

# Southern Response Earthquake Services Limited

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*(Formerly AMI Insurance Limited)*

## Statement of Performance Expectations

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For the period from 1 July 2015 to 30 June 2016

## Introduction

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This Statement of Performance Expectations (SPE) has been prepared by the Board of Southern Response Earthquake Services Ltd (“Southern Response” or the “Company”) (formerly AMI Insurance Ltd) in accordance with Part 4 of the Crown Entities Act 2004.

It sets out:

- The Statement of Service Performance which details classes of outputs forecast to be supplied by the Company in pursuit of its strategic objectives and for each class of output the standards of delivery performance for the period from 1 July 2015 to 30 June 2016.
- The prospective financial statements for the period 1 July 2015 to 30 June 2016 and the subsequent three years.

### Statement of Responsibility

Southern Response is responsible for the Statement of Service Performance and the prospective financial statements and contained in this document, including the appropriateness of the assumptions underlying them. Southern Response is also responsible for internal control systems, which provide reasonable assurance as to the integrity and reliability of financial reporting.



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**Ross G Butler**  
Chairman



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**Anne J Urlwin**  
Deputy Chairman

**19 June 2015**

## Prospective Statement of Service Performance 2015-16

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

<i>Initiative</i>	<i>Performance measure</i>	<i>KPI</i>
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	<ul style="list-style-type: none"> <li>• 30 June 2016: Decision Packs (offers) distributed to 99% of customers for whom a claim notification has been received by December 2015</li> <li>• 30 June 2016: Settlement elections have been made by 92.5% of customers issued with Decision Packs prior to 31 March 2016</li> <li>• 30 June 2016: Damage assessments completed for 100% of those customers from whom a claim notification has been received by February 2016</li> </ul>
	Regular and effective communication with customers appropriate for their stage in the claims settlement process.	<ul style="list-style-type: none"> <li>• 30 June 2016: Regular and measurable communication is taking place with customers who are in the build queue</li> </ul>
	Build costs efficiency managed	<ul style="list-style-type: none"> <li>• Actual build cost within 5% of the estimated value of scope of repair/rebuild (RFP DRA<sup>1</sup>).</li> </ul>

<sup>1</sup> Detailed Repair/Rebuild Analysis updated at the time of issue of a Request for Proposal (tender) to builders.

<p>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 in terms of time, quality and costs</p>	<p>Demonstrable assessment of Southern Response's 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</p>	<ul style="list-style-type: none"> <li>• 31 December 2015: 1,432<sup>2</sup> house repairs/rebuilds completed</li> <li>• 30 June 2016: 1,880<sup>3</sup> house repairs/rebuilds completed</li> <li>• Ensure that the quality of the work undertaken is of an industry-leading standard with reference to Southern Response's quality management framework and quality metrics from completed work</li> <li>• December 2015 and June 2016: survey MBIE and CERA as to their impressions of Southern Response performance and contribution.</li> </ul>
<p>Operate both dispute resolution and dispute prevention systems that is equitable and responsive to all customers while observing customers' entitlements from their AMI policy</p>	<p>Business as Usual areas manage and resolve customer disagreements</p>	<ul style="list-style-type: none"> <li>• Ongoing: Dispute rates in Technical Review and Resolution area below 5% of total overcap claims</li> </ul>

<sup>2</sup> This throughput target has been derived through analysis of the Canterbury residential market capacity and the demand anticipated from the insurance response in the residential sector.

<sup>3</sup> This throughput target has been derived through analysis of the Canterbury residential market capacity and the demand anticipated from the insurance response in the residential sector.

**Objective 2 :** To manage the business and associated risk consistent with minimising the net cost to the Crown.

<i>Initiative</i>	<i>Performance measure</i>	<i>KPI</i>
Maintain an effective risk management framework that balances risk with progress	Risk management framework and system	<ul style="list-style-type: none"> <li>Ongoing: Maintain risk monitoring and management reporting framework and quarterly reporting to the Audit &amp; Risk Committee</li> </ul>
Maintain systems to achieve good ratings of the company's management control environment and financial information systems and controls	Assessment by the company's auditors	<ul style="list-style-type: none"> <li>30 September 2015: Ratings of "good" or better in the assessment provided by the external auditors as part of the 2015 annual financial statements audit process</li> </ul>
Maintain monitoring and management systems to ensure compliance with contractual obligations	Compliance with contractual obligations	<ul style="list-style-type: none"> <li>Ongoing half yearly September and March: Maintain a monitoring and reporting system for key contractual obligations</li> </ul>

**Objective 3 : To manage investments and liquidity in accordance with the investment management policy**

<i>Initiative</i>	<i>Performance measure</i>	<i>KPI</i>
To manage investments and liquidity in accordance with the terms of the investment management policy and the Crown Support Deed	Liquidity management and cash flow forecasting and reporting systems are maintained	<ul style="list-style-type: none"> <li>Liquidity managed in accordance with investment management policy.</li> </ul>
	Draw downs under the Crown Support Deed forecast to Treasury in accordance with the terms of the Crown Support Deed	<ul style="list-style-type: none"> <li>Positive liquidity maintained</li> </ul>
Maintain appropriate reinsurance claim processes to ensure the receipt of all recoveries due	Keep reinsurers fully informed of financial cash flow projections and policy interpretation issues	<ul style="list-style-type: none"> <li>Ongoing: Manage funding requests to Reinsurers to minimise impact on Southern Response's cash reserves</li> </ul>

**Objective 4: To maintain effective relationships with key stakeholders**

<b>Initiative</b>	<b>Performance measure</b>	<b>KPI</b>
Optimise the strategic and operational interaction with CERA <sup>4</sup> , CCC, EQC <sup>5</sup> , MBIE, insurers and key community groups	Operation of effective relationship management protocols	<ul style="list-style-type: none"><li>• Ongoing: Maintain a relationship management protocol that provides for appropriate strategic and operational interaction with CERA, EQC, insurers and ICNZ</li><li>• Ongoing: Participate in relevant forums and working groups to facilitate the development and implementation of measures to aid the rebuild of Canterbury houses</li></ul>

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<sup>4</sup> Canterbury Earthquake Recovery Authority

<sup>5</sup> Earthquake Commission

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

<b>Initiative</b>	<b>Performance measure</b>	<b>KPI</b>
Achieve cost and operational efficiencies by progressively integrating resources to achieve economies of scale thereby ensuring an overall efficient and seamless claims management cost structure	Integration of resources	<ul style="list-style-type: none"><li>• 30 September 2014 and 31 March 2015: Review staff resourcing and update transition resource model</li></ul>
Controls and scrutiny in place to manage the cost of Arrow International and other key suppliers	Cost control	<ul style="list-style-type: none"><li>• 31 December and 30 June: Undertake cost base assessment of Arrow International – internal or external</li></ul>
Maintain employer policies and practices to enhance the company's ability to attract, retain and manage optimisation of skilled staff with realistic pay and employment conditions	Operation of policies and practices	<ul style="list-style-type: none"><li>• 30 June: Unplanned turn-over rate consistently less than 25% per annum on rolling quarterly basis</li></ul>
Identify any intangible assets (including intellectual property suitable for transfer or sale prior to the eventual wind-down of the company	Any identified	<ul style="list-style-type: none"><li>• 30 June: Active process in place to identify and quantify applicable value</li></ul>



**Objective 6 : To promote healthy and safe workplaces**

<b><i>Initiative</i></b>	<b><i>Performance measure</i></b>	<b><i>KPI</i></b>
To take an leading role in health and safety matters in relation to the Canterbury Earthquake recovery	Ensure a best practice health and safety environment for staff, visitors and those involved in the delivery of Southern Response's rebuild activity including Arrow contractors, sub contractors and home owners	<ul style="list-style-type: none"><li>• December 2015 and June 2016: survey building panel members as to Southern Response performance and rating against industry</li><li>• Ongoing: No charges or prosecutions arising from H&amp;S breaches</li></ul>

## Forecast Financial Statements

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### Statement of Assumptions

#### Timelines

The forecast is based in the following claim processing milestones:

Item	Date
Notification of residual claims currently undercap with EQC	March-June 2015
Assessment of residual claims and distribution of settlement offers/Decision Packs (target within 4 months of claims lodgement)	March-December 2015
Option selection/negotiation: 92.5% completed for customers issued with a Decision Pack	30 June 2015
Build Contract administration	March 2015 – November 2018
Operational model sees Southern Response rundown as all properties complete the build phase and residual issues are cleared.	February 2015 – November 2018
Claim closing/EQC reconciliation	June 2017 - December 2018

#### Income Statement

- The fair value adjustments to the Crown Receivable upon execution of the amended Crown Support Deed and subsequent amortisation of the discount are treated respectively as non deductible interest expense/non-assessable interest income.
- Investment income is based on 3% yield on all investment funds.
- Staff numbers reflect the immediate claims management workload to receive and process remaining assessments and customer decisions proceeding to cash settlements or build contract administration and claim closure over the term of the runoff.

#### Balance Sheet

- Equity reflects the conversion of \$100m of preference shares to ordinary shares on 5 April 2012.
- Further conversions of preference shares and drawdowns on the Crown Receivable of \$182m in 2016 year and \$218m in the 2017 are forecast.
- Total calls of \$242m in the 2017 year and \$177m in the 2018 year of the uncalled capital facility are forecast once the Crown Receivable is fully drawn.
- The receivable from the Crown is valued on DCF basis, using discount rates of 3.81-3.91%, reflecting the forecast timing of cash draw downs over the 10-year life of the Crown Support Deed.
- The majority of the capital expenditure relates to ICT costs.

#### Claims Liability and Reinsurance Receivable

- The Risk Margin was assessed by Finity at 30 June 2014 at 10% (\$127m) of the Gross Central Estimate and has been adjusted in line with subsequent revaluations of the Gross Central Estimate. The risk margin at 31 March 2015 is \$119m (10.0%). The forecast financial statements assume the risk margin will be required to settle customer claims.

- The Claims Liability provision is discounted to reflect the payment profile. This discount amounted to \$54m at 30 June 2014 and \$47m at 31 March 2015. The discount is amortised (debited) to the profit and loss account as claims are paid.
- The Claims Liability includes a provision for Claims Handling Expenses. As Southern Response is solely a claims settlement organisation the Actuarial valuation includes a provision for both claims handling costs and corporate costs for the projected settlement period.
- Reinsurance Recoveries are discounted to reflect the forecast receipt profile. This discount amounted to \$7m at 30 June 2014 and \$3m at 31 March 2015 and is amortised (debited) to the profit and loss account as recoveries are received.

#### **Cash Flow**

- The Crown Receivable is available to be drawn as required to meet claims payments/operating expenses after reinsurance and reserves are exhausted. Drawdowns over the period covered by this SOI total \$182m in the year ended 30 June 2016. Extended forecasts indicate a requirement for drawdowns of \$218m in the year ended 30 June 2017.
- Following full drawdown of the Crown Receivable the Uncalled Capital facility will be available for drawdown. Extended forecasts indicate requirements for drawdowns on this facility of \$242m in the year ended 30 June 2017 and \$177m in the year ended 30 June 2018.

#### **Taxation**

- Southern Response is a tax paying entity.
- Tax losses of some \$849 million arising in the 2011 financial year and in the 2012 financial year prior 5 April 2012, when the Crown converted its preference shares to ordinary shares and assumed control of the company, were lost due to a breach of shareholding continuity rules.
- Further tax losses of approximately \$312m arose in the 2012-2014 years post change in control and are available to offset assessable income arising in future years.
- The fair value adjustments to the Crown Receivable and the subsequent unwinding of the discount will be treated as non deductible expense/non assessable income based on tax advice received.

#### **Going Concern**

- The financial forecasts have been prepared using the going concern assumption.
- At 30 June 2012 the Company had a net asset deficit of \$47million as a result of increases in the estimated level of claim liabilities which included a risk margin of \$244 million. In addition cash flow forecasts prepared by the Company indicated that the assets of the Company might not have been sufficient to meet the claim payment obligations particularly if the full risk margin was required to settle claims.
- Consequently, the Crown subscribed to a further \$500 million of uncalled capital to ensure the Company had sufficient cash and capital to meet the payment of claim obligations as they fall due. Cabinet approved the funding arrangement in principle on 24 October 2012 and an amended Crown Support Deed and Subscription Agreement were entered into on 30 January 2013. This funding arrangement is in addition to the Crown Support Deed and Subscription Agreement entered into on 5 April 2012.
- The financial forecasts indicate a call of \$419m being made on the uncalled capital during the 2017 and 2018 financial years.
- On the basis of the above the Directors concluded that it is appropriate to prepare the forecasts for the years ended 30 June 2015, 30 June 2016, 30 June 2017, 30 June 2018 and 30 June 2019 on a going concern basis.

### **Key Risks to the Financial Forecasts**

- The actuarial valuation of the claims liability may vary in subsequent valuations. Key components of this are:
  - Ultimate claim numbers
  - Building cost escalation
  - Repair scope creep due to engineering and compliance requirements and customer expectations
  - Enhanced foundation costs and the impact on build costs
  - EQC contributions to the repair of land damage and impact on foundation costs
  - Collectability of reinsurance recoveries
- The risk margin, currently 10%, is subject to ongoing review by the Actuaries and may be reduced to a level more in line with business as usual property claims as greater certainty is achieved in the Actuarial assumptions. The forecast is prepared on the basis that the risk margin remains at 10%.
- The life of the earthquake reconstruction project is dependent upon the rate of completion of rebuilds and repairs. Should current build/repair forecasts not be met the timeframe of the project may increase which will impact on claims handling expenses and building cost escalation.

## Forecast Financial Statements

Forecast Statement of Comprehensive Income	Year ending 30 June 2015 \$000	Year ending 30 June 2016 \$000	Year ending 30 June 2017 \$000	Year ending 30 June 2018 \$000	Year ending 30 June 2019 \$000
Net Claims Incurred - Earthquake	(321,232)	(23,683)	(10,667)	(2,566)	(180)
Operating Costs	-	-	-	-	-
<b>Net Claims Cost</b>	<b>(321,232)</b>	<b>(23,683)</b>	<b>(10,667)</b>	<b>(2,566)</b>	<b>(180)</b>
Investment Income	17,325	4,355	1,203	999	106
Restate Crown Receivable to Present Value	12,215	13,229	1,577	-	-
<b>Net Surplus/(Deficit) before Taxation</b>	<b>(291,692)</b>	<b>(6,098)</b>	<b>(7,887)</b>	<b>(1,568)</b>	<b>(73)</b>
Less Taxation Benefit/(Expense)	-	-	-	-	-
<b>Net Surplus/(Deficit) after Taxation</b>	<b>(291,692)</b>	<b>(6,098)</b>	<b>(7,887)</b>	<b>(1,568)</b>	<b>(73)</b>

Forecast Statement of Financial Position	30 June 2015	30 June 2016	30 June 2017	30 June 2018	30 June 2019
	\$000	\$000	\$000	\$000	\$000
<b>Shareholders' Equity</b>					
Convertible Preference Shares	382,351	208,381	-	-	-
Ordinary Shares	95,588	269,558	719,938	896,938	896,938
Opening Retained Surplus/(Deficit)	(588,639)	(880,331)	(886,430)	(894,316)	(895,884)
Transfer to Crown	-	-	-	-	(981)
Surplus/(Deficit)	(291,692)	(6,098)	(7,887)	(1,568)	(73)
Closing Retained Surplus/Deficit	(880,331)	(886,430)	(894,316)	(895,884)	(896,938)
<b>Total Shareholders' (Deficit)/Equity</b>	<b>(402,392)</b>	<b>(408,491)</b>	<b>(174,378)</b>	<b>1,054</b>	<b>(0)</b>
Represented by:					
<b>Assets</b>					
Financial Assets					
Cash and Cash Equivalents	204,732	25,636	25,176	21,760	-
Bonds and Equities	100,000	-	-	-	-
Crown Receivable	385,194	216,423	-	-	-
Reinsurance Receivables	102,407	12,171	4,331	357	-
Other Receivables	8,290	4,046	2,023	-	-
Properties Held for Sale	3,181	-	-	-	-
Property, Plant and Equipment	1,122	1,048	322	127	-
<b>Total Assets</b>	<b>804,925</b>	<b>259,323</b>	<b>31,852</b>	<b>22,244</b>	<b>-</b>
Less:					
<b>Liabilities</b>					
Trade and Other Payables	4,020	2,003	1,003	-	-
Tax Balances	-	-	-	-	-
Outstanding Claims	1,203,297	665,812	205,228	21,190	-
<b>Total Liabilities</b>	<b>1,207,317</b>	<b>667,815</b>	<b>206,231</b>	<b>21,190</b>	<b>-</b>
<b>Net Assets</b>	<b>(402,392)</b>	<b>(408,491)</b>	<b>(174,379)</b>	<b>1,054</b>	<b>-</b>

Forecast Statement of Cash Flows	Year ending 30 June 2015	Year ending 30 June 2016	Year ending 30 June 2017	Year ending 30 June 2018	Year ending 30 June 2019
	\$000	\$000	\$000	\$000	\$000
<b>Cash Flows from Operating Activities</b>					
Investment Income	16,521	4,355	1,899	1,172	212
Claim Costs - Earthquake	(546,677)	(539,858)	(458,444)	(180,264)	(20,342)
Reinsurance Recoveries	101,843	91,691	8,034	4,025	359
Customer EQC advances/recoveries	4,385	198	-	-	-
Payments to Suppliers and Employees	(27,049)	(22,305)	(12,825)	(6,305)	(1,008)
Other Receipts	(756)	2,036	1,021	1,020	-
Income Tax Paid	-	-	-	-	-
<b>Net Cash Inflow from Operating Activities</b>	<b>(451,733)</b>	<b>(463,882)</b>	<b>(460,315)</b>	<b>(180,351)</b>	<b>(20,779)</b>
<b>Cash Flows from Financing Activities</b>					
Proceeds from Crown Receivable	-	182,000	218,000	-	-
Proceeds from Uncalled Capital	-	-	242,000	177,000	-
Crown withdrawal	-	-	-	-	(981)
<b>Net Cash Inflow/(Outflow) from Financing Activities</b>	<b>-</b>	<b>182,000</b>	<b>460,000</b>	<b>177,000</b>	<b>(981)</b>
<b>Cash Flows from Investing Activities</b>					
Proceeds from Investments (incl Tbills)	521,309	103,181	-	-	-
Proceeds from Sale of fixed assets	-	-	-	-	-
Payments for Property, Plant and Equipment	(286)	(395)	(145)	(65)	-
<b>Net Cash Inflow/(Outflow) from Investing Activities</b>	<b>521,023</b>	<b>102,786</b>	<b>(145)</b>	<b>(65)</b>	<b>-</b>
<b>Net Increase/(Decrease) in Cash and Cash Equivalents</b>	<b>69,290</b>	<b>(179,096)</b>	<b>(460)</b>	<b>(3,416)</b>	<b>(21,760)</b>
Add Opening Cash and Cash Equivalents	135,442	204,732	25,636	25,176	21,760
<b>Ending Cash and Cash Equivalents</b>	<b>204,732</b>	<b>25,636</b>	<b>25,176</b>	<b>21,760</b>	<b>0</b>

## **Abridged Statement of Accounting Policies**

### **Reporting entity**

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 4A of the Public Finance Act 1989. The registered office for the Company is located at 6 Show Place, Addington, Christchurch. The Company'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.

### **Basis of preparation**

The forecast financial statements are for the years ended 30 June 2015, 30 June 2016, 30 June 2017, 30 June 2018 and 30 June 2019.

The forecast financial statements have been prepared in accordance with the Crown Entities Act 2004 which includes the requirement to comply with Generally Accepted Accounting Practice in New Zealand (NZ GAAP).

It is intended that the annual historical financial statements for the above periods will be prepared in accordance with NZ GAAP, New Zealand equivalents to International Financial Reporting Standards (NZ IFRS) and other applicable financial reporting standards as appropriate for profit oriented companies.

Actual financial results achieved for each forecast period are likely to vary from information presented and the variation may be material.

The forecast 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*.

The forecast financial statements have been presented on a going concern basis, deemed appropriate given the funding arrangement provided under the Crown support deed.

### **Functional and presentation currency**

The forecast financial statements are presented in New Zealand dollars and unless specifically stated otherwise are rounded to the nearest thousand dollars (\$'000). The functional currency of the Company is New Zealand dollars (NZ\$).

### **Significant accounting policies**

#### ***Accounting policies related to insurance contracts***

All of the general insurance products 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).

#### **Outwards Reinsurance**

Premiums paid to reinsurers for contract works reinsurance policies held by the Company are allocated to claims and recognised as a claim cost, reducing the outstanding claims liability.

#### **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 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.

#### ***Accounting policies applicable to other activities***

##### 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 will be 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.

##### 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 the outstanding claims liability*

As part of its investment strategy, the Company actively manages its investment portfolio to ensure that investments mature in accordance with the expected pattern of future cash flows arising from the outstanding claims liability.

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*

Other financial are designated in the manner appropriate to their function. Two designations used by the Company 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 approximate their fair value.
- 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 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.

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

All software assets included in the financial statements have useful lives of between 1 and 4 years.

### Property, plant and equipment

Property, plant and equipment assets are 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
- leasehold improvements – term of lease
- motor vehicles - 5 years

### *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 three months 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 Company, 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

#### *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 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.

#### 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.

#### **Critical accounting judgements and estimates**

The Company makes 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.

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 takes 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 uses an actuarial valuation carried out by an independent actuary.

#### **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.

#### **Valuation of the Crown receivable**

The Crown receivable is recorded at the fair value of projected cash flows based on forecast payments of claim settlements and operating costs.