

**SOUTHERN RESPONSE
ANNUAL REPORT 2022**

TE PŪROKO A TAU
A URUPARE KI TE
TONGA 2022



Urupare ki te Tonga



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

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Chair and Chief Executive's report

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

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

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

Whether settling an outstanding claim, or processing an application under the Package, customers and the customer experience remain at the forefront of the Company's activities. The Company is proud to have recently reported its highest satisfaction rating from customers since its customer experience research first began.

Year in review

Crown Package

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

The ability for the Company to deliver the Package was initially impacted by court proceedings. However, following a High Court decision on 16 December 2021 granting leave for the Ross representative class action to be discontinued, the Company has been able to directly engage with policyholders about the Package and make Package payments during the financial year. There are approximately 2,800 eligible overcap¹ and 7,500 out-of-scope¹ ('OOS') only claims that could be eligible for a Package payment.

As at 30 June 2022, 1,425 Package offers had been presented to eligible overcap policyholders of which 1,261 payments had been made totalling \$135.8M. This means that, in a six month period, 51% of eligible overcap policyholders have been presented with a Package offer.

The Company's goal is to contact as many eligible policyholders as possible and there are direct contact initiatives and marketing campaigns underway to ensure as high a take-up rate as possible is achieved.

A provision for the outstanding Package payments is recognised in the financial statements with additional information included within the notes to the accounts.

The implementation and delivery of the Package is overseen by an Independent Oversight Committee appointed by the Crown. The Company has regularly engaged with the Committee throughout the year in an open and transparent manner to allow it to carry out its role. The Company's delivery of the Package is

¹ See 'Glossary of Terms' used for these definitions

also subject to ongoing reporting obligations to the High Court and the Company has ensured it has met all filing requirements.

Outstanding Claims Portfolio

As at 30 June 2022, Southern Response had settled 99.69% of the Covered Claims¹ notified to the Company. In numbers, this means Southern Response has settled 49,431 Covered Claims, including 8,898 overcap house claim settlements. As at 30 June 2022, there are 154 Covered Claims in progress.

The Company continues to receive new overcap claims and there remains significant uncertainty as to how many new claims will be received by the Company in the coming years.

The Company's claims management activities were outsourced to the Earthquake Commission ('Toka Tū Ake EQC') at the end of 2019 and the Company has extended its Agency agreement¹ with Toka Tū Ake EQC to manage its claims settlement activities until October 2023. The Company retains ultimate responsibility and liability for its Covered Claims and utilises its residual resources to support Toka Tū Ake EQC to settle claims.

The Company has worked with Toka Tū Ake EQC throughout the year to deliver a single Crown claims resolution process to ensure the Company meets its objectives of strong settlement momentum and an improved customer experience.

The Company's target for the 2021-22 financial year was to reduce the number of claims in accordance with the Company's actuarial forecasts for the year. The Company was on track to meet this target for the first half of the year but, due to a number of external factors, fell 15 short, with 213 claims settled during the year.

The Company continues to ensure that the customer is at the centre of its processes,

communications and systems and actively works to facilitate alternative settlement pathways in a transparent and collaborative way. The Company looks to identify flexible solutions and to work proactively with customers to reduce disputes.

As was the case in the previous financial year, Greater Christchurch Claims Resolution Service ('GCCRS') remains the most widely used service by Southern Response customers that have unresolved claims with the Company. The Company remains supportive of any alternative dispute resolution service that helps to provide efficient and expedient pathways towards claim settlement.

Wellbeing, Health & Safety

Southern Response is proud of its wellbeing, health and safety approach and track record.

The Company has responded throughout the Covid-19 pandemic with a focus on its people and trying to minimise business disruption. Alternative ways of working have been available to all personnel and their health, safety and wellbeing prioritised. The Company has also incorporated lessons learned into its operations to ensure it is well prepared for any future disruptions of a similar nature.

The Company continues to offer its personnel access to its 'Manawaroa' wellbeing programme and along with other existing wellbeing practices, additional initiatives are underway for the upcoming year.

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

Our People

Southern Response would like to acknowledge and thank its team of personnel for their continued commitment, contribution and dedication. This year has seen a number of new faces join many of the organisation's long-standing personnel, both at an operational level in the Package delivery team, and also at the governance level.

In December 2021, Fiona Pimm and Aedeon Boadita-Cormican were appointed as new directors of the Company and Anne Urlwin (ONZM) retired from her role. The Southern Response Board would like to take this opportunity to thank Anne Urlwin for her service and contributions to the Company over the past decade.

During the year, our people co-located to a new joint office premises with the wider Canterbury based team of Toka Tū Ake EQC. The fit-out was designed to reach a minimum of a 4 Star Green Standard. The Company supports the Government's commitment to achieve carbon neutrality in the public sector within five years.

In supporting future-focussed Māori Crown relations, directors and personnel will be participating in cultural competency training workshops in the coming year which will culminate in the development of a Cultural Strategy for the workplace.

Future Outlook

The Company's key areas of focus in the 2022-2023 financial year are:

- Making accurate, timely and enduring Package payments to the majority of eligible overcap applicants and to a significant number of OOS applicants, with a strong emphasis on a positive customer experience
- Utilising its residual resources to support Toka Tū Ake EQC to succeed in delivering fair, timely and enduring settlements for Southern Response customers
- Ensuring a customer centric approach for the settlement of outstanding claims and encouraging alternative dispute resolution processes to achieve resolution with customers
- Focusing on the continued wind-down of the Company and ensuring its final phase is effective and efficient
- Ensuring that the Company's ongoing governance, financial and legal obligations are met

Alister James
Chair
28 September 2022



Casey Hurren
Chief Executive
28 September 2022



Financial summary

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

	2022 \$000	2021 \$000
Net claims incurred	(102,856)	(119,618)
Other revenue - indemnity	75,000	-
Other costs	(1)	-
Investment income	547	264
Total comprehensive gain/(loss) for the year	(27,310)	(119,354)

Claims liability

Discounted central estimate (including claims handling expenses) - earthquake run-off	116,046	93,074
Risk margin	36,639	22,804
Net outstanding claims liability - earthquake run-off	152,685	115,878
Discounted central estimate (including Package handling expenses) - Crown Package	122,789	206,396
Risk margin	6,699	30,960
Net outstanding claims liability - Crown Package	129,488	237,356
Net outstanding claims liability	282,173	353,234

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

- Firstly, an uncalled ordinary share capital facility from the Crown, which at 30 June 2022 amounts to \$89 million; and
- Secondly, an indemnity from the Crown covering, amongst other things, the Company's financial exposure under the Package.

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

Our values

Respect

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

Excellence

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

Ownership

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

Honour our promises

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

Integrity

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

Passion

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

Recognition

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

Development

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

Board of Directors

Alister James Chair

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

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

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

Aedean Boadita-Cormican Director

Originally from Ireland, Aedean is a Barrister, based in Wellington.

Aedean has governance experience at NGOs and extensive commercial and senior in-house legal and leadership experience in New Zealand and overseas. Her New Zealand roles have included Senior Crown Counsel at Crown Law, General Counsel & Company Secretary at ACC, and Acting Treasury Solicitor. At ACC Aedean led initiatives to develop customer-centric claims resolution and litigation practices and policies, in close consultation with customer advocates and legal representatives.

She is committed to supporting fair settlement of outstanding claims by Southern Response through a customer-centric approach, and establishing effective arrangements for the management of legacy issues.

Bevan Killick Deputy Chair

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

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

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

Fiona Pimm Director

Fiona has extensive experience in governance and strategy roles in the health, government, and NGO sectors, and also with local iwi and rūnanga. She was recently appointed to Te Aka Whai Ora, the new Maori Health Authority.

Fiona is interested in bringing different perspectives to the work of Southern Response, and she has experience in leading an organisational closure.

Fiona is of Ngai Tahu descent with affiliation to Arowhenua.

Governance and remuneration

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

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

Company Activities

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

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

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

Governance Framework

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

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

Board of Directors

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

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

Directors

Under the Constitution adopted on 5 April 2012 (with subsequent amendments since this date), the Board is appointed by shareholding Ministers and can comprise between three to seven non-executive directors, including the Chair. As at 30 June 2022, there were four non-executive directors of the Company whose appointment dates and terms are detailed in the following table. As previously noted, Anne Urlwin retired from her position in December 2021.

Director	Position	Term
Alister James Christchurch-based barrister	Non-Executive Chair	appointed 20 December 2018 reappointed 1 July 2019 reappointed 1 July 2022 term ends 30 June 2024
Bevan Killick Christchurch-based professional Director	Non-Executive Deputy Chair	appointed 5 April 2012 reappointed 1 July 2013 reappointed 1 July 2015 reappointed 1 July 2017 reappointed 1 July 2020 appointed Deputy Chair 22 December 2021 term ends 30 June 2024
Aedeen Boadita-Cormican Wellington-based barrister	Non-Executive Director	appointed 22 December 2021 term ends 30 June 2024
Fiona Pimm Christchurch-based professional director	Non-Executive Director	appointed 22 December 2021 term ends 30 June 2024

Board Committees

The Board specifically delegates some of its roles to the Audit & Risk Committee under formal terms of reference, which specify the Committee's role, responsibility, and delegated authorities. The Audit and Risk Committee is chaired by Bevan Killick and all directors serve on this Committee.

Disclosure of Interests by Directors

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

In accordance with the Companies Act 1993, the Board maintains an up-to-date interest register to ensure conflicts of interest are avoided. The following table details new interests or cessations of interests of current directors recorded in the interests register during the year ended 30 June 2022.

Director	Entity	Relationship
Alister James	No changes	-
Bevan Killick	Medical Kiwi Limited	Appointed a director
	NZ-UK Link Foundation	Appointed a trustee
Aedeon Boadita-Cormican*	Board of Administration, Wellington Archdiocese	Remuneration & Employment Committee member
	White Matter Brain Cancer Trust	Trustee
	Wellington Girls' College	Board presiding member
Fiona Pimm*	Interim Māori Health Authority	Director
	Canterbury DHB	Director
	Kia Tika Limited	Director
	Te Rūnanga o Ngāi Tahu	Director
	Community Support Services ITO	Director
	Restorative Elective Surgical Services	Director
	NZ Blood & Organ Service	Director
	Whai Rawa Fund Limited	Director and scheme member
	NZ Parole Board	Member
	Te Rūnanga o Arowhenua Society Incorporated	Chairperson

*Director appointed during this financial year

There have been no interests registered by directors in transactions during the financial year ended 30 June 2022. Related party transactions in relation to Alister James' position as a Commissioner of Toka Tū Ake EQC are disclosed in note 14 of the Financial Statements.

Indemnities and Insurance

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

The Company has directors' and officers' liability insurance in place to cover risks usually covered by such policies. Insurance is not provided for dishonest, fraudulent, malicious or wilful acts or omissions. The insurance premium paid during the year ended 30 June 2022 was \$144,620 (excl. GST) relating to cover for the period 1 July 2021 to 30 June 2022.

Use of Company information

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

Director remuneration

The shareholding Ministers have approved the base ordinary directors' fees of \$72,000 (chair), \$45,000 (deputy chair) and \$36,000 (director). During the 2021 financial year the Board had agreed to Company pay restraint measures in response to Covid-19 resulting in a 20% reduction in fees during a four month period of the 2021 financial year.

	2022 \$	2021 \$
Alistair James	72,000	67,085
Anne Urlwin	21,399	42,000
Bevan Killick	40,611	32,400
Aedeen Boadita-Cormican	18,986	-
Fiona Pimm	18,986	-
	171,982	141,485

Board Meeting attendance

The below table summarises the meetings held by the Board during the year and the directors' attendance during each of their tenures.

Director	Board meetings - scheduled	Board meetings - other	Audit & Risk Committee
Alistair James	11 (11)	2 (2)	6 (6)
Bevan Killick	11 (11)	2 (2)	6 (6)
Aedeen Boadita-Cormican	6 (6)	1 (1)	3 (3)
Fiona Pimm	6 (6)	1 (1)	3 (3)
Anne Urlwin	5 (5)	1 (1)	3 (3)

Board Development and Training expenses

The Company spent \$8,003 on director development and training during the year ended 30 June 2022 (2021: \$1,137).

Senior Executive Remuneration

The remuneration earned and payable for Casey Hurren as Chief Executive for the year ended 30 June 2022 was:

	Fixed Remuneration		Sub-total	Pay for	Total
	Base salary paid	Benefits*		Performance Remuneration	
Casey Hurren	388,350	11,650	400,000	Incentive paid**	400,000
				-	

* Benefits include 3% KiwiSaver contribution

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

Employee remuneration

Remuneration band	2022	2021
	Number of employees	
\$400,000 pa - \$409,999 pa	1	-
\$340,000 pa - \$349,999 pa	-	1
\$270,000 pa - \$279,999 pa	1	-
\$209,000 pa - \$219,000 pa	-	1
\$110,000 pa - \$119,999 pa	2	-

The table above shows the number of employees and former employees who received remuneration in excess of \$100,000 during the year ended 30 June 2022.

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

Glossary of terms as used in this report

Overcap: Toka Tū Ake EQC insures the first \$100,000 + GST (\$115,000) of damage to a house (the “cap”) for each earthquake event, Toka Tū Ake EQC pays its contribution for each event and the private insurance company takes over responsibility for managing and settling the claim and paying the amount in excess of the cap that is “overcap”.

Out-of-scope: An “out-of-scope” claim is a claim made under the AMI policy for earthquake damage to property items ‘outside the scope’ of the Earthquake Commission Act 1993 but covered under the wider definition of “house” in the AMI policy (which includes, for example, garages, fences, drive ways, paths and swimming pools).

Agency Agreement: The Amended and Restated Agreement Relating to Management of Outstanding Canterbury Earthquake Claims between Toka Tū Ake EQC and Southern Response

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

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

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

Retained Claim Event means the Canterbury earthquake events recognised by EQC² as occurring from 4 September 2010 through 9 October 2011; and any other event that occurred prior to, or was continuing in progress, as at 5 April 2012 which entitles Southern Response to make a reinsurance claim.

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

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

² Formerly EQC, now, Toka Tū Ake EQC

Financial Statements 2022

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Statement of responsibility

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

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

In the board's opinion, these financial statements and statement of performance fairly reflect the financial position and operations of Southern Response Earthquake Services Limited for the year ended 30 June 2022.

Signed on behalf of the board:

Alister James
Chair
28 September 2022

Bevan Killick
Deputy Chair
28 September 2022



Independent auditor's report

TO THE READERS OF SOUTHERN RESPONSE EARTHQUAKE SERVICES LIMITED'S FINANCIAL STATEMENTS AND PERFORMANCE INFORMATION FOR THE YEAR ENDED 30 JUNE 2022

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

Opinion

We have audited:

- the financial statements of the Company on pages 18 to 34, that comprise the statement of financial position as at 30 June 2022, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date and the notes to the financial statements including that include accounting policies and other explanatory information; and
- the performance information of the Company on page 35.

In our opinion:

- the financial statements of the Company on pages 18 to 34:
 - present fairly, in all material respects:
 - its financial position as at 30 June 2022; and
 - its financial performance and cash flows for the year then ended; and
 - comply with generally accepted accounting practice in New Zealand in accordance with New Zealand equivalent to International Financial Reporting Standards and International Financial Reporting Standards; and
- the performance information on page 35:
 - presents fairly, in all material respects, the Company's performance for the year ended 30 June 2022, including:
 - for each class of reportable outputs:
 - its standards of delivery performance achieved as compared with forecasts included in the statement of performance expectations for the financial year; and
 - its actual revenue and output expenses as compared with the forecasts included in the statement of performance expectations for the financial year; and
 - complies with generally accepted accounting practice in New Zealand.

Our audit was completed on 28 September 2022. This is the date at which our opinion is expressed.

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

Uncertainties associated with the outstanding claims liability

Without modifying our opinion, we draw attention to the fact that the liabilities of the Company exceed its assets by \$198 million

at 30 June 2022 and, as outlined in note 9, there is considerable uncertainty surrounding the projection and valuation of the company's outstanding claims liability, which includes an allowance for a payment package announced by the Crown on 14 December 2020.

We agree that the financial statements have been appropriately prepared using the going concern basis of accounting, as stated in the going concern disclosure on page 22 of the financial statements. Note 5 to the financial statements explains that formal Crown financial support is available to the Company in the form of uncalled share capital together with a Deed of Indemnity which was entered into by the Crown on 26 September 2018, through the Minister of Finance to indemnify the Company in relation to certain litigation. The Deed of Indemnity was amended on 28 June 2019 to include any present or future proceeding or claim relating to a housing claim against the Company that is agreed as covered by both the Company and the Crown. An addendum to the Deed of Indemnity dated 11 December 2020 further includes and clarifies that the Indemnity covers, amongst other things, the Company's financial exposure under the Crown Package.

Basis for our opinion

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

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

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

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

The Board of Directors is responsible on behalf of the Company for preparing financial statements and performance information that are fairly presented and comply with generally accepted accounting practice in New Zealand. The Board of Directors is responsible for such internal control as it determines is necessary to enable it to prepare financial statements and performance information that are free from material misstatement, whether due to fraud or error.

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

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

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

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

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

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

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

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

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

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

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

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

Our responsibilities arise from the Public Audit Act 2001.

Other information

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

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

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

Independence

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

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



Mike Hoshek
for Deloitte Limited

On behalf of the Auditor General
Christchurch, New Zealand

Statement of comprehensive income

For the year ended 30 June 2022

	Note	2022 Budget \$000	2022 Actual \$000	2021 Actual \$000
Net claims incurred	1,2	(6,103)	(102,856)	(119,618)
Gain/(loss) on sale or disposal of property, plant and equipment		-	(1)	-
Revenue – Other	5	-	75,000	-
Net underwriting profit/(loss)		(6,103)	(27,857)	(119,618)
Investment income and expenses	3	305	547	264
Profit/(Loss) for the year before tax		(5,798)	(27,310)	(119,354)
Tax expense	4	-	-	-
Profit/(Loss) for the year after tax		(5,798)	(27,310)	(119,354)
Other comprehensive income:				
Other comprehensive income for the year after tax		-	-	-
Total comprehensive profit/(loss) for the year		(5,798)	(27,310)	(119,354)

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

Statement of changes in equity

For the year ended 30 June 2022

2022	Note	Ordinary Shares \$000	Accumulated Losses \$000	Total Equity/ (Deficit) \$000
Opening balance 1 July 2021		1,318,939	(1,539,901)	(220,962)
Profit/(loss) for the year		-	(27,310)	(27,310)
Other comprehensive income for the year		-	-	-
Total comprehensive income for the year		-	(27,310)	(27,310)
Call on uncalled ordinary shares	5	50,000	-	50,000
Closing balance 30 June 2022		1,368,939	(1,567,211)	(198,272)

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

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

Statement of financial position

As at 30 June 2022

	Note	2022 Budget \$000	2022 Actual \$000	2021 Actual \$000
Shareholders' equity				
Total shareholders' deficit		(118,971)	(198,272)	(220,962)
Represented by:				
Assets				
Financial assets				
Cash and cash equivalents	6	7,025	10,008	132,816
Receivables	8	-	184	2,194
Crown Receivable	5, 8	-	86,250	-
Plant and equipment		-	1,034	173
Total assets		7,025	97,476	135,183
Less:				
Liabilities				
Trade and other payables		1,245	12,252	2,620
Employee entitlements		-	328	127
Lease liability	13	-	995	164
Outstanding claims	9	124,750	282,173	353,234
Total liabilities		125,995	295,748	356,145
Net liabilities		(118,971)	(198,272)	(220,962)

On behalf of the board

Alister James, Chair



Bevan Killick, Deputy Chair



Financial statements
authorised for issue on
28 September 2022

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

Statement of cash flows

For the year ended 30 June 2022

		2022	2022	2021
	Note	Budget	Actual	Actual
		\$000	\$000	\$000
Cash flows from operating activities				
Interest received		305	635	273
Claim costs		(51,438)	(44,638)	74,754
Package costs		(173,506)	(116,070)	(2,021)
Payments to suppliers and employees		(9,276)	(12,308)	(12,046)
Income tax paid		-	-	-
Net cash inflow/(outflow) from operating activities	7	(233,915)	(172,381)	65,002
Cash flows from investing activities				
Payments for plant and equipment and property held for sale		-	(74)	(13)
Net cash inflow/(outflow) from investing activities		-	(74)	(13)
Cash flows from financing activities				
Proceeds from the uncalled capital facility		115,000	50,000	40,000
Repayment of lease liability		(165)	(353)	(330)
Net cash inflow from financing activities		114,835	49,647	39,670
Net increase/(decrease) in cash and cash equivalents		(119,080)	(122,808)	104,658
Add opening cash and cash equivalents		126,105	132,816	28,157
Ending cash and cash equivalents	6	7,025	10,008	132,816

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

Notes to the financial statements

For the year ended 30 June 2022

Reporting entity

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

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

The registered office for the Company is located at 53 Princess Street, Riccarton, Christchurch.

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

Basis of preparation

The financial statements have been prepared:

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

Going Concern

As at 30 June 2022 the liabilities of the Company exceeded its assets. The directors have considered the appropriateness of the financial statements being presented on a going concern basis and have concluded that the going concern assumption is appropriate given the funding arrangements entered into with the Crown (note 5).

Presentation format

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

Critical accounting judgements and estimates

Insurance Claim Liability Estimates

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

Changes in accounting policies

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

Other accounting policies

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

1. Net claims incurred

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

	2022	2021
	₹000	₹000
Earthquake:		
Gross claims expense/(benefit)	74,656	(131,110)
Claims handling expense	8,873	11,174
Shared property claims expense	15	190
Payment package	19,312	239,364
Total net claims incurred	102,856	119,618

2. Specified cost disclosures

Specific costs included in claims handling expenses:

	2022	2021
	₹000	₹000
Employee benefit expenses ¹	1,658	1,004
Depreciation	12	136
Amortisation – right of use asset	297	320
KiwiSaver ²	68	26
Audit fees	177	160

¹Accounting policy for short-term employee benefits

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

²Accounting policy for employer contributions to KiwiSaver

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

3. Investment income

Interest income is recognised using the effective interest rate method.

	2022	2021
	\$000	\$000
Interest income	635	273
Interest expense	(88)	(8)
Total investment income	547	264

4. Income tax

Tax	2022	2021
	\$000	\$000
Profit/(Loss) before tax	(27,310)	(119,354)
Tax at applicable rate of 28%	(7,647)	(33,419)
Deferred tax not recognised	(212)	37
Tax losses not recognised	7,859	33,382
Current tax expense	-	-

Imputation credit account:

Closing balance	196	196
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Deferred tax asset	2022	2021
	\$000	\$000
The balance comprises temporary differences attributable to:		
Property, plant and equipment	134	125
Employee provisions and accruals	68	19
Other provisions and accruals	658	932
Deferred tax benefit not recognised	(861)	(1,076)
Net deferred tax asset	-	-

Taxation losses totalling \$1,315 million (tax effect \$368 million) have not been recognised as at 30 June 2022 (2021: tax losses \$1,287 million, tax effect \$360 million).

Accounting policy for current income tax

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

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

Accounting policy for deferred income tax

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

5. Share capital

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

As explained below, as the Company requires additional capital to meet its claims payment obligations it can access a further \$89 million of capital from the Crown (2021: \$139 million).

	2022 Shares	2022 \$000	2021 Shares	2021 \$000
Ordinary shares:				
Balance 1 July	846,000,102	1,318,939	806,000,102	1,278,939
Paid ordinary shares (from the uncalled capital facility)	50,000,000	50,000	40,000,000	40,000
Balance 30 June	896,000,102	1,368,939	846,000,102	1,318,939
Uncalled ordinary shares:				
Balance 1 July	139,000,000	-	179,000,000	-
Called shares	(50,000,000)	-	(40,000,000)	-
Balance 30 June	89,000,000	-	139,000,000	-

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

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

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

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

The Company made a claim on the Indemnity on 25 May 2022 for \$75 million, which was received on 5 July 2022. The \$75 million claim received is included in revenue in the statement of comprehensive income. The total amount receivable at balance date, including GST, is included in Receivables in the statement of financial position.

The Company's forecasts indicate that further claims on the Indemnity of up to \$126 million may be required in future periods. This assumes that the discounted central estimate in the outstanding claims liability remains in line with the 30 June 2022 estimates and is dependent on whether or not the risk margin included in outstanding claims is required.

Indemnity claims will be recognised as revenue when the Crown agrees to pay the claim.

6. Cash and cash equivalents

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

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

	2022	2021
	\$000	\$000
Cash and cash equivalents		
Cash held for operational purposes	10,008	52,645
Cash on call and short term bank deposits	-	80,171
	10,008	132,816

7. Cash flows from operating activities

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

	2022	2021
	\$000	\$000
Profit/(Loss) for the year	(27,310)	(119,354)
Add/(less) non-cash items:		
Depreciation and amortisation	309	456
Time value adjustment - leases	88	8
Sub-total "A"	(26,913)	(118,890)
Movement in working capital items:		
(Increase)/decrease in receivables	(84,240)	236
Increase/(decrease) in payables	9,632	(1,972)
(Decrease)/increase in employee entitlements	201	78
(Decrease) in insurance liabilities	(71,061)	185,550
Sub-total "B"	(145,468)	183,892
Items classified as investing activities & financing activities:		
Net (gain)/loss on sale of property, plant and equipment	-	-
Sub-total "C"	-	-
Cash outflow from operating activities (A+B+C)	(172,381)	65,002

8. Receivables

	2022	2021
	\$000	\$000
Receivables	184	1,462
Crown Receivable	86,250	-
GST refund due	-	732
	86,434	2,194

9. Outstanding claims liability

Outstanding earthquake claims liability

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

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

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

To allow for the inherent uncertainty of the central estimate, a risk margin is applied to the outstanding claims liability net of reinsurance and other recoveries. The risk margin increases to at least 75% the probability that the net liability is adequately provided for (2021: 75%).

Crown package liability

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

A representative action was filed against the Company on 25 May 2018 by Mr and Mrs Ross on behalf of policyholders that cash settled claims for earthquake damaged dwellings with the Company prior to 1 October 2014 (the 'Ross Representative Action'). The Ross Representative Action was based on similar arguments and circumstances to the Dodds case.

The Ross Representative Action was discontinued on 5 January 2022 following a judgment issued by the High Court on 16 December 2021 granting leave for the proceeding to be discontinued subject to various conditions relating to delivery of the Package. One of those conditions is ongoing and requires Southern Response to provide the High Court with an update on Package delivery every three months.

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

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

The expected future payments include estimated Package handling costs.

To allow for the inherent uncertainty of the central estimate, a risk margin is applied to the outstanding claims liability net of reinsurance and other recoveries. The risk margin increases to at least 75% the probability that the net liability is adequately provided for (2021: 75%).

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

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

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

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

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

	EQ Run-off	Package	Total	
	2022	2022	2022	2021
Changes in gross discounted outstanding claims liability	\$000	\$000	\$000	\$000
Outstanding claims beginning of year	115,878	237,356	353,234	167,684
Change in central estimate	65,829	38,146	103,975	211,691
Change in claims handling provision	248	(2,208)	(1,960)	4,699
Change in discounting to present value	(7,104)	(3,265)	(10,369)	494
Change in risk margin	13,836	(24,261)	(10,425)	18,080
Claim payments	(36,002)	(116,280)	(152,282)	(49,414)
Outstanding claims end of year	152,685	129,488	282,173	353,234

Claims development

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

	EQ Run-off	Package	Total	
	2022	2022	2022	2021
	\$000	\$000	\$000	\$000
Central estimate	3,349,891	240,686	3,590,577	3,486,600
Claims handling expense	6,900	3,670	10,570	12,530
Cumulative payments	(3,233,641)	(118,302)	(3,351,943)	(3,199,660)
Discount of unpaid liability to present value	(7,104)	(3,265)	(10,369)	-
Discounted central estimate	116,046	122,789	238,835	299,470
Risk margin	36,639	6,699	43,338	53,764
Net outstanding claims liability	152,685	129,488	282,173	353,234

Actuarial calculation, assumptions and methods

The effective date of the actuarial report on the earthquake insurance liabilities is 30 June 2022. The actuarial report has been prepared by the appointed actuaries, Finity Consulting Pty Limited (Finity), represented by Luke Cassar and Estelle Pearson (Fellows of the Institute of Actuaries of Australia and Fellows of the New Zealand Society of Actuaries). Finity is satisfied with the quality of data provided for the purpose of estimating insurance liabilities.

In the actuary's opinion the insurance liabilities have been prepared in accordance with the New Zealand equivalents to International Financial Reporting Standard (NZ IFRS 4 Insurance Contracts) and the NZ Society of Actuaries Professional Standard 30 governing technical liability valuations for general insurance business.

Key actuarial assumptions – earthquake

	2022	2021
Discount rate	3.4%	0.0%
Risk margin – outstanding claims liabilities		
EQ claims run-off	31.6%	24.5%
Payment package	5.5%	15.0%
Average weighted term to settlement from financial reporting date (years)		
EQ claims run-off	1.8	1.1
Payment package	0.8	0.5

Process to determine assumptions

Inflation

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

Discount rate

Discounting has been applied to the outstanding claims by reference to the risk free zero coupon yields published by the New Zealand Treasury at 30 June 2022.

Claims handling expenses

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

Risk margin

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

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

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

For the Package, there remains considerable uncertainty around the eventual outcomes of the package. A wide range of potential outcomes exist, with the provision based on a combination of the estimated exposure, take-up rate of the Package and Package handling expenses.

In response to the inherent uncertainties, the risk margin has been set at 31.6% of the estimated liability (2021: 24.5%) for the earthquake claim run-off and 5.5% for the Package (2021: 15.0%).

Average weighted term to settlement

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

Sensitivity analysis – impact of changes in key variables

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

Variable	Change in Variable	2022 \$000	2021 \$000
Claims handling expense	+10%	1,275	1,504
	-10%	(1,275)	(1,504)
Risk margin	+1%	2,388	2,995
	-1%	(2,388)	(2,995)
Future overcap numbers	+10%	7,910	4,264
	-10%	(7,910)	(4,264)
Package take-up rate	+10%	13,862	31,056
	-10%	(13,862)	(31,056)
Average Package payment	+5%	14,243	11,646
	-5%	(14,243)	(11,646)
Discounting	+1% p.a.	(3,550)	-
	-1% p.a.	3,669	-

10. Overall risk management framework

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

To help the Board monitor the Company's exposure to all risks (both financial and insurance) an Audit and Risk Committee

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

11. Insurance contracts – risk management policies and procedures

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

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

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

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

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

12. Financial instruments – risk management policies and procedures

Financial instrument information and risk management

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

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

Specific financial risks involving financial instruments other than insurance contracts

Interest rate risk

Interest rate risk is the risk that arises from fluctuating interest rates in the market. The Company is funded quarterly by the Crown, based on expected cash outflows for that quarter and typically keeps temporary surplus cash on Call or 32-45 day maturity deposits with various financial institutions, with an ability under its Treasury policy to invest for up to six months.

Credit risk

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

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

Cash and cash equivalents are placed with high quality financial institutions and the amount of credit exposure to any one financial institution is limited. All of these financial institutions are rated 'AA-' or better by S&P Global Ratings (formerly Standard & Poor's).

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

Liquidity risk

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

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

Liquidity table	Net discounted outstanding claims liability		Crown Package liability		Lease liabilities		Cash, term deposits and receivables	
	2022	2021	2022	2021	2022	2021	2022	2021
	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000
Cash and cash equivalents	-	-	-	-	-	-	10,008	132,816
Within 1 year	56,279	63,059	76,725	179,594	138	164	86,434	2,197
Within 1 to 2 years	42,665	37,178	52,763	57,762	165	-	-	-
Within 2 to 3 years	30,836	10,479	-	-	184	-	-	-
Within 3 to 4 years	15,568	4,382	-	-	206	-	-	-
Within 4 to 5 years	7,337	780	-	-	230	-	-	-
5+ years	-	-	-	-	72	-	-	-
	152,685	115,878	129,488	237,356	995	164	96,442	135,013

13. Leases

Accounting policy

Measurement basis

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

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

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

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

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

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

Extension and termination options

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

Note disclosure

Amounts recognised in the statement of financial position

	2022	2021
	\$/000	\$/000
Right-of-use asset net book value – 7 Winston Avenue		
Opening balance	160	800
Less depreciation	(160)	(640)
Closing balance	-	160

	2022	2021
	\$/000	\$/000
Right-of-use asset net book value – 53 Princess Street		
Additions	1,097	-
Less depreciation	(137)	-
Closing balance	960	-

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

	2022	2021
	\$/000	\$/000
Lease Liabilities		
Current liability	138	164
Non-current liability	858	-
	995	164

Amounts recognised in the statement of comprehensive income

	2022	2021
	\$/000	\$/000
Depreciation charge of right-of-use assets	297	320
Interest expense (included in finance cost)	88	8
Expense relating to short-term leases (including in operating expenses)	9	2
Expense relating to variable lease payments not included in lease liabilities (included in operating expenses)	87	69
	481	399

The total cash outflow for leases in the year ended 30 June 2022 was \$353,000 (2021: \$330,213).

14. Related party transactions

Remuneration of key management personnel

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

From 1 July 2021 to 30 June 2022 key management personnel include the Company's Chief Executive and Directors of the Company.

	2022	2021
	\$000	\$000
Remuneration of key management personnel:		
Short term employee benefits	400	344
Director fees	172	141
	572	463

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

Crown funding arrangements are addressed in note 5.

Transactions with Crown entities

Receivables contain \$0.18 million as at 30 June 2022 (2021: \$1.2 million) for collection from the Earthquake Commission as reimbursement for settlement costs the Company incurred when settling the undercap portion of customers' claims.

Directors interested transactions

The Chair, Mr Alister James, is a Commissioner of Toka Tū Ake EQC. Transactions with the Earthquake Commission during the year have been carried out on an arms-length basis and include; ongoing management by the Earthquake Commission of customer claims under an agency arrangement for which \$1,246,249 has been paid or accrued, rental arrangements at the Company's premises for which the Commission has been charged \$83,433, and rental arrangements at the Commissions premises for which the Company has been charged \$256,183.

Payables contain \$0.36 million as at 30 June 2022 (2021: \$0.47m) for payment to the Earthquake Commission for management of customers' claims.

15. Capital commitments

There were no capital commitments at 30 June 2022.

16. Contingent liabilities and assets

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

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

17. Events after reporting date

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

18. New standards and interpretations

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

- NZ IFRS 17 Insurance Contracts 1 Jan 2023

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

19. Explanation of significant variances against budget

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

The 2022 financial year budget (together with the Statement of Performance Expectations) was approved by the Board in June 2021 and was based on the latest available actuarial valuation at that time. The budget assumed no adjustment to the claims liability or unwinding of the risk margin.

Statement of comprehensive income

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

- Changes in the discounted central estimate relating to earthquake run-off resulted in a \$66m loss to the statement of comprehensive income, largely due to the ultimate number of claims assumption (IBNR) increasing following the pattern of earthquake claims re-openings, together with the impact of increasing claim settlement amounts.
- Changes to the earthquake run-off risk margin due to the increased IBNR resulted in a \$14m loss to the statement of comprehensive income.
- A reassessment of the likely ultimate take-up for the payment Package resulted in a loss of \$38m to the statement of comprehensive income.
- Changes to the Package risk margin due to the increased take-up for the Package resulted in a \$24m gain to the statement of comprehensive income.
- A claim on the Crown indemnity was made at the end of the financial year which was forecast to occur during the following year, resulting in a \$75m gain to the statement of comprehensive income.

Statement of financial position

- The outstanding claims liability is \$157m greater than budget due to:
 - the net effect of an increase in IBNR claims for earthquake run-off, the reassessment of the ultimate take-up of the Package and the related risk margin changes totaling \$93m
 - claim and Package settlement payments are \$64m lower than budget due to restrictions on communicating with policyholders about the Package that were in place until leave was granted for the Ross Representative Action to be discontinued on 16 December 2021 and that the budget assumes that the risk margin is paid out in proportion to the associated claims. In reality the risk margin has not had to be spent during the year.
- A claim on the Crown indemnity of \$75m excluding GST was made at the end of the financial year which was forecast to occur during the following year, resulting in an \$86.25m amount receivable at year end and an increase in GST payable included in trade and other payables.

Statement of cash flows

- Claim and Package payments are \$64m less than budget due to restrictions on communicating with policyholders about the Package that were in place until leave was granted for the Ross Representative Action to be discontinued on 16 December 2021. The budget also assumes that the risk margin is paid out in proportion to the associated claims.
- Proceeds from the Crown are \$65m less than budget. The budgeted draw on uncalled capital was replaced by an Indemnity claim of \$75m, which is recognized in income but received after year end.

Statement of performance

For the year ended 30 June 2022

Strategic Objective	Outcome	2021–2022 targets	Status
1. Settling notified Covered Claims.	Although Toka Tū Ake EQC will be acting as Southern Response's agent, the Company will still provide specialist support to Toka Tū Ake EQC and retain the decision-making obligations and ultimate responsibility for settling Covered Claims.	The number of claims reduces in accordance with the Company's actuarial forecasts for the year.	<i>Not achieved. Toka Tū Ake EQC and the Company managed to achieve 93% of the Company's Statement of Performance Expectations target for settled Covered Claims for the year ending 30 June 2022. The shortfall was driven by a number of external factors outside of Toka Tū Ake EQC or the Company's control.</i>
		The outcome of audits of Toka Tū Ake EQC acting as the Company's agent at the end of the financial year record only minor or moderate findings.	<i>Achieved.</i>
		Customer satisfaction results meet or exceed the metric that is agreed with Toka Tū Ake EQC through the Company's ongoing agency arrangements.	<i>Achieved. The customer experience survey conducted reported the highest satisfaction rating from customers since this research first began (circa. 2014)</i>
2. Accurate and timely Package payments are made to eligible policyholders	Southern Response expects to receive a number of applications for additional sums of money in relation to the Package following a broad, multi-channel communications plan. It is important that these applications are processed in an accurate and timely manner with a strong emphasis on a positive customer experience.	Upon receipt of a complete and valid application, offers to eligible policyholders will be made within 20 working days.	<i>Not achieved. One contributing factor to this was that a Court ordered notice was sent out to eligible policyholders which resulted in a large number of applications arriving all at the same time and creating a backlog. This was an event that the Company was not in control of and the backlog was essentially cleared by May 2022.</i>
		Internal audit results report only minor or moderate findings in relation to the payment process	<i>Achieved.</i>
		Customer complaints are dealt with in a timely manner and lessons learnt are incorporated back into business processes. We aim to respond to and resolve (where appropriate) 90% of complaints received within 60 days.	<i>Achieved.</i>
3. Litigated claims and legal risks generally are appropriately managed	Southern Response is involved in ongoing litigation that is of significance to the Company and the Crown more generally. It is important that litigation and legal issues faced by the Company are appropriately managed and the implications of any judicial decisions are understood.	The number of litigated claims reduces in accordance with the Company's actuarial forecasts.	<i>Achieved.</i>
		The Company has demonstrably offered alternative dispute resolution channels to customers when any form of litigation arises.	<i>Achieved.</i>
		The Company has a clear understanding of its portfolio of claims that remain and also those that have settled.	<i>Achieved.</i>
4. Ensuring its ongoing governance, financial and legal obligations are met	As a Crown-owned company, Southern Response will have ongoing financial, governance, legal and reporting obligations that will continue for a number of years.	Compliance with obligations arising from the Public Finance Act 1989, the Crown Entities Act 2004 and any other relevant legislation.	<i>Achieved.</i>
		Manage liquidity in accordance with the investment management policy directed by the Crown, including reporting of actual and projected shortfalls in a timely manner.	<i>Achieved.</i>
		Southern Response achieves a positive audit report in relation to its management, financial and service performance, information systems and controls.	<i>Achieved.</i>
5. Continued wind-down of the Company through its final phase is effective and efficient	As the claims settlement process and delivery of the Package nears completion, the Company will continue to work towards the wind-down and closure of its operations to ensure it fully discharges its obligations.	Organisational run down is in accordance with forecasts.	<i>Not achieved – operational timeframes relating to both the Package and the outstanding claims portfolio have been extended beyond previous forecasts. The delivery of the Package was delayed by ongoing Court matters but is now running down as forecast following these initial delays. Due to the continued inflow of new overcap claims received from Toka Tū Ake EQC, claims are forecast to continue entering the business longer than previously forecast.</i>
		The identification of the Company's physical and intangible assets, residual rights, obligations and liabilities, and data holdings is up to date.	<i>Achieved.</i>

Directory

Shareholders

Minister Responsible for Earthquake Commission
Minister of Finance

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Office

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Web: www.southernresponse.co.nz

Executive Management

Casey Hurren, Chief Executive

Actuary

Finity Consulting Pty Limited

Auditor

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

Banker

ANZ Bank of New Zealand Limited

Legal Advisors

Bell Gully
Buddle Findlay

Affiliations

Insurance and Financial Services Ombudsman (IFSO) Scheme participant

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