SMI EXASSURANCE LIMITED (formerly Sentinel Assurance Company Limited)

ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 March 2014

Contents

Company Directory
For the year ended 31 March 2014

ACTIVITIES:	Inactive, formerly captive life insurance
CHANGE OF COMPANY NAME:	The transaction with Heartland required the Company, and other group subsidiaries, to change their name removing "Sentinel", refer Note 10. The change occurred on 1 April 2014.
DIRECTORS:	Ian Robert HENDRY Vaughan Keith UNDERWOOD Brett Stephen WILSON
SHAREHOLDER:	SMI Exs 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
SOLICITORS:	Hesketh Henry Private Bag 92 093 Auckland
EXTERNAL ACTUARY:	Davies Financial and Actuarial Limited PO Box 35-258 Browns Bay Auckland

This Annual Report includes the financial statements of SMI Exassurance Limited (the Company) for the year from 1 April 2013 to 31 March 2014.

ANNUAL REPORT DISCLOSURES

The Company's sole shareholder, SMI Exs 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:

Ian Robert HENDRY
Vaughan Keith UNDERWOOD
Brett Stephen WILSON

CESSATION OF ACTIVITY

The Company terminated the negative equity insurance with other members of Seniors Money International Group effective 28 February 2014 by agreement between the parties. The insurance licence has been cancelled by the Reserve Bank of New Zealand.

DIRECTORS' APPROVAL

For and on behalf of the board on 18 June 2014

V K Underwood, Director

B S Wilson, Director

SMI EXASSURANCE LIMITED (formerly Sentinel Assurance Company Ltd)

Statement of Comprehensive Income

For the year ended 31 March 2014 **$ millions**	**Notes**	**2014**	**2013**
Revenue		5.327	19.830
Net premium income	3	15.770	22.207
Net investment (loss) income	4	(10.443)	0.933
Total net income		5.327	23.140
Less:			
Operating expenses	5	7.671	8.914
Claims expense		0.355	0.168
Net change in policy liabilities	8	(22.775)	1.698
Net profit before taxation		20.076	12.360
Less taxation	6	0.000	0.000
Profit for the year	8 (d)	20.076	12.360
Other comprehensive income		0.000	0.000
Total comprehensive income for the year		**20.076**	**12.360**

The accompanying notes form part of these financial statements.
The Company has discontinued its operations, refer Note 1 Basis of preparation.

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Statement of Changes in Equity

$ millions	Share capital	Retained earnings	Total equity
For the year ended 31 March 2014			
Balance at beginning of year	0.500	41.357	41.857
Total comprehensive income for year:			
Profit or loss	0.000	20.076	20.076
Other comprehensive income	0.000	0.000	0.000
	0.000	20.076	20.076
Balance at 31 March 2014	**0.500**	**61.433**	**61.933**
For the year ended 31 March 2013			
Balance at beginning of year	0.500	28.997	29.497
Total comprehensive income for year:			
Profit or loss	0.000	12.360	12.360
Other comprehensive income	0.000	0.000	0.000
	0.000	12.360	12.360
Balance at 31 March 2013	**0.500**	**41.357**	**41.857**

The accompanying notes form part of these financial statements.

SMI EXASSURANCE LIMITED (formerly Sentinel Assurance Company Ltd)

Statement of Financial Position

As at 31 March 2014 $ millions	Notes	2014	2013
Equity			
Share capital	7	0.500	0.500
Accumulated profit		61.433	41.357
Total Equity		**61.933**	**41.857**
Liabilities			
SMI Exs Limited	10	2.312	0.000
Trade payables		0.010	0.000
Insurance contract reserves	8 (a)	0.000	22.775
Total Liabilities		**2.322**	**22.775**
Total Funds Employed		**64.255**	**64.632**
Assets			
Cash at bank		0.007	0.007
NZ Government stock	9	0.000	0.541
SMI Exfinance Limited	10	21.534	19.905
Australian Seniors Finance Pty Limited	10	21.010	0.000
ASF Seniors Warehouse Trust	10	0.000	23.835
Seniors Money International Limited	10	21.704	20.344
Total Assets		**64.255**	**64.632**

The accompanying notes form part of these financial statements.
The financial statements have been prepared on a non-going concern basis, refer Note 1 Basis of preparation.

These accounts are authorised for and on behalf of the Board of Directors on 18 June 2014

V K Underwood, Director

B S Wilson, Director

Statement of Cash Flows

For the year ended 31 March 2014 $ millions	Notes	2014	2013
Net Cash from Operating Activities:			
Premiums		0.000	0.000
Interest income		0.031	0.030
Policy withdrawals		0.000	(0.153)
Net Cash from Operating Activities	11	**0.031**	**(0.123)**
Net Cash from Investing Activities:		**0.000**	**0.000**
Net Cash from Financing Activities:			
(Payment to) receipt of funds from SMI Exs Limited		**(0.031)**	**0.108**
Net increase in cash and equivalents		**0.000**	**(0.015)**
Opening Balance		0.007	0.022
Closing Balance		**0.007**	**0.007**

The accompanying notes form part of these financial statements.
The Company has discontinued its operations, refer Note 1 Basis of preparation.

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1. STATEMENT OF ACCOUNTING POLICIES

REPORTING ENTITY AND BASIS OF PREPARATION

The reporting entity is SMI Exassurance Limited (the Company), a wholly owned subsidiary of SMI Exs Limited, itself a wholly owned subsidiary of Seniors Money International Limited (the Parent or Group). The Company is registered under the Companies Act 1993. The financial statements have been prepared in accordance with generally accepted accounting practice in New Zealand (NZ GAAP) applying International Financial Reporting Standards (IFRS) including New Zealand equivalents (NZ IFRS) as appropriate for profit-oriented entities.

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. The Company used to provide negative equity insurance to fellow members of the Group (captive insurer).

Non-going concern basis

The financial statements have been prepared on a non-going concern basis as the Company has terminated its captive life insurance activity effective 28 February 2014. The Company has continued to apply the requirements of NZ GAAP taking into account that the Company is not expected to continue as a going concern. Subsequent to balance date, the Company has settled its inter-group balances and distributed the proceeds to its shareholder.

The financial statements are presented in millions of New Zealand Dollars (NZD) rounded to three decimal places. Specific accounting policies are identified below. The statement of financial position has been presented in the broad order of liquidity.

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 initially recognised at fair value and subsequently recorded at amortised cost including interest accrued. 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.

Reinsurance
Reinsurance premiums and claims are recognised separately in the statement of comprehensive income when they become due and payable in accordance with the reinsurance 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 reinsurance 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%. 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 2017. 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.

In addition the International Accounting Standards Board (IASB) has published a revised Exposure Draft on Insurance Contracts in June 2013. 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 intends to issue a final standard in 2015 with effective date three years after the standard is finalised.

Changes in accounting policies
NZ IFRS accounting policies have been consistently applied throughout the year.

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:

The Company has no insurance liabilities at balance date. The assumptions applied at the previous balance date were:

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 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 3% for New Zealand, 10% for Australia, -1% for Ireland and 31% for Spain. The rate of accumulation is affected by changes to the assumption for future interest rates applied by the Actuary.

Discount rate: 3.5% per annum

House inflation:

New Zealand: An initial 10% reduction, followed by growth of 1.5% per annum.
Australia: An initial 10% reduction, followed by growth of 1.0% per annum.
Ireland and Spain: An initial 10% reduction, followed by growth of 1.0% per annum.

Mortality: Realistic assumptions with mortality improvements.

Early repayment:

New Zealand: 5% per annum
Australia: 7% per annum
Ireland: 1% per annum
Spain: 1% per annum

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	1.71%
Australia	1.65%
Ireland	1.41%
Spain	1.76%

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	**2013**
Discount rate	+1%	7.290
	-1%	(7.730)
Client interest rate	+1%	40.640
	-1%	(7.770)
Change in property values	+10%	19.500
	-10%	(11.610)
House inflation	+1%	38.210
	-1%	(19.420)
Mortality	+10%	1.620
	-10%	(1.180)
Early repayment	+1%	8.340
	-1%	(9.180)

The impact on the best estimate liability will result in an opposite impact on the statement of comprehensive income less amounts absorbed within future profit margins.

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3. NET PREMIUM INCOME

	Notes	2014	2013
Risk policies:			
No-neg - SMI Exfinance Limited		4.117	5.315
No-neg - ASF Seniors Warehouse Trust		5.695	7.076
No-neg - Seniors Money International Limited		5.958	6.246
Net reinsurance expense		0.000	3.570
Net premium income		15.770	22.207

Net reinsurance expense includes reversal of all reinsurance premiums due to Hannover Re under the reinsurance treaties since their inception in 2004 and 2005 amounting to $3.724 million. This is due to Hannover Re and the Group agreeing to terminate the reinsurance treaties in September 2012, refer Note 10 (b).

4. NET INVESTMENT INCOME

	Notes	2014	2013
Interest income from:			
NZ Government stock - fair value through profit and loss		0.031	0.030
Interest from related parties	10 (a)	(7.338)	2.487
		(7.307)	2.517
Unrealised loss on foreign currency		(3.127)	(1.578)
Loss on NZ Government stock at fair value through profit and loss		(0.009)	(0.006)
		(10.443)	0.933

5. OPERATING EXPENSES

		2014	2013
Included in operating expenses are:			
Commission paid		4.901	5.591
NNEG insurance profit share		1.288	1.695
Management fees paid to Seniors Money International Limited		0.738	0.938
Management fees paid to Seniors Money International (Europe) Limited		0.738	0.690
Other expenses		0.006	0.000
Total operating expenses		7.671	8.914

The Parent has paid audit fees on the Company's behalf of $0.035 million (2013: $0.034 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 $44.7 million (2013: $28.6 million). The tax asset arising from losses has not been recognised.

7. SHARE CAPITAL

The Company has issued 500,000 fully paid ordinary shares (2013: 500,000) held by SMI Exs Limited. All shares have equal rights to dividends, voting and on winding-up.

$ millions

8. (a) INSURANCE CONTRACTS

	Notes	2014	2013
Balance at beginning of year		22.775	31.689
Change in liability recognised in the statement of comprehensive income		(22.775)	(8.914)
Balance at end of year		0.000	22.775
Breakdown of insurance contract reserves:			
Future premiums		0.000	(250.205)
Future commissions		0.000	75.062
Profit-share payments to policyholders		0.000	19.160
Future claims		0.000	33.096
Profit margins		0.000	145.662
		0.000	22.775

8. (b) INSURANCE CONTRACTS CEDED

Balance at beginning of year	0.000	10.615
Change in liability recognised in the statement of comprehensive income	0.000	(10.615)
Balance at end of year	0.000	0.000

8. (c) INVESTMENT CONTRACTS

Balance at beginning of year	0.000	0.156
Withdrawals	0.000	(0.153)
Change in liability recognised in the statement of comprehensive income	0.000	(0.003)
Balance at end of year	0.000	0.000

8. (d) SOURCES OF PROFIT

The profit for the year has originated as follows:

Surplus arising from experience	27.292	11.778
Investment contract surplus	0.000	0.004
Interest on assets in excess of policy liabilities	(7.216)	0.578
Total	20.076	12.360

8. (e) SOLVENCY POSITION

The Company has no insurance liabilities at balance date. The assumptions applied at the previous balance date were:
The Company adopted the Solvency Standard for Captive Insurers Transacting Life Insurance Business issued by the Reserve Bank of New Zealand in March 2013. The standard requires licensed insurers 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.

	2013
Actual solvency capital	
Capital	41.857
Minimum solvency capital	
Insurance risk charge	1.388
Asset risk charge	22.349
Total solvency requirement	23.737
Total policy and other liabilities	22.775
Minimum solvency capital	5.000
Solvency surplus	36.857

9. NZ GOVERNMENT STOCK

The Public Trust previously held the statutory insurance deposit on behalf of the Company: $0.500 million 6% New Zealand Government stock, maturity 15 April 2015. This was released when the Company was issued an insurance licence.

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$ millions

10. RELATED PARTIES

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:

	2014	2013
Premium income - Seniors Money International Limited	5.958	6.246
Premium income - SMI Exfinance Limited *(formerly Sentinel Finance Ltd)*	4.117	5.315
Premium income - ASF Seniors Warehouse Trust	5.695	7.076
Interest income - ASF Seniors Warehouse Trust	(3.322)	1.199
Interest income - Seniors Money International Limited	(1.525)	0.418
Interest income - SMI Exfinance Limited	(2.491)	0.870
Management fee expense - Seniors Money International Limited	0.738	0.938
Management fee expense - Seniors Money International (Europe) Limited	0.738	0.690
No-neg profit share - ASF Seniors Warehouse Trust	1.288	1.695
Commission expense - Seniors Money International Limited	1.793	1.874
Commission expense - SMI Exs Limited *(formerly Sentinel Ltd)*	1.400	1.594
Commission expense - ASF Seniors Warehouse Trust	1.708	2.123
NNEG insurance claim expense - Seniors Money International Limited	0.137	0.154
NNEG insurance claim expense - ASF Seniors Warehouse Trust	0.218	0.000
NNEG insurance claim expense - SMI Exfinance Limited	0.000	0.014
Receivable from Seniors Money International Limited	21.704	20.344
Receivable from SMI Exfinance Limited	21.534	19.905
Receivable from Australian Seniors Finance Pty Limited	21.010	0.000
Receivable from ASF Seniors Warehouse Trust	0.000	23.835
Owing to SMI Exs Limited	2.312	0.000

The Company is owned by SMI Exs Limited which is owned in turn by Seniors Money International Limited (Parent) incorporated in New Zealand. SMI Exs Limited promoted and sold equity release loans to seniors in New Zealand. The Company insured the 'negative equity' risk provided by SMI Exs Limited, Australian Seniors Finance Pty Limited and the Parent to their customers. SMI Exfinance Limited, a fellow subsidiary, was involved in the ownership and financing of the loans to customers in New Zealand. The Group is in the process of selling its equity release lending businesses and assets. This led to the termination of the NNEG insurance effective 28 February 2014.

The premium receivables have been settled subsequent to balance date with nil interest. The interest accrued to date on the premiums has been reversed this period through the statement of comprehensive income.

SMI Exfinance Limited sold a tranche of loans to Heartland Bank Limited in December 2013 as a precursor to the eventual sale by the Parent of its equity release lending businesses in New Zealand and Australia to Heartland New Zealand Limited on 1 April 2014. The loans were sold at book value less a deduction of $0.552 million for future negative equity risk which the Company has borne, as a reduction of the NNEG insurance premium.

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.

The Company works with members of the Parent's group 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. The amount due will not be settled until the related parties have surplus cash flows.

Group companies have financed their operations with debt provided by the Commonwealth Bank of Australia (CBA). The banking facilities have a maturity date of 30 September 2019.

10. (b) TERMINATION OF REINSURANCE TREATIES

During June 2012, the Group and Hannover Re agreed to terminate the reinsurance treaties and settle the reinsurance debt for payment of $8.1 million. This was settled in September 2012.

Hannover Re has no remaining liabilities or obligations in relation to the reinsurance treaties and the Company has no continuing obligation to pay reinsurance premiums. Consequently the Company has received no benefit in relation to reinsurance of negative equity risk. The Company has reversed all reinsurance premiums due to Hannover Re under the treaties since their inception in 2004 and 2005 amounting to $3.724 million. This amount has been deducted from the deficit accounts held by SMI Exfinance Ltd of $1.790 million, Australian Seniors Finance Pty Ltd $1.421 million and the Parent $0.513 million.

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$ millions

11. CASH FLOW RECONCILIATION

	2014	2013
Profit for the year	20.076	12.360
Loss on NZ Government stock at fair value through profit and loss	0.009	0.006
Unrealised foreign currency loss	3.127	1.578
Claims expense	0.355	0.168
Net change in policy liabilities	(22.775)	1.698
Commission	4.901	5.591
Contribution to Group operating expenses	1.482	1.628
No-neg profit share	1.288	1.695
Reversal of net reinsurance premiums	0.000	(3.570)
Withdrawals	0.000	(0.153)
Interest from related parties	7.338	(2.487)
No-neg premium income	(15.770)	(18.637)
Net Cash from Operating Activities	0.031	(0.123)

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

Credit risk arises on cash at bank (ASB: credit rating S&P AA-) and 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 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 exposure to the Company is the value of the equity release loans written by the Group is nil (2013: $1,270 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 nil (2013: $2.21 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.

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$ millions

12. FINANCIAL RISK MANAGEMENT (continued)

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).

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:

2014:	**Up to One Year**	**One to Five Years**	**Over five Years**	**Total**
Asset class				
Cash and cash equivalents	0.007	0.000	0.000	0.007
SMI Exfinance Limited	21.534	0.000	0.000	21.534
Australian Seniors Finance Pty Limited	21.010	0.000	0.000	21.010
Seniors Money International Limited	21.704	0.000	0.000	21.704
	64.255	0.000	0.000	64.255
Liability class				
SMI Exs Limited	2.312	0.000	0.000	2.312
Creditors	0.010	0.000	0.000	0.010
	2.322	0.000	0.000	2.322
2013:				
Asset class				
Cash and cash equivalents	0.007	0.000	0.000	0.007
NZ Government stock	0.000	0.560	0.000	0.560
SMI Exfinance Limited	0.000	25.199	0.000	25.199
ASF Seniors Warehouse Trust	0.000	31.433	0.000	31.433
Seniors Money International Limited	0.000	22.838	0.000	22.838
	0.007	80.030	0.000	80.037
Liability class				
Insurance contract reserves	0.000	0.000	22.775	22.775

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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:

2014:

	Up to One Year	One to Five Years	Over five Years	Non-interest bearing	Total
Asset class					
Cash and cash equivalents	0.000	0.000	0.000	0.007	0.007
SMI Exfinance Limited	0.000	0.000	0.000	21.534	21.534
Australian Seniors Finance Pty Limited	0.000	0.000	0.000	21.010	21.010
Seniors Money International Limited	0.000	0.000	0.000	21.704	21.704
	0.000	0.000	0.000	64.255	64.255
Liability class					
SMI Exs Limited	0.000	0.000	0.000	2.312	2.312
Creditors	0.000	0.000	0.000	0.010	0.010
	0.000	0.000	0.000	2.322	2.322

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

2013:

	Up to One Year	One to Five Years	Over five Years	Non-interest bearing	Total
Asset class					
Cash and cash equivalents	0.007	0.000	0.000	0.000	0.007
NZ Government stock	0.000	0.541	0.000	0.000	0.541
SMI Exfinance Limited	19.905	0.000	0.000	0.000	19.905
ASF Seniors Warehouse Trust	23.835	0.000	0.000	0.000	23.835
Seniors Money International Limited	20.344	0.000	0.000	0.000	20.344
	64.091	0.541	0.000	0.000	64.632
Liability class					
Insurance contract reserves	0.000	0.000	0.000	22.775	22.775

An increase in interest rates of 1% from the effective rate at year end would increase the Company's comprehensive income and equity by $0.646 million for the succeeding year. 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 and reserves. Specific solvency requirements applied to the Company, explained in Note 8(e).

13. CONTINGENT LIABILITIES

The Company has no contingent liabilities at 31 March 2014 (2013: $nil).

14. CAPITAL COMMITMENTS

The Company has no capital commitments at 31 March 2014 (2013: $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 the financial statements.

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Independent auditor's report

To the shareholder of SMI Exassurance Limited

Report on the financial statements

We have audited the accompanying financial statements of SMI Exassurance Limited ("the company") on pages 5 to 18. The financial statements comprise the statement of financial position as at 31 March 2014, 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. Subject to certain restrictions, partners and employees of our firm may also deal with the company on normal terms within the ordinary course of trading activities of the business of the company. These matters have not impaired our independence as auditor of the company. The firm has no other relationship with, or interest in, the company.

Opinion

In our opinion the financial statements on pages 5 to 18:

- 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 2014 and of its financial performance and cash flows for the year then ended.

Emphasis of matter

We draw attention to Note 1 to the financial statements which describes that the going concern basis of preparing the financial statements has not been used because the company has terminated its captive life insurance activity effective 28 February 2014 and subsequent to balance date, the company has settled its inter-group balance and distributed the proceeds to its shareholder. 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 SMI Exassurance Limited as far as appears from our examination of those records.

KPMG

20 June 2014
Auckland