Sentinel
A Reason to Smile

SENTINEL ASSURANCE COMPANY LIMITED
ANNUAL FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 March 2012

Contents

SENTINEL ASSURANCE COMPANY LIMITED

Company Directory
For the year ended 31 March 2012

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

This Annual Report includes the financial statements of Sentinel Assurance Company Limited (the Company) for the year from 1 April 2011 to 31 March 2012.

ANNUAL REPORT DISCLOSURES

The Company's sole shareholder, Sentinel 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:

Christopher Laurence COON
Ian Robert HENDRY

EVENT SUBSEQUENT TO BALANCE DATE

During June 2012, the Company's ultimate parent, Seniors Money International Limited completed negotiations with CBA and Hannover Re to restructure the debt facilities provided by these parties. The existing facilities provided by CBA have been extended for 7 years to September 2019 and the finance provided by Hannover Re will be settled for payment of $8.1 million and termination of the reinsurance treaties. Settlement is due by 30 September 2012 and has been underwritten by Quadrant Private Equity.

Settlement with Hannover Re will produce a gain of $3.612 million to be recorded in the Company's statement of comprehensive income next year. Refer to Note 10 in the financial statements for further details.

PRUDENTIAL SUPERVISION

Insurance companies in New Zealand are subject to a new supervisory regime. Companies are required to apply to the Reserve Bank of New Zealand (RBNZ) for a licence to operate, and will work through a transitional phase towards full compliance by 30 September 2013. The Company has been issued a provisional licence.

SOLVENCY

RBNZ issued a Solvency Standard for life insurers in August 2011 which prescribes future minimum solvency requirements for licensed life insurers. The standard disallows related party receivables unlike the situation for non-life captive insurers.

The Company does not currently meet the minimum solvency requirement and is currently investigating potential solutions to this situation and in this regard maintains a dialogue with the Reserve Bank of New Zealand. If solvency cannot be achieved the Company may need to cease its insurance activities. The Directors believe there are reasonable grounds that minimum solvency will be achieved and the financial statements have therefore been prepared as a going conern.

DIRECTORS' APPROVAL

For and on behalf of the board on 27 June 2012

C L Coon
Director

I R Hendry
Director

SENTINEL ASSURANCE COMPANY LIMITED

Statement of Comprehensive Income

For the year ended 31 March 2012 $ millions	Notes	2012	2011
Revenue		20.150	21.957
Net premium income	3	18.270	17.745
Net investment income	4	(0.557)	2.356
Total net income		17.713	20.101
Less:			
Operating expenses	5	8.822	8.477
Net change in policy liabilities	8	1.850	4.169
Net profit before taxation		7.041	7.455
Less taxation	6	0.000	0.000
Profit for the year	8 (d)	7.041	7.455
Other comprehensive income		0.000	0.000
Total comprehensive income for the year		7.041	7.455

The accompanying notes form part of these financial statements

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SENTINEL ASSURANCE COMPANY LIMITED

Statement of Changes in Equity

$ millions	Share capital	Retained earnings	Total equity
For the year ended 31 March 2012			
Balance at beginning of year	0.500	21.956	22.456
Total comprehensive income for year:			
Profit or loss	0.000	7.041	7.041
Other comprehensive income	0.000	0.000	0.000
	0.000	7.041	7.041
Balance at 31 March 2012	0.500	28.997	29.497
For the year ended 31 March 2011			
Balance at beginning of year	0.500	14.501	15.001
Total comprehensive income for year:			
Profit or loss	0.000	7.455	7.455
Other comprehensive income	0.000	0.000	0.000
	0.000	7.455	7.455
Balance at 31 March 2011	0.500	21.956	22.456

The accompanying notes form part of these financial statements

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SENTINEL ASSURANCE COMPANY LIMITED

Statement of Financial Position

As at 31 March 2012 $ millions	Notes	2012	2011
Equity			
Share capital	7	0.500	0.500
Accumulated profit		28.997	21.956
Total Equity		29.497	22.456
Liabilities			
Insurance contract reserves	8 (a)	31.689	35.961
Investment contract liability	8 (c)	0.156	0.180
Total Liabilities		31.845	36.141
Total Funds Employed		61.342	58.597
Assets			
Cash at bank		0.022	0.027
NZ Government stock	9	0.547	0.546
Sentinel Finance Limited	10	15.340	12.515
Australian Seniors Finance Pty Limited	10	18.464	15.455
Seniors Money International Limited	10	16.354	13.321
Insurance contract liabilities ceded	8 (b)	10.615	16.733
Total Assets		61.342	58.597

The accompanying notes form part of these financial statements

These accounts are authorised for and on behalf of the Board of Directors on 27 June 2012

C L Coon
Director

I R Hendry
Director

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SENTINEL ASSURANCE COMPANY LIMITED

Statement of Cash Flows

For the year ended 31 March 2012 $ millions	Notes	2012	2011
Net Cash from Operating Activities:			
Premiums		0.000	0.000
Interest income		0.032	0.032
Policy withdrawals		(0.028)	(0.048)
Net Cash from Operating Activities	11	0.004	(0.016)
Net Cash from Investing Activities:			
Net payment for Government Stock		(0.025)	0.000
Net Cash from Financing Activities:			
Receipt / (Payment) of funds from / (to) Sentinel Limited		0.016	0.032
Net Cash from Financing Activities		0.016	0.032
Net increase in cash and equivalents		(0.005)	0.016
Opening Balance		0.027	0.011
Closing Balance		0.022	0.027

The accompanying notes form part of these financial statements

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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 (the Parent or Group). 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 millions of New Zealand Dollars (NZD) rounded to three decimal places.

The Company does not currently meet the minimum solvency requirement under the Solvency Standard for life insurers issued by the Reserve Bank. The Company is currently investigating potential solutions to this situation and in this regard maintains a dialogue with the Reserve Bank of New Zealand. The financial statements have been prepared on the basis that the Company is a going concern, as the Directors believe there are reasonable grounds that the Company will achieve the minimum solvency requirement of $5 million, refer Note 8 (e). If solvency cannot be achieved the Company may need to cease its insurance activities and prepare its financial statements on a realisation basis.

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.

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 as they are financial assets backing life insurance and life investment liabilities and are measured on a basis that is consistent with the measurement of the liabilities as it reduces measurement inconsistency. Fair value is determined with reference to quoted prices. Gains and losses arising from the revaluation of investments are included as part of net investment income in the statement of comprehensive income. 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 statement of financial position 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.

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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 of 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. Policy 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 statement of comprehensive income.

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 statement of comprehensive income as either income or expense. All other premiums and claims are recognised as increases or decreases to policy liabilities in the statement of financial position.

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

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 statement of comprehensive income, however, are effectively deferred over the life of the policy through inclusion in future profit margins. Interest expense is recognised in the statement of comprehensive income as it accrues.

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1. STATEMENT OF ACCOUNTING POLICIES (continued)

Life insurance tax

Life insurers are subject to a special tax regime. These rules have been changed and take effect from 1 July 2010 subject to a 5 year transition period for inforce policies where the sum assured does not increase by more than 10% in each financial year. Under the new rules, premiums will be taxed when raised. This will bring forward the impost of taxation on the Company's business.

Under the new rules, calculations are required to reflect two bases: the shareholder base and the policyholder base. Income and deductions are recognised using ordinary tax principles with the addition of special rules to deal with the unique timing and allocation issues inherent with life insurance products.

Under the previous rules, two tax bases were maintained: the life office base which was subject to tax on investment income less expenses plus underwriting income, and the policyholder base which taxed benefits as they accrued to policyholders under the policies. The life insurer paid tax on the higher of the two bases at the company tax rate of 28% (2011: 30%). The life insurer was 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 was 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 statement of comprehensive income.

Statement of Cash Flows
The statement of cash flows 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 not yet adopted:

A number of new standards, amendments to standards and interpretations are not yet effective, and have not been applied in preparing these financial statements. None of these will have an effect on the financial statements of the Company, with the exception of:

NZ IFRS 9 Financial Instruments, effective for reporting periods beginning on or after 1 January 2015. The requirements of this standard represent a significant change from the existing requirements in NZ IAS 39 in respect of financial assets. The standard contains two primary measurement categories for financial assets: amortised cost and fair value, and eliminates the existing NZ IAS 39 categories of held to maturity, available for sale, and loans and receivables. A financial asset will be measured at amortised cost if it is held to collect contractual cash flows of principal and interest on specified dates. All other financial assets will be measured at fair value. The guidance in NZ IAS 39 in respect to the classification, measurement and recognition of financial liabilities is retained with the exception of the fair value option for certain financial liabilities and valuation of certain derivatives. These requirements are not expected to substantially change the way the Company currently measures and presents financial instruments. Detailed analysis of the new standard has yet to be performed.

NZ IFRS 13 Fair Value Measurement, effective for reporting periods beginning on or after 1 January 2013. This standard defines fair value, provides a framework of measuring fair value, and specifies disclosure required about fair value. This standard is unlikely to change the manner in which fair value is measured by the Company, however, it is likely to require additional disclosures in the notes to the financial statements.

In addition the International Accounting Standards Board (IASB) has published the Exposure Draft on Insurance Contracts in July 2010. The exposure draft proposes a comprehensive measurement approach for all types of insurance contracts issued by entities. The approach is based on the principle that insurance contracts create a bundle of rights and obligations that work together to generate a package of cash flows (premiums) and outflows (benefits and claims). The IASB expects to issue a revised draft during 2012. Once the standard is released, impacts on the Company will be assessed.

Changes in accounting policies
NZ IFRS accounting policies have been consistently applied throughout the year. Certain comparatives have been reclassified to align with current year presentation.

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

Policy 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 (e).

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.

The negative equity reserve is an accumulation of the previous year's liability, plus interest, plus a proportion of negative equity premiums earned during the year. This proportion equalled -6% for New Zealand (2011: 13%), 6% for Australia (2011: 6%), 11% for Ireland (2011: 34%) and 55% for Spain (2011: 32%).
The rate of accumulation has been affected by changes to the assumption for future interest rates applied by the Actuary.

Discount rate: 4.0% per annum (2011: 5.6%)

House inflation:
- New Zealand: An initial 10% reduction, followed by growth of 2.5% per annum (2011: same)
- Australia: An initial 10% reduction, followed by growth of 2.0% per annum (2011: same)
- Ireland and Spain: An initial 10% reduction, followed by growth of 1.0% per annum (2011: same)

Mortality: Realistic assumptions with mortality improvements (2011: same)

Early repayment:
- New Zealand: 5% per annum (2011: 5%)
- Australia: 7% per annum (2011: 7%)
- Ireland: 1% per annum (2011: 1%)
- Spain: 1% per annum (2011: 5%)

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	2.19% (2011: 2.58%)
Australia	1.72% (2011: 1.87%)
Ireland	1.89% (2011: 1.87%)
Spain	2.36% (2011: 2.33%)

$ millions

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 policy liabilities given the following changes:

	Change in best estimate liability		
	Variable change	2012	2011
Discount rate	+1%	4.450	(3.560)
	-1%	(3.960)	6.740
Client interest rate	+1%	51.960	74.550
	-1%	(15.870)	(36.720)
Reduction in property values	+10%	20.810	27.530
	-10%	(13.080)	(19.650)
House inflation	+1%	43.540	(42.750)
	-1%	(26.490)	53.690
Mortality	+10%	0.220	(4.080)
	-10%	0.370	5.400
Early repayment	+1%	6.010	(0.870)
	-1%	(6.260)	2.500

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

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$ millions

3. NET PREMIUM INCOME

	2012	2011
Risk policies:		
No-neg - Sentinel Finance Limited	5.398	5.332
No-neg - Australian Seniors Finance Pty Limited	7.095	6.824
No-neg - Seniors Money International Limited	6.473	6.276
Net reassurance expense	(0.696)	(0.687)
Net premium income	18.270	17.745

4. NET INVESTMENT INCOME

	2012	2011
Interest income from:		
NZ Government stock - fair value through profit and loss	0.032	0.032
Interest from related parties	2.217	1.727
	2.249	1.759
Unrealised (loss) gain on foreign currency	(2.782)	0.590
Unrealised (loss) gain on NZ Government stock fair value through profit and loss	(0.024)	0.007
	(0.557)	2.356

5. OPERATING EXPENSES

	2012	2011
Included in operating expenses are:		
Commission paid	5.690	5.530

The Parent has paid audit fees on the Company's behalf of $0.041 million (2011: $0.040 million).

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

6. TAXATION

The basis for taxation of life insurance business has changed with effect from 1 July 2010. The Company has losses available to carry forward to future income years of $23.591 million (2011: $16.661 million). The tax asset arising from losses has not been recognised. The Policyholder Base has losses carried forward from the 2011 year of $79,342 million which are now unable to be carried forward as the Policyholder Base is zeroed with the change to taxation of life insurance business. These results are subject to assessment by the Inland Revenue Department.

The Government has reduced the company tax rate from 30% to 28% for years beginning on or after 1 April 2011. The change has no immediate financial effect as the Company has no tax related assets or liabilities.

7. SHARE CAPITAL

The Company has issued 500,000 fully paid ordinary shares (2011: 500,000) held by Sentinel Limited. All shares have equal rights to dividends, voting and on winding-up.

$ millions

8. (a) INSURANCE CONTRACTS

	2012	2011
Balance at beginning of year	35.961	29.812
(Decrease) increase in liabilities recognised in the statement of comprehensive income	(4.272)	6.149
Balance at end of year	31.689	35.961
Breakdown of insurance contract reserves		
Future premiums	(268.629)	(278.497)
Future reinsurance premiums	45.031	44.746
Future commissions	80.589	83.549
Reinsurance profit share commissions	(21.643)	(16.739)
Profit-share payments to policyholders	21.156	20.662
Future claims	48.937	88.417
Profit margins	126.248	93.823
	31.689	35.961

8. (b) INSURANCE CONTRACTS CEDED

	2012	2011
Balance at beginning of year	16.733	14.748
Increase (decrease) recognised in the statement of comprehensive income	(6.118)	1.985
Balance at end of year	10.615	16.733

8. (c) INVESTMENT CONTRACTS

	2012	2011
Balance at beginning of year	0.180	0.223
Withdrawals	(0.028)	(0.048)
Increase in liabilities recognised in the statement of comprehensive income	0.004	0.005
Balance at end of year	0.156	0.180

8. (d) SOURCES OF PROFIT

The profit for the year has originated as follows:

	2012	2011
Surplus arising from experience	7.332	6.221
Investment contract surplus	0.022	0.008
Interest on assets in excess of policy liabilities	(0.313)	1.226
Total	7.041	7.455

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$ millions

8. (e) SOLVENCY POSITION

2012
The Company has early-adopted the Solvency Standard for Life Insurers issued by the Reserve Bank of New Zealand in August 2011. Under the standard, licensed insurers are required to hold minimum capital of $5 million and to also maintain a solvency margin of at least zero for each life fund. Solvency margin is the excess of actual solvency capital over minimum solvency capital.

	2012
Actual solvency capital	
Capital	29.497
Deductions from capital:	
Inadmissable related party receivables (reduced by related party liabilities)	(46.466)
Actual solvency capital	(16.969)
Minimum solvency capital	
Insurance risk charge	3.848
Catastrophe risk charge	0.000
Asset risk charge	3.332
Total solvency requirement	7.180
Total policy and other liabilities	21.230
Minimum solvency capital	0.000

The Company does not achieve the minimum capital requirement of $5 million under the standard, due to related party assets which are not recognised. The Company is investigating potential solutions to the solvency deficit and maintains a dialogue with the Reserve Bank of New Zealand in this regard. If solvency cannot be achieved the Company may need to cease its insurance activities.

2011
In 2011 the Directors were provided with the results of a solvency calculation under Professional Standard No 5: Solvency Reserving for Life Insurance Business (PS5.01), issued by the New Zealand Society of Actuaries, which had at that time applied for reporting periods commencing after 31 March 2009. Reserves calculated under the then PS5.01 totaled $41.7 million. Under PS5.01, premiums receivable were treated as inadmissible assets. The Directors noted in 2011 that the Company had premiums receivable of $41.3 million from related parties with a common shareholding, who were themselves the beneficiaries of the Company's negative equity insurance policies.

The Directors were confident that the Company was 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 Funeral Plan policyholders, based on its current level of capital. The Directors considered equity of $22.3 million was non-distributable and retained for solvency purposes.

	2011
Prudential reserves	4.848
Total assets less insurance contract liabilities ceded	41.864
sub-total	37.016
Portion of related party receivables not recognised	0.000
Solvency (deficit) surplus	37.016
Equity retained for solvency purposes	22.265

9. NZ GOVERNMENT STOCK

The Public Trust holds the statutory insurance deposit on behalf of the Company: $0.500 million 6% New Zealand Government stock, maturity 15 April 2015 (2011: $0.525 million 6% New Zealand Government stock, maturity 15 November 2011).

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.

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$ millions

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 statement of financial position date were as follows:

	2012	2011
Premium income - Seniors Money International Limited	6.473	6.276
Premium income - Sentinel Finance Limited	5.398	5.332
Premium income - Australian Seniors Finance Pty Limited	7.095	6.824
Interest income - Australian Seniors Finance Pty Limited	1.079	0.877
Interest income - Seniors Money International Limited	0.431	0.273
Interest income - Sentinel Finance Limited	0.707	0.577
Management fee expense - Seniors Money International Limited	0.734	0.751
Management fee expense - Seniors Money International (Europe) Limited	0.594	0.475
No-neg profit share - Australian Seniors Finance Pty Limited	1.779	1.696
Commission expense - Seniors Money International Limited	1.942	1.883
Commission expense - Sentinel Limited	1.619	1.600
Commission expense - Australian Seniors Finance Pty Limited	2.129	2.047
Receivable from Seniors Money International Limited	16.354	13.321
Receivable from Sentinel Finance Limited	15.340	12.515
Receivable from Australian Seniors Finance Pty Limited	18.464	15.455

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 Limited, Australian Seniors Finance Pty Limited and Seniors Money International to their 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 and Spain. 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 Hannover Re. The Parent, in conjunction with arrangements made with CBA for the extension of banking facilities to the Group until 30 September 2012, has agreed with Hannover Re that no payments are required to Hannover Re before 30 September 2012 unless the related equity release loans are refinanced. 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.

During June 2012, the Company's ultimate parent, Seniors Money International Limited completed negotiations with CBA and Hannover Re to restructure the debt facilities provided by these parties. The existing facilities provided by CBA have been extended for 7 years to September 2019 and the finance provided by Hannover Re will be settled for payment of $8.1 million and termination of the reinsurance treaties. Settlement is due by 30 September 2012 and has been underwritten by Quadrant Private Equity.

11. CASH FLOW RECONCILIATION

	2012	2011
Profit for the year	7.041	7.455
Unrealised loss (gain) on NZ Government stock	0.024	(0.007)
Unrealised foreign currency loss (gain)	2.782	(0.590)
Increase in policy liabilities	1.850	4.169
Commission	5.690	5.530
Contribution to Group operating expenses	1.353	1.251
No-neg profit share	1.779	1.696
Reassurance premiums	0.696	0.687
Withdrawals	(0.028)	(0.048)
Interest from related parties	(2.217)	(1.727)
No-neg premium income	(18.966)	(18.432)
Net Cash from Operating Activities	0.004	(0.016)

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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'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 the future will be first applied against unpaid premiums.

The maximum credit risk held by the Company is the carrying value of the assets reported in the statement of financial position.

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 reassurance with Hannover Re. Hannover Re has a Standard and Poors long term credit rating of AA- (2011: 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 statement of financial position 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: $1,309 million (2011: $1,358 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.

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 liabilities and is managed via maturity and withdrawal analysis matched with the assets of the Company.

Foreign currency risk
Foreign currency risk is the risk of loss arising from changes in exchange rates. The Company's transactions are primarily carried out in New Zealand dollars. Its exposure to foreign exchange risk arises through its transactions with overseas operations including Australia and Ireland. The Company's functional currency is NZD. The Company has elected not to hedge the transactions in these operations thereby accepting the foreign currency translation risk. The effect of a 5% change in the NZD against the foreign currencies is approximately $1.74 million based on the 2012 balances (2011: $1.44 million).

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, are due to be settled within three months or are carried at fair value.

The Company measures fair values using the following hierarchy that reflects the significance of the inputs used in making the measurements:

Level 1: Quoted market price from an active market for an identical instrument.
Level 2: Valuation techniques based on observable inputs, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
Level 3: Valuation techniques using significant unobservable inputs.

The fair value of NZ Government stock is determined by reference to quoted prices (level 1). Investment contract liabilities comprise of Funeral Plans. 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 (level 3).

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12. FINANCIAL RISK MANAGEMENT (continued)

The table below depicts the maturity profile of all financial assets and liabilities categorised by contractual dates. The maturity profile of insurance contracts and reserves is determined by the occupation term of the property used as security for the equity release loans, which in turn is related to how long people will live and remain in their residence. These factors are assessed by the Group's actuaries. Estimates indicate that the insurance cover on new loans have an average life of 11 years while the insurance cover on individual loans could extend beyond 30 years. The maturity profile of insurance contract liabilities ceded and insurance contract reserves is the discounted value.

Maturity profile:

2012:	Up to One Year	One to Five Years	Over five Years	Total
Asset class				
Cash and cash equivalents	0.022	0.000	0.000	0.022
NZ Government stock	0.000	0.590	0.000	0.590
Sentinel Finance Limited	0.000	19.337	0.000	19.337
Australian Seniors Finance Pty Limited	0.000	25.167	0.000	25.167
Seniors Money International Limited	0.000	18.575	0.000	18.575
Insurance contract liabilities ceded	0.000	0.000	10.615	10.615
	0.022	63.669	10.615	74.306
Liability class				
Insurance contract reserves	0.000	0.000	31.689	31.689
Investment contract liabilities	0.000	0.000	0.190	0.190
	0.000	0.000	31.879	31.879
2011:				
Asset class				
Cash and cash equivalents	0.027	0.000	0.000	0.027
NZ Government stock	0.557	0.000	0.000	0.557
Sentinel Finance Limited	0.000	15.821	0.000	15.821
Australian Seniors Finance Pty Limited	0.000	21.175	0.000	21.175
Seniors Money International Limited	0.000	14.998	0.000	14.998
Insurance contract liabilities ceded	0.000	0.000	16.733	16.733
	0.584	51.994	16.733	69.311
Liability class				
Insurance contract reserves	0.000	0.000	35.961	35.961
Investment contract liabilities	0.000	0.000	0.261	0.261
	0.000	0.000	36.222	36.222

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$ millions

12. FINANCIAL RISK MANAGEMENT (continued)

The following table summarises the Company's exposure to 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.

Interest rate repricing:

2012:

	Up to One Year	One to Five Years	Over five Years	Non-interest bearing	Total
Asset class					
Cash and cash equivalents	0.022	0.000	0.000	0.000	0.022
NZ Government stock	0.000	0.547	0.000	0.000	0.547
Sentinel Finance Limited	15.340	0.000	0.000	0.000	15.340
Australian Seniors Finance Pty Limited	18.464	0.000	0.000	0.000	18.464
Seniors Money International Limited	16.354	0.000	0.000	0.000	16.354
Insurance contract liabilities ceded	0.000	0.000	0.000	10.615	10.615
	50.180	0.547	0.000	10.615	61.342
Liability class					
Insurance contract reserves	0.000	0.000	0.000	31.689	31.689
Investment contract liabilities	0.156	0.000	0.000	0.000	0.156
	0.156	0.000	0.000	31.689	31.845

An increase in interest rates of 1% from the effective rate at year end would increase the Company's comprehensive income and equity by $0.506 million for the succeeding 12 months. A reduction would have the opposite effect.

2011:

	Up to One Year	One to Five Years	Over five Years	Non-interest bearing	Total
Asset class					
Cash and cash equivalents	0.026	0.000	0.000	0.001	0.027
NZ Government stock	0.546	0.000	0.000	0.000	0.546
Sentinel Finance Limited	12.515	0.000	0.000	0.000	12.515
Australian Seniors Finance Pty Limited	15.455	0.000	0.000	0.000	15.455
Seniors Money International Limited	13.321	0.000	0.000	0.000	13.321
Insurance contract liabilities ceded	0.000	0.000	0.000	16.733	16.733
	41.863	0.000	0.000	16.734	58.597
Liability class					
Insurance contract reserves	0.000	0.000	0.000	35.961	35.961
Investment contract liabilities	0.180	0.000	0.000	0.000	0.180
	0.180	0.000	0.000	35.961	36.141

An increase in interest rates of 1% from the effective rate at year end would increase the Company's comprehensive income and equity by $0.417 million for the succeeding 12 months. A reduction would have the opposite effect.

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. Specific solvency requirements apply to the Company, explained in Note 8(e).

The Company's ultimate parent, Seniors Money International Limited has agreed funding lines with CBA and reinsurance finance with Hannover Re. Refer Note 10 (a).

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13. CONTINGENT LIABILITIES

The Company has no contingent liabilities at 31 March 2012 (2011: $nil).

14. CAPITAL COMMITMENTS

The Company has no capital commitments at 31 March 2012 (2011: $nil).

15. EVENTS SUBSEQUENT TO BALANCE DATE

There are no events subsequent to balance date which require adjustment or disclosure in the financial statements, other than those disclosed elsewhere in these financial statements, refer Note 10 (a).

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Independent auditor's report

To the shareholder of Sentinel Assurance Company Limited

Report on the financial statements

We have audited the accompanying financial statements of Sentinel Assurance Company Limited ("the company") on pages 5 to 21. The financial statements comprise the statement of financial position as at 31 March 2012, the statements of comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' responsibility for the financial statements

The directors are responsible for the preparation of financial statements in accordance with generally accepted accounting practice in New Zealand 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 responsibility

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 company's preparation of the 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 company'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.

Our firm has also provided other services to the company in relation to other assurance services. Partners and employees of our firm may also deal with the company on normal terms within the ordinary course of trading activities of the business of the company. These matters have not impaired our independence as auditor of the company. The firm has no other relationship with, or interest in, the company.

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Opinion

In our opinion the financial statements on pages 5 to 21:

- comply with generally accepted accounting practice in New Zealand;
- give a true and fair view of the financial position of the company as at 31 March 2012 and of its financial performance and cash flows for the year then ended.

Emphasis of matter

We draw attention to Note 1 and Note 8 to the financial statements which indicate that the company does not meet the regulatory minimum actual solvency capital requirement of $5 million as at 31 March 2012. While the company is working with the regulator to resolve this matter, the existence of this material uncertainty casts doubt about the company's ability to continue as a going concern, as set out in Note 1. Our opinion is not qualified in respect of this matter.

Report on other legal and regulatory requirements

In accordance with the requirements of sections 16(1)(d) and 16(1)(e) of the Financial Reporting Act 1993, we report that:

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

KPMG

28 June 2012

Auckland

Davies Financial and Actuarial Limited

20th September 2012

To: The Directors
Sentinel Assurance Company Limited

From: Peter Davies
Appointed Actuary

Re: Sentinel Assurance Company Limited: Report as at 31st March 2012 under Sections 77 and 78 of the Life Assurance (Prudential Supervision) Act 2010

You have asked me to prepare this report in terms of the above sections of the Act, and I would like to comment further as follows:

1. I have reviewed the actuarial information included in the audited accounts for Sentinel Assurance Company Limited as at 31st March 2012. "Actuarial information" includes the following:

   - policy liabilities;
   - solvency calculations in terms of the RBNZ Solvency Standard;
   - balance sheet and other information allowed for in the calculation of the company's solvency position; and
   - disclosures regarding the methodology and assumptions used for calculating policy liabilities, and other disclosures.

2. No limitations have been placed on my work.

3. I am independent with respect to Sentinel Assurance Company Limited as defined under professional standard ISA (NZ) 620 of the New Zealand Institute of Chartered Accountants.

4. I have been provided with all information that I have requested in order to carry out this review.

Level 1, 3 Shea Terrace, Takapuna 0622 Telephone (09) 489-3551 e-mail: pdavies@actuary.co.nz
P.O. Box 35-258, Browns Bay, Auckland 0753 Facsimile: (09) 489-6613 home page: www.actuary.co.nz

5. In my view the actuarial information contained in the financial statements has been appropriately included, and the actuarial information used in the preparation of the financial statements has been appropriately used.

6. Sentinel Assurance Company Limited had no solvency margin requirement as at 31st March 2012 in terms of its provisional licence. Under the RBNZ solvency standard for life insurers it had a solvency shortfall at that date, but under the draft solvency standard for "captive" life insurers it would have had a surplus.

   With its exposure to individual funeral plans, the company may not qualify to be treated as a captive company, once the standard for captives has been finalised. However the company is proposing to transfer its liability for funeral plans out of the company, in which case the captive standard (if promulgated) will apply. As a captive, the company is expected to have a positive solvency margin under the current draft standard for captives, at all times over the next three years.

   If the solvency standard for Captives is not promulgated, or if the Company is not successful in removing its liability for funeral plans, the company has a strategy in place to significantly improve its solvency position, by crystallising the amounts due in premiums from related parties. In my view this is a credible strategy, and if implemented, the company is projected to have a positive solvency margin under the current standard for life insurers at all times over the next three years.

I would be very happy to answer any queries concerning this report.

Yours sincerely

Peter

Peter Davies B.Bus.Sc., FIA, FNZSA
Appointed Actuary

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