Southern Response Earthquake Services Limited Statement of Performance Expectations

For Financial Year ending 30 June 2025

INTRODUCTION

This Statement of Performance Expectations (SPE) is submitted by the Board of Directors of Southern Response Earthquake Services Limited ('Southern Response' or the 'Company'), pursuant to the Crown Entities Act 2004. It sets out the performance expected of Southern Response for the period 1 July 2024 to 30 June 2025.

Statement of responsibility

Southern Response is responsible for the statements contained in this document, including the appropriateness of the assumptions underlying them. Southern Response is responsible for internal control systems that provide reasonable assurance as to the integrity of its financial reporting.

ALISTER JAMES	**BEVAN KILLICK**
Chair	**Director**
24 June 2024	

OBJECTIVES FOR FINANCIAL YEAR ENDING 30 JUNE 2025

Strategic Objectives

The Company's core purpose remains: to resolve its customers' claims in a fair and enduring manner, within the terms of the insurance policy and in a financially effective and efficient way.

This will have been achieved once the insurance claims associated with the Canterbury earthquake events up until 5 April 2012 have been settled and the Company has discharged all of its obligations, including any obligations arising from its build programme and the resolution of any legal disputes and/or proceedings in respect of those settled claims. This includes the completion of the delivery of a package for eligible policyholders who cash settled with the Company prior to October 2014 (the 'Package').

The Package was announced by the Government in December 2020 in response to a court judgment and is intended to provide eligible policyholders who cash settled prior to October 2014 with an additional payment in relation contingencies, interest and in certain circumstances, professional fees and a contribution towards legal fees.

By the end of the 2024/25 financial year, the Company expects to have made payments to 88% of all eligible policyholders, settled 96% of the estimated full take-up cost of the Package, and have largely wound-down Package operations. The Company still expects to make some residual Package payments after this time but will have exhausted all reasonable contact attempts.

The implementation and delivery of the Package is overseen by an Independent Oversight Committee ('IOC') appointed by the Crown. The Company regularly engages with the IOC in an open and transparent manner to allow it to carry out its role. The delivery of the Package is also under the supervisory function of the High Court.

The Company's other day-to-day claim settlement activities that are unrelated to the Package, remain outsourced to EQC Toka Tū Ake ('EQC') under the Agency Agreement[1]. This agreement allows the Company to operate with residual resources which are utilised to support EQC to succeed in delivering, on behalf of the Company, fair and enduring settlements for Cantabrians that are yet to resolve their earthquake claims. Current business planning is based on the premise that similar arrangements will be available for the full 2024/25 financial year.

The Company continues to become liable for new claims that originate from EQC re-openings with roughly a 'one in, one out' ratio of claims being processed, and there remains significant uncertainty as to how many new claims will ultimately be received by the Company in the coming years. The Company has received 629 new overcap claims from EQC since the Agency Agreement commenced in October 2019.

The Company continues to ensure that the customer is at the centre of its processes, communications and systems and actively works to facilitate alternative settlement pathways in a transparent and collaborative way. The Company looks to identify flexible solutions and to work proactively with customers to reduce disputes.

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

The Company will continue to work proactively, openly and cooperatively with its key stakeholders.

[1] The Amended and Restated Agreement Relating to Management of Outstanding Canterbury Earthquake Claims (EQC and Southern Response)

SCOPE FOR FINANCIAL YEAR ENDING 30 JUNE 2025

Business Scope

Southern Response (formerly AMI Insurance Limited) became a Crown-owned company on 5 April 2012. It was named in Schedule 4A of the Public Finance Act, following the sale of its non-earthquake related business to IAG (NZ) Holdings Limited.

The Company is responsible for Covered Claims, which are defined as:

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

   Retained Claim Event means the Canterbury earthquake events recognised by EQC[2] as occurring from 4 September 2010 through 9 October 2011; and any other event that occurred prior to, or was continuing in progress, as at 5 April 2012 which entitles Southern Response to make a reinsurance claim

b) Any other claim for which Southern Response is or may be liable pursuant to Clause 13 of the IAG Sale Agreement (relating to customer insurance contract indemnities and retained claims not clear at 5 April 2012 – essentially claims for which AMI was entitled to make a reinsurance claim and which are being managed on its behalf by IAG).[3]

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

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

REPORTABLE OUTPUTS & PERFORMANCE TARGETS

Reportable Outputs

The Company produces outputs, impacts and outcomes from its activities. However, these are not defined as reportable outputs under the Crown Entities Act.

Performance Targets

Performance targets for the Company's activities are measured as milestones and KPIs which have been set as follows:

2025 Financial Year Outcomes

1. Accurate and timely Package payments are made to eligible policyholders.
2. Notified Covered Claims are settled effectively.
3. Litigated claims and legal risks generally are appropriately managed.
4. Ongoing governance, financial and legal obligations are met.
5. The continued wind-down of the Company through its final phase is effective and efficient.

[2] Formerly EQC, now, EQC Toka Tū Ake.

[3] Note that work on claims that meet this specific definition has not been required for a number of years.

REPORTABLE OUTPUTS & PERFORMANCE TARGETS

Outcome one: Accurate and timely Package payments are made to eligible policyholders

The Company expects to have largely wound-down Package operations by the end of the 2024/25 financial year. In order to enable this wind-down, the Company recognises the importance of applications being processed in an accurate and timely manner with a strong emphasis on a positive customer experience.

Settlement rates during the 2024/25 financial year are expected to be significantly lower than the current financial year due to the disproportional complexity of the remaining claims and a reduction in personnel.

The tables below set out the actual results as at 31 March 2024 and the forecasts at both 30 June 2024 and 30 June 2025 using the current estimates of total eligible claims.

Table 1 – Package overcap claims

	31 March 2024	*30 June 2024*	*30 June 2025*
Eligible claims	**2,671**		
Offers presented	**2,562**	**2,577**	**2,607**
% of claims	*96%*	*96%*	*98%*
Payments made	**2,536**	**2,548**	**2,595**
% of offers presented	*99%*	*99%*	*99.5%*
% of claims	*95%*	*95%*	*97%*

Table 2 – Package OOS claims

	31 March 2024	*30 June 2024*	*30 June 2025*
Eligible claims	**7,850**		
Offers calculated	**7,485**	**7,625**	**7,810**
% of claims	*95%*	*97%*	*99%*
Offers presented	**5,153**	**6,100**	**6,875**
% of offers calculated	*69%*	*80%*	*88%*
% of claims	*66%*	*78%*	*88%*
Payments made	**4,547**	**5,550**	**6,670**
% of offers presented	*88%*	*91%*	*97%*
% of claims	*58%*	*71%*	*85%*

Uncertainty remains over the Company's ability to make contact with and proactively engage with eligible policyholders, which may impact the achievement of these targets. Resourcing constraints could also impact the Company's ability to achieve these results.

What will the achievement of this outcome look like?

- The number of offers calculated, presented and paid to policyholders are in line with the Company's forecasts for the year (refer tables 1 and 2).
- Attempts have been made to contact all eligible policyholders using every valid contact detail held on file.
- Internal audit results report only minor or moderate findings in relation to Package business processes.
- Any internal reviews under the Package review process are completed within 60 days and where it is appropriate to do so, any findings from the internal and/or external review process are applied to the affected parts of portfolio.
- The IOC has not reported any significant issues to the Crown.
- Customer satisfaction rates report that the majority of respondents are either satisfied or extremely satisfied with the timeliness of their settlement and with the quality of communication and involvement from Southern Response throughout their application process.

REPORTABLE OUTPUTS & PERFORMANCE TARGETS (continued)

Outcome two: Notified Covered Claims are settled effectively

Although EQC will be acting as the Company's agent, the Company retains the decision-making obligations and ultimate responsibility for settling Covered Claims.

Covered Claims Forecasts

The table below (Table 3) sets out the number of open Covered Claims as at 31 March 2024 and the forecast of total open claims at both 30 June 2024 and 30 June 2025. The Company continues to receive new overcap claims from EQC and there remains significant uncertainty as to how many new claims will be received by the Company in the coming year. This is because while undercap claims continue to be re-opened, a proportion are likely to go overcap and become a liability for the Company.

Table 3 – Covered Claims

Claim type	*31 March 2024*	*30 June 2024*	*New claims*	*Settled claims*	*30 June 2025*
Overcap	117	112	77	111	78
Other claims	3	5	28	24	9
Total	**120**	**117**	**105**	**135**	**87**

What will achievement of this outcome look like?

- The number of claims reduces in accordance with the Company's actuarial forecasts for the year (refer Table 3).
- The outcome of audits of EQC acting as the Company's agent at the end of the financial year record only minor or moderate findings.
- Customer satisfaction scores from EQC surveys are an improvement on the 2023-24 financial year results.

Outcome three: Litigated claims and legal risks generally are appropriately managed

The Company is involved in ongoing litigation that is of significance to the Company (and in certain circumstances, the Crown more generally). The Company also recognises that in the current legal landscape there is a risk of further potential representative actions. It is important that litigation and legal issues faced by the Company are appropriately managed and the implications of any judicial decisions are understood.

What will achievement of this outcome look like?

- Where it is appropriate to do so, the Company has demonstrably offered alternative dispute resolution channels to customers when any form of litigation arises.
- The Company has a clear understanding of its portfolio of claims that remain and also those that have settled.
- The number of litigated claims reduces in accordance with the Company's actuarial forecasts.

REPORTABLE OUTPUTS & PERFORMANCE TARGETS (continued)

Outcome four: Ongoing governance, financial and legal obligations are met

The Company will act in a financially responsible manner and be open and collaborative with the Treasury and ensure resources are in place to enable the Company to meet its ongoing governance, legal and financial obligations.

What will achievement of this outcome look like?

- The Company is compliant with obligations arising from the Public Finance Act 1989, the Crown Entities Act 2004 and any other relevant legislation.
- Liquidity is managed in accordance with the investment management policy directed by the Crown, including reporting of actual and projected shortfalls in a timely manner.
- The Company achieves a positive audit report in relation to its management, financial and service performance, information systems and controls.

Outcome five: The continued wind-down of the Company through its final phase is effective and efficient

As the claims settlement process and delivery of the Package nears completion, the Company will continue to work towards the wind-down and closure of its operations to ensure it fully discharges its obligations.

The Company is conscious that as it reduces in size and approaches a wind down of its operations, the impact of key individuals departing is likely to increase the risk of its ability to discharge its remaining obligations. It is important that, to the extent that is practicable and possible, corporate knowledge is documented, refreshed, and retained in a readily accessible way.

What will achievement of this outcome look like?

- Organisational run down is in accordance with forecasts (including the wind-down of Package operations).
- Record of the Company's physical and intangible assets, residual rights, obligations and liabilities, and data holdings is maintained.

FORECAST FINANCIAL STATEMENTS

The forecast financial statements below include a Forecast Statement of Comprehensive Income, Forecast Statement of Financial Position, Forecast Statement of Changes in Equity and Forecast Statement of Cash Flows for the 2025 financial year.

The Company is funded by the Crown to deliver its objectives. Under the terms set out in the Crown Support Deed and its subsequent amendments, funding is recognised as share capital. The Company also expects to continue to request funding under the Crown Indemnity during the year. This funding is recognised as income. Other income received by the Company is by way of interest earned on surplus cash balances.

The Company incurs expenditure as part of its activities. Operating expenditure (i.e. the day to day running of the Company) is recorded in the Forecast Statement of Comprehensive Income as 'claims handling expenditure' and 'corporate expenditure'.

FORECAST STATEMENTS OF COMPREHENSIVE INCOME

FORECAST STATEMENTS OF COMPREHENSIVE INCOME

	Year Ending 30 June 24 FORECAST $000	Year Ending 30 June 25 FORECAST $000
Income		
Investment Income	1,561	1,303
Crown Indemnity income	31,100	50,000
Total Income	**32,661**	**51,303**
Expenses		
Change in Claims Provision	(31,289)	(3,439)
Net Claims Handling Expense	(4,819)	0
Change in Risk Margin	2,123	0
Total Cost of Claims	**(33,985)**	**(3,439)**
Total Corporate Expenses	(5,439)	(4,791)
Total Expenses	**(39,424)**	**(8,231)**
Surplus/(Deficit)	**(6,763)**	**43,073**

FORECAST STATEMENTS OF CHANGES IN EQUITY

FORECAST STATEMENTS OF CHANGES IN EQUITY

	Year Ending 30 June 24 FORECAST $000	Year Ending 30 June 25 FORECAST $000
Opening Equity	(124,138)	(102,901)
Surplus / (Deficit) After Tax	(6,763)	43,073
Call on Uncalled Share Capital	28,000	6,000
Closing Equity	**(102,901)**	**(53,829)**
Balance of Uncalled Share Capital	6,000	0

FORECAST STATEMENTS OF FINANCIAL POSITION

FORECAST STATEMENTS OF FINANCIAL POSITION

	As at 30 June 24 FORECAST $000	As at 30 June 25 FORECAST $000
EQUITY		
Share Capital	1,451,939	1,457,939
Retained Earnings / (Losses)	(1,554,840)	(1,511,768)
TOTAL EQUITY	**(102,901)**	**(53,829)**
Represented By:		
ASSETS		
Cash & Cash Equivalents	24,479	24,973
GST receivable	784	478
Fixed Assets	44	17
TOTAL ASSETS	**25,307**	**25,468**
LIABILITIES		
Sundry Creditors	3,375	3,375
Total Claims Liability	124,833	75,922
TOTAL LIABILITIES	**128,208**	**79,297**
NET ASSETS/(LIABILITIES)	**(102,903)**	**(53,828)**
Balance of Uncalled Share Capital	6,000	0

FORECAST STATEMENTS OF CASH FLOW

FORECAST STATEMENTS OF CASH FLOW

	Year Ending 30 June 24 FORECAST $000	Year Ending 30 June 25 FORECAST $000
Cash Flows From Operations		
Investment Income Received	1,535	1,303
Proceeds from Crown Indemnity	31,100	50,000
Claims Paid	(66,984)	(48,924)
Other Operating Expenses Paid	(12,289)	(7,885)
Net Cash Flow From Operations	**(46,639)**	**(5,506)**
Net Cash Flow From Investing	**0**	**0**
Cash Flows From Financing		
Proceeds from Uncalled Capital Facility	28,000	6,000
Net Cash Flow From Financing	**28,000**	**6,000**
NET CASH MOVEMENT	**(18,639)**	**494**
Opening Cash Balance	43,118	24,479
CLOSING CASH BALANCE	**24,479**	**24,973**

NOTES TO THE FORECAST FINANCIAL STATEMENTS

Reporting Entity

Southern Response is a limited liability company incorporated and domiciled in New Zealand and registered under the Companies Act 1993.

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

The principal business is to settle claims under AMI policies arising from the Canterbury earthquakes occurring between 4 September 2010 and 5 April 2012.

Basis of Preparation

These prospective financial statements have been prepared for the purpose of providing information on the Company's future operating intentions and financial position against which it must report and be formally audited at the end of the financial year.

These prospective financial statements have been prepared:

- in accordance with the relevant requirements of the Public Finance Act 1989 and the Crown Entities Act 2004, which include the requirement to comply with New Zealand generally accepted accounting practice (NZ GAAP).
- in accordance with FRS42 and NZ GAAP as it relates to prospective financial statements.
- in accordance with NZ GAAP as appropriate for profit oriented companies.
- on a GST-exclusive basis, except for receivables and payables which are presented on a GST-inclusive basis.
- 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[4].
- in New Zealand dollars rounded to the nearest thousand, unless separately identified.

The forecast financial statements have been presented on a going concern basis, deemed appropriate given the funding arrangement provided under the Crown Support Deed and its subsequent amendments.

Statement of Significant Underlying Assumptions

Timelines and Scope of Activities

The forecast is based on:

- Actual, unaudited results to 31 March 2024.
- An independent actuarial valuation of the claims liability incorporating the Package and Agency claims as at 31 March 2024 and the accompanying future payment patterns.
- The Company being responsible for the management of an ultimate number of 9,461 properties with overcap claims. As at 31 March 2024, approximately 9,233 have been reported to the Company.
- A Package delivery team will continue to manage the Package settlements over the 2025 financial year.
- Continuing to outsource claims handling to EQC as agent. A small number of staff and contractors continue to be engaged directly by the Company to provide administrative and support services, the majority

[4] NZ IFRS 4 will be replaced by NZ IFRS 17 for the Company's financial year end 30 June 2024 but this change is not expected to have a material impact on the Company's forecasts.

of whom are on fixed term contracts through to 30 June 2025, at which point demand for services will again be re-assessed based on the remaining level of outstanding claims.

Claims Liability

- The actuarial valuation at 31 March 2024 assessed the risk margin of the claims liability, with at least 75% probability of sufficiency, at $31 million.
- The forecast financial statements assume the risk margin will be required to settle customer claims and accordingly is not amortised (credited) to the profit and loss account as claims are paid.
- The claims liability includes a provision for claims handling expenses.
- By 30 June 2024, 95% of the overcap Package claims liability is forecast to be paid. The remaining balance of overcap and OOS Package settlements are forecast to be paid over the 2025 financial year, with a small residual remaining.
- It is assumed that the Company will continue to receive new claims (albeit at a reduced rate) until May 2029.
- The total number of outstanding overcap claims as at 30 June 2025 is forecast to be 78.

Cash Flow

- The Uncalled Capital is drawn on quarterly as required to fund Covered Claim payments and operating expenses.
- The Crown Indemnity provides funding for settlement of Package payments. The Company will request funding on a quarterly basis.
- The forecast drawdowns in the remainder of the year ending 30 June 2024 on the Uncalled Capital facility is $12 million (exhausting the facility by year end), together with $50 million of funding requests under the Crown Indemnity.

Taxation

- The Company is a tax paying entity and has incurred significant tax losses to date. The tax losses are available to offset assessable income arising in future years, however the tax benefit of the losses has not been recognised.

Going Concern

- The financial forecasts have been prepared using the going concern assumption.
- The Company has a net asset deficit. As additional funding is required to meet claims payment obligations, the Company can access this funding from the Crown.
- On the basis of the above the Directors concluded that it is appropriate to prepare the forecasts on a going concern basis.

Statement of Comprehensive Income

- The claims handling expense reflects the operational costs of the delivery of the Package, claim management services outsourced to EQC and claims-related support staff and contractors engaged directly by the Company. Claims handling expenses are offset by the amortisation of the claims handling provision in the claims liability.
- Other staff costs (e.g. management, reporting, and administration) along with legal & professional fees that are not directly claims related, are shown as corporate administration costs.

NOTES TO THE FORECAST FINANCIAL STATEMENTS (continued)

- Investment income is interest earned on cash and cash equivalents held on call or in short term deposits.

Key Risks to the Financial Forecasts

- The actuarial valuation of the claims liability may increase in subsequent valuations. Key components of this are:
  - The ultimate take-up rate of the Package.
  - The ultimate number of claims.
  - Escalation in settling the remaining body of outstanding claims, including additional costs for settling disputed and litigated claims.
- The risk margin on the claims liability is subject to ongoing review by the Company's appointed actuary and may be amended in response to changes in the risk profile of outstanding Package payments and Agency claims.

SIGNIFICANT ACCOUNTING POLICIES

The following accounting policies significantly affect the measurement of financial performance and position.

Accounting Policies Related to Insurance Contracts

All of the general insurance products utilised, meet the definition of an insurance contract (a contract under which one party, the insurer, accepts significant insurance risk from another party, the policyholder, by agreeing to compensate the policyholder if a specified uncertain future event, the insured event, adversely affects the policyholder).

Outstanding Claims Liability

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

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

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

The estimation of the outstanding claims liability involves a number of key assumptions and is the most critical accounting estimate. All reasonable steps are taken to ensure that the information used regarding claims exposures is appropriate. However, given the inherent uncertainty involved in determining the liability, it is likely that the final outcome will prove to be different from the liability established.

CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS

In preparing these forecast financial statements, the Company has made estimates and assumptions concerning the future. These estimates and assumptions may differ from the subsequent actual results and the variations may be material.

Estimates and assumptions are continually evaluated and are based on expectations of future events that are believed to be reasonable under the circumstances. The estimates and assumptions have significant risk of causing material adjustment to the carrying amount of the assets and liabilities within the forecast financial statements.

CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS (continued)

Ultimate Liability Arising from Claims Made Under Insurance Contracts

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

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

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

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