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BENEFICIAL
INSURANCE LTD

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Beneficial Insurance Limited

Annual Financial Statements

For the year ended 31 March 2012

BUSINESS & RECEIPT BRANCH, AUCKLAND
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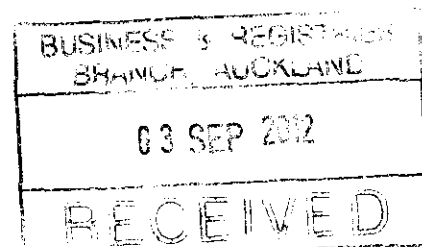
FINANCIAL STATEMENTS FOR BENEFICIAL INSURANCE LIMITED

For the year ended 31 March 2012



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COMPANY DIRECTORY

Date of Incorporation	20 March 2002
Nature of Business	The Company is an insurance provider by way of Consumer Credit Indemnity, Guaranteed Finance Protection and Pet Insurance.
Registered Office	Level 3, 445 Karangahape Road Newton Auckland 1010
Company Number	1196170
Directors	Anthony S Radisich Timothy I M Storey (Chairman, Appointed 15 June 2011) Nigel Smith (Resigned 13 February 2012)
Auditors	Grant Thornton New Zealand Audit Partnership PO Box 1961 Shortland Street Auckland 1140
Appointed Actuary	Davies Financial and Actuarial Limited PO Box 35-258 Browns Bay Auckland New Zealand (Appointed 16 February 2012)
Solicitors	Bell Gully PO Box 1291 Wellington 6140
Bankers	Westpac Bank Limited Otahuhu Auckland
Shareholder	Broadlands Finance Limited
Place of Business	Level 3, 445 Karangahape Road Newton Auckland 1010
Tax Accountants	nsaTax Limited P O Box 3697 Auckland 1140
Consulting Business Advisors	Christmas Gouwland Basrur Consulting Limited Auckland PO Box 106 090 Auckland 1143

STATEMENT OF RESPONSIBILITY FOR FINANCIAL STATEMENTS

The Directors are responsible for the maintenance of adequate accounting records and the preparation and integrity of the financial statements and related information. The independent external auditor, Grant Thornton, has audited the financial statements and their report is attached.

The Directors are also responsible for the systems of internal control and risk management. These are designed to provide reasonable but not absolute, assurance as to the reliability of the financial statements, and to adequately safeguard, verify and maintain accountability for assets, and to prevent and detect material misstatements. Appropriate systems of internal control have been employed to ensure that all transactions have been executed in accordance with authority and correctly processed and accounted for in the financial statements. The systems are implemented and monitored by suitably trained personnel with an appropriate segregation of authority and duties. Nothing has come to the attention of the Directors to indicate that any material breakdown in the functioning of these controls, procedures and systems has occurred during the year ended 31 March 2012.

The financial statements are prepared on a going concern basis. Nothing has come to the attention of the Directors to indicate that the Company will not remain a going concern in the foreseeable future.


In the opinion of the Directors:

- the Statement of Comprehensive Income and Statement of Changes in Equity is drawn up so as to give a true and fair view of the results of operations of the Company for the year ended 31 March 2012;
- the Statement of Financial Position is drawn up so as to give a true and fair view of the state of affairs of the Company as at 31 March 2012; and
- There are no reasons to believe that the Company will not be able to pay its debts as and when they fall due.

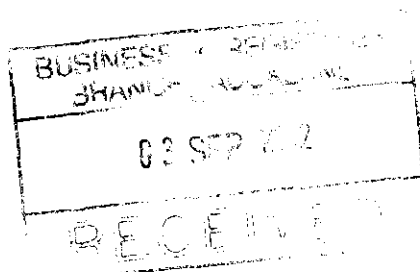
Signed on behalf of the Board by:



Anthony S Radisich
Director
6 July 2012



Timothy I M Storey
Director
6 July 2012



STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 March 2012

	Notes	For the year to 31 March 2012 \$	For the year to 31 March 2011 \$
Insurance Income	5	2,315,467	1,688,475
Insurance Expense and Related Charges		(1,009,990)	(1,177,984)
Net Insurance Income		1,305,477	510,491
Other Income		31,046	58,635
Other Operating Income		31,046	58,635
Total Operating Income		1,336,523	569,126
Employee Benefits Expense		(568,669)	(543,914)
Operating Lease Expenses		(68,809)	(68,700)
Depreciation		(6,440)	(14,319)
Profit/(loss) on Sale of Fixed Assets		-	5,462
Audit Fees		(59,200)	(46,500)
Other Operating Expenses		(579,275)	(751,914)
Total expenses		(1,282,393)	(1,419,885)
Profit/(Loss) before Income Tax		54,130	(850,759)
Income Tax (Expense) /Rebate	6	(13,309)	340,388
Total Comprehensive Profit/ (Loss) for the year Attributable to Equity Holders		40,821	(510,371)
Other Comprehensive Income for the year		-	-
Total Comprehensive Profit/(Loss) for the year attributable to owners		40,821	(510,371)

The attached notes form part of and are to be read in conjunction with these financial statements

STATEMENT OF CHANGES IN EQUITY

For the year ended 31 March 2012

	Share Capital	Retained Earnings	Total Equity
	\$	\$	\$
Balance at 1 April 2010	-	3,816,584	3,816,584
Loss for the year	-	(510,371)	(510,371)
Total Comprehensive Loss for the year ended 31 March 2011	-	(510,371)	(510,371)
Balance at 31 March 2011	-	3,306,213	3,306,213
Balance at 1 April 2011	-	3,306,213	3,306,213
Profit for the year	-	40,821	40,821
Total Comprehensive Profit for the year ended 31 March 2012	-	40,821	40,821
Balance at 31 March 2012	-	3,347,034	3,347,034

The attached notes form part of and are to be read in conjunction with these financial statements

STATEMENT OF FINANCIAL POSITION

As at 31 March 2012

	Notes	As at 31 March 2012 \$	As at 31 March 2011 \$
ASSETS			
Cash and Cash Equivalents	9	155,791	26,682
Insurance Premiums Receivable		830,334	701,832
Finance Receivable	10	3,700,000	-
Other Assets		55,279	19,648
Government Stock – Bond		500,000	510,000
Current Tax Assets		22	184,132
Property and Equipment	13	17,419	23,859
Loan to Related Parties	11	-	3,051,220
Deferred Acquisition Costs	12	537,807	368,967
Total Assets		5,796,652	4,886,340
LIABILITIES			
Payables		262,502	273,370
Loans from Related Parties	11	500,000	-
Deferred Tax Liabilities	8	3,467	-
Provision for Insurance	15	208,375	155,810
Insurance Premiums in Advance		1,475,274	1,150,947
Total Liabilities		2,449,618	1,580,127
NET ASSETS		3,347,034	3,306,213
EQUITY			
Retained Earnings		3,347,034	3,306,213
Total Equity		3,347,034	3,306,213

The attached notes form part of and are to be read in conjunction with these financial statements

1. GENERAL INFORMATION

The reporting entity is Beneficial Insurance Limited (the "Company"). It is profit orientated and incorporated and domiciled in New Zealand.

The Company's primary activity is providing insurance by way of Consumer Credit Indemnity, Guaranteed Finance Protection and Pet Insurance.

These financial statements on pages 5 to 23 have been approved for issue by the Board of Directors on 6 July 2012.

2. STATEMENT OF COMPLIANCE AND BASIS OF PREPERATION

The financial statements for the Company have been prepared in accordance with Generally Accepted Accounting Principles in New Zealand ("NZ GAAP") and the requirements of the Companies Act 1993 and The Financial Reporting Act 1993. They comply with New Zealand equivalents to International Financial Reporting Standards ("NZ IFRS") and other applicable financial standards, as appropriate for profit-oriented entities that qualify for and apply differential reporting concessions.

The Company qualifies for differential reporting concessions as it has no public accountability and there is no separation between the owners and governing body of Beneficial Insurance Limited. The Company has taken advantage of all differential reporting concessions available to them.

BASIS OF PREPARATION

The financial statements have been prepared on the basis of historical cost. Reliance is placed on the Company continuing as a going concern.

PRESENTATION OF FINANCIAL STATEMENTS

The financial statements are presented in accordance with NZ IAS 1 *Presentation of Financial Statements*. The Company has elected to present the Statement of Comprehensive Income in one statement. The Statement of Comprehensive Income discloses the analysis of expenses under the function of expense method. This clarifies expenses according to their function as part of cost of insurance sales, operating or as administration activities.

The Statement of Financial Position presentation discloses assets and liabilities in order of liquidity in line with the Statement of Financial Position presentation used by other entities supplying goods or services.

FUNCTIONAL CURRENCY

The financial statements are presented in New Zealand dollars (\$), which is the Company's functional currency. All financial information is presented in New Zealand dollars and has been rounded to the nearest dollar.

3. SUMMARY OF ACCOUNTING POLICIES

OVERALL CONSIDERATION

The significant accounting policies that have been used in the preparation of these financial statements are summarised below.

REVENUE

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

Rendering of services

Services comprise supplying Consumer Credit Indemnity Insurance ("CCI") and Guaranteed Finance Protection Insurance ("GFP") and Pet Insurance protection.

Gross premiums

Gross premium is recognised from the attachment date for all indemnity insurance policies issued.

OTHER INCOME

Other income comprises of interest received from the Government bond, Bank and use of money interest. This is recognised as accrued.

OPERATING EXPENSES

Operating expenses are recognised in profit or loss upon utilisation of the service or at the date of their origin.

CLAIMS EXPENSE

- i. CCI, GFP and Pet insurance claims which arise during the reporting period and are settled during the same period are expensed in the Statement of Comprehensive Income.
- ii. CCI, GFP and Pet insurance claims which arise during the reporting period but which are not settled at balance date are recognised based on the present value of expected future payments.
- iii. CCI, GFP and Pet insurance claims incurred but not yet reported (IBNR) are recognised by way of an estimation based upon claims historical data.

FINANCIAL INSTRUMENTS

Financial assets and financial liabilities are recognised when the Company becomes a party to the contractual provisions of the financial instrument.

Financial assets are derecognised when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and all substantial risks and rewards are transferred. A financial liability is derecognised when it is extinguished, discharged, cancelled or expires.

Financial assets and financial liabilities are measured initially at fair value plus transactions costs, except for financial assets and financial liabilities carried at fair value through profit or loss, which are measured initially at fair value.

SUMMARY OF ACCOUNTING POLICIES (CONT'D)

For financial instruments traded in active markets, the quoted market prices or dealer price quotations are used as a measure of fair value. Where quoted market prices do not exist, fair values are estimated using present value or other market accepted valuation techniques, using methods and assumptions that are based on market conditions and risks existing as at balance date.

Financial assets and financial liabilities are measured subsequently as described below.

FINANCIAL ASSETS

For the purpose of subsequent measurement, financial assets other than those designated as hedging instruments are classified into the following categories upon initial recognition:

- loans and receivables;
- financial assets at fair value through profit or loss;
- held to maturity investments; and
- available-for-sale financial assets.

The category determines subsequent measurement and whether any resulting income and expense is recognised in profit or loss or in other comprehensive income.

All financial assets except for those at fair value through profit or loss are subject to review for impairment at least at each reporting date. Financial assets are impaired when there is any objective evidence that a financial asset or company of financial assets is impaired. Different criteria to determine impairment are applied for each category of financial assets, which are described below.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial recognition, these are measured at amortised cost using the effective interest method, less allowance for impairment. The Company's cash and cash equivalents and trade and other receivables fall into this category of financial instruments.

Trade and other receivables are considered for impairment when there is objective evidence that the Company will not be able to collect all amounts due according to their original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation and default or delinquency in payments (more than 30 days overdue) are considered indicators that the trade receivable is impaired.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include items that are either classified as held for trading or that meet certain conditions and are designated at fair value through profit or loss upon initial recognition. All derivative financial instruments fall into this category, except for those designated and effective as hedging instruments, for which the hedge accounting requirements apply. The Company does not currently have any financial assets designated into this category.

Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity other than loans and receivables. Investments are classified as held to-maturity if the Company has the intention and ability to hold them until maturity. The Company has government bonds that will mature on 15 April 2015 paying a coupon rate of 6% that are held with the Public Trust office.

SUMMARY OF ACCOUNTING POLICIES (CONT'D)***Available-for-sale financial assets***

Available-for-sale financial assets are non-derivative financial assets that are either designated to this category or do not qualify for inclusion in any of the other categories of financial assets. The Company does not currently have any financial assets designated into this category.

FINANCIAL LIABILITIES

The Company's financial liabilities include loans and borrowings and trade and other payables.

All financial liabilities are measured subsequently at amortised cost using the effective interest method.

Borrowings are classified as current liabilities unless the Company has an unconditional right to defer settlement of the liability for at least 12 months after the Statement of Financial Position date. Borrowing costs are expensed as incurred.

Trade and other payables represent liabilities for goods and services provided to the Company prior to the end of the financial year which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents are short term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

INCOME TAX

Income tax is accounted for using the taxes payable method. The income tax expense recorded in the income statement for the period represents the income tax payable for the current period, adjusted for any differences between the estimated and actual income tax payable in prior periods. The current income tax asset or liability recognised in the Statement of Financial Position represents the current income tax balance due from or obligation to the Inland Revenue at reporting date.

PROPERTY, PLANT AND EQUIPMENT

Items of property, plant and equipment are measured at cost less accumulated depreciation and impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the asset. In the event that settlement of all or part of the purchase consideration is deferred, cost is determined by discounting the amounts payable in the future to their present value as at the date of acquisition.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

The cost of replacing part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Company and its cost can be measured reliably. The costs of the day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred.

SUMMARY OF ACCOUNTING POLICIES (CONT'D)

Depreciation is provided on leasehold improvements, computers and software, office furniture and equipment and motor vehicles. Depreciation is recognised in the Statement of Comprehensive Income to write off the cost of an item of property, plant and equipment, less any residual value, and is calculated using the diminishing value method to allocate the cost of assets over their expected useful life, at the following rates:

Leasehold improvements	12.0%
Furniture and fittings	15.6%
Office furniture and equipment	36.6% – 80.4%
Motor vehicles	36.0%

Depreciation methods, useful lives and residual values are reviewed at each reporting date.

SHORT-TERM EMPLOYEE BENEFITS

Short-term employee benefits, including holiday entitlement and sick leave, are current liabilities included in trade and other payables, measured at the undiscounted amount that the Company expects to pay as a result of the unused entitlement.

EQUITY, RESERVES AND DIVIDEND PAYMENTS

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.

Retained earnings include all current and prior period retained profits and losses.

All transactions with owners of the parent are recorded separately within equity.

PROVISIONS, CONTINGENT LIABILITIES AND CONTINGENT ASSETS

Provisions are recognised when present obligations as a result of a past event will probably lead to an outflow of economic resources from the Company and amounts can be estimated reliably. Timing or amount of the outflow may still be uncertain. A present obligation arises from the presence of a legal or constructive commitment that has resulted from past events, for example, product warranties granted, legal disputes or onerous contracts

Provisions are measured at the estimated expenditure required to settle the present obligation, based on the most reliable evidence available at the reporting date, including the risks and uncertainties associated with the present obligation. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. Provisions are discounted to their present values, where the time value of money is material.

Any reimbursement that the Company can be virtually certain to collect from a third party with respect to the obligation is recognised as a separate asset. However, this asset may not exceed the amount of the related provision.

All provisions are reviewed at each reporting date and adjusted to reflect the current best estimate.

Possible inflows of economic benefits to the Company that do not yet meet the recognition criteria of an asset are considered contingent assets.

SUMMARY OF ACCOUNTING POLICIES (CONT'D)***Provision for Outstanding Claims***

The Provision for Outstanding Claims includes a provision for known claims after year end.

The Company's process for establishing the outstanding claims provision involves consultation with the appointed actuary. This process includes a bi-annual and annual review and calculation of provision for claims by Peter Davies who is a fully accredited member of the New Zealand Society of Actuaries. The actuary based his provision on the following assumptions:

For the pet insurance business, the claim administration allowance is estimated to be 15% (2011: 15%) of outstanding claims. A loss ratio of 49% (2011: 50%) is used based on the pet insurance products available in New Zealand. A 7% (2011: 10%) risk margin is maintained so as to achieve a 79% likelihood of sufficiency.

For the CCI and GFP insurance business, the claim administration allowance is estimated to be 15% (2011: 15%) of outstanding claims. A loss ratio is estimated to be 2.0% (2011: 1.8%) based on historical financial performance of these products. A 50% (2011: 50%) risk margin is maintained so as to achieve a 75% likelihood of sufficiency.

Financial assumptions used to determine the outstanding claims provision are as follows:

- i. **Discount Rate** - The outstanding claims liability represents payments that will be made in the future, they are discounted to reflect the time value of money effectively recognising that the asset held to back insurance liabilities will earn a return during that period. Discount rates are based on gross yields to maturity of NZ Government bonds of appropriate terms as at 31 March 2012.
- ii. **Future settlement patterns and weighted average term to settlement** - The weighted average term to settlement is an aggregate figure for all classes of business based on expected claims development patterns which are in turn derived from an analysis of historical claim patterns.
- iii. **Assumed loss ratios** - Assumed loss ratios were determined from a consideration of observed loss ratios for historical loss quarters.
- iv. **Risk Margin** - The overall risk margin is determined allowing for diversification between classes of business and the relative uncertainty of the outstanding claims estimates for each class. The assumptions regarding uncertainty for each class are applied to the net central estimates and the results are aggregated, allowing for diversification, in order to arrive at an overall net provision that is intended to provide a probability of sufficiency of 75 per cent.
- v. **Expense allowance** - An estimate of outstanding claims liabilities will typically incorporate an allowance for the future cost of administering the claims.

At each reporting date, an assessment is made of whether the recognised insurance liabilities are adequate, net of Deferred Acquisition Costs, by using an existing liability adequacy test in accordance with NZ GAAP. The liability value is adjusted to the extent that it is insufficient to meet expected future benefits and expenses. In performing the adequacy test, current best estimates of future contractual cash flows, including related cash flows such as claims handling and policy administration expenses, are used. A number of valuation methods are applied, including discounted cash flows.

SUMMARY OF ACCOUNTING POLICIES (CONT'D)

Non-life insurance contract liabilities include the outstanding claims provision, the provision for unearned premium and the provision for premium deficiency. The outstanding claims provision is based on the estimated ultimate cost of all claims incurred but not settled at the reporting date, whether reported or not, together with related claims handling costs and reduction for the expected value of salvage and other recoveries. Delays can be experienced in the notification and settlement of certain types of claims, therefore, the ultimate cost of these cannot be known with certainty at the reporting date. The liability is calculated at the reporting date using a range of standard actuarial claim projection techniques, based on empirical data and current assumptions that may include a margin for adverse deviation. The liability is not discounted for the time value of money. The liabilities are derecognised when the obligation to pay a claim expires, is discharged or is cancelled.

Unearned Premiums

The provision for unearned premiums represents that portion of premiums received or receivable that relates to risks that have not yet expired at the reporting date. The provision is recognised when contracts are entered into and premiums are charged, and is brought to account as premium income over the term of the contract in accordance with the pattern of insurance service provided under the contract. At each reporting date, the Company reviews its unexpired risk and a liability adequacy test is performed in accordance with NZ GAAP to determine whether there is any overall excess of expected claims and deferred acquisition costs over unearned premiums. This calculation uses current estimates of future contractual cash flows after taking account of the investment return expected to arise on assets relating to the relevant non-life insurance technical provisions. If these estimates show that the carrying amount of the unearned premiums (less related deferred acquisition costs) is inadequate, the deficiency is recognised in the Statement of Comprehensive Income by setting up a provision for premium deficiency.

INSURANCE CONTRACTS – PRODUCT CLASSIFICATION

Insurance contracts are those contracts when the Company has accepted significant insurance risk from another party (the policyholders) by agreeing to compensate the policyholders if a specified uncertain future event (the insured event) adversely affects the policyholders. As a general guideline, the Company determines whether it has significant insurance risk, by comparing benefits paid with benefits payable if the insured event did not occur. Insurance contracts can also transfer financial risk. Once a contract has been classified as an insurance contract, it remains an insurance contract for the remainder of its lifetime, even if the insurance risk reduces significantly during this period, unless all rights and obligations are extinguished or expire. Investment contracts can, however, be reclassified as insurance contracts after inception if insurance risk becomes significant.

DEFERRED ACQUISITION COSTS

Acquisition Costs are associated with Insurance and Indemnity Contracts. Brokerage and other acquisition costs associated with policies written on behalf of the Company are deferred and recognised over the life of the policy in accordance with the incidence of risk expected under the policy.

Those direct and indirect costs incurred during the financial period arising from the writing or renewing of insurance contracts are deferred to the extent that these costs are recoverable out of future premiums. All other acquisition costs are recognised as an expense when incurred. Subsequent to initial recognition, Deferred Acquisition Costs for Pet, CCI and GFP insurance are amortised over the expected life of the contracts as a constant percentage of expected premiums.

Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortisation period and are treated as a change in an accounting estimate.

SUMMARY OF ACCOUNTING POLICIES (CONT'D)

An impairment review is performed at each reporting date or more frequently when an indication of impairment arises. When the recoverable amount is less than the carrying value, an impairment loss is recognised in the Statement of Comprehensive Income. Deferred Acquisition Costs are derecognised when the related contracts are either settled or disposed of.

LIABILITY ADEQUACY TEST

Deferred Acquisition Costs are also considered in the liability adequacy test for each reporting date. The test is to ensure unearned premiums net of Deferred Acquisition Costs are sufficient to meet future claims. This test is prepared by the Company's appointed actuary.

INSURANCE RECEIVABLES

Insurance receivables are recognised when due and measured on initial recognition at the fair value of the consideration received or receivable. Subsequent to initial recognition, insurance receivables are measured at amortised cost, using the effective interest rate method. The carrying value of insurance receivables is reviewed for impairment whenever events or circumstances indicate that the carrying amount may not be recoverable, with the impairment loss recorded in the income statement.

UNEARNED PREMIUMS

Unearned premiums are those proportions of premiums written in a year that relate to periods of risk after the reporting date. Unearned premiums are calculated on a daily pro rata basis. The proportion attributable to subsequent periods is deferred as a provision for unearned premiums.

CHANGE IN ACCOUNTING POLICIES

There have been no significant changes in accounting policies during the current period. Accounting policies have been applied on a basis consistent with prior periods.

NEW STANDARDS, INTERPRETATIONS AND AMENDMENTS THAT ARE NOT YET EFFECTIVE

The Company has adopted the following new and amended NZ IFRSs since April 2011:

NZ IFRS 7 Financial Instruments: Disclosures (effective from 1 July 2011)

This standard incorporates many of the disclosure requirements previously in NZ IAS 32 Financial Instruments: Presentation. The standard applies to risks arising from all financial instruments. The standard requires disclosure of:

- a) The significance of financial instruments for an entity's financial position and performance.
- b) Qualitative and quantitative information about exposure to risks arising from financial instruments, including specified minimum disclosures about credit risk, liquidity risk and market risk. The qualitative disclosures describe management's objectives, policies and processes for managing those risks. The quantitative disclosures provide information about the extent to which the entity is exposed to risk, based on information provided internally to the entity's key management personnel. Together, these disclosures provide an overview of the entity's use of financial instruments and the exposures to risks they create.

The amendment requires enhanced disclosures about fair value measurement and liquidity risk. In particular, the amendment requires disclosure of fair value measurements by level of a fair value measurement hierarchy. Management is still assessing the impact of this standard on the Company.

SUMMARY OF ACCOUNTING POLICIES (CONT'D)**NZ IFRS 9 Financial Instruments (effective from 1 January 2015)**

The International Accounting Standards Board ("IASB") aims to replace IAS39 Financial Instruments: Recognition and Measurement in its entirety by the end of 2011, with replacement standard (NZ IFRS 9) to be effective for accounting periods beginning on or after 1 January 2013. The new standard is being issued in phases, with early adoption available as each phase is issued. To date, the chapters dealing with recognition, classification, measurement and de-recognition of financial assets and financial liabilities have been issued. The chapters dealing with impairment and hedge accounting are still being developed.

All financial assets are required to be classified on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial asset. Financial assets are initially recorded at fair value plus, in the case of a financial asset not at fair value through profit or loss, particular transaction costs and measured at amortised cost or fair value. Management is assessing the impact of this standard on the Company. However they do not expect to implement the amendments until all chapters of NZ IFRS 9 have been published and they can comprehensively assess the impact of all changes.

Recently issued standards (effective for years beginning from 1 January 2013)

In May 2010 the International Accounting Standards Board (IASB) issued the following accounting standards that will be incorporated into NZ IFRS:

- IFRS 10 Consolidated Financial Statements
- IFRS 11 Joint Arrangements
- IFRS 12 Disclosure of Interests in Other Entities
- IFRS 13 Fair Value Measurement

Upon preliminary review management do not expect these standards to have a material impact on the Company's financial statements; however a full understanding of the standards has yet to be obtained.

Annual Improvements 2011

The External Reporting Board has issued improvements for International Financial Reporting Standards 2011. Most of these amendments become effective in annual periods beginning on or after 1 January 2012. These amendments are not expected to have a significant impact on the Company's financial statements.

4. INSURANCE CONTRACTS-RISK MANAGEMENT POLICIES AND PROCEDURES

The financial condition and operation of the Company are affected by a number of key risks including insurance risk, interest rate risk, currency risk, credit risk, market risk, liquidity risk, financial risk, compliance risk, fiscal risk and operational risk. Notes on the Company's policies and procedures in respect of managing these risks are set out in this note.

Objectives in managing risks arising from insurance contracts and policies for mitigating those risks

The Company has an objective to control insurance risk thus reducing the volatility of operating profits. In addition to the inherent uncertainty of insurance risk, which can lead to significant variability in the loss experience, profits from insurance business are affected by market factors, particularly competition and movements in asset values. Short term variability is, to some extent, a feature of insurance business.

INSURANCE CONTRACTS-RISK MANAGEMENT POLICIES AND PROCEDURES (CONT'D)

Key aspects of the processes established to mitigate risks include:

- (i) The maintenance and use of sophisticated management information systems, which provide up to date, reliable data on the risks to which the business is exposed at any point in time.
- (ii) The use of actuarial models based on historical data to calculate premiums and monitor claim patterns.
- (iii) The management of assets and liabilities is closely monitored to attempt to match the expected pattern of claims payments with the maturity dates of assets.

Terms and conditions of insurance business

The terms and conditions attaching to insurance contracts affect the level of insurance risk accepted by the Company. The majority of direct insurance contracts written are entered into on a standard form. There are no special terms and conditions in any non-standard contracts that have a material impact on the financial statements.

Concentration of insurance risk

The Company's exposure is diversified across classes of business with risk spread across New Zealand.

Financial Risk

- (i) Interest rate risk - The Company is exposed to interest rate risk arising on interest bearing assets. The Company manages some of its exposure to this risk by holding the majority of such assets on short term maturities.
- (ii) Credit risk - The credit risk on financial assets of the Company is generally the carrying amount, net of any provisions for doubtful debts. Credit risk exposures are calculated regularly and compared to authorised credit limits before further transactions are undertaken with each counter party. The Company does not expect any counter parties to fail to meet their obligation and therefore does not require collateral or other security to support credit risk exposures.
- (iii) Market risk - The Company is exposed to market risk including fair value, interest risk and price risk. Market risks arise from open positions in interest rate products which are exposed to general and specific market movements. The market risks that the Company primarily faces are interest rate risk, due to the nature of its investments and liabilities.
- (iv) Liquidity risk - The Company is exposed to daily calls on its available cash resources from the policy claims. Liquidity risk is the risk that payment of obligations may not be met in a timely manner at a reasonable cost. The Company manages this risk by considering potential daily calls in unison with its overall cash management position.

Unexpired risk liability

The Liability Adequacy Test ("LAT") has identified an unexpired risk liability in a portfolio of contracts with broadly similar risks that are managed together. The liability has resulted in the creation of an Unexpired Risk Premium of \$14,486 (March 2011: Nil).

The LAT has identified a surplus for other portfolios of contracts that are subject to broadly similar risks that are managed together as a single portfolio.

INSURANCE CONTRACTS-RISK MANAGEMENT POLICIES AND PROCEDURES (CONT'D)

The process of determining the overall risk margin, including the way in which diversification of risk, has been allowed for. As with outstanding claims, the overall risk margin is intended to achieve a 75% (March 2011: 85%) probability of adequacy.

Insurance Maturity Analysis

The table below analyses the Company's insurance assets and insurance liabilities into relevant maturity groupings based on the expected maturity dates.

31 March 2012	\$ 0 to 6 Months	\$ 7 to 12 Months	\$ 13 to 24 Months	\$ 25 to 60 Months	\$ Over 60 Months	\$ Total
Insurance Assets						
Deferred acquisition cost	109,632	389,313	4,998	33,864	-	537,807
Insurance Liabilities						
Provision for claims	193,889	-	-	-	-	193,889
Unexpired Risk Premium	14,486	-	-	-	-	14,486
Unearned premium liabilities	300,736	1,067,935	13,710	92,893	-	1,475,274
	509,111	1,067,935	13,710	92,893	-	1,683,649
31 March 2011						
	\$ 0 to 6 Months	\$ 7 to 12 Months	\$ 13 to 24 Months	\$ 25 to 60 Months	\$ Over 60 Months	\$ Total
Insurance Assets						
Deferred acquisition cost	83,608	275,490	6,061	3,808	-	368,967
Insurance Liabilities						
Provision for claims	155,810	-	-	-	-	155,810
Unearned premium liabilities	260,879	859,201	18,988	11,879	-	1,150,947
	416,689	859,201	18,988	11,879	-	1,306,757

5. REVENUE

Revenue from operations may be analysed for the following reporting periods presented:

	31 March 2012	31 March 2011
	\$	\$
Earned Premiums - CCI	83,871	193,407
Earned Premiums - Pet Insurance	2,213,959	1,427,001
Earned Premiums - GFP	17,637	68,067
Total Insurance Income	2,315,467	1,688,475

6. INCOME TAX

The relationship between the expected tax expense based on the domestic effective tax rate of Beneficial Insurance Limited at 28% (2011: 30%) and the reported tax expense in the Statement of Comprehensive Income can be reconciled as follows:

	31 March 2012	31 March 2011
	\$	\$
Current tax	(505)	(394,620)
Deferred tax	3,467	-
Adjustment to prior years	10,347	54,232
Taxation	13,309	(340,388)

Profit before tax	54,130	(850,759)
Taxation at Statutory tax rate 28% (2011: 30%)	15,156	(255,228)
Permanent Differences	1,091	39,427
Deferred tax asset not previously recognised	(12,780)	-
Adjustment to prior periods	10,347	(117,478)
Other	(505)	(7,109)
Income tax rebate / (expense)	13,309	(340,388)

7. IMPUTATION CREDIT ACCOUNT

	31 March 2012	31 March 2011
	\$	\$
Balance at beginning of year	799,905	298,542
Income tax paid during year, net of refunds	(174,289)	501,301
Resident withholding tax received	22	62
Other	(46,305)	-
	579,333	799,905

8. DEFERRED TAX LIABILITY

The balance comprises temporary difference attributable to:

	31 March 2012	31 March 2011
	\$	\$
Employee benefits	6,352	5,576
Deferred acquisition costs	(150,586)	(103,311)
Other provisions	24,888	11,022
Tax Losses	115,879	86,713
	(3,467)	-
Movements:		
Opening balance	-	54,232
Credited to income statement	(3,467)	(54,232)
	(3,467)	-

9. CASH AND CASH EQUIVALENTS

Cash and cash equivalents include the following components:

	31 March 2012	31 March 2011
	\$	\$
Cash at bank and in hand	155,791	26,682
Cash at bank and in hand	155,791	26,682

10. FINANCE RECEIVABLE

	31 March 2012	31 March 2011
	\$	\$
MRL Loan Receivable	3,700,000	-
Total MRL Loan Receivables	3,700,000	-

11. LOANS FROM / (TO) RELATED PARTIES

The parent entity Broadlands Finance Limited swapped the unsubordinated loan of MRL to offset the current loan with Beneficial Insurance Limited. This has resulted in a loan payable to Broadlands Finance Limited.

	31 March 2012	31 March 2011
	\$	\$
Loan from / (to) Broadlands Finance Limited	500,000	(3,051,220)
	500,000	(3,051,220)

12. DEFERRED ACQUISITION COSTS

	31 March 2012 \$	31 March 2011 \$
Deferred acquisition costs at beginning of the year	368,967	723,321
Acquisition costs deferred	308,908	92,490
Amortisation charged to income statement	(140,068)	(446,844)
Deferred acquisition costs at end of the year	<u>537,807</u>	<u>368,967</u>

13. PROPERTY AND EQUIPMENT

31 March 2012	Furniture & fittings \$	Leasehold improvements \$	Office Furniture & Equipment \$	Motor vehicles \$	Total \$
COST					
At beginning of year	3,000	8,663	25,517	19,311	56,491
Additions	-	-	-	-	-
Disposals	-	-	-	-	-
	<u>3,000</u>	<u>8,663</u>	<u>25,517</u>	<u>19,311</u>	<u>56,491</u>
ACCUMULATED DEPRECIATION					
At beginning of year	468	1,362	21,937	8,865	32,632
Charge for the year	396	876	1,408	3,760	6,440
	<u>864</u>	<u>2,238</u>	<u>23,345</u>	<u>12,624</u>	<u>39,072</u>
NET BOOK VALUE					
At 31 March 2012	<u>2,136</u>	<u>6,425</u>	<u>2,172</u>	<u>6,686</u>	<u>17,419</u>
At 1 April 2011	<u>2,532</u>	<u>7,301</u>	<u>3,580</u>	<u>10,446</u>	<u>23,859</u>
31 March 2011	Furniture & fittings \$	Leasehold improvements \$	Office Furniture & equipment \$	Motor vehicles \$	Total \$
COST					
At beginning of year	3,000	8,663	23,655	35,760	71,078
Additions	-	-	1,862	-	1,862
Disposals	-	-	-	(16,449)	(16,449)
	<u>3,000</u>	<u>8,663</u>	<u>25,517</u>	<u>19,311</u>	<u>56,491</u>
ACCUMULATED DEPRECIATION					
At beginning of year	-	366	18,748	8,909	28,023
Charge for the year	468	996	3,189	9,666	14,319
Eliminated on disposals	-	-	-	(9,710)	(9,710)
	<u>468</u>	<u>1,362</u>	<u>21,937</u>	<u>8,865</u>	<u>32,632</u>
NET BOOK VALUE					
At 31 March 2011	<u>2,532</u>	<u>7,301</u>	<u>3,580</u>	<u>10,446</u>	<u>23,859</u>
At 1 April 2010	<u>3,000</u>	<u>8,297</u>	<u>4,907</u>	<u>26,851</u>	<u>43,055</u>

There were no impairment losses for the Company for the year ending 31 March 2012 (2011: \$Nil).

14. CATEGORIES OF FINANCIAL ASSETS AND LIABILITIES

The carrying amounts of financial instruments presented in the statement of financial position relate to the following categories of assets and liabilities:

	31 March 2012 \$	31 March 2011 \$
Financial assets		
Loans and receivables		
Cash and Cash Equivalents	155,791	26,682
Insurance Premium receivables	830,334	701,832
Government Stock - Bond	500,000	510,000
Loan to Related Parties	-	3,051,220
Finance Receivables	3,700,000	-
	<u>5,186,125</u>	<u>4,289,734</u>

CATEGORIES OF FINANCIAL ASSETS AND LIABILITIES (CONT'D)

	31 March 2012 \$	31 March 2011 \$
Financial liabilities		
Other amortised cost		
Payables	262,502	273,370
Loans from Related Parties	500,000	-
Provision for Insurance Claims	208,375	155,810
Insurance Premiums in Advance	1,475,274	1,150,947
	2,446,151	1,580,127

15. PROVISION FOR INSURANCE

	31 March 2012 \$	31 March 2011 \$
Provision for Claims	193,889	155,810
Provision for Unexpired risk premium	14,486	-
	208,375	155,810

16. CAPITAL COMMITMENTS

There were no capital commitments at 31 March 2012 (March 2011: \$Nil).

17. CONTINGENT ASSETS AND LIABILITIES

There are no contingent assets or liabilities at balance date (March 2011: \$Nil).

18. RELATED PARTY TRANSACTIONS
2012

	Relationship	Type	Transaction	Balance Receivable / (Payable)
Executive Trustees Limited	Common Ownership	Rent	68,809	-
Natwest Finance Limited	Common Ownership	Vehicle Lease	2,592	-
Penrose Enterprise Limited	Common Ownership	Vehicle Finance	7,845	-
Broadlands Finance Limited	Parent Entity	Transfer of Loan	3,700,000	(500,000)

2011

	Relationship	Type	Transaction	Balance Receivable / (Payable)
Executive Trustees Limited	Common Ownership	Rent	68,700	-
Natwest Finance Limited	Common Ownership	Vehicle Lease	19,128	-
Penrose Enterprise Limited	Common Ownership	Vehicle Lease	3,932	-
Broadlands Finance Limited	Parent Entity	Intercompany Loan	-	3,051,220

The amounts receivable / (payable) are unsecured and no guarantees are in place. No interest is charged on amounts owing between Company entities. No balances receivable are impaired as at 31 March 2012 (2011: \$Nil).

On 30 March 2012 the Company entered into an administration agreement with its Parent Entity in respect of the work associated with the collection of the loan receivable (Refer to Note 19).

19. BIL LICENSING UNDER THE INSURANCE PRUDENTIAL SUPERVISION ACT 2010 (IPSA)

In order for Beneficial Insurance Limited to be licensed by the Reserve Bank of New Zealand ("RBNZ") under the Insurance (Prudential Supervision) Act 2010 ("IPSA") a series of changes needed to be made so the Company can meet the solvency requirements of the Solvency Standard for Non-life Insurance Business' ("Solvency Standard") made under IPSA. For the year ended 31 March 2012 the following changes were made:

- i. *The charge over the Company assets under the Trust Deed between Broadlands Finance Limited (BFL) and Trustees Executors Limited was removed because otherwise it would leave the Company with a large solvency deficit. The Solvency Standard requires all assets subject to a charge be deducted from eligible capital.*
- ii. *The Company guarantee also needed to be removed because the Solvency Standard required that insurers hold capital amounting to 100% of the amount of off balance sheet exposures and contingent liabilities such as guarantees to a related party which would add approximately \$3.4 million to the required capital of the Company.*
- iii. *The subordination of the \$3.2 million intra-group advance made by the Company to BFL (the "Beneficial Loan") needed to be removed because subordinated loans must be deducted from eligible capital for the amount of the Beneficial loan, again leaving the Company with a large solvency deficit.*
- iv. *The Beneficial Loan, after removing subordination, would still have a 100% asset risk weighting under the Solvency Standard so the loan was replaced with investment assets of a lower risk weight (as prescribed by the RBNZ). This was achieved through an exchange of assets (the "Asset Exchange"). The Company accepted repayment of the Beneficial Loan in exchange for the BFL loan to MRL Finance Limited ("MRL") being transferred to the Company and the Company incurring a new \$500,000 loan obligation to BFL (Inter-Company Receivable).*

In order to achieve the above changes the following process took place.

- i. *Timberton Investments Limited applied for shares in BFL as part of the restructuring process. The loan advance made to BFL by Timberton Investments Limited was used to pay for the shares and consequently the shareholder funds have increased by approximately \$5.67 million as a result of this transaction.*
- ii. *The Company has taken over the \$3.7 million BFL loan to MRL Finance Limited (MRL Loan), with the consideration for this transfer being the repayment of the BFL Loan and the Inter-Company Receivable. The MRL loan was transferred at book value and the Board considered this to represent the fair value.*
- iii. *The exchange was by way of assignment of the MRL loan and all its underlying security to the Company by means of a "clean transfer" as specified in the Deposit Takers (Credit Ratings, Capital Ratios and Related Party Exposures) Regulations 2010 so that BFL no longer has a capital requirement in relation to these assets. Essentially this meant that all rights and obligations in relation to the loans passed to the Company and that the Company has no recourse back to BFL for any losses it might incur as owner of the MRL loan.*
- iv. *BFL continues to manage the MRL loan and the underlying portfolio of loans under an administration agreement with the Company. Broadlands receives an administration fee for this service of 4% per annum of the outstanding balance of the MRL Loan. It is worth recording here that the transaction will improve the income position of the Company compared with the current situation in which no interest is paid on its loan to BFL.*

20. SUBSEQUENT EVENTS

Prior to signing of the Financial Statements AM Best which is a credit rating agency have been engaged to issue the company with a credit rating in terms of the requirements of the Insurance Prudential Supervision Act 2010.

The Directors are not aware of any other matters or circumstances since the end of the reporting period, not, otherwise dealt with in the financial statements that have significantly or may significantly affect the operations of the Company (2011: Nil).

Independent Auditor's Report

Audit

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To the Shareholder of Beneficial Insurance Limited

Report on the Financial Statements

We have audited the financial statements of Beneficial Insurance Limited on pages 5 to 23, which comprise the statement of financial position as at 31 March 2012, and the statement of comprehensive income, statement of changes in equity for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' Responsibilities

The Directors are responsible for the preparation of financial statements in accordance with generally accepted accounting practice in New Zealand and that give a true and fair view of the matters to which they relate, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibilities

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing (New Zealand). Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of financial statements that give a true and fair view of the matters to which they relate in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.

An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates, as well as evaluating the presentation of the financial statements.

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

Other than in our capacity as auditors, we have no relationship with or interests in Beneficial Insurance Limited.

Opinion

In our opinion, the financial statements on pages 5 to 23:

- comply with generally accepted accounting practice in New Zealand;
- give a true and fair view of the financial position of Beneficial Insurance Limited as at 31 March 2012 and its financial performance for the year ended on that date.

Report on Other Legal and Regulatory Matters

Per the Financial Reporting Act 1993:

- we have obtained all the information and explanations that we have required;
- in our opinion, proper accounting records have been kept by Beneficial Insurance Limited as far as appears from an examination of those records.



Grant Thornton New Zealand Audit Partnership
Auckland, New Zealand
6 July 2012