MARAC INSURANCE LIMITED
ANNUAL REPORT
FOR THE YEAR ENDED 30 JUNE 2016

CONTENTS

MARAC Insurance Limited
Directors' Report
Section 209 Companies Act 1993

The Directors are pleased to present the Annual Report for MARAC Insurance Limited (the "Company") for the year ended 30 June 2016.

With the agreement of the Shareholder, the Company has agreed to apply the reporting concessions included in section 211 of the Companies Act 1993. Accordingly, there is no information to report other than the Statement of Corporate Governance, Directors' Responsibility Statement and Financial Statements for the year ended 30 June 2016 and the audit report on those financial statements.

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: Sir Christopher Robert Mace KNZM
Type of director: Independent Chairman
Occupation: Company Director
Qualifications: CMInstD

Name: Andrew James Aitken
Type of director: Independent Director
Appointed: 14 December 2015
Occupation: Company Director
Qualifications FANZIIF, CMInstD

Name: Christopher Patrick Francis Flood
Type of director: Non-Independent Director
Appointed: 3 May 2016
Occupation: Head of Banking Heartland Bank Limited

Name: Sarah Elizabeth Ann Smith
Type of director: Non-Independent Director
Appointed: 14 December 2015
Occupation: Head of Business Support Heartland Bank Limited

Name: Jeffrey Kenneth Greenslade
Type of director: Non-Independent Director
Resigned: 3 March 2016
Occupation: CEO Heartland Bank Limited
Qualifications: LLB

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;

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 inlcuding 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 Andrew James Aitken (Chairman), Sir Christopher Robert Mace and Sarah Elizabeth Ann Smith.

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 2016 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 authorised the financial statements set out on pages 6 to 25 for issue on 25 August 2016.

For and on behalf of the Board

Director

Director

MARAC INSURANCE LIMITED

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 30 JUNE 2016

	Note	2016 $000	2015 $000
Premium income	4	3,870	3,409
Claims expense	5	515	418
Commission expense	6	1,848	1,593
Underwriting Profit		**1,507**	**1,398**
Interest income		428	444
Other income		120	208
Net operating income		**2,055**	**2,050**
Operating expenses	7	740	733
Profit before income tax		**1,315**	**1,317**
Income tax expense	9	369	368
Profit for the year	10	**946**	**949**
Other comprehensive income			
Movement in available for sale reserve, net of income tax		39	-
Total comprehensive income for the year		**985**	**949**

Total comprehensive income for the year is attributable to the owners of MARAC Insurance Limited.

The notes on pages 10 to 25 are an integral part of these financial statements.

MARAC INSURANCE LIMITED

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 JUNE 2016

	Note	Share Capital $000	Available for sale Reserve $000	Retained Earnings $000	Total Equity $000
2016					
Balance at 1 July 2015		**1,865**	**-**	**4,819**	**6,684**
Total comprehensive income for the year					
Profit for the year		-	-	946	946
Other comprehensive income / (loss), net of income tax		-	39	-	39
Total comprehensive income for the year		**-**	**39**	**946**	**985**
Transactions with owners, recorded directly in equity					
Dividends to shareholders	18	-	-	(2,100)	(2,100)
Total transactions with owners		**-**	**-**	**(2,100)**	**(2,100)**
Balance at 30 June 2016		**1,865**	**39**	**3,665**	**5,569**
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**

The notes on pages 10 to 25 are an integral part of these financial statements.

MARAC INSURANCE LIMITED
STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2016

	Note	2016 $000	2015 $000
Assets			
Cash and cash equivalents		1,488	3,145
Investments	11	9,954	8,233
Trade and other receivables	12	106	172
Intangible assets - Software	13	52	86
Total assets		**11,600**	**11,636**
Liabilities			
Outstanding claims liability	14	298	192
Policy liability	14	4,529	3,758
Other liabilities	15	12	49
Deferred tax liability	16	1,192	953
Total liabilities		**6,031**	**4,952**
Net assets		**5,569**	**6,684**
Equity			
Share capital	17	1,865	1,865
Retained earnings and reserves		3,704	4,819
Total equity		**5,569**	**6,684**
Total equity and liabilities		**11,600**	**11,636**

The notes on pages 10 to 25 are an integral part of these financial statements.

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MARAC INSURANCE LIMITED

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 30 JUNE 2016

	Note	2016 $000	2015 $000
Cash flows from operating activities			
Cash was provided from:			
Premiums received		5,546	4,947
Fees received		120	208
Interest received		631	342
Total cash provided from operating activities		**6,297**	**5,497**
Cash was applied to:			
Commissions paid		2,716	2,421
Payment of claims		409	383
Income tax paid		129	261
Payments to suppliers and employees		730	714
Total cash applied to operating activities		**3,984**	**3,779**
Net cash flows from operating activities	19	**2,313**	**1,718**
Cash flows from investing activities			
Cash was applied to:			
Net increase in investments		1,870	170
Purchase of software		-	87
Total cash flows applied to investing activities		**1,870**	**257**
Net cash flows applied to investing activities		**(1,870)**	**(257)**
Cash flows from financing activities			
Cash was applied to:			
Dividends paid		2,100	-
Total cash flows applied to financing activities		**2,100**	**-**
Net cash flows applied to financing activities		**(2,100)**	**-**
Net (decrease)/increase in cash held		(1,657)	1,461
Opening cash balance		3,145	1,684
Closing cash balance		**1,488**	**3,145**

The notes on pages 10 to 25 are an integral part of these financial statements.

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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.

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.

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.

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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.

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3 Significant accounting policies (continued)

(l) Investments

Investments comprise investments in term deposits, corporate bonds and government stock and are classified as being available for sale and are stated at fair value less impairment, if any. The fair values are derived by reference to published price quotations in an active market or modelled using observable market inputs.

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.

(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.

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 2016, and have not been applied in preparing these financial statements. The new standards identified which may have an effect on the financial statements of the Company are:

Standard and description	*Effective for annual periods beginning on or after:*	*Expected to be initially applied in year ending:*
NZ 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.

4 Premium income

	Note	2016 $000	2015 $000
Guaranteed asset protection insurance		1,794	1,701
Lifestyle protection insurance		2,076	1,708
Total premium income		**3,870**	**3,409**

5 Claims expense

Claims incurred		591	412
Prior year claims reassessed		(76)	6
Total claims expense		**515**	**418**

6 Commission expense

Related parties		255	316
External parties		1,593	1,277
Total commission expense		**1,848**	**1,593**

7 Operating expenses

Fees paid to the auditor	8	21	18
Director Fees		18	-
Management fees	20	475	500
Amortisation of Software	13	34	18
Other expenses		192	197
Total operating expenses		**740**	**733**

8 Auditor remuneration

Amounts paid to the auditor for:			
Auditing financial statements		13	13
Limited assurance report on annual solvency return		8	5
Total fees paid to auditor		**21**	**18**

The auditor of the Company is KPMG.

9 Income tax expense

Current tax expense / (benefit)			
Current year		130	149
Deferred tax expense			
Origination and reversal of temporary differences		239	219
Total income tax expense		**369**	**368**

Reconciliation of effective tax rate			
Profit before tax		1,315	1,317
Income tax at 28%		369	369
Tax exempt income		-	(1)
Total income tax expense		**369**	**368**

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10 Profit for the year

	2016		
	Statutory Fund $000	Non Statutory Fund $000	Total $000
Difference between actual and assumed experience	423	255	678
Planned margin of revenues over insurance expenses	-	-	-
Investment earnings in excess of policy liabilities	32	150	182
Other Income	-	86	86
Profit for the year	**455**	**491**	**946**

	2015		
	Statutory Fund $000	Non Statutory Fund $000	Total $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**

11 Investments

	2016 $000	2015 $000
Term deposits	8,876	7,208
New Zealand government bond	1,078	1,025
Total investments	**9,954**	**8,233**
Amounts due to mature within 12 months	8,876	6,502
Amounts due to mature over 12 months	1,078	1,731
Total investments	**9,954**	**8,233**

12 Trade and other receivables

Trade receivables	106	162
Current tax receivable	-	10
Total other assets	**106**	**172**

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

13 Intangible assets - Software

	2016 $000	2015 $000
Cost		
Opening balance	104	119
Additions	-	87
Disposals	-	(102)
Closing balance	**104**	**104**
Accumulated depreciation		
Opening balance	18	102
Amortisation charge for the year	34	18
Disposals	-	(102)
Closing balance	**52**	**18**
Opening net book value	86	17
Closing net book value	**52**	**86**

14 Insurance contract liabilities

	2016	2015
Outstanding claims liability at 1 July	192	158
Claims reassessed	(76)	5
Claims paid	(409)	(383)
Claims incurred	591	412
Outstanding claims liability at year end	**298**	**192**

The discount rate used in the calculation of the outstanding claim liability is 2.00% (2015: 2.86%).

The outstanding claims liability includes notified claims, a reserve for incurred but not reported, a reserve for incurred but not enough reported, claims handlings costs and a risk margin.

It based on best available information at the time the actuarial report on policyholder liabilities was signed. Subsequent information or action can affect the amount ultimately settled on a claim.

Insurance contract assumptions

The estimate of future claims costs, risk margin and claims management expenses used to test the adequacy of the Unearned Premium Liability were determined using the Company's own experience and assumptions about future experience made using the professional judgement, training and experience of the Appointed Actuary and are neither deliberately overstated nor deliberately understated.

The following assumptions were used to test the adequacy of the insurance contract liability:

	2016	2015
Basis	Earned premium	Earned premium net of commission
Claims Ratio:		
Guaranteed asset protection	13.00%	15.00%
Lifestyle protection insurance	13.00%	25.40%
Claims Management Expenses	15.00%	20.00%
Risk Margin	15.00%	0.00%

The Company appointed a new actuary during the year. As a result of this change the basis of the assumptions changed from a percentage of earned premium net of commission to a percentage of earned premium.

14 Insurance contract liabilities (continued)

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

	2016			
	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	4,529	1,513	-	-
Claim frequencies + 30%	4,529	1,900	387	-
Claim frequencies - 30%	4,529	1,126	(387)	-
Cost allowances + 30%	4,529	1,900	387	-
Cost allowances - 30%	4,529	1,126	(387)	-

	2015			
	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	3,758	2,200	-	-
Claim frequencies + 30%	3,758	2,428	228	-
Claim frequencies - 30%	3,758	1,972	(228)	-
Cost allowances + 30%	3,758	2,632	432	-
Cost allowances - 30%	3,758	1,768	(432)	-

Policy liability	2016 $000	2015 $000
Policy liability at 1 July	3,758	3,094
Deferral of premium on contracts written at year end	4,816	3,832
Prior year premium earned	(3,196)	(2,406)
Acquisition costs deferred	(2,366)	(1,876)
Amortisation of deferred acquisition costs	1,517	1,114
Policy liability at year end	**4,529**	**3,758**
Amounts due to be recognised in profit within 12 months	1,937	1,634
Amounts due to be recognised in profit after 12 months	2,592	2,124
Total policy liability	**4,529**	**3,758**

The current year policy liabilities have been determined by Marcelo Lardies BSc (Hons), FNZSA (the "Actuary"). Policy liabilities have been calculated using the accumulation method as per Professional Standards 20 and 30 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 the associated deferred acquisition costs have been determined. The prior year policy liabilities were determined by Peter Davies, B.Bus.Sc., FIA, FNZSA. The actuarial report on policyholder liabilities was signed on 29 July 2016.

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15 Other liabilities

	2016 $000	2015 $000
Current tax payable	6	-
Trade creditors and accruals	6	49
Total other liabilities	**12**	**49**

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
Provisions and Accruals	7	-
Tax assets	**7**	**5**
Intangible assets - Software	3	-
Deferred acquisition costs	1,196	958
Tax liabilities	**1,199**	**958**
Net deferred tax liability	**1,192**	**953**

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 (2015: 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 2016 (2015: nil).

18 Dividends

The Company paid dividends totalling $2,100,000 ($1.27 per share) to its immediate parent in the year to 30 June 2016 (2015: Nil).

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

Profit for the year	**946**	**949**
Add/ (less) non cash items:		
Interest income accruals	203	(102)
Amortisation	34	18
Deferred taxation	239	219
Total non-cash items	**476**	**135**
Add / (less) movements in working capital:		
Current tax (through comprehensive income)	1	(112)
Policy liabilities	771	664
Outstanding claims liability	106	34
Trade creditors and other liabilities	(43)	(46)
Trade receivables and other assets	56	94
Total movements in working capital items	**891**	**634**
Net cash flows from operating activities	**2,313**	**1,718**

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20 Related party information

The Company's immediate parent is Heartland Bank Limited. Up to 31 December 2015 its immediate parent was MARAC JV Holdings Limited (MJV) which was a wholly owned subsidiary of Heartland New Zealand Limited (HNZ). On 31 December 2015 HNZ and MJV amalgamated with the entity that was then known as "Heartland Bank Limited" (Former Heartland Bank). HNZ continued as the amalgamated company but changed its name to "Heartland Bank Limited".

Up to 17 July 2015 MJV was jointly controlled by HNZ and The New Zealand Automobile Association Limited (AA). On 17 July 2015 HNZ acquired the remaining 50% of MJV.

The Company received administrative assistance from HBL.

The Company paid insurance commission to HBL and AA.

Transactions with related parties were:	Note	2016 $000	2015 $000
Commission expense - HBL		(255)	(303)
Commission expense - AA		-	(13)
Management fees paid to HBL	7	(475)	(500)
Interest received on deposits with HBL		101	31
Total		**(629)**	**(785)**
Outstanding balances with related parties			
Call deposits with HBL		706	1,695
Term deposits with HBL		2,091	750
Total		**2,797**	**2,445**

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.

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, as summarised below:

	2016 $000	2015 $000
Classes of financial assets - carrying amounts:		
Cash and cash equivalents	1,488	3,145
Term deposits	8,876	7,208
New Zealand government bond	1,078	1,025
Trade and other receivables	106	172
Total financial assets	**11,548**	**11,550**

There were no assets that were impaired or past due as at 30 June 2016 (2015: 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:

	2016			
	Total $000	**AA+ $000**	**AA- $000**	**BBB $000**
Cash and cash equivalents	1,488	-	782	706
Term deposits	8,876	-	6,785	2,091
New Zealand government bond	1,078	1,078	-	-
	11,442	**1,078**	**7,567**	**2,797**

	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**

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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% (2015:+/-1%).

	2016 $000	2015 $000
Profit / (Loss)		
+1% interest rate movement on financial assets	58	45
-1% interest rate movement on financial assets	(58)	(45)
Equity		
+1% interest rate movement on financial assets	58	45
-1% interest rate movement on financial assets	(58)	(45)

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.

	2016			
	Carrying Value $000	**Within 1 year $000**	**1 to 5 years $000**	**Later than 5 years $000**
Cash and cash equivalents	1,488	1,488	-	-
Term deposits	8,835	8,835		-
New Zealand government bond	1,020	-	1,020	-
Trade and other receivables	106	106	-	-
	11,449	**10,429**	**1,020**	**-**
Outstanding claims liability	298	250	48	-
Other liabilities	12	12	-	-
	310	**262**	**48**	**-**
Net financial assets	**11,139**	**10,167**	**972**	**-**

21 Risk management (continued)

Liquidity risk (continued)

	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**	**-**

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

	2016		2015	
	Carrying value $000	Fair value $000	Carrying value $000	Fair value $000
Financial assets				
Investments:				
- Term deposits	8,876	8,876	7,208	7,208
- New Zealand government bond	1,078	1,078	1,025	1,099
Total assets	**9,954**	**9,954**	**8,233**	**8,307**

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.

	2016 $000	2015 $000
Investment assets	4,161	4,378
Other assets	55	135
Total fund assets	**4,216**	**4,513**
Life insurance contract liabilities	2,871	2,110
Other liabilities	-	-
Retained profits	1,345	2,403
Total fund equity and liabilities	**4,216**	**4,513**
Premium income	2,076	1,708
Claims expense	(304)	(238)
Commission expense	(987)	(789)
Investment income	142	171
Other Income	-	-
Other operating expenses	(295)	(294)
Profit before income tax	**632**	**558**
Income tax expense	(177)	(157)
Profit after tax	**455**	**401**

The directors approved a distributon of $1,300,000 from the statutory fund in the year to 30 June 2016 (2015: Nil).

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 2016, calculated in accordance with the solvency standard, was $5.52 million (2015: $6.60 million), compared to the actuarially calculated solvency requirement of $1.00 million (2015: $0.69 million). Due to the requirement to retain at least $5 million of fixed capital, the Company is deemed to have a surplus of $0.52 million (2015: surplus of $1.60 million).

During the year ended 30 June 2016 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.

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

Under the Solvency Standards the Company must hold a minimum Fixed Capital Amount of $5m. This applies at the entity level and the capital may be held within or outside the statutory fund. The regulatory capital requirement is that the Actual Solvency Capital must at all times exceed the higher of the Fixed Capital Amount or the Minimum Solvency Capital.

	2016			2015		
	Life (Statutory fund) $000	Non-life $000	Total $000	Life (Statutory fund) $000	Non-life $000	Total $000
Actual Solvency Capital	1,345	4,172	5,517	2,403	4,196	6,599
Minimum Solvency Capital	306	693	5,000	-	692	5,000
Solvency Margin	1,039	3,480	517	2,403	3,504	1,599
Solvency Ratio	**439%**	**602%**	**110%**		**606%**	**132%**

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 Fitch Australia Pty Ltd (Fitch Ratings) was BBB+ (Outlook Stable). This BBB+ (Outlook Stable) rating was assigned on 15 February 2016 after the Company discontinued its rating with Standard & Poor's. The following amendments have been made to the Company's rating or outlook during the reporting periods.

- 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".
- On 15 February 2016 Fitch assigned a First-Time Insurer Financial Strength Rating of BBB+ (Outlook Stable).
- On 25 February 2016 the bank discontinued using Standard and Poor's as a rating agency.

26 Contingent assets and liabilities

There are no contingent assets or liabilities at balance date (2015: Nil).

27 Events reported after balance date

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.

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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 6 to 25. The financial statements comprise the statement of financial position as at 30 June 2016, 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 as a body. 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 as a body, for our audit work, this report or any of the opinions we have formed.

Directors' responsibility for the financial statements

The directors are responsible on behalf of the company 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 6 to 25 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 2016 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

1 September 2016
Auckland

Appointed Actuary Report for MARAC Insurance Limited
As at 30 June 2016

To the Shareholders of MARAC Insurance Limited.

I am the Appointed Actuary to MARAC Insurance Limited ('MIL'). Sections 77 and 78 of the Insurance (Prudential Supervision) Act 2010 ('the Act') requires that a licensed insurer must ensure that the actuarial information contained in, or used in the preparation of, the financial statements of the insurer is reviewed by the Appointed Actuary.

In relation to the financial statements for MIL for the year ended 30 June 2016, I advise that:

Work undertaken

The review of the actuarial information contained in the financial statements for MIL.

Scope and limitations

The actuarial information reviewed was:

(a) information relating to the insurer's calculations of premiums, claims and technical provisions;

(b) information relating to assessments of the probability of uncertain future events occurring and the financial implications for the insurer if those events do occur; and

(c) information specified in the Solvency Standard for Life and Non-Life Insurance Business as being actuarial information for the purposes of this section.

Relationship with the Company

I have no relationships (other than as Appointed Actuary) with or any interests in MIL.

Information

I obtained all information and explanations I required.

Actuarial Opinion

In my opinion and from an actuarial perspective:

(a) the actuarial information contained in the financial statements as at 30 June 2016 has been appropriately included in those statements; and

(b) the actuarial information used in the preparation of the financial statements as at 30 June 2016 has been used appropriately.

Solvency Margin

In my opinion and from an actuarial perspective, MIL is maintaining the solvency margins required under the Solvency Standard for Life and Non-Life Insurance Business.

Marcelo Lardies
Fellow of the New Zealand Society of Actuaries
22 July 2016