Medical Life Assurance Society Limited

Annual report for the financial year ended 31 March 2018

Directors' report

The Board of Directors presents the Directors' report together with the financial report of Medical Life Assurance Society Limited (the Company) for the financial year ended 31 March 2018.

Directors

The following persons were directors of the Company during the financial year and up to the date of this report:

Dr H E Aish
Mr A C Hercus
Dr K A Baddock (appointed 1 May 2017)
Ms D R Dinsdale
Dr R J Tyler (retired 30 August 2017)
Dr F A Frizelle
Mr L R Knowles
Dr H W Rodenburg
Mr B C Sutton

Director remuneration is paid for by MAS, the parent company. Directors were in office for the entire period unless otherwise stated.

Registered office

19 – 21 Broderick Road
Johnsonville, Wellington
PO Box 13042

Auditor

Ernst & Young

Principal activity

The Company provides life assurance and income protection products to Members of Medical Assurance Society Limited ("MAS").

Review of operations

The net profit after income tax for the year-ended 31 March 2018 was $6,427,000 (2017: net profit after tax of $7,230,000).

Directors' remuneration, interests, and employee remuneration

The Company, with its shareholder's approval, has applied the reporting exemptions available under section 211(3) of the Companies Act 1993.

Dividends

During the financial year, the Company declared and paid dividends totalling $3,000,000 (2017: $2,000,000).

Subsequent Events

On 15 May 2018 a communication was sent to all Members of MAS outlining a proposal that would see MAS making a greater contribution to the health and wellbeing of New Zealanders.

It is proposed that MAS establishes a Charitable Trust with the purpose of funding health education, promotion and research in New Zealand. The proposal would involve the Group applying for charitable status and, if approved, the Group would be granted income tax exemption. Eligible Members will be asked to vote on this proposal at the August 2018 AGM.

MEDICAL LIFE ASSURANCE SOCIETY LIMITED

STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 March 2018

	Note	2018 $000	2017 $000
OPERATING REVENUE			
Premiums Received		38,524	36,138
Reinsurance Premiums		(11,106)	(10,394)
Net Premium Revenue		27,418	25,744
PAYMENTS UNDER POLICIES			
Claims		(17,334)	(12,724)
Reinsurance Recoveries		8,167	6,119
		(9,167)	(6,605)
Surrenders		(147)	(57)
Maturities		(202)	(44)
Total Payments on Policies		(9,516)	(6,706)
Decrease in Policy Liabilities	9	1,446	1,015
OPERATING EXPENSES			
Administration Expenses	6	(1,643)	(1,777)
Administration Fees Paid to Parent Company	5	(12,626)	(11,187)
Total Operating Expenses		(14,269)	(12,964)
INVESTMENT INCOME			
Interest Income on Intercompany Lending	5	13	59
Short Term Deposits		-	17
Domestic and International Fixed Interest		2,135	1,805
Australasian and International Equities		348	889
Net Investment Income	16	2,496	2,770
NET SURPLUS BEFORE TAXATION		7,575	9,859
Taxation Expense	12	(1,148)	(2,628)
NET SURPLUS AFTER TAXATION		6,427	7,231
Other Comprehensive Income Net of Taxation		-	-
TOTAL COMPREHENSIVE INCOME		6,427	7,231

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

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MEDICAL LIFE ASSURANCE SOCIETY LIMITED

STATEMENT OF CHANGES IN EQUITY

for the year ended 31 March 2018

	Note	2018 $000 Share Capital	2018 $000 Retained Earnings	2018 $000 Total
OPENING BALANCE 1 APRIL 2017		100	46,731	46,831
Current Year Surplus		-	6,427	6,427
Other Comprehensive Income		-	-	-
Total Comprehensive Income		-	6,427	6,427
Dividends	20	-	(3,000)	(3,000)
CLOSING BALANCE 31 MARCH 2018	20	100	50,158	50,258

	Note	2017 $000 Share Capital	2017 $000 Retained Earnings	2017 $000 Total
OPENING BALANCE 1 APRIL 2016		100	41,500	41,600
Current Year Surplus		-	7,231	7,231
Other Comprehensive Income		-	-	-
Total Comprehensive Income		-	7,231	7,231
Dividends	20	-	(2,000)	(2,000)
CLOSING BALANCE 31 MARCH 2017	20	100	46,731	46,831

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 2018

	Note	2018 $000	2017 $000
FUNDS EMPLOYED			
EQUITY			
Ordinary Shares	20	100	100
Retained Earnings		50,158	46,731
Total Equity		50,258	46,831
LIABILITIES			
Payables	7	1,884	1,782
Advance from Parent Company		-	3,537
Provision for Taxation		829	250
Claims Outstanding	11	24,056	19,828
Policy Liabilities	9	(2,092)	(646)
Deferred Tax	12	4,723	4,189
Total Liabilities		29,400	28,940
TOTAL FUNDS EMPLOYED		79,658	75,771

	Note	2018 $000	2017 $000
ASSETS			
Receivables	13	22	8
Reinsurance Recoveries	14	13,001	11,667
Advance to Parent Company		132	-
Premiums Outstanding	15	12,505	11,576
Investments	16	53,998	52,520
TOTAL ASSETS		79,658	75,771

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

Director

Director

Wellington, 27 June 2018

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 2018

	Note	2018 $000	2017 $000
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from Policyholders		37,581	35,690
Payments to Suppliers		(12,648)	(12,048)
Reinsurance Recoveries Received		6,833	6,742
Payments to Policyholders		(13,455)	(15,744)
Interest on Advances to Parent Company		13	59
Interest Income from Cash Deposits		-	39
Administration Fees Paid to Parent Company		(12,626)	(11,187)
Payment of Taxation		(34)	(1,646)
Net Cash Flows from Operating Activities	18	5,664	1,905
CASH FLOWS FROM / (FOR) INVESTING ACTIVITIES			
Contributions to Investment Funds		(5,995)	(7,012)
Withdrawals from Investment Funds		7,000	5,000
Net Cash Flows from / (for) Investing Activities		1,005	(2,012)
CASH FLOWS FOR FINANCING ACTIVITIES			
Dividends paid to Parent Company		(3,000)	(2,000)
Net Advances (to) / from Parent Company		(3,669)	767
Net Cash Flows for Financing Activities		(6,669)	(1,233)
NET DECREASE IN CASH HELD		-	(1,340)
Opening Cash Balance brought forward		-	1,340
CASH AND CASH EQUIVALENTS CARRIED FORWARD		-	-

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

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1. CORPORATE INFORMATION

REGISTERED OFFICE
19 - 21 Broderick Road
Johnsonville
Wellington

The parent and ultimate parent of Medical Life Assurance Society Limited (the "Company" or "MLA") is Medical Assurance Society New Zealand Limited ("the parent" or "MAS"), which owns 100% of the ordinary shares. The parent together with its subsidiaries are referred to as the Group in this financial report.

The Company is incorporated and domiciled in New Zealand and is a reporting entity under the Financial Markets Conduct Act 2013.

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

2 ACCOUNTING POLICIES

(a) Principal Activity

The Company provides life assurance and other associated investment products to Members of MAS.

Head Office is situated in Johnsonville, Wellington and there are branch sites throughout New Zealand.

(b) Basis of Preparation

These financial statements have been prepared in accordance with generally accepted accounting practice in New Zealand, 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 except for certain assets and liabilities as outlined in the accounting policies.

The financial statements are presented in New Zealand dollars and rounded to the nearest thousand dollars unless stated otherwise.

(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 2018, and have not been applied in preparing these financial statements. The Company has given consideration to the impact of the following standards but haven't progressed the assessment to a point where the impact (if any) can be quantified.

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

The Company intends to adopt IFRS 9 in its entirety for the reporting period commencing 1 April 2018. The company does not expect it to have a significant impact on the financial statements.

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

The company does not expect it to have a significant impact on the financial statements.

The standard is effective for the reporting period beginning 1 April 2018.

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

(c) Statement of Compliance continued...

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

(d) Premium Revenue and Reinsurance Premiums

There are 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 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 *Insurance Contracts* 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.

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:

2. ACCOUNTING POLICIES continued...

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

· 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 goods and services taxes ("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.

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 occured 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 Parent have been written off or forgiven during the year. The Administration Fees relate to management costs incurred on behalf of the Company by the Parent.

(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 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.

	2018	2017
	$000	$000
Salaries and other short-term employee benefits	3,103	2,843
MAS directors fees	644	614
	3,747	3,457

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

6. **ADMINISTRATION EXPENSES**

	2018	2017
Included in Administration Expenses are the following:	$000	$000
Auditor Remuneration		
- Auditing of Financial Statements	45	44
- Prudential Regulation Review	14	14
Investment Management Fees	59	62

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7. PAYABLES

	2018	2017
	$000	$000
GST	1,071	1,050
Other Payables	813	732
	1,884	1,782

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 2018.

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 2.72% (2017: 3.19%), net of tax at 28.00% (2017: 28.00%), giving a net discount rate of 1.96% per annum (2017: 2.30%).

Disability outstanding claims have been valued using the 5-year Government stock rate of 2.29% gross of tax (2017: 2.48%), 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 (2017: 2.50%). The assumed rate of expense inflation is 2.00% per annum (2017: 2.00%).

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 (2017: 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 (2017: 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 $398 (2017: $361) gross per cover and $507 (2017: $442) gross per cover for disability policies. Certain policy groups have non-standard allowances. These expenses are assumed to be increased in line with the indexation assumption above.

Acquisition expenses. The standard acquisition expense allowance for policies written is $763 for life covers (2017: $900) and $1,544 (2017: $1,668) for disability covers. 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 0.11% of funds under management (2017: 0.12%).

8. ACTUARIAL POLICIES AND METHODS continued...

The breakdown of actual expenses is as follows:

	2018 $000	2017 $000
Maintenance expenses	11,445	9,872
Acquisition expenses	2,765	3,030
Investment expenses	59	62
	14,269	12,964

Taxation

Future rates of taxation have been assumed to continue at the current level of company tax in New Zealand of 28.00% (2017: 28.00%).

Mortality and Morbidity

The basic rates of mortality assumed for life products were:

Males	90% of IA95-97M (2017 90% of IA95-97M)
Females	90% of IA95-97F (2017 90% of IA95-97F)

Modifications have been made from these base tables to reflect smoker / non-smoker habits and duration in force (2017: same modifications as made in 2018). Increased loadings are applied to mortality and morbidity risks above the age of 60 to allow for selective lapsing (2017: same loadings).

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 (2017: 85.00%).

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

Discontinuances

Risk insurances including: Term Life Dread Disease Total Permanent Disablement	Yearly renewable contracts 5.50% per annum with additional selective lapses above age 60 (2017: same structure but selective lapses at one age band have been increased this year Level term contracts: 1% per annum (2017: no change)
Traditional participating business	5.00% per annum (2017: 5.00%)
Disability business	5.00% per annum (2017: 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 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	$2.90 per mille (2017: $7.60 per mille)
Bonus rate on existing bonuses	$5.40 per mille (2017: $13.00 per mille)

The reduction in the level of supportable bonuses arises from the increase in the assumed discount rate over the past year, combined with a reduction in the level of investment investment returns over the year, and an increase in the assumed future renewal costs.

9. POLICY LIABILITIES

	2018 $000	2017 $000
Gross future claims	389,544	365,130
Future reinsurance premiums	184,094	170,167
Future reinsurance recoveries	(206,759)	(200,152)
Future policy bonuses	337	760
Future expenses	102,674	82,599
Future profit margins	86,435	83,483
Balance of future premiums	(558,564)	(502,775)
Policy Liabilities before bonus	(2,239)	(788)
Bonus declared at year end	147	142
Total Policy Liabilities at period end	(2,092)	(646)
Total Policy Liabilities at previous period end	(646)	369
Decrease in Policy Liabilities for the period	1,446	1,015

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

	2018 $000	2017 $000
Participating fund at previous balance date	5,177	4,943
Investment income less claims and expenses	(172)	270
Profit distributed to shareholders	(37)	(36)
Participating fund at balance date	**4,968**	**5,177**
Policyholder retained earnings at previous balance date	358	297
Profit distributed as bonuses to participating policyholders	(147)	(141)
Policyholder share of profit (80%)	55	202
Policyholder retained earnings at balance date	**266**	**358**
Shareholder retained earnings at previous balance date	89	74
Profit distributed to shareholders	(37)	(36)
Shareholder share of profit (20%)	14	51
Shareholder retained earnings at balance date	**66**	**89**

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9. **POLICY LIABILITIES continued...**

	2018 $000	2017 $000
Participating fund at balance date	4,968	5,177
Policyholder retained earnings at balance date	266	358
Shareholder retained earnings at balance date	66	89

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

Bonus on sum insured	2.40% (2017: 2.40%)
Bonus on existing bonuses	3.80% (2017: 3.80%)

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

10. **NET SURPLUS TRANSFERRED TO EQUITY**

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

	2018 $000	2017 $000
Planned margins of revenues over expenses	3,827	5,044
Difference between actual and assumed experience	1,076	1,032
Change in discount rate	139	(247)
Investment earnings on assets in excess of policy liabilities	1,385	1,401
Available for Shareholders	6,427	7,230

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 2014.

				Incident Year			
	Prior $000	2014 $000	2015 $000	2016 $000	2017 $000	2018 $000	Total $000
At end of incident year		5,270	5,839	7,561	6,549	7,577	
One year later		6,266	5,272	7,475	10,151		
Two years later		6,186	5,933	7,360			
Three years later		5,438	7,012				
Four years later		5,163					
Current estimated claim cost	78,708	5,163	7,012	7,360	10,151	7,578	
Payments	(67,802)	(4,943)	(4,574)	(4,763)	(4,527)	(2,472)	
Undiscounted central estimate	10,906	220	2,438	2,597	5,624	5,106	26,891
Discount to present value	(1,126)	(21)	(271)	(239)	(678)	(500)	(2,835)
Discounted central estimate	9,780	199	2,167	2,358	4,946	4,606	24,056

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

	2018 $000	2017 $000
Disability claims outstanding	24,056	19,528
Life claims outstanding	-	300
	24,056	19,828

12. **TAXATION**

	2018 $000	2017 $000
Net Surplus before Taxation	7,575	9,859
Taxation at 28%	2,121	2,760
Tax effect of Non Assessable Items	(956)	(122)
Prior period adjustment	-	0
Imputation Credits	(17)	(10)
Taxation Expense for the Year	1,148	2,628
Taxation Expense for the Year comprises:		
Current Taxation - Shareholder Base	584	2,009
Current Taxation - Policyholder Base	30	66
Deferred Tax	534	553
Taxation Expense per Statement of Comprehensive Income	1,148	2,628

12. TAXATION continued...

Deferred Tax

31 March 2018

	Opening Balance $000	Statement of Comprehensive Income $000	Total $000
Deferred Tax Liabilities			
Insurance Reserves and Provisions	(4,189)	(534)	(4,723)
	(4,189)	(534)	(4,723)
Deferred Tax Assets			
Other	-	-	-
	-	-	-
Net Deferred Tax Liability	(4,189)	(534)	(4,723)

31 March 2017

	Opening Balance $000	Statement of Comprehensive Income $000	Total $000
Deferred Tax Liabilities			
Insurance Reserves and Provisions	(3,636)	(553)	(4,189)
	(3,636)	(553)	(4,189)
Deferred Tax Assets			
Other	-	-	-
	-	-	-
Net Deferred Tax Liability	(3,636)	(553)	(4,189)

Imputation Credit Account ("ICA")

	2018 $000	2017 $000
Opening Balance	-	185
Movement during the period	-	(185)
Closing Balance	-	-

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

13. RECEIVABLES

	2018 $000	2017 $000
Interest Due	22	8
	22	8

14. REINSURANCE RECOVERIES

	2018 $000	2017 $000
Recoveries associated with Life claims	152	1,836
Recoveries associated with Disability claims	12,849	9,831
	13,001	11,667

EY

15. PREMIUMS OUTSTANDING

	2018 $000	2017 $000
Premiums Owing by Policyholders	12,505	11,576
	12,505	11,576

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.

16. INVESTMENTS

	2018 $000	2017 $000
Deposits and Short Term Securities	7,063	9,323
Domestic Fixed Interest	16,830	18,153
International Fixed Interest (Unit Trust)	23,778	19,148
Australasian Equities (Managed Fund)	1,424	2,171
International Equities	4,903	3,725
	53,998	52,520
Realised Investment Income	2,257	1,807
Unrealised Investment Income	239	963
Total Investment Income	2,496	2,770

The Company's investment securities are all financial assets classified as Fair Value through Profit and Loss ("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.

17. 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. Furthermore, market prices or rates of discount are not available for many of the financial instruments valued and surrogates have been used which may not reflect the price that would apply in an actual sale.

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

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.

Fixed Interest Assets
The fair value for fixed interest investments is determined by reference to quoted prices in active markets for similar assets or liabilities. Where not available or the market is considered to be lacking sufficient depth to be active, fair value is determined by reference to other significant inputs that are based on observable market data, for example interest rate yield curves and the maturity profile.

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.

EY

17. **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 19 for details of the classification categories).

	Level 1 $000	Level 2 $000	Level 3 $000	Total $000
31 March 2018				
Financial Assets				
Domestic Fixed Interest	-	16,830	-	16,830
International Fixed Interest (Unit Trust)	-	23,778	-	23,778
Australasian Equities (Managed Fund)	-	1,424	-	1,424
International Equities	4,903	-	-	4,903
	4,903	42,032	-	46,935
31 March 2017				
Financial Assets				
Domestic Fixed Interest	-	18,153	-	18,153
International Fixed Interest (Unit Trust)	-	19,148	-	19,148
Australasian Equities (Managed Fund)	-	2,171	-	2,171
International Equities	3,725	-	-	3,725
	3,725	39,472	-	43,197

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.

There have been no transfers between Level 1 and Level 2 during the year (2017: nil).

18. **RECONCILIATION OF CASH FLOWS**

	2018 $000	2017 $000
Reported Surplus after Taxation	6,427	7,231
Plus Non-Cash Items:		
Increase in Deferred Tax	534	553
Increase in Investment Funds	(2,483)	(2,676)
Changes in Operating Assets and Liabilities:		
Payables	101	132
Claims Outstanding	4,228	(2,918)
Provision for Taxation	580	429
Policy Liabilities	(1,446)	(1,015)
Receivables	(14)	(6)
Reinsurance Recoveries and Premiums Outstanding	(2,263)	175
Net Cash Flows from Operating Activities	5,664	1,905

19. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The Company's risk management is carried out in accordance with policies set by the board of directors of the Company ("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 Company enters into financial derivatives to minimise the exposure to interest rate and currency movements. Currency hedges are principally entered into to protect the value of investments against adverse currency movements. Policy guidelines established by the Investment Committee prevent entering into such contracts for speculative purposes.

The main risks arising from the financial instruments and the business the 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 is cancelled
- the monitoring of a reinsurer's credit risk rating to control exposure to reinsurance counterparty default.

Statement of Financial Position credit exposures	2018	2017
	$000	$000
Receivables	22	8
Reinsurance Recoveries	13,001	11,667
Premiums Outstanding	12,505	11,576
Deposits and Domestic Fixed Interest Investments	23,893	27,476
	49,421	50,727

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 stock markets 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 meets regularly to develop and review investment strategy and monitor manager performance.

19. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT continued...

Statement of Financial Position investment exposures	2018 $000	2017 $000
Deposits and Short Term Securities	7,063	9,323
Domestic Fixed Interest	16,830	18,153
International Fixed Interest (Unit Trust)	23,778	19,148
Australasian Equities (Managed Fund)	1,424	2,171
International Equities	4,903	3,725
	53,998	52,520

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 $000
31 March 2018							
Deposits / Short Term Securities	-	100.0%	-	-	-	-	7,063
Domestic and International Fixed Interest	38.5%	24.7%	9.5%	22.5%	4.7%	-	40,608
Reinsurance Recoveries	-	100.0%	-	-	-	-	13,001
31 March 2017							
Deposits / Short Term Securities	-	94.3%	-	5.7%	-	-	9,323
Domestic and International Fixed Interest	27.0%	23.4%	15.6%	26.6%	5.3%	2.1%	37,300
Reinsurance Recoveries	-	100.0%	-	-	-	-	11,667

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 Investment Committee has developed currency hedging ranges which the fund manager must adhere to.

Statement of Financial Position currency exposures (after hedging) is $2.4m (2017: $2.9m).

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.

19. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT continued...

31 March 2018	0-12 months $000	1-2 years $000	2-5 years $000	Over 5 years $000	Total $000
Financial Assets					
Receivables	22	-	-	-	22
Advance to Parent Company	132	-	-	-	132
Premiums Outstanding	12,505	-	-	-	12,505
Investments	38,696	-	6,761	8,541	53,998
	51,355	-	6,761	8,541	66,657
Financial Liabilities					
Payables	1,884	-	-	-	1,884
Claims Outstanding	24,056	-	-	-	24,056
	25,940	-	-	-	25,940

31 March 2017	0-12 months $000	1-2 years $000	2-5 years $000	Over 5 years $000	Total $000
Financial Assets					
Receivables	8	-	-	-	8
Premiums Outstanding	11,576	-	-	-	11,576
Investments	34,831	1,544	6,697	9,449	52,520
	46,415	1,544	6,697	9,449	64,105
Financial Liabilities					
Payables	1,782	-	-	-	1,782
Advance from Parent Company	3,537	-	-	-	3,537
Claims Outstanding	19,828	-	-	-	19,828
	25,148	-	-	-	25,148

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.
- employing suitably qualified personnel to assist staff in identifying 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.

19. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT continued…

Risk Variable	Movement	2018 $000 Effect on future margins	2018 $000 Effect on policy liabilities	2017 $000 Effect on future margins	2017 $000 Effect on policy liabilities
Insurance Risk:	Movement				
Discount rate	Increase by 1%	7,600	800	7,660	530
	Decrease by 1%	(8,290)	(650)	(8,590)	(420)
Claims	Increase by 10%	17,810	-	16,020	-
	Decrease by 10%	(17,680)	-	(15,910)	-
Lapses / Surrenders	Increase by 10%	7,810	-	8,030	-
	Decrease by 10%	(8,640)	-	(8,920)	-
Expenses	Increase by 10%	8,180	-	6,650	-
	Decrease by 10%	(8,180)	-	(6,650)	-

		Impact on Profit and Equity 2018 $000	Impact on Profit and Equity 2017 $000
Market Risk:			
Bond interest rates	Increase by 0.50%	(601)	(176)
	Decrease by 0.50%	601	176
Unit prices	Unit price increases by 10%	1,712	1,379
	Unit price decreases by 10%	(1,712)	(1,379)
Currency Risk	NZD appreciates by 10% against foreign currencies	(175)	(211)
	NZD depreciates by 10% against foreign currencies	175	211

Classification of Financial Instruments

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

	Loans and Receivables $000	Fair Value Through Profit or Loss $000	Other Financial Liabilities $000	Total $000
31 March 2018				
Assets				
Receivables	22	-	-	22
Advance to Parent Company	132	-	-	132
Premiums Outstanding	12,505	-	-	12,505
Investments	-	53,998	-	53,998
	12,659	53,998	-	66,657
Liabilities				
Payables	-	-	1,884	1,884
Claims Outstanding	-	-	24,056	24,056
	-	-	25,940	25,940

EY

19. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT continued...

31 March 2017	Loans and Receivables $000	Fair Value Through Profit or Loss $000	Other Financial Liabilities $000	Total $000
Assets				
Receivables	8	-	-	8
Premiums Outstanding	11,576	-	-	11,576
Investments	-	52,520	-	52,520
	11,584	52,520	-	64,105
Liabilities				
Payables	-	-	1,782	1,782
Advance from Parent Company	-	-	3,537	3,537
Claims Outstanding	-	-	19,828	19,828
	-	-	25,148	25,148

20. CONTRIBUTED EQUITY

	2018	2017
Ordinary Shares		
100,000 Ordinary shares	100,000	100,000

During the year to 31 March 2018 the Company paid dividends of $3 million, equivalent to $30 per share (2017: $2.0 million dividends 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 Company's solvency position as per the solvency standard is as follows:

	2018 $000	2017 $000
Actual Solvency Capital	50,127	46,831
Minimum Solvency Capital	40,849	36,619
Solvency Margin	9,278	10,211
Solvency Ratio	1.23	1.28

21. CONTINGENT LIABILITIES

The Company had no contingencies as at 31 March 2018 (2017: nil).

22. SUBSEQUENT EVENT

On 15 May 2018 a communication was sent to all Members of MAS outlining a proposal that would see MAS making a greater contribution to the health and wellbeing of New Zealanders.

It is proposed that MAS establishes a Charitable Trust with the purpose of funding health education, promotion and research in New Zealand. The proposal would involve the Group applying for charitable status and, if approved, the Group would be granted income tax exemption. Eligible Members will be asked to vote on this proposal at the August 2018 AGM. If MAS was registered as a Charitable Trust the deferred tax balances at that point in time would be derecognised.

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Chartered Accountants

Independent Auditor's Report

To the Shareholder of Medical Life Assurance Society Limited

Opinion

We have audited the financial statements of Medical Life Assurance Society Limited ('the Company') on pages 2 to 21, which comprise the statement of financial position of the Company as at 31 March 2018, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended of the Company, and the notes to the financial statements including a summary of significant accounting policies.

In our opinion, the financial statements on pages 2 to 21 present fairly, in all material respects, the financial position of the Company as at 31 March 2018 and its financial performance and cash flows for the year then ended in accordance with New Zealand Equivalents to International Financial Reporting Standards and International Financial Reporting Standards.

This report is made solely to the Company's shareholder. Our audit has been undertaken so that we might state to the Company's shareholder those matters we are required to state to it 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 shareholder, for our audit work, for this report, or for the opinions we have formed.

Basis for opinion

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

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

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

Ernst & Young provides regulatory assurance services to 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. We have no other relationship with, or interest in, the Company.

Information other than the financial statements and auditor's report

The directors of the Company are responsible for the Annual Report, which includes information other than the financial statements and auditor's report.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained during the audit, or otherwise appears to be materially misstated.

If, based upon the work we have performed on the other information obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Directors' responsibilities for the financial statements

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

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

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Auditor's responsibilities for the audit of the financial statements

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

A further description of our responsibilities for the audit of the financial statements is located at the External Reporting Board website: https://www.xrb.govt.nz/standards-for-assurance-practitioners/auditors-responsibilities/audit-report-6/. This description forms part of our auditor's report.

The engagement partner on the audit resulting in this independent auditor's report is David Borrie.

Ernst & Young

Wellington
27 June 2018

Davies Financial and Actuarial Limited

20th June 2018

To: The Directors
Medical Life Assurance Society Limited

From: Peter Davies
Appointed Actuary

Re: Medical Life Assurance Society Limited: Report as at 31st March 2018 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 31st March 2018. "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.

Level 1, Building 1, 61 Constellation Drive, Mairangi Bay 0632 Telephone (09) 489-3551 e-mail: pdavies@actuary.co.nz
P.O. Box 35-258, Browns Bay, Auckland 0753 Facsimile: (09) 489-6613 home page: www.actuary.co.nz

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 for Life Insurance Business 2014, as at 31st March 2018, and is projected to exceed the minimum requirement at all times over the next four years.

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

Yours sincerely

Peter

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