

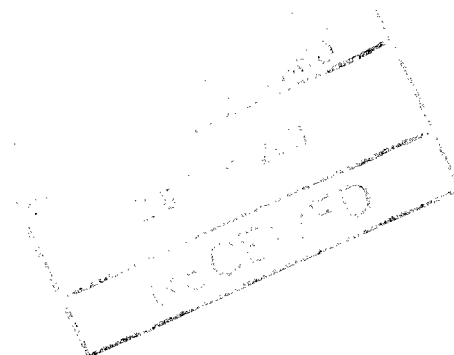


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**MARAC INSURANCE LIMITED  
FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2011**

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**NPC# 09  
30 SEP 2011**

**MARAC INSURANCE LIMITED**

**DIRECTORS' RESPONSIBILITY STATEMENT**

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The directors are responsible for ensuring that the financial statements give a true and fair view of the financial position of MARAC Insurance Limited (the "Company") as at 30 June 2011 and the financial performance and cash flows for the year ended on that date.

The directors consider that the financial statements of the Company have been prepared using appropriate accounting policies consistently applied and supported by reasonable judgements and estimates and that all the relevant financial reporting and accounting standards have been followed.

The directors believe that proper accounting records have been kept which enable, with reasonable accuracy, the determination of the financial position of the Company and facilitate compliance of the financial statements with the Financial Reporting Act 1993.

The Board of Directors of MARAC Insurance Limited authorise the financial statements set out on pages 3 to 16 for issue on 23 August 2011.

For and on behalf of the Board



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Director



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Director

**MARAC INSURANCE LIMITED**  
**STATEMENT OF COMPREHENSIVE INCOME**  
**FOR THE YEAR ENDED 30 JUNE 2011**

	Note	2011 \$000	2010 \$000
Premium income	4	3,788	3,242
Commission expense	5	2,656	2,323
		<b>1,132</b>	<b>919</b>
Interest income		195	208
Fees and other Income		91	287
		<b>1,418</b>	<b>1,414</b>
Change in policy liability		(30)	(31)
Claims expense	6	227	238
<b>Insurance claims expense</b>		<b>197</b>	<b>207</b>
Selling and administration expenses	7	533	367
Depreciation - office fit-out and equipment	12	12	3
<b>Operating expenses</b>		<b>742</b>	<b>577</b>
<b>Profit before income tax</b>		<b>676</b>	<b>837</b>
Income tax expense	8	20	31
<b>Profit for the year</b>	9	<b>656</b>	<b>806</b>
<b>Total comprehensive income for the year</b>		<b>656</b>	<b>806</b>
<b>Profit attributable to:</b>			
Owners of the Company		656	806
<b>Profit for the year</b>		<b>656</b>	<b>806</b>
<i>Total comprehensive income attributable to:</i>			
Owners of the Company		656	806
<b>Total comprehensive income for the year</b>		<b>656</b>	<b>806</b>

The notes on pages 7 to 16 are an integral part of these financial statements.

**MARAC INSURANCE LIMITED**  
**STATEMENT OF CHANGES IN EQUITY**  
**FOR THE YEAR ENDED 30 JUNE 2011**

	Note	Share Capital \$000	Retained Earnings \$000	Total Equity \$000
<b>2011</b>				
<b>Balance at 1 July 2010</b>		<b>465</b>	<b>1,584</b>	<b>2,049</b>
<b>Total comprehensive income for the year</b>				
Profit for the year		-	656	656
<b>Total comprehensive income for the year</b>		<b>-</b>	<b>656</b>	<b>656</b>
<b>Balance at 30 June 2011</b>		<b>465</b>	<b>2,240</b>	<b>2,705</b>
<b>2010</b>				
<b>Balance at 1 July 2009</b>		<b>250</b>	<b>778</b>	<b>1,028</b>
<b>Total comprehensive income for the period</b>				
Profit for the year		-	806	806
<b>Total comprehensive income for the period</b>		<b>-</b>	<b>806</b>	<b>806</b>
<b>Transactions with owners, recorded directly in equity</b>				
Issue of share capital	16	215	-	215
<b>Total transactions with owners</b>		<b>215</b>	<b>-</b>	<b>215</b>
<b>Balance at 30 June 2010</b>		<b>465</b>	<b>1,584</b>	<b>2,049</b>

The notes on pages 7 to 16 are an integral part of these financial statements.



**MARAC INSURANCE LIMITED**  
**STATEMENT OF FINANCIAL POSITION**  
**AS AT 30 JUNE 2011**

	Note	2011 \$000	2010 \$000
<b>Assets</b>			
Cash and cash equivalents		4,450	447
Investments	10	1,030	3,555
Other assets	11	394	277
Office fit-out and equipment	12	29	18
<b>Total assets</b>		<b>5,903</b>	<b>4,297</b>
<b>Liabilities</b>			
Outstanding claims liability	13	209	238
Policy liability	13	2,255	1,515
Other liabilities	14	223	129
Deferred tax liability	15	511	366
<b>Total liabilities</b>		<b>3,198</b>	<b>2,248</b>
<b>Net assets</b>		<b>2,705</b>	<b>2,049</b>
<b>Equity</b>			
Share capital	16	465	465
Retained earnings	16	2,240	1,584
<b>Total equity</b>		<b>2,705</b>	<b>2,049</b>
<b>Total equity and liabilities</b>		<b>5,903</b>	<b>4,297</b>

The notes on pages 7 to 16 are an integral part of these financial statements.



**MARAC INSURANCE LIMITED**  
**STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED 30 JUNE 2011**

	Note	2011	2010
		\$000	\$000
<b>Cash flows from operating activities</b>			
Cash was provided from:			
Premiums received		4,951	3,347
Fees received		91	287
Interest received		194	214
<b>Total cash provided from operating activities</b>		<b>5,236</b>	<b>3,848</b>
Cash was applied to:			
Commissions paid		3,207	2,366
Payment of claims		227	238
Income tax paid		5	-
Payments to suppliers and employees		297	284
<b>Total cash applied to operating activities</b>		<b>3,736</b>	<b>2,888</b>
<b>Net cash flows from operating activities</b>	17	<b>1,500</b>	<b>960</b>
<b>Cash flows from investing activities</b>			
Cash was provided from:			
Net decrease in investments		2,526	-
<b>Total cash flows provided from investing activities</b>		<b>2,526</b>	<b>-</b>
Cash was applied to:			
Net increase in investments		-	717
Purchase of office fit-out and equipment		23	19
<b>Total cash flows applied to investing activities</b>		<b>23</b>	<b>736</b>
<b>Net cash flows applied to investing activities</b>		<b>2,503</b>	<b>(736)</b>
<b>Cash flows from financing activities</b>			
Cash was provided from:			
Issue of share capital		-	215
<b>Total cash flows from financing activities</b>		<b>-</b>	<b>215</b>
<b>Net cash flows from financing activities</b>		<b>-</b>	<b>215</b>
<b>Net increase in cash held</b>		<b>4,003</b>	<b>439</b>
Opening cash balance		447	8
<b>Closing cash balance</b>		<b>4,450</b>	<b>447</b>

The notes on pages 7 to 16 are an integral part of these financial statements.

**MARAC INSURANCE LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2011**

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**1 Reporting entity**

The financial statements are for MARAC Insurance Limited (the "Company"). The Company was incorporated in New Zealand on 13 October 2005 and is a Company registered under the Companies Act 1993. The Company provides term life insurance and general insurance covering risks such as redundancy, bankruptcy or suspension of employment. The Company also sells insurance on behalf of other parties. The Company is registered under the Life Insurance Act 1908 and as such these financial statements have been prepared under NZ IFRS 4 Appendix C.

The financial statements of the Company are for the year ended 30 June 2011. The financial statements were authorised for issue by the directors on 23 August 2011.

**2 Basis of preparation**

**(a) Statement of compliance**

The financial statements have been prepared in accordance with Generally Accepted Accounting Practice in New Zealand (NZ GAAP). They comply with the New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS) and other applicable Financial Reporting Standards as appropriate to profit-oriented entities. The financial statements comply with International Financial Reporting Standards (IFRS).

The Company is a reporting entity for the purposes of the Financial Reporting Act 1993 and its financial statements comply with that Act.

**(b) Basis of measurement**

The financial statements have been prepared on the historical cost basis, except for the measurement of outstanding claims and the measurement of debenture stock, which is an asset backing insurance liability and is stated at fair value.

**(c) Presentation and functional currency**

These financial statements are presented in New Zealand dollars which is the Company's functional currency. Unless otherwise indicated, amounts are rounded to the nearest thousand.

**3 Significant accounting policies**

**(a) Changes in accounting policies**

There have been no material changes in accounting policies in the current year.

**(b) Insurance contracts**

An insurance contract is defined as a contract under which one party (the insurer) accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder if a specified uncertain insured event adversely affects the policyholder. The insurance activities of the Company arise from lifestyle protection and guaranteed asset protection insurance.

**(c) Revenue**

*Premium Income*

Premiums are recognised on a margin on services basis. Planned margins of revenues over expenses are recognised in profit or loss over the reporting years during which the services to which those margins relate are provided to policyholders, and the revenues relating to those services are received.

*Fees and Other Income*

Fees and other income is recognised when earned, as the service is provided.

**MARAC INSURANCE LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2011**

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**3 Significant accounting policies (cont)**

**(c) Revenue (cont)**

*Interest Income*

Interest income revenue is recognised in profit or loss as earned.

**(d) Claims expense**

Claims expense represents payments made on claims and the movement in the outstanding claims liability, as described below.

**(e) Outstanding claims liability**

Outstanding claims liabilities are recognised when loss events have occurred and are based on the estimated ultimate cost of all claims incurred but not settled at the Statement of Financial Position date, whether reported or not, together with related claims handling costs. A central estimate is made of the present value of claims reported but not paid, claims incurred but not reported and claims incurred but not fully reported using historical data and current assumptions. Changes in expected claims that have occurred, but which have not been settled, are reflected by adjusting the liability. Delays can be experienced in the notification and settlement of certain types of claims, therefore the ultimate cost of such claims cannot be known with certainty at the end of the reporting period. The liability is derecognised when the claim is discharged or withdrawn.

**(f) Policy liability and liability adequacy testing**

A policy liability is recognised for the planned margins of revenues over expenses relating to services yet to be provided to policyholders.

A liability adequacy test is performed to compare the planned margins of revenues over expenses for a group of related products to the expected future cashflows. Where the present value of expected future expenses exceeds the present value of estimated future revenues, the excess is recognised in profit or loss after first writing down any deferred acquisition costs. Any additional amount is recognised in the Statement of Financial Position as a policy liability.

For the purposes of this test, a group of related products are products that have substantially the same contractual terms and are priced on the basis of substantially the same assumptions.

**(g) Acquisition costs**

Acquisition costs incurred in obtaining and recording insurance contracts include commission expense and are only recognised as an asset if they can be reliably measured and are expected to give rise to future benefits. Deferred acquisition costs are amortised over the period over which the planned margin of revenues over expenses is recognised. Deferred acquisition costs are included in unearned premium liability in the Statement of Financial Position.

**(h) Tax**

Income tax expense comprises current and deferred tax and is recognised in profit or loss. Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

With effect from 1st July 2010, life insurance business is taxed on gross profits, with deductions for policy reserve movements, in a similar way to non-life insurance. A transition adjustment applies to life insurance business written prior to 1st July 2010, having the effect of continuing to tax it on the previous special life office basis of underwriting income less expenses. Policyholder tax is no longer payable on the classes of business written by the Company, and therefore it effectively ceases with effect from July 2010.



**MARAC INSURANCE LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2011**

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**3 Significant accounting policies (cont)**

**(h) Tax (cont)**

Deferred tax is recognised using the Statement of Financial Position method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which temporary difference can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

**(i) Goods and Services Tax (GST)**

The Statement of Comprehensive Income has been prepared so that all components are stated exclusive of GST. All items in the Statement of Financial Position are stated net of GST, with the exception of receivables and payables, which include GST Invoiced.

**(j) Cash and cash equivalents**

Cash and cash equivalents comprises cash balances on call that are used for general cash management

**(k) Investments**

Investments comprise investments in government stock and debenture stock. Debenture stock is considered to back insurance liabilities as it consists of liquid, high quality investments which are chosen to reflect the nature of the insurance liabilities. Debenture stock is classified at fair value through the profit or loss. Government stock is not considered to back insurance liabilities and is therefore classified as held to maturity.

Investments are recognised when the Company becomes a party to the contractual provisions of the instrument and are derecognised if the Company's contractual rights to the cash flows from the financial assets expire or if the Company transfers the financial assets to another party without retaining control or substantially all risks and rewards of the assets. Regular way purchases and sales of financial assets are accounted for at the trade date, i.e. the date that the Company commits itself to purchase or sell the assets.

The Company has the positive intention and ability to hold government stock until maturity. After initial recognition government stock is measured at amortised cost using the effective interest method, less any impairment losses.

**(l) Office fit-out and equipment**

Office fit-out and equipment are recorded at cost less accumulated depreciation and impairment losses. Depreciation is charged to profit or loss and is recognised on a straight line basis over the useful life of the asset at the following rates:

Office fit-out and equipment	2-3 years
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The carrying value of assets are assessed annually for indications of impairment.

**(m) Trade receivables**

Trade and other receivables are measured at their cost less impairment losses.

**(n) Trade creditors and accruals**

Trade and other payables are stated at cost.

**(o) Impairment**

The carrying amounts of the Company's assets are reviewed at each Statement of Financial Position date to determine whether there is any objective evidence of impairment. If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount. Impairment losses directly reduce the carrying amount of assets and are recognised in profit or loss. The estimated recoverable amount of receivables is the present value of estimated future cash flows discounted at the original effective interest rate.

**MARAC INSURANCE LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2011**

**3 Significant accounting policies (cont)**

**(p) Estimates and judgements**

The preparation of financial statements requires the use of management judgement, estimates, and assumptions that effect the reported amounts. Actual results may differ from these judgements. For further information about significant areas of estimation uncertainty and critical judgements that have the most significant effect on the financial statements refer to note 13 - outstanding claims liability.

**(q) New standards and interpretations not yet adopted**

A number of new standards, amendments to standards and interpretations are not yet effective for the year ended 30 June 2011, and have not been applied in preparing these financial statements. The new standards identified which may have an effect on the financial statements of the Company are:

- NZ IAS 1 Presentation of Financial Statements, which clarifies that disaggregation of changes in each component of equity arising from transactions recognised in other comprehensive income is also required to be presented, either in the Statement of Changes in Equity or in the notes, effective 1 January 2011 and expected to be applied for the year ending 30 June 2012.
- NZ IFRS 7 Financial Instruments: Disclosures, which adds an explicit statement that qualitative disclosure should be made in the context of the quantitative disclosures to better enable users to evaluate an entity's exposure to risks arising from financial instruments, effective 1 January 2011 and expected to be applied for the year ending 30 June 2012.
- NZ IFRS 7 Financial Instruments: Disclosures, which adds additional disclosures about the transfer of financial assets, effective 1 July 2011 and expected to be applied for the year ending 30 June 2012.
- NZ IFRS 9 Financial Instruments, which specifies how an entity should classify and measure financial assets, effective 1 January 2013 and expected to be applied for the year ending 30 June 2014.

These standards are not expected to have a significant impact on the financial statements of the Company. The Company does not plan to early adopt the above noted standards.

**(r) Financial assets and liabilities**

*Classification*

Financial assets and liabilities are classified in the following accounting categories.

<b>Financial assets/liabilities</b>	<b>Accounting category</b>
Investments	Held to maturity
Cash and cash equivalents	Amortised cost
Other financial assets	Other assets at amortised cost
Other financial liabilities	Other liabilities at amortised cost

	<b>2011</b>	<b>2010</b>
	<b>\$000</b>	<b>\$000</b>
<b>4 Premium income</b>		
Guaranteed asset protection insurance (GAP)	195	993
Lifestyle protection insurance (LPI)	1,889	1,718
Other premium income	1,704	531
<b>Total premium income</b>	<b>3,788</b>	<b>3,242</b>

**MARAC INSURANCE LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2011**

	2011 \$000	2010 \$000
<b>5 Commission expense</b>		
Related parties	574	820
External parties	2,082	1,503
<b>Total commission expense</b>	<b>2,656</b>	<b>2,323</b>
<b>6 Claims expense</b>		
Claims paid - prior year	149	127
Payment on new claims	78	111
<b>Gross claims incurred</b>	<b>227</b>	<b>238</b>
<b>7 Selling and administrative expenses</b>		
Audit fees	13	13
Other expenses	520	354
<b>Total selling and administrative expenses</b>	<b>533</b>	<b>367</b>
<b>8 Income tax expense</b>		
<b>Current tax expense / (benefit)</b>		
Current year	(125)	37
<b>Deferred tax expense</b>		
Origination and reversal of timing differences	145	6
Change in tax rate	-	(12)
<b>Total income tax expense</b>	<b>20</b>	<b>31</b>
<b>Reconciliation of effective tax rate at 30%</b>		
Profit before tax	676	837
Income tax at company tax rate	203	251
Change in tax rate	(37)	(12)
Tax exempt income	(146)	(210)
Non deductible expenses	-	2
<b>Total income tax expense</b>	<b>20</b>	<b>31</b>
<p>The corporate tax rate will change from 30c to 28c effective 1 July 2011. The tax effect on the timing differences reported above, that will not reverse in the following 12 month period, is a decrease in the Company's deferred tax liability of \$37k.</p>		
<b>9 Profit for the year</b>		
Difference between actual and assumed experience	583	736
Return on assets in excess of policy liabilities	73	70
<b>Profit for the year</b>	<b>656</b>	<b>806</b>
<b>10 Investments</b>		
Fixed income securities - New Zealand Government Stock	1,030	1,031
Debenture stock	-	2,524
<b>Total investments</b>	<b>1,030</b>	<b>3,555</b>
Amounts due for settlement within 12 months	-	2,524
Amounts due for settlement over 12 months	1,030	1,031
<b>Total investments</b>	<b>1,030</b>	<b>3,555</b>

**MARAC INSURANCE LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2011**

	2011	2010
	\$000	\$000
<b>11 Other assets</b>		
Current tax receivable	128	132
Trade receivables	162	145
Intercompany receivables	104	-
<b>Total other assets</b>	<b>394</b>	<b>277</b>

Other assets are all expected to be settled within 12 months from the end of the reporting period.

**12 Office fit-out and equipment**

<b>Cost</b>		
Opening balance	80	61
Additions	23	19
Disposals	(1)	-
<b>Closing balance</b>	<b>102</b>	<b>80</b>
<b>Accumulated depreciation</b>		
Opening balance	62	59
Depreciation charge for the year	12	3
Disposals	(1)	-
<b>Closing balance</b>	<b>73</b>	<b>62</b>
Opening net book value	18	2
<b>Closing net book value</b>	<b>29</b>	<b>18</b>

**13 Insurance contract liabilities**

Notified claims and IBNR	209	238
<b>Total outstanding claims liability</b>	<b>209</b>	<b>238</b>
Outstanding claims liability at 1 July	238	271
Claims reassessed	(64)	(110)
Claims paid	(227)	(238)
New claims	262	315
<b>Outstanding claims liability at year end</b>	<b>209</b>	<b>238</b>

The outstanding claims liability has not been discounted as the weighted average expected term to settlement from the balance sheet date is estimated to be less than one year.

The outstanding claims liability is based on best available information at the time the financial statements are signed. Subsequent information or action can affect the amount ultimately settled on a claim.

The reassessment of prior years' claims in 2011 resulted in a net credit to profit.

**Insurance contract assumptions**

Assumptions which have the greatest effect on the measurement of insurance contract assets and liabilities (including outstanding claims and IBNR) are illustrated in the following table of sensitivities.

Sensitivity Analysis	2011		2010	
	Best estimate of liability \$000	Impact on best estimated liabilities \$000	Best estimate of liability \$000	Impact on best estimated liabilities \$000
Discount rate - 1%	1,278	7	1,052	10
Discount rate + 1%	1,264	(7)	1,032	(10)
Claim frequencies + 10%	1,351	81	1,096	54
Claim frequencies - 10%	1,189	(81)	988	(54)
Cost allowances + 10%	1,306	35	1,069	27
Cost allowances - 10%	1,236	(35)	1,015	(27)

**MARAC INSURANCE LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2011**

**13 Insurance contract liabilities (continued)**

<b>Policy liability</b>	<b>2011</b>	<b>2010</b>
	<b>\$000</b>	<b>\$000</b>
Policy liability at 1 July	1,515	1,338
Deferral of premium on contracts written at year end	2,815	1,611
Prior year premium earned	(1,550)	(1,391)
Acquisition costs deferred	(1,244)	(718)
Amortisation charged to income	719	675
<b>Policy liability at year end</b>	<b>2,255</b>	<b>1,515</b>
Amounts due for settlement within 12 months	1,119	782
Amounts due for settlement over 12 months	1,136	733
<b>Total policy liability</b>	<b>2,255</b>	<b>1,515</b>

The policy liabilities have been determined by Peter Davies, B.Bus.Sc., FIA, FNZSA, (the "Actuary"), a fellow of the New Zealand Society of Actuaries. Policy liabilities have been calculated using the "accumulation" method described in Professional Standard 3 of the New Zealand Society of Actuaries, and comprise an unearned premium provision determined on a straight line basis and a deferred acquisition cost which amortises the initial commission on a straight line basis. The Actuary is satisfied as to the accuracy of the data from which the value of policy liabilities has been determined.

	<b>2011</b>	<b>2010</b>
	<b>\$000</b>	<b>\$000</b>
<b>14 Other liabilities</b>		
Trade creditors and accruals	195	80
Intercompany payables	28	25
Employee entitlements	-	24
<b>Total other liabilities</b>	<b>223</b>	<b>129</b>

Other liabilities are all expected to be settled within 12 months from the end of the reporting period.

**15 Deferred tax**

<b>Recognised deferred tax assets and liabilities</b>		
Employee entitlements	-	7
<b>Tax assets</b>	<b>-</b>	<b>7</b>
Unexpensed commissions	511	373
<b>Tax liabilities</b>	<b>511</b>	<b>373</b>
<b>Deferred tax liability</b>	<b>511</b>	<b>366</b>
Amounts due for settlement within 12 months	238	210
Amounts due for settlement over 12 months	273	156
<b>Total deferred tax liability</b>	<b>511</b>	<b>366</b>

**16 Equity and retained earnings**

<b>Share capital</b>		
Balance at the beginning of the year	465	250
Issue of new shares	-	215
<b>Balance at the end of the year</b>	<b>465</b>	<b>465</b>

Share capital is made up of 250,101 (2010: 250,101) ordinary shares. All shares have equal voting rights, no par value and equal rights to dividends and distributions.

All capital and reserves are attributable to shareholders.

**MARAC INSURANCE LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2011**

**16 Equity and retained earnings (continued)**

The Company's policy is to maintain a strong capital base so as to maintain policyholder, creditor and market confidence and to sustain future development of the business. The Company considers share capital and retained earnings to be capital for management purposes.

The Company's prudential reserving requirement, determined on the basis of Professional Standard no. 5.01 of the New Zealand Society of Actuaries, amounts to \$2,686,523 (2010: \$3,863,962). Accordingly the Directors have determined that none of the Company's equity is required to be non-distributable as a contribution to the Company's solvency (2010: \$1,615,931). The Directors note however that Marac Insurance is required to be licensed under the Insurance (Prudential Supervision) Act by September 2013 at the latest, and that licensing under this Act requires compliance with Solvency Standards promulgated by the Reserve Bank. Marac's calculated capital requirement under the Life Standard, and the draft Non-Life Standard, is \$1.96 million less than its actual Solvency Capital, however an overall minimum capital requirement of \$5 million applies. Net of inter-company balances (which are deducted from Capital), the Company currently has a shortfall compared to this \$5 million minimum requirement of \$2.366 million.

	2011	2010
	\$000	\$000
<b>Equity retained for solvency purposes</b>		
Equity of shareholders	2,705	2,049
Equity retained for solvency purposes	-	(1,616)
<b>Equity available for distribution</b>	<b>2,705</b>	<b>433</b>

**17 Reconciliation of net surplus for the year to net cashflows from operating activities**

<b>Profit for the year</b>	<b>656</b>	<b>806</b>
<b>Add/ (less) non cash items:</b>		
Investment revenue accruals	(1)	6
Depreciation	12	3
Deferred taxation	145	6
<b>Total non-cash items</b>	<b>156</b>	<b>15</b>
<b>Add / (less) movements in working capital:</b>		
Current tax receivable	4	25
Policy liabilities	703	144
Trade creditors and other liabilities	102	85
Trade receivables and other assets	(121)	(115)
<b>Total movements in working capital items</b>	<b>688</b>	<b>139</b>
<b>Net cash flows from operating activities</b>	<b>1,500</b>	<b>960</b>

**18 Financial reporting by segments**

The Company operates as a life and general insurer within New Zealand.

**MARAC INSURANCE LIMITED**  
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**19 Related party information**

The Company's immediate parent company is MARAC JV Holdings Limited. On 31 March 2010, MARAC JV Holdings Limited (MJV) purchased MARAC Insurance Limited from MARAC Financial Services Limited (MFSL). MJV is jointly controlled by MFSL and The New Zealand Automobile Association Limited (AA). The ultimate parent of MFSL's is Pyne Gould Corporation Limited, and the ultimate parent of the AA is The New Zealand Automobile Association Inc.

On 7 January 2011 Heartland Financial Services Limited (HFSL), a wholly owned subsidiary of Heartland New Zealand Limited, acquired 50% of MJV from MFSL.

The Company received administrative assistance from MARAC Finance Limited and paid insurance commission to MARAC Finance Limited.

All transactions were conducted on normal commercial terms and conditions.

	2011 \$000	2010 \$000
<b>Transactions with related parties were:</b>		
Commissions paid to MARAC Finance Ltd	(481)	(524)
Commissions paid to AA Financial Services Ltd	(76)	(84)
Management fees paid to MFSL	(50)	(25)
Management fees paid to MFL	(207)	-
Interest received on debenture stock	89	145
<b>Total</b>	<b>(725)</b>	<b>(488)</b>
<b>Outstanding balances with related parties were:</b>		
Management fees owing to MFL	(28)	(25)
Debenture stock outstanding	-	2,524
<b>Total</b>	<b>(28)</b>	<b>2,499</b>

**20 Risk management**

**Insurance related balances**

**Insurance risk**

The Company has insurance contracts which transfer insurance risk from the policyholder to the Company. These risks are summarised below.

The insurance risk taken on by the Company is the possibility that the Company will have to compensate the policyholder if a specified uncertain future event adversely affects the policyholder. These risks are unpredictable. The Company has estimated in these financial statements the likely amounts which are expected to be paid out both in respect of claims incurred and expected future claims. The Company is therefore at risk that the carrying amounts of insurance liabilities and assets recognised in the financial statements will be exceeded by the amount of the actual claims. This could occur when there are more claims than expected or where a claim is of a greater severity than expected.

The Company's objective is to minimise this insurance risk to within acceptable levels through policies which manage its insurance risk. The Company's policies to manage this risk are in accordance with group risk policies which include diversification of risk. The Company has developed an underwriting strategy which diversifies the types of insurance contracts written. Within each type of insurance written the Company's policy is to ensure that there is a sufficient volume of contracts to reduce the variability in the expected outcome.

The Company operates solely in New Zealand and in New Zealand currency.

Profit or loss is sensitive to changes in claims activity. It is estimated that claims activity could increase or decrease approximately 10% which would have a corresponding impact on profit or loss.

**MARAC INSURANCE LIMITED**  
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**20 Risk management (cont)**

**Insurance related balances (cont)**

**Other risks**

**Credit risk**

The Company's maximum exposure to credit risk on insurance business is represented by the carrying amount of each financial asset. Management has a credit policy in place to manage the exposure to insurance contract related credit risk which is monitored on an ongoing basis.

**Interest risk**

The Company has no exposure to interest risk on its insurance business as all contracts are expected to be settled within a year. There are no other material exposures to interest risk.

**Liquidity risk**

Liquidity risk is the risk that the Company may encounter difficulty in raising funds at short notice to meet its commitments and arises from any mismatch of the maturity of monetary assets and liabilities. The Company manages this risk by forecasting future cash requirements and keeping a stable funding base.

**Fair value**

The following methods and assumptions were used to estimate fair value of each class of financial asset and liability:

**Investments**

The fair value of debentures is determined by calculating the net present value of all future cashflows attached to the debentures discounted at the market rate of interest at the balance sheet date. The fair value of government stock is established by reference to quoted bid prices. (Level 2 under the fair value hierarchy).

**Other financial assets and liabilities**

The fair value of all other financial assets and liabilities is considered equivalent to their carrying value due to their short term nature.

	2011		2010	
	Carrying value \$000	Fair value \$000	Carrying value \$000	Fair value \$000
<b>Financial assets</b>				
Investments				
- government stock	1,030	1,095	1,031	1,074
- debenture stock	-	-	2,524	2,524
<b>Total assets</b>	<b>1,030</b>	<b>1,095</b>	<b>3,555</b>	<b>3,598</b>

**21 Subsequent events**

There have been no material events subsequent to balance date that would affect the interpretation of the financial statements or the performance of the Company.





## **Independent Auditor's Report**

### **To the Shareholder of MARAC Insurance Limited**

#### **Report on the Financial Statements**

We have audited the accompanying financial statements of MARAC Insurance Limited ("the Company") on pages 3 to 16. The financial statements comprise the statement of financial position as at 30 June 2011, the statements of comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

#### **Directors' Responsibility for the Financial Statements**

The directors are responsible for the preparation of financial statements in accordance with generally accepted accounting practice in New Zealand and International Financial Reporting Standards 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 these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing (New Zealand). Those standards require that we comply with 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 the auditor's 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, the auditor considers internal control relevant to the Company'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 Company'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 presentation of the financial statements.

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

Our firm has also provided other services to the Company in relation to general accounting services. Partners and employees of our firm may also deal with the Company on normal terms within the ordinary course of trading activities of the business of the Company. These matters have not impaired our independence as auditor of the Company. The firm has no other relationship with, or interest in, the Company.



### **Opinion**

In our opinion the financial statements on pages 3 to 16:

- comply with generally accepted accounting practice in New Zealand;
- comply with International Financial Reporting Standards;
- give a true and fair view of the financial position of the Company as at 30 June 2011 and of its financial performance and cash flows for the year then ended.

### **Report on Other Legal and Regulatory Requirements**

In accordance with the requirements of sections 16(1)(d) and 16(1)(e) of the Financial Reporting Act 1993, we report that:

- we have obtained all the information and explanations that we have required; and
- in our opinion, proper accounting records have been kept by MARAC Insurance Limited as far as appears from our examination of those records.

*KPMG*

23 August 2011

Auckland