MARAC INSURANCE LIMITED

Annual Report

For the year ended 30 June 2023

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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 2023.

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 2023, and the audit report on those financial statements.

For and on behalf of the Board

Andrew James Aitken Director	Christopher Patrick Francis Flood Director
30 October 2023 Date	30 October 2023 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: Deputy Chief Executive Officer Heartland Group Holdings 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.

Directors' Responsibility Statement

The Directors are responsible for ensuring that the financial statements give a true and fair view of the financial position of Marac Insurance Limited (the **"Company"**) as at 30 June 2023 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 27 for issue on the date below.

For and on behalf of the Board

Andrew James Aitken Director	Christopher Patrick Francis Flood Director
30 October 2023 Date	30 October 2023 Date

MARAC INSURANCE LIMITED
Statement of Comprehensive Income
For the year ended 30 June 2023

$000's	Note	June 2023	June 2022
Premium income	4	1,014	2,001
Claims expense	5	(135)	62
Commission expense	6	502	989
Underwriting profit		**647**	**950**
Interest income		243	66
Net operating income		**890**	**1,016**
Operating expenses	7	358	521
Profit before income tax		**532**	**495**
Income tax expense	8	185	160
Profit for the year		**347**	**335**
Other comprehensive income			
Items that are or may be reclassified subsequently to profit or loss			
Movement in fair value reserve		(6)	-
Other comprehensive income for the year		**(6)**	**-**
Total comprehensive income for the year		**341**	**335**

Total comprehensive income for the year 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 2023

$000's	Note	Share Capital	Fair Value Reserve	Retained Earnings	Total Equity
June 2023					
Balance at 1 July 2022		**1,865**	**6**	**4,121**	**5,992**
Total comprehensive income for the year					
Profit for the year		-		347	347
Other comprehensive loss		-	(6)	-	(6)
Total comprehensive income for the year		**-**	**(6)**	**347**	**341**
Balance at 30 June 2023		**1,865**	**-**	**4,468**	**6,333**
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**
Balance at 30 June 2022		**1,865**	**6**	**4,121**	**5,992**

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 Financial Position
For the year ended 30 June 2023

$000's	Note	June 2023	Restated June 2022
Assets			
Cash and cash equivalents		5,845	4,081
Investments	10	1,551	4,209
Deferred acquisition costs	11	199	701
Trade and other receivables		8	9
Total assets		**7,603**	**9,000**
Liabilities			
Outstanding claims liability	11	71	238
Unearned premium liabiility	11	402	1,418
Current tax liability		349	434
Other liabilities	12	425	768
Deferred tax liability	13	23	150
Total liabilities		**1,270**	**3,008**
Net assets		**6,333**	**5,992**
Equity			
Share capital	14	1,865	1,865
Retained earnings and reserves		4,468	4,127
Total equity		**6,333**	**5,992**
Total equity and liabilities		**7,603**	**9,000**

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.

MARAC INSURANCE LIMITED
Statement of Cash flows
For the year ended 30 June 2023

$000's	Note	June 2023	June 2022
Cash flows from operating activities			
Cash was provided from:			
Interest received		255	100
Total cash provided from operating activities		**255**	**100**
Cash was applied to:			
Premiums refunded		3	10
Payment of claims		32	64
Income tax paid		721	641
Payments to suppliers		381	597
Total cash applied to operating activities		**1,137**	**1,312**
Net cash flows applied to operating activities		**(882)**	**(1,212)**
Cash flows from investing activities			
Decrease in investments		2,646	3,166
Total cash flows provided from investing activities		**2,646**	**3,166**
Net increase in cash held		**1,764**	**1,954**
Opening cash balance		4,081	2,127
Closing cash balance		**5,845**	**4,081**

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 2023	June 2022
Profit for the year		**347**	**335**
Add/(less) non cash items:			
Interest income accruals		12	34
Deferred tax		(127)	(325)
Movement in fair value reserve		(6)	-
Total non-cash items		**(121)**	**(291)**
(Less)/add movements in working capital:			
Unearned premium liability		(1,016)	(2,011)
Outstanding claims liability		(167)	(128)
Deferred acquisition costs		502	994
Current tax		(85)	(238)
Trade creditors and other liabilities		(343)	106
Trade receivables and other assets		1	21
Total movements in working capital items		**(1,108)**	**(1,256)**
Net cash flows from operating activities		**(882)**	**(1,212)**

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 wind down in January 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 for 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 early 2025. No decision has been made to liquidate the Company.

(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.

(d) Comparative balances

Certain comparative balances have been reclassified to align with the presentation used in the current financial year. This includes the restatement of deferred acquisition costs in the prior year from liabilities to assets for $701,000 (2021: $1,696,000). This balance was previously netted off against the unearned premium liability balance. This reclassification has no impact on the overall financial performance, net assets, or cash flows for the comparative year.

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 2023.

(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 significant proportion of non-life risk components, the Company has accounted for both products under the general insurance approach under NZ IFRS 4, Appendix D. The Company has ceased underwriting new insurance policies since 2020.

3 Significant accounting policies (continued)

(c) Revenue

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

Other income
Other income is recognised as the service is provided 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) Unearned premium 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 an unearned premium 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.

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3 Significant 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 profit or loss. 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 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 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.

The 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. Given the Company is winding down it would be reasonable to take a compliant, but pragmatic approach. At the time of these financial statements, the actual impact of adoption of NZ IFRS 17 is unknown.

As at 30 June 2023 there were 2,353 policies with a net unearned income (less deferred acquisition costs) balance of $0.20 million remaining. As at the end of January 2025, the remaining 635 remaining policies are expected to have expired with a net unearned income balance of $0.02 million. These balances are monitored continually for any cancellations and are likely to decrease further over the next financial year.

4 Premium income

$000's	June 2023	June 2022
Guaranteed asset protection insurance (GAP)	204	475
Lifestyle protection insurance (LPI)	810	1,527
Total premium income	**1,014**	**2,001**

5 Claims expense

$000's	June 2023	June 2022
Claims incurred	32	188
Claims reassessed	(167)	(126)
Total claims expense	**(135)**	**62**

6 Commission expense

$000's	June 2023	June 2022
Related parties - HBL	6	21
External parties	496	968
Total commission expense	**502**	**989**

7 Operating expenses

$000's	June 2023	June 2022
Audit fees for audit of financial statements	9	10
Audit fees for reasonable assurance report on annual solvency return	3	5
Director fees	51	47
Management fees	225	360
Other expenses	70	99
Total operating expenses	**358**	**521**

8 Income tax expense

$000s	June 2023	June 2022
Current tax expense		
Current year	290	419
Adjustment for prior year	22	66
Deferred tax		
Current year	(141)	(280)
Adjustment for prior year	14	(45)
Total income tax expense	**185**	**160**
Reconciliation of effective tax rate		
Profit before tax	532	495
Income tax at 28%	150	139
Plus tax effect of items not taxable/deductible:		
Adjustment for prior year	35	21
Total income tax expense	**185**	**160**

9 Profit for the year

$000's	Statutory Fund	Non Statutory Fund	Total
June 2023			
Difference between actual and assumed experience	195	3	198
Investment earnings in excess of policy liabilities	18	131	149
Profit for the year	**213**	**134**	**347**
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**

10 Investments

$000's	June 2023	June 2022
Term deposits	1,551	4,209
Total investments	**1,551**	**4,209**

11 Insurance contract liabilities

$000's	June 2023	June 2022
Notified claims and IBNR	53	185
Claims handling costs	9	22
Risk margin	9	31
Total outstanding claims liability	**71**	**238**
Outstanding claims	**238**	**366**
Claims reassessed	(167)	(126)
Claims paid	(32)	(64)
Claims incurred	32	62
Outstanding claims liability at year end	**71**	**238**

The Chain Ladder method has been used to project the ultimate number of claims expected from each claim period. A "Payments Per Claim Incurred" method was used to determine the expected claim payment patterns for the average claim. From these a central estimate (total expected claims payments) is determined. An allowance is made for claim handling costs of $9,000 and a risk margin of 15% is applied. Claims incurred but not reported (IBNR) includes an allowance for 2 LPI claims ($8,000) and no GAP claims. The discount rate used in the calculation of the outstanding claim liability is 3.48% for LPI and 3.90% for GAP (June 2022: 2.61% for LPI and 2.39% for GAP). The impact of discounting is immaterial. No reasonably possible movement in the number of notified claims, average cost of a claim, handling costs or risk margin would result in a material change in the outstanding claims liability.

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)

Liability adequacy test

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 $0.1 million (2022: $0.5 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 determine and test the adequacy of the insurance contract liabilities:

Basis	**June 2023**	**June 2022**
	Earned premium	Earned premium
Claims Ratio		
Guaranteed asset protection	10.80%	10.80%
Lifestyle protection	10.80%	10.80%
Claims Management Expenses	20.00%	15.00%
Risk Margin	15.00%	15.00%

Claims Management Expenses are calculated based on a marginally higher ratio of 20% compared to June 2022 for prudence. The Risk Margin adopts a prudential margin of 15% which is above the top end of the bracket of margins used by general insurance underwriters with predominately short tail claims patterns looking to achieve a probability of 75% sufficiency.

Sensitivity Analysis

The following table shows how profit or loss and equity (exclusive of tax) would have been affected by changes to average number of claims and costs per claim that would have been reasonably possible at the end of the reporting period.

	June 2023		**June 2022**	
$000's	**Impact on Profit**	**Impact on Equity**	**Impact on Profit**	**Impact on Equity**
Average number of claims + 30%	(21)	(21)	(72)	(72)
Average number of claims - 30%	21	21	72	72
Average cost per claim + 30%	(21)	(21)	(72)	(72)
Average cost per claim - 30%	21	21	72	72

11 Insurance contract liabilities (continued)

Unearned premium liability including deferred acquisition costs

$000's	June 2023	June 2022
Unearned premium liability at 1 July	1,418	3,430
Premium earned	(1,016)	(2,012)
Unearned premium liability at year end	**402**	**1,418**
Amounts due to be recognised in profit within 12 months	207	348
Amounts due to be recognised in profit after 12 months	195	1,070
Total unearned premium liability	**402**	**1,418**

$000's	June 2023	June 2022
Deferred acquisition costs at 1 July	701	1,696
Commissions expensed	(502)	(995)
Deferred acquisition costs at year end	**199**	**701**
Amounts due to be recognised in profit within 12 months	103	173
Amounts due to be recognised in profit after 12 months	96	528
Total deferred acqusition costs	**199**	**701**

Unearned premium liability is the unearned premium income is calculated based on the premium income received in advance and recognised as premium income on a straight line basis over the life of the policy. The deferred acquisition cost included within assets is calculated based on the initial commission received in advance and amortised to commission expense on a straight line basis over the life of the policy.

12 Other liabilities

$000's	June 2023	June 2022
Trade creditors and accruals	27	45
Intercompany payables	398	723
Total other liabilities	**425**	**768**

13 Deferred tax

$000's	June 2023	June 2022
Deferred acquisition costs	23	150
Total deferred tax	**23**	**150**

14 Share capital

$000's	June 2023	June 2022
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 (2022: 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 2023 (2022: Nil).

15 Dividends

The Company paid no dividends to its immediate parent during the year ended 30 June 2023 (2022: Nil).

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. Call and term deposits are provided by HBL on normal commercial terms as with other customers.

$000's	June 2023	June 2022
Transactions with related parties		
Management fees paid to HBL	(225)	(360)
Interest on deposits with HBL	48	17
Total	**(177)**	**(343)**

$000's	June 2023	June 2022
Outstanding balances with related parties		
Call deposits with HBL	152	147
Term deposits with HBL	1,551	1,788
Tax payable to HBL	(398)	(723)
Total	**1,305**	**1,212**

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	June 2023	June 2022
Classes of financial assets - carrying amounts:		
Cash and cash equivalents	5,845	4,081
Term deposits	1,551	4,209
Trade and other receivables	8	9
Total financial assets	**7,404**	**8,299**

There were no assets that were impaired or past due as at 30 June 2023 (2022: 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	AAA	AA-	BBB	Total
June 2023				
Cash and cash equivalents	-	5,693	152	5,845
Term deposits	-	-	1,551	1,551
	-	**5,693**	**1,703**	**7,396**
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**

Interest rate risk

Interest rate risk refers to exposure of an entity’s earnings and / or capital due to interest bearing exposures on its financial assets. 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% (2022:+/-1%).

$000s	June 2023	June 2022
Profit / (Loss)		
+1% interest rate movement on financial assets	50	52
-1% interest rate movement on financial assets	(50)	(52)
Equity		
+1% interest rate movement on financial assets	50	52
-1% interest rate movement on financial assets	(50)	(52)

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, with the exception of outstanding claims liability which is based on expected cash flows.

$000's	Carrying Value	Within 1 year	1 to 5 years	Later than 5 years
June 2023				
Outstanding claims	71	57	14	
Current tax liability	349	349	-	-
Other liabilities	425	425	-	-
Total financial liabilites	**845**	**831**	**14**	**-**
June 2022				
Outstanding claims	238	179	59	-
Current tax liability	434	434	-	-
Other liabilities	768	768	-	-
Total financial liabilites	**1,440**	**1,381**	**59**	**-**

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 2023 (June 2022: 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

$000's	June 2023 Carrying Value	June 2023 Fair Value	June 2022 Carrying Value	June 2022 Fair Value
Financial assets				
Cash and cash equivalents	5,845	5,845	4,081	4,081
Investments:				
Term deposits	1,551	1,551	4,209	4,205
Total financial assets	**7,396**	**7,396**	**8,290**	**8,286**

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 2023	June 2022
Investment assets	667	2,010
Deferred acquisiiton	154	556
Total fund assets	**821**	**2,566**

$000s	June 2023	June 2022
Life insurance contract liabilities[1]	384	1,352
Tax liability	318	499
Retained profits and other reserves	119	715
Total fund equity and liabilities	**821**	**2,010**
Premium income	810	1,527
Claims expense	127	(78)
Commission expense	(400)	(755)
Investment income	60	33
Other operating expenses	(301)	(312)
Profit before income tax	**296**	**415**
Income tax expense	**(83)**	**(116)**
Profit after tax	**213**	**299**

[1] Includes outstanding claims liability.

There were no distributions from the statutory fund in the year to 30 June 2023 (2022: 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 2023 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 2023, calculated in accordance with the solvency standard, was $6.33 million (30 June 2022: $5.99 million), compared to the actuarially calculated solvency requirement of $0.44 million (30 June 2022: $0.49 million). Due to the requirement to retain at least $5 million of fixed capital, the Company is deemed to have a surplus of $1.33 million (30 June 2022: surplus of $0.99 million).

	June 2023			June 2022		
$000's	**Life (Statutory fund)**	**Non-life**	**Total**	**Life (Statutory fund)**	**Non-life**	**Total**
Actual Solvency Capital	119	6,214	6,333	714	5,278	5,992
Minimum Solvency Capital[1]	94	4,906	5,000	596	4,404	5,000
Solvency Margin	25	1,308	1,333	118	874	992
Solvency Ratio	**127%**	**127%**	**127%**	**120%**	**120%**	**120%**

[1] The Minimum Solvency Capital has been allocated proportionately between Life and Non-life.

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 (2022: Nil).

23 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 shareholder of Marac Insurance Limited

Our opinion

In our opinion, the accompanying financial statements of Marac Insurance Limited (the Company), present fairly, in all material respects, the financial position of the Company as at 30 June 2023, its financial performance and its cash flows for the year then ended in accordance with New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS) and International Financial Reporting Standards (IFRS).

What we have audited

The financial statements comprise:

- the statement of financial position as at 30 June 2023;
- the statement of comprehensive income for the year then ended;
- the statement of changes in equity for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include significant accounting policies and other explanatory information.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (New Zealand) (ISAs (NZ)) and International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

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)* (PES 1) issued by the New Zealand Auditing and Assurance Standards Board and the *International Code of Ethics for Professional Accountants (including International Independence Standards)* issued by the International Ethics Standards Board for Accountants (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Our firm carries out an assurance service for the Company in respect of the insurance solvency regulatory return. In addition, certain partners and employees of our firm may deal with the Company on normal terms within the ordinary course of trading activities of the Company. The provision of this other service and relationships have not impaired our independence as auditor of 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 of the current year. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Description of the key audit matter	How our audit addressed the key audit matter
Valuation of outstanding claims liability We considered the valuation of outstanding claims liability (OCL) of $71,000 (2022: $238,000) a key audit matter as it involves an actuarial process combined with judgements and assumptions, to estimate future cash outflows to settle claims. The OCL includes a central estimate of the future cash outflows relating to claims incurred, as at and prior to the reporting date, and the expected costs of handling those claims and a risk margin that allows for the inherent uncertainty in the central estimate of future claim cash outflows. There is uncertainty over the amount that reported claims and claims incurred at the reporting date but not yet reported to the Company will ultimately be settled at. The estimation process relies on the quality of underlying claims data. An assessment is made (the Liability Adequacy Test), as to whether the unearned premium liability (unearned revenue) is greater than the total of deferred acquisition costs and the present value of the expected future claim cash outflows. The unearned premium liability was adequate. Refer to note 11 of the financial statements.	Claims data is a key input to the actuarial estimate. Accordingly, we: ● assessed a sample of claim case estimates at the year end to check that they were supported by an appropriate management assessment and documentation; ● assessed, on a sample basis, the accuracy of previous claim case estimates by comparing to the actual amount settled during the year and analysed any escalation in the claim case estimate to determine whether such escalation was based on new information available during the year; ● inspected a sample of claims paid during the year to confirm that they are supported by appropriate documentation and approved within delegated authority limits; and ● tested the integrity of data used in the actuarial model by agreeing relevant model inputs, such as claims data, to source, on a sample basis. Together with our actuarial experts, we: ● considered the work and findings of the Actuary engaged by the Company; ● determined our own central estimate for future cash outflows relating to claims using generally accepted methodologies applied in the industry; ● assessed the risk margin based on the Company's claims experience, our own experience and known industry practice; and ● assessed claims handling expenses by comparing to Company costs and known industry practice. We assessed the Liability Adequacy Test performed by the Actuary comparing it against industry practice and our own experience.

Our audit approach

Overview

Materiality	Overall materiality: $74,000, which represents approximately 1% of total assets. We chose total assets as the benchmark because the Company has ceased writing insurance products. Therefore total assets is a measure of funds available to pay remaining claims.
Key audit matters	As reported above, we have one key audit matter, being: ● Valuation of outstanding claims liability

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we considered where management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters, consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the financial statements as a whole, taking into account the structure of the Company, the accounting processes and controls, and the industry in which the Company operates.

Materiality
The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance about whether the financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall materiality for the financial statements as a whole as set out above. These, together with qualitative considerations, helped us to determine the scope of our audit, the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate, on the financial statements as a whole.

Other information

The Directors are responsible for the other information. The other information comprises the information included in the Annual Report, but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of audit opinion or 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 to be materially misstated. If, based on the work we have performed on the other information that we obtained prior to the date of this auditor’s report, 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.

Responsibilities of the Directors for the financial statements

The Directors are responsible, on behalf of the Company, for the preparation and fair presentation of the financial statements in accordance with NZ IFRS and IFRS, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are 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 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) and ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and 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 the financial statements is located at the External Reporting Board's website at:

https://www.xrb.govt.nz/assurance-standards/auditors-responsibilities/audit-report-2/

This description forms part of our auditor's report.

Who we report to

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

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

For and on behalf of:

PricewaterhouseCoopers

Chartered Accountants
30 October 2023

Auckland

AON

Appointed Actuary Report for MARAC Insurance Limited
As at 30 June 2023

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 2023, 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 2023 has been appropriately included in those statements; and

(b) the actuarial information used in the preparation of the financial statements as at 30 June 2023 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
30 October 2023