

Agenda item : 14(a) **Purpose :** For Noting

TO : Board of Directors
FROM : CFO
DATE : 16 February 2015
TOPIC : CFO Update

1. January Management Accounts

1.1. Executive Summary:

SR Claims Handling Expenses \$'000

	MTD			YTD		
	Actual	Budget	Variance	Actual	Budget	Variance
Staff Costs						
Professional Fees						
Other						
Total Claims Handling Expenses						

EQ Claims - Cashflow Summary \$'000

	Month to Date			Year to Date		
	Actual	Budget	Variance	Actual	Budget	Variance
Claim Payments Made	(17,402)	(72,932)	(55,530)	(321,801)	(510,524)	(188,723)
Reinsurance Recoveries	5,476	17,493	(12,017)	65,505	122,451	(56,946)
Net Cash Movement	(11,926)	(55,439)		(256,296)	(388,073)	

Escrow balances (reinsurance prefunded)

Earthquake Event	\$000s
04-09-2010 (Darfield)	21,000
Total Funds in Escrow	21,000

Comments:

Claim payments are lower than budget as a result of rebuilds and repairs activity being behind forecast. Reinsurance recoveries follow actual claims payments plus a short-term forecast. Funds on escrow are now only relating to the Darfield event as Lyttelton is fully drawn.

1.2. Income Statement:

The central estimate increased by \$97million in December reflecting Finity's valuation as at 31 December 2014. The main driver of the increase is the allowance for 362 additional over cap claims expected to come to Southern Response as EQC complete their assessment programme. This amount is offset by a \$2 million increase in the reinsurance receivable as a result of increased costs allocated on Sumner and minor events.

The year to date increase in the claims liability of \$175 million is collectively a result of the increase in ultimate over cap claim numbers, out of scope claim size and increased repair costs. A shift in the anticipated mix of claim types also contributed \$12 million. The increases are partially offset by a \$10million increase in reinsurance receivable. This has contributed to the deficit for the year to date of \$142.1million.

The budgeted surplus of \$3.3 million has assumed no adjustments to the claims liability from the 31 March 2014 valuation used in the budget, hence the unfavourable variance of \$145.4 million.

Southern Response Earthquake Services Limited		31 January 2015					
Income Statement for the period ending:							
\$000							
	Actuals Current Month	Budget Current Month	Variance to Budget	Actuals YTD	Budget YTD	Variance to Budget	FULL YR BUDGET
Cost of Claims - Net of Reinsurance	-	-	-	(164,085)	-	(164,085)	-
Adjustment to Risk Margin	1,612	-	1,612	13,498	-	13,498	-
Unrealised Gains/(Losses) on Fair Value of Claims Liability	(3,376)	(1,541)	(1,835)	(16,333)	(13,608)	(2,725)	(19,285)
Unrealised Gains/(Losses) on Fair Value of Reinsurance Receivables	73	228	(155)	4,762	2,331	2,431	2,942
Adjustment to Provision for Claims Handling Expenses	-	-	-	-	-	-	-
Claim Handling Expenses	-	-	-	-	-	-	-
Total Cost of Claims	(1,637)	(1,313)	(324)	(163,298)	(11,278)	(152,020)	(16,343)
Gain/(Loss) on Sale of Fixed Assets	1	-	1	16	-	16	-
Investment Income	1,531	716	815	12,157	7,489	4,668	9,369
Restate PV of Crown Receivable	1,197	1,085	112	10,100	7,598	2,502	13,025
PRE TAX SURPLUS/(DEFICIT)	1,092	488	604	(141,025)	3,809	(144,834)	6,052
Taxation	-	-	-	-	-	-	-
AFTER TAX SURPLUS/(DEFICIT)	1,092	488	604	(141,025)	3,809	(144,834)	6,052

Overall claims handling expenses are favourable to budget by \$0.8m for the year to date with a mix of favourable and unfavourable variances on individual expense lines.

Southern Response Earthquake Services Limited		Jan-15						
Claims Handling Expenses for the month								
Claim Handling Expense Category	Directors	Corporate & Support Services	Operations - ChCh	Operations - Auck	TOTAL	Budget	Variance	Full Year Budget
Staff Costs	-	-	-	-	-	-	-	-
Motor Vehicle	-	7,019	127	-	7,146	5,833	(1,313)	70,000
Office Costs (postage, printing etc)	914	20,438	18,021	2,366	41,740	46,425	4,685	559,161
Travel & Accommodation	2,208	4,769	381	-	7,358	16,734	9,375	200,803
Communications	-	25,608	-	-	25,608	83,916	58,308	490,992
Legal & Professional fees	-	-	-	-	-	-	-	-
Property Exp and Rents paid	-	25,869	95,883	21,118	142,870	137,593	(5,277)	1,573,808
Depreciation & Amortisation	-	-	51,382	-	51,382	43,907	(7,475)	537,365
Computer & IT costs (incl. Telephones)	-	133,488	-	-	133,488	227,867	94,379	2,734,400
Total Claim Handling Expenses								

Southern Response Earthquake Services Limited		Claims Handling Expenses for the year to date				Jan-15			
Claim Handling Expense Category	Directors	Corporate & Support Services	Operations - ChCh	Operations - Auck	TOTAL	Budget	Variance	Full Year Budget	
Staff Costs									
Motor Vehicle	-	59,525	2,604	11	62,140	40,833	(21,307)	70,000	
Office Costs (postage, printing etc)	4,508	118,248	140,852	30,501	294,109	324,699	30,590	559,161	
Travel & Accommodation	30,170	33,505	3,111	13,705	80,490	117,135	36,644	200,803	
Communications	-	455,666	527	-	456,193	339,412	(116,781)	490,992	
Legal & Professional fees									
Property Exp and Rents paid	-	194,360	690,891	162,006	1,047,257	963,154	(84,103)	1,573,808	
Depreciation & Amortisation	-	-	374,436	-	374,436	334,040	(40,396)	537,365	
Computer & IT costs (incl. Telephone)	-	949,623	11,722	23	961,368	1,595,067	633,699	2,734,400	
Total Claim Handling Expenses									

Below are comments on the principal variances from budget for expenses;

Expense line	Variance \$000 Favourable/ (unfavourable)	Comment
Staff costs	██████ ██████	Staff numbers at 154 are 13 over budget (excl maternity leave). Budgeted staff costs include a ██████ bonus provision, accrual for this at ██████ commenced in January due to a carryover of bonus provision from the 2014 year. Auckland staff redundancy costs are budgeted in January but were incurred in December.
Communications	58 m (117) ytd	New strategies are placing considerable focus on customer communications. It is likely this area will be over budget for the year. The forecast full year outcome will be developed over coming months.
Legal & Professional cost	██████ ██████	Additional legal fees are being incurred on declaratory judgement and issues with poor performance of builders. Professional costs include closeout of the TRR review and value for money review carried out by KPMG
Computer & IT	94 m 634 ytd	Increase in Amigo support costs are yet to be incurred and savings in other areas. A number of initiatives have not commenced (for example, preliminary work for replacement of AMIGO).

1.3. Balance Sheet:

Southern Response Earthquake Services Limited			
Balance Sheet			
S000			
	31-Jan-15	BUDGET	30-Jun-14
SHAREHOLDERS' EQUITY			
Ordinary Share Capital	95,588	95,588	95,588
Crown Convertible Pref Shares	382,351	382,351	382,351
	477,939	477,939	477,939
<u>Property Revaluation Reserve</u>			
Closing Reserve	2,052	-	2,052
<u>Retained Earnings</u>			
Opening Retained Earnings	(590,691)	(531,972)	(474,939)
After Tax Surplus/(Deficit)	(141,025)	488	(115,752)
Closing Retained Earnings/(Deficit)	(731,715)	(531,484)	(590,691)
TOTAL SHAREHOLDERS' (DEFICIT)/EQUITY	(251,724)	(53,544)	(110,699)
<i>Represented by:</i>			
ASSETS			
Sundry Debtors	3,306	-	7,373
EQC Debtor	2,225	6,218	4,794
Crown Receivable	383,163	386,309	373,063
Property, Plant & Equipment	1,335	1,696	1,432
Intangible Assets	28	3	46
Reinsurance (Cat) Debtors - EQ	1,244,089	99,645	1,233,315
Discounting on Reinsurance (Cat) Debtors - EQ	(2,700)	(904)	(7,462)
Reinsurance Receipts	(1,107,874)	-	(1,062,369)
Net EQ Recovery Receivable	133,515	98,742	183,483
Reinsurance Debtors - Aggregate (inc per Risk)	265	-	265
<u>Investments</u>			
Total Cash & Term deposits	197,135	25,653	135,442
Bonds & TBills (Government)	299,335	260,000	579,178
Bonds (Corporate)	0	-	40,656
Equities	374	-	375
Property HFS	3,616	-	3,591
Total Investments	303,325	260,000	623,801
TOTAL ASSETS	1,024,297	778,622	1,329,700
<i>Less:</i>			
LIABILITIES			
Sundry Creditors	2,457	5,980	6,686
Shared Properties - other insurer funds	(743)	-	-
<u>Insurance Provisions</u>			
Non EQ Event Estimate	115	-	869
Gross EQ Event Estimate	2,539,247	2,296,320	2,364,388
Claim Payments made	(1,390,020)	(1,639,746)	(1,067,350)
Claims Handling Provision	█	█	█
Risk margin	█	█	█
Discounting of Gross Event Cost less paid	(37,898)	(13,515)	(54,231)
Net Outstanding EQ Claims	1,274,192	826,186	1,432,844
Total Net Outstanding Claims	1,274,306	826,186	1,433,713
TOTAL LIABILITIES	1,276,021	832,166	1,440,399
NET (LIABILITIES)/ASSETS	(251,724)	(53,544)	(110,699)

The gross earthquake liability and gross reinsurance receivable increased in Finity's latest actuarial valuation dated 31 December 2014.

The cash and investments position reflects the higher opening cash position and slower progress on claim settlements than budgeted.

EQC receivables reflect lower than budgeted assignments as a result of slowing cash settlements and deferred build starts and writeback of balances not considered recoverable.

'Property held for sale' relates to the Riccarton Road property (contracted to be sold to Crown Asset Management Ltd on conditions of sale being met) held at carrying value of [REDACTED] million, plus the TC3 show home 'The Cantabrian' which is contracted to be sold to Housing Corporation NZ in the current financial year.

There are no issues of concern in the balance sheet.

1.4. Cashflow Statement:

Statement of Cashflows for the Period Ending:		31 January 2015					
\$000							
	Actuals Current Month	Budget Current Month	Variance to Budget	Actuals YTD	Budget YTD	Variance to Budget	
CASH FLOWS FROM OPERATING ACTIVITIES							
Interest Received	1,432	716	716	9,576	7,489	2,087	
Claim Costs - Non Earthquake	(11)	-	(11)	(754)	-	(754)	
Claim Costs - Earthquake	(17,402)	(72,932)	55,530	(321,801)	(510,524)	188,723	
Reinsurance Recoveries	5,476	17,493	(12,017)	65,505	122,451	(56,946)	
Payments to Suppliers and Employees/GST Refunds	4,901	(3,145)	8,046	(11,993)	(17,155)	5,162	
Net Cash Inflow from Operating Activities	(5,604)	(57,868)	52,264	(259,467)	(397,739)	138,272	
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 Property, Plant and Equipment	2	-	2	4	-	4	
Payments for Property, Plant and Equipment	(115)	(10)	(105)	(297)	(70)	(227)	
Sales and Maturities of Financial Assets	99,990	60,000	39,990	321,453	320,000	1,453	
Net Cash Inflow/(Outflow) from Investing Activities	99,877	59,990	39,887	321,160	319,930	1,230	
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	94,273	2,122	92,151	61,693	(77,809)	139,502	
Add Opening Cash and Cash Equivalents	102,862	23,539	79,323	135,442	103,470	31,972	
ENDING CASH AND CASH EQUIVALENTS	197,135	25,661	171,474	197,135	25,661	171,474	

Claim payments and reinsurance recoveries continue to run below budget due to lower than expected rebuild and repair activity.

A further \$100million was withdrawn from Treasury bills in January in line with earlier forecasts.

2. Claim Payments

Life to date claim payments and outstanding claims are summarised by event and claim type in the following table.

Claim Type	Gross EQ Claims Liability by Claim Type \$000s	Payments made by Event & Claim Type \$000s				
		Total	September	February	June	Minors
House Non-Lost Rent	2,383,790	1,271,896	434,070	786,059	31,099	20,668
House Lost Rent	15,668	13,213	2,563	9,936	594	121
Contents Non-Temp. Accom	17,558	15,369	1,941	12,995	288	144
Contents Temp. Accom	114,704	82,825	18,387	60,696	2,587	1,156
Motor	6,467	5,927	1,259	4,330	189	149
Boat	29	29	9	18	1	1
Other	1,029	762	573	143	15	31
Total	2,539,246	1,390,020	458,801	874,176	34,773	22,270
Gross Inflated Central Estimate		2,539,246	762,691	1,692,079	54,145	30,332
Gross Outstanding Claims		1,149,226	303,890	817,903	19,372	8,062

3. Earthquake Claims Liability

The following tables contain analysis of the Earthquake Claims liability as at and for the month ended 31 January 2015.

EQ CLAIMS LIABILITY AS AT 31 January 2015



\$000	Sept	Feb	June	Minors	TOTAL
Gross Central Estimate	(762,691)	(1,692,079)	(54,145)	(30,332)	(2,539,247)
Claims Handling					
Risk Margin					
Less: Payments to date	458,801	874,176	34,773	22,270	1,390,020
Discounting	10,135	26,959	661	143	37,898
Outstanding Liability	(337,112)	(909,036)	(19,627)	(8,417)	(1,274,192)
Gross Reinsurance Receivable	595,000	595,000	41,802	12,287	1,244,089
Less: Received to Date	(484,624)	(595,000)	(27,193)	(1,057)	(1,107,874)
Discounting	(1,873)		(700)	(127)	(2,700)
Outstanding Reinsurance Receivable	108,503	(0)	13,909	11,103	133,515
Net Outstanding Claims Liability	(228,609)	(909,036)	(5,718)	2,686	(1,140,676)

**MVMT IN EQ CLAIMS LIABILITY FOR
MONTH ENDING:**

31 January 2015



\$000	Sept	Feb	June	Minors	TOTAL
Opening Outstanding Claims Liability	(342,322)	(920,839)	(20,049)	(8,658)	(1,291,868)
Mvmt:					
Change in Gross Central Estimate Valn					0
Release Claims Handling Provision					
Change in Risk Margin Valn					
Less Payments made in Period	5,052	11,658	442	244	17,397
Amortisation of Discounting	(887)	(2,408)	(57)	(24)	(3,376)
Closing Outstanding Claims Liability	(337,112)	(909,036)	(19,627)	(8,417)	(1,274,192)
Opening Reinsurance Receivable	112,380	(0)	15,391	11,147	138,918
Mvmt:					
Change in Reinsurance Receivable					0
Reinsurance funds collected in period	(3,933)		(1,500)	(42)	(5,476)
Amortisation of Discounting	56		18	(1)	73
Closing Reinsurance Receivable	108,503	(0)	13,909	11,103	133,515

4. Investments

4.1. Investment Portfolio

A detailed listing of cash holdings and bonds at 31 January 2015 follows.

Cash & Term Deposits		31-Jan-15			
Name of Institution	Type	Rate	Maturity	Balance	Balance + Accd Int
ANZ Bank	Operating	3.46%	Cash	7,448,922.32	
	AUD00	3.46%	Cash	22,604.10	
	Call	3.50%	Call	5,000,000	12,527,937
ASB	Call	3.60%	Call	29,508,403	
	Reinsurance Escrows	3.60%		19,117,620.86	48,626,024
Westpac	Term	4.15%	3-Mar-15	50,000,000	50,396,808
BNZ	Call	3.50%	Call	25,500,000	25,548,904
SBS	Term	3.50%	11-Feb-15	10,000,000	10,019,178
Kiwibank	Call	3.50%	Call	10,000,000	
	Term	3.64%	27-Feb-15	40,000,000	50,015,956
Total Cash & Term Deposits + Accrued Interest					197,134,807

MONTH END:		31-Jan-15					
NZ Treasury Bills							
Issuer Name	Date Purchased	Face Value	Coupon	Purchase Price	Premium/(Discount) on Purchase	Maturity Date	Market Value (Dirty Price)
NZ Debt Management Office	27-Jan-15	300,000,000	3.470%	299,118,461		27-Feb-15	299,232,543
Total Treasury Bills		300,000,000		299,118,461			299,232,543
NZ Govt Bonds							
Issuer Name	Date Purchased	Face Value	Coupon	Purchase Price	Premium/(Discount) on Purchase	Maturity Date	Market Value (Dirty Price)
NZ Govt Bonds	28-Oct-11	100,000	6.000%	108,821	8,821	15-Apr-15	102,282
Total NZ Govt Bonds		100,000		108,821			102,282
AFS NZ Preferred Shares							
Issuer Name	Date Purchased	Face Value	Coupon	Purchase Price		Maturity Date	Market Value
ASB Bank Pfd A	11-Dec-02					sold out Nov 14	
ASB Bank Pfd B	23-Dec-04		0.000%			sold Jan 15	
Total Preferred Shares							
Total Bond Portfolio							299,334,826
Equities							
Name of Holding				Number of Shares	Share Price AUD	Share Price NZD	Market Value
Transtasman Private Equity Fund 07				5,000,000	0.069677	0.0746	372,963
Total Equities Portfolio							372,963

The Treasury Bills are being utilised with the balance is reduced to \$300 million. Further drawdowns are forecast for March, May and July 2015. Cash holdings are high due to a withdrawal from Treasury bills late in the month

All corporate bonds and preference shares have now been liquidated (see next section).

4.2 Liquidation of preference shares

Summary of Preference Shares Sold to 31 Jan 2015						
Security	Quantity			Opening Market Value /\$100	Average Sale Price /\$100	Total Gain/(Loss) to P&L
	Opening 5-Apr-12	Sold	Closing 31-Jan-15			
Rabobank RBOHA	3,391,000	(3,391,000)	-	\$ 82.44	\$ 85.56	\$ 105,838
CBA Bank Pfd CBAFA	4,995,000	(4,995,000)	-	\$ 96.57	\$ 97.18	\$ 30,296
ASB Bank Pfd A NZ ASBPA	3,799,250	(3,799,250)	-	\$ 83.10	\$ 118.29	\$ 108,274
ASB Bank Pfd B NZ ASBPB	4,050,000	(4,050,000)	-	\$ 74.79	\$ 83.99	\$ 372,722
	16,235,250	(16,235,250)	-			
Total Gain on Sales up to 31 Jan 15						\$ 617,129

Liquidation of the preference share portfolio was completed in January.

4.2. Trans Tasman Private Equity Fund

The fund holds a 2.7% minority holding in Ned Group - Coates and National Hire (an unlisted Australian equipment hire company). The exit from this investment is linked, by an agreement, to the exit of the two other private equity fund shareholders, either by trade sale or share market listing.

The AGM of the fund was held on 16 December 2014 and was attended by the CFO.

Previous indications were that at least one of the other two majority shareholders was under pressure to return capital to its shareholders therefore a sale of the company was likely.

Good progress has been made over the last year in improving the operations and financial position of the company with cost and capex reduction and paying down debt and including the sale of a subsidiary. With the company on a sounder financial footing the other shareholders preference now appears to be to retain the company and ride out the current downturn in the Australian mining and construction industries. Timing of exit is therefore uncertain.

Goldman Sachs, the fund manager, has simplified the structure of the fund and the operating cost has been reduced to a level more appropriate for the size of the fund.

There is no established market for investments in the fund and the other shareholders are equally keen to see the fund liquidated; it would therefore likely only be possible to exit the investment at a significant discount to the \$378k carrying value. Management do not support a discounted exit at this time but will continue to monitor the situation.

5. Reinsurance

Escrow account balances totalled \$21 million for Darfield at 31 January 2015.

The following table summarises the current position of the Darfield, Lyttelton, Sumner and 23 December 2011 events. This table separately discloses the prefunded and paid collection elements of Darfield and Lyttelton reinsurance claims.

Southern Response Payments and Reinsurance Summary As at 31 January 2015	Darfield Event 4 September 2010 Event 93 + 140			Lyttelton Event 22 February Event 106 +144	Boxing Day 26 December Event 99+142	Sumner Event 13 June 2011 Event 112 +147	23 December 2011 Event Event 122+152
Total claim payments made	459,935,885			867,165,503	9,968,427	35,052,762	8,737,219
Less SR deductible	(5,000,000)			(5,000,000)	(5,000,000)	(5,000,000)	(5,000,000)
Less EQC receivable	(1,079,824)			(857,552)	(8,541)	(279,092)	0
Total claim payments recoverable	453,856,061			861,307,951	4,959,885	29,773,670	3,737,219
Total claim payments recoverable	Prefund	Paid collection	Advanced Payment	Event Fully Exhausted	Paid collection	Paid collection	Paid collection
Reinsurance requested	386,360,642	29,031,404	38,464,015	861,307,951	4,959,885	29,773,670	3,737,219
Layer 1 Max 5,000,000	5,000,000			5,000,000		5,000,000	3,265,087
Layer 2 Max 37,500,000	37,500,000			37,500,000		24,658,536	
Layer 3 Max 52,500,000	52,500,000			52,500,000		0	
Layer 4 Max 300,000,000	249,500,000	25,500,000	25,000,000	300,000,000			
Layer 5 Max 100,000,000	61,200,000	3,391,114		100,000,000			
Layer 6 Max 100,000,000				100,000,000			
Total reinsurance requested	405,700,000	28,891,114	25,000,000	595,000,000	0	29,658,536	3,265,087
Reinsurance received							
Layer 1	5,000,000			5,000,000		5,000,000	1,056,728
Layer 2	37,500,000			37,500,000		22,193,351	
Layer 3	52,500,000			52,500,000			
Layer 4	249,500,000	25,500,000	25,000,000	300,000,000			
Layer 5	61,200,000	2,423,943	26,000,000	100,000,000			
Layer 6				100,000,000			
Reinsurance received per request	405,700,000	27,923,943	25,000,000	595,000,000	0	27,193,351	1,056,728
Total reinsurance requests outstanding	0	967,171	0	0	0	2,465,185	2,208,358
Total reinsurance received	405,700,000	27,923,943	51,000,000	595,000,000	0	27,193,351	1,056,728
Prefunding drawn							
Layer 1	5,000,000			5,000,000			
Layer 2	37,500,000			37,500,000			
Layer 3	52,500,000			52,500,000			
Layer 4	249,500,000			300,000,000			
Layer 5	40,200,000			100,000,000			
Layer 6				100,000,000			
Total reinsurance drawings	384,700,000	27,923,943	38,464,015	595,000,000	0	27,193,351	1,056,728
Undrawn balance (Escrow Balance)	21,000,000		12,535,985	0			
Claim payments made but undrawn	1,660,642	140,290	0	(0)	4,959,885	115,134	472,132
Claim payments in excess of reinsurance cover				266,307,951	0		

The EQC receivable values are finalised post month end which gives rise to temporary undrawn/(overdrawn) claims payments at month end. These correct early in the following month.

Paid collection requests for all events have been submitted in January, collections are currently underway.

Generally recoveries are proceeding smoothly and without query from reinsurers.

6. Arrow

6.1. Fee forecasts

Following is a summary of the changes to the Arrow fee forecast.

		\$ million
Previous forecast	30 November 2014	
Delivery costs	Shared Property incurred to date	
	Forecast Flippers included	
	Design Manager position Extended	
	7 Additional Vehicles required	
	400 additional Claims from EQC	
	Ground Improvement work	
Delivery variance		
Adjusted forecast	31 January 2015	

The Arrow fee forecast is generated from cost to date plus cost of work still to complete. Unfavourable delivery variances have continued over October and November as jobs, particularly repairs, struggle to reach contract stage. This issue will be addressed in detail before the next forecast round. KPMG is currently assigned to carry out a comprehensive review of Arrow costs.

Following is a reconciliation of Arrow costs to the 31 December 2014 Actuarial valuation.

		\$million
Overcap	PMs	
	Corporate	
	Non staff costs	
	Tail	
Less	January 2015 Change Requests	
	Total	
Out of scope	Total	
Total fee		
Escalation		
Fee per Finity valuation		

6.2. KPIs

Finity have prepared the Arrow KPI report for the quarter ended 31 December 2014. The outcome is detailed in the following table.



7. Treasury

Treasury Commercial Operations Unit provides update papers (Aide Memoires) financial and other matters to the Shareholding Ministers. Southern Response provide input to and review of these papers. Following at **Appendix 1** is a recent Aide Memoire regarding the 31 December 2014 Actuarial Valuation.

8. Professional Fees

Following is a detailed listing of professional fees for the quarter ended 31 December 2014.

Supplier	Total Costs Q2	Year to Date Costs
BELL GULLY		
FINITY		
WYNN WILLIAMS & CO		
ICNZ		
MARSH LIMITED		
DIRECTORS	65,250	130,500
KPMG		
JOHN MARSHALL QC		
DELOITTE		
DLA PHILLIPS FOX		
MCNULTY ENGINEERING MANAGEMENT LTD		
OPUS INTERNATIONAL CONSULTANTS LTD		

Supplier	Total Costs Q2	Year to Date Costs
AURECON NEW ZEALAND LTD		
THOMPSON & CLARK INVESTIGATIONS LTD	11,020	18,971
LANE NEAVE LAWYERS		
OCTANT LTD		
Insurance & Savings Ombudsman		
BARRY PATERSON, QC		
DAISY WILLIAMS BARRISTER		
IAG NZ LTD-CORPORATE PARTNERSHIPS		
BURRADOO CONSULTING		
I G ROWLEY & ASSOCIATES LTD		
PWC		
AON BENFIELD NZ LTD		
EAP SERVICES LIMITED		
HURIA ANDERS LIMITED		
HIGGS DESIGN LIMITED		
HAY GROUP LIMITED		
IRESS MARKET TECHNOLOGY NZ LTD		
IDEAS SHOP LTD		
VARGO AND LEWIS LTD		
CHAPMAN TRIPP		
SITE SAFE NEW ZEALAND INC		
FIRST AVENUE PROPERTY		
NEW ZEALAND FINANCIAL PLANNING LTD		
JANE SEVERN		
HEIKE MCCAHERN		
JT LAW		
DENISE TOCKER		
Institute of Internal Auditors		
INFOLOG		
Grand Total	1,203,654	2,200,557

9. Current Activity

- EQC recoveries
- Reinsurance recoveries
- Actuarial valuation/repairs analysis

Agenda item : 17 **Purpose :** For Noting

TO : Board of Directors
FROM : CFO
DATE : 15 July 2015
TOPIC : CFO Update

1. June Management Accounts

1.1. Executive Summary:

SR Claims Handling Expenses \$'000

	MTD			YTD		
	Actual	Budget	Variance	Actual	Budget	Variance
Staff Costs						
Professional Fees						
Other						
Total Claims Handling Expenses						

EQ Claims - Cashflow Summary \$'000

	Month to Date			Year to Date		
	Actual	Budget	Variance	Actual	Budget	Variance
Claim Payments Made	(41,366)	(72,932)	(31,566)	(494,519)	(802,252)	(307,733)
Reinsurance Recoveries	5,894	17,493	(11,599)	101,327	192,423	(91,096)
Net Cash Movement	(35,472)	(55,439)		(393,192)	(609,829)	

Escrow balances (reinsurance prefunded)

Earthquake Event	\$000s
04-09-2010 (Darfield)	12,000
Total Funds in Escrow	12,000

Comments:

Claim payments are lower than budget as a result of rebuilds and repairs activity being behind forecast. Reinsurance recoveries follow actual claims payments plus a short-term forecast. Funds on escrow are now only relating to the Darfield event as Lyttelton is fully drawn.

Staff numbers are ahead of budget due to delayed runoff resulting in costs being higher than budgeted. Professional fees are above budget due costs incurred in monitoring problem builders

1.2. Income Statement:

The gross central estimate of the earthquake claims liability increased by \$6 million in June, reflecting Finity's latest valuation as at 30 June 2015 giving a total increase of \$334 million year to date which is offset by an increase in reinsurance receivables of \$12 million. These items are the main contributors to the deficit for the year to date of \$291 million.

The following table summarises the increase in the actuarial valuation for the year to date.

Source of increase	Full year increase (\$ million)	June quarter increase (\$ million)	Explanation
EQC claims flow	191	(14)	New Overcap claims from EQC
Cost and number of repairs	87	53	<ul style="list-style-type: none">Detailed engineering input requiring more expensive foundation repair or replacementRepair of interior damage as a consequence of lifting housesReplacement of heavyweight cladding and roofing in poorer quality land areasUpdating for current engineering and land technical categoryMore repairs expected
Repairs to rebuilds	21	-	Repair costs above the 80% uneconomic to repair threshold
Inflation	11	(24)	Additional allowance for future inflation due to the lengthening of the payment pattern, less decrease in building cost inflation
Other	24	(9)	Out of scope average claim size increase, project management fees and valuation model adjustments
Total	334	6	

Within investment income is a write down of the Riccarton property by ████████ to market value being the land value, recognising there is nil value in the building itself given the cost of repairs required. Additionally, a provision of ████████ has been made for writedown of the Cantabrian to reflect Housing New Zealand's build cost for a similar property. The final transfer cost is still under discussion but Southern Response's cost did include a number of features reflecting its show home objective which would not be included in a Housing New Zealand build scope for a similar property.

The budgeted surplus of \$6.1 million has assumed the central estimate for the claims liability remained unchanged from the 31 March 2014 valuation used in the budget, hence the unfavourable variance of \$291 million.

Southern Response Earthquake Services Limited		30 June 2015		SOUTHERN RESPONSE Unapare ki te Tonga				
Income Statement for the period ending: \$000		Actuals Current Month	Budget Current Month	Variance to Budget	Actuals YTD	Budget YTD	Variance to Budget	FULL YR BUDGET
Cost of Claims - Net of Reinsurance	(7,226)	-	(7,226)	(321,698)	-	(321,698)	-	
Adjustment to Risk Margin	3,619	-	3,619	19,888	-	19,888	-	
Unrealised Gains/(Losses) on Fair Value of Claims Liability	(2,309)	(864)	(1,445)	(14,793)	(19,285)	4,492	(19,285)	
Unrealised Gains/(Losses) on Fair Value of Reinsurance Receivables	516	57	464	5,799	2,942	2,857	2,942	
Adjustment to Provision for Claims Handling Expenses	-	-	-	-	-	-	-	
Claim Handling Expenses	-	-	-	-	-	-	-	
Total Cost of Claims	(13,886)	(812)	(13,073)	(321,636)	(16,343)	(305,293)	(16,343)	
Gain/(Loss) on Sale of Fixed Assets	-	-	-	(68)	-	(68)	-	
Investment Income	(457)	166	(623)	15,896	9,369	6,527	9,369	
Restate PV of Crown Receivable	3,659	1,085	2,573	14,581	13,025	1,556	13,025	
PRE TAX (DEFICIT)/SURPLUS	(10,684)	439	(11,123)	(291,226)	6,052	(297,278)	6,052	
Taxation	-	-	-	-	-	-	-	
AFTER TAX (DEFICIT)/SURPLUS	(10,684)	439	(11,123)	(291,226)	6,052	(297,278)	6,052	

Claims handling expenses

Overall claims handling expenses are \$437k unfavourable to budget for the month with a mix of favourable and unfavourable variances on individual expense lines.

Southern Response Earthquake Services Limited		Jun-15		SOUTHERN RESPONSE Unapare ki te Tonga					
Claims Handling Expenses for the month		Directors	Corporate & Support Services	Operations - ChCh	Operations - Auck	TOTAL	Budget	Variance	Full Year Budget
Staff Costs	-	-	8,581	1,150	-	9,731	5,833	(3,898)	70,000
Motor Vehicle	-	-	12,963	12,020	-	25,256	46,464	21,208	559,161
Office Costs (postage, printing etc.)	7,786	-	5,305	14	-	13,104	16,734	3,629	200,813
Travel & Accommodation	-	-	36,580	115	-	36,695	15,916	(20,779)	490,992
Communications	-	-	-	-	-	-	-	-	-
Legal & Professional fees	-	-	34,264	125,021	-	159,285	107,960	(51,325)	1,573,808
Property Exp and Rents paid	-	-	-	41,168	-	41,168	38,645	(2,523)	537,365
Depreciation & Amortisation	-	-	191,416	107	-	191,523	277,867	86,344	2,734,400
Computer & IT costs (incl. Telephones)	-	-	-	-	-	-	-	-	-
Total Claim Handling Expenses									

Southern Response Earthquake Services Limited		Jun-15		SOUTHERN RESPONSE Unapare ki te Tonga					
Claims Handling Expenses for the year to date		Directors	Corporate & Support Services	Operations - ChCh	Operations - Auck	TOTAL	Budget	Variance	Full Year Budget
Staff Costs	-	-	109,780	7,321	11	117,113	70,000	(47,113)	70,000
Motor Vehicle	10,172	-	227,752	213,764	31,228	482,916	559,161	76,244	559,161
Office Costs (postage, printing etc.)	58,338	-	60,991	7,045	10,850	137,225	200,813	63,578	200,813
Travel & Accommodation	-	-	633,149	642	-	633,791	490,992	(142,799)	490,992
Communications	-	-	-	-	-	-	-	-	-
Legal & Professional fees	-	-	353,125	1,317,124	239,705	1,909,954	1,573,808	(336,146)	1,573,808
Property Exp and Rents paid	-	-	-	585,668	-	585,668	537,365	(48,303)	537,365
Depreciation & Amortisation	-	-	1,834,167	11,899	23	1,846,044	2,734,400	888,356	2,734,400
Computer & IT costs (incl. Telephones)	-	-	-	-	-	-	-	-	-
Total Claim Handling Expenses									

Below are comments on the principal variances from budget for expenses;

Expense line	Variance \$000 favourable/ (unfavourable)	Comment
Staff costs		Staff numbers at 149 are 25 over budget at June 2015 but have been below budget for much of the year. Staff costs ytd however are below budget as this included a 15% bonus provision which has not initially been accrued in the financial statements due to a carryover of provision from the 2014 year. Accrual of the bonus commenced in January at a rate of 6% being the projected payout

Expense line	Variance \$000 favourable/ (unfavourable)	Comment
		rate.
Communications	(21) m (143) ytd	Customer survey and repair process are key areas of focus for the month. This reflects the new strategies which have been rolled out during the year with a strong focus on customer communications. The latest forecast full year outcome aligns with actuals.
Legal & Professional cost	██████ ██████	Compared to budget, additional legal fees have been incurred on declaratory judgement and continue to be incurred on issues with poor performance of builders. Over budget professional fees include closeout of the TRR review, Arrow value for money, shared property contracts, Arrow cost base reviews carried out by KPMG, and additional technical engineering support. TRR is being supported by a seconded lawyer from DLA Piper.
Computer & IT	36 m 888 ytd	The increase in Amigo support costs have impacted from January (budgeted for the full year) which offsets savings in other areas. A number of initiatives have not commenced (e.g. preliminary work on an Amigo replacement which is now underway) and this combined with savings on Amigo costs for the first 7 months have generated the YTD favourable variance.

PROACTIVELY RELEASED BY SOUTHERN RESPONSE EARTHQUAKE SERVICES LTD

2. Balance Sheet:

Southern Response Earthquake Services Limited			
Balance Sheet			
S000			
	30-Jun-15	BUDGET	30-Jun-14
SHAREHOLDERS' EQUITY			
Ordinary Share Capital	95,588	95,588	95,588
Crown Convertible Pref Shares	382,351	382,351	382,351
	477,939	477,939	477,939
<u>Property Revaluation Reserve</u>			
Closing Reserve	2,052	-	2,052
<u>Retained Earnings</u>			
Opening Retained Earnings	(590,691)	(529,681)	(474,939)
After Tax Surplus/(Deficit)	(291,226)	439	(115,752)
Closing Retained Earnings/(Deficit)	(881,917)	(529,241)	(590,691)
TOTAL SHAREHOLDERS' (DEFICIT)/EQUITY	(401,926)	(51,302)	(110,699)
<i>Represented by:</i>			
ASSETS			
Sundry Debtors	8,283	-	7,373
EQC Debtor	2,069	1,968	4,794
Crown Receivable	387,644	369,736	373,063
Property, Plant & Equipment	1,117	1,546	1,432
Intangible Assets	46	3	46
Reinsurance (Cat) Debtors - EQ	1,245,873	16,430	1,233,315
Discounting on Reinsurance (Cat) Debtors - EQ	(1,663)	(292)	(7,462)
Reinsurance Receipts	(1,143,917)	-	(1,062,369)
Net EQ Recovery Receivable	100,293	16,138	183,483
Reinsurance Debtors - Aggregate (inc per Risk)	1,048	-	265
<u>Investments</u>			
Total Cash & Term deposits	198,284	22,431	135,442
Bonds & TBills (Government)	99,754	-	579,178
Bonds (Corporate)	0	-	40,656
Equities	303	-	375
Property HFS	2,280	-	3,591
Total Investments	102,336	-	623,801
TOTAL ASSETS	801,121	411,822	1,329,700
<i>Less:</i>			
LIABILITIES			
Sundry Creditors	3,995	6,262	6,686
Shared Properties - other insurer funds	1,571	-	-
<u>Insurance Provisions</u>			
Non EQ Event Estimate	881	-	869
Gross EQ Event Estimate	2,698,362	2,296,320	2,364,388
Claim Payments made	(1,618,269)	(2,004,408)	(1,067,350)
Claims Handling Provision	48,719	38,956	62,923
Risk margin	107,225	133,832	127,114
Discounting of Gross Event Cost less paid	(39,438)	(7,839)	(54,231)
Net Outstanding EQ Claims	1,196,599	456,861	1,432,844
Total Net Outstanding Claims	1,197,480	456,861	1,433,713
TOTAL LIABILITIES	1,203,047	463,124	1,440,399
NET (LIABILITIES)/ASSETS	(401,926)	(51,302)	(110,699)

3. The gross earthquake liability and gross reinsurance receivable reflect Finity's latest actuarial valuation dated 30 June 2015

The cash and investments position reflects the higher opening cash position and slower progress on claim settlements than budgeted.

EQC receivables reflect lower than budgeted assignments as a result of slowing cash settlements and deferred build starts and write-back of balances not considered recoverable.

'Property held for sale' relates to the Riccarton Road property (land only) valued at [REDACTED] as at 30 June 2015, plus the TC3 show home 'The Cantabrian' which is contracted to be sold to Housing Corporation NZ.

There are no immediate issues of concern in the balance sheet.

Going concern

Cashflow forecasts prepared on the basis that the risk margin is utilised to pay claims (SR version), indicate that Southern Response will require drawdowns of \$423 million on the \$500 million uncalled capital facility so it currently has adequate resources available to meet forecast claim liabilities.

However the forecast remaining balance of the uncalled capital facility of \$77 million could be significantly eroded by a further increase in the claims liability such as has occurred in previous quarterly valuations.

Management in conjunction with Finity are closely monitoring movement in the key elements of the actuarial valuation so as to give early warning of increases which threaten the solvency position and require the company to seek an extension of the uncalled capital facility.

3.1. Cashflow Statement:

Statement of Cashflows for the Period Ending:		30 June 2015				
\$000						
	Actuals Current Month	Budget Current Month	Variance to Budget	Actuals YTD	Budget YTD	Variance to Budget
CASH FLOWS FROM OPERATING ACTIVITIES						
Interest Received	470	166	304	16,737	9,370	7,367
Claim Costs - Non Earthquake	(2)		(2)	(1,053)	-	(1,053)
Claim Costs - Earthquake	(53,086)	(72,932)	19,846	(547,605)	(875,184)	327,579
Reinsurance Recoveries	221	17,493	(17,272)	101,548	209,916	(108,368)
Payments to Suppliers and Employees/GST Refunds	(2,979)	(1,907)	(1,072)	(25,543)	(27,009)	1,466
Net Cash Inflow from Operating Activities	(55,374)	(57,180)	1,806	(455,914)	(682,907)	226,993
CASH FLOWS FROM FINANCING ACTIVITIES						
Proceeds from Crown Receivable	-	-	-	-	22,000	(22,000)
Net Cash Inflow/(Outflow) from Financing Activities	-	-	-	-	22,000	(22,000)
CASH FLOWS FROM INVESTING ACTIVITIES						
Proceeds from Sale of Property, Plant and Equipment	-	-	-	27	-	27
Payments for Property, Plant and Equipment	(45)	(10)	(35)	(396)	(120)	(276)
Sales and Maturities of Financial Assets	(46)	55,000	(55,046)	519,125	580,000	(60,875)
Net Cash Inflow/(Outflow) from Investing Activities	(91)	54,990	(55,081)	518,756	579,880	(61,124)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	(55,465)	(2,190)	(53,275)	62,842	(81,027)	143,869
Add Opening Cash and Cash Equivalents	253,749	24,633	229,116	135,442	103,470	31,972
ENDING CASH AND CASH EQUIVALENTS	198,284	22,443	175,841	198,284	22,443	175,841

Claim payments and reinsurance recoveries continue to run below budget due to lower than expected rebuild and repair activity.

The remaining \$100 million is now forecast to be drawn in August 2015 with drawdowns of the Crown Receivable commencing in January 2016.

4. Claim Payments

Life to date claim payments and outstanding claims are summarised by event and claim type in the following table.

Claim Type	Gross EQ Claims Liability by Claim Type \$000s	Payments made by Event & Claim Type \$000s				
		Total	September	February	June	Minors
House Non-Lost Rent	2,541,038	1,492,396	481,571	950,324	37,185	23,316
House Lost Rent	16,289	14,128	2,672	10,692	638	126
Contents Non-Temp. Accom	21,916	16,429	2,070	13,895	317	146
Contents Temp. Accom	111,502	88,433	19,202	65,368	2,663	1,200
Motor	6,469	5,929	1,259	4,332	189	149
Boat	29	29	9	18	1	1
Other	1,119	924	628	218	43	35
Total	2,698,362	1,618,269	507,411	1,044,848	41,036	24,973
Gross Inflated Central Estimate		2,698,362	795,989	1,814,888	56,697	30,788
Gross Outstanding Claims		1,080,094	288,579	770,040	15,660	5,815

5. Earthquake Claims Liability

The following tables contain analysis of the Earthquake Claims liability as at and for the month ended 30 June 2015.

EQ CLAIMS LIABILITY AS AT 30 June 2015



\$000	Sept	Feb	June	Minors	TOTAL
Gross Central Estimate	(795,989)	(1,814,888)	(56,697)	(30,788)	(2,698,362)
Claims Handling					
Risk Margin					
Less: Payments to date	507,411	1,044,848	41,036	24,973	1,618,269
Discounting	10,434	28,229	614	161	39,438
Outstanding Liability	(320,025)	(854,696)	(15,817)	(6,063)	(1,196,600)
Gross Reinsurance Receivable	595,000	595,000	43,516	12,357	1,245,873
Less: Received to Date	(513,718)	(595,000)	(33,789)	(1,410)	(1,143,917)
Discounting	(938)		(614)	(111)	(1,663)
Outstanding Reinsurance Receivable	80,344	(0)	9,113	10,836	100,293
Net Outstanding Claims Liability	(239,681)	(854,696)	(6,704)	4,773	(1,096,307)

MVMT IN EQ CLAIMS LIABILITY FOR MONTH ENDING:

30 June 2015



\$000	Sept	Feb	June	Minors	TOTAL
Opening Outstanding Claims Liability	(330,342)	(885,292)	(18,142)	(5,931)	(1,239,708)
Mvmt:					
Change in Gross Central Estimate Valn	1,220	(7,362)	1,252	(630)	(5,520)
Release Claims Handling Provision					
Change in Risk Margin Valn					
Less Payments made in Period	10,360	41,342	1,176	537	53,415
Amortisation of Discounting	(341)	(1,856)	(119)	7	(2,309)
Closing Outstanding Claims Liability	(320,025)	(854,696)	(15,817)	(6,063)	(1,196,600)
Opening Reinsurance Receivable	80,196	(0)	10,891	10,617	101,704
Mvmt:					
Change in Reinsurance Receivable			(1,893)	187	(1,706)
Reinsurance funds collected in period	(221)				(221)
Amortisation of Discounting	369		115	32	516
Closing Reinsurance Receivable	80,344	(0)	9,113	10,836	100,293

6. Southern Response Forecasts

Following are the forecast income statement, balance sheet and statement of cashflows for the years ended 30 June 2016 to 30 June 2019 incorporating the actual results to 30 June 2015.

The forecast is based on Southern Response's latest claims handling expenses forecast and the claims liability and payment patterns per the Finitv 30 June 2015 actuarial valuation.

Assumptions on which this forecast is based, with the exception of staff numbers, have not changed since the previous forecast.

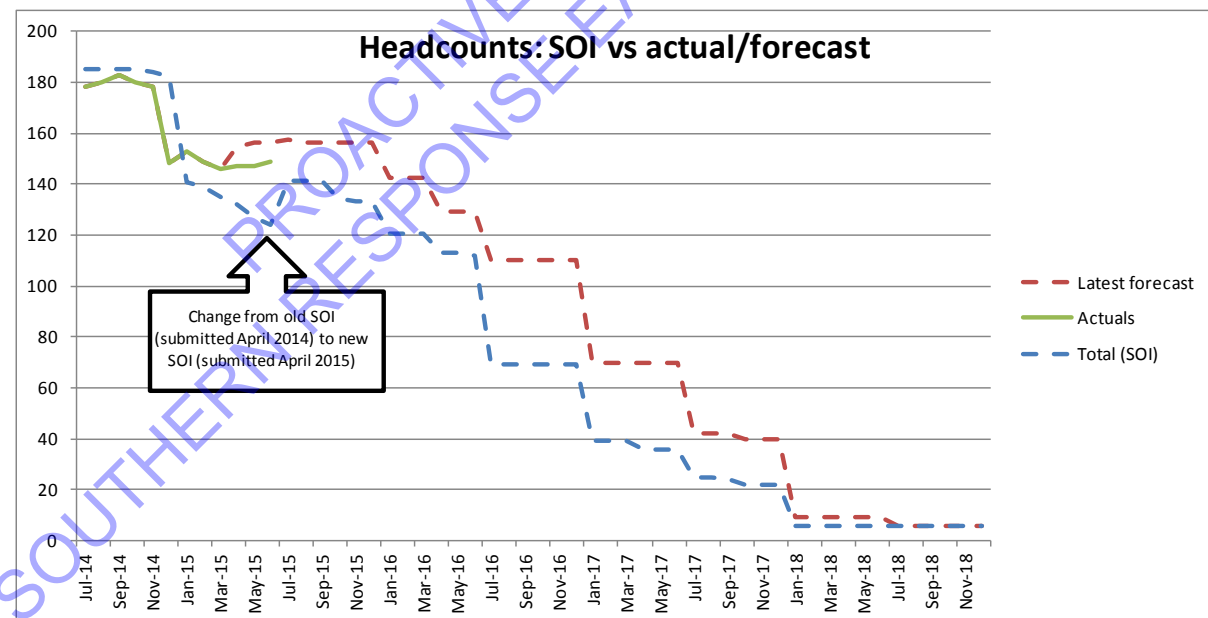
The increase in the claims liability as a result of the recent actuarial valuation has resulted in a deficit in the income statement and deficit equity of \$402 million at 30 June 2015. The deficit equity continues over the forecast period until the uncalled capital facility is drawn down by \$423 million in 2017 and 2018 which returns the company to a positive equity position in 2018.

Following is a summary of equity for the current forecast and the previous SOI forecast presented to the Board in April 2015. The large movement in the 2017 year is due to the movement in cash flow requirements due to a further delay in projection of construction starts.

Equity/(Deficit) \$000	2015	2016	2017	2018	2019
Current forecast	(401,926)	(409,903)	(222,175)	759	0
Previous forecast	(402,392)	(408,491)	(174,379)	1,054	0
Movement	466	(1,412)	(47,796)	(295)	0

The main variance between the SOI and the current forecast as detailed in the following table relates to the claim handling expenses, which have been adjusted to reflect extended staff requirements into the 2017 and 2018 years, see following graph, due to higher claims numbers from EQC and increasing claims complexity particularly in repairs.

CHE \$000	2015	2016	2017	2018	2019
Current forecast					
Previous forecast					
Movement					



Forecast Income Statement

SR version



	Y/E 30 Jun -15	Y/E 30 Jun -16	Y/E 30 Jun -17	Y/E 30 Jun -18	Y/E 30 Jun -19
	ACTUAL \$000	FORECAST \$000	FORECAST \$000	FORECAST \$000	FORECAST \$000
(CR)/DR					
Investment Income	(15,829)	(4,159)	(1,885)	(1,323)	(348)
Total Income	(15,829)	(4,159)	(1,885)	(1,323)	(348)
Claims Handling Expenses					
Depreciation					
Marketing & Communications					
Motor Vehicle					
Office Costs					
IT Costs					
Property Costs					
Staff Costs - Salaries					
Staff Costs - Other					
Travel & Accommodation					
Directors fees and expenses					
Legal and Professional					
Other Costs					
Gross CHE					
Reversal of CHE provision					
Net CHE					
Additional provision per Finity					
Additional CHE provision					
Risk Margin					
Amortisation of disc on OS Claims	14,793	23,990	11,531	3,489	428
Amortisation of disc on Reinsurance	(5,800)	(1,374)	(213)	(68)	(6)
Total Cost of Claims	310,803	22,616	11,318	5,215	422
Restate PV of Crown Receivable	(14,581)	(10,481)	(1,875)	0	0
(Gain)/Loss on disposal of fixed assets	0	0	713	175	106
(Surplus)/Deficit Before Tax	291,226	7,977	8,271	4,066	180
Taxation	0	0	0	0	0
(Surplus)/Deficit After Tax	291,226	7,977	8,271	4,066	180

Forecast Balance Sheet

SR version



(CR)/DR	Y/E 30 June 15	Y/E 30 June 16	Y/E 30 June 17	Y/E 30 June 18	Y/E 30 June 19
	ACTUAL \$000	FORECAST \$000	FORECAST \$000	FORECAST \$000	FORECAST \$000
EQUITY					
Crown Conv Pref Shares	(382,351)	(255,219)	0	0	0
Ordinary Share Capital	(95,588)	(222,720)	(673,938)	(900,938)	(900,938)
Total Share Capital	(477,939)	(477,939)	(673,938)	(900,938)	(900,938)
Opening Retained Deficit/(Earnings)	588,639	879,865	887,842	896,113	900,179
Transfer to Crown					578
(Surplus) Deficit	291,226	7,977	8,271	4,066	180
Closing Retained Earnings	879,865	887,842	896,113	900,179	900,938
TOTAL DEFICIT/(EQUITY)	401,926	409,903	222,175	(759)	(0)
Represented By:					
ASSETS					
Receivable From Crown	387,644	265,125	0	0	0
EQC Debtor	2,069	0	0	0	0
Sundry Debtors	8,283	4,142	2,071	0	0
Fixed Assets	1,163	1,070	325	128	0
	399,159	270,337	2,396	128	0
INVESTMENTS					
Cash & Cash Equivalents	198,284	24,702	24,812	38,269	0
Investments (incl Tbills)	100,057	0	0	0	0
Property Held for Sale	2,280	0	0	0	0
	300,621	24,702	24,812	38,269	0
TOTAL ASSETS	699,780	295,040	27,207	38,397	0
<i>Less:</i>					
LIABILITIES					
Other Creditors	(5,565)	(3,003)	(1,502)	0	0
UNDERWRITING PROVISIONS (EQ)					
Total Outstanding Claims					
Due within 12 Months	(483,304)	(454,990)	(211,943)	(38,378)	0
Due after 12 Months	(713,873)	(259,630)	(42,151)	0	0
Total Reinsurance Recoveries					
Due within 12 Months	89,730	6,680	6,213	740	0
Due after 12 Months	11,306	6,000	0	0	0
Total Outstanding Claims	(1,096,141)	(701,941)	(247,880)	(37,639)	0
TOTAL LIABILITIES	(1,101,706)	(704,943)	(249,382)	(37,639)	0
NET ASSETS/(LIABILITIES)	(\$401,926)	(\$409,903)	(\$222,175)	\$759	\$0



Forecast Statement of CashFlows	Y/E 30 June 15	Y/E 30 June 16	Y/E 30 June 17	Y/E 30 June 18	Y/E 30 June 19
SR version	ACTUAL	FORECAST	FORECAST	FORECAST	FORECAST
	\$000	\$000	\$000	\$000	\$000
Cash Flows From Operations					
Investment Income Received	16,737	4,159	1,885	1,323	348
	16,737	4,159	1,885	1,323	348
Claims Paid	(551,041)	(483,304)	(454,990)	(211,943)	(37,659)
Reinsurance Recoveries Catastrophe	101,548	89,730	6,680	5,542	746
EQC Funds Advanced	61	0	0	0	0
EQC Funds Received	2,324	2,069	0	0	0
Staff Cost - Salaries					
Other CME Expenses					
Other receipts	1,415	1,359	570	569	0
Payments to other 3rd Parties (CHE)	(12,018)	(8,215)	(6,084)	(2,880)	(198)
	(472,651)	(412,910)	(464,631)	(214,801)	(38,038)
Cash Flows From Operations	(455,915)	(408,751)	(462,746)	(213,478)	(37,691)
Cash Flows From Investing					
Redemption of Treasury Bills	477,874	102,565	0	0	0
Government and Corp Bonds	41,251	0	0	0	0
Purchase of fixed assets	(369)	(395)	(145)	(65)	0
Cash Flows From Investing	518,756	102,170	(145)	(65)	0
Cash Flows From Financing					
Crown Receivable	0	133,000	267,000	0	0
Uncalled capital	0	0	196,000	227,000	0
Crown withdrawal	0	0	0	0	(578)
Cash Flows From Financing	0	133,000	463,000	227,000	(578)
NET CASH MOVEMENT	62,842	(173,581)	109	13,457	(38,269)
OPENING CASH BALANCE	135,442	198,284	24,702	24,812	38,269
CLOSING CASH BALANCE	198,284	24,702	24,812	38,269	0

Going Concern

The financial forecasts have been prepared using a going concern assumption.

At 30 June 2012 Southern Response had a net asset deficit of \$47 million as a result of increases in the estimated level of claim liabilities which included a risk margin of \$244 million. In addition cash flow forecasts prepared indicated that Southern Response's assets might not have been sufficient to meet the claim payment obligations particularly if the full risk margin was required to settle claims.

Consequently, the Crown subscribed to a further \$500 million of uncalled capital to ensure that Southern Response had sufficient cash and capital to meet the payment of claim obligations as they fall due. Cabinet approved the funding arrangement in principle on 24 October 2012 and an amended Crown Support Deed and Subscription Agreement were entered into on 30 January 2013. This funding arrangement is in addition to the Crown Support Deed and Subscription Agreement entered into on 5 April 2012.

At 30 June 2013 Southern Response had net assets of \$5 million as a result of decreases in the estimated level of claim liabilities which included a risk margin of \$150 million. Cash flow

forecasts indicated that Southern Response's would be sufficient to meet the claim payment obligations assuming the full risk margin was required to settle claims.

At 30 June 2014 Southern Response had a net asset deficit of \$111 million as a result of increases in the estimated level of claim liabilities which included a risk margin of \$127 million. The financial forecasts indicated a call of \$105 million being made on the uncalled capital during the 2016-17 financial year and a further \$25 million in the 2017-18 year.

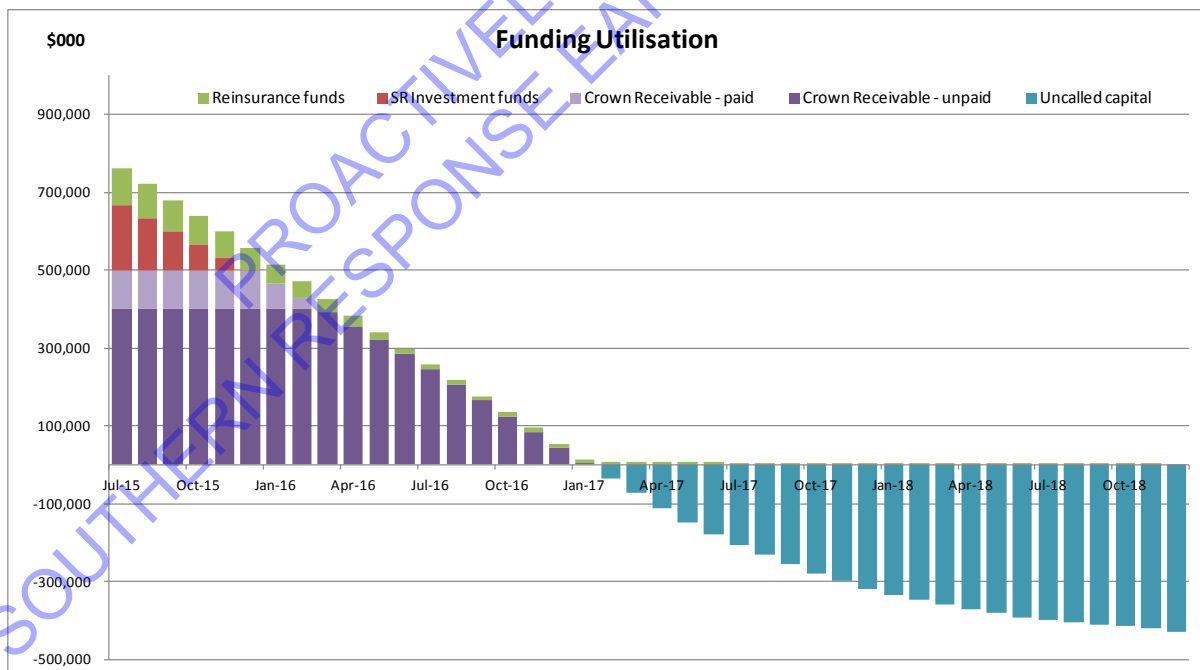
At 30 June 2015 Southern Response had a net asset deficit of \$402 million as a result of further increases in the estimated level of claim liabilities which included a risk margin of \$107 million. The latest financial forecasts indicate a call of \$196 million being made on the uncalled capital during the 2016-17 financial year and a further \$227 million in the 2017-18 year being a total of \$423 million. The leaves a solvency margin of \$77 million remaining from the \$500 million uncalled capital facility.

On the basis of above the preparation of the forecasts for the years ended 30 June 2016, 30 June 2017, 30 June 2018 and 30 June 2019 using a going concern assumption is considered appropriate.

7. Strategic Cashflow

The following funds utilisation graph illustrates the runoff of the various funding sources over the forecast period.

The reinsurance receivable as at 30 June 2015 is forecasted to be largely collected by June 2016 with cash/investment funds fully utilised and drawdowns of the Crown receivable commencing in January 2016 to cover cashflow requirements for the quarter beginning 1 January 2016.



8. Investments

8.1. Investment Portfolio

A detailed listing of cash holdings and bonds at 30 June 2015 follows.

Cash & Term Deposits		30-Jun-15			
Name of Institution	Type	Rate	Maturity	Balance	Balance + Accd Int
ANZ Bank	Operating	3.15%	Cash	15,952,300	
	Call	3.25%	Call	30,000,000	46,067,494
ASB	Call	3.35%	Call	38,856,357	
	Reinsurance	3.35%			
	Escrows			12,123,528	50,979,885
Westpac	Term	3.85%	2-Aug-15	50,000,000	51,236,466
BNZ	Call	3.25%	Call	30,000,000	30,000,000
Kiwibank	Call	3.25%	Call	20,000,000	20,000,000
Total Cash & Term Deposits + Accrued Interest					198,283,845

MONTH END: 30-Jun-15							
NZ Treasury Bills							
Issuer Name	Date Purchased	Face Value	Coupon	Purchase Price	Premium/(Discount) on Purchase	Maturity Date	Market Value (Dirty Price)
NZ Debt Management Office	29-Jun-15	100,000,000	3.110%	99,745,035		29-Jul-15	99,753,556
Total Treasury Bills		100,000,000		99,745,035			99,753,556
Equities							
Name of Holding				Number of Shares	Share Price AUD	Share Price NZD	Market Value
Transtasman Private Equity Fund 07				5,000,000	0.05317	0.0605	302,750
Total Equities Portfolio							302,750

The Treasury Bills are being drawn as required with the balance reduced to \$100 million which is forecast for drawdown in August 2015.

9. Reinsurance

Escrow account balances totalled \$12 million for Darfield at 30 June 2015.

The following table summarises the current position of the Darfield, Lyttelton, Sumner and 23 December 2011 events. This table separately discloses the prefunded and paid collection elements of Darfield and Lyttelton reinsurance claims.

Southern Response Payments and Reinsurance Summary As at 30 June 2015	Darfield Event 4 September 2010 Event 93 + 140			Lyttelton Event 22 February Event 106 +144	Boxing Day 26 December Event 99+142	Sumner Event 13 June 2011 Event 112 +147	23 December 2011 Event Event 122+152
Total claim payments made	508,488,652			1,038,685,332	10,923,346	41,286,537	10,082,336
Less SR deductible	(5,000,000)			(5,000,000)	(5,000,000)	(5,000,000)	(8,303,518)
Less EQC receivable	(1,022,646)			(788,155)	(8,541)	(250,016)	0
Total claim payments recoverable	502,466,006			1,032,897,177	5,914,804	36,036,521	1,778,818
Total claim payments recoverable	Prefund	Paid collection	Advanced Payment	Event Fully Exhausted	Paid collection	Paid collection	Paid collection
Reinsurance requested	420,349,504	31,500,000	50,616,501	1,032,897,177	5,914,804	36,036,521	1,778,818
Layer 1 Max 5,000,000	5,000,000			5,000,000		5,000,000	1,776,063
Layer 2 Max 37,500,000	37,500,000			37,500,000		30,705,447	
Layer 3 Max 52,500,000	52,500,000			52,500,000		0	
Layer 4 Max 300,000,000	249,500,000	25,500,000	25,000,000	300,000,000			
Layer 5 Max 100,000,000	68,000,000	6,000,000	26,000,000	100,000,000			
Layer 6 Max 100,000,000	20,000,000			100,000,000			
Total reinsurance requested	432,500,000	31,500,000	51,000,000	595,000,000	0	35,705,447	1,776,063
Reinsurance received							
Layer 1	5,000,000			5,000,000		5,000,000	1,410,140
Layer 2	37,500,000			37,500,000		28,788,833	
Layer 3	52,500,000			52,500,000			
Layer 4	249,500,000	25,500,000	25,000,000	300,000,000			
Layer 5	68,000,000	4,717,786	26,000,000	100,000,000			
Layer 6	20,000,000			100,000,000			
Reinsurance received per request	432,500,000	30,217,786	51,000,000	595,000,000	0	33,788,833	1,410,140
Total reinsurance requests outstanding	0	1,282,214	0	0	0	1,916,615	365,923
Total reinsurance received	432,500,000	30,217,786	51,000,000	595,000,000	0	33,788,833	1,410,140
Prefunding drawn							
Layer 1	5,000,000			5,000,000			
Layer 2	37,500,000			37,500,000			
Layer 3	52,500,000			52,500,000			
Layer 4	249,500,000			300,000,000			
Layer 5	68,000,000			100,000,000			
Layer 6	8,000,000			100,000,000			
Total reinsurance drawings	420,500,000	30,217,786	50,616,501	595,000,000	0	33,788,833	1,410,140
Undrawn balance (Escrow Balance)	12,000,000		383,499	0			
Claim payments made but undrawn	(150,496)	(0)	0	(0)	5,914,804	331,074	2,755
Claim payments in excess of reinsurance cover				437,897,177	0		

Temporary under/overdrawn amount from escrow of claim payments made at month end (Darfield event) is due to report timing and the day on which month end falls.

The SR deductible for the 23 December 2011 event reflects the level of excess applicable based on actual claim payments to date. The value of excess applying differs across the 4 tranches for this event. 35% of the reinsurance cover for layer 1 has an excess of \$5m. The remaining reinsurance cover for this layer has higher levels of excess.

Paid collections are underway with the latest requests made in June across the 3 events. Generally recoveries are proceeding smoothly and without query from reinsurers.

10. Arrow

10.1. Fee forecasts

The Finance team have created a financial model to forecast the Arrow Overcap fee with more granularity and more robustness than Arrow's own model and structure, and to allow flexing of assumptions. The model reconciles to Arrow's own fee model and the outcome from the model was advised to Finity and incorporated into their 30 June 2015 actuarial valuation.

The model forecasts the project management costs to complete the project. It is driven by the number of properties, and assumed starts and completions per period from the Proteus throughput model, and applies benchmark hours and contracted chargeout rates to calculate the forecast fee.

A review of benchmark hours was completed recently and these revised hours are incorporated into the model. A summary of the changes in the benchmark hours is in section 10.2 of this update.

There are two sections to the fee model:

Project Management

- claims specific time by PMs, APMs and QSs

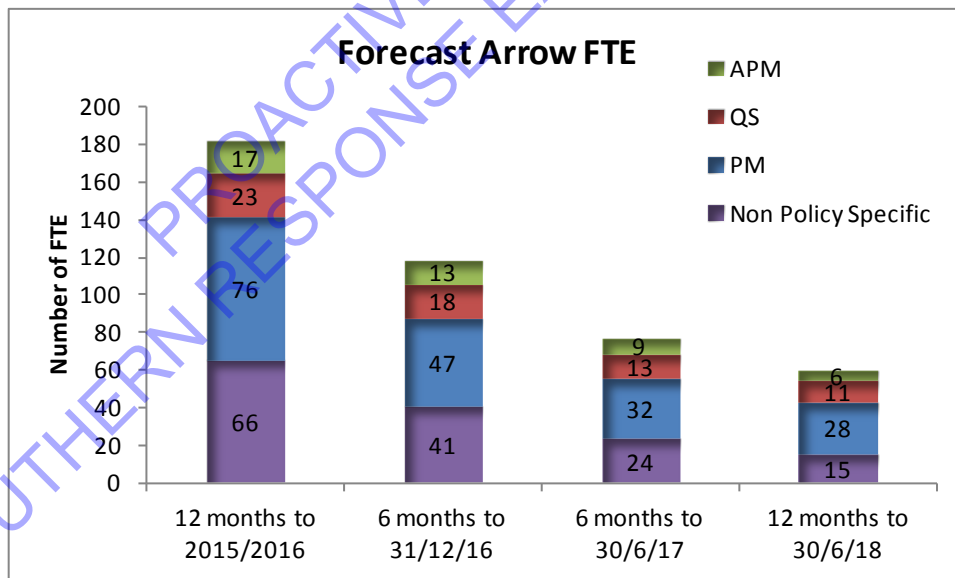
The model calculates the number of hours required to complete the project based on the benchmark hours which are costed according to the contracted hourly rates. As a check the number of FTEs is calculated.

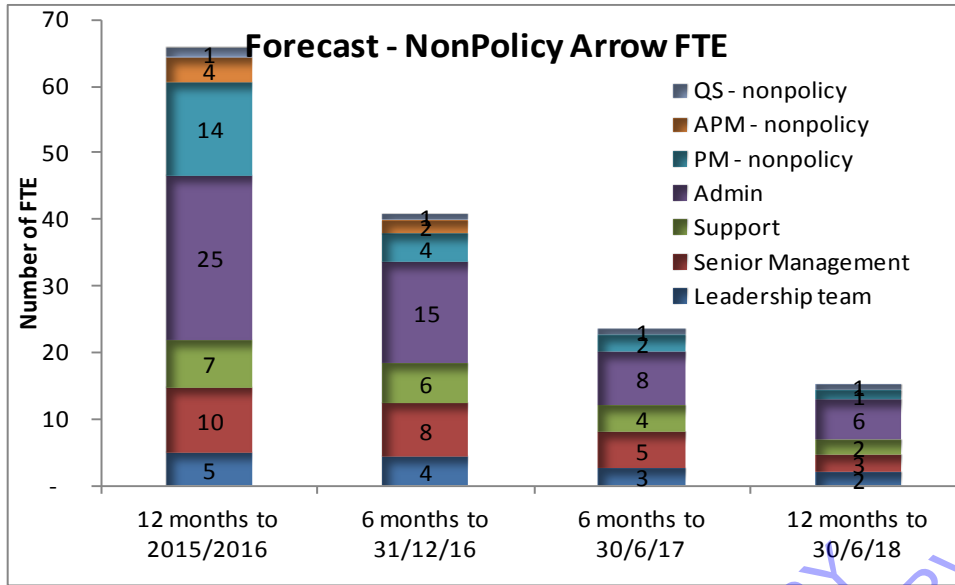
Project Management Office

- leadership team, senior management team, support and admin staff
- non claim specific time by PMs, APMs and QS staff
- office, overhead and IT costs
- vehicle costs
- retention strategy

These are charged at the contracted hourly rates or forecast costs.

The following graphs depict the forecast total Arrow FTE count and an analysis of the non policy specific FTE count:





Following is a summary of the changes to the Arrow fee forecast since the 31 March valuation:

March 2015 Project Fee Forecast \$m	
Increase in benchmark hours	
Additional resources 5 x APMs, 3 x 2ICs (approval pending)	
Retention bonus	
Variance to Actuals	
Corrections to model	
Rereforecast of number of Arrow-managed claims	
June 2015 Project Fee Forecast	

Following is a reconciliation of Arrow costs to the 30 June 2015 Actuarial valuation.

	\$million
Overcap	
Out of scope	
Total fee	
Escalation	
Fee per Finity valuation	

Key Assumptions

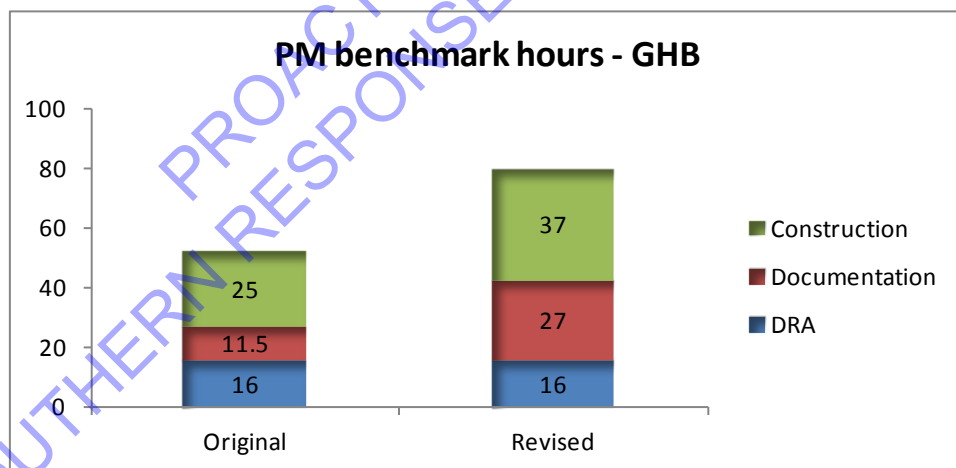
- Estimate completion date June 2018
- Timeline is a function of claim numbers, throughput capacity and market construction capacity
- The model does not escalate costs, this is catered for in the Actuarial valuation
- Throughput
 - 48% of settlement decisions, a total 3749 properties, to build with Arrow split:
 - 1668 rebuilds,
 - 1507 repairs,
 - 575 multis
 - Project duration:
 - Group Home Builds 25 weeks
 - Architectural builds 35 weeks
 - Repairs 25 weeks
- Charge out rates are based on average salary per classification scaled by the contract multiplier

10.2. Benchmark Hours

Project manager benchmark hours for group home builds and repairs were recently reviewed by Arrow and Southern Response. At the time of the original benchmarking exercise in May 2013 Arrow had completed 129 rebuilds and repairs in total so experience was limited.

Group Home Builds

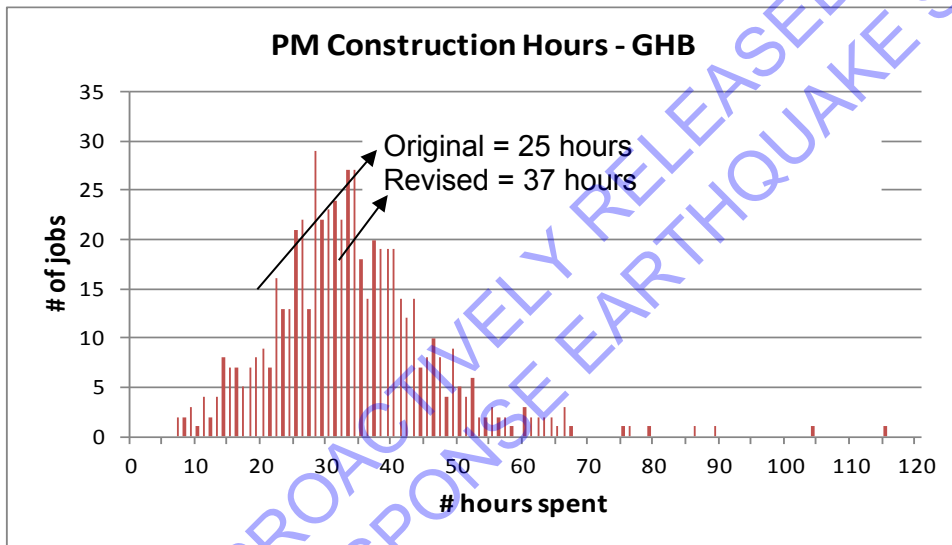
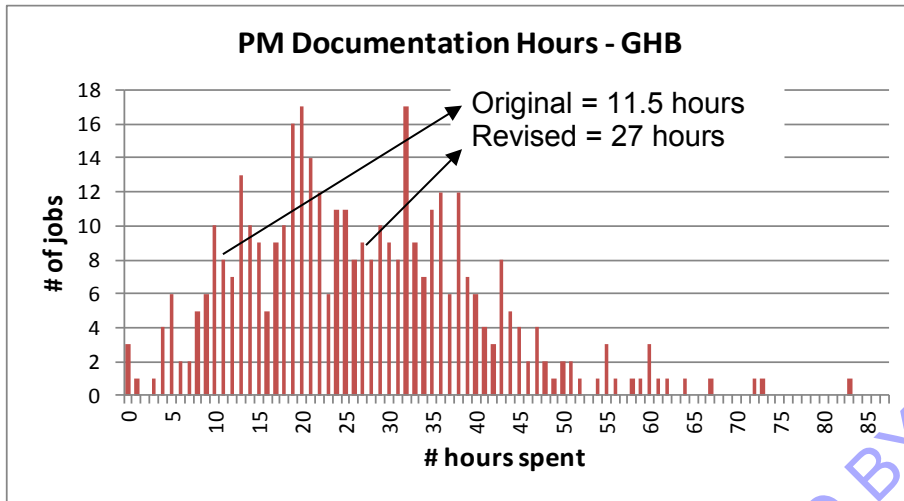
The following graph illustrates the change in group homes benchmark hours and the breakdown of the benchmark.



The increase in PM benchmark hours are due to the following:

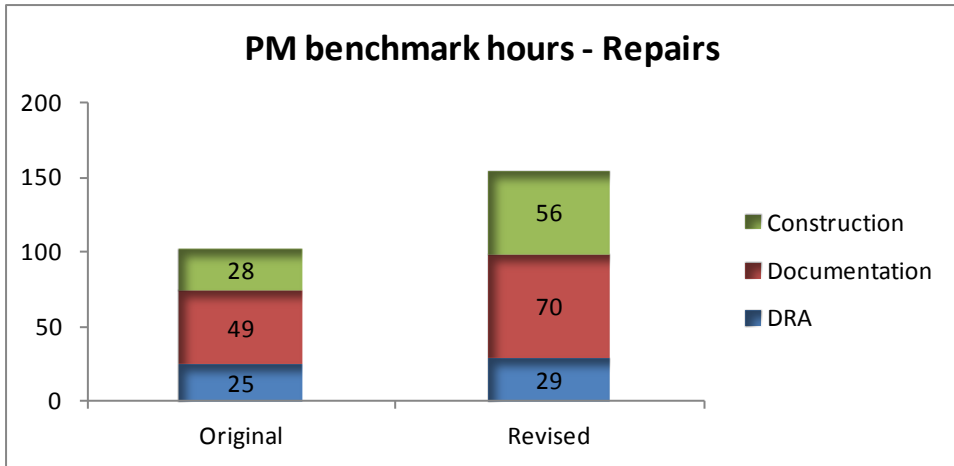
- Arrow PMs are now heavily involved in executing the construction contract
- SFP review, including foundations
- Attending site design meetings
- Handover from the Arrow documentation PM to the Construction PM
- Design meetings with Contractor and the customer

The following graphs show actual hours for documentation and construction for group home builds completed to date. The distribution of the actual hours incurred support the revised benchmarks.



Repairs

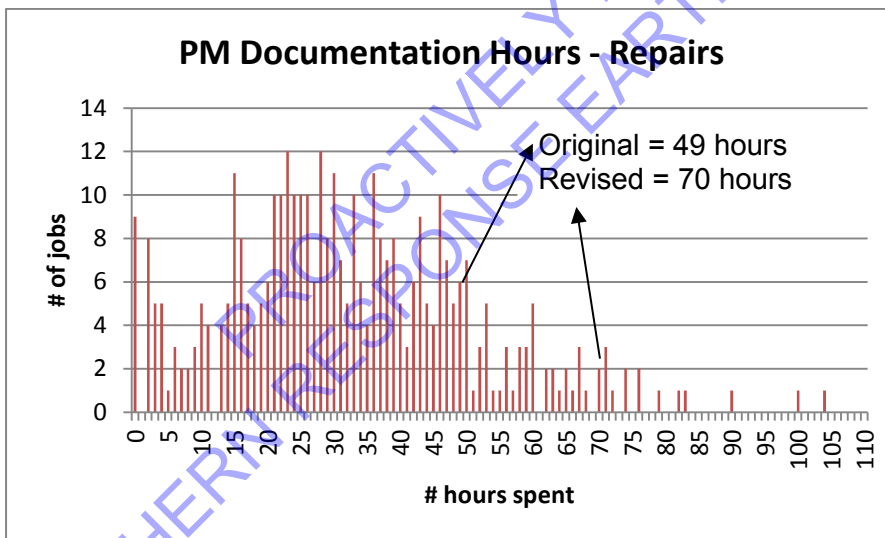
The following graph illustrates the change in repair benchmark hours and the breakdown of the benchmark.

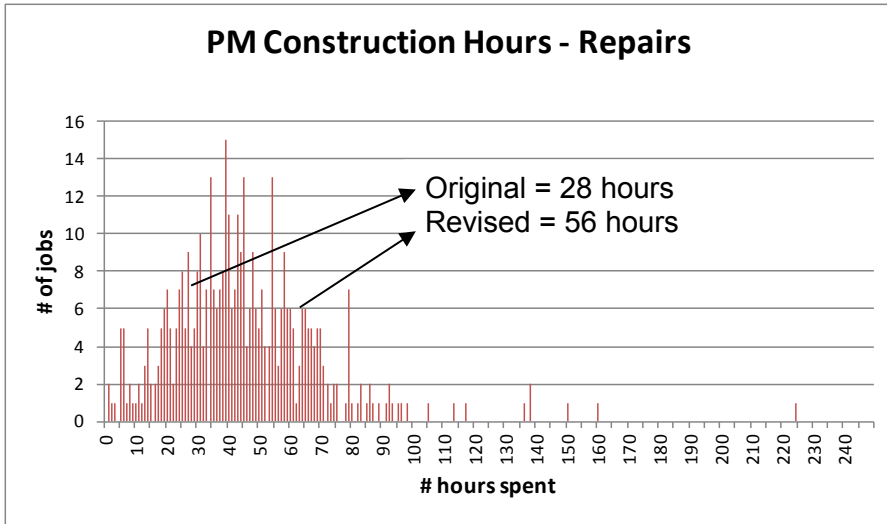


The increase in PM benchmark hours is due to the following:

- Arrow PMs are now heavily involved in executing the construction contract
- Additional time as a result of customer contact intensive repair pilot initiatives
- Additional time to agree variations
- Additional time for PC defects and maintenance management

The following graphs show actual hours by documentation and construction for repairs completed to date. While the distribution indicates the revised benchmarks are higher than experience to date, particularly in the documentation phase, the new repairs strategy has only been in place for the last 3 months so there is minimal if any experience of its impact. Actual hours incurred will be monitored closely over the coming quarters.





[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]

[REDACTED]

10.4. Outstanding Practical Completion Defects

The following table summarises outstanding defects for PCs issued from July 2014 to March 2015 which have therefore been outstanding for more than 90 days. Data inconsistencies in Iviss currently prevent this analysis being run on earlier PCs. A data cleansing exercise is being run by Arrow to enable reporting on older PCs.

Builder	# outstanding PC defects >90 days old	Builder	# outstanding PC defects >90 days old
Cater Construction Ltd	1	Contract Construction	2
Farrell Group Ltd	1	Jennian Homes Canterbury (2012) Ltd	2
Maxim Projects	1	Renovo (Christchurch) Ltd	2
Versatile Homes & Building Ltd	1	Versatile Homes	2
Watts & Hughes Construction Ltd	1	Edifice Building Ltd	2
Maiden Construction Ltd	1	Golden Homes	2
Murray Charles Ltd	1	Signature Homes	3
W. Gartshore Ltd	1	Southern Recon Ltd	3
David Reid Homes Canterbury	1	Switched On Property Maintenance Ltd	4
Milne Construction Ltd	1	Corbel Construction Ltd	4
A J Scott Construction Ltd	1	Peter Ray Homes Ltd	5
Horncastle Homes Ltd	2	Mike Greer Homes Ltd	8
John Creighton Builders Ltd	2	Benchmark Homes Canterbury Ltd	8
Mike Greer Homes North Canterbury	2	TOTAL	64

There has been an improvement in the PC defects clearance statistics over the last month due to both data cleansing and addressing outstanding defects. Management will closely monitor performance in this area over the coming months.

11. Professional Fees Analysis

The professional fees analysis for the June quarter and year to date are contained in the following table.

Supplier	Total Costs Q4	Year to Date Cost
AON BENFIELD NZ LTD		
AURECON NEW ZEALAND LTD		
BECA CARTER HOLLINGS&FERNER LTD		
BELL GULLY - AUCKLAND		
BRUCE GRAY QC		

CHAPMAN TRIPP		
DELOITTE AUCKLAND		
DENISE TOCKER		
DIRECTORS	65,250	261,000
DLA PIPER NEW ZEALAND		
EAP SERVICES LIMITED		
FAIRWAY RESOLUTION LIMITED		
FINITY		
GALVIN CONSULTING LIMITED		
HAY GROUP LIMITED		
HIGGS DESIGN LIMITED		
INFOLOG		
Insurance & Savings Ombudsman		
INSURANCE COUNCIL OF NZ-WGTN		*
IRESS MARKET TECHNOLOGY NZ LTD		
IVIIS LTD		
JANE SEVERN		
KPMG		
LANE NEAVE LAWYERS		
MALTBYS LIMITED		
MARSH LIMITED		
MCNULTY ENGINEERING MANAGEMENT LTD		
MIRIAMA WATSON		
PERFECT SYNERGY		
PRICE WATERHOUSE COOPERS		
SAFE AND SOUND SOLUTIONS LTD		
SUSAN NOLAN & ASSOCIATES		
THE COLLECTION COMPANY		
THOMPSON & CLARK INVESTIGATIONS LTD	7,500	31,471
TML ASSET MANAGEMENT LTD		
TRACY ANNE DOE		
WYNN WILLIAMS & CO		
Grand Total	1,054,185	4,634,401

*includes 2 years of RAS fees

12. AMI Earthquake Insurance Claims

A detailed letter has been prepared by Bell Gully and send to QBE's solicitors Jones Fee responding to all of QBE's queries, bringing together all aspects of the various claims and setting out Southern Response's position on the claim.

The letter includes comment on the differences in engineering approaches to the repair of the Riccarton Road building and indicates Southern Response's willingness to proceed to mediation with the claims.

A detailed analysis has been completed of Southern Response/Arrow's spending on building fitout expenditure since the earthquakes; this can be recovered under the claim as having been incurred.

The following table details the outstanding claims and positions.

Item	Southern Response	QBE	Difference	Comment
Riccarton Road building				QBE's repair methodology is being challenged as not viable
Contents/fit outs				SR is claiming replacement costs for hard fit-outs based on QS analysis, QBE is offering indemnity value
Business interruption				Loss of rent, travel & accommodation, communications costs are being challenged by QBE after having previously been accepted
Total				(before excesses)

A negotiated settlement will fall between the two positions, upon receipt of BE's response Bell Gully will advise on a settlement strategy negotiating parameters can be agreed with the board.

13. Over Cap Claim Closures

The latest statistics for file closures for multi-event properties are:

Date	Total number of properties that have no open claims	Number Closed in Period	Number of Excess refunds in Period	Total number of Overcap properties that have at least one open claim	Required close per month rate to finish in June 2019
20-Mar-15	125			7321	144
20-Apr-15	156	31	19	7324	147
20-May-15	205	49	57	7315	150
23-Jun-15	220	15	4	7337	154

The process is progressing well and consideration is being given to merging this process with the EQC technical process.

14. Statement of Intent Timetable

The final SOI and SPE were submitted to the Shareholding Ministers on 26 June were tabled in Parliament on 1 July 2015 and publicly released on the Southern Response website on 2 July 2015.

15. Year end and Annual Report Timetable

Deloitte have commenced the year end audit fieldwork on 13 July.

Following is the timetable for year-end reporting and annual report preparation. Treasury reporting dates have been confirmed.

Date	Revised date	Action
	Sunday 19 July	Capital Committee
Monday 20 July		Board meeting- <ul style="list-style-type: none"> 30 June mgmt accounts (subject to Finity valuation adjustments) Q4 report Reforecast (required for ComOps submission due 14 Aug**)

Friday 24 July		First draft annual financial statements completed
		Chair/CE report completed
Friday 31 July		Q4 report to ComOps due
		ComOps 2014/2015 YTD Actuals
		Submit CFISnet 30 June results + variance analysis & financial instruments elimination return
Friday 7 Aug		resubmit CFISnet 30 June results incl significant audit adjustments
Friday 14 Aug		ComOps 2015/16 forecast track dataload due (YTD Q1 – Q4)
Monday 10 Aug		CFISnet Off-line disclosures for material financial instruments and insurance information due
Tuesday 11 Aug		A&R papers despatched Board papers despatched
Monday 17 Aug		A&R Committee Board meeting <ul style="list-style-type: none"> • Financial statements • Annual report • Audit clearance/meet with Auditor • Representation letters (Management, Arrow, Board)
Tuesday 18 Aug		Contingencies template due to Treasury
Wednesday 19 Aug		Statement of Representation, FSG-3 Auditor's sign-off certificate
		Auditor clearance to OAG on FSG-3
		Annual report (final copy) to Printer
Friday 28 Aug		Sign off printers proof
	TBC – awaiting Circular	September and October 2015 forecast tracks
Thursday 3 Sept		Despatch Annual Report
Friday 4 Sept (within 15 days of receipt of audit report)		Annual report received by Minister
Friday 11 Sept (within 5 days of receipt)		Minister presents annual report in Parliament
Monday 21 Sept		Board meeting
Friday 25 Sept (within 10 days of Minister receipt)		Annual Report released by SR
Wednesday 30 Sep		ComOps YTD 30 June dataload and Annual Report upload due
Friday 9 Oct		Final date for issue of notice of AGM
Thursday 15 Oct		A&R committee meeting
Thursday 22 Oct		Board meeting
Friday 23 Oct		Board meeting AGM and public meeting
Friday 6 Nov		resubmit CFISnet 30 June results incl small audit adjustments

16. Current Activity

Financial statements/annual report
Arrow fee forecast modelling
Reinsurance recoveries
Actuarial valuation/repairs analysis

Agenda item : 10 **Purpose :** For Discussion

TO : Board of Directors

FROM : Strategic Communications Manager

DATE : 11 August 2015

TOPIC : Planning for AGM and Public Annual Meeting

1. Purpose of paper

At Board's request, a summary has been prepared of the previous year's Annual Public Meeting. Legal and ministerial expectations around the future of these meetings have also been confirmed, given the heightened safety considerations for 2015.

2. Background

The following briefing outlines to the Board a summary of the 2014 meeting, along with subsequent advice sought in preparation for this year's meeting.

2.1. Summary of 2014

Attendees: 31 external RSVPs, though fewer than 10 actually attended on the day.

There were also a number of key staff from both Southern Response and Arrow, build and technical contractors, Treasury and Community groups.

Total costs of the event: \$12,885 (including advertising, venue hire, security, Thompson & Clark)

2.2. Legal advice

[REDACTED]

2.3. Shareholding Minister's office advice

Minister Brownlee's office suggested that SRES proceed with the 2015 Annual Public Meeting unless there is a genuine security threat, given that these meetings have been consistently held in the past. If a security threat were to occur, it is suggested that SRES would notify its shareholding Ministers regarding cancellation of the meeting (and the reasons why).

2.4. Public relations advice

Customers have commented that communication from SRES has improved; the 2015 Annual Public Meeting is an opportunity to demonstrate the progress being made and leverage the opportunity to encourage settlements.

3. Recommendation

That the Board note this paper and accept management's recommendation to proceed with this year's Annual Public Meeting, unless a genuine threat is made.

The safety of staff, Board, contractors, customers and visitors will be a significant factor in the planning and preparation of this year's event.

MEMORANDUM

[CONFIDENTIAL AND COMMERCIALY SENSITIVE]

To	Southern Response Board
Subject	Risk management recommendations – Claimant behaviour
From	Linda Falwasser, Southern Response Strategic Communications Manager
Date	20 July 2015

Context

Southern Response Earthquake Services Limited (SRES) is currently managing a claimant whose behaviour has become increasingly threatening and intimidating towards staff and Board members.

Examples of this behaviour include:

- Advising staff repeatedly that our approach to managing this claim was “not going to end well”
- Alleging, on numerous occasions, that staff have intimidated the claimant and his family, sought to destroy their reputation and attempted bullying
- Making repeated unsubstantiated accusations of staff breaking the law.

Southern Response remains committed to settling all claims as quickly as circumstances allow, including the claim in question. However, due to the challenges posed by the claimant’s behaviour, we have no option but to implement a correspondence strategy specific to this claim, which also addresses correspondence to the Board and requests for information. This will ensure the progression of this claim without distraction, whilst also mitigating any potential risks to our people (Board, Southern Response and Arrow staff, customers, contractors and visitors).

The guiding principles with which we will approach this issue are:

- We remain committed to settling claims fairly and as quickly as circumstances allow
- The wellbeing of our people is paramount
- We maintain a ‘zero tolerance’ attitude regarding threatening behaviour to our people
- We recognise the importance of advice received from other Crown entities, particularly around recognising and acting upon warning signals of threatening and intimidating behaviour.

Notwithstanding, we treat our customers with respect and take their privacy seriously.

In the interests of full disclosure, the following briefing outlines to the Board our strategic approach and risk management recommendations:

Area of interest	Action required
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Area of interest	Action required
1 Security	<ul style="list-style-type: none"> • A full security review of #6 & #10 Show Place by specialists – w/c 20/07/15 • Scenario training with security guards and key staff – w/c 20/07/15 • Staff members at risk offered a residential security review and security response plan – w/c 20/07/15 • Letter and face-to-face briefing to be provided to NZ police. This will be to outline the nature of the issue which could develop into a legitimate threat, in particular regarding assistance for key staff and local Board members. Discuss development of a code/alert in case of an emergency – w/c 20/07/15 • Psychologist to be engaged to review correspondence to date, and be available to give an affidavit if a restraining order is required – w/c 20/07/15 <p>Notes</p> <ul style="list-style-type: none"> • <i>Staff are not to hold meetings at this claimant's house. All meetings should be held at the Southern Response office</i> • <i>Any technical experts needing to conduct inspections at this claimant's house need to be briefed and have Southern Response's lawyer present</i>
2 Implementation of correspondence strategy	<ul style="list-style-type: none"> • Wynn Williams to confirm point of contact for claimant and establish periodic correspondence – 24/07/15 • IT to implement a generic email address for the Legal Risk Manager, for the purpose of OIA and Privacy Act requests for information - 24/07/15 • IT to 'block' the claimant's email addresses from reaching all Southern Response email addresses (with the exception of the Legal Risk Manager), with an automated response to be implemented – 24/07/15 • IT to organise a copy of all blocked emails to be sent to a monitored email inbox – 24/07/15 • Letter to be formally issued to claimant by registered courier only, to be signed by the Chairman of the Board, outlining the implementation of an alternative service arrangement to manage correspondence – 27/07/15

Area of interest	Action required
3 Internal and external communication	<ul style="list-style-type: none"> • Scenario communication plan to be prepared – 24/07/15 <p><i>Internal</i></p> <ul style="list-style-type: none"> • Key information and advice to be prepared for staff. To be presented at Friday training and also issued via email – 24/07/15 • If a media enquiry is received, our reactive statement is to be issued to staff before the enquiry is responded to • Board are to be kept informed on the progress of these actions on a regular basis, including the date of the letter being sent, a copy of the reactive media statement, and key messages <p><i>External</i></p> <ul style="list-style-type: none"> • Seek advice from Wynn Williams regarding Southern Response alerting (face to face) other Crown entities of the safety concerns and risks this claimant may pose – w/c 20/07/15 • Reactive media statement to be prepared and confirmed – 24/07/15 • Briefing to be prepared and issued to Minister’s office under “no surprises” communication approach – 24/07/15 • If a media enquiry is received, our reactive statement is to be issued to Minister’s office before the enquiry is responded to

Action Required

This paper is noted and formal confirmation to proceed with recommendations is given.

PROACTIVELY RELEASED BY SOUTHERN RESPONSE EARTHQUAKE SERVICES LTD

Southern Response Earthquake Services Limited

Minutes of the Meeting of the Board of Directors

Held at 9.20 a.m. on 20 July 2015 at Southern Response, 6 Show Place, Addington, Christchurch

Present

Ross Butler – Chairman of the meeting , Anne Urlwin – Director, Bevan Killick – Director, Sarah Sinclair – Director and Susan Thodey – Director (except 11.05 – 11.10 a.m.)

Apologies

Jenn Bestwick – Director

In attendance

Peter Rose – CEO (except 9.50 – 10.25 a.m.), Tony Feaver – CFO, Casey Hurren – EQ Strategy Manager, and Kent France – General Counsel

██████████ and ██████████ (Finity Consulting) – until 9.50 a.m.

Victor Wells (Legal Risks Manager) – 10.45 – 11.05 a.m.

Linda Falwasser (Strategic Communications Manager) – 11.20 – 11.35 a.m. and 12 noon – 12.40 p.m.

Minutes recorded by Anna Gruczynska.

Welcome

The Chairman welcomed all members of the Board and other attendees, and confirmed the agenda for the meeting.

It was confirmed that the Board had met for Board only time at 8.30 a.m. that morning.

The Chairman noted that this was the last Board meeting attended by Kent France, General Counsel, and on behalf of the Board formally acknowledged Kent's contribution to the company since December 2013, thanked him for his work and extended best wishes for future endeavours.

Quorum

The Chairman, Ross Butler, declared a quorum was present.

Claims Liabilities Valuation at 30 June 2015

Mr ██████████ spoke to the presentation detailing the results of the latest valuation of Southern Response's outstanding earthquake claims liabilities. The Board **noted** a small increase in the gross central estimate relative to the March 2015 valuation, arising primarily from the net impact of:

- fewer overcap claims but an increase and their average size
- higher repair costs
- decreasing impacts of escalation
- lengthening of the payment patterns.

Mr [REDACTED] presented the detailed observations impacting the June valuation:

- a minor reduction in the previously estimated number of future overcap claims, however offset by larger than previously anticipated claim sizes;
- increase in ultimate number of cash settlements, recognising the increase in late cash settlement decisions (“flippers”);
- increase in the average size of a repair and proportion of rebuilds in the mix of new claims coming across from EQC;
- analysis confirming that the originally forecast completion date for 92.5% of all repairs and rebuilds (target volume based on the number of overcap claim prior to the influx of new claims from EQC in 2014-15) has moved slightly from December 2016 to February 2017;
- the lengthening of the payment pattern, anticipated to continue until mid-2019;
- positive cost escalation experience with Canterbury figures below the national index, and further containment of costs achieved by Arrow;
- increase in Arrow costs due to increasing complexity and extended timeline of the project;
- risk margin unchanged, with repair costs and MUB’s remaining the key areas of uncertainty in the valuation.

Arising from Finity’s presentation, the Board requested that:

- Finity engage with Arrow to update the investigation into the cause of increases in repair scopes and the proportion of rebuilds in the mix of new claims coming across from EQC;
- Appropriate messaging be considered as part of the Annual Report preparation around the project completion date for the original target volume and the impact of additional claims received from EQC in 2014-15;

Change in attendance: [REDACTED], [REDACTED] and Peter Rose left the meeting at 9.50 a.m.

The Board adjourned for a brief break and re-convened at 9.55 a.m.

Interests Register

The Directors’ and Officers’ Interest Registers circulated with the papers were **noted**.

No changes or conflicts against any agenda items were identified.

Approval of Minutes

The minutes from the Board meeting of 19 June 2015 had been circulated with the papers.

It was **resolved** that the minutes of the meeting of 19 June 2015 be **accepted** as a true and correct record of the meeting.

Moved: Bevan Killick, **Seconded:** Anne Urlwin, **Carried:** unanimously.

Matters arising from the Minutes

The Board **noted** that Actions 1-8 had been completed, and in particular that stacking of litigated cases in the High Court was now occurring. The Board **noted** that the actions transferred to the H&S Committee were progressing well, and would be addressed in the H&S Committee Update later in the meeting.

The Schedule of Matters Arising was **noted**.

Ratification of Resolutions

The Board **resolved** to **ratify** the decision confirmed by electronic vote since its meeting of 19 June 2015:

- To **approve** the Settlement Deed between Southern Response and [REDACTED] and **authorise** the Chairman and Deputy Chairman to sign the Settlement Deed.

Moved: Anne Urlwin, **Seconded:** Susan Thodey, **Carried:** unanimously.

The Board **noted** that the Deed was executed on 16 July 2015.

Capital Committee Update

The Board **noted** that the Committee met the previous evening, 19 July, and reconvened briefly earlier that morning, following Finity's presentation of the Claims Liability Valuation at 30th June 2015.

The Board **resolved** to **accept** the Committee's recommendation to **adopt** the Claims Liability Valuation at 30th June 2015 for incorporation into the

- 30 June 2015 Management Accounts
- 30 June 2015 Financial Statements
- Opening position of the financial forecast for the years ended 30 June 2016 – 30 June 2019 for the purposes of forecasting the valuation and cashflows of the Crown Receivable.

Moved: Bevan Killick, **Seconded:** Sarah Sinclair, **Carried:** unanimously

The Board **noted** that the valuation at 30 June 2015 is consistent with the numbers on which the Board previously formed a view regarding the company's capital position being that at this point in time, it was not necessary to approach the Shareholding Ministers with a request for further capital. The Board **noted** that the impact of any future movements in the valuation on the company's capital position will be closely monitored.

The Board **noted** the Committee received updates on reinsurance and capital works insurance.

The Board **noted** that the Committee received a paper from the CFO submitting the Finity fees proposal for 2015/16 which overall represented a reduction on the 2014/15 fee levels for regular known work.

The Board **resolved** to **accept** the Committee's recommendation to **approve** the Actuarial Services Contract fees for the 2015/16 and **authorise** management to conclude the agreement with Finity.

Moved: Bevan Killick, **Seconded:** Susan Thodey, **Carried:** unanimously

The Capital Committee update was **noted**.

The Board adjourned for a morning tea break at 10.10 a.m., and was joined by Kate Leary (Financial Accountant) and Bridget Read (Solutions Team Manager), successful applicants for the Women in Banking and Financial Services Summit offered as part of staff professional development programme.

The meeting re-convened at 10.25 a.m.

Change in attendance: Peter Rose re-joined the meeting at 10.25 a.m.

Bank Mandate Amendment – Signatory changes

The CFO spoke to the report seeking the Board's approval to amend the bank mandate for addition and deletion of signatories as a result of recent senior management changes.

The Board resolved to **approve**

- the **removal** of Kent France and John Hunter; and

- the **addition** of Sarah Giles and Linda Falwasser

as authorised bank signatories for Southern Response's ANZ Operating accounts by amending the bank mandate and to **authorise** the Chairman and Deputy Chair to sign the appropriate documentation.

Moved: Anne Urlwin, **Seconded:** Sarah Sinclair, **Carried:** unanimously

Engineering Contracts

The General Counsel referred the Board to two recommendations circulated with the Board papers, and further two recommendations tabled in relation to proposed contracts for engineering services with:

- Miyamoto International New Zealand Limited
- Structex Harvard Limited
- Cook Costello Limited
- Elliot Sinclair & Partners Limited

The Board **noted** the Emergency Procurement Papers supporting each of the recommendations.

The Board **noted** that each of the consultants has been vetted through Arrow's pre-qualification process including due diligence checks and an assessment of health and safety practices and performance as previously requested by the Board, and that additional provisions relating to health and safety have been included in each contract.

The Board **resolved** to **approve** Southern Response entering into an umbrella term agreements with:

- Miyamoto International New Zealand Limited
- Structex Harvard Limited
- Cook Costello Limited
- Elliot Sinclair & Partners Limited

on the terms outlined in the procurement papers provided and to **authorise** two Directors to sign the relevant term agreements.

Moved: Sarah Sinclair, **Seconded:** Anne Urlwin, **Carried:** unanimously

Dashboard

The CFO spoke to the Dashboard report.

The Board discussed aspects of the report, and confirmed they were comfortable with the information covered in the report and its presentation.

Change in attendance: Victor Wells joined the meeting at 10.45 a.m.

The Board discussed PC defects and CAN clearance rate and requested that the CFO follow up and update the Board on CAN reporting.

The Dashboard was **noted**.

H&S Monthly Report

The Legal Risks Manager spoke to the report.

The Board **noted** the update on incident reporting and H&S resourcing.

The Board discussed the need for ongoing emphasis on near miss reporting by main contractors and ways to encourage the practice down the supply chain, and **noted** that the upcoming H&S Awards intended to drive improvements in this area.

The H&S Update report was **noted**.

H&S Committee Update

The Board **noted** that the Committee met on 3rd July, including two site visits. The Committee's discussions focused on site specific risk capture and reporting, with the possibility of incorporating this aspect in the design process.

The Board **noted** the progress with the development of the H&S Framework and implementation of the workplan.

The Board **noted** the update on the Committee Chair's engagement with EQC and requested that a formal Board to Board engagement be sought to coincide with a Board meeting in the near future. A Board site visit to also be scheduled at the August or September meeting.

Change in attendance: Victor Wells and Susan Thodey left the meeting at 11.05 a.m.

HR Committee Update

The CEO spoke to the proposed change of approach in establishing KPI targets for 2015/16, moving away from specific construction and cash settlement targets, towards a single claim settlement target. The proposal had been presented to and approved by the HR Committee via a circular resolution.

The Board discussed the incentive mechanisms in the proposed KPI system to encourage claim progression in early stages of the settlement process, and to encourage the progression of more complex claims.

Change in attendance: Susan Thodey re-joined the meeting at 11.10 a.m.

The Board **noted** the proposed KPI incentive system for 2015/16 and **resolved** to **accept** the HR Committee's recommendation to **approve** the new approach to KPIs and the proposed KPI targets for the period 1 July 2015 – 30 June 2016.

Moved: Anne Uriwin, **Seconded:** Sarah Sinclair, **Carried:** unanimously

KPI results - 2015

[REDACTED]

Change in attendance: Linda Falwasser joined the meeting at 11.20 a.m.

Planning for the AGM and Public Annual Meeting

The Board **noted** the update on arrangements for the company's Annual General Meeting and Annual Public meeting, and discussed the rationale for holding a public meeting.

The Board requested that a paper be presented to the August meeting summarising previous years' attendance, legal and ministerial expectations in terms of holding a public meeting, and safety considerations, and make a recommendation to the Board on the 2015 Public Meeting.

The Board **noted** the required timing for advertising and final decision on the matter in early October.

Annual Report

The Board **noted** the proposed creative concept for the annual report which was tabled, and that the focus of the report would be on repairs and useful dispute resolution mechanisms, with emphasis on customer experience.

Change in attendance: Linda Falwasser left the meeting at 11.35 a.m.

The Board adjourned for a short break and re-convened at 11.45 a.m.

Quarterly Report

The Board **noted** the draft Quarterly Report circulated with the papers, and provided feedback on its content.

It was agreed that members of the Board would provide their feedback in writing for incorporation in the final draft of the Quarterly Report which will be circulated to the Board no later than 28th July for final review before submission to the shareholding ministers.

The Board **resolved** to **note** the draft Quarterly Report for Q4 2014/15 and **authorise** the Chairman, the Chair of the Audit and Risk Committee and the CEO to finalise the report for submission to the Shareholding Ministers and the Treasury by 31st July 2015.

Moved: Bevan Killick, **Seconded:** Susan Thodey, **Carried:** unanimously.

Schedule of Key Challenges

The Board **noted** the changes reported relative to the previous month's report.

The Board **noted** the Schedule of Key Challenges.

Change in attendance: Linda Falwasser re-joined the meeting at 12 noon.

Staff Wellbeing

The Board was updated on recent developments with regard to threatening communications and behaviour by a claimant, and the response plan developed. Security advice and legal advice have been obtained and were tabled.

The Board **reviewed** and **noted** the security and legal advice received, and **resolved** to proceed with the implementation of the response plan.

Moved: Ross Butler, **Seconded:** Anne Urlwin, **Carried:** unanimously.

Customer Survey

The Board **noted** that IPSOS has recently completed the six-monthly customer survey and high level summary of findings had been provided as an appendix to the Chief Executive's Update. An in-depth presentation of the results to management was scheduled during the w/e 31 July.

The Board agreed to defer the discussion of the Customer Survey results until detailed results have been reviewed and analysed by management.

Change in attendance: Linda Falwasser left the meeting at 12.40 p.m.

The Board adjourned for lunch and was joined by John Hunter, Finance Contractor who was retiring from Southern Response at the conclusion of his contract which commenced during the transition phase and the establishment of Southern Response. The Board recorded thanks to Mr Hunter for his contribution.

The meeting re-convened at 1.20 p.m.

CE Update

The CE Update was taken as read. The CEO spoke to aspects of his report.

The Board **noted** there were no known developments with regard to the proposed Class Action following the 10 July deadline for claimants to sign up.

The Board **noted** the update on the EQC Act Review and agreed that it was appropriate that Southern Response support the feedback process, being the only insurer in the recovery not driven by its future commercial interest, therefore able to provide a unique perspective on the matter.

The Board **noted** the outcome of the CEDAR survey of repairs was expected to become publicly available during July, and that a response plan had been prepared in anticipation of media interest.

The Board noted the temporary senior management structure developed following the General Counsel's resignation and discussed the changes in reporting lines proposed under the new structure.

The Board **resolved** to approve the proposed temporary changes to the organisation structure, and noted the new structure would be reviewed and tested with adjustments made as necessary before a more permanent structure is confirmed.

Moved: Anne Urlwin, **Seconded:** Sarah Sinclair, **Carried:** unanimously.

The Board **noted** the update on forecasting and scheduling claim settlement targets and discussed feedback received from other insurers regarding their experience following the cash settlement announcement. The Board **noted** work was currently underway to determine the financial implications of replicating other insurers' approach, and would be presented in a paper to the August Board meeting.

The Board **noted** the OOS Project completion targets and the incentive system put in place for the intended completion date of March 2016.

The Board **noted** the update on [REDACTED] and customer meetings which have commenced.

The Board **noted** the update on the Quality Management Framework, and that a draft internal audit report has just been received and was being finalised for review by the Audit & Risk Committee.

The Board **noted** the update on a matter under Tribunal's consideration and discussed the details of the proposed settlement offer to the customer, and split of costs between Southern Response, Arrow and the contractor.

The Board **noted** the financial impact of the proposed settlement offer in respect of the [REDACTED] claim given the contributions from other parties, being [REDACTED] (including EQC payment withheld by the customer) and **resolved** to **authorise** management to finalise the offer on the basis agreed.

Moved: Anne Urlwin, **Seconded:** Bevan Killick, **Carried:** unanimously.

The Board **noted** the proposal currently being considered and evaluated by Finity to move to an agreed percentage loading instead of case-by-case approach by the Tribunal.

The Board **noted** the update on progress with CanCERN's Breakthrough programme and RAS engagement.

The CE Update was **noted**.

Support Services Update

The Support Services Update was taken as read.

The Board **noted** that the variance in actual vs forecast staff numbers was due to the 2014/15 SOI forecast being used for comparison. The re-forecast staff numbers in the 2015/16 SOI would be utilised commencing July 2015.

The Board **noted** the changes within the Audit & Risk team, and that a full update would be provided to the A&R Committee meeting on 30 July.

The Support Services Update was **noted**.

CFO Update

The CFO Update was taken as read. The CFO spoke to the key aspects of the report.

The Board **noted** the negative equity position following the June valuation.

The Board **noted** that the Riccarton Road building had been written down to the level of a 30 June 2015 market valuation following the cancellation of the sale agreement with CAML.

The Board **noted** that shortfall drawdowns were scheduled to commence in early 2016.

The Board requested that the forecast Balance Sheet be added to the report and published in Diligent.

The Board noted the update on the year end audit and preparation of the financial statements and that engagement with Deloitte's actuary has been confirmed for the 30 July A&R Committee meeting.

The Board noted the update on Deloitte's reappointment by the Auditor-General which would be formally considered by the A&R Committee.

The CFO Update was **noted**.

Correspondence relevant to the Board

The Board **noted** the correspondence in relation to Directors' Fees and Professional Development; and the Chief Ombudsman's confirmation of the closure of a complaint against Southern Response. The complaint was not upheld.

The Board **noted** the update on customer issues which have been raised with Board members.

The Board **noted** the updated Schedule of OIA requests and that no new entries were made in the Schedule of Parliamentary Questions since the previous meeting.

Major Contracts

The Board **noted** the Schedule of Major Contracts.

Schedule of Ongoing Obligations

The Board **noted** one new entry in the Schedule of Ongoing Obligations.

Next Meetings

The next meeting of the Board will be held on Monday, 17th August 2015.

The Board requested that the draft proposed schedule of 2016 Board meetings be circulated via email and that Board members advise the Secretary of their availability on the proposed dates.

General Business

There was no general business.

Closure of the Meeting

The Meeting closed at 2.25 p.m.

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Approved: 17 August 2015

Southern Response Health and Safety Report August 2015

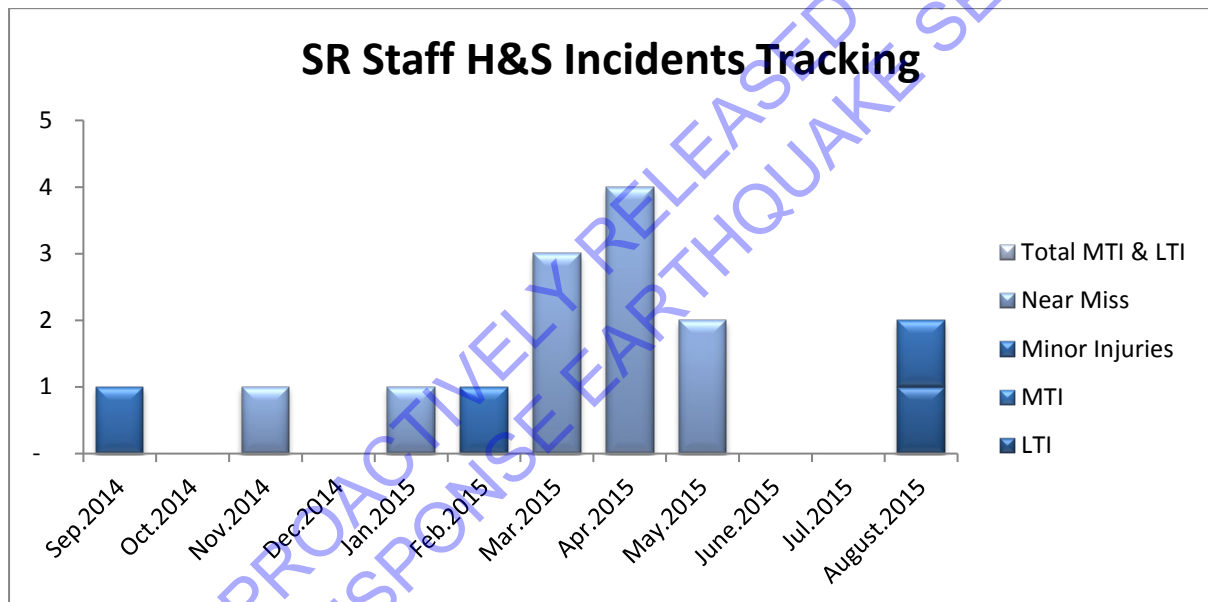
- Hazard identification checks undertaken with no new hazards identified.

Southern Response Accidents and Incidents

Reported accidents/incidents for August 2015

Month	SRES/Arrow/Contractor	Incident Type (e.g. FAI, LTI, MTI)	Incident details
20/8/15	SRES	LTI	Fall from chair
5/8/15	SRES	Minor injury	Trip

The speed bump in the car park between 6 and 10 Show Place has been painted yellow as a result of the trip on 5 August.



Training

Personal security training was delivered to Southern Response and Arrow staff based on the findings of the Thompson and Clarke review.

Wellbeing

A number of wellbeing initiatives had commenced over the previous month.

- The latest EAP e-Flyer was circulated with staff on 11 August 2015
- Free Yoga and Pilates classes have been introduced for Southern Response / Arrow on Wednesdays

Agenda item : 16 **Purpose :** For Noting

TO : The Board of Directors
FROM : General Manager Corporate Services
DATE : 7 September 2015
TOPIC : Corporate Services Update

1. Purpose

The purpose of this report is to update the Board on activities in the Support Services area of the business.

2. Recommendations

That the Board notes this update.

3. Team Updates

3.1. Human Resources

The key focus for the team in August has been recruitment to provide coverage for turnover prior to resignations. The new HR Administrator started mid August.

3.1.1. Senior KPI's

Senior KPI structure has been set for the year forward and agreed by the HR Committee and Board.

3.1.2. Staffing Levels

Recruitment continues to be managed mainly directly rather than via an agency, using Seek and Finders Fee referrals. 7 new staff started in August, 2 of which were previous employees. There were 3 staff that transferred roles and 7 resignations. Focus is still on forward recruiting to cover future resignations.

Leave balances are consistent with last month with 5 staff members now with an excess of 5 weeks annual leave balance however plans are in place for 3 to reduce these balances over the next few months.

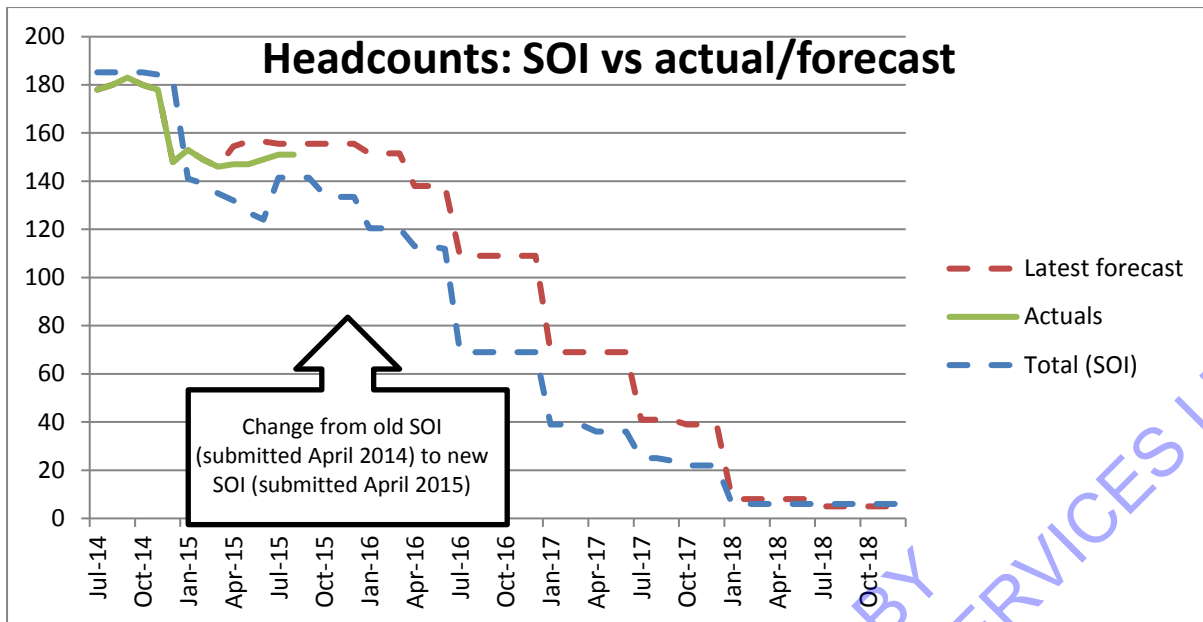
The staffing levels are as follows:

Permanent Employees	SOI Forecast	Latest Forecast	Actual
Total	141.5	157	151

Turnover for the rolling 12 months sits at 28.39%, excluding redundancies (Auckland staff). This is has risen slightly since previous months and further analysis is being undertaken to understand the trend. Average tenure of those resignations over the last 12 months has been 1.27 years. 4 of the 7 that resigned in August went to other employment identified as a better career opportunity.

The below graph depicts the SOI, actuals and the latest forecasts. SOI is set in March/April for the life of project and is updated annually. The latest forecast figures are updated monthly in preparation for next SOI forecast.

Management has established a forum to consider any enhanced options to achieve optimum retention.



3.1.3. Security Review and Training

The Thompson and Clark Site Security Assessment final report has been received with an overall site threat rating of 4.8 (low/medium). The report is being reviewed by General Manager Corporate Services, General Manager Strategic Communications and the IT Manager. There are 22 recommendations included in the report which are being evaluated for implementation over the coming months.

All staff, Arrow and Southern Response, have been taken through security training. A challenge culture is being encouraged with staff and reiterated in team meetings. The security training is scheduled to occur every 6 months to ensure staff are kept current with process.

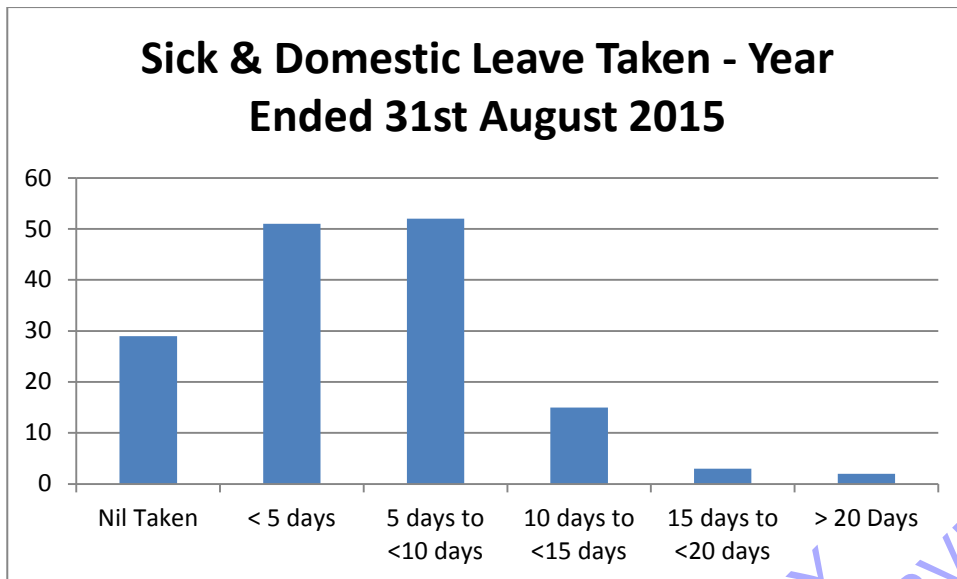
To support this training the security guards' hours have been extended 7.30am to 6pm to align better with staff hours.

3.2. Change Management

Key risks being managed are:

1. Ensuring employees are ready for change – This is constantly evolving and being managed, Vargo and Lewis continue their one on one sessions to prepare staff for life after Southern Response.
2. Managing risks associated with company downsizing – the SOI staff forecast is reviewed on a monthly basis, and staff are communicated with as soon as any changes are on the horizon. Staff have been advised that we are still recruiting and looking to cover turnover prior to it occurring.
3. Ongoing management of absenteeism – continually managed with rate sitting at 5.09 days per staff member. The Yesterday Business NZ and Southern Cross Health Society released their second Wellness in the Workplace Survey statistics; the report gathers information from 113 employers and covers various aspects of workplace wellbeing. Researchers found private sector results of 4.6 days and public sector of 6.7 days. The latest Commerce Commission statistics are from 2012 which had private sector results of 4.3 days and the public sector of 6.6 days.

Further analysis is being undertaken of annual sick leave in excess of the statutory entitlement.



3.3. IT and Data

The IT team's focus in August has been on the Adios AMIGO project and on various virus events that have affected the network.

3.3.1. Adios AMIGO

IAG have recently indicated informally that they intend delaying their Adios AMIGO project due to unforeseen issues with their other system replacement project. Notwithstanding, the SR project team is continuing with our project plan and conducting workshops with existing IT vendors.

Three options were presented to the Steering Committee to migrate from AMIGO:

1. Early Migration – all transactional functionality to be moved off AMIGO by 31st March 2016
2. Late Migration – extend under terms of CMSSA to retain AMIGO to 31st December 2016
3. Hybrid – migrate some functionality early and some later

From a risk mitigation perspective the Steering Committee's preference is to migrate from AMIGO by March 2016 and the project team are working towards this date. This will ensure all transactional functions (lodging claims, creating payments etc.) will be enabled via other systems.

From a functional perspective the project team proposes using existing systems (Great Plains financial, EMS and iViis) and service providers (iViis, Olympic Software and AMI) where possible to mitigate business risks. Discussions are currently underway with KPMG to provide governance assistance.

It is extremely likely that AMIGO will be in place with all historical information for both SR and IAG well beyond 2016. The project team will be working with IAG to ensure historical information remains available to SR either via their system or ours. After the migration of transactional functionality, there remains information that IAG will require and a mechanism needs to be agreed as to how this will occur.

3.3.2. Virus

There have been three separate localised virus infections detected on laptops during August. The infections were isolated, and the laptops were able to be reimaged for staff with minor disruption.

A "ransomware" virus event entered the SRES network on 31 August and disabled approximately 42,000 files (approximately 4% of total files) on the S: drive by encrypting them. IT staff worked efficiently to contain the incident, and then to coordinate the restoration of the affected files over the next three days with no apparent loss of data. There was some disruption to operations staff.

The source was identified as a new strain of malware that our Microsoft System Center Endpoint Protection software had not yet been aware of. This was escalated to Microsoft and a new patch is now released and deployed. A review is underway to consider the effectiveness of existing device protection solutions and to identify additional safeguards if necessary.

3.3.3. Security Review

The Thompson and Clark security review has recommended changes to the security cameras and swipe card management which will require input from the IT team over the coming months.

3.3.4. BA team

The BA team have been focusing on gathering business requirements for electronic forms for H&S audits, iViis project streams for TRR and Shared property. The new iViis weekly release schedule is working well.

3.3.5. Data team

The Data team's focus this month has been incorporating the new Finity forecast into the PCG model. In addition work has been completed with the Finance team on the contractor evaluation model for repairs. Focus is on working with the BA team to incorporate the TRR team tasks into iViis to eliminate the need for their spreadsheet.

PROACTIVELY RELEASED BY
SOUTHERN RESPONSE EARTHQUAKE SERVICES LTD

Agenda item : 20

Purpose : For Noting

TO : The Board of Directors

FROM : General Manager Corporate Services

DATE : 16 October 2015

TOPIC : Corporate Services Update

1. Purpose

The purpose of this report is to update the Board on activities in the Corporate Services area of the business.

2. Recommendations

That the Board notes this update.

3. Team Updates

3.1. Human Resources

The key focus for the team in September continues to be recruitment to provide coverage for turnover prior to resignations.

3.1.1. Staffing Levels

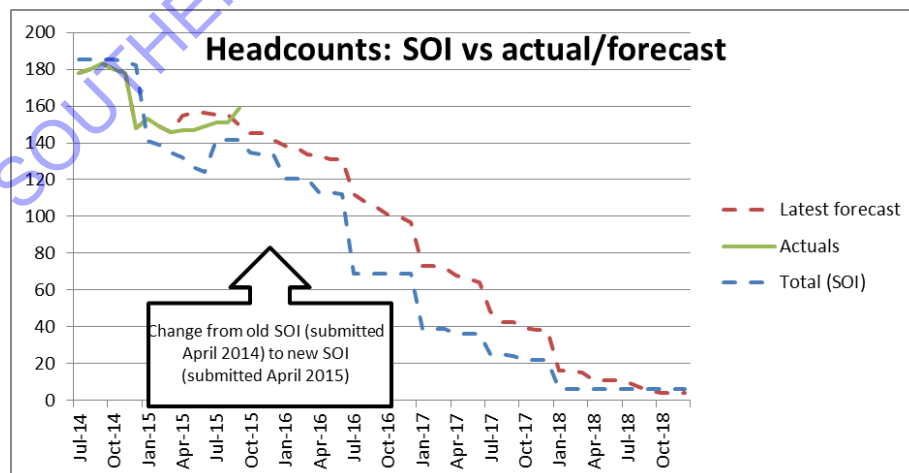
8 new staff started in September and only 1 resignation which is a significant improvement on previous months. Focus is still on forward recruiting to cover future resignations. Actual staff numbers are now slightly ahead of forecast.

The staffing levels are as follows:

Permanent Employees	SOI Forecast	Latest Forecast	Actual
Total	141.5	149	159

Turnover for the rolling 12 months sits at 25.15%, excluding redundancies (Auckland staff), with an average tenure of 1.75 years of those leaving. Management is working on strategies to continue to retain experience through to the end of the project. The outcome of these deliberations will be presented to the Board committee in the near future, either as information or for approval, as appropriate. See also 3.14.

The below graph depicts the SOI, actuals and the latest forecasts. SOI is set in March/April for the life of project and is updated annually. The latest forecast figures are updated monthly in preparation for next SOI forecast.



3.1.2. Security Review

The recommendations from the Thompson and Clark review have been prioritised and are being worked through. A representative from Thompson and Clark is scheduled to provide training on the 22nd October to the security team and also to those staff that handle mail.

Building security enhancements are being costed and discussed with the Landlord.

The overall Site Security Threat level provided by Thompson and Clark was 4.8, which is low/medium. They assessed the trend as improving and with further work this could improve further.

3.1.3. Flexible working hours

The use of flexible working hours has been extended and has been well received by staff. Managers have been provided with core guidelines to assist with this rollout. The aim is to continue to provide staff with flexibility to support their work/life balance to the extent that there is no detrimental effect on the business and customer service.

3.1.4. Senior Claims Officer

Turnover analysis has identified a gap between the Claims Officer (Hay Grade 12) and Claims Specialist (Hay Grade 14) position being perceived as too great for some staff, and the likely underlying reason for many Claims Officers leaving SR employment within a year, having gained marketable skills but with limited prospects of an internal promotion.

An initiative to bridge this gap is being implemented with a Hay mid-range Grade 13 role of senior Claims Officer being introduced. A competency checklist has been developed and will be rolled out to the Team Managers. The Team Manager will assess the Claims Officer's competency level from both a quality and quantity perspective and also put forward their recommendation with specific examples of skills and behaviours that justify promotion to a senior Claims Officer. The job title will and job description will remain unchanged, however the higher level of responsibility will allow for an increase in salary, without formal application and competitive selection.

3.1.5. Staff survey

HayGroup have been engaged to facilitate a survey across the team to assess Employee Engagement. The flexible survey option has been selected to enable custom questions to be asked regarding staff retention and possibly options to retain staff through to the end of project. The purpose of the survey is to gain insight into which current incentives and staff wellbeing initiatives that staff value the most, and give management an early opportunity to consider adjustments which may be necessary to ensure current employees' engagement and commitment until the end of the project.

This will also feed into the turn-over study.

3.1.6. Learning and Development

The 'Conversations with a purpose' workshops with Mike Kyne continue to get good feedback from the team. The annual fraud training has gone out online with a 93% completion rate so far. 4 more staff have applied for ANZIF courses this month. Exams are being held onsite in October.

3.2. Change Management

Key risks being managed are:

1. Ensuring employees are ready for change – This is constantly evolving and being managed; Vargo and Lewis continue their one-on-one sessions to prepare staff for life after Southern Response.
2. Managing risks associated with company downsizing – the SOI staff forecast is reviewed on a monthly basis, and staff are communicated with as soon as any changes are on the horizon. Staff have been advised that we are still recruiting and looking to cover turnover prior to its occurring. Focus has been on forward recruiting particularly for the claims officer role.
3. Ongoing management of absenteeism – continually managed with rate sitting at 4.96 days per staff member. The latest HRMonline information from a PWC survey has the NZ average at 4.6 days per person. Those with high balances of leave taken are under review. I will be addressing this specifically myself (ie. Sarah)

3.3. IT and Data

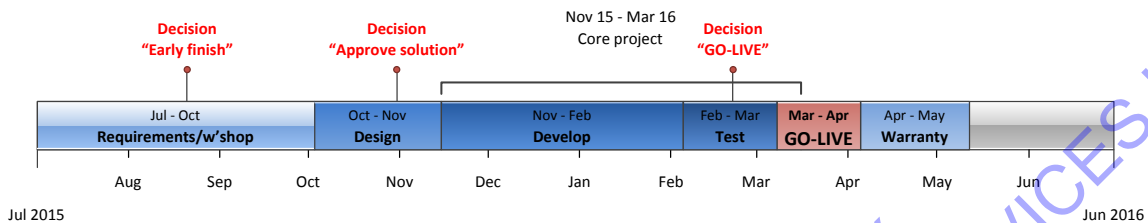
The IT team's main focus continues to be on the Adios AMIGO project with workshops with vendors to provide functionality moving forward.

3.3.1. Adios AMIGO

As outlined in previous reports, the intent is to continue with the plan to migrate from AMIGO regardless of IAG's extension. The scope of the project has been defined as "Necessary separation of core services and functionality from AMIGO in a timescale and costs that best meet SRES operational goals within IAG's AMIGO retirement project schedule."

Initial timeline has been developed with early migration in mind to allow flexibility should additional time be required.

High level timeframe:



The Steering Committee is scheduled to meet later this month to determine which vendor or combination of vendors option will be proceeded with. The committee will remain on foot throughout the project.

The focus this month is on engaging staff in the decision-making process to ensure business requirements and the use of systems throughout the organisation is fully understood by the Steering Committee.

In addition meetings have commenced with KPMG to ensure there is clear separation of resources within KPMG to enable them to provide strong governance across the project.

Appendix 1 is a brief paper developed by the IT Manager and covering the risk management aspects of AMIGO transition.

3.3.2. Virus

There have been no further issues and additional ransomware virus remediation has occurred to enhance IT security. In addition the speed to recover data has been improved should an incident occur.

3.3.3. BA team

The BA team have been focusing on gathering business requirements for complaints recording to cover Arrow. The TRR prototype is in the testing phase. The new iViis weekly release schedule continues to work well.

3.3.4. Data team

The Data team's focus this month has been the contractor evaluation model, vulnerable customer analysis and the arrow fee model review. In addition the team have assisted with testing of the TRR prototype in iViis.

Committee Meetings:

HR Committee:	no meeting
Audit and Risk Committee:	15 October 2015, 1.30 – 4.30 p.m.
H&S Committee:	no meeting
Governance Committee:	15 October 2015, 12.00 – 1.00 p.m.
Capital Committee:	22 October 2015, 9.00 – 10.00 a.m.

External Meetings:

Thursday, 22nd October 2015:

- [REDACTED] (Finity) – Claims Liability Valuation (Agenda Item 1)
- [REDACTED] (Bell Gully) – Representative Action Update (Agenda Item 13)

Friday, 23rd October 2015:

- [REDACTED], General Counsel (Worksafe New Zealand) - H&S Legislation Update (8.30 – 9.30 a.m.)
- Annual Public Meeting (10.00 – 11.30 a.m.)
- Annual General Meeting (12 noon)

Meeting of Board of Directors:

Thursday, 22nd October 2015, 10.00 a.m. – 3.30 p.m.

Southern Response Offices, Level 3 Boardroom, 6 Show Place, Addington, Christchurch

Agenda

Time	Item			Page	
10.00	1)	Claims Liability Valuation	[REDACTED]		
10.30	2)	Welcome, apologies and quorum	Chair		
10.35	3)	Directors' Interests	Chair		
		a) Directors' Register of interests: updates	Noting	4	
		b) Officers' Register of interests: updates	Noting	16	
		c) Conflicts of interest on any agenda items	Noting		
	4)	Minutes of Meeting held on 21 September 2015 "That the Board adopt the minutes of the Board Meeting held on 21 September 2015 as a true and correct record of that meeting"	Resolution	Chair	21
10.40	5)	Matters arising from minutes		Chair	28
		a) Review of action items (not already covered elsewhere on agenda)	Noting		
10.45	6)	Ratification of Board resolutions	Resolution	Chair	
		That the Board ratify the decision made by electronic vote:			31
		▪ That the Board approve the adoption of the revised Health and Safety Policy			
10.50	7)	Matters for Board approval			
		7.1 [REDACTED]	Resolution		32
		7.2 Revised Forecast	Resolution		34
		Appendix 1: Key Assumptions			44

Board Agenda: Southern Response Earthquake Services Limited

Time	Item			Page
11.05	8	HR Committee Matters		J Bestwick
		8.1 CE Review and other matters	Resolution	
11.15	9	Capital Committee Matters		B Killick
		9.1 Claims Liability Valuation	Resolution	
		9.2 Terms of Reference	Resolution	
		9.3 Capital Committee Update – other matters	Noting	
11.25	10	A&R Committee Matters		A Urlwin
		10.1 Internal Audit Contract Renewal	Resolution	
		10.2 Review of Governance Policy: Procurement Policy	Resolution	
		10.3 Terms of Reference	Resolution	
		10.4 A&R Committee Update – other matters	Noting	
11.35	11	Governance Committee Matters		S Thodey
		11.1 Review of Governance Policies: - Ethical Behaviour Policy - Disputes Management Policy	Resolution	
		11.2 Terms of Reference	Resolution	
		11.3 Governance Committee Update – other matters	Noting	
11.45	12	Quarterly Report	Resolution	P Rose 49
		Draft Quarterly Report	Resolution	50
12.00		Lunch		
12.30	13	Representative Action Update	Noting	
1.00	14	Throughput Update – Project Office	Noting	
1.30	15	Dashboard	Noting	T Feaver 53
1.40	16	Schedule of Key Challenges	Noting	P Rose 61
1.45	17	Chief Executive Update: Monthly Report	Noting	P Rose 62
		Appendix 1: High Court EQ List seminar notes		73
		Appendix 2: Continual review of repairs		78
		Appendix 3: Minutes of ECG meeting – 1 October 2015		81
2.30	18	Complaints Report	Noting	L Falwasser 85
2.40	19	H&S Operational Report	Noting	A Honeybone 92
2.50	20	Corporate Services Update: Paper	Noting	S Giles 123
		Appendix 1: AMIGO Transition		126
3.00	21	CFO Update: 30 September 2015: Monthly Report	Noting	T Feaver 128
3.15	22	Correspondence Relevant to the Board		Chair
		a) Board Correspondence with Stakeholders	Noting	
		- Ombudsman: [REDACTED] complaint		143
		- Ombudsman: [REDACTED] complaint		144
		b) Customer Correspondence with the Board	Noting	147
		- Schedule		
		c) Schedule of Official Information Act Requests	Noting	148
		d) Schedule of Parliamentary Questions – no new entries	Noting	
3.20	23	Schedule of Major Contracts	Noting	T Feaver 150
	24	Schedule of Ongoing Obligations – no new entries	Noting	T Feaver
	25	General Business	Noting	Chair
3.25	26	Next Meetings		Chair
		a) Monday, 14 th December 2015 (CE Update to be circulated in November)	Noting	
		b) Schedule of 2015 Board meetings	Noting	151
		c) Schedule of 2016 Board meetings	Noting	154
	27	Summary of Meeting		Chair
3.30	28	Close of Meeting		

Board Agenda: Southern Response Earthquake Services Limited

Friday, 23rd October 2015, 8.00 a.m. – 9.30 a.m.

Southern Response Offices, Level 3 Boardroom, 6 Show Place, Addington, Christchurch

<i>Time</i>	<i>Item</i>		
8.00	29	Security Briefing	Thompson & Clarke
8.15	30	Board Only Time	Chair
8.30 – 9.30	31	H&S Legislation Update	

PROACTIVELY RELEASED BY
SOUTHERN RESPONSE EARTHQUAKE SERVICES LTD

Agenda item : 16 **Purpose :** For Noting

TO : The Board of Directors
FROM : General Manager Corporate Services
DATE : 9 December 2015
TOPIC : Corporate Services Update

1. Purpose

The purpose of this report is to update the Board on activities in the Corporate Services area of the business.

2. Recommendations

That the Board notes this update.

3. Team Updates

3.1. Human Resources

The key focus for the team in November was recruitment, a focus on managing absenteeism, and research and launching the Wellbeing programme that we are running internally (instead of using Tracksuit Inc).

3.1.1. Staffing Levels

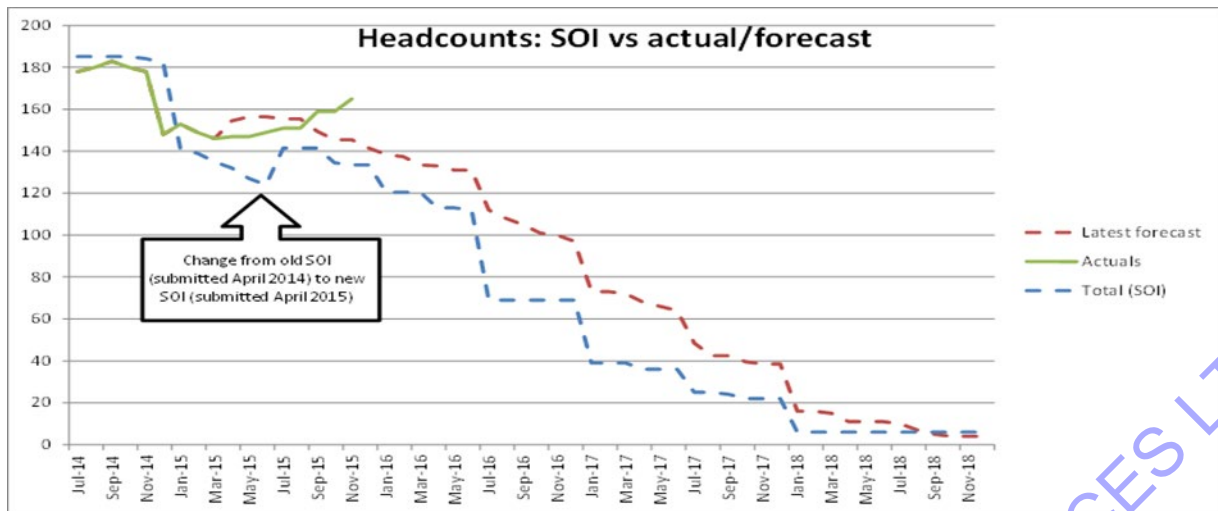
5 new staff started in November and 1 resignation (October: 5 new starts and 3 resignations). Staffing levels are now at appropriate levels to cover immediate future resignations. Management has deliberately loaded some "buffer" into the resource needs to cover attrition at this stage.

The staffing levels are as follows:

Permanent Employees	SOI Forecast	Latest Forecast	Actual
October	134.5	145.5	161
November	133.5	145.5	165

Turnover for the rolling 12 months sits at 23.9%, excluding redundancies (Auckland staff), with an average tenure of 1.82 years of those leaving.

The graph below depicts the SOI, actuals and the latest forecasts. SOI is set in March/April for the future life of project and is updated annually. The latest forecast figures are updated monthly in preparation for next SOI forecast.



3.1.2. Security Review

The recommendations from Thompson and Clark have been prioritised and are being worked through. A representative from Thompson and Clark provided training on the 22nd October to the security team and to those staff who handle mail.

Following a threat made to Cernern in October, additional security has been added. There has been an increased number of 'drive-bys' by Security after hours – this is to be reviewed in December.

Building security enhancements, including increased in-house control and reporting from the access control system (ACS), and the installation of additional high resolution cameras around 6 and 10 Show Place, are currently underway with an expected completion in December.

3.1.3. Senior Claims Officer

The Senior Claims Officer initiative, reported to the Board in October, is now in place with recommendations received from Team Managers. A presentation has been made at the Team Meeting to recognise 3 new Senior Claims Officers.

3.1.4. Staff survey

HayGroup has been engaged to facilitate a survey across the team to assess Employee Effectiveness. The survey closed on 3rd December, with participation of 95% of staff. This initiative follows the turnover analysis and focus groups held with staff on retention.

3.1.5. Learning and Development

The 'Conversations with a purpose' workshops with Mike Kyne got an overall training evaluation score of 4.9 out of 6. Staff felt he was knowledgeable, credible and informative. Staff continue to complete the ANZIIF papers with 17 completions in October, 7 in November.

3.2. Change Management

Key risks being managed are:

1. Ensuring employees are ready for change – This is constantly evolving and being managed. Vargo and Lewis continue their one on one sessions to prepare staff for life after Southern Response.
2. Managing risks associated with company downsizing – the SOI staff forecast is reviewed on a monthly basis, and staff are communicated with as soon as any changes are on the horizon. Staff have been advised that we are still recruiting and looking to cover turnover prior to rundown occurring
3. Ongoing management of absenteeism – continually managed with rate sitting at 4.95 days per staff member, a slight decrease on last month. Those with high balances of leave taken are under review and have had discussions with their managers, with each of the managers meeting with the HR Advisor and required to provide an update once they have spoken to the staff.

3.3. IT and Data

The IT team's main focus continues to be on the Adios AMIGO project.

3.3.1. Adios AMIGO

Workshops have been conducted with subject matter experts to determine system and data requirements, which are now nearing team sign-off. The Steering Committee has endorsed recommendations to develop the new solution predominantly within the iViis business system. A Memorandum of Understanding (MoA) has been signed with iViis to initiate supplier project activity. Discussion continues with AMI about data and KPMG regarding governance. KPMG has submitted a draft ToR for consideration. Key project risks are difficulties in understanding and extracting AMIGO tables and data, and in obtaining appropriate priority within IAG for proposed project activities.

The timeline has been designed around a preferred early transition by end of March 2016, but with allowance for flexibility should additional time be required to mitigate risk factors.

A paper has been prepared for the Board to consider and to agree to the Steering Committee recommendations.

3.3.2. Enhance security platforms

Vulnerability scanning and penetration testing of key external systems by KPMG is currently underway, starting with Arrow systems. Their report is expected in February.

Ongoing enhancements are being made to our business "border security" systems to further reduce virus impacts. Most recently, a solution has been applied to all incoming email to assess the validity of URL website links contained in emails.

3.3.3. Privacy and Security

No data loss or privacy incidents were identified or reported through the Arrow or Southern Response Data Loss Prevention (DLP) email appliances, or by other IT detection tools or systems in November.

3.3.4. BA team

The BA team have successfully implemented the Complaints project into iViis, and significant enhancements have been made to the Repairs Project Stream. There continues to be a number of minor changes to iViis as process evolves and data is required to be captured in the system. These changes are managed via a weekly release.

Periods of poor iViis system performance have recently affected and impacted many SRES and Arrow users. Investigation and analysis has identified the key factors causing this, and enabled an effective and apparently successful remediation plan. Management noted this as a key risk with the steering committee and it has been made clear to iViis that successful resolution of the recent iViis performance issues is a critical factor before solution development goes much further. As of late last week, significant progress had been made and the IT Manager is comfortable that the situation is being contained.

3.3.5. Data team

The Data team's focus this month was the successful implementation of TRR status tracking reports to iViis, and the end of month reporting.

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