Southern Response Earthquake Services Ltd

Financial statements for the year ended 30 June 2013

These financial statements form part of Southern Response's 2013 Annual Report.

SOUTHERN RESPONSE
Urupare ki te Tonga

Southern Response Earthquake Services Ltd

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SOUTHERN RESPONSE EARTHQUAKE SERVICES LIMITED

Statement of Responsibility

In accordance with the Public Finance Act 1989, the board is responsible for the preparation of Southern Response Earthquake Services Limited and Group's financial statements and statement of service performance and the judgements made in them.

The board of directors of Southern Response Earthquake Services Limited has the responsibility for establishing and maintaining a system of internal control designed to provide reasonable assurance as to the integrity and reliability of financial reporting for the Company and Group.

In the board's opinion, these financial statements and statement of service performance fairly reflect the financial position and operations of Southern Response Earthquake Services Limited and Group for the year ended 30 June 2013.

Signed on behalf of the board.

Ross Butler
Chairman
19 August 2013

Anne Urlwin
Director
19 August 2013

Deloitte.

INDEPENDENT AUDITOR'S REPORT

TO THE READERS OF
SOUTHERN RESPONSE EARTHQUAKE SERVICES LIMITED AND GROUP'S
FINANCIAL STATEMENTS AND STATEMENT OF SERVICE PERFORMANCE
FOR THE YEAR ENDED 30 JUNE 2013

The Auditor-General is the auditor of Southern Response Earthquake Services Limited (the company) and group. The Auditor-General has appointed me, Michael Wilkes, using the staff and resources of Deloitte, to carry out the audit of the financial statements and statement of service performance of the company and group on her behalf.

We have audited:

- the financial statements of the company and group on pages 6 to 35, that comprise the statement of financial position as at 30 June 2013, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date and the notes to the financial statements that include accounting policies and other explanatory information; and
- the statement of service performance of the company and group on pages 36 to 39.

Opinion

In our opinion:

- the financial statements of the company and group on pages 6 to 35:
  - comply with generally accepted accounting practice in New Zealand;
  - comply with International Financial Reporting Standards; and
  - give a true and fair view of the company and group's:
    - financial position as at 30 June 2013; and
    - financial performance and cash flows for the year ended on that date;
- the statement of service performance of the company and group on pages 36 to 39:
  - complies with generally accepted accounting practice in New Zealand; and
  - fairly reflects for each class of outputs:
    - its standards of delivery performance achieved, as compared with the forecast standards outlined in the statement of forecast service performance adopted at the start of the financial year; and
    - its actual revenue earned and output expenses incurred, as compared with the forecast revenues and output expenses outlined in the statement of forecast service performance adopted at the start of the financial year.

Uncertainties associated with the outstanding claims liability and reinsurance receivables

Without modifying our opinion, we draw your attention to notes 1, 2, 14 and 22 of the financial statements. Those notes describe how the Canterbury earthquakes have affected the outstanding claims liability and related reinsurance receivables of the company and group. Those notes also describe the significance of the amounts of the earthquake related outstanding claims liability and reinsurance receivables, and the inherent uncertainties involved in estimating those amounts using actuarial assumptions. The valuation of the reinsurance receivables is subject to similar uncertainties as the valuation of the outstanding claims liability.

We consider disclosure of the above matter to be adequate.

Other legal requirements

In accordance with the Financial Reporting Act 1993 we report that, in our opinion, proper accounting records have been kept by the company and group as far as appears from an examination of those records.

Our audit was completed on 19 August 2013. This is the date at which our opinion is expressed.

The basis of our opinion is explained below. In addition, we outline the responsibilities of the Board of Directors and our responsibilities, and we explain our independence.

Basis of opinion

We carried out our audit in accordance with the Auditor-General's Auditing Standards, which incorporate the International Standards on Auditing (New Zealand). Those standards require that we comply with ethical requirements and plan and carry out our audit to obtain reasonable assurance about whether the financial statements and statement of service performance are free from material misstatement.

Material misstatements are differences or omissions of amounts and disclosures that, in our judgement, are likely to influence readers' overall understanding of the financial statements and statement of service performance. If we had found material misstatements that were not corrected, we would have referred to them in our opinion.

An audit involves carrying out procedures to obtain audit evidence about the amounts and disclosures in the financial statements and statement of service performance. The procedures selected depend on our judgement, including our assessment of risks of material misstatement of the financial statements and statement of service performance, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the preparation of the company and group's financial statements and statement of service performance that fairly reflect the matters to which they relate. We consider internal control 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 and group's internal control.

An audit also involves evaluating:

- the appropriateness of accounting policies used and whether they have been consistently applied;
- the reasonableness of the significant accounting estimates and judgements made by the Board of Directors;
- the adequacy of all disclosures in the financial statements and statement of service performance; and
- the overall presentation of the financial statements and statement of service performance.

We did not examine every transaction, nor do we guarantee complete accuracy of the financial statements and statement of service performance. Also we did not evaluate the security and controls over the electronic publication of the financial statements and statement of service performance.

We have obtained all the information and explanations we have required and we believe we have obtained sufficient and appropriate audit evidence to provide a basis for our audit opinion.

Responsibilities of the Board of Directors

The Board of Directors is responsible for preparing financial statements and a statement of service performance that:

- comply with generally accepted accounting practice in New Zealand;
- fairly reflect the company and group's financial position, financial performance and cash flows; and
- fairly reflect the company and group's service performance achievements.

The Board of Directors is also responsible for such internal control as it determines is necessary to enable the preparation of financial statements and a statement of service performance that are free from material misstatement, whether due to fraud or error. The Board of Directors is also responsible for the publication of the financial statements and statement of service performance, whether in printed or electronic form.

The Board of Directors' responsibilities arise from the Public Finance Act 1989 and the Financial Reporting Act 1993.

Responsibilities of the Auditor

We are responsible for expressing an independent opinion on the financial statements and statement of service performance and reporting that opinion to you based on our audit. Our responsibility arises from section 15 of the Public Audit Act 2001 and the Public Finance Act 1989.

Independence

When carrying out the audit we followed the independence requirements of the Auditor-General, which incorporate the independence requirements of the External Reporting Board.

Other than the audit, we have no relationship with, or interests in the company and group.

Michael Wilkes
Deloitte
On behalf of the Auditor-General
Christchurch, New Zealand

SOUTHERN RESPONSE EARTHQUAKE SERVICES LIMITED

Statements of comprehensive income

For the year ended 30 June 2013

		2013	2012	
		Group and Company	Group	Company
	Note	*$000*	*$000*	*$000*
Continuing operations:				
Net claims incurred – non-earthquake	3	197	(3,087)	(3,087)
Net claims incurred - earthquake	3	25,446	(450,121)	(450,121)
Less operating costs		(373)	(399)	(400)
Net underwriting gain/(loss)		**25,270**	**(453,607)**	**(453,608)**
Investment income	5	24,825	18,112	18,112
Unrealised gain/(loss) on fair value of crown receivable	13	389	(32,018)	(32,018)
Profit/(loss) for the year from continuing operations before tax		**50,484**	**(467,513)**	**(467,514)**
Tax expense	6	-	-	-
Profit/(loss) for the year from continuing operations after tax		**50,484**	**(467,513)**	**(467,514)**
Discontinued operations:				
Profit for the year from discontinued operations	7	1,826	279,428	279,428
Profit/(loss) for the year		**52,310**	**(188,085)**	**(188,086)**
Other comprehensive income:				
Items that will not be reclassified to profit or loss:				
Revaluation of land and buildings	19	-	(1,965)	(1,965)
Movement in actuarial value of defined benefit superannuation scheme		-	3,701	3,701
Tax effect of other comprehensive income	6	-	(304)	(304)
Other comprehensive income for the year after tax		**-**	**1,432**	**1,432**
Total comprehensive profit/(loss) for the year		**52,310**	**(186,653)**	**(186,654)**

The notes to the financial statements on pages 11 to 35 form part of and should be read in conjunction with these financial statements.

SOUTHERN RESPONSE EARTHQUAKE SERVICES LIMITED

Statements of changes in equity

For the year ended 30 June 2013

2013 Group and Company	Note	Ordinary Shares	Convertible Preference Shares	Accumulated Losses	Property Reval'n Reserve	Total Equity
		$000	*$000*	*$000*	*$000*	*$000*
Opening balance 1 July 2012		95,580	382,359	(535,470)	10,272	(47,259)
Profit for the year		-	-	52,310	-	52,310
Other comprehensive income for the year		-	-	-	-	-
Total comprehensive income for the year		-	-	52,310	-	52,310
Transfer property revaluation to retained earnings		-	-	8,220	(8,220)	-
Closing balance 30 June 2013		95,580	382,359	(474,940)	2,052	5,051

SOUTHERN RESPONSE EARTHQUAKE SERVICES LIMITED

Statements of changes in equity

For the year ended 30 June 2013

2012 Group

	Note	Ordinary Shares	Convertible Preference Shares	Accumulated Losses	Property Reval'n Reserve	Disaster Reserve	Total Equity
		$000	*$000*	*$000*	*$000*	*$000*	*$000*
Opening balance 1 July 2011		-	477,939	(353,108)	14,563	-	139,394
Loss for the year		-	-	(188,085)	-	-	(188,085)
Revaluation of land and buildings	10	-	-	-	(1,965)	-	(1,965)
Actuarial movement in defined benefit superannuation scheme		-	-	3,701	-	-	3,701
Tax effect of items recognised in other comprehensive income	6	-	-	(1,036)	732	-	(304)
Other comprehensive income/(loss) for the year		-	-	2,665	(1,233)	-	1,432
Total comprehensive (loss) for the year		-	-	(185,420)	(1,233)	-	(186,653)
Transfer property revaluation to retained earnings		-	-	3,058	(3,058)	-	-
Conversion of preference shares into ordinary shares	9	95,580	(95,580)	-	-	-	-
Closing balance 30 June 2012		95,580	382,359	(535,470)	10,272	-	(47,259)

2012 Company

	Note	Ordinary Shares	Convertible Preference Shares	Accumulated Losses	Property Reval'n Reserve	Disaster Reserve	Total Equity
		$000	*$000*	*$000*	*$000*	*$000*	*$000*
Opening balance 1 July 2011		-	477,939	(353,107)	14,563	-	139,395
Loss for the year		-	-	(188,086)	-	-	(188,086)
Revaluation of land and buildings	10	-	-	-	(1,965)	-	(1,965)
Actuarial movement in defined benefit superannuation scheme		-	-	3,701	-	-	3,701
Tax effect of items recognised in other comprehensive income	6	-	-	(1,036)	732	-	(304)
Other Comprehensive income/(loss) for the year		-	-	2,665	(1,233)	-	1,432
Total comprehensive (loss) for the year		-	-	(185,421)	(1,233)	-	(186,654)
Transfer property revaluation to retained earnings		-	-	3,058	(3,058)	-	-
Conversion of preference shares into ordinary shares	9	95,580	(95,580)	-	-	-	-
Closing balance 30 June 2012		95,580	382,359	(535,470)	10,272	-	(47,259)

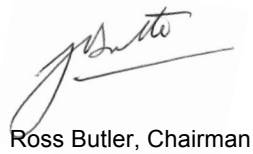
SOUTHERN RESPONSE EARTHQUAKE SERVICES LIMITED

Statements of financial position

As at 30 June 2013

	Note	2013 Group and Company *$000*	2012 Group *$000*	2012 Company *$000*
Shareholders' equity				
Total shareholders' equity/(deficit)		5,051	(47,259)	(47,259)
Represented by:				
Assets				
Financial assets				
Cash and cash equivalents	11	175,883	82,394	82,394
Receivables	12	23,018	29,944	29,944
Reinsurance receivables	14	512,309	937,422	937,422
Investments	15	673,769	582,555	582,555
Crown receivable	13	364,549	364,160	364,160
Property held for sale	16	7,181	27,670	27,670
Current taxation		-	266	228
Investment and loans in subsidiary companies	18	-	-	38
Property, plant and equipment	19	1,497	899	899
Intangible assets	20	135	31	31
Total assets		1,758,341	2,025,341	2,025,341
Less:				
Liabilities				
Trade and other payables		7,961	10,001	10,001
Employee entitlements		1,346	547	547
Outstanding claims – non-earthquake	21	1,798	3,052	3,052
Outstanding claims – earthquake	22	1,742,185	2,059,000	2,059,000
Total liabilities		1,753,290	2,072,600	2,072,600
Net assets/(liabilities)		5,051	(47,259)	(47,259)

On behalf of the board



Ross Butler, Chairman
Authorised for issue on 19 August 2013

Anne Urlwin, Director

The notes to the financial statements on pages 11 to 35 form part of and should be read in conjunction with these financial statements.

SOUTHERN RESPONSE EARTHQUAKE SERVICES LIMITED

Statements of cash flows

For the year ended 30 June 2013

	Note	2013 Group and Company $000	2012 Group $000	2012 Company $000
Cash flows from operating activities				
Premiums received from customers		-	281,434	281,434
Interest received		23,126	20,507	20,507
Dividends received		-	973	973
Other investment income		4,115	2,550	2,550
Claim costs – non-earthquake		(646)	(142,874)	(142,874)
Claim costs – earthquake		(291,116)	(359,533)	(359,533)
Claim costs – recoveries		452,398	246,454	246,454
Payments to suppliers and employees		(18,198)	(56,832)	(56,780)
Payments for reinsurance		(2,062)	(39,934)	(39,934)
Income tax refunded/(paid)		266	(13)	(43)
Net cash inflow/(outflow) from operating activities	8	167,883	(47,268)	(47,246)
Cash flows from financing activities				
Proceeds from Crown receivable		-	100,000	100,000
Proceeds from subsidiary companies		-	-	438
Net cash inflow from financing activities		-	100,000	100,438
Cash flows from investing activities				
Proceeds from sale of property, plant and equipment and property held for sale		18,546	9,449	9,419
Payments for property, plant and equipment		(972)	(5,279)	(5,279)
Payments for intangible assets		(205)	(5,757)	(5,757)
Payments for financial assets		(99,804)	(529,943)	(529,943)
Sales and maturities of financial assets		8,624	326,923	326,923
(Final settlement of)/proceeds from sale of business net of cash and cash equivalents disposed		(583)	125,397	125,397
Net cash (outflow) from investing activities		(74,394)	(79,210)	(79,240)
Net increase/(decrease) in cash and cash equivalents		93,489	(26,478)	(26,048)
Add opening cash and cash equivalents		82,394	108,872	108,442
Ending cash and cash equivalents	11	175,883	82,394	82,394

The notes to the financial statements on pages 11 to 35 form part of and should be read in conjunction with these financial statements.

Notes to the financial statements

1. Summary of accounting policies

Basis of preparation
Southern Response Earthquake Services Limited (the Company) is a limited liability company incorporated and domiciled in New Zealand and registered under the Companies Act 1993.

The Company is a Crown-owned company listed in schedule 4 of the Public Finance Act 1989, effective 18 April 2012.

The registered office for the Company is located at 6 Show Place, Addington, Christchurch.

The Company and Group's principal business is to manage the settlement of claims from AMI Insurance customers arising from the Canterbury earthquakes occurring between 4 September 2010 and 5 April 2012. It also manages an investment portfolio.

The financial statements for the Company and Group were authorised for issue by the directors on 19 August 2013 and have been audited by Deloitte on behalf of the office of the Auditor General and given an unqualified opinion.

The Company and Group financial statements have been prepared in accordance with Generally Accepted Accounting Practice in New Zealand (NZ GAAP) and also in accordance with the Financial Reporting Act 1993 and the Companies Act 1993. They comply with the New Zealand equivalents to International Financial Reporting Standards (NZ IFRS) and other applicable financial reporting standards as appropriate for profit oriented companies. They also comply with International Financial Reporting Standards (IFRS).

The financial statements have been prepared on a historical cost basis, except for certain Financial Assets (including the Crown Receivable) which have been measured at fair value. All outstanding claims liabilities and reinsurance receivables have been measured in accordance with *NZ IFRS 4 Insurance Contracts.*

Accounting policies are selected and applied in a manner that ensures the resulting financial information satisfies the concepts of relevance and reliability, thereby ensuring that the substance of the underlying transactions or other events is reported.

The directors have considered the appropriateness of the financial statements being presented on a going concern basis and have concluded that the going concern assumption is appropriate given the further funding arrangement provided under the Crown support deed in the current year, detailed in note 9.

Presentation currency
The financial statements are presented in New Zealand dollars and unless specifically stated otherwise are rounded to the nearest thousand dollars.

Presentation format
The Company and Group present their statements of financial position broadly in order of liquidity. An analysis regarding recovery or settlement within twelve months after the reporting date (current) and more than 12 months after the reporting date (non current) is presented in the notes. The subsidiaries of the Company did not trade during the year and do not have any assets or liabilities at the reporting date. Therefore the amounts disclosed in the financial statements and the statement of service performance for the year ended 30 June 2013 relate to both the Company and Group.

Principles of consolidation
The consolidated financial statements incorporate the assets and liabilities of all entities controlled by the Company as at reporting date. The Company and its controlled entities are collectively referred to as the Group. The effects of all transactions between entities in the Group are eliminated in full.

The acquisition of subsidiaries is accounted for using the purchase method of accounting, being the date on which the Group obtains control, and continues to be consolidated until the date that such control ceases. Control exists when one entity has the power directly or indirectly to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

Control is presumed to exist when more than half of the voting power of an entity is owned either directly or indirectly. In assessing control, potential voting rights that are exercisable or convertible are taken into account.

Where an entity either began or ceased to be controlled during a financial reporting period, the results are included only from the date control commenced or up to the date control ceased.

The financial statements of subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The purchase method involves allocating the cost of the business combination to the fair value of the assets acquired and liabilities and contingent liabilities assumed at the date of acquisition.

Changes in accounting policies and comparatives
The accounting policies adopted are consistent with those of the previous financial year, except for the following:

New NZ IFRS Standards that have come into effect

The adoption of the amendments to NZ IAS 1 *Presentation of Financial Statements* has resulted in a change in presentation for items in other comprehensive income on the face of the statement of comprehensive income. Items of other comprehensive income are required to be grouped into those that will be and will not be reclassified to profit or loss. Tax on items of other comprehensive income is required to be allocated on the same basis. The measurement and recognition of items of profit or loss and other comprehensive income are not affected by the amendments.

New NZ IFRS standards and interpretations issued but not yet adopted
At the date of authorisation of these financial statements, certain new standards and interpretations to existing standards have been published but are not yet effective, and have not been adopted early by the Company and Group.

- *NZ IFRS 9 Financial Instruments*
- *NZ IFRS 10 Consolidated Financial Statements*
- *NZ IFRS 11 Joint Arrangements*
- *NZ IFRS 12 Disclosure of Interests in Other Entities*
- *NZ IFRS 13 Fair Value Measurement*
- *NZ IAS 27 Separate Financial Statements (revised 2011)*
- *NZ IAS 28 Investments in Associates and Joint Ventures (revised 2011)*

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

Specific accounting policies

Significant accounting policies related to general insurance contracts
All of the general insurance products on offer, or utilised, meet the definition of an insurance contract (a contract under which one party, the insurer, accepts significant insurance risk from another party, the policyholder, by agreeing to compensate the policyholder if a specified uncertain future event, the insured event, adversely affects the policyholder).

Premium Revenue
Premium revenue comprises amounts charged to policyholders (direct premium) for insurance contracts and is recognised as earned from the date of attachment of risk (generally the date a contract is agreed to) over the period of the related insurance contracts in accordance with the pattern of the incidence of risk expected under the contracts. The pattern of the risks underwritten is generally matched by the passing of time.

Premium receivables are recognised on the due date and they are normally settled within 30 days. The recoverability of premium receivable is assessed and provision is made for impairment based on objective evidence and having regard to past default experience. Premium receivable is presented on the Statement of Financial Position net of any provision for impairment.

Outwards Reinsurance
Premiums paid to reinsurers under reinsurance contracts held by the Company and Group are recognised as an outwards reinsurance expense in profit or loss from the attachment date over the period of indemnity of the reinsurance contract in accordance with the expected pattern of the incidence of risk ceded.

Outstanding Claims Liability
The outstanding claims liability is measured as the central estimate of the present value of expected future claims payments plus a risk margin.

The expected future payments include those in relation to claims reported but not yet paid; claims incurred but not reported (IBNR); claims incurred but not enough reported (IBNER); and estimated claims handling costs.

To allow for the inherent uncertainty of the central estimate, a risk margin is applied to the outstanding claims liability net of reinsurance and other recoveries. The risk margin increases the probability that the net liability is adequately provided for.

The estimation of the outstanding claims liability involves a number of key assumptions and is the most critical accounting estimate. All reasonable steps are taken to ensure that the information used regarding claims exposures is appropriate. However, given the inherent uncertainty involved in determining the liability, it is likely that the final outcome will prove to be different from the liability established.

Reinsurance and Other Recoveries
Reinsurance and other recoveries received or receivable on paid claims and on outstanding claims (notified and not yet notified) are recognised as income in net claims incurred. Reinsurance and other recoveries receivable include the net GST receivable on outstanding claims and recoveries. Reinsurance recoveries on paid claims are presented as a component of reinsurance recoveries net of any provision for impairment based on objective evidence for individual receivables. All recoveries receivable on outstanding claims are measured as the present value of the expected future receipts calculated on the same basis as the outstanding claims liability. Reinsurance does not relieve the originating insurer of its liabilities to policyholders and is presented separately on the statement of financial position.

Significant accounting policies applicable to other activities

The accounting policies of the Company and Group have been applied consistently to both reporting periods.

Investment income
The following items are recognised in profit or loss:

- interest is recognised using the effective interest method
- rental income is recognised on a straight-line basis including any lease incentives over the lease term.
- dividend income is recognised when the right to receive payment is established
- realised gains and losses
- unrealised gains and losses on Financial Assets at Fair Value through Profit or Loss (FVTPL), and
- realised and unrealised foreign exchange gains and losses on cash and cash equivalents and investments classified as FVTPL.

Income tax
The following policies apply to income tax:

Current income tax
The current income tax asset or liability for the current and prior periods is measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and laws used to compute this amount are those that are enacted or substantively enacted by the reporting date.

Current tax attributable to amounts recognised directly in equity is also recognised directly in equity.

Deferred income tax
Deferred tax assets and liabilities are recognised for temporary differences between the tax base of the assets and liabilities and their carrying amount, at the tax rates expected to apply when the assets are recovered or liabilities are settled.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax assets and liabilities are offset only if:

- a legally enforceable right exists to set off current tax assets and liabilities
- the deferred tax assets and liabilities relate to the same taxable entity, and
- the deferred tax assets and liabilities are with the same taxation authority.

Deferred tax balances attributable to amounts recognised directly in equity are also recognised directly in equity.

Goods and services tax (GST)
The statement of comprehensive income, statement of changes in equity and the statement of cash flows have

been prepared so that all components are stated exclusive of GST. All items in the statement of financial position are stated exclusive of GST with the exception of receivables and payables which include GST invoiced.

Financial assets
The following policies apply to financial assets:

Financial assets backing general insurance liabilities
As part of its investment strategy the Company and Group actively manages its investment portfolio to ensure that investments mature in accordance with the expected pattern of future cash flows arising from general insurance liabilities.

Financial assets deemed to back general insurance liabilities are designated at fair value through profit or loss. Initial recognition is at fair value in the statement of financial position and subsequent measurement is at fair value with any resultant unrealised profits and losses recognised in profit or loss.

Other financial assets
Financial assets that do not back general insurance liabilities are designated in the manner appropriate to their function. Two designations used by the Company and Group are:

- Trade receivables – These are initially recognised at cost. Subsequent measurement is at amortised cost, and
- Fair value through profit or loss – These are initially recognised at fair value. Subsequent measurements are at fair value, with any unrealised gain or loss recognised through profit or loss.

Details of fair value for the different types of financial assets are listed below:

- Cash assets are carried at face value of the amounts deposited or drawn. The carrying amounts of cash assets and bank overdrafts approximate their fair value.
- Shares in companies listed on stock exchanges are initially recognised at fair value and the subsequent fair value is taken as the quoted bid price of the instrument at the reporting date.
- Fixed interest securities are recorded at amounts based on valuations using rates of interest equivalent to the yields obtainable on comparable investments at balance date.

All purchases and sales of financial assets that require delivery of the asset within the time frame established by regulation or market convention (‘regular way’ transactions) are recognised at trade date, being the date on which the Company commits to buy or sell the asset. In cases where the period between trade and settlement exceeds this time frame, the transaction is recognised at settlement date.

De-recognition of financial assets
A financial asset is derecognised when the Company and Group has transferred its rights to receive cash flows from the asset, which normally occurs when the asset is sold, or the rights to receive cash flows from the asset have expired.

Derivative financial instruments
The Company and Group may enter into derivative financial instruments to manage exposure to interest rate risk. Derivatives used by the Company and Group include interest rate swaps and they are recorded at fair value at each reporting date by reference to fair values. Any resultant gain or loss from the movement in market values is recognised in profit or loss.

Property held for sale
Property held for sale is measured at the lower of carrying value and fair value less costs to sell, by reference to external market valuations, with any resultant unrealised gains and losses recognised in profit or loss.

Intangible assets
Intangible assets are initially measured at cost. Subsequent measurement is at cost less accumulated amortisation and impairment. Amortisation is charged on a straight-line basis over the estimated useful life of the intangible asset.

All software assets included in the financial statements have useful lives of between 1 and 5 years.

Property, plant and equipment
Property, plant and equipment is recorded at cost, including costs that are directly attributable to the acquisition of the asset. Depreciation is calculated using the straight-line method to allocate their cost, net of any residual value, over their useful lives.

The estimated useful lives of the major asset classes are:

- office furniture and equipment 2 to 15 years
- motor vehicles 5 years

All repairs and maintenance expenditure is charged to profit or loss in the year in which the expense is incurred.

Disposal
An item of property, plant and equipment is de-recognised when it is disposed of, or when no future economic benefits are expected from its use or disposal. Any gain or loss on de-recognition of the asset is included in profit or loss in the year the asset is de-recognised.

Any revaluation reserve relating to the asset being disposed of is transferred directly to retained earnings.

Cash and cash equivalents
Cash and cash equivalents includes cash at bank, deposits on call and other short-term, highly liquid investments with original maturities of 92 days or less which are readily convertible to known amounts of cash and are subject to insignificant risk of changes in value.

Foreign currency
Foreign currency transactions are translated into the functional currency of the respective Company and Group, using the exchange rates prevailing at the dates of the transactions (spot exchange rate). Foreign exchange gains and losses resulting from the settlement of such transactions and from the re-measurement of monetary items at year-end exchange rates are recognised in profit or loss.

Lease assets
Leases are classified as finance leases whenever the terms of the lease transfer substantially all of the risks and rewards of ownership to the lessee.

All other leases, both as lessee and lessor, are treated as operating leases. Rental income and expense are recognised on a straight line basis over the lease terms.

Provisions
A provision is recognised for a liability when the settlement amount or timing is uncertain; when there is a present legal or constructive obligation as a result of a past event; it is probable that expenditures will be required to settle the obligation; and a reliable estimate of the potential settlement can be made. Provisions are not recognised for future operating losses.

Provisions are measured at the estimated expenditure required to settle the present obligation, based on the most reliable evidence available at the reporting date, including the risks and uncertainties associated with the present obligation. Provisions are discounted to their present values, where the time value of money is material.

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

Employee benefits
The following policies apply to employee benefits:

Short-term employee benefits
Liabilities for salaries (including non-monetary benefits), annual leave and accumulated sick leave expected to be settled within 12 months of the reporting date are recognised in respect of employee services up to the reporting date. They are measured at the amount expected to be paid when the liabilities are settled.

Employer contributions to KiwiSaver
Where employees have elected to join a KiwiSaver superannuation scheme, the Company and Group complies with all applicable legislation in making employer contributions to these schemes. Obligations for contributions are recognised in profit or loss as they become payable.

Impairment
At each reporting date the carrying amounts of tangible and intangible assets are assessed to determine whether there is any indication that they have suffered an impairment loss. If such indications exist, for an asset, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any).

The Company and Group have no intangible assets with an indefinite useful life.

An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount. Impairment losses directly reduce the carrying amount of assets and are recognised in profit or loss.

The estimated recoverable amount of an asset is the greater of their fair value less costs to sell and value in use. Value in use is determined by estimating future cash flows from the use and ultimate disposal of the asset and discounting to their present value using a pre-tax discount rate that reflects current market rates and risks specific to the asset. For an asset that does not generate largely independent cash flows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

Share capital
Shares are classified as equity when there is no obligation to transfer cash or other assets to the holder. Transaction costs directly attributable to the issue of equity instruments are shown in equity as a deduction from the proceeds.

2. Critical accounting judgements and estimates

The Company and Group make estimates and assumptions in respect of certain key assets and liabilities. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The key areas in which critical estimates and judgements are applied are described below.

The ultimate liability arising from claims made under insurance contracts
Provision is made at the year-end for the estimated cost of claims incurred but not settled at the reporting date, including the cost of claims incurred but not yet reported to the Company and Group.

The estimated ultimate cost of claims includes direct expenses to be incurred in settling claims, gross of the expected value of salvage and other recoveries. The Company and Group take all reasonable steps to ensure that it has appropriate information regarding its claims exposures. However, given the uncertainty in establishing claims provisions, it is likely that the final outcome will prove to be different from the liability established.

The estimation of claims incurred but not reported (IBNR) is generally subject to a greater degree of uncertainty than the estimation of the cost of settling claims already notified to the Company, where more information about the claim event is generally available.

In calculating the estimated ultimate cost of unpaid claims the Company and Group uses an actuarial valuation carried out by an independent actuary. Refer Notes 21 and 22.

Assets arising from reinsurance contracts
Assets arising from reinsurance contracts are computed using actuarial valuations. In addition, the recoverability of these assets is assessed on a periodic basis to ensure that the balance is reflective of the amounts that will ultimately be received, taking into consideration factors such as counterparty and credit risk.
Impairment is recognised where there is objective evidence that the Company may not receive amounts due to it and these amounts can be reliably measured. Refer Note 14.

Valuation of the Crown receivable
The Crown receivable is recorded at the fair value of projected cashflows based on forecast payments of claims settlements and operating costs.

3. Net claims incurred

Current year claims have been separated between non-earthquake related claims and claims that relate to the Canterbury earthquakes.

	2013	**2012**	
	Group and Company	Group	Company
	$000	*$000*	*$000*
Non-earthquake:			
Gross claims expense/(recovery)	(608)	2,433	2,433
Reduction in reinsurance recovery	411	654	654
Total net non-earthquake claims incurred	(197)	3,087	3,087
Earthquake:			
Gross claims expense	2,251	428,207	428,207
Reinsurance recovery revenue	(27,697)	21,914	21,914
Total net earthquake claims incurred	(25,446)	450,121	450,121
Total net claims incurred	(25,643)	453,208	453,208

4. Specified cost disclosures

	2013	2012	
	Group and Company *$000*	Group *$000*	Company *$000*
Employee benefit expenses	11,139	49,457	49,457
Depreciation and amortisation	450	5,762	5,762
Superannuation (incl KiwiSaver)	144	3,081	3,081
Impairment – intercompany loans	-	-	49
Realised losses on property, plant and equipment	373	351	351
Audit fees			
30 June audit	182	113	113
31 December 2012 review	25	-	-
5 April 2012 balance sheet audit and completion balance sheet	-	210	210
Prior year audit fee under accrual	42	131	131
Other assurance services	-	34	34
Donations	-	6	6

5. Investment income and expenses

	2013	2012	
	Group and Company *$000*	Group *$000*	Company *$000*
Interest income	19,921	16,349	16,349
Dividend income	349	973	973
Rental income from investment and other properties	1,694	2,405	2,405
Gains/(losses) on fair value through profit or loss investments	1,995	(3,353)	(3,353)
Foreign exchange (losses)/gains	(1)	145	145
Unrealised (losses)/gains on property held for sale	(1,594)	766	766
Proceeds of insurance claims on properties	2,461	957	957
Demolition costs of investment properties	-	(130)	(130)
	24,825	18,112	18,112

6. Income tax

	2013	2012	
Tax (benefit)	Group and Company *$000*	Group *$000*	Company *$000*
Current tax expense	-	32	32
Deferred tax (benefit)	-	(228)	(228)
Total tax (benefit)	-	(196)	(196)
Attributable to:			
Continuing operations	-	-	-
Discontinued operations (Note 7)	-	(196)	(196)
Total tax (benefit)	-	(196)	(196)
Profit/(loss) from continuing operations	50,484	(467,513)	(467,514)
Profit from discontinued operations (Note 7)	1,826	279,232	279,232
Profit/(loss) before tax	52,310	(188,281)	(188,282)
Tax at applicable rate of 28%	14,647	(52,719)	(52,719)
Non-taxable/deductible items	(45)	(49,695)	(49,695)

Tax (benefit)	2013 Group and Company $000	2012 Group $000	2012 Company $000
Deferred tax not recognised	(64)	102,218	102,218
Tax losses recognised	(14,538)	-	-
Tax (benefit)	-	(196)	(196)

Imputation credit account:

Closing balance	158	41	34

Deferred tax asset

The balance comprises temporary differences attributable to:	2013 Group and Company $000	2012 Group $000	2012 Company $000
Financial assets	3	1,176	1,176
Property, plant and equipment	(273)	(1,510)	(1,510)
Employee provisions and accruals	333	506	506
Other provisions and accruals	100	166	166
Deferred tax benefit not recognised	(163)	(338)	(338)
Net deferred tax asset	-	-	-
Movements:			
Balance at beginning of the year	-	75	75
Charged to the statement of comprehensive income	-	229	229
Charged to other comprehensive income	-	(304)	(304)
Closing balance at 30 June	-	-	-

Taxation losses totalling $186.582 million (tax effect $52.243 million) have not been recognised at 30 June 2013 (2012: tax losses $238.503 million).

7. Discontinued operations

On 16 December 2011, the board of directors entered into a sale agreement to dispose of the Group's fire and general insurance operations. The disposal was completed on 5 April 2012, on which date control of the fire and general insurance operations passed to the acquirer. The Group retained responsibility for certain fire and general claims which are subject to catastrophe reinsurance cover.
On 28 March 2013, the Group completed a final settlement with the acquirer resulting in a gain on disposal of operations which was recognised in the current year.

The results and cash flows of the discontinued operations are set out below:

	2013 Group and Company $000	2012 Group $000	2012 Company $000
Profit from discontinued operations:			
Premium revenue	-	287,461	287,461
Less reinsurance expense	-	(39,934)	(39,934)
	-	247,527	247,527
Less net claims incurred	-	(141,226)	(141,226)
Less operating costs	-	(71,595)	(71,595)
Profit before tax	-	34,706	34,706
Attributable income tax benefit	-	196	196
Profit for the year after tax	-	34,902	34,902

	2013	2012	
	Group and Company *$000*	Group *$000*	Company *$000*
Gain on disposal of operations	1,826	244,526	244,526
Profit from discontinued operations	1,826	279,428	279,428
Other comprehensive income:			
Movement in actuarial value of defined benefit superannuation scheme	-	3,701	3,701
Tax effect of other comprehensive income	-	(1,036)	(1,036)
	-	2,665	2,665
Total comprehensive income from discontinued activities	1,826	282,093	282,093

	2013	2012	
	Group and Company *$000*	Group *$000*	Company *$000*
Cash flows from discontinued operations:	-		
Net cash flows from operating activities	-	40,924	40,924
Net cash flows from investing activities	(583)	125,397	125,397
Net cash flows	(583)	166,321	166,321

The disposal of the fire and general insurance operations affected the statement of financial position as follows:

Cash and cash equivalents	-	(237,024)	(237,024)
Receivables and prepayments	-	(6,589)	(6,589)
Insurance receivables	-	(22,758)	(22,758)
Deferred acquisition costs	-	(1,864)	(1,864)
Deferred taxation	-	(2,105)	(2,105)
Property, plant and equipment	-	(7,280)	(7,280)
Intangible assets	-	(19,502)	(19,502)
Trade and other payables	-	33,562	33,562
Employee entitlements	-	8,654	8,654
Unearned premiums	-	90,638	90,638
Outstanding claims	-	43,607	43,607
Defined benefit superannuation scheme	-	661	661
Net assets disposed	-	(120,000)	(120,000)
Net sale value	1,826	364,526	364,526
Gain on disposal of operations	1,826	244,526	244,526

8. Cash flows from operating activities

	2013	2012	
Reconciliation of profit/(loss) for the year to cash inflows from operating activities	Group and Company *$000*	Group *$000*	Company *$000*
Profit/(loss) for the year	52,310	(188,085)	(188,086)
Add/(less) non-cash items:			
Depreciation and amortisation	450	5,762	5,762
Impairment	-	-	49
Unrealised (gains)/losses	(1,351)	1,648	1,648
Unrealised movement in discounting Crown receivable to fair value	(389)	32,018	32,018
Decrease in deferred acquisition costs	-	260	260

Reconciliation of profit/(loss) for the year to cash inflows from operating activities	2013 Group and Company $000	2012 Group $000	2012 Company $000
Net movement in deferred tax asset/liability	-	75	75
Deferred tax on movements via reserves	-	(304)	(304)
Sub-total "A"	51,020	(148,626)	(148,578)
Movement in working capital items:			
Decrease/(increase) in receivables and tax	7,192	(24,505)	(24,595)
Decrease/(increase) in reinsurance and insurance receivables	425,113	269,212	269,212
(Decrease) in payables	(2,040)	(25,652)	(25,588)
Increase/(decrease) in employee entitlements	799	(7,775)	(7,775)
(Decrease) in insurance liabilities	(318,069)	(19,540)	(19,540)
Sub-total "B"	112,995	191,740	191,714
Items classified as investing activities:			
Gain on sale of operations net of working capital items	583	(95,003)	(95,003)
Decrease in interest receivable capitalised	1,960	4,158	4,158
Net loss/(gain) on sale of property, plant and equipment	373	(476)	(476)
Net loss on sale of investments	952	939	939
Sub-total "C"	3,868	(90,382)	(90,382)
Cash inflow/(outflow) from operating activities (A+B+C)	167,883	(47,268)	(47,246)

9. Share capital

	2013 Group and Company $000	2012 Group $000	2012 Company $000
Ordinary shares:			
Balance 1 July	95,580	-	-
Conversion of preference shares to ordinary shares on 5 April 2012	-	95,580	95,580
Closing balance at 30 June	95,580	95,580	95,580
Convertible preference share capital:			
Balance at 1 July	382,359	477,939	477,939
Conversion of preference shares to ordinary shares on 5 April 2012	-	(95,580)	(95,580)
Closing balance at 30 June	382,359	382,359	382,359

At 30 June 2013, there were 1,000,102 (2012: 1,000,102) ordinary shares, 400,000,000 (2012: 400,000,000) unpaid convertible preference shares and 500,000,000 uncalled ordinary shares issued on 30 January 2013. The issue price of the uncalled ordinary shares (yet to be called) is $1 per share.

Under the terms of the deed of amendment and restatement to the Crown support deed, dated 5 April 2012, the Company may issue a payment notice for a number of unpaid convertible preference shares. On payment the shares will be designated as paid-up convertible preference shares. Such shares are convertible into ordinary shares at the option of the convertible preference shareholder.

Each paid-up convertible preference share will rank equally in respect of dividends and other distributions with all ordinary shares.

Under the terms of the second deed of amendment and restatement to the Crown support deed, dated 30 January 2013, the Crown subscribed for 500,000,000 uncalled ordinary shares. The issue price of the uncalled ordinary shares (yet to be called) is $1 per share. Following the payment or redemption of all convertible preference shares, the company may issue a call notice for a number of uncalled ordinary shares. On payment the shares will be designated as called ordinary shares.

10. Property revaluation reserve

The property revaluation reserve records the movement in the fair value of land and buildings previously included in property, plant and equipment. The land and buildings held as property, plant and equipment have been re-classified to property held for sale. The transfers from the reserve to retained earnings reflects the revaluation reserve relating to properties sold during the year.

11. Cash and cash equivalents

	2013	2012	
Cash and cash equivalents	Group and Company *$000*	Group *$000*	Group *$000*
Cash held for operational purposes	9,472	7,411	7,411
Short term bank deposits	166,411	74,983	74,983
	175,883	82,394	82,394

Cash and cash equivalents represent cash on hand and held with banks, deposits on call and short term money market deposits held for investment at maturities of less than or equal to 92 days.

12. Receivables

	2013	2012	
	Group and Company *$000*	Group *$000*	Company *$000*
Accrued receivables	19,813	19,780	19,780
Investment income receivable	-	75	75
Receivables	3,205	10,089	10,089
	23,018	29,944	29,944

13. Crown receivable

	2013	2012	
	Group and Company *$000*	Group *$000*	Company *$000*
Opening Balance at 1 July	364,160	496,178	496,178
Received 5 April 2012	-	(100,000)	(100,000)
Fair value adjustment at 30 June	389	(32,018)	(32,018)
Closing balance at 30 June	364,549	364,160	364,160

On 7 April 2011, the Company entered into a Crown support deed and subscription agreement with the New Zealand Government (the Crown) under which the Crown was issued 500 million convertible preference shares, a special share and one ordinary share. These shares were called but not paid up.

On 5 April 2012 a deed of amendment and restatement to the Crown support deed was signed with the Crown. At this time the Crown paid up 100 million convertible preference shares and converted these to 1 million ordinary shares.

The Company may draw down the Crown receivable by issuing a payment notice for a number of unpaid convertible preference shares equal to the shortfall amount in any quarter, being the shortfall between the cumulative balance of the Company's reinsurance receivables and financial investments less $25 million and less any payments forecast to be made in that quarter in the ordinary course of its business.

The Crown receivable as at 30 June 2013 is recorded at its fair value taking into account all relevant circumstances including the timing of the forecast cash flows and the terms of the Crown support deed. The risk free discount rates used are in the range of 2.94% to 3.32% (30 June 2012: 2.53% to 2.84%). Cash flows of $400 million within 4 years have been assumed (30 June 2012: $400 million within 5 years).

14. Reinsurance receivables

	2013	2012	
	Group and Company *$000*	Group *$000*	Company *$000*
Gross reinsurance receivable	527,435	952,671	952,671
Discount to present value	(15,126)	(15,249)	(15,249)
	512,309	937,422	937,422
Being:			
Non-earthquake (Note 21)	135	546	546
Earthquake (Note 22)	512,174	936,876	936,876
	512,309	937,422	937,422

Changes in gross reinsurance receivable	Group and Company	
	2013 *$000*	**2012** *$000*
Balance 1 July	952,671	1,249,938
Change in gross estimated recovery	27,162	(22,567)
Reinsurance collections	(452,398)	(274,700)
Balance 30 June	527,435	952,671

At 30 June 2013, the Company and Group conducted an impairment review of the reinsurance receivables. No loss was recognised (2012: $Nil). The carrying amounts disclosed above approximate fair value at each reporting date.

Actuarial assumptions
The measurement of reinsurance and other recoveries on outstanding claims is an inherently uncertain process involving estimates. The amounts are generally calculated using actuarial assumptions and methods similar to those used for the outstanding claims liability.

Where possible, the valuation of reinsurance recoveries is linked directly to the valuation of the gross outstanding claims liability. Accordingly, the valuation of outstanding reinsurance recoveries is subject to similar risks and uncertainties as the valuation of the outstanding claims liability. Significant individual losses are analysed on a case by case basis for reinsurance purposes.

The effect of changes in assumptions
The effect of changes in assumptions on the net outstanding claims liability, which incorporates the reinsurance recoveries on outstanding claims and other recoveries receivable, is disclosed in Note 22.

15. Investments

	2013	2012	
	Group and Company *$000*	Group *$000*	Company *$000*
New Zealand Government bonds	579,591	484,379	484,379
Other fixed interest securities	93,537	97,356	97,356
Equity securities	641	820	820
	673,769	582,555	582,555

16. Property held for sale

	2013	2012	
	Group and Company *$000*	Group *$000*	Company *$000*
Opening balance at 1 July	27,670	-	-
Disposals	(18,895)	-	-
Net loss from fair value adjustment	(1,594)	-	-
Transfer from investment property	-	27,670	27,670
Closing balance at 30 June	7,181	27,670	27,670

The deed of amendment and restatement to the Crown support deed with the Crown requires the Company and Group to transfer to Crown Asset Management Limited any real property held, at independently determined fair values.

Property held for sale is stated at the lower of carrying value and fair value less costs to sell.

17. Investment properties

	2013	2012	
	Group and Company *$000*	Group $000	Company $000
Opening balance at 1 July	-	7,820	3,646
Transfer from property, plant and equipment	-	19,084	19,084
Transfer from subsidiary companies	-	-	4,174
Net gain/(loss) from fair value adjustment	-	766	766
Transfer to property held for sale	-	(27,670)	(27,670)
Closing balance at 30 June	-	-	-

Investment properties were stated at fair value, which had been determined based on valuations performed by an independent registered property valuer, Lance Collings (BBS, SPINZ) of Jones Lang LaSalle as at 5 April 2012. Jones Lang LaSalle is an industry specialist in valuing these types of investment properties. The fair value was supported by market evidence and represented the amount at which the assets could be exchanged between a knowledgeable, willing buyer and a knowledgeable, willing seller in an arm's length transaction at the date of valuation, in accordance with standards issued by the International Valuation Standards Committee.

18. Details of subsidiaries

	Principal Activity	Reporting Date	2013 Ownership	2012 Ownership
SR 1 Limited (formerly CLIC Car Insurance Limited)	Non trading	30 June 2013	100%	100%
Companies in which the Company has a beneficial interest:				
Blank Nominees Limited	Non trading	30 June 2013	100%	100%
Maydew Holdings Limited	Non trading	30 June 2013	100%	100%
Aldwych Limited	Non trading	30 June 2013	100%	100%

The subsidiaries did not trade during the year and do not have any assets or liabilities at the reporting date.
On 24 June 2013 the directors of SR1 Limited passed a resolution to wind up the Company.

19. Property, plant and equipment

2013 **Group and Company**	Furniture and Equipment *$000*	Leasehold Improvements *$000*	Motor Vehicles *$000*	Total *$000*
Cost				
Opening cost	1,290	2	234	1,526
Opening accumulated depreciation	(465)	(1)	(161)	(627)
Opening carrying value	825	1	73	899
Additions	607	341	24	972
Disposals cost	(2)	-	(106)	(108)
Disposals accumulated depreciation	1	-	82	83
Current year depreciation	(264)	(60)	(25)	(349)
Closing carrying value	1,167	282	48	1,497
Represented by:				
Closing cost	1,895	343	152	2,390
Closing accumulated depreciation	(728)	(61)	(104)	(893)
Closing carrying value	1,167	282	48	1,497

2012 **Group**	Freehold Land *$000*	Freehold Buildings *$000*	Furniture and Equipment *$000*	Leasehold Improvements *$000*	Motor Vehicles *$000*	Total *$000*
Cost or valuation						
Opening cost or valuation	8,975	25,346	29,950	9,346	5,026	78,643
Opening accumulated depreciation	-	(7,098)	(25,547)	(7,425)	(2,273)	(42,343)
Opening carrying value	8,975	18,248	4,403	1,921	2,753	36,300
Additions	-	31	3,589	1,047	612	5,279
Revaluations	577	(2,542)	-	-	-	(1,965)
Disposals	(2,481)	(4,489)	(32,249)	(10,391)	(5,404)	(55,014)
Disposals accum. depreciation	-	1,050	26,818	8,118	2,775	38,761
Transfer category – cost	(7,071)	(12,013)	-	-	-	(19,084)
Current year depreciation	-	(285)	(1,736)	(694)	(663)	(3,378)
Closing carrying value	-	-	825	1	73	899
Represented by:						
Closing cost or valuation	-	-	1,290	2	234	1,526
Closing accumulated depreciation	-	-	(465)	(1)	(161)	(627)
Closing carrying value	-	-	825	1	73	899

2012 **Company**	Freehold Land *$000*	Freehold Buildings *$000*	Furniture and Equipment *$000*	Leasehold Improvements *$000*	Motor Vehicles *$000*	Total *$000*
Cost or valuation						
Opening cost or valuation	8,975	25,346	29,802	9,346	4,998	78,467
Opening accumulated depreciation	-	(7,098)	(25,428)	(7,425)	(2,246)	(42,197)
Opening carrying value	8,975	18,248	4,374	1,921	2,752	36,270
Additions	-	31	3,589	1,047	612	5,279
Revaluations	577	(2,542)	-	-	-	(1,965)
Disposals	(2,481)	(4,489)	(32,101)	(10,391)	(5,376)	(54,838)
Disposals accum. depreciation	-	1,050	26,699	8,118	2,748	38,615
Transfer category – cost	(7,071)	(12,013)	-	-	-	(19,084)

2012 Company	Freehold Land $000	Freehold Buildings $000	Furniture and Equipment $000	Leasehold Improvements $000	Motor Vehicles $000	Total $000
Current year depreciation	-	(285)	(1,736)	(694)	(663)	(3,378)
Closing carrying value	-	-	825	1	73	899
Represented by:						
Closing cost or valuation	-	-	1,290	2	234	1,526
Closing accumulated depreciation	-	-	(465)	(1)	(161)	(627)
Closing carrying value	-	-	825	1	73	899

20. Intangible assets

	2013	2012	
	Group and Company $000	Group $000	Company $000
Software in use			
Opening cost	35	34,956	34,956
Opening accumulated amortisation	(4)	(31,522)	(31,522)
Opening carrying value	31	3,434	3,434
Additions	205	106	106
Disposals	-	(1,125)	(1,125)
Current year amortisation	(101)	(2,384)	(2,384)
Closing carrying value	135	31	31
Represented by:			
Closing cost	240	35	35
Closing accumulated amortisation	(105)	(4)	(4)
Closing carrying value	135	31	31

21. Outstanding claims liability: non-earthquake

Outstanding non-earthquake claims	2013	2012	
	Group and Company $000	Group $000	Company $000
Outstanding claims	1,652	2,751	2,751
Risk margin	106	193	193
Claims handling costs	40	108	108
Gross outstanding claims	1,798	3,052	3,052
Expected reinsurance recoveries (Note 14)	(135)	(546)	(546)
Impact of discounting on reinsurance recoveries	-	-	-
Net outstanding claims	1,663	2,506	2,506

Risk margin
The risk margin is a prudential margin calculated by an independent actuarial assessment, having regard to the inherent uncertainty of the outstanding claims liability. The risk margin is intended to provide a probability of sufficiency for the outstanding claims liability of 75%, consistent with the prior year.

Claims development
Non-earthquake claims incurred by the Company and Group are short-tail in nature. Approximately 96% of claims are paid within one year of being reported. No discounting of the outstanding claims cost has been allowed due to the short average time to settlement.

Actuarial calculation, assumptions and methods
The effective date of the actuarial report on the insurance liabilities is 30 June 2013. The actuarial report was prepared by the appointed actuary who is satisfied with the quality of data provided for the purpose of estimating insurance liabilities.

In the actuary's opinion the insurance liabilities have been prepared in accordance with the New Zealand equivalents to International Financial Reporting Standard (*NZ IFRS 4 Insurance Contracts*) and the NZ Society of Actuaries Professional Standard 4.1 governing technical liability valuations for general insurance business.

22. Outstanding claims liability: earthquake

Outstanding earthquake claims:	2013 Group and Company *$000*	2012 Group *$000*	2012 Company *$000*
Discounted central estimate	1,519,401	1,726,281	1,726,281
Risk margin	150,548	244,425	244,425
Claims handling costs	72,236	88,294	88,294
Gross discounted outstanding claims liability	1,742,185	2,059,000	2,059,000
Expected reinsurance recoveries	(527,300)	(952,125)	(952,125)
Impact of discounting on reinsurance recoveries	15,126	15,249	15,249
Reinsurance receivables (Note 14)	(512,174)	(936,876)	(936,876)
Net outstanding claims liability	1,230,011	1,122,124	1,122,124

Changes in gross discounted outstanding claims liability	Group and Company 2013 *$000*	Group and Company 2012 *$000*
Outstanding claims beginning of year	2,059,000	1,936,620
Change in central estimate	97,624	338,296
Change in claims handling expense	(16,058)	56,394
Change in discounting to present value	(8,814)	38,532
Change in risk margin	(93,877)	15,425
Claim payments	(295,690)	(326,267)
Outstanding claims end of year	1,742,185	2,059,000

Claims development

Below is a reconciliation of the central estimate to the net outstanding claims liability reflected in the financial statements.

	Group and Company 2013 *$000*	Group and Company 2012 *$000*
Central estimate	2,255,040	2,157,416
Claims handling expense	72,236	88,294
Cumulative payments	(670,357)	(374,667)
Discount to present value	(65,282)	(56,468)
Discounted central estimate	1,591,637	1,814,575
Risk margin	150,548	244,425
Gross discounted outstanding claims liability	1,742,185	2,059,000
Reinsurance receivables (refer Note 14)	(512,174)	(936,876)
Net outstanding claims liability	1,230,011	1,122,124

Actuarial calculation, assumptions and methods
The effective date of the actuarial report on the earthquake insurance liabilities is 30 June 2013. The actuarial report was prepared by the appointed actuaries, Colin Brigstock and Ashish Ahluwalia (Fellows of the Institute of

Actuaries of Australia and Fellows of the New Zealand Society of Actuaries) of Finity Consulting Pty Limited. Finity Consulting are satisfied with the quality of data provided for the purpose of estimating insurance liabilities.

In the actuary's opinion the insurance liabilities have been prepared in accordance with the New Zealand equivalents to International Financial Reporting Standard (*NZ IFRS 4 Insurance Contracts*) and the NZ Society of Actuaries Professional Standard 4.1 governing technical liability valuations for general insurance business.

Key actuarial assumptions – earthquake
The valuation of the net outstanding claims liabilities for the current financial year is based on detailed assumptions about the number of properties damaged, the mix and cost of rebuilds/repairs/cash settlements, with adjustments for the amounts of damage which will be covered by the Earthquake Commission. In addition assumptions are made regarding future economic conditions and claims handling expenses, as set out in the following table.

	2013	**2012**
	Group and Company	Group and Company
Future inflation		
• Building cost	8.60%	8.00%
• Temporary accommodation	0.00%	0.00%
• Other cover types	3.00%	3.00%
• Claims handling expenses	4.74%	5.15%
Discount rate	2.85%	2.57%
Risk margin – outstanding claims liabilities	10.00%	14.20%
Average weighted term to settlement from reporting date	1.79 years	1.83 years

Process to determine assumptions

Inflation
The actuarial models allowed for the following inflationary impacts on expected future payments:

- Building costs inflation is based on the New Zealand Treasury national forecast inflation curve, with an allowance for the additional inflation expected in the Canterbury area. The single equivalent rate of inflation is 8.6%;
- 0% per annum on temporary accommodation; and
- 3% per annum for the other cover types.

Overall this equates to 7.8% per annum (as applicable to cash flows gross of EQC and reinsurance recoveries).

Discount rate
Discounting has been applied to the outstanding claims by reference to the risk free zero coupon yields published by the New Zealand Treasury at 30 June 2013.

Claims handling expenses
The estimate of outstanding claims liabilities includes an allowance for the future cost of administrating claims. It is based on the Company's forecast costs.

Risk margin
The risk margin is expressed as a percentage of the gross (of reinsurance) discounted outstanding claims liability including claims handling expenses and intended to achieve a 75% probability of adequacy for the outstanding claims.

Three key sources of uncertainty are considered in determining the risk margin:

- Independent risk: variations of outcomes inherent in the underlying modelling processes
- Internal systemic risk or modelling error: the risk that the models have not captured all of the dynamics in relation to the event
- External systemic risk or external factors: external factors that contribute additional uncertainty.

There continues to be uncertainty attaching to many elements of the likely ultimate cost of the Company's earthquake related outstanding claims liabilities. In particular, there remains uncertainty around the ultimate cost of enhanced foundations for properties with damaged land and the level of future escalation on building costs.

However, relative to 30 June 2012, for a number of areas the uncertainties have now reduced. In particular there is greater certainty around the:

- ultimate volume of claim numbers

- adequacy of estimates in reflecting the ultimate construction costs, and
- expected EQC contribution, given that this has been agreed for approximately 60% of Over Cap property claims (2012: 10%).

Therefore, most areas that will influence the ultimate cost of settling the earthquake claims have progressed in the last twelve months. In light of this the risk margin at this valuation has been reduced to 10%. This compares to the 14.2% risk margin adopted at 30 June 2012.

Average weighted term to settlement
Expected payment patterns have been used to determine the outstanding claims liability. The payment patterns adopted have been set based on the actuary's best estimate of when the payments are likely to be made.

Sensitivity analysis – impact of changes in key variables
The impact of change in key assumptions on the net outstanding claims liabilities are shown in the table below for the Company and Group. Each change has been calculated in isolation to other changes.

Variable	Change in Variable	**2013** *$000*	**2012** *$000*
Inflation rate	+1% p.a.	29,163	22,720
	-1% p.a.	(27,531)	(22,536)
Discount rate	+1% p.a.	(18,672)	(19,300)
	-1% p.a.	19,295	20,009
Claims handling expense	+10%	7,936	10,027
	-10%	(7,936)	(10,027)
Risk margin	+1%	15,055	17,274
	-1%	(15,055)	(17,153)
Construction schedule	+1 year	18,886	21,738
	-1 year	(13,482)	(15,073)

23. Overall risk management framework

The Company's constitution defines its purpose as "to manage covered claims, to manage the Company's recoveries from reinsurers, to manage its investment portfolio and to conduct any activities that are associated with those purposes."

Covered claims include any claim made by a policyholder under any customer insurance contract relating to any retained claim event; any other claim relating to customer insurance contract indemnities; and any contract works or similar insurance policy under which the Company is or may be liable from time to time.

To help the board monitor the Company and Group's exposure to all risks (both financial and insurance) an audit and risk committee meets regularly. This committee has the responsibility of reviewing the effectiveness of risk management processes and controls. This committee also approves the Company and Group's risk management policies and meets regularly to approve any commercial, regulatory and organisational requirements of such policies.

The monitoring of financial risks is carried out by the capital committee. This committee is responsible for ensuring the Company and Group has adequate liquidity to meet its obligations and that the financial assets are managed in accordance with the investment strategy set out in the Crown support deed.

24. Insurance contracts - risk management policies and procedures

The financial condition and operation of the Company and Group are affected by a number of key risks including insurance risk, interest rate risk, credit risk and market risk.

The Company and Group now only issue contract works insurance cover in relation to the settlement of claims and associated reinsurance cover.

Strict claim review policies to assess all new and ongoing claims, ensure completion of regular detailed review of claims handling procedures and investigation of possible fraudulent claims are all policies and procedures put in place to reduce the risk exposure of the Company and Group.
The Company and Group further enforces a policy of actively managing and pursuing claims, in order to reduce its exposure to unpredictable future developments that can negatively impact the business. Inflation risk is mitigated by taking expected inflation into account when estimating insurance contract liabilities. An internal audit function has been established to assess and report on compliance with policy and procedures.

Actuarial models, using information from the management information systems and external sources, are used to calculate the outstanding claims liability. Past experience and statistical methods are used as part of this process.

25. Financial instruments - risk management policies and procedures

Financial instrument information and risk management
The key objective of the Company and Group's financial risk management activities is to ensure that the financial assets are managed in accordance with the investment strategy set out in the Crown support deed and that sufficient liquidity is maintained at all times to meet insurance liabilities.

The board has delegated the responsibility of monitoring financial assets to the capital committee.

Specific financial risks involving financial instruments other than insurance contracts

Currency risk
The Company and Group's principal business transactions are carried out in New Zealand Dollars. At 30 June 2013, the Company and Group's net exposure to foreign currency risk is $0.641 million (2012: $0.820 million).

Interest rate risk
The Company and Group is required to invest temporarily surplus cash in Crown securities with maturities that approximately match the timing of future payments expected to be made by the Company.
At 30 June, had the interest rate moved as shown in the table below, with all other variables held constant, after tax surplus and equity would have been impacted as follows:

	Group and Company	
	2013 *$000*	2012 *$000*
Impact on after tax surplus and equity	Incr/(Decr)	Incr/(Decr)
Interest rate increase – 1%	4,672	4,148
Interest rate decrease – 1%	(4,672)	(4,148)

Interest rate risk summary:

	Effective Interest Rates	Less Than 1 Year *$000*	1 to 2 Years *$000*	2 to 3 Years *$000*	3 to 4 Years *$000*	4 to 5 Years *$000*	Over 5 Years *$000*	Total *$000*
2013 – Group and Company								
Cash	2% - 4%	175,883	-	-	-	-	-	175,883
Investments	2% - 8%	626,259	20,301	15,168	5,413	1,090	4,897	673,128
		802,142	20,301	15,168	5,413	1,090	4,897	849,011
2012 – Group and Company								
Cash	2% - 4%	82,394	-	-	-	-	-	82,394
Investments	2% - 8%	510,668	21,632	22,031	14,875	5,261	7,268	581,735
		593,062	21,632	22,031	14,875	5,261	7,268	664,129

Price risk
The Company and Group has no significant concentration of equity price risk as the carrying value of equity investments at 30 June 2013 is only $0.641 million (2012: $0.820 million).

Credit risk
Credit risk is the risk that a counterparty will fail to meet their contractual commitments in full and on time. Financial assets that subject the Company and Group to credit risk principally consist of cash and fixed interest securities and insurance receivables. Cash and fixed interest securities are placed with high quality financial institutions and the amount of credit exposure to any one financial institution is limited.

The maximum exposure to credit risk on receivables at reporting date is the carrying amounts on the statement of financial position. Reinsurance receivables are spread among 37 'BBB+' or better rated individual reinsurers, with the largest individual reinsurance receivable comprising 47% of the total reinsurance receivable. The Crown receivable, while significantly concentrated, carries a sovereign rating of AA+.

Counterparty risk
The Company and Group held 68% of total cash and investments in New Zealand Government bonds and Treasury bills at reporting date. The remainder is invested in financial institutions (29%) and industry (3%) as term or on call deposits and bonds. All of these financial institutions are rated BBB or better with Standard & Poors.

Receivables represent amounts owing by reinsurers for catastrophe claim recoveries and other debtors for insurance claim recoveries. All amounts are considered to be fully recoverable and there are no overdue amounts.

Liquidity risk
The Company and Group's capital committee and treasury function review liquidity levels to ensure sufficient funds to cover obligations as they fall due.

Net discounted outstanding claims liabilities and reinsurance receivables have been determined based on expected payment patterns per actuarial models, not contractual. Investments have been determined based on contractual maturities but do have the ability to call on amounts early due to the nature of the investments held.

Liquidity table	Net Discounted Outstanding Claims Liability		Investments and Receivables	
Company	2013 *$000*	2012 *$000*	2013 *$000*	2012 *$000*
Cash and cash equivalents	-	-	175,883	82,394
Within 1 year	383,860	275,920	649,918	541,432
Within 1 to 2 years	402,051	190,617	20,301	21,632
Within 2 to 3 years	244,694	238,843	203,261	76,071
Within 3 to 4 years	201,069	246,603	181,869	240,618
Within 4 to 5 years	-	172,647	5,987	96,906
	1,231,674	1,124,630	1,237,219	1,059,053

Fair value of investment assets and liabilities
The Company and Group uses various methods to estimate the fair value of it financial assets. The methods comprise:

- Level 1: fair value is calculated using quoted prices on an active market
- Level 2: fair value is estimated using inputs other than quoted market prices included in level 1 that are observable for the asset, either directly or indirectly
- Level 3: fair value is estimated using inputs for the asset that are not based on observable market data.

The fair value of financial assets as well as the methods used to determine the fair value are summarised in the table below:

Group and Company 2013	Level 1 *$000*	Level 2 *$000*	Level 3 *$000*	Total *$000*
Crown receivable	-	-	364,549	364,549
Fixed interest securities	673,128	-	-	673,128
Equity securities	-	-	641	641
	673,128	-	365,190	1,038,318

Group and Company 2012	Level 1 *$000*	Level 2 *$000*	Level 3 *$000*	Total *$000*
Crown receivable	-	-	364,160	364,160
Fixed interest securities	581,735	-	-	581,735
Equity securities	-	-	820	820
	581,735	-	364,980	946,715

Reconciliation of level 3 fair value movements – Group and Company	**2013** *$000*	**2012** *$000*
Opening balance	364,980	497,792
Redemption of investments	-	(100,620)
Total fair value gains/(losses)	210	(32,192)
Closing balance	365,190	364,980

The level 3 amount is made up of an investment in a private equity fund and the Crown receivable.
The fair value of the fund is determined by investors taking their proportionate share of the valuation (based on either quoted market prices, or valuation techniques) of specific investments of the fund. A 10% movement in the valuation of the fund would have the effect of increasing or reducing the fair value by $64,000 (2012: $82,000).

The fair value of the Crown receivable is determined by calculating the present value of the amount receivable using New Zealand Government bond rates. The cash flow assumptions are set out in Note 13. A 1% increase in the Government bond rate would decrease the fair value of the Crown receivable by $10.3 million (2012: $12.4 million) and a 1% decrease in the bond rate would increase the fair value by $10.7 million (2012: $12.9 million).

Carrying Value of Financial Instruments
The following describes the methodologies and assumptions used to determine fair values for those financial instruments.

Assets for which fair value approximates carrying value
For financial assets and financial liabilities that have a short-term maturity, it is assumed that the carrying amounts approximate to their fair value. This assumption is also applied to demand deposits, and savings accounts without a specific maturity. It also applies to receivables, trade and other payables and employee entitlements. For other variable rate instruments an adjustment is also made to reflect the change in required credit spread since the instrument was first recognised.

Fixed rate financial instruments
The fixed rate financial assets and liabilities are carried at fair value. The estimated fair value of fixed interest bearing deposits is based on discounted cash flows using prevailing money-market interest rates for debts with similar credit risk and maturity. For quoted debt issued the fair values are determined based on quoted market prices. For those notes issued where quoted market prices are not available, a discounted cash flow model is used based on a current interest rate yield curve appropriate for the remaining term to maturity and credit spreads.

Determination of fair value and fair values hierarchy
Financial assets and liabilities measured using a valuation technique based on assumptions that are supported by prices from observable current market transactions are assets and liabilities for which pricing is obtained via pricing services, but where prices have not been determined in an active market, financial assets with fair values based on broker quotes, investments in private equity funds with fair values obtained via fund managers and assets that are valued using the Company and Group's own models whereby the majority of assumptions are market observable.

Non market observable inputs means that fair values are determined in whole or in part using a valuation technique (model) based on assumptions that are neither supported by prices from observable current market transactions in the same instrument nor are they based on available market data. The main asset classes in this category are unlisted equity investments and debt instruments. Valuation techniques are used to the extent that observable inputs are not available, thereby allowing for situations in which there is little, if any, market activity for the asset or liability at the measurement date. However, the fair value measurement objective remains the same, that is, an exit price from the perspective of the Company and Group. Therefore, unobservable inputs reflect the Company and Group's own assumptions about the assumptions that market participants would use in pricing the asset or liability (including assumptions about risk). These inputs are developed based on the best information available, which might include the Company and Group's own data.

26. Employee remuneration

Remuneration band	2013 Number of employees	2012 Number of employees Continuing operations	2012 Number of employees Discontinued operations
$510,000 pa - $519,999 pa	1	-	-
$400,000 pa - $409,999 pa	1	-	-
$320,000 pa - $329,999 pa	-	-	1
$280,000 pa - $289,999 pa	-	-	1
$260,000 pa - $269,999 pa	-	-	1
$240,000 pa - $249,999 pa	1	-	-
$230,000 pa - $239,999 pa	-	-	1
$190,000 pa - $199,999 pa	-	-	1
$180,000 pa - $189,999 pa	1	-	-
$170,000 pa - $179,999 pa	-	-	2
$160,000 pa - $169,999 pa	1	-	1
$150,000 pa - $159,999 pa	2	-	-
$140,000 pa - $149,999 pa	1	-	2
$130,000 pa - $139,999 pa	1	-	4
$120,000 pa - $129,999 pa	2	1	12
$110,000 pa - $119,999 pa	1	-	5
$100,000 pa - $109,999 pa	4	2	10

Remuneration includes salary, performance bonuses, employer's contributions to superannuation, health and insurance plans, motor vehicle and other sundry benefits received in their capacity as employees or former employees of the Company excluding directors.

Employees transferring to the purchaser of the business as usual insurance business on 5 April 2012 are classified in discontinued operations.

27. Director remuneration

Continuing Directors	**Total 2013** $	Ordinary Fees $	Special Fees $	**Total 2012** $	Ordinary Fees $	Special Fees $
Ross Butler	76,403	70,245	6,158	22,937	17,162	5,775
Anne Urlwin	60,242	48,275	11,967	19,267	10,726	8,541
Jenn Bestwick	37,664	35,620	2,044	13,140	8,581	4,559
Bevan Killick	37,825	35,620	2,205	15,025	8,581	6,444
Susan Thodey	40,278	35,620	4,658	9,626	8,581	1,045
David Whyte	41,213	35,620	5,593	13,323	8,581	4,742

Retired Directors	**2013** $	**2012** $
Kerry Nolan	-	84,914
John Balmforth (1)	-	875,741
Richard Flower	-	53,969
Brian Gargiulo	-	35,434
Trevor Kerr	-	53,737
Philip Shewell	-	42,261
John Pritchard	-	36,372

(1)Salary paid as an executive director

With the exception of the executive director, the retired directors' remuneration listed above for the year ended 30 June 2012 is comprised solely of directors' fees as approved at 2011 annual general meeting of the Company.

The shareholding Ministers approved ordinary fees of $261,000 and special fees of $32,625 of which the actual spend was $32,625 for the period from 1 July 2012 to 30 June 2013. Differences in director's individual fees reflect payments to directors from these special fees for additional work done by them.

28. Capital commitments

At 30 June 2013, the Company and Group has capital commitments of $Nil (2012: $Nil).

29. Operating leases

	2013		2012	
	Group and Company		Group and Company	
	Future Income *$000*	Future Expenditure *$000*	Future Income *$000*	Future Expenditure *$000*
Future income and expenses under non-cancellable operating leases:				
Not later than 1 year	-	998	314	636
Later than 1 year, not later than 5 years	-	2,960	-	1,041
Later than 5 years	-	251	-	-
	-	4,209	314	1,677

Premises are leased under normal commercial terms, which include rights of renewal.

30. Related party transactions

Remuneration of key management personnel
Key management personnel are those directors and executive managers who have authority and responsibility for planning, directing and controlling the activities of the Group.

	Group and Company			
	2013 Total *$000*	2012 Total *$000*	Continuing *$000*	Discontinued *$000*
Short-term employee benefits	1,161	2,905	800	2,105
Post-employment benefits and retiring allowances	-	207	-	207
Remuneration of key management personnel	1,161	3,112	800	2,312

Management fees
The Group paid Members Trust management fees of $Nil (2012: $32,000).

AMI superannuation scheme
The Company was sponsor to an employee superannuation scheme (the Scheme). In addition to contributions made to the Scheme, the Company met some of the operating costs of the Scheme, such as audit fees and actuarial valuations. These additional costs totalled $Nil (2012: $10,000).

Loans to companies (impairment of advances)
The Company had made loans to three nominee companies that were sole purpose property owning companies situated in Christchurch in which the Company has a 100% beneficial interest. These properties suffered a significant loss in value as a result of the earthquakes resulting in the nominee companies having reduced ability to fully repay the loans. An impairment charge of $0.049 million was therefore recognised in the Company's financial statements for the year ended 30 June 2012.

Transactions with various Crown entities
Included in investments and cash and cash equivalents at 30 June 2013 are $579.591 million (2012: $484.379 million) of Government bonds, $Nil (2012: $7.076 million) of bonds and $40.184 million (2012: Nil) of term deposits held in various State Owned Enterprises.

Details relating to the Crown receivable are disclosed in Note 13. Accrued receivables of $19.813 million (2012: $19.780 million) included in Note 12 are the expected recovery from the Earthquake Commission of the Commission's contribution to claims which have been settled in full by the Company.

On 28 February 2013, Crown Asset Management Limited purchased property held for sale from the Company for $15.842 million. On 11 March 2013, Canterbury Earthquake Recovery Authority purchased property held for sale from the Company for $0.2 million.

31. Events after reporting date

The Company has entered into a contract to sell property held for sale to Crown Asset Management Limited at its carrying value of $4 million. The sale is expected to take place in September 2013. There have been no other significant events after the reporting date.

32. Comparison against statement of intent forecast financial statements

Statement of comprehensive income	Ref.	Actual 30 June 2013 $000	Forecast 30 June 2013 $000
Net claims incurred	1.	25,643	(13,853)
Operating costs		(373)	-
Net claims cost		**25,270**	**(13,853)**
Investment income	2.	24,825	17,851
Profit for the year from discontinued operations		1,826	-
Restate Crown receivable to present value		389	9,655
Net surplus/(deficit) after taxation		**52,310**	**13,653**

Statement of financial position		Actual 30 June 2013 $000	Forecast 30 June 2013 $000
Total Shareholders' equity		**5,051**	**(33,606)**
Represented by:			
Assets			
Cash and cash equivalents *	2.	175,883	446,049
Bonds and equities *	2.	673,769	-
Crown receivable		364,549	373,815
Receivables		23,018	34,688
Reinsurance receivables	3.	512,309	172,189
Properties held for sale		7,181	-
Property, plant and equipment		1,497	1,395
Intangible assets		135	-
Total assets		**1,758,341**	**1,028,136**
Less:			
Liabilities			
Trade and other payables		9,307	9,000
Tax balances		-	94
Outstanding claims	4.	1,743,983	1,052,648
Total liabilities		**1,753,290**	**1,061,742**
Net assets		**5,051**	**(33,606)**

* the statement of intent forecast financial statements classify bonds and equity holdings as cash and cash equivalents

Statement of cash flows	Ref.	Actual 30 June 2013 $000	Forecast 30 June 2013 $000
Cash flows from operating activities			
Investment income		27,241	17,851
Claim costs - earthquake	4.	(291,762)	(1,011,859)
Claim costs - recoveries	3.	452,398	775,737
Payments to suppliers and employees		(20,260)	(26,319)
Income tax paid		266	-
Net cash inflow/(outflow) from operating activities		**167,883**	**(244,590)**
Cash flows from financing activities			
Proceeds from Crown receivable		-	-
Net Cash inflow/(outflow) from financing activities		-	-
Cash flows from investing activities			
Proceeds from sale of investment properties		18,546	27,670
Payments for property, plant and equipment		(972)	(1,162)
Payments for intangible assets		(205)	-
Payments for financial assets	2.	(99,804)	-
Sales and maturities of financial assets		8,624	-
(Final settlement of)/proceeds from sale of business		(583)	-
Net cash (outflow)/inflow from investing activities		**(74,394)**	**26,508**
Net increase/(decrease) in cash and cash equivalents		**93,489**	**(218,082)**
Add opening cash and cash equivalents *		82,394	664,131
Ending cash and cash equivalents *		**175,883**	**446,049**

* the statement of intent forecast financial statements classify bonds and equity holdings as cash and cash equivalents

1. Actual net claims resulted in $26m revenue compared to the forecasted expense of $14m. This is principally due to movements in the outstanding claims and reinsurance receivables, which are not forecast. The significant movements in balances contributing to this were the $98m increase in the gross central estimate, being offset by a $94m release of the risk margin and $27m increase in the expected reinsurance recoveries as a result of the increased gross central estimate in respect of the June event.
2. Actual cash and bond and equities holdings were $404m greater reflecting the slower than forecast claims settlements as a result of slower than anticipated ramp up of the rebuild/repair programme. This increased holding of investments has resulted in an increase in investment income.
3. Actual reinsurance receivables remaining are $340m greater than forecast reflecting the slower than forecast claims settlement, as illustrated in the above cash flow.
4. The actual outstanding claims liability is $691m greater than forecast primarily due to the slower than forecast claim settlements as illustrated in the above cash flow.

33. Contingent liabilities

The company from time to time receives notification of legal claims and disputes as a commercial outcome of conducting it business. The company defends all such claims.

SOUTHERN RESPONSE EARTHQUAKE SERVICES LIMITED

Statement of Service Performance

1 July 2012 – 30 June 2013

Objective 1 : **To operate efficient, cost-effective, consistent and fair claims management and re-build processes in accordance with the company's insurance policy obligations, and consistent with preserving its rights under reinsurance treaties**

Initiative	Performance measure	KPI target	Status
Comply with industry code of practice standards to facilitate successful outcomes for customers in a cost effective manner.	Operation of effective systems to deliver consistent and fair claims decisions in efficient cost-effective and timely manner.	By 30 July 2012: Complete the documentation of the current processes.	**Met**
	Timely and effective communication with Customers regarding claims progress and building opportunities.	By 31 December 2012: 95% of Decision Packs (offers) returned from Arrow distributed to customers.	**Partially met:** By 31 December 2012 6,630 assessments and costings had been completed with 6,044 or 91% of these being incorporated into decision packs and distributed to customers. Factors affecting this outcome were the number of properties which, upon assessment were determined to be under the EQC cap and therefore not Southern Response's responsibility.
		By 30 June 2013: 70% of customers have made their settlement decisions following issue of customer decision packs (settlement options) and holding customer conferences.	**Met**
		All disputes managed in accordance with Dispute Resolution Process.	**Met**
		By 30 September 2012: Implement a Reporting and Monitoring process where actual claims settlement experience is measured against actuarial assessments.	**Met**
		By 31 December 2012: determine a suite of performance metrics, integrate these with periodic reporting and progressively integrate any emerging potential areas of savings into budgets.	**Met**
		By 31 March 2013: Review the appropriateness and efficiency of the company's cost structure through undertaking an annual benchmarking review and, utilising an internal change management assessment function, progressively incorporate any emerging potential areas into budgets.	**Met**

	Timely and effective communication with Customers regarding claims progress and building opportunities.	By 31 October 2012: Complete and implement the rebuild strategic priority model and commence communication with customers.	**Met**
Seek to take industry-leading roles in utilisation of building capacity, procurement systems and in research and innovation that expedite and enhance the effectiveness of the rebuild.	Demonstrable assessment of Southern Response industry-leading contribution and progress with claim and building throughput; engagement with leading building industry participants: geo-technical, building regulatory and structural advice integrated in operations.	By 31 December 2012: develop a standardised suite of consentable TC3 foundation solutions.	**Met**
		By 31 March 2013: determine a rebuilding optimisation model, with recognition of Southern Response's then experience in the utilisation of building resources and in addressing environmental constraints to building.	**Met**
		By 31 March 2013: gear up to a throughput target of 83 construction starts per month for the remainder of 2013 and for 2014. This is to achieve the annual target of 1,000 repairs/rebuilds per year.	**Partially met:** Construction starts in March 2013 reached 143 and reached 202 in June 2013. Delays in achieving this throughput target are due to unanticipated complexity in completing geotechnical and foundation reports and agreeing EQC contributions.
		By 31 March 2013: finalise procurement arrangements.	**Met**

Objective 2 : **To develop and maintain effective relationships with key stakeholders**

Initiative	Performance measure	KPI target	Status
Optimise the strategic and operational interaction with CERA, EQC, DBH, insurers and key community groups.	Operation of effective relationship management protocols.	By 31 October 2013: develop a relationship management protocol that provides for appropriate strategic and operational interaction with CERA and EQC.	**Met**
		Participate in relevant DBH forums and working groups to facilitate the development and implementation of measures to aid the rebuild of Canterbury houses.	**Met**

Objective 3 : **To manage the business and associated risk consistent with minimising the net cost to the Crown associated with the run-off of the claims portfolio as at 5 April 2012.**

Initiative	Performance measure	KPI target	Status
Develop and maintain an effective risk management framework.	Risk management framework.	By 31 December 2012: Implement a risk management system.	**Met**
Develop and maintain systems to achieve good ratings in the company's management, financial and service performance information systems and controls.	Assessment by the company's auditors.	For the 30 June 2013 end of year accounts: ratings of good or better in the assessment provided by the external auditors as part of the annual financial statements audit process.	**Met**
Maintain monitoring and management systems to ensure compliance with contractual obligations.	Compliance with contractual obligations.	By 31 July 2012: implement a monitoring and reporting system for key contractual obligations.	**Met**
Maintain appropriate reinsurance claim processes to ensure the receipt of all reinsurance recoveries.	Keep reinsurers fully informed of financial cash flow projections and policy interpretation issues.	Reporting requirements of reinsurers are met.	**Met**
	Management plans in place to deal with issues raised in reinsurance audits.	Matters raised in reinsurance audits are resolved within agreed timeframes.	**Met**

Objective 4 : **To manage investments and liquidity in accordance with the investment management policy**

Initiative	**Performance measure**	**KPI target**	**Status**
Implement the Investment Management policy as directed by the Crown.	Investment management policy and cash flow forecasting systems implemented.	By 31 December 2012: complete and implement a cashflow forecasting and reporting framework.	**Met**

Objective 5 : **To operate the business within operational budgets**

Initiative	***Performance measure***	***KPI target***	***Status***
Enhance cost and operational efficiencies by progressively integrating resources to achieve economies of scale.	Integration of resources.	By 31 December 2012: examine operational integration opportunities for claims management and project management.	**Met**
Develop and maintain employer policies and practices to enhance the company's ability to attract and retain skilled staff with realistic pay and employment conditions.	Development of policies and practices.	By 30 September 2012: Develop and implement other relevant employer policies that comply with the Crown Entities Act and Shareholding Ministers expectations.	**Met**
		By 30 November 2012: Implement a staff turnover reporting system.	**Met**
		By 31 December 2012: develop the Optimisation Model and refine current policies and practices to support staff optimisation going forward.	**Met**