MAS
ANNUAL REPORT **2014**

2014

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CHAIRMAN'S REPORT TO MEMBERS

MAS experienced a challenging year in 2013/14. Our business as usual results were generally very good, as membership and the amount of business we do with Members both grew strongly. However, net income for the MAS Group ($4.1 million) was down on the previous year, due primarily to additional provisions for the Christchurch earthquakes.

MEETING THE CHALLENGE OF CHANGE

MAS experienced a challenging year in 2013/14. Our business as usual results were generally very good, as membership and the amount of business we do with Members both grew strongly. However, net income for the MAS Group ($4.1 million) was down on the previous year, due primarily to additional provisions for the Christchurch earthquakes.

Our Life insurance business was the best performer, making a contribution of $13.6 million to the MAS Group. A key focus in this area has been our adviser review of the adequacy of Life and Disability cover held by Members. This approach seems to resonate with younger professionals and we experienced strong growth in this demographic during the year. We also secured agreement from our reinsurers to increase the level of cover we can offer without requiring medical tests.

Our General insurance business had a strong focus on the Christchurch rebuild and this has proven far more complex than we ever envisaged. We are aware this has been very frustrating for some Members and affirm that we are absolutely committed to settling our outstanding claims. Additional provisions were added to the estimated final cost to complete our reinstatement programme and this resulted in a deficit of $12.5 million for the year. Elsewhere, claims were generally in line with forecasts despite the increased frequency of adverse weather events during the year.

Our lending activity produced a satisfactory surplus of $1.7 million, with steady support from depositors into our Debenture and PIE programmes. However, subdued demand for credit in 2013/14 meant we have not always been able to on-lend these deposits, and our lending portfolio saw a net decrease of $2.9 million (1.7%) in receivables. Bad debts continue to be well below industry averages, reflecting the credit quality of our membership.

The management of our RSP and KiwiSaver funds has become a significant and important part of the relationships we have with Members, and funds under management grew nearly 24% to $675 million during the year. Returns on funds[1] ranged from 3.3% (Cash) to 18.5% (Global Equities) as markets generally rewarded portfolios with exposure to equities. A significant component of the time our advisers spend with Members is focused on guiding them to the most suitable solutions for their retirement plans.

We received confirmation that Standard & Poor's had affirmed A-(Stable) ratings for Medical Insurance Society Limited, Medical Life Assurance Society Limited, and Medical Securities Limited. These ratings at the 'strong' level in the agency's scale are evidence of the strength of the Group's capital position and conservative approach to risk.

As Members rightly expect, we kept a close eye on managing costs, and the ratio of our costs to income fell for the third year in a row. Also notable is the number of staff employed at MAS, which has increased by less than 5% in the past five years, while membership numbers have increased by 23% over the same period.

In 2013/14 we welcomed nearly 2,500 new Members to MAS from a wide range of professions. In many cases these are the family and friends of existing Members, and we thank you for referring them to us. With more than 90% of the registered medical and dental practitioners in New Zealand, health professionals continue to dominate our membership. We were also pleased to support a number of social and educational opportunities for our Members to maintain their collegial networks during the year.

There have been some changes to the Board this year. We farewelled Dr Lewis King after 16 years of service to MAS. We thank him for the respected contribution he made to our governance, and his valuable primary healthcare perspective. We also welcomed Dr Frank Frizelle as Practitioner Trustee and Mr Lindsay Knowles as Independent Director of our finance subsidiary, Medical Securities.

This year our annual results are presented in a purely digital and more interactive format. Digitalisation is resulting in significant changes in the way we do things – it affects not only the mode of economic activity, but also consumer behaviour. MAS is committed to providing more options for Members to engage with us through digital channels, so expect to see and hear more about this in the near future.

On behalf of my colleagues on the Board, I thank our CEO Martin Stokes and his team at MAS for their hard work during the year – and I thank you Members for the confidence you have shown in us. We will make every effort to fulfil your expectations again this year.

Richard Tyler
Chairman

1 Returns are pre-tax

OUR BUSINESS OBJECTIVES

AS A MUTUAL, MAS IS ALL ABOUT YOU, OUR MEMBERS. OUR FOCUS IS TO CONTINUALLY IMPROVE THE FINANCIAL ADVICE WE SHARE WITH YOU AND ENHANCE THE VALUE OF OUR PRODUCT OFFERING IN ORDER TO BUILD A MUTUALLY SUCCESSFUL PARTNERSHIP.

1 CONTINUE TO IMPROVE THE QUALITY OF THE SERVICE AND ADVICE WE GIVE TO YOU

"Excellent service...When I have rung with claims, I feel well treated and believed. The service is prompt and when I have been paid out I have always felt that it was fair. I feel well catered to as a medical person who understands medicine...but not money and insurance."

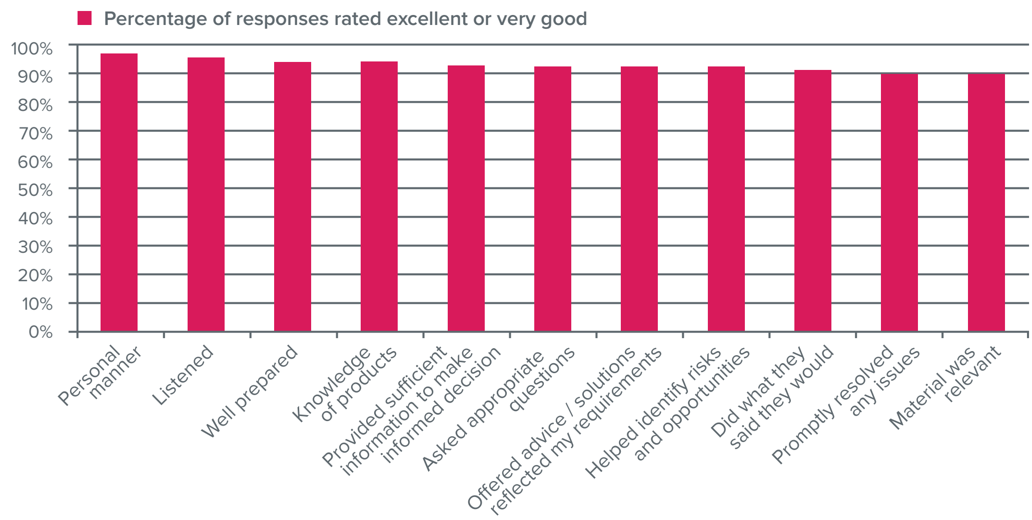
– Penny, Radiographer, Christchurch, Member for 20 years.

Last year new regulations and compliance standards meant that we needed to make changes to our advice process.

We carefully monitored our Adviser Satisfaction Survey to ensure that this did not impact on the level of service we provide to Members.

Overall adviser satisfaction has not changed significantly over the last six years of surveying – 95% of Members rate the service from their adviser as 'excellent' or 'very good'.

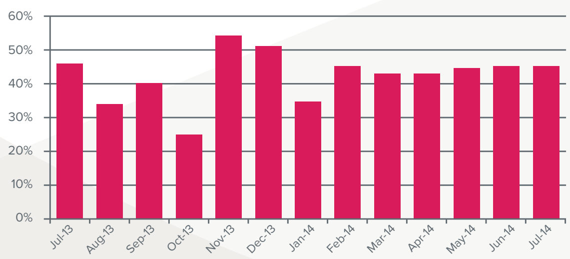
ADVISER SATISFACTION SURVEY RESULTS: APRIL 2013 – MARCH 2014



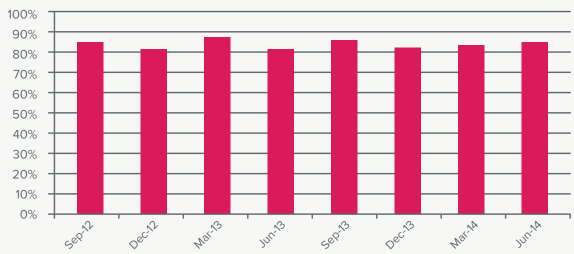
In 2013 we experienced an unprecedented number of adverse weather events across the country, meaning Members made more claims than usual. We aim to give you one point of contact for your claim and to resolve it as quickly as possible.

Last year an average of 43% of general insurance claims per month were closed in 30 days or less, and since we started our Claims Satisfaction Survey in September 2012, more than 80% of Members have rated their claims experience better than other organisations.

PERCENTAGE OF CLAIMS CLOSED IN LESS THAN 30 DAYS



PERCENTAGE OF MEMBERS RATING SERVICE BETTER THAN OTHER ORGANISATIONS



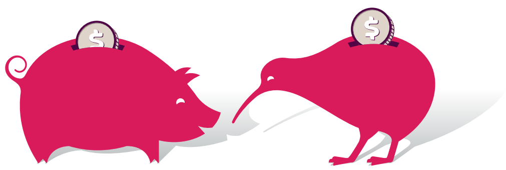
2 OFFER YOU COMPETITIVE PRODUCTS TO HELP YOU MANAGE YOUR FINANCIAL RISKS

"MAS has every service/product I require at a decent price. It is great to be able to have everything with one company and the staff are always super friendly and helpful."

– Abigail, Medical Student, Wellington, Member for three years.

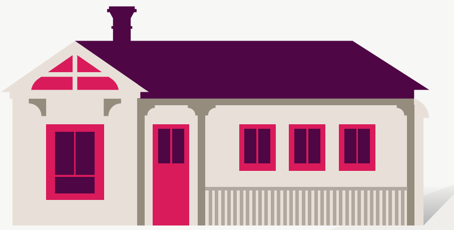
Members have told us that they are uncomfortable about the industry move to sum insured house cover. We continue to provide Area Replacement cover for your home, so you don't have to worry about trying to determine how much it will cost to rebuild your home in the event of a total loss.

In order to assess your premium fairly based on actual risk, we have strengthened our approach to underwriting house policies and will be asking Members for more information about their properties. If you hold a MAS House policy, you can expect to hear from us in the coming year to confirm details about your home.



More and more Members trust us with their retirement savings and our funds under management grew nearly 24% over the year. Our KiwiSaver Plan's Growth and Aggressive funds won CANSTAR's five-star award for our competitive fee structure.

CANSTAR says, "An all-encompassing management fee at 1% [with minimum $50 flat fee] and trustee fee provides certainty of cost for Members."

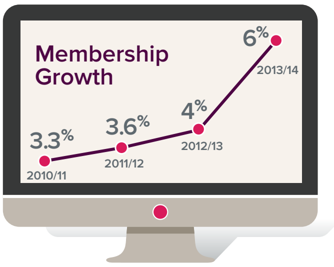


We want to help our Members get competitive mortgage rates, and since 2012 we've offered you a discount of up to 0.85% per annum on home loans through our partnership with ANZ. In 2013/14, 883 Members drew down $128 million in home loans.

3 PARTNER WITH YOU TO ACHIEVE MUTUAL SUCCESS

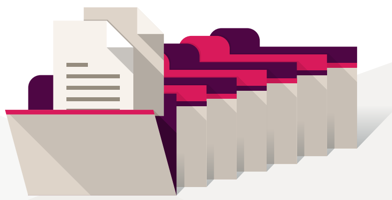
"Responsiveness, friendliness and efficiency that results in the best outcome for the Member – and it feels fundamentally different to be a Member than a client!"

– Robin, Lecturer, Auckland, Member for 35 years.



We want to thank our Members for their loyalty and support. A very high number of Members who responded to our Net Promoter Score survey told us that they are highly likely to recommend MAS to a friend or colleague. Your referrals helped us to grow our membership by 6% in 2013/14.

In the past year we have increased our support of student, young professional and industry associations, as we recognise the role they play in helping recent graduates further their careers. We will continue to look for new opportunities to strengthen our relationships with our target professional groups.



We received over 7,000 enquiries to our Business Advisory Service helpdesk from Members seeking assistance with their practices. As a result we have introduced new templates and time-saving tips to our HealthyPractice® website, which over 600 practices nationwide subscribe to.

FINANCIAL REPORT

MEDICAL ASSURANCE SOCIETY NEW ZEALAND LIMITED
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 MARCH 2014

	Note	2014 $	2013 $
FIRE AND GENERAL INSURANCE REVENUE			
Gross Premium Revenue	4	62,364,030	75,199,725
Reinsurance Premiums		(19,680,193)	(21,714,101)
Change in Provision for Unearned Premium		(1,587,989)	(1,484,969)
Net Premium Revenue		41,095,848	52,000,655
Claims		(61,278,625)	(117,433,659)
Reinsurance Recoveries		5,709,272	72,350,825
Other Recoveries		7,532,994	5,150,733
Net Claims	5	(48,036,359)	(39,932,101)
Net Revenue from Fire and General Insurance		(6,940,511)	12,068,554
LIFE ASSURANCE REVENUE			
Premium Revenue	4	31,230,419	14,395,703
Reinsurance Premiums		(8,696,359)	(3,771,248)
Net Premium Revenue		22,534,060	10,624,455
Claims, Surrenders and Maturities		(6,792,470)	(4,362,052)
Reinsurance Recoveries		2,307,474	2,307,474
Decrease in Life Policy Liabilities	11	508,214	797,346
Net Revenue from Life Assurance		18,557,278	9,367,223
LENDING REVENUE			
Mortgage and Loan Interest Revenue		15,142,411	17,274,891
Movement in Fair Value of Derivatives	15	239,715	(95,352)
Interest Expense	13	(7,220,829)	(8,790,580)
Credit Impairment	14	(246,700)	(116,865)
Net Revenue from Lending		7,914,597	8,272,094
Revenue from Funds Management and Financial Planning		6,405,492	5,056,160
EXPENSES			
Salaries		(16,054,136)	(15,952,367)
Administration Expenses	19	(15,328,621)	(14,495,052)
Total Expenses		(31,382,757)	(30,447,419)
NET (LOSS)/INCOME FROM OPERATIONS		(5,445,901)	4,316,612
Investment and Sundry Income	21	7,559,355	9,990,507
NET SURPLUS BEFORE TAXATION		2,113,454	14,307,119
Taxation Credit/(Expense)	22	2,009,233	(1,638,195)
NET SURPLUS AFTER TAXATION		4,122,687	12,668,924
OTHER COMPREHENSIVE INCOME AFTER TAXATION		–	–
TOTAL COMPREHENSIVE INCOME		4,122,687	12,668,924

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 2014

	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

	Note	2013 Share Capital $	2013 Retained Earnings $	2013 Asset Revaluation Reserve $	2013 Total $
OPENING BALANCE 1 APRIL 2012	23	110,000	127,957,278	969,092	129,036,370
Current Year Surplus		–	12,668,924	–	12,668,924
Other Comprehensive Income		–	–	–	–
Total Comprehensive Income		–	12,668,924	–	12,668,924
CLOSING BALANCE 31 MARCH 2013		110,000	140,626,202	969,092	141,705,294

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 2014

	Note	2014 $	2013 $
FUNDS EMPLOYED			
EQUITY			
1 Non-Voting Share	23	100,000	100,000
10,000 Voting Shares	23	10,000	10,000
Retained Earnings		144,748,889	140,626,202
Asset Revaluation Reserve		969,092	969,092
TOTAL EQUITY		**145,827,981**	**141,705,294**
LIABILITIES			
Payables	24	10,479,836	10,920,951
Provision for Taxation		123,148	–
Derivative Financial Instruments	15	60,468	141,166
Provision for Unearned Premium	6	31,280,854	35,121,004
Debenture Stock and Savings Plan	16	109,808,834	117,470,377
Notes	17	55,000,000	50,000,000
Deferred Tax	22	1,217,213	2,966,354
Provision for Outstanding Claims	5, 12	202,758,833	227,984,794
Life Policy Liabilities	11	5,285,271	1,525,195
TOTAL FUNDS EMPLOYED		**561,842,438**	**587,835,135**
ASSETS			
Cash and Cash Equivalents	25	36,754,084	50,554,547
Receivables and Prepayments	26	2,942,768	2,431,734
Taxation Paid in Advance		–	459,381
Investments	27	135,369,844	104,284,438
Derivative Financial Instruments	15	452,219	293,202
Premiums Outstanding	7	25,471,208	25,123,610
Reinsurance Recoveries Outstanding	8	166,375,143	207,257,388
Claims Recoveries Outstanding	9	2,487,996	2,983,285
Mortgages and Loans	14	169,016,523	172,145,613
Property, Plant and Equipment	28	6,111,934	6,177,173
Intangibles	29	16,475,093	13,377,164
Deferred Acquisition Costs	30	385,626	2,747,600
TOTAL ASSETS		**561,842,438**	**587,835,135**

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

Richard Tyler
Director

Craig Thompson
Director

Wellington, 25 June 2014

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 2014

	Note	2014 $	2013 $
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from Policyholders		93,174,639	86,520,514
Interest and Fee Income Received on Mortgages and Loans		14,138,298	15,771,903
Loan Repayments		74,946,653	118,912,481
Loan Advances		(72,064,263)	(110,289,400)
Interest Received on Short Term Deposits		1,311,009	1,755,150
Other Revenue and Income from Investment Funds		13,584,779	14,877,809
Rent Received		31,383	30,416
Payments to Suppliers and Employees		(57,900,661)	(50,297,791)
Reinsurance Recoveries		48,898,991	44,648,553
Payment of Claims		(83,876,382)	(79,113,661)
Taxation Refund/(Payment of Taxation)		724,567	(2,508,699)
Interest on Bank Overdraft		(1,686)	(1,832)
Interest Paid on Funding		(7,206,959)	(8,790,580)
Net Cash Flows from Operating Activities	36	25,760,368	31,514,863
CASH FLOWS FOR INVESTING ACTIVITIES			
Contributions to Investment Funds		(53,585,406)	(38,040,063)
Withdrawals from Investment Funds		22,500,000	20,500,000
Proceeds from Sale of Property, Plant and Equipment		–	3,683
Purchase of Property, Plant, Equipment and Intangibles		(5,813,882)	(3,063,936)
Net Cash Flows for Investing Activities		(36,899,288)	(20,600,316)
CASH FLOWS FOR FINANCING ACTIVITIES			
Issue of Debenture Stock/Savings Plan Deposits Received		72,903,024	98,548,013
Repayment of Debenture Stock/Savings Plan Withdrawals		(80,564,567)	(112,823,198)
Issuance of Notes		30,000,000	–
Repayment of Notes		(25,000,000)	–
Net Cash Flows for Financing Activities		(2,661,543)	(14,275,185)
NET DECREASE IN CASH HELD		(13,800,463)	(3,360,638)
Opening Cash Balance brought forward		50,554,547	53,915,185
CASH AND CASH EQUIVALENTS CARRIED FORWARD		36,754,084	50,554,547
CASH AND CASH EQUIVALENTS COMPRISE			
Cash and Deposits		36,754,084	50,554,547
	25	36,754,084	50,554,547

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

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. Separate financial statements are prepared for the stand alone operations of Medical Assurance Society New Zealand Limited (the "parent company").

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 1993. The financial statements have also been prepared on a historical cost basis except where modified by the revaluation of land and buildings, financial assets and liabilities (including derivative instruments) recognised at fair value through profit or loss, and the actuarial quantification of insurance liabilities.

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").

The Group has adopted the following standards during the reporting period to 31 March 2014:

NZ IFRS 10 *Consolidated Financial Statements*. The new control model broadens the situations when an entity is considered to control another entity and includes new guidance for applying the model to specific situations, including when acting as a manager may give control, the impact of potential voting rights and when holding less than a majority voting rights may give control.

NZ IFRS 13 *Fair Value Measurement*. The standard establishes a single source of guidance under NZ IFRS for determining the fair value of assets and liabilities. It does not change when an entity is required to use fair value, but rather, provides guidance on how to determine fair value under NZ IFRS when fair value is required or permitted by NZ IFRS. NZ IFRS 13 also expands the disclosure requirements for all assets or liabilities carried at fair value. This includes information about the assumptions made and the qualitative impact of those assumptions on the fair value determined.

Improvements to NZ IFRS arising from the Annual Improvements Project. These were issued primarily with a view to removing inconsistencies and clarifying wording.

The adoption of these improvements had no impact on the financial performance or position of the Group. They did however give rise to additional disclosures.

Applicable standards or interpretations that have not been adopted:

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.

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.

2. ACCOUNTING POLICIES continued ...

The mandatory effective date for adopting the Amendments to Appendix C of NZ IFRS 4 is for reporting periods commencing after 1 July 2014.

NZ IFRS 9 (2009) *Financial Instruments* has not been adopted for the reporting period to 31 March 2014. The standard uses a single approach to classify and measure financial assets to determine whether an asset should be measured at amortised cost or fair value. The standard is intended to reduce complexity and increase investor understanding of the accounting of financial assets.

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

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

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

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

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

2. ACCOUNTING POLICIES continued ...

(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.

(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 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) 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.

2. ACCOUNTING POLICIES continued ...

Losses expected from future events, no matter how likely, are not recognised.

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 mortgages and loans 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.

(l) 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.

2. ACCOUNTING POLICIES continued ...

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

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

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

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

- 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.

(m) 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.

(n) 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.

2. ACCOUNTING POLICIES continued ...

(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.

(o) 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.

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.

(p) 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.

(q) 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. 3 – Determination of Life Insurance Policy Liabilities.

(r) 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.

(s) 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.

(t) 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.

(u) FINANCIAL INSTRUMENTS

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.

2. ACCOUNTING POLICIES continued ...

(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.

(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 profit and loss.

(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) 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.

(aa) 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.

2. ACCOUNTING POLICIES continued ...

(ab) 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 class of 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 and Equipment 3 – 10 years

(ac) 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

(ad) STATEMENT OF CASH FLOWS

The Statement of Cash Flows has been prepared using the direct approach.

(ae) CHANGES IN ACCOUNTING POLICIES

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

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. The Company 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.

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

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.

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.

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").

Medical Mortgages Limited is an in-substance subsidiary of Medical Securities Limited and is consolidated into the financial statements of that entity.

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 3.13% for Medical Securities Limited and 4.13% for all other subsidiaries (2013 Medical Securities Limited charged at 2.66%, other subsidiaries 3.66%).

All inter-Group transactions are eliminated on consolidation.

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

DISABILITY BUSINESS TRANSFER

On 1 April 2013 the Group's Disability Insurance business was transferred from MIS to MLA. The liabilities and assets of this business (principally outstanding claims and the associated reinsurance recoveries) were transferred between the entities effective this date. In addition, $11,597,238 of investment assets were transferred to MLA.

The profit and loss amounts disclosed for the Fire and General Revenue section in the 2013 year include the disability business, whereas the current year amounts are disclosed in the Life Assurance Revenue section.

5. CLAIMS – MEDICAL INSURANCE SOCIETY LIMITED

	2014 $	2013 $
CLAIMS EXPENSE		
Claims paid during the year	70,728,480	76,678,695
Recoveries received during the year	(42,171,088)	(43,780,075)
Provision for Outstanding Claims at year end (new claims incurred during the year)	37,706,142	146,133,263
Provisioning at year end for Outstanding Claims incurred in prior years	138,769,981	59,691,381
Reinsurance and Other Recoveries Outstanding at year end	(159,696,476)	(206,647,995)
Increase in IBNR (claims incurred but not reported) Provision at year end	(1,229,810)	(11,840)
Provision for Outstanding Claims at previous year end (excluding IBNR)	(197,960,359)	(185,301,700)
Reinsurance and Other Recoveries Outstanding at previous year end	196,653,579	178,368,852
Increase in Risk Margin	5,235,910	14,801,520
Net Claims Expense per profit and loss	48,036,359	39,932,101

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

	2014 $	2013 $
PROVISION FOR OUTSTANDING CLAIMS		
Expected Future Claim Payments (undiscounted)	149,644,052	197,376,539
IBNR Claims at year end	1,624,322	2,854,132
Risk Margin	35,887,206	30,651,296
Discount to Present Value	(3,819,225)	(7,401,676)
Provision for Outstanding Claims	183,336,355	223,480,291

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:

	2014	2013
Risk margin – earthquake claims	24.10%	17.50%
Risk margin – non earthquake	7.92%	9.08%
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 2 years
Discount rate for earthquake claims	4.00%	2.43%

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

	2014	2013
Risk margin	n/a	9.08%
Weighted average expected term to settlement	n/a	5.2 years
Benefit escalation for qualifying claims	n/a	2.50%
Discount rate	n/a	2.86%

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 7.92% (2013 9.08%) for non earthquake claims and 24.10% (2013: 17.50%) for earthquake claims. The level of sufficiency or probability of adequacy is 75.00% (2013 80.00%).

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	2010	2011	2012	2013	2014	Total
At end of incident year		36,844,278	256,420,462	42,333,624	28,906,634	30,134,763	
One year later		27,728,249	255,606,628	55,661,938	30,040,356		
Two years later		27,813,371	296,005,007	49,243,028			
Three years later		27,872,800	326,715,140				
Four years later		27,881,085					
Current estimated claim cost		27,881,085	326,715,140	49,243,028	30,040,356	30,134,763	
Payments		(27,879,855)	(195,031,522)	(41,508,402)	(26,950,072)	(23,079,918)	
Undiscounted central estimate	79,450	1,230	131,683,618	7,734,626	3,090,284	7,054,845	149,644,053
Discount to present value	–	–	(3,566,088)	(253,138)	–	–	(3,819,226)
Discounted central estimate	79,450	1,230	128,117,530	7,481,488	3,090,284	7,054,845	145,824,827
IBNR net of risk margin							1,624,322
Risk margin							35,887,206
Gross outstanding claims liabilities							183,336,355
Recoveries from reinsurers and third parties							(159,696,476)
Net outstanding claims liabilities							23,639,879

6. PROVISION FOR UNEARNED PREMIUM – MEDICAL INSURANCE SOCIETY LIMITED

	2014 $	2013 $
Balance at the beginning of the financial year	35,121,004	33,636,035
Disability policies transferred to MLA on 1 April 2013	(5,428,139)	–
Premiums written during the year	62,364,030	75,199,725
Premiums earned during the year	(60,776,041)	(73,714,756)
Balance at the end of the financial year	31,280,854	35,121,004

LIABILITY ADEQUACY TEST

Appointed Actuary Peter Davies, in his report dated 12 June 2014, has reported on the Liability Adequacy Test undertaken by him as at 31 March 2014. He has concluded that the Provision for Unearned Premium as at that date, is not deficient (2013 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

	2014 $	2013 $
Premiums Owing by Policyholders of MIS Policies	15,028,044	20,443,317
Premiums Owing by Policyholders of MLA Policies	10,443,164	4,680,293
	25,471,208	25,123,610

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

	2014 $	2013 $
Gross Recoveries – Medical Insurance Society Limited	161,027,706	209,070,186
Gross Recoveries – Medical Life Assurance Society Limited	9,166,663	3,592,678
Discount to Present Value	(3,819,226)	(5,405,476)
Reinsurance Recoveries Outstanding	166,375,143	207,257,388

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 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 OUTSTANDING – MEDICAL INSURANCE SOCIETY LIMITED

	2014 $	2013 $
Claims Recoveries Owing by Third Parties	2,487,996	2,983,285
	2,487,996	2,983,285

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.

9. CLAIMS RECOVERIES OUTSTANDING – MEDICAL INSURANCE SOCIETY LIMITED continued …

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 (2013 nil).
- accounts placed with a collection agency, 65.00% impairment (2013 65.00%).
- amounts for which a regular payment arrangement has been agreed with the debtor, nil impairment (2013 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 2014.

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. 3 – Determination of Life Insurance Policy Liabilities issued by 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 4.57% (2013 3.51%), net of tax at 28.00% (2013 28.00%), giving a net discount rate of 3.29% per annum (2013 2.53%).

Disability outstanding claims have been valued using the 5-year Government stock rate of 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 (2013 2.50%). Expenses are assumed to be linked to movements in salaries and wages which have historically moved faster than the CPI. The assumed rate of increase is 3.50% per annum (2013 3.50%).

Element Impacted	Assumed Rate
Benefit indexation	2.50%
Expenses	3.50%

It is further assumed that benefit indexation will be utilised by up to 90.00% of indexed assurances (2013 90.00%) which is in line with the Company’s recent experience.

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

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 (2013 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 $280 (2013 $343) gross per policy. 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 $715 for life policies (2013 $1,502) and $977 for disability policies. The unit expenses are based upon a broad analysis of the Company's actual expenses for the year. Maintenance costs of permanent assurances equal 2.2 times those for risk policies. This is approximately the same relativity as was used in the previous valuation.

Investment expenses. Investment expenses equalled 0.19% of funds under management (2013 0.20%).

The breakdown of actual expenses is as follows:

	2014 $	2013 $
Maintenance expenses	6,302,354	3,441,594
Acquisition expenses	1,766,544	1,855,049
Investment expenses	87,328	58,461
	8,156,226	5,355,104

TAXATION

Future rates of taxation have been assumed to continue at the current level of company tax in New Zealand of 28.00% (2013 28.00%).

MORTALITY AND MORBIDITY

The basic rates of mortality assumed were:

Males	90% of IA95-97M (2013 90% of IA95-97M)
Females	90% of IA95-97F (2013 90% of IA95-97F)

Modifications have been made from these base tables to reflect smoker/non-smoker habits and duration in force (2014 same modifications as made in 2013).

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 (2013 85.00%).

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

DISCONTINUANCES

Risk insurances including: • Term Life • Dread Disease • Total Permanent Disablement	Yearly renewable contracts 5.50% per annum, level term contracts 1.00% p.a. (2013 4.00% p.a. for all contracts) until age 65 when all policies are assumed to cease
Traditional participating business	5.00% per annum (2013 5.00%)
Disability business	2.50% per annum

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

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 assumed to be entitled to 25% of the distribution to policyholders. Assumed rates of future bonus have been set so that the present value of the policy liabilities equals the present value of the assets supporting the business. Allowance is made for the shareholder's right to participate in the distributions.

Assumed future bonus rates for participating policies were:

Bonus rate on sum assured	$7.73 per mille (2013 $0.00 per mille)
Bonus rate on existing bonuses	$10.31 per mille (2013 $0.00 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

	2014 $	2013 $
Gross future claims	219,205,989	154,300,617
Future reinsurance premiums	137,998,603	107,978,552
Future reinsurance recoveries	(108,631,559)	(99,840,364)
Future policy bonuses	771,069	11,822
Future expenses	89,455,365	61,462,750
Future profit margins	92,927,741	91,290,632
Balance of future premiums	(426,608,137)	(313,854,214)
Policy Liabilities before bonus	5,119,071	1,349,795
Bonus declared at year end	166,200	175,400
Total Policy Liabilities at period end	5,285,271	1,525,195
Total Policy Liabilities at previous period end	(1,525,195)	(2,322,541)
Policy Liabilities recognised due to transfer of the Disability business	(4,268,290)	–
Decrease in Policy Liabilities per profit and loss	(508,214)	(797,346)

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	2010	2011	2012	2013	2014	Total
At end of incident year		9,036,598	8,345,964	7,086,012	6,574,340	5,269,693	
One year later		8,766,247	7,466,593	10,040,285	5,303,691		
Two years later		7,885,189	7,644,862	10,544,636			
Three years later		8,635,088	7,817,403				
Four years later		7,259,342					
Current estimated claim cost	44,087,072	7,259,342	7,817,403	10,544,636	5,303,691	5,269,693	
Payments	(36,165,171)	(6,286,090)	(5,506,493)	(5,847,242)	(4,229,774)	(1,951,510)	
Undiscounted central estimate	7,921,901	973,252	2,310,910	4,697,394	1,073,917	3,318,183	20,295,557
Discount to present value	(430,150)	(61,654)	(235,465)	(284,185)	(85,804)	(123,645)	(1,220,903)
Discounted central estimate	7,491,751	911,598	2,075,445	4,413,209	988,113	3,194,538	19,074,654

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

	2014 $	2013 $
Disability claims outstanding	19,074,654	–
Life claims outstanding	347,824	4,504,503
	19,422,478	4,504,503

13. INTEREST EXPENSE

	2014 $	2013 $
Debenture Interest	4,297,196	5,841,746
Savings Plan Interest	628,666	715,478
Note Interest	2,221,680	2,233,356
Interest Paid on Derivatives	73,287	–
Total Interest Expense	7,220,829	8,790,580

14. MORTGAGES AND LOANS

	2014 $	2013 $
Mortgages and Loans	210,597,156	222,138,744
Provision for Credit Impairment	520,994	530,005
Unearned Income	41,059,639	49,463,126
Net Mortgages and Loans	169,016,523	172,145,613
Mortgages and Loans – current	53,360,334	56,778,675
Mortgages and Loans – non current	116,177,183	115,896,943
Less Provision for Credit Impairment	(520,994)	(530,005)
Net Mortgages and Loans	169,016,523	172,145,613
Impaired Loan Provision		
Collective Loan Provision	487,703	501,816
Specific Loan Provision	33,291	28,189
Total Loan Provision	520,994	530,005
Collective Loan Provision		
Opening Balance	501,816	518,451
Movement in Collective Loan Provision	(14,113)	(16,635)
Closing Balance	487,703	501,816
Specific Loan Provision		
Opening Balance	28,189	66,874
Less: Specific Loan Provision Subsequently Written Off	(8,218)	(37,834)
Less: Reversal of Specifically Impaired Assets	–	(29,040)
Addition to Specific Impairment Provision	13,320	28,189
Closing Balance	33,291	28,189

$10,475 of interest income was received on specifically impaired loans for the period ending 31 March 2014 (2013 $11,062).

	2014 $	2013 $
Credit Impairment		
Movement in Collective Provision	(14,113)	(16,635)
Movement in Specific Provision	5,102	(38,685)
Impaired Assets written off	291,455	209,560
Recoveries on Impaired Assets	(35,744)	(37,375)
Credit Impairment per profit and loss	246,700	116,865

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 $
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
2013					
Instalments in Arrears	17,383	7,938	–	–	25,321
Principal in Arrears	18,188	85,875	–	6,021	110,084
Associated Loan Principal	508,556	99,766	–	–	608,322

85.00% (2013 60.00%) 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 0.61% of gross loans outstanding (2013 0.27%).

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 2014	36,550,000	452,219	60,468
Interest Rate Derivatives 2013	37,050,000	293,202	141,166

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

	2014 $	2013 $
Savings Plan (Unsecured) – current	19,800,674	20,418,970
First Ranking Debenture Stock – current	55,130,333	57,222,409
First Ranking Debenture Stock – non current	34,877,827	39,828,998
	109,808,834	117,470,377

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 2014 was 4.40% (2013 4.56%). 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

	2014 $	2013 $
Floating Rate Notes – current	–	25,000,000
Floating Rate Notes – non current	55,000,000	25,000,000
	55,000,000	50,000,000

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 2014 was 4.38% (2013 4.44%).

18. COMPENSATION PAID TO KEY MANAGEMENT PERSONNEL

	2014 $	2013 $
Salaries and other short-term employee benefits	2,138,304	1,940,123
MAS directors fees	558,825	563,875
MSL independent directors fees	76,170	68,000
Total compensation	2,773,299	2,571,998

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:

	2014 $	2013 $
Rental of Premises	559,076	547,740
Interest on Bank Overdraft	1,686	1,832
Fees to auditors – for the audit of financial statements	211,635	228,347
Fees to auditors – for other assurance and related services	40,991	42,143
Fees to auditors – for other assurance and related services (relating to the 2012 year)	–	36,915
Directors' Fees	634,995	631,875
Loss on Disposal of Property, Plant, Equipment and Intangibles	2,644	63
Depreciation and Amortisation	2,778,548	3,098,630

Other assurance and related audit fees relate principally to the audit of prospectuses and review of regulatory and trustee reporting.

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 2.49 years (2013 3.49 years) with renewal terms included in the contracts. Motor vehicle leases have an average life of 1.63 years (2013 1.31 years).

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

	2014 $	2013 $
Less than one year	655,583	744,588
Between one and two years	552,031	530,104
Between two and five years	713,426	948,340
Greater than five years	19,797	138,579
Total Operating Lease Commitments	1,940,837	2,361,611

21. INVESTMENT AND SUNDRY INCOME

	2014 $	2013 $
Gain from Investment Funds	6,085,407	8,540,061
Rent Received	31,383	30,416
Interest on Term Deposits	114,479	136,815
Sundry Income	1,328,086	1,283,215
Total Investment and Sundry Income	7,559,355	9,990,507
Realised Income	3,943,602	5,268,828
Unrealised Income	3,615,753	4,721,679
Total Investment and Sundry Income	7,559,355	9,990,507

22. TAXATION

	2014 $	2013 $
Net Surplus before Taxation	2,113,454	14,307,119
Taxation at 28%	591,767	4,005,993
Prior Period Adjustment	19,487	5,637
Taxation Effect of Permanent Differences	(2,588,532)	(2,270,380)
Imputation Credits	(12,590)	(72,131)
Other	(19,365)	(30,924)
Taxation (Credit)/Expense for the Year	(2,009,233)	1,638,195
Taxation (Credit)/Expense for the Year comprises:		
Current Taxation	(260,092)	1,314,268
Deferred Tax	(1,749,141)	323,927
Taxation (Credit)/Expense per Statement of Comprehensive Income	(2,009,233)	1,638,195

DEFERRED TAX

	Opening Balance $	Prior Period Adjustment $	Statement of Comprehensive Income $	Total $
31 March 2014				
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 ...

	Opening Balance $	Prior Period Adjustment $	Statement of Comprehensive Income $	Total $
31 March 2013				
Deferred Tax Liabilities				
Property, Plant and Equipment	(2,587,002)	–	23,506	(2,563,496)
Insurance Reserves and Provisions	(733,525)	(116,411)	(330,243)	(1,180,179)
Prepaid Expenses	(10,494)	–	10,494	–
Other	(81,612)	–	35,980	(45,632)
	(3,412,633)	(116,411)	(260,263)	(3,789,307)
Deferred Tax Assets				
Provisions and Accruals	768,922	(120,155)	174,163	822,930
Other	1,284	–	(1,261)	23
	770,206	(120,155)	172,902	822,953
Net Deferred Tax Liability	(2,642,427)	(236,566)	(87,361)	(2,966,354)

Imputation Credit Account ('ICA')	2014 $	2013 $
Closing Balance	39,147,433	38,121,616

23. CONTRIBUTED EQUITY

	2014 $	2013 $
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 any 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.

A statutory fund (Medical Life Assurance Statutory Fund) was established on 1 April 2013 encompassing all the assets and liabilities of Medical Life Assurance Society Limited.

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

23. CONTRIBUTED EQUITY continued ...

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 solvency position of the Medical Life Assurance Statutory Fund is exactly the same as for the entity. At 31 March 2014 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 2013). The minimum solvency capital MLA is required to maintain to meet the solvency standards is as follows:

	2014 $	2013 $
Actual Solvency Capital	49,358,077	35,712,804
Minimum Solvency Capital	33,105,115	20,289,779
Solvency Margin	16,252,962	15,423,025

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

	2014 $	2013 $
Actual Solvency Capital	39,450,686	33,422,757
Minimum Solvency Capital	20,816,912	25,832,954
Solvency Margin	18,633,774	7,589,803

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 2014 the Company's capital ratio was 12.90% (31 March 2013 16.80%). It is required to maintain a capital ratio of at least 8.0% at all times. At 31 March 2014 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 2013).

24. PAYABLES

	2014 $	2013 $
Government Levies	732,160	1,266,572
GST Payable	2,024,338	2,504,701
Employee Benefits – current	1,145,666	1,002,159
Incentive Bonus	100,000	408,574
Other Payables	5,420,471	4,740,637
Employee Benefits – non current	1,057,201	998,308
	10,479,836	10,920,951

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(n) for further details.

25. CASH AND CASH EQUIVALENTS

	2014 $	2013 $
Cash at Bank	8,254,084	10,054,547
Short Term Deposits	28,500,000	40,500,000
	36,754,084	50,554,547

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

	2014 $	2013 $
Reinsurance Premiums Paid in Advance	487,143	–
Interest Due	584,675	750,233
Management Fee due from Funds Management	1,711,122	1,369,676
Other	159,828	311,825
	2,942,768	2,431,734

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

27. INVESTMENTS

	2014 $	2013 $
Short Term Domestic Securities and Deposits	76,475,420	29,241,127
Domestic Fixed Interest	17,777,163	36,376,861
International Fixed Interest (Unit Trust)	9,147,999	22,806,566
Australasian Equities (Managed Fund)	8,532,106	4,569,266
International Equities (Exchange Traded Funds)	23,437,156	11,290,618
Total Investments	135,369,844	104,284,438
Life Assurance Investment Funds	59,292,758	33,398,231
Insurance Investment Funds	76,077,086	70,886,207
Total Investments	135,369,844	104,284,438

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 (Medical Insurance Society Limited or Medical Life Assurance Society Limited), 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 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

	Land $	Buildings $	Furniture, Fittings and Equipment $	Total $
Cost/Valuation				
Balance as at 1 April 2012	1,600,000	2,490,000	8,413,952	12,503,952
Additions	–	–	605,293	605,293
Disposals	–	–	(47,434)	(47,434)
Balance as at 31 March 2013	1,600,000	2,490,000	8,971,811	13,061,811
Accumulated Depreciation and Impairment Losses				
Balance as at 1 April 2012	–	–	6,143,383	6,143,383
Depreciation charge	–	62,250	724,319	786,569
Disposals	–	–	(45,314)	(45,314)
Balance as at 31 March 2013	–	62,250	6,822,388	6,884,638
Net Book Value 31 March 2013	1,600,000	2,427,750	2,149,423	6,177,173

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 2 April 2012. The resultant fair value figure of $4,090,000 was recognised by writing down the carrying value of the Buildings at 31 March 2012 by $410,000 and the Land by $240,000. The effective date of the revaluation was 31 March 2012. 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:

	2014 $	2013 $
Land	820,698	820,698
Buildings	4,611,331	4,611,331
Accumulated Depreciation on Buildings	(3,166,956)	(3,051,672)
	1,444,375	1,559,659

29. INTANGIBLES

	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

	Software $	Work in Progress $	Total $
Cost			
Balance as at 1 April 2012	23,875,773	1,867,448	25,743,221
Additions	249,206	2,208,746	2,457,952
Transfers	421,812	(421,812)	–
Disposals	(1,016)	–	(1,016)
Balance as at 31 March 2013	24,545,775	3,654,382	28,200,157

29. INTANGIBLES continued ...

	Software $	Work in Progress $	Total $
Accumulated Amortisation and Impairment Losses			
Balance as at 1 April 2012	12,511,013	–	12,511,013
Amortisation charge	2,312,061	–	2,312,061
Disposals	(81)	–	(81)
Balance as at 31 March 2013	14,822,993	–	14,822,993
Net Book Value 31 March 2013	9,722,782	3,654,382	13,377,164

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

	2014 $	2013 $
Opening balance	2,747,600	1,981,494
Acquisition costs related to Disability business (transferred to MLA)	(2,434,186)	–
Acquisition costs deferred during the year	385,626	1,518,292
Current period amortisation	(313,414)	(752,186)
Closing balance	385,626	2,747,600
Represented as:		
Current	385,626	491,814
Non current	–	2,255,786
	385,626	2,747,600

31. COMMITMENTS

	2014 $	2013 $
Commitments to extend credit (Member's undrawn revolving credit facilities)	23,366,904	21,917,024
Capital commitments relating to development of software systems	855,000	427,000
	24,221,904	22,344,024

32. CONTINGENT LIABILITIES

The Group is subject to several legal disputes at 31 March 2014. 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. The impact of any subsequent judgements is unlikely to be significant to the financial statements.

Medical Securities Limited ("MSL"), as servicer of home loans sold by MML to ANZ Bank New Zealand Limited ("ANZ"), has provided certain warranties to ANZ in respect of those home loans. The Company has issued $1,000,000 (2013 $1,000,000) of Security Stock to support these warranties. For a warranty claim to succeed ANZ would need to incur an actual loss arising out of any of those warranties being incorrect. In light of the strong history of the MML home loan securitisation programme (no losses over 14 years), and the mortgages being insured, MSL considers the likelihood of an actual loss to be minimal. The warranties expire in September 2014.

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.

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.

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

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.

	2014 Carrying Amount $	2014 Fair Value $	2013 Carrying Amount $	2013 Fair Value $
Financial Assets				
Derivative Financial Instruments	452,219	452,219	293,202	293,202
Investments	135,369,844	135,369,844	104,284,438	104,284,438
Net Mortgages and Loans	169,016,523	167,088,549	172,145,613	173,406,635
Total Financial Assets	304,838,586	302,910,612	276,723,253	277,984,275

	2014 Carrying Amount $	2014 Fair Value $	2013 Carrying Amount $	2013 Fair Value $
Financial Liabilities				
Debenture Stock and Savings Plan	109,808,834	110,409,758	117,470,377	118,712,344
Derivative Financial Instruments	60,468	60,468	141,166	141,166
Notes	55,000,000	55,000,000	50,000,000	50,000,000
Other Liabilities	8,468,142	8,468,142	8,416,250	8,416,250
Total Financial Liabilities	173,337,444	173,938,368	176,027,793	177,269,760

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 Company recognises on a fair value basis are its investments (refer to Classification of Financial Instruments in Note 34 for details of the classification categories):

	Level 1 $	Level 2 $	Level 3 $	Total $
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

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

	Level 1 $	Level 2 $	Level 3 $	Total $
31 March 2013				
Assets measured at fair value				
Derivative Financial Instruments	–	293,202	–	293,202
Short Term Domestic Securities and Deposits	–	29,241,127	–	29,241,127
Domestic Fixed Interest	–	36,376,861	–	36,376,861
International Fixed Interest (Unit Trust)	–	22,806,566	–	22,806,566
Australasian Equities (Managed Fund)	4,569,266	–	–	4,569,266
International Equities (Exchange Traded Funds)	11,290,618	–	–	11,290,618
Liabilities measured at fair value				
Derivative Financial Instruments	–	141,166	–	141,166

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 were no transfers of assets or liabilities between the various levels (2013 nil).

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

34. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT continued ...

- 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, 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 $25,954,780 (2013 $30,005,498).

Statement of Financial Position credit exposures:

	2014 $	2013 $
Cash at Bank/Short Term Deposits	36,754,084	50,554,547
Derivative Financial Instruments	452,219	293,202
Investments	135,369,844	104,284,438
Net Mortgages and Loans	169,016,523	172,145,613
Receivables	2,942,768	2,431,734
	344,535,438	329,709,534
Other Credit Exposures:		
Warranties provided to the ANZ Bank	1,000,000	1,000,000
Commitments given to Members to extend credit	23,366,904	21,917,024
	24,366,904	22,917,024

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

	2014 %	2013 %
Auckland	30.48	33.18
Hamilton	22.00	19.84
Palmerston North	13.51	13.97
Wellington	10.89	9.89
Christchurch	19.11	19.05
Dunedin	4.01	4.07
Total	100.00	100.00

34. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT continued ...

	2014	2013
Amount owed by the Group's six largest lending debtors	$28,327,162	$27,863,102
Six largest lending exposures as a proportion of Mortgages and Loans	16.76%	16.19%
Six largest lending exposures as a proportion of Total Equity	19.43%	19.66%

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-.

	2014	2013
10%–20% of equity	6	8
> 20% of equity	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.

Statement of Financial Position investment exposures:

	2014 $	2013 $
Cash and Cash Equivalents	36,754,084	50,554,547
Short Term Domestic Securities and Deposits	76,475,420	29,241,127
Domestic Fixed Interest	17,777,163	36,376,861
International Fixed Interest (Unit Trust)	9,147,999	22,806,566
Australasian Equities (Managed Fund)	8,532,106	4,569,266
International Equities (Exchange Traded Funds)	23,437,156	11,290,618
	172,123,928	154,838,985

34. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT continued ...

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 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
31 March 2013							
Cash and Short Term Deposits	–	100.0%	–	–	–	–	79,795,674
Fixed Interest	24.6%	33.5%	8.0%	17.0%	–	16.9%	59,183,427
Reinsurance Recoveries	–	49.1%	44.6%	4.5%	–	1.8%	207,257,388

FUNDING RISK

Geographic spread of Debenture Stock and Savings Plan funding:

	2014 %	2013 %
Auckland	23.50	25.00
Hamilton	18.18	17.30
Palmerston North	14.83	13.92
Wellington	21.47	21.48
Christchurch	15.78	15.42
Dunedin	6.24	6.88
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):

	2014 $	2013 $
AUD	4,837,704	1,594,637
EUR	1,165,489	–
GBP	3,993,775	–
USD	5,011,294	4,128,445
	15,008,262	5,723,082

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 is 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
- access to un-drawn bank borrowing facilities to meet any shortfalls in liquidity.

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.

34. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT continued ...

Liquidity profile of financial instruments:

	On Demand $	0 – 6 months $	6 – 12 months $	1 – 2 years $	2 – 5 years $	Over 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	23,366,904	–	–	–	–	–	23,366,904
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

34. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT continued ...

	On Demand $	0 – 6 months $	6 – 12 months $	1 – 2 years $	2 – 5 years $	Over 5 years $	Total $
31 March 2013							
Financial Assets							
Cash at Bank	10,054,547	–	–	–	–	–	10,054,547
Short Term Deposits	–	40,500,000	–	–	–	–	40,500,000
Investments	–	104,284,438	–	–	–	–	104,284,438
Derivative Financial Instruments	–	–	–	53,437	239,765	–	293,202
Mortgages and Loans	31,053,984	19,957,460	17,920,878	31,582,849	56,679,928	64,943,645	222,138,744
Receivables	2,431,734	–	–	–	–	–	2,431,734
	43,540,265	164,741,898	17,920,878	31,636,286	56,919,693	64,943,645	379,702,665
Undrawn Revolving Credit Facilities	21,917,024	–	–	–	–	–	21,917,024
Financial Liabilities							
Derivative Financial Instruments	2,959	31,790	95,478	10,939	–	–	141,166
Debenture Stock/ Savings Plan	32,092,643	27,440,151	20,728,744	17,529,358	30,565,332	–	128,356,228
Notes	–	1,129,579	25,769,566	1,340,262	26,138,782	–	54,378,189
Other Liabilities	8,416,250	–	–	–	–	–	8,416,250
	40,511,852	28,601,520	46,593,788	18,880,559	56,704,114	–	191,291,833

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 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

	0 – 6 months $	6 – 12 months $	1 – 2 years $	2 – 5 years $	Not Interest Bearing $	Total $
31 March 2013						
Financial Assets						
Cash at Bank	10,054,547	–	–	–	–	10,054,547
Short Term Deposits	40,500,000	–	–	–	–	40,500,000
Derivative Financial Instruments	293,202	–	–	–	–	293,202
Investments	104,284,438	–	–	–	–	104,284,438
Mortgages and Loans	156,261,730	920,813	5,754,055	9,209,015	–	172,145,613
Receivables	–	–	–	–	2,431,734	2,431,734
	311,393,917	920,813	5,754,055	9,209,015	2,431,734	329,709,534
Financial Liabilities						
Derivative Financial Instruments	141,166	–	–	–	–	141,166
Notes	50,000,000	–	–	–	–	50,000,000
Debenture Stock/Savings Plan	58,358,673	19,282,705	15,623,669	24,205,330	–	117,470,377
Other Liabilities	–	–	–	–	8,416,250	8,416,250
	108,499,839	19,282,705	15,623,669	24,205,330	8,416,250	176,027,793

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	2014 $	2013 $
Insurance Risk:			
Discount rate	Increase by 1%	1,837,000	1,705,000
	Decrease by 1%	(1,935,000)	(1,827,000)
Termination rates	Increase by 10%	475,000	593,000
	Decrease by 10%	(538,000)	(523,000)

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%	265,000	364,000
	Decrease by 1%	(265,000)	(364,000)
Bond interest rates	Increase by 0.50%	(248,000)	(340,000)
	Decrease by 0.50%	248,000	340,000

34. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT continued …

MAS 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.

		Impact on Profit and Equity	
Risk Variable	Movement	2014 $	2013 $
Unit prices	Unit price increases by 10%	659,000	4,172,000
	Unit price decreases by 10%	(659,000)	(4,172,000)
Currency Risk	NZD appreciates by 10% against the USD	(361,000)	(474,000)
	NZD depreciates by 10% against the USD	361,000	330,000
	NZD appreciates by 10% against the AUD	(348,000)	(159,000)
	NZD depreciates by 10% against the AUD	348,000	159,000
	NZD appreciates by 10% against the EUR	(84,000)	–
	NZD depreciates by 10% against the EUR	84,000	–
	NZD appreciates by 10% against the GBP	(288,000)	–
	NZD depreciates by 10% against the GBP	288,000	–

CLASSIFICATION OF FINANCIAL INSTRUMENTS

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

	Loans and Receivables $	Fair Value through Profit or Loss $	Other Financial Liabilities $	Total $
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

34. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT continued ...

	Loans and Receivables $	Fair Value through Profit or Loss $	Other Financial Liabilities $	Total $
31 March 2013				
Financial Assets				
Cash at Bank	10,054,547	–	–	10,054,547
Short Term Deposits	40,500,000	–	–	40,500,000
Investments	–	104,284,438	–	104,284,438
Derivative Financial Instruments	–	293,202	–	293,202
Premiums Outstanding	25,123,610	–	–	25,123,610
Mortgages and Loans	172,145,613	–	–	172,145,613
Receivables	2,431,734	–	–	2,431,734
Reinsurance Recoveries Outstanding	207,257,388	–	–	207,257,388
	457,512,892	104,577,640	–	562,090,532
Financial Liabilities				
Derivative Financial Instruments	–	141,166	–	141,166
Notes	–	–	50,000,000	50,000,000
Debenture Stock/Savings Plan	–	–	117,470,377	117,470,377
Other Liabilities	–	–	8,416,250	8,416,250
	–	141,166	175,886,627	176,027,793

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 A-/Stable counterparty credit rating from Standard & Poor's.

36. RECONCILIATION OF CASH FLOWS

	2014 $	2013 $
Reported Surplus after Taxation	4,122,687	12,668,924
Add/(Deduct) Non-Cash Items:		
Depreciation and Amortisation	2,778,548	3,098,630
Loss on Disposal of Property, Plant, Equipment and Intangibles	2,644	63
Fair Value Change in Derivatives	(239,715)	95,351
Credit Impairment	246,700	116,865
Addition to Unearned Premium	(3,840,150)	1,484,969
Change in Deferred Acquisition Costs	2,361,974	(766,106)
Change in Deferred Taxation	(1,749,141)	323,927
Changes in Assets and Liabilities:		
Payables	(441,115)	2,644,195
Receivables	(511,034)	3,978
Mortgages and Loans	2,882,390	8,623,081
Outstanding Claims	(24,730,672)	37,531,317
Reinsurance Recoveries	40,882,245	(30,009,746)
Life Policy Liabilities	3,760,076	(797,346)
Premiums Outstanding	(347,598)	(2,308,808)
Provision for Taxation	582,529	(1,194,431)
Net Cash Flows from Operating Activities	25,760,368	31,514,863

Chartered Accountants

AUDITOR'S REPORT

INDEPENDENT AUDITOR'S REPORT

TO THE SHAREHOLDERS OF MEDICAL ASSURANCE SOCIETY NEW ZEALAND LIMITED

REPORT ON THE FINANCIAL STATEMENTS

We have audited the financial statements of Medical Assurance Society New Zealand Limited (the 'company') and its subsidiaries (together the 'group') on pages 6 to 51, which comprise the statement of financial position of the group as at 31 March 2014, 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 205(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 of the financial statements in accordance with generally accepted accounting practice in New Zealand and that give a true and fair view of the matters to which they relate, 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 of the financial statements that give a true and fair view of the matters to which they relate 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 undertake regulatory and other assurance work for 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 6 to 51:

- comply with generally accepted accounting practice in New Zealand;
- comply with International Financial Reporting Standards; and
- give a true and fair view of the financial position of Medical Assurance Society New Zealand Limited and the group as at 31 March 2014 and the financial performance and cash flows of the company and group for the year then ended.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

In accordance with the Financial Reporting Act 1993, we report that:

- We have obtained all the information and explanations that we have required.
- In our opinion proper accounting records have been kept by Medical Assurance Society New Zealand Limited as far as appears from our examination of those records.

Ernst + Young

25 June 2014
Wellington

FIVE-YEAR SUMMARY

	2014 ($000's)	2013 ($000's)	2012 ($000's)	2011 ($000's)	2010 ($000's)
STATEMENT OF COMPREHENSIVE INCOME					
FIRE AND GENERAL INSURANCE					
Gross Premium Income	62,364	75,200	71,384	62,179	58,148
Net Earned Premium	41,096	52,001	48,983	47,586	44,406
Net Claims	(48,036)	(39,932)	(33,786)	(36,313)	(31,933)
Net Income from Fire and General Insurance	(6,940)	12,069	15,197	11,273	12,473
LIFE ASSURANCE					
Gross Premium Income	31,230	14,396	13,169	11,925	10,935
Net Premium Income	22,534	10,624	9,701	8,923	8,227
Claims, Surrenders and Maturities	(4,485)	(2,054)	(1,003)	(3,022)	(3,105)
Decrease in Life Policy Liabilities	508	797	1,732	722	371
Net Income from Life Assurance	18,557	9,367	10,430	6,623	5,493
LENDING					
Interest and Sundry Income	15,382	17,179	20,252	22,460	32,488
Interest and Lending Expense	(7,467)	(8,907)	(9,726)	(11,436)	(18,005)
Net Income from Lending	7,915	8,272	10,526	11,024	14,483
FUNDS MANAGEMENT AND FINANCIAL PLANNING					
Revenue from Funds Management and Financial Planning	6,405	5,056	4,177	3,602	2,817
Group Operating Expenses	(31,383)	(30,449)	(30,463)	(30,066)	(30,926)
Net (Loss)/Income from Operations	(5,446)	4,315	9,867	2,456	4,340
Investment and Sundry Income	7,559	9,992	3,435	8,583	9,540
Surplus before Tax	2,113	14,307	13,302	11,039	13,880
Tax Credit/(Expense)	2,009	(1,638)	(2,533)	(1,729)	(2,448)
Surplus after Tax	4,122	12,669	10,769	9,310	11,432
STATEMENT OF FINANCIAL POSITION					
Total Assets	561,842	587,835	549,546	628,517	395,815
Total Liabilities	416,014	446,130	420,510	509,815	286,413
Equity	145,828	141,705	129,036	118,702	109,402
OTHER INFORMATION					
Fire and General Claims as a percentage of Net Earned Premium	116.9%	76.8%	69.0%	76.3%	71.9%
Operating Expenses as a percentage of Total Income	25.5%	25.0%	27.1%	27.6%	27.1%
Equity as a percentage of Total Income	118.6%	116.3%	114.8%	109.2%	96.0%
Number of Members	26,179	24,585	23,648	22,785	22,056

STATUTORY INFORMATION

DIRECTORS' INTERESTS

No transactions have been entered into with the Company by any directors other than on normal terms and conditions. Dr Richard Tyler has acted as Medical Advisor during the year.

USE OF COMPANY INFORMATION

The Board received no notices during the year from directors requesting to use company information received in their capacity as directors which would not otherwise have been available to them.

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	$121,590
Mr J K W Isles	$80,315
Dr H E Aish	$44,238
Dr K M S Ayers	$51,085
Mr H M Clentworth	$19,507
Ms D R Dinsdale	$34,057
Dr F A Frizelle	$25,390
Mr A C Hercus	$47,223
Dr L E J King	$12,500
Dr H W Rodenburg	$47,835
Mr C J Thompson	$75,085

Fees were also paid to four 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	$24,223
Ms D R Dinsdale	$12,112
Mr A C Hercus	$12,112
Mr L R Knowles	$27,723

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.

EMPLOYEE REMUNERATION

$660,000-$670,000	1 employee
$290,000-$300,000	1 employee
$270,000-$280,000	1 employee
$250,000-$260,000	1 employee
$210,000-$220,000	3 employees
$200,000-$210,000	1 employee
$180,000-$190,000	1 employee
$170,000-$180,000	1 employee
$160,000-$170,000	4 employees
$150,000-$160,000	2 employees
$140,000-$150,000	4 employees
$130,000-$140,000	3 employees
$120,000-$130,000	7 employees
$110,000-$120,000	17 employees
$100,000-$110,000	16 employees

Richard Tyler
Chairman

CORPORATE GOVERNANCE STATEMENT

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 2014 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 (Messrs. Howard Clentworth and Lindsay Knowles) ensures compliance with the independent directors requirements of the Reserve Bank of New Zealand Act. The third director solely on the Board of MSL is the MAS Chief Executive Officer, Mr Martin Stokes.

MAS strives to provide a sound and secure business conducted for the benefit of current and future Members of the Trust. MAS's purpose is to provide high-quality services in a cooperative relationship with Members, consistent with the stability and growth of MAS and in accordance with sound business practice. MAS does not seek to provide dividends or similar financial returns to Members. The 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 provides oversight to the management of MAS to ensure that activities undertaken are carried out in the best interests of 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 capital expenditure above delegated authorities, financial policy and policy on dividend payment by subsidiary companies to MAS.

The Board operates in a manner that encourages open and frank discussion and confidentiality. It is entitled to seek independent professional advice to assist it in meeting its responsibilities. The cost of obtaining this advice is met by MAS.

A clear separation is maintained between the roles of Chairman and Chief Executive Officer. The Chairman's role is to manage the Board effectively, to provide leadership to the Board 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 2014.

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 under the Companies Act 1993 and the Financial Reporting Act 1993 relative to accounting practices, policies and controls. It generally meets with MAS's external auditors twice a year to review financial statements, the audit pertaining to 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, should it choose to use it, unrestricted access to the external auditors and to the Internal Audit Manager.

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

The current composition of the Audit and Risk Committee is Mr Craig Thompson (Chairman), Mr Alastair Hercus, Mr John Isles 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 on behalf of the Board for entering into contractual arrangements and executing contracts with funding providers. And secondly, to consider large loan (greater than $2 million) applications, and consider all significant changes to lending policy. Meetings are held on an as-required basis.

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

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

The current composition of the Investment Committee is Mr John Isles (Chairman), Mr Alastair Hercus, Mr Craig Thompson and Dr Richard Tyler.

The **Senior Remuneration Committee** meets on an annual basis to consider the Chief Executive Officer's recommendations as to the remuneration of the senior management team. 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, Mr John Isles 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 health care organisations; medical adviser on underwriting for Medical Life Assurance Society Limited and personal health.

OTHER BOARDS AND HEALTH SECTOR ACTIVITY: Chairman Compass Health, Director of BPAC NZ, Board member RNZCGP and Executive board member of GPNZ.

JOHN ISLES DEPUTY CHAIRMAN

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

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

OTHER BOARDS AND HEALTH SECTOR ACTIVITY: Director of The Co-operative Bank Limited, Woolyarns Holdings, TR Group.

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, 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: Director of Acka Health Limited, Director of Anglesea OMS, Specialist Representative on New Zealand Dental Association Board, Board Representative on New Zealand Dental Association Executive, Committee member of the Australian and New Zealand Society of Paediatric Dentistry.

HOWARD CLENTWORTH

DIRECTOR – Medical Securities Limited

(**DIRECTOR** – Medical Assurance Society New Zealand Limited, Medical Insurance Society Limited, Medical Life Assurance Society Limited and Medical Funds Management Limited until 27/8/2013)

FIELDS OF EXPERTISE: Obstetrics and gynaecology.

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

LINDSAY KNOWLES

DIRECTOR – Medical Securities Limited

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

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

DANELLE DINSDALE

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

(**DIRECTOR** – Medical Securities Limited until 24/9/2013)

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

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

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 and Geordie Hill Station Limited.

ALASTAIR HERCUS

DIRECTOR – Medical Assurance Society New Zealand Limited, Medical Insurance Society Limited, Medical Life Assurance Society Limited, Medical Funds Management Limited, Medical Securities Limited from 25/9/2013.

(**INDEPENDENT DIRECTOR** – Medical Securities Limited until 24/9/2013)

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, 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.

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.

OTHER BOARDS AND HEALTH SECTOR ACTIVITY: Island Bay Medical Centre, Clinical Director of Long-term Conditions.

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: Chairman of Accent Group Limited, Director of Woolyarns Holdings Limited and Curtain Studio Limited.

LEWIS KING

RETIRED 29/5/2013

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
Head Of Risk And Compliance

Ross McMillan
Human Resources Manager

Mike Paine
General Manager, Information Technology

Lyndal Preston
General Manager, Member Support

Graeme Ross
Financial Controller

Martin Stokes
Chief Executive Officer

Glenys Talivai
General Manager, Sales And Marketing

REGISTERED OFFICE
19–21 Broderick Road
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AUDITOR
Ernst & Young

SOLICITORS
Minter Ellison Rudd Watts

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