

Annual Report 2013

Te pūroko a tau a Urupare ki te Tonga



S O U T H E R N
R E S P O N S E
Urupare ki te Tonga



Southern Response Earthquake Services Ltd

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Southern Response's Purpose:

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.

This annual report was produced and printed in Christchurch.



Chairman and Chief Executive's Report

Introduction

This is the second annual report of Southern Response Earthquake Services Limited and the first for a full year of operations under Crown ownership.

Last year's focus was to ensure a smooth transition for our customers – AMI policyholders with Canterbury earthquake claims – to Crown ownership without any loss of momentum in managing their earthquake claims. That achieved, and with the insurance phase largely completed, our focus is now on transitioning the business to the build and repair phases and beyond.

Progress

By the end of June 2013, Southern Response had

- completed assessments for 99% of all notified over cap claims
- made offers of settlement to 93% of customers with notified claims
- received settlement election decisions from 90% of customers who have received an offer (84% of all claims notified) and
- fully settled 35% of all over cap claims.

The insurance phase is drawing to a close, as measured by the customer settlement decisions. We now have more information about the reasons other customers have not been able to make a decision, and will work with them using a set of strategies tailored to their circumstances.

Although Southern Response cannot give financial advice, we can and do seek to assist customers to overcome all obstacles preventing them from moving forward. Early in the new financial year, we appointed two specialist support staff to assist both vulnerable and undecided customers through the process.

Of the 90% who have received an offer and made a settlement election, 50% are building with Southern Response. The remainder have followed a different settlement path; including buying another house or managing their own builds and repairs.

Southern Response's over cap statistics are available on our website at www.southernresponse.co.nz/progress and are updated monthly.

Details of progress for all over cap claims are shown here.

For scheduled builds, at 30 June 2013 we were behind our anticipated building programme for a number of reasons including:

- delays in house designs due to the need to up-skill designers in Canterbury-specific issues such as geo-technical requirements
- delays in contract execution due to initially providing customers with excessive flexibility in design
- remaining in dispute with a small number of customers regarding policy coverage, quantum of their settlement offer or specifications for their new or repaired house
- environmental issues such as shared properties, uncontrolled land fill, heritage issues, surveying requirements where land has moved, weather-tightness, flood risk and a number of other issues.

Working our way through these issues is a top priority for 2013-14.

Nearly three years have passed since the first earthquake and we have covered an enormous amount of ground in that time. There has been significant progress for many of our customers but this has not been experienced by all. We are making very significant progress now and look forward to working with all of our customers to resolve their claims for earthquake damage within policy terms.

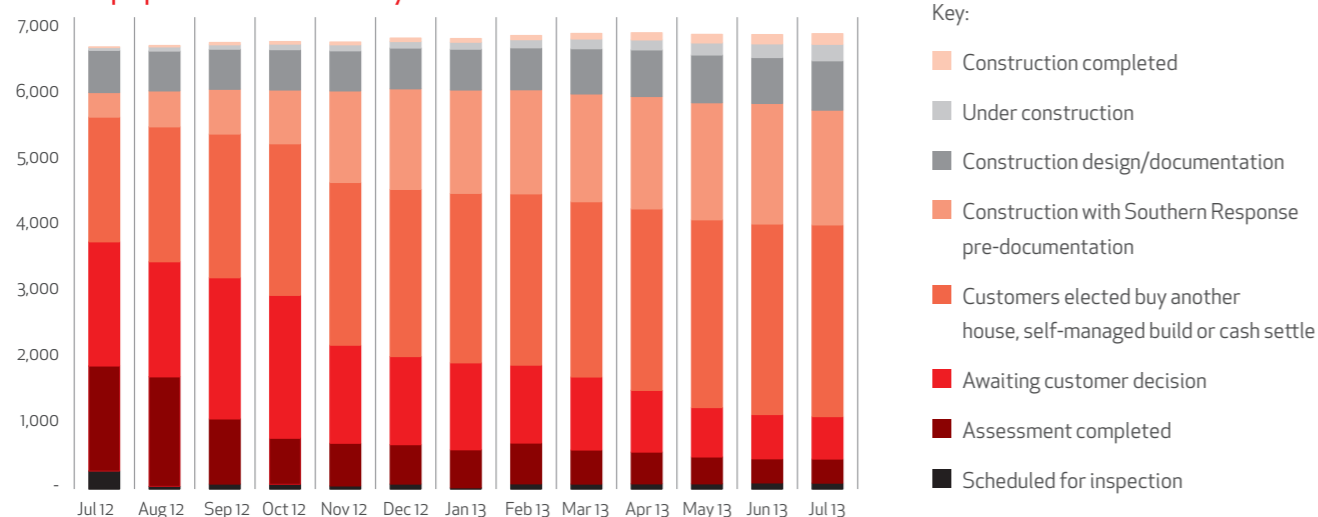
Transition to the build phase

With the transition to the build phase, Southern Response continues to transform its internal resources and those of

our project management company, Arrow International, from insurance settlement to building services. In addition to internal transformation, the company is moving to facilitate building for its customers. It is our observation that prior to the earthquakes many residents of Canterbury had no expectation or desire to have houses built for them. Hence, the approach we are taking includes:

- initiating build briefing sessions in the form of seminars with customers who, with some more knowledge, can be supported into the build programme with confidence
- offering flexibility of rebuild options, within the terms of the AMI policy, to assist customers to find a solution which best meets their needs and circumstances
- an architects' competition to conceptualise The Cantabrian house with specifications suitable for Canterbury in terms of seismicity, ground conditions, climate and general affordability
- introduction of a volume group builder panel for the majority of our rebuilds. The panel, established through a rigorous selection process, represents approximately 70% of the tier 1 group building capacity of Canterbury. We are confident of the quality, value for money and empathy for our customers that these builders will bring to the project. We are also engaging with our volume group builder panel regularly to look for process efficiencies for delivery of our customers' builds. Recent examples include surveying and temporary power being arranged by Arrow in advance, rather than by the group builder.

Status of properties over the financial year



We believe this approach will help us to achieve our objective of a legacy of durable, sustainable homes for Canterbury.

The company's TC3 strategy launched in September 2012 has provided an opportunity for customers on TC3 land to feel more confident about the future. To date, the proportion of TC3 customers who have made a settlement election decision is comparable to those in any other land-type zones. Further initiatives are in train for expediting delivery of TC3 solutions, including the architects' competition and options to facilitate the design and building of TC3 foundations.

Complementing that, the vast majority of our TC3 deep geotechnical drilling was completed by August 2013 with reporting and shallow testing following, aligned with the build delivery programme.

Overcoming challenges

The key challenges as the company moves into its next financial year include:

- controlling cost escalation for new builds and repairs
- addressing the significant complications of EQC's land compensation package to qualifying customers and how that integrates into Southern Response's rebuild obligations
- supporting undecided customers towards a settlement election decision
- continuing to provide cost-effective, best practice foundation designs for TC3 houses to be rebuilt or repaired
- continuing to make the company fit for its purpose as it moves through its relatively short life cycle; and continuing to provide exciting and challenging career development opportunities for our staff.

Managing disputes

It is inevitable that disputes will arise given the circumstances of the Canterbury residential rebuild. These can arise for a variety of reasons, including some customers not fully understanding their entitlements under the AMI policy, or their expectations exceeding those entitlements, as well as assessment errors on our part. Southern Response estimates that a small yet significant number of our customers may be in some form of dispute with the company during its life cycle. We believe we have a strong set of dispute management strategies and processes.

Like all our customers, we treat those in dispute with us with all due respect, giving their concerns our utmost attention. Our key strategies for these customers include:

- providing a fresh reassessment of issues for all customers entering the formal dispute management process
- responsiveness to those customers' concerns – flowing on from the old AMI customer service ethos
- operating to the company's firm but fair policy – we will negotiate to achieve an agreed outcome, but not compromise by making concessions simply to settle.

We are very conscious of the precedent effect of any decision in relation to our own cases and those of other insurers and are determined to ensure a fair outcome for each customer while ensuring cost effective, responsible utilisation of the contributions from the Crown and our reinsurers.

To date, this approach has seen disputes primarily resolved through initial internal review. Where external intervention was required, this has taken place through both the Insurance and

Savings Ombudsman and court. Such resolution has largely upheld our policy approach of firm but fair in interpreting customers' entitlements. We always encourage customers to raise with us any concerns they may have regarding their assessments and to consider their concerns in line with their policy entitlements and in the context of any relevant precedent cases, to avoid potentially unnecessary litigation with its associated legal costs.

Crown support

During the year, the Crown subscribed for an additional \$500 million in uncalled capital. This facility will be used only if the

company exhausts its reinsurances, investments, and \$500 million facility provided under the Crown Support Deed (which was entered into between the Crown and AMI in April 2011 and subsequently amended to reflect the Crown's ownership of Southern Response).

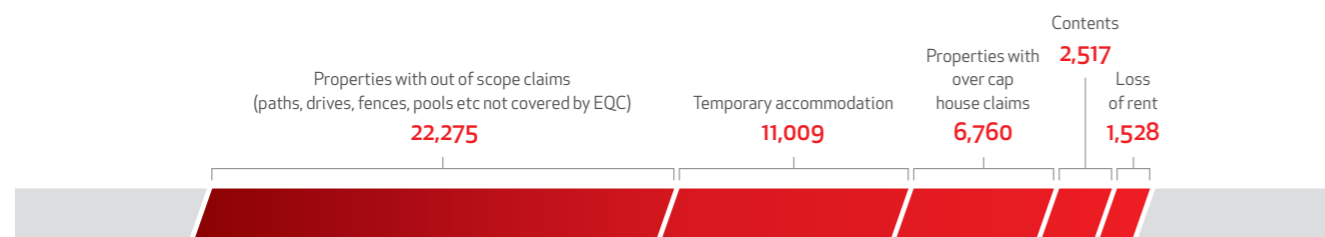
Financial summary

Key aspects of Southern Response's consolidated financial results are outlined below. The comparative figures for the 30 June 2012 year include the results of the company's discontinued operations (the writing of insurance business up until the sale of this business to IAG on 5 April 2012).

	2013 \$000	2012 \$000
Continuing operations		
Net earthquake claims incurred	25,446	(450,121)
Other costs	(176)	(3,486)
Investment income	24,825	18,112
Unrealised gain/(loss) on fair value of Crown receivable	389	(32,018)
Gain/(loss) for the year from continuing operations	50,484	(467,513)
Discontinued operations		
Gain on disposal of operations	1,826	244,526
Profit from discontinued operations	-	34,902
Profit for the year from discontinued operations	1,826	279,428
Other comprehensive income	-	1,432
Total comprehensive gain/(loss) for the year	52,310	(186,653)
	2013 \$000	2012 \$000
Claims liability		
Discounted central estimate (including claims handling expenses)	1,591,637	1,814,575
Risk margin	150,548	244,425
Gross outstanding claims liabilities	1,742,185	2,059,000
Reinsurance receivables	(512,174)	(936,876)
Net outstanding claims liability	1,230,011	1,122,124



Claim numbers at a glance - at 30 June 2013



Appreciation

We gratefully acknowledge the commitment and contribution of the dedicated staff of Southern Response – Christchurch and Auckland, Arrow International and our technical consultants who strive to satisfy customers’ responsiveness expectations. On many occasions this is in the face of having to address the tensions of customers who are yet to receive satisfaction with their claim settlements and the high level of distress that this can generate. We respect our staff, and are grateful for their commitment.

We appreciate the support of the wider community in developing and refining our various earthquake strategies. The willingness of community support groups, local government, professional bodies, sector groups, local MPs and their electorate staff and our customers (in meetings, seminars and

focus groups) to provide constructive feedback and suggestions has helped us to develop our position on a range of issues.

Other government agencies

We have positive relationships with government agencies key to the earthquake recovery, including CERA and EQC (we continue to meet on a fortnightly high-level basis where topical challenges are discussed in a positive forum); Housing New Zealand (in particular for repair trials cooperation and support for the competition-winning Cantabrian on HNZ land and for HNZ’s subsequent occupation after a year or two’s display); and the Ministry of Business, Innovation and Employment for advanced technical guidance and procurement management support. We are also grateful for the support we receive from the Crown Ownership Monitoring Unit within Treasury.

Governance

We acknowledge the dedication of our board which brings a collective sense of commitment, sensitivity, and technical knowledge to our governance table. Since the change of ownership to the Crown on 5 April 2012 and its first annual reporting as a Crown-owned entity, the board and management of Southern Response have continued to enhance the governance framework around the company, to ensure optimum accountability and integrity for the substantial financial commitment that the Crown and reinsurers have made to the company.

The company has adopted a full suite of policies that provide guidance and direction to the board and management.

Outlook

Having largely completed the insurance phase, the company’s key areas of focus in the 2013-2014 year are:

- ensuring a regular flow of builds, based on our targets
- continually seeking to remove and work through barriers to building
- continuing to work with EQC to complete joint assessments
- rationalising and settling the EQC land cover complexities along with the rest of the insurance industry
- continuing the transition of the company’s structure, management and staff, so that we remain fit for purpose.



Ross Butler
Chairman



Peter Rose
Chief Executive

19 August 2013



Southern Response – Our Values

Respect

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

Integrity

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

Honour our promises

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

Ownership

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

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.

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.

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



From left: Ross Butler (Chair), Jenn Bestwick, David Whyte, Anne Urlwin (Deputy Chair), Bevan Killick and Susan Thodey.



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 for Canterbury Earthquake Recovery. On 5 April 2012 the company's name changed from AMI Insurance Ltd to Southern Response Earthquake Services Ltd.

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 re-building 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.

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 the Crown Ownership Monitoring Unit 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.

Board committees

To ensure efficiency, the board specifically delegates some of its roles to board committees under formal Terms of Reference which specify the role and responsibility of each committee and its delegated authorities.

Current board committees are:

- **Audit, Risk & Compliance Committee** – sets the principles and standards for financial reporting, the external audit function, maintenance of an effective internal control environment, legislative and contractual compliance and maintenance of an effective risk management environment

- **Capital Committee** – oversees matters associated with insurance claims liabilities, reinsurance receivables, Earthquake Commission receivables and investments
- **Chief Executive Review Committee** – assists with the appointment of the CEO, the annual review of the CEO's performance and remuneration and considers professional development and training for the CEO
- **Communications & Community Engagement Committee** – assists in the setting of key principles for the communications to the various bodies who have an interest in Southern Response, and monitors the effectiveness of the company's communication and community stakeholder engagement
- **Governance Committee** – deals with board administrative matters related to succession planning, board performance review and professional development of directors
- **Staff Remuneration & Retention Committee** – sets the principles and standards for key policies relating to recruitment and appointment, remuneration and retention.

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 2013 there were six non-executive directors of the company whose appointment dates, terms and board committee memberships are detailed in the following table.



Director	Position	Term	Board Committee Memberships
Ross Butler Nelson-based professional director	Non-Executive Chairman	appointed 5 April 2012 term ends 30 June 2014	Chair : Chief Executive Review Committee Member : Communications & Community Engagement Committee Member : Governance Committee
Anne Urlwin Wanaka-based professional director	Non-Executive Deputy Chairman	appointed 5 April 2012 term ends 30 June 2014	Chair : Audit, Risk & Compliance Committee Member : Capital Committee Member : Governance Committee
Jenn Bestwick Christchurch-based professional director	Non-Executive Director	appointed 5 April 2012 term ends 30 June 2014	Chair : Communications & Community Engagement Committee Member : Chief Executive Review Committee Member : Staff Remuneration & Retention Committee
Bevan Killick Christchurch-based professional director	Non-Executive Director	appointed 5 April 2012 reappointed 1 July 2013 term ends 30 June 2015	Chair : Capital Committee Member : Audit, Risk & Compliance Committee Member : Communications & Community Engagement Committee
Susan Thodey Auckland-based barrister and solicitor	Non-Executive Director	appointed 5 April 2012 reappointed 1 July 2013 term ends 30 June 2016	Chair : Governance Committee Member : Audit, Risk & Compliance Committee Member : Staff Remuneration & Retention Committee
David Whyte Auckland-based professional director	Non-Executive Director	appointed 5 April 2012 reappointed 1 July 2013 term ends 30 June 2014	Chair : Staff Remuneration & Retention Committee Member : Capital Committee Member : Chief Executive Review Committee

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. In accordance with the Companies Act 1993, the board maintains an up to date interests register to ensure conflicts of interest are avoided. 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.

There have been no interests registered by directors in transactions during the financial year ended 30 June 2013.

The following table details new interests or cessations of interests of directors recorded in the interests register during the year ended 30 June 2013.

Director	Entity	Relationship
Ross Butler	Mercer (NZ) Ltd	Chairman (commenced 1 January 2013)
	Mercer Investment Nominees (NZ) Ltd	Chairman (ceased 31 December 2012)
	Code Committee, Financial Advisers Act	Member (Chairman to 1 August 2012)
	Swimming New Zealand	President (ceased 28 July 2012)
	Nelson Bays Football	Chairman (ceased 1 September 2012)
Anne Urlwin	Lakes Environmental Ltd	Chairman (ceased 11 April 2013)
	One Path Life (NZ) Ltd	Director (commenced 27 September 2012)
	One Path Life Insurance Services (NZ) Ltd	Director (commenced 27 September 2012)
Jenn Bestwick	Steel & Tube Holdings Ltd	Director (commenced 1 June 2013)
	New Zealand Qualifications Authority	Director (ceased 18 June 2013)
Bevan Killick	Tourism New Zealand	Board Member (commenced 12 July 2012)
	Learning Media Ltd	Chairman (commenced 8 May 2013)
	St John of God Hauora Trust	Chairman (commenced 1 November 2012, previously Board Member)
David Whyte	Chartered Insurance Institute - Audit Committee	Member (ceased 4 December 2012)
	EQC Act Legislative Review Governance Group	Member (commenced 1 November 2012)
	University of Canterbury Students' Association - Advisory Board	Chairman (ceased 30 November 2013)
Susan Thodey	-	-
David Whyte	FAME Solutions Ltd	Chairman (commenced 27 March 2013)
	Product Care Ltd	Chairman (Director to 16 May 2013)
	Te Rau Aroha Ltd	Director (23 August 2012 to 16 April 2013)



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 2013 was \$110,000 relating to cover for the period 5 April 2013 to 5 April 2014.

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.

Statement of Responsibility

In accordance with the Public Finance Act 1989, the board is responsible for the preparation of Southern Response Earthquake Services Limited and Group's financial statements and statement of service performance and the judgements made in them.

The board of directors of Southern Response Earthquake Services Limited has the responsibility for establishing and maintaining a system of internal control designed to provide reasonable assurance as to the integrity and reliability of financial reporting for the Company and Group.

In the board's opinion, these summary financial statements and summary statement of service performance have been properly extracted from the audited financial statements and statement of service performance of Southern Response Earthquake Services Limited and Group for the year ended 30 June 2013.

Signed on behalf of the board.

Glossary of terms, as used in this report:

Crown Ownership Monitoring Unit (COMU): a department of Treasury which monitors the performance of Crown entities, assists with the appointment of directors and provides performance and governance advice to Ministers.

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 increased Crown ownership of the company.

Out of scope: items that are not covered under the Earthquake Commission Act 1993 including fences, driveways, patios, swimming pools.

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 that maximum amount 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".

Reinsurance: insurance purchased by an insurance company from one or more other special purpose insurance companies (reinsurers) to enable risks assessed to be spread.

Settlement election: a formal confirmation from the customer of their preferred method of claim settlement (if the house is beyond economic repair).

Statement of Intent: an outline of a Crown entity's expected contribution to the government's priorities over the medium term (3-5 years).

Ross Butler
Chairman
19 August 2013

Anne Urlwin
Director
19 August 2013



Independent Auditor's Report



TO THE READERS OF SOUTHERN RESPONSE EARTHQUAKE SERVICES LIMITED AND GROUP'S SUMMARY FINANCIAL STATEMENTS AND SUMMARY STATEMENT OF SERVICE PERFORMANCE FOR THE YEAR ENDED 30 JUNE 2013.

We have audited the summary financial statements and summary statement of service performance as set out on pages 19 to 43, which were derived from the audited financial statements and statement of service performance of Southern Response Earthquake Services Limited (the company) and group for the year ended 30 June 2013 on which we expressed an unmodified audit opinion in our report dated 19 August 2013.

The summary financial statements comprise the summary statement of financial position as at 30 June 2013, and summaries of the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, the related notes and the summary statement of service performance.

Opinion

In our opinion, the information reported in the summary financial statements and summary statement of service performance complies with FRS-43: Summary Financial Statements and is consistent in all material respects with the audited financial statements and statement of service performance from which they have been derived.

Uncertainties associated with the outstanding claims liability and reinsurance receivables

The following emphasis of matter paragraph was included in the audited financial statements of the company and group for the year ended 30 June 2013.

"Without modifying our opinion, we draw your attention to notes 1, 2, 14 and 22 of the financial statements. Those notes describe how the Canterbury earthquakes have affected the outstanding claims liability and related reinsurance receivables of the company and group. Those notes also describe the significance of the amounts of the earthquake related outstanding claims liability and reinsurance receivables, and the inherent uncertainties involved in estimating those amounts using actuarial assumptions. The valuation of the reinsurance receivables is subject to similar uncertainties as the valuation of the outstanding claims liability."

Details of the above matters are outlined in Notes 2, 7 and 10 of the summary financial statements.

Basis of opinion

The audit was conducted in accordance with the Auditor-General's Auditing Standards, which incorporate the International Standards on Auditing (New Zealand).

The summary financial statements and summary statement of service performance and the audited financial statements and statement of service performance from which they were derived, do not reflect the effects of events that occurred subsequent to our report dated 19 August 2013 on the audited financial statements and statement of service performance.

The summary financial statements and summary statement of service performance do not contain all the disclosures required for audited financial statements and statement of service performance under generally accepted accounting practice in New Zealand. Reading the summary financial statements and summary statement of service performance, therefore, is not a substitute for reading the audited financial statements and statement of service performance of the company and group.

Responsibilities of the Board of Directors and the Auditor

The Board of Directors are responsible for preparing the summary financial statements and summary statement of service performance in accordance with FRS-43: Summary Financial Statements. The Board of Directors is also responsible for the publication of the summary financial statements, whether in printed or electronic form. We are responsible for expressing an opinion on those statements, based on the procedures required by the Auditor-General's auditing standards including International Standard on Auditing (New Zealand) 810: Engagements to Report on Summary Financial Statements.

Other than in our capacity as auditor, we have no relationship with, or interests in, the company or any of its subsidiaries.

Michael Wilkes
Deloitte
On behalf of the Auditor-General
Christchurch, New Zealand
19 August 2013



Statements of comprehensive income

For the year ended 30 June 2013

	Note	2013	2012	
		Group and Company \$000	Group \$000	Company \$000
Continuing operations:				
Net claims incurred – non-earthquake	3	197	(3,087)	(3,087)
Net claims incurred - earthquake	3	25,446	(450,121)	(450,121)
Less operating costs		(373)	(399)	(400)
Net underwriting gain/(loss)		25,270	(453,607)	(453,608)
Investment income		24,825	18,112	18,112
Unrealised gain/(loss) on fair value of crown receivable	9	389	(32,018)	(32,018)
Profit/(loss) for the year from continuing operations before tax		50,484	(467,513)	(467,514)
Tax expense		-	-	-
Profit/(loss) for the year from continuing operations after tax		50,484	(467,513)	(467,514)
Discontinued operations:				
Profit for the year from discontinued operations	4	1,826	279,428	279,428
Profit/(loss) for the year		52,310	(188,085)	(188,086)
Other comprehensive income:				
Items that will not be reclassified to profit or loss:				
Revaluation of land and buildings		-	(1,965)	(1,965)
Movement in actuarial value of defined benefit superannuation scheme		-	3,701	3,701
Tax effect of other comprehensive income		-	(304)	(304)
Other comprehensive income for the year after tax		-	1,432	1,432
Total comprehensive profit/(loss) for the year		52,310	(186,653)	(186,654)

The notes to financial statements on pages 24 to 39 form part of and should be read in conjunction with these financial statements.

Statements of changes in equity

For the year ended 30 June 2013

2013 Group and Company	Note	Ordinary Shares \$000	Convertible Preference Shares \$000	(Accumulated Losses) \$000	Property Reval'n Reserve \$000	Total Equity \$000
2013						
Opening balance 1 July 2012		95,580	382,359	(535,470)	10,272	(47,259)
Profit for the year		-	-	52,310	-	52,310
Other comprehensive income for the year		-	-	-	-	-
Total comprehensive income for the year		-	-	52,310	-	52,310
Transfer property revaluation to retained earnings		-	-	8,220	(8,220)	-
Closing balance 30 June 2013		95,580	382,359	(474,940)	2,052	5,051

The notes to financial statements on pages 24 to 39 form part of and should be read in conjunction with these financial statements.



Statements of changes in equity

For the year ended 30 June 2013

	Note	Ordinary Shares \$000	Convertible Preference Shares \$000	(Accumulated Losses) \$000	Property Reval'n Reserve \$000	Disaster Reserve \$000	Total Equity \$000
2012 Group							
Opening balance 1 July 2011		-	477,939	(353,108)	14,563	-	139,394
Loss for the year		-	-	(188,085)	-	-	(188,085)
Revaluation of land and buildings		-	-	-	(1,965)	-	(1,965)
Actuarial movement in defined benefit superannuation scheme		-	-	3,701	-	-	3,701
Tax effect of items recognised in other comprehensive income		-	-	(1,036)	732	-	(304)
Other comprehensive income/(loss) for the year		-	-	2,665	(1,233)	-	1,432
Total comprehensive (loss) for the year		-	-	(185,420)	(1,233)	-	(186,653)
Transfer property revaluation to retained earnings		-	-	3,058	(3,058)	-	-
Conversion of preference shares into ordinary shares	6	95,580	(95,580)	-	-	-	-
Closing balance 30 June 2012		95,580	382,359	(535,470)	10,272	-	(47,259)
2012 Company							
Opening balance 1 July 2011		-	477,939	(353,107)	14,563	-	139,395
Loss for the year		-	-	(188,086)	-	-	(188,086)
Revaluation of land and buildings		-	-	-	(1,965)	-	(1,965)
Actuarial movement in defined benefit superannuation scheme		-	-	3,701	-	-	3,701
Tax effect of items recognised in other comprehensive income		-	-	(1,036)	732	-	(304)
Other comprehensive income/(loss) for the year		-	-	2,665	(1,233)	-	1,432
Total comprehensive (loss) for the year		-	-	(185,421)	(1,233)	-	(186,654)
Transfer property revaluation to retained earnings		-	-	3,058	(3,058)	-	-
Conversion of preference shares into ordinary shares	6	95,580	(95,580)	-	-	-	-
Closing balance 30 June 2012		95,580	382,359	(535,470)	10,272	-	(47,259)

Statements of financial position

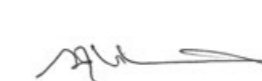
As at 30 June 2013

	Note	2013 Group and Company \$000	2012 Group \$000	Company \$000
Shareholders' equity				
Total shareholders' equity/(deficit)		5,051	(47,259)	(47,259)
Represented by:				
Assets				
Financial assets				
Cash and cash equivalents		175,883	82,394	82,394
Receivables		23,018	29,944	29,944
Reinsurance receivables	7	512,309	937,422	937,422
Investments	8	673,769	582,555	582,555
Crown receivable	9	364,549	364,160	364,160
Property held for sale		7,181	27,670	27,670
Current taxation		-	266	228
Investment and loans in subsidiary companies		-	-	38
Property, plant and equipment		1,497	899	899
Intangible assets		135	31	31
Total assets		1,758,341	2,025,341	2,025,341
Less:				
Liabilities				
Trade and other payables		7,961	10,001	10,001
Employee entitlements		1,346	547	547
Outstanding claims – non-earthquake		1,798	3,052	3,052
Outstanding claims – earthquake	10	1,742,185	2,059,000	2,059,000
Total liabilities		1,753,290	2,072,600	2,072,600
Net assets/(liabilities)		5,051	(47,259)	(47,259)

On behalf of the board



Ross Butler, Chairman
Authorised for issue on 19 August 2013



Anne Urlwin, Director

The notes to financial statements on pages 24 to 39 form part of and should be read in conjunction with these financial statements.

The notes to financial statements on pages 24 to 39 form part of and should be read in conjunction with these financial statements.



Statements of cash flows

For the year ended 30 June 2013

	Note	2013	2012	
		Group and Company \$000	Group \$000	Company \$000
Cash flows from operating activities				
Premiums received from customers		-	281,434	281,434
Interest received		23,126	20,507	20,507
Dividends received		-	973	973
Other investment income		4,115	2,550	2,550
Claim costs – non-earthquake		(646)	(142,874)	(142,874)
Claim costs – earthquake		(291,116)	(359,533)	(359,533)
Claim costs – recoveries		452,398	246,454	246,454
Payments to suppliers and employees		(18,198)	(56,832)	(56,780)
Payments for reinsurance		(2,062)	(39,934)	(39,934)
Income tax refunded/(paid)		266	(13)	(43)
Net cash inflow/(outflow) from operating activities	5	167,883	(47,268)	(47,246)
Cash flows from financing activities				
Proceeds from Crown receivable		-	100,000	100,000
Proceeds from subsidiary companies		-	-	438
Net cash inflow from financing activities		-	100,000	100,438
Cash flows from investing activities				
Proceeds from sale of property, plant and equipment and property held for sale		18,546	9,449	9,419
Payments for property, plant and equipment		(972)	(5,279)	(5,279)
Payments for intangible assets		(205)	(5,757)	(5,757)
Payments for financial assets		(99,804)	(529,943)	(529,943)
Sales and maturities of financial assets		8,624	326,923	326,923
(Final settlement of)/proceeds from sale of business net of cash and cash equivalents disposed		(583)	125,397	125,397
Net cash (outflow) from investing activities		(74,394)	(79,210)	(79,240)
Net increase/(decrease) in cash and cash equivalents		93,489	(26,478)	(26,048)
Add opening cash and cash equivalents		82,394	108,872	108,442
Ending cash and cash equivalents		175,883	82,394	82,394

The notes to financial statements on pages 24 to 39 form part of and should be read in conjunction with these financial statements.

Notes to the summary financial statements

For the year ended 30 June 2013

1. Summary financial statements – basis of preparation

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 became a Crown-owned company on 5 April 2012 and was listed in schedule 4 of the Public Finance Act 1989, effective 18 April 2012.

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

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

The financial statements for the Company and Group were authorised for issue by the directors on 19 August 2013 and have been audited by Deloitte on behalf of the Auditor General and given an unqualified opinion. The audit report contained an emphasis of matter paragraph in relation to uncertainties associated with the outstanding claims liability and reinsurance receivables. Further details of these uncertainties are outlined in notes 2, 7 & 10.

The summary financial statements and the summary statement of service performance are those of Southern Response Earthquake Services Limited and its subsidiaries and companies in which the Company has a beneficial interest and are reported in New Zealand dollars.

The summary financial statements in this report have been prepared in accordance with FRS 43 – *Summary Financial Statements* and were authorised for issue by the directors on 19 August 2013.

The summary financial statements have been extracted from the full financial statements.

The full financial statements and statement of service performance have been prepared in accordance with Generally

Accepted Accounting Practice in New Zealand (NZ GAAP) and also in accordance with the Financial Reporting Act 1993 and the Companies Act 1993. They comply with the New Zealand equivalents to International Financial Reporting Standards (NZ IFRS) and other applicable financial reporting standards as appropriate for profit oriented companies. They also comply with International Financial Reporting Standards (IFRS).

Accounting policies have been consistently applied and there have been no changes in accounting policies during the period under review.

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 further funding arrangement provided under the Crown support deed in the current year, detailed in note 6.

The summary financial statements cannot be expected to provide as complete an understanding of the financial affairs of Southern Response Earthquake Services Limited as the full financial statements, which can be found on www.southernresponse.co.nz.

2. Critical accounting judgements and estimates

The Company and Group make estimates and assumptions in respect of certain key assets and liabilities. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The key areas in which critical estimates and judgements are applied are described below.

The ultimate liability arising from claims made under insurance contracts

Provision is made at the year-end for the estimated cost of claims incurred but not settled at the reporting date, including the cost of claims incurred but not yet reported to the Company and Group.



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

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

In calculating the estimated ultimate cost of unpaid claims the Company and Group uses an actuarial valuation carried out by an independent actuary. Refer Note 10.

Assets arising from reinsurance contracts

Assets arising from reinsurance contracts are computed using actuarial valuations. In addition, the recoverability of these

assets is assessed on a periodic basis to ensure that the balance is reflective of the amounts that will ultimately be received, taking into consideration factors such as counterparty and credit risk.

Impairment is recognised where there is objective evidence that the Company may not receive amounts due to it and these amounts can be reliably measured. Refer Note 7.

Valuation of the Crown receivable

The Crown receivable is recorded at the fair value of projected cashflows based on forecast payments of claims settlements and operating costs. Refer Note 9.

3. Net claims incurred

Current year claims have been separated between non-earthquake related claims and claims that relate to the Canterbury earthquakes.

	2013	2012	
	Group and Company	Group	Company
	\$000	\$000	\$000
Non-earthquake:			
Gross claims expense/(recovery)	(608)	2,433	2,433
Reinsurance recovery reduction	411	654	654
Total net non-earthquake claims incurred	(197)	3,087	3,087
Earthquake:			
Gross claims expense	2,251	428,207	428,207
Reinsurance recovery reduction/(revenue)	(27,697)	21,914	21,914
Total net earthquake claims incurred	(25,446)	450,121	450,121
Total net claims incurred	(25,643)	453,208	453,208

4. Discontinued operations

On 16 December 2011, the board of directors entered into a sale agreement to dispose of the Group's fire and general insurance operations. The disposal was completed on 5 April 2012, on which date control of the fire and general insurance operations passed to the acquirer. The Group retained responsibility for certain fire and general claims which are subject to catastrophe reinsurance cover.

On 28 March 2013, the Group completed a final settlement with the acquirer resulting in a net gain on disposal of operations which was recognised in the current year.

The results and cash flows of the discontinued operations are set out below:

	2013	2012	
	Group and Company	Group	Company
	\$000	\$000	\$000
Profit from discontinued operations:			
Premium revenue	-	287,461	287,461
Less reinsurance expense	-	(39,934)	(39,934)
	-	247,527	247,527
Less net claims incurred	-	(141,226)	(141,226)
Less operating costs	-	(71,595)	(71,595)
Profit before tax	-	34,706	34,706
Attributable income tax benefit	-	196	196
Profit for the year after tax	-	34,902	34,902
Gain on disposal of operations	1,826	244,526	244,526
Profit from discontinued operations	1,826	279,428	279,428
Other comprehensive income:			
Movement in actuarial value of defined benefit superannuation scheme	-	3,701	3,701
Tax effect of other comprehensive income	-	(1,036)	(1,036)
	-	2,665	2,665
Total comprehensive income from discontinued activities	1,826	282,093	282,093
Cash flows from discontinued operations:			
	-	-	-
Net cash flows from operating activities	-	40,924	40,924
Net cash flows from investing activities	(583)	125,397	125,397
Net cash flows	(583)	166,321	166,321



The disposal of the fire and general insurance operations affected the statement of financial position as follows:

Cash and cash equivalents	-	(237,024)	(237,024)
Receivables and prepayments	-	(6,589)	(6,589)
Insurance receivables	-	(22,758)	(22,758)
Deferred acquisition costs	-	(1,864)	(1,864)
Deferred taxation	-	(2,105)	(2,105)
Property, plant and equipment	-	(7,280)	(7,280)
Intangible assets	-	(19,502)	(19,502)
Trade and other payables	-	33,562	33,562
Employee entitlements	-	8,654	8,654
Unearned premiums	-	90,638	90,638
Outstanding claims	-	43,607	43,607
Defined benefit superannuation scheme	-	661	661
Net assets disposed	-	(120,000)	(120,000)
Net sale value	1,826	364,526	364,526
Gain on disposal of operations	1,826	244,526	244,526

5. Cash flows from operating activities

Reconciliation of profit/(loss) for the year to cash inflows from operating activities	2013	2012	
	Group and Company \$000	Group \$000	Company \$000
Profit/(loss) for the year	52,310	(188,085)	(188,086)
Add/(less) non-cash items:			
Depreciation and amortisation	450	5,762	5,762
Impairment	-	-	49
Unrealised (gains)/losses	(1,351)	1,648	1,648
Unrealised movement in discounting Crown receivable to fair value	(389)	32,018	32,018
Decrease in deferred acquisition costs	-	260	260
Net movement in deferred tax asset/liability	-	75	75
Deferred tax on movements via reserves	-	(304)	(304)
Sub-total "A"	51,020	(148,626)	(148,578)
Movement in working capital items:			
Decrease/(increase) in receivables and tax	7,192	(24,505)	(24,595)
Decrease/(increase) in reinsurance and insurance receivables	425,113	269,212	269,212
(Decrease) in payables	(2,040)	(25,652)	(25,588)
Increase/(decrease) in employee entitlements	799	(7,775)	(7,775)
(Decrease) in insurance liabilities	(318,069)	(19,540)	(19,540)
Sub-total "B"	112,995	191,740	191,714
Items classified as investing activities:			
Gain on sale of operations net of working capital items	583	(95,003)	(95,003)
Decrease in interest receivable capitalised	1,960	4,158	4,158
Net loss/(gain) on sale of property, plant and equipment	373	(476)	(476)
Net loss on sale of investments	952	939	939
Sub-total "C"	3,868	(90,382)	(90,382)
Cash inflow/(outflow) from operating activities (A+B+C)	167,883	(47,268)	(47,246)



6. Share capital

	2013		2012	
	Group and Company		Group	Company
	\$000		\$000	\$000
Ordinary shares:				
Balance 1 July	95,580	-	-	-
Conversion of preference shares to ordinary shares on 5 April 2012	-	95,580	95,580	95,580
Closing balance at 30 June	95,580	95,580	95,580	95,580
Convertible preference share capital:				
Balance at 1 July	382,359	477,939	477,939	477,939
Conversion of preference shares to ordinary shares on 5 April 2012	-	(95,580)	(95,580)	(95,580)
Closing balance at 30 June	382,359	382,359	382,359	382,359

At 30 June 2013, there were 1,000,102 (2012: 1,000,102) ordinary shares, 400,000,000 (2012: 400,000,000) unpaid convertible preference shares and 500,000,000 uncalled ordinary shares issued on 30 January 2013. The issue price of the uncalled ordinary shares (yet to be called) is \$1 per share.

Under the terms of the deed of amendment and restatement to the Crown support deed, dated 5 April 2012, the Company may issue a payment notice for a number of unpaid convertible preference shares. On payment the shares will be designated as paid-up convertible preference shares. Such shares are convertible into ordinary shares at the option of the convertible preference shareholder.

Each paid-up convertible preference share will rank equally in respect of dividends and other distributions with all ordinary shares.

Under the terms of the second deed of amendment and restatement to the Crown support deed, dated 30 January 2013, the Crown subscribed for 500,000,000 uncalled ordinary shares. The issue price of the uncalled ordinary shares (yet to be called) is \$1 per share. Following the payment or redemption of all convertible preference shares, the company may issue a call notice for a number of uncalled ordinary shares. On payment the shares will be designated as called ordinary shares.

7. Reinsurance receivables

	2013		2012	
	Group and Company		Group	Company
	\$000		\$000	\$000
Gross reinsurance receivable	527,435	952,671	952,671	952,671
Discount to present value	(15,126)	(15,249)	(15,249)	(15,249)
	512,309	937,422	937,422	937,422
Being:				
Non-earthquake	135	546	546	546
Earthquake (Note 10)	512,174	936,876	936,876	936,876
	512,309	937,422	937,422	937,422

	Group and Company	
	2013	2012
	\$000	\$000
Changes in gross reinsurance receivable		
Balance 1 July	952,671	1,249,938
Change in gross estimated recovery	27,162	(22,567)
Reinsurance collections	(452,398)	(274,700)
Balance 30 June	527,435	952,671

At 30 June 2013, the Company and Group conducted an impairment review of the reinsurance receivables. No loss was recognised (2012: \$nil). The carrying amounts disclosed above approximate fair value at each reporting date.

Actuarial assumptions

The measurement of reinsurance and other recoveries on outstanding claims is an inherently uncertain process involving estimates. The amounts are generally calculated using actuarial assumptions and methods similar to those used for the outstanding claims liability.

Where possible, the valuation of reinsurance recoveries is linked directly to the valuation of the gross outstanding claims liability. Accordingly, the valuation of outstanding reinsurance recoveries is subject to similar risks and uncertainties as the valuation of the outstanding claims liability. Significant individual losses are analysed on a case by case basis for reinsurance purposes.

The effect of changes in assumptions

The effect of changes in assumptions on the net outstanding claims liability, which incorporates the reinsurance recoveries on outstanding claims and other recoveries receivable, is disclosed in Note 10.



8. Investments

	2013		2012	
	Group and Company	Group	Company	Company
	\$000	\$000	\$000	\$000
New Zealand Government bonds	579,591	484,379		484,379
Other fixed interest securities	93,537	97,356		97,356
Equity securities	641	820		820
	673,769	582,555		582,555

9. Crown receivable

	2013		2012	
	Group and Company	Group	Company	Company
	\$000	\$000	\$000	\$000
Opening balance at 1 July	364,160	496,178		496,178
Received 5 April 2012	-	(100,000)		(100,000)
Fair value adjustment at 30 June	389	(32,018)		(32,018)
Closing balance at 30 June	364,549	364,160		364,160

On 7 April 2011, the Company entered into a Crown support deed and subscription agreement with the New Zealand Government (the Crown) under which the Crown was issued 500 million convertible preference shares, a special share and one ordinary share. These shares were called but not paid up.

On 5 April 2012 a deed of amendment and restatement to the Crown support deed was signed with the Crown. At this time the Crown paid up 100 million convertible preference shares and converted these to 1 million ordinary shares.

The Company may draw down the Crown receivable by issuing a payment notice for a number of unpaid convertible preference

shares equal to the shortfall amount in any quarter, being the shortfall between the cumulative balance of the Company's reinsurance receivables and financial investments less \$25 million and less any payments forecast to be made in that quarter in the ordinary course of its business.

The Crown receivable as at 30 June 2013 is recorded at its fair value taking into account all relevant circumstances including the timing of the forecast cash flows and the terms of the Crown support deed. The risk free discount rates used are in the range of 2.94% to 3.32% (30 June 2012: 2.53% to 2.84%). Cash flows of \$400 million within four years have been assumed (30 June 2012: \$400 million within five years).

10. Outstanding claims liability: earthquake

	2013		2012	
	Group and Company	Group	Company	Company
	\$000	\$000	\$000	\$000
Outstanding earthquake claims:				
Discounted central estimate	1,519,401	1,726,281		1,726,281
Risk margin	150,548	244,425		244,425
Claims handling costs	72,236	88,294		88,294
Gross discounted outstanding claims liability	1,742,185	2,059,000		2,059,000
Expected reinsurance recoveries	(527,300)	(952,125)		(952,125)
Impact of discounting on reinsurance recoveries	15,126	15,249		15,249
Reinsurance receivables (Note 7)	(512,174)	(936,876)		(936,876)
Net outstanding claims liability	1,230,011	1,122,124		1,122,124

	Group and Company	
	2013	2012
	\$000	\$000
Changes in gross discounted outstanding claims liability		
Outstanding claims beginning of year	2,059,000	1,936,620
Change in central estimate	97,624	338,296
Change in claims handling expense	(16,058)	56,394
Change in discounting to present value	(8,814)	38,532
Change in risk margin	(93,877)	15,425
Claim payments	(295,690)	(326,267)
Outstanding claims end of year	1,742,185	2,059,000

Claims development

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

	Group and Company	
	2013	2012
	\$000	\$000
Central estimate	2,255,040	2,157,416
Claims handling expense	72,236	88,294
Cumulative payments	(670,357)	(374,667)
Discount to present value	(65,282)	(56,468)
Discounted central estimate	1,591,637	1,814,575
Risk margin	150,548	244,425
Gross discounted outstanding claims liabilities	1,742,185	2,059,000
Reinsurance receivables (refer Note 7)	(512,174)	(936,876)
Net outstanding claims liability	1,230,011	1,122,124



Actuarial calculation, assumptions and methods

The effective date of the actuarial report on the earthquake insurance liabilities is 30 June 2013. The actuarial report was prepared by the appointed actuaries, Colin Brigstock and Ashish Ahluwalia (Fellows of the Institute of Actuaries of Australia and Fellows of the New Zealand Society of Actuaries) of Finity Consulting Pty Limited. Finity Consulting is satisfied with the quality of data provided for the purpose of estimating insurance liabilities.

In the actuaries' opinion the insurance liabilities have been prepared in accordance with the New Zealand equivalents to International Financial Reporting Standard (NZ IFRS 4 Insurance

Contracts) and the NZ Society of Actuaries Professional Standard 4.1 governing technical liability valuations for general insurance business.

Key actuarial assumptions – earthquake

The valuation of the net outstanding claims liabilities for the current financial year is based on detailed assumptions about the number of properties damaged, the mix and cost of rebuilds/repairs/cash settlements, with adjustments for the amounts of damage which will be covered by the Earthquake Commission. In addition assumptions are made regarding future economic conditions and claims handling expenses, as set out in the following table.

	2013 Group and Company	2012 Group and Company
Future inflation		
Building cost	8.60%	8.00%
Temporary accommodation	0.00%	0.00%
Other cover types	3.00%	3.00%
Claims handling expenses	4.74%	5.15%
Discount rate	2.85%	2.57%
Risk margin – outstanding claims liabilities	10.00%	14.20%
Average weighted term to settlement from reporting date	1.79 years	1.83 years

Process to determine assumptions

Inflation

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

- building costs inflation is based on the New Zealand Treasury national forecast inflation curve, with an allowance for the additional inflation expected in the Canterbury area. The single equivalent rate of inflation is 8.6%;
- 0% per annum on temporary accommodation; and
- 3% per annum for the other cover types.

Overall this equates to 7.8% per annum (as applicable to cash flows gross of EQC and reinsurance recoveries).

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 2013.

Claims handling expenses

The estimate of outstanding claims liabilities includes an allowance for the future cost of administrating claims. It is based on the Company's forecast 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 modelling processes
- internal systemic risk or modelling 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.

There continues to be uncertainty attaching to many elements of the likely ultimate cost of the Company's earthquake related outstanding claims liabilities. In particular, there remains uncertainty around the ultimate cost of enhanced foundations for properties with damaged land and the level of future escalation on building costs.

However, relative to 30 June 2012, for a number of areas the uncertainties have now reduced. In particular there is greater certainty around the:

- ultimate volume of claim numbers
- adequacy of estimates in reflecting the ultimate construction costs, and
- expected EQC contribution, given that this has been agreed for approximately 60% of over cap property claims (30 June 2012: 10%).

Therefore, most areas that will influence the ultimate cost of settling the earthquake claims have progressed in the last 12 months. In light of this the risk margin at this valuation has been reduced to 10%. This compares to the 14.2% risk margin adopted at 30 June 2012.

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 and Group. Each change has been calculated in isolation to other changes.

Variable	Change in Variable	2013 \$000	2012 \$000
Inflation rate	+1% p.a.	29,163	22,720
	-1% p.a.	(27,531)	(22,536)
Discount rate	+1% p.a.	(18,672)	(19,300)
	-1% p.a.	19,295	20,009
Claims handling expense	+10%	7,936	10,027
	-10%	(7,936)	(10,027)
Risk margin	+1%	15,055	17,274
	-1%	(15,055)	(17,153)
Construction schedule	+1 year	18,886	21,738
	-1 year	(13,482)	(15,073)



11. Employee remuneration

Remuneration band	2013		2012	
	Number of employees	Number of employees Continuing operations	Number of employees Discontinued operations	Number of employees
\$510,000 pa - \$519,999 pa	1	-	-	-
\$400,000 pa - \$409,999 pa	1	-	-	-
\$320,000 pa - \$329,999 pa	-	-	-	1
\$280,000 pa - \$289,999 pa	-	-	-	1
\$260,000 pa - \$269,999 pa	-	-	-	1
\$240,000 pa - \$249,999 pa	1	-	-	-
\$230,000 pa - \$239,999 pa	-	-	-	1
\$190,000 pa - \$199,999 pa	-	-	-	1
\$180,000 pa - \$189,999 pa	1	-	-	-
\$170,000 pa - \$179,999 pa	-	-	-	2
\$160,000 pa - \$169,999 pa	1	-	-	1
\$150,000 pa - \$159,999 pa	2	-	-	-
\$140,000 pa - \$149,999 pa	1	-	-	2
\$130,000 pa - \$139,999 pa	1	-	-	4
\$120,000 pa - \$129,999 pa	2	1	1	12
\$110,000 pa - \$119,999 pa	1	-	-	5
\$100,000 pa - \$109,999 pa	4	2	2	10

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.

Employees transferring to the purchaser of the business as usual insurance business on 5 April 2012 are classified in discontinued operations.

12. Director remuneration

Continuing Directors	Total 2013 \$	Ordinary Fees \$	Special Fees \$	Total 2012 \$	Ordinary Fees \$	Special Fees \$
Ross Butler	76,403	70,245	6,158	22,937	17,162	5,775
Anne Urlwin	60,242	48,275	11,967	19,267	10,726	8,541
Jenn Bestwick	37,664	35,620	2,044	13,140	8,581	4,559
Bevan Killick	37,825	35,620	2,205	15,025	8,581	6,444
Susan Thodey	40,278	35,620	4,658	9,626	8,581	1,045
David Whyte	41,213	35,620	5,593	13,323	8,581	4,742

Retired Directors	2013 \$	2012 \$
Kerry Nolan	-	84,914
John Balmforth (1)	-	875,741
Richard Flower	-	53,969
Brian Gargiulo	-	35,434
Trevor Kerr	-	53,737
Philip Shewell	-	42,261
John Pritchard	-	36,372

(1) salary paid as an executive director

With the exception of the executive director, the retired directors' remuneration listed above for the year ended 30 June 2012 is comprised solely of directors' fees as approved at 2011 annual general meeting of the Company.

The shareholding Ministers approved ordinary fees of \$261,000 and special fees of \$32,625 of which the actual spend was \$32,625 for the period from 1 July 2012 to 30 June 2013. Differences in director's individual fees reflect payments to directors from these special fees for additional work done by them.

13. Related party transactions

Remuneration of key management personnel

Key management personnel are those directors and executive managers who have authority and responsibility for planning, directing and controlling the activities of the Group.

	Group and Company			
	2013 Total \$000	2012 Total \$000	Continuing \$000	Discontinued \$000
Short-term employee benefits	1,161	2,905	800	2,105
Post-employment benefits and retiring allowances	-	207	-	207
Remuneration of key management personnel	1,161	3,112	800	2,312



Management fees

The Group paid Members Trust management fees of \$nil (2012: \$32,000).

AMI superannuation scheme

The Company was sponsor to an employee superannuation scheme (the Scheme). In addition to contributions made to the Scheme, the Company met some of the operating costs of the Scheme, such as audit fees and actuarial valuations. These additional costs totalled \$nil (2012: \$10,000).

Loans to companies (impairment of advances)

The Company had made loans to three nominee companies that were sole purpose property owning companies situated in Christchurch in which the Company has a 100% beneficial interest. These properties suffered a significant loss in value as a result of the earthquakes resulting in the nominee companies having reduced ability to fully repay the loans. An impairment charge of \$0.049 million was therefore recognised in the Company's financial statements for the year ended 30 June 2012.

Transactions with various Crown-owned entities

Included in investments and cash and cash equivalents at 30 June 2013 are \$579.591 million (2012: \$484.379 million) of

Government bonds, \$nil (2012: \$7.076 million) of bonds and \$40.184 million (2012: \$nil) of term deposits held in various State Owned Enterprises.

Details relating to the Crown receivable are disclosed in Note 9. Accrued receivables of \$19.813 million (2012: \$19.780 million) are the expected recovery from the Earthquake Commission of the Commission's contribution to claims which have been settled in full by the Company.

On 28 February 2013, Crown Asset Management Limited purchased property held for sale from the Company for \$15.842 million. On 11 March 2013, Canterbury Earthquake Recovery Authority purchased property held for sale from the Company for \$0.2 million.

14. Events after reporting date

The Company has entered into a contract to sell property held for sale to Crown Asset Management Limited at its carrying value of \$4 million. The sale is expected to take place in September 2013. There have been no other significant events after the reporting date.

15. Comparison against Statement of Intent forecast financial statements

Statement of comprehensive income	Ref.	Actual 30 June 2013 \$000	Forecast 30 June 2013 \$000
Net claims incurred	1	25,643	(13,853)
Operating costs		(373)	-
Net claims cost		25,270	(13,853)
Investment income	2	24,825	17,851
Profit for the year from discontinued operations		1,826	-
Restate Crown receivable to present value		389	9,655
Net surplus/(deficit) after taxation		52,310	13,653

Statement of financial position	Ref	Actual 30 June 2013 \$000	Forecast 30 June 2013 \$000
Total shareholders' equity		5,051	(33,606)
Represented by:			
Assets			
Cash and cash equivalents *	2	175,883	446,049
Bonds and equities *	2	673,769	-
Crown receivable		364,549	373,815
Receivables		23,018	34,688
Reinsurance receivables	3	512,309	172,189
Properties held for sale		7,181	-
Property, plant and equipment		1,497	1,395
Intangible assets		135	-
Total assets		1,758,341	1,028,136
Less:			
Liabilities			
Trade and other payables		9,307	9,000
Tax balances		-	94
Outstanding claims	4	1,743,983	1,052,648
Total liabilities		1,753,290	1,061,742
Net assets		5,051	(33,606)

* the statement of intent forecast financial statements classify bonds and equity holdings as cash and cash equivalents.



Statement of cash flows	Ref.	Actual 30 June 2013 \$000	Forecast 30 June 2013 \$000
Cash flows from operating activities			
Investment income		27,241	17,851
Claim costs - earthquake	4	(291,762)	(1,011,859)
Claim costs - recoveries	3	452,398	775,737
Payments to suppliers and employees		(20,260)	(26,319)
Income tax paid		266	-
Net cash inflow/(outflow) from operating activities		167,883	(244,590)
Cash flows from financing activities			
Proceeds from Crown receivable		-	-
Net cash inflow/(outflow) from financing activities		-	-
Cash flows from investing activities			
Proceeds from sale of investment properties		18,546	27,670
Payments for property, plant and equipment		(972)	(1,162)
Payments for intangible assets		(205)	-
Payments for financial assets	2	(99,804)	-
Sales and maturities of financial assets		8,624	-
(Final settlement of)/proceeds from sale of business		(583)	-
Net cash (outflow)/inflow from investing activities		(74,394)	26,508
Net increase/(decrease) in cash and cash equivalents		93,489	(218,082)
Add opening cash and cash equivalents *		82,394	664,131
Ending cash and cash equivalents *		175,883	446,049

* the statement of intent forecast financial statements classify bonds and equity holdings as cash and cash equivalents.

- Actual net claims resulted in \$26m revenue compared to the forecasted expense of \$14m. This is principally due to movements in the outstanding claims and reinsurance receivables, which are not forecast. The significant movements in balances contributing to this were the \$98m increase in the gross central estimate, being offset by a \$94m release of the risk margin and \$27m increase in the expected reinsurance recoveries as a result of the increased gross central estimate in respect of the June event.
- Actual cash and bond and equities holdings were \$404m greater reflecting the slower than forecast claims settlements as a result of slower than anticipated ramp up of the rebuild/repair programme. This increased holding of investments has resulted in an increase in investment income.

- Actual reinsurance receivables remaining are \$340m greater than forecast reflecting the slower than forecast claims settlement, as illustrated in the above cash flow.
- The actual outstanding claims liability is \$691m greater than forecast primarily due to the slower than forecast claim settlements as illustrated in the above cash flow.

16. Contingent liabilities

The Company from time to time receives notification of legal claims and disputes as a commercial outcome of conducting its business. The Company defends all such claims.

Statement of service performance

1 July 2012 - 30 June 2013

Objective 1:

To operate efficient, cost-effective, consistent and fair claims management and re-build processes in accordance with the Company's insurance policy obligations, and consistent with preserving its rights under reinsurance treaties.

Initiative	Performance measure	KPI target	Status
Comply with industry code of practice standards to facilitate successful outcomes for customers in a cost effective manner.	Operation of effective systems to deliver consistent and fair claims decisions in efficient cost-effective and timely manner.	By 30 July 2012: Complete the documentation of the current processes.	Met
	Timely and effective communication with customers regarding claims progress and building opportunities.	By 31 December 2012: 95% of decision packs (offers) returned from Arrow distributed to customers.	Partially met: By 31 December 2012 6,630 assessments and costings had been completed with 6,044 or 91% of these being incorporated into decision packs and distributed to customers. Factors affecting this outcome were the number of properties which, upon assessment were determined to be under the EQC cap and therefore not Southern Response's responsibility.
		By 30 June 2013: 70% of customers have made their settlement decisions following issue of customer decision packs (settlement options) and holding customer conferences.	Met
		All disputes managed in accordance with dispute resolution process.	Met
		By 30 September 2012: Implement a reporting and monitoring process where actual claims settlement experience is measured against actuarial assessments.	Met
		By 31 December 2012: Determine a suite of performance metrics, integrate these with periodic reporting and progressively integrate any emerging potential areas of savings into budgets.	Met



Statement of service performance

Objective 1 continued:

Initiative	Performance measure	KPI target	Status
		By 31 March 2013: Review the appropriateness and efficiency of the company's cost structure through undertaking an annual benchmarking review and, utilising an internal change management assessment function, progressively incorporate any emerging potential areas into budgets.	Met
	Timely and effective communication with customers regarding claims progress and building opportunities.	By 31 October 2012: Complete and implement the rebuild strategic priority model and commence communication with customers.	Met
Seek to take industry-leading roles in utilisation of building capacity, procurement systems and in research and innovation that expedite and enhance the effectiveness of the rebuild.	Demonstrable assessment of Southern Response industry-leading contribution and progress with claim and building throughput; engagement with leading building industry participants: geo-technical, building regulatory and structural advice integrated in operations.	By 31 December 2012: Develop a standardised suite of consentable TC3 foundation solutions.	Met
		By 31 March 2013: Determine a rebuilding optimisation model, with recognition of Southern Response's then experience in the utilisation of building resources and in addressing environmental constraints to building.	Met
		By 31 March 2013: Gear up to a throughput target of 83 construction starts per month for the remainder of 2013 and for 2014. This is to achieve the annual target of 1,000 repairs/rebuilds per year.	Partially met: Construction starts in March 2013 reached 143 and reached 202 in June 2013. Delays in achieving this throughput target are due to unanticipated complexity in completing geotechnical and foundation reports and agreeing EQC contributions.
		By 31 March 2013: Finalise procurement arrangements.	Met

Objective 2:

To develop and maintain effective relationships with key stakeholders

Initiative	Performance measure	KPI target	Status
Optimise the strategic and operational interaction with CERA, EQC, DBH, insurers and key community groups.	Operation of effective relationship management protocols.	By 31 October 2013: Develop a relationship management protocol that provides for appropriate strategic and operational interaction with CERA and EQC.	Met
		Participate in relevant DBH forums and working groups to facilitate the development and implementation of measures to aid the rebuild of Canterbury houses.	Met

Objective 3:

To manage the business and associated risk consistent with minimising the net cost to the Crown associated with the run-off of the claims portfolio as at 5 April 2012.

Initiative	Performance measure	KPI target	Status
Develop and maintain an effective risk management framework.	Risk management framework.	By 31 December 2012: Implement a risk management system.	Met
Develop and maintain systems to achieve good ratings in the company's management, financial & service performance information systems and controls.	Assessment by the company's auditors.	For the 30 June 2013 end of year accounts: Ratings of good or better in the assessment provided by the external auditors as part of the annual financial statements audit process.	Met
Maintain monitoring and management systems to ensure compliance with contractual obligations.	Compliance with contractual obligations.	By 31 July 2012: Implement a monitoring and reporting system for key contractual obligations.	Met
Maintain appropriate reinsurance claim processes to ensure the receipt of all reinsurance recoveries.	Keep reinsurers fully informed of financial cash flow projections and policy interpretation issues.	Reporting requirements of reinsurers are met.	Met
	Management plans in place to deal with issues raised in reinsurance audits.	Matters raised in reinsurance audits are resolved within agreed timeframes.	Met



Objective 4 :

To manage investments and liquidity in accordance with the investment management policy

Initiative	Performance measure	KPI target	Status
Implement the investment management policy as directed by the Crown.	Investment management policy and cash flow forecasting systems implemented.	By 31 December 2012: Complete and implement a cashflow forecasting and reporting framework.	Met

Objective 5 :

To operate the business within operational budgets

Initiative	Performance measure	KPI target	Status
Enhance cost and operational efficiencies by progressively integrating resources to achieve economies of scale.	Integration of resources.	By 31 December 2012: Examine operational integration opportunities for claims management and project management.	Met
Develop and maintain employer policies and practices to enhance the company's ability to attract and retain skilled staff with realistic pay and employment conditions.	Development of policies and practices.	By 30 September 2012: Develop and implement other relevant employer policies that comply with the Crown Entities Act and Shareholding Ministers expectations.	Met
		By 30 November 2012: Implement a staff turnover reporting system.	Met
		By 31 December 2012: Develop the Optimisation Model and refine current policies and practices to support staff optimisation going forward.	Met

Directory

Shareholders

Minister of Finance
Minister for Canterbury Earthquake Recovery

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Web: www.southernresponse.co.nz

Executive Management

Peter Rose Chief Executive
Keith Land Chief Corporate Officer
Tony Feaver Chief Financial Officer

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
Michael Wilkes of Deloitte was appointed to perform the audit on behalf of the Auditor-General

Banker

ANZ Bank New Zealand Limited

Legal Advisors

Bell Gully
DLA Phillips Fox
Wynn Williams

Affiliations

Insurance Council of New Zealand, associate member
Insurance and Savings Ombudsman (ISO) scheme, participant







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