MARAC INSURANCE LIMITED

Annual Report

For the year ended 30 June 2022

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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 2022.

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.

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 2022, and the audit report on those financial statements.

For and on behalf of the Board

Andrew James Aitken Director	Christopher Robert Mace Director
3 October 2022 Date	3 October 2022 Date

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 (**"RBNZ"**) Fit and proper standard for Directors of Licensed Insurers.

All Directors of the Company reside in New Zealand.

CURRENT DIRECTORS

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: Chief Executive Officer
Heartland Bank Limited

Board role and charter

The Board operates in accordance with the Company's 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 the Company whose day to day operation and long-term strategic direction is the responsibility of Heartland Bank Limited (**"HBL"**) 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 HBL as 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 are 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.

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

The Company is a subsidiary of HBL, and has entered into a Management Service Agreement with HBL under which HBL provides the Company with access to its systems, frameworks, and other resources (including employees). As the Company 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 the Company requires in order to discharge its obligations.

Board role and charter (continued)

The Board meets biannually (for full year and half year reporting requirements) and holds additional meetings if required.

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.

The Board established the Board Audit and Risk Committee (**"BARC"**), which has a charter approved by the Board and meets biannually.

BARC comprises of Andrew James Aitken (Chairman), Christopher Patrick Francis Flood and Sir Christopher Robert Mace.

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.

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 2022 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 Company has an exemption from the Reserve Bank of New Zealand in regards to the requirement to have an approved credit rating, this is explained further in Note 21 – Credit rating.

The Board of Directors of Marac Insurance Limited authorised the financial statements set out on pages 7 to 26 for issue on the date below.

For and on behalf of the Board

Andrew James Aitken Director	Christopher Robert Mace Director
3 October 2022 Date	3 October 2022 Date

$000's	Note	June 2022	June 2021
Premium income	4	2,001	3,267
Claims expense	5	62	251
Commission expense	6	989	1,617
Underwriting profit		**950**	**1,399**
Interest income		66	114
Net operating income		**1,016**	**1,513**
Operating expenses	7	521	513
Profit before income tax		**495**	**1,000**
Income tax expense	8	160	276
Profit for the year		**335**	**724**

Total comprehensive income for the period is attributable to the owners of Marac Insurance Limited.

The notes to the financial statements form an integral part of, and should be read in conjunction with, these financial statements.

MARAC INSURANCE LIMITED
Statement of Changes in Equity
For the year ended 30 June 2022

$000's	Note	Share Capital	Fair Value Reserve	Retained Earnings	Total Equity
June 2022					
Balance at 1 July 2021		**1,865**	**6**	**3,786**	**5,657**
Total comprehensive income for the year					
Profit for the year		-	-	335	335
Total comprehensive income for the year		**-**	**-**	**335**	**335**
Transactions with owner, recorded directly in equity					
Dividends paid	15	-	-	-	-
Total transactions with owner		**-**	**-**	**-**	**-**
Balance at 30 June 2022		**1,865**	**6**	**4,121**	**5,992**
June 2021					
Balance at 1 July 2020		**1,865**	**6**	**4,562**	**6,433**
Total comprehensive income for the year					
Profit for the year		-	-	724	724
Total comprehensive income for the year		**-**	**-**	**724**	**724**
Transactions with owner, recorded directly in equity					
Dividends paid	15	-	-	(1,500)	(1,500)
Total transactions with owner		**-**	**-**	**(1,500)**	**(1,500)**
Balance at 30 June 2021		**1,865**	**6**	**3,786**	**5,657**

The notes to the financial statements form an integral part of, and should be read in conjunction with, these financial statements.

$000's	Note	June 2022	June 2021
Assets			
Cash and cash equivalents		4,081	2,127
Investments	10	4,209	7,409
Trade and other receivables		9	30
Total assets		**8,299**	**9,566**
Liabilities			
Outstanding claims liability	11	238	366
Policy liability	11	717	1,734
Current tax liability		434	672
Other liabilities	12	768	662
Deferred tax liability	13	150	475
Total liabilities		**2,307**	**3,909**
Net assets		**5,992**	**5,657**
Equity			
Share capital	14	1,865	1,865
Retained earnings and reserves		4,127	3,792
Total equity		**5,992**	**5,657**
Total equity and liabilities		**8,299**	**9,566**

For and on behalf of the Board

Director

Director

The notes to the financial statements form an integral part of, and should be read in conjunction with, these financial statements.

$000's	Note	June 2022	June 2021
Cash flows from operating activities			
Cash was provided from:			
Interest received		100	124
Total cash provided from operating activities		**100**	**124**
Cash was applied to:			
Premiums refunded		10	61
Commissions paid		-	2
Payment of claims		64	251
Income tax paid		641	588
Payments to suppliers		597	507
Total cash applied to operating activities		**1,312**	**1,409**
Net cash flows applied to operating activities		**(1,212)**	**(1,285)**
Cash flows from investing activities			
Net decrease in investments		3,166	2,750
Total cash flows provided from investing activities		**3,166**	**2,750**
Dividends paid		-	1,500
Total cash flows applied to financing activities		**-**	**1,500**
Net cash flows applied to financing activities		**-**	**(1,500)**
Net increase/(decrease) in cash held		**1,954**	**(35)**
Opening cash balance		2,127	2,162
Closing cash balance		**4,081**	**2,127**

The notes to the financial statements form an integral part of, and should be read in conjunction with, these financial statements.

MARAC INSURANCE LIMITED
Statement of Cashflows
For the year ended 30 June 2022

$000's	Note	June 2022	June 2021
Profit for the year		**335**	**724**
Add/(less) non cash items:			
Interest income accruals		34	10
Taxation expense		(563)	(367)
Total non-cash items		**(529)**	**(357)**
(Less)/add movements in working capital:			
Policy liabilities		(1,017)	(1,681)
Outstanding claims liability		(128)	(56)
Trade creditors and other liabilities		106	65
Trade receivables and other assets		21	20
Total movements in working capital items		**(1,018)**	**(1,652)**
Net cash flows from operating activities		**(1,212)**	**(1,285)**

The notes to the financial statements form an integral part of, and should be read in conjunction with, these financial statements.

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 previously provided term life insurance and general insurance covering risks such as redundancy, bankruptcy or suspension of employment.

In January 2020 the Company ceased 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 Limted (**“DPL”**) to distribute DPL’s insurance products.

Existing periodic policies written by the company are expected to expire in 2025.

The Company is licensed under the Insurance (Prudential Supervision) Act 2010 and is currently exempt from requiring a financial strength rating provided by an approved rating agency under Section 60(2A) of the Act. Refer to Note 21 – Credit Rating.

The Company’s address for service is Level 3, 35 Teed Street, Newmarket, Auckland 1023.

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. Although the Company has stopped underwriting any new policies, existing policies are not expected to wind down until 2025. Consideration will be taken into account going forward based on the number of cancellations.

(b) Basis of measurement

The financial statements have been prepared on the historical cost basis, 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 both the Company's functional and presentation currency. Unless otherwise indicated, amounts are rounded to the nearest thousand.

3 Significant of Accounting Policies

(a) Changes in accounting policies

There have been no changes in the Company’s accounting policies for the year ended 30 June 2022.

(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 company previously wrote 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. The company has now ceased underwriting new insurance policies.

3 Significant of 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 for account management and administration.

Interest income
Interest income is revenue 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.

(e) Claims expense

Claims expense represents payments made on claims and the movement in 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.

3 Significant of Accounting Policies (continued)

(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).

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

Revenue, expenses, assets and liabilities are recognised net of GST, with the exception of receivables and payables, which include GST invoiced

(l) Investments

The Company holds investments in term deposits. 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.

(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.

3 Significant of Accounting Policies (continued)

(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 the area that has the most significant effect on the financial statements refer to Note 11 - Insurance contract liabilities.

(r) New standard and interpretations not yet adopted

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

The final version of NZ IFRS 17 Insurance Contracts was issued in August 2017. 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. A simplified approach can be applied if the coverage period is smaller than one year or when the insurer can demonstrate that the result of the simplified approach is no different from the more intensive approach. A simplified approach can be justified given the Company is winding down and the balances remaining will be immaterial.

As at 30 June 2022 there were 5,227 policies with a net unearned income balance of $0.72 million balance remaining. It is estimated that there will be 2,518 policies with an estimated net unearned income balance of $0.21 million remaining at adoption date of NZ IFRS 17. As at the end of January 2025, the remaining 673 remaining policies are expected to have expired with a net unearned income balance of $0.02 million. These balances are being continually be monitored for any cancellations and are likely to decrease further as adoption date approaches.

4 Premium Income

$000's	Note	June 2022	June 2021
Guaranteed asset protection insurance (GAP)		475	944
Lifestyle protection insurance (LPI)		1,527	2,323
Total premium income		**2,001**	**3,267**

5 Claims Expense

$000's	Note	June 2022	June 2021
Claims incurred		188	307
Claims reassessed		(126)	(56)
Total claims expense		**62**	**251**

6 Commission expense

$000's	Note	June 2022	June 2021
Related parties - HBL		21	56
External parties		968	1,561
Total commission expense		**989**	**1,617**

7 Operating expenses

$000's	Note	June 2022	June 2021
Audit fees for audit of financial statements		10	10
Audit fees for reasonable assurance report on annual solvency return		5	5
Director fees		47	47
Management fees		360	360
Other expenses		99	91
Total operating expenses		**521**	**513**

8 Income tax expense

$000s	Note	June 2022	June 2021
Current tax expense			
Current year		419	652
Adjustment for prior year		66	85
Deferred tax			
Current year		(280)	(397)
Adjustment for prior year		(45)	(64)
Total income tax expense		**160**	**276**
Reconciliation of effective tax rate			
Profit before tax		495	1,000
Income tax at 28%		139	280
Plus tax effect of items not taxable/deductible:			
Adjustment for prior year		21	21
Non-taxable income		-	(25)
Total income tax expense		**160**	**276**

9 Profit for the year

$000's	Note	Statutory Fund	Non Statutory Fund	Total
June 2022				
Difference between actual and assumed experience		285	13	298
Investment earnings in excess of policy liabilities		14	23	37
Profit for the year		**299**	**36**	**335**
June 2021				
Difference between actual and assumed experience		473	181	654
Investment earnings in excess of policy liabilities		9	61	70
Profit for the year		**482**	**242**	**724**

10 Investments

$000's	Note	June 2022	June 2021
Term deposits		4,209	7,409
Total investments		**4,209**	**7,409**

11 Insurance contract liabilities

$000's	Note	June 2022	June 2021
Notified claims and IBNR		185	289
Claims handling costs		22	29
Risk margin		31	48
Total outstanding claims liability		**238**	**366**
Outstanding claims		**366**	422
Claims reassessed		(126)	(56)
Claims paid		(64)	(251)
Claims incurred		62	251
Outstanding claims liability at year end		**238**	**366**

The discount rate used in the calculation of the outstanding claim liability is 2.61% for LPI and 2.39% for GAP (June 2021: 0.73% for LPI and 0.45% for GAP).

The outstanding claim liability is based on best available information at the time the actuarial report on policyholder liabilities was signed. This actuarial report for current and prior year has been prepared by Simon Ferry FNZSA (the **"Appointed Actuary"**). Subsequent information or action can affect this amount ultimately settled on a claim.

11 Insurance contract liabilities (continued)

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 preformed 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 $0.5 million (2021: $1.2 million). 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	**June 2022** Earned premium	**June 2021** Earned premium
Claims Ratio		
Guaranteed asset protection	10.80%	10.80%
Lifestyle protection	10.80%	10.80%
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 (exclusive of tax) 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.

		June 2022		**June 2021**	
$000's	**Note**	**Impact on Profit**	**Impact on Equity**	**Impact on Profit**	**Impact on Equity**
Claim frequencies + 30%		(72)	(72)	(79)	(79)
Claim frequencies - 30%		72	72	79	79
Cost allowance + 30%		(72)	(72)	(79)	(79)
Cost allowance - 30%		72	72	79	79

Policy Liability

$000's	**Note**	**June 2022**	**June 2021**
Policy at 1 July		1,734	3,415
Premium earned		(2,001)	(3,267)
Commissions expensed		984	1,586
Policy liability at year end		**717**	**1,734**
Amounts due to be recognised in profit within 12 months		175	231
Amounts due to be recognised in profit after 12 months		542	1,503
Total policy liability		**717**	**1,734**

The current year and prior year policy liabilities have been determined by 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 as at 30 June 2022 was signed on 1 August 2022.

12 Other Liabilities

$000's	Note	June 2022	June 2021
Trade creditors and accruals		45	20
Intercompany payables		723	642
Total other liabilities		**768**	**662**

13 Deferred tax

$000's	Note	June 2022	June 2021
Deferred acquisition costs		150	475
Total deferred tax		**150**	**475**

14 Share capital

$000's	Note	June 2022	June 2021
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 (2021: 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 2022 (2021: Nil).

15 Dividends

The Company paid no dividends to its immediate parent during the year ended 30 June 2022 (2021: $1,500,000 ($0.91 per share)).

16 Related party information

The Company's immediate parent is Heartland Bank Limited (**"HBL"**) and the Company's ultimate parent is Heartland Group Holdings.

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

$000's	Note	June 2022	June 2021
Transactions with related parties			
Commission expense paid to HBL		(21)	(56)
Management fees paid to HBL		(360)	(360)
Interest on deposits with HBL		17	28
Total		**(364)**	**(388)**

$000's	Note	June 2022	June 2021
Outstanding balances with related parties			
Call deposits with HBL		147	146
Term deposits with HBL		1,788	1,770
Tax payable to HBL		(723)	(642)
Total		**1,212**	**1,274**

17 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. Prior to 2020, when the Company was writing new insurance, it developed an underwriting strategy which diversifies the types of insurance contracts written. Within each type of insurance written the Company's policy was to ensure that there is a sufficient volume of contracts to reduce the variability in the expected outcome. The Company periodically reviewed 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. The Company's maximum exposure to credit risk is limited to the carrying amount of financial assets, as summarised below:

$000s	Note	June 2022	June 2021
Classes of financial assets - carrying amounts:			
Cash and cash equivalents		4,081	2,127
Term deposits		4,209	7,409
Trade and other receivables		9	30
Total financial assets		**8,299**	**9,566**

There were no assets that were impaired or past due as at 30 June 2022 (2021: Nil).

17 Risk management (continued)

Credit risk (continued)

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

$000's	Note	AAA	AA-	BBB	Total
June 2022					
Cash and cash equivalents		-	3,934	147	4,081
Term deposits		-	2,421	1,788	4,209
		-	**6,355**	**1,935**	**8,290**
June 2021					
Cash and cash equivalents		-	1,981	146	2,127
Term deposits		-	5,639	1,770	7,409
		-	**7,620**	**1,916**	**9,536**

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% (2021:+/-1%).

$000s	Note	June 2022	June 2021
Profit / (Loss)			
+1% interest rate movement on financial assets		52	55
-1% interest rate movement on financial assets		(52)	(55)
Equity			
+1% interest rate movement on financial assets		52	55
-1% interest rate movement on financial assets		(52)	(55)

17 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. Maintaining solvency greater than $5 million is a requirement of the Reserve Bank of New Zealand (**"RBNZ"**) refer to Note 20 Capital management.

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

$000's	Note	Carrying Value	Within 1 year	1 to 5 years	Later than 5 years
June 2022					
Cash and cash equivalents		4,081	4,081	-	-
Term deposits		4,209	4,209	-	-
Trade and other receivables		9	9	-	-
Total financial assets		**8,299**	**8,299**	**-**	**-**
Outstanding claims		238	179	59	
Policy liability		717	175	542	-
Current tax liability		434	434	-	-
Other liabilities		768	768	-	-
Total financial liabilites		**2,157**	**1,556**	**601**	**-**
Net financial assets/(liabilities)		**6,142**	**6,743**	**(601)**	**-**
June 2021					
Cash and cash equivalents		2,127	2,127	-	-
Term deposits		7,409	7,409	-	-
Trade and other receivables		30	30	-	-
Total financial assets		**9,566**	**9,566**	**-**	**-**
Outstanding claims		366	297	69	-
Policy liability		1,734	231	1,503	-
Current tax liability		672	672	-	-
Other liabilities		662	662	-	-
Total financial liabilites		**3,434**	**1,862**	**1,572**	**-**
Net financial assets/(liabilities)		**6,132**	**7,704**	**(1,572)**	**-**

18 Fair value

The fair values of financial assets and financial liabilities that are traded in active markets are based on quoted market prices or dealer price quotations. For all other financial instruments, the banking group determines fair value using other valuation techniques.

The Company measures fair values using the following fair value hierarchy, which reflects the significance of the inputs used in making the measurements.

- Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.

- Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (derived from prices).

- Level 3: Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The Company recognises transfers between levels of the fair value hierarchy as at the end of the reporting period during which the change has occurred. There were no transfers between any fair value hierarchy levels in year ended 30 June 2022 (June 2021: Nil)

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.

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

			June 2022		June 2021	
$000's	**Note**	**Fair Value Hierarchy**	**Carrying Value**	**Fair Value**	**Carrying Value**	**Fair Value**
Financial assets						
Cash and cash equivalents		Level 2	4,081	4,081	2,127	2,127
Investments:						
Term deposits		Level 2	4,209	4,205	7,409	7,414
Total financial assets			**8,290**	**8,286**	**9,536**	**9,541**

19 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.

$000s	June 2022	June 2021
Investment assets	2,010	3,704
Total fund assets	**2,010**	**3,704**

$000s	June 2022	June 2021
Life insurance contract liabilities	796	1,679
Tax liability	499	890
Retained profits and other reserves	715	1,135
Total fund equity and liabilities	**2,010**	**3,704**
Premium income	1,527	2,323
Claims expense	(78)	(219)
Commission expense	(755)	(1,147)
Investment income	33	21
Other operating	(312)	(308)
Profit before income tax	**415**	**670**
Income tax expense	**(116)**	**(188)**
Profit after tax	**299**	**482**

There were no distributions from the statutory fund in the year to 30 June 2022 (2021: Nil).

To ensure the statutory fund holds two times its claim liability +/-5%, a reallocation in reserves has been required throughout the year. Overall, the Company's still meets its capital requirements of retaining fixed capital of over $5 million.

20 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 creating shareholder value. The Company considers share capital and retained earnings to be capital for management purposes.

During the year ended 30 June 2022 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 of the Company as at 30 June 2022, calculated in accordance with the solvency standard, was $5.99 million (30 June 2021: $5.66 million), compared to the actuarially calculated solvency requirement of $0.49 million (30 June 2021: $0.67 million). Due to the requirement to retain at least $5 million of fixed capital, the Company is deemed to have a surplus of $0.99 million (30 June 2021: surplus of $0.66 million).

	June 2022			**June 2021**		
$000's	**Life (Statutory fund)**	**Non-life**	**Total**	**Life (Statutory fund)**	**Non-life**	**Total**
Actual Solvency Capital	714	5,278	5,992	1,657	4,000	5,657
Minimum Solvency Capital	596	4,404	5,000	1,464	3,536	5,000
Solvency Margin	118	874	992	193	464	657
Solvency Ratio	**120%**	**120%**	**120%**	**113%**	**113%**	**113%**

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

21 Credit rating

The Company is exempt from the requirement to have a current financial strength rating given by an approved rating agency under section 60(2A) of the Insurance (Prudential Supervision) Act 2010. The last rating from Fitch Ratings was affirmed on 5 May 2020 which was BB+ (Stable). This exemption has been granted by the RBNZ because it is satisfied that the Company has ceased to enter into new contracts as an insurer.

22 Contingent assets and liabilities

There are no contingent assets or liabilities at balance date (2021: Nil).

22 Events reported after balance date

There have been no material events subsequent to reporting date that would affect the interpretation of the financial statements or the performance of the Company.

Independent Auditor's Report

To the shareholders of Marac Insurance Limited

Report on the audit of the financial statements

Opinion

In our opinion, the financial statements of Marac Insurance Limited (the "Company") on pages 7 to 26:

i. present fairly in all material respects the company's financial position as at 30 June 2022 and its financial performance and cash flows for the year ended on that date in accordance 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 2022;
- 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.

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 shareholders 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

The key audit matter	How the matter was addressed in our audit
Valuation of outstanding claims liability *Refer to note 11 to the financial statements*	

The valuation of the gross outstanding claims liability involves a high level of judgement specifically:
— 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;
— 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;
— 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
— 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.
	We involved our actuarial specialists and performed audit procedures which included:
	— Obtaining and reviewing the 30 June 2022 Appointed Actuary Report ("AAR") prepared by the Appointed Actuary;
	— Assessing the competence, capabilities and objectivity of the Company's Appointed Actuary;
	— Checking the completeness and accuracy of the data used in the valuation process;
	— 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:
	    — actual historical experience;
	    — observable market data, including industry average and experience for certain classes of business and assumptions; and
	    — actuarial and accounting standard requirement.
	— 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
	— Reconciling actuarial financial statement disclosures to the AAR prepared by the Appointed Actuary.
	The estimate and assumptions used to determine the valuation of outstanding claims liability are reasonable, with no evidence of management bias or influence identified from our procedures.

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 shareholders as a body. Our audit work has been undertaken so that we might state to the shareholders 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 shareholders 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

KPMG
Auckland

6 October 2022

AON

Appointed Actuary Report for MARAC Insurance Limited
As at 30 June 2022

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 2022, 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 2022 has been appropriately included in those statements; and

(b) the actuarial information used in the preparation of the financial statements as at 30 June 2022 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.

Simon Ferry
Fellow of the New Zealand Society of Actuaries
6 October 2022