

**MARAC INSURANCE LIMITED
FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2012**



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NPO# 27

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MARAC INSURANCE LIMITED

DIRECTORS' RESPONSIBILITY STATEMENT

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 2012 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.

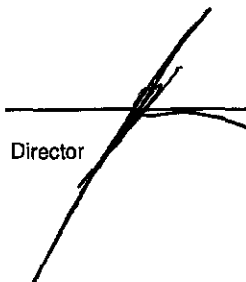
The directors believe that proper accounting records have been kept which enable, with reasonable accuracy, the determination of the financial position of the Company and facilitate compliance of the financial statements with the Financial Reporting Act 1993.

The Board of Directors of MARAC Insurance Limited authorise the financial statements set out on pages 3 to 17 for issue on 27 August 2012.

For and on behalf of the Board



Director



Director

MARAC INSURANCE LIMITED
STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30 JUNE 2012

	Note	2012 \$000	2011 \$000
<i>Premium income</i>	4	2,539	2,084
Premium income		2,539	2,084
Interest income		176	195
Fees and other income		127	91
Net operating income		2,842	2,370
Claims expense	5	147	197
Claims expense		147	197
Commission expense	6	1,150	952
<i>Selling and administration expenses</i>	7	616	533
Depreciation - office fit-out and equipment	12	15	12
Operating expenses		1,928	1,694
Profit before income tax		914	676
Income tax expense	8	145	20
Profit for the year	9	769	656
Total comprehensive income for the year		769	656
Profit attributable to:			
Owners of the Company		769	656
Profit for the year		769	656
Total comprehensive income attributable to:			
Owners of the Company		769	656
Total comprehensive income for the year		769	656

The notes on pages 7 to 17 are an integral part of these financial statements.

MARAC INSURANCE LIMITED
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2012

	Share Capital \$000	Retained Earnings \$000	Total Equity \$000
2012			
Balance at 1 July 2011	465	2,240	2,705
Total comprehensive income for the year			
Profit for the year	-	769	769
Total comprehensive income for the year	-	769	769
Balance at 30 June 2012	465	3,009	3,474
2011			
Balance at 1 July 2010	465	1,584	2,049
Total comprehensive income for the year			
Profit for the year	-	656	656
Total comprehensive income for the year	-	656	656
Balance at 30 June 2011	465	2,240	2,705

The notes on pages 7 to 17 are an integral part of these financial statements.



MARAC INSURANCE LIMITED
STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2012

	Note	2012 \$000	2011 \$000
Assets			
Cash and cash equivalents		1,833	4,450
Investments	10	4,829	1,030
Other assets	11	249	394
Office fit-out and equipment	12	16	29
Total assets		6,927	5,903
Liabilities			
Outstanding claims liability	13	137	209
Policy liability	13	2,580	2,255
Other liabilities	14	204	223
Deferred tax liability	15	532	511
Total liabilities		3,453	3,198
Net assets		3,474	2,705
Equity			
Share capital	16	465	465
Retained earnings	16	3,009	2,240
Total equity		3,474	2,705
Total equity and liabilities		6,927	5,903

The notes on pages 7 to 17 are an integral part of these financial statements.



MARAC INSURANCE LIMITED
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2012

	Note	2012 \$000	2011 \$000
Cash flows from operating activities			
Cash was provided from:			
Premiums received		3,156	3,247
Premiums collected as agent		1,896	1,704
Fees received		127	91
Interest received		146	194
Total cash provided from operating activities		5,325	5,236
Cash was applied to:			
Commissions paid		1,405	1,503
Premiums and commissions remitted as agent		1,896	1,704
Payment of claims		219	226
Income tax paid		-	5
Payments to suppliers and employees		651	298
Total cash applied to operating activities		4,171	3,736
Net cash flows from operating activities	17	1,154	1,500
Cash flows from investing activities			
Cash was provided from:			
Net decrease in investments		-	2,526
Total cash flows provided from investing activities		-	2,526
Cash was applied to:			
Net increase in investments		3,769	-
Purchase of office fit-out and equipment		2	23
Total cash flows applied to investing activities		3,771	23
Net cash flows (applied to) / from investing activities		(3,771)	2,503
Net (decrease) / increase in cash held		(2,617)	4,003
Opening cash balance		4,450	447
Closing cash balance		1,833	4,450

The notes on pages 7 to 17 are an integral part of these financial statements.

MARAC INSURANCE LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2012

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, previously registered under the Life Insurance Act 1908, is provisionally licensed under the Insurance (Prudential Supervision) Act 2010. The financial statements have been prepared under NZ IFRS 4 Insurance Contracts Appendix C.

The financial statements of the Company are for the year ended 30 June 2012. The financial statements were authorised for issue by the directors on 27 August 2012.

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 which 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.

(d) Comparative information

Certain comparatives have been restated to comply with current year presentation.

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 insurance.

MARAC INSURANCE LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2012

3 Significant accounting policies (continued)

(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.

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. The liability is discounted for the time value of money, where material, using the risk free government stock rate. 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.

MARAC INSURANCE LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2012

3 Significant accounting policies (continued)

(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.

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 purposes.

(k) Investments

Investments comprise investments in term deposits, corporate bonds and government stock, and are categorised as loans and receivables.

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 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.

After initial recognition investments are 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 2-3 year useful life of the asset.

The carrying value of assets are assessed annually for indications of impairment.

MARAC INSURANCE LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2012

3 Significant accounting policies (continued)

(m) Trade receivables

Trade and other receivables are categorised as loans and receivables and 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.

(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 - Insurance contract liabilities.

(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 2012, 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:

Standard and description	Effective for annual periods beginning on or after:	Expected to be initially applied in year ending:
NZ IAS 1 Presentation of Financial Statements, which requires an entity to present separately the items of other comprehensive income that would be reclassified to profit or loss in the future if certain conditions are met.	1 July 2012	30 June 2013
NZ IFRS 7 Financial Instruments: Disclosures, amendment to offsetting financial assets and financial liabilities.	1 January 2013	30 June 2014
NZ IAS 32 Financial Instruments: Presentation, amendment to offsetting financial assets and financial liabilities.	1 January 2014	30 June 2015
NZ IFRS 9 Financial Instruments, which specifies how an entity should classify and measure financial assets and liabilities.	1 January 2013	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.



MARAC INSURANCE LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2012

4 Premium income	Note	2012	2011
		\$000	\$000
Guaranteed asset protection insurance (GAP)		649	195
Lifestyle protection insurance (LPI)		1,890	1,889
Total premium income		2,539	2,084
5 Claims expense			
Claims incurred		219	261
Prior year claims reassessed		(72)	(64)
Total claims expense		147	197
6 Commission expense			
Related parties		622	574
External parties		528	378
Total commission expense		1,150	952
7 Selling and administration expenses			
Audit fees		13	13
Management fees paid to MARAC Finance Limited	18	335	207
Other expenses		268	313
Total selling and administration expenses		616	533
8 Income tax expense			
Current tax expense / (benefit)			
Current year		138	(125)
Adjustment for prior years		(14)	-
Deferred tax expense			
Origination and reversal of timing differences		21	182
Change in tax rate		-	(37)
Total income tax expense		145	20
Reconciliation of effective tax rate			
Profit before tax		914	676
Income tax at 28% (2011: 30%)		256	203
Change in tax rate		-	(37)
Tax exempt income		(98)	(146)
Adjustment for prior years		(14)	-
Non deductible expenses		1	-
Total income tax expense		145	20

The corporate tax rate changed from 30c to 28c effective 1 July 2011. The tax effect on the timing differences reported above, that did not reverse in the year ended 30 June 2012, was a decrease in the Company's deferred tax liability of \$37k in the year ended 30 June 2011.

MARAC INSURANCE LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2012

9 Profit for the year	2012	2011
	\$000	\$000
Difference between actual and assumed experience	702	583
Return on assets in excess of policy liabilities	67	73
Profit for the year	769	656

10 Investments

Term deposits	2,734	-
New Zealand Government Stock	1,028	1,030
Corporate Bonds	1,067	-
Total investments	4,829	1,030
Amounts due for settlement within 12 months	2,734	-
Amounts due for settlement over 12 months	2,095	1,030
Total investments	4,829	1,030

11 Other assets

Current tax receivable	6	128
Trade receivables	243	162
Intercompany receivables	-	104
Total other assets	249	394

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

12 Office fit-out and equipment

Cost		
Opening balance	102	80
Additions	2	23
Disposals	-	(1)
Closing balance	104	102
Accumulated depreciation		
Opening balance	73	62
Depreciation charge for the year	15	12
Disposals	-	(1)
Closing balance	88	73
Opening net book value	29	18
Closing net book value	16	29

13 Insurance contract liabilities

Notified claims and IBNR	137	209
Total outstanding claims liability	137	209
Outstanding claims liability at 1 July	209	238
Claims reassessed	(72)	(64)
Claims paid	(219)	(226)
Claims incurred	219	261
Outstanding claims liability at year end	137	209

MARAC INSURANCE LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2012

13 Insurance contract liabilities (continued)

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 2012 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	2012		2011	
	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%	924	9	1,278	7
Discount rate + 1%	906	(9)	1,264	(7)
Claim frequencies + 10%	983	68	1,351	81
Claim frequencies - 10%	847	(68)	1,189	(81)
Cost allowances + 10%	945	30	1,306	35
Cost allowances - 10%	885	(30)	1,236	(35)
Policy liability			2012	2011
			\$000	\$000
Policy liability at 1 July			2,255	1,515
Deferral of premium on contracts written at year end			2,621	2,815
Prior year premium earned			(2,036)	(1,550)
Acquisition costs deferred			(1,172)	(1,244)
Amortisation			912	719
Policy liability at year end			2,580	2,255
Amounts due for settlement within 12 months			879	1,119
Amounts due for settlement over 12 months			1,701	1,136
Total policy liability			2,580	2,255

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.

MARAC INSURANCE LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2012

	2012	2011
	\$000	\$000
14 Other liabilities		
Trade creditors and accruals	204	195
Intercompany payables	-	28
Total other liabilities	204	223

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

15 Deferred tax		
Deferred acquisition costs	532	511
Tax liabilities	532	511
Deferred tax liability	532	511
Amounts due for settlement within 12 months	206	238
Amounts due for settlement over 12 months	326	273
Total deferred tax liability	532	511

16 Equity and retained earnings

Share capital		
Balance at the beginning of the year	465	465
Balance at the end of the year	465	465

Share capital is made up of 250,101 (2011: 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 as at 30 June 2012.

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 has been determined on the basis of the Solvency Standard for Life Insurance Business issued by the Reserve Bank in terms of the Insurance (Prudential Supervision) Act 2010. The actual solvency capital of the company is \$3.44 million, compared to the solvency margins set out in the Standard, covering a range of risks, totaling \$0.60 million. However the Standard specifies that a Life Insurer must have at least \$5.0 million of actual solvency capital, accordingly the Company is deemed by this minimum to have a shortfall of \$1.56 million rather than a surplus of \$2.84 million. The Company will be required to make up this shortfall by 31 December 2012, and is expecting to be able to do so.

In the previous year, the Company's solvency position was determined on the basis of Professional Standard no. 5.01 of the New Zealand Society of Actuaries. The Company's equity was \$2.69 million, and the prudential reserving requirement under PS5.01 was zero, accordingly the solvency surplus was \$2.69 million. Had the RBNZ Standard been applied at the time, the shortfall (arising from the \$5.0 million minimum requirement), net of inter-company balances would have been \$2.37 million.

	2012	2011
	\$000	\$000
Equity retained for solvency purposes		
Equity of shareholders	3,474	2,705
Equity available for distribution	3,474	2,705

MARAC INSURANCE LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2012

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

	2012	2011
	\$000	\$000
Profit for the year	769	656
Add/ (less) non cash items:		
Investment revenue accruals	(30)	(1)
Depreciation	15	12
Deferred taxation	21	145
Total non-cash items	6	156
Add / (less) movements in working capital:		
Current tax receivable	122	4
Policy liabilities	253	703
Trade creditors and other liabilities	(19)	102
Trade receivables and other assets	23	(121)
Total movements in working capital items	379	688
Net cash flows from operating activities	1,154	1,500

18 Related party information

The Company's immediate parent is MARAC JV Holdings Limited (MJV). MJV is jointly controlled by Heartland Financial Services Limited (HFSL) and The New Zealand Automobile Association Limited (AA). HFSL is a wholly owned subsidiary of Heartland New Zealand Limited.

The Company received administrative assistance from MARAC Finance Limited (a wholly owned subsidiary of HNZ). The Company paid insurance commission to MARAC Finance Limited and the AA. During the year ended 30 June 2011, the Company invested in MARAC Finance Limited's debenture stock.

All transactions were conducted on normal commercial terms and conditions.

	2012	2011
	\$000	\$000
Transactions with related parties were:		
Commissions paid to MARAC Finance Limited	(368)	(481)
Commissions paid to the AA	(79)	(76)
Management fees paid to MFSL	-	(50)
Management fees paid to MARAC Finance Limited	(335)	(207)
Interest received on debenture stock	-	89
Total	(782)	(725)
Outstanding balances with related parties were:		
Management fees owing to MFL	-	(28)
Total	-	(28)

MARAC INSURANCE LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2012

19 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 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.

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.

MARAC INSURANCE LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2012

20 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 investments in term deposits, government stock and corporate bonds is established by reference to quoted market prices (Level 1 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.

	2012		2011	
	Carrying value \$000	Fair value \$000	Carrying value \$000	Fair value \$000
Financial assets				
Investments:				
- Term deposits	2,734	2,734	-	-
- New Zealand Government Stock	1,028	1,177	1,030	1,096
- Corporate Bonds	1,067	1,069	-	-
Total assets	4,829	4,980	1,030	1,096

21 Events reported after balance date

There have been no material events subsequent to reporting 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 17. The financial statements comprise the statement of financial position as at 30 June 2012, 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. Subject to certain restrictions, 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 17:

- 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 2012 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

27 August 2012

Auckland