

MARAC INSURANCE LIMITED  
ANNUAL REPORT  
FOR THE YEAR ENDED 30 JUNE 2020

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**MARAC INSURANCE LIMITED**  
**DIRECTORS' REPORT**

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The Directors are pleased to present the Annual Report for MARAC Insurance Limited (the "**Company**") for the year ended 30 June 2020.

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 2020, and the audit report on those financial statements.

For and on behalf of the Board



Chris Flood

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Director



Sarah Smith

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Director

## MARAC INSURANCE LIMITED

### STATEMENT OF CORPORATE GOVERNANCE

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MARAC Insurance Limited adheres to principles designed to ensure sound corporate governance of its affairs, including The 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:** CMIInstD

**Name:** Andrew James Aitken  
**Type of director:** Independent Director

**Occupation:** Company Director  
**Qualifications:** FANZIIF, CMIInstD

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

**Occupation:** Chief Executive Officer  
Heartland Bank Limited

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

**Occupation:** Chief Technology Officer  
Heartland Bank Limited

#### Board role and charter

The Board operates in accordance with the Board 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 the oversight and governance of MARAC Insurance Limited whose day to day operation and long term strategic direction is the responsibility of Heartland Bank Limited (**Shareholder**) management, in a manner designed to create and build sustainable value for shareholder 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. In particular, the Board is responsible for:

- Overseeing the strategic direction and appropriate operational frameworks set by the Shareholder.
- Monitoring management's performance within those frameworks.
- Monitoring financial reporting, solvency and capital management within the agreed frameworks of its Shareholder and external stakeholders.
- Ensuring that the Company adheres to the required standards and expectations of its customers and external stakeholders being the RBNZ and FMA.
- Ensuring the effective risk management procedures are in place.
- Ensuring Culture and Conduct responsibilities aligned with the Shareholders values and maintained.
- Ensuring the Company has appropriate corporate governance structures in place including standards of ethical behaviour and decision making aligned and consistent with those of its Shareholder.
- Ensuring that the Board is and remains appropriately skilled to meet the changing needs of the Company.

## MARAC INSURANCE LIMITED

### STATEMENT OF CORPORATE GOVERNANCE

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#### Board role and charter (continued)

The Board has adopted its own Code of Conduct to provide guidance to Board members on what is expected of them.

MARAC Insurance Limited is a subsidiary of Heartland Bank Limited, and has entered into a Management Service Agreement with Heartland Bank Limited under which Heartland Bank Limited provides MARAC Insurance Limited with access to its systems, frameworks, and other resources (including employees). As MARAC Insurance Limited has no employees of its own, it relies on those arrangements to ensure that it has access to the systems, frameworks, and range of suitably qualified and competent employees that MARAC Insurance Limited requires in order to discharge its obligations. MARAC Insurance Limited also relies on Heartland Bank Limited when setting its strategic direction. The Board meets formally on a regular scheduled basis and holds additional meetings as the occasion requires.

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 themselves from the discussion and not vote on the matter.

#### Board Audit and Risk Committee ("BARC")

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

Specific responsibilities of BARC 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.
- To review and recommend for Board 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.
- Oversee any statutory reporting requirements and provide independent review of the Company's reporting under those requirements.
- 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 the Company's Risk Appetite Statement.
- To review and recommend for Board approval the Company's Risk Matrix for Operational and Compliance Risk.
- To ensure that corporate responsibility and ethical standards are upheld at all times.

BARC 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**

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The Directors are responsible for ensuring that the Financial Statements fairly present the financial position of MARAC Insurance Limited (the "Company") as at 30 June 2020 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 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 28 October 2020.

For and on behalf of the Board



Chris Flood

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Director



Sarah Smith

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Director

MARAC INSURANCE LIMITED  
STATEMENT OF COMPREHENSIVE INCOME  
FOR THE YEAR ENDED 30 JUNE 2020

|   | Note | 2020<br>\$000 | 2019<br>\$000 |
|---|------|---------------|---------------|
| Premium income                                    | 4    | 4,544         | 5,773         |
| Claims expense                                    | 5    | 275           | 552           |
| Commission expense                                | 6    | 2,245         | 2,841         |
| <b>Underwriting profit</b>                        |      | <b>2,024</b>  | <b>2,380</b>  |
| Interest income                                   |      | 261           | 353           |
| Other income                                      |      | 58            | 57            |
| <b>Net operating income</b>                       |      | <b>2,343</b>  | <b>2,790</b>  |
| Operating expenses                                | 7    | 1,121         | 821           |
| <b>Profit before income tax</b>                   |      | <b>1,222</b>  | <b>1,969</b>  |
| Income tax expense                                | 9    | 342           | 551           |
| <b>Profit for the year</b>                        | 10   | <b>880</b>    | <b>1,418</b>  |
| <b>Other comprehensive income</b>                 |      |               |               |
| Movement in fair value reserve, net of income tax |      | 1             | 4             |
| <b>Total comprehensive income for the year</b>    |      | <b>881</b>    | <b>1,422</b>  |

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

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



MARAC INSURANCE LIMITED  
STATEMENT OF CHANGES IN EQUITY  
FOR THE YEAR ENDED 30 JUNE 2020

|  | Note | Share<br>Capital<br>\$000 | Fair value<br>Reserve<br>\$000 | Retained<br>Earnings<br>\$000 | Total<br>Equity<br>\$000 |
|--|------|---------------------------|--------------------------------|-------------------------------|--------------------------|
| <b>2020</b>  |      |                           |                                |                               |                          |
| Balance at 1 July 2019                                       |      | 1,865                     | 5                              | 3,682                         | 5,552                    |
| <b>Total comprehensive income for the year</b>               |      |                           |                                |                               |                          |
| Profit for the year  |      | -                         | -                              | 880                           | 880                      |
| Other comprehensive income                                   |      | -                         | 1                              | -                             | 1                        |
| <b>Total comprehensive income for the year</b>               |      | -                         | 1                              | 880                           | 881                      |
| <b>Transactions with owners, recorded directly in equity</b> |      |                           |                                |                               |                          |
| Dividends to shareholders                                    | 16   | -                         | -                              | -                             | -                        |
| <b>Total transactions with owners</b>                        |      | -                         | -                              | -                             | -                        |
| <b>Balance at 30 June 2020</b>                               |      | <b>1,865</b>              | <b>6</b>                       | <b>4,562</b>                  | <b>6,433</b>             |
| <b>2019</b>  |      |                           |                                |                               |                          |
| Balance at 1 July 2018                                       |      | 1,865                     | 1                              | 3,964                         | 5,830                    |
| <b>Total comprehensive income for the year</b>               |      |                           |                                |                               |                          |
| Profit for the year  |      | -                         | -                              | 1,418                         | 1,418                    |
| Other comprehensive income                                   |      | -                         | 4                              | -                             | 4                        |
| <b>Total comprehensive income for the year</b>               |      | -                         | 4                              | 1,418                         | 1,422                    |
| <b>Transactions with owners, recorded directly in equity</b> |      |                           |                                |                               |                          |
| Dividends to shareholders                                    | 16   | -                         | -                              | (1,700)                       | (1,700)                  |
| <b>Total transactions with owners</b>                        |      | -                         | -                              | (1,700)                       | (1,700)                  |
| <b>Balance at 30 June 2019</b>                               |      | <b>1,865</b>              | <b>5</b>                       | <b>3,682</b>                  | <b>5,552</b>             |

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





MARAC INSURANCE LIMITED  
STATEMENT OF FINANCIAL POSITION  
AS AT 30 JUNE 2020

|                                     | Note | 2020<br>\$000 | 2019<br>\$000 |
|-------------------------------------|------|---------------|---------------|
| <b>Assets</b>                       |      |               |               |
| Cash and cash equivalents           |      | 2,162         | 1,960         |
| Investments                         | 11   | 10,169        | 10,888        |
| Trade and other receivables         |      | 50            | 99            |
| <b>Total assets</b>                 |      | <b>12,381</b> | <b>12,947</b> |
| <b>Liabilities</b>                  |      |               |               |
| Outstanding claims liability        | 12   | 422           | 478           |
| Policy liability                    | 12   | 3,415         | 4,820         |
| Current tax liability               |      | 578           | 440           |
| Other liabilities                   | 13   | 597           | 336           |
| Deferred tax liability              | 14   | 936           | 1,321         |
| <b>Total liabilities</b>            |      | <b>5,948</b>  | <b>7,395</b>  |
| <b>Net assets</b>                   |      | <b>6,433</b>  | <b>5,552</b>  |
| <b>Equity</b>                       |      |               |               |
| Share capital                       | 15   | 1,865         | 1,865         |
| Retained earnings and reserves      |      | 4,568         | 3,687         |
| <b>Total equity</b>                 |      | <b>6,433</b>  | <b>5,552</b>  |
| <b>Total equity and liabilities</b> |      | <b>12,381</b> | <b>12,947</b> |

For and on behalf of the Board



Chris Flood

Director



Sarah Smith

Director

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





MARAC INSURANCE LIMITED  
STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED 30 JUNE 2020

|   | Note | 2020<br>\$000 | 2019<br>\$000  |
|---|------|---------------|----------------|
| <b>Cash flows from operating activities</b>           |      |               |                |
| Cash was provided from:                               |      |               |                |
| Premiums received                                     |      | 1,812         | 4,579          |
| Fees received   |      | 58            | 57             |
| Interest received                                     |      | 333           | 334            |
| <b>Total cash provided from operating activities</b>  |      | <b>2,203</b>  | <b>4,970</b>   |
| Cash was applied to:                                  |      |               |                |
| Commissions paid                                      |      | 846           | 2,271          |
| Payment of claims                                     |      | 219           | 513            |
| Income tax paid                                       |      | 583           | 322            |
| Payments to suppliers                                 |      | 995           | 517            |
| <b>Total cash applied to operating activities</b>     |      | <b>2,643</b>  | <b>3,623</b>   |
| <b>Net cash flows from operating activities</b>       | 17   | <b>(440)</b>  | <b>1,347</b>   |
| <b>Cash flows from investing activities</b>           |      |               |                |
| Net decrease in investments                           |      | 642           | 110            |
| <b>Net cash flows from investing activities</b>       |      | <b>642</b>    | <b>110</b>     |
| <b>Cash flows from financing activities</b>           |      |               |                |
| Dividends paid  |      | -             | 1,700          |
| <b>Net cash flows applied to financing activities</b> |      | <b>-</b>      | <b>(1,700)</b> |
| <b>Net increase / (decrease) in cash held</b>         |      | <b>202</b>    | <b>(243)</b>   |
| Opening cash balance                                  |      | 1,960         | 2,203          |
| <b>Closing cash balance</b>                           |      | <b>2,162</b>  | <b>1,960</b>   |

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



**MARAC INSURANCE LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2020**

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**1 Reporting entity**

MARAC Insurance Limited (the "**Company**") is a profit-oriented company incorporated in New Zealand on 13 October 2005 and is a Company registered under the Companies Act 1993. The Company provides general insurance and term life insurance covering risks such as redundancy, bankruptcy or suspension of employment. The Company also sells insurance on behalf of other parties.

The Company, previously registered under the Life Insurance Act 1908, is licensed under the Insurance (Prudential Supervision) Act 2010.

The Company's address for service is Level 3, Heartland House, 35 Teed Street, Newmarket, Auckland.

In January 2020 the Company stopped underwriting insurance policies. Heartland Group Holdings (HGH) took a strategic review of its insurance business in line with its core business and through its subsidiary Heartland Bank limited (HBL), the Company's immediate parent, has entered into a distribution agreement with DPL Insurance Limited (DPL) to distribute DPL's insurance products.

Existing policies written by the company will naturally all wind down to expiry by 2024.

**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**) and with the requirements of the Financial Markets Conduct Act 2013. The financial statements comply with 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 also comply with International Financial Reporting Standards (**IFRS**) as issued by the International Accounting Standards Board.

The financial statements have been prepared on a going concern basis after considering the Company's funding and liquidity position.

**(b) Basis of measurement**

The financial statements have been prepared on the basis of historical cost, except for Investments and Outstanding Claims liabilities, which are measured at fair value as identified in the accompanying notes.

**(c) Presentation and functional currency**

The financial statements are presented in New Zealand dollars which is the Company's functional and presentation currency. Unless otherwise indicated, amounts are rounded to the nearest thousand.



MARAC INSURANCE LIMITED  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2020

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**3 Significant accounting policies**

**(a) Changes in accounting policies**

There have been no changes in the Company's accounting policies for the year ended 30 June 2020.

**(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 providing lifestyle protection and guaranteed asset protection insurance.

The company underwrites Lifestyle Protection Insurance (LPI) which provides fixed cover for a specified period for events including death, illness, accident or redundancy, and Guaranteed Asset Protection (GAP) insurance which covers against a vehicle being written off and where the insurance payout is less than the finance still owed. Both LPI and GAP are single premium products. GAP is classified as non life insurance and LPI is classified as life insurance for solvency purposes, however as LPI also includes a large proportion of non life components both products have been accounted for using a general insurance approach.

**(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 for account management and administration.

***Interest Income***

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

**(d) Commission expense**

Commission expense is expensed in the profit or loss from the date of attachment of risk on a straight line basis over the period of the insurance contract.



MARAC INSURANCE LIMITED  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2020

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**3 Significant accounting policies (continued)**

**(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 interest rate.

**(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 LPI and GAP are products that have substantially the same contractual terms and are priced on the basis of substantially the same assumptions.

**(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 tax and movements in deferred tax balances. Income tax expense is recognised in profit or loss except to the extent that it relates to items recognised directly in 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).





MARAC INSURANCE LIMITED  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2020

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**3 Significant accounting policies (continued)**

***Deferred tax***

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for accounting purposes and the amounts used for taxation purposes. As required by NZ IAS 12 Income Taxes, a deferred tax asset is recognised only to the extent that it is probable that a future taxable profit will be available.

**(j) Goods and Services Tax (GST)**

Revenue, expenses, assets and liabilities are recognised 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.

**(l) Investments**

The Company holds investments in term deposits and bonds. Investments are classified as being fair value through other comprehensive income. 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) Trade and other receivables**

Trade and other receivables are categorised at amortised cost and are measured at their cost less expected credit losses.

**(n) Trade creditors and accruals**

Trade and other payables are held at amortised cost.



MARAC INSURANCE LIMITED  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2020

3 Significant accounting policies (continued)

(o) Impairment

The carrying amounts of the Company's assets are reviewed at each Statement of Financial Position date to determine whether there is any objective evidence of impairment. If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount. Impairment losses directly reduce the carrying amount of assets and are recognised in profit or loss.

(p) 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.

(q) 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 12 - Insurance contract liabilities.

While the eventual outcome of the economic implications of Covid-19 cannot be reasonably estimated at this stage, there has been significant volatility in investment markets, with markets falling significantly by mid-March. Interventions taken by governments and central banks may also mitigate some of the possible economic impact of Covid-19. The Company currently has a significant buffer against potential adverse future experience with a solvency margin of \$1.4M and a net asset position of \$6.4M. Additionally the Company have exclusions for pandemic risk in the policy wording and given the high solvency margin, even if MARAC do pay-out on claims arising directly or indirectly due to Covid-19, the Company is still expected to maintain a significant solvency margin during this volatility.

(r) New standard and interpretations not yet adopted

| <i>Standard and description</i>   | <i>Effective<br/>for annual<br/>periods<br/>beginning<br/>on or after:</i> | <i>Expected to<br/>be initially<br/>applied in<br/>year ending:</i> |
|---|--|---|
| <b>NZ IFRS 17 Insurance Contracts:</b> establishes principles for the recognition, measurement, presentation and disclosure of insurance contracts. | 1 January 2023   | 30 June 2024  |

NZ IFRS 17 model combines a current balance sheet measurement of insurance contracts with recognition of profit over the period that services are provided. The standard introduces insurance contract measurement principles requiring, current, explicit and unbiased estimates of future cash flows, discount rates that reflect the characteristics of the contracts' cash flows and explicit adjustment for non-financial risk. The Company is currently assessing the impact of NZ IFRS 17, and it is not practicable to quantify the effect at the date of the publication of these financial statements.

The Company does not plan to early adopt the above noted standard.



MARAC INSURANCE LIMITED  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2020

| 4 Premium income                                      | Note | 2020<br>\$000 | 2019<br>\$000 |
|---|------|---------------|---------------|
| Guaranteed asset protection insurance                 |      | 1,382         | 2,274         |
| Lifestyle protection insurance                        |      | 3,162         | 3,499         |
| <b>Total premium income</b>                           |      | <b>4,544</b>  | <b>5,773</b>  |
| 5 Claims expense                                      |      |               |               |
| Claims incurred                                       |      | 185           | 508           |
| Prior year claims reassessed                          |      | 90            | 44            |
| <b>Total claims expense</b>                           |      | <b>275</b>    | <b>552</b>    |
| 6 Commission expense                                  |      |               |               |
| Related parties                                       |      | 236           | 208           |
| External parties                                      |      | 2,009         | 2,633         |
| <b>Total commission expense</b>                       |      | <b>2,245</b>  | <b>2,841</b>  |
| 7 Operating expenses                                  |      |               |               |
| Fees paid to the auditor                              | 8    | 15            | 29            |
| Director fees   |      | 47            | 47            |
| Management fees                                       | 18   | 600           | 600           |
| Other expenses  |      | 459           | 145           |
| <b>Total operating expenses</b>                       |      | <b>1,121</b>  | <b>821</b>    |
| 8 Auditor remuneration                                |      |               |               |
| Amounts paid to the auditor for:                      |      |               |               |
| Auditing financial statements                         |      | 10            | 13            |
| Reasonable assurance report on annual solvency return |      | 5             | 16            |
| <b>Total fees paid to auditor</b>                     |      | <b>15</b>     | <b>29</b>     |
| 9 Income tax expense                                  |      |               |               |
| <b>Current tax expense</b>                            |      |               |               |
| Current year  |      | 729           | 706           |
| <b>Deferred tax expense</b>                           |      |               |               |
| Origination and reversal of temporary differences     |      | (387)         | (155)         |
| <b>Total income tax expense</b>                       |      | <b>342</b>    | <b>551</b>    |
| <b>Reconciliation of effective tax rate</b>           |      |               |               |
| Profit before tax                                     |      | 1,222         | 1,969         |
| Income tax at 28%                                     |      | 342           | 551           |
| <b>Total income tax expense</b>                       |      | <b>342</b>    | <b>551</b>    |





MARAC INSURANCE LIMITED  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2020

10 Profit for the year

|   | 2020           |                    |            |
|---|----------------|--------------------|------------|
|   | Statutory Fund | Non Statutory Fund | Total      |
|   | \$000          | \$000              | \$000      |
| Difference between actual and assumed experience    | 559            | 159                | 718        |
| Investment earnings in excess of policy liabilities | 59             | 61                 | 120        |
| Other Income  | -              | 42                 | 42         |
| <b>Profit for the year</b>                          | <b>618</b>     | <b>262</b>         | <b>880</b> |

|   | 2019           |                    |              |
|---|----------------|--------------------|--------------|
|   | Statutory Fund | Non Statutory Fund | Total        |
|   | \$000          | \$000              | \$000        |
| Difference between actual and assumed experience    | 810            | 413                | 1,223        |
| Investment earnings in excess of policy liabilities | 56             | 98                 | 154          |
| Other Income  | -              | 41                 | 41           |
| <b>Profit for the year</b>                          | <b>866</b>     | <b>552</b>         | <b>1,418</b> |

11 Investments

|  | Note | 2020<br>\$000 | 2019<br>\$000 |
|--|------|---------------|---------------|
| Term deposits                          | 20   | 10,169        | 9,864         |
| Bonds                                  | 20   | -             | 1,024         |
| <b>Total investments</b>               |      | <b>10,169</b> | <b>10,888</b> |
| Amounts due to mature within 12 months |      | 10,169        | 10,463        |
| Amounts due to mature over 12 months   |      | -             | 425           |
| <b>Total investments</b>               |      | <b>10,169</b> | <b>10,888</b> |



MARAC INSURANCE LIMITED  
NOTES TO THE FINANCIAL STATEMENTS  
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| 12 Insurance contract liabilities               | 2020<br>\$000 | 2019<br>\$000 |
|---|---------------|---------------|
| Notified claims and IBNR                        | 338           | 388           |
| Claims handling costs                           | 29            | 28            |
| Risk margin                                     | 55            | 62            |
| <b>Total outstanding claims liability</b>       | <b>422</b>    | <b>478</b>    |
| Outstanding claims liability at 1 July          | 478           | 439           |
| Claims reassessed                               | 90            | 44            |
| Claims paid                                     | (219)         | (513)         |
| Claims incurred                                 | 73            | 508           |
| <b>Outstanding claims liability at year end</b> | <b>422</b>    | <b>478</b>    |

The discount rate used in the calculation of the outstanding claim liability is -0.24%LPI, 0.18%GAP(2019: 0.9%both).

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 liability adequacy test has been performed using the central estimate of the premium liability with an appropriate margin for uncertainty. The liability adequacy test as at reporting date had a surplus of \$2.2M (2019,\$3.2M).The assumptions used in the calculation of the OCL by the Appointed Actuary are the claims cost, number of claims and claim settlements period. The OCL risk margin probability of sufficiency for the company is 75%.

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

| Basis                          | 2020<br>Earned premium | 2019<br>Earned premium |
|--------------------------------|------------------------|------------------------|
| Claims Ratio:                  |                        |                        |
| Guaranteed asset protection    | 13.00%                 | 13.00%                 |
| Lifestyle protection insurance | 13.00%                 | 13.00%                 |
| Claims Management Expenses     | 15.00%                 | 15.00%                 |
| Risk Margin                    | 15.00%                 | 15.00%                 |

**Sensitivity analysis**

The following table shows how profit or loss and equity would have been affected by changes to claim frequencies and cost allowances that would have been reasonably possible at the end of the reporting period.



MARAC INSURANCE LIMITED  
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12 Insurance contract liabilities (continued)

|                         | 2020             |                  | 2019             |                  |
|-------------------------|------------------|------------------|------------------|------------------|
|                         | Impact on Profit | Impact on Equity | Impact on Profit | Impact on Equity |
|                         | \$000            | \$000            | \$000            | \$000            |
| Claim frequencies + 30% | (91)             | (91)             | (103)            | (103)            |
| Claim frequencies - 30% | 91               | 91               | 103              | 103              |
| Cost allowances + 30%   | (91)             | (91)             | (103)            | (103)            |
| Cost allowances - 30%   | 91               | 91               | 103              | 103              |

*Policy liability*

|   | 2020         | 2019         |
|---|--------------|--------------|
|   | \$000        | \$000        |
| Policy liability at 1 July                              | 4,820        | 5,437        |
| Premium earned  | (4,544)      | (5,773)      |
| Premium written   | 2,270        | 4,602        |
| Commissions expensed                                    | 2,245        | 2,841        |
| Deferral of acquisition costs paid                      | (1,376)      | (2,287)      |
| <b>Policy liability at year end</b>                     | <b>3,415</b> | <b>4,820</b> |
| Amounts due to be recognised in profit within 12 months | 1,384        | 1,384        |
| Amounts due to be recognised in profit after 12 months  | 2,031        | 3,436        |
| <b>Total policy liability</b>                           | <b>3,415</b> | <b>4,820</b> |

The current year and prior year policy liabilities have been determined by Simon Ferry FNZSA (the "Appointed Actuary"). Policy liabilities have been calculated using the accumulation method as per Professional Standards 30 and 31 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 Appointed 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 10 September 2020.

13 Other liabilities

|                                | 2020       | 2019       |
|--------------------------------|------------|------------|
|                                | \$000      | \$000      |
| Trade creditors and accruals   | 156        | 14         |
| Intercompany payables          | 441        | 322        |
| <b>Total other liabilities</b> | <b>597</b> | <b>336</b> |

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

14 Deferred tax

|                                   | 2020       | 2019         |
|-----------------------------------|------------|--------------|
|                                   | \$000      | \$000        |
| Deferred acquisition costs        | 936        | 1,321        |
| <b>Deferred Tax liabilities</b>   | <b>936</b> | <b>1,321</b> |
| <b>Net deferred tax liability</b> | <b>936</b> | <b>1,321</b> |



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| 15 Share Capital                      | Note | 2020<br>\$000 | 2019<br>\$000 |
|---------------------------------------|------|---------------|---------------|
| <b>Share capital</b>                  |      |               |               |
| Balance at the beginning of the year  |      | 1,865         | 1,865         |
| <b>Balance at the end of the year</b> |      | <b>1,865</b>  | <b>1,865</b>  |

Share capital is made up of 1,650,101 (2019: 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 ended 30 June 2020 (2019: nil).

**16 Dividends**

The Company paid dividends totalling \$Nil to its immediate parent in the year ended 30 June 2020 (2019: \$1,700,000 (\$1.03 per share)).

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

|   | 2020<br>\$000  | 2019<br>\$000 |
|---|----------------|---------------|
| <b>Profit for the year</b>                      | <b>880</b>     | <b>1,418</b>  |
| Add/ (less) non cash items:                     |                |               |
| Taxation expense                                | 211            | 229           |
| Interest income accruals                        | (73)           | (19)          |
| <b>Total non-cash items</b>                     | <b>138</b>     | <b>210</b>    |
| Add / (less) movements in working capital:      |                |               |
| Policy liabilities                              | (1,614)        | (617)         |
| Outstanding claims liability                    | (56)           | 39            |
| Trade creditors and other liabilities           | 261            | 320           |
| Trade receivables and other assets              | (49)           | (23)          |
| <b>Total movements in working capital items</b> | <b>(1,458)</b> | <b>(281)</b>  |
| <b>Net cash flows from operating activities</b> | <b>(440)</b>   | <b>1,347</b>  |

**18 Related party information**

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

The Company's ultimate parent is Heartland Group Holdings.

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

|  |   |                       |                       |
|--|---|-----------------------|-----------------------|
| <b>Transactions with related parties were:</b> |   | <b>2020<br/>\$000</b> | <b>2019<br/>\$000</b> |
| Commission expense paid to HBL                 |   | (201)                 | (101)                 |
| Management fees paid to HBL                    | 7 | (600)                 | (600)                 |
| Interest received on deposits with HBL         |   | 55                    | 92                    |
| <b>Total</b>                                   |   | <b>(746)</b>          | <b>(609)</b>          |





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18 Related party information (continued)

|  | 2020<br>\$000 | 2019<br>\$000 |
|--|---------------|---------------|
| <i>Outstanding balances with related parties</i> |               |               |
| Call deposits with HBL                           | 342           | 335           |
| Directors Fees                                   | 10            | 10            |
| Term deposits with HBL                           | 2,818         | 2,293         |
| Tax payable to HBL                               | (441)         | (322)         |
| <b>Total</b>                                     | <b>2,729</b>  | <b>2,316</b>  |

19 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'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.

Due to the underlying nature of the insurance products offered by MARAC, the underlying insurance risk is not concentrated in any particular demographic or geography, and not significantly exposed to any loss event.

**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 bonds. The Company's maximum exposure to credit risk is limited to the carrying amount of financial assets, as summarised below:

|  | 2020<br>\$000 | 2019<br>\$000 |
|--|---------------|---------------|
| <i>Classes of financial assets - carrying amounts:</i> |               |               |
| Cash and cash equivalents                              | 2,162         | 1,960         |
| Term deposits  | 10,169        | 9,864         |
| Bonds  | -             | 1,024         |
| Trade and other receivables                            | 50            | 99            |
| <b>Total financial assets</b>                          | <b>12,381</b> | <b>12,947</b> |

There were no assets that were impaired or past due as at 30 June 2020 (2019: Nil).

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



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19 Risk management (continued)

**Credit risk (continued)**

The credit risk for cash and cash equivalents, term deposits and 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:

|                           | 2020           |              |              |              |
|---------------------------|----------------|--------------|--------------|--------------|
|                           | Total<br>\$000 | AAA<br>\$000 | AA-<br>\$000 | BBB<br>\$000 |
| Cash and cash equivalents | 2,162          | -            | 1,820        | 342          |
| Term deposits             | 10,169         | -            | 7,362        | 2,807        |
| Bonds                     | -              | -            | -            | -            |
|                           | <b>12,331</b>  | <b>-</b>     | <b>9,182</b> | <b>3,149</b> |

  

|                           | 2019           |              |              |              |
|---------------------------|----------------|--------------|--------------|--------------|
|                           | Total<br>\$000 | AAA<br>\$000 | AA-<br>\$000 | BBB<br>\$000 |
| Cash and cash equivalents | 1,960          | -            | 1,625        | 335          |
| Term deposits             | 9,864          | -            | 7,571        | 2,293        |
| Bonds                     | 1,024          | 1,024        | -            | -            |
|                           | <b>12,848</b>  | <b>1,024</b> | <b>9,196</b> | <b>2,628</b> |

**Interest rate risk**

Interest rate risk refers to exposure of an entity's earnings and / or capital because of a mismatch between the interest rate exposures of its assets and liabilities. The Company is exposed to changes in market interest rates through the Company's call accounts and term deposits that are due to mature within the next 12 months.

The Company analyses its interest rate exposure and considers potential renewals of existing positions. The Company is not exposed to significant interest rate risk. The following table illustrates the sensitivity of profit and equity to a reasonably possible change in interest rates of +/-1% (2019: +/-1%).

|  | 2020<br>\$000 | 2019<br>\$000 |
|--|---------------|---------------|
| <b>Profit / (Loss)</b>                         |               |               |
| +1% interest rate movement on financial assets | 54            | 62            |
| -1% interest rate movement on financial assets | (54)          | (62)          |
| <b>Equity</b>                                  |               |               |
| +1% interest rate movement on financial assets | 54            | 62            |
| -1% interest rate movement on financial assets | (54)          | (62)          |



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19 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.

|                                    | 2020                    |                           |                          |                                |
|------------------------------------|-------------------------|---------------------------|--------------------------|--------------------------------|
|                                    | Carrying Value<br>\$000 | Within 1<br>Year<br>\$000 | 1 to 5<br>Years<br>\$000 | Later than<br>5 Years<br>\$000 |
| Cash and cash equivalents          | 2,162                   | 2,162                     | -                        | -                              |
| Term deposits                      | 10,169                  | 10,169                    | -                        | -                              |
| Bonds                              | -                       | -                         | -                        | -                              |
| Trade and other receivables        | 50                      | 50                        | -                        | -                              |
| <b>Total financial assets</b>      | <b>12,381</b>           | <b>12,381</b>             | <b>-</b>                 | <b>-</b>                       |
| Outstanding claims liability       | 422                     | 335                       | 87                       | -                              |
| Policy liability                   | 3,415                   | 1,384                     | 2,031                    | -                              |
| Current tax liability              | 578                     | 578                       | -                        | -                              |
| Other liabilities                  | 597                     | 597                       | -                        | -                              |
| <b>Total financial liabilities</b> | <b>5,012</b>            | <b>2,894</b>              | <b>2,118</b>             | <b>-</b>                       |
| <b>Net financial assets</b>        | <b>7,369</b>            | <b>9,487</b>              | <b>(2,118)</b>           | <b>-</b>                       |
|                                    | 2019                    |                           |                          |                                |
|                                    | Carrying Value<br>\$000 | Within 1<br>Year<br>\$000 | 1 to 5<br>Years<br>\$000 | Later than<br>5 Years<br>\$000 |
| Cash and cash equivalents          | 1,960                   | 1,960                     | -                        | -                              |
| Term deposits                      | 9,864                   | 9,439                     | 425                      | -                              |
| Bonds                              | 1,024                   | 1,024                     | -                        | -                              |
| Trade and other receivables        | 99                      | 99                        | -                        | -                              |
| <b>Total financial assets</b>      | <b>12,947</b>           | <b>12,522</b>             | <b>425</b>               | <b>-</b>                       |
| Outstanding claims liability       | 478                     | 384                       | 94                       | -                              |
| Policy liability                   | 4,820                   | 1,384                     | 3,436                    | -                              |
| Current tax liability              | 440                     | 440                       | -                        | -                              |
| Other liabilities                  | 336                     | 336                       | -                        | -                              |
| <b>Total financial liabilities</b> | <b>6,074</b>            | <b>2,544</b>              | <b>3,530</b>             | <b>-</b>                       |
| <b>Net financial assets</b>        | <b>6,873</b>            | <b>9,978</b>              | <b>(3,105)</b>           | <b>-</b>                       |





MARAC INSURANCE LIMITED  
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20 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 bonds 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**

|                               | 2020                       |                        | 2019                       |                        |
|-------------------------------|----------------------------|------------------------|----------------------------|------------------------|
|                               | Carrying<br>Value<br>\$000 | Fair<br>Value<br>\$000 | Carrying<br>Value<br>\$000 | Fair<br>Value<br>\$000 |
| <b>Financial assets</b>       |                            |                        |                            |                        |
| Cash and cash equivalents     | 2,162                      | 2,162                  | 1,960                      | 1,960                  |
| Investments:                  |                            |                        |                            |                        |
| - Term deposits               | 10,169                     | 10,079                 | 9,864                      | 9,864                  |
| - Bonds                       | -                          | -                      | 1,024                      | 1,024                  |
| <b>Total financial assets</b> | <b>12,331</b>              | <b>12,241</b>          | <b>12,848</b>              | <b>12,848</b>          |

21 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.

|                          | 2020<br>\$000 | 2019<br>\$000 |
|--------------------------|---------------|---------------|
| Investment assets        | 5,805         | 7,182         |
| Other assets             | 50            | 66            |
| <b>Total fund assets</b> | <b>5,855</b>  | <b>7,248</b>  |



MARAC INSURANCE LIMITED  
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21 Statutory Fund (continued)

|  | 2020<br>\$000 | 2019<br>\$000 |
|--|---------------|---------------|
| Life insurance contract liabilities      | 2,855         | 3,939         |
| Tax liability                            | (905)         | 22            |
| Retained profits and other reserves      | 3,905         | 3,287         |
| <b>Total fund equity and liabilities</b> | <b>5,855</b>  | <b>7,248</b>  |
| Premium income                           | 3,161         | 3,499         |
| Claims expense                           | (230)         | (417)         |
| Commission expense                       | (1,561)       | (1,724)       |
| Investment income                        | 161           | 173           |
| Other income                             | -             | -             |
| Other operating expenses                 | (673)         | (328)         |
| <b>Profit before income tax</b>          | <b>858</b>    | <b>1,203</b>  |
| Income tax expense                       | (240)         | (337)         |
| <b>Profit after tax</b>                  | <b>618</b>    | <b>866</b>    |

There were no distributions from the statutory fund in the year to 30 June 2020 (2019: Nil).

22 Capital management

**Capital management policies and objectives**

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

During the year ended 30 June 2020 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 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.



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22 Capital management (continued)

**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 2020, calculated in accordance with the solvency standard, was \$6.43 million (2019: \$5.55 million), compared to the actuarially calculated solvency requirement of \$1.17 million (2019: \$1.18 million). Due to the requirement to retain at least \$5 million of fixed capital, the Company is deemed to have a surplus of \$1.43 million (2019: surplus of \$0.55 million).

|                          | 2020                                 |                   |                | 2019                                 |                   |                |
|--------------------------|--------------------------------------|-------------------|----------------|--------------------------------------|-------------------|----------------|
|                          | Life<br>(Statutory<br>fund)<br>\$000 | Non-life<br>\$000 | Total<br>\$000 | Life<br>(Statutory<br>fund)<br>\$000 | Non-life<br>\$000 | Total<br>\$000 |
| Actual Solvency Capital  | 3,569                                | 2,864             | 6,433          | 3,287                                | 2,265             | 5,552          |
| Minimum Solvency Capital | 2,774                                | 2,226             | 5,000          | 2,960                                | 2,040             | 5,000          |
| Solvency Margin          | 795                                  | 638               | 1,433          | 327                                  | 225               | 552            |
| Solvency Ratio           | 129%                                 | 129%              | 129%           | 111%                                 | 111%              | 111%           |

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

23 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 BB+ (Outlook Stable). This rating was affirmed on 05 May 2020.

24 Contingent assets and liabilities

There were no contingent assets or liabilities at balance date (2019: Nil).

25 Events reported after balance date

Following the confirmation of further community spread of COVID-19 with unknown origin, the Government announced on 12 August 2020 that New Zealand's COVID-19 Alert Levels will change, with the Auckland region (Wellsford to Pukekohe) moving to Alert Level 3 and the rest of New Zealand moving to Alert Level 2. Following that, the Auckland region moved to Alert Level 2 from 31 August 2020. This did not have any impact on The Company's estimates and judgements (refer to Note 3 - (q) Estimates and judgements).







# Independent Auditor's Report

To the shareholder of MARAC Insurance Limited

## Report on the audit of the financial statements

### Opinion

We have audited the accompanying financial statements which comprise:

- the statement of financial position as at 30 June 2020;
- 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.

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 2020 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.



### 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 International Code of Ethics for Assurance Practitioners (Including International Independence Standards) (New Zealand) issued by the New Zealand Auditing and Assurance Standards Board and the International Ethics Standards Board for Accountants' International Code of Ethics for Professional Accountants (including International Independence Standards) ("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. 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.



### Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements in the current period. We summarise below those matters and our key audit procedures to address those matters in order that the shareholder as a body may better understand the process by which we arrived at our audit opinion. Our procedures were undertaken in the context of and solely for the purpose of our statutory audit opinion on the financial statements as a whole and we do not express discrete opinions on separate elements of the financial statements.



### Key changes in the assessment of audit risks

The Covid-19 pandemic has heightened risks across a number of areas of the business, particularly the assessment of the valuation of outstanding claims liability. Claims experience is inherently more uncertain during these unprecedented times. While the key audit matter the "Valuation of outstanding claims liability" detailed below is unchanged from last year, the underlying audit risk has increased which impacted the extent and nature of audit evidence that we had to gather, specifically in relation to the key actuarial assumptions and judgements applied.

#### The key audit matter

#### How the matter was addressed in our audit

#### Valuation of outstanding claims liability

*Refer to note 12 to the financial statements*

|  |  |
|--|--|
| <p>The valuation of the gross outstanding claims liability involves a high level of judgement specifically:</p> <ul style="list-style-type: none"> <li>— judgement is required to consider the central estimate of the gross outstanding claims liability which is a significant estimate as the eventual outcomes of incurred but unsettled claims at the balance sheet date are inherently uncertain;</li> <li>— there is a lower level of information available and greater level of uncertainty inherent in assessing estimation of claims that have been incurred by the balance sheet date but have not yet been reported to the Company;</li> <li>— claims estimation uses an actuarial modelling process which involves complex and subjective actuarial methodologies, judgements and assumptions about future events and developments, both within and external to the Company; and</li> <li>— outstanding claims liability includes statistically determined risk margins determined by the Appointed Actuary to make allowance for the inherent uncertainty in estimating ultimate claim settlements. The risk margins are included to achieve a specified Probability of Adequacy for the total outstanding claims reserves.</li> </ul> | <p>We involved our actuarial specialists and performed audit procedures which included:</p> <ul style="list-style-type: none"> <li>— Obtaining and reviewing the 30 June 2020 Appointed Actuary Report ("AAR") prepared by the Appointed Actuary;</li> <li>— Assessing the competence, capabilities and objectivity of the Company's Appointed Actuary;</li> <li>— Checking the completeness and accuracy of the data used in the valuation process;</li> <li>— With support from our actuarial specialists, challenging the actuarial methods and key assumptions used in the valuation by comparing key assumptions and expected experience to: <ul style="list-style-type: none"> <li>— actual historical experience;</li> <li>— observable market data, including industry average and experience for certain classes of business and assumptions; and</li> <li>— actuarial and accounting standard requirement;</li> </ul> </li> <li>— With support from our actuarial specialists, assessing and challenging the appropriateness of adopted risk margins through discussion with the Appointed Actuary, consideration of the Company's historical claims experience and industry knowledge; and</li> <li>— Reconciling actuarial financial statement disclosures back to the AAR prepared by the Appointed Actuary.</li> </ul> |
|--|--|

### Other information

The Directors, on behalf of the Company, are responsible for the other information included in the entity's Annual Report. Other information includes the Directors' Report, Statement of Corporate Governance and Directors' Responsibility Statement. Our opinion on the financial statements does not cover any other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.





## Use of this independent auditor's report

This independent auditor's 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 independent auditor's 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:

<http://www.xrb.govt.nz/standards-for-assurance-practitioners/auditors-responsibilities/audit-report-2/>

This description forms part of our independent auditor's report.

The engagement partner on the audit resulting in this independent auditor's report is Graeme Edwards.

For and on behalf of

KPMG  
Auckland

30 October 2020

## Appointed Actuary Report for MARAC Insurance Limited As at 30 June 2020

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 2020, I advise that:

|                                      |   |
|--------------------------------------|---|
| <b>Work undertaken</b>               | The review of the actuarial information contained in the financial statements for MIL.  |
| <b>Scope and limitations</b>         | <p>The actuarial information reviewed was:</p> <ul style="list-style-type: none"> <li>(a) information relating to the insurer's calculations of premiums, claims and technical provisions;</li> <li>(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</li> <li>(c) information specified in the Solvency Standard for Life and Non-Life Insurance Business as being actuarial information for the purposes of this section.</li> </ul> |
| <b>Relationship with the Company</b> | I have no relationships (other than as Appointed Actuary) with or any interests in MIL.   |
| <b>Information</b>                   | I obtained all information and explanations I required.   |
| <b>Actuarial Opinion</b>             | <p>In my opinion and from an actuarial perspective:</p> <ul style="list-style-type: none"> <li>(a) the actuarial information contained in the financial statements as at 30 June 2020 has been appropriately included in those statements; and</li> <li>(b) the actuarial information used in the preparation of the financial statements as at 30 June 2020 has been used appropriately.</li> </ul>  |
| <b>Solvency Margin</b>               | 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.   |



Simon Ferry  
Fellow of the New Zealand Society of Actuaries  
29 October 2020



