

MARAC INSURANCE LIMITED
FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2015

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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 2015 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 with the Insurance (Prudential Supervision) Act 2010.

The Board of Directors of MARAC Insurance Limited authorise the financial statements set out on pages 5 to 24 for issue on 19 October 2015.

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.

Directors of the Company during the year were:

Name: Jeffrey Kenneth Greenslade
Type of director: Non-Independent Director

Qualifications: LLB
Occupation: CEO Heartland New Zealand 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
Resigned: 17 July 2015

Qualifications: Chartered Accountant (ACA/BCA)
Occupation: CEO New Zealand Automobile Association

Name: Mark Roland Winger
Type of director: Independent Director
Resigned: 17 July 2015

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;

MARAC INSURANCE LIMITED

STATEMENT OF CORPORATE GOVERNANCE

Board role and charter (continued)

- 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.

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:

- Provide an independent review of the Company's financial reporting and the financial information prepared by Management including oversight of accounting policies and associated requirements.
- Recommend to the Board for approval, the Financial Statements, Financial Condition Report and Solvency Returns of the Company.
- Review the decision on reinsurance every two years and submit a recommendation to the Board.
- 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 Board, and Management's report on internal control over financial reporting, and the disclosures made.
- Oversee any statutory reporting requirements and provide independent review of the Company's reporting under these requirements.
- Oversee the nomination of the external auditor and recommend the appointment of the external auditor to the Board.
- Review and recommend to the Board the fee to be paid to the external auditors.
- Oversee and appraise at least annually the independence, adequacy and effectiveness of the external auditor (including the rotation of the external audit partner), and the scope and progress of its audit plan.
- Oversee and monitor the resolution of significant internal control deficiencies raised by an auditor.
- Oversee and monitor any operational risk deficiencies identified via incident reporting.
- Oversee and monitor any regulatory breaches identified via incident reporting.
- 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 monitor changes anticipated in the economic and business environment and other factors considered relevant to the Company's risk profile including capital requirements and solvency adequacy.
- To review and recommend for Board approval an annual review of the Company's Risk Appetite Statement.
- To review and recommend for Board approval an annual review of the Company's Risk Matrix for Operational and Compliance Risk.
- Oversee that annual Risk and Control Self Assessments are completed by the Company's Co-Opted staff for all aspects of the Company (including Operations, IT, Product Management, Finance, Distribution).
- To ensure that corporate responsibility and ethical standards are upheld at all times.

The committee comprises of all the Directors.

MARAC INSURANCE LIMITED
STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30 JUNE 2015

	Note	2015 \$000	2014 \$000
Premium income	4	3,409	2,982
Claims expense	5	418	264
Commission expense	6	1,593	1,367
Underwriting Profit		1,398	1,351
Interest income		444	372
Other income		208	217
Net operating income		2,050	1,940
Operating expenses	7	733	601
Profit before income tax		1,317	1,339
Income tax expense	9	368	368
Profit for the year	10	949	971
Total comprehensive income for the year		949	971
Profit attributable to:			
Owners of the Company		949	971
Profit for the year		949	971
Total comprehensive income attributable to:			
Owners of the Company		949	971
Total comprehensive income for the year		949	971

The notes on pages 9 to 24 are an integral part of these financial statements.

MARAC INSURANCE LIMITED
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2015

	Share Capital \$000	Retained Earnings \$000	Total Equity \$000
2015			
Balance at 1 July 2014	1,865	3,870	5,735
Total comprehensive income for the year			
Profit for the year	-	949	949
Total comprehensive income for the year	-	949	949
Balance at 30 June 2015	1,865	4,819	6,684
2014			
Balance at 1 July 2013	1,865	4,019	5,884
Total comprehensive income for the year			
Profit for the year	-	971	971
Total comprehensive income for the year	-	971	971
Transactions with owners, recorded directly in equity			
Dividends to shareholders	-	(1,120)	(1,120)
Total transactions with owners	-	(1,120)	(1,120)
Balance at 30 June 2014	1,865	3,870	5,735

The notes on pages 9 to 24 are an integral part of these financial statements.

MARAC INSURANCE LIMITED
STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2015

	Note	2015	2014
		\$000	\$000
Assets			
Cash and cash equivalents		3,145	1,684
Investments	11	8,233	7,961
Trade and other receivables	12	172	256
Intangible assets - Software	13	86	17
Total assets		11,636	9,918
Liabilities			
Outstanding claims liability	14	192	158
Policy liability	14	3,758	3,094
Other liabilities	15	49	197
Deferred tax liability	16	953	734
Total liabilities		4,952	4,183
Net assets		6,684	5,735
Equity			
Share capital	17	1,865	1,865
Retained earnings		4,819	3,870
Total equity		6,684	5,735
Total equity and liabilities		11,636	9,918

The notes on pages 9 to 24 are an integral part of these financial statements.

MARAC INSURANCE LIMITED
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2015

	Note	2015 \$000	2014 \$000
Cash flows from operating activities			
Cash was provided from:			
Premiums received		4,947	3,673
Fees received		208	217
Interest received		342	372
Total cash provided from operating activities		5,497	4,262
Cash was applied to:			
Commissions paid		2,421	1,729
Payment of claims		383	148
Income tax paid		261	270
Payments to suppliers and employees		714	699
Total cash applied to operating activities		3,779	2,846
Net cash flows from operating activities	19	1,718	1,416
Cash flows from investing activities			
Cash was applied to:			
Net increase in investments		170	524
Purchase of software		87	13
Total cash flows applied to investing activities		257	537
Net cash flows applied to investing activities		(257)	(537)
Cash flows from financing activities			
Cash was provided to:			
Dividends paid		-	1,120
Total cash flows applied to financing activities		-	1,120
Net cash flows applied to financing activities		-	(1,120)
Net Increase/(decrease) in cash held		1,461	(241)
Opening cash balance		1,684	1,925
Closing cash balance		3,145	1,684

The notes on pages 9 to 24 are an integral part of these financial statements.

MARAC INSURANCE LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2015

1 Reporting entity

MARAC Insurance Limited 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 as at and, for the year ended 30 June 2015. The financial statements were authorised for issue by the directors on 19 October 2015.

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 profit-oriented entity. The Company is a FMC reporting entity under section 451 of the Financial Markets Conduct Act 2013 (the Act) which has financial reporting requirements under Part 7 of 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 2015

3 Significant accounting policies (continued)

(c) Revenue

Premium Income

Premiums are recognised in profit or loss from the date of attachment of the risk over the period of the insurance contract.

Other Income

Other income is recognised as the service is provided.

Interest Income

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

(d) Commission expense

Commission expense is expensed in the profit and loss 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

The portion of premium received and not earned in the profit and loss at balance date is recognised in the statement of financial position as a policy liability.

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 2015

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 from the date of attachment of risk over the period of the contract. Deferred acquisition costs are included in policy 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.

(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 2015

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.

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 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 2015

3 Significant accounting policies (continued)

(s) New standards and interpretations adopted

The following new standards and amendments to standards have been adopted from 1 July 2014 in the preparation of these financial statements:

NZ IFRS 4: Insurance Contracts: Statutory Funds

Requires life insurers to report on statutory funds and disclosures relating to solvency calculations and solvency margins for each life fund.

(t) 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 2015, 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 9 Financial Instruments, which specifies how an entity should classify and measure financial assets and liabilities.	1 January 2018	30 June 2019
NZ IFRS 9 Financial Instruments (2013), which provides a more principles-based approach to hedge accounting and aligns hedge accounting more closely with risk management.	1 January 2018	30 June 2019

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 2015

4 Premium income	Note	2015 \$000	2014 \$000
Guaranteed asset protection insurance (GAP)		1,701	1,346
Lifestyle protection insurance (LPI)		1,708	1,636
Total premium income		3,409	2,982
5 Claims expense			
Claims incurred		412	291
Prior year claims reassessed		6	(27)
Total claims expense		418	264
6 Commission expense			
Related parties		316	337
External parties		1,277	1,030
Total commission expense		1,593	1,367
7 Operating expenses			
Fees paid to the auditor	8	18	23
Management fees	20	500	374
Amortisation of Software	13	18	2
Other expenses		197	202
Total operating expenses		733	601
8 Auditor remuneration			
Amounts paid to the auditor for:			
Auditing financial statements		13	15
Limited assurance report on annual solvency return		5	8
Total fees paid to auditor		18	23
The auditor of the Company is KPMG.			
9 Income tax expense			
Current tax expense / (benefit)			
Current year		149	277
Deferred tax expense			
Origination and reversal of temporary differences		219	91
Total income tax expense		368	368
Reconciliation of effective tax rate			
Profit before tax		1,317	1,339
Income tax at 28%		369	375
Tax exempt income		(1)	(7)
Total income tax expense		368	368

MARAC INSURANCE LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2015

10 Profit for the year

	2015		
	Statutory Fund	Non Statutory Fund	Total
	\$000	\$000	\$000
Difference between actual and assumed experience	337	252	589
Planned margin of revenues over insurance expenses	-	-	-
Investment earnings in excess of policy liabilities	64	146	210
Other Income	-	150	150
Profit for the year	401	548	949

	2014		
	Statutory Fund	Non Statutory Fund	Total
	\$000	\$000	\$000
Difference between actual and assumed experience	404	234	638
Planned margin of revenues over insurance expenses	-	-	-
Investment earnings in excess of policy liabilities	56	121	177
Other Income	-	156	156
Profit for the year	460	511	971

11 Investments

	2015	2014
	\$000	\$000
Term deposits	7,208	6,935
New Zealand government bond	1,025	1,026
Total investments	8,233	7,961
Amounts due to mature within 12 months	6,502	3,932
Amounts due to mature over 12 months	1,731	4,029
Total investments	8,233	7,961

12 Trade and other receivables

Current tax receivable	10	-
Trade receivables	162	256
Total other assets	172	256

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

MARAC INSURANCE LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2015

13 Intangible assets - Software	2015	2014
	\$000	\$000
Cost		
Opening balance	119	107
Additions	87	13
Disposals	(102)	(1)
Closing balance	104	119
Accumulated depreciation		
Opening balance	102	101
Amortisation charge for the year	18	2
Disposals	(102)	(1)
Closing balance	18	102
Opening net book value	17	6
Closing net book value	86	17

14 Insurance contract liabilities

Notified claims and IBNR	192	158
Total outstanding claims liability	192	158
Outstanding claims liability at 1 July	158	137
Claims reassessed	5	(27)
Claims paid	(383)	(243)
Claims incurred	412	291
Outstanding claims liability at year end	192	158

The discount rate used in the calculation of the outstanding claim liability is 2.86%.

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.

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	
		2015	2014
Discount rate		2.86%	3.60%
Claims frequencies:			
Death claims	NZ 2000-2002 population tables	30.00%	30.00%
Disability claims	Claims history	1.20%	1.50%
Redundancy claims	Claims history	0.50%	0.80%
GAP claims	Earned premiums	15.00%	15.00%
Cost allowances:			
Policy administration costs	Future claims	20.00%	50.00%
Claim administration costs (open claims)	Future claim payments	0.00%	15.00%

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

MARAC INSURANCE LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2015

14 Insurance contract liabilities (continued)

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

Sensitivity Analysis	2015			
	Policy liability \$000	Estimate of future claims cost \$000	Impact on estimate of liability \$000	Impact on reported profit for the year \$000
Base assumption	3,758	2,200	-	-
Discount rate - 1%	3,758	2,208	7	-
Discount rate + 1%	3,758	2,193	(7)	-
Claim frequencies + 10%	3,758	2,277	76	-
Claim frequencies - 10%	3,758	2,124	(76)	-
Cost allowances + 10%	3,758	2,344	144	-
Cost allowances - 10%	3,758	2,057	(144)	-

Sensitivity Analysis	2014			
	Policy liability \$000	Estimate of future claims cost \$000	Impact on estimate of liability \$000	Impact on reported profit for the year \$000
Base assumption	3,094	1,852	-	-
Discount rate - 1%	3,094	1,857	5	-
Discount rate + 1%	3,094	1,847	(5)	-
Claim frequencies + 10%	3,094	1,922	70	-
Claim frequencies - 10%	3,094	1,782	(70)	-
Cost allowances + 10%	3,094	1,966	114	-
Cost allowances - 10%	3,094	1,738	(114)	-

Policy liability	2015 \$000	2014 \$000
Policy liability at 1 July	3,094	2,732
Deferral of premium on contracts written at year end	3,832	3,174
Prior year premium earned	(2,406)	(2,471)
Acquisition costs deferred	(1,876)	(1,466)
Amortisation of deferred acquisition costs	1,114	1,125
Policy liability at year end	3,758	3,094
Amounts due to be recognised in profit within 12 months	1,634	1,676
Amounts due to be recognised in profit after 12 months	2,124	1,418
Total policy liability	3,758	3,094

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 and solvency margin has been determined. The actuarial report on policyholder liabilities was signed on 29 July 2015.

MARAC INSURANCE LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2015

15 Other liabilities	2015	2014
	\$000	\$000
Current tax payable	-	102
Trade creditors and accruals	49	95
Total other liabilities	49	197

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

16 Deferred tax

Recognised deferred tax liabilities		
Intangible assets - Software	5	-
Tax assets	5	-
Deferred acquisition costs	958	734
Tax liabilities	958	734
Net deferred tax liability	953	734

17 Share capital

Share capital		
Balance at the beginning of the year	1,865	1,865
Balance at the end of the year	1,865	1,865

Share capital is made up of 1,650,101 (2014: 1,650,101) ordinary shares. All shares have equal voting rights, no par value and equal rights to dividends and distributions.

The Company issued no shares in the year to 30 June 2015 (2014: nil).

18 Dividends

The Company paid no dividend to its immediate parent in the year to 30 June 2015 (2014: \$1,120,000 (\$0.68 per share)).

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

Profit for the year	949	971
Add/ (less) non cash items:		
Investment revenue accruals	(102)	-
Amortisation	18	2
Deferred taxation	219	91
Total non-cash items	135	93
Add / (less) movements in working capital:		
Current tax payable	(112)	7
Policy liabilities	664	362
Outstanding claims liability	34	21
Trade creditors and other liabilities	(46)	(24)
Trade receivables and other assets	94	(14)
Total movements in working capital items	634	352
Net cash flows from operating activities	1,718	1,416

MARAC INSURANCE LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2015

20 Related party information

The Company's immediate parent is MARAC JV Holdings Limited (MJV). Up to 17 July 2015 MJV was jointly controlled by Heartland Financial Services Limited (HFSL) and The New Zealand Automobile Association Limited (AA). On 17 July HFSL acquired the remaining 50% of MJV. HFSL is a wholly owned subsidiary of Heartland New Zealand Limited (HNZ).

The Company received administrative assistance from Heartland Bank Limited (HBL) and MARAC Finance Limited (MFL), both of which are wholly owned subsidiaries of HNZ. MFL was amalgamated with HBL on 1 December 2013.

<i>Transactions with related parties were:</i>	<i>Note</i>	<i>2015</i>	<i>2014</i>
		<i>\$000</i>	<i>\$000</i>
Commissions paid to HBL (including MFL)		(613)	(270)
Commissions paid to the AA		(13)	(55)
Management fees paid to HBL (including MFL)	7	(500)	(374)
Interest received on call deposit with HBL		31	21
Total		(1,095)	(678)

Outstanding balances with related parties

Call deposits with HBL	1,695	500
Term deposits with HBL	750	-
Total	2,445	500

21 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.

MARAC INSURANCE LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2015

21 Risk management (continued)

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 by investing in bank deposits 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 2015, as summarised below:

	2015 \$000	2014 \$000
<i>Classes of financial assets - carrying amounts:</i>		
Cash and cash equivalents	3,145	1,684
Term deposits	7,208	6,935
New Zealand government bond	1,025	1,026
Trade and other receivables	172	256
Total financial assets	11,550	9,901

There were no assets that were impaired or past due as at 30 June 2015 (2014: Nil).

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

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

	2015			
	Total \$000	AA+ \$000	AA- \$000	BBB \$000
Cash and cash equivalents	3,145	-	1,450	1,695
Term deposits	7,208	-	6,455	753
New Zealand government bond	1,025	1,025	-	-
	11,378	1,025	7,905	2,448

	2014			
	Total \$000	AA \$000	AA- \$000	BBB- \$000
Cash and cash equivalents	1,684	-	1,184	500
Term deposits	6,935	-	6,935	-
New Zealand government bond	1,026	1,026	-	-
	9,645	1,026	8,119	500

MARAC INSURANCE LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2015

21 Risk management (continued)

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% (2014: +/- 1%).

	2015 \$000	2014 \$000
Profit / (Loss)		
+1% interest rate movement on financial assets	45	26
-1% interest rate movement on financial assets	(45)	(26)
Equity		
+1% interest rate movement on financial assets	45	26
-1% interest rate movement on financial assets	(45)	(26)

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.

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

	2015			
	Carrying Value \$000	Within 1 year \$000	1 to 5 years \$000	Later than 5 years \$000
Cash and cash equivalents	3,145	3,145	-	-
Term deposits	7,208	6,502	706	-
New Zealand government bond	1,025	-	1,025	-
Trade and other receivables	172	172	-	-
	11,550	9,819	1,731	-
Outstanding claims liability	192	192	-	-
Other liabilities	49	49	-	-
	241	241	-	-
Net financial assets	11,309	9,578	1,731	-

MARAC INSURANCE LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2015

21 Risk management (continued)

Liquidity risk (continued)

	2014			
	Carrying Value \$000	Within 1 year \$000	1 to 5 years \$000	Later than 5 years \$000
Cash and cash equivalents	1,684	1,684	-	-
Term deposits	6,935	3,933	3,002	-
New Zealand government bond	1,026	-	1,026	-
Trade and other receivables	256	256	-	-
	9,901	5,873	4,028	-
Outstanding claims liability	158	158	-	-
Other liabilities	197	197	-	-
	355	355	-	-
Net financial assets	9,546	5,518	4,028	-

22 Fair value

The methods and assumptions below were used to estimate fair values disclosed for each class of financial asset and liability:

Investment assets

The fair value of term deposit investments are valued under Level 2 of the fair value hierarchy using observable market inputs being the principal deposit plus accrued interest.

The fair value of the government bond asset is valued under level 1 of the fair value hierarchy and is based on quoted market prices.

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.

Fair value hierarchy and fair values

	2015		2014	
	Carrying value \$000	Fair value \$000	Carrying value \$000	Fair value \$000
Financial assets				
Investments:				
- Term deposits	7,208	7,208	6,935	6,935
- New Zealand government bond	1,025	1,099	1,026	1,091
Total assets	8,233	8,307	7,961	8,026

MARAC INSURANCE LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2015

23 Statutory Fund

The Company maintains a statutory fund comprising of the assets and liabilities held in relation to the lifestyle protection insurance contracts as required by the Insurance (Prudential Supervision) Act 2010.

	2015	2014
	\$000	\$000
Investment assets	4,378	3,765
Other assets	135	37
Total fund assets	4,513	3,802
Life insurance contract liabilities	2,110	1,680
Other liabilities	-	-
Retained profits	2,403	2,122
Total fund equity and liabilities	4,513	3,802
Premium income	1,708	1,635
Claims expense	(238)	(159)
Commission expense	(789)	(739)
Investment Income	171	143
Other Income	-	-
Other operating expenses	(294)	(241)
Profit before income tax	558	639
Income tax expense	(157)	(179)
Profit after tax	401	460

24 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.

The Company is 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 actual solvency of the Company as at 30 June 2015, calculated in accordance with the solvency standard, was \$6.60 million (2014: \$5.72 million), compared to the actuarially calculated solvency requirement of \$0.69 million (2014: \$0.66 million). Due to the requirement to retain at least \$5 million of fixed capital, the Company is deemed to have a surplus of \$1.60 million (2014: surplus of \$0.72 million).

During the year ended 30 June 2015 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.

MARAC INSURANCE LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2015

24 Capital management (continued)

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.

Regulatory capital

Regulatory capital requirement is the greater of the calculated actual solvency capital or the overall regulatory minimum capital (\$5 million). The surplus is determined as actual solvency capital less the greater of the calculated solvency requirement or the overall regulatory minimum capital. The solvency standard applies at the entity level and the capital may be held within or outside the statutory fund.

	2015			2014		
	Life (Statutory fund) \$000	Non-life \$000	Total \$000	Life (Statutory fund) \$000	Non-life \$000	Total \$000
Actual solvency capital	2,403	4,196	6,599	2,123	3,596	5,719
Calculated solvency requirement	-	692	692	-	660	660
Overall regulatory minimum capital			5,000			5,000
Surplus			1,599			719

The solvency margin has been determined by The Actuary in accordance with the solvency standards under the Insurance (Prudential Supervision) Act 2010.

25 Credit rating

As at the date of signing these financial statements, the Company's Insurer Financial Strength Rating issued by Standard and Poor's was BB+ (Outlook Stable). This BB+ (Outlook Stable) rating was issued on the 12 August 2015 after Standard & Poor's revised New Zealand's Banking Industry Country Risk Assessment. The following amendments have been made to the rating or outlook since the rating was initially issued:

- On 27 September 2012 Standard & Poor's issued the Company's rating at BB+ (Outlook stable).
- On 3 April 2014 Standard & Poor's affirmed the BB+ rating and amended the outlook from "stable" to "developing".
- On 21 May 2014 Standard & Poor's upgraded the rating to BBB- (Outlook Negative) rating and amended the outlook from "developing" to "negative".
- On 14 April 2015 Standard & Poor's affirmed the rating of BBB- (Outlook Negative)
- On 12 August 2015 Standard & Poor's lowered the rating to BB+ and the outlook from "negative" to "stable".

26 Contingent assets and liabilities

There are no contingent assets or liabilities at balance date (2014: Nil).

27 Events reported after balance date

On 17 July 2015 HFSL acquired the 50% of MJV held by AA.

There have been no other 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

We have audited the accompanying financial statements of MARAC Insurance Limited ("the company") on pages 5 to 24. The financial statements comprise the statement of financial position as at 30 June 2015, 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.

This report is made solely to the shareholder. Our audit work has been undertaken so that we might state to the company's shareholder those matters we are required to state to them in the auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company's shareholder, for our audit work, this report or any of the opinions we have formed

Directors' responsibility for the financial statements

The directors are responsible for the preparation and fair presentation of the financial statements in accordance with generally accepted accounting practice in New Zealand (being New Zealand Equivalents to International Financial Reporting Standards) and International Financial Reporting Standards, 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 and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the 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.



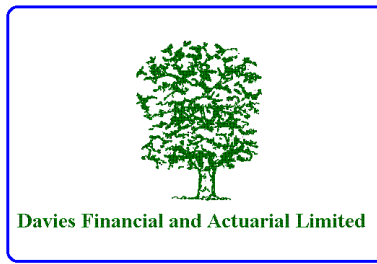
Our firm has also provided other services to the company in relation to regulatory assurance services. Subject to certain restrictions, partners and employees of our firm may also deal with the company on normal terms within the ordinary course of trading activities of the business of the company. These 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 24 comply with generally accepted accounting practice in New Zealand and present fairly, in all material respects, the financial position of MARAC Insurance Limited as at 30 June 2015 and its financial performance and cash flows for the year then ended in accordance with New Zealand Equivalents to International Financial Reporting Standards and International Financial Reporting Standards.

KPMG

19 October 2015
Auckland



26th August 2015

To: The Directors
MARAC Insurance Limited

From: Peter Davies
Appointed Actuary

**Re: MARAC Insurance Limited: Report as at 30th June 2015
under Sections 77 and 78 of the Insurance (Prudential
Supervision) Act 2010**

You have asked me to prepare this report in terms of the above sections of the Act, and I would like to comment further as follows:

1. I have reviewed the actuarial information included in the audited accounts for MARAC Insurance Limited as at 30th June 2015. "Actuarial information" includes the following:
 - claim provisions and unexpired risk / unearned premium provisions;
 - solvency calculations in terms of the RBNZ Solvency Standard;
 - balance sheet and other information allowed for in the calculation of the company's solvency position; and
 - disclosures regarding the methodology and assumptions used for calculating claim provisions, unexpired risk provisions, and other disclosures.
2. No limitations have been placed on my work.

3. I am independent with respect to MARAC Insurance Limited as defined under professional standard ISA (NZ) 620 of the External Reporting Board.
4. I have been provided with all information that I have requested in order to carry out this review.
5. In my view the actuarial information contained in the financial statements has been appropriately included, and the actuarial information used in the preparation of the financial statements has been appropriately used.
6. MARAC Insurance Limited's solvency margin under the RBNZ solvency standards for Life and Non-Life Insurers at 30th June 2015 equalled \$1,598,821. The Company is expected to exceed the RBNZ minimum capital requirement at all times over the next four years.

I would be very happy to answer any queries concerning this report.

Yours sincerely



Peter Davies B.Bus.Sc., FIA, FNZSA
Appointed Actuary