



LOOK BACK LOOK FORWARD

SOUTHERN RESPONSE ANNUAL REPORT 2016
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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2016

LOOKING BACK ON A YEAR OF ACHIEVEMENT

CHAIRMAN AND CHIEF EXECUTIVE'S REPORT

This is the fifth Annual Report of Southern Response Earthquake Services Limited as a Crown-owned company.

As we get closer to fully settling all customers' claims, the organisation's sense of purpose is resolute and its capability is strengthened by all that has been learned to date.

The 2016 financial year saw a tailing off of a number of the streams of the build phase as more customers choose the option of a cash settlement. This option allows customers to have greater flexibility in how they invest in their home and future needs.

Of nearly 8,000 over cap house claims that Southern Response had received by 30 June 2016, 76 percent had been fully settled. Southern Response is committed and focused on finding a resolution for remaining customers as quickly as possible. The organisation has begun scaling back in line with the reducing volume of customers' claims.

The more recent claims that have been notified as over cap (421 in the last financial year from EQC) continue to receive a full technical evaluation prior to customers being presented with settlement options, enabling earlier, informed decision-making. Those

customers who require extra support, care and assistance to work through the settlement process remain a priority. The majority of these claims are making good progress towards resolution.

Reflecting the higher than previously anticipated flow of new claims from EQC and adjustment of other actuarial assumptions based on the actual claim settlement experience during the year, the central estimate of the ultimate liability has increased to \$2,903 million, net of EQC contributions. It represents the estimate of the total amount which will ultimately be paid once all claims have been settled (including payments already made but excluding Southern Response claims handling expenses).

The 30 June 2016 actuarial claims valuation undertaken by Finity Consulting shows an outstanding net claims liability of \$799 million.

To meet its liabilities, Southern Response sought and received an increase of \$250 million in its uncalled ordinary share facility with the Crown.

This additional Crown funding commitment underpins the solvency of the company and provides certainty that it can meet its claims settlement obligations.

“AS SOUTHERN RESPONSE ENTERS THE FINAL STAGES OF THE PROJECT, IT IS FIRMLY FOCUSED ON WORKING CLOSELY WITH ALL OF THE APPROXIMATELY 1,900 REMAINING CUSTOMERS TO SETTLE THEIR CLAIMS.”

YEAR IN REVIEW

In August 2015, a proposed representative action was launched on behalf of 47 Southern Response and EQC customers claiming damages for delays in resolving their claims. This application to have a case brought against Southern Response as a representative action was rejected by the Court earlier this year. The action was re-launched in May 2016 with a reduced number of plaintiffs in the group. We remain genuinely committed to working with each of these customers to resolve their individual claims so they can move on with their lives. The group represents around 0.5 percent of our over cap customers.

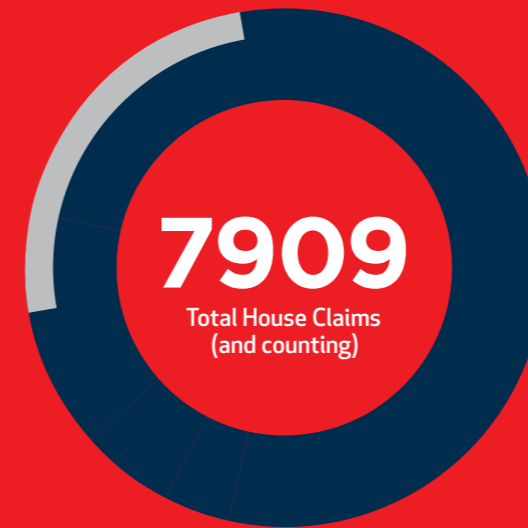
Following the announcement of former Chief Executive Peter Rose's intention to step down, an area of focus for the Board during the year was on the recruitment of his replacement. In addition, Southern Response sought to have a smooth transition to ensure continuity of strong leadership for our staff and remaining customers through the final phase of the Canterbury rebuild.

Peter Jensen joined Southern Response as Chief Executive in July 2016, and this report is the first presented jointly with him.

Having lived in Christchurch for most of his life, Peter has a background in construction and a range of other industries where he has held senior executive and management positions over the last 20 years, most recently as Chief Executive of Spanbild Holdings Ltd. The Board is confident that he brings the skills and experience to see the company through the final phase of its activities.

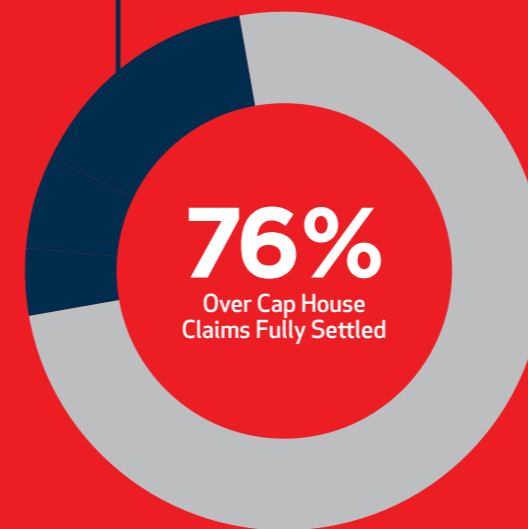
As Southern Response enters the final stages of the project, it is firmly focussed on working closely with all of the approximately 1,900 remaining customers to settle their claims fairly and as quickly as possible so they can move on with their lives and take an active part in Canterbury's regeneration and exciting future.

Southern Response statistics for major claim types are updated monthly and are available from www.southernresponse.co.nz/progress



24%

Claim Settlements
In Progress



Good progress has been achieved in construction and cash settlements during the year, with early full engineering input providing our customers with richer information earlier in the process when deciding to reinstate or cash settle. Several significant milestones were reached during the year:

- Over 1,800 constructions and 4,169 cash settlements completed as at 30 June 2016
- 76 percent of all over cap house claims fully settled
- 97 percent of Out of EQC Scope claims finalised (driveways, paths etc.)

A further 359 safe, quality homes for our customers were under construction and 632 were at design and documentation stage at the end of the financial year.

Both the shared property and the repairs work streams have had significant uplifts in construction as legal and technical barriers have been removed and customers have gained more confidence in progressing with their decisions.

Continuing from last year's initiatives such as a fully collaborative approach between Southern Response, Arrow and external providers, significant progress has been made in settling repair claims. The claim specialists are meeting with customers face-to-face on a regular basis and the improved delivery of the detailed repair assessment (DRA) now includes supplying engineering and geotechnical reports to help explain the proposed repair methodology. In addition, cash-out options are provided throughout the process to present the customer with a choice to continue with the repair or cash-out.

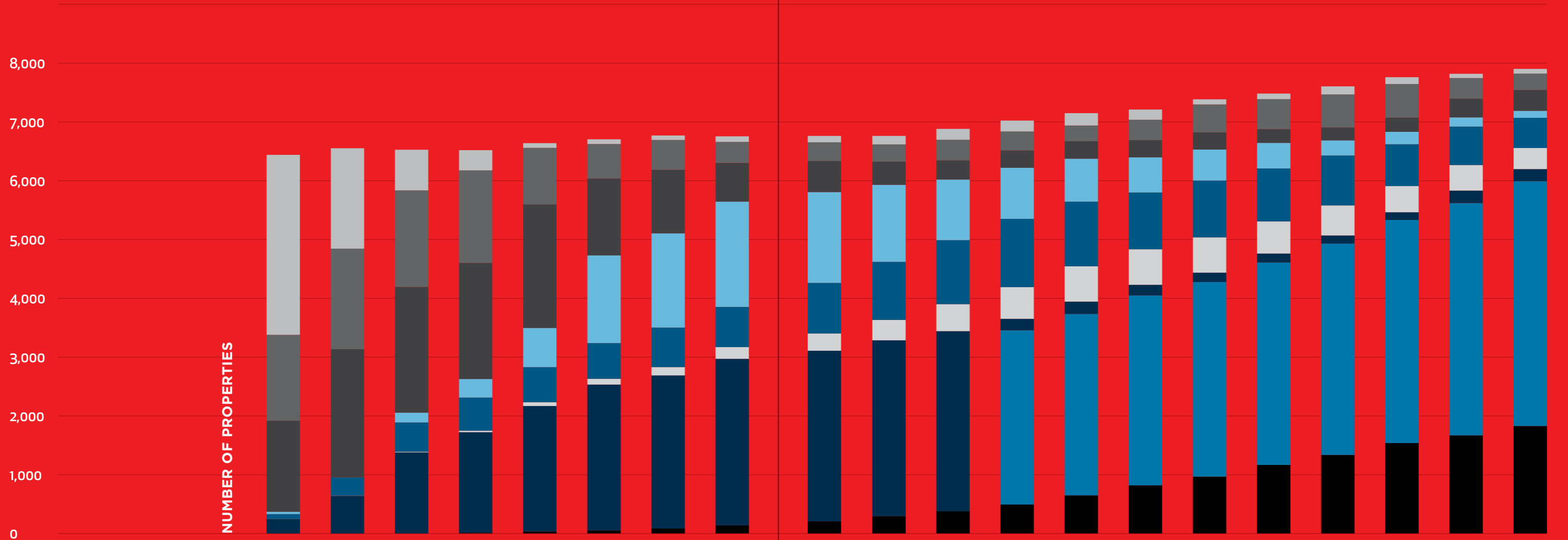
Out-of-Scope Project

With the Out-of-Scope project nearing completion, the business model that Southern Response has been employing has changed, with Arrow project managers' involvement replaced by construction company resources. The construction managers have been trained to identify earthquake damage and their work continues to be effective. Southern Response is forecasting that its construction programme work for out-of-scope claims will be nearing completion later this year.

STATUS OF PROPERTIES BY QUARTER

OVER CAP CLAIM SETTLEMENT PROGRESS

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



	Sep 11	Dec 11	Mar 11	Jun 12	Sep 12	Dec 12	Mar 13	Jun 13	Sep 13	Dec 13	Mar 14	Jun 14	Sep 14	Dec 14	Mar 15	Jun 15	Sep 15	Dec 15	Mar 16	Jun 16
Scheduled for inspection	3,063	1,708	694	345	78	78	77	93	109	144	186	184	209	174	85	95	135	117	74	78
Assessment completed	1,462	1,711	1,641	1,579	967	586	508	360	316	292	351	326	266	346	474	509	561	575	349	281
Awaiting customer decision	1,550	2,181	2,143	1,976	2,101	1,310	1,085	658	531	394	328	294	298	294	293	236	223	243	322	356
Construction with Southern Response, Pre-documentation	39	-	165	315	667	1,497	1,602	1,792	1,545	1,310	1,031	866	731	598	530	436	256	208	154	121
Construction design/documentation	81	312	499	563	596	605	672	683	861	988	1,091	1,167	1,102	965	965	903	849	715	656	511
Under construction	3	6	10	27	66	98	143	202	294	348	459	540	599	603	603	543	513	442	434	359
Customers elected to buy another house, self-manage build or cash settle	244	638	1,379	1,712	2,135	2,484	2,606	2,833	2,906	2,998	3,066	192	210	184	158	156	137	131	212	207
Cash settlement completed	-	-	-	-	-	-	-	-	-	-	-	2,966	3,090	3,231	3,315	3,443	3,596	3,801	3,953	4,169
Construction completed	1	1	2	10	33	50	83	139	203	291	376	493	648	819	965	1,167	1,338	1,536	1,670	1,827

ALIGNMENT OF STAFF RESOURCES TO THE ONGOING DEMANDS OF THE BUSINESS

As Southern Response is now a significant way through its settlement programme, scaling back the size of the organisation reflects the level of remaining claims and work required to support these customers through to claim settlement.

The Operations groups of Southern Response and Arrow continue to work in a collaborative environment for each work-stream, leveraging each team's key capabilities. Strategies are developed jointly to optimise throughput for our customers. Both teams are measured on identical key performance metrics. It is the rule rather than the exception that both Arrow and Southern Response attend site together to build strong relationships with customers and gain the broadest perspective of the challenges of each job.

The scaling back of Arrow staff resources is following a broadly similar path as Southern Response.

QUALITY MANAGEMENT FRAMEWORK

The progressive implementation of an end-to-end quality management framework has continued throughout the year. Building on previous initiatives such as ROVER, the underfloor remote controlled camera, and mandatory engineering and council sign-off on all structural repair work, additional refinements have been implemented including moving to a full iPad-based system for all site checks, continued training of all staff and contractors, and an integrated Health and Safety system alongside the Quality system. This enables more detailed monitoring and reporting of quality to ensure effective management of work, contractors and construction outcomes. Following the successful results of the MBIE repair survey and some of the industry lessons from that, Southern Response has retrospectively reviewed completed repair work to ensure that all work meets today's standards.

HEALTH AND SAFETY

A significant amount of work was completed during the year to ensure both Southern Response and Arrow's preparedness for the Health and Safety at Work Act 2015, which came into force on 4 April 2016. New systems and processes are in place to assist in meeting the requirements of the new legislation. A major part of this work has been the development of a risk-based approach to likely health and safety issues and establishing pragmatic solutions under the new legislation, such as safety in design.

At a Board and management level within both Southern Response and Arrow, a health and safety framework has been established to provide for an entire supply-chain response to the challenges of achieving an accident-free environment.

Southern Response's commitment to health and safety in the residential recovery includes:

- A Board sub-committee and a management committee dedicated to health and safety, including risk analysis, site inspections and feedback to the contractors involved.
- Specific health and safety KPIs for Arrow and statistical assessment of the safety performance of contractors.
- Builder and building site audits conducted by Arrow and external providers, providing health and safety evaluations and best practice input to the contractors involved.
- Leading best practice in the industry with contractor awareness training seminars and introduction of Health and Safety Awards in August 2015, presented to contractors on each of the project work-streams twice a year.

“THE ORGANISATION'S SENSE OF PURPOSE IS RESOLUTE AND ITS CAPABILITY IS STRENGTHENED BY ALL THAT HAS BEEN LEARNED TO DATE.”

“SOUTHERN RESPONSE AND ARROW'S TECHNICAL RESOURCES CONTINUE TO PROVIDE INDUSTRY-LEADING SUPPORT TO MANY OF THE KEY INDUSTRY CHALLENGES.”

ADDRESSING THE ONGOING ENVIRONMENTAL CHALLENGES

Southern Response and Arrow's technical resources continue to provide industry-leading support to many of the key industry challenges, with significant contributions to the Christchurch City District Plan, the Canterbury Property Boundaries legislation, and coastal erosion challenges.

Integration of Ground Improvement

Following the 2015 revision of the MBIE (Ministry of Business Innovation and Employment) guidance to update Ground Improvement methods, Southern Response set up a panel of ground improvement contractors and a dedicated internal team to manage this specialised work. This enables Ground Improvement work to be efficiently coordinated following demolition work, and provides a 'ready-to-build' platform for builders to begin rebuild work. There is evidence that this initiative is now being used elsewhere in the recovery by builders working for others.

Further Work on the Global Resource Consent

The Global Resource Consent for contaminated sites has been implemented throughout the project and is resulting in significant efficiencies. Working with consultants and the Christchurch City Council, Southern Response has identified additional contaminants and this year has adapted the Global Consent to include the necessary additional control measures.





WHAT'S BEEN DONE THE PAST MONTHS

SUPPORT FOR OUR CUSTOMERS

Introduction of Fair Insurance Code

The default position is the Code 20-day customer contact measure. However, whilst the Southern Response team ensure that the default position is followed, the intention is to provide tailored communications service to customers, depending on their requirements.

Southern Response is well positioned to meet the additional requirements of the Code with its solution-focussed culture, and a detailed vulnerability programme well established for those in need, along with our existing regular customer contact model.

Southern Response is committed to meeting the requirements of the Code, and is pleased to report no breaches of the Code to date.

Enhanced Communication

Southern Response continues to utilise a diverse range of channels to support customers with relevant and timely information that can assist them through the process and with their decision making. A number of new initiatives have included the following:

- Increased face to face communication – Southern Response continues to invest in the allocation of resources to ensure that customers' questions and concerns can be addressed in person. This year has seen claims specialists visiting customers in their homes more frequently.
- Tailoring customer newsletters to segmented groups based on where customers are in the process to provide more targeted information and assistance. Feedback regarding this initiative has been positive.

- The publication of the 'Steps to Resolution' brochure – an informative guide that navigates customers through situations where they wish to make a complaint and the dispute process which helps prepare and support customers to raise and resolve their issues with confidence.

MANAGING COMPLEX SITUATIONS FOR OUR CUSTOMERS

The combination of the unique open-ended insurance cover and the very complex environmental issues – poor quality land, flood-prone areas, contamination, and uncontrolled fill – continues to hinder progress. However, as each issue is resolved, the ability to resolve claims improves. Many previously introduced initiatives designed to remove the roadblocks, are operating effectively and continue to evolve. In these circumstances, Southern Response seeks to keep all customers well informed through frequent and transparent communication.

Southern Response's focus involves both introducing new initiatives and optimising earlier initiatives. This ensures benefits are maximised and lessons are learned that can be drawn on when responding to future events.

Providing Extra Support for Those in Need

Southern Response's Customer Support Team continues to operate effectively with its fully dedicated team continuing to provide end-to-end services for the portfolio of Southern Response's most vulnerable customers. These are customers who, due to their personal circumstances, may need extra support and additional assistance through the claims process.

Included in the team are four Customer Liaison Advisors who have backgrounds in social and health services. They work closely with customers, their families and external support agencies to ensure the individual needs of these customers are carefully considered all the way through to settlement.

Customers with Shared Title Properties¹

Shared property can be complex and Southern Response has a dedicated team that specialises in working with customers who hold a shared title. This team works closely with the homeowner, loss adjusters, project managers, contractors and other insurance companies to settle these more complex claims.

The agreed process between insurers for managing this work is operating effectively with external loss adjusters operating in multi-insurer circumstances and with the use of a standardised construction contract.

Aligning different levels of damage, insurance cover and unit owners' expectations remains an ongoing challenge in resolving complex shared property claims.

Disputes and Complaints

Of all disputes lodged since the commencement of Southern Response, 65 percent have been resolved. The open dispute rate remains at approximately 3 percent of all claims notified. Dispute resolution operates within Southern Response's Disputes Management policy, which provides a consistent and fair framework for dispute management and resolution. To date, customer disputes are primarily resolved through initial internal review and subsequent negotiation. Facilitated mediation is becoming a strong feature of claim resolution; through the Courts, the Residential Advisory Service

and through claim resolution facilitation service, Breakthrough. The Insurance and Financial Services Ombudsman's Office provides another source of independent advice for customers.

Southern Response is currently involved in 34 percent of the earthquake cases before the Christchurch High Court. This is in line with its share of residential claims in the rebuild, and Southern Response remains focussed on resolving these cases as quickly as circumstances allow, continuing our efforts to support customers to use less costly and more efficient methods of dispute resolution than litigation, as outlined above.

The future of community representative services is under active consideration by the Christchurch City Council, MBIE, the Insurance Council and other interested parties. Southern Response is working with these parties to identify alternative services and means to resolve disputes.

¹ Shared Property involves customer dwellings that are adjoined to one another or hold a shared property title.

FINANCIAL SUMMARY

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

	2016 \$000	2015 \$000
Continuing operations		
Net earthquake claims incurred	(211,335)	(339,826)
Other costs	(38)	(350)
Investment income	7,567	15,898
Unrealised gain on fair value of Crown receivable	12,091	14,846
Loss for the year from continuing operations	(191,715)	(309,432)
Other comprehensive income	0	0
Total comprehensive loss for the year	(191,715)	(309,432)
Claims liability (earthquakes)		
Discounted central estimate (including claims handling expenses)	708,069	1,106,626
Risk margin	97,636	108,907
Gross outstanding claims liabilities	805,705	1,215,533
Reinsurance receivables	(17,852)	(100,754)
Net outstanding claims liability	787,853	1,114,779

The following table shows the movement in the central estimate of the claims liability since the 30 June 2011 year end reflecting increasing claims numbers and the expanding technical challenge of the rebuild.

	2011	2012	2013	2014	2015	2016
Central Estimate of the Ultimate Liability (\$million)	1,819	2,157	2,254	2,364	2,716	2,903
Over Cap Claims No.	5,383	6,527	6,760	7,028	7,564	7,909
Ultimate Claims No.	7,010	6,782	6,869	7,196	7,779	8,021



LET'S
LOOK
AT
WHAT'S
NEXT

APPRECIATION

Southern Response acknowledges the continued commitment and contribution of the dedicated staff of Southern Response, Arrow International, the build and repair panel, and technical consultants. Based in Christchurch, staff are living in the same environment as customers, one which is often challenging, and they remain loyal and committed in sometimes difficult circumstances.

The Southern Response Board and staff would like to take this opportunity to acknowledge the contribution of Peter Rose, who has been invaluable in leading the organisation towards its final phase. Peter's experience and ability to adapt quickly has provided the organisation with strong leadership focussed on getting the right systems in place. This has enabled thousands of Cantabrians to resolve their claims. The Board is extremely proud of Peter and the contributions he has made in a tough environment. He moves on with the highest regard of the Board of Southern Response.

Southern Response appreciates the support and willingness of community support groups, local government, professional bodies, local MPs and their electorate staff, lwi and customers (in meetings, seminars and focus groups) to serve as communication conduits to the community. The feedback, support and suggestions provided continue to assist with developing and refining Southern Response's position on a range of issues.

Southern Response is also grateful for the support received from the Treasury's Commercial Operations group as the Shareholding Ministers' Appointed Monitoring Agent.

GOVERNANCE

Southern Response acknowledges the dedication of the Southern Response Board, which brings a collective sense of commitment, sensitivity, and technical knowledge to the governance table. Low Board turnover has provided a high degree of continuity

and strong governance leadership. Since its change of ownership to the Crown on 5 April 2012, the Board and management of Southern Response have continued to enhance the governance framework around the company, to ensure optimum accountability and integrity for the substantial financial commitment that the Crown and reinsurers have made to the company.

FUTURE OUTLOOK

The company's key areas of focus in the 2016-2017 financial year are:

- Continuing to achieve fair settlements with customers to meet the forecast of settling at least 90 percent of all claims by 30 June 2017.
- Supporting those customers whose claims have been recently confirmed as over cap through a full technical evaluation prior to being presented with settlement options, enabling earlier, informed decision-making.
- Continuing to support vulnerable customers' claims towards resolution.
- Progressive implementation of a timely claim settlement system which places specific timeframes on staff preparing and presenting information to customers. This will facilitate our customers' ability to determine and confirm their preferred course of settlement and various decisions that need to be made, within specified timeframes.
- Continuing to scale back the size of the organisation, ensuring the structure evolves to meet the changing needs of the business. This will be influenced by the number of active claims along with the increasingly complex nature of claims that are yet to be settled.
- Devising and implementing robust systems for the closure and retention of claim documentation and other relevant information in anticipation of the eventual project closure.



Image credit: Canterbury Earthquake Recovery Authority (CERA)

WHAT THE FUTURE HOLDS



Ross Butler
Chairman
22 August 2016



Peter Jensen
Chief Executive
22 August 2016





LORRAINE SAYS SHE
COULDN'T BE HAPPIER
TO BE BACK IN HER HOME

OUR VALUES

- RESPECT**
 We treat all our stakeholders with care, consideration, fairness and equity.
- EXCELLENCE**
 We are committed to excellence in everything we do. We are innovative, responsive, adaptive and continually raising the bar. We strive to set the standard against which others will be measured.
- OWNERSHIP**
 We hold ourselves accountable for our actions, take ownership, and deliver on our promises.
- HONOUR OUR PROMISES**
 We stand by and deliver on all entitlements, rights and commitments AMI has made to policyholders.
- INTEGRITY**
 We demonstrate honesty, transparency, fairness, and objectivity in all our interactions.
- PASSION**
 We strive, stand up for our customers' rights, and go the extra distance. We want to make a positive difference to people's lives as part of our contribution to the rebuild of Canterbury.
- RECOGNITION**
 We recognise and celebrate the contributions our people make as individuals and as teams to deliver on our goals.
- DEVELOPMENT**
 We professionally develop our people to provide challenging and rewarding employment and prospects.

THE BOARD



ROSS BUTLER
CHAIRMAN

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 both Christchurch and Nelson.

He is currently chairman of Ōtākaro Ltd, Rangitane Holdings Limited and Rangitane Investments Limited, a Director of Regenerate Christchurch, and a Member of the Code Committee (Financial Advisers Act). Ross is also the chairman of Mercer New Zealand Limited and Mercer Investments Australia Pty Ltd. He has previously been deputy chair, and chair of audit and risk committee, of GNS Science.



ANNE URLWIN
DEPUTY CHAIRMAN

Originally from Christchurch, Wanaka-based Anne Urlwin has more than 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 commercial construction group Naylor Love. She became a director of Chorus Ltd upon the Telecom demerger in late 2011. She is also a director of Steel & Tube Holdings Ltd, Summerset Group Holdings Ltd and of One Path Life (NZ) Ltd, an ANZ Bank subsidiary company.



JENN BESTWICK
DIRECTOR

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

After moving to Christchurch in 1996, Jenn worked for Ngai Tahu for a number of years and subsequently with local authorities, iwi and the primary and hydro-generation sectors on fresh water management in the Canterbury region.

Jenn is currently chair of Ara Institute of Canterbury (formerly Christchurch Polytechnic Institute of Technology), a Lead Reviewer, PIF Panel for the State Services Commission and Advisory Panel Member for Development West Coast. She is a former Board member of Tourism New Zealand, New Zealand Qualifications Authority and Learning Media Limited.



SUSAN THODEY
DIRECTOR

Susan Thodey is admitted as a barrister and solicitor in New Zealand and as a solicitor in England. She is a former managing partner of the Auckland based partnership of Heaney & Partners, for who she currently acts as a consultant.

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
DIRECTOR

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 a professional director where his roles include being Chairman of St John of God Hauora Trust and Director of Royal Society of the Arts, Australia and NZ. He is also Trustee of the Christchurch Arts Festival.

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



SARAH SINCLAIR
DIRECTOR

Sarah is a Chartered Civil Engineer, a Fellow of the Institute of Civil Engineers (UK) and a Fellow of IPENZ (The Institution of Professional Engineers New Zealand). She has over 25 years experience in infrastructure in New Zealand and the UK. She is a Director of the IPWEA (Institute of Public Works Engineering Australasia) NZ, and past Chair of Institution of Civil Engineers (ICE) New Zealand Committee.

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.



OUR JOURNEY WITH YOU SETTLED
LET'S GET YOU SETTLED

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 supporting Greater Christchurch Regeneration. On 5 April 2012 the company's name changed from AMI Insurance Ltd to Southern Response Earthquake Services Ltd.

COMPANY ACTIVITIES

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

At 5 April 2012, the company's principal activities changed to the management and settlement of insurance claims made by AMI policyholders relating to the Canterbury earthquake events up to 5 April 2012. 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 Treasury's Owner's Expectations Manual which sets out the Ministers' expectations of the Board, including the reporting, accountability and financial governance expectations.

BOARD OF DIRECTORS

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

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

DIRECTORS

Under the constitution adopted on 5 April 2012, the Board is appointed by Shareholding Ministers and can comprise up to seven non-executive directors, including the Chairman. As at 30 June 2016 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
Ross Butler Nelson-based professional director	Non-Executive Chairman	Appointed 5 April 2012 Reappointed 1 July 2014 Term ends 30 June 2017	Member: Governance Committee Member: Human Resources Committee
Anne Urlwin Wanaka-based professional director	Non-Executive Deputy Chairman	Appointed 5 April 2012 Reappointed 1 July 2014 Reappointed 1 July 2016 Term ends 30 June 2018	Chair: Audit & Risk Committee Member: Governance Committee Member: Human Resources Committee
Jenn Bestwick Queenstown-based professional director	Non-Executive Director	Appointed 5 April 2012 Reappointed 1 July 2014 Reappointed 1 July 2016 Term ends 30 June 2018	Chair: Human Resources Committee Member: Health & Safety Committee
Bevan Killick Christchurch-based professional director	Non-Executive Director	Appointed 5 April 2012 Reappointed 1 July 2015 Term ends 30 June 2017	Member: Audit & Risk Committee Member: Health & Safety Committee
Susan Thodey Queenstown-based barrister and solicitor	Non-Executive Director	Appointed 5 April 2012 Reappointed 1 July 2013 Reappointed 1 July 2016 Term ends 30 June 2018	Chair: Governance Committee Member: Audit & Risk Committee
Sarah Sinclair Auckland-based engineer	Non-Executive Director	Appointed 1 July 2014 Term ends 30 June 2017	Chair: Health & Safety Committee

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 2016, the Board committees are:

- **AUDIT AND RISK 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. It also oversees matters associated with insurance claims liabilities, reinsurance receivables, and Earthquake Commission receivables.

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

- **HUMAN RESOURCES COMMITTEE** – sets the principles and standards for key policies relating to recruitment and appointment, remuneration and retention of staff 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. It also oversees the management of HR aspects of the company's wind-down.

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

- **GOVERNANCE COMMITTEE** – deals with Board administrative matters related to succession planning, Board performance review and professional development of directors. It also oversees legal matters and the provision of legal services to

the company, and matters in relation to the completion of the company's claim settlement activities, including associated transition and legacy matters.

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

- **HEALTH & SAFETY COMMITTEE** – monitors compliance with the Health and Safety in Employment Act 1992 and Health and Safety at Work Act 2015, 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: Sarah Sinclair (Chair), Jenn Bestwick, Bevan Killick

DISCLOSURE OF INTERESTS BY DIRECTORS

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

In accordance with the Companies Act 1993, the Board maintains an up to date interest register to ensure conflicts of interest are avoided. The following table details new interests or cessations of interests of directors recorded in the interests register during the year ended 30 June 2016.

DIRECTOR	ENTITY	RELATIONSHIP
Ross Butler	Ōtākaro Ltd Regenerate Christchurch Nelson Marlborough Institute of Technology (NMIT) Rangitane Investments Limited, and Rangitane Holdings Limited Mercer Investments (Australia) Pty Ltd (MIAL) Mercer Australia Ltd and its subsidiaries	Chair Director Chair (ceased) Chair (previously Director) Chair (previously non-executive Director) Chairman of Board Risk Management Committee
Anne Urlwin	None	
Jenn Bestwick	Ministry of Education Christchurch Education Advisory Board Tourism New Zealand Learning Media Limited	Member (ceased) Board member (ceased) Board Chair (ceased)
Bevan Killick	Christchurch Arts Festival	Trustee
Susan Thodey	Heaney & Partners Heaney & Partners	Partner (ceased) Consultant
Sarah Sinclair	Institute of Civil Engineers (ICE) New Zealand Committee	Chair (ceased)

There have been no interests registered by directors in transactions during the financial year ended 30 June 2016.

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 2016 was \$100,800 relating to cover for the period 5 April 2016 to 5 April 2017.

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 its contribution for each event and the private insurance company takes over responsibility for managing and settling the claim and paying the amount in excess of the cap - that is "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).



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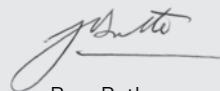
STATEMENT OF RESPONSIBILITY

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

In the Board's opinion, these summary financial statements and summary statement of performance fairly reflect the financial position and operations of Southern Response Earthquake Services Limited for the year ended 30 June 2016.

Signed on behalf of the Board:



Ross Butler
Chairman
22 August 2016



Anne Urlwin
Deputy Chairman
22 August 2016



INDEPENDENT AUDITOR'S REPORT

TO THE READERS OF SOUTHERN RESPONSE EARTHQUAKE SERVICES LIMITED SUMMARY FINANCIAL STATEMENTS AND SUMMARY STATEMENT OF PERFORMANCE FOR THE YEAR ENDED 30 JUNE 2016

We have audited the summary financial statements and summary statement of performance as set out on pages 30 to 49, which were derived from the audited financial statements and statement of performance of Southern Response Earthquake Services Limited (the company) for the year ended 30 June 2016 on which we expressed an unmodified audit opinion in our report dated 22 August 2016.

The summary financial statements comprise the summary statement of financial position as at 30 June 2016, 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 performance.

OPINION

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

The following emphasis of matter paragraphs were included in the audited financial statements of the company for the year ended 30 June 2016.

The company's ability to access additional share capital

Without modifying our opinion, we draw attention to the disclosure in note 1 of the financial statements about going concern. As at 30 June 2016, the liabilities of the company exceed its assets by \$569 million. The directors have concluded that the going concern assumption is appropriate given the funding arrangements described in note 8 of the financial statements. Those arrangements include

funding available under the Crown support deed of up to \$457 million of additional share capital from the Crown, and an agreement to subscribe for an additional \$250 million of share capital.

Uncertainties associated with the outstanding claims liability

Also without modifying our opinion, we draw your attention to notes 1, 2 and 14 of the financial statements. Those notes describe how the Canterbury earthquakes have affected the outstanding claims liability of the company. Those notes also describe the significance of the amount of the earthquake related outstanding claims liability, and the inherent uncertainties involved in estimating this amount using actuarial assumptions.

Details of the above matters are outlined in Notes 1, 2, 5 and 8 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 performance and the audited financial statements and statement of performance from which they were derived, do not reflect the effects of events that occurred subsequent to our report dated 22 August 2016 on the audited financial statements and statement of performance.

The summary financial statements and summary statement of performance do not contain all the disclosures required for audited financial statements and statement of performance under generally

accepted accounting practice in New Zealand. Therefore, reading the summary financial statements and summary statement of performance is not a substitute for reading the audited financial statements and statement of 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 performance in accordance with FRS-43: Summary Financial Statements. The Board of Directors is also responsible for the publication of the summary financial statements and summary statement of performance 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
22 August 2016

Deloitte.

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 30 JUNE 2016

	Note	2016 Budget \$000	2016 Actual \$000	2015 Actual \$000
Net claims incurred - non-earthquake		-	(10)	(282)
Net claims incurred - earthquake	3	(23,683)	(211,335)	(339,826)
Less operating costs		-	(28)	(68)
Net underwriting loss		(23,683)	(211,373)	(340,176)
Investment income and expenses		4,356	7,567	15,898
Unrealised gain on fair value of Crown receivable	7	13,229	12,091	14,846
Loss for the year before tax		(6,098)	(191,715)	(309,432)
Tax expense		-	-	-
Loss for the year after tax		(6,098)	(191,715)	(309,432)
Other comprehensive income:				
Other comprehensive income for the year after tax		-	-	-
Total comprehensive loss for the year		(6,098)	(191,715)	(309,432)

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 JUNE 2016

	Note	Ordinary Shares \$000	Convertible Preference Shares \$000	Accumulated Losses \$000	Property Revaluation Reserve \$000	Total Equity/ (Deficit) \$000
2016						
Opening balance 1 July 2015		95,580	382,359	(900,125)	2,052	(420,134)
Loss for the year		-	-	(191,715)	-	(191,715)
Other comprehensive income for the year		-	-	-	-	-
Total comprehensive income for the year		-	-	(191,715)	-	(191,715)
Conversion of preference shares into ordinary shares	5	382,359	(382,359)	-	-	-
Call on uncalled ordinary shares	5	43,000	-	-	-	43,000
Closing balance 30 June 2016		520,939	-	(1,091,840)	2,052	(568,849)
2015						
Opening balance 1 July 2014		95,580	382,359	(590,693)	2,052	(110,702)
Loss for the year		-	-	(309,432)	-	(309,432)
Other comprehensive income for the year		-	-	-	-	-
Total comprehensive income for the year		-	-	(309,432)	-	(309,432)
Closing balance 30 June 2015		95,580	382,359	(900,125)	2,052	(420,134)

STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2016

	Note	2016 Budget \$000	2016 Actual \$000	2015 Actual \$000
Shareholders' equity				
Total shareholders' deficit		(408,491)	(568,849)	(420,134)
Represented by:				
Assets				
Financial assets				
Cash and cash equivalents		25,636	212,521	198,284
Receivables		4,046	7,883	10,352
Reinsurance receivables	6	12,172	19,030	101,802
Investments		-	-	100,056
Crown receivable	7	216,423	-	387,909
Property held for sale		-	2,000	2,280
Plant and equipment		1,048	790	1,117
Intangible assets		-	173	46
Total assets		259,325	242,397	801,846
Less:				
Liabilities				
Trade and other payables		2,004	2,860	3,834
Employee entitlements		-	2,038	1,732
Outstanding claims – non-earthquake		-	643	881
Outstanding claims – earthquake	8	665,812	805,705	1,215,533
Total liabilities		667,816	811,246	1,221,980
Net liabilities		(408,491)	(568,849)	(420,134)

On behalf of the Board



Ross Butler, Chairman
Authorised for issue on 22 August 2016



Anne Urlwin, Deputy Chairman

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 30 JUNE 2016

	Note	2016 Budget \$000	2016 Actual \$000	2015 Actual \$000
Cash flows from operating activities				
Interest received		4,356	3,444	16,710
Dividends received		-	-	27
Other investment income		-	3,964	-
Claim costs – non-earthquake		-	(378)	(1,053)
Claim costs – earthquake		(539,858)	(607,124)	(547,605)
Claim costs – reinsurance recoveries		91,889	97,424	101,548
Payments to suppliers and employees		(20,269)	(26,112)	(25,541)
Net cash outflow from operating activities	4	(463,882)	(528,782)	(455,914)
Cash flows from investing activities				
Proceeds from sale of plant and equipment and property held for sale		-	264	27
Payments for plant and equipment and property held for sale		(395)	(103)	(325)
Payments for intangible assets		-	(180)	(71)
Sales and maturities of financial assets		103,181	100,038	519,125
Net cash inflow from investing activities		102,786	100,019	518,756
Cash flows from financing activities				
Proceeds from the Crown receivable		182,000	400,000	-
Proceeds from the uncalled capital facility		-	43,000	-
Net cash inflow from financing activities		182,000	443,000	-
Net (decrease)/increase in cash and cash equivalents		(179,096)	14,237	62,842
Add opening cash and cash equivalents		204,732	198,284	135,442
Ending cash and cash equivalents		25,636	212,521	198,284

NOTES TO THE SUMMARY FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2016

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.

The financial statements for the Company were authorised for issue by the directors on 22 August 2016.

Basis of preparation

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

The full financial statements and statement of performance for each period presented in the summary financial statements have been audited. An unqualified opinion was issued with emphasis of matter paragraphs referring to the Company's ability to access additional share capital and uncertainties associated with the outstanding claims liability.

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 2013 and the Companies Act 1993. They comply with the New Zealand equivalents to International Financial Reporting Standards (NZ IFRS), International Financial Reporting Standards (IFRS) and other applicable financial reporting standards as appropriate for profit oriented companies.

External Reporting Board Standard A1: Accounting Standards Framework (For-profit Entities Update) "XRB A1". XRB A1 establishes a for-profit tier structure and outlines which suite of accounting standards entities in different tiers must comply with. The Company has elected to report as a Tier 1 entity.

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

Going concern

As at 30 June 2016 the liabilities of the Company exceeded its assets. The directors have considered the appropriateness of the financial statements being presented on a going concern basis and have concluded that the going concern assumption is appropriate given the funding arrangements available with the Crown (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 8.

3. NET CLAIMS INCURRED

	2016	2015
	\$000	\$000
Earthquake:		
Gross claims expense	225,857	358,644
Reinsurance recovery expense/(revenue)	(14,522)	(18,818)
Total net earthquake claims incurred	211,335	339,826
Total net claims incurred	211,345	340,108

4. CASH FLOWS FROM OPERATING ACTIVITIES

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

	2016	2015
	\$000	\$000
Loss for the year	(191,715)	(309,432)
Add/(less) non-cash items:		
Depreciation and amortisation	470	586
Unrealised losses/(gains)	18	1,372
Unrealised movement in discounting Crown receivable to fair value	(12,091)	(14,846)
Sub-total "A"	(203,318)	(322,320)
Movement in working capital items:		
Decrease in receivables	2,469	1,815
Decrease in reinsurance and insurance receivables	82,772	81,946
(Decrease) in payables	(1,153)	(554)
(Decrease)/Increase in employee entitlements	159	(567)
(Decrease) in insurance liabilities	(409,739)	(217,299)
Sub-total "B"	(325,492)	(134,659)
Items classified as investing activities:		
Decrease in interest receivable capitalised	-	997
Net loss on sale of property, plant and equipment	28	68
Sub-total "C"	28	1,065
Cash outflow from operating activities (A+B+C)	(528,782)	(455,914)

5. SHARE CAPITAL

The Company has ordinary share capital of \$521 million. As explained below, as it requires additional capital to meet its claims payment obligations the Company can access a further \$707 million of capital from the Crown.

	2016	2015
	\$000	\$000
Ordinary shares:		
Balance 1 July	95,580	95,580
Conversion of preference shares to ordinary shares	382,359	-
Paid ordinary shares (from the uncalled capital facility)	43,000	-
Balance 30 June	520,939	95,580
Convertible preference share capital:		
Balance 1 July	382,359	382,359
Conversion of preference shares to ordinary shares	(382,359)	-
Balance 30 June	-	382,359

At 30 June 2016, there were 48,000,102 (2015: 1,000,102) ordinary shares, Nil (2015: 400,000,000) unpaid convertible preference shares and 457,000,000 uncalled ordinary shares (2015: 500,000,000). The issue price of the uncalled ordinary shares (yet to be called) is \$1 per share.

In accordance with the terms of the deed of amendment and restatement to the Crown support deed, dated 5 April 2012, the Company issued payment notices for unpaid convertible preference shares during the year. On payment the shares were designated as paid-up convertible preference shares and converted into ordinary shares at the request of the convertible preference shareholder.

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 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 paid ordinary shares. During the year ended 30 June 2016, the Company called 43,000,000 of these shares.

On 28 June 2016 the Shareholding Ministers agreed that the Crown would subscribe for an additional \$250 million of capital in the Company. The shares are to be uncalled and unpaid ordinary shares. Treasury have been asked to prepare an amendment to the Crown Support Deed and subscription agreement providing that the shares may be called at the discretion of the Company to meet operating costs and setting policyholder claims only once the Company's reinsurances, investments and existing Crown support are exhausted.

6. REINSURANCE RECEIVABLES

	2016	2015
	\$000	\$000
Gross reinsurance receivable	19,138	103,463
Discount to present value	(108)	(1,661)
	19,030	101,802
Being:		
Non-earthquake	1,178	1,048
Earthquake (note 8)	17,852	100,754
	19,030	101,802
Changes in gross reinsurance receivable:		
Balance 1 July	103,463	191,210
Change in gross estimated recovery	13,099	13,800
Reinsurance collections	(97,424)	(101,547)
Balance 30 June	19,138	103,463

At 30 June 2016, the Company conducted an impairment review of the reinsurance receivables. No loss was recognised (2015: \$nil).

7. CROWN RECEIVABLE

During the year the Company has fully drawn down the remaining \$400 million face value of the Crown receivable. The drawdowns throughout the year were made in accordance with the Crown support deed to ensure short-term forecast funding requirements were met.

	2016	2015
	\$000	\$000
Opening Balance at 1 July	387,909	373,063
Drawdowns	(400,000)	-
Fair value adjustment at 30 June	12,091	14,846
Closing balance at 30 June	-	387,909

8. OUTSTANDING CLAIMS LIABILITY: EARTHQUAKE

	2016	2015
	\$000	\$000
Outstanding earthquake claims:		
Discounted central estimate outstanding	663,696	1,057,907
Risk margin	97,636	108,907
Claims handling costs	44,373	48,719
Gross discounted outstanding claims liability	805,705	1,215,533
Expected reinsurance recoveries	(17,960)	(102,415)
Impact of discounting on reinsurance recoveries	108	1,661
Reinsurance receivables (note 6)	(17,852)	(100,754)
Net outstanding claims liability	787,853	1,114,779

	2016	2015
	\$000	\$000
Changes in gross discounted outstanding claims liability		
Outstanding claims beginning of year	1,215,533	1,432,844
Change in central estimate	187,071	351,819
Change in claims handling expense	(4,346)	(14,204)
Change in discounting to present value	28,111	14,200
Change in risk margin	(11,271)	(18,207)
Claim payments	(609,393)	(550,919)
Outstanding claims end of year	805,705	1,215,533

Claims development

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

	2016	2015
	\$000	\$000
Central estimate	2,903,278	2,716,207
Claims handling expense	44,373	48,719
Cumulative payments	(2,227,662)	(1,618,269)
Discount of unpaid liability to present value	(11,920)	(40,031)
Discounted central estimate	708,069	1,106,626
Risk margin	97,636	108,907
Gross discounted outstanding claims liability	805,705	1,215,533
Reinsurance receivables (refer note 6)	(17,852)	(100,754)
Net outstanding claims liability	787,853	1,114,779

Actuarial calculation, assumptions and methods

The effective date of the actuarial report on the earthquake insurance liabilities is 30 June 2016. The actuarial report was prepared by the appointed actuaries, Colin Brigstock and Stephen Lau (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.

	2016	2015
Future inflation average		
• Building cost	3.00%	4.00%
• Temporary accommodation	0.00%	0.00%
• Other cover types	3.00%	3.00%
• Claims handling expenses	0.00%	0.00%
Discount rate	2.11%	2.80%
Risk margin – outstanding claims liabilities	14.00%	10.00%
Average weighted term to settlement from financial reporting date (years)	0.87	1.37

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 3.0% 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 2016.

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.

It should be noted that considerable uncertainty still surrounds the projection and valuation of the Company’s EQ liabilities. While the Company has progressed most of the way through the damage assessment phase, a significant proportion of the overall incurred cost is yet to be settled. In addition, 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 has been set at 14% of the estimated liability.

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	2016 \$000	2015 \$000
Inflation rate	+1% p.a.	5,941	15,379
	-1% p.a.	(5,920)	(14,663)
Discount rate	+1% p.a.	(6,740)	(14,209)
	-1% p.a.	6,899	14,613
Claims handling expense	+10%	5,054	5,357
	-10%	(5,054)	(5,357)
Risk margin	+1%	6,974	10,723
	-1%	(6,974)	(10,723)
Construction schedule	+6 months	1,256	4,425
	-6 months	(1,110)	(3,483)

9. EMPLOYEE REMUNERATION

	2016	2015
	<i>Number of Employees</i>	
Remuneration band		
\$510,000 pa - \$519,999 pa	1	-
\$470,000 pa - \$479,999 pa	-	1
\$380,000 pa - \$389,999 pa	-	1
\$260,000 pa - \$269,999 pa	2	1
\$250,000 pa - \$259,999 pa	-	1
\$210,000 pa - \$219,999 pa	4	1
\$190,000 pa - \$199,999 pa	-	2
\$180,000 pa - \$189,999 pa	1	-
\$160,000 pa - \$169,999 pa	1	2
\$150,000 pa - \$159,999 pa	2	2
\$140,000 pa - \$149,999 pa	4	3
\$130,000 pa - \$139,999 pa	2	3
\$120,000 pa - \$129,999 pa	5	3
\$110,000 pa - \$119,999 pa	1	4
\$100,000 pa - \$109,999 pa	5	7

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.

10. DIRECTOR REMUNERATION

	2016	2015
	\$	\$
Ross Butler	72,000	72,000
Anne Urlwin	45,000	45,000
Jenn Bestwick	36,000	36,000
Bevan Killick	36,000	36,000
Susan Thodey	36,000	36,000
Sarah Sinclair	36,000	36,000

The shareholding Ministers approved ordinary fees of \$261,000 (2015: \$261,000) for the period from 1 July 2015 to 30 June 2016.

11. RELATED PARTY TRANSACTIONS

Remuneration of key management personnel

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

	2016	2015
	\$000	\$000
Remuneration of key management personnel:		
Short term employee benefits	1,027	1,125

Transactions with various Crown entities

Included in cash and cash equivalents at 30 June 2016 are \$50 million (2015: \$20 million) of deposits held in a State Owned Enterprise.

On 18 December 2015 a property held for sale was sold to Housing New Zealand for \$350,000 inclusive of GST.

Details relating to the Crown receivable are disclosed in note 7.

12. 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.

13. EXPLANATION OF SIGNIFICANT VARIANCES AGAINST BUDGET

As disclosed in Notes 2 and 8, 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.

The 2016 financial year budget was approved by the Board in April 2015 and was based on the latest available actuarial valuation at that time. Since then, the Company has experienced further increases in the ultimate claims liability principally due to construction scope increases and an increase in the ultimate claim numbers.

Statement of comprehensive income

- Net earthquake claims incurred is greater than budget principally due to the \$187 million increase in the central estimate since the budget was finalised (see above comments).

Statement of financial position

- Cash and cash equivalents are \$187 million greater than

budget, due to a receipt of Crown support funds of \$150 million in June 2016. The budget assumes these funds will be received in July 2016 being the beginning of the quarter in which the funds will be utilised.

- The Crown receivable is \$216 million lower than budget due to higher than anticipated claim payments, which has brought forward the Crown support receipts. In addition, the Crown support for the quarter beginning 1 July 2016 was received in June 2016.
- The outstanding earthquake claims liability is \$140 million greater than budget due to the net effect of 1) claim payment activity being higher than budget due to more customers choosing a cash settlement option and 2) the increase in the central estimate, as commented on above.

Statement of cash flows

- Claim payments are \$67 million greater than budget, reflecting the increase in claim costs and higher than anticipated cash settlements (see comments above).
- Proceeds from the Crown are in total \$261 million greater than budget, principally due to higher claim cash settlement experience which has brought forward Crown support funding requirements. In addition, a receipt of \$150 million of Crown funding was received in June 2016 to be utilised in the quarter beginning 1 July 2016.

STATEMENT OF PERFORMANCE

1 JULY 2015 – 30 JUNE 2016

OBJECTIVE 1

To operate efficient, cost-effective, consistent and fair claims management and re-build programmes 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	30 June 2016: Decision Packs (offers) distributed to 99% of customers for whom a claim notification has been received by December 2015	Partially Met: 7,768 claims were notified by 31 December 2015. 7,550 or 97.2% of these claimants have been presented offers as at 30 June 2016
		30 June 2016: Settlement elections have been made by 92.5% of customers issued with Decision Packs prior to 31 March 2016	Met: 97.2% of customers who received a decision pack by 31 March 2016 had made a settlement election as at 30 June 2016
		30 June 2016: Damage assessments completed for 100% of those customers from whom a claim notification has been received by February 2016	Met: 7,792 claims had been notified by 29 February 2016, all of which had assessments completed by 30 June 2016
	Regular and effective communication with customers appropriate for their stage in the claims settlement process	30 June 2016: Regular and measurable communication is taking place with customers who are in the build queue	Met
Build costs efficiency managed	Actual build cost within 5% of the estimated value of scope of repair/rebuild (RFP DRA ¹)	Met	

1. Detailed Repair/Rebuild Analysis updated at the time of issue of a Request for Proposal (tender) to builders.

INITIATIVE	PERFORMANCE MEASURE	KPI TARGET	STATUS
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 in terms of time, quality and costs	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	31 December 2015: 1,432 house repairs/rebuilds completed	Met: 1,536 construction projects were completed by 31 December 2015
		30 June 2016: 1,880 house repairs/rebuilds completed	Partially met: 1,827 construction projects were completed by 30 June 2016
		Ensure that the quality of the work undertaken is of an industry-leading standard with reference to Southern Response's quality management framework and quality metrics from completed work	Met: During the financial year, 78% of completed construction works were defect-free at practical completion, or defects were remedied within 40 days
Operate both dispute resolution and dispute prevention systems that is equitable and responsive to all customers while observing customers' entitlements from their AMI policy	Business as Usual areas manage and resolve customer disagreements	Ongoing: Dispute rates in Technical Review and Resolution area below 5% of total over cap claims	Met

OBJECTIVE 2

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

INITIATIVE	PERFORMANCE MEASURE	KPI	STATUS
Maintain an effective risk management framework that balances risk with progress	Risk management framework and system	Ongoing: Maintain risk monitoring and management reporting framework and quarterly reporting to the Audit & Risk Committee	Met
Maintain systems to achieve good ratings of the company's management control environment and financial information systems and controls	Assessment by the company's auditors	30 September 2015: Ratings of "good" or better in the assessment provided by the external auditors as part of the 2015 annual financial statements audit process	Met
Maintain monitoring and management systems to ensure compliance with contractual obligations	Compliance with contractual obligations	Ongoing half yearly September and March: Maintain a monitoring and reporting system for key contractual obligations	Met

OBJECTIVE 3

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

INITIATIVE	PERFORMANCE MEASURE	KPI	STATUS
To manage investments and liquidity in accordance with the terms of the investment management policy and the Crown Support Deed	Liquidity management and cash flow forecasting and reporting systems are maintained	Liquidity managed in accordance with investment management policy	Met
	Draw-downs under the Crown Support Deed forecast to Treasury in accordance with the terms of the Crown Support Deed	Positive liquidity maintained	Met
Maintain appropriate reinsurance claim processes to ensure the receipt of all recoveries due	Keep reinsurers fully informed of financial cash flow projections and policy interpretation issues	Ongoing: Manage funding requests to Reinsurers to minimise impact on Southern Response's cash reserves	Met

OBJECTIVE 4

To maintain effective relationships with key stakeholders.

INITIATIVE	PERFORMANCE MEASURE	KPI	STATUS
Optimise the strategic and operational interaction with CERA ² , CCC, EQC ³ , 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 forums and working groups to facilitate the development and implementation of measures to aid the rebuild of Canterbury houses	Met

2. Canterbury Earthquake Recovery Authority

3. Earthquake Commission

OBJECTIVE 5

To operate the business within operational budgets.

INITIATIVE	PERFORMANCE MEASURE	KPI	STATUS
Achieve cost and operational efficiencies by progressively integrating resources to achieve economies of scale thereby ensuring an overall efficient and seamless claims management cost structure	Integration of resources	30 September and 31 March: Review staff resourcing and update transition resource model	Met
Controls and scrutiny in place to manage the cost of Arrow International and other key suppliers	Cost control	31 December and 30 June: Undertake cost base assessment of Arrow International – internal or external	Met
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	30 June: Unplanned turn-over rate consistently less than 25% per annum on rolling quarterly basis	Met
Identify any intangible assets (including intellectual property suitable for transfer or sale prior to the eventual wind-down of the company)	Any identified	30 June: Active process in place to identify and quantify applicable value	Met

OBJECTIVE 6

To promote healthy and safe workplaces.

INITIATIVE	PERFORMANCE MEASURE	KPI	STATUS
To take a leading role in health and safety matters in relation to the Canterbury Earthquake recovery	Ensure a best practice health and safety environment for staff, visitors and those involved in the delivery of Southern Response's rebuild activity including Arrow contractors, sub-contractors and home owners	December 2015 and June 2016: survey building panel members as to Southern Response performance and rating against industry	Met for December 2015. No further surveys have been undertaken of the building panel members
		Ongoing: No charges or prosecutions arising from H&S breaches	Met

DIRECTORY

SHAREHOLDERS

Minister of Finance
Minister supporting Greater Christchurch Regeneration

REGISTERED OFFICE

6 Show Place, Addington, Christchurch 8024, New Zealand

OFFICE

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EXECUTIVE MANAGEMENT

Peter Jensen	Chief Executive
Tony Feaver	Chief Financial Officer
Casey Hurren	General Manager Earthquake Strategy
Linda Falwasser	General Manager Strategic Communications
Sarah Giles	General Manager Corporate Services
Darrell Hansen	General Manager Operations
Anthony Honeybone	General Manager Technical

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 Piper
Wynn Williams

AFFILIATIONS

Insurance Council of New Zealand, associate member
Insurance and Financial Services Ombudsman (IFSO) scheme, participant



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

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