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**MARAC INSURANCE LIMITED
FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2013**

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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 2013 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 5 to 23 for issue on 26 August 2013.

For and on behalf of the Board



Director



Director

MARAC INSURANCE LIMITED

STATEMENT OF CORPORATE GOVERNANCE

MARAC Insurance Limited adheres to principles designed to ensure sound corporate governance of its affairs, including Reserve Bank of New Zealand Governance Guidelines for licensed insurers under the Insurance (Prudential Supervision) Act 2010.

Board of Directors

The administration, management and control of the company is vested in the Board.

All current directors have been assessed by the Board in accordance with the Company's Fit and Proper policy and have been certified as meeting the Reserve Bank of New Zealand's Fit and Proper Standard for Directors of Licensed Insurers.

All Directors of the Company reside in New Zealand.

The relevant qualifications and experience of directors are as follows:

Name: Jeffrey Kenneth Greenslade Type of director: Non-Independent Director	Qualifications: LLB Occupation: CEO Heartland Bank Limited
Name: Christopher Robert Mace Type of director: Independent Chairman	Qualifications: CNZM Occupation: Company Director
Name: Brian Thomas Gibbons Type of director: Non-Independent Director	Qualifications: Chartered Accountant (ACA/BCA) Occupation: CEO New Zealand Automobile Association
Name: Mark Roland Winger Type of director: Independent Director	Qualifications: LLB Occupation: Solicitor

Board role and charter

The Board operates in accordance with the Boards Charter. The Board Charter describes the Boards composition, roles, responsibilities, procedures, powers to delegate to committees and relationship with management.

The Board is responsible for promoting the success of MARAC Insurance Limited in a manner designed to create and build sustainable value for shareholders and in accordance with the duties and obligations imposed upon them by the Company's Constitution and law, while taking due regard to other stakeholders interests.

The Board is responsible for:

- Setting strategic direction and appropriate operational frameworks;
- Monitoring management's performance within those frameworks;
- Ensuring there are adequate resources available to meet the Company's objectives;
- Appointing and removing the Chief Executive Officer (CEO) and overseeing succession plans for the management team;
- Approving and monitoring financial reporting and capital management;
- Approving timely and balanced communication to shareholders;
- Monitoring the financial solvency of the Company;
- Ensuring that effective risk management procedures are in place and are being used;
- Promoting and authorising ethical and responsible decision-making by the Company;
- Ensuring the Company has appropriate corporate governance structures in place including standards and ethical behaviour;
- Ensuring that the board is and remains appropriately skilled to meet the changing needs of the Company.

The Board has adopted its own Code of Conduct to provide guidance to Board members, management and employees on how it expects them to conduct themselves when undertaking business on behalf of the Company.

MARAC INSURANCE LIMITED

STATEMENT OF CORPORATE GOVERNANCE

Board role and charter (continued)

All Directors disclose any potential conflicts of interest. Should a conflict of interest arise during the course of Board business the affected Director is expected to excuse himself from the discussion and does not vote on the matter.

The Board meets formally on a regular scheduled basis and holds additional meetings as the occasion requires.

Audit and Risk Committee ("the Committee")

The Board has established the Committee, which has a charter approved by the Board.

Specific responsibilities of the Committee include:

- Providing independent review of the Company's financial reporting and the financial information prepared by management including overseeing accounting policies and associated requirements;
- Recommend to the Board for approval, the financial statement of the Company;
- Provide assurance on the governance and control for the Company covering key business processes including risk frameworks;
- Review the processes that are used to reach the opinions provided in the regulatory certification of the CEO, and management's report on internal control over financial reporting, and the disclosures made.
- Oversee and appraise at least annually the independence, adequacy and effectiveness of the external auditor (including rotation of the external audit partner), and the scope and progress of its audit plan.
- Review and advise, for the purposes of the directors' report to be included in the annual financial report, the provision of all non-audit services by or on behalf of the external auditor during the year to the company, whether those services comply with the regulatory authority independence requirements and the reasons why.
- Confirm the appointment or dismissal of the external auditor.
- Oversee and monitor the resolution of significant internal control deficiencies from an auditor.
- Review and discuss any reports concerning material actual and potential violations of laws and regulatory requirements.
- To oversee the Company's risk profile and review and approve the risk management framework within the context of the risk-reward strategy determined by the Board annually.
- To make recommendations regarding high-level liquidity / capital / funding policies and strategy.
- To agree and recommend for Board approval and annual review a set of risk limits and conditions that apply to the taking of risk, as delegated to the Committee by the Board, that are consistent with the Board determined risk appetite. This includes the authorities delegated by the Board to the CEO, and any other officers of the Company to whom the Board or the Committee have delegated authority, and to consider and accept risks beyond management's approval discretion where deemed appropriate.
- To monitor the risk profile, performance, capital levels, exposures against limits and the management and control of the Company's risks.
- To review significant correspondence with regulators, and receive reports from the CEO on regulatory relations and report any significant issues to the Board.
- To monitor changes anticipated in the economic and business environment and other factors considered relevant to the Company's risk profile and capital adequacy.
- To review significant risk management issues that are raised in external or internal audits as well as the length of time and action taken to resolve such issues.
- To ensure that corporate responsibility and ethical standards are upheld at all times.

The committee comprises of all the Directors. Mark Roland Winger is the independent Chairman of the Committee.

MARAC INSURANCE LIMITED
STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30 JUNE 2013

	Note	2013 \$000	2012 \$000
Premium income	4	2,742	2,539
Premium income		2,742	2,539
Interest income		329	176
Fees and other income		238	127
Net operating income		3,309	2,842
Claims expense	5	150	147
Claims expense		150	147
Commission expense	6	1,241	1,150
Selling and administration expenses	7	548	616
Amortisation of software	13	13	15
Operating expenses		1,952	1,928
Profit before income tax		1,357	914
Income tax expense	9	347	145
Profit for the year	10	1,010	769
Total comprehensive income for the year		1,010	769
Profit attributable to:			
Owners of the Company		1,010	769
Profit for the year		1,010	769
Total comprehensive income attributable to:			
Owners of the Company		1,010	769
Total comprehensive income for the year		1,010	769

The notes on pages 9 to 23 are an integral part of these financial statements.



MARAC INSURANCE LIMITED
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2013

	Note	Share Capital \$000	Retained Earnings \$000	Total Equity \$000
2013				
Balance at 1 July 2012		465	3,009	3,474
Total comprehensive income for the year				
Profit for the year		-	1,010	1,010
Total comprehensive income for the year		-	1,010	1,010
Transactions with owners, recorded directly in equity				
Issue of share capital	17	1,400	-	1,400
Total transactions with owners		1,400	-	1,400
Balance at 30 June 2013		1,865	4,019	5,884
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

The notes on pages 9 to 23 are an integral part of these financial statements.



MARAC INSURANCE LIMITED
STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2013

	Note	2013 \$000	2012 \$000
Assets			
Cash and cash equivalents		1,925	1,833
Investments	11	7,437	4,829
Trade and other receivables	12	242	249
Intangible assets - Software	13	6	16
Total assets		9,610	6,927
Liabilities			
Outstanding claims liability	14	137	137
Policy liability	14	2,732	2,580
Other liabilities	15	214	204
Deferred tax liability	16	643	532
Total liabilities		3,726	3,453
Net assets		5,884	3,474
Equity			
Share capital	17	1,865	465
Retained earnings		4,019	3,009
Total equity		5,884	3,474
Total equity and liabilities		9,610	6,927

The notes on pages 9 to 23 are an integral part of these financial statements.



MARAC INSURANCE LIMITED
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2013

	Note	2013 \$000	2012 \$000
Cash flows from operating activities			
Cash was provided from:			
Premiums received		4,760	5,052
Fees received		238	127
Interest received		357	146
Total cash provided from operating activities		5,355	5,325
Cash was applied to:			
Commissions paid		3,109	3,301
Payment of claims		158	219
Income tax paid		141	-
Payments to suppliers and employees		616	651
Total cash applied to operating activities		4,024	4,171
Net cash flows from operating activities	18	1,331	1,154
Cash was applied to:			
Net increase in investments		2,636	3,769
Purchase of capital assets		3	2
Total cash flows applied to investing activities		2,639	3,771
Net cash flows (applied to) / from investing activities		(2,639)	(3,771)
Cash flows from financing activities			
Cash was provided from:			
Issue of share capital		1,400	-
Total cash flows from financing activities		1,400	-
Net cash flows from financing activities		1,400	-
Net increase / (decrease) in cash held		92	(2,617)
Opening cash balance		1,833	4,450
Closing cash balance		1,925	1,833

The notes on pages 9 to 23 are an integral part of these financial statements.



MARAC INSURANCE LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2013

1 Reporting entity

MARAC Insurance Limited (the "Company") is a profit oriented company 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 licensed under the Insurance (Prudential Supervision) Act 2010.

The financial statements of the Company are for the year ended 30 June 2013. The financial statements were authorised for issue by the directors on 26 August 2013.

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 and issuer 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 are stated at fair value.

(c) Presentation and functional currency

These financial statements are presented in New Zealand dollars which is both the Company's functional and presentation 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 and guaranteed asset protection insurance.



MARAC INSURANCE LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2013

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) Commission expense

Commission expense is recognised as earned from the date of attachment of risk, on a straight line basis, over the period of the insurance contract.

(e) Claims expense

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

(f) 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.

(g) 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.



MARAC INSURANCE LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2013

3 Significant accounting policies (continued)

(h) 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.

(i) Tax

Income tax expense

Income tax expense for the year comprises current and deferred tax. Income tax expense is recognised in profit or loss except to the extent that it relates to items recognised directly in equity or other comprehensive income, in which case it is recognised in equity or other comprehensive income.

Current tax

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. Current tax for current and prior years is recognised as a liability (or asset) to the extent that it is unpaid (or refundable).

Deferred tax

Deferred tax is recognised in respect of temporary differences between the carrying amount of assets and liabilities and the amounts used for tax purposes.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the year(s) when the assets or liabilities giving rise to them are realised or settled, based on the tax rates (and tax laws) that have been enacted or substantively enacted by the reporting date. The measurement reflects the tax consequences that would follow from the manner in which the Company, at the reporting date, recovers or settles the carrying amount of its assets and liabilities.

Deferred tax assets, including those related to the tax effects of income tax losses and credits available to be carried forward, are recognised only to the extent that it is probable that future taxable profits will be available against which the deductible temporary differences or unused tax losses and credits can be utilised. Deferred tax assets are reviewed each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Current and deferred tax assets and liabilities are offset only to the extent that they relate to income taxes imposed by the same taxation authority and there is a legal right and intention to settle on a net basis and it is allowed under tax law.

(j) 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.

(k) Cash and cash equivalents

Cash and cash equivalents in the Statement of Financial Position comprises of cash balances on call that are used for general cash management purposes.



MARAC INSURANCE LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2013

3 Significant accounting policies (continued)

(l) 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.

(m) Intangible assets

Software acquired is stated at cost less accumulated amortisation and any accumulated impairment losses. Subsequent expenditure on software assets is capitalised only when it increases the future economic value of the asset. Amortisation of software is on a straight line basis, at rates which will write off the cost over their estimated economic lives of three to four years. All other expenditure is expensed immediately as required.

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

(n) Trade and other receivables

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

(o) Trade creditors and accruals

Trade and other payables are stated at cost.

(p) 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.

(q) Share Capital

Share capital represents the nominal value of shares that have been issued. Incremental costs directly attributable to the issue of ordinary shares are recognised as a deduction from equity.

(r) 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 14 - Insurance contract liabilities.



MARAC INSURANCE LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2013

3 Significant accounting policies (continued)

(s) 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 2013, 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:

<i>Standard and description</i>	<i>Effective for annual periods beginning on or after:</i>	<i>Expected to be initially applied in year ending:</i>
NZ IFRS 13 Fair Value Measurement, which defines fair value, and establishes a framework for measuring fair value including disclosure requirements.	1 January 2013	30 June 2014
NZ IFRS 9 Financial Instruments, which specifies how an entity should classify and measure financial assets and liabilities.	1 January 2013	30 June 2014
NZ IAS 27 Separate Financial Statements, which carries forward existing accounting and disclosure requirements with minor clarifications.	1 January 2013	30 June 2014
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

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 2013

4 Premium income	Note	2013 \$000	2012 \$000
Guaranteed asset protection insurance (GAP)		1,032	649
Lifestyle protection insurance (LPI)		1,710	1,890
Total premium income		2,742	2,539
5 Claims expense			
Claims incurred		242	219
Prior year claims reassessed		(92)	(72)
Total claims expense		150	147
6 Commission expense			
Related parties		517	622
External parties		724	528
Total commission expense		1,241	1,150
7 Selling and administration expenses			
Fees paid to the auditors	8	23	13
Management fees paid to MARAC Finance Limited	19	335	335
Other expenses		190	268
Total selling and administration expenses		548	616
8 Auditor remuneration			
<i>Amounts paid to the auditor for:</i>			
Auditing financial statements		15	13
Limited assurance report on annual solvency return		8	-
Total fees paid to auditors		23	13
The auditor of the Company is KPMG.			
9 Income tax expense			
Current tax expense / (benefit)			
Current year		236	138
Adjustment for prior years		-	(14)
Deferred tax expense			
Origination and reversal of timing differences		111	21
Total income tax expense		347	145
Reconciliation of effective tax rate			
Profit before tax		1,357	914
Income tax at 28%		380	256
Tax exempt income		(39)	(98)
Adjustment for prior years		5	(14)
Non deductible expenses		1	1
Total income tax expense		347	145



MARAC INSURANCE LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2013

10 Profit for the year	2013	2012
	\$000	\$000
Difference between actual and assumed experience	866	702
Return on assets in excess of policy liabilities	144	67
Profit for the year	1,010	769

11 Investments

Term deposits	5,380	2,734
New Zealand government bond	1,027	1,028
Corporate bonds	1,030	1,067
Total investments	7,437	4,829
Amounts due to mature within 12 months	4,962	2,734
Amounts due to mature over 12 months	2,475	2,095
Total investments	7,437	4,829

12 Trade and other receivables

Current tax receivable	-	6
Trade receivables	242	243
Total other assets	242	249

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

13 Intangible assets - Software

Cost		
Opening balance	104	102
Additions	3	2
Closing balance	107	104
Accumulated depreciation		
Opening balance	88	73
Amortisation charge for the year	13	15
Closing balance	101	88
Opening net book value	16	29
Closing net book value	6	16

14 Insurance contract liabilities

Notified claims and IBNR	137	137
Total outstanding claims liability	137	137
Outstanding claims liability at 1 July	137	209
Claims reassessed	(92)	(72)
Claims paid	(150)	(219)
Claims incurred	242	219
Outstanding claims liability at year end	137	137



MARAC INSURANCE LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2013

14 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 2013 resulted in a net credit to profit of \$92,000 (2012: \$72,000).

Insurance contract assumptions

The estimate of future claims cost was determined using the following assumptions and were used to test the adequacy of the insurance contract liability.

Assumption	Basis	Rate	
		2013	2012
Discount rate		2.90%	2.50%
Claims frequencies:			
Death claims	NZ 2000-2002 population tables	30.00%	30.00%
Disability claims	Claims history	1.50%	1.50%
Redundancy claims	Claims history	1.00%	1.00%
GAP claims	Earned premiums	10.00%	10.00%
Cost allowances:			
Policy administration costs	Future claims	50.00%	50.00%
Claim administration costs (open claims)	Future claim payments	15.00%	15.00%

Claim termination assumptions have been determined based on the Company's historical experience.

The following table illustrates the sensitivity of profit to these assumptions.

	2013			
	Policy liability	Estimate of future claims cost	Impact on estimate of liability	Impact on reported profit for the year
Sensitivity Analysis	\$000	\$000	\$000	\$000
Base assumption	2,732	654	-	-
Discount rate - 1%	2,732	659	5	-
Discount rate + 1%	2,732	648	(5)	-
Claim frequencies + 10%	2,732	704	50	-
Claim frequencies - 10%	2,732	604	(50)	-
Cost allowances + 10%	2,732	675	22	-
Cost allowances - 10%	2,732	632	(22)	-

	2012			
	Policy liability	Estimate of future claims cost	Impact on estimate of liability	Impact on reported profit for the year
Sensitivity Analysis	\$000	\$000	\$000	\$000
Base assumption	2,580	915	-	-
Discount rate - 1%	2,580	924	9	-
Discount rate + 1%	2,580	906	(9)	-
Claim frequencies + 10%	2,580	983	68	-
Claim frequencies - 10%	2,580	847	(68)	-
Cost allowances + 10%	2,580	945	30	-
Cost allowances - 10%	2,580	885	(30)	-



MARAC INSURANCE LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2013

14 Insurance contract liabilities (continued)

Policy liability	2013	2012
	\$000	\$000
Policy liability at 1 July	2,580	2,255
Deferral of premium on contracts written at year end	2,650	2,621
Prior year premium earned	(2,306)	(2,036)
Acquisition costs deferred	(1,223)	(1,172)
Amortisation of deferred acquisition costs	1,031	912
Policy liability at year end	2,732	2,580
Amounts due to be recognised in profit within 12 months	1,341	879
Amounts due to be recognised in profit after 12 months	1,391	1,701
Total policy liability	2,732	2,580

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. The actuarial report on policyholder liabilities was signed on 19 August 2013.

15 Other liabilities

Current tax payable	95	-
Trade creditors and accruals	119	204
Total other liabilities	214	204

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

16 Deferred tax

Deferred acquisition costs	643	532
Tax liabilities	643	532
Deferred tax liability	643	532

17 Share capital

Share capital		
Balance at the beginning of the year	465	465
Issue of new shares	1,400	-
Balance at the end of the year	1,865	465

Share capital is made up of 1,650,101 (2012: 250,101) ordinary shares. All shares have equal voting rights, no par value and equal rights to dividends and distributions.

The Company issued 1,400,000 fully paid ordinary shares on 14 December 2012 at a price of \$1. Each share has the same voting rights, right to receive dividends and distributions and do not have a par value.



MARAC INSURANCE LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2013

18 Reconciliation of net surplus for the year to net cashflows from operating activities	2013	2012
	\$000	\$000
Profit for the year	1,010	769
Add/ (less) non cash items:		
Investment revenue accruals	28	(30)
Amortisation	13	15
Deferred taxation	111	21
Total non-cash items	152	6
Add / (less) movements in working capital:		
Current tax Payables	95	122
Policy liabilities	152	253
Trade creditors and other liabilities	(85)	(19)
Trade receivables and other assets	7	23
Total movements in working capital items	169	379
Net cash flows from operating activities	1,331	1,154

19 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 (HNZ).

During the year the Company issued 1,400,000 fully paid ordinary shares to MJV as described in note 17 of these financial statements.

The Company received administrative assistance from MARAC Finance Limited (MFL), which is a wholly owned subsidiary of HNZ. The Company paid insurance commission to MFL and AA. During the year ended 30 June 2013, the Company invested in a call deposit with Heartland Bank Limited (HBL), which has common ultimate ownership with the Company.

Transactions with related parties were:

Commissions paid to MFL	(305)	(368)
Commissions paid to the AA	(90)	(79)
Commissions paid to HBL	(8)	-
Management fees paid to MFL	(335)	(335)
Interest received on call deposit with HBL	4	-
Total	(734)	(782)

Outstanding balances with related parties

Call deposit with HBL	500	-
Total	500	-



MARAC INSURANCE LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2013

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 Companies' 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.

Credit risk

Credit risk is the risk that a counterparty fails to discharge an obligation to the Company. The Company is exposed to this risk for placing deposits and investments in commercial and government bonds. The Company's maximum exposure to credit risk is limited to the carrying amount of financial assets recognised as at 30 June 2013, as summarised below:

	2013	2012
	\$000	\$000
<i>Classes of financial assets - carrying amounts:</i>		
Cash and cash equivalents	1,925	1,833
Term deposits	5,380	2,734
NZ government bond	1,027	1,028
Commercial bonds	1,030	1,067
Trade and other receivables	242	249
Total financial assets	9,604	6,911

There were no assets that were impaired or past due as at 30 June 2013 (2012: Nil).

Trade and other receivables represent a large number of unrated counterparties. There is no significant concentration of credit risk.



MARAC INSURANCE LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2013

20 Risk management (continued)

Credit risk (continued)

The credit risk for cash and cash equivalents, term deposits, NZ government bonds and commercial bonds are considered negligible because of the credit ratings of the counterparties where the investments are held. These credit ratings are summarised in the following table:

	2013			
	Total \$000	AA \$000	AA- \$000	BBB- \$000
Cash and cash equivalents	1,925	-	1,425	500
Term deposits	5,380	-	5,380	-
NZ Government Bond	1,027	1,027	-	-
Commercial Bonds	1,030	-	1,030	-
	9,362	1,027	7,835	500

	2012			
	Total \$000	AA \$000	AA- \$000	BBB- \$000
Cash and cash equivalents	1,833	-	1,833	-
Term deposits	2,734	-	2,734	-
NZ Government Bond	1,028	1,028	-	-
Commercial Bonds	1,067	-	1,067	-
	6,662	1,028	5,634	-

Interest rate risk

The Company is exposed to changes in market interest rates through the Company's on call bank accounts and term deposits that are due to mature within the next 12 months.

The following table illustrates the sensitivity of profit and equity to a reasonably possible change in interest rates of +/- 1% (2012: +/- 1%).

	2013 \$000	2012 \$000
Profit / (Loss)		
+1% interest rate movement on financial assets	29	33
-1% interest rate movement on financial assets	(29)	(33)
Equity		
+1% interest rate movement on financial assets	29	33
-1% interest rate movement on financial assets	(29)	(33)

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 its liquidity needs by maintaining solvency greater than \$5 million at all times and investing the majority of funds in short-term investments.



MARAC INSURANCE LIMITED
 NOTES TO THE FINANCIAL STATEMENTS
 FOR THE YEAR ENDED 30 JUNE 2013

20 Risk management (continued)

Liquidity risk (continued)

The table below reflects the contractual undiscounted cashflows for Company's financial assets and liabilities.

	2013			
	Carrying Value \$000	Within 1 year \$000	1 to 5 years \$000	Later than 5 years \$000
Cash and cash equivalents	1,925	1,925	-	-
Term deposits	5,380	3,933	1,447	-
NZ government bond	1,027	-	1,027	-
Commercial bonds	1,030	1,030	-	-
Trade and other receivables	242	-	-	-
	9,604	6,888	2,474	-
Outstanding claims liability	137	137	-	-
Other liabilities	214	214	-	-
	351	351	-	-
Net financial assets	9,253	6,537	2,474	-

	2012			
	Carrying Value \$000	Within 1 year \$000	1 to 5 years \$000	Later than 5 years \$000
Cash and cash equivalents	1,833	1,833	-	-
Term deposits	2,734	2,734	-	-
NZ government bond	1,028	-	-	1,028
Commercial bonds	1,067	1,067	-	-
Trade and other receivables	249	-	-	-
	6,911	5,634	-	1,028
Outstanding claims liability	137	137	-	-
Other liabilities	204	204	-	-
	341	341	-	-
Net financial assets	6,570	5,293	-	1,028

21 Fair value

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

Investments

Investments in term deposits, government bonds and corporate bonds are classified as being available for sale and are stated at fair value less impairment, with the fair value being based on quoted market prices (Level 1 under the fair value hierarchy) or modelling using observable market inputs (Level 2 under the fair value hierarchy).



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 FOR THE YEAR ENDED 30 JUNE 2013

21 Fair value (continued)

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.

	2013		2012	
	Carrying value \$000	Fair value \$000	Carrying value \$000	Fair value \$000
Financial assets				
Investments:				
- Term deposits	5,380	5,380	2,734	2,734
- New Zealand government bond	1,027	1,129	1,028	1,177
- Corporate bonds	1,030	1,032	1,067	1,069
Total assets	7,437	7,541	4,829	4,980

22 Capital management

Capital management policies and objectives

The Board's policy is to maintain a strong capital base to protect policyholders' and creditors' interests and meet regulatory requirements whilst still creating shareholder value. The Company considers share capital and retained earnings to be capital for management purposes.

From 31 December 2012 the Company was required to retain fixed capital of at least \$5 million under the solvency Standard for Life Insurance Business ("the solvency standard") issued by the Reserve Bank of New Zealand (RBNZ). The Company issued \$1.4 million of share capital to ensure compliance with the minimum solvency requirement and to maintain an appropriate surplus.

The actual solvency of the Company as at 30 June 2013, calculated in accordance with the solvency standard, was \$5.88 million (2012: \$3.44 million), compared to the minimum requirement of \$0.58 million (2012: \$0.60 million). However, due to the requirement to retain at least \$5 million of fixed capital, the Company is deemed to have a surplus of \$0.88 million (2012: shortfall of \$1.56 million).

During the year ended 30 June 2013 the Company complied with all externally imposed capital requirements.

The Company has embedded in its capital management framework the necessary tests to ensure continuous and full compliance with the solvency standard.

The Audit and Risk Committee oversees the capital computations and maintains the optimal capital structure by advising the Board on dividend payments, share issues and debt issuances and redemptions. In addition, the Company manages its required level of capital through analysis and optimisation of the Company's product and asset mix, reinsurance programme, catastrophe exposure and investment strategy.

Capital composition

The Company manages its capital by considering both regulatory and economic capital. The primary source of capital used by the Company is total equity attributable to owners which equates to "capital" as defined in the solvency standard.



MARAC INSURANCE LIMITED
 NOTES TO THE FINANCIAL STATEMENTS
 FOR THE YEAR ENDED 30 JUNE 2013

22 Capital management (continued)

Regulatory capital

Regulatory capital is made up of two components, actual solvency capital and minimum solvency capital. The solvency standard applies at the entity level and the capital may be held within or outside the statutory fund. The total surplus is determined as actual solvency capital less the greater of the calculated solvency margin or the overall regulatory minimum.

	2013			2012		
	Life (Statutory fund) \$000	Non-life \$000	Total \$000	Life (Statutory fund) \$000	Non-life \$000	Total \$000
Actual solvency capital	1,719	4,160	5,879	506	2,938	3,444
Calculated solvency margin	581	-	581	-	-	-
Overall regulatory minimum capital			5,000			-
Surplus			879			3,444

23 Contingent assets and liabilities

There are no contingent assets or liabilities at balance date (2012: Nil).

24 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 5 to 23. The financial statements comprise the statement of financial position as at 30 June 2013, 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 5 to 23:

- 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 2013 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

26 August 2013
Auckland