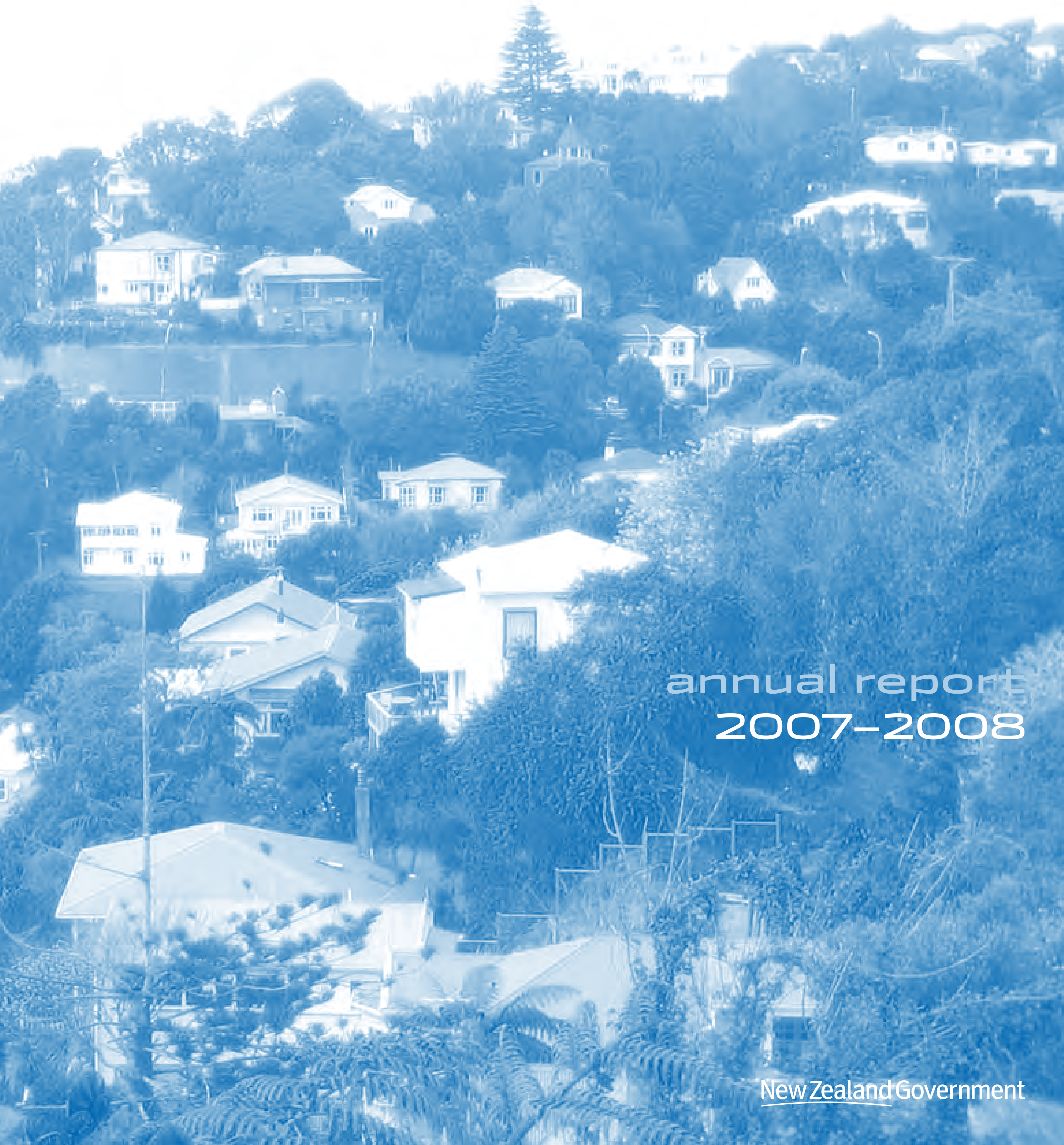
EQC

EARTHQUAKE COMMISSION

KŌMIHANA RŪWHENUA



annual report 2007–2008

New Zealand Government

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2007–08
Highlights

New Claims Management System

EQC's new claims management system, ClaimCenter, went live in March. ClaimCenter is web-based, making it accessible to all individuals dealing with a claim whether they are at EQC's head office, claims handling centre in Brisbane or in the disaster area.

Gisborne Earthquake

EQC set up two support centres in Gisborne to handle just over 6,200 claims received following the magnitude 6.8 earthquake on 20 December. At the height of the operation, over 70 people were working from the two centres and by year's end 90 percent of claims were settled.

Awesome Forces Renewal

EQC has committed to a third, five-year sponsorship of Te Papa's most popular exhibition, *Awesome Forces*. Planning is currently underway for a number of improvements inside *Awesome Forces*, using the latest advancements in technology.

New 1931 Hawke's Bay Earthquake Exhibition

The EQC-sponsored exhibition, *Living on the Edge: Hawke's Bay Earthquake, 1931*, at the Hawke's Bay Museum and Art Gallery opened in February. As the most deadly natural disaster in our history, the 1931 earthquake is a powerful reminder of natural disaster risk in New Zealand. Through the sponsorship EQC is able to educate New Zealanders about natural disasters and ways in which to protect their property from such events.

Responsible Investment Policy

In early December EQC implemented a formal responsible investment policy, including becoming a signatory to the United Nations Principles for Responsible Investment (UNPRI). As a signatory, the Commission acknowledges internationally agreed standards for responsible corporate behaviour and employs the principles to guide its investment decisions.

Auckland Volcanic Field Review

EQC has initiated a science review of the Auckland volcanic field to improve the basis for planning and management of volcanic risk in Auckland. The review is jointly led by GNS Science and the University of Auckland.

Chairman's report

In last year's annual report I signalled that EQC was starting a programme of work to help form a view on the optimal size of the Natural Disaster Fund (NDF). This work is predicated on the assumption that the NDF should be able to meet its maximum probable liability – a magnitude 7.5 Wellington earthquake – and be rebuilt within a reasonable time to continue as the country's financial reserve for recovery from natural disasters.

The Size of the Fund

This work has been progressed. The consensus is that the NDF should be maintained in real terms at around $7 billion, if supported by $2.5 billion of reinsurance. The NDF at 30 June 2008 was $5.5 billion.

Whether to Hedge

This is not the full story. The complexity of this financial and probability analysis is compounded by the structure of the investment of the NDF, and in particular the proportion which is held in foreign currency denominated equities. At 30 June 2008 $1.59 billion or 28.6 percent of the Fund was held in overseas equities. These are unhedged. Therefore the investment performance of this part of the NDF is influenced, not only by the performance of our fund managers and the general movements in the world stock markets, but by the fluctuating fortunes of the New Zealand dollar. So a further matter on which the EQC Board will need to take a decision is on the extent, if any, to which we should hedge our foreign currency investments.

However, an important reason why EQC invests a proportion of its portfolio offshore is to provide a "natural hedge" should, for example, the New Zealand dollar fall on the news of a major earthquake causing extensive damage in New Zealand. For this reason EQC's policy is currently to stay unhedged. This position will be reviewed during 2008/09 to ensure that both the logic, and the cost-benefit assessment, continue to support this position.

The significance of the hedging decision can be seen in EQC's financial results. 2007/08 had some challenges for all financial institutions. It was no different for EQC. Our investment income was $188 million. Losses in global equities of $269 million were offset by foreign exchange gains of $103 million, and by income and revaluation gains on NZ Government stock of $286 million.

Investing Responsibly – More than Divestment

Responsible investment continues to be a matter of attention for the Board. In addition to last year's decision to divest tobacco stocks, EQC has taken a "low risk" position to ensure that we comply with the spirit as well as the letter of the law prohibiting investing in companies engaged in the production of certain types of anti-personnel mines. The Board will adopt a similar position as New Zealand moves to ratify the Convention on Cluster Munitions.

Responsible investment is both a commitment and a challenge for EQC. We are in the business of international investment, and of protecting the considerable asset that is the NDF. Our preference, made explicit in the responsible investment policy adopted by the Board, is to engage with companies about practices which are inconsistent with good "international citizenship", rather than divest. Where this is done effectively, the result can be better for all parties affected by corporate behaviour. But engagement is neither the role nor the responsibility of our fund managers. Furthermore, effective engagement requires strength and leverage, and EQC cannot go it alone.

For this reason we have become a signatory to the UN Principles for Responsible Investment (UNPRI) and are developing a joint responsible investment programme with the other Crown financial institutions. The engagement process provided by the UNPRI, and the greater influence that joint action can exert, should make engagement an effective option.

Challenges in Research

EQC is a significant contributor to this country's research effort in natural hazards science and engineering – to the tune of $10 million annually. A thrust of this considerable investment is "science to practice", encouraging where possible a connection between science and the resilience of New Zealand's communities to the impact of natural hazards.

Despite the size of EQC's commitment, the success of projects – such as new initiatives to update the science behind the assessment of seismic and volcanic hazard and vulnerability in Auckland and Wellington – depends on a national research capacity. Vote Education and Vote Science are an essential part of the picture. Getting alignment can be a challenge, through no fault of the parties concerned.

The refinements to strategic funding arrangements for natural hazards research, proposed by the Foundation for Research, Science and Technology, are significant and welcome. To the extent that they will create a "hazards research platform", they will provide a basis for certainty of funding, and continuity of research. We look forward to assisting the Foundation as this initiative takes shape.

Gisborne et al.

EQC's General Manager (Chief Executive from 1 July 2008), David Middleton, has described in his report the EQC response to the East Coast earthquake of 20 December 2007. He gives an important reminder that "EQC's response" is the response of EQC's people. He rightly acknowledges the staff for their efforts in this, and in the myriad of challenging, routine, or unusual demands placed on the staff in the course of the year.

I add my thanks to his.

I would also like to credit David himself for the leadership he has given the organisation, and thank him for his support to me.

Finally I would like to acknowledge my colleagues on the Board, and the contribution that each has made to the success of this unique institution.

Michael Wintringham
Chairman

General Manager's report

Like all organisations, EQC follows an annual plan and routine of activities, with goals in mind and measures to help us see our way. Our objectives include being ready for a natural disaster and our plans make provision for exercising and training, and learning from others.

When a natural disaster occurs – as it did on 20 December with a 6.8 magnitude earthquake centred beneath the sea off Gisborne – the challenges for EQC are not only to respond as prepared and expected, but to maintain necessary routine tasks in the face of the additional load. Management of the investments of the Natural Disaster Fund, renegotiation of reinsurance agreements, checking of premium payments, completion of reports and returns, payment of invoices, oversight of research expenditure, maintenance of services to other claimants and many other day-to-day activities vital to the running of an administration have to continue unabated. This is an integral part of our catastrophe response programme.

We need to measure how well we coped with the disaster by the degree to which we adhered to our standards and timetables in all these other areas, as well as how well we responded to the home owners who had earthquake damage and an entitlement to compensation. It is therefore pleasing to be able to report substantial achievement of the targets set in our Statement of Service Performance, despite the distraction of the Gisborne earthquake. This was the largest event with which we have had to cope since our predecessor, the Earthquake and War Damage Commission, was faced with the Edgecumbe earthquake of 1987.

This is a doubly rewarding result because – as luck or Rūaumoko would have it – the earthquake occurred right at the time we were to commission a new web-based claims management system. Development of the new system involved staff from IBM, Eagle Technology and Guidewire, working out of EQC's office in Wellington.

After much thought, including careful review of a fall-back position, we decided to go ahead with the changeover in March and this has been proven the correct decision.
The new system has delivered better access to the claims records by all who needed it, and better control of the process, both of which translate to a better service to claimants.

EQC could not have achieved any of this without its staff. Employees and contractors voluntarily set aside plans for their Christmas breaks as soon as news of the earthquake came through. The Commission was able to have representatives in Gisborne before Christmas. Arrangements for opening a local support centre for the teams of people needed to service the claims were well in hand by the New Year. Plans and contracts are needed for a disaster response, but they are ineffectual without the commitment of the people they rely on.

Our response to the Gisborne earthquake, and our ability to continue "business as usual", are testament to our being on the right track with our planning and preparation. We must not lose sight of the fact, though, that the Christmas event created just over 6,200 claims on EQC. It is possible for an earthquake to cause 10 times that number. That will be a real test of the Commission's ability to cope.

Harold Williams stands among the fallen bricks from the west wall of his house in Gisborne after the magnitude 6.8 earthquake in December 2007. EQC received just over 6,200 claims with costs of around $25 million. Photo courtesy of Gisborne Herald.

Claims Handling and Catastrophe Response

It was a busy year from the outset. At the start of July we were winding down our Northland support centre, set up following the March storm, when another storm occurred, requiring the centre to stay open for a further three months.

In October, when we were once more discussing the closure of the Northland centre, a magnitude 6.7 earthquake struck near Milford Sound. We set up shop in Invercargill and dealt with 1,000 small claims, with some contractors transferring straight from Whangarei.

In response to the Gisborne earthquake, EQC set up two support centres in the city to help handle the claims. At the peak of the operation we had over 70 people working from these centres and, at balance date, more than 90 percent of the claims had been settled.

Administration of the Scheme

The Commission has a programme of checking premium calculations and reports from external auditors to ensure the integrity of premium payments from insurance companies. This year we received 12 reports from auditors, of which three were qualified. EQC's subsequent checks found that all premium payments to the Commission were correct.

Research

Important advances in understanding of the earthquake hazard in the Wellington region were made this year through the *It's Our Fault* project. *It's Our Fault* is a comprehensive study of the likelihood of large Wellington earthquakes, the size of these earthquakes, their effects and their impacts on the community. It is jointly sponsored by EQC, Wellington City Council and ACC. The new results come from evidence of prehistoric movements of the land, carefully unearthed and interpreted by scientists from GNS Science and Victoria University, and from complementary studies by NIWA scientists of tell-tale changes in features on the seafloor, where large fault lines cross the Cook Strait.

In Auckland, where volcanoes dominate the landscape, EQC has initiated a thorough science review of the Auckland volcanic field to improve the basis for long-term planning and management of volcanic risk in New Zealand's largest city. The review, which began this year, is led jointly by GNS Science and the University of Auckland. Key questions that will be addressed are: What was the distribution in time and source of past eruptions affecting Auckland? What is the likelihood and size of future eruptions affecting Auckland? Where are we in the lifespan of the Auckland volcanic field? How intensive should the monitoring be to provide adequate warning of an eruption?

EQC's investment in the development and maintenance of research capacity in New Zealand continued this year with 18 new projects funded through the biennial grants programme, and a further 10 projects supporting postgraduate student and early-career research at New Zealand universities. Two of New Zealand's top engineering students were also awarded Fulbright-EQC Graduate Awards in Natural Disaster Research, to pursue their research in the United States. Geoff Rodgers (University of Canterbury) and Aaron Wilson (University of Auckland) were the recipients of the awards.

All research topics supported by EQC address matters relevant to natural disaster damage, and methods of reducing or preventing such damage, spanning the earth sciences, civil engineering, architectural design, building technologies, social science and emergency management.

Public Education

A third, five-year sponsorship of the *Awesome Forces* exhibition at Te Papa was agreed to in December, marking the continuation of a mutually beneficial relationship between the museum, EQC and GNS Science. Since the museum opened in February 1998, 8.7 million visitors have enjoyed *Awesome Forces* and had the opportunity to learn about natural disasters, EQC's role and how to prevent natural disaster damage.

Planning is currently underway for a number of improvements inside *Awesome Forces*, using the latest advancements in technology. Visitors can expect to see some exciting new information introduced to the exhibition over the next couple of years, presented in highly engaging and innovative ways.

The Earthquake Commission expanded its education and outreach activities with sponsorship of the new exhibition at the Hawke's Bay Museum and Art Gallery, *Living on the Edge: Hawke's Bay Earthquake, 1931*. Opened in February, the exhibition highlights the potentially devastating effects of such an earthquake and, like our museum sponsorships at Te Papa and the Auckland War Memorial Museum, provides information on how to minimise the effects of such disasters.

EQC's ethnic minorities programme continued and included publishing a new brochure, *People, Property and Natural Disaster*, in seven languages. The brochure includes information for new migrants on various topics including preparing for the natural disasters the Commission covers, the cover provided by the Commission and information on risks in certain areas.

Other public education activities included; a series of press advertisements highlighting EQC's role that ran in community newspapers throughout the country; internet and press advertising to take advantage of the heightened awareness that follows large natural disasters; new internet advertisements highlighting the different natural disasters that EQC covers; and a continuation of our successful programmes for schools.

The EQC-sponsored exhibition, *Living on the Edge: Hawke's Bay Earthquake, 1931*, at the Hawke's Bay Museum and Art Gallery in Napier.

Managing the Natural Disaster Fund

The Natural Disaster Fund grew by $140 million to $5.5 billion during the year, an increase of three percent over last year's total at balance date.

Volatile markets saw the value of EQC's offshore equities fall despite the weak New Zealand dollar contributing 6.6 percent to the return.

After the deduction of management fees, active equity managers out-performed the MSCI world benchmark by 1.6 percent. Except for the replacement of one growth manager, the structure and asset allocations remained unchanged.

High domestic short-term interest rates through the year boosted EQC's cash returns. The Reserve Bank Official Cash Rate was 8 percent at the beginning of the year, but increased early on to 8.2 percent. As a consequence, bank deposits (RCDs) and Treasury bills produced steady income throughout the year, with a combined return of 8.6 percent.

The average yield on New Zealand Government stock (NZGS) moved from 6.95 percent (30 June 2007) to 6.38 percent (30 June 2008), increasing the value of the portfolio. EQC's returns for NZGS and inflation-indexed bonds, of 9.1 and 5.2 percent respectively, were in line with the indices.

Approximately 64 percent of EQC's portfolio is invested in NZGS and inflation-indexed bonds and as at 30 June, EQC held 12 percent of NZGS and 23 percent of inflation-indexed bonds on issue.

ASSET CLASS	ACTUAL RETURN	BENCHMARK
NZ Government Stock	9.1%	9.0%
NZ Government Inflation-Indexed Bonds	5.2%	5.2%
Bank Bills (Registered Certificates of Deposit) / Treasury Bills	8.6%	8.8%
Passive Global Equities	-9.1%	-9.3%
Active Global Equities	-7.7%	-9.3%
Total Portfolio*	3.3%	3.2%

* The target total portfolio return is 1% over the NZGS index return, over a rolling 10-year period. The structure has not been in place long enough to compare 10-year returns. For the four years to 30 June 2008 the actual total portfolio return was 6.0% versus the target of 7.0%.

EQC is responsible for managing and administering the Natural Disaster Fund in a manner that ensures:

- best practice portfolio management;
- maximisation of returns without undue risk to the Fund as a whole; and

EQC staff working with the new web-based claims management system.

- avoidance of prejudice to New Zealand's reputation as a responsible member of the world community.

During the year the Commission developed a formal responsible investment policy which was adopted on 6 December. One of the recommendations agreed to in the policy was that EQC became a signatory to the United Nations Principles for Responsible Investment. As a signatory, the Commission acknowledges internationally agreed standards for responsible corporate behaviour and employs the principles to guide its investment decisions.

EQC is currently working with other Crown financial institutions to ensure that it has the resources and information necessary effectively to engage with investee companies on responsible investment matters and to fulfil EQC's obligation to avoid prejudice to New Zealand's reputation.

The Commission has instructed its investment managers to exclude from its portfolio investments in organisations engaged in the development, production, transfer, possession, acquisition, stockpiling or use of anti-personnel mines; and the manufacturers of cigarettes and tobacco.

EQC's annual catastrophe reinsurance negotiations in May delivered increased cover for the Natural Disaster Fund for competitive rates. The Commission's reinsurance programme provides protection for the Fund in case of a large natural disaster.

David Middleton
General Manager

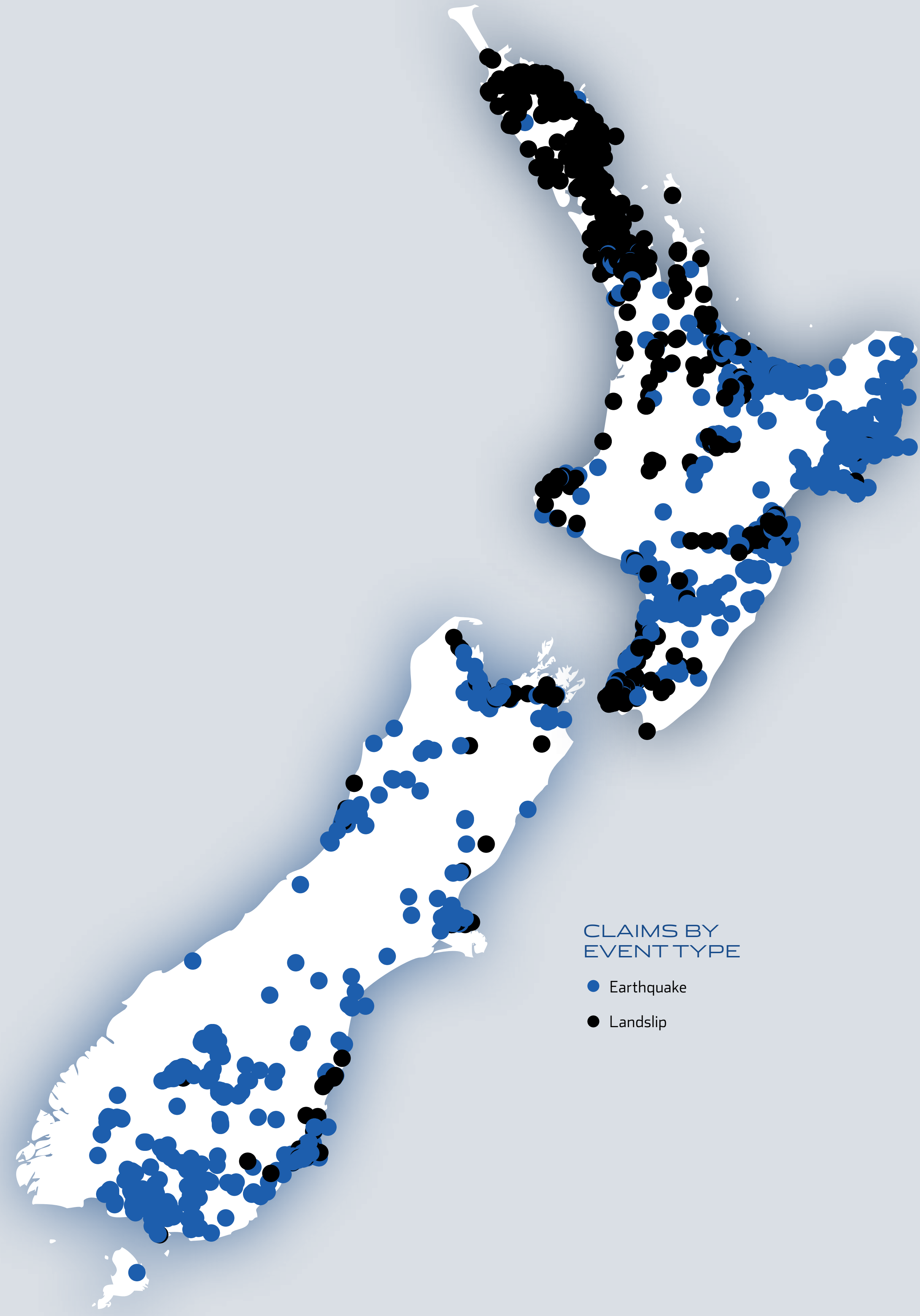
Natural Disaster Claims Locations

FOR CLAIMS ARISING IN THE FINANCIAL YEAR

	2007–2008		2006–2007		AVERAGE OF PRIOR 5 YEARS	
	NO. OF CLAIMS	COST (000)	NO. OF CLAIMS	COST (000)	NO. OF CLAIMS	COST (000)
Earthquake	8,149	$28,398	1,522	$2,673	2,399	$6,588
Landslip	1,307	$17,965	1,848	$32,146	1,410	$16,601
Hydrothermal Activity	3	$0	0	$0	3	$111
Volcanic Eruption	0	$0	0	$0	0	$0
Total	9,459	$46,363	3,370	$34,819	3,812	$23,300

Note:

The Financial Statements disclose claims payments made and incurred, and include claims settlement costs, in the financial year, so figures are different from those in this table.


CLAIMS BY
EVENT TYPE
Earthquake
Landslip

Research Projects Completed

Review of San Francisco Bay area public education initiatives: Lessons for New Zealand

K Finnis – Joint Centre for Disaster Research, Massey University/GNS Science

(EQC funded project OPR6)

Assessment of material strain limits for defining different forms of plastic hinge region in concrete structures

R Dhakal, R Fenwick, A Walker – University of Canterbury

(EQC funded project 06/516)

Using action plans to increase voluntary actions that reduce earthquake damage

J McClure, R Fischer, M Hunt, A Charleson – Victoria University of Wellington

(EQC funded project 06/526)

Development of design guidelines for rocking structures

T Kelly – Holmes Consulting Group

(EQC funded project OPR4)

Delineating debris-flow hazards on alluvial fans in the Coromandel and Kaimai regions, New Zealand, using GIS

A Welsh (supervised by Professor T Davies) – University of Canterbury

(EQC funded project UNI/528)

Detection of seismic damage in buildings using structural responses

P Omenzetter, O de Lautour – University of Auckland

(EQC funded project UNI/535)

Tsunami hazard posed by earthquakes on the Hikurangi subduction zone interface

W Power, M Reyners, L Wallace – GNS Science

(EQC funded project 06/521)

Testing and development of earthquake forecasting models

D Rhoades, M Gerstenberger, A Christophersen, M Savage, J Zhuang – GNS Science

(EQC funded project 06/510)

A means-end chain theory analysis of hazard cognitions and preparedness

D Paton, D Johnston – GNS Science

(EQC funded project 06/525)

Slow-slip events and small earthquake clustering – Implications for the locked region of the shallow Hikurangi subduction zone

J Beavan, R McCaffrey, M Reyners, L Wallace – GNS Science

(EQC funded project 06/511)

The predicted Ruapehu crater lake lahar: Maximising the scientific gain

V Manville – GNS Science

(EQC funded project 06/518)

Seismicity and seismic tremor in the Hikurangi subduction zone

E Delahaye, J Townend – Victoria University of Wellington

M Reyners, G Rogers – GNS Science

(EQC funded project UNI/527)

Development of anisotropy monitoring at Mt Ruapehu volcano

M Savage, A Wessel – Victoria University of Wellington

T Hurst, S Sherburn – GNS Science

(EQC funded project 06/520)

Seismicity in Taupo volcanic zone geothermal systems

D Clarke, J Townend, M Savage, S Bannister – Victoria University of Wellington

(EQC funded project UNI/508)

Bayesian methods of earthquake focal mechanism estimation and their application to New Zealand seismicity data

D Walsh, R Arnold, J Townend – Victoria University of Wellington

(EQC funded project UNI/536)

Seismic response of Little Red Hill – Towards an understanding of topographic effects on ground motion and rock slope failure

F Büch (supervised by Professor T Davies) – University of Canterbury

(EQC funded project UNI/529)

2007–08
Financial Statements

Audit report

TO THE READERS OF THE EARTHQUAKE COMMISSION'S FINANCIAL STATEMENTS AND STATEMENT OF SERVICE PERFORMANCE FOR THE YEAR ENDED 30 JUNE 2008

The Auditor-General is the auditor of the Earthquake Commission (the Commission). The Auditor-General has appointed me, John O'Connell, using the staff and resources of Audit New Zealand, to carry out the audit on his behalf. The audit covers the financial statements and statement of service performance included in the annual report of the Commission for the year ended 30 June 2008.

UNQUALIFIED OPINION

In our opinion:

- The financial statements of the Commission on pages 17 to 44:
  - comply with generally accepted accounting practice in New Zealand; and
  - fairly reflect:
    - the Commission's financial position as at 30 June 2008; and
    - the results of its operations and cash flows for the year ended on that date.
- The statement of service performance of the Commission on pages 45 to 48:
  - complies with generally accepted accounting practice in New Zealand; and
  - fairly reflects for each class of outputs:
    - its standards of delivery performance achieved, as compared with the forecast standards outlined in the statement of forecast service performance adopted at the start of the financial year; and
    - its actual revenue earned and output expenses incurred, as compared with the forecast revenues and output expenses outlined in the statement of forecast service performance adopted at the start of the financial year.

The audit was completed on 7 October 2008, and 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 and the Auditor, and explain our independence.

AUDIT NEW ZEALAND
Mana Arotake Aotearoa

BASIS OF OPINION

We carried out the audit in accordance with the Auditor-General's Auditing Standards, which incorporate the New Zealand Auditing Standards.

We planned and performed the audit to obtain all the information and explanations we considered necessary in order to obtain reasonable assurance that the financial statements and statement of service performance did not have material misstatements, whether caused by fraud or error.

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

The audit involved performing procedures to test the information presented in the financial statements and statement of service performance. We assessed the results of those procedures in forming our opinion.

Audit procedures generally include:

+ determining whether significant financial and management controls are working and can be relied on to produce complete and accurate data;
+ verifying samples of transactions and account balances;
+ performing analyses to identify anomalies in the reported data;
+ reviewing significant estimates and judgements made by the Board;
+ confirming year-end balances;
+ determining whether accounting policies are appropriate and consistently applied; and
+ determining whether all financial statement and statement of service performance disclosures are adequate.

We did not examine every transaction, nor do we guarantee complete accuracy of the financial statements and statement of service performance.

We evaluated the overall adequacy of the presentation of information in the financial statements and statement of service performance. We obtained all the information and explanations we required to support our opinion above.

RESPONSIBILITIES OF THE BOARD AND THE AUDITOR

The Board is responsible for preparing the financial statements and statement of service performance in accordance with generally accepted accounting practice in New Zealand. The financial statements must fairly reflect the financial position of the Commission as at 30 June 2008 and the results of its operations and cash flows for the year ended on that date. The statement of service performance must fairly reflect, for each class of outputs, the Commission's standards of delivery performance achieved and revenue earned and expenses incurred, as compared with the forecast standards, revenue and expenses adopted at the start of the financial year. The Board's responsibilities arise from the Crown Entities Act 2004 and the Earthquake Commission Act 1993.

We are responsible for expressing an independent opinion on the financial statements and statement of service performance and reporting that opinion to you. This responsibility arises from section 15 of the Public Audit Act 2001 and the Crown Entities Act 2004.

INDEPENDENCE

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

Other than the audit, we have performed additional assurance work over expenditure incurred in the processing of claims. Other than the audit, and this assignment, we have no relationship with or interests in the Commission.

John O'Connell

John O'Connell
Audit New Zealand
On behalf of the Auditor-General
Wellington, New Zealand

Income Statement

FOR THE YEAR ENDED 30 JUNE 2008

	(NOTES)	ACTUAL 2008 $(000)	BUDGET 2008 $(000)	ACTUAL 2007 $(000)
Gross earned premiums	1	85,658	85,464	83,750
Outward reinsurance premium expense		(36,289)	(37,000)	(31,022)
NET EARNED PREMIUM REVENUE		**49,369**	**48,464**	**52,728**
CLAIMS EXPENSE	2, 3, 5, 16	**(66,848)**	**(9,034)**	**(54,397)**
(DEFICIT) SURPLUS FROM UNDERWRITING ACTIVITIES		**(17,479)**	**39,430**	**(1,669)**
Public education		(2,746)	(3,394)	(2,719)
Research (excluding GeoNet)		(2,178)	(2,771)	(1,975)
GeoNet programme		(7,437)	(7,367)	(7,036)
TOTAL OTHER OPERATING COSTS		**(12,361)**	**(13,532)**	**(11,730)**
Investment income	4, 5	188,350	383,243	46,726
Investment costs		(7,998)	(8,792)	(8,181)
INVESTMENT INCOME NET OF COSTS		**180,352**	**374,451**	**38,545**
Crown underwriting fee		(10,000)	(10,000)	(10,000)
NET SURPLUS FOR THE YEAR		**140,512**	**390,349**	**15,146**

Statement of Movements in Equity

FOR THE YEAR ENDED 30 JUNE 2008

	(NOTES)	ACTUAL 2008 $(000)	BUDGET 2008 $(000)	ACTUAL 2007 $(000)
Natural Disaster Fund				
Opening balance as at 1 July	6	5,394,956	5,629,368	5,379,810
Net surplus for the year		140,512	390,349	15,146
TOTAL RECOGNISED REVENUE AND EXPENSES FOR THE YEAR (OPERATING SURPLUS)		**140,512**	**390,349**	**15,146**
CLOSING BALANCE AS AT 30 JUNE	6	**5,535,468**	**6,019,717**	**5,394,956**

The Statement of Accounting Policies and Notes form part of and should be read in conjunction with these Financial Statements.

Balance Sheet

AS AT 30 JUNE 2008

	(NOTES)	ACTUAL 2008 $(000)	BUDGET 2008 $(000)	ACTUAL 2007 $(000)
Natural Disaster Fund				
Capitalised reserves	6	1,500,000	1,500,000	1,500,000
Retained surplus	6	4,035,468	4,519,717	3,894,956
TOTAL EQUITY		**5,535,468**	**6,019,717**	**5,394,956**
Assets				
Cash and cash equivalents	7	12,983	12,119	9,593
Investments	5, 11, 12	5,584,619	6,031,969	5,457,499
Premiums receivable	8	17,567	18,524	17,345
Other receivables	9	671	0	0
Prepayments	10	6,106	6,250	5,564
Property, plant and equipment	13	13,029	13,731	12,192
Intangible assets	14	2,558	1,475	338
TOTAL ASSETS		**5,637,533**	**6,084,068**	**5,502,531**
Liabilities				
Trade and other payables	15	5,326	4,707	5,333
Provision for employee entitlements		219	140	183
Outstanding claims liability	16	19,116	14,631	25,097
Unearned premium liability	16	44,404	44,873	43,962
Unexpired risk liability	5, 16	33,000	0	33,000
TOTAL LIABILITIES		**102,065**	**64,351**	**107,575**
NET ASSETS		**5,535,468**	**6,019,717**	**5,394,956**

The Statement of Accounting Policies and Notes form part of and should be read in conjunction with these Financial Statements.

Statement of Cash Flows

FOR THE YEAR ENDED 30 JUNE 2008

	(NOTES)	ACTUAL 2008 $(000)	BUDGET 2008 $(000)	ACTUAL 2007 $(000)
Cash flows from operating activities				
Cash was provided from:				
Premiums		85,878	85,980	84,475
Interest received		244,748	228,445	231,527
Dividends received		31,525	30,000	32,085
Other		142	343	79
Cash was disbursed to:				
Outward reinsurance		(37,016)	(37,000)	(31,825)
Crown underwriting fee		(10,000)	(10,000)	(10,000)
Claims		(72,829)	(9,034)	(43,509)
Employees and other operating expenses		(10,714)	(12,778)	(11,089)
GeoNet operating expenses		(5,354)	(5,342)	(5,107)
Research grants		(1,632)	(2,099)	(1,268)
Net cash flow to GST		(963)	0	(453)
NET CASH INFLOW FROM OPERATING ACTIVITIES	5, 23	**223,785**	**268,515**	**244,915**
Cash flows from investing activities				
Cash was provided from:				
Maturity and sales of investments		30,138	0	0
Disposal of property, plant and equipment		15	0	51
Cash was applied to:				
Purchase of investments		(245,209)	(257,845)	(243,203)
Purchase of property, plant and equipment		(3,021)	(3,603)	(3,297)
Purchase of intangibles		(2,318)	(1,137)	(338)
NET CASH OUTFLOW FROM INVESTING ACTIVITIES		**(220,395)**	**(262,585)**	**(246,787)**
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		3,390	5,930	(1,872)
Add opening cash and cash equivalents brought forward		9,593	6,189	11,465
ENDING CASH AND CASH EQUIVALENTS CARRIED FORWARD		**12,983**	**12,119**	**9,593**

"Net cash flow to GST" represents the net GST paid to and received from the Inland Revenue Department. GST cash flow has been presented on a net basis as the gross amounts do not provide meaningful information for Financial Statement purposes.

The Statement of Accounting Policies and Notes form part of and should be read in conjunction with these Financial Statements.

Statement of Accounting Policies

FOR THE YEAR ENDED 30 JUNE 2008

REPORTING ENTITY

The Earthquake Commission ("the Commission") is a Crown Entity as defined by the Crown Entities Act 2004 and is domiciled in New Zealand. As such, the Commission's ultimate parent is the New Zealand Crown.

The Commission's primary objective is to provide compensation to New Zealand residential property owners following a natural disaster as opposed to that of making a financial return. Accordingly, for purposes of New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS), it has chosen to designate itself a public benefit entity.

The reporting period covered by these Financial Statements is the year ended 30 June 2008. These accounts were approved by the Board on 16 September 2008.

BASIS OF PREPARATION

Measurement Base

The measurement base applied is historical cost modified by the revaluation of certain assets and liabilities as identified in this Statement of Accounting Policies.

Functional and Presentation Currency

These Financial Statements are presented in New Zealand dollars, which are the functional currency of the Commission, and are rounded to the nearest thousand dollars.

Statement of Compliance

These Financial Statements have been prepared in accordance with New Zealand Generally Accepted Accounting Practice. They comply with NZ IFRS and other applicable financial reporting standards, as appropriate for public benefit entities.

The accounting policies set out below have been applied consistently to all periods presented in these Financial Statements and in preparing an opening NZ IFRS balance sheet as at 1 July 2006, for the purposes of the transition to NZ IFRS.

These are the Commission's first Financial Statements complying with NZ IFRS, and comparatives for the year ended 30 June 2007 have been restated to NZ IFRS accordingly. Reconciliations of equity and surplus for the Financial Statements for the years ended 30 June 2006 and 30 June 2007 are detailed in note 24.

Judgements and Estimations

The preparation of Financial Statements in conformity with NZ IFRS requires judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised (if the revision affects only that period) or in the period of the revision and future periods (if the revision affects both current and future periods).

Critical Judgements in Applying Accounting Policies

Assumptions that have significant effect on the Financial Statements and estimates with a significant risk of material adjustment in the next year are discussed in the following notes:

Note 11 – Investments

Note 16 – Claims Liabilities.

SIGNIFICANT ACCOUNTING POLICIES

INSURANCE

Premium Income

Premium income is recognised using the 24ths rule to approximate the contract period over which the premiums are earned. Premiums not earned in the Income Statement at balance date are disclosed in the Balance Sheet as unearned premiums.

Premiums receivable are reported net of applicable discounts.

Insurance Recoveries

Reinsurance and non-reinsurance recoveries received or receivable are recognised as revenue in the Income Statement.

Reinsurance

Premiums ceded to reinsurers are recognised by the Commission as reinsurance expense in profit or loss from the attachment date over the period of indemnity of the reinsurance contract, in accordance with the expected pattern of the incidence of risk.

Claims

Claims expenditure includes claims settlements and claims handling costs.

Claims Liability and Unearned Premium Liability

The outstanding claims liability is recognised at balance date as the central estimate of the present value of the expected future payments for claims incurred to balance date, with an additional risk margin to allow for the inherent uncertainty in the central estimate.

At balance date, the Commission assesses the adequacy of the unearned premium liability. Where the current estimate of the present value of the expected future cash flows relating to future claims arising from the rights and obligations under current insurance contracts, plus an additional risk margin, exceeds the value of the unearned premium, the deficiency will be recognised in profit or loss and recorded in the Balance Sheet as unexpired risk liability.

Assets Backing Insurance Liabilities

All assets of the Commission back its insurance liabilities in accordance with section 13(3) of the Earthquake Commission Act 1993, which states, "All money in bank accounts established by the Commission, and all investments and other assets of the Commission, shall be deemed to form part of the Fund.".

GRANTS

The Commission provides discretionary grants for earthquake research and research dissemination.

Discretionary grants are those where the Commission has no obligation to award on receipt of the grant application and are recognised as expenditure when the performance criteria, on which approval of the grant was based, are met.

FOREIGN CURRENCY

Transactions in foreign currencies are initially translated at the foreign exchange rate at the date of the transaction. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation, at year-end exchange rates, of monetary assets and liabilities denominated in foreign currencies, are recognised in the Income Statement, except when deferred in equity when hedge accounting is applied.

TAXATION

The Commission is exempt from the payment of income tax in terms of the Income Tax Act 2004. Accordingly, no charge for income tax has been provided for.

GOODS AND SERVICES TAX (GST)

The Income Statement, Statement of Movements in Equity, Statement of Cash Flows and commitments note are exclusive of GST. The Balance Sheet is also exclusive of GST, except for trade payables and premiums receivable, which are GST inclusive.

The amount of GST owing to or from the Inland Revenue Department at balance date, being the difference between output GST and input GST, is included in payables or receivables (as appropriate).

INVESTMENTS

Interest

Interest income is accrued using the effective interest rate method.

Dividend

Dividend income from investments is recognised when the Commission's rights as a shareholder to receive payment have been established.

Realised Gains and Losses

Income from investments includes realised gains and losses on all investments, including currency gains and losses, and gains and losses on the sale of investments.

Unrealised Gains and Losses

Income from investments includes unrealised gains and losses on all investments, including currency gains and losses.

FINANCIAL INSTRUMENTS

Non-derivative Financial Instruments

Non-derivative financial instruments comprise investments in equity and debt securities, premiums receivable, cash and cash equivalents, and trade and other payables.

Non-derivative financial instruments at fair value through profit or loss are recognised initially at fair value. Instruments not at fair value through profit or loss are recorded at fair value plus attributable transaction costs.

Subsequent to initial recognition non-derivative financial instruments are measured as described below.

A financial instrument is recognised if the Commission becomes a party to the contractual provisions of the instrument. Financial assets are derecognised if the Commission's contractual rights to the cash flows from the financial assets expire or if the Commission transfers the financial asset to another party without retaining control or substantially all risks and rewards of the asset. Regular way purchases and sales of financial assets are accounted for at trade date, i.e. the date that the Commission commits itself to purchase or sell the asset. Financial liabilities are derecognised if the Commission's obligations specified in the contract expire or are discharged or cancelled.

Financial Assets at Fair Value Through Profit or Loss

An instrument is classified as at fair value through profit or loss if it is held for trading or is designated as such upon initial recognition. Financial instruments are designated at fair value through profit or loss if the Commission manages such instruments and makes purchase and sale decisions based on their fair value. Upon initial recognition, attributable transaction costs are recognised in profit or loss when incurred. Subsequent to initial recognition, financial instruments at fair value through profit or loss are measured at fair value, and changes therein are recognised in profit or loss.

Cash and Cash Equivalents

Cash and cash equivalents comprise cash balances, cash in transit and bank call deposits. The carrying amount of cash and cash equivalents approximates their fair value.

Investments

All investment assets held by the Commission back insurance liabilities and are therefore designated at fair value through profit or loss.

Fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active, fair values for initial recognition and, where appropriate, subsequent measurement are established by using valuation techniques.

Receivables

Receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Receivables are recognised initially at fair value, being the present value of estimated future cash flows. They are subsequently measured at amortised cost using the effective interest rate method, less any impairment losses. Receivables with duration of less than 12 months are not discounted.

Impairment losses are assessed by an evaluation of the recoverable amount. The recoverable amount of the Commission's receivables carried at amortised cost is calculated as the present value of estimated future cash flows, discounted at the original effective interest rate (i.e. the effective interest rate computed at initial recognition of these financial assets). All individual receivables that are considered significant are subject to this approach. The impairment charge is recognised in the Income Statement.

Other Financial Assets

Other non-derivative financial assets are measured at fair value and subsequently measured at amortised cost using the effective interest rate method, less any impairment losses.

Trade and Other Payables

Payables are non-derivative financial liabilities with fixed or determinable payments that are not quoted in an active market. Payables are recognised initially at fair value, being the present value of estimated future cash flows. They are subsequently measured at amortised cost using the effective interest rate method. Payables with duration of less than 12 months are not discounted.

Derivative Financial Instruments

The Commission uses derivative financial instruments to hedge its exposure to foreign exchange risks arising from investment activities. In accordance with its treasury policy, the Commission does not hold or issue derivative financial instruments for trading purposes. However, derivatives that do not qualify for hedge accounting are accounted for as trading instruments.

Derivative financial instruments are recognised initially at fair value, and transaction costs are expensed immediately. Subsequent to initial recognition, derivative financial instruments are stated at fair value. The gain or loss on re-measurement to fair value is recognised immediately in profit or loss.

Hedging

The Commission has not elected to apply hedge accounting to any derivatives for the period ending 30 June 2008.

PROPERTY, PLANT AND EQUIPMENT

Overview

Property, plant and equipment are recorded at cost less accumulated depreciation and accumulated impairment losses.

GNS Science administers the design, engineering, operation and maintenance of New Zealand's geological hazard monitoring system (GeoNet) under a 10-year agreement with the Commission. The services performed by GNS Science include the purchase, testing, installation and commissioning of capital equipment on behalf of the Commission.

The GeoNet assets, comprising buildings, computer equipment and other equipment, remain the property of the Commission at all times and are included in the Commission's property, plant and equipment in the Balance Sheet.

Realised gains and losses arising from disposal of property, plant and equipment are recognised in the Income Statement in the period in which the transaction occurs.

Depreciation

Depreciation is charged on a straight-line basis at rates calculated to allocate the cost or valuation of an item of property, plant and equipment, less any estimated residual value, over its estimated useful life. Typically, the estimated useful lives of different classes of property, plant and equipment are as follows:

Furniture and equipment	10 years
Leasehold improvements*	9–12 years
Motor vehicles	5 years
Computer and other electronic equipment	3 years
GeoNet buildings (mostly shelters)	25 years
GeoNet computer equipment	3 years
GeoNet equipment other than computer equipment	8 years

* The cost of leasehold improvements is capitalised and amortised over the unexpired period of the lease or the estimated remaining lives of the improvements, whichever is shorter.

INTANGIBLE ASSETS

Intangible assets are recorded at cost less accumulated amortisation and accumulated impairment losses.

Research and Development

Expenditure on research activities, undertaken with the prospect of gaining new scientific knowledge or understanding, is recognised in profit or loss when incurred. The Commission does not undertake development of new products or processes other than software referred to below.

Software Acquisition and Development

Software development expenditure is capitalised only if development costs can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable, and the Commission intends to and has sufficient resources to complete development and to use or sell the asset. The expenditure capitalised includes the cost of materials, direct labour and overhead costs that are directly attributable to preparing the asset for its intended use. Other development expenditure is recognised in profit or loss when incurred.

Capitalised software development expenditure is measured at cost less accumulated amortisation and accumulated impairment losses.

Intangible assets are amortised on a straight line basis over the following useful lives.

Acquired computer software licenses	1–3 years
Claims management system	9 years

IMPAIRMENT OF NON-FINANCIAL ASSETS

The carrying amounts of the Commission's non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated. For intangible assets that are not yet available for use, the recoverable amount is estimated at each reporting date.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in profit or loss.

The recoverable amount of an asset is the greater of its value in use and its fair value less costs to sell. Value in use is depreciated replacement cost for an asset where the future economic benefits or service potential of the asset are not primarily dependent on the asset's ability to generate net cash inflows and where the Commission would, if deprived of the asset, replace its remaining future economic benefits or service potential.

Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

LEASES

Operating leases, where the lessor substantially retains the risks and rewards of ownership, are recognised in a systematic manner over the term of the lease. Lease incentives received are recognised evenly over the term of the lease as a reduction in rental expense.

LIABILITIES

The Commission recognises a liability when there is a present obligation (legal or constructive) as the result of a past event, it is probable that expenditure will be required to settle the obligation, and a reliable estimate can be made of the obligation. Where the timing or amount of the obligation is uncertain the obligation is recognised as a provision.

Employee Entitlements

Employee entitlements to salaries and wages, annual leave, long service leave and other similar benefits are recognised in the Income Statement when they accrue to employees. Employee entitlements to be settled within 12 months are reported at their undiscounted nominal value. The liability for long service leave is calculated based on the present value of likely future entitlements accruing to staff, based on years of service, years to entitlement, the likelihood that staff will reach entitlement and contractual entitlements information.

Other Liabilities and Provisions

Other liabilities and provisions are recorded at the estimated fair value of the expenditure required to settle the obligation. Liabilities and provisions to be settled beyond 12 months are recorded at their discounted value. The increase in a discounted provision due to the passage of time is recognised as a finance cost.

CONTINGENT LIABILITIES

A contingent liability is recognised when a possible obligation arises from past events, the existence of which will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Commission. A contingent liability is also recognised when a present obligation arising from past events is not recognised because it is not probable that settlement of the obligation will result in a cost to the Commission, or the amount of the obligation cannot be measured with sufficient reliability.

CHANGES IN ACCOUNTING POLICIES

Accounting policies are changed only if the change is required by a standard or interpretation or otherwise provides more reliable and more relevant information.

There have been no accounting policy changes in the 2008 Financial Statements beyond those arising from the initial application of NZ IFRS.

COMMITMENTS

Future payments are disclosed as commitments at the point a contractual obligation arises, to the extent that there are equally unperformed obligations.

COMPARATIVES

When presentation or classification of items in the Financial Statements is amended or accounting policies are changed voluntarily, comparative figures are restated to ensure consistency with the current period unless it is impracticable to do so.

BUDGETS

The budget figures are derived from the Statement of Intent as approved by the Board at the beginning of the financial year. The budget figures have been prepared in accordance with NZ IFRS, using accounting policies that are consistent with those adopted by the Commission for the preparation of the Financial Statements.

When presentation or classification of items in the Financial Statements is amended or accounting policies are changed voluntarily, budget figures are restated to ensure consistency with the current period unless it is impracticable to do so.

SUPERANNUATION SCHEME

Defined Contribution Scheme

Obligations for contributions to Kiwisaver and the State Sector Retirement Savings Scheme are accounted for as defined contribution superannuation schemes and are recognised as an expense in the Statement of Financial Performance as incurred.

COST ALLOCATION

Expenditure of the Commission is allocated across its four main functions: claims, research, education and investment management. Expenditure is allocated to these functions by directly attributing costs as far as possible and by apportioning indirect costs based on the number of full time equivalents employed in each function.

SEGMENT REPORTING

The Commission is not required to provide segment reporting as it is a public benefit entity. Nevertheless, information is presented for material economic activities undertaken.

RELATED PARTIES

Transactions with other Crown entities entered into on an "arm's length" basis are excluded from the definition of related party transactions on the basis of the exemption provided to public benefit entities. Any transactions not conducted on an arm's length basis will be disclosed in the Financial Statements.

STANDARDS, AMENDMENTS AND INTERPRETATIONS ISSUED THAT ARE NOT YET EFFECTIVE AND HAVE NOT BEEN EARLY ADOPTED

NZ IAS 1 Presentation of Financial Statements (revised 2007) replaces NZ IAS 1 Presentation of Financial Statements (issued 2004) and is effective for reporting periods beginning on or after 1 January 2009. The revised standard requires information in financial statements to be aggregated on the basis of shared characteristics and introduces a Statement of Comprehensive Income. The Commission will have the option of presenting items of income and expense and components of other comprehensive income either in a single Statement of Comprehensive Income with subtotals, or as a separate Income Statement followed by a Statement of Comprehensive Income. The Commission intends to adopt this standard for the year ending 30 June 2010, and is yet to decide which statement it will prepare.

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2008

		ACTUAL 2008 $(000)	BUDGET 2008 $(000)	ACTUAL 2007 $(000)
1	PREMIUMS			
	Gross premiums	88,313	88,559	86,820
	Less discount	(2,213)	(2,214)	(2,158)
		86,100	**86,345**	**84,662**
	Unearned premium opening	43,962	43,992	43,050
	Unearned premium closing	(44,404)	(44,873)	(43,962)
		(442)	**(881)**	**(912)**
	GROSS EARNED PREMIUMS	**85,658**	**85,464**	**83,750**

Premium income represents premiums collected and paid to the Commission by insurance companies and brokers. In accordance with Section 24 (2) of the Earthquake Commission Act 1993, the Commission receives declarations provided by insurance companies and brokers that all premiums collected have been returned to the Commission. It also contracts external auditors of insurance companies and brokers to review and report on those companies' internal controls and accounting systems so far as they are related to the Commission's premiums.

		ACTUAL 2008 $(000)	ACTUAL 2007 $(000)
2	CLAIMS EXPENSE		
	Current year	68,828	52,110
	Prior years	(1,980)	2,287
		66,848	**54,397**

Current claims relate to risks borne in the current financial year. Prior years' claims adjustments arise when the actual number or value of claims settled differs from estimates at the previous year's balance date or from a re-assessment of the estimated liability for prior years' claims that remain unsettled at current balance date.

		ACTUAL 2008 $(000)	BUDGET 2008 $(000)	ACTUAL 2007 $(000)
3	**EXPENDITURE**			
	Advertising and publicity	1,270	1,924	1,512
	Amortisation of intangibles	98	100	0
	Fees to auditor			
	Audit of the Financial Statements	82	63	79
	Assurance services provided by auditor	9	25	25
	Audit fees for NZ IFRS transition	11	10	0
	Catastrophe response programme	4,359	6,120	5,111
	Commissioners' fees	168	156	147
	Communication and computer costs	268	280	321
	Consultants	639	807	503
	Depreciation	2,174	2,178	1,858
	Contributions to defined benefit schemes	68	90	67
	Grants for earthquake research	1,666	2,099	1,431
	GNS Science GeoNet operating costs	5,406	5,342	5,266
	Investment and custodial expenses – third party	7,074	7,630	6,799
	Office rental	318	308	299
	Salaries and wages	2,035	2,095	1,827
	Sponsorships	1,149	1,150	999
	Other expenses	807	981	947
	TOTAL OPERATING EXPENDITURE EXCLUDING REINSURANCE	**27,601**	**31,358**	**27,191**
	Claims settlements and direct settlement costs	59,606	0	47,117
	TOTAL EXPENDITURE EXCLUDING REINSURANCE	**87,207**	**31,358**	**74,308**

Due to the change in the format of the Commission's Income Statement, the above disclosure contains additional information to enable comparison with the Commission's 2007 Statement of Intent.

		ACTUAL 2008 $(000)	BUDGET* 2008 $(000)	ACTUAL 2007 $(000)
4	**INVESTMENT INCOME**			
	Global equities			
	– Equity (losses) gains	(269,055)	119,293	248,888
	– Foreign exchange gains (losses)	103,213	0	(331,197)
	– Dividend income	31,706	30,000	33,029
		(134,136)	**149,293**	**(49,280)**
	NZ Government stock			
	– Price revaluation gains (losses)	77,037	6,255	(133,696)
	– Interest and discount income	209,211	203,750	199,245
		286,248	**210,005**	**65,549**
	Other short-term investments – interest income	36,238	23,945	30,457
	INVESTMENT INCOME	**188,350**	**383,243**	**46,726**

** Budgeted investment income is based on projected medium-term (five year) asset returns.*

5 MAJOR BUDGET VARIANCES

(a) Investment Income

Investment income is less than budgeted due to volatility in the global equities markets resulting from the global credit crisis. This has been partially offset by a weakening in the New Zealand dollar relative to other currencies and a reduction in yields on New Zealand Government stock.

(b) Claims Expense

The budget provided only for the costs of operating the catastrophe response programme. However, there were several significant events this year: the Northland storms and the Milford and Gisborne earthquakes.

(c) Investments

The value of equity investments was substantially affected by the global credit crisis referred to under (a) above.

(d) Unexpired Risk Liability

An unexpired risk liability was established as at 1 July 2006 as a result of applying the liability adequacy test (refer note 16).

(e) Operating Cash Flows

The net cash inflow from operating activities is lower than budget due to the cost of claims referred to in (b) above. This was offset by reduced reinvestment of investment income.

	ACTUAL 2008 $(000)	ACTUAL 2007 $(000)
6 NATURAL DISASTER FUND		
Issued capital		
CAPITALISED RESERVES	**1,500,000**	**1,500,000**
Retained surplus		
Balance as at 1 July	3,894,956	3,879,810
Net surplus for the year	140,512	15,146
RETAINED SURPLUS AS AT 30 JUNE	**4,035,468**	**3,894,956**
CLOSING BALANCE OF THE NATURAL DISASTER FUND	**5,535,468**	**5,394,956**

Capitalised Reserves

Issued capital 1,500,000,000 ordinary shares of $1.00 each deemed to have been issued and paid up in full from the Fund on 1 October 1988.

Commission Solvency

The Commission has a contingent exposure to major disasters in excess of its current level of assets. In the event of the Commission's liabilities exceeding its assets (including reinsurance) the Crown, under Section 16 of the Earthquake Commission Act 1993, is obliged to provide, by way of grant or advance, sufficient funds to meet the shortfall.

Capital Management

The Commission's capital is its equity, which comprises retained surpluses and capitalised reserves. Equity is represented by net assets.

The Commission is subject to the financial management and accountability provisions of the Crown Entities Act 2004, which impose restrictions in relation to borrowings, acquisition of securities, issuing guarantees and indemnities and the use of derivatives.

The Commission manages its equity by prudently managing revenues, expenses, assets, liabilities, investments, and general financial dealings to ensure it effectively achieves its objectives and purpose, whilst remaining a going concern.

		ACTUAL 2008 $(000)	ACTUAL 2007 $(000)
7	CASH AND CASH EQUIVALENTS		
	Cash in bank accounts	**12,983**	**9,593**

		ACTUAL 2008 $(000)	ACTUAL 2007 $(000)
8	PREMIUMS RECEIVABLE		
	Balance as at 30 June	**17,567**	**17,345**

Insurance companies and brokers are required to pay premiums within two months of the month in which they become payable in respect of residential policies. Premiums receivable represent these outstanding premiums.

Based on past experience no provision for doubtful debts is necessary and the carrying amount of premiums receivable approximates fair value.

		ACTUAL 2008 $(000)	ACTUAL 2007 $(000)
9	OTHER RECEIVABLES		
	GST receivable	**671**	**0**

		ACTUAL 2008 $(000)	ACTUAL 2007 $(000)
10	PREPAYMENTS		
	Prepaid reinsurance asset as at 1 July	5,564	4,774
	Deferral of reinsurance premiums on contracts entered into during the period	6,106	5,564
	Earning of reinsurance premiums on contracts entered into during previous periods	(5,564)	(4,774)
	PREPAID REINSURANCE AS AT 30 JUNE	**6,106**	**5,564**

Premiums on reinsurance contracts are paid three months in advance and are released to the Income Statement from the date of attachment in accordance with the expected pattern of risk.

11 INVESTMENTS

Section 12 of the Earthquake Commission Act 1993 and section 103 of the Crown Entities Act 2004 give the Minister of Finance authority to issue directions to the Commission.

A direction from the Minister of Finance was issued on 1 November 2001 permitting investments to be held in New Zealand Government securities (New Zealand Government stock, inflation-indexed stock and Treasury bills), New Zealand bank securities (maximum $250 million) and global equities up to a maximum of 35% of the total investments.

All investments in New Zealand Government securities are issued by the Reserve Bank and are only tradeable with the New Zealand Debt Management Office (NZDMO).

At 30 June 2008 the fair values and concentrations of the Commission's investments were as follows:

	2008		2007	
	FAIR VALUE $(000)	% OF TOTAL INVESTMENT	FAIR VALUE $(000)	% OF TOTAL INVESTMENT
NZ Government stock	3,114,093	55.8	2,909,841	53.3
NZ Government inflation-indexed stock	474,517	8.5	471,029	8.6
NZ Government Treasury bills	154,110	2.7	183,944	3.4
TOTAL GOVERNMENT SECURITIES	**3,742,720**	**67.0**	**3,564,814**	**65.3**
NZ BANK SECURITIES	**247,290**	**4.4**	**247,340**	**4.5**
Global equities – active	955,073	17.1	977,369	17.9
Global equities – passive	639,536	11.5	667,976	12.3
TOTAL GLOBAL EQUITIES	**1,594,609**	**28.6**	**1,645,345**	**30.2**
TOTAL INVESTMENTS	**5,584,619**	**100.0**	**5,457,499**	**100.0**
Current	864,425	15.5	431,285	8.0
Non-current	4,720,194	84.5	5,026,214	92.0
	5,584,619	**100.0**	**5,457,499**	**100.0**

12 INVESTMENT RISKS

Interest Rate Risk

Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. The Commission's investments in Government stock, Treasury bills and New Zealand bank securities expose it to interest rate risk.

The Commission passively manages its Government stock portfolio. This means that the portfolio is exposed to an interest rate risk identical to the New Zealand Government stock index.

In the event of a major catastrophe, the NZDMO has agreed to buy back the Commission's Government stock at pre-disaster prices.

The Commission's investments have the following average market yields and durations:

	2008		2007	
	YIELD	DURATION	YIELD	DURATION
NZ Government stock	6.69%	4.16 yrs	7.09%	4.13 yrs
NZ Government inflation-indexed stock	4.00%	6.63 yrs	3.75%	7.35 yrs
NZ Government Treasury bills	7.67%	27 days	7.66%	27 days
NZ bank securities	8.58%	46 days	8.26%	47 days

Fair Value Interest Rate Risk Sensitivity

A 50 basis point increase in interest rates would decrease the surplus at balance date by $65,536,254 (2007: $73,863,547). A 50 basis point decrease would increase the surplus by $67,663,384 (2007: $76,430,574).

Cash Flow Interest Rate Risk

The Commission does not invest in variable rate instruments, and is therefore not subject to cash flow interest rate risk.

Global Equities' Market Price Risk

The Commission is exposed to price volatility and exchange rate fluctuations on its global equity investments.

Managing market pricing risks associated with global equities is achieved by maintaining a tracking error against the benchmark index of not more than 0.5% per annum for passive investments. Active global equity managers are allowed a larger tracking error, but are subject to other constraints. These include their aggregated individual company exposures being limited to 5% of funds invested in global equities, investment restricted to 5% of a company's market capitalisation, and restrictions on industry and country exposures (including a restriction on the country universe) to limit sector over-exposure. Holdings in illiquid securities are restricted or prohibited. The multi-manager style also enables a diversification of risk.

The fair values of equity investments are determined by reference to published price quotations on the world markets.

The Commission does not currently hedge currency translation exposures arising through investments in global equities as global equities will only be liquidated when the Commission is faced with a major natural disaster. At the time this policy was adopted, both the Reserve Bank and the Commission's investment advisors were of the opinion that in such an event the most likely scenario is for the New Zealand dollar to depreciate and inflation to rise. This would result in an increase in the Commission's liabilities but also an increase in the value of the Commission's unhedged global investments.

The Commission's global equity investments are concentrated in the following currencies.

	2008	2007
EURO	18%	21%
GBP	9%	11%
USD	48%	44%
JPY	10%	9%
Other	15%	15%
	100%	**100%**

Price Risk Sensitivity

A 5% increase in the value of the New Zealand dollar at balance date would reduce the surplus by $76,001,939 (2007: $78,415,547). A 5% decrease in the value would increase the surplus by $84,002,143 (2007: $86,669,815).

A 5% increase in the MSCI World Index at balance date would increase the surplus by $79,730,367 (2007: $82,267,182). A 5% decrease in the index would reduce the surplus by $79,730,367 (2007: $82,267,182).

Credit Risk

The Commission is exposed to credit risk of a bank defaulting on an investment. The Commission reduces credit risk by investing funds only in securities issued by approved New Zealand banks that have a short-term credit rating of A–1 or higher from Standard and Poor's. Exposure to any one bank with a rating of less than A–1+ is restricted to a maximum of 15% of total bank securities, but for banks with a rating of A–1+, the exposure may be extended to 25%. No collateral is held by the Commission in respect of bank balances or short-term securities due to the credit rating of financial institutions with whom the Commission transacts business. At balance date the Commission held short-term securities with six registered banks. The maximum exposure at balance date was $247,295,595 (2007: $247,388,057).

Liquidity Risk

The Commission's financial liabilities consist of claims payable and other trade payables. It is expected that all claims and trade payables outstanding at balance date will be settled within 12 months (2007: 12 months).

The Commission's liquidity risk is the risk of having insufficient liquid funds available to meet claims and trade and other payables as they fall due. To manage this risk, the Commission retains a cash allocation of 7% of investments. Cash is invested in either bank securities or Treasury bills for periods up to 92 days. Bank securities' maturity dates are spread to ensure that at least $80 million is available each month to meet operational requirements.

All other investments are highly liquid and can be sold in a relatively short time-frame to meet any operational requirements. The average durations until maturity are shown earlier in this note.

13 PROPERTY, PLANT AND EQUIPMENT AND DEPRECIATION

		FURNITURE & FITTINGS $(000)	LEASEHOLD IMPROVEMENTS $(000)	COMPUTER EQUIPMENT $(000)	MOTOR VEHICLES $(000)	GEONET BUILDINGS $(000)	GEONET COMPUTER EQUIPMENT $(000)	GEONET OTHER EQUIPMENT $(000)	TOTAL PROPERTY PLANT & EQUIPMENT $(000)
2008	Cost								
	At 1 July 2007	313	114	753	48	728	1,372	14,707	**18,035**
	Additions	7	5	92	21	0	134	2,762	**3,021**
	Disposals	0	0	(137)	(20)	0	(51)	0	**(208)**
	At 30 June 2008	320	119	708	49	728	1,455	17,469	**20,848**
	Accumulated depreciation								
	At 1 July 2007	188	20	614	14	97	988	3,922	**5,843**
	Depreciation charge	23	11	99	10	31	228	1,772	**2,174**
	Disposals	0	0	(137)	(10)	0	(51)	0	**(198)**
	At 30 June 2008	211	31	576	14	128	1,165	5,694	**7,819**
	CARRYING AMOUNTS AT 30 JUNE 2008	**109**	**88**	**132**	**35**	**600**	**290**	**11,775**	**13,029**
2007	Cost								
	At 1 July 2006	291	102	707	55	812	1,131	11,945	**15,043**
	Additions	22	12	69	28	10	268	2,784	**3,193**
	Disposals	0	0	(23)	(35)	(94)	(27)	(22)	**(201)**
	At 30 June 2007	313	114	753	48	728	1,372	14,707	**18,035**
	Accumulated depreciation								
	At 1 July 2006	163	12	537	17	88	814	2,445	**4,076**
	Depreciation charge	25	8	100	10	28	202	1,485	**1,858**
	Disposals	0	0	(23)	(13)	(19)	(28)	(8)	**(91)**
	At 30 June 2007	188	20	614	14	97	988	3,922	**5,843**
	CARRYING AMOUNTS AT 30 JUNE 2007	**125**	**94**	**139**	**34**	**631**	**384**	**10,785**	**12,192**

		ACTUAL 2008 $(000)	ACTUAL 2007 $(000)
14	INTANGIBLE ASSETS		
	Computer software		
	Cost		
	At 1 July	0	0
	Additions	2,656	0
	Disposals	0	0
	At 30 June	2,656	0
	Accumulated amortisation		
	At 1 July	0	0
	Amortisation charge	98	0
	Disposals	0	0
	At 30 June	98	0
	CARRYING AMOUNT AT 30 JUNE	**2,558**	**0**
	Software under development		
	Cost		
	At 1 July	338	0
	Additions	2,318	338
	Transfer to software cost	(2,656)	0
	CARRYING AMOUNT AT 30 JUNE	**0**	**338**

		ACTUAL 2008 $(000)	ACTUAL 2007 $(000)
15	TRADE AND OTHER PAYABLES		
	Trade payables	1,526	340
	Tax on reinsurance	1,380	1,238
	GST payable	0	292
	Accruals	2,420	3,463
		5,326	**5,333**

Creditors and other payables are non-interest bearing and are normally settled on 30-day terms, therefore the carrying value of creditors and other payables approximates their fair value.

16 CLAIMS LIABILITIES

The Commission covers the following types of hazard: earthquake, natural landslip, volcanic eruption, hydrothermal activity and tsunami. There is generally no significant delay between the occurrence of such events and the reporting of claims, and claims are usually settled within 12 months of being reported.

At balance date, the Commission recognises a liability in respect of outstanding claims, including amounts in relation to unpaid reported claims, claims incurred but not reported (IBNR), claims incurred but not enough reported (IBNER) and costs including claims handling costs. The Commission also assesses the adequacy of the unearned premium liability.

The Earthquake Commission Act 1993 requires all claims to be reported within three months of an event, and given the reporting time-frame from balance date, the key area of estimation risk is therefore IBNER. The volatility of IBNER is partially mitigated by the maximum settlement amounts of $20,000 for personal property and $100,000 for dwellings. However claims in relation to residential land are not subject to a monetary limit and are therefore subject to greater volatility.

Actuarial estimates for claims liabilities were made by Melville Jessup Weaver, led by Janet Lockett, a Fellow of the New Zealand Society of Actuaries. In determining the actuarial estimate, the actuary relied upon information supplied by the Commission and was satisfied as to the nature, sufficiency and accuracy of the information provided.

Outstanding Claims Liability

	ACTUAL 2008 $(000)	ACTUAL 2007 $(000)
Outstanding claims liability		
Central estimate of claims reported at balance date	15,568	22,621
Risk margin	676	686
Claims handling costs	2,872	1,790
OUTSTANDING CLAIMS LIABILITY AS AT 30 JUNE	**19,116**	**25,097**
Current	14,307	22,183
Non-current	4,809	2,914
	19,116	**25,097**
Risk margins applied	3.9%	3.6%
Reconciliation of movement in outstanding claims liability		
Outstanding claims liability at 1 July	25,097	14,209
Add claims expense recognised in the Income Statement	66,848	54,397
Less claims payments during the year	(72,829)	(43,509)
OUTSTANDING CLAIMS LIABILITY AS AT 30 JUNE	**19,116**	**25,097**

To estimate outstanding claims for the year, an approach based on statistical analyses of historical claims development was used. This approach assumes that the past claims development patterns will be repeated in the future.

Adjustments were made for factors that might distort the underlying statistics and allowances were made, where appropriate, for changes or uncertainties that might cause the cost of settling claims to increase or decrease in the comparison to earlier years.

The risk margin adopted by the Commission is intended to secure an adequacy level of 75%, which is the minimum level required by the Australian Prudential Regulations Authority, Prudential Standard GPS 210.

No discount factor or inflation factor was applied to the calculation as claims are generally settled within one year.

Unearned Premium Liability and Unexpired Risk Liability

	ACTUAL 2008 $(000)	ACTUAL 2007 $(000)
Unearned premium liability		
Unearned premium liability as at 1 July	43,962	43,050
Deferral of premiums on contracts written in the period	44,404	43,962
Earning of premiums written in previous periods	(43,962)	(43,050)
UNEARNED PREMIUM LIABILITY AS AT 30 JUNE	**44,404**	**43,962**

	ACTUAL 2008 $(000)	ACTUAL 2007 $(000)
Unexpired risk liability		
UNEXPIRED RISK LIABILITY AS AT 30 JUNE	**33,000**	**33,000**

Legislation recognises that EQC's premiums may be inadequate to meet its liabilities in any one year by enabling it to set aside any annual surplus free of tax in the Natural Disaster Fund and, in the case of a very severe catastrophe (that exceeds both the Fund and reinsurance recoveries), by providing for a Crown Guarantee. The Commission currently has the capability to cover a 1-in-1,000 year event with an estimated value of up to $8.1 billion before having to call on the Crown Guarantee.

Whilst the ability of EQC to meet its claims liabilities is therefore in no doubt, the Commission is required to perform a liability adequacy test to determine whether the carrying amount of the unearned premium liability is sufficient to cover estimated future claims relating to existing contracts.

This test and the resulting liability adjustment are performed solely to ensure compliance with NZ IFRS 4 – Insurance Contracts. As this standard is intended for general insurers and does not provide for the Commission's unique circumstances, the result should not be read as an accurate indicator of the adequacy of its premiums.

The liability adequacy calculation is based on the central estimate of the costs expected to arise annually from minor events, obtained from historical data, plus a risk margin intended to lift this to a level approximating 75% adequacy. Added to this is an amount equivalent to the central estimate of the potential future outcomes from earthquake events costing greater than $50 million and extending to very severe but extremely rare events, taking into account the projected frequencies at which such events may occur.

As a result of this test, an unexpired risk liability of $33 million was established as at 1 July 2006.

17 INSURANCE RISKS

The Commission must accept exposure to claims for natural catastrophes as specified in the Earthquake Commission Act 1993 and therefore may not seek to reduce its claims exposure by diversification of its business over classes of insurance or geographical region. The premium level is set by the Earthquake Commission Regulations 1993 and does not differentiate between risk types, nor is it adjusted in response to the level of claims expected or incurred.

Reinsurance Programme

The Commission limits its exposure to a very large-scale natural disaster through the purchase of reinsurance with the objectives of:

- Minimising the overall cost to secure mandated protection to New Zealand homeowners;
- Implementing a reinsurance programme that provides stability over time against reasonably foreseeable events;
- Providing flexibility in the reinsurance agreement terms and conditions should the Crown determine a different risk profile under the natural disaster insurance scheme;
- Minimising the risk of default amongst reinsurers by limiting its exposure to any one reinsurer or related group of reinsurers and considering only those companies that provide high security, based on credit rating information from the public domain augmented by intelligence from the Commission's broker investment analysis and gathered through internal investigations.

Crown Underwriting Fee

It is recognised that the Fund plus reinsurances may not be sufficient to cover claims arising from a major urban catastrophe and/or other losses and costs. In those events the Crown would be called upon to meet any shortfall, under Section 16 of the Earthquake Commission Act 1993. This states, "If the assets of the Commission (including the money for the time being in the Fund) are not sufficient to meet the liabilities of the Commission, the Minister of Finance shall, without further appropriation than this section, provide to the Commission out of public money such sums by way of grant or advance as may be necessary to meet the deficiency upon such terms and conditions as the Minister of Finance determines.".

Pursuant to section 17 of the Earthquake Commission Act 1993, the Commission is required to pay fees to the Crown as determined by the Minister of Finance. The Minister of Finance has determined that $10 million be paid for the year ended 30 June 2008 (2007: $10 million).

Interest Rate and Credit Risk

No direct exposure to interest rate risk results from the financial assets or liabilities arising from insurance or reinsurance contracts. Financial assets and liabilities arising from insurance or reinsurance contracts are stated in the Balance Sheet at the amount that best represents the maximum credit risk exposure at balance date. There are no significant concentrations of credit risk.

Research and Education

The Commission seeks to indirectly reduce the extent of claims incurred, by the dissemination of research and through public education programmes.

18 CONTINGENT LIABILITIES AND ASSETS

At balance date, the Commission had no contingent liabilities (2007: nil) or contingent assets (2007: nil).

19 CATEGORIES OF FINANCIAL ASSETS AND LIABILITIES

	ACTUAL 2008 $(000)	ACTUAL 2007 $(000)
Financial assets at fair value through profit or loss		
Government securities	3,742,720	3,564,814
New Zealand bank securities	247,290	247,340
Global equities	1,594,609	1,645,345
	5,584,619	**5,457,499**
Loans and receivables		
Cash and cash equivalents	12,983	9,593
Premiums receivable	17,567	17,345
	30,550	**26,938**
Financial liabilities measured at amortised cost		
Trade and other payables	(5,326)	(5,333)
Outstanding claims liability	(19,116)	(25,097)
	(24,442)	**(30,430)**

20 COMMITMENTS

Computer Bureau Services Contract

In 2007, the Commission entered into a services contract for the provision of a computer system for claims handling, processing and allocation.

	ACTUAL 2008 $(000)	ACTUAL 2007 $(000)
Capital Commitment		
(a) Not later than one year	0	1,150
Operating Commitment		
(a) Not later than one year	1,848	1,910
(b) Later than one year and not later than two years	1,848	1,800
(c) Later than two years but not later than five years	5,544	5,400
(d) Later than five years	6,776	8,400
TOTAL COMPUTER BUREAU SERVICES COMMITMENTS	**16,016**	**18,660**

Reinsurance Contracts

The Commission has signed contracts for reinsurance in the international market. The contracts are for terms ranging from one year to three years.

	ACTUAL 2008 $(000)	ACTUAL 2007 $(000)
Operating Commitment		
(a) Not later than one year	37,487	35,584
(b) Later than one year and not later than two years	21,787	22,065
(c) Later than two years but not later than five years	9,628	16,281
(d) Later than five years	0	0
TOTAL REINSURANCE COMMITMENTS	**68,902**	**73,930**

GNS Science

The Commission has signed a contract with GNS Science for the development and implementation of a seismic monitoring and reporting network (GeoNet).

	ACTUAL 2008 $(000)	ACTUAL 2007 $(000)
Capital Commitment		
(a) Not later than one year	3,358	3,151
(b) Later than one year and not later than two years	2,908	3,221
(c) Later than two years but not later than five years	3,262	6,872
(d) Later than five years	0	0
Operating Commitment		
(a) Not later than one year	5,438	5,342
(b) Later than one year and not later than two years	5,644	5,561
(c) Later than two years but not later than five years	5,880	11,835
(d) Later than five years	0	0
TOTAL GNS SCIENCE COMMITMENTS	**26,490**	**35,982**

Te Papa Tongarewa, Museum of New Zealand

In 2008, the Commission signed a contract with Te Papa for sponsorship. The sponsorship relationship is linked to the *Awesome Forces* and *Quake Braker* exhibitions at Te Papa, which provide a mechanism to communicate the Commission's key messages to a broad audience and meet its educational and research objectives.

	ACTUAL 2008 $(000)	ACTUAL 2007 $(000)
Operating Commitment		
(a) Not later than one year	750	0
(b) Later than one year and not later than two years	500	0
(c) Later than two years but not later than five years	1,000	0
(d) Later than five years	0	0
TOTAL TE PAPA TONGAREWA, MUSEUM OF NZ COMMITMENTS	**2,250**	**0**

Auckland War Memorial Museum

The Commission has signed a contract with the Auckland War Memorial Museum for sponsorship of the *Volcanoes* exhibition. The sponsorship relationship provides a mechanism to communicate the Commission's key messages to a broad audience and meet its educational, research and promotional objectives.

	ACTUAL 2008 $(000)	ACTUAL 2007 $(000)
Operating Commitment		
(a) Not later than one year	300	300
(b) Later than one year and not later than two years	0	300
(c) Later than two years but not later than five years	0	0
(d) Later than five years	0	0
TOTAL AUCKLAND WAR MEMORIAL MUSEUM COMMITMENTS	**300**	**600**

Research Grants

Future research grants approved by the Board.

	ACTUAL 2008 $(000)	ACTUAL 2007 $(000)
Operating Commitment		
(a) Not later than one year	1,766	1,228
(b) Later than one year and not later than two years	1,036	926
(c) Later than two years but not later than five years	913	1,723
(d) Later than five years	0	0
TOTAL RESEARCH GRANT COMMITMENTS	**3,715**	**3,877**

Building Leases

The Commission has a non-cancellable long-term lease on premises in Wellington. The annual lease payments are subject to three-yearly reviews. The amounts disclosed below as future commitments are based on the current rental rates.

	ACTUAL 2008 $(000)	ACTUAL 2007 $(000)
Operating Commitment		
(a) Not later than one year	508	377
(b) Later than one year and not later than two years	508	377
(c) Later than two years but not later than five years	1,524	1,132
(d) Later than five years	1,990	1,855
TOTAL BUILDING LEASE COMMITMENTS	**4,530**	**3,741**

Claims Management Services

The Commission has entered into an agreement with Gallagher Bassett Services Pty Ltd for the provision of claims management services.

	ACTUAL 2008 $(000)	ACTUAL 2007 $(000)
Operating Commitment		
(a) Not later than one year	870	765
(b) Later than one year and not later than two years	870	765
(c) Later than two years but not later than five years	0	765
(d) Later than five years	0	0
TOTAL CLAIMS MANAGEMENT SERVICES COMMITMENTS	**1,740**	**2,295**

Other Operating Commitments

The Commission has entered into agreements for the provision of equipment and services that are used in its day–to-day operations.

	ACTUAL 2008 $(000)	ACTUAL 2007 $(000)
Operating Commitment		
(a) Not later than one year	1,126	357
(b) Later than one year and not later than two years	583	48
(c) Later than two years but not later than five years	0	38
(d) Later than five years	0	0
TOTAL OTHER OPERATING COMMITMENTS	**1,709**	**443**

21 RELATED PARTY TRANSACTIONS

The Earthquake Commission is a Crown Entity of the New Zealand Government and all significant transactions with the Crown result from Ministerial directions given under the Earthquake Commission Act 1993 or section 103 of the Crown Entities Act 2004.

The Commission enters into numerous transactions with other Crown agencies, tertiary institutions and state owned enterprises on an arm's length basis. Where those parties are acting in the course of their normal dealings with the Commission, related party disclosures have not been made for transactions of this nature.

There is a company contracted by the Commission whose directors are close relatives of key management personnel. The terms and conditions of this contract are no more favourable than the Commission would have adopted if there were no relationship to key management personnel.

Apart from those transactions described above, the Commission has not entered into any related party transactions.

Key Management Personnel Compensation

	ACTUAL 2008 $	ACTUAL 2007 $
Salaries and other short-term employee benefits	943	888
TOTAL KEY MANAGEMENT PERSONNEL COMPENSATION	**943**	**888**

Key management personnel for the 2008 and 2007 years include all Commissioners, the General Manager and three senior managers.

22 DISCLOSURES

Employee Remuneration

The number of employees whose total remuneration for the financial year was in excess of $100,000, in $10,000 bands, is as follows:

$(000)	2008	2007
100–110	1	1
110–120	2	2
140–150		1
150–160	1	1
160–170	1	
180–190		1
190–200	1	
250–260		1
260-270	1	

The General Manager's total remuneration is in the $260,000–$270,000 band (2007: $250,000–$260,000 band).

Commissioners' Remuneration

Commissioners' fees paid during the year were as follows:

	FEES - 2008	FEES - 2007
NGA Young (i)	0	3,117
MC Wintringham (ii)	41,900	36,231
CB Durbin	20,950	18,700
RJ Hooper	20,950	18,700
TP McGuinness	20,950	18,700
TA Nicholas (iii)	0	6,233
KB Taylor (iv)	20,950	15,583
WN Hoadley (iv)	20,950	15,583
GT Muriwai (v)	20,950	14,024
TOTAL	**167,600**	**146,871**

No additional remuneration was paid to Commissioners.

(i) Retired as Chairman on 25 July 2006

(ii) Appointed as Chairman from 26 July 2006

(iii) Retired from the Board on 30 September 2006

(iv) Appointed 18 August 2006

(v) Appointed 1 October 2006

Indemnity and Insurance Disclosure

The Commission has provided a deed of indemnity to each Board member in relation to certain activities undertaken in the performance or intended performance of the Commission's functions.

The Commission has effected and maintained "Directors' and Officers' Liability" and "Professional Indemnity" insurance cover during the financial year in respect of the liability or costs of any Board member, or employee.

23 RECONCILIATION OF OPERATING SURPLUS TO NET CASH FLOW FROM OPERATING ACTIVITIES

	ACTUAL 2008 $(000)	ACTUAL 2007 $(000)
Net surplus for the year	140,512	15,146
Add non-cash items:		
Depreciation and amortisation	2,272	1,858
	142,784	**17,004**
Add (less) movements in other working capital items:		
(Increase) in premiums receivable	(222)	(187)
(Increase) in other receivables	(671)	0
(Increase) in prepayments	(542)	(790)
(Increase) in interest accrued	(2,763)	(3,740)
Increase in provision for employee entitlements	36	22
(Decrease) increase in trade payables	(8)	16
(Decrease) increase in outstanding claims	(5,981)	10,888
Increase in unearned premium	442	912
	(9,709)	**7,121**
Add (less) items classified as investing activity:		
Discount income and investment price revaluations	90,713	220,626
Decrease in liability for property, plant and equipment	0	103
Loss on disposal of property, plant and equipment	(3)	61
	90,710	**220,790**
NET CASH INFLOW FROM OPERATING ACTIVITIES (GST EXCLUSIVE)	**223,785**	**244,915**

24 IMPACT OF ADOPTING NEW ZEALAND EQUIVALENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS

Explanation of Transition to NZ IFRS

These are the Commission's first Financial Statements prepared in accordance with NZ IFRS. The Commission's transition date was 1 July 2006 and the opening NZ IFRS balance sheet has been prepared as at that date. The Commission's NZ IFRS adoption date was 1 July 2007.

In preparing these Financial Statements in accordance with NZ IFRS 1, the Commission has not applied any optional exemptions to full retrospective application of NZ IFRS. The only mandatory exception from retrospective application that applies to the Commission is the requirement for estimates under NZ IFRS at 1 July 2006 and 30 June 2007 to be consistent with estimates made for the same dates under previous New Zealand Generally Accepted Accounting Practice (NZ GAAP).

The accounting policies set out in the notes to the Financial Statements have been applied in preparing Financial Statements for the year ended 30 June 2008, the comparative information presented for the year ended 30 June 2007 and in the preparation of an opening NZ IFRS Balance Sheet as at 1 July 2006 (the Commission's date of transition).

In preparing its opening NZ IFRS Balance Sheet and restating the 2007 Financial Statements, the Commission has adjusted amounts reported previously in Financial Statements prepared in accordance with its old basis of accounting (previous NZ GAAP). An explanation of how the transition from previous NZ GAAP to NZ IFRS has affected the Commission's financial position and financial performance is set out in the following tables and the notes that accompany the tables. No changes were made to the Statement of Cash Flows as a result of the transition to NZ IFRS.

Reconciliation of Equity

The following table shows the changes in equity, resulting from the transition from previous NZ GAAP to NZ IFRS as at 1 July 2006 and 30 June 2007.

		30 JUNE 2007			1 JULY 2006		
	NOTE	PREVIOUS NZ GAAP $ (000)	EFFECT ON TRANSITION NZ IFRS $ (000)	NZ IFRS $ (000)	PREVIOUS NZ GAAP $ (000)	EFFECT ON TRANSITION NZ IFRS $ (000)	NZ IFRS $ (000)
Natural Disaster Fund							
Capitalised reserves		1,500,000		1,500,000	1,500,000		1,500,000
Retained surplus		3,934,463	(39,507)	3,894,956	3,918,675	(38,865)	3,879,810
TOTAL EQUITY		**5,434,463**	**(39,507)**	**5,394,956**	**5,418,675**	**(38,865)**	**5,379,810**
Assets							
Cash and cash equivalents		9,593		9,593	11,465		11,465
Investments	(a)	5,463,320	(5,821)	5,457,499	5,437,048	(5,865)	5,431,183
Premiums receivable		17,345		17,345	17,158		17,158
Prepayments		5,564		5,564	4,774		4,774
Property, plant and equipment	(b)	12,530	(338)	12,192	10,967		10,967
Intangible assets	(b)	0	338	338	0		0
TOTAL ASSETS		**5,508,352**	**(5,821)**	**5,502,531**	**5,481,412**	**(5,865)**	**5,475,547**
Liabilities							
Trade and other payables		5,333		5,333	5,317		5,317
Provision for employee entitlements		183		183	161		161
Outstanding claims liability	(c)	24,411	686	25,097	14,209		14,209
Unearned premium liability		43,962		43,962	43,050		43,050
Unexpired risk liability	(d)	0	33,000	33,000	0	33,000	33,000
TOTAL LIABILITIES		**73,889**	**33,686**	**107,575**	**62,737**	**33,000**	**95,737**
NET ASSETS		**5,434,463**	**(39,507)**	**5,394,956**	**5,418,675**	**(38,865)**	**5,379,810**

The following table shows the changes to the Commission's surplus resulting from the transition from previous NZ GAAP to NZ IFRS for the period ended 30 June 2007.

	NOTE	30 JUNE 2007 PREVIOUS NZ GAAP $ (000)	EFFECT ON TRANSITION NZ IFRS $ (000)	NZ IFRS $ (000)
Gross earned premiums		83,750		83,750
Outward reinsurance premium expense		(31,022)		(31,022)
NET EARNED PREMIUM REVENUE		**52,728**		**52,728**
CLAIMS EXPENSE	(c)	**(53,711)**	**(686)**	**(54,397)**
(DEFICIT) FROM UNDERWRITING ACTIVITIES		**(983)**	**(686)**	**(1,669)**
Public education		(2,719)		(2,719)
Research (excluding GeoNet)		(1,975)		(1,975)
GeoNet programme		(7,036)		(7,036)
TOTAL OTHER OPERATING COSTS		**(11,730)**		**(11,730)**
Investment income	(a)	46,682	44	46,726
Investment costs		(8,181)		(8,181)
INVESTMENT INCOME NET OF COSTS		**38,501**	**44**	**38,545**
Crown underwriting fee		(10,000)		(10,000)
NET SURPLUS FOR THE YEAR		**15,788**	**(642)**	**15,146**

Explanatory Notes – Reconciliations of Equity and Net Surplus

(a) The Commission continues to value its financial assets at fair value through profit or loss as under previous NZ GAAP, but prices are now based on bid rather than the last traded price.

(b) Software has been reclassified as an intangible asset.

(c) A risk margin has been added to the central estimate of the present value of outstanding claims liabilities to increase the level of adequacy to 75%.

(d) An unexpired risk liability of $33 million was established as a result of applying the liability adequacy test (refer note 16). It was calculated as follows:

		1 JULY 2006 $(000)
UNEXPIRED RISK LIABILITY		**33,000**
Calculation of deficiency		
Unearned premium liability		43,962
Central estimate of the present value of expected future cash flows arising from future claims on unearned premiums	(77,400)	
Risk margin	(7,600)	
Gross deficiency		(85,000)
Present value of expected future cash inflows arising from reinsurance recoveries on future claims on unearned premiums		7,500
NET DEFICIENCY		**(33,538)**

25 CREDIT RATING

The Commission has been assigned an insurer financial strength rating of AAA (extremely strong) as accorded by international rating agency, Standard & Poor's, on 25th September 2007.

26 EVENTS AFTER THE BALANCE SHEET DATE

There were no significant events after the Balance Sheet date.

Statement of Service Performance

Output Class 1 – Claims Handling and the Catastrophe Response Programme

This output class comprises the maintenance of EQC's state of readiness to meet the requirements of the Crown for the compensation of residential property owners following a natural disaster and the incorporation of this readiness, so far as is possible, into normal daily operations.

It contributes to the impact of *Having a catastrophe response programme that delivers adequate claims handling capacity* and through that to the Government's outcome of *Safer communities and rapid recovery from natural disasters.*

PERFORMANCE TARGETS AND RESULTS

1 The cost of maintaining the catastrophe response programme is kept within the authorised budget.

Achieved. *Overall programme came within the authorised budget but event-related costs, (printing, communications and temporary claims staff expenditure) were higher than projected.*

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2 Arrangements are completed by 31 March 2008 to sustain the service and development of EQC's Minerva suite of computer applications.

Partially achieved. *Agreement for continuing service has been reached but moving Minerva to a new platform will be completed by 31 December 2008.*

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3 EQC's new claims management computer application is implemented by 31 March 2008, and passes the acceptance testing and capacity testing specified in the contract.

Achieved. *New claims management system went live on 17 March.*

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4 The availability of resources and contracts for post-event supply are checked on an annual basis as specified in the catastrophe response management manual.

Achieved. *Annual reviews undertaken for all contracts.*

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5 EQC has a catastrophe response programme in place to ensure that systems are always available. Tasks will be completed as specified in the schedule of training, testing and exercises produced each year.

Schedule of training, testing and exercises interrupted due to the demands of running the Northland, Invercargill and Gisborne support centres. These operations provided opportunities to practice and test the programme as well as on-the-job training for all the skill-sets involved (management in the field, loss adjusting, claims administration, damage estimation and call centre operations).

Output Class 2 – Research

This output class includes research in fields relevant to natural disaster damage, methods of reducing or preventing natural disaster damage, and the insurance provided under the Earthquake Commission Act.

Through its advocacy of, and investment in, science and engineering research, EQC contributes to natural hazard risk assessment and disaster reduction in New Zealand. The Commission's research activities contribute to the impact of *Sustaining capability and completing research in order to reduce the risk of the hazards EQC insures against.* By contributing to a reduction in hazard risk, the research helps to reduce the Crown's liabilities and protect its assets and helps to make New Zealand communities safer from natural disasters. Research into construction and engineering methods can also have economic spin-offs and contribute to a knowledge-driven economy.

PERFORMANCE TARGETS AND RESULTS

1 The planned programme of investment in research is accomplished.

Achieved. *All research projects are progressing well within agreed budget and time limits.*

2 Each peer review of completed projects results in a minimum assessment of "satisfactory".

Achieved. *Peer reviews received to date are all satisfactory or above.*

3 The "It's Our Fault" project to review the earthquake and tsunami hazard of the Wellington region achieves the contracted milestones and targets.

Achieved. *The review of Wellington's seismic hazard and risk is progressing well, with all contracted milestones achieved during the year.*

4 Results of research funded by EQC are disseminated to the research, planning, construction and recovery sectors within two months of completion of satisfactory peer review. Develop and document an improved framework to encourage the transfer of EQC-funded research into practice.

Achieved. *A study of EQC's research dissemination and archiving practices resulted in an improved framework to enable EQC-funded research to become better known.*

5 The university-based teaching and scholarship programmes sponsored by EQC meet contracted requirements.

Achieved. *EQC's university-based teaching and scholarship programmes have contractual arrangements specifying EQC's requirements and these have been fulfilled.*

6 Establish a process to monitor capability requirements for disciplines identified within the EQC research strategy.

Partially achieved. *EQC has held discussions with relevant parts of the research sector and other government agencies to develop its understanding of strategic research capability needs.*

7 GNS Science annual plan for GeoNet is agreed by EQC by 30 June 2008. The plan includes the design, operation and maintenance of a national hazard monitoring system.

Achieved. *The development and rollout of GeoNet is on time and on target. The workplan for 2008/09 has been received and approved. Preparations are underway for the second international strategic review of GeoNet which is to be held in late September 2008.*

8 EQC monitors the timeliness and expenditure of GeoNet on a quarterly basis to ensure that the project is meeting the time and budget criteria of the agreement.

Achieved. *The project has kept to agreed time criteria and has come within one percent of its agreed budget.*

Output Class 3 – Public education

This output class has two elements:

- Public education about seismic hazards and methods of reducing or preventing seismic disaster damage;
- Public education about EQC's role and the importance of having adequate insurance on their residential and personal property.

These outputs reflect EQC's functions under Section 5(1)(e) of the Earthquake Commission Act: "facilitate research and education about matters relevant to natural disaster damage, methods of reducing or preventing natural disaster damage, and the insurance provided under this Act.". It also indirectly contributes to the Government's outcome of *Efficient management of the Crown's assets and liabilities* because the Crown's fiscal risk is reduced as more households take precautions against damage from seismic events.

PERFORMANCE TARGETS AND RESULTS

1 The percentage of New Zealand households that have taken preventative steps to mitigate natural disaster damage has increased in the year to 30 June 2008.

The independent Nielsen quarterly surveys show that disaster mitigation activity (as indicated by levels of secured hotwater cylinders, tall furniture and foundations) has increased by 0.7 percentage points from 44.6% to 45.3% over the course of the year.

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2 The percentage of New Zealanders who understand EQC's role has increased in the year to 30 June 2008.

The Nielsen surveys show that the percentage of New Zealanders who understand EQC's role has decreased by 2.4 percentage points during the year, moving from 66.6% to 64.2%.

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3 Public understanding of the insurance under the Act has increased in the year to 30 June 2008 as shown by evaluation of social marketing efforts.

The Nielsen surveys show that awareness of EQC's insurance role has decreased by one percentage point to 64% over the past year.

Output Class 4 – Policy advice

This output class includes the provision of policy advice to the Government on issues related to EQC's statutory functions, including:

- Natural disaster damage;
- Methods of reducing or preventing natural disaster damage;
- Government response to disasters;
- Relevant risk management issues;
- Management of the Natural Disaster Fund and protection of its value;
- Terms and condition of the insurance.

It contributes to all of EQC's impacts, and through them to the Government's outcomes of *Safer Communities and rapid recovery from natural disasters* and *Efficient management of the Crown's assets and liabilities.*

PERFORMANCE TARGETS AND RESULTS

1 All requests for policy advice from the Minister and Treasury are met within agreed timelines.

Achieved.

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2 EQC will seek formal feedback from a key stakeholder each year.

Amount of advice sought didn't warrant EQC undertaking this exercise.

Output Class 5 – Management of the Natural Disaster Fund

This output class involves administration of the Fund, including collection of the premiums payable, and, so far as reasonably practicable, protection of the Fund's value through the investment of money held in the Fund and reinsurance in respect of the whole or part of the insurance provided under the Act. This output class reflects EQC's functions as set out in section 5(1)(b), (c) and (d) of the Act and contributes directly to the Government's outcome of *Efficient management of the Crown's assets and liabilities.*

PERFORMANCE TARGETS AND RESULTS

1 EQC reviews its reinsurance programme on an annual basis to ensure it still provides optimum value and achieves the objectives set for it.

Achieved. *The reinsurance committee reviewed the programme and the Board approved the reinsurance plan after consideration of a paper on reaching a sustainable size for the Natural Disaster Fund.*

2 The reinsurance programme reduces the net risk to the Natural Disaster Fund and the Crown.

Achieved. *Computer modelling shows the reinsurance programme for the 2008/09 year reduces the risk of the Fund falling to zero in any year by 80% and of falling below $2 billion in any one year by 50%, compared to having no reinsurance in place.*

3 The Fund is managed in accordance with the Statement of Investment Policies, Standards and Procedures.

Achieved. *This included investing in approved asset classes only, maintaining asset classes within specified ranges, ensuring cash was invested in banks with high credit ratings, receiving compliance and audit reports from custodians and fund managers, and reporting on the Fund to the Board and investment committee.*

4 Return on investment meets the benchmarks set in the Statement of Investment Policies, Standards and Procedures.

ASSET CLASS	ACTUAL RETURN	BENCHMARK
NZ Government Stock	9.1%	9.0%
NZ Government Inflation-Indexed Bonds	5.2%	5.2%
Bank Bills (Registered Certificates of Deposit) / Treasury Bills	8.6%	8.8%
Passive Global Equities	-9.1%	-9.3%
Active Global Equities	-7.7%	-9.3%
Total Portfolio*	3.3%	3.2%

* The target total portfolio return is 1% over the NZGS index return, over a rolling 10-year period. The structure has not been in place long enough to compare 10-year returns. For the four years to 30 June 2008 the actual total portfolio return was 6.0% versus the target of 7.0%.

5 In conjunction with its consultants, EQC reviews its investment structure and programme on an annual basis to ensure it is being managed in accordance with best practice and is aware of any developing trends.

Achieved. *An additional investment management position for the Commission has been created.*

6 By December 2007, EQC's responsible investment policy has been formalised and posted on to the website and a decision has been made about EQC's signing up to the United Nations Principles for Responsible Investment (UNPRI).

Achieved. *The EQC Board approved the responsible investment policy including resolving to become a UNPRI signatory on 6 December. The policy was posted on the EQC website immediately thereafter.*

7 EQC's annual report includes comment on the extent to which social, ethical and environmental issues have been considered in EQC's investment process and discloses EQC's proxy voting policy.

Achieved. *This annual report meets these requirements.*

8 The programme of insurance company audits and records checking is completed.

Achieved. *The programme was completed and 12 audit opinions were received in the year.*

9 Any qualifications in the external auditor's opinion of an insurance company will be investigated to ensure that the correct premium is being paid to EQC.

Achieved. *Three qualified audits investigated and resolved by EQC.*

GOOD EMPLOYER COMPLIANCE

EQC has met all the requirements of its equal employment opportunity policy.

The Commission takes its role as a good employer of 21 staff seriously because human resources are integral to its business. To ensure staff regard EQC as a good employer, the Commission will continue to:

- Demonstrate leadership and vision that articulates EQC's values and the importance of its staff;
- Provide equal employment opportunities for staff (see below);
- Provide opportunities for staff participation in organisational decisions;
- Encourage staff to develop to meet their aims and aspirations through internal and external training, coaching and mentoring;
- Implement an impartial, transparent employment process and equal opportunities to move up, through and out of the organisation in a positive way;
- Provide a comprehensive introduction to the organisation setting out EQC's values and objectives;
- Take account of the need for staff to balance work with the rest of their lives;
- Utilise performance management practices that are transparent and fair;
- Have a transparent, fair, gender neutral remuneration system;
- Provide a working environment that is free from all forms of harassment and bullying and provide safe and fair means of dealing with complaints;
- Provide a healthy and safe workplace, observing OSH requirements at the corporate office and as part of the catastrophe response programme, to ensure temporary field offices and claims sites are safe for the Commission's workers.

As an Equal Employment Opportunities (EEO) employer, EQC is committed to the principle of fair and equal treatment for all its staff.

This means that all its decisions about its staff must be free of unfair discrimination based on colour, race, ethnic or national origin, sex, marital status, religious or ethical belief or disability.

EQC will ensure that it does not discriminate on these grounds in deciding what terms or conditions of work, or fringe benefits, or opportunities for training, promotion or transfer it offers to its staff.

EQC will work towards the removal of any barriers it may have to the employment or advancement of suitably qualified disabled people, should the opportunity arise to take such people onto its staff.

EQC recognises the importance of volunteers contributing to social development, the environment and the economy, and supports staff participating in voluntary community work from time-to-time, while ensuring that professional obligations are met.

EQC has a confidential Employee Assistance Programme, under which any staff member may seek assistance from a contracted external service provider if non-work issues are affecting work performance.

		2007/08	2006/07
Average length of service		7.2 years	7.3 years
Staff turnover		5	2
Total staff at 30 June		21*	21
Gender	Male	11	11
	Female	10	10

**One vacancy existed at 30 June 2008.*

INVESTMENT PROCESSES – ENVIRONMENTAL, SOCIAL AND GOVERNANCE CONSIDERATIONS

PRINCIPLES

The Commission considers that responsible investment decision-making that takes account of environmental, social and governance (ESG) considerations is part of evolving best practice. Responsible investment actions can include engagement, voting, exclusion of certain investments, and/or divestment.

The Commission, at its discretion, and provided that it is consistent with its obligation to invest the Fund on a prudent, commercial basis, may consider other issues arising from the Fund's investments. In doing so, the Commission may take into account factors such as whether the issue is contrary to New Zealand law and New Zealand's international agreements, or is inconsistent with Crown actions.

The Commission is a signatory to the United Nations Principles for Responsible Investment (UNPRI), and acknowledges internationally agreed standards for responsible corporate behaviour and investment. As such, the Commission aims to encourage companies in which it invests to meet internationally agreed standards for responsible corporate behaviour.

IMPLEMENTATION

If companies invested in are found to have corporate practices that breach its responsible investment policy, the Commission will consider engaging with the company either directly or in conjunction with other investors, or taking other shareholder action. The Commission believes that it can, in most instances, have a greater impact on company practices through dialogue with company management in conjunction with others, than through immediate divestment.

As a last resort the Commission may divest of investment in companies that are found to have corporate practices that breach its responsible investment policy.

INVESTMENT MANAGERS

The Commission appoints external investment managers to manage portions of the Fund. As part of the selection process the Commission assesses the overall investment management capabilities of candidate managers, including the ability to implement the Commission's requirement to avoid prejudice to New Zealand's reputation as a responsible member of the world community.

Investment managers are required to be vigilant against the effects on companies' long-term performance prospects that could arise from any practices which alienate civilized society including socially and environmentally irresponsible behaviour.

Maintaining open dialogue with investment managers, including in relation to the requirement to avoid prejudice to New Zealand's reputation, is considered to be critical to the achievement of the Commission's objectives.

In addition, consistent with the UNPRI, the Commission encourages its investment managers to integrate ESG factors into evolving research and analysis and to undertake and report on ESG-related engagement. The investment managers report to the Commission on their application of the responsible investment requirements, on a six-monthly basis.

Investment managers are formally instructed of any exclusion or divestment decisions by the Commission.

EXCLUSIONS

In line with the obligations and responsibilities of the responsible investment policy, the Commission and its investment managers do not invest the Fund in the following:

- Organisations engaged in the development, production, transfer, possession, acquisition, stockpiling or use of anti-personnel mines;
- Manufacturers of cigarettes and tobacco.

FUTURE RESPONSIBLE INVESTMENT DEVELOPMENT

EQC's approach to responsible investment is evolving and the Commission will continue to work with the other New Zealand Crown financial institutions (CFI's) to improve its ability to meet its responsible investment obligations.

All CFI's are required to avoid prejudice to New Zealand's reputation as a responsible member of the world community. CFI's, including EQC, are currently developing an arrangement for sharing responsible investment resources. EQC also expects to select a research company to identify companies within its portfolio that may prejudice New Zealand's reputation. A further undertaking will be to develop and implement mechanisms for effective engagement with investee companies.

PROXY VOTING POLICY

The Commission believes that good corporate governance should maintain a balance between the rights of shareholders on one hand and the needs of the corporate board and management to direct and manage the company's affairs on the other.

Responsible governance should reinforce a culture of integrity and transparency, contribute to the achievement of strategic goals, ensure Board alignment with shareholder interests, reinforce and maintain good business ethics, and recognise environmental and social considerations.

The Commission believes that good corporate governance will also maximise returns to the Fund without undue risk.

Voting rights are important to the Fund for maintaining shareholder oversight of directors and company policies. The Commission will use its voting rights to encourage good corporate governance.

VOTING RIGHTS

Pooled Accounts

The Board will retain the right to exercise any vote attached to units held in a pooled account. The right to exercise any vote attached to a share or unit within a pooled account will normally rest with the manager of the account.

Directly Held Accounts

Any voting rights attached to any securities that form part of the portfolio shall be exercised by the manager:

- As directed by EQC by written notice to the manager; or
- If no such direction is made, in accordance with the manager's duties and obligations under their agreement and in particular, avoiding prejudice to New Zealand's reputation as a responsible member of the world community.

OUTPUT EXPENDITURE FOR THE YEAR ENDED 30 JUNE 2008

OUTPUT CLASS	REVENUE	EXPENDITURE	REVENUE BUDGET	EXPENDITURE BUDGET
Claims handling and the catastrophe response programme	Nil	$66.9 million	Nil	$9.0 million
Research	Nil	$9.6 million	Nil	$10.1 million
Public education	Nil	$2.7 million	Nil	$3.4 million
Policy advice	Nil	Nil	Nil	Nil
Management of the Natural Disaster Fund	$274.0 million	$54.3 million	$468.7 million	$55.8 million

Statement of Responsibility

The Board and management are responsible for the preparation of the annual Financial Statements and Statement of Service Performance and the judgements used therein.

- The Board and management are responsible for establishing and maintaining a system of internal control designed to provide reasonable assurances as to the integrity and reliability of the financial reporting.
- In the opinion of the Board and management, the annual Financial Statements for the financial year fairly reflect the financial position and operations of the Commission.

Chairman
7 October 2008

Commissioner
7 October 2008

EQC

EARTHQUAKE COMMISSION

KŌMIHANA RŪWHENUA