MEDICAL LIFE ASSURANCE SOCIETY LIMITED

STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 March 2023

	Note	2023 $000	2022 $000
OPERATING REVENUE			
Premium Revenue		50,347	46,692
Reinsurance Premiums		(15,351)	(14,113)
Net Premium Revenue		34,996	32,579
PAYMENTS UNDER POLICIES			
Claims		(20,735)	(31,492)
Reinsurance Recoveries		8,439	20,558
Net Claims Expense		(12,296)	(10,934)
Surrenders and Maturities		(23)	(268)
Total Payments on Policies		(12,319)	(11,202)
Movement in Policy Liabilities	8	(805)	(717)
OPERATING EXPENSES			
Administration Expenses	5	(1,260)	1,761
Administration Fees Paid to Parent Company	4	(16,041)	(13,945)
Total Operating Expenses		(17,301)	(12,184)
INVESTMENT LOSS			
Interest paid on Advances from Parent Company	4	(62)	(37)
Domestic and International Fixed Interest	14	(1,324)	(1,714)
Australasian and International Equities	14	(204)	397
Cash On Call and Term Deposits	14	373	273
Net Investment Loss		(1,217)	(1,081)
NET PROFIT AFTER TAXATION		3,354	7,395
Other Comprehensive Income		-	-
TOTAL COMPREHENSIVE INCOME		3,354	7,395

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 2023

	Note	2023 $000 Share Capital	2023 $000 Retained Earnings	2023 $000 Total
OPENING BALANCE 1 APRIL 2022		100	63,555	63,655
Current Year Profit		-	3,354	3,354
Other Comprehensive Income		-	-	-
Total Comprehensive Income		-	3,354	3,354
Dividends	17	-	-	-
CLOSING BALANCE 31 MARCH 2023	17	100	66,909	67,009

	Note	2022 $000 Share Capital	2022 $000 Retained Earnings	2022 $000 Total
OPENING BALANCE 1 APRIL 2021		100	60,960	61,060
Current Year Profit		-	7,395	7,395
Other Comprehensive Income		-	-	-
Total Comprehensive Income		-	7,395	7,395
Dividends	17	-	(4,800)	(4,800)
CLOSING BALANCE 31 MARCH 2022	17	100	63,555	63,655

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 2023

	Note	2023 $000	2022 $000
FUNDS EMPLOYED			
EQUITY			
Ordinary Shares	17	100	100
Retained Earnings		66,909	63,555
Total Equity		67,009	63,655
LIABILITIES			
Trade and Other Payables and Provisions	6	2,955	3,415
Advance from Parent Company	4	2,264	1,628
Other Insurance Liabilities	11	878	877
Claims Outstanding	10	50,847	57,915
Policy Liabilities	8	(1,142)	(1,947)
Total Liabilities		55,802	61,888
TOTAL FUNDS EMPLOYED		122,811	125,543
ASSETS			
Prepayments and Other Insurance Assets		61	4
Investments	14	77,218	75,999
Premiums Outstanding	13	15,317	14,452
Reinsurance Recoveries Outstanding	12	30,215	35,088
TOTAL ASSETS		122,811	125,543

Approved for issue for and on behalf of the Board of Medical Life Assurance Society Limited on 28 June 2023.

B C Sutton

....
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 2023

	Note	2023 $000	2022 $000
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from Policyholders		49,443	45,850
Payments to Suppliers		(16,987)	(14,383)
Reinsurance Recoveries Received		13,987	12,561
Payments to Policyholders		(27,827)	(19,235)
Interest Paid on Advances to Parent Company		(62)	(37)
Interest Received		1,179	994
Dividends Received		1,315	1,320
Administration Fees Paid to Parent Company		(16,041)	(13,945)
Net Cash Flows from Operating Activities	19	5,007	13,125
CASH FLOWS FOR INVESTING ACTIVITIES			
Contributions to Investment Funds		(20,967)	(21,463)
Withdrawals from Investment Funds		16,100	15,350
Net Cash Flows for Investing Activities		(4,867)	(6,113)
CASH FLOWS FOR FINANCING ACTIVITIES			
Dividends Paid to Parent Company		-	(4,800)
Net Advances to Parent Company	4	(140)	(2,212)
Net Cash Flows for Financing Activities		(140)	(7,012)
NET MOVEMENT IN CASH HELD		-	-
Opening Cash Balance brought forward		-	-
CASH AND CASH EQUIVALENTS CARRIED FORWARD		-	-

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

1. CORPORATE INFORMATION

REGISTERED OFFICE
10 Waterloo Quay
Pipitea
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.

S&P Global Ratings Australia Pty Ltd has assigned the Company a financial strength rating of A (Strong).

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 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) 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.

2. ACCOUNTING POLICIES continued …

(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 is 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) 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 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 profit or loss 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 in profit or loss as Investment Income or Loss. The valuation techniques used are detailed in Note 15.

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 14.

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 in profit or loss 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
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…**

(h) Income and Other Taxes

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

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.

(i) 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.

(j) Changes in Accounting Policies and Disclosures

Several amendments and interpretations apply for the first time in the period ended 31 March 2023, 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.

NZ IFRS 17 Insurance Contracts ("IFRS 17") has been issued but is not yet effective for the period ended 31 March 2023, and has not been applied in preparing these financial statements. IFRS 17 is a comprehensive new accounting standard which replaces NZ IFRS 4 Insurance Contracts ("IFRS 4") and establishes principles for the recognition, measurement, presentation and disclosure of insurance contracts. The standard is effective for reporting periods beginning after 1 January 2023. The first applicable reporting period for the Company is the year ending 31 March 2024.

Measurement
The standard introduces new measurement models for the recognition and measurement of insurance, and reinsurance contracts. Three measurement models are available under IFRS 17. The default model is the general model. Liabilities for insurance contracts measured using the general model are measured as the total of:
- fulfilment cash flows, which represent the current estimate of future cashflows, with a risk adjustment for non-financial risk and;
- a contractual service margin (CSM) that releases unearned profit that is established at the start of a contract.

The other measurement models are the variable fee approach (VFA) which is applied to contracts with direct participation features, and the premium allocation approach (PAA), which can be used when certain criteria are met.

The Company has determined that it will apply all three models to insurance contracts. For reinsurance contracts, the general model and PAA will be applied. The Company anticipates being eligible to apply the PAA to its life reinsurance contracts as it provides a measurement that is not materially different to that under the general model.

When applying PAA, IFRS 17 allows for the immediate expensing of insurance acquisition cashflows. The Company has elected to expense acquisition costs when incurred.

Level of Aggregation
IFRS 17 requires insurance contracts to be split into portfolios of contracts that have similar risks and are managed together. Portfolios are then divided into three groups based on whether there is 1) no significant possibility of becoming onerous, 2) onerous contracts at initial recognition and 3) remaining contracts. Contracts issued more than one year apart cannot be included in the same group. The Company is working through the subdivision and expects to have contracts in each of the three groups.

Onerous Contracts
Onerous contract testing is performed at a more granular level than the Company’s current assessment under IFRS 4. Contracts that are measured using the PAA are assumed not to be onerous unless facts and circumstances indicate otherwise. This granularity is expected to lead to certain groups being loss-making and a loss component of the liability for remaining coverage will be established for onerous groups.

2. ACCOUNTING POLICIES continued…

(j) Changes in Accounting Policies and Disclosures continued…

Discount Rates

The Company has elected to derive the discount rate by using the bottom-up approach. This rate is determined by reference to risk-free rates with an illiquidity premium adjustment. When applying PAA, the Company is not required to discount to present value its liability for incurred claims, unless the claim settlement duration is expected to exceed twelve months. The CSM is calculated using the discount rate determined at initial recognition (i.e. a "locked-in" rate). Fulfilment cash flows will be measured using the current discount rate as at the measurement date.

Risk Adjustment

For insurance contracts, a risk adjustment is applied that reflects the compensation that the Company requires for bearing the uncertainty relating to the amount and timing of future cash flows. The Company expects to take a cost of capital approach to determine a risk adjustment. For reinsurance contracts held, the risk adjustment will represent the amount of risk being transferred by the Company to the reinsurer. Additionally, under IFRS 17, the Company is also required to account for the changes in fulfilment cash flows that result from changes in the risk of non-performance of reinsurers.

Presentation and Disclosure

A number of presentation and disclosure changes are required. These include:

- On the Statement of Comprehensive Income (SoCI) - an Insurance Service Result will be reported which comprises Insurance Revenue less Insurance Service Expenses. Such items as Premium Revenue and Claims will no longer be reported separately on the SoCI. The impacts of reinsurance contracts will be reported separately.

More detailed note disclosures will be required to outline the movement in insurance contract and reinsurance contracts than required under IFRS 4. IFRS 17 has no impact on the total level of profit of an insurance contract over its life but does lead to timing differences in when profit is recognised.

Transition

The Company will adopt IFRS 17 for the year ending 31 March 2024. The opening equity position as at 1 April 2022 and the 31 March 2023 (prior year) results will be remeasured under IFRS 17. Work is continuing to quantify the financial impact. As all decisions are not yet finalised, it is not possible to accurately determine the impact.

The default method of transition is the full retrospective approach (FRA). Where it is impracticable to transition under this approach, an entity can apply either the modified retrospective approach or the fair value approach. Management are currently assessing the Company's eligibility to apply the full retrospective approach to those contracts that are measured under PAA. For contracts measured under the general model and under the VFA, the Company anticipates a fair value approach will be applied, as the Company expects that it will be impracticable to transition using the FRA.

(k) 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, and market and general economic conditions affect the level of these liabilities. Details of specific actuarial policies and methods adopted are contained in Note 7.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS continued…

Remediation

The Company is well advanced in remediating Members where an incorrect inflation rate was applied to policy sums insured. There remains uncertainty to the total amount to pay as Members can elect to either retain the higher levels of cover or be refunded.

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 6.

4. 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 advances / repayment of advance, administration fees and interest paid 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 5 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 and relate to services provided to the Group. Key management personnel is defined as directors and members of the Executive Management Team.

	2023	2022
Compensation paid to key management personnel:	**$000**	**$000**
Salaries and other short-term employee benefits	3,610	3,219
Termination benefits	405	-
MAS directors fees	776	731
Total compensation paid to key management personnel of the Group	4,791	3,950

(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 $7.5 million (2022: $7.5 million) to MLA to allow for additional funds if required. As at 31 March $1.5 million of the guarantee has been utilised (2022: $1.4 million). Remediation expenses are reimbursed by the Parent (2022: no change).

	2023	2022
	$000	**$000**
Material transactions during the period with related parties:		
Interest paid on advances to Parent Company	(62)	(37)
Administration fees paid to Parent Company	(16,041)	(13,945)
Dividends paid to Parent Company	-	(4,800)
Reimbursement of remediation expenses	-	3,145
Reconciliation of outstanding balances with related parties at period end:		
Opening: Advance from Parent Company at 1 April	(1,628)	(529)
Net Advances to Parent Company during the period	140	2,212
Advance from Parent Provision	(776)	(3,311)
Closing: Advance from Parent Company at 31 March	(2,264)	(1,628)

5. ADMINISTRATION EXPENSES

Included within Administration Expenses are:	2023 $000	2022 $000
Reimbursement of remediation expenses	-	(3,145)
Fees to auditors - for the audit of financial statements	106	52
Fees to auditors - for other assurance and related services	20	18
Investment Management Fees	66	62

The net impact of remediation expenses reimbursed by the Parent Company is $0 (2022: $3.1 million reimbursement).

The auditor of the Company is Ernst & Young (EY). Fees for the audit of financial statements includes fees in relation to the IFRS 17 opening balance sheet assurance (2022: $0). Other assurance and related services relate to reviews of regulatory reporting (2022: 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.

6. TRADE AND OTHER PAYABLES AND PROVISIONS

	2023 $000	2022 $000
GST Payable	1,363	1,441
Trade and Other Payables	1,027	533
Remediation Provision	565	1,441
Total Trade and Other Payables and Provisions	2,955	3,415

Set out below is the movement in the Remediation Provision:

	2023 $000	2022 $000
As at 1 April	1,441	7,145
Remediation Addition	105	-
Remediation Decrease	-	(5,704)
Remediation Payments	(981)	-
As at 31 March	565	1,441

All payables are due within twelve months of balance date.

The remediation provision reflects management's best estimate of the amount to meet remediation obligations to Members for issues that have been identified. The provision covers refunds, inconvenience payments and the cost of administering the remediation programme. It is expected the remediation provision will be utilised within twelve months of balance date.

7. ACTUARIAL POLICIES AND METHODS

The effective date of the actuarial report on the policy liabilities and prudential reserves is 31 March 2023. 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).

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 insurance 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 4.31% (2022: 3.36%) 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 2.50% per annum (2022: no change). The assumed indexation for income protection benefits varies between 0.00% and 2.00% depending on the product (2022: 0.00% and 1.40%). The assumed rate of expense inflation is assumed to be 2.00% per annum (2022: no change).

Element Impacted	Assumed Rate
Benefit indexation - Lump sum risk benefits	2.50%
Benefit indexation - Income Protection	0.00% - 2.00%
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 (2022: no change). The income protection indexation assumption applies to all covers of each respective product type (2022: no change).

Commissions
As the Company does not remunerate by way of commission, no allowance is required (2022: $0).

Future Expenses

Maintenance expenses
The standard maintenance expense allowance for lump sum risk policies is $337 (2022: $388) 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 $535 (2022: $524) per cover per 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.

Acquisition expenses
The standard acquisition expense allowance for new lump sum covers written is $1,534 (2022: $1,015). The standard acquisition expense allowance for new income protection covers written is $3,186 (2022: $2,149). The unit expenses are based upon a broad analysis of the Company's actual expenses for the year.

Investment expenses
Investment expenses equalled 0.10% of funds under management (2022: no change).

7. ACTUARIAL POLICIES AND METHODS continued…

The breakdown of expenses used for valuation purposes is below. Further expense adjustments have been made. Expenses that are considered non-recurring are excluded from maintenance expense assumptions.

	2023 $000	2022 $000
Maintenance expenses	12,152	7,823
Acquisition expenses	5,082	4,094
Investment expenses	66	62
	17,300	11,979

Mortality and Morbidity

The basic rates of mortality assumed for life products were:

Males	63% of IA95-97M (2022: no change)
Females	63% of IA95-97F (2022: no change)

Modifications have been made from these base tables to reflect smoker/non-smoker habits and duration in force (unchanged from 2022).

The experience for critical illness (recovery) and total and permanent disability contracts is assumed to equal 85% of the reinsurance risk premium rates, net of GST (2022: no change).

Increased loadings are applied to mortality and morbidity risks above the age of 60 to allow for selective lapsing (no change from 2022 loadings).

Income protection claim frequencies and claim terminations are based on adjustments to the Commissioners Individual Disability (CIDA) table, reflecting the Company's experience (no change from 2022's combined claim frequency and termination rate assumptions).

Discontinuances

Risk insurances including: Term Life Dread Disease Total Permanent Disablement	Yearly renewable contracts: 6.00% per annum, with additional selective lapses above age 60 (2022: 5.00%) Level term contracts: 6.0% per annum (2022: no change)
Traditional participating business	5.00% per annum (2022: no change)
Income Protection	5.00% per annum for Income Security Plan, 6.00% per annum for Income Protection Plan, higher for some closed legacy policies (2022: no change)

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	$17.10 per mille (2022: $13.90 per mille)
Bonus rate on existing bonuses	$27.03 per mille (2022: $23.60 per mille)

The increase in the supportable bonus rates arises from the increase in the projected future investment returns, notwithstanding the investment losses for the participating fund over the past year.

8. POLICY LIABILITIES

	2023 $000	2022 $000
Gross future claims	273,482	301,415
Future reinsurance premiums	186,181	200,599
Future reinsurance recoveries	(140,810)	(154,733)
Future policy bonuses	1,251	1,053
Future expenses	100,161	118,482
Future profit margins	150,261	151,922
Balance of future premiums	(571,668)	(620,800)
Policy Liabilities before bonus	(1,142)	(2,062)
Bonus declared at year end	-	115
Total Policy Liabilities at period end	(1,142)	(1,947)
Total Policy Liabilities at previous period end	(1,947)	(2,664)
Movement in Policy Liabilities for the period	(805)	(717)

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:

	2023 $000	2022 $000
Participating fund at previous balance date	4,600	4,831
Investment income less claims and expenses	(108)	(202)
Loss / (Profit) distributed to shareholders	15	(29)
Participating fund at balance date	**4,507**	**4,600**
Policyholder retained earnings at previous balance date	207	367
Loss / (Profit) distributed as bonuses to participating policyholders	12	(115)
Policyholder share of profit (80%)	(153)	(45)
Policyholder retained earnings at balance date	**66**	**207**
Shareholder retained earnings at previous balance date	51	91
Loss / (Profit) distributed to shareholders	3	(29)
Shareholder share of profit (20%)	(38)	(11)
Shareholder retained earnings at balance date	**16**	**51**
Participating fund at balance date	4,507	4,600
Policyholder retained earnings at balance date	66	207
Shareholder retained earnings at balance date	16	51

Based on the recommendations of the Appointed Actuary, the Board has not approved a bonus declaration for participating policyholders:

Bonus on sum insured	0% (2022: 1.20%)
Bonus on existing bonuses	0% (2022: 1.90%)

9. NET PROFIT TRANSFERRED TO EQUITY

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

	2023 $000	2022 $000
Planned margins of revenues over expenses	9,217	8,073
Difference between actual and assumed experience	(2,073)	2,942
Change in discount rate	(2,508)	(2,287)
Investment earnings on assets in excess of policy liabilities	(1,283)	(1,333)
Available for Shareholders	3,354	7,395

10. OUTSTANDING CLAIMS

The following table shows the development of undiscounted outstanding claims relative to the current estimate of ultimate disability claims costs for the ten most recent years. Due to the long tail nature of disability claims, the Company has a number of active claims that pre-date 2014.

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 6.0 years (2022: 6.0 years).

							Incident Year					
	Prior $000	2014	2015	2016 $000	2017 $000	2018 $000	2019 $000	2020 $000	2021 $000	2022 $000	2023 $000	Total $000
At end of incident year		5,270	5,839	7,561	6,549	7,577	6,630	9,231	14,054	16,735	9,643	
One year later		6,266	5,272	7,475	10,151	9,018	8,389	14,006	19,915	18,772	-	
Two years later		6,186	5,933	7,360	11,761	11,349	8,663	15,390	18,805	-	-	
Three years later		5,438	7,012	7,477	14,243	9,772	9,101	17,121	-	-	-	
Four years later		5,163	7,109	8,267	16,625	11,268	9,134	-	-	-	-	
Five years later		5,365	6,537	8,815	17,496	10,229	-	-	-	-	-	
Six years later		5,685	6,869	8,534	17,570	-	-	-	-	-	-	
Seven years later		5,803	6,811	8,633	-	-	-	-	-	-	-	
Eight years later		5,833	6,956	-	-	-	-	-	-	-	-	
Nine years later		5,909	-	-	-	-	-	-	-	-	-	
Current estimated claim cost		5,909	6,956	8,633	17,570	10,229	9,134	17,121	18,805	18,772	9,643	
Payments		(5,488)	(6,060)	(7,214)	(10,265)	(6,226)	(6,498)	(8,556)	(7,450)	(4,975)	(3,051)	
Central estimate	5,863	421	896	1,419	7,304	4,002	2,636	8,565	11,355	13,797	6,592	62,851
Discount to present value	(970)	(49)	(142)	(237)	(1,804)	(1,139)	(729)	(1,929)	(2,646)	(3,521)	(1,009)	(14,175)
Discounted estimate	4,893	372	754	1,182	5,501	2,863	1,907	6,636	8,709	10,276	5,583	48,677

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

	2023 $000	2022 $000
Disability claims outstanding	48,677	52,264
Life claims outstanding	2,170	5,651
	50,847	57,915

11. OTHER INSURANCE LIABILITIES

	2023 $000	2022 $000
Premiums Received in Advance	226	265
Reinsurance Premium Payable	652	612
	878	877

Premiums received in advance are premium payments received from policyholders for policies starting subsequent to balance date. Reinsurance premium payable is accrued but not yet paid reinsurance premiums.

12. REINSURANCE RECOVERIES OUTSTANDING

	2023 $000	2022 $000
Recoveries associated with Life claims	1,853	4,298
Recoveries associated with Disability claims	36,068	36,854
Discount to present value	(7,706)	(6,064)
	30,215	35,088

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. All recoveries associated with Life claims are due within twelve months of balance date. $5.7 million of recoveries associated with Disability claims are due within twelve months of balance date (2022: $6.1 million).

12. REINSURANCE RECOVERIES OUTSTANDING continued…

Set out below is the movement in the reinsurance recoveries outstanding asset:	2023 $000	2022 $000
As at 1 April	35,088	27,091
Movement in recoveries associated with Life claims	(2,445)	1,681
Movement in recoveries associated with Disability claims	(786)	11,037
Movement in discount rates	(1,642)	(4,721)
As at 31 March	30,215	35,088

13. PREMIUMS OUTSTANDING

	2023 $000	2022 $000
Premiums Owing by Policyholders	15,317	14,452
	15,317	14,452

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. All premiums outstanding are due within twelve months of balance date.

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.

14. INVESTMENTS

	2023 $000	2022 $000
International Fixed Interest (Unit Trust)	27,364	31,631
On Call and Term Deposits	14,484	19,044
Domestic Fixed Interest	28,911	15,766
MAS Wholesale International Equities Fund	4,283	4,501
MAS Wholesale NZ Fixed Interest Fund	-	2,895
MAS Wholesale Australasian Equities Fund	2,176	2,162
	77,218	75,999
Realised Investment Income	2,493	2,314
Unrealised Investment Loss	(3,648)	(3,358)
Total Investment Loss	(1,155)	(1,044)

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 profit or loss. Realised investment income is made up of interest and dividends received from investments. Unrealised investment loss / income is made up of unrealised fair value changes in investments.

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. The Company invests in the MAS Wholesale Investment Funds managed by Medical Funds Management Limited ("MFM").

15. 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:

On Call and Term Deposits
For cash on call and term deposits, the carrying values of these financial instruments are considered to approximate their fair values as they are short term in nature or are receivable on demand.

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.

15. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES continued…

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 16 for details of the classification categories). There have been no transfers between the levels during year (2022: no transfers).

	Level 1 $000	Level 2 $000	Level 3 $000	Total $000
31 March 2023				
Financial Assets				
International Fixed Interest (Unit Trust)	-	27,364	-	27,364
On Call and Term Deposits	-	14,484	-	14,484
Domestic Fixed Interest	-	28,911	-	28,911
MAS Wholesale International Equities Fund	-	4,283	-	4,283
MAS Wholesale Australasian Equities Fund	-	2,176	-	2,176
	-	77,218	-	77,218
31 March 2022				
Financial Assets				
International Fixed Interest (Unit Trust)	-	31,631	-	31,631
On Call and Term Deposits	-	19,044	-	19,044
Domestic Fixed Interest	-	15,766	-	15,766
MAS Wholesale International Equities Fund	-	4,501	-	4,501
MAS Wholesale NZ Fixed Interest Fund	-	2,895	-	2,895
MAS Wholesale Australasian Equities Fund	-	2,162	-	2,162
	-	75,999	-	75,999

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.

16. 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 risk tolerances 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;
- a capital management plan;
- reinsurance management policies; and
- a Statement of Investment Policy and Objectives and Treasury Policy.

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, 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; and
- the use of reinsurance to limit the Company's exposure to large single claims and accumulations of claims that arise from a singular event.

16. **FINANCIAL INSTRUMENTS AND RISK MANAGEMENT continued…**

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	2023 $000	2022 $000
Investments	77,218	75,999
Premiums Outstanding	15,317	14,452
Reinsurance Recoveries Outstanding	30,215	35,088
	122,750	125,539

Concentration of credit risk arises when the Company has a large exposure to an individual counterparty or enters into a number of contracts or financial instruments with entities that are engaged in similar business activities or exposed to similar economic factors. Investment concentration risk is managed through credit rating limits and counterparty limits. The following table discloses the number of reinsurance counterparties the Company has an exposure to in excess of 10% of equity.

	2023	2022
10% - 20% of equity	1	-
20% - 30% of equity	1	2

The investment portfolio, which potentially exposes the Company to credit risk, consists of cash on call and domestic fixed interest securities, and 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:	2023 $000	2022 $000
International Fixed Interest (Unit Trust)	27,364	31,631
On Call and Term Deposits	14,484	19,044
Domestic Fixed Interest	28,911	15,766
MAS Wholesale International Equities Fund	4,283	4,501
MAS Wholesale NZ Fixed Interest Fund	-	2,895
MAS Wholesale Australasian Equities Fund	2,176	2,162
	77,218	75,999

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 'Below BBB and not rated' column discloses those assets rated below BBB and not rated by external ratings agencies.

The credit rating analysis is only shown for fixed interest investments held directly by the Company. Investments in Wholesale Funds and Unit Trusts are not included in the table below as the funds are invested in unitised or pooled vehicles. The underlying credit quality of the funds is mandated by the SIPO.

	AAA	AA	A	BBB	Below BBB and not rated	Carrying value $000
31 March 2023						
On Call and Term Deposits	-	62.0%	38.0%	-	-	14,484
Domestic Fixed Interest	-	61.3%	3.1%	28.7%	6.9%	28,911
Reinsurance Recoveries	-	100.0%	-	-	-	30,215
31 March 2022						
On Call and Term Deposits	-	100.0%	-	-	-	19,044
Domestic Fixed Interest	-	29.9%	6.0%	51.2%	13.0%	15,766
Reinsurance Recoveries	-	100.0%	-	-	-	35,088

Market Risk

Market risk is the risk of loss of current and future earnings from adverse moves in interest rates and the prices of other financial contracts.

16. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT continued…

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 advance from the Parent Company. Interest rate movements also impact the value of its insurance liabilities.

Price Risk

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

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 following table analyses the Company's financial assets and liabilities at balance date into the relevant maturity groupings based on the remaining period to the contractual maturity date (if applicable). Investments in Unit Trusts, Wholesale Funds and Cash on Call do not have a maturity date.

31 March 2023	No maturity date $000	0-12 months $000	1-2 years $000	2-5 years $000	Over 5 years $000	Total $000
Financial Assets						
Investments	38,235	13,836	-	13,560	11,587	77,218
	38,235	13,836	-	13,560	11,587	77,218
Financial Liabilities						
Trade and Other Payables	-	1,027	-	-	-	1,027
Advance from Parent Company	-	2,264	-	-	-	2,264
	-	3,291	-	-	-	3,291

31 March 2022	No maturity date $000	0-12 months $000	1-2 years $000	2-5 years $000	Over 5 years $000	Total $000
Financial Assets						
Investments	51,169	9,063	3,867	4,214	7,686	75,999
	51,169	9,063	3,867	4,214	7,686	75,999
Trade and Other Payables	-	533	-	-	-	533
Advance from Parent Company	-	1,628	-	-	-	1,628
	-	2,161	-	-	-	2,161

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;
- Internal Assurance and Risk functions are charged with assisting staff in identifying current and emerging risks and ensuring the sufficiency of and ongoing presence of suitable mitigants;
- regular external review and testing of the Group’s information security including for cyber risks;
- 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**.**

16. 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).

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.

		2023		2022	
Risk Variable	**Movement**	**$000 Effect on future margins**	**$000 Effect on policy liabilities**	**$000 Effect on future margins**	**$000 Effect on policy liabilities**
Insurance Risk:	Movement				
Discount rate	Increase by 1%	14,460	2,180	15,990	2,660
	Decrease by 1%	(16,850)	(2,540)	(18,840)	(3,140)
Claims	Increase by 10%	16,840	-	18,100	-
	Decrease by 10%	(16,840)	-	(18,100)	-
Lapses / Surrenders	Increase by 10%	10,490	-	22,190	-
	Decrease by 10%	(11,510)	-	(25,810)	-
Expenses	Increase by 10%	9,990	-	11,820	-
	Decrease by 10%	(9,990)	-	(11,820)	-

		Impact on Profit and Equity	
		2023	**2022**
Market Risk:		**$000**	**$000**
Bond interest rates	Increase by 1%	(731)	(368)
	Decrease by 1%	731	368
Unit prices	Increase by 10%	3,382	4,119
	Decrease by 10%	(3,382)	(4,119)

Classification of Financial Instruments

Financial Assets and Financial Liabilities have been classified into the categories defined in NZ IFRS 9 Financial Instruments 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 (2022: none).

	2023 $000	**2022 $000**
Financial Assets		
Financial assets at fair value through profit or loss		
Investments	77,218	75,999
	77,218	75,999
Financial Liabilities		
Financial liabilities at amortised cost		
Advance from Parent Company	2,264	1,628
Trade and Other Payables	1,027	533
	3,291	2,161

17. CONTRIBUTED EQUITY

	2023	2022
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 profit upon winding up. During the year the Board did not approve any dividend payments (2022: $4.8 million).

Capital Management Policies and Objectives
When managing capital, management's objective is to ensure the Company continues as a going concern, adheres to regulatory requirements and maintains 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 2023 the Company was not in breach of any of its regulatory requirements, nor has it been at any stage during the current reporting period (2022: no breaches). The Reserve Bank of New Zealand (RBNZ) issued the Interim Solvency Standard (ISS) in October 2022. The Company is required to report its regulatory capital using the ISS from 1 April 2023.

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

	2023 $000	2022 $000
Actual Solvency Capital	67,009	63,655
Minimum Solvency Capital	51,317	51,292
Solvency Margin	15,692	12,363
Solvency Ratio	1.31	1.24

18. CONTINGENT LIABILITIES

The Company had no contingencies as at 31 March 2023 (2022: nil).

19. RECONCILIATION OF CASH FLOWS

	2023 $000	2022 $000
Reported Profit after Taxation	3,354	7,395
Add / (Deduct) Non-Cash Items:		
Unrealised investment loss	3,648	3,358
Advance from Parent Provision	776	3,311
Changes in Operating Assets and Liabilities:		
Trade and Other Payables, Provisions and Insurance Liabilities	(459)	(5,277)
Claims Outstanding	(7,068)	12,525
Policy Liabilities	805	717
Insurance Assets	(57)	(4)
Reinsurance Recoveries Outstanding and Premiums Outstanding	4,008	(8,900)
Net Cash Flows from Operating Activities	5,007	13,125

20. SUBSEQUENT EVENTS

On 1 June 2023, the Financial Markets Authority (FMA) announced it had filed High Court proceedings against MAS and its subsidiaries, which includes MLA. The FMA claims that on certain policies MAS failed to apply the correct inflation adjustments, failed to apply multi-policy discounts and no claims bonuses, and underpaid life and disability claims to eligible clients. MAS carries a provision for the potential impacts. MAS self reported these incidents to the FMA and is committed to remediating all affected Members.

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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 2023, 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 2023 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. 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.

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	How our audit addressed the key audit matter
The company's "policy liabilities" amount to an asset of approximately $1.1 million at 31 March 2023. 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 Note 8 of the financial statements.	Our procedures included: ▶ Understand 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 consider 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, competence and capabilities 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

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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 Grant Taylor.

Ernst + Young

Chartered Accountants
Wellington
28 June 2023

Davies Financial and Actuarial Limited

19th June 2023

To: The Directors
Medical Life Assurance Society Limited

From: Peter Davies
Appointed Actuary

Re: Medical Life Assurance Society Limited: Report as at 31st March 2023 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 2023. "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
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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. At 31st March 2023, Medical Life Assurance Society Limited exceeded the minimum capital requirement of the RBNZ Solvency Standard for Life Insurance Business 2014. The Company also exceed the minimum requirement of the new Interim Solvency Standard, issued by the RBNZ in October 2022, which takes effect from 1st April 2023. The Company is projected to exceed the minimum RBNZ requirements 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