AMI Insurance Limited
Annual Report
For the year ended 30 June 2011

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Deloitte.

INDEPENDENT AUDITOR'S REPORT

TO THE SHAREHOLDERS OF
AMI INSURANCE LIMITED & GROUP

The Auditor-General is the auditor of AMI Insurance 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 of the company and group on her behalf.

We have audited the financial statements of the company and group on pages 8 to 59, that comprise the statement of financial position as at 30 June 2011, 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.

Opinion on the Financial Statements

In our opinion the financial statements of the company and group on pages 8 to 59:

- 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 2011; and
    - financial performance and cash flows for the year ended on that date.

Emphasis of Matter – Uncertainties associated with the Outstanding Claims Liability and Reinsurance Receivables

Without modifying our opinion, we draw your attention to Notes 3, 17 and 29 to 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 the disclosures to be adequate.

Opinion on 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 16 September 2011. 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 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 are free from material misstatement.

Material misstatements are differences or omissions of amounts and disclosures that would affect a reader's overall understanding of the financial statements. 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. The procedures selected depend on our judgement, including our assessment of risks of material misstatement of the financial statements 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 that give a true and fair view of 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
- the overall presentation of the financial statements.

We did not examine every transaction, nor do we guarantee complete accuracy of the financial statements. In accordance with the Financial Reporting Act 1993, we report that we have obtained all the information and explanations we have required. 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 that:

- comply with generally accepted accounting practice in New Zealand; and
- give a true and fair view of the company and group's financial position, financial performance and cash flows.

The Board of Directors is also responsible for such internal control as it determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The Board of Directors' responsibilities arise from the Financial Reporting Act 1993.

Responsibilities of the Auditor

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

Independence

When carrying out the audit, we followed the independence requirements of the Auditor-General, which incorporate the independence requirements of the New Zealand Institute of Chartered Accountants.

In addition to the audit we have carried out assignments in the area of other assurance services which is compatible with those independence requirements. Other than the audit and these assignments, we have no relationship with or interests in the company or any of its subsidiaries.

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

This audit report relates to the financial statements of AMI Insurance Limited for the year ended 30 June 2011 included on AMI Insurance Limited's website. The Board are responsible for the maintenance and integrity of AMI Insurance Limited's website. We have not been engaged to report on the integrity of the AMI Insurance Limited's website. We accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website. The audit report refers only to the financial statements named above. It does not provide an opinion on any other information which may have been hyperlinked to/from these financial statements. If readers of this report are concerned with the inherent risks arising from electronic data communication they should refer to the published hard copy of the audited financial statements and related audit report dated 16 September 2011 to confirm the information included in the audited financial statements presented on this website. Legislation in New Zealand governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

DIRECTORS' REPORT

The Directors of AMI Insurance Limited (the Company) submit the annual financial statements of the Company for the financial year ended 30 June 2011.

In order to comply with the annual report provisions of the Companies Act 1993, the Directors report as follows:

The names and particulars of the Directors of the Company during or since the end of the financial year are:

Directors

Name (all entities)	Particulars
K G L Nolan	Chairman of Directors, Chairman of Information Support Committee, Member of Capital Committee, Member of Remuneration Committee and Superannuation Scheme Trustee
J B Balmforth	Executive Director, Member of Investment Committee
R M Flower	Chairman of Investment Committee, Member of Audit and Risk Management Committee, Superannuation Scheme Trustee
B D Gargiulo	Director
T L Kerr	Chairman of Remuneration Committee, Chairman of Capital Committee, Chairman (since 17 March 2011) of Audit & Risk Management Committee.
P M Shewell	Director, Member of Audit and Risk Management Committee, Member of Information Support Committee
D J Wolfenden	Chairman of Audit and Risk Management Committee, Member of Information Support Committee (resigned effective 28 February 2011)
D J Pritchard	Director (appointed effective 7 April 2011)

The above named Directors held office during and since the end of the financial year except for D J Wolfenden.

The Directors established a new sub-committee (the Capital Committee) following the entering into of the Crown Support Deed on 7 April 2011. Full details can be found at Notes 4 and 30.3 of the financial statements.

Entries recorded in the Interests Register

No entries in the Interest Register have been made during the financial year ended 30 June 2011 requiring disclosure in this Annual Report pursuant to sections 211(1)(e) and 140(1) of the Companies Act 1993.

Directors' Interest in transactions

There have been no interests registered by Directors in transactions during the financial year ended 30 June 2011.

Share dealings by Directors

There have been no share dealings by Directors during the financial year ended 30 June 2011.

Disclosure of interests by Directors

Mr K G L Nolan is a retired partner in the legal firm Duncan Cotterill. The Company contracts legal services from Duncan Cotterill on normal commercial terms.

Changes in state of affairs

During the reporting year the Company entered into a Crown Support Deed arrangement, providing additional capital to the Company. Full details can be found in Note 4 of the financial statements. The Directors believe that the state of affairs of the Company at 30 June 2011 is satisfactory.

Appointment of Auditor

Following a tender process overseen by the Audit and Risk Management Committee of the Board, the Board appointed Deloitte as auditor to the Company and its subsidiaries for the year ended 30 June 2011. However, a consequence of signing the Crown Support Deed (refer Note 4 in the financial statements) on 7 April 2011 was that Office of the Auditor-General then assumed responsibility for the 30 June 2011 statutory audit of the Company and its subsidiaries. The Auditor-General has the power to delegate her audit responsibility and decided that Michael Wilkes of Deloitte would be her Appointed Auditor for the Company and its subsidiaries.

The Appointed Auditor has only provided statutory audit and other assurance services to the Company or its subsidiaries during the year.

Use of Company information
During the year, the Board received no notices from the Directors requesting to use company information received in their capacity as Directors, which would not otherwise have been available to them.

Director Remuneration

	Fees	Salary & Other Benefits
K G L Nolan	$111,434	$Nil
J B Balmforth	$Nil	$992,069*
R M Flower	$75,097	$Nil
B D Gargiulo	$49,387	$Nil
T L Kerr	$59,185	$Nil
P M Shewell	$52,666	$Nil
D J Wolfenden	$39,344	$Nil
D J Pritchard	$11,117	$Nil

** This includes $122,700 performance bonus relating to the financial year ended 30 June 2010.*

The Directors' fees listed above for the year ended 30 June 2011 reflect the $398,230 approved at the Annual General Meeting in November 2010.

Directors' and Officers' Allowance
The constitution of the Company provides indemnity to its Directors and Officers for liability incurred in successfully defending proceedings against them.

The Company has arranged Directors' and Officers' Liability Insurance to indemnify the Company for costs incurred in reimbursing a Director or Officer of the companies in the Group in the successful defence of an action. The cost associated with this was $57,400.

Director Retirement Allowance
In line with market practice, the Company usually provides for retirement allowances to Directors, however, no retirement allowance was paid in the year ended 30 June 2011.

Employee Remuneration
Grouped below, in accordance with section 211(1)(g) of the Companies Act 1993, are the number of employees or former employees of the Company, excluding Directors of the Company, who received remuneration and other benefits in their capacity as employees, totalling $100,000 or more, during the year ended 30 June 2011.

Remuneration	Number of employees
$370,000 pa - $379,999 pa	1
$300,000 pa - $309,999 pa	2
$280,000 pa - $289,999 pa	1
$230,000 pa - $239,999 pa	1
$220,000 pa - $229,999 pa	1
$200,000 pa - $209,999 pa	1
$190,000 pa - $199,999 pa	1
$180,000 pa - $189,999 pa	3
$170,000 pa - $179,999 pa	1
$160,000 pa - $169,999 pa	3
$150,000 pa - $159,999 pa	13
$140,000 pa - $149,999 pa	7
$130,000 pa - $139,999 pa	2
$120,000 pa - $129,999 pa	17
$110,000 pa - $119,999 pa	14
$100,000 pa - $109,999 pa	26

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.

Donations
During the financial year ended 30 June 2011 the Company donated $9,600 to various organisations and individuals around the country.

This annual report, together with the accompanying financial statements were approved and authorised for issue by the Board on 16 September 2011.

For and on behalf of the Board

K G L Nolan	J B Balmforth
Director	Director

AMI INSURANCE LIMITED

Statements of Comprehensive Income

for the year Ended 30 June 2011

	Note	2011 Group $000	2011 Company $000	2010 Group $000	2010 Company $000
Premium Revenue		**361,822**	**361,822**	332,413	332,413
Less Reinsurance Expense		**(46,147)**	**(46,147)**	(12,156)	(12,156)
Net Premium Income		**315,675**	**315,675**	320,257	320,257
Less Net Claims Incurred – Business as Usual	7	**(187,552)**	**(187,552)**	(194,922)	(194,922)
– Earthquake	7	**(760,300)**	**(760,300)**	-	-
Less Operating Costs	8	**(99,256)**	**(106,448)**	(98,458)	(98,328)
Net Underwriting (Loss)/Profit		**(731,433)**	**(738,625)**	26,877	27,007
Investment Income	9	**25,410**	**29,722**	24,805	26,635
Net (Deficit)/Surplus Before Taxation		**(706,023)**	**(708,903)**	51,682	53,642
Less Taxation Benefit/(Expense)	10	**1,008**	**637**	(19,091)	(18,680)
Net (Deficit)/Surplus After Taxation		**($705,015)**	**($708,266)**	$32,591	$34,962
Other Comprehensive Income					
Revaluation of Land and Buildings		**1,256**	**1,256**	(128)	(128)
Movement in Actuarial Value of Defined Benefit Superannuation Scheme		**(802)**	**(802)**	(1,700)	(1,700)
Tax Effect of Other Comprehensive Income	10	**(32)**	**(32)**	554	554
Other Comprehensive Income/(Loss) for the year, net of tax		**422**	**422**	(1,274)	(1,274)
Total Comprehensive (Loss)/Income for the year		**($704,593)**	**($707,844)**	$31,317	$33,688

The attached accounting policies and notes form part of and should be read in conjunction with these financial statements.

AMI INSURANCE LIMITED

Statements of Changes in Equity – Group

for the year Ended 30 June 2011

	Note	Convertible Preference Shares $000	(Accumulated Losses)/Retained Earnings $000	Property Reval'n Reserve $000	Disaster Reserve $000	Total Equity $000
2011						
Opening Balance 1 July 2010		-	**347,485**	**13,564**	**5,000**	**366,049**
Loss for the Year		-	**(705,015)**	-	-	**(705,015)**
Revaluation of Land and buildings		-	-	**1,256**	-	**1,256**
Actuarial movement in defined benefit superannuation scheme		-	**(802)**	-	-	**(802)**
Transfer Disaster Reserve to Retained Earnings	13	-	**5,000**	-	**(5,000)**	-
Tax Effect of Items Recognised in Other Comprehensive Income	10	-	**225**	**(257)**	-	**(32)**
Other Comprehensive Income/(Loss) for the Year		-	**4,423**	**999**	**(5,000)**	**422**
Total Comprehensive Income/(Loss) for the Year		-	**(700,592)**	**999**	**(5,000)**	**(704,593)**
Increase In Convertible Preference Shares	12	**477,939**	-	-	-	**477,939**
Closing Balance 30 June 2011		**$477,939**	**($353,108)**	**$14,563**	**$Nil**	**$139,394**
2010						
Opening Balance 1 July 2009		-	315,161	13,648	5,000	333,809
Impact of Change in Accounting policy	2.7	-	923	-	-	923
Surplus for the Year		-	32,591	-	-	32,591
Revaluation of Land and buildings		-	-	(128)	-	(128)
Actuarial movement in defined benefit superannuation scheme		-	(1,700)	-	-	(1,700)
Tax Effect of Items Recognised in Other Comprehensive Income	10	-	510	44	-	554
Other Comprehensive Income for the Year		-	(1,190)	(84)	-	(1,274)
Total Comprehensive Income for the Year		-	31,401	(84)	-	31,317
Increase In Convertible Preference Shares	12	-	-	-	-	-
Closing Balance 30 June 2010		**$Nil**	**$347,485**	**$13,564**	**$5,000**	**$366,049**

The attached accounting policies and notes form part of and should be read in conjunction with these financial statements.

AMI INSURANCE LIMITED

Statements of Changes in Equity – Company

for the year Ended 30 June 2011

	Note	Convertible Preference Shares $000	(Accumulated Losses)/Retained Earnings $000	Property Reval'n Reserve $000	Disaster Reserve $000	Total Equity $000
2011						
Opening Balance 1 July 2010		-	**350.736**	**13,564**	**5,000**	**369,300**
Loss for the Year		-	**(708,266)**	-	-	**(708,266)**
Revaluation of Land and buildings		-	-	**1,256**	-	**1,256**
Actuarial movement in defined benefit superannuation scheme		-	**(802)**	-	-	**(802)**
Transfer Disaster Reserve to Retained Earnings	13		**5,000**		**(5,000)**	-
Tax Effect of Items Recognised in Other Comprehensive Income	10	-	**225**	**(257)**	-	**(32)**
Other Comprehensive Income/(Loss) for the Year		-	**4,423**	**999**	**(5,000)**	**422**
Total Comprehensive Income/(Loss) for the Year		-	**(703,843)**	**999**	**(5,000)**	**(707,844)**
Increase In Convertible Preference Shares	12	**477,939**	-	-	-	**477,939**
Closing Balance 30 June 2011		**$477,939**	**($353,107)**	**$14,563**	**$Nil**	**$139,395**
2010						
Opening Balance 1 July 2009		-	316,041	13,648	5,000	334,689
Impact of Change in Accounting Policy	2.7	-	923	-	-	923
Surplus for the Year		-	34,962	-	-	34,962
Revaluation of Land and buildings		-	-	(128)	-	(128)
Actuarial movement in defined benefit superannuation scheme		-	(1,700)	-	-	(1,700)
Tax Effect of Items Recognised in Other Comprehensive Income	10	-	510	44	-	554
Other Comprehensive Income/(Loss) for the Year		-	(1,190)	(84)	-	(1,274)
Total Comprehensive Income/(Loss) for the Year		-	33,772	(84)	-	33,688
Increase In Convertible Preference Shares	12	-	-	-	-	-
Closing Balance 30 June 2010		$0	$350,736	$13,564	$5,000	$369,300

The attached accounting policies and notes form part of and should be read in conjunction with these financial statements.

AMI INSURANCE LIMITED

Statements of Financial Position – Group

As at 30 June 2011

	Note	**2011** *$000*	2010 *$000*	2009 *$000*
SHAREHOLDERS' EQUITY				
Total Shareholders' Equity		**139,394**	366,049	334,732
Represented By:				
ASSETS				
Financial Assets				
Cash and Cash Equivalents	14	**108,872**	149,396	126,497
Receivables	15	**5,419**	5,968	6,297
Crown Receivable	16	**496,178**	-	-
Insurance Receivables		**10,096**	8,747	6,752
Reinsurance Receivables	17	**1,196,538**	1,323	2,354
Investments	18	**387,046**	333,014	293,529
Deferred Acquisition Costs	19	**2,124**	2,395	2,313
Current Taxation		**286**	-	-
Deferred Taxation	10	**75**	-	3,328
Investment Properties	20	**7,820**	12,781	3,681
Property, Plant and Equipment	22	**36,300**	34,483	45,414
Intangible Assets	23	**16,160**	7,001	7,089
Total Assets		**2,266,914**	555,108	497,254
Less:				
LIABILITIES				
Trade and Other Payables		**33,244**	24,898	15,867
Employee Entitlements	26	**8,322**	9,542	8,985
Current Taxation		-	4,942	1,824
Deferred Taxation	10	-	289	-
Unearned Premium	27	**96,665**	95,466	86,890
Outstanding Claims - Business As Usual	28	**48,307**	50,652	47,225
Outstanding Claims - Earthquake	29	**1,936,620**	-	-
Defined Benefit Superannuation Scheme	25	**4,362**	3,270	1,731
Total Liabilities		**2,127,520**	189,059	162,522
Net Assets		**$139,394**	$366,049	$334,732

The attached accounting policies and notes form part of and should be read in conjunction with these financial statements.

AMI INSURANCE LIMITED

Statements of Financial Position – Company

As at 30 June 2011

	Note	2011 $000	2010 $000	2009 $000
SHAREHOLDERS' EQUITY				
Total Shareholders' Equity		**139,395**	369,300	335,612
Represented By:				
ASSETS				
Financial Assets				
Cash and Cash Equivalents	14	**108,442**	147,828	126,040
Receivables	15	**5,359**	5,928	6,256
Crown Receivable	16	**496,178**	-	-
Insurance Receivables		**10,096**	8,747	6,752
Reinsurance Receivables	17	**1,196,538**	1,323	2,354
Investments	18	**387,046**	333,014	293,529
Deferred Acquisition Costs	19	**2,124**	2,395	2,313
Current Taxation		**218**	-	-
Deferred Taxation	10	**75**	90	3,328
Investment Properties	20	**3,646**	3,731	3,681
Investment and Loans in Subsidiary Companies	21	**4,699**	13,526	12,566
Property, Plant and Equipment	22	**36,270**	34,429	34,183
Intangible Assets	23	**16,160**	7,001	7,089
Total Assets		**2,266,851**	558,012	498,091
Less:				
LIABILITIES				
Trade and Other Payables		**33,180**	24,800	15,806
Employee Entitlements	26	**8,322**	9,542	8,985
Current Taxation	10	-	4,982	1,842
Unearned Premium	27	**96,665**	95,466	86,890
Outstanding Claims - Business As Usual	28	**48,307**	50,652	47,225
Outstanding Claims - Earthquake	29	**1,936,620**	-	-
Defined Benefit Superannuation Scheme	25	**4,362**	3,270	1,731
Total Liabilities		**2,127,456**	188,712	162,479
Net Assets		**$139,395**	$369,300	$335,612

The attached accounting policies and notes form part of and should be read in conjunction with these financial statements.

AMI INSURANCE LIMITED

Statements of Cash Flows

for the year Ended 30 June 2011

	Note	2011 Group $000	2011 Company $000	2010 Group $000	2010 Company $000
CASH FLOWS FROM OPERATING ACTIVITIES					
Premiums Received from Customers		361,124	361,124	341,803	341,803
Interest Received		20,535	20,470	18,502	18,476
Dividends Received		2,312	2,312	2,651	2,651
Other Investment Income		2,063	1,538	1,973	1,724
Claim Costs – Business as usual		(189,923)	(189,923)	(192,459)	(192,459)
Claim Costs – Earthquake		(55,079)	(55,079)		
Claim Costs - Recoveries		34,862	34,862		
Payments to Suppliers and Employees		(90,185)	(89,953)	(84,720)	(84,645)
Payments For Reinsurance		(45,494)	(45,494)	(12,156)	(12,156)
Income Tax Paid		(4,615)	(4,579)	(11,779)	(11,719)
Net Cash Inflow From Operating Activities	11	35,600	35,278	63,815	63,675
CASH FLOWS FROM FINANCING ACTIVITIES					
Costs of Raising Crown Support Capital		(15,644)	(15,644)	-	-
Proceeds from Subsidiary Companies		-	1,453	-	(960)
Net Cash Inflow/(Outflow) From Financing Activities		(15,644)	(14,191)	-	(960)
CASH FLOWS FROM INVESTING ACTIVITIES					
Proceeds from Sale of Property, Plant and Equipment		293	293	305	305
Payments for Property, Plant and Equipment		(4,891)	(4,884)	(4,981)	(4,969)
Payments for Intangible Assets		(6,199)	(6,199)	(4,063)	(4,063)
Payments for Financial Assets		(280,912)	(280,912)	(213,296)	(213,301)
Sales and Maturities of Financial Assets		233,010	233,010	179,734	179,716
Net Cash Inflow/(Outflow) From Investing Activities		(58,699)	(58,692)	(42,301)	(42,312)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		(38,743)	(37,605)	21,514	20,403
Add Opening Cash and Cash Equivalents		149,396	147,828	126,497	126,040
Foreign Exchange Gains/(losses) on operating cash		(1,781)	(1,781)	1,385	1,385
ENDING CASH AND CASH EQUIVALENTS	14	$108,872	$108,442	$149,396	$147,828

The attached accounting policies and notes form part of and should be read in conjunction with these financial statements.

Notes to the Financial Statements

1. SUMMARY OF ACCOUNTING POLICIES

1.1 General Information

AMI Insurance Limited (the Company) is a limited liability company incorporated and domiciled in New Zealand.

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

The Company and Group's principal business is fire and general insurance, AMI writes almost exclusively domestic lines of business (private motor, dwelling, contents and pleasure boat) with a small number of commercial policies (farm properties and "light commercial use" motor vehicles). It also manages an investment portfolio.

The financial statements for the Company and Group were authorised for issue by the Directors on 16 September 2011.

2. BASIS OF PREPARATION

2.1 Statement of Compliance

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.

The Company and Group financial statements also comply with International Financial Reporting Standards (IFRS).

2.2 Basis of Measurement

The financial statements have been prepared on a historical cost basis, except for Land and Buildings, Investment Properties and Financial Assets (including the Crown Receivable) which have been measured at fair value. All outstanding claims liabilities and reinsurance receivables have been measured at fair value as required by *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.

2.3 Presentation Currency

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

2.4 Presentation Format

The Company and Group present its statement 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.

2.5 Principles of Consolidation

The consolidated financial statements incorporate the assets and liabilities of all entities controlled by the Company and Group 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.

2.6 Changes in accounting policies and comparatives

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

2.6.1 New NZ IFRS Standards that have come into effect

2.6.1.1 Improvements to IFRSs (effective for years beginning from 1 July 2009)

In May 2009 the IASB issued an omnibus of amendments to its standards, affecting the financial statements for the year ended 30 June 2010 and 30 June 2011, primarily with a view to removing inconsistencies and clarifying wording. The adoption of the following amendments resulted in changes to accounting policies but did not have any impact on the reported financial position or performance of the Company and Group.

2.6.1.2 NZ IAS 7 Statement of Cash Flows

Explicitly states that only expenditure that results in recognizing an asset can be classified as cash flows from investing activities. In previous reporting periods, some investment income cash flows arising from investments in financial assets were disclosed as cash flows from investing activities. These are now disclosed as operating cash flows.

2.6.1.3 NZ IAS 18 Revenue

The Directors have added guidance to the accounting policies to determine whether the Company and Group are acting as a principal or as an agent in revenue transactions. The Company and Group have assessed their revenue arrangements against the criteria provided by the revised standard and concluded current recognition of revenue is consistent with the standard. The impact of the improvements was limited to additional disclosures and has been applied on a prospective basis.

2.6.2 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 not yet effective, and have not been adopted early by the Company and Group.

Management anticipates that all pronouncements will be adopted in the first accounting period beginning on or after the effective date of the new standard. Information on new standards, amendments and interpretations that are expected to be relevant to the Company and Group financial statements is provided below. Certain other new standards and interpretations issued but not yet effective, that are not expected to have a material impact on the Company and Group’s financial statements have not been disclosed.

2.6.2.1 NZ IAS 24 Related Party Disclosures (effective for years beginning 1 January 2011)

The amended standard clarified the definition of a related party to simplify the identification of such relationships and to eliminate inconsistencies in its application. The revised standard introduces a partial exemption of disclosure requirements for government-related entities. The revised standard is not expected to have an impact on the reported financial position and performance of the Company and Group.

2.6.2.2 2010 Improvements to IFRSs (effective for years beginning from 1 January 2010)
In May 2010 the IASB issued the annual omnibus of minor amendments to IFRS standards affecting the financial statements for the year ended 30 June 2011 and 30 June 2012. Minor amendments effective from July 2010 have been considered in the preparation of these financial statements. Management has yet to complete a detailed review of amendments effective for 2012, however, upon preliminary review the impact is not expected to be significant.

2.6.2.3 Deferred Tax
Deferred Tax: Recovery of Underlying Assets (Amendments to NZ IAS 12)
The Company and Group have not yet adopted amendments to *NZ IAS 12 Income Taxes* issued in February 2011. The Company and Group will comply with mandatory adoption required for accounting periods commencing from 1 January 2012.

The amendments to *NZ IAS 12 Income Taxes* introduce a rebuttable presumption that the measurement of deferred tax liabilities or deferred tax assets arising from investment properties measured at fair value should reflect the tax consequences of recovering the amount entirely through sale. This presumption is rebutted if the investment property is depreciable and is held within a business model whose objective is to substantially consume all the economic benefits of the investment property over time rather than through sale.

Under the previous accounting policy, deferred tax was recognised using the Statement of Financial Position approach, which resulted in deferred tax being recognised on the difference between the carrying amount of investment properties for financial reporting purposes and the tax base.

2.6.3 Recently issued standards (effective for years beginning from 1 January 2013)
In May 2011 the International Accounting Standards Board (IASB) issued the following accounting standards that will be incorporated into NZ IFRS:

- *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 have a material impact on the Company and Group financial statements; however a full understanding of the standards has yet to be obtained.

2.6.4 NZ IFRS Standards that have been adopted early
In the current year, the Company and Group have applied *NZ IFRS 9 Financial Instruments* (as issued in November 2009 and revised in October 2010) and the related consequential amendments in advance of its effective date. The Company and Group have applied *NZ IFRS 9 Financial Instruments* retrospectively and comparative amounts have been restated, where appropriate.

2.6.4.1 Financial assets
NZ IFRS 9 Financial Instruments introduces new classification and measurement requirements for financial assets that are within the scope of *NZ IAS 39 Financial Instruments - Recognition and Measurement*. Specifically, *NZ IFRS 9 Financial Instruments* requires all financial assets to be classified and subsequently measured at either amortised cost or fair value on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets.

The Company and Group have elected to designate financial instruments at fair value through profit or loss (FVTPL) if doing so eliminates or significantly reduces an accounting mismatch.

As at 30 June 2011, the Directors have reviewed and assessed the Company and Group's existing financial assets. The initial application of *NZ IFRS 9 Financial Instruments* has had an impact on the following financial assets of the Company and Group:

- the Company and Group's financial assets that were classified as held-to-maturity financial assets under *NZ IAS 39 Financial Instruments - Recognition and Measurement* have been designated as FTVPL financial assets, and
- the Company and Group's investments in equity instruments (not held for trading) that were previously classified as available-for-sale financial assets and were measured at fair value at each reporting date under *NZ IAS 39 Financial Instruments - Recognition and Measurement* have been designated as FVTPL.

The impact of the application of *NZ IFRS 9 Financial Instruments* is that the cumulative fair value gains in relation to the Company and Group's Available For Sale (equity and bond) investments as at 30 June 2009 have been reclassified from the investments revaluation reserve to retained earnings. The impact on the Company and Group's held to maturity investments was to recognise the investments at fair value.

In 2010, the fair value gains in relation to the Company and Group's holding of held to maturity assets have been included in net surplus after tax. The fair value gains on the Available For Sale investments has been reclassified from other comprehensive income to profit or loss.

2.7 Comparatives

2.7.1 Held-to-maturity and available for sale assets now classified as fair value through profit or loss

For all periods up to and including 30 June 2010, the Company and Group prepared its financial statements in accordance with NZ IAS 32 *Financial Instruments: Presentation* and NZ IAS 39 *Financial Instruments: Recognition and Measurement*. These financial statements, for the year ended 30 June 2011, are the first the Company and Group have prepared reflecting the early adoption of NZ IFRS 9 *Financial Instruments*.

Accordingly, the Company and Group have prepared financial statements that comply with the applicable financial reporting standards for the 30 June 2011 reporting date. In preparing these financial statements, the Company and Group's opening statement of financial position was restated as at 1 July 2010, the Group's date of transition to the revised standards.

The table below highlights the principal adjustments made by the Company in reinstating its NZ GAAP statement of financial position as at 1 July 2010 and to previously published NZ GAAP financial statements for the year ended 30 June 2010.

Company	2010 Previously Reported *$000*	Reclassified *$000*	Reclassified Available for sale *$000*	Remeasure - ments Held To Maturity *$000*	2010 Restated *$000*
Total Shareholders' Equity	**367,204**	**0**	**-**	**2,096**	**369,300**
Other Assets	214,838	-	-	-	214,838
Insurance Receivables	-	8,747	-	-	8,747
Reinsurance Receivables	-	1,323	-	-	1,323
Financial Assets - Investments	330,020	-	-	2,994	333,014
Deferred Taxation	988	-	-	898	90
Total Assets	545,846	10,070	-	2,096	558,012
Total Liabilities	(178,642)	(10,070)	-	-	(188,712)
Net Assets	**367,204**	**00**	**-**	**2,096**	**369,300**
Net Premium Income	320,257	-	-	-	320,257
Net Underwriting Profit	27,007	-	-	-	27,007
Investment Income	24,217		742	1,676	26,635
Net Surplus Before Taxation	**51,224**	-	-	-	**53,642**
Taxation Expense	(17,805)	-	(372)	(503)	(18,680)
Net Surplus After Taxation From	**33,419**	**-**	**370**	**1,173**	**34,962**
Other Comprehensive Income	(128)	-	-	-	(128)
Increase/(Decrease) in Fair Value of Available for Sale Financial Assets	615	-	(615)	-	-
Impairment Losses transferred to Net	127	-	(127)	-	-
Movement in Actuarial Value of Defined Benefit Superannuation Scheme	(1,700)	-	-	-	(1,700)
Tax Effect of Other Comprehensive	182	-	372	-	554
Other Comprehensive Income for the year, net of tax	(904)	-	(370)	-	(1,274)
Total Comprehensive income for the year	**32,515**	**-**	**-**	**1,173**	**33,688**

The table below highlights the principal adjustments made by the Company in reinstating its NZ GAAP statement of financial position as at 1 July 2009.

	2009 Previously Reported $000	Reclassified $000	Reclassified Available for sale *$000*	Remeasure - ments Held To Maturity $000	2009 Restated $000
Total Shareholders' Equity	**334,689**	**-**	**-**	**923**	**335,612**
Other Assets	192,128	-	-	-	192,128
Insurance Receivables	-	6,752	-	-	6,752
Reinsurance Receivables	-	2,354	-	-	2,354
Financial Assets - Investments	292,211	-	-	1,318	293,529
Deferred Taxation	3,723	-	-	(395)	3,328
Total Assets	488,062	9,106	-	923	498,091
Total Liabilities	(153,373	(9,106)	-	-	(162,479)
Net Assets	**334,689**	**-**	**-**	**923**	**335,612**

The reclassification and re-measurement above apply only to the Company. There were no IFRS adjustments in the subsidiaries.

2.7.2 Outstanding Claims Presentation

During the year ended 30 June 2010, reinsurance claim recoveries and non-reinsurance claim recoveries were recorded against the outstanding claims liability, as is standard practice for the insurance industry. However, given that reinsurance limits have been exceeded the Directors believe reinsurance claim recoveries should be recorded as a separate receivable. To this effect, Insurance receivables and Reinsurance receivables have been disclosed separately in the statement of financial position. The 2010 comparative for the outstanding claims liability increased from $40.582 million, as reported last year to $50.652 million.

3. IMPACT OF CANTERBURY EARTHQUAKES

3.1 Business conditions

During the year three major earthquake events occurred in the Canterbury region. They occurred on 4 September 2010, 22 February 2011 and 13 June 2011 and the insurance claims arising from these three events had a significant impact on both the Company and the Group. In addition there were a number of less significant earthquakes that also resulted in claims impacting the Company and Group.

A separate actuarial report considering the economic consequences of these earthquake events was commissioned by the Directors so that the Company and Group could separately report on the cumulative impact of these events at 30 June 2011.

Following the 22 February 2011 earthquake event, the Directors and management worked closely with its independent consulting actuaries and various Government agencies (including the Reserve Bank of New Zealand) to assess the financial impact on both the Company and the Group.

Outlined below is a summary of the claims and reinsurance position arising before and after each major event, to meet all current and future insurance claims made by its policyholders.

3.2 Assessed claims and associated reinsurance arrangements

At 1 July 2010 the Company had $369.3 million of capital and reserves and $600 million of reinsurance cover (including a deductible of $5 million) with automatic reinstatement of reinsurance cover to the same level should a significant natural disaster event occur.

3.2.1 The 4 September 2010 earthquake

As a result of the 4 September earthquake that was centered around Darfield, the actuarially determined gross amount of claims the Company expects to settle with its policyholders is $694.5 million, including a risk margin of $78.4 million.

After taking account of the time value of money ($30.4 million) and payments to policyholders ($33.5 million) the total gross claims liability relating to this event at 30 June 2011 is $630.6 million.

Offsetting these claims was the reinsurance that the Company had in place at the beginning of the year. After taking account of the deductible of $5m a total of $595m will be claimed back from reinsurers. The time value of money and cash advances received from the reinsurers reduces the amount receivable at 30 June 2011 to $538.4 million.

Following the 4 September 2010 event, the Directors instructed management to put in place another $400 million of reinsurance cover to cover a third claim event. The cost of putting this additional reinsurance in place was $5.45 million.

3.2.2 The 22 February 2011 earthquake

The actuarially determined gross amount of claims the Company expects to settle with its policyholders as a result of this earthquake that was centered in Lyttleton is $1,277.4 million, including a risk margin of $149.7 million.

After taking account of the time value of money ($59.2 million) and payments to policyholders ($14.3 million) the total gross claims outstanding amount relating to this event at 30 June 2011 is $1,203.9 million.

Offsetting these claims was the reinsurance that the Company had in place at the beginning of the year. After taking account of the deductible of $5m a total of $595m will be claimed back from reinsurers. The time value of money and cash advances received from the reinsurers reduces the amount receivable at 30 June 2011 to $569.9 million.

Following the 22 February 2011 earthquake event the Directors approached the New Zealand Government for capital assistance, which culminated in the Company entering into the Crown Support Deed (refer Note 4.1 below).

At the same time, the Directors also increased the level of reinsurance cover for a third event from $400 million to $1 billion. The cost to the Company of increasing its third event reinsurance cover by $600 million was $18.0 million.

The Directors also purchased $400 million of reinsurance cover for a fourth event happening on or before 30 June 2011 at a cost of $9.25 million.

3.2.3 The 13 June 2011 earthquake

A third earthquake event hit the Canterbury region on 13 June 2011. The assessed gross level of claims arising from this third event was substantially below the two previous events, and at 30 June 2011 it was assessed to be $88.5 million.

After taking into account the time value of money ($4.6 million) the gross amount of outstanding claims at 30 June 2011 is $83.8 million.

To offset the claims the Company will call upon the third event reinsurance that it put in place following the 4 September 2010 event. After taking account of deductibles, the time value of money and cash advances received, the Company will receive $72.3 million from its reinsurers to cover claims arising from the 13 June 2011 earthquake.

3.2.4 Other earthquakes and reinsurance arrangements

The Canterbury region has experienced a number of smaller aftershocks, in addition to the three major earthquake events noted above. Gross claims of $19.6 million have been made against the Company for these events, including a risk margin of $0.9 million. After taking account the time value of money ($0.8 million) and payments to customers ($0.5 million) the gross amount of outstanding claims at 30 June 2011 is $18.3 million.

Offsetting these claims was the aggregate reinsurance cover that the Company had in place. After taking into account the time value of money and cash payments received, the amount receivable from reinsurers is $15.9 million.

The Company has put in place reinsurance of $1.4 billion for a catastrophe event that might occur in the year beginning 1 July 2011 through to 30 June 2012 at a total cost of $52m. The increased cover has an automatic prepaid reinstatement cover of up to $1.3 billion should the first cover be called on during the year.

The table below summarises the actuarially determined claims liability for the Company at 30 June 2011:

	EARTHQUAKE VALUATION				
	4 Sept	22 Feb	13 June	Minor EQ's	TOTAL
Gross Event Cost Central Estimate	605,800	1,108,031	86,900	18,420	1,819,151
Claims Handling Estimate (CHE)	10,300	19,700	1,600	300	31,900
Gross Central Estimate and CHE	616,100	1,127,731	88,500	18,720	1,851,051
Risk Margin	78,400	149,700	-	900	229,000
	694,500	1,277,431	88,500	19,620	2,080,051
Less Payments to 30 June	(33,500)	(14,331)	(80)	(520)	(48,431)
Less Discounting	(30,400)	(59,200)	(4,600)	(800)	(95,000)
Gross Outstanding Balance	630,600	1,203,900	83,820	18,300	1,936,620
Gross Reinsurance Recoveries	595,000	595,000	77,000	17,800	1,284,800
Less Recoveries received	(28,000)	(5,000)	-	(1,862)	(34,862)
Less Discounting	(28,600)	(20,100)	(4,700)	-	(53,400)
	538,400	569,900	72,300	15,938	1,196,538
Net Outstanding Claim (refer Note 29)	92,200	634,000	11,520	2,362	740,082

Further disclosures in respect of outstanding claim and reinsurance recoveries are covered in the following notes included as part of the financial statements:

- Note 17 Reinsurance Receivables
- Note 28 Outstanding Claims Liability Business As Usual
- Note 29 Outstanding Claims Liability Earthquake
- Note 36.4 Events After Reporting Date

4. CAPITAL MANAGEMENT

4.1 The Crown Support Deed

The 22 February 2011 earthquake event resulted in a high level of uncertainty as to the quantum of earthquake claims and the ability of the Company to meet these claims from available reinsurance cover and reserves. To remove this uncertainty the Directors approached the New Zealand Government (the Crown) for capital support. This action led to a negotiated agreement that was signed on 7 April 2011, where the Crown agreed to subscribe to $500 million in capital to be paid to the Company as and when required over the next five years.

The Crown Support Deed, together with a Subscription Agreement and related documents requires the Company to the greatest extent possible use its own reserves to settle insurance claims before requiring the Crown to settle its outstanding receivable with the Company (refer Note 16).

The Company agreed to pay the Crown a fee of $15 million for the Crown Support Deed to be put in place.

The capital that was issued by the Company and subscribed for by the Crown is $500 million of convertible preference shares, a special share and one ordinary share. The amount was fully called with payment deferred on the following terms:

- any notice from the Crown that it wishes to settle its outstanding obligation before the latest specified date of redemption (7 April 2016)

- any notice from the Company that it wishes to receive payment of the amount due in whole or in part
- certain Trigger Events specified in the Crown Support Deed (refer Note 16).

4.2 Solvency requirements arising from the Crown Support Deed

Although at 30 June 2011 a solvency standard applicable to all insurance companies operating in New Zealand has still to be issued by the Reserve Bank of New Zealand (RBNZ), an AMI Solvency Standard was issued as an integral part of the Crown Support Deed which came into effect on 7 April 2011.

The Solvency Capital that the Company is required to maintain is the Minimum Solvency Capital amount specified in the AMI Solvency Standard.

The Solvency Calculation at 30 June 2011 is:

	Company *$000*
Total shareholders' funds per financial statements	139,394
Less, Required Regulatory Adjustments	(16,794)
Actual Solvency Capital (ASC)	122,600
Minimum Solvency Capital (MSC) required	198,627
Ratio of ASC to MSC	**0.62:1**

As calculated above, the Company's actual solvency capital is below the Minimum Solvency Capital required under the Crown Support Deed at 30 June 2011 and is a trigger event. (Refer Note 36.5).

4.3 Financial Strength Rating

At reporting date, AMI Insurance Limited had a financial strength rating from A.M. Best Co. of "A-" (Excellent). A.M. Best Co. have confirmed that this rating will be maintained with effect from 8 June 2011. (Last year the Company held a financial strength rating from A.M Best Co. of "A+" (Superior) effective from 10 September 2010).

5. SPECIFIC ACCOUNTING POLICIES

5.1 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).

5.1.1 Premium Revenue

Premium revenue comprises amounts charged to policyholders (direct premium) for insurance contracts.

Premium revenue 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 for unclosed business (business written close to reporting date where attachment of risk is prior to reporting date and there is insufficient information to accurately identify the business) is brought to account based on previous experience with due allowance for any changes in the pattern of new business and renewals. The unearned portion of premium is recognised as an unearned premium liability on the Statement of Financial Position.

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.

5.1.2 Levies and Charges

Levies and charges collected as agent on behalf of the New Zealand Fire Service and Earthquake Commission are not recognised as income or expense in the Statement of Comprehensive Income. The portion held but not yet paid is included in Cash and Cash Equivalents on the Statement of Financial Position and a corresponding amount is included as a liability in Trade and Other Payables.

5.1.3 Liability Adequacy Test

The adequacy of the unearned premium liability is assessed by considering current estimates of all expected future cash flows relating to future claims covered by current insurance contracts.

If the present value of the expected future cash flows relating to future claims, plus the additional risk margin to reflect the inherent uncertainty in case estimates, exceeds the unearned premium liability less related intangible assets and related deferred acquisition costs, then the unearned premium liability is deemed to be deficient.

The entire deficiency (if any) is recognised immediately in the Statement of Comprehensive Income, both gross and net of reinsurance. The deficiency is recognised first by writing down any related intangible assets and then related deferred acquisition costs, with any excess being recorded in the Statement of Financial Position as an unexpired risk liability.

5.1.4 Outwards Reinsurance

Premiums paid to reinsurers under reinsurance contracts held by the Company and Group are recognised as an outwards reinsurance expense in the Statement of Comprehensive Income 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.

5.1.5 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 not be materially different from the original liability established.

5.1.6 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 part of trade and other receivables 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.

5.1.7 Deferred Acquisition Costs
Acquisition costs incurred in obtaining general insurance contracts are deferred and recognised as assets where they can be reliably measured and where it is probable that they will give rise to premium revenue that will be recognised in the Statement of Comprehensive Income in subsequent reporting periods.

These costs include advertising expenses, commissions paid to agents, premium collection costs, risk assessment costs and other administrative costs.

Deferred acquisition costs at the reporting date represent the capitalised acquisition costs relating to unearned premium. Deferred acquisition costs are amortised systematically in accordance with the expected pattern of the incidence of risk under the general insurance contracts to which they relate. This pattern of amortisation corresponds to the earning pattern of the corresponding premium revenue. Risks under the Company and Group's general insurance contracts cover a period of up to 12 months, therefore, deferred acquisition costs are amortised within 1 year.

5.2 Significant Accounting Policies Applicable to Other Activities
The accounting policies of the Company and Group have been applied consistently to both reporting periods.

5.2.1 Investment Income
The following items are recognised in the Statement of Comprehensive Income:

- 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.

5.2.2 Income Tax
The following policies apply to income tax:

5.2.2.1 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.

5.2.2.2 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.

5.2.3 Goods and Services Tax (GST)

The Statement of Comprehensive Income, Statement of Changes in Equity and the Cash Flow Statement 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.

5.2.4 Financial Assets

The following policies apply to financial assets:

5.2.4.1 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 the Statement of Comprehensive Income.

5.2.4.2 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.

5.2.4.3 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.

5.2.5 Derivative Financial Instruments

The Company and Group enter into derivative financial instruments to manage its exposure to interest rate and foreign currency risk. Derivatives used by the Company and Group include collars, interest rate swaps and forward exchange contracts 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 the Statement of Comprehensive Income.

5.2.6 Investment Properties

Investment properties are initially measured at cost. Subsequent measurement is at fair value, by reference to external market valuations (performed annually), with any resultant unrealised gains and losses recognised in the Statement of Comprehensive Income. Investment property is held either to earn rental income or for capital appreciation or for both.

5.2.7 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.

Internally developed software is recognised as an intangible asset when it can be demonstrated that an individually identifiable asset is created. The cost of an internally developed software asset is that directly attributable to the development phase of the software project.
All software assets included in the financial statements have useful lives of between 2 and 5 years.

Any costs relating to research are recognised as an expense in the year incurred.

5.2.8 Property, Plant and Equipment

Property, Plant and Equipment is initially recorded at cost, including costs that are directly attributable to the acquisition of the asset. Subsequent measurement is at cost less accumulated depreciation, except for land and buildings, which are revalued to fair value annually. Depreciation is calculated using the straight-line method to allocate their cost or revalued amounts, net of any residual value, over their useful lives.

The estimated useful lives of the major asset classes are:

• Freehold Property	50 years
• Office Furniture and Equipment	2 to 15 years
• Motor Vehicles	5 years

All repairs and maintenance expenditure is charged to the Statement of Comprehensive Income in the year in which the expense is incurred.

5.2.8.1 Revaluations

Fair value is determined by reference to market based evidence, which is the amount for which the asset would be exchanged between a knowledgeable, willing buyer and a knowledgeable, willing seller in an arms-length transaction at valuation date. Fair value is reported less any costs that would be necessary to sell the assets.

If an asset's carrying amount is increased as a result of a revaluation, the increase will be recorded to an asset revaluation reserve in equity unless the increase reverses a previous revaluation decrease that was recognised in the Statement of Comprehensive Income.

If an asset's carrying amount is decreased as a result of a revaluation, the decrease will be recorded in the Statement of Comprehensive Income. However the decrease will be taken directly to equity to the extent of any revaluation surplus existing for that asset.

Revaluations are completed on an asset basis and movements are evaluated on an asset class basis.

5.2.8.2 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 the Statement of Comprehensive Income in the year the asset is de-recognised.

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

5.2.9 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 90 days or less which are readily convertible to known amounts of cash and are subject to insignificant risk of changes in value.

5.2.10 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 the Statement of Comprehensive Income.

Non-monetary items measured at historical cost are translated using the exchange rates at the date of the transaction (not retranslated). Non-monetary items measured at fair value are translated using the exchange rates at the date when fair value was determined.

5.2.11 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 are treated as operating leases.

5.2.11.1 As lessee

Assets held under finance leases are recognised as Property, Plant and Equipment in the Statement of Financial Position. Leased assets are initially recognised at their fair value, or if lower, the present value of the minimum lease payments.

A corresponding liability is established and each lease payment allocated between the liability and interest expense. Leased assets are depreciated on the same basis as equivalent Property, Plant and Equipment.

The Company and Group lease premises from external parties. Rental payments are recognised as an expense on a straight-line basis over the lease term.

5.2.11.2 As lessor

The Company and Group lease premises to external parties. Premises leased under operating leases are recognised as Property, Plant and Equipment (refer policy 5.2.8), or Investment Properties in the Statement of Financial Position (refer policy 5.2.6). Rental income is recognised on a straight-line basis including lease incentives over the lease term.

5.2.12 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.

5.2.13 Employee Benefits

The following policies apply to employee benefits:

5.2.13.1 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.

5.2.13.2 Superannuation scheme

The Company is sponsor to an employee superannuation scheme (the Scheme). The Company contributes in accordance with the Scheme's Trust Deed and actuarial recommendations.

The Scheme has a Defined Contribution Tier and a Defined Benefit Tier.

Contributions to both tiers are expensed as incurred, when relevant employee services have been received.

The asset or liability recognised in the Statement of Financial Position in respect of the Defined Benefit Superannuation Scheme is the present value of the defined benefit obligation at the reporting date, less the fair value of the Scheme's assets as determined by an independent actuary. Actuarial gains and losses are recognised in other comprehensive income.

Management estimates the defined benefit obligation annually with the assistance of independent actuaries. The estimate of its post-retirement benefit obligations is based on standard rates of inflation, medical cost trends and mortality. It also takes into account the Company and Group's specific anticipation of future salary increases. Discount factors are determined close to each year-end by reference to the government bond rate that have terms to maturity approximating to the terms of the related pension liability.

5.2.13.3 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 the Statement of Comprehensive Income as they become payable.

5.2.14 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.

5.2.15 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.

6. 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.

6.1 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 original 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 Note 28 and 29.

6.2 Income Tax

Uncertainties exist with respect to the interpretation of complex tax regulations and the amount and timing of future taxable income. Given the long-term nature and complexity of existing contractual agreements, differences arising between the actual results and the assumptions made, or future changes to such assumptions, may necessitate future adjustments to tax benefit and expense already recorded.

Deferred tax assets are recognised for all unused tax losses only to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and the level of future taxable profits together with future tax planning strategies.

The Company and Group have tax losses to carry forward amounting to $704.8 million (2010: NIL). These losses relate to recent claims resulting primarily from the Canterbury Earthquakes (refer Note 3.2). These losses do not expire and may be used to offset taxable income, provided there is continuity of shareholding, of which there is significant uncertainty. A Deferred tax asset has not been recognised in relation to these tax losses due to this uncertainty.

Further details on tax are disclosed in Note 10.

6.3 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 17.

6.4 Revaluation of Property, Plant and Equipment and Investment Properties

The Company and Group carry their investment properties at fair value, with changes in fair value being recognised in the Statement of Comprehensive Income. In addition, it measures land and buildings at revalued amounts with changes in fair value being recognised in Other Comprehensive Income. The Company and Group engaged independent valuation specialists to determine fair value as at 30 June 2011.

6.5 Defined Benefit Superannuation Scheme

An actuarial calculation is performed by an independent actuary each year to determine the value of the asset or liability to be recognised in the Statement of Financial Position in respect of the defined benefit superannuation scheme. These are based on actuarial assumptions, as set out in Note 25.

7. NET CLAIMS INCURRED

Current year claims have been separated between "Business as Usual" (non-earthquake related) claims and Earthquake claims that relate to claims that have occurred in the current financial year in Canterbury.

	2011		2010	
	Group *$000*	Company *$000*	Group *$000*	Company *$000*
Business As Usual (BAU)				
Gross claims expense	212,878	212,878	221,118	221,118
Reinsurance recovery revenue	-	-	(1,054)	(1,054)
Other claim recovery revenue	(25,326)	(25,326)	(25,142)	(25,142)
Total net BAU Claims incurred	**187,552**	**187,552**	**194,922**	**194,922**
Earthquake				
Gross claims expense	1,991,700	1,991,700	-	-
Reinsurance recovery revenue	(1,231,400)	(1,231,400)	-	-
Total net Earthquake Claims incurred	**760,300**	**760,300**	-	-
Total Net Claims Incurred	**947,852**	**947,852**	**194,922**	**194,922**

8. OPERATING COSTS

	2011		2010	
	Group	Company	Group	Company
	$000	*$000*	*$000*	*$000*
Employee benefit expenses	55,553	55,003	51,184	50,647
Marketing and other acquisition costs	7,785	7,750	9,080	9,038
Lease and property costs	8,554	8,365	8,036	7,849
Depreciation and amortisation	8,445	8,415	6,937	6,900
Communications	3,874	3,844	3,328	3,328
Legal & professional	4,570	4,570	2,285	2,285
Superannuation (inc KiwiSaver)	3,797	3,797	2,626	2,626
Computer & IT	2,759	2,759	2,794	2,794
Impairment – Software asset	-	-	1,640	1,640
Impairment – Intercompany loans	-	7,374	-	-
Unrealised (gains)/losses on Property, Plant and Equipment	(7)	(7)	(99)	(99)
Audit fees - Appointed Auditor	274	274	150	150
Fees paid to previous auditors for taxation services	12	12	69	69
Fees paid to auditors for other assurance services	52	52	-	-
Investment property operating costs	37	37	15	15
Donations	10	10	20	20
Other expenses	3,541	4,193	10,393	11,066
	99,256	**106,448**	**98,458**	**98,328**

9. INVESTMENT INCOME & EXPENSES

	2011		2010	
	Group	Company	Group	Company
	$000	*$000*	*$000*	*$000*
Interest income	20,675	20,333	18,225	18,200
Dividend income	2,210	2,210	2,534	2,534
Rental income from investment and other properties	1,743	1,521	1,925	1,678
Gains on Fair Value Through Profit or Loss investments	4,811	4,811	3,838	3,838
Unrealised gain on fair value of Crown Receivable	2,595	2,595	-	-
Foreign exchange gains/(losses)	(613)	(613)	1,385	1,385
Unrealised gains/(losses) on investment properties	(4,961)	(85)	(2,052)	50
Investment expenses	(1,050)	(1,050)	(1,050)	(1,050)
	25,410	**29,722**	**24,805**	**26,635**

10. INCOME TAX

10.1 Tax Expense/(Benefit)

	2011		2010	
	Group	Company	Group	Company
	$000	*$000*	*$000*	*$000*
Current tax expense	(612)	(620)	14,920	14,888
Deferred tax (benefit)/expense	(396)	(17)	4,171	3,792
Total Tax Expense/(Benefit)	**(1,008)**	**(637)**	**19,091**	**18,680**

Surplus/(Deficit) before tax	**(706,023)**	**(708,903)**	51,682	**53,642**
Tax at applicable rate of 30%	(211,807)	(212,671)	15,505	16,093
Non-taxable/deductible items	(633)	199	567	(64)
Impact of tax on book value of buildings	-	-	2,897	2,503
Corporate tax rate reduction	118	118	(33)	(7)
Deferred tax not recognised	211,437	211,437	-	-
Adjustments for prior period	(123)	280	155	155
Tax Expense/(Benefit)	**(1,008)**	**(637)**	**19,091**	**18,680**

Imputation Credit Account				
Opening balance	171,495	171,349	159,667	159,575
New Zealand tax payments, net of refunds	5,213	5,176	11,814	11,774
Resident withholding tax paid	-	-	14	-
Imputation credits attached to dividends paid	-	-	-	-
Closing balance	**176,708**	**176,525**	**171,495**	**171,349**

10.2 Deferred Tax Asset/(Liability)

The balance comprises temporary differences attributable to:	2011		2010	
	Group	Company	Group	Company
	$000	*$000*	*$000*	*$000*
Financial assets	(838)	(838)	(2,370)	(2,370)
Property, plant & equipment	(2,314)	(2,314)	(2,679)	(2,300)
Employee provisions and accruals	2,123	2,123	2,680	2,680
Deferred acquisition costs	(595)	(595)	(719)	(719)
Defined benefit obligation	1,221	1,221	916	916
Other	478	478	1,883	1,883
Net Deferred Tax Asset/(Liability)	**75**	**75**	**(289)**	**90**
Movements:				
Balance at beginning of the year	(289)	90	3,328	3,328
Charged to the Statement of Comprehensive Income	396	17	(4,171)	(3,792)
Charged to other comprehensive income	(32)	(32)	554	554
Closing balance at 30 June	**75**	**75**	**(289)**	**90**

The Deferred Tax Asset arising from operating losses has not been recognised. Refer Note 6.2 for additional details.

11. CASH INFLOWS FROM OPERATING ACTIVITIES

Reconciliation of Surplus/(Deficit) for the Year to Cash Inflows from Operating Activities	2011 Group *$000*	2011 Company *$000*	2010 Group *$000*	2010 Company *$000*
Net Surplus/(Deficit) After Taxation	(705,015)	(708,266)	32,591	34,962
Add/(Less) Non-Cash Items				
Depreciation and amortisation	8,445	8,415	6,937	6,900
Impairment		7,374	1,767	1,767
Unrealised (gains)/losses	3,666	(1,210)	(1,340)	(3,442)
Investment income on Crown Receivable	(2,595)	(2,595)	-	-
(Increase)/Decrease in deferred acquisition costs	270	270	(82)	(82)
Non-actuarial (gains)/losses on defined benefit superannuation scheme via profit or loss	290	290	(161)	(161)
Net Increase/(Decrease) in deferred tax liability	(364)	15	3,978	3,610
Deferred tax on Movements via Reserves	(32)	(32)	181	181
Sub-total "A"	(695,335)	(695,739)	43,871	43,735
Movement in Working Capital items				
(Increase)/Decrease in receivables, and tax	(4,677)	(4,629)	3,459	3,459
Reinsurance and Insurance receivables	(1,196,564)	(1,196,564)	-	-
Increase/(Decrease) in payables	8,400	8,377	9,007	8,991
Increase/(Decrease) in employee entitlements	(1,220)	(1,220)	557	557
Increase/(Decrease) in insurance liabilities	1,935,474	1,935,474	11,040	11,040
Sub-total "B"	741,413	741,438	24,063	24,055
Items Classified as Investing Activities				
(Increase)/Decrease in interest receivable capitalised	(1,372)	(1,315)	(2,061)	(2,057)
Net (gain)/loss on sale of investments	(3,523)	(3,523)	(673)	(673)
Reversal of Provision against intangibles	(7,364)	(7,364)	-	-
Sub-total "C"	(12,259)	(12,202)	(2,734)	(2,730)
Impact of Foreign Exchange gains/(Losses) on Operating cash "D"	1,781	1,781	(1,385)	(1,385)
Cash Inflow from Operating Activities (A+B+C+D)	**35,600**	**35,278**	**63,815**	**63,675**

12. CROWN SUPPORT CAPITAL

	2011		2010	
	Group *$000*	Company *$000*	Group *$000*	Company *$000*
Issue of $500 million fully called convertible preference shares on 7 April 2011	500,000	500,000	-	-
Less:				
Fee paid to Crown	(15,000)	(15,000)	-	-
Professional fees	(644)	(644)	-	-
Fair value discount to present value at issuance	(6,417)	(6,417)	-	-
Convertible Preference Share Capital (CPS)	**477,939**	**477,939**	-	-

The CPS's are convertible to ordinary share capital at the option of the Crown on the occurrence of the following events:

- a trigger event (refer Note 16),
- a call by the Company on the Crown Receivable (refer Note 16).

If the Crown Receivable is paid in full or in part, the capital will attract a dividend at 5.5% above the official cash rate at the discretion of the Directors.

13. RESERVES

13.1 Property Revaluation Reserve

The property revaluation reserve records the movement in the fair value of land and buildings included in property, plant and equipment.

13.2 Disaster Reserve

Following the earthquake catastrophe events during the year, the $5 million disaster reserve set aside has been transferred back to retained earnings. There is no longer a requirement to carry a balance in this reserve.

14. CASH AND CASH EQUIVALENTS

	2011		2010	
Cash and Cash Equivalents	Group *$000*	Company *$000*	Group *$000*	Company *$000*
Cash held for operational purposes	98,462	98,032	25,644	24,077
Short term bank deposits	10,410	10,410	123,752	123,751
	108,872	**108,442**	**149,396**	**147,828**

Cash and cash equivalents represent cash on hand and held with banks, deposits on call and short term money held for investment at maturities of less than or equal to 90 days. Cash balances are available for use in normal operations, except for amounts collected on behalf of the New Zealand Fire Service and Earthquake Commission. Interest rates earned on cash and cash equivalents ranged from 2.5% to 4.0% during the year (2010: 2.5% to 4.0%).

14.1 Cash and Cash Equivalents

As a Crown Controlled entity, the Company and Group are required to report all cash and cash equivalents on a 90 day basis. In the prior year, the Directors believed that 183 days was the appropriate period to define cash and cash equivalents because their Treasury policy and claims settlement were based on this time frame. The reduction in the number of days is viewed by the Directors of the Company and Group as a change in accounting estimate rather than accounting policy. The consequence of reducing the number of days is that short-term deposits that were previously included in cash and cash equivalents are now included in investments and reported at their fair value at each reporting date.

15. RECEIVABLES

	2011		2010	
	Group	Company	Group	Company
	$000	*$000*	*$000*	*$000*
Unclosed business	3,727	3,727	2,650	2,650
Investment income receivable	60	-	1,582	1,542
Other receivables	1,632	1,632	1,736	1,736
	5,419	**5,359**	**5,968**	**5,928**

16. CROWN RECEIVABLE

	2011		2010	
	Group	Company	Group	Company
	$000	*$000*	*$000*	*$000*
Capital called at 7 April 2011	500,000	500,000	-	-
Fair Value adjustment at issuance	(6,417)	(6,417)	-	-
Fair Value adjustment at 30 June 2011	2,595	2,595	-	-
	496,178	**496,178**	-	-

On 7 April 2011, the Company entered into a Crown Support Deed and Subscription Agreement with the New Zealand Government (the Crown). When the Crown was issued $500m convertible preference shares (CPS), a Special Share and one Ordinary Share, a call of $500m (the Crown Receivable) was made on the CPS. This amount must be settled under the following circumstances:

- on demand by the Company, or
- at the option of the Crown on the occurrence of a Trigger Event (see below), or
- in any event no later than 7 April 2016.

A Trigger Event is widely defined in the Crown Support Deed and covers:

- failure to comply with any material provisions in the Crown Support Deed unless remedied within 14 days
- any statement made to the Crown in connection with the Crown Support Deed proving to be incorrect or misleading
- occurrence of an Insolvency Event
- invalidity or unenforceability of any provision in the Crown Support Deed in any material respect
- a change in control of the Company's shareholder, AMI Insurance Holdings Ltd
- occurrence of a material adverse event, which includes an earthquake giving rise to material claims against the Company, a failure to secure sufficient levels of reinsurance, and the loss of a material proportion of its policy holders
- a proposal to issue ordinary shares which would adversely affect the holder of the Convertible Preference Shares, or
- any circumstance which in due course will constitute a Trigger Event.

The Crown Receivable as at 30 June 2011 is recorded at its fair value taking into account all relevant circumstances including the timing of the potential cash flows, the terms of the Crown Support Deed, the likelihood of demand for payment being made, and the likelihood of a Trigger Event occurring. The time period applied in determining fair value is 6 months from the date of the Deed.

17. REINSURANCE RECEIVABLES

At 30 June 2011, the Company and Group conducted an impairment review of the reinsurance receivables for the year ended 30 June 2011. No loss was recognised (2010: $Nil). The carrying amounts disclosed below approximate fair value at each reporting date.

	2011		2010	
	Group *$000*	Company *$000*	Group *$000*	Company *$000*
Gross Reinsurance Receivable	1,249,938	1,249,938	1,323	1,323
Discount to present value	(53,400)	(53,400)	-	-
	1,196,538	**1,196,538**	**1,323**	**1,323**

17.1 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.

17.2 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 Notes 28 and 29.

18. INVESTMENTS

	2011		2010	
	Group *$000*	Company *$000*	Group *$000*	Company *$000*
Fixed interest securities	361,017	361,017	293,465	293,465
Derivatives	-	-	(88)	(88)
Equity securities	26,029	26,029	39,637	39,637
	387,046	**387,046**	**333,014**	**333,014**
Designated upon initial recognition	387,046	387,046	333,102	333,102
Held for trading	-	-	(88)	(88)
	387,046	**387,046**	**333,014**	**333,014**

19. DEFERRED ACQUISITION COSTS

	2011		2010	
	Group *$000*	Company $000	Group $000	Company $000
Opening balance at 1 July	2,395	2,395	2,313	2,313
Acquisition costs deferred	2,124	2,124	2,395	2,395
Acquisition costs amortised to profit	(2,395)	(2,395)	(2,313)	(2,313)
Closing balance at 30 June	**2,124**	**2,124**	**2,395**	**2,395**

20. INVESTMENT PROPERTIES

	2011		2010	
	Group $000	Company $000	Group $000	Company $000
Opening balance at 1 July	12,781	3,731	3,681	3,681
Transfer from Property, Plant & Equipment	-	-	11,152	-
Net gain/(loss) from fair value adjustment	(4,961)	(85)	(2,052)	50
Closing balance at 30 June	**7,820**	**3,646**	**12,781**	**3,731**

The fair values are based upon market evidence in respect of property sales and analysis of contracts with regard to market rentals.

Investment properties are stated at fair value, which has been determined based on valuations performed by an independent registered property valuer, Lance Collings (BBS, SPINZ) of Jones Lang LaSalle as at 30 June 2011. Jones Lang LaSalle is an industry specialist in valuing these types of investment properties. The fair value is supported by market evidence and represents 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. Valuations are performed on an annual basis and the fair value gains and losses are recorded within the income statement.

The Group enters into operating leases for all of its investment properties. The rental income arising during the year amounted to $222,000 (2010: $246,000), which is included in investment income – refer Note 9. Direct operating expenses (included within operating and administrative expenses) arising in respect of such properties during the year were $37,000 (2010: $15,000) – refer Note 8. Future lease payables and receivables are disclosed in Note 34.

21. DETAILS OF SUBSIDIARIES

	Principal Activity	Reporting Date	2011 Ownership	2010 Ownership
CLIC Car Insurance Limited	General insurance	30 June 2011	100%	100%
Companies in which AMI has a beneficial interest				
Blank Nominees Limited	Property owning	31 March 2011	100%	100%
Maydew Holdings Limited	Property owning	31 March 2011	100%	100%
Aldwych Limited	Property owning	31 March 2011	100%	100%

Only significant trading subsidiaries are included in the list above.

22. PROPERTY, PLANT AND EQUIPMENT

22.1 Group

2011 Group	Freehold Land *$000*	Freehold Buildings *$000*	Furniture & Equipment *$000*	Leasehold Improvements *$000*	Motor Vehicles *$000*	Total *$000*
Cost or Valuation						
Opening cost or valuation	8,638	24,393	28,405	8,911	4,437	74,784
Opening accumulated depreciation	-	(6,693)	(24,677)	(6,953)	(1,978)	(40,301)
Opening carrying value	**8,638**	**17,700**	**3,728**	**1,958**	**2,459**	**34,483**
Additions	-	27	2,875	517	1,390	4,809
Revaluations	337	926	-	-	-	1,263
Disposals	-	-	(967)	(446)	(801)	(2,214)
Disposals accum. depreciation	-	-	967	445	589	2,001
Transfer Category – Cost	-	-	(363)	363	-	-
Current year depreciation	-	(405)	(1,837)	(916)	(884)	(4,042)
Closing carrying value	**8,975**	**18,248**	**4,403**	**1,921**	**2,753**	**36,300**
Represented by:						
Closing cost or valuation	8,975	25,346	29,950	9,345	5,026	78,642
Closing accumulated depreciation	-	(7,098)	(25,547)	(7,424)	(2,273)	(42,342)
Closing carrying value	**8,975**	**18,248**	**4,403**	**1,921**	**2,753**	**36,300**

2010 Group	Freehold Land *$000*	Freehold Buildings *$000*	Furniture & Equipment *$000*	Leasehold Improvements *$000*	Motor Vehicles *$000*	Total *$000*
Cost or Valuation						
Opening cost or valuation	18,393	25,146	26,458	8,911	4,169	83,077
Opening accumulated depreciation	-	(6,359)	(22,719)	(6,770)	(1,815)	(37,663)
Opening carrying value	**18,393**	**18,787**	**3,739**	**2,141**	**2,354**	**45,414**
Additions	703	61	1,947	1,132	1,213	5,056
Revaluations	(748)	719	-	-	-	(29)
Disposals	-	-	-	(1,132)	(945)	(2,077)
Disposals accum. depreciation	-	-	-	1,038	659	1,697
Transfer to Invest. Prop. – cost or valuation	(9,710)	(1,533)	-	-	-	(11,243)
Transfer to Invest. Prop. – accum. depreciation	-	91	-	-	-	91
Current year depreciation	-	(425)	(1,958)	(1,221)	(822)	(4,426)
Closing carrying value	**8,638**	**17,700**	**3,728**	**1,958**	**2,459**	**34,483**
Represented by:						
Closing cost or valuation	8,638	24,393	28,405	8,911	4,437	74,784
Closing accumulated depreciation	-	(6,693)	(24,677)	(6,953)	(1,978)	(40,301)
Closing carrying value	**8,638**	**17,700**	**3,728**	**1,958**	**2,459**	**34,483**

.

22.2 Company

2011 Company	Freehold Land *$000*	Freehold Buildings *$000*	Furniture & Equipment *$000*	Leasehold Improvements *$000*	Motor Vehicles *$000*	Total *$000*
Cost or Valuation						
Opening cost or valuation	8,638	24,393	28,262	8,912	4,409	74,614
Opening accumulated depreciation	-	(6,693)	(24,582)	(6,953)	(1,957)	(40,185)
Opening carrying value	**8,638**	**17,700**	**3,680**	**1,959**	**2,452**	**34,429**
Additions	-	27	2,870	517	1,390	4,804
Revaluations	337	926	-	-	-	1,263
Disposals	-	-	(967)	(445)	(801)	(2,213)
Disposals accum. depreciation	-	-	967	445	589	2,001
Transfer Category – Cost	-	-	(363)	363	-	-
Current year depreciation	-	(405)	(1,813)	(917)	(878)	(4,013)
Closing carrying value	**8,975**	**18,248**	**4,374**	**1,921**	**2,752**	**36,270**
Represented by:						
Closing cost or valuation	8,975	25,346	29,802	9,346	4,998	78,467
Closing accumulated depreciation	-	(7,098)	(25,428)	(7,425)	(2,246)	(42,197)
Closing carrying value	**8,975**	**18,248**	**4,374**	**1,921**	**2,752**	**36,270**

2010 Company	Freehold Land *$000*	Freehold Buildings *$000*	Furniture & Equipment *$000*	Leasehold Improvements *$000*	Motor Vehicles *$000*	Total *$000*
Cost or Valuation						
Opening cost or valuation	8,683	23,613	26,327	8,911	4,141	71,675
Opening accumulated depreciation	-	(6,268)	(22,655)	(6,770)	(1,800)	(37,493)
Opening carrying value	**8,683**	**17,345**	**3,672**	**2,141**	**2,341**	**34,182**
Additions	703	61	1,935	1,132	1,213	5,044
Revaluations	(748)	719	-	-	-	(29)
Disposals	-	-	-	(1,131)	(945)	(2,076)
Disposals accum. depreciation	-	-	-	1,038	659	1,697
Current year depreciation	-	(425)	(1,927)	(1,221)	(816)	(4,389)
Closing carrying value	**8,638**	**17,700**	**3,680**	**1,959**	**2,452**	**34,429**
Represented by:						
Closing cost or valuation	8,638	24,393	28,262	8,912	4,409	74,614
Closing accumulated depreciation	-	(6,693)	(24,582)	(6,953)	(1,957)	(40,185)
Closing cost or valuation	**8,638**	**17,700**	**3,680**	**1,959**	**2,452**	**34,429**

Freehold land and buildings are revalued to fair value as determined from the report (completed and effective 30 June 2011) by an independent registered property valuer, Lance Collings (BBS, SPINZ) of Jones Lang LaSalle. The fair values are based upon market evidence in respect of property sales and analysis of contracts with regard to market rentals.

The carrying amounts of revalued Property, Plant and Equipment, had they been recognised under the cost model, are:

	2011		2010	
	Group	Company	Group	Company
	$000	*$000*	*$000*	*$000*
Freehold Land				
Carrying value under cost model	3,353	3,353	3,353	3,353
Revaluation surplus	5,622	5,622	5,285	5,285
	8,975	**8,975**	**8,638**	**8,638**
Freehold Buildings				
Carrying value under cost model	5,988	5,988	6,367	6,367
Revaluation surplus	12,260	12,260	11,333	11,333
	18,248	**18,248**	**17,700**	**17,700**

23. INTANGIBLE ASSETS

	2011		2010	
	Group	Company	Group	Company
	$000	*$000*	*$000*	*$000*
Software in Use				
Opening cost	33,536	33,536	30,058	30,058
Opening accumulated amortisation	(27,120)	(27,120)	(22,969)	(22,969)
Opening carrying value	**6,416**	**6,416**	**7,089**	**7,089**
Additions	1,420	1,420	3,478	3,478
Impairment	-	-	(1,640)	(1,640)
Current year amortisation	(4,402)	(4,402)	(2,511)	(2,511)
Closing carrying value	**3,434**	**3,434**	**6,416**	**6,416**
Represented by:				
Closing cost	34,956	34,956	33,536	33,536
Closing accumulated amortisation	(31,522)	(31,522)	(27,120)	(27,120)
Closing carrying value	**3,434**	**3,434**	**6,416**	**6,416**
Software Under development				
Development expenditure to date	12,726	12,726	585	585
Closing carrying value	**16,160**	**16,160**	**7,001**	**7,001**

Also refer Note 33 Capital Commitments.

24. SUPERANNUATION

24.1 AMI Superannuation Scheme

The Company is sponsor to an employee superannuation scheme (the Scheme). Both participating employees and the Company make contributions to the Scheme, typically as a percentage of salary. The Company contributes in accordance with the Scheme's Trust Deed and actuarial recommendations.

Note 25 details the calculation and balance of the Defined Benefit Superannuation Scheme.

	2011		2010	
Total Gross Contributions to the Superannuation Scheme (before withholding tax)	Group *$000*	Company *$000*	Group *$000*	Company *$000*
Contributions to defined contribution plan	1,285	1,285	1,015	1,015
Contributions to defined benefit plan	2,242	2,242	1,410	1,410
	3,527	**3,527**	**2,425**	**2,425**

Expected contributions to the AMI Superannuation Scheme for the next financial year are $3.50 million

24.2 KiwiSaver Superannuation Schemes

Where employees have elected to join a KiwiSaver Superannuation scheme, the Company complies with all applicable legislation in making employer contributions to the scheme. Contributions are based on a percentage of the employee's salary.

The Company and Group have no obligations to KiwiSaver schemes other than the payment of contributions and are not exposed to the risks or rewards of the defined contribution arrangements.

	2011		2010	
Total Employer Contributions to KiwiSaver schemes	Group *$000*	Company *$000*	Group *$000*	Company *$000*
Contributions to KiwiSaver	270	270	200	200

25. DEFINED BENEFIT SUPERANNUATION SCHEME ASSET/LIABILITY

The asset or liability recognised in the Statement of Financial Position in respect of the defined benefit superannuation scheme is the present value of the defined benefit obligation at the reporting date, less the fair value of the Scheme's assets. The asset or liability is determined annually by Robert Schoonraad, Fellow of the New Zealand Society of Actuaries, on behalf of Mercer New Zealand Limited.

The reconciliation below shows the obligation and fair value of plan assets for the entire superannuation scheme, however, the net liability of $4.362 million (2010: $3.270 million) relates to the defined benefit portion only.

	2011		2010	
	Group	Company	Group	Company
	$000	*$000*	*$000*	*$000*
Principal Actuarial Assumptions at the Reporting Date				
Discount rate	3.70%	3.70%	3.90%	3.90%
Salary increase rate	3.00%	3.00%	3.00%	3.00%
Expected rate of return on plan assets, net of all expenses (start of period) after tax	5.00%	5.00%	5.00%	5.00%
Reconciliation of the Present Value of the Defined Benefit Obligation:				
Opening balance	38,451	38,451	35,666	35,666
Current service cost (net of member contributions)	2,778	2,778	2,355	2,355
Interest cost	1,612	1,612	1,564	1,564
Actuarial (gains)/losses	571	571	758	758
Contributions by scheme participants	1,875	1,875	2,104	2,104
Benefits paid	(3,724)	(3,724)	(3,996)	(3,996)
Total Superannuation Scheme Obligation	**41,563**	**41,563**	**38,451**	**38,451**
Reconciliation of the Fair Value of Plan Assets:				
Opening balance	35,181	35,181	33,935	33,935
Expected return on Assets	1,770	1,770	1,692	1,692
Actuarial gains/(losses)	(231)	(231)	(942)	(942)
Employer contributions (net of contributions tax)	2,330	2,330	2,388	2,388
Contributions by Scheme participants	1,875	1,875	2,104	2,104
Benefits paid	(3,724)	(3,724)	(3,996)	(3,996)
Total Fair Value of Plan Assets	**37,201**	**37,201**	**35,181**	**35,181**
Reconciliation of the Assets and Liabilities Recognised in the Statement of Financial Position				
Defined Benefit Obligation	(41,563)	(41,563)	(38,451)	(38,451)
Fair value of Scheme assets	37,201	37,201	35,181	35,181
Total Defined Benefit Superannuation Scheme Asset/(Liability)	**(4,362)**	**(4,362)**	**(3,270)**	**(3,270)**

Expense Recognised in Statement of Comprehensive Income:

	2011		2010	
	Group	Company	Group	Company
	$000	*$000*	*$000*	*$000*
Expense Recognised in Statement of Comprehensive Income				
Service Cost (net of member contributions)	2,778	2,778	2,355	2,355
Interest Cost	1,612	1,612	1,564	1,564
Expected Return on Assets	(1,770)	(1,770)	(1,692)	(1,692)
Superannuation Expense	**2,620**	**2,620**	**2,227**	**2,227**

Amounts recognised in Other Comprehensive Income:

	2011		2010	
	Group	Company	Group	Company
	$000	*$000*	*$000*	*$000*
Amounts Recognised in Other Comprehensive Income				
Actuarial gains/(losses)	(802)	(802)	(1,700)	(1,700)
Amounts Recognised in OCI	(802)	(802)	(1,700)	(1,700)
Cumulative Amount Recognised in Other Comprehensive Income				
Cumulative amount of actuarial (gains)/losses	4,144	4,144	3,342	3,342
Movement in the net liability recognised in the Statement of Financial Position (net of Contributions tax):				
Opening Liability	3,270	3,270	1,731	1,731
Superannuation expense	2,620	2,620	2,227	2,227
Amount recognised in OCI	802	802	1,700	1,700
Employer contributions	(2,330)	(2,330)	(2,388)	(2,388)
Closing Liability	**4,362**	**4,362**	**3,270**	**3,270**

25.1 Plan Assets

The percentage invested in each asset class at each reporting date:

	2011		2010	
	Group	Company	Group	Company
	$000	*$000*	*$000*	*$000*
NZ Shares	13%	13%	7%	7%
Global Shares	9%	9%	0%	0%
NZ Fixed Interest	54%	54%	52%	52%
Global Fixed Interest	0%	0%	0%	0%
Property	4%	4%	6%	6%
Cash	20%	20%	35%	35%

25.1.1 Fair Value of Plan Assets

The fair value of Plan assets includes no amounts relating to:

- any of the Employer's own financial instruments
- any property occupied by, or other assets used by, the Employer.

The expected return on assets assumption is determined by weighting the expected long-term return for each asset class by the target allocation of assets to each asset class. The returns used for each asset class are net of investment tax and all expenses.

	2011		2010	
	Group	Company	Group	Company
	$000	*$000*	*$000*	*$000*
Actual Return on Plan Assets	1,539	1,539	750	750

Historical Defined Benefit Information for the Company and Group:

Group and Company	**2011** *$000*	**2010** *$000*	**2009** *$000*	**2008** *$000*	**2007** *$000*
Present Value of the Defined Benefit Obligation	41,563	38,451	35,666	31,375	31,029
Fair Value of Scheme Assets	(37,201)	(35,181)	(33,935)	(32,516)	(30,314)
(Surplus)/deficit in Scheme	**4,362**	**3,270**	**1,731**	**(1,141)**	**715**
Experience adjustments (gain)/loss – Scheme assets	231	942	756	772	(438)
Experience adjustments (gain)/loss – Scheme liabilities	(41)	1,002	(79)	(3,462)	1,498
Assumptions Change (gain)/loss – Scheme liabilities	612	(244)	2,139	786	(549)

26. EMPLOYEE ENTITLEMENTS

Employee entitlements expected to be paid within the next 12 months and those expected to be paid after 12 months are set out below.

	2011		2010	
	Group	Company	Group	Company
	$000	*$000*	*$000*	*$000*
Employee Entitlements				
Current	6,624	6,624	8,013	8,013
Non-current	1,698	1,698	1,529	1,529
	8,322	**8,322**	**9,542**	**9,542**

The above employee entitlements include provisions for sick leave, long service leave and retirement. The discount rate used in determining the level of the long service leave and retirement provisions is the 30 June 2011 New Zealand Government Bond rate plus 1%.

27. UNEARNED PREMIUM LIABILITY

	2011		2010	
	Group	Company	Group	Company
	$000	*$000*	*$000*	*$000*
Unearned premiums as at 1 July	95,466	95,466	86,890	86,890
Deferral of premiums on contracts written in the period	96,665	96,665	95,466	95,466
Earning of premiums written in previous periods	(95,466)	(95,466)	(86,890)	(86,890)
	96,665	**96,665**	**95,466**	**95,466**

The unearned premium liability has been assessed as adequate by an actuarial Liability Adequacy Test, using a risk margin of 75%. The Liability Adequacy Test was performed by Colin Brigstock of Finity Consulting Pty Limited. Mr Brigstock is a Fellow of the Institute of Actuaries of Australia.

28. OUTSTANDING CLAIMS LIABILITY: BUSINESS AS USUAL (BAU)

Outstanding BAU claims

	2011		2010	
	Group	Company	Group	Company
	$000	*$000*	*$000*	*$000*
Outstanding claims	39,285	39,285	41,352	41,352
Risk margin	5,080	5,080	5,328	5,328
Claims handling costs	3,942	3,942	3,972	3,972
	48,307	**48,307**	**50,652**	**50,652**

28.1. 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 90%, consistent with the prior year.

28.2 Claims Development

Claims incurred by the Company and Group are short-tail in nature. Approximately 96% of claims are paid within one year of being reported.

The gross cumulative undiscounted outstanding claims relative to the ultimate expected claims for the six most recent accident years is shown below:

	Total
	($000)
Current estimate of cumulative claims costs	1,583,359
Cumulative payments	(1,544,074)
Undiscounted central estimate	39,285
Discount to present value	-
Discounted central estimate	39,285
Claims handling expense	3,942
Risk margin	5,080
Gross outstanding claims liabilities	48,307
Non reinsurance recoveries on outstanding claims	(10,096)
Net outstanding claims liabilities	**38,211**

28.3 Actuarial Calculation, Assumptions and Methods

The effective date of the actuarial report on the insurance liabilities is 30 June 2011. The actuarial report was prepared by Colin Brigstock and Karen Cutter (Fellows of the Institute of Actuaries of Australia) of Finity Consulting Pty Limited. Finity Consulting are satisfied with the quality of data provided for the purpose of estimating insurance liabilities.

In the actuaries' 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 governing technical liability valuations for general insurance business.

28.4 Key Actuarial Assumptions – BAU

The key assumptions used in determining net outstanding claims liabilities for the current financial year are as follows:

	2011		2010	
	Group	Company	Group	Company
Inflation	Implicit	Implicit	Implicit	Implicit
Discount Rate*	3.74%	3.74%	4.0%	4.0%
Claims Handling Expenses	10.0%	10.0%	9.7%	9.7%
Third Party debtors expenses	19.0%	19.0%	17%	17%
Risk margin – Outstanding Claims Liabilities	11.8%	11.8%	11.7%	11.7%
Risk margin – Liability Adequacy Test	9.0%	9.0%	9.0%	9.0%
Average weighted term to settlement from reporting date	0.42 yrs	0.42 yrs	0.46 yrs	0.46 yrs

* *Applicable to motor non-reinsurance recoveries only*

28.5 Process to Determine Assumptions

28.5.1 Inflation

The actuarial models adopted implicitly allow for any inflationary impact which is likely to affect future claim payments.

28.5.2 Discount rate

Due to the short tail nature of the liabilities, the impact of discounting is not material other than for the motor non-reinsurance recoveries. As such, the gross liabilities are undiscounted. The motor non-reinsurance recoveries have been discounted using risk free zero coupon yields published by the New Zealand Treasury at 30 June 2011 and the payment profile of the underlying recovery payments.

28.5.3 Claims handling expenses

The estimate of outstanding claims liabilities includes allowance for the future cost of administering claims. The allowance (a percentage of gross outstanding claims) is based on analysis of historical claim related expenses.

28.5.4 Risk Margin

The risk margin was determined at a line of business level, allowing for the uncertainty of the outstanding claims estimate for each line of business. Uncertainty was analysed for each portfolio, taking into account:

- past volatility in general insurance claims
- actuarial model and parameter error
- diversification between the lines of business

The risk margin calculated at 30 June 2011 and 2010 is intended to achieve a 90% probability of adequacy for the outstanding claims and a 75% probability of adequacy for the liability adequacy test.

28.5.5 Average weighted term to settlement

Expected payment patterns are used in determining the outstanding claims liability. A decrease in the average term to settlement would imply that claims are being paid sooner than previously.

28.6 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.

BAU	Movement in Variable	Net Outstanding claims impact 2011 *$000*	2010 *$000*
Discount Rate	+1% p.a.	127	124
	-1% p.a.	(132)	(129)
Claims Handling Expense rate	+1%	386	410
	-1%	(386)	(410)
Risk Margin	+1%	425	449
	-1%	(425)	(449)

29. OUTSTANDING CLAIMS LIABILITY: EARTHQUAKE

Outstanding Earthquake Claims:

	2011		**2010**	
	Group *$000*	Company *$000*	Group *$000*	Company *$000*
Outstanding claims	1,675,720	1,675,720	n/a	n/a
Risk margin	229,000	229,000	n/a	n/a
Claims handling costs	31,900	31,900	n/a	n/a
	1,936,620	**1,936,620**	**n/a**	**n/a**

29.1 Claims Development

In relation to the claims development table for earthquakes, at the end of the 30 June 2011 policy year the current estimate of cumulative claims costs came to $1,819.1 million. Offsetting this amount there have been cumulative payments of $48.4 million generating an undiscounted central estimate amount for the earthquake events of $1,770.7 million. The discount to present value on this amount is $95.0 million, so the discounted central estimate is $1,675.7 million.

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

Policy Year	**Total** *$000*
Discounted central estimate	1,675,720
Claims handling expense	31,900
Risk margin	229,000
Gross outstanding claims liabilities	**1,936,620**
Reinsurance receivables (refer Note 17)	(1,196,538)
Net outstanding claims liabilities (refer Note 3)	**740,082**

29.2 Actuarial Calculation, Assumptions and Methods

The effective date of the actuarial report on the earthquake insurance liabilities is 30 June 2011. The actuarial report was prepared by Colin Brigstock and Karen Cutter (Fellows of the Institute of Actuaries of Australia) of Finity Consulting Pty Limited. Finity Consulting are satisfied with the quality of data provided for the purpose of estimating insurance liabilities.

In the actuaries' 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 governing technical liability valuations for general insurance business.

29.3 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.

	2011		2010	
	Group	Company	Group	Company
Future Inflation				
Building Cost	6.00%	6.00%	n/a	n/a
Temporary Accommodation	0.00%	0.00%	n/a	n/a
Other cover types	3.00%	3.00%	n/a	n/a
Discount Rate	3.44%	3.44%	n/a	n/a
Claims Handling Expenses	1.9%	1.9%	n/a	n/a
Risk margin – Outstanding Claims Liabilities	14.2%	14.2%	n/a	n/a
Risk margin – Liability Adequacy Test	n/a	n/a	n/a	n/a
Average weighted term to settlement from reporting date	2.58 yrs	2.58 yrs	n/a	n/a

29.4 Process to Determine Assumptions

29.4.1 Inflation

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

- 6% per annum for building costs, based on advice from New Zealand Treasury
- 0% per annum on temporary accommodation (as the allowance in the valuation is already set at the maximum payable under the Company's cover), and
- 3% per annum for the other cover types.

Overall this equates to 3.4% per annum

29.4.2 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 2011.

29.4.3 Claims handling expenses

The estimate of outstanding claims liabilities includes allowance for the future cost of administrating claims. It is based on the projected costs of running the Company's earthquake claims operation.

29.4.4 Risk Margin

The risk margin is intended to achieve a 75% probability of adequacy for the outstanding claims. The unique and unprecedented nature of the earthquake events precludes application of a formal statistical process to determining the 75% risk margin. Instead the Actuary has set the risk margin with reference to:

- the risk margins applying to the Company's business as usual claim liabilities

- the risk margins generally adopted for a range of other insurance classes, and
- the results of sensitivity tests on the Actuary's valuation results taking into account factors such as building cost inflation; the number of property claims; the mix of rebuilds/repairs/cash settlements, the claim payment pattern; and the allocation of the Earthquake Commission related event costs.

The estimated number of properties with claims over the Earthquake Commission claim limit of $100,000 plus GST across all the earthquake related events in the year ended 30 June 2011 is 7,200 properties. These are projected to have an ultimate cost of $1,407 million. In addition there are earthquake related claims not covered by the Earthquake Commission property limit which are projected to total $412 million.

There is considerable uncertainty attaching to many elements of the likely ultimate cost of the Company's earthquake related outstanding claims liabilities. The higher than normal level of uncertainty is due to a number of factors including:

- the relatively early stage of claims development
- that not all of the Over Cap claims have been formally assessed
- issues relating to application of multiple Earthquake Commission caps and to the Government's land remediation package are still developing, and
- The potential impact of demand surge on building costs.

As a result of these uncertainties the risk margin applied is materially higher than would be applied to a more normal level of uncertainty. The selected risk margin of 14.2% of the gross central estimate was chosen at a level which was double the existing margin for business as usual house claims (i.e. 14.2%, compared to 7.1%).

29.4.5 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.

29.5 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.

Earthquake	Movement in Variable	Net Outstanding claims impact 2011 *$000*	2010 *$000*
Inflation Rate	+1% p.a.	26,711	n/a
	-1% p.a.	(26,163)	n/a
Discount Rate	+1% p.a.	(13,662)	n/a
	-1% p.a.	14,160	n/a
Claims Handling Expense	+10% higher	3,540	n/a
	10% lower	(3,540)	n/a
Risk Margin	+1%	15,486	n/a
	-1%	(15,486)	n/a

30. OVERALL RISK MANAGEMENT FRAMEWORK

In preparation for licensing under the RBNZ requirements the company formalised its risk management framework as set out below.

The exceptional circumstances arising from the 22 February earthquake event required a separate and focussed response. This included the establishment of a separate unit within the company to address the earthquake issues. It also included greater input and involvement from the company's independent Actuary in determining the extent and impact of claims and reinsurance recoveries arising from the earthquake events and the need to closely monitor its compliance with the Crown Support Deed.

30.1 Governance framework

The primary objective of the Company and Group's risk management framework is to protect the shareholders' from events that hinder the sustainable achievement of financial performance objectives, including failing to exploit opportunities.

The Company and Group's risk management framework recognises the unpredictability of financial markets and seeks to minimise potential adverse effects on financial performance. A key objective of the Company and Group's risk management activities is to ensure sufficient liquidity is maintained at all times to meet obligations, particularly insurance liabilities and also to optimise investment returns.

To help the Board monitor the Company and Group's exposure to all risks (both financial and insurance) an Audit and Risk Management 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. These policies define the Company and Group's identification of risk and its interpretation, limit structure to ensure the appropriate quality and diversification of assets, align underwriting and reinsurance strategy to the corporate goals, and specify reporting requirements.

Financial risks are generally monitored and controlled by selecting appropriate assets to back insurance liabilities. This monitoring is done by the Investment Committee. The Committee is not only responsible for ensuring the Company and Group has adequate liquidity to meet its obligations, it also reviews its investment policies.

30.2 Capital management objectives, policies and approach

The Company and Group have established the following capital management objectives, policies and approach to managing the risks that affect its capital position:

- To ensure compliance with the Crown Support Deed;
- to maintain the required level of stability of the Company and Group thereby providing a degree of security to policyholders
- to allocate capital efficiently and support the development of business by ensuring that returns on capital employed meet the requirements of its capital providers and of its shareholders'
- to retain financial flexibility by maintaining strong liquidity and access to a range of capital markets
- to align the profile of assets and liabilities taking account of risks inherent in the business
- to maintain financial strength to support new business growth and to satisfy the requirements of the policyholders, regulators and stakeholders, and
- to maintain strong credit ratings and healthy capital ratios in order to support its business objectives and maximise shareholders' value.

30.3 Approach to capital management

Both the Company and Group seek to optimise the structure and sources of capital to ensure that it consistently maximises returns to the shareholders' and policyholders. As such it has put in place a sub Committee of the Board which is called the Capital Committee.
The Capital Committee is responsible for:

- setting an operating range (including minimum margin) above Minimum Capital requirements of the RBNZ's Prudential Solvency Standard
- determining the appropriate level of return on capital to be achieved by the business
- establishing tolerance limits around the Financial Rating
- following adoption of the Annual Business Plan and updated Strategic Plan developing and performing stress test scenarios on the level of capital over a rolling 5 year period to gain a broader understanding of the risks to capital adequacy, and
- reviewing the integrity of the stress testing and developing contingency plans
- Monitoring of compliance with Crown Support Deed

The primary source of capital used by the Company and Group is shareholder's equity.

The operations of the Company and Group are not only subject to the requirements of the Crown Support Deed (refer Note 4.1). When fully licensed, the Company will also be subject to the requirements of the Insurance Prudential Supervision Act 2010 and its accompanying regulations. Such regulations not only prescribe approval and monitoring of activities, but also impose certain restrictive provisions (e.g., capital adequacy) to minimise the risk of default and insolvency on the part of the insurance companies to meet unforeseen liabilities as these arise.

The Investment Committee of the Board establishes an appropriate margin above the level of insurance liabilities for liquidity purposes to ensure that in each period sufficient cash flow is available to meet liabilities arising from insurance and investment contracts.

31. 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. Risks associated with financial instruments are detailed in Note 32. The Company and Group's objectives, policies and procedures in respect of managing these risks for insurance contracts are set out in this Note.

31.1 General insurance contracts

The Company and Group principally issue the following types of general insurance contracts: private motor, dwelling, contents and pleasure boat.

For general insurance contracts, the most significant risks arise from climate changes and natural disasters. For longer tail claims, such as the earthquake events that have hit Christchurch that will take some years to settle, there is also inflation risk.

These risks do not vary significantly in relation to the location of the risk insured by the Group, type of risk insured and by industry.

The above risk exposure is mitigated by diversification across a large portfolio of insurance contracts and geographical areas in New Zealand. The variability of risks is improved by careful selection and implementation of underwriting strategies, which are designed to ensure that risks are diversified in terms of type of risk and level of insured benefits. This is largely achieved through diversification across product types and geography. Furthermore, strict claim review policies to assess all new and ongoing claims, regular detailed review of claims handling procedures and frequent 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 promptly 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.

The Company and Group has also limited its exposure by imposing maximum claim amounts on certain contracts as well as the use of reinsurance arrangements in order to limit exposure to catastrophic events (e.g. cyclones, earthquakes and flood damage). See Note 3.2 for further details.

The purpose of these underwriting and reinsurance strategies is to limit exposure to catastrophes based on the Company and Group's risk appetite as decided by management. The Board may decide to increase or decrease the maximum tolerances based on market conditions and other factors.

The Company and Group rely on catastrophe risk modelling provided by its reinsurance brokers in assessing catastrophe exposure. However, there is always a risk that the assumptions and techniques used in their models are unreliable or that claims arising from an unmodelled event are greater than those arising from a modelled event.

The table below sets out the concentration of general insurance contract liabilities by type of contract:

Company and Group	2011			
Insurance risk	Gross Liabilities $000	Reinsurance Recoveries $000	Non RI Recoveries $000	Net Liabilities $000
Motor	21,510	-	(8,742)	12,768
Household and Other	26,797	-	(1,354)	25,443
	48,307	-	(10,096)	38,211
Earthquake	1,936,620	(1,196,538)	-	740,082
	1,984,927	**(1,196,538)**	**(10,096)**	**778,293**

Company and Group	2010			
Insurance risk	Gross Liabilities $000	Reinsurance Recoveries $000	Non RI Recoveries $000	Net Liabilities $000
Motor	22,383	(875)	(7,340)	14,168
Household and Other	28,269	(448)	(1,407)	26,414
	50,652	**(1,323)**	**(8,747)**	**40,582**
Earthquake	-	-	-	-
	50,652	**(1,323)**	**(8,747)**	**40,582**

31.2 Objectives in Managing Risks Arising from Insurance Contracts and Policies for Mitigating those Risks

The Company and Group has an objective to control insurance risk thus reducing the volatility of operating profits. In addition to the inherent uncertainty of insurance risk, which can lead to significant variability in the loss experience, profits from insurance business are affected by market factors, particularly competition and movements in asset values. Short-term variability is, to some extent, a feature of insurance business.

These identify the Company and Group's policies and procedures, processes and controls that comprise its risk management and control systems. The systems address all material risks, financial and non-financial, likely to be faced by the Company. The Company and Group has systems in place to ensure compliance with legislative and prudential requirements and that the Board has satisfied itself as to the compliance with the Risk Management Strategy and a Reinsurance Management Strategy.

The Board has approved the Risk Management Strategy and Reinsurance Management Strategy. Key aspects of the processes established to mitigate risks include:

- the maintenance and use of sophisticated management information systems, which provide up-to-date reliable data on the risks to which the business is exposed at any point in time
- actuarial models, using information from the management information systems, are used to calculate premiums and monitor claims patterns. Past experience and statistical methods are used as part of the process
- documented procedures are followed for underwriting and accepting insurance risks
- the Company and Group has a programme of catastrophe and liability reinsurance to protect its insurance operations from high severity losses and catastrophic events. Reinsurance contracts are placed with leading reinsurance companies and syndicates worldwide, all of whom have a credit rating of 'A-' or better. Rating information is gathered from the public domain or through internal investigations. In order to limit concentrations of credit risk, in purchasing reinsurance the Company and Group has regard to existing reinsurance assets and seeks to limit excess exposure to any single reinsurer or group of related reinsurers, and

- the mix of assets in which the Company and Group invests is driven by the nature and term of the insurance liabilities. The management of assets and liabilities is closely monitored to attempt to match the maturity dates of assets with the expected pattern of claim payments.

31.3 Terms and Conditions of Insurance and Inwards Reinsurance Business

The terms and conditions attaching to insurance contracts affect the level of insurance risk accepted by the Company and Group. There are no special terms and conditions in any non-standard contracts that have a material impact on the financial statements.

31.4 Concentration of Insurance Risk

The following factors significantly mitigate the Company and Group's exposure to any concentrations of insurance risk:

- the Company and Group's insurance portfolio covers the domestic market only and is predominantly motor vehicle, contents and house products, with short-tailed risks covering periods of up to 12 months duration
- the portfolio is well spread across New Zealand with any concentrations of insurance risk limited to metropolitan areas, and
- the Company and Group maintains comprehensive catastrophe reinsurance cover to limit exposure from any one event.

31.5 Interest Rate Risk associated with Insurance Contracts

None of the assets or liabilities arising from insurance contracts entered into by the Company and Group are directly exposed to interest rate risk.

31.6 Credit Risk associated with Insurance Contracts

Assets arising from insurance contracts are stated in the Statement of Financial Position at the amount that best represents the maximum credit risk exposure at reporting date.

For information regarding the management of credit risk for other financial instruments, refer to Note 32.

32. FINANCIAL INSTRUMENTS - RISK MANAGEMENT POLICIES AND PROCEDURES

32.1 Financial Instrument information and Risk Management

The activities and operations of the Company and Group expose it to financial risks such as insurance risk, interest rate risk, currency risk and credit risk. The Company and Group's objectives and policies in mitigating insurance risk are discussed in Note 31. Other risks are discussed in this section.

The Company and Group's risk management framework recognises the unpredictability of financial markets and seeks to minimise potential adverse effects on financial performance. The key objective of the Company and Group's financial risk management activities is to ensure sufficient liquidity is maintained at all times to meet obligations, particularly insurance liabilities and also to optimise investment returns for its shareholders.

The Board has delegated the monitoring of the Company and Group's exposure to all risks to the Audit & Risk Management Committee. The Committee also has the responsibility of reviewing the effectiveness of management processes and controls.

Financial risks are generally monitored and controlled by selecting appropriate assets to back insurance liabilities. The Board has delegated the responsibility of monitoring these assets to the Investment Committee. The Committee is responsible for ensuring the Company and Group has adequate liquidity to meet its obligations and reviewing investment policy for members' funds.

32.2 Specific Financial Risks involving Financial Instruments other than Insurance Contracts

32.2.1 Currency risk

The Company and Group's principal business transactions are carried out in New Zealand Dollars. The Company and Group's exposure to currency risk arises with respect to the fair value of investments denominated in foreign currencies. Fluctuation of foreign currency exchange rates will alter the returns earned and the fair value of these financial assets.

The Investment Committee regularly monitors the Company and Group's exposure to currency risk and takes advice on likely trends in foreign exchange rates. Currencies impacting on the risk are the Australian Dollar and United States Dollar.. The Company and Group's net exposure to foreign currency risk is $19,396 million, representing 0.9% of total assets (2010 $40.5 million, representing 7.5% of total assets).

At 30 June, had the New Zealand dollar moved as shown in the table below, with all other variables held constant, after tax surplus and equity would have been impacted as follows:

	2011		2010	
	Group *$000*	Company *$000*	Group *$000*	Company *$000*
Impact on After Tax Surplus and Equity	Incr/(Decr)	Incr/(Decr)	Incr/(Decr)	Incr/(Decr)
NZD increase – 10%	(1,763)	(1,763)	(2,579)	(2,579)
NZD decrease – 10%	2,155	2,155	3,152	3,152

32.2.2 Interest rate risk

The Company and Group is exposed to interest rate risk on its short-term investments. Fluctuation in interest rates will alter the fair values of these financial assets.

The Investment Committee regularly monitors the Company and Group's exposure to interest rate risk and takes advice on likely trends in interest rates. When considered appropriate, the Company and Group will swap fixed interest rate investments into floating interest rate investments to minimise risk.

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:

	2011		2010	
	Group *$000*	Company *$000*	Group *$000*	Company *$000*
Impact on After Tax Surplus and Equity	Incr/(Decr)	Incr/(Decr)	Incr/(Decr)	Incr/(Decr)
Interest rate increase – 1%	(1,099)	(1,099)	(706)	(706)
Interest rate decrease – 1%	1,127	1,127	452	452

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*
2011 – Group								
Cash	2% - 4%	108,872	-	-	-	-	-	108,872
Investments	3% - 8%	317,482	17,308	18,602	-	7,625	-	361,017
		426,354	17,308	18,602	-	7,625	-	469,889
2011 – Company								
Cash	2% - 4%	108,442	-	-	-	-	-	108,442
Investments	3% - 8%	317,482	17,308	18,602	-	7,625	-	361,017
		425,924	17,308	18,602	-	7,625	-	469,459
2010 – Group								
Cash	2% - 5%	149,396	-	-	-	-	-	149,396
Investments	4% - 9%	113,955	82,430	17,230	17,737	32,527	29,586	293,465
		263,351	82,430	17,230	17,737	32,527	29,586	442,861
2010 – Company								
Cash	0%	147,828	-	-	-	-	-	147,828
Investments	4% - 9%	113,955	82,430	17,230	17,737	32,527	29,589	293,465
		261,783	82,430	17,230	17,737	32,527	29,586	442,861

32.2.3 Price risk

Equity price risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether these changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

The Company and Group's equity price risk exposure relates to financial assets whose values will fluctuate as a result of changes in market prices, principally equity investments.

The Company and Group's investment policy ensures that such risks are managed by setting and monitoring objectives and constraints on investments, diversification plans and limits on the size of investments in any one asset.

The Company and Group has no significant concentration of price risk.

At 30 June, had equity prices moved as shown in the table below, with all other variables held constant, after tax surplus and equity would have been impacted as follows:

	2011		**2010**	
	Group *$000*	Company *$000*	Group *$000*	Company *$000*
Impact on After Tax Surplus and Equity	Incr/(Decr)	Incr/(Decr)	Incr/(Decr)	Incr/(Decr)
Listed Equity Prices Increase – 10%	2,441	2,441	2,775	2,775
Listed Equity Prices Decrease – 10%	(2,441)	(2,441)	(2,775)	(2,775)

32.2.4 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 29 'A-' or better rated individual reinsurers, with the largest individual reinsurance receivable comprising 20% of the total reinsurance receivable. The Crown receivable, while significantly concentrated, carries a sovereign rating of AA+.

32.2.5 Counterparty Risk

The Company and Group invests in a number of financial institutions that have banking operations in New Zealand and Australia. At reporting date the Company and Group had invested between 40%-45% of equity with one financial institution, 30%-40% of equity with two financial institutions, 15%-30% of equity with three financial institutions and 0%-15% (the remainder) with two financial institutions. All of these financial institutions are rated AA or better with Standard & Poors.

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

32.2.6 Liquidity Risk

The Company and Group's Investment Committee and treasury function review liquidity levels to ensure sufficient funds to cover obligations as they fall due.

Liquidity Table	**Net Discounted Outstanding Claims Liability**		**Investments and Receivables**	
Company and Group	**2011** *$000*	**2010** *$000*	**2011** *$000*	**2010** *$000*
Cash and cash equivalents	-	-	108,442	149,396
Within 1 yr	120,772	50,652	748,728	153,592
Within 1 to 2 years	279,762	-	17,308	82,430
Within 2 to 3 years	253,235	-	15,346	17,230
Within 3 to 4 years	55,203	-	-	17,737
Within 4 to 5 years	70,677	-	7,625	32,527
Over 5 years	-	-	-	29,586
	779,648	**50,652**	**897,448**	**482,498**

32.2.7 Derivative financial instruments held for hedging purposes

The Company and Group only use derivatives for hedging purposes in order to reduce its exposure to market risks. Only two types of derivatives have been used; foreign exchanges contracts and interest rate swaps.

32.2.8 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 2011	Level 1 *$000*	Level 2 *$000*	Level 3 *$000*	Total *$000*
Crown Receivable	-	-	496,178	496,178
Fixed interest securities	361,017	-	-	361,017
Derivatives	-	-	-	-
Equity securities	24,415	-	1,614	26,029
	385,432	-	**497,792**	**883,224**

Group and Company 2010	Level 1 *$000*	Level 2 *$000*	Level 3 *$000*	Total *$000*
Crown Receivable	-	-	-	-
Fixed interest securities	293,465	-	-	293,465
Derivatives	-	(88)	-	(88)
Equity securities	38,212	-	1,425	39,637
	331,677	**(88)**	**1,425**	**333,014**

Reconciliation of Level 3 Fair Value Movements – Group and Company	**2011** *$000*	**2010** *$000*
Opening balance	1,425	1,982
Recognition of Crown receivable on issuance of Convertible Preference shares	493,583	-
Redemption of investment	-	(923)
Total fair value gains	2,784	366
	497,792	**1,425**

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 $0.2 million.

The fair value of the Crown Receivable is determined by calculating the present value of the amount receivable using New Zealand Government Bond rates, assuming a recovery date of 6 months from the inception of the Crown Support Deed. A 1% movement in the Government Bond rate would increase or reduce the fair value by $1.3 million.

32.2.9 Carrying value of Financial Instruments

The following describes the methodologies and assumptions used to determine fair values for those financial instruments.

32.2.10 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.

32.2.11 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.

32.2.12 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.

32.2.13 Derivatives

Derivative products valued using a valuation technique with market observable inputs (Level 2) are mainly interest rate swaps, currency swaps and forward foreign exchange contracts. The most frequently applied valuation techniques include forward pricing and swap models, using present value calculations. The models incorporate various inputs including the credit quality of counterparties, foreign exchange spot and forward rates and interest rate curves.

33. CAPITAL COMMITMENTS

At 30 June 2011, the Company and Group has committed to $36.3 million of software development expenditure relating to the ongoing development of an insurance software package to be implemented in 2013 and 2014. It is planned to spend $16.3 million of this amount over the next 12 months (2010: Company and Group $10.9 million).

34. OPERATING LEASES

	2011		2010	
	Group and Company		Group and Company	
	Future Income	Future Expenditure	Future Income	Future Expenditure
	$000	*$000*	*$000*	*$000*
Future income and expenses under non cancellable operating leases:				
Not later than 1 year	1,340	4,306	1,236	4,409
Later than 1 year, not later than 5 years	2,534	8,089	1,605	7,123
Later than 5 years	109	140	272	286
	3,983	**12,535**	**3,113**	**11,818**

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

35. RELATED PARTY TRANSACTIONS

35.1 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.

	2011		2010	
Remuneration of Key Management Personnel	Group *$000*	Company *$000*	Group *$000*	Company *$000*
Short-term employee benefits	2,887	2,887	2,885	2,885
Post-employment benefits and retiring allowances	211	211	168	168
	3,048	**3,048**	**3,053**	**3,053**

35.2 Management Fees

The Group pays the AMI Members Trust management fees of $15,000 (2010 $15,000).

35.3 AMI Superannuation Scheme

The Company is sponsor to an employee superannuation scheme (the Scheme). Note 24 details contributions made to the Scheme. In addition to these contributions, the Company meets some of the operating costs of the Scheme, such as audit fees and actuarial valuations. These additional costs totalled $61,000 (2010 $38,000).

35.4 Loan to Company (Impairment of advance)

The Company has made loans to three nominee companies that are sole purpose property owning companies situated in Christchurch in which AMI Insurance Limited has a 100% beneficial interest. These properties have 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 $7.374 million has therefore been recognised in the Company's financial statements for the year ended 30 June 2011 (2010: $Nil)

35.6 Balances with various Crown-owned entities

Included in sundry creditors at 30 June 2011 is a liability to the New Zealand Fire Service of $5.626 million representing levies collected but unpaid at 30 June 2011, and a liability to the Earthquake Commission of $3.111 million which represents levies collected on behalf of that entity but unpaid at 30 June 2011.

Included in Investments at 30 June 2011 are $5.454 million of Government bonds and $34.293 million of bonds held in various State Owned Enterprises.

36. EVENTS AFTER REPORTING DATE

36.1 Events Noted in Prior Year Financial Statements

Reference was made in the 30 June 2010 financial statements to an earthquake experienced in the Canterbury region on 4 September 2010. Note 3 expands on the previous disclosure about addressing the total cost of claims arising from this event.

36.2 Insurance Licence

The Company has applied to the RBNZ for a provisional licence to operate as an insurer in New Zealand. The Company expects to receive confirmation of this shortly.

36.3 Change in Insurance Contractual Arrangements

From 1 July 2011 onward the Company changed its contractual terms for its monthly and quarterly insurance contracts. On renewal, these contracts will become annual contracts paid in monthly or quarterly instalments. From 1 July 2011 onwards, the Company will accrue at the date of renewal for annual premiums, and then amortise that premium revenue on a straight line basis over the following 12 months.

36.4 Earthquake Assumptions

On 29 August 2011 the Earthquake Commission announced that it had revised its preliminary estimates of damage arising from the Canterbury Earthquakes experienced during the year ended 30 June 2011.
On 1 September 2011 a decision was made by the High Court in favour of insurance companies involved in claims arising from the Canterbury earthquakes. The essence of this decision was that each of the significant earthquake events mentioned in Note 3, would be viewed as separate insurance events and the Earthquake Commission would therefore take a greater portion of the total insurance losses on insured properties.
The assumptions used by the Actuary in determining the outstanding claims liability arising from the various earthquakes takes into account the impact of the Earthquake Commission 29 August 2011 announcement and 1 September 2011 High Court decision.

36.5 Capital Raising

In June 2011 the Directors appointed Goldman Sachs to lead a capital restructuring of AMI Insurance Limited. The Company remains solvent but the estimated cost of earthquake claims has resulted in a shortfall in capital necessary to meet Reserve Bank of New Zealand regulatory requirements as contained within the Crown Support Deed (refer Note 4.2). The capital restructuring of the Company is designed to address the regulatory capital shortfall and assure the long term viability of the business.

A number of parties have expressed their interest in the capital restructuring and following the release of the Company's annual results, discussions will commence with prospective investors.

The Crown continues to provide ongoing capital support for the Company under existing arrangements and is supportive of the capital restructuring.