

MARAC INSURANCE LIMITED
ANNUAL REPORT
FOR THE YEAR ENDED 30 JUNE 2017

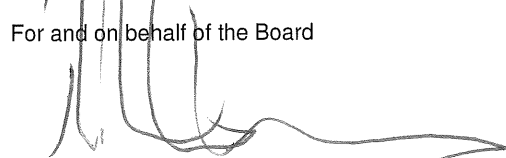
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MARAC Insurance Limited
Directors' Report
Section 209 Companies Act 1993

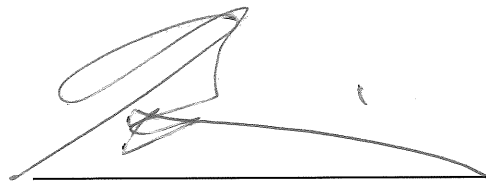
The Directors are pleased to present the Annual Report for MARAC Insurance Limited (the "Company") for the year ended 30 June 2017.

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 2017 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

Occupation: Company Director
Qualifications: FANZIIF, CMInstD

Name: Christopher Patrick Francis Flood
Type of director: Non-Independent Director

Occupation: Deputy Chief Executive Officer, Heartland Bank Limited

Name: Sarah Elizabeth Ann Smith
Type of director: Non-Independent Director

Occupation: Head of Business Enablement, Business Support, Heartland Bank Limited

Board role and charter

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

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

The Board is responsible for:

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

MARAC INSURANCE LIMITED

STATEMENT OF CORPORATE GOVERNANCE

Board role and charter (continued)

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 policy of reinsurance 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 those 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 Andrew James Aitken (Chairman), Christopher Patrick Francis Flood, Sir Christopher Robert Mace and Sarah Elizabeth Ann Smith.

MARAC INSURANCE LIMITED

DIRECTORS' RESPONSIBILITY STATEMENT

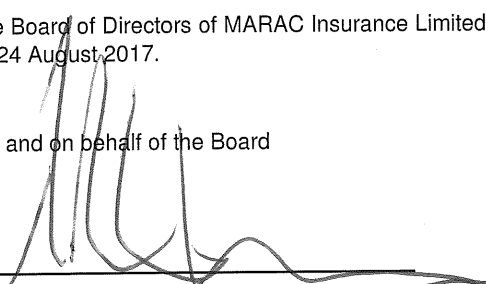
The directors are responsible for ensuring that the financial statements give a true and fair view of the financial position of MARAC Insurance Limited (the "Company") as at 30 June 2017 and the financial performance and cash flows for the year ended on that date.

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 24 August 2017.

For and on behalf of the Board



Director

Director

MARAC INSURANCE LIMITED
STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30 JUNE 2017

| | Note | 2017 | 2016 |
|---|-------------|--------------|--------------|
| | | \$000 | \$000 |
| Premium income | 4 | 4,549 | 3,870 |
| Claims expense | 5 | 614 | 515 |
| Commission expense | 6 | 2,201 | 1,848 |
| Underwriting Profit | | 1,734 | 1,507 |
| Interest income | | 380 | 428 |
| Other income | | 66 | 120 |
| Net operating income | | 2,180 | 2,055 |
| Operating expenses | 7 | 866 | 740 |
| Profit before income tax | | 1,314 | 1,315 |
| Income tax expense | 9 | 368 | 369 |
| Profit for the year | 10 | 946 | 946 |
| Other comprehensive income | | | |
| Movement in available for sale reserve, net of income tax | | (26) | 39 |
| Total comprehensive income for the year | | 920 | 985 |

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 2017

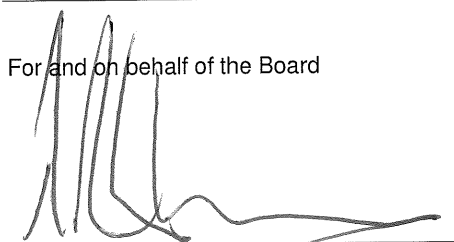
| | | Share Capital \$000 | Available for Sale Reserve \$000 | Retained Earnings \$000 | Total Equity \$000 |
|--|----|---------------------------|--|-------------------------------|--------------------------|
| 2017 | | | | | |
| Balance at 1 July 2016 | | 1,865 | 39 | 3,665 | 5,569 |
| Total comprehensive income for the year | | | | | |
| Profit for the year | | - | - | 946 | 946 |
| Other comprehensive (loss), net of income tax | | - | (26) | - | (26) |
| Total comprehensive income for the year | | - | (26) | 946 | 920 |
| Transactions with owners, recorded directly in equity | | | | | |
| Dividends to shareholders | 18 | - | - | (850) | (850) |
| Total transactions with owners | | - | - | (850) | (850) |
| Balance at 30 June 2017 | | 1,865 | 13 | 3,761 | 5,639 |
| 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, 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 |

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

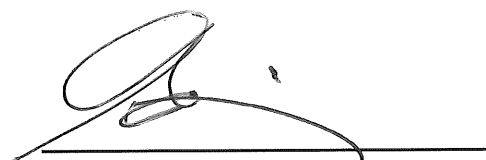
MARAC INSURANCE LIMITED
STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2017

| | Note | 2017 \$000 | 2016 \$000 |
|-------------------------------------|------|---------------|---------------|
| Assets | | | |
| Cash and cash equivalents | | 1,303 | 1,488 |
| Investments | 11 | 11,265 | 9,954 |
| Trade and other receivables | | 119 | 106 |
| Intangible assets - Software | 12 | 18 | 52 |
| Total assets | | 12,705 | 11,600 |
| Liabilities | | | |
| Outstanding claims liability | 13 | 379 | 298 |
| Policy liability | 13 | 5,101 | 4,529 |
| Current tax liability | | 177 | 6 |
| Other liabilities | | 35 | 6 |
| Deferred tax liability | 14 | 1,374 | 1,192 |
| Total liabilities | | 7,066 | 6,031 |
| Net assets | | 5,639 | 5,569 |
| Equity | | | |
| Share capital | 15 | 1,865 | 1,865 |
| Retained earnings and reserves | | 3,774 | 3,704 |
| Total equity | | 5,639 | 5,569 |
| Total equity and liabilities | | 12,705 | 11,600 |

For and on behalf of the Board



Director



Director

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

MARAC INSURANCE LIMITED
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2017

| | Note | 2017 | 2016 |
|---|-------------|----------------|----------------|
| | | \$000 | \$000 |
| Cash flows from operating activities | | | |
| Cash was provided from: | | | |
| Premiums received | | 5,728 | 5,546 |
| Fees received | | 66 | 120 |
| Interest received | | 346 | 631 |
| Total cash provided from operating activities | | 6,140 | 6,297 |
| Cash was applied to: | | | |
| Commissions paid | | 2,796 | 2,716 |
| Payment of claims | | 533 | 409 |
| Income tax paid | | 6 | 129 |
| Payments to suppliers and employees | | 828 | 730 |
| Total cash applied to operating activities | | 4,163 | 3,984 |
| Net cash flows from operating activities | 19 | 1,977 | 2,313 |
| Cash flows from investing activities | | | |
| Cash was applied to: | | | |
| Net increase in investments | | 1,312 | 1,870 |
| Total cash flows applied to investing activities | | 1,312 | 1,870 |
| Net cash flows applied to investing activities | | (1,312) | (1,870) |
| Cash flows from financing activities | | | |
| Cash was applied to: | | | |
| Dividends paid | | 850 | 2,100 |
| Total cash flows applied to financing activities | | 850 | 2,100 |
| Net cash flows applied to financing activities | | (850) | (2,100) |
| Net decrease in cash held | | (185) | (1,657) |
| Opening cash balance | | 1,488 | 3,145 |
| Closing cash balance | | 1,303 | 1,488 |

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

MARAC INSURANCE LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2017

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.

MARAC INSURANCE LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2017

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 balance 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 (IBNR) and claims incurred but not fully reported (IBNER) 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 2017

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 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 2017

3 Significant accounting policies (continued)

(l) Investments

Investments comprise investments in term deposits 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 an estimated economic life 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 13 - Insurance contract liabilities.

MARAC INSURANCE LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2017

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 2017, 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 |
| The full impacts of NZ IFRS 9 are yet to be assessed. | | |
| IFRS 17 Insurance Contracts was issued by the International Accounting Standards Board in May 2017. An NZ IFRS version is expected in due course. The standard will replace the existing IFRS 4 and establishes the principles for recognition, measurement, presentation and disclosure of insurance contracts. The standard becomes mandatory for the Company's 30 June 2022 financial statements. The potential effects on adoption of the standard are currently being assessed. | 1 January 2021 | 30 June 2022 |

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 2017

| 4 Premium income | Note | 2017 \$000 | 2016 \$000 |
|--|-------------|-----------------------|-----------------------|
| Guaranteed asset protection insurance | | 1,887 | 1,794 |
| Lifestyle protection insurance | | 2,662 | 2,076 |
| Total premium income | | 4,549 | 3,870 |
| 5 Claims expense | | | |
| Claims incurred | | 606 | 591 |
| Prior year claims reassessed | | 8 | (76) |
| Total claims expense | | 614 | 515 |
| 6 Commission expense | | | |
| Related parties | | 397 | 255 |
| External parties | | 1,804 | 1,593 |
| Total commission expense | | 2,201 | 1,848 |
| 7 Operating expenses | | | |
| Fees paid to the auditor | 8 | 21 | 21 |
| Director Fees | | 32 | 18 |
| Management fees | 20 | 573 | 475 |
| Amortisation of Software | 12 | 34 | 34 |
| Other expenses | | 206 | 192 |
| Total operating expenses | | 866 | 740 |
| 8 Auditor remuneration | | | |
| Amounts paid to the auditor for: | | | |
| Auditing financial statements | | 13 | 13 |
| Limited assurance report on annual solvency return | | 8 | 8 |
| Total fees paid to auditor | | 21 | 21 |
| The auditor of the Company is KPMG. | | | |
| 9 Income tax expense | | | |
| Current tax expense | | | |
| Current year | | 186 | 130 |
| Deferred tax expense | | | |
| Origination and reversal of temporary differences | | 182 | 239 |
| Total income tax expense | | 368 | 369 |
| Reconciliation of effective tax rate | | | |
| Profit before tax | | 1,314 | 1,315 |
| Income tax at 28% | | 368 | 369 |
| Total income tax expense | | 368 | 369 |

MARAC INSURANCE LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2017

10 Profit for the year

| | 2017 | | |
|---|----------------|--------------------|------------|
| | Statutory Fund | Non Statutory Fund | Total |
| | \$000 | \$000 | \$000 |
| Difference between actual and assumed experience | 538 | 221 | 759 |
| Planned margin of revenues over insurance expenses | - | - | - |
| Investment earnings in excess of policy liabilities | 38 | 115 | 153 |
| Other Income | - | 34 | 34 |
| Profit for the year | 576 | 370 | 946 |

| | 2016 | | |
|---|----------------|--------------------|------------|
| | Statutory Fund | Non Statutory Fund | Total |
| | \$000 | \$000 | \$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 |

11 Investments

| | Note | 2017 | 2016 |
|--|------|---------------|--------------|
| | | \$000 | \$000 |
| Term deposits | 20 | 10,223 | 8,876 |
| New Zealand government bond | | 1,042 | 1,078 |
| Total investments | | 11,265 | 9,954 |
| Amounts due to mature within 12 months | | 9,274 | 8,876 |
| Amounts due to mature over 12 months | | 1,991 | 1,078 |
| Total investments | | 11,265 | 9,954 |

12 Intangible assets - Software

| | | |
|----------------------------------|------------|------------|
| Cost | | |
| Opening balance | 104 | 104 |
| Additions | - | - |
| Disposals | - | - |
| Closing balance | 104 | 104 |
| Accumulated depreciation | | |
| Opening balance | 52 | 18 |
| Amortisation charge for the year | 34 | 34 |
| Disposals | - | - |
| Closing balance | 86 | 52 |
| Opening net book value | 52 | 86 |
| Closing net book value | 18 | 52 |

MARAC INSURANCE LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2017

| 13 Insurance contract liabilities | 2017 | 2016 |
|---|--------------|--------------|
| | \$000 | \$000 |
| Notified claims and IBNR | 302 | 235 |
| Claims handling costs | 27 | 24 |
| Risk margin | 50 | 39 |
| Total outstanding claims liability | 379 | 298 |
| Outstanding claims liability at 1 July | 298 | 192 |
| Claims reassessed | 8 | (76) |
| Claims paid | (533) | (409) |
| Claims incurred | 606 | 591 |
| Outstanding claims liability at year end | 379 | 298 |

The discount rate used in the calculation of the outstanding claim liability is 3.40% (2016: 2.00%).

The outstanding claims liability is 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 estimates 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:

| | 2017 | 2016 |
|--------------------------------|----------------|----------------|
| Basis | Earned premium | Earned premium |
| Claims Ratio: | | |
| Guaranteed asset protection | 14.00% | 13.00% |
| Lifestyle protection insurance | 14.00% | 13.00% |
| Claims Management Expenses | 15.00% | 15.00% |
| Risk Margin | 15.00% | 15.00% |

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

| | 2017 | | | |
|-----------------------------|-------------------------|---------------------------------------|--|---|
| | 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 | 5,101 | 1,850 | - | - |
| Claim frequencies + 30% | 5,101 | 2,343 | 493 | - |
| Claim frequencies - 30% | 5,101 | 1,357 | (493) | - |
| Cost allowances + 30% | 5,101 | 2,343 | 493 | - |
| Cost allowances - 30% | 5,101 | 1,357 | (493) | - |

MARAC INSURANCE LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2017

13 Insurance contract liabilities (continued)

| <i>Insurance contract assumptions (continued)</i> | 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) | - |
| Policy liability | | | 2017 | 2016 |
| | | | \$000 | \$000 |
| Policy liability at 1 July | | | 4,529 | 3,758 |
| Deferral of premium on contracts written at year end | | | 5,026 | 4,816 |
| Prior year premium earned | | | (3,837) | (3,196) |
| Deferral of acquisition costs on contracts written at year end | | | (2,467) | (2,366) |
| Prior year acquisition costs expensed | | | 1,850 | 1,517 |
| Policy liability at year end | | | 5,101 | 4,529 |
| Amounts due to be recognised in profit within 12 months | | | 2,214 | 1,937 |
| Amounts due to be recognised in profit after 12 months | | | 2,887 | 2,592 |
| Total policy liability | | | 5,101 | 4,529 |

The current year and prior 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 actuarial report on policyholder liabilities was signed on 20 July 2017.

14 Deferred tax

| | | |
|--|--------------|--------------|
| Recognised deferred tax liabilities | | |
| Provisions and accruals | - | 7 |
| Tax assets | - | 7 |
| Intangible assets - Software | 5 | 3 |
| Deferred acquisition costs | 1,369 | 1,196 |
| Tax liabilities | 1,374 | 1,199 |
| Net deferred tax liability | 1,374 | 1,192 |

MARAC INSURANCE LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2017

| 15 Share Capital | Note | 2017 \$000 | 2016 \$000 |
|---------------------------------------|-------------|-----------------------|-----------------------|
| 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 (2016: 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 2017 (2016: nil).

18 Dividends

The Company paid dividends totalling \$850,000 (\$0.52 per share) to its immediate parent in the year to 30 June 2017 (2016: \$2,100,000 (\$1.27 per share)).

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

| | | |
|---|--------------|--------------|
| Profit for the year | 946 | 946 |
| Add/ (less) non cash items: | | |
| Interest income accruals | (34) | 203 |
| Amortisation of software | 34 | 34 |
| Deferred taxation | 182 | 239 |
| Total non-cash items | 182 | 476 |
| Add / (less) movements in working capital: | | |
| Current tax (through comprehensive income) | 180 | 1 |
| Policy liabilities | 572 | 771 |
| Outstanding claims liability | 81 | 106 |
| Trade creditors and other liabilities | 29 | (43) |
| Trade receivables and other assets | (13) | 56 |
| Total movements in working capital items | 849 | 891 |
| Net cash flows from operating activities | 1,977 | 2,313 |

20 Related party information

The Company's immediate parent is Heartland Bank Limited (HBL).

The Company received administrative assistance from HBL and paid insurance commission to HBL.

Transactions with related parties were:

| | | | |
|--|---|--------------|--------------|
| Commission expense - HBL | | (397) | (255) |
| Management fees paid to HBL | 7 | (573) | (475) |
| Interest received on deposits with HBL | | 93 | 101 |
| Total | | (877) | (629) |

Outstanding balances with related parties

| | | | |
|------------------------|--|--------------|--------------|
| Call deposits with HBL | | 9 | 706 |
| Term deposits with HBL | | 3,084 | 2,091 |
| Total | | 3,093 | 2,797 |

MARAC INSURANCE LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2017

21 Risk management

Insurance risk

Insurance risk is the possibility that the Company will have to compensate a 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 operates solely in New Zealand and in New Zealand dollars.

The Company's objective is to minimise insurance risk to within acceptable levels. 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 periodically reviews whether any reinsurance is required to further reduce this risk. Currently the Company has no reinsurance in place.

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:

| | 2017 \$000 | 2016 \$000 |
|--|---------------|---------------|
| <i>Classes of financial assets - carrying amounts:</i> | | |
| Cash and cash equivalents | 1,303 | 1,488 |
| Term deposits | 10,223 | 8,876 |
| New Zealand government bond | 1,042 | 1,078 |
| Trade and other receivables | 119 | 106 |
| Total financial assets | 12,687 | 11,548 |

There were no assets that were impaired or past due as at 30 June 2017 (2016: Nil).

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

MARAC INSURANCE LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2017

21 Risk management (continued)

Credit risk (continued)

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:

| | 2017 | | | |
|-----------------------------|----------------|--------------|--------------|--------------|
| | Total \$000 | AA+ \$000 | AA- \$000 | BBB \$000 |
| Cash and cash equivalents | 1,303 | - | 1,294 | 9 |
| Term deposits | 10,223 | - | 7,139 | 3,084 |
| New Zealand government bond | 1,042 | 1,042 | - | - |
| | 12,568 | 1,042 | 8,433 | 3,093 |

| | 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 |

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% (2016: +/- 1%).

| | 2017 \$000 | 2016 \$000 |
|--|---------------|---------------|
| Profit / (Loss) | | |
| +1% interest rate movement on financial assets | 42 | 58 |
| -1% interest rate movement on financial assets | (42) | (58) |
| Equity | | |
| +1% interest rate movement on financial assets | 42 | 58 |
| -1% interest rate movement on financial assets | (42) | (58) |

MARAC INSURANCE LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2017

21 Risk management (continued)

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.

| | 2017 | | | |
|------------------------------|-------------------------|---------------------------|--------------------------|--------------------------------|
| | Carrying value \$000 | Within 1 year \$000 | 1 to 5 years \$000 | Later than 5 years \$000 |
| Cash and cash equivalents | 1,303 | 1,303 | - | - |
| Term deposits | 10,223 | 8,232 | 1,991 | - |
| New Zealand government bond | 1,042 | 1,042 | - | - |
| Trade and other receivables | 119 | 119 | - | - |
| | 12,687 | 10,696 | 1,991 | - |
| Outstanding claims liability | 379 | 328 | 51 | - |
| Current tax liability | 177 | 177 | - | - |
| Other liabilities | 35 | 35 | - | - |
| | 591 | 540 | 51 | - |
| Net financial assets | 12,096 | 10,156 | 1,940 | - |

| | 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 | 1,078 | - | 1,078 | - |
| Trade and other receivables | 106 | 106 | - | - |
| | 11,449 | 10,429 | 1,020 | - |
| Outstanding claims liability | 298 | 250 | 48 | - |
| Current tax liability | 6 | 6 | - | - |
| Other liabilities | 6 | 6 | - | - |
| | 310 | 262 | 48 | - |
| Net financial assets | 11,139 | 10,167 | 972 | - |

MARAC INSURANCE LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2017

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

| | 2017 | | 2016 | |
|-------------------------------|----------------------------|------------------------|----------------------------|------------------------|
| | Carrying value \$000 | Fair value \$000 | Carrying value \$000 | Fair value \$000 |
| Financial assets | | | | |
| Investments: | | | | |
| - Term deposits | 10,223 | 10,223 | 8,876 | 8,876 |
| - New Zealand government bond | 1,042 | 1,042 | 1,078 | 1,078 |
| Total assets | 11,265 | 11,265 | 9,954 | 9,954 |

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.

| | 2017 \$000 | 2016 \$000 |
|--|---------------|---------------|
| Investment assets | 5,156 | 4,161 |
| Other assets | 65 | 55 |
| Total fund assets | 5,221 | 4,216 |
| Life insurance contract liabilities | 3,475 | 2,871 |
| Other liabilities | - | - |
| Retained profits and other reserves | 1,746 | 1,345 |
| Total fund equity and liabilities | 5,221 | 4,216 |
| Premium income | 2,662 | 2,076 |
| Claims expense | (386) | (304) |
| Commission expense | (1,290) | (987) |
| Investment income | 161 | 142 |
| Other income | - | - |
| Other operating expenses | (347) | (295) |
| Profit before income tax | 800 | 632 |
| Income tax expense | (224) | (177) |
| Profit after tax | 576 | 455 |

There were no distributions from the statutory fund in the year to 30 June 2017 (2016: \$1,300,000).

MARAC INSURANCE LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2017

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.

During the year ended 30 June 2017 the Company complied with all externally imposed capital requirements.

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

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

Capital composition

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

Regulatory capital

The Company is required to retain fixed capital of at least \$5 million under the Solvency Standard for Life Insurance Business 2014 ("the solvency standard") issued by the Reserve Bank of New Zealand (RBNZ). 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.

The actual solvency capital of the Company as at 30 June 2017, calculated in accordance with the solvency standard, was \$5.62 million (2016: \$5.52 million), compared to the actuarially calculated solvency requirement of \$1.25 million (2016: \$1.00 million). Due to the requirement to retain at least \$5 million of fixed capital, the Company is deemed to have a surplus of \$0.62 million (2016: surplus of \$0.52 million).

| | 2017 | | | 2016 | | |
|--------------------------|--------------------------------------|-------------------|----------------|--------------------------------------|-------------------|----------------|
| | Life (Statutory fund) \$000 | Non-life \$000 | Total \$000 | Life (Statutory fund) \$000 | Non-life \$000 | Total \$000 |
| Actual Solvency Capital | 1,746 | 3,875 | 5,621 | 1,345 | 4,172 | 5,517 |
| Minimum Solvency Capital | 1,553 | 3,447 | 5,000 | 1,222 | 3,778 | 5,000 |
| Solvency Margin | 193 | 428 | 621 | 123 | 394 | 517 |
| Solvency Ratio | 112% | 112% | 112% | 110% | 110% | 110% |

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

24 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 rating was affirmed on 21 December 2016.

MARAC INSURANCE LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2017

24 Contingent assets and liabilities

There were no contingent assets or liabilities at balance date (2016: Nil).

25 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.



Independent Auditor's Report

To the shareholder of MARAC Insurance Limited

Report on the financial statements

Opinion

In our opinion, the accompanying financial statements of MARAC Insurance Limited (the "company") on pages 6 to 25:

- i. present fairly in all material respects the company's financial position as at 30 June 2017 and its financial performance and cash flows for the year ended on that date; and
- ii. comply with New Zealand Equivalents to International Financial Reporting Standards and International Financial Reporting Standards.

We have audited the accompanying financial statements which comprise:

- the statement of financial position as at 30 June 2017;
- the statements of comprehensive income, changes in equity and cash flows for the year then ended; and
- notes, including a summary of significant accounting policies and other explanatory information.



Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (New Zealand) ("ISAs (NZ)"). We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

We are independent of the company in accordance with Professional and Ethical Standard 1 (Revised) Code of Ethics for Assurance Practitioners issued by the New Zealand Auditing and Assurance Standards Board and the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants ("IESBA Code"), and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

Our responsibilities under ISAs (NZ) are further described in the Auditor's Responsibilities for the Audit of the financial statements section of our report.

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.



Use of this Independent Auditor's Report

This report is made solely to the shareholder as a body. Our audit work has been undertaken so that we might state to the shareholder those matters we are required to state to them in the Independent 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 shareholder as a body for our audit work, this report, or any of the opinions we have formed.



Responsibilities of the Directors for the financial statements

The Directors, on behalf of the company, 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;
- implementing necessary internal control to enable the preparation of a set of financial statements that is fairly presented and free from material misstatement, whether due to fraud or error; and
- assessing the ability to continue as a going concern. This includes disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate or to cease operations, or have no realistic alternative but to do so.



Auditor's Responsibilities for the Audit of the financial statements

Our objective is:

- to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error; and
- to issue an Independent Auditor's Report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs NZ will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error. They are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of these financial statements is located at the External Reporting Board (XRB) website at:

https://www.xrb.govt.nz/Site/Auditing_Assurance_Standards/Current_Standards/Page6.aspx.

This description forms part of our Independent Auditor's Report.

KPMG

Jamie Munro

For and on behalf of

KPMG

Auckland

31 August 2017

**Appointed Actuary Report for MARAC Insurance Limited
As at 30 June 2017**

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 2017, 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 2017 has been appropriately included in those statements; and
- (b) the actuarial information used in the preparation of the financial statements as at 30 June 2017 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
18 August 2017