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**SENTINEL ASSURANCE COMPANY LIMITED
ANNUAL FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 March 2009**

APPROVED
31

2009

SENTINEL ASSURANCE COMPANY LIMITED

Annual Financial Statements

For the year ended 31 March 2009

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SENTINEL ASSURANCE COMPANY LIMITED

Company Directory

For the year ended 31 March 2009

ACTIVITIES:	Life insurance
DIRECTORS:	Christopher Laurence COON Ian Robert HENDRY
SHAREHOLDER:	Sentinel Limited
REGISTERED OFFICE & SHARE REGISTRY:	87 Hurstmere Road Takapuna Auckland
AUDITORS:	KPMG P O Box 1584 Auckland
BANKERS:	Commonwealth Bank of Australia, New Zealand Branch P O Box 35 Auckland ASB Bank P O Box 35 Auckland
SOLICITORS:	Hesketh Henry Private Bag 92 093 Auckland Sanderson Weir P O Box 856 Shortland Street Auckland
EXTERNAL ACTUARY:	Davies Financial and Actuarial Limited PO Box 35-258 Browns Bay Auckland

SENTINEL ASSURANCE COMPANY LIMITED

Annual Report

For the year ended 31 March 2009

This Annual Report includes the financial statements of Sentinel Assurance Company Limited (the Company) for the year from 1 April 2008 to 31 March 2009.

ANNUAL REPORT DISCLOSURES

The Company's sole shareholder, Seniors Money International Limited, has passed a resolution under section 211(3) of the Companies Act 1993 ("the Act") in order that the Company need not comply with section 211(1)(a) and (e) to (j) of the Act.


DIRECTORS

Directors of the company who held office during the period were:


Paul Harris Victor BRAVO (resigned 15 April 2008)
Christopher Laurence COON
Richard Adrian COON (resigned 14 April 2008)
Ian Robert HENDRY
Boyd Hubert KLAP (resigned 15 April 2008)
Bronwyn Anne MONOPOLI (resigned 15 April 2008)

DIRECTORS' APPROVAL

For and on behalf of the board on 30 June 2009



Chris Coon Name
Director



Ian Hendry Name
Director

SENTINEL ASSURANCE COMPANY LIMITED**Income Statement**

For the year ended 31 March 2009

\$ thousands

	Notes	2009	2008
Revenue		<u>18,473.6</u>	<u>12,965.0</u>
Net premium income	3	15,773.1	10,589.8
Net investment income	4	<u>1,489.0</u>	<u>998.0</u>
Total net income		<u>17,262.1</u>	<u>11,587.7</u>
<i>Less:</i>			
Operating expenses	5	6,881.8	5,098.7
Net change in policyholder liabilities	8	<u>6,402.6</u>	<u>3,704.5</u>
Net profit before taxation		<u>3,977.7</u>	<u>2,784.6</u>
Less taxation	6	0.0	0.0
Net profit after taxation	8	<u>3,977.7</u>	<u>2,784.6</u>

The accompanying notes form part of these financial statements



SENTINEL ASSURANCE COMPANY LIMITED**Statement of Changes in Equity**

For the year ended 31 March 2009

\$ thousands

	Notes	2009	2008
Net profit for the year		<u>3,977.7</u>	<u>2,784.6</u>
Total recognised income and expenses		<u>3,977.7</u>	<u>2,784.6</u>
Balance at start of year		5,229.3	2,444.7
Balance at end of year		<u>9,207.0</u>	<u>5,229.3</u>

The accompanying notes form part of these financial statements



SENTINEL ASSURANCE COMPANY LIMITED

Balance Sheet


As at 31 March 2009

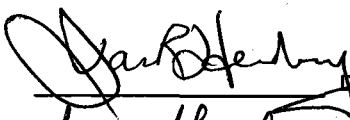
\$ thousands

	Notes	2009	2008
Equity			
Share capital	7	500.0	500.0
Accumulated profit		8,707.0	4,729.3
Total Equity		<u>9,207.0</u>	<u>5,229.3</u>
Liabilities			
Sentinel Limited	10	1,091.0	0.0
Insurance contract reserves	8	34,105.3	16,413.3
Investment contract liability	8	237.4	6,759.5
Total Liabilities		<u>35,433.7</u>	<u>23,172.8</u>
Total Funds Employed		<u>44,640.7</u>	<u>28,402.1</u>
Assets			
Cash at bank		6.0	22.8
NZ Government stock	9	555.7	524.5
Sentinel Finance Limited	10	8,416.7	11,694.5
Australian Seniors Finance Pty Limited	10	6,722.9	3,202.3
Seniors Money International Limited	10	5,717.4	1,209.3
Insurance contract liabilities ceded	8	23,222.0	11,748.7
Total Assets		<u>44,640.7</u>	<u>28,402.1</u>

The accompanying notes form part of these financial statements

These accounts are authorised for and on behalf of the Board of Directors on 30 June 2009

 Director
Chris Coon Name

 Director
Ian Hendry Name



SENTINEL ASSURANCE COMPANY LIMITED**Cash Flow Statement**

For the year ended 31 March 2009

\$ thousands

	Notes	2009	2008
Net Cash from Operating Activities:			
Premiums		0.0	2,393.9
Interest income		33.8	44.8
Policy withdrawals		(6,706.0)	(1,225.9)
Bank charges		0.0	(0.1)
Net Cash from Operating Activities	11	<u>(6,672.2)</u>	<u>1,212.8</u>
Net Cash from Investing Activities:		0.0	0.0
Net Cash from Financing Activities:			
Receipt / (Payment) of funds from / (to) Sentinel Limited		6,655.4	(5,219.4)
Net Cash from Financing Activities		<u>6,655.4</u>	<u>(5,219.4)</u>
Net increase in cash and equivalents		<u>(16.8)</u>	<u>(4,006.6)</u>
Opening Balance		22.8	4,029.4
Closing Balance		<u>6.0</u>	<u>22.8</u>

The accompanying notes form part of these financial statements



SENTINEL ASSURANCE COMPANY LIMITED

Notes to the Financial Statements

For the year ended 31 March 2009

1. STATEMENT OF ACCOUNTING POLICIES

REPORTING ENTITY AND BASIS OF PREPARATION

The reporting entity is Sentinel Assurance Company Limited, (the Company), a wholly owned subsidiary of Sentinel Limited (Sentinel). Sentinel is a wholly owned subsidiary of Seniors Money International Limited. Seniors Money International Limited commenced business in February 2004. Principal activities of the Group are the provision of equity release loans and related financial services, initially in New Zealand, and subsequently on an international basis. Sentinel Assurance Company Limited is registered under the Companies Act 1993. The financial statements have been prepared in accordance with New Zealand generally accepted accounting practice, applying International Financial Reporting Standards (IFRS), including New Zealand equivalents, as appropriate to profit-oriented entities. The measurement base adopted is that of historical cost as modified by application of NZ IFRS 4 explained further under specific accounting policies. The financial statements are presented in New Zealand Dollars (NZD) rounded to the nearest thousand.

The financial statements have been prepared on the basis that the Company is a going concern. Accordingly, the financial statements do not reflect any adjustments in the carrying values of the assets and liabilities and the reported expenses that would be necessary if the Company were unable to continue as a going concern. Extension of the group's financing facilities from the Commonwealth Bank of Australia (CBA) and Hannover Re (refer Note 10) is dependent upon the Parent raising additional equity of \$2.5 million by 31 March 2010. The directors are confident that this will be achieved.

SPECIFIC ACCOUNTING POLICIES

Financial assets and liabilities

Classification

The Company classifies financial instruments into the following categories: cash and cash equivalents, loans and receivables, NZ Government stock, trade and other payables. The classification depends on the purpose for which the assets and liabilities were acquired. Management determines the classification of its assets and liabilities at initial recognition and re-evaluates the designation at each reporting date.

Recognition

Financial assets and liabilities are recognised on the date the Company becomes party to the contractual provisions of the instrument.

Measurement

Fixed interest securities are held at fair value through profit and loss. Gains and losses arising from the revaluation of investments are included as part of net investment income in the income statement. Loans and advances and other receivables are held at fair value plus any interest accrued to date. Provision is made against impaired loans. Trade and other payables are recognised in the balance sheet at historical cost plus any interest or additional costs accrued to balance date.

Provisions

A provision is recognised when the Company has a present obligation as a result of a past event and it is probable that an outflow of economic benefits will be required to settle the obligation. If material, provisions are determined by discounting the expected future cash flows at a rate that reflects current market rates and the risks specific to the liability.



SENTINEL ASSURANCE COMPANY LIMITED

Notes to the Financial Statements

For the year ended 31 March 2009

1. STATEMENT OF ACCOUNTING POLICIES (continued)

Impairment

Financial assets

At each reporting date the Company assesses whether there is objective evidence that financial assets not carried at fair value through profit or loss are impaired. Financial assets are impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset, and that the loss event has an impact on the future cash flows on the asset that can be reliably estimated. Evidence of impairment is reviewed on a specific asset basis.

INSURANCE CONTRACTS

Insurance and reinsurance products entered into by the Company are classified as either insurance contracts or investment contracts. Insurance contracts involve the acceptance of significant insurance risk. Insurance risk is significant when the benefits payable upon the occurrence of the insured event are significantly higher than the benefits payable upon surrender or maturity.

Investment contracts are contracts issued by the Company other than insurance contracts. For the purposes of these financial statements, holders of life insurance contracts and life investment contracts are referred to as policyholders.

Insurance contract liabilities

Insurance contract liabilities are calculated using the Margin on Services (MoS) methodology in accordance with New Zealand Society of Actuaries Professional Standard 3: Determination of Life Insurance Policy Liabilities and the requirements of NZ IFRS 4.

Profits are recognised over the life of the policies based on services provided, whereas losses are recognised immediately when they arise. Services used to determine profit recognition include the cost of expected claims, maintenance of policies, and investment management. Policyholder liabilities are generally determined as the present value of all future expected payments, expenses, taxes and profit margins reduced by expected future premiums and reinsurance recoveries.

Investment contract liabilities

Investment contract liabilities are accounted for as a financial liability and recognised at fair value. Movements in fair value are recognised through the income statement.

Income recognition

Interest and investment income

Interest income is recognised as it accrues. Investment income also includes realised and unrealised changes in the fair value of investments.

Premium and claims recognition

Insurance contracts are separated into risk and savings components. Premiums and claims related to risk contracts (or components) are recognised in the income statement as either income or expense. All other premiums and claims are recognised as increases or decreases to policy liabilities in the balance sheet.

Premiums with a regular due date are recognised when the premium becomes due. Premiums with no due date are recognised on a cash basis. Surrenders are recognised when paid. Death and all other claims are recognised when the liability to the policyholder has been established.

Reassurance

Reassurance premiums and claims are recognised separately in the income statement when they become due and payable in accordance with the reinsurance agreements. Reinsurance recoveries, when they occur, are also recognised separately in the income statement. Profit shares are treated as a deduction from premiums. The present value of financial reinsurance arrangements, adjusted for any reinsurance recoveries, are recognised within policy liabilities in the balance sheet. Reinsurance reserve deposits and reinsurance recoveries are included, separately from policy liabilities in the balance sheet.



SENTINEL ASSURANCE COMPANY LIMITED

Notes to the Financial Statements

For the year ended 31 March 2009

1. STATEMENT OF ACCOUNTING POLICIES (continued)

Expenses

Life insurance expenses are categorised into policy acquisition, investment management and maintenance expenses. Policy acquisition expenses are the incremental and directly attributable costs related to the origination and issue of a policy, including commission. Investment management costs are those directly related to management of investments supporting the life insurance fund, whereas maintenance expenses include all other costs of the business including those related to administration of inforce policies. Policy acquisition costs are initially charged to the income statement, however, are effectively deferred over the life of the policy through inclusion in future profit margins. Interest expense is recognised in the income statement as it accrues.

Life insurance tax

Life insurers are subject to a special tax regime. Two tax bases are maintained: the life office base which is subject to tax on investment income less expenses plus underwriting income, and the policyholder base which seeks to tax benefits as they accrue to policyholders under the policies. The life insurer pays tax on the higher of the two bases at the company tax rate of 30% (2008: 30%). The life insurer is able to use accumulated imputation credits generated in the life office base to meet any tax liability arising in the policyholder base. As the life insurer is taxed as proxy for the policyholder, returns to policyholders are exempt.

Goods and Services Tax (GST)

The Company's activities are exempt supplies for the purposes of GST. Accordingly, all items of income and expenditure are stated inclusive of GST.

Foreign currency transactions

Foreign currency transactions are translated to New Zealand currency at the exchange rate ruling at the date of the transaction. Amounts receivable and payable in foreign currency at balance date are translated at the rate at that date. Exchange differences arising from the translation of amounts payable and receivable in foreign currencies are recognised in the income statement.

Cash flow statement

The cash flow statement has been prepared using the direct approach modified by netting the cash flows associated with financing from Seniors Money International Limited.

New accounting standards and interpretations

The following financial reporting standards and interpretations issued by the Financial Reporting Standards Board, but which are not effective at 31 March 2009, will be applicable to the Company in the next financial period:

NZ IFRS 8 - Operating Segments (effective from 1 January 2009). NZ IFRS 8 replaces NZ IAS 14 and aligns segment reporting with a management approach under which segment information is presented on the same basis as that used for internal reporting purposes. This standard will impact on the segmental note disclosures of the Company but not the measurement values.

NZ IAS 1: Presentation of Financial Statements (effective from 1 January 2009). The revised standard supersedes the 2003 version of NZ IAS 1, as amended in 2005. The application of the revised standard is not expected to have an impact on the Company's financial results as the revision is only concerned with the presentation of the primary financial statements.

Changes in accounting policies

NZ IFRS has been consistently applied throughout the periods presented in the financial statements.



SENTINEL ASSURANCE COMPANY LIMITED

Notes to the Financial Statements

For the year ended 31 March 2009

2. USE OF ESTIMATES AND JUDGEMENT

The preparation of a financial report in conformity with NZ GAAP requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable in the circumstances, the results of which form the basis of judgements about the carrying values of assets and liabilities. Actual results may vary from estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised, if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

In particular, information about significant areas of estimation uncertainty and critical judgement in applying accounting policies that have the greatest effect on the amount recognised in the financial statements are described in the following areas:

Life insurance liabilities

Policyholder liabilities are determined by qualified actuaries using key assumptions and professional judgements. Key assumptions in determining policyholder liabilities are as follows:

Policyholder liabilities have been determined by Mr. Peter Davies B.Bus.Sc., FIA, FNZSA, a Fellow of the New Zealand Society of Actuaries. The Actuary is satisfied as to the nature and quality of the data. The assumptions used in the current year and sensitivities in respect of these assumptions are outlined below.

Solvency reserves have been set by the Directors. Refer Note 8 (f).

Funeral Plan liabilities are calculated as the accumulation of an interpolated scale from the premium at commencement to the projected sum insured at the end of year two.

Term Deposit Bond liabilities have been calculated as the accumulated bond balance including interest and bonus interest.

The increase in the negative equity reserve has been calculated as an accumulation of the previous year's liability, plus interest, plus a proportion of negative equity premiums earned during the year. This proportion equaled 30% for New Zealand (2008: 30%), 28% for Australia (2008: 30%), 48% for Ireland (2008: 29%) and 42% for Spain (2008: 46%).

Discount rate: 5.3% per annum (2008: 6%)

House inflation: An initial 20% reduction, followed by growth of 2.5% per annum (2008: 20% reduction, 3% pa growth)

Mortality: Realistic assumptions with mortality improvements. (2008: Same)

Early repayment: 5% per annum for New Zealand and Australia, and 1% per annum for Ireland and 3% for Spain (2008: 5%, 3%, 3%).

The rate of accumulation is reviewed each year to ensure that the principles of NZ IFRS 4 are being adhered to, noting that small variations in assumptions can have a magnified impact on the emergence of profit.

Interest margin over cost of funds:

New Zealand

2.75% (2008: 2.75%)

Other:

2.50% (2008: 2.50%)

Since all classes of business have been valued on an accumulation basis, there is no break-down of future cash-flows required between premiums, claims, expenses and profit margins.



SENTINEL ASSURANCE COMPANY LIMITED

Notes to the Financial Statements

For the year ended 31 March 2009

\$ thousands

2. USE OF ESTIMATES AND JUDGEMENT (Continued)

Sensitivity analysis

The impact of changes in key outstanding claims variables are summarised below. Each change has been calculated in isolation of the other changes and each change shows the relevant impact assuming that there is no change to the other variables.

The net impact on the policyholder liabilities given the following changes:

	Change in best estimate liability		
	Variable change	2009	2008
Discount rate	+1%	(11,260.0)	(4,440.0)
	-1%	20,590.0	7,640.0
Client interest rate	+1%	130,870.0	65,800.0
	-1%	(58,960.0)	(29,990.0)
Reduction in property values 20%	+10%	43,690.0	31,830.0
	-10%	(28,900.0)	(14,450.0)
House inflation	+1%	(62,610.0)	(35,180.0)
	-1%	83,000.0	56,460.0
Mortality	+10%	(9,340.0)	(4,660.0)
	-10%	14,460.0	6,060.0
Early repayment	+1%	(8,150.0)	(2,820.0)
	-1%	15,060.0	4,940.0

The movement in the liability balance would have a net opposite impact on the income statement.



SENTINEL ASSURANCE COMPANY LIMITED**Notes to the Financial Statements**

For the year ended 31 March 2009

\$ thousands

	2009	2008
3. NET PREMIUM INCOME		
Risk policies:		
No-neg - Sentinel Finance Limited	4,816.7	3,852.9
No-neg - Australian Seniors Finance Limited	5,770.9	4,299.8
No-neg - Seniors Money International Limited	5,785.4	2,905.1
Net reinsurance expense	(599.9)	(468.0)
Net premium income	15,773.1	10,589.8
4. NET INVESTMENT INCOME		
Interest income from:		
Call account	0.0	0.7
NZ Government stock - fair value through profit and loss	33.8	44.2
Interest from related parties	886.4	922.0
Other	0.0	(1.7)
	920.2	965.2
Unrealised gain / (loss) on foreign currency	537.5	34.8
Unrealised loss on NZ Government stock fair value through profit and loss	31.3	(2.0)
	1,489.0	998.0
5. OPERATING EXPENSES		
<i>Included in operating expenses are:</i>		
Commission paid	4,911.9	3,322.5
Audit fees	43.8	30.0

All of the operating expenses for the year are deemed policy maintenance.

6. TAXATION

In respect of the Life Office Base, losses available to carry forward to future income years are \$5,148,300 (2008: \$6,802,700). There are no unrecognised temporary differences carried forward. Taxable income on the Policyholder Base was a loss of \$5,959,500 for the year (2008: loss \$14,587,400).

7. SHARE CAPITAL

The Company has issued 500,000 fully paid ordinary shares (2008: 500,000) held by Sentinel Limited. All shares have equal rights to dividends, voting and on winding-up.



SENTINEL ASSURANCE COMPANY LIMITED

Notes to the Financial Statements

For the year ended 31 March 2009

\$ thousands

8. (a) INSURANCE CONTRACTS	2009	2008	
Balance at beginning of year	16,413.3	4,535.0	
Increase in liabilities recognised in the income statement	17,692.0	11,878.3	
Balance at end of year	<u>34,105.3</u>	<u>16,413.3</u>	
Policy holder liabilities			
Future premiums	(363,592.3)	(230,913.0)	
Future reinsurance premiums	47,368.4	26,008.4	
Future commissions	109,077.7	69,273.8	
Reinsurance profit share commissions	(13,764.7)	(8,290.4)	
Profit-share payments to policyholders	38,808.1	28,987.7	
Future claims	169,758.4	83,100.8	
Profit margins	46,449.7	48,246.0	
Total policy liabilities (excluding future reinsurance recoveries)	<u>34,105.3</u>	<u>16,413.3</u>	
8. (b) REINSURANCE RESERVES			
Balance at beginning of year	0.0	17.8	
Movement during the year	0.0	(17.8)	
Balance at end of year	<u>0.0</u>	<u>0.0</u>	
8. (c) INSURANCE CONTRACTS CEDED			
Balance at beginning of year	11,748.7	3,196.3	
Movement during the year	11,473.3	8,552.4	
Balance at end of year	<u>23,222.0</u>	<u>11,748.7</u>	
8. (d) INVESTMENT CONTRACTS			
	2009	2009	2009
	Funeral	Term Deposit	Total
	Plan	Bond	
Balance at beginning of year	247.0	6,512.5	6,759.5
Investment policies written	0.0	0.0	0.0
Withdrawals	(14.3)	(6,691.7)	(6,706.0)
Increase in liabilities recognised through the income statement	4.7	179.2	183.9
Balance at end of year	<u>237.4</u>	<u>0.0</u>	<u>237.4</u>
	2008	2008	2008
	Funeral	Term Deposit	Total
	Plan	Bond	
Balance at beginning of year	236.3	5,001.2	5,237.5
Investment policies written	43.2	6,962.3	7,005.5
Withdrawals	(41.8)	(5,820.3)	(5,862.1)
Increase in liabilities recognised through the income statement	9.3	369.3	378.6
Balance at end of year	<u>247.0</u>	<u>6,512.5</u>	<u>6,759.5</u>



SENTINEL ASSURANCE COMPANY LIMITED

Notes to the Financial Statements

For the year ended 31 March 2009

\$ thousands

	2009	2008
8. (e) SOURCES OF PROFIT		
<i>The profit for the year has originated as follows:</i>		
Surplus arising from experience	3,811.2	2,373.0
Investment contract surplus	(70.3)	113.0
Interest on assets in excess of policyholder liabilities	236.8	298.6
Total	<u>3,977.7</u>	<u>2,784.6</u>
8. (f) SOLVENCY POSITION		
Prudential reserves	6,446.6	13,128.4
Total assets less Insurance contract liabilities ceded	<u>21,418.7</u>	<u>16,653.4</u>
Prudential margin	14,972.1	3,525.0
Equity retained for solvency purposes	9,207.0	5,229.3

The Directors have been provided with the results of a solvency calculation under Professional Standard No 5: Solvency Reserving for Life Insurance Business (PS5), issued by the New Zealand Society of Actuaries, which applies for reporting periods commencing on or after 1 January 2007. Reserves calculated under PS5 total \$20.2m (2008: \$22.7m). Under PS5, premiums receivable are treated as inadmissible assets. The Directors note that the Company has premiums receivable of \$20.9m (2008:\$16.1m) from related parties with a common shareholding, who are themselves the beneficiaries of the Company's negative equity insurance policies.

The Directors also note that it would be counter-productive from the Group's solvency perspective to realise these inter-company balances in cash, as that would increase external borrowing. The Directors are confident that the Company is able to meet its future commitments on its negative equity insurance contracts based on a conservative view of future client lending rates, future house price inflation, and future mortality and early repayment rates, as well as its commitments to Term Deposit Bond and Funeral Plan policyholders, based on its current level of capital. The Directors consider the current capital of \$9.2m (2008: \$5.2m) to be non-distributable and is retained for solvency purposes.

9. NZ GOVERNMENT STOCK

The Public Trust holds the statutory insurance deposit on behalf of the Company: \$525,000 6% New Zealand Government stock, maturity 15 November 2011 (2008: Same).



SENTINEL ASSURANCE COMPANY LIMITED

Notes to the Financial Statements

For the year ended 31 March 2009

\$ thousands

10. RELATED PARTIES

The Company works with the Group members to optimise capital allocation and usage of funding facilities. This leads to the flow of funds between the companies as needs dictate. Intercompany balances may be settled net.

10. (a) TRANSACTIONS WITH OTHER GROUP ENTITIES

Related party transactions include transactions with other companies in the Group. The Company has entered into a number of transactions with related parties in the normal course of business. A summary of related party transactions during the period and outstanding balances at the balance sheet date were as follows:

	2009	2008
Premium income received - Seniors Money International Limited	5,785.4	2,905.1
Interest income received - Seniors Money International Limited	0.0	27.2
Interest income received - Sentinel Limited	0.0	434.2
Premium income received - Sentinel Finance Limited	4,816.7	3,852.9
Interest income received - Sentinel Finance Limited	0.0	297.4
Premium income received - Australian Seniors Finance Pty Limited	5,770.9	4,299.8
Interest income received - Australian Seniors Finance Pty Limited	0.0	163.2
Commission expenses paid - Seniors Money International Limited	1,735.6	871.5
Profit share expenses paid - Seniors Money International Limited	0.0	842.1
General expenses paid - Seniors Money International Limited	0.0	0.0
Commission expenses paid - Sentinel Limited	1,445.0	1,161.1
General operating expenses paid - Sentinel Limited	0.0	220.6
Commission expenses paid - Australian Seniors Finance Pty Limited	1,731.3	1,289.9
Profit share expenses paid - Australian Seniors Finance Pty Limited	879.3	737.2
Balance receivable- Seniors Money International Limited	5,717.4	1,209.3
Balance receivable- Sentinel Finance Limited	8,416.7	11,694.5
Balance receivable- Australian Seniors Finance Pty Limited	6,722.9	3,202.3
Total balance receivable	20,857.0	16,106.1
Balance owing - Sentinel Limited	1,091.0	0.0

The Company is owned by Sentinel Limited which is owned in turn by Seniors Money International Limited, (the Parent), a company incorporated in New Zealand. Sentinel Limited promotes and sells equity release loans to seniors in New Zealand. The Company insures the 'negative equity' risk provided by Sentinel and Seniors Money International to its customers. Sentinel Finance Limited, a fellow subsidiary, is involved in the ownership and financing of the loans to customers in New Zealand. The reinsurance premium due to Hannover Re is settled net with the reinsurance finance provided to other group members by Hannover Re.

The Parent has subsidiary operations in Australia, Ireland, Spain, and Canada. The net costs associated with the negative equity insurance for the Ireland and Spanish subsidiaries is carried by the Parent. The receivable due by the Parent to the Company is the accumulated net cost of the risk cover.

Group companies have financed their operations with debt provided by the Commonwealth Bank of Australia (CBA) and also working capital provided by Hannover Re. In 2008 the Parent, in conjunction with arrangements made with CBA for the extension of banking facilities to the group, agreed with Hannover Re that that no payments would be required to Hannover Re before 30 June 2009 unless the related equity release loans are refinanced. The Parent has recently agreed with CBA the basis for a roll-forward of its financing facilities for a further two years to September 2011 and Hannover Re has extended its repayment agreement to 30 June 2010. These agreements enable the group to maintain its operational presence in its core markets and to accumulate substantial accrued margin through this period.

Further to the arrangements with CBA and Hannover Re described above, the Company has agreed that payment of the insurance premiums, charged to group companies for negative equity risk, will be deferred.



SENTINEL ASSURANCE COMPANY LIMITED**Notes to the Financial Statements**

For the year ended 31 March 2009

\$ thousands

10. RELATED PARTIES (continued)**10. (b) TRANSACTIONS WITH KEY MANAGEMENT**

The Term Deposit Bonds held by I Hendry of \$2.0 million were repaid at balance date (2008: I Hendry \$2.0 million).

11. CASH FLOW RECONCILIATION

	2009	2008
Net profit after taxation	3,977.7	2,784.6
Unrealised loss on NZ Government stock	(31.3)	2.0
Unrealised foreign currency (gain)/loss	(537.5)	(34.8)
Increase in policyholder liabilities	6,402.6	3,704.5
Commission	4,911.9	3,322.5
Contribution to group operating expenses	1,090.6	220.6
Premium receipts	0.0	2,393.9
Reassurance premiums	599.9	468.0
Withdrawals	(6,706.0)	(1,225.9)
Change in creditors	0.0	(0.1)
Interest income accrued	(886.4)	(944.1)
No-neg premium income	(16,373.0)	(11,057.7)
No-neg profit share	879.3	1,579.2
Net Cash from Operating Activities	<u>(6,672.2)</u>	<u>1,212.8</u>



SENTINEL ASSURANCE COMPANY LIMITED

Notes to the Financial Statements

For the year ended 31 March 2009

12. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

Exposure to financial risk arises in the normal course of the Company's business. The Company's risk management strategy and policies are set by the Parent company's board of directors and monitored through its audit committee. The main categories of financial risk identified by the Company are credit, insurance and treasury, which are explained below.

Credit risk

The Company has credit risk on the reinsurance receivables from Hannover Re when claims arise. Hannover Re has a credit rating of AA- (Standard and Poors). Credit risk also arises on the negative equity premium receivables due from Group members. Any claims payable in future will be first applied against unpaid premiums.

The maximum credit risk held by the Company is the value of the asset categories reported in the balance sheet.

Insurance risk

Insurance risk is the risk of loss pursuant to an insurance contract. The Group provides a 'no negative equity' guarantee to its customers. This is underwritten by the Company.

The Company manages this risk through establishment of reserves sufficient to meet anticipated claims along with prudential margins to cover unfavourable experience. The Company's exposure to negative equity risk is reduced by reinsurance with Hannover Re. Hannover Re has a Standard and Poors long term credit rating of AA- (2008: AA-).

The Company has instituted normal insurance management disciplines to ensure insurance risk is properly managed, including asset/liability matching, solvency and capital adequacy.

The insurance reserves as recorded in the balance sheet should be greater than the likely incidence of claims, however, the maximum risk held by the Company is the value of the equity release loans written by the group: \$1,264 million (2008: \$1,000 million).

Interest rate risk

Interest rate risk is the risk of loss arising from exposure to adverse changes in interest rates. Interest on loans to group companies is set quarterly. Term Deposit Bonds have a 12 month term and progressively mature through the year. The interest rate offered is revised on maturity with the aim of retaining the majority of the funds.

Liquidity risk

Liquidity risk is the risk the Company is not able to meet its financial obligations as they arise. This relates principally to policy holder liabilities and is managed via maturity and withdrawal analysis matched with the assets of the Company.

Fair value of financial instruments

The carrying value of the Company's financial instruments approximates their fair values on the basis that they either reprice to market rate or are due to be settled within three months or are carried at fair value.



SENTINEL ASSURANCE COMPANY LIMITED

Notes to the Financial Statements

For the year ended 31 March 2009

\$ thousands

12. FINANCIAL RISK MANAGEMENT (continued)

The following tables summarises the Company's exposure to liquidity and interest rate risk relating to all financial assets and liabilities. Financial assets and liabilities are included at carrying amount, categorised by the earlier of contractual repricing or maturity dates.

Maturity profile:

	Up to One Year	One to Five Years	Over five Years	Total
2009:				
Asset class				
Cash and cash equivalents	6.0	0.0	0.0	6.0
NZ Government stock	0.0	555.7	0.0	555.7
Sentinel Finance Limited	0.0	8,416.7	0.0	8,416.7
Australian Seniors Finance Limited	0.0	6,722.9	0.0	6,722.9
Seniors Money International Limited	0.0	5,717.4	0.0	5,717.4
Insurance contract liabilities ceded	0.0	0.0	23,222.0	23,222.0
	<u>6.0</u>	<u>21,412.7</u>	<u>23,222.0</u>	<u>44,640.7</u>
Liability class				
Sentinel Limited	1,091.0	0.0	0.0	1,091.0
Insurance contract reserves	0.0	0.0	34,105.3	34,105.3
Investment contract liabilities	0.0	237.4	0.0	237.4
	<u>1,091.0</u>	<u>237.4</u>	<u>34,105.3</u>	<u>35,433.7</u>
2008:				
Asset class				
Cash and cash equivalents	22.8	0.0	0.0	22.8
NZ Government stock	0.0	524.5	0.0	524.5
Sentinel Finance Limited	0.0	11,694.5	0.0	11,694.5
Australian Seniors Finance Limited	0.0	3,202.3	0.0	3,202.3
Seniors Money International Limited	0.0	1,209.3	0.0	1,209.3
Insurance contract liabilities ceded	0.0	0.0	11,748.7	11,748.7
	<u>22.8</u>	<u>16,630.6</u>	<u>11,748.7</u>	<u>28,402.1</u>
Liability class				
Insurance contract reserves	0.0	0.0	16,413.3	16,413.3
Investment contract liabilities	0.0	6,759.5	0.0	6,759.5
	<u>0.0</u>	<u>6,759.5</u>	<u>16,413.3</u>	<u>23,172.8</u>

Interest rate repricing:

	Effective interest rate	Up to One Year	One to Five Years	Over five Years	Non- interest bearing	Total
2009:						
Asset class						
Cash and cash equivalents		0.0	0.0	0.0	6.0	6.0
NZ Government stock	6.0%	0.0	555.7	0.0	0.0	555.7
Sentinel Finance Limited	8.9%	8,416.7	0.0	0.0	0.0	8,416.7
Australian Seniors Finance Limited	7.9%	6,722.9	0.0	0.0	0.0	6,722.9
Seniors Money International Limited	5.3%	5,717.4	0.0	0.0	0.0	5,717.4
Insurance contract liabilities ceded		0.0	0.0	0.0	23,222.0	23,222.0
		<u>20,857.0</u>	<u>555.7</u>	<u>0.0</u>	<u>23,228.0</u>	<u>44,640.7</u>
Liability class						
Sentinel Limited		0.0	0.0	0.0	1,091.0	1,091.0
Insurance contract reserves		0.0	0.0	0.0	34,105.3	34,105.3
Investment contract liabilities	5.3%	237.4	0.0	0.0	0.0	237.4
		<u>237.4</u>	<u>0.0</u>	<u>0.0</u>	<u>35,196.3</u>	<u>35,433.7</u>



SENTINEL ASSURANCE COMPANY LIMITED

Notes to the Financial Statements

For the year ended 31 March 2009

12. FINANCIAL RISK MANAGEMENT (continued)

2008:

Asset class

Cash and cash equivalents		0.0	0.0	0.0	22.8	22.8
NZ Government stock	6.0%	0.0	524.5	0.0	0.0	524.5
Sentinel Finance Limited	8.5%	11,694.5	0.0	0.0	0.0	11,694.5
Australian Seniors Finance Limited	9.0%	3,202.3	0.0	0.0	0.0	3,202.3
Seniors Money International Limited	7.3%	1,209.3	0.0	0.0	0.0	1,209.3
Insurance contract liabilities ceded		0.0	0.0	0.0	11,748.7	11,748.7
		<u>16,106.1</u>	<u>524.5</u>	<u>0.0</u>	<u>11,771.5</u>	<u>28,402.1</u>

Liability class

Insurance contract reserves		0.0	0.0	0.0	16,413.3	16,413.3
Investment contract liabilities	6.4%	<u>6,759.5</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>6,759.5</u>
		<u>6,759.5</u>	<u>0.0</u>	<u>0.0</u>	<u>16,413.3</u>	<u>23,172.8</u>

Capital management

The Company works with Group members to optimise capital allocation and the usage of funding facilities. The Company's capital includes share capital, retained earnings / (losses) and reserves.

The Company's ultimate parent, Seniors Money International Limited has agreed funding lines with Commonwealth Bank of Australia Limited and reinsurance finance with Hannover Re, and has raised \$33.0 million through the issue of Redeemable Preference Shares during the financial year.

13. CONTINGENT LIABILITIES

The Company has no contingent liabilities at 31 March 2009 (2008: \$nil).

14. CAPITAL COMMITMENTS

The Company has no capital commitments at 31 March 2009 (2008: \$nil).

15. SEGMENTAL INFORMATION

The Company operates in predominately one industry segment being the provision of life insurance in relation to equity release loans written by Group members of Seniors Money International Limited, refer to Note 10.





Audit report

To the shareholder of Sentinel Assurance Company Limited

We have audited the financial statements on pages 5 to 21. The financial statements provide information about the past financial performance of the Company and its financial position as at 31 March 2009. This information is stated in accordance with the accounting policies set out on pages 9 to 11.

Directors' responsibilities

The Directors are responsible for the preparation of financial statements which give a true and fair view of the financial position of the Company as at 31 March 2009 and the results of its operations and cash flows for the year ended on that date.

Auditors' responsibilities

It is our responsibility to express an independent opinion on the financial statements presented by the Directors and report our opinion to you.

Basis of opinion

An audit includes examining, on a test basis, evidence relevant to the amounts and disclosures in the financial statements. It also includes assessing:

- the significant estimates and judgements made by the Directors in the preparation of the financial statements;
- whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

We conducted our audit in accordance with New Zealand Auditing Standards. We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to obtain reasonable assurance that the financial statements are free from material misstatements, whether caused by fraud or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Other than in our capacity as auditors we have no relationship with or interests in the Company.

Emphasis of matter

Without qualifying our opinion, we draw your attention to Notes 1 and 10 to the financial statements. These explain the extension of the Company and its Parent's banking facilities to 30 September 2011 and the agreement to delay repayments under the Company and its Parent's reinsurance finance agreements until 30 June 2010. The Parent, having raised \$33 million of capital during the year ended 31 March 2009, is required to raise a final amount of \$2.5 million during the year ending 31 March 2010, as part of the conditions of the amended finance facilities. The validity of the going concern assumption on which the financial statements are prepared assumes a successful conclusion of this matter.

Unqualified opinion

We have obtained all the information and explanations we have required.

In our opinion:

- proper accounting records have been kept by the Company as far as appears from our examination of those records;
- the financial statements on pages 5 to 21:
 - comply with New Zealand generally accepted accounting practice;
 - give a true and fair view of the financial position of the Company as at 31 March 2009 and the results of its operations and cash flows for the year ended on that date.

Our audit was completed on 30 June 2009 and our unqualified opinion is expressed as at that date.

KPMG

Auckland