

Annual Report 2018
Te Pūroko a Tau 2018

S O U T H E R N
R E S P O N S E

Urupare ki te Tonga



Chairman and Chief Executive's report _____	04
Our values _____	14
Board of Directors _____	16
Governance _____	18
Financial statements _____	22
Statement of responsibility _____	23
Independent auditor's report _____	24
Statement of comprehensive income _____	28
Statement of changes in equity _____	29
Statement of financial position _____	30
Statement of cash flows _____	31
Notes to the financial statements _____	32
Statement of performance _____	46
Directory _____	50

Chairman and Chief Executive's report

This is the seventh Annual Report of Southern Response Earthquake Services Limited as a Crown-owned company.

Following our previous Chief Executive, Peter Jensen's resignation in June, Anthony Honeybone, previously General Manager – Claims Settlement, assumed the Chief Executive role in September 2017. This report is the first presented jointly with him.

As at 30 June 2018, Southern Response had settled 7,739 or 92.3% of its overcap claims and 99.9% of its out of scope claims. As Southern Response enters its eighth year of operations, there are 644 claims (7.7%) yet to be settled at 30 June 2018 – 115 of these claims are properties under construction. Of the remaining 529 claims, 229 claims have had detailed settlement offers presented to our customers and the remaining 300 are in detailed design or assessment.

We are committed to working with these customers to find a resolution as quickly as possible. This involves looking at fast track claims assessment, flexible settlement options, utilising alternative dispute resolution paths and engaging with key entities such as Residential Advisory Service (RAS) to provide support and independent advice.

Southern Response has been working collaboratively with EQC to quickly identify those Southern Response customers who have open claims with EQC and may go overcap. This approach involved the establishment of a Joint Agency Review Team (JART) which has reviewed nearly 4,000 Southern Response customers' claims with EQC. This process has resulted in Southern Response settlement responsibility being confirmed for an additional 345 claims, of which 96 have been settled as at 30 June 2018.

Southern Response recognises that the claims resolution process for our customers can be a frustrating and stressful experience. We are constantly reviewing our processes, behaviour

and the way we communicate with our customers to provide them with an improved experience.

In order to reassure our customers that they can continue to work directly with us to settle their claim rather than feel pressured to file Court proceedings, in June 2018 Southern Response confirmed its position that the limitation period runs from the date¹ that Southern Response settles, declines, or we clearly advise our customer in writing that a final decision has been made in relation to their claim and the limitation period is deemed to have commenced.

Increases in the value of the claims liability over the life of Southern Response have required further Crown Support to ensure the Company remains solvent. An extension of \$230 million to the uncalled ordinary share facility provided by the Crown was confirmed in July 2017. The current uncalled ordinary share facility is sufficient to meet the current forecast future cash requirements. However the Board continues to actively monitor the Company's capital position to ensure the Company can continue to operate and report its financial performance and financial position as a going concern.

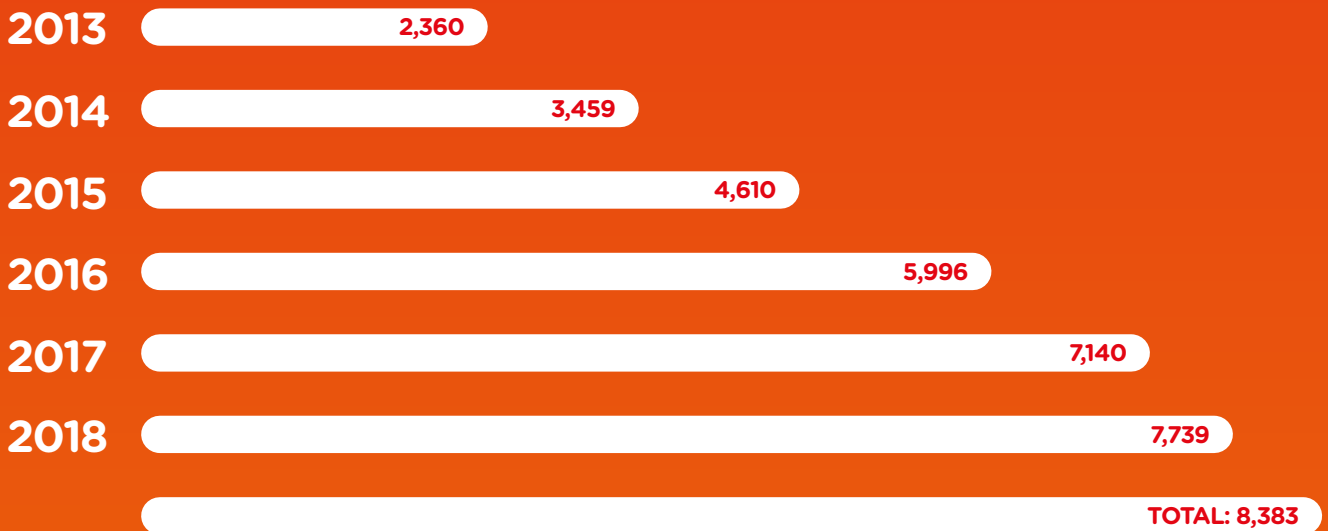
With the reducing number of claims remaining to settle, plans are well advanced for the eventual wind-down of Southern Response in its current form and an orderly transition to the receiving agency, currently anticipated to occur by 1 July 2019.

Southern Response has been actively engaged with the Cross Agency Task Force established by our Shareholding Minister to coordinate Crown initiatives to support Canterbury customers with outstanding insurance issues. We are committed to looking at ways to fast track claim settlements and coordinating and aligning our customers' claims experience through agencies such as RAS and EQC and are fully supportive of Crown initiatives that deliver positive outcomes for Canterbury.

¹ Which is no sooner than 4 September 2018, due to the Company's previous commitment to not rely on a limitation defence in any circumstances until at least that date.

92%

of all overcap
claims have
been finalised



Year in review

The Company's target for the 2017–18 financial year² was to settle 95% of claims notified by 30 June 2017 by 30 June 2018. This goal was met and exceeded. The Company repaired or rebuilt 202 houses for our customers and cash settled 397 of our customers' claims.

We have recognised the changing needs of our customers and are providing more detailed engineering input earlier in the process as well as a complete settlement pack including full engineering design for those customers who wish to go right through the complete assessment process. This approach is providing customers with comprehensive technical information relating to their property that they can review or take to their technical advisors. We are providing a majority of our customers with a quote to undertake the works from an independent Licensed Building Practitioner (LBP) to give them confidence that the settlement amounts are enough to get the work undertaken.

A vast majority of our customers are indicating a preference to cash settle their claims. Given this trend and the wind-down nature of the Company, Southern Response provided notification to our customers in October 2016 that the Arrow managed build programme would be phased out. Southern Response continues to support the management of repair and rebuild projects where it is appropriate for it to do so, including for those customers recognised as being vulnerable.

As at 30 June 2018, 115 properties were under construction. Approximately 2,600 repairs and rebuilds are forecast to have been completed under the Southern Response construction programme by the end of the project. We are continuing to support customers who wish to have the actual repair work undertaken by providing them with a full set of technical information, including a building consent that they can take to a builder of their choice.

In line with the reducing volume of unresolved claims, restructuring took place during the year to align staff numbers with remaining claims numbers. Southern Response and Arrow continue to work closely together to ensure that the appropriate resource level is in place for the management of claims for the remaining customers.

Southern Response is committed to working with our customers to avoid the lengthy and expensive process of going to Court. Of the 70 litigated claims resolved in the last financial year, 40 were settled after direct negotiation with the client, and a further 30 through private mediation or judicial settlement conference.

An agreement was reached in April 2018 with the 25 claimants (down from 47) remaining in the representative action which was launched in August 2015, to enter into an Alternative Dispute Resolution process comprising mediation of individual matters and, if unsuccessful, adjudication by a retired judge, with the outcome binding on both parties. Southern Response welcomes this development which it hopes will bring about resolution for the customers involved and allow them to move on.

In May 2018, a second class action was launched by GCA Lawyers seeking to re-open claims subject to a full and final settlement with the homeowner.

As Southern Response nears the completion of the Canterbury earthquake claims settlement, it is firmly focussed on working closely with all of the approximately 650 remaining customers to settle their claims fairly and as quickly as possible.

² Southern Response
Statement of Performance
Expectations 2017–18

900+

face-to-face meetings held

400-500

settlement packs issued



Customer care initiatives

Southern Response is aware that for customers whose claims remain unresolved at this stage of the recovery, a different approach is required to bring about resolution – one that recognises the length of time it has taken to reach settlement and the inherent stresses and frustrations of the claims settlement process. We are constantly looking at ways to support customers to settle their claims.

After listening to feedback from customer surveys, Southern Response ensures that every customer has a dedicated case manager and a dedicated project manager responsible for the day to day management of their claim. Every case manager has a specialist team around them including a team leader, settlement specialists, quantity surveyors, in-house engineering advisors and external independent geotechnical and structural advisors as required.

Southern Response continues to provide extra support to customers who may require more assistance, support and care to work through the settlement process due to their personal and/or family circumstances.

We continue to utilise a diverse range of channels to support customers with relevant and timely information that can assist them through the claim settlement process and with their decision making. These include:

- Face to face communication and having meaningful, engaging and collaborative discussions on the progression of the customers' claims;
- Actively looking to engage with external agencies who may be able to support customers through their settlement decisions and help us understand what resolution path is best suited to a customer's particular situation – including lawyers, Breakthrough, RAS and other advisory and advocacy service providers, local electorate MPs etc;
- Where disputes arise, promoting alternative resolution options for customers to settle their claims. Specific training is being undertaken to assist staff to encourage customers to enter into facilitated discussions, mediations, and negotiated settlement meetings.

For customers transferring from EQC, Southern Response is looking for opportunities to settle

claims early, utilising existing technical information and confirmation site visits. We have introduced a fast-track process to assist customers to settle claims on initial engineering advice and quantity surveying estimates. Initiatives have also been put in place with our key providers to reduce the timeframe for providing a customer a settlement offer based on full detailed technical information to 6 months from the first site visit (previously 10–14 months).

Outstanding claims portfolio analysis is regularly undertaken to identify claims that have experienced extended duration in a phase of the claims settlement process, with particular attention paid to any delays in the assessment and settlement phases. These claims are reviewed by senior claims staff to understand and guide the team on how Southern Response can interact differently with the customer to progress their claim.

At a portfolio level, the overall analysis allows Southern Response to explore initiatives to resolve emerging trends and issues.

Claims handover programme with EQC

In early 2017, Southern Response and EQC agreed on a new collaborative approach to settling the remaining Canterbury earthquake claims, and a memorandum of understanding (MOU) was signed by the two organisations in May 2017³ setting out the principles of this collaboration.

Nearly 4,000 EQC claims have been reviewed via the Southern Response – EQC Joint Agency Review Team (JART) process and the ownership of claims agreed. As a result, 345 new claims came into Southern Response, of which nearly 100 have already been settled as at 30 June 2018.

With its work largely completed, the dedicated task force has effectively ceased to exist, and any remaining claims referred for review are now dealt with on a case by case basis in accordance with the MOU.

Given the number of new claims which have been notified to Southern Response since 1 January 2017, the Company has initiated a focus on fast-tracking those customers who want an early settlement, recognising that some of them have already obtained a significant amount of information regarding their claim while under management by EQC, and that the claim can be accelerated by accessing that information.

³ Extended in December 2017 until 31 December 2018

115

constructions
in progress



202

houses repaired and rebuilt
year to 30 June 2018



2,447

houses repaired
and rebuilt to date



Southern Response construction programme

As at 30 June 2018, 2,447 customers have had their house repaired or rebuilt through the Southern Response and Arrow International managed construction program. There are a further 115 houses under construction as at the year end. Over 200 customers' houses were completed during the year to 30 June 2018, as the Company saw a further tailing off of the managed construction programme in the last 12 months.

The number of contractors accredited to the project has reduced but those remaining continue to be subject to robust financial monitoring and performance assessments by Southern Response. They will be subject to ongoing vigilance through the final phase of the construction programme.

Quality assurance in the construction programme continues to focus on the construction of safe, compliant and quality homes. The quality management framework incorporates detailed monitoring and reporting of quality to ensure effective management of work, contractors and construction outcomes.

Southern Response has very few post settlement claims on its managed rebuilds and repairs that have emerged outside the twelve-month maintenance period. Southern Response has also had very few substantive claims from subsequent purchasers for defective works that were completed for the previous owner.

Health and safety

As the construction programme nears completion, we feel proud of Southern Response programme's contribution to improving the health and safety management practices in the residential construction sector. This included taking an early lead in the Canterbury Health and Safety Charter and leading the industry in its approach to asbestos, contaminated and heritage site management.

The health and safety risk based monitoring programme is aligned with the current H&S legislation. Accredited contractors are required to meet the assessment standard of appropriately managing a minimum of 85% of the critical risks on site, and this requirement has been consistently achieved throughout the project.

In August 2017, Southern Response and Engeo were awarded an Award of Merit (bronze) in the annual Association of Consulting Engineers New Zealand

(ACENZ) Innovate Awards for the Global Resource Consent for contaminated sites developed for the Southern Response project. In May 2018, Southern Response and Arrow were recognised as finalists in the 2018 New Zealand Workplace Health & Safety Awards.

Southern Response continues to monitor and manage the health and safety of all involved on the project in accordance with its legislative responsibilities.

Southern Response acknowledges and is cooperating fully with the State Services Commission enquiry into its engagement of a security contractor in early 2014.

Given the environment the Company was operating in at the time, and conscious of its obligations to ensure the safety of its staff, Southern Response sought external assistance for a security review, incorporating independent security advice and assessment of the risk to safety of Southern Response employees and directors.

The health, safety and wellbeing of personnel, customers and workers involved on the Southern Response project are of prime importance at Southern Response. Our staff have a right to be able to interact in an environment safe from threats or harm, and the Board has taken a zero tolerance stance in respect of threats and hostile behaviour towards them.

Alignment of staff resources to the ongoing demands of the business

As Southern Response has now settled a majority of its customers' claims, it continues scaling back the size of the organisation to reflect the number of remaining claims. Care is being taken to ensure we have the appropriate staff, with the right expertise available to support these customers through to claim settlement.

Staff numbers have fallen from a peak of 160 in 2015 to 75 at 30 June 2018, and will run down further through the 2019 financial year as the settlement of remaining earthquake claims approaches completion.

The scaling back of Arrow staff resources is following a broadly similar path to that of Southern Response.

The operations groups of Southern Response and Arrow continue to work in a collaborative environment for each workstream, leveraging each team's key capabilities. Both teams are measured on aligned key performance metrics. Where possible, both Arrow and Southern Response attend site together to build strong relationships with customers and gain the broadest perspective of the challenges of each job.

Planning for the eventual wind-down of Southern Response in its current form

In anticipation of the eventual wind-down in its current form, Southern Response has developed and is implementing a wind-down strategy with a focus on people (both Southern Response and Arrow), the design and implementation of robust systems for the closure and retention of claim documentation and other records, and on addressing other legacy matters.

The Legacy Planning Project is occurring in two concurrent workstreams:

- Readiness, incorporating documentation completeness, assurance and retention, storage and archiving; and
- Transition planning for the migration to a receiving agency as and when determined.

While plans for the wind-down are in place, Southern Response has been actively engaged with the Cross Agency Task Force established by our Shareholding Minister to coordinate Crown initiatives to support Canterbury customers with outstanding insurance issues. While mindful of the core objectives of Southern Response to settle our existing claims as quickly and fairly as possible, we fully support Crown initiatives that deliver positive outcomes for Canterbury.

Managing complex situations for our customers

The combination of the unique open-ended insurance cover and the very complex environmental and legal issues continues to impact the resolution of claims. However, as each issue is resolved, so does the ability to resolve claims improve. Many previously introduced initiatives designed to resolve complex issues are operating effectively and continue to evolve. Southern Response seeks to keep all customers well informed through frequent and transparent communication.

Disputes and complaints

Dispute resolution operates within Southern Response's Disputes Management policy, which provides a consistent and fair framework for dispute management and resolution. To date, customer disputes are primarily resolved through initial internal review and subsequent negotiation.

Southern Response is currently involved in less than 20 percent of the unresolved earthquake cases before the Christchurch High Court. Southern Response continues to support customers with access to less costly and more efficient methods of dispute resolution than litigation.

Facilitated meetings and mediation have proven to provide an effective pathway to claim resolution through the Courts, RAS and Breakthrough. The Insurance and Financial Services Ombudsman's Office provides another source of independent advice for customers and another forum to access a facilitated meeting (and outcome).

Southern Response is also supportive of the introduction of further third party facilitation, mediation and adjudication services, particularly if this results in expedient and cost effective resolution of outstanding claims for policyholders, EQC and insurers.

In order to reassure our customers that they can continue to work directly with us to settle their claim rather than feel pressured to file Court proceedings, in June 2018 Southern Response made the decision on how it will approach the limitation period. Southern Response's position is that the limitation period runs from the date⁴ that Southern Response settles, declines, or we clearly advise our customer in writing that a final decision has been made in relation to their claim.

Southern Response is committed and focused on finding a resolution for all remaining customers as quickly as possible.

4. Which is no sooner than 4 September 2018, due to the Company's previous commitment to not rely on a limitation defence in any circumstances until at least that date.



Financial summary

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

	2018 (\$000)	2017 (\$000)
Net earthquake claims incurred	(817)	(316,617)
Other costs	(78)	1,197
Investment income	1,949	6,484
Unrealised gain/(loss) on fair value of Crown receivable	-	-
Total comprehensive gain/(loss) for the year	1,054	(308,936)
Total comprehensive gain/(loss) for the year	1,054	(308,936)
Claims liability		
Discounted central estimate (including claims handling expenses)	335,762	589,656
Risk margin	64,967	78,513
Gross outstanding claims liabilities	400,729	668,169
Reinsurance receivables	(12,422)	(28,795)
Net outstanding claims liability	388,307	639,374

The following table shows the movement in the central estimate of the claims liability since the 30 June 2011 year end, reflecting increasing claims numbers and the expanding technical challenge of the rebuild.

	2011	2012	2013	2014	2015	2016	2017	2018
Central Estimate of the Ultimate Liability (\$million)	1,819	2,157	2,254	2,364	2,716	2,903	3,264	3,252
Confirmed Overcap Claims (number)	5,383	6,527	6,760	7,028	7,564	7,909	8,088	8,383
Ultimate Forecast Overcap Claims (number)	7,010	6,782	6,869	7,196	7,779	8,021	8,652	8,598

644

of all over cap remaining to settle

Governance

We acknowledge the dedication of the Southern Response Board, which brings a collective sense of commitment, sensitivity, and technical knowledge to the governance table. Low Board turnover has provided a high degree of continuity and strong governance leadership. Since its change of ownership to the Crown on 5 April 2012, the Board and management of Southern Response have continued to enhance the Company's governance framework to ensure optimum accountability and integrity for the substantial financial commitment that the Crown and reinsurers have made to the Company.

Following Peter Jensen's resignation in June 2017 to take up the position of Chief Executive of Addington Raceway, the Board appointed Anthony Honeybone as Chief Executive. Anthony commenced in the role in September 2017, having been with Southern Response since January 2015, most recently in the position of General Manager – Claims Settlement.

Appreciation

We are grateful for the contribution of the dedicated staff of Southern Response, Arrow International, build and repair contractors, technical consultants and key partners. Southern Response acknowledges their continued commitment, in the face of Southern Response's downsizing as it moves into the final phase of the claims settlement project.

Southern Response appreciates the support and willingness of community support groups, other Crown agencies, local government, professional bodies, local MPs and their electorate staff, Iwi and customers to serve as communication conduits to the community. The feedback, support and suggestions provided continue to assist with developing and refining Southern Response's position on a range of issues.

Southern Response is also grateful for the support received from the Treasury's Commercial Operations Group as the Shareholding Ministers' Appointed Monitoring Agent.

Future outlook

The key areas of focus for the Company in the 2018–2019 financial year are:

- Refining and developing new customer centric initiatives to resolve the remaining overcap claims in recognition that different approaches may be required for customers whose claims remain unresolved at this stage of the recovery, to bring about resolution and to allow them to finally move on.
 - Working with the remaining customers to reach fair cash settlements for their claims that reflect their entitlement under their insurance policy.
 - Ensuring that claim settlement momentum continues and finding fast track settlement opportunities for claims recently notified to Southern Response from EQC.
 - Completion of the remaining repairs and rebuilds, ensuring the contractors' continued focus on timeliness, quality and health & safety as construction activity ramps down.
 - Continually aligning Southern Response and Arrow resources and capabilities with the remaining claims and initiatives to resolve them and ensuring we have the right people and resources in place to support our customers.
 - Continuing to support customers with access to less costly and effective methods of alternative dispute resolution, including Breakthrough, Residential Advisory Service, mediation or the Insurance & Financial Services Ombudsman.
 - Cooperating with government departments and agencies to progress the development of alternative approaches to resolving customers' claims, including any third party adjudication services.
- Continuing to design and implement robust systems for the closure and retention of claim documentation and other relevant project information in anticipation of the eventual claims settlement project closure, and planning for an orderly transition to a receiving agency, as and when determined.
 - Engaging with Ministers, EQC and The Treasury on how the EQC wash-up will be managed to finalise EQC contribution and settlement amounts.



Ross Butler
Chairman
26 September 2018



Anthony Honeybone
Chief Executive
26 September 2018

**Southern Response
is committed to
supporting our
remaining customers
to achieve timely
and fair resolution
of their claims**

Response to our customers is immediately action

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 AMI 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



Ross Butler
Chair

Christchurch born and educated, Ross Butler is a professional director, with a range of governance roles on commercial, Crown entity, sporting, and community Boards and Trusts. After spending most of his executive and governance career in financial service and insurance entities in Australia, Ross is now based in Christchurch.

He is currently chairman of Ōtākaro Ltd, a Director of Regenerate Christchurch, and a Member of the Code Committee (Financial Advisers Act). Ross is also the chairman of Mercer New Zealand Limited and Mercer Investments Australia Pty Ltd, and Director of Hockey New Zealand Major Events Limited. He has previously been chair of Rangitāne Holdings Limited and Rangitāne Investments Limited and deputy chair, and chair of audit and risk committee, of GNS Science.



Anne Urlwin
Deputy Chair

Originally from Christchurch, Wanaka-based Anne Urlwin has more than 20 years' experience as a professional director, chartered accountant and business consultant in an extensive range of sectors. Anne also has senior management experience in the corporate sector including in the IT and meat industries.

Anne is currently a director of Chorus Ltd, Steel & Tube Holdings Ltd, Summerset Group Holdings Ltd, City Rail Link Ltd and of One Path Life (NZ) Ltd, an ANZ Bank subsidiary company. She has recently been appointed a director of Tilt Renewables Ltd, and has previously been chairman of national commercial construction group Naylor Love.



Jenn Bestwick
Director

Jenn Bestwick's professional career has been largely in strategy and business development and includes previously leading the strategic consulting practice for KPMG in Auckland.

After moving to Christchurch in 1996, Jenn worked for Ngāi Tahu for a number of years and subsequently with local authorities, iwi and the primary and hydro-generation sectors on fresh water management in the Canterbury region.

Jenn is currently a Director of Arrow Irrigation Company Limited, Lead Reviewer, PIF Panel for the State Services Commission and Advisory Panel Member for Development West Coast. She is a former chair of Ara Institute of Canterbury (formerly Christchurch Polytechnic Institute of Technology), and former Board member of Tourism New Zealand, New Zealand Qualifications Authority and Learning Media Limited.



Bevan Killick
Director

Christchurch born and educated, Bevan Killick is a chartered accountant and a chartered insurance practitioner (UK).

During his professional career, Bevan held senior positions in the Lloyd's Insurance Market for 12 years. Now based back in Christchurch, Bevan is a professional director where his roles include being chairman of St John of God Hauora Trust and Public Trust Board Member. He is also Advisory Trustee of the Pacific Development and Conservation Trust.

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



Susan Thodey
Director

Susan Thodey is admitted as a barrister and solicitor in New Zealand and as a solicitor in England. She practices law with offices in Queenstown and Auckland.

For the past 30 years Susan has been employed by local and overseas insurance companies to advise them on a wide range of insurance related matters including policy advice and claims management. She also acts for local government with an emphasis on construction disputes.

Governance

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.

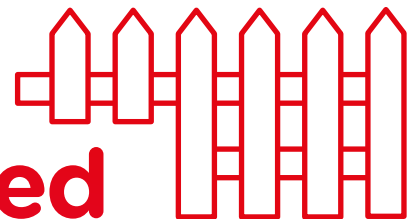
At 5 April 2012, the Company's principal activities changed to the management and settlement of insurance claims made by AMI policyholders relating to the Canterbury earthquake events up to 5 April 2012. Managing and settling the earthquake claims involves the Company in:

- Assessing and meeting Canterbury earthquake-related claims including managing all repair and rebuilding work;
- Recovering reinsurance and insurance proceeds, including liaising with the reinsurers and the Earthquake Commission;
- Managing the Company's funds and assets to enable settlement of claims.

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

21,261

out of scope claims
have been fully settled



Governance framework

The Company's governance framework is designed to ensure that the Company is effectively managed and that 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 has 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, the Board is appointed by Shareholding Ministers and can comprise up to seven non-executive directors, including the Chairman. As at 30 June 2018 there were five non-executive directors of the Company whose appointment dates, terms and Board committee memberships are detailed in the following table.

Pursuant to section 18.2 of the Company's constitution, on 22 June 2018 the terms expiring on 30 June 2018 were extended by the Shareholding Minister until 30 September 2018, to allow time to consider and decide future Board composition.

Director	Position	Term	Board committee memberships
Ross Butler Christchurch-based professional director	Non-Executive Chairman	Appointed 5 April 2012 Reappointed 1 July 2014 Reappointed 1 July 2017 Term ends 30 June 2020	Member: Governance Committee Member: People and Safety Committee
Anne Urlwin Wanaka-based professional director	Non-Executive Deputy Chairman	Appointed 5 April 2012 Reappointed 1 July 2014 Reappointed 1 July 2016 Term ends 30 September 2018	Chair: Audit and Risk Committee Member: Governance Committee
Jenn Bestwick Queenstown-based professional director	Non-Executive Director	Appointed 5 April 2012 Reappointed 1 July 2014 Reappointed 1 July 2016 Term ends 30 September 2018	Chair: People and Safety Committee
Bevan Killick Christchurch-based professional director	Non-Executive Director	Appointed 5 April 2012 Reappointed 1 July 2015 Reappointed 1 July 2017 Term ends 30 June 2020	Member: Audit and Risk Committee Member: People and Safety Committee
Susan Thodey Queenstown-based barrister and solicitor	Non-Executive Director	Appointed 5 April 2012 Reappointed 1 July 2013 Reappointed 1 July 2016 Term ends 30 September 2018	Chair: Governance Committee Member: Audit and Risk Committee



Claim payments made this
financial year 2017-2018:

\$239,510,000

Claim payments made
project to date:

\$2,929,976,000

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 2018.

There have been no interests registered by directors in transactions during the financial year ended 30 June 2018.

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 2018 was \$136,376 relating to cover for the period 5 April 2018 to 30 June 2019.

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	Entity	Relationship
Ross Butler	Hockey New Zealand Major Events Limited	Director
Anne Urlwin	City Rail Link Ltd	Director
	Chorus New Zealand Ltd	Director
	Tilt Renewables Ltd	Director
Jenn Bestwick	Arrow Irrigation Company Limited	Director
Bevan Killick	InterChurch Council for Hospital Chaplaincy	Board member, Deputy Chairman and Chair of the Audit & Risk Committee (interest declared and ceased during the year)
Susan Thodey	None	

Glossary of terms as used in this report	
<p>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.</p>	<p>Over cap: EQC insures the first \$100,000 + GST (\$115,000) of damage to a house (the "cap") for each earthquake event. If the level of damage exceeds this for any one 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 "over cap".</p>
<p>Crown Support Deed: A deed entered into by the Crown and AMI in April 2011 outlining the terms of the Crown's support for the Company. The deed was amended in April 2012 to reflect the Crown taking control of the Company and has since been amended to extend the funding available to the Company.</p>	<p>Out of scope (OOS): items that are not covered under the Earthquake Commission Act 1993 including fences, driveways, patios, swimming pools.</p>
<p>Statement of Intent: an outline of a Crown entity's expected contribution to the government's priorities over the medium term (3-5 years).</p>	<p>Reinsurance: insurance purchased by an insurance company from one or more other special purpose insurance companies (reinsurers) to enable risks assessed to be spread.</p>

Financial Statements 2018

Statement of responsibility	23	11. Overall risk management framework	41
Independent auditor's report	24	12. Insurance contracts – risk management policies and procedures	41
Statement of comprehensive Income	28	13. Financial instruments – risk management policies and procedures	42
Statement of changes in equity	29	14. Employee remuneration	43
Statement of financial position	30	15. Director remuneration	43
Statement of cash flows	31	16. Operating leases	44
Notes to the financial statements	32	17. Related party transactions	44
1. Net claims incurred	33	18. Capital commitments	44
2. Specified cost disclosures	33	19. Contingent liabilities	44
3. Investment income	33	20. Events after reporting date	44
4. Income tax	34	21. New standards and interpretations	45
5. Share capital	35	22. Explanation of significant variances against budget	45
6. Cash and cash equivalents	36	23. 2019 Statement of performance expectations	45
7. Cash flows from operating activities	36	Statement of performance	46
8. Receivables	37		
9. Reinsurance receivables	37		
10. Outstanding earthquake claims liability	38		

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 2018.

Signed on behalf of the Board:



Ross Butler
Chairman
26 September 2018



Anne Urlwin
Deputy Chairman
26 September 2018

Independent auditor's report

To the readers of Southern Response Earthquake Services Limited's financial statements and performance information for the year ended 30 June 2018.

The Auditor-General is the auditor of Southern Response Earthquake Services Limited (referred to as '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, including the performance information for appropriations, of the Company on his behalf.

Opinion

We have audited:

- the financial statements of the Company on pages 28 to 45, that comprise the statement of financial position as at 30 June 2018, 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 pages 46 to 49.

In our opinion:

- the financial statements of the Company on pages 28 to 45:
 - present fairly, in all material respects:
 - its financial position as at 30 June 2018; 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 pages 46 to 49:
 - presents fairly, in all material respects, the Company's performance for the year ended 30 June 2018, 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
 - what has been achieved with the appropriations; and
 - the actual expenses or capital expenditure incurred compared with the appropriated or forecast expenses or capital expenditure; and
 - complies with generally accepted accounting practice in New Zealand.

Our audit was completed on 26 September 2018. 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 \$357 million at 30 June 2018 and, as outlined in note 10, there is considerable uncertainty surrounding the projection and valuation of the Company's outstanding claims liability. In addition, a representative proceeding was filed against Southern Response on 29 May 2018. The financial statements do not recognise a provision relating to the representative proceedings as it cannot be reliably quantified due to the range of possible outcomes.

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 32 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, entered into by the Crown, through the Minister of Finance, agreeing to indemnify the Company in relation to certain litigation.

Failure to complete the statement of performance expectations for the reporting period beginning 1 July 2018

We draw your attention to the disclosures made on page 45 about the departure from section 149C of the Crown Entities Act 2004, which requires the Company to complete its statement of performance expectations before the start of the financial year. We consider the disclosures to be appropriate and our opinion is not modified in respect of this matter.

We consider disclosure of the above matters to be adequate.

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.

Independent auditor's report

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.

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 (Revised): *Code of Ethics for Assurance Practitioners* issued by the New Zealand Auditing and Assurance Standards Board.

Other than the audit, we have no relationship with, or interests in, the Company.



Mike Hoshek

Partner

for Deloitte Limited

On behalf of the Auditor-General

Christchurch, New Zealand

26 September 2018

Deloitte.

Statement of comprehensive income

For the year ended 30 June 2018

	Note	2018 Budget \$000	2018 Actual \$000	2017 Actual \$000
Net claims incurred – non-earthquake	1	-	59	270
Net claims incurred – earthquake	1,2	(9,425)	(817)	(316,617)
Gain/(Loss) on sale or disposal of property, plant and equipment		(415)	(137)	927
Net underwriting loss		(9,840)	(895)	(315,420)
Investment income and expenses	3	2,340	1,949	6,484
Profit/(Loss) for the year before tax		(7,500)	1,054	(308,936)
Tax expense	4	-	-	-
Profit/(Loss) for the year after tax		(7,500)	1,054	(308,936)
Other comprehensive income:				
Other comprehensive income for the year after tax		-	-	-
Total comprehensive Profit/(Loss) for the year		(7,500)	1,054	(308,936)

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 2018

2018	Note	Ordinary Shares \$000	Accumulated Losses \$000	Property Revaluation Reserve \$000	Total Equity/ (Deficit) \$000
Opening balance 1 July 2017		835,939	(1,398,724)	-	(562,785)
Profit/(Loss) for the year		-	1,054	-	1,054
Other comprehensive income for the year		-	-	-	-
Total comprehensive income for the year		-	1,054	-	1,054
Call on uncalled ordinary shares	5	205,000	-	-	205,000
Closing balance 30 June 2018		1,040,939	(1,397,670)	-	(356,731)

2017	Note	Ordinary Shares \$000	Accumulated Losses \$000	Property Revaluation Reserve \$000	Total Equity/ (Deficit) \$000
Opening balance 1 July 2016		520,939	(1,091,840)	2,052	(568,849)
Profit/(Loss) for the year		-	(308,936)	-	(308,936)
Other comprehensive income for the year		-	-	-	-
Total comprehensive income for the year		-	(308,936)	-	(308,936)
Call on uncalled ordinary shares	5	315,000	-	-	315,000
Transfer the property revaluation reserve		-	2,052	(2,052)	-
Closing balance 30 June 2017		835,939	(1,398,724)	-	(562,785)

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

Statement of financial position

As at 30 June 2018

	Note	2018 Budget \$000	2018 Actual \$000	2017 Actual \$000
Shareholders' equity				
Total shareholders' deficit		(139,193)	(356,731)	(562,785)
Represented by:				
Assets				
Financial assets				
Cash and cash equivalents	6	30,636	32,653	76,936
Receivables	8	3,525	7,264	5,221
Reinsurance receivables	9	5,460	12,422	28,795
Plant and equipment		225	5	478
Intangible assets		64	-	156
Total assets		39,910	52,344	111,586
Less:				
Liabilities				
Trade and other payables		3,525	7,139	4,156
Employee entitlements		-	1,202	1,887
Outstanding claims – non-earthquake		-	5	159
Outstanding claims – earthquake	10	175,578	400,729	668,169
Total liabilities		179,103	409,075	674,371
Net liabilities		(139,193)	(356,731)	(562,785)

On behalf of the Board



Ross Butler, Chairman
Authorised for issue on 26 September 2018



Anne Urlwin, Deputy Chairman

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

Statement of cash flows

For the year ended 30 June 2018

	Note	2018 Budget \$000	2018 Actual \$000	2017 Actual \$000
Cash flows from operating activities				
Interest received		2,340	1,942	2,584
Other investment income		-	-	3,900
Claim costs – non-earthquake		-	(95)	964
Claim costs – earthquake		(477,597)	(240,758)	(461,382)
Claim costs – reinsurance recoveries		11,867	8,540	20,159
Payments to suppliers and employees		(13,746)	(18,866)	(19,609)
Income tax paid		-	-	(5)
Net cash outflow from operating activities	7	(447,136)	(249,237)	(453,389)
Cash flows from investing activities				
Proceeds/(Loss) from sale of plant and equipment and property held for sale		-	(43)	2,927
Payments for plant and equipment and property held for sale		(396)	(3)	(53)
Payments for intangible assets		-	-	(70)
Net cash inflow from investing activities		(396)	(46)	2,804
Cash flows from financing activities				
Proceeds from the uncalled capital facility		478,000	205,000	315,000
Net cash inflow from financing activities		478,000	250,000	315,000
Net (decrease)/increase in cash and cash equivalents		468	(44,283)	(135,585)
Add opening cash and cash equivalents		30,168	76,936	212,521
Ending cash and cash equivalents	6	30,636	32,653	76,936

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 2018

Reporting entity

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

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

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

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

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 2018 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 twelve 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

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 10 – the outstanding claims liability.

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

Claim costs incurred have been separated between non-earthquake related claims and claims that relate to the Canterbury earthquakes.

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

	2018	2017
	\$000	\$000
Non-earthquake:		
Gross claims recovery	(59)	(340)
Reinsurance recovery expense/(revenue)	-	70
Total net non-earthquake claims incurred	(59)	(270)
Earthquake:		
Gross claims expense/(benefit)	(7,016)	347,719
Reinsurance recovery (revenue)/expense	7,833	(31,102)
Total net earthquake claims incurred	817	316,617
Total net claims incurred	758	316,347

2. Specified cost disclosures

	2018	2017
	\$000	\$000
Employee benefit expenses ¹	9,262	12,781
Depreciation and amortisation	538	450
KiwiSaver ²	187	235
Realised (gains)/losses on property, plant and equipment	138	(927)
Audit fees	131	156
Operating lease expenses	829	1,434

¹ Accounting policy for short-term employee benefits

Liabilities for salaries (including non-monetary benefits), annual leave 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.

² Accounting 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.

	2018	2017
	\$000	\$000
Interest income	1,949	2,584
Insurance claim settlement on properties	-	3,900
	1,949	6,484

4. Income tax

Tax	2018 \$000	2017 \$000
Profit/(Loss) before tax	1,054	(308,936)
Tax at applicable rate of 28%	295	(86,502)
Non-taxable/deductible items	-	903
Deferred tax not recognised	1,205	(154)
Tax losses not recognised	(1,500)	85,753
Current tax expense	-	-

Tax	2018 \$000	2017 \$000
Imputation credit account:		
Closing balance	204	201

Deferred tax asset	2018 \$000	2017 \$000
The balance comprises temporary differences attributable to:		
Financial assets	-	-
Property, plant and equipment	103	26
Employee provisions and accruals	69	97
Other provisions and accruals	1,188	56
Deferred tax benefit not recognised	(1,360)	(179)
Net deferred tax asset	-	-

Taxation losses totalling \$1,144 million (tax effect \$320 million) have not been recognised as at 30 June 2018 (2017: tax losses \$1,149 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 \$417 million of capital from the Crown (2017: \$392m).

	2018 Shares	2018 \$000	2017 Shares	2017 \$000
Ordinary shares:				
Balance 1 July	363,000,102	835,939	48,000,102	520,939
Paid ordinary shares (from the uncalled capital facility)	205,000,000	205,000	315,000,000	315,000
Balance 30 June	568,000,102	1,040,939	363,000,102	835,939
Uncalled ordinary shares:				
Balance 1 July	392,000,000	-	457,000,000	-
Called shares	(205,000,000)	-	(315,000,000)	-
Subscription for shares 20 October 2016	-	-	250,000,000	-
Subscription for shares 27 July 2017	230,000,000	-	-	-
Balance 30 June	417,000,000	-	392,000,000	-

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

On 20 October 2016 the Crown extended the Crown support arrangement and subscribed for an additional \$250 million of capital in the Company. This arrangement was approved by the Shareholding Ministers on 28 June 2016.

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.

On 25 September 2018, the Crown, through the Minister of Finance, agreed to indemnify the Company in relation to certain litigation. The indemnity enables Southern Response to continue to focus on settling the remaining outstanding claims of its policyholders.

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.

	2018	2017
	\$000	\$000
Cash and cash equivalents		
Cash held for operational purposes	17,270	24,900
Cash on call and short term bank deposits	15,383	52,036
	32,653	76,936

7. Cash flows from operating activities

Reconciliation of the loss for the year to cash inflows from operating activities:

	2018	2017
	\$000	\$000
Profit/(Loss) for the year	1,054	(308,936)
Add/(Less) non-cash items:		
Depreciation and amortisation	538	450
Sub-total "A"	1,592	(308,486)
Movement in working capital items:		
(Increase)/Decrease in receivables	(2,042)	2,662
(Increase)/Decrease in reinsurance and insurance receivables	16,373	(9,765)
Increase/(Decrease) in payables	4,233	(154)
(Decrease)/Increase in employee entitlements	(718)	(151)
Decrease in insurance liabilities	(268,813)	(136,569)
Sub-total "B"	(250,967)	(143,977)
Items classified as investing activities:		
Net (gain)/loss on sale of property, plant and equipment	138	(926)
Sub-total "C"	138	(926)
Cash outflow from operating activities (A+B+C)	(249,237)	(453,389)

8. Receivables

	2018	2017
	\$000	\$000
Accrued receivables	4,454	153
Prepayments	356	423
GST refund due	2,454	4,645
	7,264	5,221

9. Reinsurance receivables

Reinsurance and other recoveries received or receivable on paid claims and on outstanding claims (notified and not yet notified) are recognised as income in net claims incurred. Reinsurance recoveries on paid claims are included as a component of reinsurance recoveries net of any provision for impairment based on objective evidence for individual receivables.

All recoveries receivable on outstanding claims are measured as the present value of the expected future receipts calculated on the same basis as the outstanding claims liability. Reinsurance does not relieve the originating insurer of its liabilities to policyholders and is presented separately on the statement of financial position.

	2018	2017
	\$000	\$000
Gross reinsurance receivable	12,601	29,272
Discount to present value	(179)	(477)
	12,422	28,795
Changes in gross reinsurance receivable:		
Balance 1 July	29,272	19,138
Change in gross estimated recovery	(8,131)	31,401
Reinsurance collections	(8,540)	(21,267)
Balance 30 June	12,601	29,272

10. Outstanding earthquake claims liability

Outstanding 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 (which has an equal probability of being understated as overstated) 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 (2017: 75%).

Critical judgements and estimates: The ultimate liability arising from earthquake 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.

	2018	2017
	\$000	\$000
Changes in gross discounted outstanding claims liability		
Outstanding claims beginning of year	668,169	805,705
Change in central estimate	(11,230)	360,313
Change in claims handling provision	(8,067)	(17,700)
Change in discounting to present value	4,913	1,778
Change in risk margin	(13,546)	(19,123)
Claim payments	(239,510)	(462,804)
Outstanding claims end of year	400,729	668,169

Claims development

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

	2018	2017
	₹000	₹000
Central estimate	3,252,361	3,263,591
Claims handling expense	18,606	26,673
Cumulative payments	(2,929,976)	(2,690,466)
Discount of unpaid liability to present value	(5,229)	(10,142)
Discounted central estimate	335,762	589,656
Risk margin	64,967	78,513
Gross discounted outstanding claims liability	400,729	668,169
Reinsurance receivables (refer note 9)	(12,422)	(28,795)
Net outstanding claims liability	388,307	639,374

Actuarial calculation, assumptions and methods

The effective date of the actuarial report on the earthquake insurance liabilities is 30 June 2018. The actuarial report has been prepared by the appointed actuaries, Ashish Ahluwalia and Estelle Pearson (Fellows of the Institute of Actuaries of Australia and Fellows of the New Zealand Society of Actuaries) of Finity Consulting Pty Limited. Finity Consulting are satisfied with the quality of data provided for the purpose of estimating insurance liabilities.

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

Representative action

On 29 May 2018, a representative action proceeding was filed against Southern Response proposing to represent policyholders that entered into a settlement agreement with Southern Response prior to 1 October 2014.

As at 30 June 2018, Southern Response is working with its legal advisors to determine how it will respond to this action and the extent of its liability (if any). There are a range of possible financial outcomes and timings that are not able to be reliably quantified at this time.

Therefore the outstanding claims provision as at 30 June 2018 makes no allowance for any costs that may arise from the proceeding.

Key actuarial assumptions – earthquake

	2018	2017
Future inflation average		
· Building cost	0.00%	0.00%
· Temporary accommodation	0.00%	0.00%
· Other cover types	3.00%	3.00%
· Claims handling expenses	0.00%	0.00%
Discount rate	1.80%	2.04%
Risk margin – outstanding claims liabilities	20.00%	14.00%
Average weighted term to settlement from financial reporting date (years)	0.90	0.88

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.

Other (non-building) cover types are subject to a future inflation allowance of 3.00% per annum (2017: 3%), based on CPI.

Discount rate

Discounting has been applied to the outstanding claims by reference to the risk free zero coupon yields published by the New Zealand Treasury at 30 June 2018.

Claims handling expenses

The estimate of outstanding claims liabilities includes an allowance for the future cost of administering claims. It is based on the Company's budgeted operating costs.

Risk margin

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

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

- Independent risk: variations of outcomes inherent in the underlying modeling processes

- Internal systemic risk or modeling error: the risk that the models have not captured all of the dynamics in relation to the event
- External systemic risk or external factors: external factors that contribute additional uncertainty.

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

In response to the inherent uncertainties, the risk margin has been set at 20% of the estimated liability (2017: 14%).

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	2018 \$000	2017 \$000
Inflation rate	+1% p.a.	3,213	4,992
	-1% p.a.	(3,203)	(4,978)
Discount rate	+1% p.a.	(3,396)	(5,464)
	-1% p.a.	3,474	5,589
Claims handling expense	+10%	2,233	3,038
	-10%	(2,233)	(3,038)
Risk margin	+1%	3,248	5,608
	-1%	(3,248)	(5,608)
Future over cap claim numbers	+10%	5,503	12,638
	-10%	(5,072)	(11,347)

11. Overall risk management framework

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

Covered claims include any claim made by a policyholder under any customer insurance contract relating to any retained claim event¹; any other claim relating to customer insurance contract indemnities; and any contract works or similar insurance policy under which the Company is or may be liable from time to time.

To help the Board monitor the Company'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.

12. 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.

The Company now only issues contract works insurance cover in relation to the settlement of claims and manages associated reinsurance cover, the cost of which is charged directly to claims.

¹ Retained claim event means:

(a) the Canterbury earthquake events occurring between 5 September 2010 and 4 April 2012; and

(b) any other event that occurred prior to 5 April 2012 which entitles the Company to make any claim under any reinsurance contract.

13. 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 keeps temporary surplus cash on Call or 32 day maturity deposits with various financial institutions.

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. Reinsurance receivables are spread among 26 'A-' or better rated individual reinsurers (Standard & Poors). The largest individual reinsurance receivable comprising 20% of the total reinsurance receivable is rated A-.

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 A or better by Standard & Poors.

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

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 and reinsurance receivables have been determined based on expected payment patterns.

	Net discounted outstanding claims liability		Cash, term deposits and receivables	
	2018	2017	2018	2017
	\$000	\$000	\$000	\$000
Liquidity table				
Cash and cash equivalents	-	-	32,653	76,936
Within 1 year	232,848	398,552	7,264	5,221
Within 1 to 2 years	155,464	240,981	-	-
Within 2 to 3 years	-	-	-	-
Within 3 to 4 years	-	-	-	-
Within 4 to 5 years	-	-	-	-
	388,312	639,533	39,917	82,157

14. Employee remuneration

Remuneration band	2018	2017
	Number of Employees	
\$430,000 pa - \$439,999 pa	-	1
\$390,000 pa - \$399,999 pa	1	-
\$300,000 pa - \$309,999 pa	1	-
\$290,000 pa - \$299,999 pa	1	-
\$280,000 pa - \$289,999 pa	-	1
\$270,000 pa - \$279,999 pa	-	1
\$260,000 pa - \$269,999 pa	1	-
\$250,000 pa - \$259,999 pa	-	1
\$240,000 pa - \$249,999 pa	2	-
\$220,000 pa - \$229,999 pa	1	2
\$210,000 pa - \$219,999 pa	-	1
\$200,000 pa - \$209,999 pa	-	1
\$170,000 pa - \$179,999 pa	-	1
\$160,000 pa - \$169,999 pa	3	1
\$150,000 pa - \$159,999 pa	2	1
\$140,000 pa - \$149,999 pa	-	2
\$130,000 pa - \$139,999 pa	1	3
\$120,000 pa - \$129,999 pa	3	2
\$110,000 pa - \$119,999 pa	3	4
\$100,000 pa - \$109,999 pa	6	9

Remuneration includes salary, performance bonuses, employer's contributions to superannuation, health and insurance plans, motor vehicle and other sundry benefits received in their

capacity as employees or former employees of the Company, excluding directors.

15. Director remuneration

	2018	2017
	\$000	
Ross Butler	72,000	72,000
Anne Urlwin	45,000	45,000
Jenn Bestwick	36,000	36,000
Bevan Killick	36,000	36,000
Susan Thodey	36,000	36,000
Sarah Sinclair	-	36,000
	225,000	261,000

The shareholding Ministers approved the above ordinary directors' fees.

16. Operating leases

	2018	2017
	\$000	\$000
Future expenses under non-cancellable operating leases:		
Not later than 1 year	151	636
Later than 1 year, not later than 5 years	-	92
Later than 5 years	-	-
	151	728

17. 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.

	2018	2017
	\$000	\$000
Remuneration of key management personnel:		
Short term employee benefits	1,246	1,247

Transactions with Crown entities

Included in cash and cash equivalents at 30 June 2018 is \$nil (2017: \$5 million) of deposits held in a State Owned Enterprise. Receivables contain \$4.286 million as at 30 June 2018 (2017: \$nil) for collection from a Crown Entity.

18. Capital commitments

At 30 June 2018, the Company has capital commitments of \$nil (2017: \$nil).

19. Contingent liabilities

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. These include a representative proceeding filed against Southern Response on 29 May 2018

proposing to represent policyholders that entered into a settlement agreement with Southern Response prior to 1 October 2014. The Company defends all such claims.

20. Events after reporting date

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

21. New standards and interpretations

The adoption of standards, interpretations and amendments that became effective in the current year has not led to any changes in the Company's accounting policies with measurement or recognition impact on the years presented in these financial statements.

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 effective dates are:

• NZ IFRS 9 (2014)	Financial Instruments	1 Jan 2018
• NZ IFRS 15	Revenue	1 Jan 2018
• NZ IFRS 16	Leases	1 Jan 2019
• NZ IFRS 17	Insurance Contracts	1 Jan 2021

The Company has previously early adopted an earlier version of NZ IFRS 9. Upon preliminary review management do not expect the Financial Instruments (2014), Revenue, Leases or Insurance Contracts standards 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 these standards.

22. Explanation of significant variances against budget

As disclosed in Note 10, the estimation of the ultimate cost of settling earthquake related 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 2018 financial year budget was approved by the Board in April 2017 and was based on the latest available actuarial valuation at that time. The budget assumes no adjustment to the claims liability or unwinding of the risk margin.

Statement of comprehensive income

- The Statement of the comprehensive income reflects changes in the Discounted Central Estimate, Risk Margin and Reinsurance. The Budget assumes only changes to discounting to present value occurs. The Risk Margin has increased from 14% to 20% of the remaining estimated liability, however this is a reduction in dollars terms of \$13.5m for the year. Changes in the Central estimate, discounting unwind and changes in claims handling provision off set this for the June 2018 year.

Statement of financial position

- Reinsurance receivables are \$7 million greater than budget due to the timing of reinsurance claims and the allocation of cost between earthquake events.
- The outstanding earthquake claims liability is \$225 million greater than budget principally due to timing in settling complex and difficult outstanding claims.

Statement of cash flows

- Claim payments are \$237 million less than budget, reflecting the slower than budgeted rate of settlements.
- Proceeds from the Crown are in total \$273 million less than budget, principally due to a lower than expected claim payment experience.

23. 2019 Statement of Performance Expectations

No Statement of Performance Expectations has been issued for 2019 at the date of this report due to the fact the Company has not yet received a letter of Expectations from the Minister.

A Statement of Performance Expectations is required before the start of the each financial year under s 149C of the Crown Entities Act 2004.

Statement of performance

For the year ended 30 June 2018

Objective 1

Strategic objective	Key initiatives	2017-18 proposed targets	Status
<p>To operate a claims management business that:</p> <ul style="list-style-type: none"> Settles customers claims in accordance with policy obligations and in a fair and consistent manner Adopts efficient and cost effective processes in the management of those claims Is focused on settlement of all remaining claims Works actively to resolve and reduce disputes with customers in a manner that delivers outcomes consistent with policy obligations, communicating openly and effectively with customers 	<ul style="list-style-type: none"> Continue to promote face-to-face negotiation with customers yet to settle with Southern Response and utilise third party independent resolution services to resolve differences between the Company and policyholders. Continue to operate a dispute resolution system that is equitable and responsive to all customers while observing customers' entitlements from their AML policy, recognising that the proportion of litigated and disputed claims will increase as a proportion of outstanding claims, and managing stakeholder expectations accordingly. Ensure the proposed class action, other litigated claims and legal risks generally, are appropriately managed and the implications of any judicial decisions are understood. 	<p>95% claims notified by 30 June 2017 settled by 30 June 2018</p>	<p>Met: 8,088 claims were notified by 30 June 2017. 7,739 or 95.7% of these claimants have been settled as at 30 June 2018.</p>
		<p>Customer satisfaction maintained year-on-year as measured by customer survey results</p>	<p>Not Met: The annual customer survey was completed during the quarter, showing a drop in overall customer satisfaction on the previous year. The survey reveals that customers who are new to Southern Response from 2017 report a significantly better experience overall. Rebuild customers tend to also be more satisfied than Repair customers, and those in the later stages of their claim are significantly more likely to report positive experiences than those in the early stages of assessment, planning and design.</p>
		<p>Formal disputes below 10% of all claims</p>	<p>Met: As at 30 June 2018, there were 132 open formal disputes. This represents 1.6% of the 8,383 claims notified to Southern Response as at that date.</p>

Objective 2

Strategic objective	Key initiatives	2017-18 proposed targets	Status
To proactively engage with EQC on its unresolved AMI policyholder claims.	<ul style="list-style-type: none"> Share resources where appropriate to expedite the identification of potential over-cap claims and their hand over to Southern Response. Manage the settlement of remaining claims in an expeditious manner and in the best interest of the customer. Collaborate with EQC on both internal and external communications around claim handovers to mitigate public misinformation and ensure aligned understanding of any new processes for staff and customers. 	<p><i>95% of EQC claims by AMI policy holders as at 30 June 2017 identified and in the settlement process by 30 September 2017.</i></p>	<p><i>Met: As at 30 September 2017, the review of 3,707 (100%) EQC claims by AMI policy holders who have an open issue with EQC had been completed. Where Southern Response ownership of the claim has been agreed, these claims are now in the settlement process.</i></p> <p><i>Where new claims are reported to EQC, Southern Response continues to engage with EQC to identify potential overcap customers as early as possible.</i></p>

Objective 3

Strategic objective	Key initiatives	2017-18 proposed targets	Status
To manage the remaining claims in the building/repair programme to optimise quality and timely delivery while protecting the health and safety of workers in accordance with legislative responsibilities.	<ul style="list-style-type: none"> Continue to monitor all build and professional services arrangements (repair, rebuild and shared property) through quantitative and qualitative metrics. Continue to monitor quality management of builds and repairs in the project and the health and safety of all involved in accordance with legislative responsibilities, while optimising timeliness. 	<p><i>An average of 80% per month of Practical Completion (PC) defects cleared within 90 days of notification.</i></p>	<p><i>Met: Of the 219 PC defects issued in the 12 months to 31 March 2018 (i.e. older than 90 days), 209 were cleared within 90 days of notification (95.4%).</i></p>
		<p><i>A minimum score of 85% critical risks assessed as being adequately managed by contractors.</i></p>	<p><i>Met: The monthly average risks managed have been consistently above 85% and were above 95% in the June quarter.</i></p>

Objective 4

Strategic objective	Key initiatives	2017-18 proposed targets	Status
To develop options for an orderly rundown of the Company in a manner that retains quality operations, adequate provisions for residual obligations and liabilities, and utilises opportunities to rationalise functions while maintaining a caring approach for employees and having reasonable pay and employment conditions.	<ul style="list-style-type: none"> Firm up plans for the wind-down of Southern Response in its current form, towards the projected full run out date of December 2018², however with sufficient elasticity to recognise the inherent uncertainties which will continue to impact the Company's operations³. Determine appropriate retention strategies for data and systems in use across the rebuild programme. Identify any intangible assets (including intellectual property) which might appropriately be transferred to other Crown entities prior to the eventual wind down of the Company. 	<i>Annualised voluntary staff turnover rate below 25%.</i>	<i>Met: Voluntary staff turnover for the rolling 12 months to 30 June 2018 was 13.6%.</i>
		<i>Full systems (financial and administrative) closure of all settled claims to date.</i>	<i>Met: 7,057 overcap claims have been fully closed as at 30 June 2018. This represents 91.3% of all settled claims⁴ to date.</i>
		<i>Agreement in place with the Crown and ready to operationalise as to the future shape of Southern Response operations.</i>	<i>Met: Discussions continue with officials regarding matters concerning the Company's scope including the nature and expected duration of its operations.</i>

Objective 5

Strategic objective	Key initiatives	2017-18 proposed targets	Status
To manage its business and associated risks consistent with minimising the net cost to the Crown associated with running off of the existing claims portfolio, and operate the business within operational budgets	<ul style="list-style-type: none"> Achieve cost and operational efficiencies by progressively integrating resources to achieve economies of scale, thereby ensuring an efficient claims management cost structure. Maintain of controls and scrutiny in place to manage the cost of Arrow International and other key suppliers, ensuring compliance with contractual obligations and effective operation of the risk management framework that balances risk with progress. 	<i>Build cost inflation less than the movement in Statistics NZ Canterbury CPI (Housing) index.</i>	<i>Met: The Arrow cost schedules remained unchanged over 12 months to 30 June 2018. This compares to Canterbury-wide escalation for new dwelling constructions of around 1.9% for the FY2017-18.</i>
		<i>Audit rating of at least "good".</i>	<i>Met: Ratings of "good" or better in the assessment were provided by the external auditors following the 2016-17 annual financial statements audit process. 2017-18 ratings will be confirmed as part of the annual audit for the current financial year.</i>
		<i>Operational expenses within annual budget.</i>	<i>Not met: The quarter's operating expenses outcome is unfavourable to budget by \$4.1 million principally due to provisions made for legal costs and provision of post operational legacy computer/IT costs.</i>

Objective 6

Strategic objective	Key initiatives	2017-18 proposed targets	Status
To regularly review the adequacy of its own resources and those available to the Company through the Crown support agreements at an appropriate confidence level and manage resources consistent with the business run off model. To manage its liquidity in accordance with the investment management policy directed by the Crown for the time being including reporting of actual and projected shortfalls in a timely manner as provided for under the Crown support arrangements	<ul style="list-style-type: none"> Continue to regularly review the adequacy of capital facilities at an appropriate confidence level, in recognition of the possible claims liability valuation volatility due to ongoing uncertainty around claim numbers, ongoing litigation and final cost. 	<i>Shortfall forecasts submitted to the Treasury within the agreed timetable.</i>	<i>Met: Shortfall forecasts submitted to Treasury before each quarter end.</i>

Objective 7

Strategic objective	Key initiatives	2017-18 proposed targets	Status
To maintain effective relationships with third parties.	<ul style="list-style-type: none"> Maintain effective strategic and operational interaction with EQC, insurers, reinsurers and key community groups. Continue to use all opportunities to present key stakeholders and interested sections of the public generally with a transparent measure of its progress and issues in the way of that progress. 	<i>All OIA and Privacy Act requests responded to within statutory timeframes.</i>	<i>Met: All OIA and Privacy Act requests have been responded to within statutory timeframes.</i>

2 Recognising there will be a small tail of claims, the majority of which will be in litigation, unresolved at that date.

3 Such as uncertainty regarding ultimate overcap claims numbers, the timing and impact of the proposed class action and other potential litigation, and uncertainty about customer decision-making timelines.

4 Including claims which are in the defects maintenance phase or where a "come back" clause has been included in the Settlement & Discharge agreement in respect of demolition costs or enhanced foundation costs. Full administrative closure of those claims is only possible at the expiry of the defects maintenance period or the respective "come back" clause, usually 12 months after settlement.

Directory

Shareholders

Minister of Finance
Minister responsible for the Earthquake Commission

Registered Office

6 Show Place, Addington, Christchurch 8024, New Zealand

Office

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

Executive Management

Anthony Honeybone Chief Executive
Casey Hurren General Manager Legal and Strategy
Sarah Giles General Manager Operations and Shared Services

Project Management Office

Arrow International (NZ) Limited

Actuary

Finity Consulting Pty Limited

Auditor

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

Banker

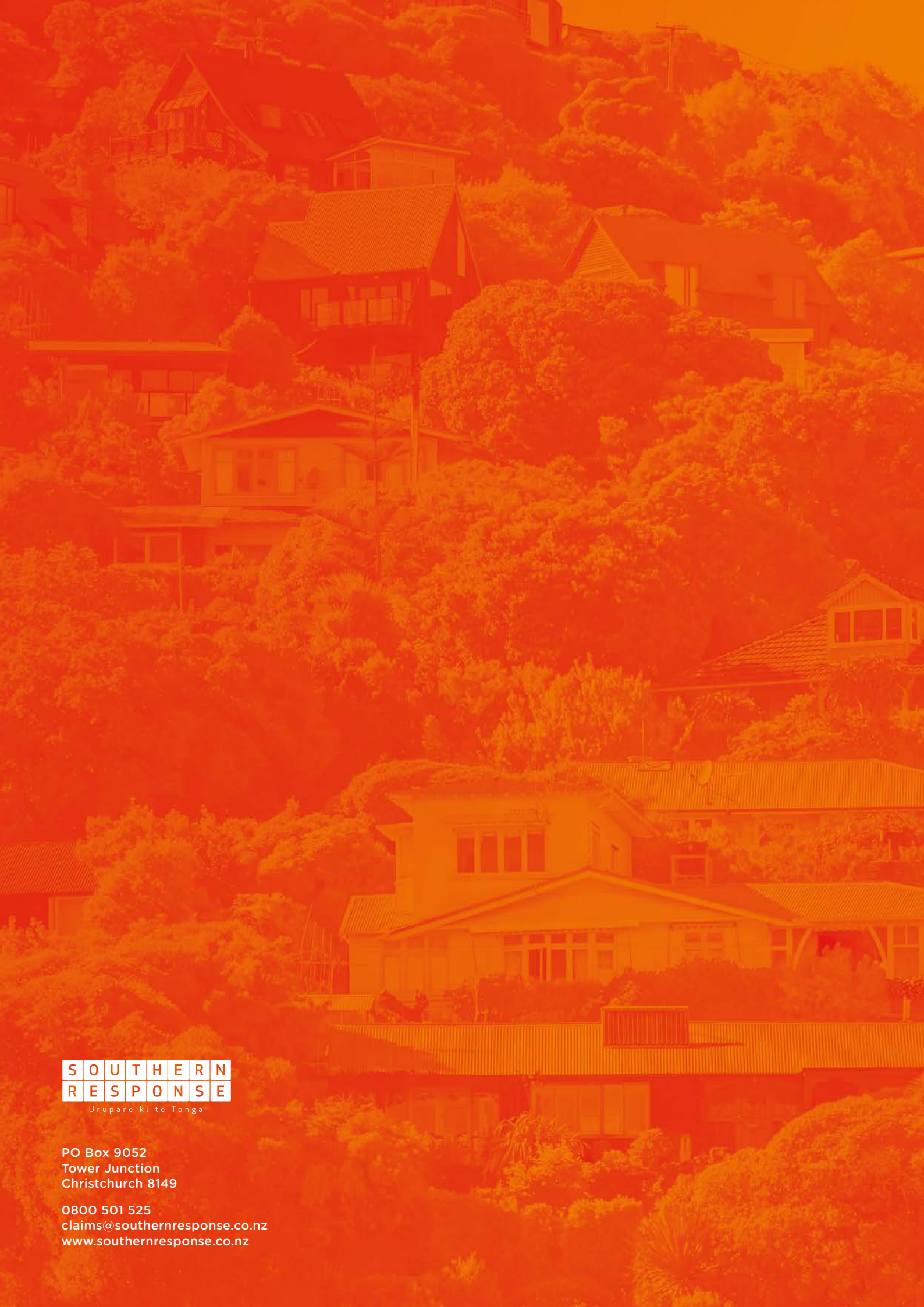
ANZ Bank of New Zealand Limited

Legal Advisors

Bell Gully
Buddle Findlay
DLA Piper
Wynn Williams

Affiliations

Insurance Council of New Zealand, associate member
Insurance and Financial Services Ombudsman (IFSO) Scheme participant



S O U T H E R N
R E S P O N S E

Urupare ki te Tonga

PO Box 9052
Tower Junction
Christchurch 8149

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