

# MEDICAL LIFE ASSURANCE SOCIETY LIMITED

## STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 March 2015

	Note	2015 \$	2014 \$
<b><u>OPERATING REVENUE</u></b>			
Premiums Received		32,723,176	31,230,419
Reinsurance Premiums		(8,796,475)	(8,696,359)
		<hr/>	<hr/>
Net Premium Revenue		23,926,701	22,534,060
<b><u>PAYMENTS UNDER POLICIES</u></b>			
Claims		(11,953,045)	(4,120,416)
Reinsurance Recoveries		4,877,899	(224,237)
		<hr/>	<hr/>
		(7,075,146)	(4,344,653)
Surrenders		(25,378)	(33,411)
Maturities		(1,217,312)	(99,907)
Annuities		-	(7,025)
		<hr/>	<hr/>
Total Payments on Policies		(8,317,836)	(4,484,996)
Decrease in Policy Liabilities	9	2,663,630	508,214
<b><u>OPERATING EXPENSES</u></b>			
Administration Expenses	6	(1,230,997)	(1,243,449)
Administration Fees Paid to Parent Company	5	(8,139,263)	(6,912,777)
		<hr/>	<hr/>
Total Operating Expenses	8	(9,370,260)	(8,156,226)
<b><u>INVESTMENT INCOME</u></b>			
Interest Income on Intercompany Lending	5	3,365	3,254
Short Term Deposits		45,960	36,496
Domestic and International Fixed Interest		2,582,985	813,115
Australasian and International Equities		5,490,557	4,093,858
		<hr/>	<hr/>
Net Investment Income	17	8,122,867	4,946,723
		<hr/>	<hr/>
<b>NET SURPLUS BEFORE TAXATION</b>		17,025,102	15,347,775
Taxation Expense	12	(792,950)	(1,702,502)
		<hr/>	<hr/>
<b>NET SURPLUS AFTER TAXATION</b>		16,232,152	13,645,273
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Other Comprehensive Income Net of Taxation		-	-
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<b>TOTAL COMPREHENSIVE INCOME</b>		16,232,152	13,645,273
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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 2015

	Note	2015 \$ Share Capital	2015 \$ Retained Earnings	2015 \$ Total
<b>OPENING BALANCE 1 APRIL 2014</b>	21	100,000	49,258,077	49,358,077
Current Year Surplus		-	16,232,152	16,232,152
Other Comprehensive Income		-	-	-
Total Comprehensive Income		-	16,232,152	16,232,152
Dividends	21	-	(9,000,000)	(9,000,000)
<b>CLOSING BALANCE 31 MARCH 2015</b>		100,000	56,490,229	56,590,229

		2014 \$ Share Capital	2014 \$ Retained Earnings	2014 \$ Total
<b>OPENING BALANCE 1 APRIL 2013</b>	21	100,000	35,612,804	35,712,804
Current Year Surplus		-	13,645,273	13,645,273
Other Comprehensive Income		-	-	-
Total Comprehensive Income		-	13,645,273	13,645,273
<b>CLOSING BALANCE 31 MARCH 2014</b>		100,000	49,258,077	49,358,077

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

# MEDICAL LIFE ASSURANCE SOCIETY LIMITED

## STATEMENT OF FINANCIAL POSITION

as at 31 March 2015

	Note	2015 \$	2014 \$
<b>FUNDS EMPLOYED</b>			
<b><u>EQUITY</u></b>			
Ordinary shares	21	100,000	100,000
Retained Earnings		56,490,229	49,258,077
<b>Total Equity</b>		<b>56,590,229</b>	<b>49,358,077</b>
<b><u>LIABILITIES</u></b>			
Payables	7	1,609,170	2,284,918
Advance from Parent Company	5	540,586	2,309,320
Provision for Taxation		-	2,911
Claims Outstanding	11	22,408,040	19,422,478
Policy Liabilities	9	2,621,641	5,285,271
Deferred Tax	12	1,775,861	1,332,480
<b>Total Liabilities</b>		<b>28,955,298</b>	<b>30,637,378</b>
<b><u>TOTAL FUNDS EMPLOYED</u></b>		<b>85,545,527</b>	<b>79,995,455</b>
<b><u>ASSETS</u></b>			
Cash and Cash Equivalents	13	2,190,000	1,090,000
Receivables	14	4,098	2,870
Reinsurance Recoveries	15	10,744,194	9,166,663
Premiums Outstanding	16	10,847,830	10,443,164
Taxation Paid in Advance		393,104	-
Investments	17	61,366,301	59,292,758
<b><u>TOTAL ASSETS</u></b>		<b>85,545,527</b>	<b>79,995,455</b>

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

  
.....  
Director

  
.....  
Director

Wellington, 7 July 2015

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

# MEDICAL LIFE ASSURANCE SOCIETY LIMITED

## STATEMENT OF CASH FLOWS

for the year ended 31 March 2015

	Note	2015 \$	2014 \$
<b><u>CASH FLOWS FROM OPERATING ACTIVITIES</u></b>			
Receipts from Policyholders		32,318,510	30,988,988
Payments to Suppliers		(10,703,220)	(8,579,627)
Reinsurance Recoveries Received		3,300,368	4,196,191
Payments to Policyholders		(10,210,173)	(10,616,193)
Interest on Advances from Parent Company		3,365	3,254
Interest Income from Cash Deposits		44,732	35,668
Administration Fees Paid to Parent Company		(8,139,263)	(6,912,777)
Payment of Taxation		(745,584)	(1,577,729)
Net Cash Flows from Operating Activities	19	5,868,735	7,537,775
<b><u>CASH FLOWS FROM / (FOR) INVESTING ACTIVITIES</u></b>			
Contributions to Investment Funds		(5,500,001)	(22,987,554)
Withdrawals from Investment Funds		11,500,000	2,000,000
Investment Funds received from Medical Insurance Society Limited		-	11,597,238
Net Cash Flows from / (for) Investing Activities		5,999,999	(9,390,316)
<b><u>CASH FLOWS (FOR) / FROM FINANCING ACTIVITIES</u></b>			
Dividend paid to Parent Company		(9,000,000)	-
Net Advances from Parent Company		(1,768,734)	2,282,541
Net Cash Flows (for) / from Financing Activities		(10,768,734)	2,282,541
<b>NET INCREASE IN CASH HELD</b>		1,100,000	430,000
Opening Cash Balance brought forward		1,090,000	660,000
<b>CASH AND CASH EQUIVALENTS CARRIED FORWARD</b>		2,190,000	1,090,000
<b><u>CASH AND CASH EQUIVALENTS COMPRISE</u></b>			
Cash On Call	13	2,190,000	1,090,000
		2,190,000	1,090,000

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

# MEDICAL LIFE ASSURANCE SOCIETY LIMITED

## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS for the year ended 31 March 2015

### 1. CORPORATE INFORMATION

#### REGISTERED OFFICE

19 - 21 Broderick Road  
Johnsonville  
Wellington

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 and is an issuer under the Financial Markets Conduct Act 2013.

Standard & Poor's has assigned Medical Life Assurance Society Limited an A-/Stable insurer financial strength rating.

### 2 ACCOUNTING POLICIES

#### (a) Principal Activity

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

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

#### (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 Financial Markets Conduct Act 2013 and the Financial Reporting Act 2013. The financial statements have also been prepared on a historical cost basis with any exceptions noted in the accounting policies below.

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").

The following new standards, amendments to standards or interpretations have been issued but not yet effective for the period ended 31 March 2015, and have not been applied in preparing these financial statements:

NZ IFRS 9 (2009) *Financial Instruments* has not been adopted for the reporting period to 31 March 2015. The standard uses a single approach to classify and measure financial assets to determine whether an asset should be measured at amortised cost or fair value. The standard is intended to reduce complexity and increase investor understanding of the accounting of financial assets.

NZ IFRS 9 (2010) *Financial Instruments* supersedes NZ IFRS (2009). The existing NZ IAS 39 *Financial Instruments: Recognition and Measurement* requirements for the classification of financial liabilities and the ability to use the fair value option have been retained.

However, where the fair value option is used for financial liabilities, the change in fair value is accounted for as follows:

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

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

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

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

## 2. ACCOUNTING POLICIES continued ...

### (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 profit and loss when it has been earned. That is, from the date of attachment of the risk, over the period of the policy (which is generally one year).

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 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 profit and loss.

The assets are valued at fair value each reporting date based on the current bid price where one is available. In the absence of a bid price, valuation is based on recent 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 profit and loss 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 an insurance risk contract has been established.

#### *Surrenders*

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

#### *Maturities*

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

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

### (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) Policy Liabilities

Life insurance policy liabilities are calculated using the Margin on Services ("MoS") methodology in accordance with the New Zealand Society of Actuaries' Professional Standard No 20 - Valuation of Life Insurance Policy Liabilities and NZ IFRS 4 of the External Reporting Board.

### (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 date.

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

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

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

## 2. **ACCOUNTING POLICIES continued...**

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

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

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

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

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

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

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

#### Other taxes

Revenues, expenses and assets are recognised net of the amount of GST except:

- when the GST incurred on a purchase of goods and services is not recoverable from 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 Statement of Financial Position.

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

### (j) Assets Backing Insurance Liabilities

All investment assets of the Company are assets backing the policy liabilities of the life insurance business including life insurance contract liabilities.

### (k) 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.

### (l) 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, using the effective interest method, less any allowance for impairment.

### (m) Premiums Outstanding

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

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

### (n) Statement of Cash Flows

The Statement of Cash Flows 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.

### (o) Comparatives

Where necessary, comparative information has been reclassified to achieve consistency with the current year.

## 2. **ACCOUNTING POLICIES continued...**

### (p) **Changes in Accounting Policies**

There have been no changes in accounting policies during the current reporting period other than those new standards adopted, as disclosed in Note 2(c).

## 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 judgements, estimates and assumptions made by management in the preparation of these financial statements are outlined below with further details carried in the relevant note disclosure -

### **Policy Liabilities.**

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

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

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

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

In addition, factors such as competition, interest rates, taxes and market and general economic conditions affect the level of these liabilities. Details of specific actuarial policies and methods adopted are contained in Note 8.

## 4. **DIRECTORS' FEES**

No directors' fees are provided for or are payable.

## 5. **RELATED PARTY TRANSACTIONS**

(a) Details of material related party transactions are as disclosed in the Statement of Comprehensive Income and the Statement of Financial Position.

(b) During the year, the related party transactions with the parent company (MAS) and took the form of Advances, Dividend Payment, 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 audit fee disclosed in Note 6 is paid by the parent company.

(d) 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. Key management personnel is defined as directors and members of the Executive Management Team.

	2015	2014
	\$	\$
Salaries and other short-term employee benefits	2,060,027	2,138,304
MAS directors fees	581,825	558,825
	<hr/>	<hr/>
	2,641,852	2,697,129

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

## 6. **ADMINISTRATION EXPENSES**

Included in Administration Expenses are the following:

	2015	2014
	\$	\$
Auditor Remuneration		
- Auditing / Reviewing Financial Statements	41,505	25,722
- Prudential Regulation Review	13,826	9,563
Investment Management Fees	88,642	87,328



**7. PAYABLES**

	2015	2014
	\$	\$
GST	916,827	1,650,923
Other Payables	692,343	633,995
	1,609,170	2,284,918

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

**8. ACTUARIAL POLICIES AND METHODS**

The effective date of the actuarial report on the policy liabilities and prudential reserves is 31 March 2015.

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

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

**Disclosure of Assumptions**

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

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

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

**Discount Rates**

The 10-year NZ Government Stock rate at the valuation date was 3.23% (2014 4.57%), net of tax at 28.00% (2014 28.00%), giving a net discount rate of 2.33% per annum (2014 3.29%).

Disability outstanding claims have been valued using the 5-year Government stock rate of 3.15% (2014 4.18%), reflecting the expected duration of future payments on existing claims.

**Inflation Rates**

Inflation impacts on the valuation in broadly two ways. Some contracts provide for the increase of future benefits in line with the Consumer Price Index ("CPI"). The CPI is assumed to increase at 2.50% per annum (2014 2.50%). The assumed rate of expense inflation is 2.00% per annum (2014 3.50%).

Element Impacted	Assumed Rate
Benefit indexation	2.50%
Expenses	2.00%

It is further assumed that benefit indexation will be utilised by up to 90.00% of indexed assurances (2014 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, Total Permanent Disablement and Trauma policies will increase by 2.00% per year (2014 2.00%) 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 \$266 (2014 \$280) gross per risk policy and \$303 (2014 \$282) for disability policies. Certain policy groups have non-standard allowances. These expenses are assumed to be increased in line with the indexation assumption above.

*Acquisition expenses.* The standard acquisition expense allowance for policies written is \$1,173 for life policies (2014 \$715) and \$1,696 (2014 \$977) for disability policies. The unit expenses are based upon a broad analysis of the Company's actual expenses for the year. Maintenance costs of permanent assurances equal 2.2 times those for risk policies. This is approximately the same relativity as was used in the previous valuation.

*Investment expenses.* Investment expenses equalled 0.15% of funds under management (2014 0.19%).

## 8. ACTUARIAL POLICIES AND METHODS continued...

The breakdown of actual expenses is as follows:

	2015 \$	2014 \$
Maintenance expenses	6,569,077	6,302,354
Acquisition expenses	2,712,541	1,766,544
Investment expenses	88,642	87,328
	<u>9,370,260</u>	<u>8,156,226</u>

### Taxation

Future rates of taxation have been assumed to continue at the current level of company tax in New Zealand of 28.00% (2014 28.00%).

### Mortality and Morbidity

The basic rates of mortality assumed for life products were:

Males	90% of IA95-97M (2014 90% of IA95-97M)
Females	90% of IA95-97F (2014 90% of IA95-97F)

Modifications have been made from these base tables to reflect smoker / non-smoker habits and duration in force (2015 same modifications as made in 2014).

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 (2014 85.00%).

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

### Discontinuances

Risk insurances including:	Yearly renewable contracts 5.50% per annum (2014 5.50%), level term contracts 1.00% per annum (2014 1.00%) until age 65 when all policies are assumed to cease
Term Life	
Dread Disease	
Total Permanent Disablement	
Traditional participating business	5.00% per annum (2014 5.00%)
Disability business	2.50% per annum (2014 2.50%)

### 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 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	\$9.00 per mille (2014 \$7.73 per mille)
Bonus rate on existing bonuses	\$15.00 per mille (2014 \$10.31 per mille)

The increase in the level of supportable bonuses arises from the increase in interest rates in New Zealand over the past year and favourable investment returns.

## 9. POLICY LIABILITIES

	2015 \$	2014 \$
Gross future claims	234,645,942	219,205,989
Future reinsurance premiums	146,162,083	137,998,603
Future reinsurance recoveries	(118,577,153)	(108,631,559)
Future policy bonuses	877,187	771,069
Future expenses	83,273,927	89,455,365
Future profit margins	105,801,956	92,927,741
Balance of future premiums	(449,703,301)	(426,608,137)
Policy Liabilities before bonus	<u>2,480,641</u>	<u>5,119,071</u>
Bonus declared at year end	<u>141,000</u>	<u>166,200</u>
Total Policy Liabilities at period end	<u>2,621,641</u>	<u>5,285,271</u>
Total Policy Liabilities at previous period end	5,285,271	1,525,195
Policy Liabilities recognised due to transfer of the Disability business	-	4,268,290
Decrease in Policy Liabilities for the period	<u>(2,663,630)</u>	<u>(508,214)</u>

## 10. NET SURPLUS TRANSFERRED TO EQUITY

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

	2015	2014
	\$	\$
Planned margins of revenues over expenses	5,677,090	5,329,382
Difference between actual and assumed experience	5,062,851	5,434,364
Change in discount rate	204,485	(60,224)
Investment earnings on assets in excess of policy liabilities	5,287,726	2,941,751
Available for Shareholders	16,232,152	13,645,273

## 11. OUTSTANDING CLAIMS

The following table shows the development of net undiscounted outstanding claims relative to the current estimate of ultimate disability claims costs for the five most recent years. Due to the long tail nature of disability claims, the Company has a number of active claims that pre-date 2011.

	Prior	2011	2012	Incident Year 2013	2014	2015	Total
At end of incident year		8,345,964	7,086,012	6,574,340	5,269,693	5,838,679	
One year later		7,466,593	10,040,285	5,303,691	6,266,216		
Two years later		7,644,862	10,544,636	7,066,848			
Three years later		7,817,403	12,004,931				
Four years later		8,398,803					
Current estimated claim cost	52,609,929	8,398,803	12,004,931	7,066,848	6,266,216	5,838,679	
Payments	(44,102,616)	(5,744,585)	(6,676,326)	(4,453,538)	(3,966,951)	(1,938,683)	
Undiscounted central estimate	8,507,313	2,654,218	5,328,605	2,613,310	2,299,265	3,899,996	25,302,707
Discount to present value	(1,112,891)	(642,484)	(820,160)	(634,657)	(338,645)	(352,613)	(3,901,450)
Discounted central estimate	7,394,422	2,011,734	4,508,445	1,978,653	1,960,620	3,547,383	21,401,257

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

	2015	2014
	\$	\$
Disability claims outstanding	21,401,257	19,074,654
Life claims outstanding	1,006,783	347,824
	22,408,040	19,422,478

## 12. TAXATION

	2015	2014
	\$	\$
Net Surplus before Taxation	17,025,102	15,347,775
Taxation at 28%	4,767,029	4,297,377
Tax effect of Non Assessable Items	(4,070,227)	(2,601,396)
Prior period adjustment	164,265	19,110
Imputation Credits	(68,117)	(12,589)
Taxation Expense for the Year	792,950	1,702,502
Taxation Expense for the Year comprises:		
Current Taxation - Shareholder Base	325,511	1,409,307
Current Taxation - Policyholder Base	24,058	53,279
Deferred Tax	443,381	239,916
Taxation Expense per Statement of Comprehensive Income	792,950	1,702,502

Tax legislation affecting life insurance business was passed in October 2009. This has resulted in the Company paying increased amounts of tax for new life business issued from 1 July 2010 and will result in increased tax on existing term life business once the grandparenting provisions cease in 2015.

12. **TAXATION continued...**

**Deferred Tax**

31 March 2015	Opening Balance	Disability Business Transfer	Prior Period Adjustment	Statement of Comprehensive Income	Total
	\$	\$	\$	\$	\$
<b>Deferred Tax Liabilities</b>					
Insurance Reserves and Provisions	(1,332,480)	-	-	(493,432)	(1,825,912)
	(1,332,480)	-	-	(493,432)	(1,825,912)
<b>Deferred Tax Assets</b>					
Other	-	-	-	50,051	50,051
	-	-	-	50,051	50,051
<b>Net Deferred Tax Liability</b>	(1,332,480)	-	-	(443,381)	(1,775,861)
<b>31 March 2014</b>	<b>Opening Balance</b>	<b>Disability Business Transfer</b>	<b>Period Adjustment</b>	<b>Statement of Comprehensive Income</b>	<b>Total</b>
	\$	\$	\$	\$	\$
<b>Deferred Tax Liabilities</b>					
Insurance Reserves and Provisions	(410,992)	(681,572)	(19,110)	(220,806)	(1,332,480)
<b>Net Deferred Tax Liability</b>	(410,992)	(681,572)	(19,110)	(220,806)	(1,332,480)

**Imputation Credit Account ("ICA")**

	2015	2014
	\$	\$
Opening Balance	1,678,094	2,271,174
Movement during the period	(66,659)	(593,080)
Closing Balance	1,611,435	1,678,094

As a member of the Medical Assurance Society Consolidated Group for tax purposes, all credits 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. Debits are allocated across the members' ICAs on a first in first out basis.

13. **CASH AND CASH EQUIVALENTS**

	2015	2014
	\$	\$
Cash On Call	2,190,000	1,090,000
	2,190,000	1,090,000

Cash and Cash Equivalents represents cash held on call with registered New Zealand banks.

14. **RECEIVABLES**

	2015	2014
	\$	\$
Interest Due	4,098	2,870
	4,098	2,870

15. **REINSURANCE RECOVERIES**

	2015	2014
	\$	\$
Recoveries associated with Life claims	483,826	260,870
Recoveries associated with Disability claims	10,260,368	8,905,793
	10,744,194	9,166,663

**16. PREMIUMS OUTSTANDING**

	2015	2014
	\$	\$
Premiums Owing by Policyholders	10,847,830	10,443,164
	10,847,830	10,443,164

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**

	2015	2014
	\$	\$
Deposits and Short Term Securities	3,237,309	4,449,444
Domestic Fixed Interest	10,609,378	13,726,053
International Fixed Interest (Unit Trust)	10,430,897	9,147,999
Australasian Equities (Managed Fund)	10,068,065	8,532,106
International Equities (Exchange Traded Funds)	27,020,652	23,437,156
	61,366,301	59,292,758
Realised Investment Income	2,452,138	1,828,203
Unrealised Investment Income	5,670,729	3,118,520
Total Investment Income	8,122,867	4,946,723

The Company's investment securities are all financial assets classified as FVTPL. Fair value adjustments and realised gains or losses are recognised in the Statement of Comprehensive Income.

During the year, all funds have been managed by JBWere (NZ) Limited 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 arm's length transaction.

The fair values are based on relevant information available as at balance date. While judgement is used in obtaining the fair value of financial instruments, there are inherent weaknesses in any estimation technique. Many of the estimates involve uncertainties and matters of significant judgement, and changes in underlying assumptions could significantly affect these estimates.

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. Reinsurance Recoveries Outstanding are not considered a financial asset.

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

	2015 Carrying Amount	2015 Fair Value	2014 Carrying Amount	2014 Fair Value
	\$	\$	\$	\$
<b>Financial Assets</b>				
Investments	61,366,301	61,366,301	59,292,758	59,292,758
	61,366,301	61,366,301	59,292,758	59,292,758

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

### Fair Value Hierarchy

The following table shows an analysis of financial instruments recorded at fair value in the Statement of Financial Position by level of the fair value hierarchy. The only assets and liabilities that the Company recognises on a fair value basis are its investments (refer to Classification of Financial Instruments in Note 20 for details of the classification categories):

	Level 1 \$	Level 2 \$	Level 3 \$	Total \$
<b>31 March 2015</b>				
<b>Financial Assets</b>				
Domestic Fixed Interest	-	10,609,378	-	10,609,378
International Fixed Interest (Unit Trust)	-	10,430,897	-	10,430,897
Australasian Equities (Managed Fund)	-	10,068,065	-	10,068,065
International Equities (Exchange Traded Funds)	27,020,652	-	-	27,020,652
	27,020,652	31,108,340	-	58,128,992
<b>31 March 2014</b>				
<b>Financial Assets</b>				
Domestic Fixed Interest	-	13,726,053	-	13,726,053
International Fixed Interest (Unit Trust)	-	9,147,999	-	9,147,999
Australasian Equities (Managed Fund)	-	8,532,106	-	8,532,106
International Equities (Exchange Traded Funds)	23,437,156	-	-	23,437,156
	23,437,156	31,406,158	-	54,843,314

A level 1 financial asset or liability comprises those assets and liabilities that are valued by reference to published quotes in an active market and the price reflects actual and regularly occurring market transactions on an arm's length basis.

A level 2 financial asset or liability is measured using industry standard valuation techniques and are based on market observable inputs but where the prices have not been determined in an active market.

A level 3 financial asset or liability value is determined in part, or in whole, using valuation techniques based on assumptions that are neither supported by prices from observable current market transactions in the same instrument, nor are they based on available market data.

There have been no transfers between Level 1 and Level 2 during the year (2014 nil).

## 19. RECONCILIATION OF CASH FLOWS

	2015 \$	2014 \$
Reported Surplus after Taxation	16,232,152	13,645,273
Plus Non-Cash Items:		
Increase in Deferred Tax	443,381	921,488
Increase in Investment Funds	(8,073,542)	(4,906,973)
Changes in Operating Assets and Liabilities:		
Payables	(675,748)	2,131,947
Claims Outstanding	2,985,562	14,917,975
Provision for Taxation	(396,015)	2,911
Policy Liabilities	(2,663,630)	3,760,076
Receivables	(1,228)	(828)
Reinsurance Recoveries and Premiums Outstanding	(1,982,197)	(11,336,856)
Assets and Liabilities transferred from Medical Insurance Society Limited as part of the disability book transfer	-	(11,597,238)
Net Cash Flows from Operating Activities	5,868,735	7,537,775

## 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.

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.

Statement of Financial Position credit exposures -	2015	2014
	\$	\$
Cash and Cash Equivalents	2,190,000	1,090,000
Receivables	4,098	2,870
Reinsurance Recoveries	10,744,194	9,166,663
Premiums Outstanding	10,847,830	10,443,164
Investments	13,846,687	18,175,497
	<hr/> 37,632,809	<hr/> 38,878,194

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 and domestic fixed interest securities. The maximum exposure to credit risk is the carrying value of these financial instruments.

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...

Statement of Financial Position investment exposures -

	2015	2014
	\$	\$
Cash and Cash Equivalents	2,190,000	1,090,000
Deposits and Short Term Securities	3,237,309	4,449,444
Domestic Fixed Interest	10,609,378	13,726,053
International Fixed Interest (Unit Trust)	10,430,897	9,147,999
Australasian Equities (Managed Fund)	10,068,065	8,532,106
International Equities (Exchange Traded Funds)	27,020,652	23,437,156
	63,556,301	60,382,758

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

	AAA	AA	A	BBB	Below BBB	Not rated	Carrying value \$
<b>31 March 2015</b>							
Cash and Cash Equivalents	-	100.0%	-	-	-	-	2,190,000
Deposits / Short Term Securities	-	100.0%	-	-	-	-	3,237,309
Domestic and International Fixed Interest	14.7%	27.7%	16.9%	31.6%	6.8%	2.3%	21,040,275
<b>31 March 2014</b>							
Cash and Cash Equivalents	-	100.0%	-	-	-	-	1,090,000
Deposits / Short Term Securities	-	100.0%	-	-	-	-	4,449,444
Domestic and International Fixed Interest	13.0%	26.9%	10.7%	35.5%	3.1%	10.8%	22,874,052

### 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 and cash). To mitigate this risk, the Group's Investment Committee has developed currency hedging ranges which the fund manager must adhere to.

Statement of Financial Position currency exposures (after hedging) -

	2015	2014
	\$	\$
AUD	5,416,619	4,837,704
EUR	2,696,345	1,165,489
GBP	1,369,529	3,993,775
USD	9,956,177	5,011,294
	19,438,670	15,008,262

### 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 date, into the relevant maturity groupings based on the remaining period to the contractual maturity date.



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

	0-12 months	1-2 years	2-5 years	Over 5 years	Total
31 March 2015	\$	\$	\$	\$	\$
<b>Financial Assets</b>					
Cash and Cash Equivalents	2,190,000	-	-	-	2,190,000
Receivables	4,098	-	-	-	4,098
Premiums Outstanding	10,847,830	-	-	-	10,847,830
Investments	51,008,548	629,188	7,458,826	2,269,739	61,366,301
	64,050,476	629,188	7,458,826	2,269,739	74,408,229
<b>Financial Liabilities</b>					
Payables	1,609,170	-	-	-	1,609,170
Advance from Parent Company	540,586	-	-	-	540,586
Claims Outstanding	22,408,040	-	-	-	22,408,040
	24,557,796	-	-	-	24,557,796

	0-12 months	1-2 years	2-5 years	Over 5 years	Total
31 March 2014	\$	\$	\$	\$	\$
<b>Financial Assets</b>					
Cash and Cash Equivalents	1,090,000	-	-	-	1,090,000
Receivables	2,870	-	-	-	2,870
Premiums Outstanding	10,443,164	-	-	-	10,443,164
Investments	38,805,266	760,645	8,401,515	11,325,332	59,292,758
	50,341,300	760,645	8,401,515	11,325,332	70,828,792
<b>Financial Liabilities</b>					
Payables	2,284,918	-	-	-	2,284,918
Advance from Parent Company	2,309,320	-	-	-	2,309,320
Claims Outstanding	19,422,478	-	-	-	19,422,478
	24,016,716	-	-	-	24,016,716

### 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 Risk and Compliance team 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 on the following page looks at how the direct risk variables can influence profit or loss and equity.

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

Risk Variable	Movement	Impact on Profit and Equity	
		2015 \$	2014 \$
<u>Insurance Risk:</u>			
Discount rate	Increase by 1%	334,000	337,000
	Decrease by 1%	(367,000)	(379,000)
Termination rates	Increase by 10%	522,000	475,000
	Decrease by 10%	(592,000)	(538,000)
<u>Market Risk:</u>			
Short term deposit rates	Increase by 1%	16,000	8,000
	Decrease by 1%	(16,000)	(8,000)
Bond interest rates	Increase by 0.50%	(114,000)	(207,000)
	Decrease by 0.50%	114,000	207,000
Unit prices	Unit price increases by 10%	751,000	659,000
	Unit price decreases by 10%	(751,000)	(659,000)
Currency Risk	NZD appreciates by 10% against the USD	(717,000)	(361,000)
	NZD depreciates by 10% against the USD	717,000	361,000
	NZD appreciates by 10% against the AUD	(390,000)	(348,000)
	NZD depreciates by 10% against the AUD	390,000	348,000
	NZD appreciates by 10% against the EUR	(194,000)	(84,000)
	NZD depreciates by 10% against the EUR	194,000	84,000
	NZD appreciates by 10% against the GBP	(99,000)	(288,000)
	NZD depreciates by 10% against the GBP	99,000	288,000

### 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
	\$	\$	\$	\$
<b>31 March 2015</b>				
<u>Assets</u>				
Cash and Cash Equivalents	2,190,000	-	-	2,190,000
Receivables	4,098	-	-	4,098
Premiums Outstanding	10,847,830	-	-	10,847,830
Investments	-	61,366,301	-	61,366,301
	13,041,928	61,366,301	-	74,408,229
<u>Liabilities</u>				
Payables	-	-	1,609,170	1,609,170
Advance from Parent Company	-	-	540,586	540,586
Claims Outstanding	-	-	22,408,040	22,408,040
	-	-	24,557,796	24,557,796
<b>31 March 2014</b>				
<u>Assets</u>				
Cash and Cash Equivalents	1,090,000	-	-	1,090,000
Receivables	2,870	-	-	2,870
Premiums Outstanding	10,443,164	-	-	10,443,164
Investments	-	59,292,758	-	59,292,758
	11,536,034	59,292,758	-	70,828,792
<u>Liabilities</u>				
Payables	-	-	2,284,918	2,284,918
Advance from Parent Company	-	-	2,309,320	2,309,320
Claims Outstanding	-	-	19,422,478	19,422,478
	-	-	24,016,716	24,016,716

**21. CONTRIBUTED EQUITY**

	2015 \$	2014 \$
<b>Ordinary Shares</b>		
100,000 Ordinary shares	100,000	100,000

During the year to 31 March 2015 the Company paid a dividend of \$9,000,000, equivalent to \$90 per share (2014 no dividend paid). All shares carry the same voting rights, and rights to share in any surplus upon winding up.

**Capital Management**

When managing capital, management's objective is to ensure the 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.

The Company is a licenced insurer under the Insurance (Prudential Supervision) Act 2010. Certain conditions are imposed as a result of licensing, including:

- maintain a solvency margin of at least \$0 at all times for the next three years
- maintaining a statutory fund.

The Company has a capital management plan and reporting process in place to ensure continuous and full compliance with the solvency standard.

The Medical Life Assurance Statutory Fund encompasses all the assets and liabilities of the Company. The solvency position of the statutory fund is the same as for the Company.

The minimum solvency capital the Company is required to maintain to meet the solvency standards is as follows:

	2015 \$	2014 \$
Actual Solvency Capital	56,590,229	49,358,077
Minimum Solvency Capital	40,294,573	33,105,115
Solvency Margin	16,295,656	16,252,962
Solvency Ratio	1.40	1.49

**22. CONTINGENT LIABILITIES**

The Company had no contingencies as at 31 March 2015 (2014 nil).

## Independent Auditor's Report

### To the Shareholders of Medical Life Assurance Society Limited

#### Report on the Financial Statements

We have audited the financial statements of Medical Life Assurance Society Limited (the "company") on pages 1 to 19 which comprise the statement of financial position of the company as at 31 March 2015, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

This report is made solely to the company's shareholders in accordance with section 461G (1) of the Financial Markets Conduct Act 2013. 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 for our audit work, for this report, or for the opinions we have formed.

#### Directors' Responsibility for the Financial Statements

The directors are responsible for the preparation and fair presentation of the financial statements in accordance with generally accepted accounting practice in New Zealand, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

#### Auditor's Responsibility

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

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

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

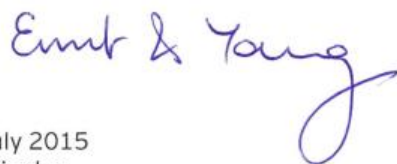
We provide other assurance services to the company. We have no other relationship with, or interest in, the company.

Partners and employees of our firm may deal with the company on normal terms within the ordinary course of trading activities of the business of the company.

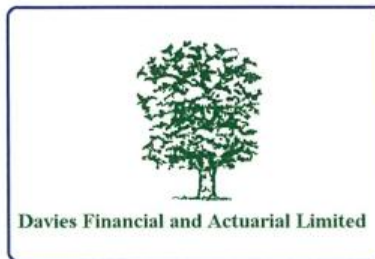
#### Opinion

In our opinion, the financial statements on pages 1 to 19:

- ▶ comply with generally accepted accounting practice in New Zealand;
- ▶ comply with International Financial Reporting Standards; and
- ▶ present fairly, in all material respects, the financial position of the company as at 31 March 2015 and its financial performance and cash flows for the year then ended.



7 July 2015  
Wellington



7<sup>th</sup> July 2015

To: The Directors  
Medical Life Assurance Society Limited

From: Peter Davies  
Appointed Actuary

**Re: Medical Life Assurance Society Limited: Report as at  
31<sup>st</sup> March 2015 under Sections 77 and 78 of the  
Insurance (Prudential Supervision) Act 2010**

You have asked me to prepare this report in terms of the above sections of the Act, and I would like to comment further as follows:

1. I have reviewed the actuarial information included in the audited accounts for Medical Life Assurance Society Limited as at 31<sup>st</sup> March 2015. "Actuarial information" includes the following:
  - policy liabilities;
  - solvency calculations in terms of the RBNZ Solvency Standard;
  - balance sheet and other information allowed for in the calculation of the company's solvency position; and
  - disclosures regarding the methodology and assumptions used for calculating policy liabilities, and other disclosures.
2. No limitations have been placed on my work.

3. I am independent with respect to Medical Life Assurance Society Limited as defined under professional standard ISA (NZ) 620 of the External Reporting Board.
4. I have been provided with all information that I have requested in order to carry out this review.
5. In my view the actuarial information contained in the financial statements has been appropriately included, and the actuarial information used in the preparation of the financial statements has been appropriately used.
6. Medical Life Assurance Society Limited exceeded the minimum capital requirement of the RBNZ solvency standard as at 31<sup>st</sup> March 2015, and is projected to exceed the minimum requirement at all times over the next three years.

I would be very happy to answer any queries concerning this report.

Yours sincerely



Peter Davies B.Bus.Sc., FIA, FNZSA  
Appointed Actuary