

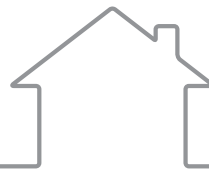


# Annual Report 2014

Te pūroko a tau a Urupare ki te Tonga



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



Southern Response Earthquake Services Ltd



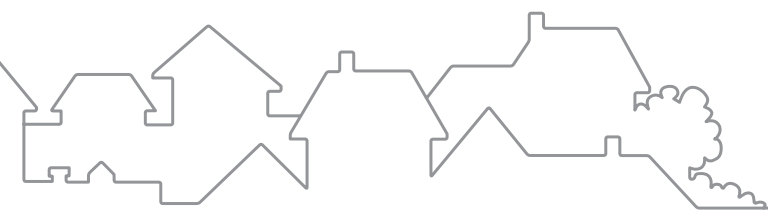
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*This annual report was produced and printed in Christchurch.*





# Chairman and Chief Executive's report

## Introduction

This is the third Annual Report of Southern Response Earthquake Services Limited.

The second full year has seen the progression from the settlement decision phase fully into the build phase of the recovery. Just under half of over cap claims (49.2%) had been fully settled<sup>1</sup> by the end of June 2014. In May 2014, Southern Response reached the \$1 billion mark in residential claim settlement payments or 47% of projected payments, reflecting significant momentum in rebuilds and repairs.

The vast majority of our remaining customers have decided whether they are building with us, completing their own build or finalising a cash settlement. Approximately 300 over cap customers out of 6,518 who have received our settlement offer have yet to decide on their future insurance direction.

Our build programme, supported by Southern Response's appointed Project Management Office, Arrow International (Arrow) and other key build partners, is gaining momentum. Of our customers, 5% have not commenced the build process on schedule due to physical characteristics including multi-unit complexities and land issues (for example, unknown fill or land slip). The remaining have met the scheduled timeframes or been advanced in the build queue.

Experience has shown that in the extraordinary circumstances of the aftermath of the Canterbury earthquakes, the entire new build process - through the customer alignment, planning and design phases, consenting, physical construction and ultimately, a fully completed build - is in the order of 50% longer than in a normal environment. It typically takes 15-18 months with the due diligence required for the complexity of most build assignments. These characteristics have been factored into the building programme projections going forward.

## Claims Liability and Crown Financial Support

Since it became a Crown company on 5 April 2012, Southern Response's principal purpose has been the settlement of AMI policyholders' claims arising from the Canterbury earthquakes up until that date. The estimated gross costs of settling those claims have continued to increase and the following table shows the movement in the central estimate of the claims liability since the 30 June 2011 year end. The increase reflects continuing notification of new claims and the expanding technical challenges of the rebuild including geotechnical and engineering inputs required to build in Canterbury post earthquakes and the cost of foundation requirements for TC2, TC3 and hill properties.

Southern Response continues to utilise the proceeds of reinsurance recoveries and liquidation of its investment portfolio in settling claims. In addition, it has two forms of financial support from the Crown which it is able to draw upon when required.

	30 June 2011	30 June 2012	30 June 2013	30 June 2014
Central estimate (\$000) <sup>2</sup>	1,819,120	2,157,416	2,255,040	2,364,388
Over cap properties notified	5,320	6,527	6,760	7,028
Out of scope properties notified	15,270 <sup>3</sup>	15,910	18,520	20,100
Claims settlement payments made (\$000)	48,400	374,667	670,357	1,067,350

<sup>1</sup> Fully settled claims are the sum of cash settlements paid out and Southern Response-managed builds where construction is complete.

<sup>2</sup> The best estimate of the expected payments which has an equal probability of being understated as overstated.

<sup>3</sup> Data as at 31 October 2011.



These are:

- A \$500 million preference share facility subscribed to on 7 April 2011
- A \$500 million uncalled ordinary share facility subscribed to on 31 January 2013

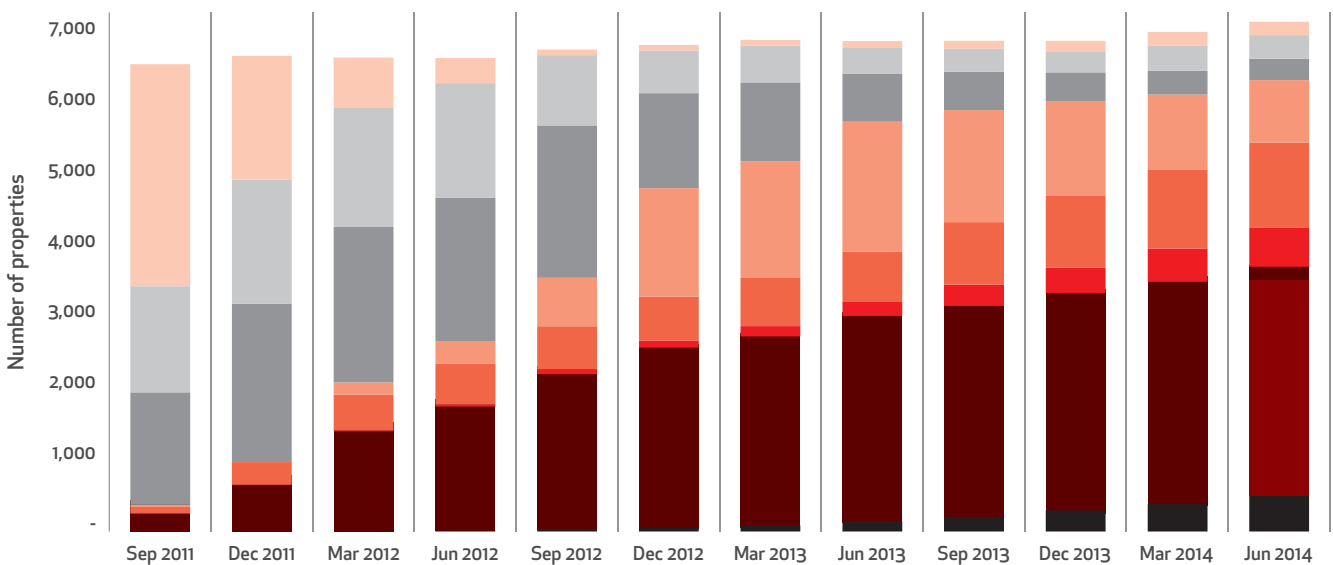
These two elements of Crown financial support underpin the solvency of Southern Response and provide the company with certainty of funding to meet its claims settlement obligations.

## Progress

The graph below provides a summary of our settlement progress over time with a description against each of the over cap (rebuild or repair) property phases.

Southern Response's statistics for major claim types are available on our website and are updated monthly.

### Status of over cap properties over the past 3 years



#### Key

	Sep 2011	Dec 2011	Mar 2012	Jun 2012	Sep 2012	Dec 2012	Mar 2013	Jun 2013	Sep 2013	Dec 2013	Mar 2014	Jun 2014
Scheduled for inspection	3063	1708	694	345	78	78	77	93	109	144	186	184
Assessment completed	1462	1711	1641	1579	967	586	508	360	316	292	351	326
Awaiting customer decision	1550	2181	2143	1976	2101	1310	1085	658	531	394	328	294
Construction with Southern Response - pre documentation	39	0	165	315	667	1497	1602	1792	1545	1310	1031	866
Construction design/documentation	81	312	499	563	596	605	672	683	861	988	1091	1167
Under construction	3	6	10	27	66	98	143	202	294	348	459	540
Customers elected to cash settle <sup>4</sup>	244	638	1379	1712	2135	2484	2606	2833	2906	2998	3066	192
Cash settlement completed <sup>4</sup>	-	-	-	-	-	-	-	-	-	-	-	2966
Construction completed	1	1	2	10	33	50	83	139	203	291	376	493

<sup>4</sup> As of April 2014, cash settlements completed and cash settlements elected and in progress are recorded and reported separately.

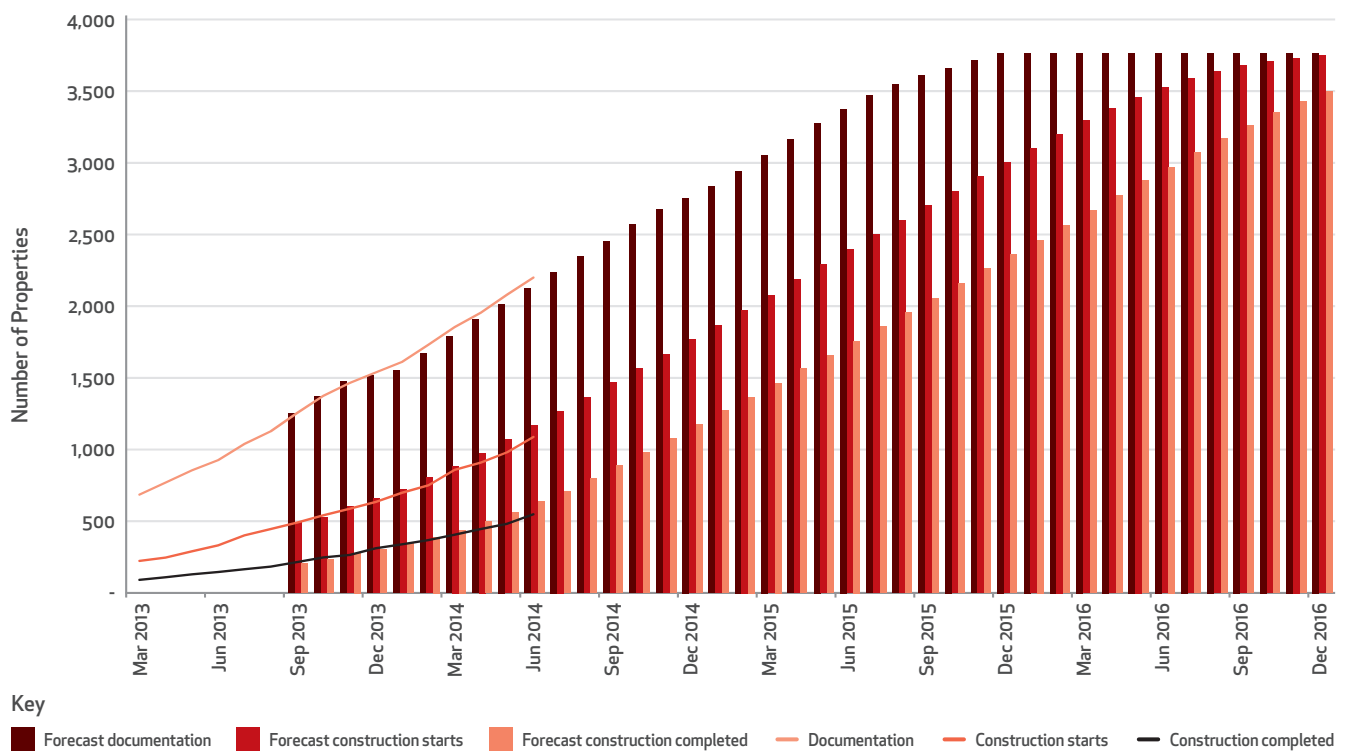


During the year, we have used our appointed actuarial firm Finity Consulting to assist us to confirm our build programme's forecast and milestones. This work has enabled us to confirm the extent and shape of the building programme, continuing to validate our progressive public projections. However, there are a number of remaining unknowns and barriers, notably the challenges

some customers face in making decisions at key phases through the claim process with regards to finalising their claims with Southern Response.

The graph below provides a summary of progress and forecast of the three key construction milestones: documentation<sup>5</sup>; construction start, and construction completed.

**Over cap construction actual vs forecast**

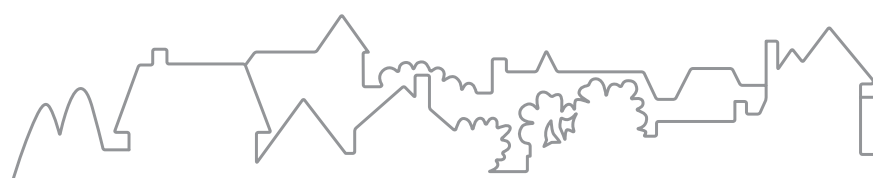


Momentum is building in the documentation phase and in due course this will translate to construction starts and completions.

data, which showed that, as at the end of June 2014, Southern Response's consenting progress is ahead of its market share.

The only externally verifiable progress statistics that are available relate to the Christchurch City Council consenting

<sup>5</sup> Design, Consent, Tender to builders.



## Transition and transformation

Southern Response is now well into its build phase for all land type categories. These figures are shown in the following table; as at 30 June 2014:

	Total		TC3	
<b>Elected to build with Southern Response</b>	3,066		1,722	
<b>Construction completed</b>	493	16.1%	94	5.5%
<b>Under construction</b>	540	17.6%	294	17.1%
<b>In documentation</b>	1,167	38.1%	769	44.7%
<b>Total</b>	<b>2,200</b>	<b>71.8%</b>	<b>1,157</b>	<b>67.2%</b>

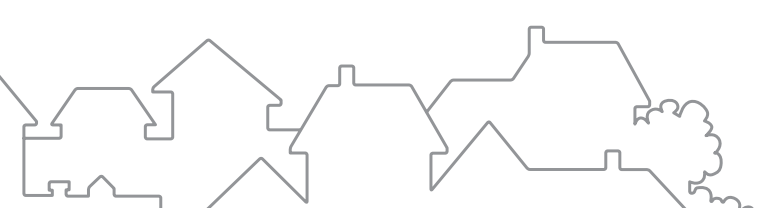
Almost 72% of our customers (including 67% of our TC3 customers) who have elected to have Southern Response manage their rebuild or repair have made substantial progress in the process of reinstating their home, with their claim either in design, under construction or completed.

The company continues to evolve to meet the demands of the dynamic nature of our business: the progressive phases in the recovery programme; the changing needs and more flexible opportunities for customers; the building and technological developments. Our appointed project management company, Arrow International, is transitioning in the same manner. There has been an increasing level of operational co-location which enhances both the quality and timeliness of communication.

### Project Office

During the year, Southern Response established a full project office environment to manage and report project progress and to achieve greater visibility and accountability across the company, Arrow and our build supply chain. The project office environment has enhanced the focus on tackling the complexities of managing a large scale build programme and building in

Canterbury specifically. The project office creates an impetus to actively identify any potential barriers and overcome them. It also provides for bottom-up contribution towards planning and optimum alignment of throughput targets.



## Building in TC3 and other land type categories

The company's TC3 strategy launched in September 2012 has provided an opportunity for customers on TC3 land to feel more confident about the future.

To date, the proportion of TC3 customers who have made a settlement election decision is comparable to those in other land zones. Over 80% of customers whose properties are on land categories TC2 and TC3 who have notified a claim to Southern Response have made a settlement election decision and of those, 60% in each land category are building with Southern Response. This has been practically supported by the development and building of 'The Cantabrian' concept home, which emerged from a design competition for building on TC3 land in Canterbury and was opened in May 2014 (see page 9).



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

## Health and safety

As Southern Response has transitioned into the build phase, the company continues its vigilance and commitment to health and safety. The proposed legislative changes and active involvement of WorkSafe in Canterbury is welcomed by Southern Response. Our commitment to health and safety in the residential recovery includes:

- Regular board and management meetings dedicated to health and safety
- Specific health and safety KPIs for Southern Response and Arrow
- Building site inspections from Southern Response directors and management
- Builder and building site audits conducted by Arrow, providing health and safety evaluations
- Southern Response audits of Arrow, to ensure that Arrow continues to meet its obligations to us.

## Managing complex customer matters

We acknowledge that many of our customers have experienced varying levels of stress as they tackle their individual rebuild and repair challenges. With complex decisions to be made and often heightened frustration which can lead to dispute, these issues require careful management.

We are seeking to keep all of our customers well informed through transparent communication and additional initiatives. During the year, we have implemented a programme of more regular communication with customers to keep them informed of progress, including the introduction of a customer portal (see page 11) and seeking feedback from customers via more comprehensive surveying.





## Solutions team

During the year, we recognised the need to introduce a solutions team to address claims which are more complex than standard cases. This team was set up to review claims that have halted somewhere in the claim process or whose progress is unacceptably hindered due to challenging issues. The solutions team was set up to review the claims, identify the issues which are in dispute or delaying the claim, resolve those issues so that the claim is back on track and then hand the claim back to the operational teams. The claims initially entering the solutions system are generally complex and have interrelated issues such as: retaining walls that are part of the house where the original house was not built in accordance with the plans; foundation repair methodologies questioned; and differences in costings where the customer has obtained their own quantity surveyor report.

The aim is to develop fast, innovative solutions that allow the claim to progress while adhering closely to AMI's insurance policy and Southern Response's claims settlement processes. Indeed, the solutions team has been able to address cases that could otherwise have become formal disputes, through its multi-disciplinary, committee-based processes.

Very few of the reviewed claims are moving into dispute, which is promising at this early stage.

## Disputes and complaints

In response to a greater level of clarity around the nature and extent of disputes, we have enhanced our resources internally and strengthened our interaction with external resolution vehicles. There has also been an easing of our claims settlement practice. This demonstrates that the company has recognised the need to modify decision-making processes in some cases, following customer protests in the latter period of 2013. This has ultimately led us to better practice.

We continue to be disappointed by commentators in the marketplace regarding the effects of the open-ended nature of insurance cover which applied at the time of the earthquake

events. Typically, they overlook the difficulty insurers such as ourselves and our customers have in obtaining consensus and agreement due to the wide scope for interpretation of the term 'replacement costs'. Such open-ended replacement cover has not existed anywhere else in the world as a feature of a catastrophe recovery. For Southern Response to respond to AMI policy terms and conditions, it remains inevitable that disputes will arise with regards to value and repair methodology.

We have made a number of operational policy changes, including modification to the disputes management policy. This reflects a move towards accepting customers' costings of individual items provided there is credible and reputable evidence. To date, we continue to see customer disputes primarily resolved through initial internal review.

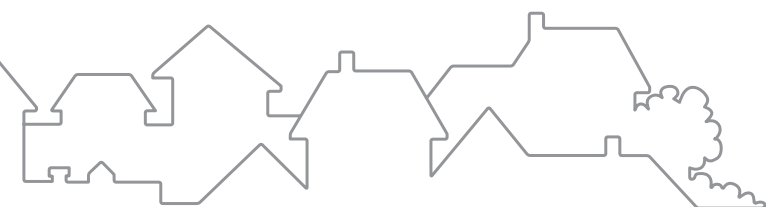
### Strengthening the role of Residential Advisory Service (RAS)

- Southern Response has requested and received agreement that RAS provides full 'representative services' to our customers who seek them
- Southern Response actively promotes RAS as a dispute resolution pathway, fully funds its contributing costs and provides the necessary financial support for technical advice to address any customer disagreements with us.

### Insurance and Savings Ombudsman's Service (ISO)

Developments initiated by Southern Response include:

- Voluntarily removing the \$200,000 cap on access to the Insurance & Savings Ombudsman's scheme to allow unfettered access by aggrieved customers, extended indefinitely after a successful 6-month trial basis
- Customer access to the scheme for those who believe that they have incurred loss due to unacceptable delay (in the context of a natural disaster) or poor decisions of Southern Response: reimbursement of costs incurred where the claim is justified



- Giving consent to allow claimants to access the scheme where proceedings have already been commenced in the Disputes Tribunal, courts or mediation services, which have not yet been heard
- Encouraging customers to use ISO to hear a complaint it has received prior to the matter being deadlocked, using techniques including negotiation, conciliation, or mediation.

#### Other resolution or mediation services

Southern Response has not discounted other services that provide active opportunities to bring about resolution, although there is still concern surrounding services that seek a contingency fee or a commission for outcome. We have begun using mediation services with mutually agreed mediators as an alternative to court.

The intention is that the use of such services will assist in avoiding delays and costs of legal action for both customers and Southern Response.

#### Vulnerable customers

During the past year, Southern Response changed the approach to vulnerability. Our initial stance was simply providing advisory services to vulnerable customers while their claims remained under general management with the rest of our portfolio. Having recognised the need for a more suitable solution, we now have a fully dedicated team responsible for end-to-end services for these customers. We are working closely with Canterbury Earthquake Recovery Authority (CERA) and other external support agencies endeavouring to find the most appropriate outcome for those customers who for varying reasons have difficulty dealing with the insurance settlement process, with or without family support.

Due to increasing demand, we continue to strengthen the team's capacity and capabilities, including the employment of additional specialists equipped to assist this group of customers.

#### Customers with shared title properties<sup>7</sup>

Many Southern Response customers are part of a shared property or properties. These can be complex situations, with multiple repair/rebuild methodologies, multiple insurers and multiple interests. We have established a shared property team which specialise in this multifaceted area, working with all parties including owners, other insurers, loss adjusters, project managers and contractors to progress these claims. An agreed process has been implemented between insurers for managing this work, including but not limited to the insurer with the majority of the properties in the complex taking the lead on joint projects, working with external loss adjusters and use of a standardised construction contract.

#### Initiatives

##### The Cantabrian

The Cantabrian concept home was recently opened to the public. The concept home was the subject of a New Zealand-wide competition initiated by Southern Response among members of the New Zealand Institute of Architects, for the design of a house on TC3 land to the specifications of the Ministry of Business, Innovation, and Employment (MBIE) TC3 foundation guidelines. Its purpose is to demonstrate to Canterbury residents the characteristics and advantages of houses built to the seismic and land conditions of Canterbury.

The house was built on Housing New Zealand (HNZ) land and will be on-sold to HNZ at the conclusion of its demonstration phase. The house is staffed during its opening hours of 12-2pm, Monday to Saturday, and is being marketed community-wide to provide Canterbury residents with inspiration and knowledge of a realistic and appealing option, even for poorer quality land. We are actively contacting undecided or otherwise hesitant customers to promote the concept and encourage them to visit the site. We also welcome other members of the public. In the weeks leading up to the end of July 2014, more than 2500 people had inspected the

<sup>7</sup> Shared property involves customer dwellings that are adjoined to one another.





house with many expressions of the confidence that visitors are gaining about their own prospective build.

We congratulate the competition-winning architect, Richard Sellars of Nelson, and the house's builder, Benchmark Homes.

In June, a contract was signed for the first customer Cantabrian home, designed by the second-placed architect in the competition, to be built by another of our valued volume builder partners.

### ROVER

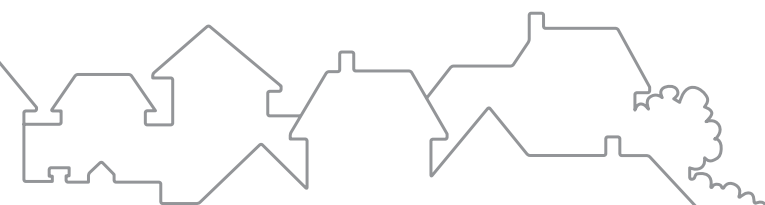
ROVER is a series of three small remote radio-controlled, six wheeled, multi terrain miniature vehicles used by Arrow to assess both foundation damage prior to repair and the quality of work completed for the Southern Response repair programme. The area under houses with suspended timber floors and a concrete perimeter can be difficult to access due

to liquefaction and the obstruction of timber bearers, which may have fallen away from the main support. ROVER makes that access possible, efficient and safe.

The vehicles are fitted with high definition cameras, microphone and LED lighting banks. This innovation is proving to be of great value for providing accurate information used to assess the extent of work required to repair hundreds of earthquake damaged Christchurch homes.

Southern Response and Arrow began the search for such a capability last year, learning that the University of Canterbury had begun some development work on a small remote controlled camera. The parties then collaborated to progress the design.

ROVER provides confidence to customers that the hidden aspects of their repairs are well-identified and have been completed to appropriate quality standards.



### Volume group builder and repairer arrangements

In April 2014, we entered the second year of the volume group builders' panel arrangements with our panel of eight local builders. The first year's minimum allocation of 280 new builds was well surpassed with 395 allocations provided to the panel. For the second year, we have committed to an allocation of 450 new builds, with the likelihood of that number increasing to 500.

The second year of the volume repair contractor agreements commenced on 1 July 2014. The total number of repairs allocated to the market exceeded the total minimum allocation of 400 in 2013. Due to the size of the Southern Response repair programme, a further procurement process has recently been completed to expand the current panel of volume repair contractors.

We continue to work closely with our build panel members who have embraced a robust due diligence process which includes

ongoing audits of individual repairs and rebuilds, and undergo financial 'health checks'.

We are impressed with their commitment to the rebuild in a social context, as well as commercially.

### Customer portal

Soon after the end of the financial year, we introduced our customer portal, a simplified web based version of our project managers' management and monitoring tool. The aim of this feature is to provide our Arrow-managed over cap repair and rebuild customers with a view of the status and progress of their builds or repairs, protected by a secure sign-on process. The system is real-time and is an exciting step forward in communicating with our customers throughout the build process, providing them with visibility of their own individual progress.



## Financial summary

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

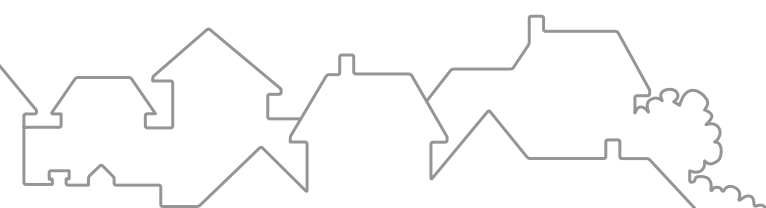
	2014	2013
	\$000	\$000
<b>Continuing operations</b>		
Net earthquake claims incurred	(148,229)	25,446
Other costs	431	(176)
Investment income	23,531	24,825
Unrealised gain/(loss) on fair value of Crown receivable	8,514	389
<b>Gain/(loss) for the year from continuing operations</b>	<b>(115,753)</b>	<b>50,484</b>
<b>Profit for the year from discontinued operations sold</b>	<b>0</b>	<b>1,826</b>
<b>Total comprehensive gain/(loss) for the year</b>	<b>(115,753)</b>	<b>52,310</b>
<b>Earthquake claims liability</b>		
Discounted central estimate (including claims handling expenses) less payments made	1,305,730	1,591,637
Risk margin	127,114	150,548
<b>Gross outstanding claims liabilities</b>	<b>1,432,844</b>	<b>1,742,185</b>
<b>Reinsurance receivables</b>	<b>(183,483)</b>	<b>(512,174)</b>
<b>Net outstanding claims liability</b>	<b>1,249,361</b>	<b>1,230,011</b>

## Appreciation

We acknowledge the continued commitment and contribution of the dedicated staff of Southern Response (both Christchurch and Auckland operations), Arrow International and our technical consultants. The Canterbury-based team are living in the same environment as our customers, one which is often challenging, and they remain loyal and committed in strained circumstances. Our Auckland staff members are very committed to serving the people of Canterbury and have remained enthusiastic throughout the project. The customer protest activity occurring

intermittently during the year has strengthened the resolve of all our people to continue to serve our customers, while having the flexibility to adjust our assessment standards. We greatly respect our own and Arrow International's staff, and our committed consultants.

We appreciate the support and willingness of community support groups, local government, professional bodies, sector groups, local MPs and their electorate staff and our customers (in meetings, seminars and focus groups) to serve as communication conduits to the community, providing feedback,



support and suggestions which continue to help us develop and refine our position on a range of issues.

The relationships with government agencies which are key to the earthquake recovery, including the presence of CERA and EQC as close partners, are beneficial in seeking the best outcomes for our customers and the community at large. We thank HNZ for continuing collegueship and support for initiatives such as the Cantabrian concept house; and MBIE for advanced technical guidance. We are also grateful for the support we receive from the Treasury's Commercial Operations group as the Ministers' appointed monitoring agent.

## Governance

The board brings a collective sense of commitment, sensitivity, and technical knowledge to our governance table. The board and management of Southern Response continue to enhance the governance framework of the company, to ensure optimum accountability and integrity for the substantial financial commitment that the Crown and reinsurers have made to the company.

In particular, we express our appreciation for the committed service of board member David Whyte who retired on 30 June 2014. His contributions around the board table and as Chair of the Staff Remuneration and Retention Committee were very valuable and are much appreciated.

## Overcoming challenges

Having largely completed the insurance phase, the key areas of focus in the 2014-2015 year are:

- ensuring a regular flow of builds and repairs to Southern Response's volume panels, to meet our build programme targets: key components are builder capacity and customer preparedness
- ongoing enhancement of the construction quality framework that seeks to ensure that the Canterbury builders and other professionals that we engage provide the appropriate quality of workmanship to which our customers are entitled
- working with non-panel builders to ensure that they, and their own suppliers, continue to remain buoyant over the coming years and can continue to deliver quality repairs and rebuilds
- controlling cost escalation for new builds and repairs and in particular providing cost-effective, best practice foundation and super-structure designs for TC3 houses to be rebuilt or repaired
- addressing the significant complications of EQC's land compensation package to qualifying customers and how that integrates into Southern Response's policy obligations, harmonising our settlement, build and repair programme with EQC's plans. This includes addressing the challenges in flood prone areas that exist and are subject to a declaratory judgment through the High Court
- addressing the inevitable coordination issues that will be required for shared property construction



- ensuring that those of our customers who are vulnerable through various circumstances continue to be supported through the process and supporting other undecided customers towards a settlement election decision
- continuing to make the company fit for its purpose and the transition of the company's structure, management and staff as they move through the company's relatively short life cycle; and continuing to provide exciting, rewarding and challenging career development opportunities for our staff.

### Future outlook

With many uncertainties yet to be addressed or even identified, as depicted by the nature of challenges noted above, Southern Response's current outlook for the 2015 financial year is:

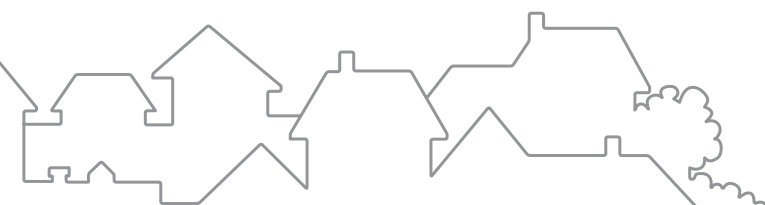
- approximately 2500 of the anticipated 3700 Southern Response-managed rebuilds and major repairs will have been commenced, and over 1500 completed
- issues of land compensation and insurers' responsibilities for properties in flood-prone areas will have been clarified by the courts
- we will be well beyond the tipping point of over cap and other claim settlements, with the aim to have our customers more comfortable with their decision-making and with approximately 75% of earthquake claims liability settled
- operations will be exclusively in Christchurch, with the Auckland office closed
- down-sizing will have commenced with staff numbers forecast to reduce.



Ross Butler  
Chairman

Peter Rose  
Chief Executive

18 August 2014



# Our values

## **Respect**

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

## **Integrity**

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

## **Honour our promises**

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

## **Ownership**

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

## **Passion**

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

## **Excellence**

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

## **Recognition**

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

## **Development**

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





# Board of Directors



*From left: Susan Thodey, Ross Butler (Chairman), Anne Urlwin (Deputy Chairman), Sarah Sinclair, Jenn Bestwick and Bevan Killick.*



# Governance

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

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

## 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

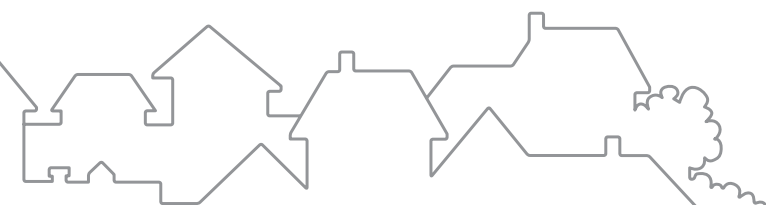
The board's duties, functions, and powers are governed by the Companies Act 1993, Southern Response's Constitution, the Crown Entities Act 2004, the company's Statement of Intent and the Shareholders' Letter of Expectations.

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.

## Directors

Under the constitution adopted on 5 April 2012, the board is appointed by Shareholding Ministers and can comprise up to seven non-executive directors, including the Chairman. As at 30 June 2014 there were six non-executive directors of the company whose appointment dates, terms and board committee memberships are detailed in the following table.

Director	Position	Term	Board Committee Memberships
<b>Ross Butler</b> Nelson-based professional director	Non-Executive Chairman	appointed 5 April 2012 reappointed 1 July 2014 term ends 30 June 2017	Chair : Chief Executive Review Committee Member : Communications & Community Engagement Committee Member : Governance Committee
<b>Anne Urlwin</b> Wanaka-based professional director	Non-Executive Deputy Chairman	appointed 5 April 2012 reappointed 1 July 2014 term ends 30 June 2016	Chair : Audit, Risk & Compliance Committee Member : Capital Committee Member : Governance Committee
<b>Jenn Bestwick</b> Christchurch-based professional director	Non-Executive Director	appointed 5 April 2012 reappointed 1 July 2014 term ends 30 June 2016	Chair : Health & Safety Committee Chair : Communications & Community Engagement Committee Member : Chief Executive Review Committee Member : Staff Remuneration & Retention Committee
<b>Bevan Killick</b> Christchurch-based professional director	Non-Executive Director	appointed 5 April 2012 reappointed 1 July 2013 term ends 30 June 2015	Chair : Capital Committee Member : Audit, Risk & Compliance Committee Member : Communications & Community Engagement Committee
<b>Susan Thodey</b> Auckland-based barrister and solicitor	Non-Executive Director	appointed 5 April 2012 reappointed 1 July 2013 term ends 30 June 2016	Chair : Governance Committee Member : Audit, Risk & Compliance Committee Member : Staff Remuneration & Retention Committee Member : Health & Safety Committee
<b>David Whyte</b> Auckland-based professional director	Non-Executive Director	appointed 5 April 2012 reappointed 1 July 2013 term ended 30 June 2014	Chair : Staff Remuneration & Retention Committee Member : Capital Committee Member : Chief Executive Review Committee Member : Health & Safety Committee



On 17 April 2014, the Shareholding Minister confirmed the appointment of Sarah Sinclair effective 1 July 2014 for a 3-year term ending 30 June 2017.

Sarah is a Chartered Civil Engineer and a Fellow of the Institution of Civil Engineers (UK). She has over 20 years experience in infrastructure in New Zealand and the UK. She is a Director of the New Zealand Division of the Institute of Public Works Engineering Australasia.

After working in engineering consultancy managing design and delivery, Sarah is now Chief Engineer at Auckland Council. She has a strong interest in sustainable and resilient infrastructure.

### 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.

With effect from 1 July 2014, the board committees are:

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

Membership: Anne Urlwin (Chair), Bevan Killick, Susan Thodey

- **Capital Committee** – oversees matters associated with insurance claims liabilities, reinsurance receivables, Earthquake Commission receivables and investments.

Membership: Bevan Killick (Chair), Ross Butler, Susan Thodey

- **Human Resources Committee** – sets the principles and standards for key policies relating to recruitment and appointment, remuneration and retention and 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.

Membership: Ross Butler (Chair), Jenn Bestwick, Anne Urlwin

- **Governance Committee** – deals with board administrative matters related to succession planning, board performance review and professional development of directors.

Membership: Susan Thodey (Chair), Ross Butler, Anne Urlwin

- **Health & Safety Committee** – monitors compliance with the Health and Safety in Employment Act 1992 and ensures a best practice health and safety environment for Southern Response's staff, visitors and those involved in the delivery of Southern Response's rebuild activities including contractors, sub-contractors and their staff and homeowners.

Membership: Jenn Bestwick (Chair), Bevan Killick, Sarah Sinclair



## 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 interests register to ensure conflicts of interest are avoided. The following table details new interests or cessations of interests of directors recorded in the interests register during the year ended 30 June 2014. The directors' profiles are available on the company website.

Director	Entity	Relationship
Ross Butler	Mercer Investments (Australia) Pty Ltd (MIAL)	Non-executive Director, Member of Remuneration and Nominations Committee
	Mercer Australia Pty Ltd and its subsidiaries	Chair of Group Audit and Risk Management Committee
Anne Urlwin	Summerset Group Holdings Limited	Director
Jenn Bestwick	None	
Bevan Killick	Institute of Directors, Canterbury Branch	Committee Member
Susan Thodey	None	
David Whyte	Acompni Ltd	Non-executive Director

There have been no interests registered by directors in transactions during the financial year ended 30 June 2014.



## 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 2014 was \$110,000 relating to cover for the period 5 April 2014 to 5 April 2015.

## 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:

**Commercial Operations Group (formerly Crown Ownership Monitoring Unit (COMU)):** Treasury's Commercial Operations group monitors the government's investment in companies/entities owned by the Crown, assists with the appointment of directors, and provides performance and governance advice to Ministers.

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

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

**Over cap:** EQC insures the first \$100,000 + GST (\$115,000) of damage to a house (the "cap") for each earthquake event.

If the level of damage exceeds this for any one earthquake event, EQC pays that maximum amount and the private insurance company takes over responsibility for managing and settling the claim and paying the amount in excess of the cap - that is "over cap".

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

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

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



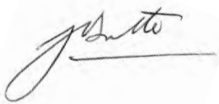
# Statement of responsibility

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

- The preparation of financial statements and statement of service 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 financial statements and the statement of service performance.

In the board's opinion, these summary financial statements and summary statement of service performance fairly reflect the financial position and operations of Southern Response Earthquake Services Limited for the year ended 30 June 2014.

Signed on behalf of the board



Ross Butler  
Chairman  
18 August 2014



Anne Urlwin  
Deputy Chairman  
18 August 2014



# Independent Auditor's report



## TO THE READERS OF SOUTHERN RESPONSE EARTHQUAKE SERVICES LIMITED SUMMARY FINANCIAL STATEMENTS AND SUMMARY STATEMENT OF SERVICE PERFORMANCE FOR THE YEAR ENDED 30 JUNE 2014.

We have audited the summary financial statements and summary statement of service performance as set out on pages 25 - 45, which were derived from the audited financial statements and statement of service performance of Southern Response Earthquake Services Limited (the company) for the year ended 30 June 2014 on which we expressed an unmodified audit opinion in our report dated 18 August 2014.

The summary financial statements comprise the summary statement of financial position as at 30 June 2014, and summaries of the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, the related notes and the summary statement of service performance.

### Opinion

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

### Uncertainties associated with the outstanding claims liability and reinsurance receivables

The following emphasis of matter paragraphs were included in the audited financial statements of the company for the year ended 30 June 2014.

"Without modifying our opinion, we draw your attention to notes 1, 2, 13 and 18 of the financial statements. Those notes describe how the Canterbury earthquakes have affected the outstanding claims liability and related reinsurance receivables of the company. 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 company's ability to access additional share capital

Also, without modifying our opinion we draw attention to note 8 of the financial statements. Note 8 describes the company's ability to access up to \$500m of additional share capital from the Crown, should that be required in the future."

Details of the above matters are outlined in Notes 1, 2, 5, 6 and 9 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 18 August 2014 on the audited financial statements and statement of service performance.

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

## Responsibilities of the board of directors and the auditor

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

Other than in our capacity as auditor, we have no relationship with, or interests in, the company. Partners and employees of our firm deal with Southern Response Earthquake Services on normal terms within the ordinary course of trading activities of the business of Southern Response Earthquake Services.



Michael Wilkes  
Deloitte  
On behalf of the Auditor-General  
Christchurch, New Zealand  
18 August 2014



# Statement of comprehensive income

For the year ended 30 June 2014

	Note	2014 Budget \$000	2014 Actual \$000	2013 Actual \$000
<b>Continuing operations:</b>				
Net claims incurred – non-earthquake	3	-	484	197
Net claims incurred - earthquake	3	(18,064)	(148,229)	25,446
Less operating costs		-	(53)	(373)
<b>Net underwriting (loss)/gain</b>		<b>(18,064)</b>	<b>(147,798)</b>	<b>25,270</b>
Investment income		13,886	23,531	24,825
Unrealised gain on fair value of crown receivable	8	10,361	8,514	389
<b>Profit/(loss) for the year from continuing operations before tax</b>		<b>6,183</b>	<b>(115,753)</b>	<b>50,484</b>
Tax expense		-	-	-
<b>Profit/(loss) for the year from continuing operations after tax</b>		<b>6,183</b>	<b>(115,753)</b>	<b>50,484</b>
<b>Discontinued operations:</b>				
Profit for the year from discontinued operations		-	-	1,826
<b>Profit/(loss) for the year</b>		<b>6,183</b>	<b>(115,753)</b>	<b>52,310</b>
<b>Other comprehensive income:</b>				
Other comprehensive income for the year after tax		-	-	-
<b>Total comprehensive profit/(loss) for the year</b>		<b>6,183</b>	<b>(115,753)</b>	<b>52,310</b>

The notes to financial statements on pages 29 to 41 form part of and should be read in conjunction with these financial statements.



# Statement of changes in equity

For the year ended 30 June 2014

2014	Ordinary Shares	Convertible Preference Shares	Accumulated Losses	Property Revaluation Reserve	Total Equity
	\$000	\$000	\$000	\$000	\$000
Opening balance 1 July 2013	95,580	382,359	(474,940)	2,052	5,051
Loss for the year	-	-	(115,753)	-	(115,753)
Other comprehensive income for the year	-	-	-	-	-
Total comprehensive income for the year	-	-	(115,753)	-	(115,753)
<b>Closing balance 30 June 2014</b>	<b>95,580</b>	<b>382,359</b>	<b>(590,693)</b>	<b>2,052</b>	<b>(110,702)</b>

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

The notes to financial statements on pages 29 to 41 form part of and should be read in conjunction with these financial statements.

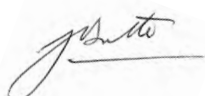


# Statement of financial position

As at 30 June 2014

	Note	2014 Budget \$000	2014 Actual \$000	2013 Actual \$000
<b>Shareholders' equity</b>				
Total shareholders' (deficit)/equity		(44,992)	(110,702)	5,051
<b>Represented by:</b>				
<b>Assets</b>				
Financial assets				
Cash and cash equivalents		3,170	135,442	175,883
Receivables		17,505	12,167	23,018
Reinsurance receivables	6	140,230	183,748	512,309
Investments	7	350,000	620,209	673,769
Crown receivable	8	385,415	373,063	364,549
Property held for sale		-	3,591	7,181
Property, plant and equipment		1,927	1,432	1,497
Intangible assets		-	46	135
<b>Total assets</b>		<b>898,247</b>	<b>1,329,698</b>	<b>1,758,341</b>
<b>Less:</b>				
<b>Liabilities</b>				
Trade and other payables		4,892	4,388	7,961
Employee entitlements		-	2,299	1,346
Outstanding claims – non-earthquake		-	869	1,798
Outstanding claims – earthquake	9	938,347	1,432,844	1,742,185
<b>Total liabilities</b>		<b>943,239</b>	<b>1,440,400</b>	<b>1,753,290</b>
<b>Net (liabilities)/assets</b>		<b>(44,992)</b>	<b>(110,702)</b>	<b>5,051</b>

On behalf of the board



Ross Butler, Chairman  
Authorised for issue on 18 August 2014



Anne Urlwin, Director

The notes to financial statements on pages 29 to 41 form part of and should be read in conjunction with these financial statements.

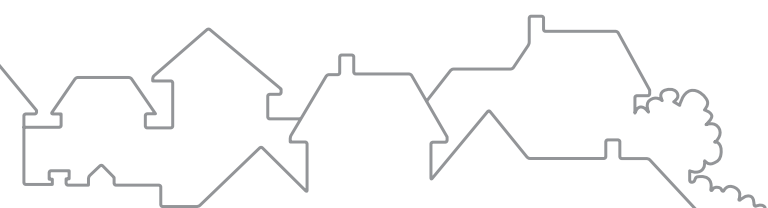


# Statement of cash flows

For the year ended 30 June 2014

		2014 Budget	2014 Actual	2013 Actual
	Note	\$000	\$000	\$000
<b>Cash flows from operating activities</b>				
Interest received		13,886	22,950	23,126
Dividends received		-	179	-
Other investment income		-	1,050	4,115
Claim costs – non-earthquake		-	(575)	(646)
Claim costs – earthquake		(670,322)	(385,380)	(291,116)
Claim costs – reinsurance recoveries		309,731	291,397	452,398
Payments to suppliers and employees		(25,239)	(26,207)	(18,198)
Payments for reinsurance		-	-	(2,062)
Income tax refunded/(paid)		-	-	266
<b>Net cash (outflow)/inflow from operating activities</b>	<b>4</b>	<b>(371,944)</b>	<b>(96,586)</b>	<b>167,883</b>
<b>Cash flows from investing activities</b>				
Proceeds from sale of property, plant and equipment and property held for sale		-	4,004	18,546
Payments for property, plant and equipment and property held for sale		(610)	(910)	(972)
Payments for intangible assets		-	(58)	(205)
Payments for financial assets		-	-	(99,804)
Sales and maturities of financial assets		290,000	53,109	8,624
Final settlement of sale of business		-	-	(583)
<b>Net cash inflow/(outflow) from investing activities</b>		<b>289,390</b>	<b>56,145</b>	<b>(74,394)</b>
<b>Net (decrease)/increase in cash and cash equivalents</b>		<b>(82,554)</b>	<b>(40,441)</b>	<b>93,489</b>
Add opening cash and cash equivalents		85,724	175,883	82,394
<b>Ending cash and cash equivalents</b>		<b>3,170</b>	<b>135,442</b>	<b>175,883</b>

The notes to financial statements on pages 29 to 41 form part of and should be read in conjunction with these financial statements.



# Notes to the summary financial statements

For the year ended 30 June 2014

## 1. Summary of accounting policies

### 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 6 Show Place, Addington, Christchurch.

The Company'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 were authorised for issue by the directors on 18 August 2014.

### Basis of preparation

The summary financial statements and summary statement of service performance have been extracted from the full financial statements and statement of service performance and have been prepared in accordance with FRS 43 – Summary Financial Statements.

The full financial statements and statement of service performance for each period presented in the summary financial statements have been audited. An unqualified opinion was issued with an emphasis of matter paragraph referring to the uncertainties associated with the outstanding claims liability and the related reinsurance receivable.

The summary financial statements are presented in the Company's functional currency of New Zealand dollars and, unless specifically stated otherwise, are rounded to the nearest thousand dollars (\$'000).

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), International Financial Reporting Standards (IFRS) and other applicable financial reporting standards as appropriate for profit oriented companies.

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

The summary financial statements cannot be expected to provide as complete an understanding of the financial affairs of the Company as the full financial statements, which can be found on [www.southernresponse.co.nz](http://www.southernresponse.co.nz).

### Going concern

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 provided under the Crown support deed in the current year, detailed in note 5.

## 2. Critical accounting judgements and estimates

The Company makes 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 earthquake 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.



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. Refer note 9.

#### 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 6.

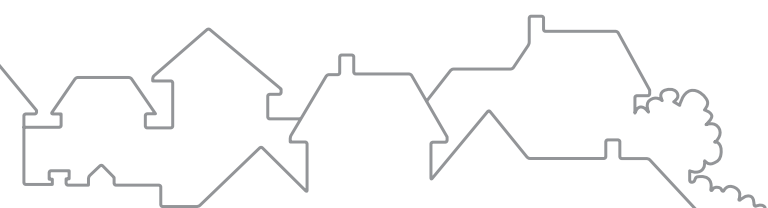
#### Valuation of the Crown receivable

The Crown receivable is recorded at the fair value of projected cash flows based on forecast payments of claim settlements and operating costs. Refer note 8.

### 3. Net claims incurred

Claim costs incurred have been separated between non-earthquake related claims and claims that relate to the Canterbury earthquakes.

	2014 \$000	2013 \$000
<b>Non-earthquake:</b>		
Gross claims recovery	(353)	(608)
Reinsurance recovery (revenue)/expense	(131)	411
Total net non-earthquake claims incurred	(484)	(197)
<b>Earthquake:</b>		
Gross claims expense	110,936	2,251
Reinsurance recovery expense/(revenue)	37,293	(27,697)
Total net earthquake claims incurred	148,229	(25,446)
Total net claims incurred	147,745	(25,643)



### 4. Cash flows from operating activities

Reconciliation of profit/(loss) for the year to cash inflows from operating activities:

	2014	2013
	\$000	\$000
(Loss)/profit for the year	(115,753)	52,310
Add/(less) non-cash items:		
Depreciation and amortisation	655	450
Unrealised (gains)	(145)	(1,351)
Unrealised movement in discounting Crown receivable to fair value	(8,514)	(389)
<b>Sub-total "A"</b>	<b>(123,757)</b>	<b>51,020</b>
Movement in working capital items:		
Decrease in receivables	10,851	7,192
Decrease in reinsurance and insurance receivables	328,561	425,113
(Decrease) in payables	(3,573)	(2,040)
Increase in employee entitlements	953	799
(Decrease) in insurance liabilities	(310,270)	(318,069)
<b>Sub-total "B"</b>	<b>26,522</b>	<b>112,995</b>
Items classified as investing activities:		
Gain on sale of operations net of working capital items	-	583
Decrease in interest receivable capitalised	596	1,960
Net loss on sale of property, plant and equipment	53	373
Net loss on sale of investments	-	952
<b>Sub-total "C"</b>	<b>649</b>	<b>3,868</b>
<b>Cash (outflow) / inflow from operating activities (A+B+C)</b>	<b>(96,586)</b>	<b>167,883</b>





## 5. Share capital

The Company has ordinary share capital of \$95 million and convertible preference capital of \$382 million. As explained below, if it requires additional capital to meet its claims payment obligations the Company can access a further \$500 million of capital from the Crown.

	2014	2013
	\$000	\$000
<b>Ordinary shares:</b>		
Balance 1 July	95,580	95,580
<b>Closing balance at 30 June</b>	<b>95,580</b>	<b>95,580</b>
<b>Convertible preference share capital:</b>		
Balance at 1 July	382,359	382,359
<b>Closing balance at 30 June</b>	<b>382,359</b>	<b>382,359</b>

At 30 June 2014, there were 1,000,102 (2013: 1,000,102) ordinary shares, 400,000,000 (2013: 400,000,000) unpaid convertible preference shares and 500,000,000 uncalled ordinary shares (2013: 500,000,000). The issue price of the uncalled ordinary shares (yet to be called) is \$1 per share.

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

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

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

### 6. Reinsurance receivables

	2014	2013
	\$000	\$000
Gross reinsurance receivable	191,210	527,435
Discount to present value	(7,462)	(15,126)
	<b>183,748</b>	<b>512,309</b>
<b>Being:</b>		
Non-earthquake	265	135
Earthquake (note 9)	183,483	512,174
	<b>183,748</b>	<b>512,309</b>
<b>Changes in gross reinsurance receivable:</b>		
Balance 1 July	527,435	952,671
Change in gross estimated recovery	(44,827)	27,162
Reinsurance collections	(291,398)	(452,398)
<b>Balance 30 June</b>	<b>191,210</b>	<b>527,435</b>

At 30 June 2014, the Company conducted an impairment review of the reinsurance receivables. No loss was recognised (2013: \$nil).

### 7. Investments

	2014	2013
	\$000	\$000
New Zealand Government Treasury bills	579,075	579,484
Other fixed interest securities	40,759	93,644
Equity securities	375	641
	<b>620,209</b>	<b>673,769</b>



## 8. Crown receivable

	2014	2013
	\$000	\$000
Opening Balance at 1 July	364,549	364,160
Fair value adjustment at 30 June	8,514	389
<b>Closing balance at 30 June</b>	<b>373,063</b>	<b>364,549</b>

The Company has entered into arrangements with the Crown to ensure that the Company has adequate funds available to meet payments of operating expenses and claim settlements as they fall due.

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 of operating expenses and claim settlements forecast to be made in that quarter in the ordinary course of its business.

The Crown receivable as at 30 June 2014 is recorded at its fair value taking into account all relevant circumstances including the timing of the forecast cash flows and the terms of the Crown support deed. The risk free discount rates used are in the range of 3.77% to 3.94% (30 June 2013: 2.94% to 3.32%). Cash flows of \$400 million within 3 years have been assumed (30 June 2013: \$400 million within 4 years).



### 9. Outstanding claims liability: Earthquake

	2014	2013
	\$000	\$000
<b>Outstanding earthquake claims</b>		
Discounted central estimate outstanding	1,242,807	1,519,401
Risk margin	127,114	150,548
Claims handling costs	62,923	72,236
Gross discounted outstanding claims liability	1,432,844	1,742,185
Expected reinsurance recoveries	(190,945)	(527,300)
Impact of discounting on reinsurance recoveries	7,462	15,126
Reinsurance receivables (note 6)	(183,483)	(512,174)
<b>Net outstanding claims liability</b>	<b>1,249,361</b>	<b>1,230,011</b>
<b>Changes in gross discounted outstanding claims liability</b>		
Outstanding claims beginning of year	1,742,185	2,059,000
Change in central estimate	109,348	97,624
Change in claims handling expense	(9,313)	(16,058)
Change in discounting to present value	11,051	(8,814)
Change in risk margin	(23,434)	(93,877)
Claim payments	(396,993)	(295,690)
<b>Outstanding claims end of year</b>	<b>1,432,844</b>	<b>1,742,185</b>

#### Claims development

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

	2014	2013
	\$000	\$000
Central estimate	2,364,388	2,255,040
Claims handling expense	62,923	72,236
Cumulative payments	(1,067,350)	(670,357)
Discount of unpaid liability to present value	(54,231)	(65,282)
Discounted central estimate	1,305,730	1,591,637
Risk margin	127,114	150,548
Gross discounted outstanding claims liability	1,432,844	1,742,185
Reinsurance receivables (refer note 6)	(183,483)	(512,174)
<b>Net outstanding claims liability</b>	<b>1,249,361</b>	<b>1,230,011</b>



### Actuarial calculation, assumptions and methods

The effective date of the actuarial report on the earthquake insurance liabilities is 30 June 2014. The actuarial report was prepared by the appointed actuaries, Colin Brigstock and Ashish Ahluwalia (Fellows of the Institute of Actuaries of Australia and Fellows of the New Zealand Society of Actuaries) of Finity Consulting Pty Limited. Finity Consulting 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 4.1 governing technical liability valuations for general insurance business.

### Key actuarial assumptions – earthquake

The valuation of the net outstanding claims liabilities for the current financial year is based on detailed assumptions about the number of properties damaged, the mix and cost of rebuilds/repairs/cash settlements, with adjustments for estimated contributions from the Earthquake Commission (EQC). In addition assumptions are made regarding future economic conditions and claims handling expenses, as set out in the following table.

	2014	2013
	\$000	\$000
Future inflation average		
• Building cost	5.80%	8.60%
• Temporary accommodation	0.00%	0.00%
• Other cover types	3.00%	3.00%
• Claims handling expenses	5.07%	4.74%
Discount rate	3.60%	2.85%
Risk margin – outstanding claims liabilities	10.00%	10.00%
Average weighted term to settlement from financial reporting date (years)	1.22	1.79



### Process to determine assumptions

#### Inflation

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

- Building costs inflation is based on the New Zealand Treasury national forecast inflation curve, with an allowance for the additional inflation expected in the Canterbury area
- 0% per annum on temporary accommodation, and
- 3% per annum for the other cover types, based on CPI.

Overall this equates to 5.2% per annum (as applicable to cash flows gross of EQC and reinsurance recoveries).

#### Discount rate

Discounting has been applied to the outstanding claims by reference to the risk free zero coupon yields published by the New Zealand Treasury at 30 June 2014.

#### Claims handling expenses

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

#### Risk margin

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

Three key sources of uncertainty are considered in determining the risk margin:

- Independent risk: variations of outcomes inherent in the underlying modeling processes
- Internal systemic risk or modeling error: the risk that the models have not captured all of the dynamics in relation to the event
- External systemic risk or external factors: external factors that contribute additional uncertainty.

There continues to be uncertainty attaching to many elements of the likely ultimate cost of the Company's earthquake related outstanding claims liabilities. In particular;

- While the Company has progressed most of the way through the damage assessment phase, a significant amount of the overall incurred cost is yet to be settled
- There remains some uncertainty as to the eventual cost of enhanced foundations in TC3 and TC2 properties, and the extent of land remediation compensation the Company will receive from the EQC in respect of these issues
- One of the outcomes of the declaratory judgment application currently before the court regarding repairs to properties in flood prone areas could have a very large impact on the ultimate claims cost. An estimated 1,500 – 2,000 properties insured by the Company, some of which do not currently have claims lodged with the Company, may be affected by this issue
- The run-off is exposed to a higher level of variability in claims experience than a typical residential property run-off portfolio. As the claim settlement process has progressed, a greater proportion of 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).

In response to the inherent uncertainties, the risk margin remains at 10%.

#### Average weighted term to settlement

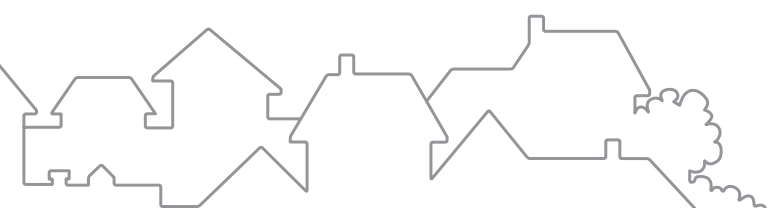
Expected payment patterns have been used to determine the outstanding claims liability. The payment patterns adopted have been set based on the actuary's best estimate of when the payments are likely to be made.



### 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	2014	2013
		\$000	\$000
Inflation rate	+1% p.a.	18,936	29,163
	-1% p.a.	(18,812)	(27,531)
Discount rate	+1% p.a.	(13,686)	(18,672)
	-1% p.a.	14,056	19,295
Claims handling expense	+10%	6,916	7,936
	-10%	(6,916)	(7,936)
Risk margin	+1%	12,711	15,055
	-1%	(12,711)	(15,055)
Construction schedule (*For June 2013, construction schedule sensitivities allowed for a variation of 12 months)	+6 months	11,172	18,886*
	-6 months	(11,620)	(13,482)*



## 10. Employee remuneration

Remuneration band	2014	2013
	Number of employees	Number of employees
\$530,000 pa - \$539,999 pa	1	-
\$510,000 pa - \$519,999 pa	-	1
\$400,000 pa - \$409,999 pa	-	1
\$330,000 pa - \$339,999 pa	1	-
\$240,000 pa - \$249,999 pa	-	1
\$230,000 pa - \$239,999 pa	1	-
\$220,000 pa - \$229,999 pa	1	-
\$190,000 pa - \$199,999 pa	1	-
\$180,000 pa - \$189,999 pa	1	1
\$170,000 pa - \$179,999 pa	1	-
\$160,000 pa - \$169,999 pa	1	1
\$150,000 pa - \$159,999 pa	2	2
\$140,000 pa - \$149,999 pa	-	1
\$130,000 pa - \$139,999 pa	1	1
\$120,000 pa - \$129,999 pa	6	2
\$110,000 pa - \$119,999 pa	5	1
\$100,000 pa - \$109,999 pa	7	4

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.





## 11. Director remuneration

	Total 2014	Total 2013	Ordinary Fees	Special Fees
	\$	\$	\$	\$
Ross Butler	72,000	76,403	70,245	6,158
Anne Urlwin	45,000	60,242	48,275	11,967
Jenn Bestwick	36,000	37,664	35,620	2,044
Bevan Killick	36,000	37,825	35,620	2,205
Susan Thodey	36,000	40,278	35,620	4,658
David Whyte	36,000	41,213	35,620	5,593

The shareholding Ministers approved ordinary fees of \$261,000 (2013: \$261,000) and special fees of \$nil (2013: \$32,625) for the period from 1 July 2013 to 30 June 2014. Differences in individual

director's fees for the 2013 year reflect payments to directors from these special fees for additional work done by them.

## 12. Related party transactions

### Remuneration of key management personnel

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

	2014	2013
	\$000	\$000
Remuneration of key management personnel:		
Short term employee benefits	1,291	1,161

### Transactions with various Crown entities

Included in investments at 30 June 2014 are \$579.178 million (2013: \$579.591 million) of Treasury bills and Government bonds. Included in cash and cash equivalents at 30 June 2014 are \$9.030 million (2013: \$40.184) of term deposits held in a State Owned Enterprise.

Details relating to the Crown receivable are disclosed in note 8. Accrued receivables of \$4.794 million (2013: \$19.813 million) are the expected recovery from the Earthquake Commission of the

Commission's contribution to claims which have been settled in full by the Company.

On 9 September 2013, Crown Asset Management Limited purchased property held for sale from the Company for \$4 million (2013: Crown Asset Management Limited purchased property held for sale from the Company for \$15.842 million and Canterbury Earthquake Recovery Authority purchased property held for sale from the Company for \$0.2 million).



### 13. Contingent liabilities

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. The Company defends all such claims.

### 14. Explanation of significant variances against budget

During the year there has been further development in the earthquake claims liability which has had an adverse effect on the financial performance and position of the Company. As disclosed in Notes 2 and 9, the estimation of the ultimate cost of settling earthquake related claims involves a number of key assumptions and is the most critical accounting estimate. Note 2 further notes that the estimation of claims incurred but not reported is generally subject to a greater degree of uncertainty.

During the year the Company has experienced a significant increase in the projected ultimate number of over cap properties. This is mainly due to the EQC settlement program which resulted in more over cap claims being transferred to the Company than previously expected. There has also been a significant increase in the number of properties previously recorded as EQC only claims that have now got an element of out of scope damage associated with them. While this was anticipated at 30 June 2013, the extent of this development has been greater than estimated.

#### Statement of comprehensive income

- Net earthquake claims incurred is greater than budget principally due to the \$109 million increase in the central estimate (accommodating higher than previously anticipated levels of over cap and out of scope claims and increased technical complexity of claims). In addition

there has been a \$45 million reduction in the gross expected reinsurance recoveries (due to reallocation of claims cost from the events for which reinsurance cover is available, to events which are beyond the limits of reinsurance cover). These increases have been offset by a \$23 million release of the risk margin reflecting the reduction in the overall claims liability.

- Investment income is greater than budget as investment funds' utilisation is delayed in line with slower than forecast claim settlements.

#### Statement of financial position

- Cash and investments are \$402 million greater than budget, reflecting claims settlements being behind budget as a result of delays in construction for the first three quarters of the year.
- While the gross estimated reinsurance recovery has decreased as a result of the reallocation of claims costs between events, the reinsurance receivables as at 30 June 2014 are \$44 million greater than budget reflecting claim settlements - and therefore recoveries from reinsurers - being below budget.
- The outstanding claims liability is \$495 million greater than budget due to the combination of claim settlements being below budget and the increase in the central estimate, as commented on above.

#### Statement of cash flows

- Claim payments are \$285 million below budget, reflecting the delay in claim settlements commented on above.
- Utilisation of investment funds (sales and maturities of financial assets) is \$238 million below budget, as commented on above.



# Statement of service performance

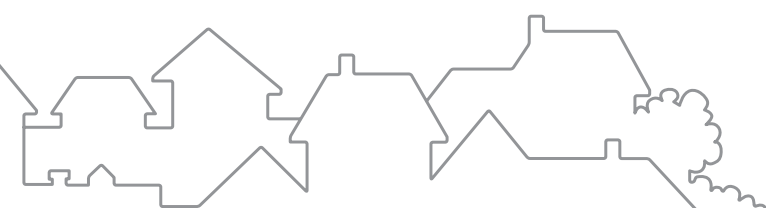
1 July 2013 – 30 June 2014

## 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.	31 December 2013: 95% of Decision Packs (offers) distributed to customers	<b>Met:</b> 6,621 assessments were completed by 31 December 2013. 6,329 or 95.6% of these assessments had had been presented as offers to customers
		31 December 2013: 90% of customers issued with Decision Packs have selected a settlement option	<b>Met:</b> 94% of customers presented with offers had selected a settlement option
		30 June 2014: 100% of damaged House assessments completed	<b>Met:</b> 6,841 claims had been notified to Southern Response by 28 February, 6,844 assessments were completed by 30 June 2014
	Timely and effective communication with Customers regarding claims progress and building opportunities.	By 31 December 2013: Formation of specialist team highly skilled in negotiation and communication to address the residue of customers who have not made a settlement decision	<b>Met</b>
	Build costs efficiency managed	Actual build cost within 5% of the estimated value of scope of repair/rebuild (RFP DRA)*	<b>Met</b>
Seek to take industry-leading roles in utilisation of building capacity, procurement systems and in research and innovation that expedite and enhance the effectiveness of the rebuild.	Demonstrable assessment of Southern Response's industry-leading contribution and progress with claim and building throughput; engagement with leading building industry participants: geo-technical, building regulatory and structural advice integrated in operations	30 September 2013: Develop and secure the commitment of dedicated repair contractors to repair projects through volume repair contractor panel	<b>Met</b>
		30 June 2014: 1,000 house repairs/rebuilds completed	<b>Partially met:</b> 493 rebuilds and repairs completed by 30 June 2014

\*RFP DRA = Detailed Repair and Rebuild Analysis, updated to current values.



## Statement of service performance

Initiative	Performance measure	KPI target	Status
Operate a dispute resolution system that is equitable and responsive to all customers while strictly observing customers' entitlements from their AMI policy.		30 September 2013: All dispute area staff have completed ongoing Negotiation, Communication and Resilience Skills training	Met
		Ongoing: All Disputes managed in accordance with Disputes Management Policy	Met
		Ongoing: SRES position upheld in 80% of Insurance & Savings Ombudsman reviews	Met: Determinations where the Company's position was fully or partly upheld or settlement was reached prior to issue of a determination amount to 80% of complaints resolved with the assistance of the Ombudsman's office

### Objective 2:

To maintain effective relationships with key stakeholders.

Initiative	Performance measure	KPI target	Status
Optimise the strategic and operational interaction with CERA, EQC, MBIE, insurers and key community groups.	Operation of effective relationship management protocols.	Ongoing: Maintain a relationship management protocol that provides for appropriate strategic and operational interaction with CERA, EQC, insurers and ICNZ	Met
		Ongoing: Participate in relevant MBIE forums and working groups to facilitate the development and implementation of measures to aid the rebuild of Canterbury houses	Met
		Ongoing: Continue to strengthen relationship management with Government and, in particular, the Minister for Canterbury Earthquake Recovery's office	Met



### Objective 3:

To manage the business and associated risk consistent with minimising the net cost to the Crown.

Initiative	Performance measure	KPI target	Status
Maintain an effective risk management framework that balances risk with progress.	Risk management framework.	Ongoing: Maintain risk monitoring and management reporting framework and report on exceptions quarterly	Met
		Ongoing: Matters raised in internal audit reviews and other reviews are resolved within agreed timeframes	Met
Maintain systems to achieve good ratings in the Company's management, financial & service performance information systems and controls.	Assessment by the Company's auditors.	31 December 2013: Ratings of "good" or better in the assessment provided by the external auditors as part of the 2013 annual financial statements audit process	Met
Maintain monitoring and management systems to ensure compliance with contractual obligations.	Compliance with contractual obligations.	Ongoing: Maintain a monitoring and reporting system for key contractual obligations	Met
Maintain appropriate reinsurance claim processes to ensure the receipt of all reinsurance recoveries.	Keep reinsurers fully informed of financial cash flow projections and policy interpretation issues.	Ongoing: Reporting requirements of reinsurers are met.	Met
	Management plans in place to deal with issues raised in reinsurance audits.	Ongoing: Matters raised in reinsurance audits are resolved within agreed timeframes.	Met
		Ongoing: Manage funding requests to Reinsurers to minimise impact on SR's cash reserves	Met

### Objective 4:

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

Initiative	Performance measure	KPI target	Status
Implement the Investment Management policy as directed by the Crown.	Investment management policy and cash flow forecasting systems implemented.	Liquidity managed in accordance with investment management policy.	Met
		Crown Bonds held until cash required for claims settlement.	Met



## Statement of service performance

### Objective 5:

To operate the business within operational budgets.

Initiative	Performance measure	KPI target	Status
Enhance cost and operational efficiencies by progressively integrating resources to achieve economies of scale.	Integration of resources.	30 September 2013: Review staff resourcing and develop transition resource model.	Met
		30 September 2013: Review accommodation options and develop project plan for any accommodation changes.	Met
Controls and scrutiny in place to manage the cost of Arrow International and other key suppliers		Ongoing: Maintain a monitoring and reporting system for contractual delivery obligations by Arrow International	Met
		30 September 2013: Finalise model to evaluate Arrow value for money equation and identify management synergies. Implement results by 31 December 2013.	Met: A review was completed in December 2013 leading to the development of the project office structure in 2014
Maintain employer policies and practices to enhance the Company's ability to attract, retain and manage optimisation of skilled staff with realistic pay and employment conditions	Operation of policies and practices	Ongoing: Maintain key employment-related policies, including the Remuneration policy and its associated strategy	Met
		30 September 2013: Finalise training plans for both internal training and life after Southern Response	Met



# Directory

## 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](http://www.southernresponse.co.nz)

## Executive Management

Peter Rose Chief Executive  
Tony Feaver Chief Financial Officer  
Kent France General Counsel  
Casey Hurren Earthquake Strategy Manager

## Project Management Office

Arrow International (NZ) Limited

## Actuary

Finity Consulting Pty Limited

## Auditor

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

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

## Banker

ANZ Bank New Zealand Limited

## Legal Advisors

Bell Gully  
DLA Phillips Fox  
Wynn Williams

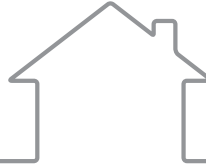
## Affiliations

Insurance Council of New Zealand, associate member

Insurance and Savings Ombudsman (ISO) scheme, participant



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



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