

**SOUTHERN RESPONSE
ANNUAL REPORT 2021**

TE PŪROKO A TAU
A URUPARE KI TE
TONGA 2021



Urupare ki te Tonga



Southern Response is the government-owned company responsible for settling claims by AMI policyholders for Canterbury earthquake damage which occurred before 5 April 2012 (the date AMI was sold to IAG).

Published August 2021.

Produced and printed in Christchurch, New Zealand.

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Chair and Chief Executive's report

This is the tenth Annual Report of Southern Response Earthquake Services Limited ('Southern Response' or 'the Company') as a Crown-owned company.

At the end of December 2019, Southern Response outsourced the management of its claims settlement activities to the Earthquake Commission (EQC). Southern Response utilises its residual resources to support EQC to succeed in delivering fair and enduring settlements for former AMI customers that are yet to resolve their earthquake claims.

In addition to this, in December 2020, the Government announced that the Company would be responsible for the implementation of a package for eligible policyholders who cash settled with the Company prior to October 2014 (the 'Package'). The Company is planning to deliver the Package, which is currently impacted by ongoing legal processes, in the 2022 financial year.

As at 30 June 2021, Southern Response had settled over 99.62% of the Covered Claims¹ notified to the Company. In numbers, this means Southern Response has settled 49,218 Covered Claims, including 8,737 overcap house claim settlements, and is currently forecasting to settle a total of 9,098 overcap claims.

Year in review

Southern Response's target for the 2020–2021 financial year was to reduce the number of claims in accordance with the Company's actuarial forecasts for the year. This target was met and exceeded. Southern Response, together with support from EQC acting as the Company's agent, settled 318 Covered Claims of former AMI policyholders during the 2020–2021 financial year.

During the year, Southern Response received a number of new Covered Claims and, at the end of the financial year, the Company had 188 Covered Claims in progress.

As a Crown-owned company, Southern Response continues to ensure its ongoing governance, financial and legal obligations are met. Acknowledging EQC's role under the Agency Agreement, key decision-making regarding claims settlements still remains with Southern Response.

The Company maintains a focus on delivering a customer-centric approach for the settlement of outstanding claims. This includes the utilisation of third parties, such as the Greater Christchurch Claims Resolution Service ('GCCRS'), to assist customers through to the settlement of their claims, to identify flexible solutions and to work proactively with customers to reduce disputes.

The Company continues to work towards its wind-down in an effective and efficient way that will fully discharge its obligations, including any obligations that may arise from its build programme and the resolution of any legal disputes and/or proceedings. The Company continues to work proactively, openly and cooperatively with its key stakeholders.

¹ See 'Glossary of Terms' used for the definition of Covered Claim.

Crown Package

The Package announced by the Government in December 2020 is intended to provide eligible policyholders who cash settled prior to October 2014 with an option to receive an additional payment in relation to certain professional fees, contingencies, interest and a contribution to legal fees. A provision for the Package has been recognised in this year's financial statements with additional information included within the notes to the financial statements.

Due to existing matters before the High Court, Package payments during this financial year have been limited. Subject to the outcome of ongoing Court proceedings, the Company continues to prepare for the Package's delivery and work closely with the Crown to plan for a range of possible claim volumes to be processed.

Customer-centric approach

Customers and the customer experience remain at the forefront of the Company's activities. To ensure this occurs with the agency arrangement with EQC, Southern Response maintains a very close working relationship that is bolstered through the co-location arrangements.

The majority of Southern Response customers' claims have detailed settlement information and the Company has been engaged in a variety of settlement pathways for customers. It is readily acknowledged that each claim requires a bespoke approach and generally involves multiple meetings and extensive information exchange.

Southern Response has always ensured that we have personnel who are able to engage in complex negotiation, consultation and settlement discussions and this approach continues within EQC. Southern Response continues to provide technical, claims and legal expertise to support EQC to manage the Company's claims.

During the year, Southern Response continued to provide managed builds for customers, including for those customers recognised as being vulnerable. The number of active construction sites as at 30 June 2021 was three.

Where appropriate, customers continue to receive interim settlement payments, either direct to a bank account they (or their bank) nominate, or the funds are held on trust until such time as the customer

chooses to access the proceeds. Recognising that this payment is not necessarily the final settlement payment from Southern Response, customers can continue to engage with Southern Response and work toward final settlement of their claim.

Southern Response continues to encourage and support customers to seek and utilise external advice and alternative dispute approaches including mediation, facilitation and other entities such as the GCCRS and the Canterbury Earthquakes Insurance Tribunal ('CEIT').

Alternative dispute resolution options

As was the case in the previous financial year, GCCRS remains the most widely used service by Southern Response customers that have unresolved claims with the Company.

In addition to GCCRS, Southern Response remains committed to encouraging customers to engage in other alternative dispute resolution services that suit individual circumstances. As alternatives to litigation and a more formal court process, Southern Response and EQC acting as the Company's agent, seek face-to-face negotiations, private mediations and judicial settlement conferences as other forms of alternative dispute resolution services to resolve claims. By utilising these services, the Company currently has six Covered Claims that remain in litigation as at 30 June 2021.

We are supportive of any alternative dispute resolution service that helps to provide efficient and expedient pathways towards claim settlement.

Health, safety & wellbeing

Southern Response is proud of its health, safety and wellbeing approach and track record. The Company continues to offer its personnel access to its 'Manawaroa' well-being programme on a voluntary basis.

Southern Response continues to monitor and manage the health and safety of all involved on the project in accordance with its legislative responsibilities including its wider obligations to be a good employer. Although Southern Response only has a very small number of active construction sites, the Company remains vigilant toward managing health and safety.

Governance

Southern Response manages its functions and operations in a way that is consistent with the Company's strategy, as set by the Board. The Board provides strategic direction to the Chief Executive to ensure decisions are made that are consistent with the Company's strategic objectives.

The Board provides governance and the assurance that the Chief Executive is delivering the expected outputs both to assist EQC and ensure the Company continues to meet its ongoing obligations as a Crown-owned company. The Chief Executive has contracted the resource necessary to deliver the day-to-day operational activities of the Company that will meet the overall strategic objectives.

In respect of the Package delivery, the Company retains overall decision making responsibility. The implementation of the Package will be overseen by the Independent Oversight Committee appointed by the Crown.

Appreciation

Southern Response would like to acknowledge and thank its team of personnel for their continued commitment, contribution and dedication.

Southern Response appreciates the feedback that it has had from community support groups, local government, professional bodies, local MPs and their electorate staff, Iwi and most importantly, its customers. This feedback has assisted the Company to develop and refine its position on a range of issues over time.

Southern Response is also grateful for the support received from its shareholding Ministers and the Treasury's Commercial Operations Group, as the shareholding Ministers' appointed monitoring agent.

Future outlook

The Company's key areas of focus in the 2021–2022 financial year are:

- Utilising its residual resources to support EQC to succeed in delivering fair, timely and enduring settlements for Southern Response customers that are yet to resolve their earthquake claims.
- Ensuring a customer-centric approach for the settlement of outstanding claims and demonstrably offering alternative dispute resolution channels to customers when any form of litigation arises.
- Ensuring accurate, timely and enduring Package payments are made to eligible policyholders with a strong emphasis on a positive customer experience.
- Focusing on the continued wind-down of the Company and ensuring its final phase is effective and efficient.
- Ensuring that the Company's ongoing governance, financial and legal obligations are met.

Alister James
Chair
9 August 2021



Casey Hurren
Chief Executive
9 August 2021



Financial summary

Key aspects of Southern Response's financial results are outlined below.

	2021 \$000	2020 \$000
Net claims incurred	(119,618)	(42,866)
Other costs	-	13
Investment income	264	535
Total comprehensive gain/(loss) for the year	(119,354)	(42,318)
Claims liability		
Discounted central estimate (including claims handling expenses) - earthquake run-off	93,074	132,000
Risk margin	22,804	35,684
Gross outstanding claims liability	115,878	167,684
Reinsurance receivables	-	-
Net outstanding claims liability - earthquake run-off	115,878	167,684
Discounted central estimate (including Package handling expenses) - Crown Package	206,396	-
Risk margin	30,960	-
Net outstanding claims liability - Crown Package	237,356	-
Net outstanding claims liability	353,234	167,684

The Company continues to ensure that it has sufficient capital support to meet its financial obligations. Funding is available as required through:

- Firstly, an uncalled ordinary share capital facility from the Crown, which at 30 June 2021 amounts to \$139 million; and
- Secondly, an indemnity from the Crown covering, amongst other things, the Company's financial exposure under the Package.

The Southern Response Board continues to actively monitor the Company's capital position to ensure the Company can continue to operate and meet its obligations.

Our values

Respect

We treat all our stakeholders with care, consideration, fairness and equity.

Excellence

We are committed to excellence in everything we do. We are innovative, responsive, adaptive and continually raising the bar. We strive to set the standard against which others will be measured.

Ownership

We hold ourselves accountable for our actions, take ownership, and deliver on our promises.

Honour our promises

We stand by and deliver on all entitlements, rights and commitments AML has made to policyholders.

Integrity

We demonstrate honesty, transparency, fairness, and objectivity in all our interactions.

Passion

We strive, stand up for our customers' rights, and go the extra distance. We want to make a positive difference to people's lives as part of our contribution to the rebuild of Canterbury.

Recognition

We recognise and celebrate the contributions our people make as individuals and as teams to deliver on our goals.

Development

We professionally develop our people to provide challenging and rewarding employment and prospects.

Board of Directors

Alister James Chair

Alister is an experienced lawyer, currently practising as a Barrister. Alister has had previous experience in local government and health, as a former Christchurch City Councillor serving for twenty years, including as Chair of the Strategy and Finance Committee, and a former Member and Chair of the Canterbury District Health Board. Alister is a former Director and Chair of Christchurch City Holdings Limited (Council holding company for Orion, Lyttelton Port, Christchurch International Airport, and other commercial interests), and until recently, the independent Chair of the Greater Christchurch Public Transport Joint Committee.

Alister has had wide experience in the community and voluntary sector, and became a Companion of the Queen's Service Order (QSO) in the 2004 New Year Honours List for community services. He has also served as a British Honorary Consul. Alister is currently a Commissioner on the EQC Board.

Following the February 2011 earthquakes, Alister's own home in Central Christchurch was severely damaged and demolished two months later. He understands from personal experience the difficulties faced by other residents following the earthquakes.

Anne Urlwin Deputy Chair

Originally from Christchurch, Wanaka-based Anne Urlwin has more than twenty years of experience as a professional Director, chartered accountant and business consultant in an extensive range of sectors.

Anne is currently a director of Summerset Group Holdings Ltd, Precinct Properties New Zealand Ltd and Queenstown Airport Corporation Ltd. She is also a director of Crown and Auckland Council owned City Rail Link Ltd and of Cigna Life Insurance New Zealand Ltd. Anne is a former director of Chorus Ltd, Tilt Renewables Ltd and a former chair of national commercial construction group Naylor Love, and she has served on a number of central and local government entity boards.

Bevan Killick Director

Christchurch-born and educated, Bevan Killick is a chartered accountant, a chartered insurance practitioner (UK) and a chartered member of the Institute of Directors.

During his professional career, Bevan held senior positions in the Lloyd's Insurance Market for 12 years. Christchurch-based, Bevan is a professional director where his roles include being Chair of the Defence Employer Support Council and an honorary Captain in the Royal New Zealand Navy.

In the post-earthquake era Bevan also worked with Recover Canterbury, the organisation responsible for helping businesses recover from the Canterbury earthquakes.

Governance and remuneration

Te taha whakahaere

Southern Response is incorporated as a limited liability company under the Companies Act 1993, and is listed in Schedule 4A of the Public Finance Act 1989, which automatically makes it subject to many of the provisions of the Crown Entities Act 2004.

The Company became a Crown-owned Company on 5 April 2012 when its shareholders became the Minister of Finance and the Minister supporting Greater Christchurch Regeneration. On 5 April 2012 the Company's name changed from AMI Insurance Ltd to Southern Response Earthquake Services Ltd.

Company activities

Until the sale of its fire and general insurance business to IAG (NZ) Holdings Limited on 5 April 2012, the Company's principal activities, while operating under the name AMI Insurance, comprised the writing of fire and general business for the domestic property insurance market in New Zealand.

At 5 April 2012, the Company's principal activities changed to the management and settlement of insurance claims made by AMI policyholders relating to the Canterbury earthquake events up to 5 April 2012.

The company does not take on any new insurance business except to the extent that it is ancillary to its claims management business.

Governance framework

The Company's governance framework is designed to ensure that the Company is effectively managed and that its statutory obligations are met. The governance framework ensures a clear understanding of the separate roles of board and management, and demonstrates a shared commitment to the Company's purpose. To enhance efficiency, the Board had delegated to the Chief Executive, the day-to-day leadership and management of the Company.

The Board operates under Treasury's Owner's Expectations Manual which sets out the Ministers' expectations of the Board, including the reporting, accountability and financial governance expectations.

Board of Directors

The Board's duties, functions, and powers are governed by the Companies Act 1993, Southern Response's Constitution, the Crown Entities Act 2004, the Company's Statement of Intent and the Shareholders' Letter of Expectations.

The Crown Entities Act imposes the obligation on the Board to ensure that the Company operates in a manner consistent with its objectives, functions and Statement of Intent.

Directors

Under the Constitution adopted on 5 April 2012 (with subsequent amendments since this date), the Board is appointed by shareholding Ministers and can comprise between three to seven non-executive directors, including the Chair. As at 30 June 2021, there were three non-executive directors of the Company whose appointment dates and terms are detailed in the following table.

Director	Position	Term
Alister James Christchurch-based professional Director	Non-Executive Chair	Appointed 20 December 2018 Reappointed 1 July 2019
Anne Urlwin Wanaka-based professional Director	Non-Executive Deputy Chair	Appointed 5 April 2012 Reappointed 1 July 2014 Reappointed 1 July 2016 Reappointed 1 October 2018
Bevan Killick Christchurch-based professional Director	Non-Executive Director	Appointed 5 April 2012 Reappointed 1 July 2013 Reappointed 1 July 2015 Reappointed 1 July 2017 Reappointed 1 July 2020

Board committees

To ensure efficiency, the Board specifically delegates some of its roles to board committees under formal terms of reference, which specify the role and responsibility of each committee and its delegated authorities. Due to the decreasing size of the Board, all Directors now serve on the two remaining committees. The Audit and Risk Committee is chaired by Anne Urlwin and the People and Safety Committee is chaired by Bevan Killick.

Disclosure of Interests by Directors

The Board is conscious of its obligation to ensure Directors avoid conflicts of interest (both real and perceived) between their duty to Southern Response and their own interests. Directors are required to ensure they immediately advise the Board of any new or changed relationships, and these are recorded in the Board's interests register.

In accordance with the Companies Act 1993, the Board maintains an up-to-date interests register to ensure conflicts of interest are avoided. The following table details new interests or cessations of interests of Directors recorded in the interests register during the year ended 30 June 2021.

Director	Entity	Relationship
Alister James	Earthquake Commission	Appointed a Commissioner
	Greater Christchurch Public Transport Joint Committee of Environment Canterbury, Christchurch City Council, Selwyn and Waimakariri District Councils	Ceased to be Independent Chairman
Anne Urlwin	Tilt Renewables Ltd	Appointed a Director
	Queenstown Airport Corporation Ltd	Appointed a Director
	Steel & Tube Holdings Ltd	Ceased to be a Director
Bevan Killick	Christchurch City Council	Appointed member of Health, Safety and Wellbeing Committee
	Australian Association of the Order of Malta Ltd	Appointed a Director
	Gurkha Welfare Fund Australia Ltd	Appointed a Director
	Pacific Development and Conservation Trust	Ceased to be an Advisory Trustee

There have been no interests registered by Directors in transactions during the financial year ended 30 June 2021. Related party transactions in relation to Alister James' position as a Commissioner of EQC are disclosed in note 14 of the Financial Statements.

Indemnities and insurance

As permitted by Southern Response's Constitution, deeds of indemnity have been given to Directors for potential liabilities and costs they may incur for actions or omissions in their capacity as Directors.

The Company has directors' and officers' liability insurance in place to cover risks usually covered by such policies. Insurance is not provided for dishonest, fraudulent, malicious or wilful acts or omissions. The insurance premium paid during the year ended 30 June 2021 was \$144,620 relating to cover for the period 1 July 2020 to 30 June 2021.

Use of Company information

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

Director remuneration

The shareholding Ministers approved the base ordinary Directors' fees of \$72,000 (Chair), \$45,000 (Deputy Chair) and \$36,000 (Director).

On 28 April 2020 the Board agreed to Company pay restraint measures in response to Covid-19, specifically to reduce the current Board fees that it would otherwise receive for the period 1 May 2020 to 31 October 2020 by 20%.

	2021 \$	2020 \$
Alister James	67,085	69,600
Anne Urlwin	42,000	43,500
Bevan Killick	32,400	34,800
	141,485	147,900

Board meeting attendance

The below table represents the meetings held by the Board during the year and the Directors' attendance.

Director	Board meetings – scheduled (12 meetings held)	Board meetings – other (8 meetings held)	Audit & Risk Committee (6 meetings held)	People & Safety Committee (3 meetings held)
Alister James	11	8	5	3
Anne Urlwin	12	8	6	3
Bevan Killick	12	8	6	3

Board development and training expenses

The Company spent \$1,137 on director development and training during the year ended 30 June 2021 (2020: \$3,354).

Senior Executive remuneration

The remuneration earned and payable for Casey Hurren as Chief Executive for the year ended 30 June 2021 was:

	Fixed Remuneration			Pay for Performance Remuneration	Total Remuneration
	Base salary paid	Benefits*	Sub-total	Incentive paid**	
Casey Hurren	334,450	10,034	344,484	-	344,484

* Benefits include 3% KiwiSaver contribution and health insurance

** The Chief Executive does not have a pay performance component to their remuneration

On 28 April 2020 the Board accepted the Chief Executive's offer to voluntarily reduce his salary for the period 1 May 2020 to 31 October 2020 by 20% in response to Covid-19.

Employee remuneration

	2021	2020
Remuneration band	Number of employees	
\$380,000 pa – \$389,999 pa	-	1
\$370,000 pa – \$379,999 pa	-	1
\$340,000 pa – \$349,999 pa	1	-
\$260,000 pa – \$269,999 pa	-	1
\$240,000 pa – \$249,999 pa	-	3
\$209,000 pa – \$219,000 pa	1	-
\$200,000 pa – \$209,999 pa	-	1
\$180,000 pa – \$189,999 pa	-	2
\$160,000 pa – \$169,999 pa	-	2
\$150,000 pa – \$159,999 pa	-	1
\$140,000 pa – \$149,999 pa	-	1
\$130,000 pa – \$139,999 pa	-	2
\$120,000 pa – \$129,999 pa	-	3
\$100,000 pa – \$109,999 pa	-	4

The table above shows the number of employees and former employees who received remuneration in excess of \$100,000 during the year ended 30 June 2021.

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

Glossary of terms as used in this report

Commercial Operations Group (formerly Crown Ownership Monitoring Unit (COMU)):	Treasury's Commercial Operations Group monitors the government's investment in companies/entities owned by the Crown, assists with the appointment of Directors, and provides performance and governance advice to Ministers.
Overcap:	EQC insures the first \$100,000 + GST (\$115,000) of damage to a house (the "cap") for each earthquake event, EQC pays its contribution for each event and the private insurance company takes over responsibility for managing and settling the claim and paying the amount in excess of the cap that is "overcap".
Reinsurance:	Insurance purchased by an insurance company from one or more other special purpose insurance companies (reinsurers) to enable risks assessed to be spread.
Statement of intent:	An outline of a Crown entity's expected contribution to the government's priorities over the medium term (3-5 years).

From the start of the 2020 calendar year, Southern Response remains responsible for its Covered Claims, which are defined as:

- a) Any Retained Claim – any claim made by or on behalf of a policyholder under any customer insurance contract relating to any Retained Claim Event, irrespective of whether the claim is made prior to, on or after 5 April 2012.

Retained Claim Event means the Canterbury earthquake events recognised by EQC as occurring from 4 September 2010 through 9 October 2011; and any other event that occurred prior to, or was continuing in progress, as at 5 April 2012 which entitles Southern Response to make a reinsurance claim.

- b) Any other claim for which Southern Response is or may be liable pursuant to Clause 13 of the IAG Sale Agreement (relating to customer insurance contract indemnities and retained claims not clear at 5 April 2012 – essentially claims for which AMI was entitled to make a reinsurance claim and which are being managed on its behalf by IAG).

- c) Any claim arising in respect of any Covered Insurance Contract.

Covered Insurance Contract means any contract works or similar insurance policy under which Southern Response is or may be liable from time to time; and any other insurance policy under which Southern Response may be liable from time to time and which has been approved by the Crown (either individually or as a class of insurance business).

Financial Statements 2021

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Statement of responsibility

In accordance with the Public Finance Act 1989, the Board of Southern Response Earthquake Services Limited accepts responsibility for:

- The preparation of financial statements and statement of performance and the judgements made in them;
- Establishing and maintaining a system of internal control designed to provide reasonable assurance as to the integrity and reliability of the financial statements and the statement of performance.

In the Board's opinion, these financial statements and statement of performance fairly reflect the financial position and operations of Southern Response Earthquake Services Limited for the year ended 30 June 2021.

Signed on behalf of the Board:

Alister James
Chair
9 August 2021



Anne Urlwin
Deputy Chair
9 August 2021



TO THE READERS OF SOUTHERN RESPONSE EARTHQUAKE SERVICES LIMITED'S FINANCIAL STATEMENTS AND PERFORMANCE INFORMATION FOR THE YEAR ENDED 30 JUNE 2021

The Auditor-General is the auditor of Southern Response Earthquake Services Limited (the Company). The Auditor-General has appointed me, Mike Hoshek, using the staff and resources of Deloitte Limited, to carry out the audit of the financial statements and the performance information of the Company on his behalf.

Opinion

We have audited:

- the financial statements of the Company on pages 18 to 34, that comprise the statement of financial position as at 30 June 2021, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date and the notes to the financial statements that include accounting policies and other explanatory information; and
- the performance information of the Company on page 35.

In our opinion:

- the financial statements of the Company on pages 18 to 34:
 - present fairly, in all material respects:
 - its financial position as at 30 June 2021; and
 - its financial performance and cash flows for the year then ended; and
 - comply with generally accepted accounting practice in New Zealand in accordance with New Zealand equivalents to International Financial Reporting Standards and International Financial Reporting Standards; and
- the performance information on page 35:
 - presents fairly, in all material respects, the Company's performance for the year ended 30 June 2021, including:
 - for each class of reportable outputs:
 - its standards of delivery performance achieved as compared with forecasts included in the statement of performance expectations for the financial year; and
 - its actual revenue and output expenses as compared with the forecasts included in the statement of performance expectations for the financial year; and
 - complies with generally accepted accounting practice in New Zealand.

Our audit was completed on 9 August 2021. This is the date at which our opinion is expressed.

The basis for our opinion is explained below, and we draw your attention to other matters. In addition, we outline the responsibilities of the Board of Directors and our responsibilities relating to the financial statements and the performance information, and we explain our independence.

Uncertainties associated with the outstanding claims liability

Without modifying our opinion, we draw attention to the fact that the liabilities of the Company exceed its assets by \$221 million

at 30 June 2021 and, as outlined in note 9, there is considerable uncertainty surrounding the projection and valuation of the company's outstanding claims liability, which includes an allowance for a payment package announced by the Crown on 14 December 2020.

We agree that the financial statements have been appropriately prepared using the going concern basis of accounting, as stated in the going concern disclosure on page 10 of the financial statements. Note 5 to the financial statements explains that formal Crown financial support is available to the Company in the form of uncalled share capital together with a Deed of Indemnity which was entered into by the Crown on 26 September 2018, through the Minister of Finance to indemnify the Company in relation to certain litigation. The Deed of Indemnity was amended on 28 June 2019 to include any present or future proceeding or claim relating to a housing claim against the Company that is agreed as covered by both the Company and the Crown. An addendum to the Deed of Indemnity dated 11 December 2020 further includes and clarifies that the Indemnity covers, amongst other things, the Company's financial exposure under both the Crown Package and the Ross Representative Action.

Basis for our opinion

We carried out our audit in accordance with the Auditor-General's Auditing Standards, which incorporate the Professional and Ethical Standards and the International Standards on Auditing (New Zealand) issued by the New Zealand Auditing and Assurance Standards Board. Our responsibilities under those standards are further described in the Responsibilities of the auditor section of our report.

We have fulfilled our responsibilities in accordance with the Auditor-General's Auditing Standards.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of the Board of Directors for the financial statements and the performance information

The Board of Directors is responsible on behalf of the Company for preparing financial statements and performance information that are fairly presented and that comply with generally accepted accounting practice in New Zealand.

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

In preparing the financial statements and the performance information, the Board of Directors is responsible on behalf of the Company for assessing the Company's ability to continue as a going concern. The Board of Directors is also responsible for disclosing, as applicable, matters related to going concern and using the going concern basis of accounting, unless there is an intention to liquidate the Company or to cease operations, or there is no realistic alternative but to do so.

The Board of Directors' responsibilities arise from the Public Finance Act 1989 and the Crown Entities Act 2004.

Responsibilities of the auditor for the audit of the financial statements and the performance information

Our objectives are to obtain reasonable assurance about whether the financial statements and the performance information, as a whole, are free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit carried out in accordance with the Auditor-General’s Auditing Standards will always detect a material misstatement when it exists. Misstatements are differences or omissions of amounts or disclosures, and can arise from fraud or error. Misstatements are considered material if, individually or in the aggregate, they could reasonably be expected to influence the decisions of readers taken on the basis of these financial statements and performance information.

For the budget information reported in the financial statements and the performance information, our procedures were limited to checking that the information agreed to the Company’s statement of performance expectations.

We did not evaluate the security and controls over the electronic publication of the financial statements and the performance information.

As part of an audit in accordance with the Auditor-General’s Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. Also:

- We identify and assess the risks of material misstatement of the financial statements and the performance information, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- We obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company’s internal control.
- We evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors.
- We evaluate the appropriateness of the reported performance information within the Company’s framework for reporting its performance.
- We conclude on the appropriateness of the use of the going concern basis of accounting by the Board of Directors and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company’s ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor’s report to the related disclosures in the financial statements and the performance information or,

if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor’s report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- We evaluate the overall presentation, structure and content of the financial statements and the performance information, including the disclosures, and whether the financial statements and the performance information represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the Board of Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Our responsibilities arise from the Public Audit Act 2001.

Other information

The Board of Directors is responsible for the other information. The other information comprises the information included on pages 2 to 13, but does not include the financial statements and the performance information, and our auditor’s report thereon.

Our opinion on the financial statements and the performance information does not cover the other information and we do not express any form of audit opinion or assurance conclusion thereon.

In connection with our audit of the financial statements and the performance information, our responsibility is to read the other information. In doing so, we consider whether the other information is materially inconsistent with the financial statements and the performance information or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on our work, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Independence

We are independent of the Company in accordance with the independence requirements of the Auditor-General’s Auditing Standards, which incorporate the independence requirements of Professional and Ethical Standard 1: International Code of Ethics for Assurance Practitioners issued by the New Zealand Auditing and Assurance Standards Board.

Other than in our capacity as auditor, we have no relationship with, or interests in, the Company.



**Mike Hoshek
for Deloitte Limited**

On behalf of the Auditor General
Christchurch, New Zealand
09 August 2021

Statement of comprehensive income

For the year ended 30 June 2021

	Note	2021 Budget \$000	2021 Actual \$000	2020 Actual \$000
Net claims incurred	1,2	(4,971)	(119,618)	(42,866)
Gain/(Loss) on sale or disposal of property, plant and equipment		-	-	13
Net underwriting profit/(loss)		(4,971)	(119,618)	(42,853)
Investment income and expenses	3	222	264	535
Profit/(Loss) for the year before tax		(4,749)	(119,354)	(42,318)
Tax expense	4	-	-	-
Profit/(Loss) for the year after tax		(4,749)	(119,354)	(42,318)
Other comprehensive income:				
Other comprehensive income for the year after tax		-	-	-
Total comprehensive profit/(loss) for the year		(4,749)	(119,354)	(42,318)

The accompanying notes and accounting policies form an integral part of the financial statements.

Statement of changes in equity

For the year ended 30 June 2021

2021	Note	Ordinary Shares \$000	Accumulated Losses \$000	Total Equity/ (Deficit) \$000
Opening balance 1 July 2020		1,278,939	(1,420,547)	(141,608)
Profit/(Loss) for the year		-	(119,354)	(119,354)
Other comprehensive income for the year		-	-	-
Total comprehensive income for the year		-	(119,354)	(119,354)
Call on uncalled ordinary shares	5	40,000	-	40,000
Closing balance 30 June 2021		1,318,939	(1,539,901)	(220,962)

2020	Note	Ordinary Shares \$000	Accumulated Losses \$000	Total Equity/ (Deficit) \$000
Opening balance 1 July 2019		1,223,939	(1,378,229)	(154,290)
Profit/(Loss) for the year		-	(42,318)	(42,318)
Other comprehensive income for the year		-	-	-
Total comprehensive income for the year		-	(42,318)	(42,318)
Call on uncalled ordinary shares	5	55,000	-	55,000
Closing balance 30 June 2020		1,278,939	(1,420,547)	(141,608)

The accompanying notes and accounting policies form an integral part of the financial statements.

Statement of financial position

As at 30 June 2021

	Note	2021 Budget \$000	2021 Actual \$000	2020 Actual \$000
Shareholders' equity				
Total shareholders' deficit		(39,986)	(220,962)	(141,608)
Represented by:				
Assets				
Financial assets				
Cash and cash equivalents	6	16,394	132,816	28,157
Receivables	8	2,334	2,194	2,430
Plant and equipment		-	173	616
Total assets		18,728	135,183	31,203
Less:				
Liabilities				
Trade and other payables		2,532	2,620	4,592
Employee entitlements		-	127	49
Lease liability	13	-	164	486
Outstanding claims	9	56,182	353,234	167,684
Total liabilities		58,714	356,145	172,811
Net liabilities		(39,986)	(220,962)	(141,608)

On behalf of the Board:

Alister James, Chair



Anne Urlwin, Deputy Chair



Financial statements authorised
for issue on 9 August 2021

The accompanying notes and accounting policies form an integral part of the financial statements.

Statement of cash flows

For the year ended 30 June 2021

	Note	2021 Budget \$000	2021 Actual \$000	2020 Actual \$000
Cash flows from operating activities				
Interest received		222	273	552
Claim costs		(70,514)	76,775	(72,285)
Claim costs – reinsurance recoveries		-	-	7,353
Payments to suppliers and employees		(4,048)	(12,046)	(13,243)
Income tax paid		-	-	-
Net cash inflow/(outflow) from operating activities	7	(74,340)	65,002	(77,623)
Cash flows from investing activities				
Proceeds/(Loss) from sale of plant and equipment and property held for sale		-	-	13
Payments for plant and equipment and property held for sale		-	(13)	-
Net cash inflow/(outflow) from investing activities		-	(13)	13
Cash flows from financing activities				
Proceeds from the uncalled capital facility		80,000	40,000	55,000
Repayment of lease liability		-	(330)	(330)
Net cash inflow from financing activities		80,000	39,670	54,670
Net increase/(decrease) in cash and cash equivalents		5,660	104,658	(22,940)
Add opening cash and cash equivalents		10,734	28,157	51,097
Ending cash and cash equivalents	6	16,394	132,816	28,157

The accompanying notes and accounting policies form an integral part of the financial statements.

Notes to the financial statements

For the year ended 30 June 2021

Reporting entity

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

The Company is a Crown-owned company listed in schedule 4A of the Public Finance Act 1989.

The registered office for the Company is located at 7 Winston Ave, Papanui, Christchurch.

The Company's principal business is to manage the settlement of claims from AMI Insurance policyholders arising from the Canterbury earthquakes occurring between 4 September 2010 and 5 April 2012.

Basis of preparation

The financial statements have been prepared:

- in accordance with Generally Accepted Accounting Practice in New Zealand (NZ GAAP) and also in accordance with the Financial Reporting Act 2013 and the Companies Act 1993. They comply with the New Zealand equivalents to International Financial Reporting Standards (NZ IFRS), International Financial Reporting Standards (IFRS) and other applicable financial reporting standards as appropriate for profit oriented companies.
- on a historical cost basis, except for certain assets which have been measured at fair value, and all outstanding claims liabilities and reinsurance receivables have been measured in accordance with NZ IFRS 4 Insurance Contracts.
- in New Zealand dollars, and, unless specifically stated otherwise are rounded to the nearest thousand dollars (\$'000). The functional currency of the Company is New Zealand dollars (NZ\$).

Going concern

As at 30 June 2021 the liabilities of the Company exceeded its assets. The Directors have considered the appropriateness of the financial statements being presented on a going concern basis and have concluded that the going concern assumption is appropriate given the funding arrangements entered into with the Crown (note 5).

Presentation format

The statement of financial position is presented broadly in order of liquidity. An analysis regarding recovery or settlement within 12 months after the reporting date (current) and more than 12 months after the reporting date (non-current) is presented in the notes.

Critical accounting judgements and estimates

Insurance Claim Liability Estimates

The Company makes estimates and assumptions in respect of certain liabilities. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual results may differ from these estimates. The key area in which critical estimates and judgements are applied is detailed in note 9 – the outstanding claims liability.

Changes in accounting policies

There have been no changes in accounting policies, which have been consistently applied during the financial year. For detail on new standards not yet implemented see note 18 – New standards and interpretations.

Other accounting policies

Other accounting policies have been adopted in the preparation and presentation of the financial statements. These are provided alongside the relevant notes to the financial statements.

1. Net claims incurred

Gross claims expense represents movement in the gross outstanding claims liability.

	2021	2020
	\$000	\$000
Earthquake:		
Gross claims expense/(benefit)	(131,110)	26,813
Claims handling expense	11,174	15,844
Reinsurance recovery expense	-	166
Shared property claims expense	190	43
Payment package	239,364	-
Total net claims incurred	119,618	42,866

2. Specified cost disclosures

	2021	2020
	\$000	\$000
Employee benefit expenses ¹	1,004	7,992
Depreciation	136	181
Amortisation – right-of-use asset	320	320
KiwiSaver ²	26	136
Realised (gains)/losses on property, plant and equipment	-	(13)
Audit fees	160	126

¹Accounting policy for short-term employee benefits

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

²Accounting policy for employer contributions to KiwiSaver

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

3. Investment income

Interest income is recognised using the effective interest rate method.

	2021	2020
	¥000	¥000
Interest income	273	551
Interest expense	(8)	(16)
Total investment income	264	535

4. Income tax

Tax	2021	2020
	¥000	¥000
Profit/(Loss) before tax	(119,354)	(42,318)
Tax at applicable rate of 28%	(33,419)	(11,849)
Non-taxable/deductible items	-	5
Deferred tax not recognised	37	24
Prior period adjustment	-	(8)
Tax losses not recognised	33,382	11,828
Current tax expense	-	-

Imputation credit account:

Closing balance	196	196
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Deferred tax asset

The balance comprises temporary differences attributable to:	2021	2020
	¥000	¥000
Property, plant and equipment	125	97
Employee provisions and accruals	19	10
Other provisions and accruals	932	932
Deferred tax benefit not recognised	(1,076)	(1,039)
Net deferred tax asset	-	-

Taxation losses totalling \$1,287 million (tax effect \$360 million) have not been recognised as at 30 June 2021 (2020: tax losses \$1,168 million, tax effect \$327 million).

Accounting policy for current income tax

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

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

Accounting policy for deferred income tax

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

5. Share capital

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

As explained below, as the Company requires additional capital to meet its claims payment obligations, it can access a further \$139 million of capital from the Crown (2020: \$179 million).

	2021 <i>Shares</i>	2021 <i>\$000</i>	2020 <i>Shares</i>	2020 <i>\$000</i>
Ordinary shares:				
Balance 1 July	806,000,102	1,278,939	751,000,102	1,223,939
Paid ordinary shares (from the uncalled capital facility)	40,000,000	40,000	55,000,000	55,000
Balance 30 June	846,000,102	1,318,939	806,000,102	1,278,939
Uncalled ordinary shares:				
Balance 1 July	179,000,000	-	234,000,000	-
Called shares	(40,000,000)	-	(55,000,000)	-
Balance 30 June	139,000,000	-	179,000,000	-

The issue price of the uncalled ordinary shares (yet to be called) is \$1 per share.

On 21 June 2017 the Shareholding Ministers agreed that the Crown would extend the existing Crown Support arrangement and subscribe for an additional \$230 million of capital in the Company. The shares are uncalled ordinary shares with an issue price of \$1 per share and were issued on 27 July 2017.

The Company may issue a call notice for a number of uncalled ordinary shares. On payment the shares will be designated as paid ordinary shares.

The Crown, through the Minister of Finance, has entered into a Deed of Indemnity dated 26 September 2018 that was amended and restated on 28 June 2019 and extended on 11 December 2020 (the 'Indemnity'). Under the Indemnity the Crown agrees to indemnify the Company in relation to any present or future legal proceeding or claim against the Company that the Company and the Crown have agreed is covered by the Indemnity. The Indemnity covers, among other things, the Company's financial exposure under both the Crown Package and the Ross Representative Action (discussed in note 9) and is not capped at any monetary amount.

6. Cash and cash equivalents

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

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

	2021 <i>\$000</i>	2020 <i>\$000</i>
Cash and cash equivalents		
Cash held for operational purposes	52,645	12,605
Cash on call and short-term bank deposits	80,171	15,552
	132,816	28,157

7. Cash flows from operating activities

Reconciliation of the profit/loss for the year to cash outflow from operating activities:

	2021	2020
	<i>₹000</i>	<i>₹000</i>
Profit/(loss) for the year	(119,354)	(42,318)
Add/(less) non-cash items:		
Depreciation and amortisation	456	501
Time value adjustment - leases	8	-
Sub-total "A"	(118,890)	(41,817)
Movement in working capital items:		
Decrease in receivables	236	4,257
Decrease in reinsurance and insurance receivables	-	7,519
(Decrease)/increase in payables	(1,972)	1,818
Increase/(decrease) in employee entitlements	78	(1,153)
Increase/(decrease) in insurance liabilities	185,550	(48,564)
Sub-total "B"	183,892	(36,123)
Items classified as investing activities & financing activities:		
Repayment of lease liability	-	330
Net (gain)/loss on sale of property, plant and equipment	-	(13)
Sub-total "C"	-	317
Cash outflow from operating activities (A+B+C)	65,002	(77,623)

8. Receivables

	2021	2020
	<i>₹000</i>	<i>₹000</i>
Receivables	1,462	914
Prepayments	-	69
GST refund due	732	1,447
	2,194	2,430

9. Outstanding claims liability

Outstanding earthquake claims liability

Claims represent the benefits paid or payable to the policy holder on the occurrence of an event giving rise to loss according to the terms of the policy.

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

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

To allow for the inherent uncertainty of the central estimate, a risk margin is applied to the outstanding claims liability net of reinsurance and other recoveries. The risk margin increases to at least 75% the probability that the net liability is adequately provided for (2020: 75%).

Crown package liability

On 14 December 2020, the Crown announced that a package is to be offered to eligible policyholders who cash settled with the Company prior to 1 October 2014 (the 'Package'). The Package is designed to offer payments to customers in a similar situation to Mr and Mrs Dodds, in whose favour the Court of Appeal upheld a High Court decision against the Company in September 2020. The Package payments relate to certain professional fees, contingency and an allowance for interest.

A representative action was filed against the Company on 25 May 2018 seeking to represent policyholders that entered into a full and final settlement agreement and cash settled with the Company prior to 1 October 2014 (the 'Ross Representative Action'). The Ross Representative Action is based on similar arguments and circumstances to Dodds. The Ross Representative Action is proceeding on an opt-out basis and is ongoing.

There is significant uncertainty around the interaction of the Package and the Ross Representative Action, however the Company view is that by design, the Package will be available to most, if not all, of the class included in the Ross Representative Action.

In the absence of counter-evidence, the Company has assessed its liability on the basis that the Package is the preferred method of individual settlements, subject to any Court intervention to the contrary.

For accounting and reporting purposes, the liability represented by the Package is regarded as an outstanding claims liability in respect of insurance contracts (NZ IFRS 4) and is reported in a manner consistent with outstanding earthquake claims liability.

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

The expected future payments include estimated Package handling costs.

To allow for the inherent uncertainty of the central estimate, a risk margin is applied to the outstanding claims liability net of reinsurance and other recoveries. The risk margin increases to at least 75% the probability that the net liability is adequately provided for.

Critical judgements and estimates: The ultimate liability arising from claims made under insurance contracts

Provision is made for the estimated cost of claims incurred but not settled at the reporting date, including the cost of claims incurred but not yet reported to the Company. The estimation of the outstanding claims liability involves a number of key assumptions and is the most critical accounting estimate.

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

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

In calculating the estimated ultimate cost of unpaid claims the Company uses an actuarial valuation carried out by an independent actuary. The tables below outline the estimated earthquake claim run-off, Package and total outstanding claims liability.

	EQ Run-off	Package	Total	
	2021	2021	2021	2020
	\$000	\$000	\$000	\$000
Changes in gross discounted outstanding claims liability				
Outstanding claims beginning of year	167,684	-	167,684	216,248
Change in central estimate	9,152	202,539	211,691	42,182
Change in claims handling provision	(1,179)	5,878	4,699	(9,703)
Change in discounting to present value	494	-	494	1,908
Change in risk margin	(12,880)	30,960	18,080	(7,574)
Claim payments	(47,393)	(2,021)	(49,414)	(75,377)
Outstanding claims end of year	115,878	237,356	353,234	167,684

Claims development

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

	EQ Run-off	Package	Total	
	2021	2021	2021	2020
	\$000	\$000	\$000	\$000
Central estimate	3,284,061	202,539	3,486,600	3,274,909
Claims handling expense	6,652	5,878	12,530	7,831
Cumulative payments	(3,197,639)	(2,021)	(3,199,660)	(3,150,246)
Discount of unpaid liability to present value	-	-	-	(494)
Discounted central estimate	93,074	206,396	299,470	132,000
Risk margin	22,804	30,960	53,764	35,684
Net outstanding claims liability	115,878	237,356	353,234	167,684

Actuarial calculation, assumptions and methods

The actuarial report has been prepared by the appointed actuaries, Finity Consulting Pty Limited (Finity), represented by Luke Cassar and Estelle Pearson (Fellows of the Institute of Actuaries of Australia and Fellows of the New Zealand Society of Actuaries).

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

Key actuarial assumptions

	2021	2020
Discount rate	0.00%	0.28%
Risk margin – outstanding claims liabilities		
EQ claims run-off	24.5%	27.0%
Payment package	15.0%	n/a
Average weighted term to settlement from financial reporting date (years)		
EQ claims run-off	1.10	1.46
Payment package	0.50	n/a

Process to determine assumptions

Inflation

Build cost inflation has been consistently reflected across both financial periods. Inflation is taken into account using nominal dollar values to examine past build experience. On this basis the actuarial model implicitly allows for future inflation in building costs. Cost increases, including inflationary impacts are projected within the model.

Discount rate

The mean term of the liabilities is less than a year in total and the risk-free zero-coupon discount rates as published by the New Zealand Treasury remain very low in the short term. As a result, discounting has not been applied at 30 June 2021 due to materiality.

Claims handling expenses

The estimate of outstanding claims liabilities includes an allowance for the future cost of administering claims. It is based primarily on the Company's budgeted direct operating costs with an additional allowance for unreported claims based on the actuaries' best estimate.

Risk margin

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

It should be noted that considerable uncertainty still surrounds the projection and valuation of the Company's claim liabilities.

For the earthquake claim run-off, as the claim settlement process has progressed, a greater proportion of the outstanding claims liability relates to more complex claims, meaning the uncertainty around future settlement outcomes for outstanding claims is magnified (as compared to 'normal' residential property claims). Furthermore, there remains significant uncertainty as to the number of unreported (IBNR) claims, which becomes a larger component of outstanding portfolio as more of the older claims are settled.

For the Package, there remains considerable uncertainty around the eventual outcomes of the Package and its interaction with the Ross Representative Action and other related matters, some of which are currently before the Court. A wide range of potential outcomes exist, with the provision based on a combination of the estimated exposure, take-up rate of the Package, Package handling expenses and the ability to claim GST on the payments.

In response to the inherent uncertainties, the risk margin has been set at 24.5% of the estimated liability (2020: 27%) for the earthquake claim run-off and 15% for the Package.

Average weighted term to settlement

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

Sensitivity analysis – impact of changes in key variables

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

Variable	Change in Variable	2021 \$000	2020 \$000
Claims handling expense	+10%	1,504	995
	-10%	(1,504)	(995)
Risk margin	+1%	2,995	1,320
	-1%	(2,995)	(1,320)
Future overcap Numbers	+10%	4,264	8,126
	-10%	(4,264)	(8,126)
Package take-up rate	+10%	31,056	n/a
	-10%	(31,056)	n/a
Average Package payment	+5%	11,646	n/a
	-5%	(11,646)	n/a

10. Overall risk management framework

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

To help the board monitor the Company's exposure to all risks (both financial and insurance) an audit and risk committee meets regularly.

This committee has the responsibility of reviewing the effectiveness of risk management processes and controls, as well as ensuring the Company has adequate liquidity to meet its obligations and that the financial assets are managed in accordance with the investment strategy set out in the Crown support deed. This committee also approves the Company's risk management policies and meets regularly to approve any commercial, regulatory and organisational requirements of such policies.

11. Insurance contracts – risk management policies and procedures

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

Policies and procedures are put in place to reduce the risk exposure of the Company. These policies ensure completion of a regular, detailed review of claims handling procedures and investigation of possible fraudulent claims.

An internal audit function has been established to assess and report on compliance with policies and procedures.

The Company has a policy of actively managing claims, in order to reduce its exposure to unpredictable future developments that can negatively impact the business. Inflation risk is mitigated by taking expected inflation into account when estimating insurance contract liabilities.

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

12. Financial instruments – risk management policies and procedures

Financial instrument information and risk management

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

The Board has delegated the responsibility of monitoring financial assets to the Audit and Risk Committee.

Specific financial risks involving financial instruments other than insurance contracts

Interest rate risk

Interest rate risk is the risk that arises from fluctuating interest rates in the market. The Company is funded quarterly by the Crown, based on expected cash outflows for that quarter and typically keeps temporary surplus cash on call or 32-day maturity deposits with various financial institutions, with an ability under its Treasury policy to invest for up to six months.

Credit risk

Credit risk is the risk that a counterparty will fail to meet their contractual commitments in full and on time. Financial assets that subject the Company to credit risk principally consist of cash and cash equivalents and reinsurance receivables.

The maximum exposure to credit risk on receivables at reporting date is the carrying amounts on the statement of financial position.

Cash and cash equivalents are placed with high-quality financial institutions and the amount of credit exposure to any one financial institution is limited. All of these financial institutions are rated 'AA-' or better by Standard & Pooors.

Receivables represent amounts owing by debtors for insurance claim recoveries. All amounts are considered to be fully recoverable.

Liquidity risk

The Company's Audit and Risk Committee and treasury function monitor cash flow forecasts and liquidity levels to ensure sufficient funds are available to meet obligations as they fall due. Requests for funding are submitted to the Crown quarterly in accordance with the Crown Support Deed (refer to note 5).

Net discounted outstanding claims liabilities have been determined based on expected payment patterns.

	Net discounted outstanding claims liability		Crown Package liability		Lease liabilities		Cash, term deposits and receivables	
	2021	2020	2021	2020	2021	2020	2021	2020
Liquidity table	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000
Cash and cash equivalents	-	-	-	-	-	-	132,816	28,157
Within 1 year	63,059	75,068	179,594	-	164	322	2,197	2,430
Within 1 to 2 years	37,178	46,906	57,762	-	-	164	-	-
Within 2 to 3 years	10,479	26,991	-	-	-	-	-	-
Within 3 to 4 years	4,382	12,800	-	-	-	-	-	-
Within 4 to 5 years	781	5,919	-	-	-	-	-	-
5+ years	-	-	-	-	-	-	-	-
	115,878	167,684	237,356		164	486	135,013	30,587

13. Leases

Accounting policy

Measurement basis

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- Fixed payments (including in-substance fixed payments), less any lease incentives receivable
- Variable lease payments that are based on an index or rate
- The exercise price of a purchase option if the lessee is reasonably certain to exercise that option

The lease payments are discounted using the interest rate implicit in the lease, if that rate can be determined, or the incremental borrowing rate.

Right-of-use assets are measured at cost comprising the following:

- The amount of the initial measurement of the lease liability
- Any lease payments made at or before the commencement date
- Any initial direct costs, and
- Restoration costs

Payments associated with short-term leases and leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less. Low-value assets comprise IT equipment.

Extension and termination options

Extension and termination options are included in the building lease. These terms are used to maximise operational flexibility in terms of managing contracts. The extension and termination options held are exercisable only by the Company and not by the respective Lessor.

Note disclosure

Amounts recognised in the statement of financial position

	2021	2020
	¥000	¥000
Right-of-use asset net book value – 7 Winston Avenue		
Opening balance	800	800
Less depreciation	(640)	(320)
Closing balance	160	480

The right-of-use asset is included in the plant and equipment balance in the statement of financial position.

	2021	2020
	¥000	¥000
Lease Liabilities		
Current liability	164	322
Non-current liability	-	164
	164	486

Amounts recognised in the statement of comprehensive income

	2021	2020
	¥000	¥000
Depreciation charge of right-of-use assets	320	320
Interest expense (included in finance cost)	8	16
Expense relating to short-term leases (including in operating expenses)	2	2
Expense relating to variable lease payments not included in lease liabilities (included in operating expenses)	69	68
	399	486

The total cash outflow for leases in the year ended 30 June 2021 was \$330,213.

14. Related party transactions

Remuneration of key management personnel

Key management personnel are executive managers who have authority and responsibility for planning, directing and controlling the activities of the Company, as well as the Directors of the Company.

From 1 July 2020 to 30 June 2021 key management personnel include the Company's Chief Executive and Directors of the Company.

	2021	2020
	\$000	\$000
Remuneration of key management personnel:		
Short-term employee benefits	344	981
Termination benefits	-	374
Directors' fees	141	148
	485	1,503

The shareholding Ministers approved the base ordinary Directors' fees of \$72,000 (Chair), \$45,000 (Deputy Chair) and \$36,000 (Director).

Payables contain \$0.47 million as at 30 June 2021 (2020: \$1.13m) for payment to the Earthquake Commission for management of customers' claims.

On 28 April 2020 the Board agreed to Company pay restraint measures in response to Covid-19, specifically to reduce the current Board fees that it would otherwise receive for the period 1 May 2020 to 31 October 2020 by 20%. On the same day the Chief Executive offered to voluntarily reduce his salary by 20% for the same period, which was accepted by the Board.

Crown funding arrangements are addressed in note 5.

Transactions with Crown entities

Receivables contain \$1.2 million as at 30 June 2021 (2020: \$0.914 million) for collection from the Earthquake Commission as reimbursement for settlement costs the Company incurred when settling the undercap portion of customers' claims.

Directors' interested transactions

On 1 May 2021, the Chair, Mr Alister James, was appointed as an Earthquake Commission Commissioner. Transactions with the Earthquake Commission since 1 May 2021, which have been carried out on an arms-length basis, include ongoing management by the Earthquake Commission of customer claims under an agency arrangement, for which \$471,355 is payable at year end and for rental arrangements at the Company's premises for which the Commission has been charged \$38,379.

15. Capital commitments

The Company has signed a license to occupy agreement with the Earthquake Commission for new premises at 53-55 Princess Street, Christchurch. The agreement commences on 4 October 2021 and entitles the Company to utilise a proportion of the fixed desks

available at an annual fee of \$121,945,80 plus GST. This will give rise to an initial right-of-use asset and lease liability of \$533,892. There were no capital commitments at 30 June 2020.

16. Contingent liabilities and assets

The Company from time to time receives notification of legal claims and disputes in relation to claim settlements as a commercial

outcome of conducting its business. Where it is necessary and appropriate to do so, the Company defends all such claims.

17. Events after reporting date

There have been no significant events after the reporting date that are not otherwise disclosed in these financial statements.

18. New standards and interpretations

At the date of authorisation of these financial statements, certain new standards, amendments and interpretations to existing standards have been published but are not yet effective and have not been adopted early by the Company. Those considered relevant to the Company and their expected effective dates are:

- NZ IFRS 17 Insurance Contracts 1 Jan 2023

Upon preliminary review management do not expect NZ IFRS 17, the Insurance Contracts standard, to have a significant impact on the Company's financial statements, however the Company has not gone to the extent of determining the final impact of the standard. The Company will adopt the standard from its mandatory adoption date.

19. Explanation of significant variances against budget

As disclosed in note 9, the estimation of the ultimate cost of settling claims involves a number of key assumptions and is the most critical accounting estimate. The estimation of claims incurred but not reported is generally subject to a greater degree of uncertainty.

The 2021 financial year budget (together with the Statement of Performance Expectations) was approved by the Board in May 2020 and was based on the latest available actuarial valuation at that time. The budget assumed no adjustment to the claims liability or unwinding of the risk margin.

Statement of comprehensive income

The statement of comprehensive income reflects changes in the Discounted Central Estimate, risk margin and claims handling provision. The budget assumed no changes to these figures and that only changes to discounting to present value occur.

- Changes in the discounted central estimate relating to earthquake run-off resulted in an \$11m loss to the income statement, largely due to the ultimate number of claims assumption (IBNR) increasing following the pattern of earthquake claims re-openings.
- The "wash up" between the Earthquake Commission and the Company for the allocation of claims costs was finalised during the year. The potential outcome was not provided for in the Central Estimate in previous years, so was recognised as a gain during the year.

- Changes to the risk margin resulted in a \$13m gain to the income statement.
- A loss of \$239m arose from initial recognition of the Package. The Company's estimate for the Package includes any obligations that may arise from the Ross Representative Action.

Statement of financial position

- The outstanding claims liability is \$297m greater than budget due to the net effect of an increase in IBNR claims and a downward revision of the risk margin as well as the inclusion of the Package contributing a net \$237m of the increase.

Statement of cash flows

- Claim payments are \$20.1m less than budget. This is due to the fact that the budget assumes that the risk margin is paid out in proportion to the associated claims, however in reality the risk margin has not had to be spent.
- Claims payments also benefited from the finalisation of the "wash up" with the Earthquake Commission which was unbudgeted.
- Proceeds from the Crown are \$40m less than budget, principally due to the inflow of cash from the Earthquake Commission finalisation payment reducing the requirement for capital drawdowns during the year.

Statement of performance

For the year ended 30 June 2021

Strategic Objective	Outcome	2020–2021 targets	Status
1. Settling notified Covered Claims.	Although EQC will be acting as Southern Response's agent, the Company will still retain the decision-making obligations and ultimate responsibility for Covered Claims.	The number of claims reduces in accordance with the Company's actuarial forecasts.	<i>Achieved – the SPE target was exceeded by 28 claim settlements.</i>
2. Litigated claims and legal risks generally are appropriately managed.	Southern Response is involved in ongoing litigation that is of significance to the Company and the Crown more generally. It is important that litigation and legal issues faced by the Company are appropriately managed and the implications of any judicial decisions are understood.	The number of litigated claims reduces in accordance with the Company's actuarial forecasts.	<i>Achieved – of the 19 litigated claims open at 30 June 2020, 18 were settled prior to balance date which is 6 above the expected settlements. There were a further 7 claims opened during the year.</i>
		The Company is able to discharge its obligations in relation to any legal disputes and/or proceedings in an efficient and effective way.	<i>Where appropriate, the Company continues to engage in various dispute resolution procedures to achieve claims settlements with policyholders in as efficient and effective a way as possible.</i>
3. Southern Response continues to have effective outsourced arrangements and resources in place.	As a Crown-owned company, Southern Response will have ongoing financial, governance, legal and reporting obligations that will continue for a number of years.	Compliance with obligations arising from the Public Finance Act 1989 and the Crown Entities Act 2004.	<i>Achieved – obligations met in accordance with the requirements outlined in the Owner's Expectations Manual, including the submission of the Statements of Intent and Performance Expectations.</i>
		Manage liquidity in accordance with the investment management policy directed by the Crown, including reporting of actual and projected shortfalls in a timely manner.	<i>Achieved – reports were sent within set timeframes.</i>
		Southern Response achieves a positive audit report in relation to its management, financial and service performance, information systems and controls.	<i>Achieved.</i>
4. Completing finalisation work with EQC.	Southern Response and EQC will continue to engage with one another to agree any outstanding amounts that may be owed due to allocation of costs to earthquake events from the Canterbury Earthquake Sequence.	By 30 June 2021, Southern Response will have completed all technical and operational work necessary for finalisation.	<i>Achieved.</i>
		Southern Response will have engaged with EQC to agree any outstanding amounts that may be owed.	<i>Achieved.</i>
5. Outsourcing of Covered Claims to EQC continues to be effective.	Utilising the Company's retained capability to support EQC to deliver fair and enduring settlements for customers with unresolved claims with both Southern Response and EQC.	The outcome of audits of EQC acting as the Company's agent at the end of the financial year record only minor or moderate findings.	<i>Achieved – for the period ending 30 April 2021, only low-level findings were identified.</i>
6. Continued wind-down of the Company through its final phase is effective and efficient.	As the claims settlement process nears completion, the Company will continue to work towards the wind-down and closure of its operations to ensure it fully discharges its obligations.	Organisational run down is in accordance with forecasts.	<i>Not achieved – ordinary business is close to forecast but overall operations have not reduced due to work on the Crown Package.</i>
		The identification of the Company's physical and intangible assets, residual rights, obligations and liabilities, and data holdings is up to date.	<i>Achieved – the Company has an up-to-date asset register and schedule of contracts and continues to update and refresh its documentation in relation to the location and status of its data.</i>

Directory

Shareholders

Minister Responsible for Earthquake Commission
Minister of Finance

Registered Office

7 Winston Ave, Papanui, Christchurch 8053, New Zealand

Office

Christchurch: PO Box 9052, Tower Junction,
Christchurch 8149
Phone: 0800 501 525
Web: www.southernresponse.co.nz

Executive Management

Casey Hurren, Chief Executive

Actuary

Finity Consulting Pty Limited

Auditor

The Auditor-General pursuant to section 15 of the Public Audit Act 2001.
Mike Hoshek of Deloitte Limited is appointed to perform the audit on behalf of the Auditor-General.

Banker

ANZ Bank of New Zealand Limited

Legal Advisors

Bell Gully
Buddle Findlay

Affiliations

Insurance and Financial Services Ombudsman (IFSO) Scheme participant

PO Box 9052
Tower Junction
Christchurch 8149

0800 501 525
claims@southernresponse.co.nz
www.southernresponse.co.nz