



Southern Response Earthquake Services Ltd



Southern Response Earthquake Services Ltd

PO Box 9052, Tower Junction, Christchurch 8149
PO Box 97-365, Manukau City, Manukau 2241

P: 0800 501 525 E: claims@southernresponse.co.nz
www.southernresponse.co.nz

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).

Annual Report 2012 Te pūroko a tau a Urupare ki te Tonga



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Southern Response's Purpose:

To manage covered claims, to manage the company's recoveries from reinsurers, to manage its investment portfolio and to conduct any activities that are associated with those purposes.

Opposite image: BeckerFraserPhotos
This annual report was produced and printed in Christchurch.



Chairman and Chief Executive's Report

Background

This Annual Report covers the 12 month period to 30 June 2012.

Until 5 April 2012, the company traded as AMI Insurance Limited (AMI). AMI was New Zealand's second largest residential insurer, with approximately 32% of the Christchurch residential insurance market. Following the Canterbury earthquakes that began in September 2010, the company received an estimated \$2 billion of earthquake related claims covering more than 6,600 homes, 20,000 other property claims, 2,400 contents claims, 6,200 claims for temporary accommodation, and 700 claims for loss of rent.

As a result of the financial impact of the 22 February 2011 earthquake, AMI Holdings Limited, then shareholder of AMI, requested Crown support. On 7 April 2011, a Crown Support Deed was agreed, providing AMI with financial support on specified terms and conditions.

AMI subsequently sold its non-earthquake related business to IAG Holdings Limited in a transaction that was completed on 5 April 2012.

On that date, the company became a Crown owned entity, was renamed Southern Response Earthquake Services Limited (Southern Response), and the Shareholding Ministers (the Minister of Finance and the Minister for Canterbury Earthquake Recovery) appointed the current directors.

Purpose of Southern Response

Unlike other company Annual Reports that typically focus on corporate outcomes in terms of profit, shareholder value and accumulation, market share, dividends, and strategic plans for growth, Southern Response's Annual Report reflects the purpose of the company and the transition it has undergone. Southern Response is charged with managing and settling insurance claims by AMI policyholders primarily for Canterbury earthquake damage that occurred up until 5 April 2012, recovering reinsurance proceeds, and managing the remaining investments of the company.

Outcomes

The directors and management of Southern Response ensured that for Southern Response's customers - AMI policyholders with earthquake claims - the transition of the company to Crown ownership did not result in any loss of momentum in managing the earthquake claims and was seamless, apparent to customers as a change of company name only, but under Crown ownership.

Southern Response's approach to its claims management business is focused on:

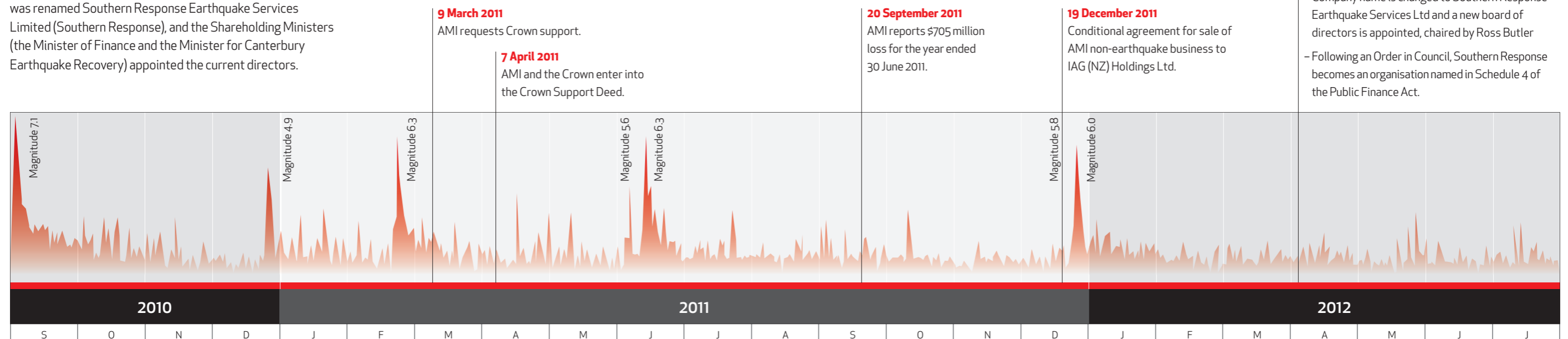
- Settling customers' claims in accordance with the company's policy obligations under their AMI policy in force at the time of the claim, in a fair and consistent manner;
- Preserving the company's rights under reinsurance treaties;
- Ensuring efficient and cost effective processes in the management of those claims.

The unprecedented scale, complexity and reoccurring nature of the Canterbury earthquakes have necessitated the development of many new systems and procedures. Business processes have had to be developed to enable Southern Response to deliver on its objectives.

Southern Response's key strategy since the outset has been to complete all comprehensive house assessments

and insurance policy settlements (the insurance phase) prior to moving into the building phase, for customers who choose to repair or rebuild with Southern Response rather than choosing another settlement option.

By 30 June 2012, Southern Response had completed 93% of the 6,619 assessments for AMI policyholders' damaged or destroyed homes. Seventy five per cent of those customers had received a settlement offer. Of these, 60% had elected a settlement option. For damage not covered by EQC (drives, fences, paths, etc) 2,800 assessments had been completed and 1,800 repair contracts issued.



5 April 2012

- The sale of non-earthquake related business to IAG (NZ) Holdings Ltd is completed.
- Crown takes control of the company
- Company name is changed to Southern Response Earthquake Services Ltd and a new board of directors is appointed, chaired by Ross Butler
- Following an Order in Council, Southern Response becomes an organisation named in Schedule 4 of the Public Finance Act.

Financial summary

The financial statements to 30 June 2012 record the results of the company's discontinued operations (the writing of fire and general business for the domestic property insurance market) up until the sale of this business to

IAG on 5 April 2012, as well as its continuing operations - the management and settlement of claims from the Canterbury earthquake events up until 5 April 2012.

Key aspects of Southern Response's consolidated financial results are:

	2012 \$000	2011 \$000
Continuing Operations -		
Net earthquake claims incurred	(450,121)	(760,300)
Other costs	(3,486)	-
Investment income	18,112	22,815
Unrealised (loss)/gain on fair value of Crown receivable	(32,018)	2,595
(Loss) for the Year from Continuing Operations	(467,513)	(734,890)
Discontinued Operations -		
Gain on disposal of operations	244,526	-
Profit from discontinued operations	34,902	29,875
Profit for the Year from Discontinued Operations	279,428	29,875
Other comprehensive income	1,432	422
Total Comprehensive (Loss) for the Year	(186,653)	(704,593)

\$326 million was paid out in claim settlements during the year to 30 June 2012 (2011: \$48 million).

The company's net earthquake claims liability at 30 June 2012 was:

	2012 \$000	2011 \$000
Claims liability -		
Discounted central estimate (including claims handling expenses)	1,814,575	1,707,620
Risk margin	244,425	229,000
Gross outstanding claims liabilities	2,059,000	1,936,620
Reinsurance receivables	(936,876)	(1,196,538)
Net outstanding claims liability	1,122,124	740,082

Financial support

In addition to collecting reinsurance receivables from its panel of international reinsurers, Southern Response is realising its investment portfolio to fund its settlement of customers' claims. To give it the financial surety to meet all customers' valid claims, the company also has the benefit of:

- The \$500 million of financial support from the Crown under the Crown Support Deed entered into between the Crown and AMI in April 2011, now amended to reflect Southern Response's Crown ownership. On 5 April 2012 the new shareholders (the Minister of Finance and the Minister for Canterbury Earthquake Recovery) paid \$100 million to the company to convert 100 million of the 500 million convertible preference shares to ordinary shares;
- Additional support provided after 30 June 2012 by the Crown's formal advice that it will subscribe for additional uncalled capital, to be paid only if the company exhausts its reinsurances, investments and existing Crown support.

Appreciation

We gratefully acknowledge the support and contribution of our people. Many of our Christchurch based staff, contractors and secondees from IAG have experienced their own losses and property damage because of the earthquakes. They have worked professionally and compassionately with their customers, helping them to rebuild their homes and their province. They have done so throughout the transition to Crown ownership, as they quickly acquired and developed new skills and systems.

We are also grateful for the support of other government agencies and departments, our reinsurers, actuary, Arrow International (our project manager), Golder Associates (geotechnical advisor), IAG (communications, systems and technology infrastructure services provider) and many

other organisations and individuals working with us on the myriad of practical and technical issues we and our customers encounter.

Outlook

Having completed assessments on the majority of customers' homes, the company's key areas of focus in the 2012 - 2013 year are:

- Completing all outstanding joint EQC-Southern Response assessments;
- Implementing the programme of rebuild or major repair of customers' homes, including those in the TC3 zone, in a timely, customer-focused and cost effective manner;
- Keeping our customers informed of progress with their claims, and enabling all stakeholders to monitor the company's overall progress via regular updates on the website www.southernresponse.co.nz
- Continued active participation in the insurance industry's initiatives to rebuild Canterbury.

Ross Butler
Chairman

Peter Rose
Chief Executive Officer

26 October 2012

Southern Response – Our Values

Respect

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

Integrity

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

Honour our promises

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

Ownership

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

Passion

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

Excellence

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

Recognition

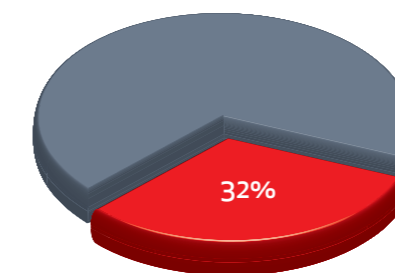
We recognise and celebrate the contributions our people make as individuals and as teams to deliver on our goals.

Development

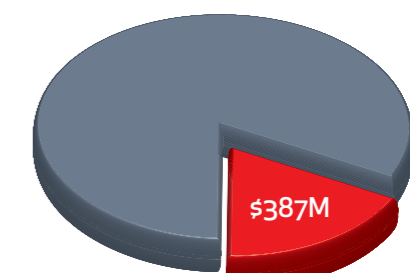
We professionally develop our people to provide challenging and rewarding employment and prospects.

Southern Response - Our Claims

Southern Response's share of all over cap Canterbury earthquake house claims

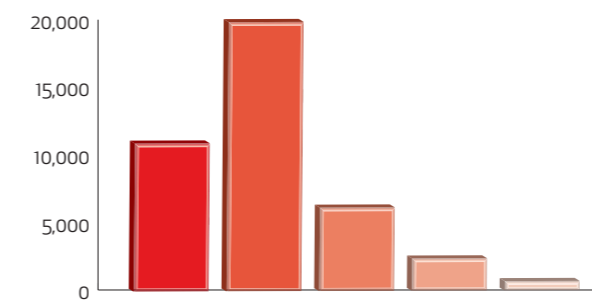


Amount paid from \$2.2bn total estimate of Southern Response's claim liability

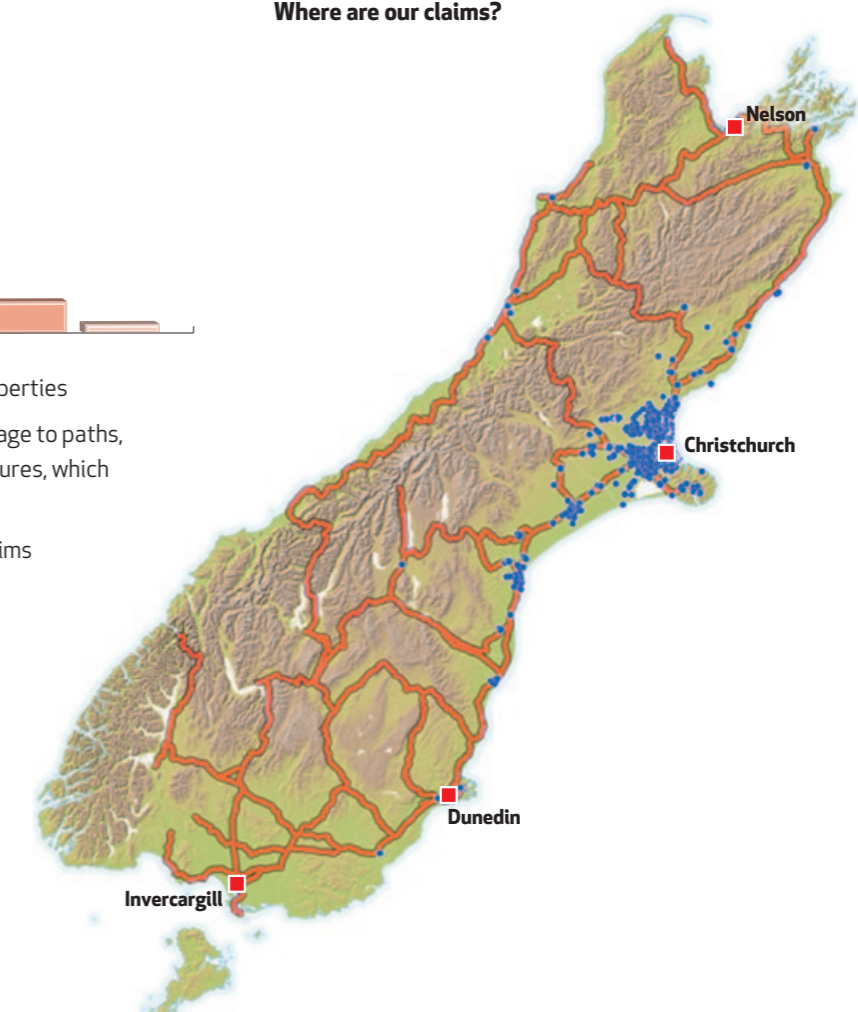


At 30 June 2012

Claims breakdown



Where are our claims?



- 11,000 over cap claims on 6,600 properties
- 20,000 out of scope claims for damage to paths, driveways and other external structures, which are not covered by EQC
- 6,200 temporary accommodation claims
- 2,400 contents claims
- 700 loss of rent claims

Board of Directors



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



Ross Butler, Chair

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

He is currently chairman of the Code Committee (Financial Advisers Act), Nelson Marlborough Institute of Technology, Mercer Investment Nominees, and Nelson Bays Football. Ross is also a director of Marlborough Lines Limited and has previously been deputy chair, and chair of audit and risk committee, of GNS Science.



Anne Urlwin, Deputy Chair

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

Anne is currently chairman of Queenstown local government regulatory services provider Lakes Environmental Ltd and of commercial construction company Naylor Love Enterprises Ltd. She became a director of Chorus Ltd upon the Telecom demerger in late 2011.



Jenn Bestwick

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

Since moving to Christchurch, Jenn has worked for Ngai Tahu Holdings Group and with local authorities, iwi and the primary and hydro-generation sectors on fresh water management in the Canterbury region.

Jenn is currently chair of Christchurch Polytechnic Institute of Technology, a board member of the New Zealand Qualifications Authority, Tourism New Zealand and a member of the Canterbury Employment Skills Board of the Canterbury Earthquake Recovery Authority.



Susan Thodey

Susan Thodey is admitted as a barrister and solicitor in New Zealand and as a solicitor in England. She is a partner in the Auckland based partnership of Heaney & Co.

For the past 25 years Susan has been employed by local and overseas insurance companies to advise on a wide range of insurance related matters including policy advice and claims management. She has also acted for local government with an emphasis in recent years on construction disputes.



Bevan Killick

Christchurch born and educated, Bevan Killick is a chartered accountant and a chartered insurance practitioner (UK). During his professional career, Bevan held senior positions in the

Lloyd's Insurance Market for 12 years. Now based back in Christchurch, Bevan is chairman of NZCU South, the University of Canterbury Students' Association Advisory Board, a member of the St John of God Hauora Trust Board and of the audit committee of the Chartered Insurance Institute (UK).

Bevan has also been working with Recover Canterbury, the organisation responsible for helping businesses recover from the Canterbury earthquakes.



David Whyte

David Whyte has spent his entire career in the insurance industry, working at a senior level in the UK, Australia, and New Zealand.

After selling his private practice in Scotland, he was one of the founding managers of Sovereign Assurance, before heading up American International Group's life companies in New Zealand initially, and then Australia. Returning to New Zealand in 2008, David has held various board positions before being appointed to the board of Southern Response.

Governance

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

The company became a Crown owned company on 5 April 2012 when its shareholders became the Minister of Finance and the Minister for Canterbury Earthquake Recovery. Currently 100 of the company's 401,000,102 shares on issue are owned by Member Holdings Ltd, a company associated with the AMI Members Trust.

At 5 April 2012 the company's name changed from AMI Insurance Ltd to Southern Response Earthquake Services Ltd.

Company Activities

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

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

- Assessing and meeting Canterbury earthquake-related claims, including managing all repair and re-building work;

- Recovering reinsurance and insurance proceeds, including liaising with the reinsurers and the Earthquake Commission;
- Managing the company's funds and assets to enable settlement of claims.

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

Governance Framework

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

The board operates under the Crown Ownership Monitoring Unit (COMU) Owner's Expectations Manual which sets out the Ministers' expectations of the board, including the reporting, accountability and financial governance expectations.

Board of Directors

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

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

Board Committees

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

In April 2012 the board committees became:

- Audit, Risk & Compliance Committee – sets the principles and standards for financial reporting, the external audit function, maintenance of an effective internal control environment, legislative and contractual compliance and maintenance of an effective risk management environment.
- Capital Committee – oversees matters associated with insurance claims liabilities, reinsurance receivables, Earthquake Commission receivables and investments.
- Chief Executive Review Committee – assists with the appointment of the CEO, the annual review of the CEO's performance and remuneration and considers professional development and training for the CEO.
- Communications & Community Engagement Committee – assists in the setting of key principles for the communications to the various entities who have an interest in Southern Response, and monitors the effectiveness of the company's communication and community stakeholder engagement.

- Governance Committee – deals with board administrative matters related to succession planning, board performance review and professional development of directors.
- Staff Remuneration & Retention Committee – sets the principles and standards for key policies relating to recruitment and appointment, remuneration and retention.

Directors

The following directors held office up to 5 April 2012, and membership of the company's previous board committees:

Director	Committee	Relationship
Kerry Nolan Non-Executive Chairman	Information Support Committee	Chair
	Capital Committee	Member
	Remuneration Committee	Member
John Balmforth Executive Director and CEO	Investment Committee	Member
Richard Flower Non-Executive Director	Investment Committee	Chair
	Audit & Risk Committee	Member
Brian Gargiulo Non-Executive Director		
Trevor Kerr Non-Executive Director	Remuneration Committee	Chair
	Capital Committee	Chair
	Audit & Risk Committee	Chair
Phillip Shewell Non-Executive Director	Audit & Risk Committee	Member
	Information Support Committee	Member
John Pritchard Non-Executive Director		

Kerry Nolan and Richard Flower were also Trustees of the AMI Superannuation Scheme. The above directors resigned on 5 April 2012.

Under the constitution adopted on 5 April 2012, the board is appointed by Shareholding Ministers and can comprise up to seven non-executive directors, including the Chairman.

As at 30 June 2012 there were six non-executive directors of the company, all of whom were appointed 5 April 2012:

Director	Committee	Relationship
Ross Butler Non-Executive Chairman	Chief Executive Review Committee	Chair
	Communications & Community Engagement Committee	Member
	Governance Committee	Member
Anne Urlwin Non-Executive Deputy Chairman	Audit, Risk & Compliance Committee	Chair
	Capital Committee	Member
	Governance Committee	Member
Jenn Bestwick Non-Executive Director	Communications & Community Engagement Committee	Chair
	Chief Executive Review Committee	Member
	Staff Remuneration & Retention Committee	Member
Bevan Killick Non-Executive Director	Capital Committee	Chair
	Audit, Risk & Compliance Committee	Member
	Communications & Community Engagement Committee	Member
Susan Thodey Non-Executive Director	Governance Committee	Chair
	Audit, Risk & Compliance Committee	Member
	Staff Remuneration & Retention Committee	Member
David Whyte Non-Executive Director	Staff Remuneration & Retention Committee	Chair
	Capital Committee	Member
	Chief Executive Review Committee	Member

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 then 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 new interests or cessations of interests of directors during the year ended 30 June 2012 have been recorded in the interests register.

There have been no interests registered by directors in transactions during the financial year ended 30 June 2012.

Director	Entity	Relationship
Ross Butler	Mercer Investment Nominees NZ Ltd	Chairman
	Nelson Marlborough Institute of Technology	Chairman
	Code Committee, Financial Advisers Act	Chairman
	Nelson Bays Football	Chairman
	Marlborough Lines Ltd	Director
	Life Education Trust	Trustee
	Merlot Ltd	Director and shareholder
	Swimming New Zealand	Chairman
Anne Urlwin	Lakes Environmental Ltd	Chairman
	Naylor Love Enterprises Ltd (and subsidiaries)	Chairman
	Chorus Ltd	Director
	Te Rūnanga o Ngāi Tahu Audit & Risk Committee	Independent chairman
	Urlwin Associates Ltd	Director and shareholder
	Clifton Creek Ltd	Director and shareholder
	Maigold Holdings Ltd	Director and shareholder
Jenn Bestwick	Christchurch Polytechnic Institute of Technology	Chairman
	Christchurch Polytechnic Foundation	Trustee
	New Zealand Qualifications Authority	Director
	Montana Christchurch Winter Carnival	Trustee
	Canterbury Employment Skills Board	Board member
	Original Works Ltd	Director and shareholder
	The Project Office	Contractor
Bevan Killick	Credit Union South (t/a NZCU South)	Chairman
	University of Canterbury Students' Association	Advisory Board chairman
	St John of God Hauora Trust	Board member
	Chartered Insurance Institute	Audit Committee member
	Killick Group Ltd	Director and shareholder
Susan Thodey	Heaney & Co Ltd	Director and shareholder
David Whyte	IPD Ltd	Director
	DCW Management Ltd	Director and shareholder

The directors who held office until 5 April 2012 made no entries in the interests register. The previous Chairman (resigned 5 April 2012) is a retired partner in the legal firm Duncan Cotterill, from whom the company purchases legal services on normal commercial terms.

Indemnities and Insurance

As permitted by Southern Response's Constitution, deeds of indemnity have been given to those directors appointed 5 April 2012 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 total amount of insurance premiums paid was \$593,094 relating to cover for:

- Those directors who held office until 5 April 2012 in respect of the period to 5 April 2012;
- Those directors who held office until 5 April 2012 in respect of runoff insurance for the seven year period commencing 5 April 2012;
- Those directors appointed 5 April 2012 commencing from that date.

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.

Glossary of terms, as used in this report:

Crown Ownership Monitoring Unit (COMU):

a department of Treasury which monitors the performance of Crown entities, assists with the appointment of directors and provides performance and governance advice to Ministers.

Crown Support Deed: A deed entered into by the Crown and AMI in April 2011 outlining the terms of the Crown's support for the company. The deed was amended in April 2012 to reflect the increased Crown ownership of the company.

EQC receivables: money to be paid by EQC to Southern Response where a customer has assigned their rights to compensation under the Earthquake Commission Act.

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

Over cap: EQC insures the first \$100,000 + GST (\$115,000) of damage to a house (the "cap") for each earthquake event. If the level of damage exceeds this for any one earthquake event, EQC pays that maximum amount and the private insurance company takes over responsibility for managing and settling the claim and paying the amount in excess of the cap - that is "over cap".

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

Shareholders Letter of Expectations: a letter issued by shareholding Ministers annually outlining their expectations of a Crown entity.

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

Statement of Responsibility

In accordance with the Public Finance Act 1989, the board is responsible for the preparation of Southern Response Earthquake Services Limited and Group's Financial Statements and Statement of Service Performance and the judgements made in them.

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

In the board's opinion, these Summary Financial Statements and Summary Statement of Service Performance have been properly extracted from the audited Financial Statements and Statement of Service Performance of Southern Response Earthquake Services Limited and group for the year ended 30 June 2012.

Signed on behalf of the board.



Ross Butler
Chairman
26 October 2012



Anne Urlwin
Director
26 October 2012

Independent Auditor's Report



To the readers of Southern Response Earthquake Services Limited and group's summary financial statements and summary statement of service performance for the year ended 30 June 2012.

We have audited the summary financial statements and summary statement of service performance as set out on pages 21 to 42, which were derived from the audited financial statements and statement of service performance of Southern Response Earthquake Services Limited (the company) and group for the year ended 30 June 2012 on which we expressed an unmodified audit opinion in our report dated 26 October 2012.

The summary financial statements and summary statement of service performance comprise the summary statement of financial position as at 30 June 2012, and summaries of the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, the related notes and the summary statement of service performance of the company and group.

Opinion

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

Emphasis of Matters – Uncertainties associated with the outstanding claims liability and reinsurance receivables, and the appropriateness of the going concern assumption.

The following emphasis of matter paragraph was included in the audited financial statements of company and group for the year ended 30 June 2012.

"Without modifying our opinion, we draw your attention to notes 1, 14 and 27 of the financial statements. Those notes describe how the Canterbury earthquakes have affected the outstanding claims liability and related reinsurance receivables of the company and group. Those notes also describe the significance of the amounts of the earthquake related outstanding claims liability and reinsurance receivables, and the inherent uncertainties involved in estimating those amounts using actuarial assumptions. The valuation of the reinsurance receivables is subject to similar uncertainties as the valuation of the outstanding claims liability.

Also, without modifying our opinion, we draw your attention to note 1 of the financial statements about the going concern assumption which notes that the liabilities of the company and group exceed their assets. We also draw your attention to notes 36 and 37 of the financial statements which describe the funding arrangements that have been approved by the Cabinet subsequent to balance date to provide the company and group with sufficient funding to meet their liabilities as they fall due."

Details of the above matters are outlined in Notes 2, 7, 10, 14 and 15 of the summary financial statements.

Basis of opinion

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

The summary financial statements and summary statement of service performance and the audited financial statements and statement of service performance from which they were derived, do not reflect the effects of events that occurred subsequent to our report dated 26 October 2012 on the audited financial statements and statement of service performance.

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

Responsibilities of the Board of Directors and the Auditor

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

In addition to the audit we have carried out assignments in the area of other assurance services which is compatible with those independence requirements. Other than the audit and these assignments, we have no relationship with or interests in the company or any of its subsidiaries.



Michael Wilkes
DELOITTE

On behalf of the Auditor-General
Christchurch, New Zealand

26 October 2012

Matters relating to the electronic presentation of the audited financial statements and statement of service performance

This audit report relates to the summary financial statements and summary statement of service performance of Southern Response Earthquake Services Limited (the company) and group for the year ended 30 June 2012 included on the company's website. The Board of Directors is responsible for the maintenance and integrity of the company's website. We have not been engaged to report on the integrity of the company's website. We accept no responsibility for any changes that may have occurred to the financial statements and statement of service performance since they were initially presented on the website.

The audit report refers only to the summary financial statements and summary statement of service performance named above. It does not provide an opinion on any other information which may have been hyperlinked to or from the summary financial statements and summary statement of service performance. If readers of this report are concerned with the inherent risks arising from electronic data communication they should refer to the published hard copy of the audited summary financial statements and summary statement of service performance as well as the related audit report dated 26 October 2012 to confirm the information included in the audited summary financial statements and summary statement of service performance presented on this website.

Legislation in New Zealand governing the preparation and dissemination of financial information may differ from legislation in other jurisdictions.

Statements of Comprehensive Income

For the year ended 30 June 2012

	Note	2012		2011	
		Group \$000	Company \$000	Group \$000	Company \$000
Continuing Operations:					
Net Claims Incurred – Non-earthquake	3	(3,087)	(3,087)	-	-
Net Claims Incurred - Earthquake	3	(450,121)	(450,121)	(760,300)	(760,300)
Less Operating Costs		(399)	(400)	-	-
Net Underwriting (Loss)		(453,607)	(453,608)	(760,300)	(760,300)
Investment Income		18,112	18,112	22,815	27,127
Unrealised (Loss)/Gain on Fair Value of Crown Receivable	9	(32,018)	(32,018)	2,595	2,595
Loss for the Year from Continuing Operations before Tax		(467,513)	(467,514)	(734,890)	(730,578)
Tax Expense/(Benefit)		-	-	-	-
Loss for the Year from Continuing Operations after Tax		(467,513)	(467,514)	(734,890)	(730,578)
Discontinued Operations:					
Profit for the Year from Discontinued Operations	4	279,428	279,428	29,875	22,312
Loss for the Year		(188,085)	(188,086)	(705,015)	(708,266)
Other Comprehensive Income:					
Revaluation of Land and Buildings		(1,965)	(1,965)	1,256	1,256
Movement in Actuarial Value of Defined Benefit Superannuation Scheme		3,701	3,701	(802)	(802)
Tax Effect of Other Comprehensive Income		(304)	(304)	(32)	(32)
Other Comprehensive Income for the Year, Net of Tax		1,432	1,432	422	422
Total Comprehensive (Loss) for the Year		(186,653)	(186,654)	(704,593)	(707,844)

The Notes to Financial Statements on pages 26 to 40 form part of and should be read in conjunction with these financial statements.

Statements of Changes in Equity - Group

For the year ended 30 June 2012

	Note	Ordinary Shares \$000	Convertible Preference Shares \$000	(Accumulated Losses) \$000	Property Reval'n Reserve \$000	Disaster Reserve \$000	Total Equity \$000
2012							
Opening Balance 1 July 2011		-	477,939	(353,108)	14,563	-	139,394
Loss for the Year		-	-	(188,085)	-	-	(188,085)
Revaluation of Land and Buildings		-	-	-	(1,965)	-	(1,965)
Actuarial movement in Defined Benefit Superannuation Scheme		-	-	3,701	-	-	3,701
Tax Effect of Items Recognised in Other Comprehensive Income		-	-	(1,036)	732	-	(304)
Other Comprehensive Income/(Loss) for the Year		-	-	2,665	(1,233)	-	1,432
Total Comprehensive (Loss) for the Year		-	-	(185,420)	(1,233)	-	(186,653)
Transfer Property Revaluation to Retained Earnings		-	-	3,058	(3,058)	-	-
Conversion of Preference Shares into Ordinary Shares	6	95,580	(95,580)	-	-	-	-
Closing Balance 30 June 2012		95,580	382,359	(535,470)	10,272	-	(47,259)
2011							
Opening Balance 1 July 2010		-	-	347,484	13,564	5,000	366,048
Loss for the Year		-	-	(705,015)	-	-	(705,015)
Revaluation of Land and Buildings		-	-	-	1,256	-	1,256
Actuarial movement in Defined Benefit Superannuation Scheme		-	-	(802)	-	-	(802)
Tax Effect of Items Recognised in Other Comprehensive Income		-	-	225	(257)	-	(32)
Other Comprehensive (Loss)/Income for the Year		-	-	(577)	999	-	422
Total Comprehensive (Loss)/Income for the Year		-	-	(705,592)	999	-	(704,593)
Transfer Disaster Reserve to Retained Earnings		-	-	5,000	-	(5,000)	-
Increase In Convertible Preference Shares	6	-	477,939	-	-	-	477,939
Closing Balance 30 June 2011		-	477,939	(353,108)	14,563	-	139,394

The Notes to Financial Statements on pages 26 to 40 form part of and should be read in conjunction with these financial statements.

Statements of Changes in Equity - Company

For the year ended 30 June 2012

	Note	Ordinary Shares \$000	Convertible Preference Shares \$000	(Accumulated Losses) \$000	Property Reval'n Reserve \$000	Disaster Reserve \$000	Total Equity \$000
2012							
Opening Balance 1 July 2011		-	477,939	(353,107)	14,563	-	139,395
Loss for the Year		-	-	(188,086)	-	-	(188,086)
Revaluation of Land and Buildings		-	-	-	(1,965)	-	(1,965)
Actuarial movement in Defined Benefit Superannuation Scheme		-	-	3,701	-	-	3,701
Tax Effect of Items Recognised in Other Comprehensive Income		-	-	(1,036)	732	-	(304)
Other Comprehensive Income/(Loss) for the Year		-	-	2,665	(1,233)	-	1,432
Total Comprehensive (Loss) for the Year		-	-	(185,421)	(1,233)	-	(186,654)
Transfer Property Revaluation to Retained Earnings		-	-	3,058	(3,058)	-	-
Conversion of Preference Shares into Ordinary Shares	6	95,580	(95,580)	-	-	-	-
Closing Balance 30 June 2012		95,580	382,359	(535,470)	10,272	-	(47,259)
2011							
Opening Balance 1 July 2010		-	-	350,736	13,564	5,000	369,300
Loss for the Year		-	-	(708,266)	-	-	(708,266)
Revaluation of Land and buildings		-	-	-	1,256	-	1,256
Actuarial movement in Defined Benefit Superannuation Scheme		-	-	(802)	-	-	(802)
Tax Effect of Items Recognised in Other Comprehensive Income		-	-	225	(257)	-	(32)
Other Comprehensive (Loss)/Income for the Year		-	-	(577)	999	-	422
Total Comprehensive (Loss)/Income for the Year		-	-	(708,843)	999	-	(707,844)
Transfer Disaster Reserve to Retained Earnings		-	-	5,000	-	(5,000)	-
Increase In Convertible Preference Shares	6	-	477,939	-	-	-	477,939
Closing Balance 30 June 2011		-	477,939	(353,107)	14,563	-	139,395

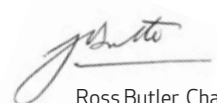
The Notes to Financial Statements on pages 26 to 40 form part of and should be read in conjunction with these financial statements.

Statements of Financial Position

As at 30 June 2012

	Note	2012		2011	
		Group \$000	Company \$000	Group \$000	Company \$000
Shareholders' Equity					
Total Shareholders' (Deficit)/Equity		(47,259)	(47,259)	139,394	139,395
Represented By:					
Assets					
Financial Assets					
Cash and Cash Equivalents		82,394	82,394	108,872	108,442
Receivables		29,944	29,944	5,419	5,359
Insurance Receivables		-	-	10,096	10,096
Reinsurance Receivables	7	937,422	937,422	1,196,538	1,196,538
Investments	8	582,555	582,555	387,046	387,046
Crown Receivable	9	364,160	364,160	496,178	496,178
Property Held for Sale		27,670	27,670	-	-
Deferred Acquisition Costs		-	-	2,124	2,124
Current Taxation		266	228	286	218
Deferred Taxation		-	-	75	75
Investment Properties		-	-	7,820	3,646
Investment and Loans in Subsidiary Companies		-	38	-	4,699
Property, Plant and Equipment		899	899	36,300	36,270
Intangible Assets		31	31	16,160	16,160
Total Assets		2,025,341	2,025,341	2,266,914	2,266,851
Less:					
Liabilities					
Trade and Other Payables		10,001	10,001	33,244	33,180
Employee Entitlements		547	547	8,322	8,322
Unearned Premium		-	-	96,665	96,665
Outstanding Claims – Non-earthquake		3,052	3,052	48,307	48,307
Outstanding Claims – Earthquake	10	2,059,000	2,059,000	1,936,620	1,936,620
Defined Benefit Superannuation Scheme		-	-	4,362	4,362
Total Liabilities		2,072,600	2,072,600	2,127,520	2,127,456
Net (Liabilities)/Assets		(47,259)	(47,259)	139,394	139,395

On behalf of the Board


Ross Butler, Chairman
Authorised for issue on 26 October 2012


Anne Urlwin, Director

The Notes to Financial Statements on pages 26 to 40 form part of and should be read in conjunction with these financial statements.

Statements of Cash Flows

For the year ended 30 June 2012

	Note	2012		2011	
		Group \$000	Company \$000	Group \$000	Company \$000
Cash Flows from Operating Activities					
Premiums Received from Customers		281,434	281,434	361,124	361,124
Interest Received		20,507	20,507	20,535	20,470
Dividends Received		973	973	2,312	2,312
Other Investment Income		2,550	2,550	2,063	1,538
Claim Costs – Non-earthquake		(142,874)	(142,874)	(189,923)	(189,923)
Claim Costs – Earthquake		(359,533)	(359,533)	(55,079)	(55,079)
Claim Costs – Recoveries		246,454	246,454	34,862	34,862
Payments to Suppliers and Employees		(56,832)	(56,780)	(90,185)	(89,953)
Payments For Reinsurance		(39,934)	(39,934)	(45,494)	(45,494)
Income Tax Paid		(13)	(43)	(4,615)	(4,579)
Net Cash (Outflow)/Inflow From Operating Activities	5	(47,268)	(47,246)	35,600	35,278
Cash Flows from Financing Activities					
Proceeds from Crown Receivable		100,000	100,000	-	-
Costs of Raising Crown Support Capital		-	-	(15,644)	(15,644)
Proceeds from Subsidiary Companies		-	438	-	1,453
Net Cash Inflow/(Outflow) From Financing Activities		100,000	100,438	(15,644)	(14,191)
Cash Flows from Investing Activities					
Proceeds from Sale of Property, Plant and Equipment		9,449	9,419	293	293
Payments for Property, Plant and Equipment		(5,279)	(5,279)	(4,891)	(4,884)
Payments for Intangible Assets		(5,757)	(5,757)	(6,199)	(6,199)
Payments for Financial Assets		(529,943)	(529,943)	(280,912)	(280,912)
Sales and Maturities of Financial Assets		326,923	326,923	233,010	233,010
Proceeds from Sale of Business net of Cash and Cash Equivalents Disposed		125,397	125,397	-	-
Net Cash (Outflow) From Investing Activities		(79,210)	(79,240)	(58,699)	(58,692)
Net (Decrease) in Cash and Cash Equivalents		(26,478)	(26,048)	(38,743)	(37,605)
Add Opening Cash and Cash Equivalents		108,872	108,442	149,396	147,828
Foreign Exchange (Losses)/Gains on Operating Cash		-	-	(1,781)	(1,781)
Ending Cash and Cash Equivalents		82,394	82,394	108,872	108,442

The Notes to Financial Statements on pages 26 to 40 form part of and should be read in conjunction with these financial statements.

Notes to the Summary Financial Statements

1. Summary Financial Statements - Basis of Preparation

Southern Response Earthquake Services Limited (the Company) is a limited liability company incorporated and domiciled in New Zealand and registered under the Companies Act 1993. The Company name was changed from AMI Insurance Limited to Southern Response Earthquake Services Limited on 5 April 2012.

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

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

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

The financial statements for the Company and Group were authorised for issue by the Directors on 26 October 2012 and have been audited by Deloitte on behalf of the Auditor General and given an unqualified opinion. The audit report contained emphasis of matter paragraphs in relation to uncertainties associated with the outstanding claims liability and reinsurance receivables and the appropriateness of the going concern assumption. Further details of these uncertainties are outlined in notes 2, 7, 10, 14 & 15.

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

The summary financial statements in this report have been prepared in accordance with FRS 43 - *Summary Financial Statements* and were authorised for issue by the Directors on 26 October 2012.

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

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

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

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

Notes to the Summary Financial Statements

2. Critical Accounting Judgements and Estimates

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

The Ultimate Liability Arising from Claims Made Under Insurance Contracts

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

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

The estimation of claims Incurred But Not Reported (IBNR) is generally subject to a greater degree of uncertainty than the estimation of the cost of settling claims already notified to the Company, where more information about the claim event is generally available.

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

Assets Arising from Reinsurance Contracts

Assets arising from reinsurance contracts are computed using Actuarial valuations. In addition, the recoverability of these assets is assessed on a periodic basis to ensure that the balance is reflective of the amounts that will ultimately be received, taking into consideration factors such as counterparty and credit risk.

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

Valuation of the Crown Receivable

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

Notes to the Summary Financial Statements

3. Net Claims Incurred

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

	2012		2011	
	Group \$000	Company \$000	Group \$000	Company \$000
Non-earthquake:				
Gross claims expense	2,433	2,433	-	-
Reinsurance recovery revenue	654	654	-	-
Total Net Non-earthquake Claims incurred	3,087	3,087	-	-
Earthquake:				
Gross claims expense	428,207	428,207	1,991,700	1,991,700
Reinsurance recovery revenue	21,914	21,914	(1,231,400)	(1,231,400)
Total Net Earthquake Claims incurred	450,121	450,121	760,300	760,300
Total Net Claims Incurred	453,208	453,208	760,300	760,300

Notes to the Summary Financial Statements

4. Discontinued Operations

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

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

	2012		2011	
	Group \$000	Company \$000	Group \$000	Company \$000
Profit from Discontinued Operations:				
Premium Revenue	287,461	287,461	361,822	361,822
Less Reinsurance Expense	(39,934)	(39,934)	(46,147)	(46,147)
	247,527	247,527	315,675	315,675
Less Net Claims Incurred	(141,226)	(141,226)	(187,552)	(187,552)
Less Operating Costs	(71,595)	(71,595)	(99,256)	(106,448)
Profit before Tax	34,706	34,706	28,867	21,675
Attributable Income Tax Benefit	196	196	1,008	637
Profit for the Year After Tax	34,902	34,902	29,875	22,312
Gain on Disposal of Operations	244,526	244,526	-	-
Profit from Discontinued Operations	279,428	279,428	29,875	22,312
Other Comprehensive Income:				
Movement in Actuarial Value of Defined Benefit Superannuation Scheme	3,701	3,701	(802)	(802)
Tax Effect of Other Comprehensive Income	(1,036)	(1,036)	225	225
	2,665	2,665	(577)	(577)
Total Comprehensive Income from Discontinued Activities	282,093	282,093	29,298	21,735

Notes to the Summary Financial Statements

	2012	
	Group \$000	Company \$000
Cash Flows from Discontinued Operations:		
Net Cash Flows from Operating Activities	40,924	40,924
Net Cash Flows from Investing Activities	125,397	125,397
Net Cash Flows from Financing Activities	-	-
Net Cash Flows	166,321	166,321

The disposal of the fire and general insurance operations affected the Statement of Financial Position as follows:

Cash and Cash Equivalents	(237,024)	(237,024)
Receivables and Prepayments	(6,589)	(6,589)
Insurance Receivables	(22,758)	(22,758)
Deferred Acquisition Costs	(1,864)	(1,864)
Deferred Taxation	(2,105)	(2,105)
Property, Plant and Equipment	(7,280)	(7,280)
Intangible Assets	(19,502)	(19,502)
Trade and Other Payables	33,562	33,562
Employee Entitlements	8,654	8,654
Unearned Premiums	90,638	90,638
Outstanding Claims	43,607	43,607
Defined Benefit Superannuation Scheme	661	661
Net Assets Disposed	(120,000)	(120,000)
Net Sale Value	364,526	364,526
Gain on Disposal of Operations	244,526	244,526

Notes to the Summary Financial Statements

5. Cash Inflows from Operating Activities

	2012		2011	
	Group \$000	Company \$000	Group \$000	Company \$000
Reconciliation of Loss for the Year to Cash Inflows from Operating Activities				
Loss for the Year	(188,085)	(188,086)	(705,015)	(708,266)
Add/(Less) Non-Cash Items:				
Depreciation and Amortisation	5,762	5,762	8,445	8,415
Impairment	-	49	-	7,374
Unrealised Losses/(Gains)	1,648	1,648	3,666	(1,210)
Unrealised movement in discounting Crown Receivable to Fair Value	32,018	32,018	(2,595)	(2,595)
Decrease in Deferred Acquisition Costs	260	260	270	270
Non-actuarial losses on Defined Benefit Superannuation Scheme via Profit or Loss	-	-	290	290
Net movement in Deferred Tax Asset/Liability	75	75	(364)	15
Deferred Tax on Movements via Reserves	(304)	(304)	(32)	(32)
Sub-total "A"	(148,626)	(148,578)	(695,335)	(695,739)
Movement in Working Capital items:				
(Increase) in Receivables and Tax	(24,505)	(24,595)	(4,677)	(4,629)
Decrease/(Increase) in Reinsurance and Insurance Receivables	269,212	269,212	(1,196,564)	(1,196,564)
(Decrease)/Increase in Payables	(25,652)	(25,588)	8,400	8,377
(Decrease) in Employee Entitlements	(7,775)	(7,775)	(1,220)	(1,220)
(Decrease)/Increase in Insurance Liabilities	(19,540)	(19,540)	1,935,474	1,935,474
Sub-total "B"	191,740	191,714	741,413	741,438
Items Classified as Investing Activities:				
Gain on sale of Operations net of Working Capital items	(95,003)	(95,003)	-	-
Decrease/(Increase) in interest receivable capitalised	4,158	4,158	(1,372)	(1,315)
Net Gain on Sale of Property, Plant and Equipment	(476)	(476)	-	-
Net Loss/(Gain) on Sale of Investments	939	939	(3,523)	(3,523)
Reversal of Provision against Intangibles	-	-	(7,364)	(7,364)
Sub-total "C"	(90,382)	(90,382)	(12,259)	(12,202)
Impact of Foreign Exchange Losses on Operating Cash "D"	-	-	1,781	1,781
Cash (Outflow)/Inflow from Operating Activities (A+B+C+D)	(47,268)	(47,246)	35,600	35,278

Notes to the Summary Financial Statements

6. Share Capital

	2012		2011	
	Group \$000	Company \$000	Group \$000	Company \$000
Ordinary Shares:				
Balance at 1 July	-	-	-	-
Conversion of preference shares to ordinary shares on 5 April 2012	95,580	95,580	-	-
Closing Balance at 30 June	95,580	95,580	-	-
Convertible Preference Share Capital:				
Balance at 1 July	477,939	477,939	-	-
Issue of 500 million fully called convertible preference shares on 7 April 2011	-	-	500,000	500,000
Conversion of preference shares to ordinary shares on 5 April 2012	(95,580)	(95,580)	-	-
Establishment Fee paid to Crown	-	-	(15,000)	(15,000)
Professional fees	-	-	(644)	(644)
Fair value discount to present value at issuance	-	-	(6,417)	(6,417)
Closing Balance at 30 June	382,359	382,359	477,939	477,939

At 30 June 2012, there were 1,000,102 (2011: 101) Ordinary Shares, 400,000,000 (2011: 500,000,000) unpaid convertible preference shares and 0 (2011: 1) special shares.

Under the terms of the Deed of Amendment and Restatement to the Crown Support Deed, the Company may issue a Payment Notice for a number of unpaid convertible preference shares. On payment the shares will be designated as paid-up convertible preference shares. Such shares are convertible into ordinary shares at the option of the convertible preference shareholder.

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

Notes to the Summary Financial Statements

7. Reinsurance Receivables

	2012		2011	
	Group \$000	Company \$000	Group \$000	Company \$000
Gross Reinsurance Receivable	952,671	952,671	1,249,938	1,249,938
Discount to present value	(15,249)	(15,249)	(53,400)	(53,400)
Reinsurance Receivables	937,422	937,422	1,196,538	1,196,538
Being:				
Non-Earthquake	546	546	-	-
Earthquake (Note 10)	936,876	936,876	1,196,538	1,196,538
Reinsurance Receivables	937,422	937,422	1,196,538	1,196,538

	Group and Company	
	2012 \$000	2011 \$000
Changes in Gross Reinsurance Receivable		
Balance at 1 July	1,249,938	-
Change in gross estimated recovery	(22,567)	1,284,800
Reinsurance collections	(274,700)	(34,862)
Closing Balance at 30 June	952,671	1,249,938

At 30 June 2012, the Company and Group conducted an impairment review of the reinsurance receivables. No loss was recognised (2011: \$Nil). The carrying amounts disclosed above approximate fair value at each reporting date.

Actuarial Assumptions

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

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

The effect of changes in assumptions

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

8. Investments

	2012		2011	
	Group \$000	Company \$000	Group \$000	Company \$000
New Zealand Government Bonds	484,379	484,379	5,454	5,454
Other Fixed Interest Securities	97,356	97,356	355,563	355,563
Equity Securities	820	820	26,029	26,029
Investments	582,555	582,555	387,046	387,046

Notes to the Summary Financial Statements

9. Crown Receivable

	2012		2011	
	Group \$000	Company \$000	Group \$000	Company \$000
Opening Balance at 1 July	496,178	496,178	-	-
Capital called at 7 April 2011	-	-	500,000	500,000
Received 5 April 2012	(100,000)	(100,000)	-	-
Fair Value adjustment at issuance	-	-	(6,417)	(6,417)
Fair Value adjustment at 30 June	(32,018)	(32,018)	2,595	2,595
Closing Balance at 30 June	364,160	364,160	496,178	496,178

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

On 5 April 2012 a Deed of Amendment and Restatement to the Crown Support Deed was signed with the Crown. At this time the Crown paid up 100 million convertible preference shares and converted these to 1 million ordinary shares.

The Company may draw down the Crown Receivable by issuing a Payment Notice for a number of unpaid convertible preference shares equal to the Shortfall Amount in any quarter, being the shortfall between the cumulative balance of the Company's reinsurance receivables and financial investments less \$25 million and less any payments expected to be made in the ordinary course of its business.

The Crown Receivable as at 30 June 2012 is recorded at its fair value taking into account all relevant circumstances including the timing of the potential cash flows and the terms of the Crown Support Deed. The risk free discount rates used are in the range of 2.53% to 2.84%. Cash flows of \$400 million within five years have been assumed.

At 30 June 2011, a recovery date of six months from the inception of the Crown Support Deed was assumed.

Notes to the Summary Financial Statements

10. Outstanding Claims Liability: Earthquake

	2012		2011	
	Group \$000	Company \$000	Group \$000	Company \$000
Outstanding Earthquake Claims				
Discounted Central Estimate	1,726,281	1,726,281	1,675,720	1,675,720
Risk Margin	244,425	244,425	229,000	229,000
Claims Handling Expenses	88,294	88,294	31,900	31,900
Gross Outstanding Claims Liability	2,059,000	2,059,000	1,936,620	1,936,620
Expected Reinsurance Recoveries (Note 7)	(952,125)	(952,125)	(1,249,938)	(1,249,938)
Impact of Discounting on Reinsurance Recoveries (Note 7)	15,249	15,249	53,400	53,400
Net Outstanding Claims Liability	1,122,124	1,122,124	740,082	740,082

	Group and Company	
	2012 \$000	2011 \$000
Changes in Gross Outstanding Claims Liability		
Opening Balance at 1 July	1,936,620	-
Change in Central Estimate	338,296	1,819,120
Change in Claims Handling Expense	56,394	31,900
Change in Discounting to Present Value	38,532	(95,000)
Change in Risk Margin	15,425	229,000
Claim Payments	(326,267)	(48,400)
Closing Balance at 30 June	2,059,000	1,936,620

Claims Development

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

	Group and Company	
	2012 \$000	2011 \$000
Central Estimate	2,157,416	1,819,120
Claims Handling Expense	88,294	31,900
Cumulative Payments	(374,667)	(48,400)
Discount to Present Value	(56,468)	(95,000)
Discounted central estimate	1,814,575	1,707,620
Risk Margin	244,425	229,000
Gross Outstanding Claims Liability	2,059,000	1,936,620
Reinsurance Receivables (refer Note 7)	(936,876)	(1,196,538)
Net Outstanding Claims Liabilities	1,122,124	740,082

Notes to the Summary Financial Statements

Actuarial Calculation, Assumptions and Methods

The effective date of the actuarial report on the earthquake insurance liabilities is 30 June 2012. The actuarial report was prepared by the Appointed Actuary. Finity Consulting are satisfied with the quality of data provided for the purpose of estimating insurance liabilities.

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

Key Actuarial Assumptions – Earthquake

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

	2012 Group and Company	2011 Group and Company
Future Inflation		
Building Cost	8.00%	6.00%
Temporary Accommodation	0.00%	0.00%
Other cover types	3.00%	3.00%
Discount Rate	2.57%	3.44%
Claims Handling Expenses	5.15%	1.90%
Risk Margin – Outstanding Claims Liabilities	14.20%	14.20%
Average weighted term to settlement from reporting date	1.83 years	2.58 years

Process to Determine Assumptions

Inflation

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

- 8% per annum for building costs, based on information from the New Zealand Treasury
- 0% per annum on temporary accommodation (as the allowance in the valuation is already set at the maximum payable under the Company's cover), and
- 3% per annum for the other cover types.

Overall this equates to 6.8% per annum.

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 2012.

Claims handling expenses

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

Notes to the Summary Financial Statements

Risk Margin

The risk margin is intended to achieve a 75% probability of adequacy for the outstanding claims. The unique and unprecedented nature of the earthquake events precludes application of a formal statistical process to determining the 75% risk margin. Instead the Actuary has set the risk margin with reference to:

- the risk margins applying to the Company's business as usual claim liabilities
- the risk margins generally adopted for a range of other insurance classes, and
- the results of sensitivity tests on the Actuary's valuation results taking into account factors such as building cost inflation; the number of property claims; the mix of rebuilds/repairs/cash settlements, the claim payment pattern; and the allocation of the Earthquake Commission related event costs.

There is considerable uncertainty attaching to many elements of the likely ultimate cost of the Company's earthquake related outstanding claims liabilities. The higher than normal level of uncertainty is due to a number of factors including:

- the relatively early stage of claims development
- that not all of the over cap claims have been formally assessed
- issues relating to application of multiple Earthquake Commission caps and to the Government's land remediation package that are still developing, and
- the potential impact of demand surge on building costs.

As a result of these uncertainties the risk margin applied is materially higher than would be applied to a more normal level of uncertainty. The selected risk margin of 14.2% of the gross central estimate was chosen at a level which was double the existing margin for business as usual house claims (i.e. 14.2%, compared to 7.1%).

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

Variable	Change in Variable	2012 \$000	2011 \$000
Inflation Rate	+1% p.a.	22,720	26,711
	-1% p.a.	(22,536)	(26,163)
Discount Rate	+1% p.a.	(19,300)	(13,662)
	-1% p.a.	20,009	14,160
Claims Handling Expense	+10%	10,027	3,540
	-10%	(10,027)	(3,540)
Risk Margin	+1%	17,274	15,486
	-1%	(17,153)	(15,486)

Notes to the Summary Financial Statements

11. Related Party Transactions

Remuneration of Key Management Personnel

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

	Group and Company			Group and Company
	2012			2011
	Total	Continuing	Discontinued	Total
	\$000	\$000	\$000	\$000
Short-term employee benefits	2,905	800	2,105	2,837
Post-employment benefits and retiring allowances	207	-	207	211
Remuneration of Key Management Personnel	3,112	800	2,312	3,048

Management Fees

The Group paid the AMI Members Trust management fees of \$32,000 (2011: \$15,000).

AMI Superannuation Scheme

The Company was sponsor to an employee superannuation scheme (the Scheme). In addition to these contributions, the Company met some of the operating costs of the Scheme, such as audit fees and actuarial valuations. These additional costs totalled \$10,000 (2011: \$61,000).

Loan to Company (Impairment of advance)

The Company has made loans to three nominee companies that are sole purpose property owning companies situated in Christchurch in which the Company has a 100% beneficial interest. These properties have suffered a significant loss in value as a result of the earthquakes resulting in the nominee companies having reduced ability to fully repay the loans. An impairment charge of \$0.049 million has therefore been recognised in the Company's financial statements for the year ended 30 June 2012 (2011: \$7.374 million).

Balances with various Crown-owned entities

Included in sundry creditors at 30 June 2012 is a liability to the New Zealand Fire Service of \$Nil (2011: \$5.626 million) for levies collected but unpaid at the reporting date, and a liability to the Earthquake Commission of \$Nil (2011: \$3.111 million) which represents levies collected on behalf of that entity but unpaid at the reporting date.

Included in Investments at 30 June 2012 are \$484.379 million (2011: \$5.454 million) of Government bonds and \$7.076 million (2011: \$34.293 million) of bonds held in various State Owned Enterprises.

Details relating to the Crown Receivable are disclosed in Note 9. Included in receivables is \$19.780 million which is the expected recovery from the Earthquake Commission being the Commission's contributions to claims which have been settled in full by the Company.

Notes to the Summary Financial Statements

12. Director Remuneration

Retired Directors	2012	2011	Continuing Directors	Total 2012	Ordinary fees	Special fees
	\$	\$		\$	\$	\$
Kerry Nolan	84,914	111,434	Ross Butler	22,937	17,162	5,775
John Balmforth (1)	875,741	992,069	Anne Urlwin	19,267	10,726	8,541
Richard Flower	53,969	75,097	Jenn Bestwick	13,140	8,581	4,559
Brian Gargiulo	35,434	49,387	Bevan Killick	15,025	8,581	6,444
Trevor Kerr	53,737	59,185	Susan Thodey	9,626	8,581	1,045
Philip Shewell	42,261	52,666	David Whyte	13,323	8,581	4,742
John Pritchard	36,372	11,117				
David Wolfenden	-	39,344				

(1) Salary paid as an executive director

The retired directors' remuneration listed above for the year ended 30 June 2012 is comprised solely of directors' fees as approved at last annual general meeting of the Company.

The shareholding Ministers approved ordinary fees of \$62,211 and special fees of \$31,106 of which the actual spend was \$31,106 for the period from 5 April 2012 to 30 June 2012. Differences in directors' individual fees reflect payments to directors from these special fees for additional work done by them.

13. Employee Remuneration

Remuneration	Discontinued Operations		Continuing Operations
	2012	2011	2012
\$370,000 pa - \$379,999 pa	-	1	-
\$320,000 pa - \$329,999 pa	1	-	-
\$300,000 pa - \$309,999 pa	-	2	-
\$280,000 pa - \$289,999 pa	1	1	-
\$260,000 pa - \$269,999 pa	1	-	-
\$230,000 pa - \$239,999 pa	1	1	-
\$220,000 pa - \$229,999 pa	-	1	-
\$200,000 pa - \$209,999 pa	-	1	-
\$190,000 pa - \$199,999 pa	1	1	-
\$180,000 pa - \$189,999 pa	-	3	-
\$170,000 pa - \$179,999 pa	2	1	-
\$160,000 pa - \$169,999 pa	1	3	-
\$150,000 pa - \$159,999 pa	-	13	-
\$140,000 pa - \$149,999 pa	2	7	-
\$130,000 pa - \$139,999 pa	4	2	-
\$120,000 pa - \$129,999 pa	12	17	1
\$110,000 pa - \$119,999 pa	5	14	-
\$100,000 pa - \$109,999 pa	10	26	2

Notes to the Summary Financial Statements

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

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

14. Going Concern Assumption

As at 30 June 2012 the Company has a net asset deficit of \$47.259 million caused by increases in the estimated level of claim liabilities. Furthermore, as a consequence of the increased claim liability the estimated cash flow forecasts prepared by the Company also indicate the assets of the Company may not be sufficient to meet the claim payment obligations particularly if the full risk margin is required to settle claims.

As a result, the Crown has agreed to subscribe for \$500 million further capital to ensure the Company has sufficient cash and capital to meet the payment of claim obligations as they fall due. As at the date of adopting these financial statements the agreement with the Crown had not been executed but Cabinet has approved the funding request on 24 October 2012 and has instructed Treasury to prepare the subscription agreement for execution (refer Note 15). This funding arrangement is in addition to the Crown Support Deed and Subscription Agreement entered into on 7 April 2011 (refer Notes 6 and 9).

For this reason the directors have concluded that the financial statements are appropriately presented on a going concern basis. The funding arrangement entered into with Treasury subsequent to balance date (refer Note 15) will enable the Company to meet its claim payment obligations as they fall due.

15. Events After Reporting Date

On 24 October 2012 Cabinet agreed that the Crown would subscribe for \$500 million of capital in the Company. The shares are to be uncalled and unpaid. Treasury were instructed to draft a subscription agreement providing that the shares may be called at the discretion of the Company and only if the company's reinsurances, investments and existing Crown support are exhausted.

Summary Statement of Service Performance

5 April 2012 - 30 June 2012

Objective 1:

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

Initiative	Performance measure	KPI target	Status
Comply with industry code of practice standards to facilitate successful outcomes for customers in a cost effective manner.	Operation of effective systems to deliver consistent and fair claims decisions in efficient cost-effective and timely manner.	By 30 June 2012: 90% damaged house assessments completed.	Met: Southern Response had 6,619 over cap house claims at 30 June 2012 of which 6,155 (93%) had been assessed.
	Timely and effective communication with customers regarding claims progress and building opportunities.	By 30 June 2012: Establish a draft build priority strategy.	Met: The draft build priority strategy was completed by 30 June 2012.

Objective 2:

To develop and maintain effective relationships with key stakeholders.

Initiative	Performance measure	KPI target	Status
Optimise the strategic and operational interaction with CERA, EQC, DBH, insurers and key community groups.	Operation of effective relationship management protocols.	By 30 June 2012: Become an associate member of the Insurance Council of New Zealand and cement participation in all earthquake-related industry forums.	Met: Southern Response was granted associate membership of the Insurance Council of New Zealand on 4 May 2012.

Objective 3:

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

Initiative	Performance measure	KPI target	Status
Develop and maintain an effective risk management framework.	Risk management framework.	By 30 June 2012: Develop a draft risk register.	Met: A draft risk register was completed by 31 May 2012.
Maintain monitoring and management systems to ensure compliance with contractual obligations.	Compliance with contractual obligations.	By 30 June 2012: Develop a monitoring system over contractual delivery obligations by Arrow International.	Met: A regime of formal review meetings with Arrow and reporting on contractual delivery obligations was implemented by 31 May 2012.

Summary Statement of Service Performance

5 April 2012 - 30 June 2012

Objective 4 :

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

Initiative	Performance measure	KPI target	Status
Implement the Investment Management policy as directed by the Crown.	Investment management policy and cash flow forecasting systems implemented.	By 30 June 2012: Develop a draft Treasury Policy incorporating the Treasury-directed Investment Management policy.	Met: A draft Treasury Policy was completed by 30 April 2012.

Objective 5 :

To operate the business within operational budgets.

Initiative	Performance measure	KPI target	Status
Develop and maintain employer policies and practices to enhance the company's ability to attract and retain skilled staff with realistic pay and employment conditions.	Development of policies and practices.	By 30 June 2012: Develop key employment-related policies, including the Remuneration Policy and its associated strategy.	Met: Employment-related policies, including the Remuneration Policy and its associated strategy were completed by 31 May 2012.

Directory



From left: Tony Feaver, Peter Rose and Keith Land.

Shareholders

Minister of Finance
Minister for Canterbury Earthquake Recovery

Registered Office

6 Show Place, Addington, Christchurch 8024, New Zealand

Offices

Christchurch: PO Box 9052, Tower Junction, Christchurch 8149

Auckland: PO Box 97365, Manukau, Auckland 2241

Phone: 0800 501 525

Web: www.southernresponse.co.nz

Executive Management

Peter Rose Chief Executive

Keith Land Chief Corporate Officer

Tony Feaver Chief Financial Officer

Project Management Office

Arrow International

Actuary

Finity Consulting

Auditor

The Auditor-General pursuant to section 15 of the Public Audit Act 2001

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

Banker

ANZ Bank New Zealand

Legal Advisors

Wynn Williams, Bell Gully

Affiliations

Insurance Council of New Zealand, associate member

Insurance and Savings Ombudsman (ISO) scheme participant