ANNUAL REPORT 2015

TOGETHER WE STAND FOR SUCCESS

MAS

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CHAIRMAN'S REPORT TO MEMBERS

MAS ended the year in a strong position with excellent financial results and encouraging levels of growth in both membership and the business we do with our Members. We are pleased to report a Group net profit before tax of $17.3 million, further strengthening MAS reserves which now stand at $162.9 million.

Some Group entities performed better than others. Positive contributions came from our life insurance, funds management and lending activities along with strong returns from MAS investments. However further provisions for claims from Canterbury earthquake events were a moderating factor. We would like to acknowledge the continuing impact of the earthquakes on some of our Members, the team at MAS, and the performance of our general insurance business.

Medical Life Assurance Society Limited

Life insurance activity made a significant contribution to pre-tax profit of $17.0 million, up 10.9% year on year primarily as a result of strong investment returns. Total in-force premiums grew by 5.2% year on year with a record number of Members choosing MAS for their life insurance needs through the Professional Life Plan. During the year we paid $3.5 million for lives insured and $6.7 million for disability income to Members and their families.

Medical Insurance Society Limited

General insurance activity recorded growth of 3.0% in gross written premium, and the personal line covers (House, Contents and Motor Vehicle) continue to be the driver of overall membership growth, particularly with the popularity of our Area Replacement Cover. Members now have more than 20,000 houses insured with MAS. The net loss of $4.7 million from general insurance activity reflected ongoing escalation in claim costs from the Canterbury earthquakes.

The combined estimated cost of claims from the earthquakes (commercial and domestic) had reached $439.4 million by 31 March 2015, of which $310.5 million had been paid. Settling our remaining claims is taking more time than we anticipated due to the evolving challenges and complexities around land remediation and building solutions.

We had a number of important meetings with Christchurch Members during the year, and it was quite poignant for us as we visited a number of homes at various stages of completion from our earthquake programme. By the end of March we had paid more than $253 million for domestic claims, which was 75% of the estimated total value of the reinstatement programme.

During the year we increased the resourcing of our dedicated EQ Team which has seen us working more closely with Members, their building specialists and lead consultants. With our programme costs well above the market – averaging $591,000 for a repair and $1.0 million for a rebuild – pre-construction payments have become an important part of our programme as we work through the final and most challenging earthquake claims and at the same time continue to receive new claims from EQC. Total costs borne by MAS over and above reinsurance arrangements now total around $62.3 million, a testament to the benefits of MAS being a broadly diversified and well capitalised organisation.

We remain committed to keeping affected Members well informed, ensuring the programme is adequately resourced, and settling claims as soon as possible within the terms of the cover.

Medical Funds Management Limited

Funds under management in our Medical Assurance Society KiwiSaver Plan and Retirement Savings Plan (RSP) grew to $883.5 million with significant year-on-year growth of 34.5% and 29.6% respectively. Our KiwiSaver Growth and Aggressive Portfolios were five-star rated by CANSTAR for the second year, and the $2.9 million pre-tax profit from Medical Funds Management Limited was up 148% on last year's contribution. We opened another 1,049 KiwiSaver accounts and received nearly $23 million of UK pension transfers into RSP.

Returns for the multi-asset class portfolios were very strong, ranging from 11.0% to 18.3%. Our fund manager's stock selections also performed well against benchmarks in the New Zealand and international share markets. With a 31.5% New Zealand share market return, Member funds significantly outperformed the 13.5% benchmark return, and our international share market return was 22.3% compared to the 14.3% benchmark. Returns from MAS funds relative to benchmarks continue to be a focus of our investment business.

Medical Securities Limited

Our lending activity contributed $1.4 million to pre-tax profit for the year. More than 900 Members took advantage of our MAS home lending package with our referral partner, and our low rate campaigns for vehicle and equipment finance were well received. The loan market continues to be particularly competitive, and funding through Member deposits exceeded what we were able to lend out during the year.

Our growing membership

Membership grew across our full and associate Member professional sectors. In 2012 we set ourselves the target of growing membership to 27,250 by the end of 2015, and we are pleased to say that we achieved this well ahead of schedule in February this year. This reflects the efforts of the team nationwide along with the value recognised in MAS membership.

Operationally we continue to invest in technology platforms that will improve the way we can deliver customised product offerings and improve the interactions we have with Members. Optimising membership funds wisely remains extremely important and our cost-to-income ratio remains very healthy at 27.0%. This reflects a prudent but proactive investment strategy for MAS as we service a growing membership and invest in digital channels in particular.

This year we invested in upgrading our systems so that we can customise features of the Professional Life Plan product for Members taking MAS Life insurance – this will take effect later in 2015. We also undertook a significant project to better understand the cost to replace properties we insure, allowing us to ensure our Members are adequately covered and our premiums are set fairly.

Looking ahead

Our mutual operating model gives us a competitive advantage and coupled with the opportunity to continue creating better, customised propositions, we are confident of delivering the value of MAS membership to a range of New Zealand professions.

We are excited by the prospect of capitalising on the current investment we are making in technology, which will help enhance productivity and provide better service for you, our Members.

The Board would like to thank the team at MAS. We look forward to working with you during the year ahead and share a strong sense of pride in what MAS is achieving.

Richard Tyler
Chairman

FINANCIAL REPORT

Medical Assurance Society New Zealand Limited

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 March 2015

	Note	2015 $	2014 $
FIRE AND GENERAL INSURANCE REVENUE			
Gross Premium Revenue		64,263,425	62,364,030
Reinsurance Premiums		(17,186,734)	(19,680,193)
Change in Provision for Unearned Premium		(590,206)	(1,587,989)
Net Premium Revenue		46,486,485	41,095,848
Claims		(57,517,855)	(61,278,625)
Reinsurance Recoveries		6,100,620	5,709,272
Other Recoveries		11,270,443	7,532,994
Net Claims	5	(40,146,792)	(48,036,359)
Net Revenue from Fire and General Insurance		6,339,693	(6,940,511)
LIFE ASSURANCE REVENUE			
Premium Revenue		32,723,176	31,230,419
Reinsurance Premiums		(8,796,475)	(8,696,359)
Net Premium Revenue		23,926,701	22,534,060
Claims, Surrenders and Maturities		(13,195,735)	(6,792,470)
Reinsurance Recoveries		4,877,899	2,307,474
Decrease in Life Policy Liabilities	11	2,663,630	508,214
Net Revenue from Life Assurance		18,272,495	18,557,278
LENDING REVENUE			
Mortgage and Loan Interest Revenue		15,400,509	15,142,411
Movement in Fair Value of Derivatives		(398,036)	239,715
Interest Expense	13	(7,346,423)	(7,220,829)
Credit Impairment	14	128,887	(246,700)
Net Revenue from Lending		7,784,937	7,914,597
FUNDS MANAGEMENT REVENUE			
Revenue from Funds Management and Financial Planning		8,125,470	6,405,492
EXPENSES			
Salaries		(17,308,797)	(16,054,136)
Administration Expenses	19	(18,793,744)	(15,328,621)
Total Expenses		(36,102,541)	(31,382,757)
NET INCOME / (LOSS) FROM OPERATIONS		4,420,054	(5,445,901)
Investment and Sundry Income	21	13,138,167	7,559,355
Property Revaluation		(302,466)	–
NET SURPLUS BEFORE TAXATION		17,255,755	2,113,454
Taxation (Expense) / Credit	22	(874,668)	2,009,233
NET SURPLUS AFTER TAXATION		16,381,087	4,122,687
OTHER COMPREHENSIVE INCOME			
Gain on Revaluation of Land and Buildings		616,404	–
Tax Impact of Revaluation of Land and Buildings		73,807	–
OTHER COMPREHENSIVE INCOME AFTER TAXATION		690,211	–
TOTAL COMPREHENSIVE INCOME		17,071,298	4,122,687

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

Medical Assurance Society New Zealand Limited

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 31 March 2015

	Note	2015 Share Capital $	2015 Retained Earnings $	2015 Asset Revaluation Reserve $	2015 Total $
OPENING BALANCE 1 APRIL 2014	23	110,000	144,748,889	969,092	145,827,981
Current Year Surplus		–	16,381,087	–	16,381,087
Other Comprehensive Income		–	–	690,211	690,211
Total Comprehensive Income		–	16,381,087	690,211	17,071,298
CLOSING BALANCE 31 MARCH 2015		110,000	161,129,976	1,659,303	162,899,279

	Note	2014 Share Capital $	2014 Retained Earnings $	2014 Asset Revaluation Reserve $	2014 Total $
OPENING BALANCE 1 APRIL 2013	23	110,000	140,626,202	969,092	141,705,294
Current Year Surplus		–	4,122,687	–	4,122,687
Other Comprehensive Income		–	–	–	–
Total Comprehensive Income		–	4,122,687	–	4,122,687
CLOSING BALANCE 31 MARCH 2014		110,000	144,748,889	969,092	145,827,981

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

Medical Assurance Society New Zealand Limited

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

as at 31 March 2015

	Note	2015 $	2014 $
FUNDS EMPLOYED			
EQUITY			
1 Non-Voting Share	23	100,000	100,000
10,000 Voting Shares	23	10,000	10,000
Retained Earnings		161,129,976	144,748,889
Asset Revaluation Reserve		1,659,303	969,092
TOTAL EQUITY		162,899,279	145,827,981
LIABILITIES			
Payables	24	11,149,328	10,479,836
Provision for Taxation		–	123,148
Derivative Financial Instruments	15	204,148	60,468
Provision for Unearned Premium	6	31,871,060	31,280,854
Debenture Stock and Savings Plan	16	103,717,614	109,808,834
Notes	17	55,000,000	55,000,000
Provision for Outstanding Claims	5,12	142,239,558	202,758,833
Life Policy Liabilities	11	2,621,641	5,285,271
Deferred Tax	22	1,944,073	1,217,213
TOTAL FUNDS EMPLOYED		511,646,701	561,842,438
ASSETS			
Cash and Cash Equivalents	25	42,708,333	36,754,084
Receivables and Prepayments	26	3,150,822	2,942,768
Taxation Paid in Advance		677,859	–
Investments	27	162,497,271	135,369,844
Derivative Financial Instruments	15	197,863	452,219
Premiums Outstanding	7	26,068,611	25,471,208
Reinsurance Recoveries Outstanding	8	89,134,896	166,375,143
Claims Recoveries Outstanding	9	3,886,754	2,487,996
Mortgages and Loans	14	159,161,783	169,016,523
Property, Plant and Equipment	28	5,940,197	6,111,934
Intangibles	29	17,736,803	16,475,093
Deferred Acquisition Costs	30	485,509	385,626
TOTAL ASSETS		511,646,701	561,842,438

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

Director

Director

Wellington, 7 July 2015

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

Medical Assurance Society New Zealand Limited

CONSOLIDATED STATEMENT OF CASH FLOWS

for the year ended 31 March 2015

	Note	2015 $	2014 $
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from Policyholders		96,289,315	93,174,639
Interest and Fee Income Received on Mortgages and Loans		15,439,348	14,138,298
Loan Repayments		68,849,886	74,946,653
Loan Advances		(58,866,259)	(72,064,263)
Interest Received on Short Term Deposits		1,431,684	1,311,009
Other Revenue and Income from Investment Funds		19,153,840	13,584,779
Rent Received		30,515	31,383
Payments to Suppliers and Employees		(57,876,828)	(57,900,661)
Reinsurance Recoveries		88,218,766	48,898,991
Payment of Claims		(121,361,180)	(83,876,382)
(Payment of Taxation) / Taxation Refund		(875,008)	724,567
Interest on Bank Overdraft		(1,801)	(1,686)
Interest Paid on Funding		(7,327,044)	(7,206,959)
Net Cash Flows from Operating Activities	36	43,105,234	25,760,368
CASH FLOWS FOR INVESTING ACTIVITIES			
Contributions to Investment Funds		(69,627,427)	(53,585,406)
Withdrawals from Investment Funds		42,500,000	22,500,000
Proceeds from Sale of Property, Plant and Equipment		142	–
Purchase of Property, Plant, Equipment and Intangibles		(3,932,480)	(5,813,882)
Net Cash Flows for Investing Activities		(31,059,765)	(36,899,288)
CASH FLOWS FOR FINANCING ACTIVITIES			
Issue of Debenture Stock / Savings Plan Deposits Received		75,744,908	72,903,024
Repayment of Debenture Stock / Savings Plan Withdrawals		(81,836,128)	(80,564,567)
Issuance of Notes		–	30,000,000
Repayment of Notes		–	(25,000,000)
Net Cash Flows for Financing Activities		(6,091,220)	(2,661,543)
NET INCREASE / (DECREASE) IN CASH HELD		5,954,249	(13,800,463)
Opening Cash Balance brought forward		36,754,084	50,554,547
CASH AND CASH EQUIVALENTS CARRIED FORWARD		42,708,333	36,754,084
CASH AND CASH EQUIVALENTS COMPRISE			
Cash and Deposits		42,708,333	36,754,084
	25	42,708,333	36,754,084

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

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

1. CORPORATE INFORMATION

REGISTERED OFFICE
19-21 Broderick Road
Johnsonville
Wellington

Medical Assurance Society New Zealand Limited ('MAS') operates on mutual principles within New Zealand, and the control is vested in its Members. The subsidiary companies engage in the provision of financial services to Members of MAS.

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

These financial statements are the consolidated financial statements of Medical Assurance Society New Zealand Limited and its subsidiaries as detailed in Note 4.

The parent company is incorporated and domiciled in New Zealand.

2. ACCOUNTING POLICIES

(a) Basis of Preparation

These financial statements have been prepared in accordance with generally accepted accounting practice in New Zealand and the requirements of the Companies Act 1993 and the Financial Reporting Act 2013. The financial statements have also been prepared on a historical cost basis except for certain assets and liabilities as outlined in the accounting policies.

The financial statements are presented in New Zealand dollars.

(b) Statement of Compliance

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

Applicable standards or interpretations that have not been adopted:

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

NZ IFRS 9 (2010) Financial Instruments supersedes NZ IFRS (2009). The existing NZ IAS 39 Financial Instruments: Recognition and Measurement requirements for the classification of financial liabilities and the ability to use the fair value option have been retained. However, where the fair value option is used for financial liabilities, the change in fair value is accounted for as follows:

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

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

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

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

Amendments to NZ IFRSs arising from the Annual Improvements Project (2010-2012). A number of standards are amended principally with a view to remove inconsistencies and clarify wording.

The mandatory effective date for adopting these amendments is for reporting periods commencing on or after 1 July 2014.

Amendments to Appendix C of NZ IFRS 4 – Statutory Funds. The amendments require disclosure of information about solvency margins for life insurance funds, aligning Appendix C of NZ IFRS 4 with the requirements of the Reserve Bank's solvency standards for life insurers.

2. ACCOUNTING POLICIES continued...

Amendments to Appendix C of NZ IFRS 4 arising from NZ IFRS 10 – The amendments remove the specific consolidation requirements from Appendix C of NZ IFRS 4 Insurance Contracts and thereby leave NZ IFRS 10 as the sole source for consolidation requirements applicable to life insurance entities.

NZ IAS 1 Disclosure Initiative. The amendments clarify existing NZ IAS 1 requirements that relate to materiality, order of the notes, subtotals and disaggregation.

The mandatory effective date for adopting these amendments is for reporting periods commencing on or after 1 January 2016.

NZ IFRS 15 Revenue from Contracts with Customers. This standard establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers.

The mandatory effective date for adopting these amendments is for reporting periods commencing on or after 1 January 2017.

(c) Basis of Consolidation

The Group financial statements incorporate the financial statements of Medical Assurance Society New Zealand Limited and its subsidiaries. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies. All inter-company transactions, balances and unrealised profits are eliminated on consolidation.

(d) Premium Revenue and Provision for Unearned Premium

Gross Premium Revenue comprises amounts charged to policyholders for insurance policies. It is expressed net of levies and charges which are collected on behalf of the Fire Service and the Earthquake Commission, and net of Goods and Services Tax.

Premium revenue is recognised in profit and loss when it has been earned. That is, from the date of attachment of the risk, over the period of the policy (which is generally one year). Given the absence of any significant seasonal factors, exposure to risk is assumed to be even over the policy period and premium is recognised accordingly.

At reporting date, an adjustment has been made for that portion of premium revenue received and receivable which has not been earned. That is, recognising that in general, the term of the policy will extend into the following financial year. This premium which will be earned in subsequent reporting periods, is recognised in the Statement of Financial Position as a Provision for Unearned Premium.

(e) Reinsurance

Premiums ceded to reinsurers under reinsurance contracts are recorded as an expense and are recognised over the period of indemnity of the contract. Amounts recoverable from reinsurers are estimated in a manner consistent with the outstanding claims provision or in accordance with the reinsurance contract.

Ceded reinsurance does not relieve the Group from its obligations to policyholders.

(f) General Insurance: Claims and Provision for Outstanding Claims

Claims expense represents payments for claims and the movement in the Provision for Outstanding Claims. Claims represent the benefits paid or payable to the policyholder on the occurrence of an event giving rise to loss or accident according to the terms of the policy. Claims expenses are recognised in profit and loss as losses are incurred which is usually the point in time when the event giving rise to the claim occurs.

The liability for any outstanding claims is carried in the Statement of Financial Position as the Provision for Outstanding Claims. It is measured as the central estimate of the present value of the expected future payments against all claims incurred at reporting date. A risk margin is also included over and above the central estimate, to allow for the inherent uncertainty in the central estimate of the outstanding claims liability. The details of risk margins and the process for their determination are set out in Note 5. The expected future payments include those in relation to claims reported but not yet paid, incurred but not reported ('IBNR') and the direct costs of settling those claims.

2. ACCOUNTING POLICIES continued...

(g) Provision for Unearned Premium / Liability Adequacy Test

At each reporting date a Liability Adequacy Test is performed to determine whether there is any overall excess of expected claims and deferred acquisition costs over unearned premiums. If these estimates show that the carrying amount of the unearned premiums (less related deferred acquisition costs) is inadequate, the deficiency is recognised in profit and loss.

The proportion of premiums not earned at reporting date is recognised in the Statement of Financial Position as Provision for Unearned Premium. The Provision for Unearned Premium is calculated separately for each group of contracts which are subject to broadly similar risks and managed together as a single portfolio. Any unexpired risk liability is recognised immediately.

The expected value of claims is calculated as the present value of the expected cash flows relating to future claims and includes a risk margin to reflect the inherent uncertainty in the central estimate.

(h) Life Insurance: Payments under Policies and Claims Outstanding

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

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

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

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

(i) Lending Interest Income and Interest Expense

Interest income and interest expense are recognised in profit and loss as they accrue, using the effective interest method.

The effective interest method calculates the amortised cost of a financial asset or financial liability and allocates the interest income or interest expense, including any fees and directly related transaction costs, over the expected life of the financial asset or liability. The application of the method has the effect of recognising income and expense on the financial asset or liability evenly in proportion to the amount outstanding over the period to maturity or repayment.

(j) Borrowing Costs

Borrowing costs are recognised as an expense when incurred as the Group does not have any qualifying assets.

(k) Mortgages and Loans

Mortgages and Loans are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Mortgages and Loans are initially recognised at fair value including transaction costs that are directly attributable to the issue of the mortgage or loan. They are subsequently measured at amortised cost using the effective interest method, less any impairment loss.

Mortgages and Loans are derecognised when the rights to receive cash flows from the asset have expired.

Mortgages and Loans include direct finance provided to Members such as revolving credit accounts.

(l) Impairment Provisions

Impairment of Mortgages and Loans
Losses for impaired loans are recognised immediately when there is objective evidence that impairment of a loan or portfolio of loans has occurred. Impairment losses are calculated on individual loans and loans assessed collectively. Losses expected from future events, no matter how likely, are not recognised.

2. ACCOUNTING POLICIES continued...

Individually Assessed Mortgages and Loans

At each balance date, the entity assesses on a case by case basis whether there is any objective evidence that a loan is impaired. This procedure is applied to all accounts that are considered individually significant. In determining impairment losses on these loans, the following factors are considered:

- the entity's aggregate exposure to the Member the viability of the Member's business model and their capability to trade successfully out of financial difficulties and generate sufficient cash flow to service debt obligations
- the amount and timing of expected receipts and recoveries
- the realisable value of security and likelihood of successful repossession.

The estimated individual impairment loss is measured as the difference between the assets carrying amount and the estimated future cash flows discounted to their present value at the original effective interest rate. Any loss is charged to the Statement of Comprehensive Income.

Collectively Assessed Mortgages and Loans

Impairment is assessed on a collective basis in two circumstances:

- to cover for losses which have been incurred but have not yet been identified on loans subject to individual assessments
- for groups of loans that are not considered individually significant, these are placed in pools of similar assets with similar risk characteristics.

Individually assessed loans for which no evidence of loss has been specifically identified on an individual basis are grouped together according to their credit risk characteristics for the purpose of calculating an estimated collective loss.

Provision for Credit Impairment

The Provision for Credit Impairment (specific and collective) is deducted from loans and advances in the Statement of Financial Position and the movement in the provision for the reporting period is reflected in profit and loss as Credit Impairment.

Where impairment losses recognised in previous periods are subsequently decreased or no longer exist, such impairments are reversed in profit and loss.

Mortgage and Loan Write-offs

When a mortgage or loan is uncollectible, it is written off against the Provision for Credit Impairment. Subsequent recoveries of amounts previously written off are taken to profit and loss.

Restructured Loans

As Members' circumstances change, they sometimes request that existing contractual terms be varied. It is most unusual that terms are restructured due to financial difficulties. Where such restructuring has taken place, it acts as a trigger in terms of the assessment of credit impairment.

Third Party Recoveries

Where third parties are responsible for occurrences which lead to fire and general insurance claims being made there is often a contractual right to recovery from that party. The resultant asset is assessed for impairment (on an individual basis) and adjusted to reasonably approximate fair value.

Impairment of Property, Plant, Equipment and Intangibles

The Group conducts an annual review of asset values to determine whether there are any indicators of impairment. This review considers economic, technological and business changes that may impact on an asset's value. If any indicators of impairment exist, the asset's value is written down to its recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell, or its value in use.

(m) Income and Other Taxes, and Deferred Tax

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities based on the current period's taxable income. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the balance date.

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

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

- when the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and that, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; or

2. ACCOUNTING POLICIES continued...

- when the taxable temporary difference is associated with investments in subsidiaries, associates or interests in joint ventures, and the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

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

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

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

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

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

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

Other taxes

Revenues, expenses and assets are recognised net of the amount of GST except when the GST incurred on a purchase of goods and services is not recoverable from 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 Receivables or Payables in the Statement of Financial Position.

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

(n) Payables

Payables are recognised when the entity becomes obliged to make future payments resulting from the purchases of goods and services.

Payables are carried at amortised cost. They represent liabilities for goods and services provided to the entity prior to the end of the financial year but which are unpaid at reporting date.

(o) Employee Benefits

(i) Wages, annual leave and sick leave

Liabilities for wages, annual leave and accumulating sick leave expected to be settled within 12 months of the reporting date are recognised in respect of employees' services up to the reporting date. They are measured at the amounts expected to be paid when the liabilities are settled.

(ii) Long service leave

The liability for long service leave is recognised and measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date. Consideration is given to expected future wage and salary levels and periods of service of current and former employees. Expected future payments are discounted using New Zealand Government Stock rates that most closely match the maturity term.

2. ACCOUNTING POLICIES continued...

(p) Derivative Financial Instruments

The Group enters into derivative financial instruments to mitigate the risks associated with interest rate movements. They include swaps and options and combinations of these instruments.

Derivative financial instruments are recognised initially at fair value on the date at which a derivative contract is entered into and are subsequently remeasured to fair value. Fair values of interest rate swaps and options are determined by reference to market values for similar instruments. Any gains or losses arising from changes in the fair value of derivatives are taken directly to profit and loss for the year.

In the normal course of business, the Group's fund managers enter into transactions involving financial instruments in order to manage exposure to risk. These include foreign exchange contracts, financial futures, swaps and options. These instruments are accounted for, at fair value, as part of the investment portfolio valuation.

All regular way purchases and sales of financial assets are recognised on the trade date. That is, the date that the Group commits to purchase the asset. Regular way purchases or sales are purchases or sales of financial assets under contracts that require delivery of the assets within the period established generally by regulation or convention in the market place. Financial assets are derecognised when the right to receive cash flows from the financial assets have expired or been transferred.

(q) Liabilities including Debenture Stock and Savings Plan, Commercial Paper, Bank Borrowing and Notes

Liabilities are recorded initially at fair value, and subsequently measured at amortised cost. Interest expense is recognised profit and loss using the effective interest rate method.

Liabilities are derecognised when the obligation under the liability is discharged, cancelled or expired.

(r) Policy Liabilities

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

(s) Cash and Cash Equivalents

Cash and cash equivalents include liquid assets and amounts due from other financial institutions, with an original term to maturity of less than three months.

(t) Receivables

Receivables, which generally have terms of 30-90 days, are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less any allowances for impairment. Given the short term nature of most receivables, the recoverable amount approximates fair value.

(u) Investments

Investment funds, managed for the Group by several fund managers, are initially recorded at fair value. They are classified as financial assets at fair value through profit or loss ('FVTPL') and any movements in fair value are taken immediately to profit and loss.

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

Interest and dividend income, fund distributions and fair value movements are recorded in the Investment and Sundry Income section of profit and loss.

Investment funds are split by asset class in Note 27.

(v) Premiums Outstanding

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

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

2. ACCOUNTING POLICIES continued...

(w) Reinsurance Recoveries and Claims Recoveries Outstanding

During the normal course of the Group's activities claims are paid which will result in a contractual right to seek recovery from its reinsurers and / or other third parties (which may include other insurers). 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.

Amounts recoverable from reinsurers are estimated in a manner consistent with the outstanding claims provision or settled claims associated with the reinsurer's policies and are in accordance with the related reinsurance contract.

The details of the impairment assessment relative to the third party recoveries are set out in Note 9.

(x) Policy Acquisition Costs

(i) General insurance

Policy acquisition costs comprise the costs of acquiring new business, including sales costs, underwriting costs and policy issue costs. These costs are deferred when they can be reliably measured and it is probable that they will give rise to premium revenue that will be recognised in subsequent reporting periods. Costs are amortised systematically in accordance with the expected pattern of the incidence of risk to which they relate. This pattern of amortisation corresponds to the earning pattern of the corresponding premium revenue.

An impairment review is performed at each reporting date as part of the Liability Adequacy Test. When the recoverable amount is less than the carrying value an impairment loss is recognised in the Statement of Comprehensive Income.

(ii) Life insurance

The actuary's assessment of life insurance contract liabilities takes account of the deferral and future recovery of acquisition costs. These costs are capitalised by way of movement in Life Policy Liabilities, then amortised over the period in which they will be recoverable.

(y) Assets Backing Insurance Liabilities

All investment assets of Medical Life Assurance Society Limited, the Group's life company, are assets backing the policy liabilities of the life insurance business.

All investment assets of Medical Insurance Society Limited have been identified as assets backing the insurance liabilities of the Company.

All investment assets backing insurance liabilities are measured at fair value through profit and loss.

(z) Revenue from Funds Management and Financial Planning

Revenue from Funds Management and Financial Planning comprises two main components; fees for the management of the Medical Assurance Society Retirement Savings Plan and Medical Assurance Society KiwiSaver Plan, and fees earned as a result of Members investing into other investment products.

Revenue is recognised to the extent that it is probable that economic benefits will flow to the Group and that revenue can be measured reliably.

(aa) Property, Plant and Equipment, and Depreciation

Land and Buildings are revalued at appropriate intervals, not exceeding three years, to fair value, which is determined by reference to the asset's highest and best use by an independent valuer. Revaluation surpluses are recognised in Other Comprehensive Income to the extent they offset previous devaluations recognised in net surplus. Except as above, revaluation surpluses are taken directly to the Asset Revaluation Reserve. Decreases in value are debited directly to the Asset Revaluation Reserve to the extent that they reverse previous surpluses within the individual asset concerned and are otherwise recognised as expenses.

All other fixed assets are held at cost and are depreciated on a straight line basis over their estimated economic lives as follows:

- Buildings 50 years
- Furniture, Fittings and Equipment 3-10 years

2. ACCOUNTING POLICIES continued...

(ab) Intangibles

Intangible assets represent software and software work in progress and are initially measured at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses.

Intangibles are amortised over their estimated useful life as follows:

- General use software 5 years
- Core systems 10 years

(ac) Changes in Accounting Policies

The Group has not adopted any standards during the period that give rise to material changes in either the financial position or in the disclosures required in the notes to the accounts.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

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

Significant judgements, estimates and assumptions made by management in the preparation of these financial statements are outlined below. Further details are also provided within the relevant note disclosure.

Outstanding Claims Liability
The outstanding claims liability is measured as the central estimate of the present value of expected future claims payments (included claims incurred and not reported) plus a risk margin.

The estimated cost of claims includes expenses to be incurred in settling those claims, net of the expected value of salvage and other recoveries. MIS takes all reasonable steps to ensure that it has appropriate information regarding its claims exposures. Given the uncertainty in establishing claims provisions, it is almost certain that the final outcome will prove to be different from the original liability established.

All claims reported are estimated with due regard to the claim circumstance as reported by the insured, legal representative, assessor, loss adjuster and / or other third party, and then combined, where appropriate, with historical evidence on the cost of settling similar claims. Estimates are reviewed regularly and are updated as and when new information arises.

The ultimate net outstanding claims provision also includes an additional (risk) margin to allow for the uncertainty within the estimation process.

Deferred Acquisition Costs
Direct and indirect costs incurred during the year arising from the writing or renewing of insurance contracts are deferred to the extent that these costs are recoverable out of future premium. The main acquisition costs incurred by the Group are salary costs and underwriting costs.

For general insurance contracts, costs are typically deferred over a year. Changes in the contract life are treated as a change in accounting estimates.

Reinsurance and Other Recoveries Assets
As for claims, reinsurance and other recoveries must be estimated at reporting date. The recoverability of these assets is assessed on a periodic basis to ensure that as best can be determined, the balance is reflective of the amounts which will ultimately be received, taking into consideration factors such as counterparty credit risk.

MIS has purchased adverse development reinsurance cover for the February 2011 Canterbury earthquake. The level of recoverability requires significant judgements to be made as the reinsurer will only have an obligation if claims (within a certain cost level) are paid by 24 November 2015.

Recovery of Deferred Tax Assets
Deferred tax assets are recognised for deductible temporary differences as management considers that it is probable that future taxable profits will be available to utilise those temporary differences.

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.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS continued...

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

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

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

In addition, factors such as competition, interest rates, taxes and market and general economic conditions affect the level of these liabilities. Details of specific actuarial policies and methods adopted are contained in Note 10.

Allowances for Lending Impairment Loss

i) Specific provision. At each reporting period the Group reviews individually significant mortgages and loans for evidence of impairment.

Where loan receivables are outstanding beyond the normal contractual terms, the likelihood of the recovery of these loans is assessed by management. The specific impairment loss is estimated with reference to the loan to value ratio (LVR), the probability of recovery, the cost of possible acquisition through enforcement of security, and related costs and sale proceeds.

ii) Collective provision. A collective provision is calculated for:

- loans subject to individual assessment to cover losses incurred but not yet identified
- portfolios of loans with similar characteristics that are not considered individually significant.

The collective provision is estimated using available market data and historical loss experience.

Derivative Financial Instruments Valuation

Derivative instruments are valued at fair value. The fair value of derivatives has been determined by reference to approximate price valuations received from registered banks. Valuations take account of relevant market conditions.

4. RELATED PARTY TRANSACTIONS

Medical Assurance Society New Zealand Limited is the holding company of the following fully owned subsidiary companies:

- Medical Insurance Society Limited ('MIS')
- Medical Life Assurance Society Limited ('MLA')
- Medical Securities Limited ('MSL')
- Medical Funds Management Limited ('MFM').

The Medical Assurance Society Retirement Savings Plan and the Medical Assurance Society KiwiSaver Plan are two registered superannuation schemes that are promoted by Medical Assurance Society New Zealand Limited. Medical Funds Management Limited provides management services for these plans.

Advances to and from subsidiary companies are payable on demand with the exception of the advance to Medical Securities Limited which is subject to a two year repayment agreement. As at 31 March interest was charged at 4.63% for all subsidiaries (2014 Medical Securities Limited charged at 3.13%, other subsidiaries 4.13%).

All inter-Group transactions are eliminated on consolidation.

All transactions with Members, directors and staff are at market rates.

5. CLAIMS – MEDICAL INSURANCE SOCIETY LIMITED

	2015 $	2014 $
CLAIMS EXPENSE		
Claims paid during the year	111,151,007	70,728,480
Recoveries received during the year	(84,918,398)	(42,171,088)
Provision for Outstanding Claims at year end (new claims incurred during the year)	41,473,058	37,706,142
Additional Provisioning at year end for Outstanding Claims (net of reinsurance) incurred in prior years	87,908,975	138,769,981
Reinsurance and Other Recoveries Outstanding at year end	(82,277,456)	(159,696,476)
Decrease in IBNR (claims incurred but not reported) Provision at year end	(94,884)	(1,229,810)
Provision for Outstanding Claims at previous year end (excluding IBNR)	(181,712,033)	(197,960,359)
Reinsurance and Other Recoveries Outstanding at previous year end	159,696,476	196,653,579
(Decrease) / Increase in Risk Margin	(11,079,953)	5,235,910
Net Claims Expense per Statement of Comprehensive Income	40,146,792	48,036,359
PROVISION FOR OUTSTANDING CLAIMS		
Expected Future Claim Payments (undiscounted)	95,855,291	149,644,052
IBNR Claims at year end	1,529,438	1,624,322
Risk Margin	24,807,253	35,887,206
Discount to Present Value	(2,360,464)	(3,819,225)
Provision for Outstanding Claims	119,831,518	183,336,355

Assumptions adopted in calculation of claim provisions

A significant portion of the general insurance claims provisions relate to earthquake claims. The claims estimate is subject to a degree of uncertainty as a number of issues are yet to be resolved.

The following key assumptions have been used in determining general insurance net outstanding claims liabilities:

	2015	2014
Risk margin – earthquake claims	26.90%	24.10%
Risk margin – non earthquake	12.49%	7.92%
Weighted average expected term to settlement – non earthquake	within 1 year	within 1 year
Weighted average expected term to settlement – earthquake	within 1 year	within 1 year
Discount rate for earthquake claims	3.50%	4.00%

Risk Margin

The initial amount calculated is the central estimate (the mean of the distribution of the probable outcomes). That is, it is intended to contain no deliberate, or conscious over or under estimation. Over and above the central estimate, and to reflect the inherent uncertainty in determining it, a risk margin is added in arriving at the carrying amount of the liability. This increases the probability that the liability will ultimately prove to be sufficient. The potential uncertainties include those relating to the actuarial model and assumptions, the quality of the underlying data used, general statistical uncertainty and the insurance environment.

The risk margin is applied to the net outstanding claims for the Company as a whole. However an assessment of the uncertainty and the determination of a risk margin is done by individual class of business (Motor Vehicle, House, Contents etc.). The entity risk margin is assessed to be less than the sum of the individual classes, reflecting the benefit of diversification in general insurance. The percentage risk margin applied is 12.49% (2014 7.92%) for non earthquake claims and 26.90% (2014: 24.10%) for earthquake claims. The level of sufficiency or probability of adequacy is 75.00% (2014 75.00%).

5. CLAIMS – MEDICAL INSURANCE SOCIETY LIMITED continued...

Claims Development Table

The following table shows the development of net undiscounted outstanding claims relative to the current estimate of ultimate claims costs for the five most recent years.

	INCIDENT YEAR						
	Prior	2011	2012	2013	2014	2015	Total
At end of incident year		254,979,515	41,526,435	28,220,673	30,134,763	27,882,072	
One year later		253,633,004	45,513,140	30,040,356	31,433,037		
Two years later		294,113,693	49,243,028	32,035,064			
Three years later		326,715,140	54,128,332				
Four years later		358,128,332					
Current estimated claim cost		358,128,332	54,128,332	32,035,064	31,433,037	27,882,072	
Payments		(278,770,756)	(48,536,062)	(27,850,049)	(30,300,980)	(22,296,219)	
Undiscounted central estimate	2,520	79,357,576	5,592,270	4,185,015	1,132,057	5,585,853	95,855,291
Discount to present value	–	(2,249,522)	(110,942)	–	–	–	(2,360,464)
Discounted central estimate	2,520	77,108,054	5,481,328	4,185,015	1,132,057	5,585,853	93,494,827
IBNR net of risk margin							1,529,438
Risk margin							24,807,253
Gross outstanding claims liabilities							119,831,518
Recoveries from reinsurers and third parties							(82,277,456)
Net outstanding claims liabilities							37,554,062

6. PROVISION FOR UNEARNED PREMIUM – MEDICAL INSURANCE SOCIETY LIMITED

	2015 $	2014 $
Balance at the beginning of the financial year	31,280,854	29,692,865
Premiums written during the year	64,263,425	62,364,030
Premiums earned during the year	(63,673,219)	(60,776,041)
Balance at the end of the financial year	31,871,060	31,280,854

Liability Adequacy Test

Appointed Actuary Peter Davies, in his report dated 11 June 2015, has reported on the Liability Adequacy Test undertaken by him as at 31 March 2015. He has concluded that the Provision for Unearned Premium as at that date, is not deficient (2014 no deficiency). In forming this opinion he has assessed the current estimates of the present value of the expected future cash flows relating to future claims arising from the rights and obligations under all current contracts. Included within the claims figure is a risk margin to reflect the inherent uncertainty in the central estimate. His conclusion is that the provision exceeds the prospective claims value. The financial statements have not been adjusted to recognise the surplus.

7. PREMIUMS OUTSTANDING

	2015 $	2014 $
Premiums Owing by Policyholders of MIS Policies	15,220,781	15,028,044
Premiums Owing by Policyholders of MLA Policies	10,847,830	10,443,164
	26,068,611	25,471,208

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.

8. REINSURANCE RECOVERIES OUTSTANDING

	2015 $	2014 $
Gross Recoveries – Medical Insurance Society Limited	79,418,273	161,027,706
Gross Recoveries – Medical Life Assurance Society Limited	10,744,194	9,166,663
Discount to Present Value	(1,027,571)	(3,819,226)
Reinsurance Recoveries Outstanding	89,134,896	166,375,143

At any time, balance date included, the settlement of claims will have led to a receivable being created related to the amount recoverable from the Group's reinsurers.

Such amounts due are assessed for impairment and where it is evident, adjusted immediately.

The carrying amounts reasonably approximate fair value.

Medical Insurance Society Limited

The Company's insurance operations are protected from the impact of large losses and catastrophic events, by way of a comprehensive reinsurance programme arranged with some of the world's strongest reinsurance companies and syndicates.

The programme is developed, once external professional advice, involving comprehensive modelling, is obtained to establish potential exposures to earthquake claims and to assess how much any claim or series of claims the Company can retain for its own account. The Company's catastrophe cover is designed to offer protection for the worst possible scenario and exceeds the Reserve Bank of New Zealand's solvency requirements for reinsurance cover for a 1 in 1,000 year event.

At any time, balance date included, the settlement of claims will have led to a receivable being created relative to the amount recoverable from the Company's reinsurers.

Such amounts due are assessed for impairment and where it is evident, adjusted immediately.

The carrying amounts reasonably approximate fair value.

9. CLAIMS RECOVERIES OWING BY THIRD PARTIES

	2015 $	2014 $
Claims Recoveries Owing by Third Parties	3,886,754	2,487,996

Whilst the majority of claims recoveries come from reinsurers, the Company often has a contractual right to recover from other third parties. These third parties may be individuals or entities who were at fault and responsible for the claim made, or may be their insurers.

Such amounts are assessed for impairment on an individual basis and where it is evident, adjusted immediately. Further to that, on a collective basis, based on historical levels of impairment, impairment is recognised as follows–

- amounts owing by other insurers, nil impairment (2014 nil).
- accounts placed with a collection agency, 65.00% impairment (2014 65.00%).
- amounts for which a regular payment arrangement has been agreed with the debtor, nil impairment (2014 nil impairment).

The carrying amounts, adjusted for impairment as above, reasonably approximate fair value.

Amounts that reduce the liability to the insured such as excesses, are not claims recoveries and are offset against claims expense.

10. ACTUARIAL POLICIES AND METHODS – MEDICAL LIFE ASSURANCE SOCIETY LIMITED

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

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

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

Disclosure of Assumptions

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

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

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

Discount Rates

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

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

Inflation Rates

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

10. ACTUARIAL POLICIES AND METHODS – MEDICAL LIFE ASSURANCE SOCIETY LIMITED continued...

Element Impacted	Assumed Rate
Benefit indexation	2.50% (2014 2.50%)
Expenses	2.00% (2014 3.50%)

It is further assumed that benefit indexation will be utilised by up to 90.00% of indexed assurances (2014 90.00%) which is in line with the Company's recent experience.

It has also been assumed that the sums insured of all Yearly Renewable Term, Total Permanent Disablement and Trauma policies will increase by 2.00% per year (2014 2.00%) resulting from clients requesting increases in their level of cover.

Commissions

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

Future Expenses

Maintenance expenses. The standard maintenance expense allowance for risk policies is $266 (2014 $280) gross per policy and $303 (2014 $282) for disability policies. Certain policy groups have non-standard allowances. These expenses are assumed to be increased in line with the indexation assumption above.

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

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

The breakdown of actual expenses is as follows:

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

Taxation

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

Mortality and Morbidity

The basic rates of mortality assumed were:

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

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

The experience for dread disease and total and permanent disability contracts is assumed to equal 85.00% of the reinsurance risk premium rates, net of GST (2014 85.00%).

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

10. ACTUARIAL POLICIES AND METHODS – MEDICAL LIFE ASSURANCE SOCIETY LIMITED continued...

Discontinuances

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

Future participating business

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

Assumed future bonus rates for participating policies were:

Bonus rate on sum assured	$9.00 per mille (2014 $7.73 per mille)
Bonus rate on existing bonuses	$15.00 per mille (2014 $10.31 per mille)

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

11. POLICY LIABILITIES – MEDICAL LIFE ASSURANCE SOCIETY LIMITED

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

12. OUTSTANDING CLAIMS – MEDICAL LIFE ASSURANCE SOCIETY LIMITED

The following table shows the development of net undiscounted outstanding claims relative to the current estimate of ultimate disability claims costs for the five most recent years. Due to the long tail nature of disability claims, the Company has a number of active claims that pre-date 2010.

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

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

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

13. INTEREST EXPENSE

	2015 $	2014 $
Debenture Interest	4,084,835	4,297,196
Savings Plan Interest	610,450	628,666
Note Interest	2,651,138	2,221,680
Interest Paid on Derivatives	–	73,287
Total Interest Expense	7,346,423	7,220,829

14. MORTGAGES AND LOANS

	2015 $	2014 $
Mortgages and Loans	202,683,019	210,597,156
Provision for Credit Impairment	(301,900)	(520,994)
Unearned Income	(43,219,336)	(41,059,639)
Net Mortgages and Loans	159,161,783	169,016,523
Mortgages and Loans – current	49,853,656	53,360,334
Mortgages and Loans – non current	109,610,027	116,177,183
Less Provision for Credit Impairment	(301,900)	(520,994)
Net Mortgages and Loans	159,161,783	169,016,523
IMPAIRED LOAN PROVISION		
Collective Loan Provision	282,478	487,703
Specific Loan Provision	19,422	33,291
Total Loan Provision	301,900	520,994
COLLECTIVE LOAN PROVISION		
Opening Balance	487,703	501,816
Movement in Collective Loan Provision	(205,225)	(14,113)
Closing Balance	282,478	487,703
SPECIFIC LOAN PROVISION		
Opening Balance	33,291	28,189
Less: Specific Loan Provision Subsequently Written Off	(26,438)	(8,218)
Less: Reversal of Specifically Impaired Assets	(1,092)	–
Addition to Specific Impairment Provision	13,661	13,320
Closing Balance	19,422	33,291

$7,695 of interest income was received on specifically impaired loans for the period ending 31 March 2015 (2014 $10,475).

	2015 $	2014 $
CREDIT IMPAIRMENT		
Movement in Collective Provision	(205,225)	(14,113)
Movement in Specific Provision	(13,869)	5,102
Impaired Assets written off	120,469	291,455
Recoveries on Impaired Assets	(30,262)	(35,744)
Credit Impairment per profit and loss	(128,887)	246,700

14. MORTGAGES AND LOANS continued...

Past Due Mortgages and Loans Not Impaired

	Less than 30 days $	Between 30 and 60 days $	Between 61 and 90 days $	Greater than 90 days $	Total $
2015					
Instalments in Arrears	23,649	6,539	5,156	40,667	76,011
Principal in Arrears	–	–	–	1,150	1,150
Associated Loan Principal	365,223	31,676	18,348	141,165	556,412
2014					
Instalments in Arrears	24,390	10,629	255	–	35,274
Principal in Arrears	222	–	–	–	222
Associated Loan Principal	972,931	287,369	21,877	–	1,282,177

85.00% (2014 85.00%) of the associated principal of loans past due are secured against collateral. In the majority of cases these are secured against a specific security (motor vehicle or business equipment). The unsecured loans principally relate to the Creditline product.

The past due assets for the Group represent 0.27% of gross loans outstanding (2014 0.61%).

Loans classed as past due are considered to be temporarily past due and all balances are deemed collectible.

15. DERIVATIVE FINANCIAL INSTRUMENTS

Interest rate swaps are commitments to exchange one set of cash flows for another. Swaps result in an economic exchange of interest rates. No exchange of principal takes place.

The Group's credit risk on derivatives is limited to those derivatives recognised as a fair value asset. The Group minimises the risk by entering into derivative contracts with rated New Zealand banks. This risk is monitored on an on-going basis with reference to the current fair value of the derivatives, the proportion of the notional amounts of the contracts with counterparties, and the liquidity of the market. All derivative contracts are transacted with banks who hold AA- credit rating from Standard & Poor's.

	Contract/ Notional Amount $	Fair Value Assets $	Fair Value Liabilities $
Interest Rate Derivatives 2015	38,950,000	197,863	204,148
Interest Rate Derivatives 2014	36,550,000	452,219	60,468

Derivative financial instruments are designated as financial assets and liabilities in the Statement of Financial Position.

Movement in Fair Value of Derivatives

Given that the Group's liabilities re-price at different intervals than its assets re-price, it enters into swap arrangements to minimise the risk of interest rate movements.

The Group is required fair value swaps on an on-going basis. Depending on how interest rates move, it is exposed to valuation gains or losses. These valuation gains / losses will only crystallise if the derivatives are closed out prior to their contractual maturity date. In the absence of that happening, the gains / losses will reverse out over the tenure of the swap arrangements.

16. DEBENTURE STOCK AND SAVINGS PLAN – MEDICAL SECURITIES LIMITED

	2015 $	2014 $
Savings Plan (Unsecured) – current	18,616,611	19,800,674
First Ranking Debenture Stock – current	57,747,891	55,130,333
First Ranking Debenture Stock – non current	27,353,112	34,877,827
	103,717,614	109,808,834

Debenture Stock is secured in terms of an Amending and Supplemental Trust Deed dated 17 June 1988 between the Company and Trustees Executors Limited as Trustees for the Debenture stockholders. The Debenture Stock is secured by all the assets of the Company. Debenture stock holders have security over the assets of the Company, except for the securitised assets (Notes) disclosed in Note 17, and subject to prior permitted charges (currently none), and claims given priority by legislation.

The weighted average interest rate of Debenture Stock and Savings Plan at 31 March 2015 was 4.50% (2014 4.40%). Savings Plan is an on-call investment and outstanding balances are repayable on demand. Debenture stock is a term investment and is repayable on the expiry date.

17. NOTES – MEDICAL SECURITIES LIMITED

	2015 $	2014 $
Floating Rate Notes – current	25,000,000	–
Floating Rate Notes – non current	30,000,000	55,000,000
	55,000,000	55,000,000

Floating Rate Note holders rank equally with other first ranking security issued under the Trust Deed.

The weighted average interest rate of the Notes as at 31 March 2015 was 4.91% (2014 4.38%).

18. COMPENSATION PAID TO KEY MANAGEMENT PERSONNEL

	2015 $	2014 $
Salaries and other short-term employee benefits	2,060,027	2,138,304
MAS directors fees	581,825	558,825
MSL independent directors fees	73,983	76,170
	2,715,835	2,773,299

No shares nor pension entitlements are provided to directors or staff.

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

19. ADMINISTRATION EXPENSES

Included in Administration Expenses are the following:

	2015 $	2014 $
Rental of Premises	600,746	559,076
Interest on Bank Overdraft	1,801	1,686
Fees to auditors – for the audit of financial statements	196,142	211,635
Fees to auditors – for other assurance and related services	49,874	40,991
Fees to auditors – for other services	11,947	–
Directors' Fees	655,808	634,995
Loss on Disposal of Property, Plant, Equipment and Intangibles	130,070	2,644
Depreciation and Amortisation	3,026,233	2,778,548

Other assurance and related audit fees relate principally to the audit of prospectuses and review of regulatory and trustee reporting. Audit fees for other services is principally for remuneration advice.

20. OPERATING LEASE COMMITMENTS

Commercial leases on certain premises and on motor vehicles are entered into where it is not in the best interest of MAS to purchase these assets.

The property leases have an average life of 1.99 years (2014 2.49 years) with renewal terms included in the contracts. Motor vehicle leases have an average life of 1.70 years (2014 1.63 years).

Future minimum rentals payable under non-cancellable operating leases are as follows:

	2015 $	2014 $
Less than one year	830,108	655,583
Between one and two years	640,529	552,031
Between two and five years	360,110	713,426
Greater than five years	–	19,797
Total Operating Lease Commitments	1,830,747	1,940,837

21. INVESTMENT AND SUNDRY INCOME

	2015 $	2014 $
Gain from Investment Funds	11,237,068	6,085,407
Rent Received	30,515	31,383
Interest on Term Deposits	168,496	114,479
Sundry Income	1,702,088	1,328,086
Total Investment and Sundry Income	13,138,167	7,559,355
Realised Income	(7,753,343)	3,943,602
Unrealised Income	20,891,510	3,615,753
Total Investment and Sundry Income	13,138,167	7,559,355

22. TAXATION

	2015 $	2014 $
Net Surplus before Taxation	17,255,755	2,113,454
Taxation at 28%	4,831,611	591,767
Prior Period Adjustment	164,265	19,487
Taxation Effect of Permanent Differences	(4,057,360)	(2,588,532)
Imputation Credits	(68,117)	(12,590)
Other	4,269	(19,365)
Taxation Expense / (Credit) for the Year	874,668	(2,009,233)
Taxation Expense / (Credit) for the Year comprises:		
Current Taxation	74,001	(260,092)
Deferred Tax	800,667	(1,749,141)
Taxation Expense / (Credit) per Statement of Comprehensive Income	874,668	(2,009,233)

Deferred Tax

31 March 2015	Opening Balance $	Prior Period Adjustment $	Revaluation Reserve $	Statement of Comprehensive Income $	Total $
DEFERRED TAX LIABILITIES					
Property, Plant and Equipment	(2,452,102)	–	73,807	(25,897)	(2,404,192)
Insurance Reserves and Provisions	(1,440,400)	–	–	(521,431)	(1,961,831)
Other	(15,046)	–	–	6,259	(8,787)
	(3,907,548)	–	73,807	(541,069)	(4,374,810)
DEFERRED TAX ASSETS					
Provisions and Accruals	654,540	75,486		(30,434)	699,592
Losses to carry forward	2,035,786	(199,149)	–	(105,495)	1,731,142
Other	9	–	–	(6)	3
	2,690,335	(123,663)	–	(135,935)	2,430,737
Net Deferred Tax Liability	(1,217,213)	(123,663)	73,807	(677,004)	(1,944,073)

31 March 2014	Opening Balance $	Prior Period Adjustment $	Revaluation Reserve $	Statement of Comprehensive Income $	Total $
DEFERRED TAX LIABILITIES					
Property, Plant and Equipment	(2,563,496)	–	–	111,394	(2,452,102)
Insurance Reserves and Provisions	(1,180,179)	(19,110)	–	(241,111)	(1,440,400)
Other	(45,632)	–	–	30,586	(15,046)
	(3,789,307)	(19,110)	–	(99,131)	(3,907,548)
DEFERRED TAX ASSETS					
Provisions and Accruals	822,930	(142,415)		(25,975)	654,540
Losses to carry forward	–	–	–	2,035,786	2,035,786
Other	23	–	–	(14)	9
	822,953	(142,415)	–	2,009,797	2,690,335
Net Deferred Tax Liability	(2,966,354)	(161,525)	–	1,910,666	(1,217,213)

22. TAXATION continued...

Imputation Credit Account ('ICA')	2015 $	2014 $
Closing Balance	36,004,159	35,635,953

The 2014 balance has been revised downwards by $3,511,480 to reflect ICA debits that were recorded in the subsidiary company accounts but not included in the Group's 2014 financial statements.

23. CONTRIBUTED EQUITY

	2015 $	2014 $
1 Non-Voting Share	100,000	100,000
10,000 Voting Shares	10,000	10,000
	110,000	110,000

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

Capital Management

When managing capital, management's objective is to ensure the Group continues as a going concern as well as to maintain optimal returns to shareholders (Members) and benefits for other stakeholders.

Directors have no plans to issue further shares.

Capital Requirements

The Group as a group is not subject to any externally imposed capital requirements. However, a number of the subsidiary companies are. These requirements include:

Medical Life Assurance Society Limited ('MLA') and Medical Insurance Society Limited ('MIS')

Both MIS and MLA are licensed insurers under the Insurance (Prudential Supervision) Act 2010 (IPSA). Conditions are imposed as part of licencing including maintaining a solvency margin of at least $0. That is, actual solvency capital as determined under the solvency standard should be at or above the minimum solvency capital level.

The Medical Life Assurance Statutory Fund encompasses all the assets and liabilities of Medical Life Assurance Society Limited.

MIS and MLA have capital management plan and reporting processes in place to assist the entities in maintaining continuous and full compliance with the solvency standard.

At 31 March 2015, MIS was not in breach of any of its regulatory requirements, nor has it been at any stage during the current reporting period (2014: In preparing the MIS half-year (30 September 2013) accounts, discussions were held with the consulting engineers around the apportionment of claim costs between the various earthquake events. These discussions led to a reassessment of which event the claims costs are attributable to and ultimately led to an increase in the claims associated with the 22 February 2011 earthquake. The revised apportionment assessment was recognised in the 30 September 2013 financial statements and impacted profitability and solvency. The regulator (Reserve Bank of New Zealand) was made aware of the situation and steps were immediately taken to ensure the Company continues to maintain a solvency margin that is in excess of that required by regulation).

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

	2015 $	2014 $
Actual Solvency Capital	36,500,520	39,450,686
Minimum Solvency Capital	18,436,267	20,816,912
Solvency Margin	18,064,253	18,633,774
Solvency Ratio	1.98	1.90

23. CONTRIBUTED EQUITY continued...

The solvency position of the Medical Life Assurance Statutory Fund is exactly the same as for the entity. At 31 March 2015 MLA was not in breach of any of its regulatory requirements or its covenants, nor has it been at any stage during the current reporting period (no breaches during the year ended 31 March 2014). The minimum solvency capital MLA is required to maintain to meet the solvency standards is as follows:

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

Medical Securities Limited ('MSL')

MSL is subject to non-bank deposit taker ('NBDT') regulation and Trust Deed requirements that require it to maintain a sufficient level of capital. MSL ensures that before any decisions are made that materially impact either profit or capital, the impacts on these regulations are considered. At 31 March 2015 the Company's capital ratio was 13.90% (31 March 2014 12.90%). It is required to maintain a capital ratio of at least 8.0% at all times. At 31 March 2015 the Company was not in breach of any of its regulatory requirements or its covenants, nor has it been at any stage during the current reporting period (no breaches during the year ended 31 March 2014).

24. PAYABLES

	2015 $	2014 $
Government Levies	764,810	732,160
GST Payable	2,190,732	2,024,338
Employee Benefits – current	1,154,429	1,145,666
Incentive Bonus	402,382	100,000
Other Payables	5,366,669	5,420,471
Employee Benefits – non current	1,270,306	1,057,201
	11,149,328	10,479,836

Employee Benefits – current includes annual leave and long service leave that the employee is entitled to.

Employee Benefits – non current represents a provision for the expected future long service leave that will be payable. Refer to Note 2(o) for further details.

25. CASH AND CASH EQUIVALENTS

	2015 $	2014 $
Cash at Bank	10,958,333	8,254,084
Short Term Deposits	31,750,000	28,500,000
	42,708,333	36,754,084

Cash at Bank earns interest at floating rates based on daily deposit rates. The carrying amounts of Cash and Cash Equivalents represent fair value.

Short Term Deposits are made for varying terms between one day and three months, depending on the immediate cash requirements of the entity, and other treasury considerations.

The parent company's bank overdraft facility of $1,000,000 is secured by a first mortgage over its commercial property at Broderick Road, Johnsonville.

26. RECEIVABLES AND PREPAYMENTS

	2015 $	2014 $
Reinsurance Premiums Paid in Advance	82,781	487,143
Interest Due	717,749	584,675
Management Fee due from Funds Management	2,243,499	1,711,122
Other	106,793	159,828
	3,150,822	2,942,768

The carrying amounts of receivables reasonably approximate fair value. Any past due but not impaired receivables are insignificant.

27. INVESTMENTS

	2015 $	2014 $
Short Term Domestic Securities and Deposits	96,558,719	76,475,420
Domestic Fixed Interest	13,536,359	17,777,163
International Fixed Interest (Unit Trust)	10,430,897	9,147,999
Australasian Equities (Managed Fund)	11,567,715	8,532,106
International Equities (Exchange Traded Funds)	30,403,581	23,437,156
Total Investments	162,497,271	135,369,844
Life Assurance Investment Funds	61,366,301	59,292,758
Insurance Investment Funds	89,240,612	76,077,086
Other Investment Funds	11,890,358	–
Total Investments	162,497,271	135,369,844

The Group's investment securities are all financial assets classified as fair value through profit or loss. Any changes in fair value are immediately recognised.

During the year, we have been advised by JBWere (NZ) Limited and Bancorp Treasury Services Limited on the management of investments. The majority of the total sum invested, is invested into securities held in the name of the investing entity, via a custodian. The remaining funds are invested into unitised or pooled vehicles.

28. PROPERTY, PLANT AND EQUIPMENT

	Land $	Buildings $	Furniture, Fittings and Equipment $	Total $
COST / VALUATION				
Balance as at 1 April 2014	1,600,000	2,649,434	9,331,012	13,580,446
Additions	–	94,793	657,473	752,266
Work in Progress	–	–	34,884	34,884
Transfers out of Work in Progress	–	(159,434)	(213,008)	(372,442)
Disposals	–	–	(115,420)	(115,420)
Revaluations	880,000	(749,793)	–	130,207
Balance as at 31 March 2015	2,480,000	1,835,000	9,694,941	14,009,941
ACCUMULATED DEPRECIATION AND IMPAIRMENT LOSSES				
Balance as at 1 April 2014	–	124,500	7,344,012	7,468,512
Depreciation charge	–	59,230	832,647	891,877
Disposals	–	–	(106,915)	(106,915)
Revaluations	–	(183,730)	–	(183,730)
Balance as at 31 March 2015	–	–	8,069,744	8,069,744
Net Book Value 31 March 2015	2,480,000	1,835,000	1,625,197	5,940,197

	Land $	Buildings $	Furniture, Fittings and Equipment $	Total $
COST / VALUATION				
Balance as at 1 April 2013	1,600,000	2,490,000	8,971,811	13,061,811
Additions	–	–	474,216	474,216
Work in Progress	–	159,434	213,008	372,442
Disposals	–	–	(328,023)	(328,023)
Balance as at 31 March 2014	1,600,000	2,649,434	9,331,012	13,580,446
ACCUMULATED DEPRECIATION AND IMPAIRMENT LOSSES				
Balance as at 1 April 2013	–	62,250	6,822,388	6,884,638
Depreciation charge	–	62,250	847,003	909,253
Disposals	–	–	(325,379)	(325,379)
Balance as at 31 March 2014	–	124,500	7,344,012	7,468,512
Net Book Value 31 March 2014	1,600,000	2,524,934	1,987,000	6,111,934

Revaluation of Land and Buildings

The most recent market valuation of Land and Buildings was completed by Martin J Veale, ANZIV, SPINZ, a registered valuer from TelferYoung (Wellington) Limited on 31 March 2015. The resultant fair value figure of $4,315,000 was recognised by writing down the carrying value of the Buildings at 31 March 2015 by $689,934 and the value of the Land was increased by $880,000. The effective date of the revaluation was 31 March 2015. Fair value is the amount for which the assets could be exchanged between a knowledgeable willing buyer and a knowledgeable willing seller in an arm's length transaction as at the valuation date. The fair value is assessed as a level 3 disclosure under the fair value hierarchy.

28. PROPERTY, PLANT AND EQUIPMENT continued...

If Land and Buildings were measured using the cost model the carrying amounts would be as follows:

	2015 $	2014 $
Land	820,698	820,698
Buildings	4,611,331	4,611,331
Accumulated Depreciation on Buildings	(3,282,239)	(3,166,956)
	1,329,092	1,444,375

29. INTANGIBLES

	Software $	Work in Progress $	Total $
COST			
Balance as at 1 April 2014	25,978,491	7,188,890	33,167,381
Additions	222,002	3,295,768	3,517,770
Transfers	9,112,390	(9,112,390)	–
Disposals	(3,739,059)	–	(3,739,059)
Balance as at 31 March 2015	31,573,824	1,372,268	32,946,092
ACCUMULATED AMORTISATION AND IMPAIRMENT LOSSES			
Balance as at 1 April 2014	16,692,288	–	16,692,288
Amortisation charge	2,134,357	–	2,134,357
Disposals	(3,617,356)	–	(3,617,356)
Balance as at 31 March 2015	15,209,289	–	15,209,289
Net Book Value 31 March 2015	16,364,535	1,372,268	17,736,803

	Software $	Work in Progress $	Total $
COST			
Balance as at 1 April 2013	24,545,775	3,654,382	28,200,157
Additions	227,025	4,740,199	4,967,224
Transfers	1,205,691	(1,205,691)	–
Balance as at 31 March 2014	25,978,491	7,188,890	33,167,381
ACCUMULATED AMORTISATION AND IMPAIRMENT LOSSES			
Balance as at 1 April 2013	14,822,993	–	14,822,993
Amortisation charge	1,869,295	–	1,869,295
Balance as at 31 March 2014	16,692,288	–	16,692,288
Net Book Value 31 March 2014	9,286,203	7,188,890	16,475,093

Work in Progress

Work in Progress represents the development costs of software which has not been completed at the end of the financial period.

30. DEFERRED ACQUISITION COSTS – MEDICAL INSURANCE SOCIETY LIMITED

	2015 $	2014 $
Opening balance	385,626	2,747,600
Acquisition costs related to Disability business (transferred to MLA)	–	(2,434,186)
Acquisition costs deferred during the year	485,509	385,626
Current period amortisation	(385,626)	(313,414)
Closing balance	485,509	385,626

31. COMMITMENTS

	2015 $	2014 $
Commitments to extend credit (Members' undrawn revolving credit facilities)	28,017,444	26,452,400
Capital commitments relating to development of software systems	2,794,802	855,000
	30,812,246	27,307,400

32. CONTINGENT LIABILITIES

The Group is subject to several legal disputes at 31 March 2015. The disputes are of a type common to any entity engaged in similar activities. Where such disputes lead to formal proceedings they will be defended by the Group.

Medical Securities Limited has issued $3.9m of security stock to support derivative transactions undertaken with its banking partners (31 March 2014 $1m of security stock issued to support warranties provided in relation to the sale of mortgages to the ANZ Bank New Zealand Ltd). The Company has also provided rent guarantees with a maximum exposure of $599,397.

33. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

Fair Value Methodologies

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

The fair values are based on relevant information available as at balance date. While judgement is used in obtaining the fair value of financial instruments, there are inherent weaknesses in any estimation technique. Many of the estimates involve uncertainties and matters of significant judgement, and changes in underlying assumptions could significantly affect these estimates. Furthermore, market prices or rates of discount are not available for many of the financial instruments valued and surrogates have been used which may not reflect the price that would apply in an actual sale.

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

Certain Short Term Financial Assets

For Cash and Short Term Deposits, balances with other financial institutions with maturities of less than three months and other types of short term financial assets, 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.

Derivative Financial Instruments

For Derivative Financial Instruments carrying value is fair value, being the settlement value as at balance date.

Mortgages and Loans

The carrying values of Mortgages and Loans is net of provision for credit impairment and income yet to be earned. The estimated fair value of Mortgages and Loans is based on the discounted amount of estimated future cash flows and accordingly has been adjusted for individual and collective impairment.

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

Estimated contractual cash flows for performing loans are discounted at estimated current bank credit spreads to determine fair value. For loans with doubt as to collection, expected cash flows (inclusive of the value of security) are discounted using a rate which includes a premium for the uncertainty of the flows.

The difference between estimated fair values of loans and advances and their carrying value reflects changes in interest rates and the credit worthiness of borrowers since loan origination.

Other Financial Assets

For all other financial assets, the carrying value is considered to be a reasonable estimate of fair value. Neither Deferred Tax, Taxation Paid in Advance, Claims Recoveries Outstanding, nor Reinsurance Recoveries Outstanding are considered to be financial assets.

Borrowings, Debenture Stock, Notes and Savings Plan Liabilities

For liabilities with maturities of three months or less, the carrying amounts are considered to approximate fair values as they are short term in nature.

For liabilities with maturities of three months or longer, fair values have been estimated using the discounted cash flow approach by reference to rates currently offered for similar liabilities of similar remaining maturities.

Payables and Other Financial Liabilities

This category includes Payables for which the carrying amount is considered to approximate their fair value, as they are short term in nature or payable on demand. Income tax liabilities, provisions and accrued charges, and insurance provisions are not considered financial liabilities.

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

	2015 Carrying Amount $	2015 Fair Value $	2014 Carrying Amount $	2015 Fair Value $
FINANCIAL ASSETS				
Derivative Financial Instruments	197,863	197,863	452,219	452,219
Investments	162,497,271	162,497,271	135,369,844	135,369,844
Net Mortgages and Loans	159,161,783	158,694,749	169,016,523	167,088,549
Total Financial Assets	321,856,917	321,389,883	304,838,586	302,910,612
FINANCIAL LIABILITIES				
Debenture Stock and Savings Plan	103,717,614	104,343,479	109,808,834	110,409,758
Derivative Financial Instruments	204,148	204,148	60,468	60,468
Total Financial Liabilities	103,921,762	104,547,627	109,869,302	110,470,226

Fair Value Hierarchy

The following table shows an analysis of fair value hierarchy for those financial assets and liabilities where fair value has been disclosed. The only assets and liabilities that the Group recognises on a fair value basis are its investments (refer to Classification of Financial Instruments in Note 34 for details of the classification categories):

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

	Level 1 $	Level 2 $	Level 3 $	TOTAL $
31 MARCH 2015				
Assets measured at fair value				
Derivative Financial Instruments	–	197,863	–	197,863
Short Term Domestic Securities and Deposits	–	96,558,719	–	96,558,719
Domestic Fixed Interest	–	12,934,659	601,700	13,536,359
International Fixed Interest (Unit Trust)	–	10,430,897	–	10,430,897
Australasian Equities (Managed Fund)	11,567,715	–	–	11,567,715
International Equities (Exchange Traded Funds)	30,403,581	–	–	30,403,581
Liabilities measured at fair value				
Derivative Financial Instruments	–	204,148	–	204,148
31 MARCH 2014				
Assets measured at fair value				
Derivative Financial Instruments	–	452,219	–	452,219
Short Term Domestic Securities and Deposits	–	76,475,420	–	76,475,420
Domestic Fixed Interest	–	17,777,163	–	17,777,163
International Fixed Interest (Unit Trust)	–	9,147,999	–	9,147,999
Australasian Equities (Managed Fund)	8,532,106	–	–	8,532,106
International Equities (Exchange Traded Funds)	23,437,156	–	–	23,437,156
Liabilities measured at fair value				
Derivative Financial Instruments	–	60,468	–	60,468

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1 – 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.

Level 2 – measured using industry standard valuation techniques and are based on market observable inputs.

Level 3 – determined in part, or in whole, using valuation techniques based on assumptions that are neither supported by prices from observable current market transactions in the same instrument, nor are they based on available market data.

There have been no transfers between Level 1 and Level 2 (2014: nil). A transfer into Level 3 (from Level 2) occurred during the financial year as the investment ceased to be actively traded resulting in the Group's investment advisers determining a value based on coupon payments and probability of settlement at maturity. Details of the movement in value of this specific investment are as follows:

	$
Value at 31 March 2014 (level 2)	851,528
Reduction in fair value of investment	(249,828)
Value at 31 March 2015 (level 3)	601,700

34. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The Group's risk management is carried out in accordance with policies set by the Board. These policies provide a clear structure for managing financial and operational risks.

Whilst their review of risk is on-going, directors formally review the major risks faced by the entire Group every six months.

The Group directly enters into financial derivatives to minimise the exposure to interest rate movements. The Group's fund managers enter into currency derivatives, principally to protect the value of investments against adverse currency movements. They are prevented by policy guidelines established by the Group's Investment Committee from entering into such contracts for speculative purposes.

The Group's activities expose it primarily to the financial risks of; insurance, credit, funding, investment, currency, market, interest rate, and liquidity.

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 Group 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 on-going training of suitably qualified personnel
- the use of 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 Group's exposure to large single claims and accumulations of claims that arise from a singular event
- the monitoring of a reinsurer's credit risk rating to control exposure to reinsurance counterparty default
- the reduction in the variability in loss experience through diversification over classes of insurance business
- the modelling and monitoring of concentrations of risk which are particularly relevant in the case of natural disasters and catastrophes and accordingly must be recognised in the development of the reinsurance programme.

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 trading instrument as a result of changes in credit risk on that instrument. The entity obtains sufficient collateral, or other security where appropriate, as a means of mitigating the risk of financial loss from defaults.

The Group manages credit risk in lending operations by:
- assessing each loan application against a Board-approved lending policy
- where applicable, securing the loan against property / chattels, taking into consideration the type and location of the security, the loan to value ratio and loan servicing ability of the borrower
- employing staff that are experienced and suitably qualified in this type of business and ensuring any problem loans are promptly addressed.

The Group manages credit risk in 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
- the placement of reinsurance cover with a number of reinsurers
- the monitoring of a reinsurer's credit risk rating to control exposure to reinsurance counterparty default.

Mortgages and Loans are secured primarily by first mortgages or by chattel securities. Included within the Statement of Financial Position are unsecured loans of $22,569,479 (2014 $25,954,780).

34. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT continued...

Statement of Financial Position credit exposures:

	2015 $	2014 $
Cash at Bank / Short Term Deposits	42,708,333	36,754,084
Derivative Financial Instruments	197,863	452,219
Investments	162,497,271	135,369,844
Mortgages and Loans	159,463,683	169,016,523
Receivables	3,150,822	2,942,768
	368,017,972	344,535,438
Other Credit Exposures:		
Security stock issued to banking partners	3,900,000	1,000,000
Guarantees provided	599,397	–
Commitments given to Members to extend credit	28,017,444	26,452,400
	32,516,841	27,452,400

Concentrations of credit risk by geographical area of Mortgages and Loans (as defined by MAS branch boundaries):

	2015 %	2014 %
Auckland	28.74	30.48
Hamilton	22.64	22.00
Palmerston North	11.15	13.51
Wellington	11.46	10.89
Christchurch	21.75	19.11
Dunedin	4.26	4.01
Total	100.00	100.00

	2015	2014
Amount owed by the Group's six largest lending debtors	$27,519,274	$28,327,162
Six largest lending exposures as a proportion of Mortgages and Loans	17.29%	16.76%
Six largest lending exposures as a proportion of Total Equity	16.89%	19.43%

Counterparty exposures

While the Group may be subject to credit losses up to the notional principal amount in the event of non-performance by its counterparties, it does not expect such losses to occur other than as already provided for.

The following table discloses the number of counterparties the Group has an exposure to in excess of 10% of equity. All of the Group’s counterparty exposures in excess of 10% of equity are with registered banks or reinsurers, all of whom hold a Standard & Poor’s credit rating (or equivalent) of at least A-.

	2015	2014
10% - 20% of equity	2	6
21% - 30% of equity	2	1

The investment portfolio, which potentially exposes the Group to credit risk, consists of short term deposits, and indirectly through investments in unitised products which invest in short term domestic securities and deposits, domestic and international fixed interest securities and international equities. The maximum exposure to credit risk is the carrying value of these financial instruments.

Investment mandates have been structured accordingly and are formalised by way of Statements of Investment Policy and Objectives (‘SIPOs’). The Group’s Investment Committee meets regularly to develop and review investment strategy and monitor manager performance.

34. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT continued...

Statement of Financial Position investment exposures:

	2015 $	2014 $
Cash and Cash Equivalents	42,708,333	36,754,084
Short Term Domestic Securities and Deposits	96,558,719	76,475,420
Domestic Fixed Interest	13,536,359	17,777,163
International Fixed Interest (Unit Trust)	10,430,897	9,147,999
Australasian Equities (Managed Fund)	11,567,715	8,532,106
International Equities (Exchange Traded Funds)	30,403,581	23,437,156
	205,205,604	172,123,928

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

	AAA	AA	A	BBB	Below BBB	Not Rated	Carrying Value $
31 MARCH 2015							
Cash and Short Term Deposits	–	96.4%	3.6%	–	–	–	139,267,052
Fixed Interest	3.4%	6.4%	17.0%	28.6%	1.6%	43.0%	23,967,256
Reinsurance Recoveries	–	39.2%	59.1%	–	–	1.7%	89,134,896
31 March 2014							
Cash and Short Term Deposits	–	100.0%	–	–	–	–	113,229,504
Fixed Interest	3.0%	6.2%	11.8%	41.5%	0.7%	36.8%	26,925,162
Reinsurance Recoveries	–	46.3%	48.6%	3.9%	–	1.2%	166,375,143

Funding Risk

Geographic spread of Debenture Stock and Savings Plan funding:

	2015 %	2014 %
Auckland	22.64	23.50
Hamilton	20.27	18.18
Palmerston North	14.53	14.83
Wellington	19.90	21.47
Christchurch	15.34	15.78
Dunedin	7.32	6.24
Total	100.00	100.00

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 Group.

Currency movements will have a direct impact on the cost of settling claims and the value of international investments (overseas fixed interest securities and shares). The former is relatively insignificant in terms of financial impact and no effort is made to mitigate this risk. This is because any adverse impact on the cost of claims (a lower NZD) will be more than offset by the appreciation in the value of foreign currency denominated investments (unless fully hedged).

To mitigate currency risk relative to the investment portfolio, the Group's Investment Committee has developed currency hedging ranges which the respective fund managers must adhere to.

34. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT continued...

Statement of Financial Position currency exposures (after hedging):

	2015 $	2014 $
AUD	6,223,431	4,837,704
EUR	3,028,801	1,165,489
GBP	1,534,473	3,993,775
USD	11,672,381	5,011,294
	22,459,086	15,008,262

Market Risk

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

There is a tendency for insurers operating within a specific market to be restricted to a certain extent by that market, in terms of premium increases they may wish to apply. The Group, due to the makeup of its customer base, whilst not immune, is less inclined to be restricted by such considerations. Any impact is likely to be insignificant such that premium rates are excluded from the sensitivity analysis.

Liquidity Risk

Liquidity risk is the risk that the entity will encounter difficulty in meeting commitments associated with financial instruments.

The Group manages its liquidity risk on an on-going basis by:

- using multiple sources of funding with different maturity profiles
- forecasting expected future liquidity and ensuring a sufficient liquidity 'buffer' is maintained at all times
- receiving external risk management advice on managing the maturity profile.

Further, the Group does not expect that all Members on-call funds (Savings Plan balances) will be withdrawn.

The following table analyses the Group's financial assets and liabilities at balance date into the relevant maturity groupings based on the remaining period to the contractual maturity date. The amounts disclosed below are undiscounted contractual cash flows and therefore will not agree to the carrying values on the Statement of Financial Position. The Group manages cash flows on a contractual basis.

	On Demand $	0-6 months $	6-12 months $	1-2 years $	2-5 years $	5+ years $	Total $
31 MARCH 2015							
Financial Assets							
Cash at Bank	10,958,333	–	–	–	–	–	10,958,333
Short Term Deposits	–	31,750,000	–	–	–	–	31,750,000
Investments	–	149,711,537	629,188	8,060,526	4,096,020	–	162,497,271
Derivative Financial Instruments	–	48,921	45,275	86,450	17,217	–	197,863
Mortgages and Loans	21,437,962	20,278,174	17,253,043	29,825,859	56,447,529	54,883,383	200,125,950
Receivables	3,150,822	–	–	–	–	–	3,150,822
	35,547,117	201,788,632	17,927,506	37,972,835	60,560,766	54,883,383	408,680,239
Undrawn Revolving Credit Facilities	28,017,444	–	–	–	–	–	28,017,444
Financial Liabilities							
Derivative Financial Instruments	–	31,863	31,852	56,388	84,045	–	204,148
Debenture Stock/Savings Plan	29,615,723	23,119,281	26,930,597	13,494,161	19,472,865	–	112,632,627
Notes	–	1,344,028	25,939,739	30,912,615	–	–	58,196,382
Other Liabilities	8,958,596	–	–	–	–	–	8,958,596
	38,574,319	24,495,172	52,902,188	44,463,164	19,556,910	–	179,991,753

34. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT continued...

	On Demand $	0-6 months $	6-12 months $	1-2 years $	2-5 years $	5+ years $	Total $
31 MARCH 2014							
Financial Assets							
Cash at Bank	8,254,084	–	–	–	–	–	8,254,084
Short Term Deposits	–	28,500,000	–	–	–	–	28,500,000
Investments	–	110,831,243	2,262,193	9,253,043	13,023,365	–	135,369,844
Derivative Financial Instruments	–	3,853	–	2,131	446,235	–	452,219
Mortgages and Loans	27,886,999	20,013,468	18,060,771	31,335,731	61,012,366	51,766,827	210,076,162
Receivables	2,942,768	–	–	–	–	–	2,942,768
	39,083,851	159,348,564	20,322,964	40,590,905	74,481,966	51,766,827	385,595,077
Undrawn Revolving Credit Facilities	26,452,400	–	–	–	–	–	26,452,400
Financial Liabilities							
Derivative Financial Instruments	–	3,261	14,195	42,049	963	–	60,468
Debenture Stock/Savings Plan	30,995,356	22,595,140	23,187,741	27,269,638	15,322,891	–	119,370,766
Notes	–	1,255,753	1,397,584	27,639,966	31,159,762	–	61,453,065
Other Liabilities	8,468,142	–	–	–	–	–	8,468,142
	39,463,498	23,854,154	24,599,520	54,951,653	46,483,616	–	189,352,441

Operating Risk

Operating risk is the risk of financial loss resulting from either external events, inadequate or failed systems or processes, or insufficiently skilled and trained staff.

There are a number of key policies in place which mitigate operating risk, including;

- the management and staff are responsible for identifying, assessing and managing operational risks in accordance with their roles and responsibilities
- the Group Internal Audit Manager is charged with assisting staff identify risks and ensure the sufficiency of and on-going presence of suitable mitigants.

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 Group uses natural offsets (matching assets with liabilities) and interest rate swaps and options, to minimise the mismatches within policy limits set by the Board.

34. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT continued...

The interest rate risk profile below has been prepared on the basis of interest rate terms or contractual re-pricing, whichever is the earlier.

	0-6 months $	6-12 months $	1-2 years $	2-5 years $	Not Interest Bearing $	Total $
31 MARCH 2015						
Financial Assets						
Cash at Bank	10,958,333	–	–	–	–	10,958,333
Short Term Deposits	31,750,000	–	–	–	–	31,750,000
Derivative Financial Instruments	197,863	–	–	–	–	197,863
Investments	162,497,271	–	–	–	–	162,497,271
Mortgages and Loans	135,965,693	1,665,796	6,307,165	15,525,029	–	159,463,683
Receivables	–	–	–	–	3,150,822	3,150,822
	341,369,160	1,665,796	6,307,165	15,525,029	3,150,822	368,017,972
Financial Liabilities						
Derivative Financial Instruments	204,148	–	–	–	–	204,148
Notes	55,000,000	–	–	–	–	55,000,000
Debenture Stock/Savings Plan	51,996,377	24,343,120	11,694,485	15,683,632	–	103,717,614
Other Liabilities	–	–	–	–	8,958,596	8,958,596
	107,200,525	24,343,120	11,694,485	15,683,632	8,958,596	167,880,358

	0-6 months $	6-12 months $	1-2 years $	2-5 years $	Not Interest Bearing $	Total $
31 MARCH 2014						
Financial Assets						
Cash at Bank	8,254,084	–	–	–	–	8,254,084
Short Term Deposits	28,500,000	–	–	–	–	28,500,000
Derivative Financial Instruments	452,219	–	–	–	–	452,219
Investments	135,369,844	–	–	–	–	135,369,844
Mortgages and Loans	148,097,957	1,327,753	3,830,087	15,760,726	–	169,016,523
Receivables	–	–	–	–	2,942,768	2,942,768
	320,674,104	1,327,753	3,830,087	15,760,726	2,942,768	344,535,438
Financial Liabilities						
Derivative Financial Instruments	60,468	–	–	–	–	60,468
Notes	55,000,000	–	–	–	–	55,000,000
Debenture Stock/Savings Plan	55,051,477	19,879,528	22,697,653	12,180,174	–	109,808,832
Other Liabilities	–	–	–	–	8,468,142	8,468,142
	110,111,945	19,879,528	22,697,653	12,180,174	8,468,142	173,337,442

34. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT continued...

Sensitivity Analysis

The table below 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.

		IMPACT ON PROFIT AND EQUITY	
RISK VARIABLE	MOVEMENT	2015 $	2014 $
INSURANCE RISK			
Discount rate	Increase by 1%	596,000	1,837,000
	Decrease by 1%	(634,000)	(1,935,000)
Termination rates	Increase by 10%	522,000	475,000
	Decrease by 10%	(592,000)	(538,000)

Insurance risk exists relative to impacts on the provisioning for outstanding disability claims and the determination of the policy liabilities at period end. Both movements in discounts rates and variations in termination rates can have a material impact on profit and equity.

MARKET RISK			
Short term deposit rates	Increase by 1%	307,000	265,000
	Decrease by 1%	(307,000)	(265,000)
Bond interest rates	Increase by 0.50%	(114,000)	(248,000)
	Decrease by 0.50%	114,000	248,000

The Group is exposed to interest rate movements through investments in short term deposits, fixed interest and cash, as well as through its lending operations where significant portions of both lending and borrowings are linked to the 90 day bank bill rate. The sensitivity analysis for changes in the fair value of debt securities has been based on a 50bp movement in interest rates at balance date across the average maturity of the portfolio, with all other variables held constant.

Unit prices	Unit price increases by 10%	751,000	659,000
	Unit price decreases by 10%	(751,000)	(659,000)
Currency risk	NZD appreciates by 10% against the USD	(840,000)	(361,000)
	NZD depreciates by 10% against the USD	840,000	361,000
	NZD appreciates by 10% against the AUD	(448,000)	(348,000)
	NZD depreciates by 10% against the AUD	448,000	348,000
	NZD appreciates by 10% against the EUR	(218,000)	(84,000)
	NZD depreciates by 10% against the EUR	218,000	84,000
	NZD appreciates by 10% against the GBP	(110,000)	(288,000)
	NZD depreciates by 10% against the GBP	110,000	288,000

34. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT continued...

Classification of Financial Instruments

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

	Loans and Receivables $	Fair Value through Profit or Loss $	Other Financial Liabilities $	TOTAL $
31 MARCH 2015				
Financial Assets				
Cash at Bank	10,958,333	–	–	10,958,333
Short Term Deposits	31,750,000	–	–	31,750,000
Investments	–	162,497,271	–	162,497,271
Derivative Financial Instruments	–	197,863	–	197,863
Premiums Outstanding	26,068,611	–	–	26,068,611
Mortgages and Loans	159,161,783	–	–	159,161,783
Receivables	3,150,822	–	–	3,150,822
Reinsurance Recoveries Outstanding	89,134,896	–	–	89,134,896
	320,224,445	162,695,134	–	482,919,579
Financial Liabilities				
Derivative Financial Instruments	–	204,148	–	204,148
Notes	–	–	55,000,000	55,000,000
Debenture Stock / Savings Plan	–	–	103,717,614	103,717,614
Other Liabilities	–	–	8,958,596	8,958,596
	–	204,148	167,676,210	167,880,358

	Loans and Receivables $	Fair Value through Profit or Loss $	Other Financial Liabilities $	TOTAL $
31 MARCH 2014				
Financial Assets				
Cash at Bank	8,254,084	–	–	8,254,084
Short Term Deposits	28,500,000	–	–	28,500,000
Investments	–	135,369,844	–	135,369,844
Derivative Financial Instruments	–	452,219	–	452,219
Premiums Outstanding	25,471,208	–	–	25,471,208
Mortgages and Loans	169,016,523	–	–	169,016,523
Receivables	2,942,768	–	–	2,942,768
Reinsurance Recoveries Outstanding	166,375,143	–	–	166,375,143
	400,559,726	135,822,063	–	536,381,789
Financial Liabilities				
Derivative Financial Instruments	–	60,468	–	60,468
Notes	–	–	55,000,000	55,000,000
Debenture Stock / Savings Plan	–	–	109,808,834	109,808,834
Other Liabilities	–	–	8,468,142	8,468,142
	–	60,468	173,276,976	173,337,444

35. CREDIT RATING

Three of the Group's subsidiaries are required to be rated. Medical Insurance Society Limited and Medical Life Assurance Society Limited have an A-/Stable financial strength rating from Standard & Poor's. Medical Securities Limited has an BBB+/Stable counterparty credit rating from Standard & Poor's.

36. RECONCILIATION OF CASH FLOWS

	2015 $	2014 $
Reported Surplus after Taxation	16,381,087	4,122,687
Add / (Deduct) Non-Cash Items:		
Depreciation and Amortisation	3,026,233	2,778,548
Loss on Disposal of Property, Plant, Equipment and Intangibles	130,070	2,644
Fair Value Change in Derivatives	398,036	(239,715)
Revaluation of Land and Buildings	302,466	–
Credit Impairment / (Reversal of Credit Impairment)	(128,887)	246,700
Addition to Unearned Premium	590,206	(3,840,150)
Change in Deferred Acquisition Costs	(99,883)	2,361,974
Change in Deferred Taxation	800,667	(1,749,141)
Changes in Assets and Liabilities:		
Payables	669,492	(441,115)
Receivables	(208,054)	(511,034)
Mortgages and Loans	9,983,627	2,882,390
Outstanding Claims	(61,918,033)	(24,730,672)
Reinsurance Recoveries	77,240,247	40,882,245
Life Policy Liabilities	(2,663,630)	3,760,076
Premiums Outstanding	(597,403)	(347,598)
Provision for Taxation	(801,007)	582,529
Net Cash Flows from Operating Activities	43,105,234	25,760,368

AUDITOR'S REPORT

Building a better working world

CHARTERED ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT

TO THE SHAREHOLDERS OF MEDICAL ASSURANCE SOCIETY NEW ZEALAND LIMITED

REPORT ON THE FINANCIAL STATEMENTS

We have audited the group financial statements of Medical Assurance Society New Zealand Limited and its subsidiaries ("the Group") on pages 7 to 48, which comprise the statement of financial position of the Group as at 31 March 2015, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended of the Group, and a summary of significant accounting policies and other explanatory information.

This report is made solely to the company's shareholders as a body, in accordance with section 207B(1) of the Companies Act 1993. Our audit has been undertaken so that we might state to the company's shareholders those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's shareholders as a body, for our audit work, for this report, or for the opinions we have formed.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

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

AUDITOR'S RESPONSIBILITY

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

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

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

We provide taxation advice, remuneration advice and other assurance services to the company and its subsidiaries. We have no other relationship with, or interest in, the Group.

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

OPINION

In our opinion, the financial statements on pages 7 to 48:

- comply with generally accepted accounting practice in New Zealand;
- comply with International Financial Reporting Standards; and
- present fairly, in all material respects, the financial position of the Group as at 31 March 2015 and the

financial performance and cash flows of the Group for the year then ended.

Ernst + Young

7 July 2015
Wellington

FIVE-YEAR SUMMARY

	2015 ($000's)	2014 ($000's)	2013 ($000's)	2012 ($000's)	2011 ($000's)
STATEMENT OF COMPREHENSIVE INCOME					
FIRE AND GENERAL INSURANCE					
Gross Premium Income	64,263	62,364	75,200	71,384	62,179
Net Earned Premium	46,486	41,096	52,001	48,983	47,586
Net Claims	(40,147)	(48,036)	(39,932)	(33,786)	(36,313)
Net Income from Fire and General Insurance	6,339	(6,940)	12,069	15,197	11,273
LIFE ASSURANCE					
Gross Premium Income	32,723	31,230	14,396	13,169	11,925
Net Premium Income	23,927	22,534	10,624	9,701	8,923
Claims, Surrenders and Maturities	(8,318)	(4,485)	(2,054)	(1,003)	(3,022)
Decrease in Life Policy Liabilities	2,664	508	797	1,732	722
Net Income from Life Assurance	18,273	18,557	9,367	10,430	6,623
LENDING					
Interest and Sundry Income	15,400	15,382	17,179	20,252	22,460
Interest and Lending Expense	(7,615)	(7,467)	(8,907)	(9,726)	(11,436)
Net Income from Lending	7,785	7,915	8,272	10,526	11,024
FUNDS MANAGEMENT					
Revenue from Funds Management and Financial Planning	8,126	6,405	5,056	4,177	3,602
Group Operating Expenses	(36,103)	(31,383)	(30,449)	(30,463)	(30,066)
Net Income/(Loss) from Operations	4,420	(5,446)	4,315	9,867	2,456
Investment and Sundry Income	12,836	7,559	9,992	3,435	8,583
Surplus before Tax	17,256	2,113	14,307	13,302	11,039
Tax (Expense)/Credit	(875)	2,009	(1,638)	(2,533)	(1,729)
Surplus after Tax	16,381	4,122	12,669	10,769	9,310
STATEMENT OF FINANCIAL POSITION					
Total Assets	511,647	561,842	587,835	549,546	628,517
Total Liabilities	348,748	416,014	446,130	420,510	509,815
Equity	162,899	145,828	141,705	129,036	118,702
OTHER INFORMATION					
Fire and General Claims as a percentage of Net Earned Premium	86.4%	116.9%	76.8%	69.0%	76.3%
Operating Expenses as a percentage of Total Income	27.1%	25.5%	25.0%	27.1%	27.6%
Equity as a percentage of Total Income	122.2%	118.6%	116.3%	114.8%	109.2%
Number of Members	27,448	26,179	24,585	23,648	22,785

STATUTORY INFORMATION

DIRECTORS' INTERESTS

None of the directors of MAS have conducted transactions with the group other than on normal terms and conditions. Dr Richard Tyler has acted as Medical Adviser during the year.

Dr Tyler has additionally received $2,800 (at standard rates) for medical advisory work done for MAS during the year.

The cost of travel to Board meetings for out-of-town directors has been met by MAS.

Directors received no other payments.

USE OF COMPANY INFORMATION

The Board received no requests from directors to use company information that would not otherwise have been available to them in their capacity as directors.

SHARE DEALINGS

The Group has no tradable shares.

DIRECTORS' REMUNERATION AND BENEFITS

Directors' remuneration paid by the parent company during the year, or due and payable, is as follows:

Dr R J Tyler	$122,389
Mr A C Hercus	$79,311
Dr H E Aish	$54,640
Dr K M S Ayers	$51,085
Ms D R Dinsdale	$53,988
Dr F A Frizelle	$38,085
Mr J K W Isles	$19,857
Mr L R Knowles	$39,813
Dr H W Rodenburg	$48,460
Mr C J Thompson	$74,197

Fees were also paid to three directors who at various times during the year were solely on the Medical Securities Limited Board. These fees have been approved by that Company's Board and were paid as follows:

Mr H M Clentworth	$36,335
Mr J K W Isles	$27,251
Mr L R Knowles	$10,397

EMPLOYEE REMUNERATION

$620,000-$630,000	1 employee
$260,000-$270,000	1 employee
$230,000-$240,000	1 employee
$220,000-$230,000	2 employees
$210,000-$220,000	1 employee
$200,000-$210,000	1 employee
$190,000-$200,000	2 employees
$170,000-$180,000	1 employee
$160,000-$170,000	5 employees
$150,000-$160,000	3 employees
$140,000-$150,000	3 employees
$130,000-$140,000	4 employees
$120,000-$130,000	7 employees
$110,000-$120,000	15 employees
$100,000-$110,000	13 employees

Richard Tyler
Chairman

CORPORATE GOVERNANCE STATEMENT

BOARD STRUCTURE

The Board of Medical Assurance Society New Zealand Limited ('MAS') supervises the management of the company and its subsidiary companies. The Board is comprised of the trustees of the Medical Assurance Society Members' Trust ('the Trust'). At 31 March 2015 there were five Practitioner Trustees (who are elected by Members) and four Commercial Trustees (who are appointed by the Practitioner Trustees). Members approve the appointment of Commercial Trustees.

There are a further three directors on the Board of Medical Securities Limited ('MSL'). The appointment of two of them (Mr Howard Clentworth and Mr John Isles) ensures compliance with the Reserve Bank of New Zealand Act independent directors requirements. The third director solely on the Board of MSL is the MAS Chief Executive Officer, Mr Martin Stokes.

OUR GOALS

MAS strives to provide a sound and secure business conducted for the benefit of current and future Members of the Trust. Our purpose is to provide high-quality services in a cooperative relationship with our Members, consistent with our stability and growth and in accordance with sound business practice. We do not seek to provide dividends or similar financial returns to Members. Our directors seek to develop and preserve the special relationship between MAS and Members of the Trust.

The Board approves MAS's strategic objectives, annual budgets and the overall framework within which business is conducted. It oversees the management of MAS to ensure that our activities are carried out in the best interests of our Members. It also monitors the achievement of goals and plans, but delegates day-to-day management to the Chief Executive Officer. The Board approves transactions relating to any capital expenditure that exceeds delegated authorities, overall financial policy and policy on dividend payment by subsidiary companies to MAS.

The Board encourages open and frank discussion and confidentiality. It is entitled to seek independent professional advice to assist it in meeting its responsibilities and MAS pays for this advice.

A clear separation is maintained between the roles of Chairman and Chief Executive Officer. The Chairman's role is to manage and lead the Board effectively, and to maintain communications with the Chief Executive Officer. There are no executive directors other than the Chief Executive Officer who is on the Board of MSL.

BOARD OPERATIONS AND MEMBERSHIP

Each trustee of the Trust is authorised and directed to act as a director of MAS. The Trust Deed sets out policies and procedures covering the appointment and removal, proceedings, powers and duties, and remuneration and expenses of trustees. The Board met ten times during the financial year ended 31 March 2015.

BOARD COMMITTEES

The Board has established four committees, namely for audit and risk, finance, investment and senior remuneration.

The function of the **Audit and Risk Committee** is to assist the Board in carrying out its responsibilities relative to accounting practices, policies and controls under the Companies Act 1993 and the Financial Reporting Act 2013. It meets with MAS's external auditors twice during the year to review financial statements and the audit of the year-end financial statements (and any issues raised by them), and to receive assurances and satisfy itself as to auditor independence. The Committee has unrestricted access to the external auditors and to the Internal Audit Manager.

While the Board reviews risk, and particularly any emerging risks, each time it meets, the Committee formally assesses all significant risks in a structured manner twice a year.

The current composition of the Audit and Risk Committee is Mr Craig Thompson (Chairman), Dr Harley Aish, Mr Alastair Hercus, Mr Lindsay Knowles and Dr Richard Tyler.

There are two main functions of the **Finance Committee**: firstly, to provide guidance and appraise management proposals on funding issues, and to take responsibility for entering into contractual arrangements and executing contracts with funding providers on behalf of the Board. And secondly, to consider large loan applications (greater than $2 million), and consider all significant changes to lending policy. Meetings are held as required.

The current composition of the Finance Committee is Dr Richard Tyler (Chairman), Mr Lindsay Knowles and Mr Craig Thompson.

The function of the **Investment Committee** is to review the performance of the Group's fund managers, and provide guidance relative to asset class benchmarks and ranges. The Committee meets with our fund managers on a regular basis and has the authority to change fund managers.

The current composition of the Investment Committee is Dr Richard Tyler (Acting Chairman), Ms Danelle Dinsdale, Mr Alastair Hercus and Mr Craig Thompson.

The **Senior Remuneration Committee** meets on an annual basis to consider the Chief Executive Officer's recommendations as to the senior management team's remuneration. In the absence of any extenuating circumstances, the Committee will meet only once each year.

The current composition of the Senior Remuneration Committee is Dr Richard Tyler (Chairman), Mr Alastair Hercus, Dr Helen Rodenburg and Mr Craig Thompson.

BOARD OF DIRECTORS
MEDICAL ASSURANCE SOCIETY GROUP

RICHARD TYLER Chairman

DIRECTOR: Medical Assurance Society New Zealand Limited, Medical Insurance Society Limited, Medical Life Assurance Society Limited, Medical Funds Management Limited, Medical Securities Limited.

FIELDS OF EXPERTISE: General practice and the governance of primary health and primary healthcare organisations, medical adviser on underwriting for Medical Life Assurance Society Limited and personal health.

OTHER BOARDS AND HEALTH SECTOR ACTIVITY: Director of BPAC NZ Limited, Co-Chair IPIF governance group and previous Chairman of Compass Health.

ALASTAIR HERCUS Deputy Chairman

DIRECTOR: Medical Assurance Society New Zealand Limited, Medical Insurance Society Limited, Medical Life Assurance Society Limited, Medical Funds Management Limited, Medical Securities Limited.

FIELDS OF EXPERTISE: Law, public policy, health sector, cooperatives and mutuals.

OTHER BOARDS AND HEALTH SECTOR ACTIVITY: Partner and former board member of Buddle Findlay, legal adviser to various public sector health organisations, and Member of the Advisory Group for Cancer Trials New Zealand, an organisation established by the Faculty of Medical and Health Sciences at the University of Auckland to provide a national resource to facilitate clinical trial research in cancer. Chartered Member of the Institute of Directors.

HARLEY AISH

DIRECTOR: Medical Assurance Society New Zealand Limited, Medical Insurance Society Limited, Medical Life Assurance Society Limited, Medical Funds Management Limited.

FIELDS OF EXPERTISE: General practice and primary-secondary integration, especially guidelines and new models of care.

OTHER BOARDS AND HEALTH SECTOR ACTIVITY: Director of ProCare Health Limited.

KATIE AYERS

DIRECTOR: Medical Assurance Society New Zealand Limited, Medical Insurance Society Limited, Medical Life Assurance Society Limited, Medical Funds Management Limited.

FIELDS OF EXPERTISE: Paediatric dentistry and dental public health.

OTHER BOARDS AND HEALTH SECTOR ACTIVITY: Specialist Paediatric Dentist, Dental Approving Officer and Oral Health Advisor for Midland DHBs, Director of Acka Health Limited, Director of Anglesea OMS Limited, Specialist Representative on New Zealand Dental Association Board, Officer of New Zealand Dental Association Executive, and Trustee of Braemar Hospital Charitable Trust.

HOWARD CLENTWORTH

INDEPENDENT DIRECTOR: Medical Securities Limited.

FIELDS OF EXPERTISE: Obstetrics and gynaecology.

OTHER BOARDS AND HEALTH SECTOR ACTIVITY: Director of Digital Impressions Limited, ZyGEM Limited and Heyrex.

DANELLE DINSDALE

DIRECTOR: Medical Assurance Society New Zealand Limited, Medical Insurance Society Limited, Medical Life Assurance Society Limited, Medical Funds Management Limited.

FIELDS OF EXPERTISE: Technology law, change management in finance and technology sectors, and corporate governance.

OTHER BOARDS AND HEALTH SECTOR ACTIVITY: Crown Fibre Holdings Limited, Hawke's Bay Regional Investment Company Limited (Adviser, Ruataniwha Water Storage Scheme), Ultra Fast Fibre Limited and Cranford Hospice Foundation.

BOARD OF DIRECTORS
MEDICAL ASSURANCE SOCIETY GROUP CONTINUED

FRANK FRIZELLE

DIRECTOR: Medical Assurance Society New Zealand Limited.

FIELDS OF EXPERTISE: Colorectal surgery, academic surgery and medical editing.

OTHER BOARDS AND HEALTH SECTOR ACTIVITY: HOD University Department of Surgery, University of Otago, Christchurch, Editor in Chief New Zealand Medical Journal, Director of Christchurch Colorectal Limited, Southern Endoscopy Limited and Geordie Hill Station Limited.

LINDSAY KNOWLES

DIRECTOR: Medical Assurance Society New Zealand Limited, Medical Insurance Society Limited, Medical Life Assurance Society Limited, Medical Funds Management Limited from 25 June 2014.

(Independent Director, Medical Securities Limited until 24 June 2014)

FIELDS OF EXPERTISE: Commerce including accounting, finance, sales and marketing.

OTHER BOARDS AND HEALTH SECTOR ACTIVITY: Director of Acme Supplies Limited and Cranford Hospice (Hawke's Bay), and Chairman of Howick Baptist Healthcare Limited.

JOHN ISLES

INDEPENDENT DIRECTOR: Medical Securities Limited from 25 June 2014.

(Director: Medical Assurance Society New Zealand Limited, Medical Insurance Society Limited, Medical Life Assurance Society Limited, Medical Funds Management Limited until 24 June 2014)

FIELDS OF EXPERTISE: General commerce, public policy issues, Māori lands and Treaty Settlements.

OTHER BOARDS AND HEALTH SECTOR ACTIVITY: Director of Woolyarns Holdings Limited and TR Group Limited.

HELEN RODENBURG

DIRECTOR: Medical Assurance Society New Zealand Limited, Medical Insurance Society Limited, Medical Life Assurance Society Limited, Medical Funds Management Limited.

FIELDS OF EXPERTISE: General practice, primary health care, especially clinical quality and primary mental health. Health service development.

OTHER BOARDS AND HEALTH SECTOR ACTIVITY: Island Bay Medical Centre and Clinical Director of Long-Term Conditions, Ministry of Health. Chartered Member of the Institute of Directors.

CRAIG THOMPSON

DIRECTOR: Medical Assurance Society New Zealand Limited, Medical Insurance Society Limited, Medical Life Assurance Society Limited, Medical Funds Management Limited, Medical Securities Limited.

FIELDS OF EXPERTISE: Commerce, including finance, accounting and marketing.

OTHER BOARDS AND HEALTH SECTOR ACTIVITY: Director of Accent Group Limited, Woolyarns Holdings Limited, Curtain Studio Limited and RCG Corporation Limited.

NORTHERN REGION

Regional Manager: Kevin Trevett

NORTH SHORE

Air New Zealand Building
Smales Farm Office Park
Takapuna
PO Box 33443

Fax 09 487 0449

AUCKLAND

3 Ferncroft Street
Grafton
PO Box 9905

Fax 09 524 0101

HAMILTON

62 Tristram Street
PO Box 436

Fax 07 839 4293

CENTRAL REGION

Regional Manager: David Gordon

PALMERSTON NORTH

6–8 Linton Street
PO Box 2096

Fax 06 356 7067

WELLINGTON

19–21 Broderick Road
PO Box 13042

Fax 04 494 7020

SOUTH ISLAND REGION

Regional Manager: Steve Weston

CHRISTCHURCH

158 Leinster Road
Merivale
PO Box 36260

Fax 03 355 5407

DUNEDIN

27–29 Albany Street
PO Box 6365

Fax 03 474 1480

DIRECTORY

Senior Management Team

Paul Barton
General Manager, Risk and Compliance

David Chote
General Manager, Sales

Mike Davy
General Manager, Marketing and Products

Matthew Judge
Chief Financial Officer

Ross McMillan
General Manager, Human Resources

Mike Paine
General Manager, Information Technology

Lyndal Preston
General Manager, Member Support

Martin Stokes
Chief Executive Officer

REGISTERED OFFICE

19–21 Broderick Road
Johnsonville, Wellington
PO Box 13042

Telephone 0800 800 627

Fax 04 477 0109

AUDITOR

Ernst & Young

SOLICITORS

Minter Ellison Rudd Watts

BANKERS

ANZ
Westpac