANCE 1 APRIL 2007	21	100,000	9,958,051	10,058,051
Current Year Surplus		-	3,465,034	3,465,034
Dividend Paid to Parent Company		-	(2,598,775)	(2,598,775)
CLOSING BALANCE 31 MARCH 2008		100,000	10,824,310	10,924,310

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

MEDICAL LIFE ASSURANCE SOCIETY LIMITED

BALANCE SHEET

as at 31 March 2009

	Note	2009 $	2008 $
FUNDS EMPLOYED			
EQUITY			
100,000 $1 Ordinary shares	21	100,000	100,000
Retained Earnings		14,131,465	10,824,310
Total Equity		14,231,465	10,924,310
CURRENT LIABILITIES			
Payables	8	167,958	146,044
Advance from Parent Company	6	-	383,472
Dividend Payable to Parent Company		-	2,598,776
Claims Outstanding		205,343	308,117
Total Current Liabilities		373,301	3,436,409
POLICY LIABILITIES	11	5,148,023	6,673,785
DEFERRED TAX	13	-	61,842
TOTAL FUNDS EMPLOYED		19,752,789	21,096,345
ASSETS			
CURRENT ASSETS			
Cash and Cash Equivalents	14	2,280,000	700,000
Receivables	15	11,540	116,855
Advance to Parent Company	6	302,184	-
Premiums Outstanding	16	3,029,931	2,948,451
Taxation Paid in Advance		-	484,316
Total Current Assets		5,623,655	4,249,622
INVESTMENTS	17	13,724,473	16,846,723
DEFERRED TAX	13	404,661	-
TOTAL ASSETS		19,752,789	21,096,345

Approved for issue for and on behalf of the Board of Medical Life Assurance 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 LIFE ASSURANCE SOCIETY LIMITED

CASH FLOW STATEMENT

for the year ended 31 March 2009

	Note	2009 $	2008 $
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from Policyholders		9,760,833	8,749,325
Payments to Suppliers		(3,619,909)	(3,233,005)
Payments to Policyholders		(1,939,923)	(2,269,754)
Interest on Advances from Parent Company		5,256	10,309
Income from Managed Funds		(1,563,196)	(588,797)
Administration Fees Paid to Parent Company		(1,410,881)	(1,242,637)
Taxation Refund / (Payment of Taxation)		510,001	(203,181)
Net Cash Flows from Operating Activities	19	1,742,181	1,222,260
CASH FLOWS FROM INVESTING ACTIVITIES			
Contributions to Investment Funds		-	(2,200,000)
Withdrawals from Investment Funds		3,122,250	2,486,427
Net Cash Flows from Investing Activities		3,122,250	286,427
CASH FLOWS FOR FINANCING ACTIVITIES			
Dividend paid to Parent Company		(2,598,776)	(3,039,900)
Advances (to) / from Parent Company		(685,656)	891,213
Net Cash Flows for Financing Activities		(3,284,432)	(2,148,687)
NET INCREASE / (DECREASE) IN CASH HELD		1,580,000	(640,000)
Opening Cash Balance brought forward		700,000	1,340,000
CASH AND CASH EQUIVALENTS CARRIED FORWARD		2,280,000	700,000
CASH AND CASH EQUIVALENTS COMPRISE			
Short Term Deposits		2,280,000	700,000
		2,280,000	700,000

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

1. CORPORATE INFORMATION

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

The ultimate parent of Medical Life Assurance Society Limited (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.

2 STATEMENT OF ACCOUNTING POLICIES

(a) Principal Activity

Medical Life Assurance Society Limited is a wholly owned subsidiary of Medical Assurance Society New Zealand Limited (the "Society"). It provides life assurance and other associated investment products 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 Reinsurance Premiums

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

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).

Premiums ceded to reinsurers under reinsurance contracts are recorded as an expense and are recognised over the period of indemnity of the contract.

(e) Investments

Investment funds, which are managed by Goldman Sachs JBWere and Bancorp Treasury Services Limited 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.

1. STATEMENT OF ACCOUNTING POLICIES continued ...

(e) Investments continued ...

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

The Company's policy is to manage investments to give the best possible yield whilst taking a prudent approach to risk.

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.

(f) Payments under Policies and Claims Outstanding

Claims

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

Surrenders

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

Maturities

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

The liability for any outstanding claims is carried in the Balance Sheet. This liability relates solely to claims made and under a risk policy where liability has been accepted, but for procedural reasons the benefit has not been able to have been paid at balance date.

(g) Payables

Accounts Payable 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) Policy Liabilities

Life insurance policy liabilities are calculated using the Margin on Services ("MoS") methodology in accordance with the New Zealand Society of Actuaries' Professional Standard No 3 - Determination of Life Insurance Policy Liabilities issued in March 1999 (amended 21 February 2001).

(i) 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.

1. STATEMENT OF ACCOUNTING POLICIES continued ...

(i) Income and Other Taxes, and Deferred Tax continued ...

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 the taxation authority, 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; and
- receivables and payables, which are stated with the amount of GST included.

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.

(j) 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.

(k) Receivables

Accounts Receivable 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, using the effective interest method, less any allowance for impairment.

(l) Premiums Outstanding

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

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

(m) Cash Flow Statement

The Cash Flow Statement has been prepared using the direct approach modified by the netting of certain items as discussed below.

Netting of cash flows. Certain cash flows have been netted-off in order to provide more meaningful disclosure, as many of the cash flows are received and disbursed on a continual basis.

(n) Comparatives

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

(o) Changes in Accounting Policies

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

3. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

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

Significant judgments, estimates and assumptions made by management in the preparation of these financial statements are outlined below -

Policy Liabilities.

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

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

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

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

In addition, factors such as competition, interest rates, taxes and market and general economic conditions affect the level of these liabilities. Details of specific actuarial policies and methods adopted are contained in Note 9.

4. SEGMENTAL REPORTING

The Company has neither business nor geographical segments. Its business is all life insurance and all its activities are carried out in New Zealand.

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, Interest and Dividends. Interest on advances is charged at the 90 day bank bill rate plus 1% up to a balance of $5,000,000. 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) No staff are directly employed by the Company. 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

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

7. VOTING RIGHTS

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

8. PAYABLES

	2009	2008
	$	$
Other Payables	167,958	146,044
	167,958	146,044

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

9. ACTUARIAL POLICIES AND METHODS

The effective date of the actuarial report on the policy liabilities and prudential reserves is 31 March 2009.

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

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

Disclosure of Assumptions.
Policy liabilities have been determined in accordance with Professional Standard No. 3 - Determination of Life Insurance Policy Liabilities issued by the NZSA in March 1999 (amended 21 February 2001). The Standard requires that the policy liabilities be calculated in a way which allows for the systematic release of planned margins as services are provided to the policyholders.

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

Major Product Group	Profit Carrier
Risk insurances including: Term Life Dread Disease Total Permanent Disablement	Claims net of reinsurance
Traditional participating business	Bonuses

Discount Rates.
The discount rate assumed equals the risk-free rate of return on 10-year NZ Government Stock as at the valuation date, of 5.34% (2008 6.36%), net of tax at 30.00% (2008 30.00%), giving a net discount rate of 3.74% per annum (2008 4.45%).

Inflation Rates.
Inflation impacts on the valuation in broadly two ways. Some contracts provide for the increase of future benefits in line with the Consumer Price Index ("CPI"). The CPI is assumed to increase at 2.50% per annum (2008 2.50%). Expenses are assumed to be linked to movements in salaries and wages which have historically moved faster than the CPI. The assumed rate of increase is 3.50% per annum (2008 3.50%).

Element Impacted	Assumed Rate
Benefit indexation	2.50%
Expenses	3.50%

It is further assumed that benefit indexation will be utilised by up to 90.00% of indexed assurances (2008 90.00%) which is in line with the Company's recent experience.

It has also been assumed that the sums insured of all Yearly Renewable Term, TPD and Trauma policies will increase by 2% per year (2008 2%) resulting from clients requesting increases in their level of cover.

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

Future Expenses.
Maintenance expenses. The standard maintenance expense allowance for risk policies is $320 (2008 $192) gross per policy. Certain policy groups have non-standard allowances. These expenses are assumed to be increased in line with the indexation assumption above.
Acquisition expenses. The standard acquisition expense allowance for policies written is $973 (2008 $857). The unit expenses are based upon a broad analysis of the Company's actual expenses for the year. Acquisition costs per policy, in general, equal five times the renewal costs of a risk policy. Renewal costs of permanent assurances equal 2.2 times those for risk policies. This is approximately the same relativity as was used in the previous valuation.
Investment expenses. Investment expenses equalled 0.50% of funds under management (2008 0.10%).

9. ACTUARIAL POLICIES AND METHODS continued ...

The breakdown of actual expenses is as follows:	2009 $	2008 $
Maintenance expenses	2,134,372	1,866,630
Acquisition expenses	604,126	641,721
Investment expenses	99,390	21,308
	2,837,888	2,529,659

Taxation.
Future rates of taxation have been assumed to continue at the current level of company tax in New Zealand of 30.00% (2008 33.00%).

Mortality and Morbidity.
The basic rates of mortality assumed were:

Males	90% of IA95-97M (2008 90% of IA95-97M)
Females	90% of IA95-97F (2008 90% of IA95-97F)

Modifications have been made from these base tables to reflect smoker / non-smoker habits and duration in force (unchanged from 2008).

The experience for dread disease and total and permanent disability contracts is assumed to equal 85.00% of the reinsurance risk premium rates, net of GST (2008 85.00%).

Discontinuances.

Risk insurances including: Term Life Dread Disease Total Permanent Disablement	6.00% per annum (2008 6.00%) until age 65 when all policies are assumed to cease.
Traditional participating business	5.00% per annum (2008 5.00%).

Future participating business.
The Company's philosophy is to set bonus rates such that over longer periods, the returns to participating policyholders will be commensurate with the investment returns on the assets held. Distributions are split between policyholders and shareholders with shareholders assumed to be entitled to 25% of the distribution to policyholders. Assumed rates of future bonus have been set so that the present value of the policy liabilities equals the present value of the assets supporting the business. Allowance is made for the shareholder's right to participate in the distributions.

Assumed future bonus rates for participating policies were:

Bonus rate on sum assured	$7.11 per mille (2008 $15.50 per mille).
Bonus rate on existing bonuses	$12.00 per mille (2008 $26.20 per mille).

The reduction in the level of supportable bonuses arises primarily from the lower discount assumption.

10. DISCLOSURES ON SOLVENCY

Equity retained to meet solvency requirements. The solvency reserves have been determined on the basis of Professional Standard No. 5 of the New Zealand Society of Actuaries.

The equity retained to meet solvency requirements (over and above policy liabilities) for the Company is $7,138,661 (2008 $5,719,651). The increase in the solvency requirement arises because of the reduction in investment yields over the year.

11. POLICY LIABILITIES

	2009	2008
	$	$
Gross future claims	87,005,674	75,803,040
Future reinsurance premiums	58,573,633	48,947,122
Future reinsurance recoveries	(50,457,838)	(42,165,067)
Future policy bonuses	718,756	1,573,781
Future expenses	18,484,191	14,972,553
Future profit margins	59,359,327	54,680,000
Balance of future premiums	(168,535,720)	(147,137,644)
Policy Liabilities before bonus	5,148,023	6,673,785
Bonus declared at year end	-	-
Total Policy Liabilities at period end	5,148,023	6,673,785
Total Policy Liabilities at previous period end	6,673,785	7,843,793
Decrease in Policy Liabilities for the period	(1,525,762)	(1,170,008)
Withdrawals recognised as a decrease in Policy Liabilities	-	-
Decrease in Policy Liabilities per Income Statement	(1,525,762)	(1,170,008)

12. NET SURPLUS TRANSFERRED TO EQUITY

The Net Surplus is reconciled, using Margin on Services methodology, as follows:

	2009	2008
	$	$
Planned margins of revenues over expenses	2,589,338	2,571,332
Difference between actual and assumed experience	849,302	1,326,770
Change in discount rate	522,846	(241,419)
Investment earnings on assets in excess of policy liabilities	(654,331)	(191,649)
Available for Shareholders	3,307,155	3,465,034

13. TAXATION

	2009	2008
	$	$
Net Surplus before Taxation	2,814,967	3,183,998
Taxation at 30% (2008: 33%)	844,490	1,050,719
Tax effect of Non Assessable Items	(1,355,334)	(1,295,123)
Tax effect of Non Deductible Expenditure	93,416	192,782
Tax effect of change in corporate tax rate	-	(6,184)
Other	(2,649)	29,793
Imputation Credits	(72,111)	(253,023)
Taxation Credit for the year	(492,188)	(281,036)
Comprising:		
Current Taxation	(25,685)	(281,134)
Deferred Tax	(466,503)	98
Taxation Credit per Income Statement	(492,188)	(281,036)

13. TAXATION continued ...

Deferred Tax

31 March 2009	Opening Balance $	Prior Period Adjustment $	Income Statement $	Tax Rate Change $	Total $
Deferred Tax Liabilities					
Provisions and Accruals	(15,264)	13,681	1,583	-	-
Insurance Reserves and Provisions	(74,495)	-	(15,903)	-	(90,398)
	(89,759)	13,681	(14,320)	-	(90,398)
Deferred Tax Assets					
Provisions and Accruals	27,917	-	(27,917)	-	-
Investments	-	-	495,059	-	495,059
	27,917	-	467,142	-	495,059
Net Deferred Tax Asset	(61,842)	13,681	452,822	-	404,661

31 March 2008	Opening Balance $	Prior Period Adjustment $	Income Statement $	Tax Rate Change $	Total $
Deferred Tax Liabilities					
Provisions and Accruals	(57,298)	-	40,508	1,526	(15,264)
Insurance Reserves and Provisions	(58,211)	-	(23,733)	7,449	(74,495)
	(115,509)	-	16,775	8,975	(89,759)
Deferred Tax Assets					
Provisions and Accruals	20,449	(2,121)	12,381	(2,792)	27,917
Investments	33,317	(33,317)	-	-	-
	53,766	(35,438)	12,381	(2,792)	27,917
Net Deferred Tax Liability	(61,743)	(35,438)	29,156	6,183	(61,842)

Imputation Credit Account ("ICA")	2009 $	2008 $
Opening Balance	2,271,174	2,271,174
Movement during the period	-	-
Closing Balance	2,271,174	2,271,174

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 Limited as the nominated member of the Medical Assurance Society Consolidated Group.

14. CASH AND CASH EQUIVALENTS

	2009 $	2008 $
Short Term Deposits	2,280,000	700,000
	2,280,000	700,000

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.

15. RECEIVABLES

	2009	2008
	$	$
Recoveries due from Reinsurers	-	71,429
Interest Due	11,540	11,532
Other	-	33,894
	11,540	116,855

16. PREMIUMS OUTSTANDING

	2009	2008
	$	$
Premiums Owing by Policyholders	3,029,931	2,948,451
	3,029,931	2,948,451

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.

17. INVESTMENTS

	2009	2008
	$	$
Deposits and Short Term Securities	4,433,995	4,206,698
Domestic Fixed Interest	2,792,638	1,422,179
International Fixed Interest	3,541,866	3,844,977
Australasian Equities	-	1,921,606
International Equities	2,955,974	5,451,263
	13,724,473	16,846,723
Realised Investment (Losses) / Income	(1,626,320)	712,003
Unrealised Investment Income / (Losses)	68,390	(1,282,964)
Total Investment Losses	(1,557,930)	(570,961)

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 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.

18. 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.

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 insurance provisions are considered to be financial liabilities.

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

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

Financial Assets	2009 Carrying Amount $	2009 Fair Value $	2008 Carrying Amount $	2008 Fair Value $
Cash and Cash Equivalents	2,280,000	2,280,000	700,000	700,000
Receivables	11,540	11,540	116,855	116,855
Premiums Outstanding	3,029,931	3,029,931	2,948,451	2,948,451
Investments	13,724,473	13,724,473	16,846,723	16,846,723
	19,045,944	19,045,944	20,612,029	20,612,029

Financial Liabilities	2009 Carrying Amount $	2009 Fair Value $	2008 Carrying Amount $	2008 Fair Value $
Payables	167,958	167,958	146,044	146,044
Advance from Parent Company	-	-	383,472	383,472
	167,958	167,958	529,516	529,516

19. RECONCILIATION OF CASH FLOWS

	2009 $	2008 $
Reported Surplus after Taxation	3,307,155	3,465,034
Plus Non-Cash Items:		
(Decrease) / Increase in Deferred Tax	(466,503)	99
Changes in Operating Assets and Liabilities:		
Payables	21,914	42,462
Claims Outstanding	(102,774)	(515,557)
Taxation Paid in Advance / (Taxation Refund)	484,316	(484,316)
Policy Liabilities	(1,525,762)	(1,170,008)
Receivables	105,315	148,743
Premiums Outstanding	(81,480)	(264,197)
Net Cash Flows from Operating Activities	1,742,181	1,222,260

20. 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, market risk, liquidity risk and operating risk.

Insurance Risk

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

20. **FINANCIAL INSTRUMENTS AND RISK MANAGEMENT continued ...**

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 sophisticated 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.

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 monitoring of a reinsurer's credit risk rating to control exposure to reinsurance counterparty default.

Balance Sheet credit exposures -	**2009**	**2008**
	$	**$**
Receivables	11,540	116,855
Premiums Outstanding	3,029,931	2,948,451
Investments	16,004,473	17,546,723
	19,045,944	20,612,029

Concentrations of credit risk by industry -	**2009**	**2008**
	$	**$**
Finance, investment and insurance	16,016,013	17,663,578
Health and community services	3,029,931	2,948,451
	19,045,944	20,612,029

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 and Australasian equities. The maximum exposure to credit risk is the carrying value of these financial instruments.

The significant counterparties are the Company's fund managers Goldman Sachs JBWere and Bancorp Treasury Services Limited, both 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.

20. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT continued ...

Balance Sheet investment exposures -	2009	2008
	$	$
Cash and Cash Equivalents	2,280,000	700,000
Deposits and Short Term Securities	4,433,995	4,206,698
Domestic Fixed Interest	2,792,638	1,422,179
International Fixed Interest	3,541,866	3,844,977
Australasian Equities	-	1,921,606
International Equities	2,955,974	5,451,263
	16,004,473	17,546,723

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 value of international investments (overseas shares and international fixed interest). To mitigate this risk, the Group's Investment Committee has developed currency hedging ranges which the fund manager must adhere to.

Balance Sheet currency exposures -	2009	2008
	$	$
International Fixed Interest	3,541,866	3,844,977
Australasian Equities	-	1,921,606
International Equities	2,955,974	5,451,263
	6,497,840	11,217,846

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
- the immediate availability of significant levels of funding by way of access to inter-company accounts
- 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	2,280,000	-	-	-	-	2,280,000
Receivables	11,540	-	-	-	-	11,540
Premiums Outstanding	2,777,437	252,494	-	-	-	3,029,931
Investments	13,724,473	-	-	-	-	13,724,473
	18,793,450	252,494	-	-	-	19,045,944

	0-6 months $	6-12 months $	1-2 years $	2-5 years $	Over 5 years $	Total $
Financial Liabilities						
Payables	167,958	-	-	-	-	167,958
Advance from Parent Company	-	-	-	-	-	-
Claims Outstanding	205,343	-	-	-	-	205,343
	373,301	-	-	-	-	373,301
31 March 2008						
Financial Assets						
Cash and Cash Equivalents	700,000	-	-	-	-	700,000
Receivables	116,855	-	-	-	-	116,855
Premiums Outstanding	2,702,747	245,704	-	-	-	2,948,451
Investments	16,846,723					
	3,519,602	245,704	-	-	-	3,765,306
Financial Liabilities						
Payables	146,044	-	-	-	-	146,044
Advance from Parent Company	383,472	-	-	-	-	383,472
Claims Outstanding	308,117	-	-	-	-	308,117
	837,633	-	-	-	-	837,633

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 determination of the policy liabilities at period end. Movements in interest rates can have a material impact on profit and equity and on the level of supportable bonuses. The levels of claims, lapses and surrenders, and expenses can also impact the level of supportable bonuses, but such impacts are insignificant in financial terms.

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 - (impact on policy liabilities) upward movement in interest rates.	Increase in interest rates of 1.00%pa.	$620,000 March 2008 $460,000
Insurance Risk - (impact on policy liabilities) downward movement in interest rates.	Decrease in interest rates of 1.00%pa.	($660,000) March 2008 ($570,000)

20. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT continued ...

Risk Variable	Occurrence	Impact on Profit and Equity
Credit Risk - short term deposit rates increase.	Short term deposit rates increase by 1.00%pa.	$23,000 March 2008 $7,000
Credit Risk - short term deposit rates decrease.	Short term deposit rates decrease by 1.00%pa.	($23,000) March 2008 ($7,000)
Credit Risk - domestic bond interest rates increase.	Bond rates increase by 0.50%.	(55,000) March 2008 *
Credit Risk - domestic bond interest rates decrease.	Bond rates decrease by 0.50%.	57,000 March 2008 *
Credit Risk - international bond interest rates increase.	Bond rates increase by 0.50%.	(138,000) March 2008 *
Credit Risk - international bond interest rates decrease.	Bond rates decrease by 0.50%.	143,000 March 2008 *
Credit Risk - international equity prices increase.	Equities increase by 10%.	527,000 March 2008 *
Credit Risk - international equity prices increase.	Equities decrease by 10%.	(527,000) March 2008 *
Currency Risk - NZD appreciates in value.	NZD appreciates by 10% against the AUD. NZD appreciates by 10% against the USD.	(506,000) March 2008 * (801,000) March 2008 *
Currency Risk - NZD depreciates in value.	NZD depreciates by 10% against the AUD. NZD depreciates by 10% against the USD.	414,000 March 2008 * 655,000 March 2008 *

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

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	2,280,000	-	-	2,280,000
Receivables	11,540	-	-	11,540
Premiums Outstanding	3,029,931	-	-	3,029,931
Investments	-	13,724,473	-	13,724,473
	5,321,471	13,724,473	-	19,045,944
Liabilities				
Payables	-	-	167,958	167,958
Advance from Parent Company	-	-	-	-
Claims Outstanding	-	-	205,343	205,343
Policy Liabilities	-	-	5,148,023	5,148,023
	-	-	5,521,324	5,521,324

20. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT continued ...

	Loans and Receivables $	Fair Value Through Profit or Loss $	Other Financial Liabilities $	Total $
31 March 2008				
Assets				
Cash and Cash Equivalents	700,000	-	-	700,000
Receivables	116,855	-	-	116,855
Premiums Outstanding	2,948,451	-	-	2,948,451
Investments	-	16,846,723	-	16,846,723
	3,765,306	16,846,723	-	20,612,029
Liabilities				
Payables	-	-	146,044	146,044
Advance from Parent Company	-	-	383,472	383,472
Claims Outstanding	-	-	308,117	308,117
Policy Liabilities	-	-	6,673,785	6,673,785
	-	-	7,511,418	7,511,418

21. CONTRIBUTED EQUITY

	2009 $	2008 $
Ordinary Shares		
Issued and Fully Paid	100,000	100,000

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

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

There are no current plans to issue further shares.

The Company is not subject to any externally imposed capital requirements.

22. CONTINGENT LIABILITIES

The Company had no contingencies as at 31 March 2009 (2008 nil).

Ernst & Young — Chartered Accountants

Auditor's Report

To the Shareholders of Medical Life Assurance Society Limited

We have audited the financial statements on pages 1 to 19. 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 7.

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 19:
  - 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