

**MEDICAL LIFE ASSURANCE SOCIETY LIMITED**

**STATEMENT OF COMPREHENSIVE INCOME**

for the year ended 31 March 2021

	<b>Note</b>	<b>2021</b>	<b>2020</b>
		<b>\$000</b>	<b>\$000</b>
<b><u>OPERATING REVENUE</u></b>			
Premiums Received		43,830	42,140
Reinsurance Premiums		(13,401)	(12,593)
		-----	-----
Net Premium Revenue		30,429	29,547
<b><u>PAYMENTS UNDER POLICIES</u></b>			
Claims		(29,524)	(22,472)
Reinsurance Recoveries		14,314	9,980
		-----	-----
Net Claims Expense		(15,210)	(12,492)
Surrenders		(127)	(313)
		-----	-----
Total Payments on Policies		(15,337)	(12,805)
Movement in Policy Liabilities	9	(1,030)	(200)
<b><u>OPERATING EXPENSES</u></b>			
Administration Expenses	6	(4,079)	(1,346)
Administration Fees Paid to Parent Company	5	(13,931)	(13,054)
		-----	-----
Total Operating Expenses		(18,010)	(14,400)
<b><u>INVESTMENT INCOME</u></b>			
Interest (paid) / received on Advances to Parent Company	5	(3)	4
Domestic and International Fixed Interest		3,462	1,842
Australasian and International Equities		1,705	(228)
		-----	-----
Net Investment Income	16	5,164	1,618
		-----	-----
<b>NET SURPLUS BEFORE TAXATION</b>		1,216	3,760
Taxation Credit	12	92	4,639
		-----	-----
<b>NET SURPLUS AFTER TAXATION</b>		1,308	8,399
		-----	-----
Other Comprehensive Income after Taxation		-	-
		-----	-----
<b>TOTAL COMPREHENSIVE INCOME</b>		1,308	8,399
		-----	-----

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 2021

	Note	2021 \$000 Share Capital	2021 \$000 Retained Earnings	2021 \$000 Total
<b>OPENING BALANCE 1 APRIL 2020</b>		100	63,052	63,152
Current Year Surplus		-	1,308	1,308
Other Comprehensive Income		-	-	-
Total Comprehensive Income		-	1,308	1,308
Dividends	20	-	(3,400)	(3,400)
<b>CLOSING BALANCE 31 MARCH 2021</b>	20	100	60,960	61,060

		2020 \$000 Share Capital	2020 \$000 Retained Earnings	2020 \$000 Total
<b>OPENING BALANCE 1 APRIL 2019</b>		100	57,753	57,853
Current Year Surplus		-	8,399	8,399
Other Comprehensive Income		-	-	-
Total Comprehensive Income		-	8,399	8,399
Dividends	20	-	(3,100)	(3,100)
<b>CLOSING BALANCE 31 MARCH 2020</b>	20	100	63,052	63,152

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 2021

	Note	2021 \$000	2020 \$000
<b>FUNDS EMPLOYED</b>			
<b><u>EQUITY</u></b>			
Ordinary Shares	20	100	100
Retained Earnings		60,960	63,052
<b>Total Equity</b>		61,060	63,152
<b><u>LIABILITIES</u></b>			
Trade and Other Payables and Provisions	7	8,796	1,767
Advance from Parent Company	5	529	1,443
Provision for Taxation		-	3,009
Other Insurance Liabilities	13	773	182
Claims Outstanding	11	45,390	36,317
Policy Liabilities	9	(2,664)	(3,694)
<b>Total Liabilities</b>		52,824	39,024
<b><u>TOTAL FUNDS EMPLOYED</u></b>		113,884	102,176
 <b><u>ASSETS</u></b>			
Other Insurance Assets		-	44
Investments	16	73,244	68,577
Premiums Outstanding	15	13,549	13,256
Reinsurance Recoveries Outstanding	14	27,091	20,299
<b><u>TOTAL ASSETS</u></b>		113,884	102,176

Approved for issue for and on behalf of the Board of Medical Life Assurance Society Limited on 30 June 2021.

  
 .....  
 Director

  
 .....  
 Director

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 2021

	Note	2021 \$000	2020 \$000
<b><u>CASH FLOWS FROM OPERATING ACTIVITIES</u></b>			
Receipts from Policyholders		43,560	41,776
Payments to Suppliers		(9,839)	(14,043)
Reinsurance Recoveries Received		7,522	6,541
Payments to Policyholders		(20,578)	(15,246)
Interest (Paid) / Received on Advances to Parent Company		(3)	4
Interest Received		1,063	1,300
Dividends Received		1,807	1,059
Administration Fees Paid to Parent Company		(13,931)	(13,054)
Income Tax Paid		(3,226)	(305)
		-----	-----
Net Cash Flows from Operating Activities	18	6,375	8,032
		-----	-----
<b><u>CASH FLOWS FOR INVESTING ACTIVITIES</u></b>			
Contributions to Investment Funds		(5,370)	(12,380)
Withdrawals from Investment Funds		3,309	7,741
		-----	-----
Net Cash Flows for Investing Activities		(2,061)	(4,639)
		-----	-----
<b><u>CASH FLOWS FOR FINANCING ACTIVITIES</u></b>			
Dividends Paid to Parent Company		(3,400)	(3,100)
Net Advances to Parent Company	5	(914)	(293)
		-----	-----
Net Cash Flows for Financing Activities		(4,314)	(3,393)
		-----	-----
<b>NET DECREASE IN CASH HELD</b>		-	-
Opening Cash Balance brought forward		-	-
		-----	-----
<b>CASH AND CASH EQUIVALENTS CARRIED FORWARD</b>		-	-
		-----	-----

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 2021

---

### **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 an FMC reporting entity under the Financial Markets Conduct Act 2013.

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

### **2 ACCOUNTING POLICIES**

#### (a) Principal Activity

The Company provides life insurance and income protection products to Members of MAS. The head office is situated in Wellington and there are branch sites throughout New Zealand.

#### (b) Statement of Compliance and Basis of Preparation

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

The financial statements have been prepared in accordance with the Companies Act 1993, the Financial Markets Conduct Act 2013 and the Charities Act 2005.

The Company was registered as a charity under the Charities Act 2005 on the 1st of December 2019. The Company is a member of the MAS Charitable Group. The registration number is CC57175. The Company remains a profit-oriented entity for financial reporting purposes.

The financial statements have been prepared on a historical cost basis, except for certain assets and liabilities as outlined in the accounting policies.

#### (c) Presentation Currency

Both the functional and presentation currency of the Company is New Zealand dollars (\$). The financial statements are presented in New Zealand dollars and rounded to the nearest thousand dollars unless stated otherwise.

#### (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 the Statement of Comprehensive Income 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) Other Insurance Liabilities

##### **Reinsurance Premium Payable**

Accrued but not yet paid reinsurance premiums.

##### **Premiums Received in Advance**

Premium revenue received in advance from policyholders for policies starting subsequent to balance date.

## 2. ACCOUNTING POLICIES continued ...

### (f) 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.

### (g) 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 is cancelled, and a surrender value is paid to the policyholder 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.

### (h) Financial Instruments - Initial Recognition and Subsequent Measurement

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. All financial assets and liabilities are recognised initially at fair value plus, in the case of a financial asset or liability not at fair value through profit or loss, transaction costs.

#### **i) Financial Assets**

Financial assets are classified as subsequently measured at amortised cost, fair value through other comprehensive income (OCI), or fair value through profit or loss.

The Company measures financial assets at amortised cost if:

- (a) the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- (b) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets at amortised cost are subsequently measured using the effective interest (EIR) method and are subject to impairment. Gains and losses are recognised in the Statement of Comprehensive Income when the asset is derecognised, modified or impaired.

#### **Investments**

Investments are classified as financial assets at fair value through profit or loss and any movements in fair value, interest and dividend income, and fund distributions are recognised in the Statement of Comprehensive Income as Investment Income. The valuation techniques used are detailed in Note 17.

The Company's policy is to manage investments to give the best possible yield whilst taking a prudent approach to risk. Investment funds are split by asset class in Note 16.

Funds are invested in both unitised or pooled vehicles and direct holdings. Investment fund values for unitised or pooled vehicles are supplied by the relevant fund manager. Investments held directly by the Company 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 arm's length transactions. Directly held investment funds are managed by JBWere (NZ) Limited and Bancorp Treasury Services Limited.

#### **ii) Financial Liabilities**

Financial liabilities are classified as subsequently measured at amortised cost or financial liabilities at fair value through profit or loss. All financial liabilities are measured at amortised cost using the EIR method. Gains and losses are recognised the Statement of Comprehensive Income when the liabilities are derecognised as well as through the EIR amortisation process.

#### **Advance from Parent Company**

Classified as a financial liability measured at amortised cost.

#### **Trade and Other Payables and Provisions**

Classified as a financial liability measured at amortised cost. Payables are recognised when the Company becomes obliged to make future payments resulting from the purchases of goods and services. They represent liabilities for goods and services provided to the Company prior to the end of the financial year but which are unpaid at reporting date.

## 2. ACCOUNTING POLICIES continued...

### (i) Income and Other Taxes

#### **Provision for Taxation**

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.

The Company became a registered charity on 1 December 2019. As such, its activities from that date are no longer subject to income tax. The effect of this for the year ended 31 March 2021 is outlined in Note 12.

#### **Other Taxes**

Revenues, expenses and assets are recognised net of goods and services tax ("GST") except when the GST incurred on a purchase of goods and services is not recoverable from Inland Revenue, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable.

The net amount of GST recoverable from, or payable to, Inland Revenue is included as part of Trade and Other Payables in the Statement of Financial Position. Any commitments or 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) 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.

All outstandings are constantly reviewed for collectability and immediately written off where deemed to be uncollectible. Fair value is equal to the carrying value of the premiums receivable.

### (l) Reinsurance Recoveries

During the normal course of the Company's activities claims are paid which will result in a contractual right to seek recovery from its reinsurers. At any point in time there will be amounts owing by these counterparties which will be represented by assets on the Statement of Financial Position. Fair value is equal to the carrying value of the reinsurance assets.

Reinsurance assets are reviewed for impairment at each reporting date or more frequently when an indication of impairment arises during the reporting year. The Company does not consider any of its reinsurance recoveries to be impaired.

### (m) Changes in Accounting Policies and Disclosures

Several amendments and interpretations apply for the first time in the period ended 31 March 2021, but do not have an impact on the financial statements of the Company. There have been no changes to accounting disclosures or policies during the current period.

The following new standard has been issued but is not yet effective for the period ended 31 March 2021, and has not been applied in preparing these financial statements. The Company has given consideration to the impact of the following standard but hasn't progressed the assessment to a point where the impact (if any) can be quantified. The Company's implementation project is ongoing and a detailed assessment of the impact of the standard on the Company is underway, however significant changes in the presentation and disclosure of the Company's financial statements is anticipated.

NZ IFRS 17 Insurance Contracts, which replaces NZ IFRS 4 Insurance Contracts, is a comprehensive new accounting standard which establishes principles for the recognition, measurement, presentation and disclosure of insurance contracts. The standard is effective for reporting periods beginning after 1 January 2023. Early application is permitted.

### (n) Comparatives

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

### 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 Company's accounting policies management continually evaluates judgements, estimates and assumptions based on experience and other factors. All judgements, estimates and assumptions are based on the most current set of circumstances available to management. Actual results may differ from the judgements, estimates and assumptions.

Significant 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; and
- 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.

#### **Remediation**

The Company anticipates that remediation payments will be made to Members. A team has been established to work through potential issues.

The provision carried represents management's best estimate. The provision includes an allowance for premium refunds, inconvenience payments relating to the refunds and administration costs. Refer to Note 7.

### 4. **DIRECTORS' FEES**

No directors' fees are provided for or are payable.

### 5. **RELATED PARTY TRANSACTIONS**

(a) Medical Life Assurance Society Limited is a wholly owned subsidiary of Medical Assurance Society New Zealand Limited. Related parties comprise companies within the Medical Assurance Society New Zealand Limited Group ("the Group").

(b) During the year, related party transactions with the Parent company took the form of dividend payments, advances / repayment of advance, administration fees and interest paid / received on advances. 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. Advances are unsecured and repayable on demand. 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, including those that are 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.

	<b>2021</b>	<b>2020</b>
	<b>\$000</b>	<b>\$000</b>
Salaries, other short-term employee benefits and termination benefits	4,045	3,353
MAS directors fees	687	671
	-----	-----
	4,732	4,024

(e) All transactions with Members, Directors of the Company and key management personnel (including Directors) of the Parent are at market rates. There are no loans to Directors and key management personnel.

(f) The parent company has provided a guarantee of \$4.0 million to MLA to allow for additional funds if required (2020: nil).



## 5. RELATED PARTY TRANSACTIONS continued...

	<b>2021</b>	<b>2020</b>
	<b>\$000</b>	<b>\$000</b>
<b>Material transactions during the period with related parties:</b>		
Interest (paid) / received on advances to Parent Company	(3)	4
Administration fees paid to Parent Company	(13,931)	(13,054)
Dividends paid to Parent Company	(3,400)	(3,100)
<b>Reconciliation of outstanding balances with related parties at period end:</b>		
Opening: Advance from Parent Company at 1 April	(1,443)	(1,736)
Net Advances to Parent Company during the period	914	293
Closing: Advance from Parent Company at 31 March	(529)	(1,443)

## 6. ADMINISTRATION EXPENSES

	<b>2021</b>	<b>2020</b>
	<b>\$000</b>	<b>\$000</b>
Included within Administration Expenses are:		
Fees to auditors - for the audit of financial statements	47	47
Fees to auditors - for other assurance and related services	17	18
Investment Management Fees	69	70

The auditor of the Company is Ernst & Young (EY). Other assurance and related services relate to reviews of regulatory reporting (2020: no change) and are required by legislation to be provided by the auditor. The Board has considered the non-audit work carried out by the auditor and is satisfied the work did not compromise auditor objectivity and independence.

No Directors' fees are provided for or are payable.

## 7. TRADE AND OTHER PAYABLES AND PROVISIONS

	<b>2021</b>	<b>2020</b>
	<b>\$000</b>	<b>\$000</b>
GST Payable	1,239	1,225
Trade and Other Payables	412	542
Remediation Provision	7,145	-
	-----	-----
Total Trade and Other Payables and Provisions	8,796	1,767
	-----	-----

Set out below is the movement in the remediation provision:

	<b>2021</b>	<b>2020</b>
	<b>\$000</b>	<b>\$000</b>
As at 1 April	-	-
Remediation Addition	7,145	-
	-----	-----
As at 31 March	7,145	-
	-----	-----

All payables are due within twelve months of balance date.

The Group has established a Conduct and Remediation Committee to review and where appropriate remediate Members for issues that have been identified. The remediation provision reflects management's best estimate of the amount to meet these obligations. The provision covers refunds, inconvenience payments and the cost of administering the remediation programme.

## 8. ACTUARIAL POLICIES AND METHODS

The effective date of the actuarial report on the policy liabilities and prudential reserves is 31 March 2021.

The actuarial report was prepared by Peter Davies, FIA, a Fellow of the New Zealand Society of Actuaries. 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 New Zealand Society of Actuaries (NZSA).

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

### 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
Income protection business	Premiums

### Discount Rates

The discount rate assumed equals the estimated risk-free rate of return on 13-year swap rates as at the valuation date of 2.194% (2020: 10-year bond rate of 1.08%), gross of tax.

### 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), subject to a minimum materiality level. The CPI for lump sum policy increases is assumed to be 2.5% per annum (2020: 2.5%). The assumed indexation for income protection benefits varies between 0.5% and 1.6% depending on the product (2020: between 0.4% and 1.4%). The assumed rate of expense inflation is assumed to be 2.0% per annum (2020: 2.0%).

Element Impacted	Assumed Rate
Benefit indexation - Lump sum risk benefits	2.50%
Benefit indexation - Income Protection	0.50% - 1.60%
Expenses	2.00%

The lump sum indexation assumption applies to those products that offer indexation benefits, and those policyholders with that product that have opted for the indexation benefit (2020: no change). The income protection indexation assumption applies to all covers of each respective product type (2020: no change).

It has been assumed that the sums insured of all yearly renewable term Life, TPD and Trauma policies will increase by 0% per year (2020: 0%) 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 lump sum risk policies is \$380 (2020: \$383) gross per cover per year. Certain policy groups have non-standard allowances. These expenses are assumed to be increased in line with the indexation assumption above. The maintenance expense allowance for income protection covers is \$514 (2020: \$509) per cover per year.

#### Acquisition expenses

The standard acquisition expense allowance for new lump sum covers written is \$899 (2020: \$932).

The standard acquisition expense allowance for new income protection covers written is \$1,955 (2020: \$2,007).

The unit expenses are based upon a broad analysis of the Company's actual expenses for the year.

Maintenance costs of permanent assurances are estimated to equal 2.2 times those for risk policies. This is the same relativity as was used in the previous valuation.

#### Investment expenses

Investment expenses equalled 0.1% of funds under management (2020: 0.1%).

**8. ACTUARIAL POLICIES AND METHODS continued...**

The breakdown of expenses used for valuation purposes is below. Further expense adjustments have been made.

	<b>2021</b>	<b>2020</b>
	<b>\$000</b>	<b>\$000</b>
Maintenance expenses	12,028	11,286
Acquisition expenses	3,258	3,044
Investment expenses	69	70
	-----	-----
	15,355	14,400
	-----	-----

**Mortality and Morbidity**

The basic rates of mortality assumed for life products were:

Males	63% of IA95-97M (2020: no change)
Females	63% of IA95-97F (2020: no change)

Modifications have been from these base tables to reflect smoker/non-smoker habits and duration in force (unchanged from 2020).

The experience for dread disease and total and permanent disability contracts is assumed to equal 85% of the reinsurance risk premium rates, net of GST (2020: 85%).

Increased loadings are applied to mortality and morbidity risks above the age of 60 to allow for selective lapsing (no change from 2020 loadings).

Income protection claim frequencies and claim terminations are based on adjustments to the Commissioners Individual Disability (CIDA) tables, reflecting the Company's experience (claim frequencies have increased from the previous year's valuation, and termination rates reduced, a combined additional allowance of 40% vs 2020).

**Discontinuances**

Risk insurances including: Term Life Dread Disease Total Permanent Disablement	Yearly renewable contracts: 5.0% per annum, with additional selective lapses above age 60 (2020: 5.5%)  Level term contracts: 6.0% per annum (2020: no change)
Traditional participating business	5.0% per annum (2020: no change)
Income Protection	5.0% per annum, higher for some closed legacy policies (2020: 6.0%)

**Future participating business**

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

Assumed future bonus rates for participating policies were:

Bonus rate on sum assured	\$8.60 per mille (2020: \$1.03 per mille)
Bonus rate on existing bonuses	\$14.60 per mille (2020: \$1.75 per mille)

The increase in the supportable bonus rates arises from the favourable investment performance over the past year, and the increase in the assumed future interest rates.

**9. POLICY LIABILITIES**

	<b>2021</b>	<b>2020</b>
	<b>\$000</b>	<b>\$000</b>
Gross future claims	324,565	296,152
Future reinsurance premiums	204,567	204,958
Future reinsurance recoveries	(164,606)	(153,049)
Future policy bonuses	759	102
Future expenses	121,416	120,281
Future profit margins	138,563	145,622
Balance of future premiums	(628,058)	(617,760)
	-----	-----
Policy Liabilities before bonus	(2,794)	(3,694)
Bonus declared at year end	130	-
	-----	-----
Total Policy Liabilities at period end	(2,664)	(3,694)
Total Policy Liabilities at previous period end	(3,694)	(3,894)
	-----	-----
Movement in Policy Liabilities for the period	(1,030)	(200)
	-----	-----

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:

	<b>2021</b>	<b>2020</b>
	<b>\$000</b>	<b>\$000</b>
Participating fund at previous balance date	4,382	4,745
Investment income less claims and expenses	482	(363)
Profit distributed to shareholders	(33)	-
Participating fund at balance date	<b>4,831</b>	<b>4,382</b>
Policyholder retained earnings at previous balance date	105	198
Profit distributed as bonuses to participating policyholders	(130)	-
Policyholder share of profit (80%)	403	(93)
Policyholder retained earnings at balance date	<b>378</b>	<b>105</b>
Shareholder retained earnings at previous balance date	26	48
Profit distributed to shareholders	(33)	-
Shareholder share of profit (20%)	101	(22)
Shareholder retained earnings at balance date	<b>94</b>	<b>26</b>
Participating fund at balance date	4,831	4,382
Policyholder retained earnings at balance date	378	105
Shareholder retained earnings at balance date	94	26

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% (2020: 0.00%)
Bonus on existing bonuses	3.80% (2020: 0.00%)

## 10. NET SURPLUS TRANSFERRED TO EQUITY

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

	2021	2020
	\$000	\$000
Planned margins of revenues over expenses	8,552	6,479
Difference between actual and assumed experience	(6,731)	228
Change in discount rate	(4,659)	781
Investment earnings on assets in excess of policy liabilities	4,147	911
	-----	-----
Available for Shareholders	1,308	8,399
	-----	-----

## 11. OUTSTANDING CLAIMS

The following table shows the development of 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 2017.

The outstanding claims liability has been determined by the Appointed Actuary. There are a number of significant judgements made in determining the claims estimate including the expected duration of disablement and the amount of benefit payable to the claimant. The average future duration of disability claims is 5.5 years (2020: 4.6 years).

	Incident Year						
	Prior	2017	2018	2019	2020	2021	Total
	\$000	\$000	\$000	\$000	\$000	\$000	\$000
At end of incident year		6,549	7,577	6,630	9,231	14,054	
One year later		10,151	9,018	8,389	14,006	-	
Two years later		11,761	11,349	8,663	-	-	
Three years later		14,243	9,772	-	-	-	
Four years later		16,625	-	-	-	-	
Current estimated claim cost		16,625	9,772	8,663	14,006	14,054	
Payments		(8,381)	(5,317)	(6,159)	(5,635)	(2,246)	
		-----	-----	-----	-----	-----	
Undiscounted central estimate	10,394	8,244	4,455	2,503	8,371	11,808	45,775
Discount to present value	(456)	(538)	(352)	(168)	(461)	(582)	(2,557)
		-----	-----	-----	-----	-----	
Discounted central estimate	9,938	7,706	4,103	2,335	7,910	11,226	43,218

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

	2021	2020
	\$000	\$000
Disability claims outstanding	43,218	34,421
Life claims outstanding	2,172	1,896
	-----	-----
	45,390	36,317
	-----	-----

## 12. TAXATION

	2021	2020
	\$000	\$000
Net Surplus before Taxation	1,216	3,760
	-----	-----
Taxation at 28%	340	1,052
	-----	-----
Taxation effect of Permanent Differences	-	(1,117)
Prior Period Adjustment	(92)	2
Taxation effect of net surplus not subject to taxation	(340)	1,075
Deferred taxation no longer recognised	-	(5,644)
Imputation Credits	-	(7)
	-----	-----
Taxation Credit for the Year	(92)	(4,639)
	-----	-----
Taxation Credit for the Year comprises:		
Current Taxation - Shareholder Base	(92)	(5,103)
Current Taxation - Policyholder Base	-	51
Deferred Taxation	-	413
	-----	-----
Taxation Credit per Statement of Comprehensive Income	(92)	(4,639)
	-----	-----

The Company became a registered charity on 1 December 2019. As such, its activities from that date are no longer subject to income tax.

<b>13. <u>OTHER INSURANCE LIABILITIES</u></b>	<b>2021</b>	<b>2020</b>
	<b>\$000</b>	<b>\$000</b>
Premiums Received in Advance	204	182
Reinsurance Premium Payable	569	-
	-----	-----
	773	182
	-----	-----
<b>14. <u>REINSURANCE RECOVERIES OUTSTANDING</u></b>	<b>2021</b>	<b>2020</b>
	<b>\$000</b>	<b>\$000</b>
Recoveries associated with Life claims	2,617	1,380
Recoveries associated with Disability claims	25,817	19,548
Discount to present value	(1,342)	(629)
	-----	-----
	27,091	20,299
	-----	-----
<b>15. <u>PREMIUMS OUTSTANDING</u></b>	<b>2021</b>	<b>2020</b>
	<b>\$000</b>	<b>\$000</b>
Premiums Owing by Policyholders	13,549	13,256
	-----	-----
	13,549	13,256
	-----	-----

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

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

<b>16. <u>INVESTMENTS</u></b>	<b>2021</b>	<b>2020</b>
	<b>\$000</b>	<b>\$000</b>
On Call and Term Deposits	21,420	22,435
Domestic Fixed Interest	12,093	13,981
International Fixed Interest (Unit Trust)	32,794	27,568
MAS Wholesale Australasian Equities Fund	2,184	-
Australasian Equities (Managed Fund)	-	1,526
International Equities	-	3,067
MAS Wholesale International Equities Fund	4,753	-
	-----	-----
	73,244	68,577
	-----	-----
Realised Investment Income	2,558	2,152
Unrealised Investment Income / (Loss)	2,606	(534)
	-----	-----
Total Investment Income	5,164	1,618
	-----	-----

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

During the year, the Company has been advised by JBWere (NZ) Limited and Bancorp Treasury Services Limited on the management of investments. Funds are invested into securities held in the name of the Company, via a custodian, and invested into unitised or pooled vehicles. From 6 July 2020, the Company commenced investing into the Wholesale Funds managed by Medical Funds Management Limited (MFM).

## 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.

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

### Domestic Fixed Interest

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.

### Unit Trust and MAS Wholesale Funds

The fair value for investments in managed funds is determined based on unit prices provided by the relevant fund manager.

### Other Financial Assets

For all other financial assets, the carrying value is considered to be a reasonable estimate of fair value.

### Financial Liabilities

The carrying value of Trade and Other Payables and Advance from Parent Company approximate their fair values as they are short term in nature or payable on demand. Provisions and other insurance liabilities are not considered to be financial liabilities.

### Fair Value Hierarchy

The following table shows an analysis of financial instruments recorded at fair value 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
<b>31 March 2021</b>				
<b>Financial Assets</b>				
On Call and Term Deposits	-	21,420	-	21,420
Domestic Fixed Interest	-	12,093	-	12,093
International Fixed Interest (Unit Trust)	-	32,794	-	32,794
Australasian Equities (Managed Fund)	-	-	-	-
MAS Wholesale Australasian Equities Fund	-	2,184	-	2,184
International Equities	-	-	-	-
MAS Wholesale International Equities Fund	-	4,753	-	4,753
	-	73,244	-	73,244
<b>31 March 2020</b>				
<b>Financial Assets</b>				
Deposits and Short Term Securities	-	22,434	-	22,434
Domestic Fixed Interest	-	13,981	-	13,981
International Fixed Interest (Unit Trust)	-	27,568	-	27,568
Australasian Equities (Managed Fund)	-	1,527	-	1,527
International Equities	3,067	-	-	3,067
	3,067	65,509	-	68,577

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 the levels during year (2020: no transfers).

<b>18. RECONCILIATION OF CASH FLOWS</b>	<b>2021</b>	<b>2020</b>
	<b>\$000</b>	<b>\$000</b>
Reported Surplus after Taxation	1,308	8,399
Deduct Non-Cash Items:		
Decrease in Deferred Taxation Liability	-	(5,231)
Unrealised investment (gain) / loss	(2,606)	534
Changes in Operating Assets and Liabilities:		
Trade and Other Payables, Provisions and Insurance Liabilities	7,620	(47)
Claims Outstanding	9,073	7,539
Taxation	(3,009)	498
Policy Liabilities	1,030	200
Insurance Assets	44	(44)
Reinsurance Recoveries Outstanding and Premiums Outstanding	(7,085)	(3,816)
	-----	-----
Net Cash Flows from Operating Activities	6,375	8,032
	-----	-----

## 19. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Effective risk management is key to achieving the Company's strategic goals. The Board approves the Risk Appetite Statement which sets the levels and limits of risk the Company is willing to take. Other key documents within the risk management framework include:

- a risk management programme;
- business continuity and disaster recovery plans;
- capital management plan;
- reinsurance management policies;
- a Statement of Investment Policy and Objectives (SIPO) and Treasury Policies.

The Company leverages the risk management capabilities of its Parent. The Parent operates the Three Lines of Defence model. 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; and
- the monitoring of a reinsurer's credit risk rating to control exposure to reinsurance counterparty default.

### Credit Risk

Credit risk is the risk of loss that arises from a counterparty failing to meet their contractual commitment in full and on time, or from losses arising from the change in value of a financial instrument as a result of changes in credit risk on that instrument. The Company is exposed to credit risk in relation to its insurance operations and the investments which back those insurance operations. The maximum credit risk exposures are the carrying amounts.

The Company manages credit risk in its insurance operations by:

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

Statement of Financial Position credit exposures	<b>2021</b>	<b>2020</b>
	<b>\$000</b>	<b>\$000</b>
Other Insurance Assets	-	44
Investments	73,244	68,577
Premiums Outstanding	13,549	13,256
Reinsurance Recoveries Outstanding	27,091	20,299
	-----	-----
	113,884	102,176
	-----	-----



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

The investment portfolio, which potentially exposes the Company to credit risk, consists of cash on call and domestic fixed interest securities, and indirectly through investments in Wholesale Funds and Unit Trusts which invest in short term domestic deposits, domestic and international fixed interest securities and Australasian and international equities. The maximum exposure to credit risk is the carrying value of these financial instruments. The Company's investment managers adhere to formal policies which outline the maximum levels of credit risk the Company is willing to take.

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 ("SIPO"). The Investment Committee meets regularly to develop and review investment strategy and monitor manager performance.

Statement of Financial Position investment exposures:	2021 \$000	2020 \$000
On Call and Term Deposits	21,420	22,434
Domestic Fixed Interest	12,093	13,981
International Fixed Interest (Unit Trust)	32,794	27,568
MAS Wholesale Australasian Equities Fund	2,184	-
Australasian Equities (Managed Fund)	-	1,527
MAS Wholesale International Equities Fund	4,753	-
International Equities	-	3,067
	-----	-----
	73,244	68,577
	-----	-----

The following table provides information on the credit risk exposure for financial assets with external credit ratings. 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.

The credit rating analysis is only shown for fixed interest investments held directly by the Company. An entity shall disclose information that enables users of its financial statements to evaluate the nature and extent of risks arising from financial instruments to which the entity is exposed at the end of the reporting period. Investments in Wholesale Funds and Unit Trusts are not included in the table below as the funds are invested in unithold or pooled vehicles. The underlying credit quality of the funds is mandated by the Statement of Investment Policy and Objectives ("SIPO").

	AAA	AA	A	BBB	Below BBB and Not rated	Carrying value \$000
<b>31 March 2021</b>						
On Call and Term Deposits	-	65.3%	34.7%	-	-	21,420
Domestic Fixed Interest	-	4.4%	-	79.2%	16.4%	12,093
Reinsurance Recoveries	-	100.0%	-	-	-	27,091
<b>31 March 2020</b>						
On Call and Term Deposits	-	81.7%	18.3%	-	-	22,434
Domestic Fixed Interest	-	29.4%	7.5%	49.3%	13.8%	13,981
Reinsurance Recoveries	-	100.0%	-	-	-	20,299

### 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 Company. The Company no longer has currency risk exposure as international investments are in unithold or pooled vehicles.

### Market Risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices, including foreign exchange rates and interest rates.

### Interest Rate Risk

Interest rate risk is the risk that the value / future value of a financial instrument will fluctuate because of changes in interest rates. The Company is exposed to interest rate movements through its investments in domestic fixed interest investments, cash and term deposits, and its advance to the Parent Company.

### Price Risk

The Company is subject to price risk arising from changes in the market values of its Wholesale Fund and Unit Trust investments.

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

### 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 intercompany advances;
- maintaining sufficient liquid assets; and
- 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.

	0-12 months	1-2 years	2-5 years	Over 5 years	Total
	\$000	\$000	\$000	\$000	\$000
<b>31 March 2021</b>					
<b>Financial Assets</b>					
Investments	64,161	-	9,083	-	73,244
	64,161	-	9,083	-	73,244
<b>Financial Liabilities</b>					
Trade and Other Payables and Provisions	8,796	-	-	-	8,796
Advance from Parent Company	529	-	-	-	529
	9,325	-	-	-	9,325
<b>31 March 2020</b>					
<b>Financial Assets</b>					
Investments	58,061	1,046	9,470	-	68,577
	58,061	1,046	9,470	-	68,577
<b>Financial Liabilities</b>					
Trade and Other Payables and Provisions	1,767	-	-	-	1,767
Advance from Parent Company	1,443	-	-	-	1,443
	3,210	-	-	-	3,210

### Operating Risk

Operating risk is the risk of loss resulting from either external events, inadequate or failed systems or processes, or human error. Operational failures may lead to poor outcomes for Members, health and safety incidents, regulatory or legal implications, financial loss or reputational impacts. These risks are minimised whenever it is commercially sensible to do so.

There are a number of key policies and programmes in place which mitigate operating risk, including:

- management and staff are responsible for identifying, assessing and managing operational risks in accordance with their roles and responsibilities;
- Head of Internal Assurance and the Risk and Compliance Team are charged with assisting staff in identifying current and emerging risks and ensuring the sufficiency of and ongoing presence of suitable mitigant;
- regular external review and testing of the Group's information security including for cyber risks;
- a Conduct and Remediation Committee to ensure behaviours and actions meet Member and other stakeholders expectations;
- identifying critical outsourced providers and having appropriate plans in place in the event of supplier failure;
- regular monitoring and reporting on risks, financial and operational performance to Senior Management and the Board.

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

### Sensitivity Analysis

The Company has two risks which are price sensitive to an extent that they may impact earnings materially. These are Insurance Risk and Market 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 following table looks at how a range of reasonably possible movements in key risk variables, with all other variables held constant, can influence profit or loss and equity.

Risk Variable	Movement	2021		2020	
		\$000 Effect on future margins	\$000 Effect on policy liabilities	\$000 Effect on future margins	\$000 Effect on policy liabilities
<u>Insurance Risk:</u>					
Discount rate	Increase by 1%	18,060	2,520	16,540	2,130
	Decrease by 1%	(21,500)	(2,960)	(19,610)	(2,420)
Claims	Increase by 10%	14,830	-	11,770	-
	Decrease by 10%	(14,830)	-	(11,710)	-
Lapses / Surrenders	Increase by 10%	24,460	-	24,150	-
	Decrease by 10%	(28,800)	-	(28,910)	-
Expenses	Increase by 10%	10,760	-	8,630	-
	Decrease by 10%	(10,760)	-	(8,630)	-
<b>Impact on Profit and Equity</b>					
<b>2021                      2020</b>					
<b>\$000                      \$000</b>					
<u>Market Risk:</u>					
Bond interest rates	Increase by 0.50%			(129)	(183)
	Decrease by 0.50%			129	183
Unit prices	Increases by 10%			3,973	2,757
	Decreases by 10%			(3,973)	(2,757)

### Classification of Financial Instruments

Financial Assets and Financial Liabilities have been classified into the categories defined in NZ IFRS 9 in the tables below. The carrying amount of financial assets and liabilities at amortised cost reasonably approximates fair value. No financial assets were reclassified during the year (2020: none).

	2021	2020
	\$000	\$000
<b>Financial Assets</b>		
<b>Financial assets at fair value through profit or loss</b>		
Investments	73,244	68,577
	-----	-----
	73,244	68,577
	-----	-----
<b>Financial Liabilities</b>		
<b>Financial liabilities at amortised cost</b>		
Advance from Parent Company	529	1,443
Trade and Other Payables and Provisions	8,796	1,767
	-----	-----
	9,325	3,210
	-----	-----

## 20. CONTRIBUTED EQUITY

	2021	2020
Ordinary Shares, issued and fully paid at beginning of the year	100,000	100,000
Ordinary Shares, issued and fully paid at end of the year	100,000	100,000
Ordinary Share Capital	\$ 100,000	\$ 100,000

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

During the year the Board approved total dividend payments of \$3.4 million (2020: \$3.1m).

### Capital Management Policies and Objectives

When managing capital, management's objective is to ensure the Company continues as a going concern, adheres to regulator requirements as well as to maintain optimal returns to shareholders and benefits for other stakeholders, including the MAS Foundation. The Foundation receives distributions from the Group and funds health initiatives in line with the Group's charitable purpose.

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 and is required to maintain a solvency margin of at least \$0 at all times for the next three years and maintain a statutory fund. The solvency margin has been determined in accordance with the requirements of the solvency standards issued under the Insurance (Prudential Supervision) Act 2010.

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.

At 31 March 2021 the Company was not in breach of any of its regulatory requirements, nor has it been at any stage during the current reporting period (2020: no breaches).

The Company's solvency position as per the solvency standard is as follows:

	2021 \$000	2020 \$000
Actual Solvency Capital	61,060	63,151
Minimum Solvency Capital	49,081	48,046
Solvency Margin	11,980	15,105
Solvency Ratio	1.24	1.31

## 21. CONTINGENT LIABILITIES

The Company had no contingencies as at 31 March 2021 (2020: nil).

## 22. SUBSEQUENT EVENTS

No material events have occurred after the reporting period.



## 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 1 to 20, which comprise the statement of financial position of the company as at 31 March 2021, 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 1 to 20 present fairly, in all material respects, the financial position of the company as at 31 March 2021 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 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 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 International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand) 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.

We provide assurance services in respect of the company's solvency return. 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.

#### Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current year. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, but we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the financial statements* section of the audit report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial statements.

## Valuation of policy liabilities

### Why significant

The company's "policy liabilities" amount to an asset of approximately \$2.7 million at 31 March 2021.

The estimation of the value of policy liabilities involves judgement and is based on an actuarial model of the expected future cash flows using a Margin on Service methodology as required by NZ IFRS 4 *Insurance contracts*. The Actuarial model includes various assumptions such as discount rates, inflation rates, future expenses, mortality and policy lapses. Given the complexity of the required estimate and the subjectivity of a number of the assumptions this valuation requires significant attention in the audit.

Disclosures relating to the policy liabilities, including key assumptions, are included in Notes 8 and 9 of the financial statements.

### How our audit addressed the key audit matter

Our procedures included:

- ▶ Evaluating and testing key controls over the processes for writing policies, settling claims, processing costs and those related to the relevant IT systems;
- ▶ Comparing the historical claims and policy data used by the appointed actuary to the company's underlying systems;
- ▶ Using our actuarial specialists to review the policy liabilities valuation report prepared by the appointed actuary and evaluate the appropriateness of the methodologies and assumptions used in the valuation;
- ▶ Evaluating the objectivity and expertise of the appointed actuary; and
- ▶ Considering the adequacy of the disclosures for the policy liabilities.

## 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, 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 company 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.

### **Auditor's responsibilities for the audit of the financial statements**

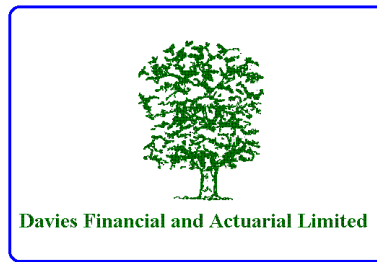
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee 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 the auditor's responsibilities for the audit of the financial statements is located at the External Reporting Board's website: <https://www.xrb.govt.nz/standards-for-assurance-practitioners/auditors-responsibilities/audit-report-2/>. 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.

A handwritten signature in black ink that reads 'Ernst &amp; Young'.

Chartered Accountants  
Wellington  
30 June 2021



20<sup>th</sup> June 2021

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 2021 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 2021. "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 for Life Insurance Business 2014, as at 31<sup>st</sup> March 2021, 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 Davies B.Bus.Sc., FIA, FNZSA  
Appointed Actuary