



2,700

TOTAL REPAIRS AND REBUILDS PROJECTED

21,538

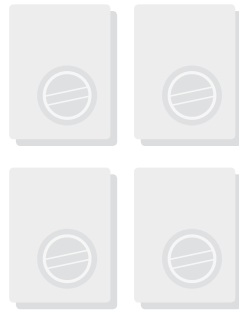
OUT OF SCOPE CLAIMS FINALISED

2,245 CONSTRUCTIONS COMPLETED

# ANNUAL REPORT



2017



400

PRACTICAL COMPLETION CERTIFICATES ISSUED DURING THE YEAR TO 30 JUNE 2017



4,895

OVER CAP CASH SETTLEMENTS





Southern Response is  
**committed** and **focused**  
on finding a **resolution** for  
all remaining customers  
as quickly as possible.

SOUTHERN  
RESPONSE  
ANNUAL  
REPORT  
**2017**



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# 21,538

OUT OF SCOPE CLAIMS FINALISED





## CHAIRMAN'S REPORT

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

The Company's target for the 2016-17 financial year<sup>1</sup> was to achieve 87.5% claims notified by 30 June 2016 settled by 30 June 2017. This goal was met in early April, nearly three months ahead of target.

Good progress has been achieved in rebuilds and repairs, as well as cash settlements during the year, with full engineering input providing customers with comprehensive information earlier in the process when deciding to build or cash settle. Greater utilisation of qualified builders' pricing to verify repair and rebuild costs is giving customers confidence in the settlement values offered.

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As at 30 June 2017, several significant milestones have been achieved:

- 90.3 percent of all over cap house claims notified to Southern Response by 30 June 2016 fully settled
  - 2,245 construction completions and close to 5,000 cash settlements have been achieved
  - Over 21,500 or 99.8 percent out of scope claims finalised (damaged driveways, paths etc)
- 

Southern Response and the Earthquake Commission (EQC) have agreed on a new collaborative approach to reviewing and settling the remaining Canterbury residential building claims that are likely to go over EQC's cap for any event and where Southern Response is the listed private insurer.

The identification process is expected to be complete during quarter three of calendar year 2017.

**Southern Response is committed and focused on finding a resolution for all remaining customers as quickly as possible.**

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 \$3,264 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 2017 actuarial claims valuation undertaken by Finity Consulting shows an outstanding net claims liability of \$639 million.

To meet its liabilities, Southern Response sought and received an increase of \$230 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.

## FINANCIAL SUMMARY

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

	2017	2016
	\$000	\$000
Net earthquake claims incurred	(316,617)	(211,335)
Other income/(costs)	1,197	(38)
Investment income	6,484	7,567
Unrealised gain on fair value of Crown receivable	-	12,091
<b>Gain/(loss) for the year from continuing operations</b>	<b>(308,936)</b>	<b>(191,715)</b>
<b>Total comprehensive gain/(loss) for the year</b>	<b>(308,936)</b>	<b>(191,715)</b>
<b>Claims liability</b>		
Discounted central estimate (including claims handling expenses)	589,656	708,069
Risk margin	78,513	97,636
<b>Gross outstanding claims liabilities</b>	<b>668,169</b>	<b>805,705</b>
Reinsurance receivables	(28,795)	(17,852)
<b>Net outstanding claims liability</b>	<b>639,374</b>	<b>787,853</b>

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	2017
<b>Central Estimate of the Ultimate Liability (\$million)</b>	1,819	2,157	2,254	2,364	2,716	2,903	3,264
<b>Confirmed Over cap Claims (number)</b>	5,383	6,527	6,760	7,028	7,564	7,909	8,088
<b>Ultimate Forecast Over cap Claims (number)</b>	7,010	6,782	6,869	7,196	7,779	8,021	8,562







## GOVERNANCE

I acknowledge 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 Company's governance framework to ensure optimum accountability and integrity for the substantial financial commitment that the Crown and reinsurers have made to the Company.

The Southern Response Board would also like to take this opportunity to acknowledge the contribution of Sarah Sinclair who retired from the Board of Directors on 30 June 2017. Sarah has been instrumental in leading Southern Response's health & safety initiatives as the Chair of the Board's Health & Safety Committee, her contributions were very valuable and are much appreciated. From 1 July 2017, the Southern Response Board consists of five Directors.

Following notice of his resignation in June, Chief Executive Peter Jensen will be stepping down in late September to take up the position of Chief Executive of Addington Raceway. We thank Peter for his skilful and caring leadership, and wish him all the best in his new career.

The Board has taken steps to ensure a smooth transition and continuity of strong leadership for our remaining customers and staff.

## APPRECIATION

Southern Response acknowledges the continued commitment, contribution and dedication of the staff of Southern Response, Arrow International, contractors, technical consultants and key partners as it moves into the final phase of the claims settlement project.

Southern Response appreciates the support and willingness of community support groups, local government, professional bodies, local MPs and their electorate staff, Iwi and customers 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.



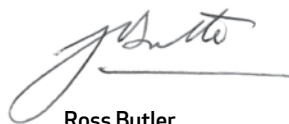
2,245  
CONSTRUCTIONS COMPLETED

4,895  
OVER CAP CASH SETTLEMENTS

## FUTURE OUTLOOK

The Company's key areas of focus in the 2017–2018 financial year are:

- Working with the remaining customers to reach a fair cash settlement for the claims that reflect the entitlement under the insurance policy
- Quality and timely completion of the remaining repairs and rebuilds
- Continuing to offer targeted support towards the resolution of vulnerable customers' claims
- Continually aligning Southern Response and Arrow International resources and capabilities with the remaining claims and initiatives to resolve them
- Continuing to support customers with access to less costly and effective methods of alternative dispute resolution, including Breakthrough, Residential Advisory Service, mediation or the Insurance & Financial Services Ombudsman
- Firming up plans for the wind-down of Southern Response toward the projected full run out date of December 2018<sup>2</sup>, however with sufficient flexibility to recognise the inherent uncertainties which will continue to impact the Company's operations<sup>3</sup>
- Continuing to design and implement robust systems for the closure and retention of claim documentation and other relevant project information in anticipation of the eventual claims settlement project closure.



**Ross Butler**  
Chairman  
18 August 2017

<sup>2</sup> Recognising there will be a small tail of claims, which are likely to be in litigation.

<sup>3</sup> Such as uncertainty regarding ultimate over cap claims numbers, the timing and impact of the proposed representative action and other potential litigation, and uncertainty about customer decision-making timelines.

**2,245**



CONSTRUCTIONS COMPLETED



**400**

PRACTICAL COMPLETION CERTIFICATES ISSUED DURING THE YEAR TO 30 JUNE 2017



OUT OF SCOPE CLAIMS FULLY SETTLED



OVER CAP CLAIMS FULLY SETTLED

**2,700**



TOTAL REPAIRS AND REBUILDS PROJECTED



**226** UNDER CONSTRUCTION



## YEAR IN REVIEW

The 2017 financial year saw a further tailing off of the managed construction programme as more customers chose the option of a cash settlement. The easing market conditions and associated increased building industry capacity allow customers more options in their chosen path forward to reinstate their home, and a cash settlement allows them to have greater flexibility in how they invest in their home and future needs.

Recognising this clear shift from customers towards cash settlement, Southern Response announced in October 2016 that it was introducing a deadline of 30 June 2017 for customers to have a signed building contract and the option to enter the Southern Response managed construction programme. Southern Response continues to support the management of repair and rebuild projects where it is appropriate for it to do so, including for those recognised as being very vulnerable, following the 30 June 2017 deadline.

In line with the reducing volume of unresolved claims, of which fewer than 1,000 remain, and as the Company enters its wind-down phase, restructuring took place in June 2016 and March 2017 to align staff numbers with remaining claims numbers. Ongoing natural attrition and voluntary redundancies have reduced the requirement for more restructures in the latter part of 2017, but it is expected that staff numbers will run down further as the settlement of remaining earthquake claims approaches completion.

The proposed representative action was launched in August 2015 on behalf of a group of 47 Southern Response and EQC customers. After rejection of the original application in the High Court, it was amended and re-filed in May 2016 with a reduced number of members in the group. The decision on their second application to proceed as a group is proceeding through the appeal process.

Southern Response holds serious concerns that a representative action will not efficiently and fairly resolve each customer's individual issues and will inevitably delay settlements. The impact of the Australian funding arrangement for the representative action on individual customers is also a matter of concern for the Company.

Southern Response continues to seek to resolve claims for those customers who remain in the representative action (currently 25, down from 47) through direct negotiation with individual claimants. Since the proposed representative action was initiated in August 2015, a further 2,369 over cap claims have been settled.

As Southern Response nears the completion of the Canterbury earthquake claims settlement, it is firmly focussed on working closely with all of the approximately 950 remaining customers to settle their claims fairly and as quickly as possible so they can move on.



# CHIEF EXECUTIVE'S REPORT

## CLAIMS HANDOVER PROGRAMME WITH EQC

Southern Response and EQC have agreed on a new collaborative approach to reviewing and settling the remaining Canterbury residential building claims that are likely to go over EQC's cap for any event and where Southern Response is the listed insurer. A memorandum of understanding (MOU) was signed by the two organisations in May 2017 setting out the principles of this collaboration.

The new approach is providing positive outcomes for customers, as Southern Response proactively identifies potential over cap claims and speeds up the handover process with EQC where possible.

Identifying these new claims proactively means the Company can ensure it has the right capability and level of experienced staff to support new customers and settle their claims.

## SOUTHERN RESPONSE CONSTRUCTION PROGRAMME

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

As at 30 June 2017, 2,245 customers have had their repair or rebuild managed by Southern Response and Arrow International, and a further 226 projects were under construction as at the year end. Over 400 Practical Completion certificates were issued during the year to 30 June 2017, and approximately 2,700 repairs and rebuilds are forecast to have been completed under the Southern Response construction programme by the end of the project.

In October 2016, Southern Response announced it was introducing a deadline of 30 June 2017 for customers to have a signed building contract and to take up the option to enter the Southern Response managed construction programme.

The decision was made following a clear shift from customers towards cash settlement and this momentum has continued as market conditions and building industry capacity allow customers to have more flexibility in their chosen path forward to reinstate their home.

While the deadline for customers having the option to have a managed rebuild/repair with us has now passed, Southern Response is still operating a functioning and appropriately sized project management office in conjunction with Arrow and our build partners until the scheduled construction programme is completed.

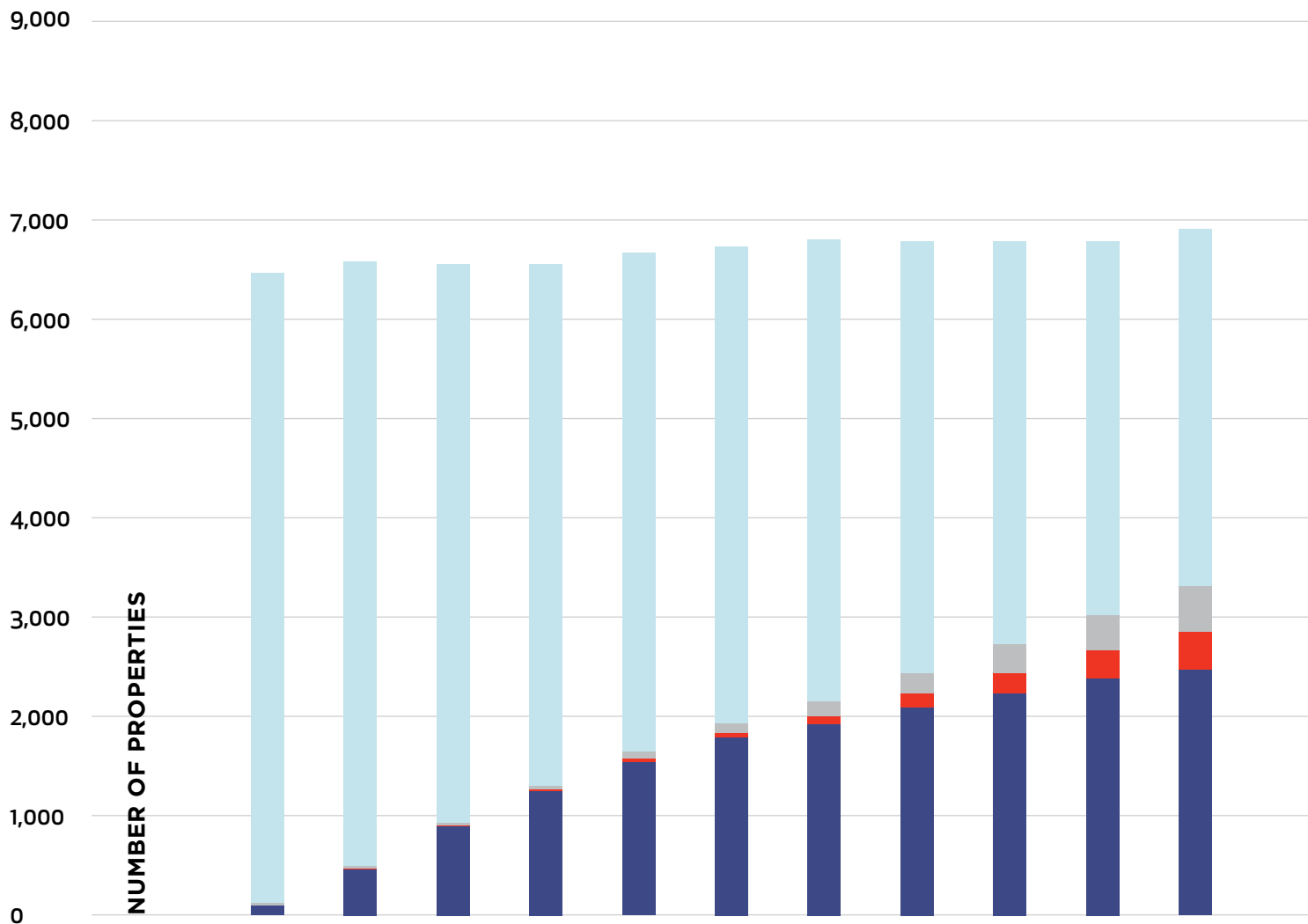
Southern Response envisages the construction programme being in place for at least 12 months from the 30 June 2017 deadline.

The number of contractors accredited to the project has reduced but those remaining continue to be subject to robust financial monitoring and performance assessments by Southern Response. They will be subject to ongoing vigilance through the final phase of the construction programme.

Quality assurance in the construction programme continues to focus on the construction of safe, warm, compliant and quality homes. The quality management framework incorporates detailed monitoring and reporting of quality to ensure effective management of work, contractors and construction outcomes.

Southern Response continues to monitor and manage the health and safety of all involved on the project in accordance with its legislative responsibilities, while optimising timeliness.

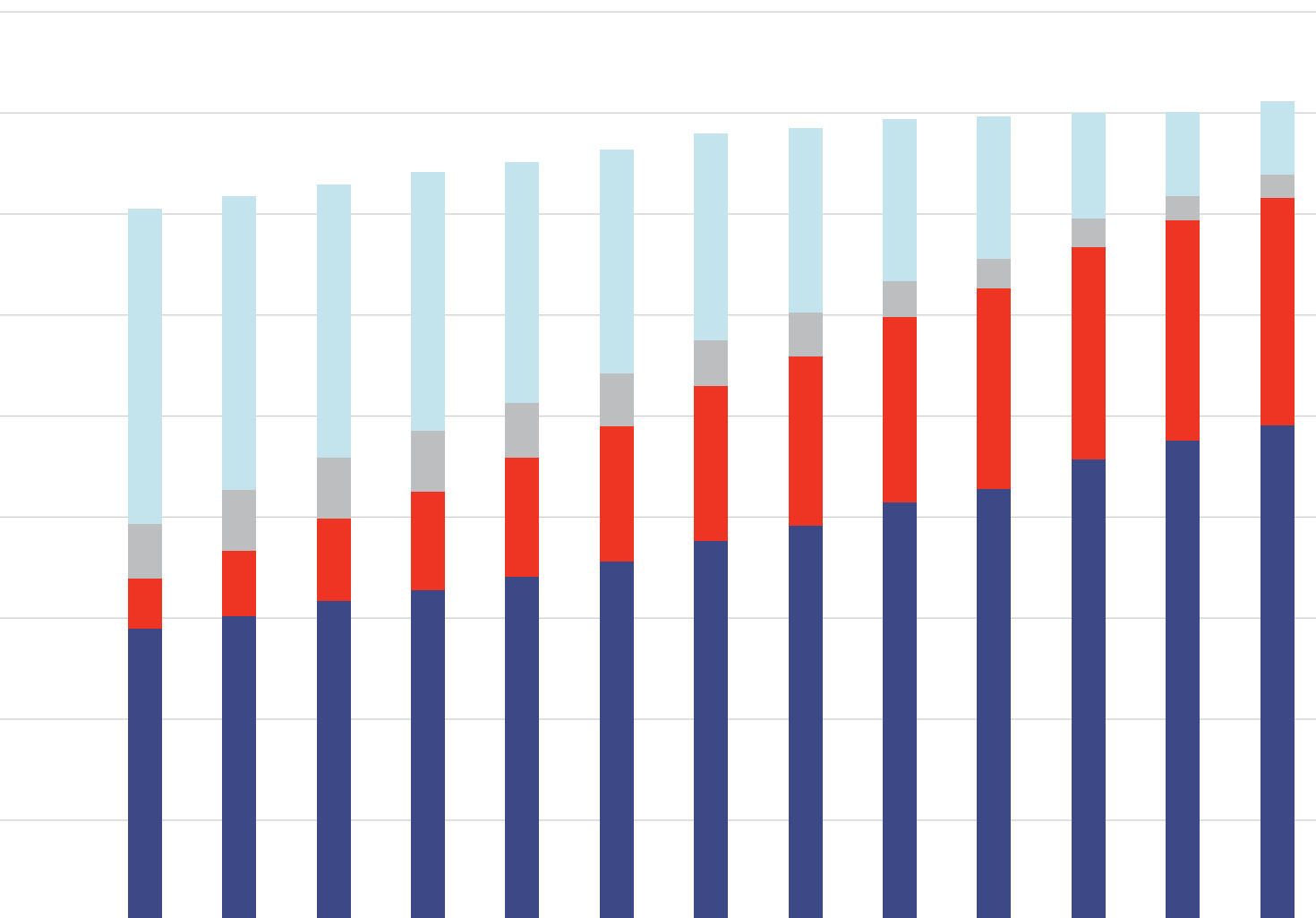
# STATUS OF PROPERTIES BY QUARTER



	Sep-11	Dec-11	Mar-12	Jun-12	Sep-12	Dec-12	Mar-13	Jun-13	Sep-13	Dec-13	Mar-14
In Progress	6,316	6,063	5,600	5,227	5,000	4,776	4,630	4,332	4,041	3,751	3,582
Construction underway	3	6	10	27	66	98	143	202	294	348	459
Construction completed	1	1	2	10	33	50	83	139	203	291	376
Cash settlements completed	123	487	921	1,263	1,544	1,784	1,920	2,087	2,227	2,375	2,471

## 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.



	Jun-14	Sep-14	Dec-14	Mar-15	Jun-15	Sep-15	Dec-15	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17	Jun-17
	3,105	2,893	2,687	2,545	2,369	2,206	2,039	1,814	1,590	1,398	1,040	821	722
	540	599	603	603	543	513	442	434	359	295	279	244	226
	493	648	819	965	1,167	1,338	1,536	1,670	1,827	1,972	2,093	2,175	2,245
	2,890	3,013	3,160	3,275	3,409	3,551	3,751	3,906	4,133	4,271	4,560	4,742	4,895



## ALIGNMENT OF STAFF RESOURCES TO THE ONGOING DEMANDS OF THE BUSINESS

As Southern Response is now the majority of the way through its claims settlement programme, it has begun scaling back the size of the organisation to reflect the level of remaining claims and work required to support these customers through to claim settlement.

Staff numbers have fallen from a peak of 160 in 2015 to approximately 120, and will run down further as the settlement of remaining earthquake claims approaches completion.

Following the Southern Response and EQC claims handover agreement, any further restructuring as part of the gradual wind-down of the Company will take into account the needs of Southern Response's new and remaining customers.

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

The operations groups of Southern Response and Arrow continue to work in a collaborative environment for each workstream, leveraging each team's key capabilities. Strategies are developed jointly where the subject matter is optimising throughput for the customers. Both teams are measured on aligned key performance metrics. Where possible, 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.



## 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.

The Southern Response Archaeological Risk Management project, in collaboration with Arrow and Opus, developed effective systems and processes for the management of archaeology and historic heritage items affected by the earthquakes. As a result, the project was recognised with a silver award for excellence at the 2016 Association of Consulting Engineers New Zealand (ACENZ) Innovate Awards.

## 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 claim settlement process and with their decision making.

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These include:

- **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 by claims specialists meeting with them and visiting customers in their home more frequently
  - **Streamlined processes** to ensure all of the detailed information, including technical reports and pricing, are available for the majority of the remaining claims by targeted dates
  - **Support for customers** to guide them through the cash settlement process and to discover their options from there.
-





2014 AERIAL IMAGE OF SCARBOROUGH HILL



2014 AERIAL IMAGE OF CLIFTON HILL

## MANAGING COMPLEX SITUATIONS FOR OUR CUSTOMERS

The combination of the unique open-ended insurance cover and the very complex environmental and legal issues continues to impact the resolution of claims. However, as each issue is resolved, so does the ability to resolve claims improve. Many previously introduced initiatives designed to remove the roadblocks are operating effectively and continue to evolve. Southern Response seeks to keep all customers well informed through frequent and transparent communication.

### Providing extra support for those in need

Southern Response continues to provide extra support to customers who due to their personal and/or family circumstances require more assistance and care to work through their claims settlement process.

This approach includes Southern Response's support for the management of repair and rebuild projects following the 30 June 2017 deadline for those recognised as being very vulnerable.

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

### Customers with shared title properties<sup>1</sup>

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

The Shared Property project is progressing well with all-insurer (IAG, Tower, Vero, Southern Response) meetings being held regularly to identify site solutions to move these claims forward to settlement. The brokering of these site solutions with homeowners is supported by the Residential Advisory Service (RAS) where required.

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



# OVER CAP CLAIMS FULLY SETTLED

# 7,140

## Disputes and complaints

Of all formal disputes lodged since the commencement of Southern Response, 75 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 meetings and mediation are becoming a strong feature of claim resolution; through the Courts, RAS and Breakthrough. The Insurance and Financial Services Ombudsman's Office provides another source of independent advice for customers and another forum to access a facilitated meeting (and outcome).

Southern Response is currently involved in 30 percent of the unresolved earthquake cases before the Christchurch High Court. This is in line with the Company's share of residential claims in the Canterbury earthquake recovery.

Southern Response continues to support customers with access to less costly and more efficient methods of dispute resolution than litigation, including mediation, the Insurance & Financial Services Ombudsman, Breakthrough and RAS. RAS has been operating under a new broker model since November 2016. This has proved very effective in providing claimant support services.

**Southern Response is committed and focused on finding a resolution for all remaining customers as quickly as possible.**

**Peter Jensen**  
Chief Executive Officer  
18 August 2017

# 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.



OLDING

EXCEL

Place

Place

SPAFFOLDING

# BOARD OF DIRECTORS



**ROSS BUTLER**  
**Chair**

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

He is currently chairman of Ōtākaro Ltd, 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 chair of Rangitane Holdings Limited and Rangitane Investments Limited and deputy chair, and chair of audit and risk committee, of GNS Science.



**ANNE URLWIN**  
**Deputy Chair**

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.

In July 2017, Anne was appointed a director of City Rail Link Ltd.



## 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 a Lead Reviewer, PIF Panel for the State Services Commission and Advisory Panel Member for Development West Coast. She is a former chair of Ara Institute of Canterbury (formerly Christchurch Polytechnic Institute of Technology), and 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, Public Trust board member and director of Royal Society of the Arts, Australia and NZ. He is also trustee of the Christchurch Arts Festival and advisory trustee of the Pacific Development and Conservation Trust.

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



## GOVERNANCE TE TAHA WHAKAHAERE

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 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 2017 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 Reappointed 1 July 2017 Term ends 30 June 2020	Member: Governance Committee Member: Human Resources Committee
<b>Anne Urlwin</b> 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
<b>Jenn Bestwick</b> 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
<b>Bevan Killick</b> Christchurch-based professional director	Non-Executive Director	Appointed 5 April 2012 Reappointed 1 July 2015 Reappointed 1 July 2017 Term ends 30 June 2020	Member: Audit & Risk Committee Member: Health & Safety Committee
<b>Susan Thodey</b> 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
<b>Sarah Sinclair</b> Auckland-based engineer	Non-Executive Director	Appointed 1 July 2014 Term ended 30 June 2017	Chair: Health & Safety Committee

Sarah Sinclair retired from the Board of Directors on 30 June 2017. From 1 July 2017, the Southern Response Board consists of five Directors.

## 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 2017, 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

- **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

- **People and Safety 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, 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, safety and wellbeing environment for Southern Response's staff, visitors and those involved in the delivery of Southern Response's rebuild activities.

Membership: Jenn Bestwick (Chair), Ross Butler, 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 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 2017.

DIRECTOR	ENTITY	RELATIONSHIP
<b>Ross Butler</b>	Rangitane Investments Limited, and Rangitane Holdings Limited	Chair (ceased)
<b>Anne Urlwin</b>	None	
<b>Jenn Bestwick</b>	Ara Institute of Canterbury (formerly Christchurch Polytechnic Institute of Technology) Christchurch Polytechnic Foundation Original Works Limited	Chair (ceased) Trustee (ceased) Director and Shareholder (ceased)
<b>Bevan Killick</b>	Christchurch Arts Festival Pacific Development and Conservation Trust EQC Act Legislative Review Governance Group	Trustee Advisory Trustee Member (ceased)
<b>Susan Thodey</b>	None	
<b>Sarah Sinclair</b>	MBIE Endeavour Fund Panel	Independent Assessor

There have been no interests registered by directors in transactions during the financial year ended 30 June 2017.

## 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 2017 was \$100,800 relating to cover for the period 5 April 2017 to 5 April 2018.

## 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 Crown taking control of the Company and has since been amended to extend the funding available to 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).

SOUTHERN  
RESPONSE  
FINANCIAL  
STATEMENTS  
**2017**



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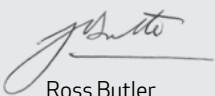
# STATEMENT OF RESPONSIBILITY

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

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

In the Board's opinion, these financial statements and statement of performance fairly reflect the financial position and operations of Southern Response Earthquake Services Limited for the year ended 30 June 2017.

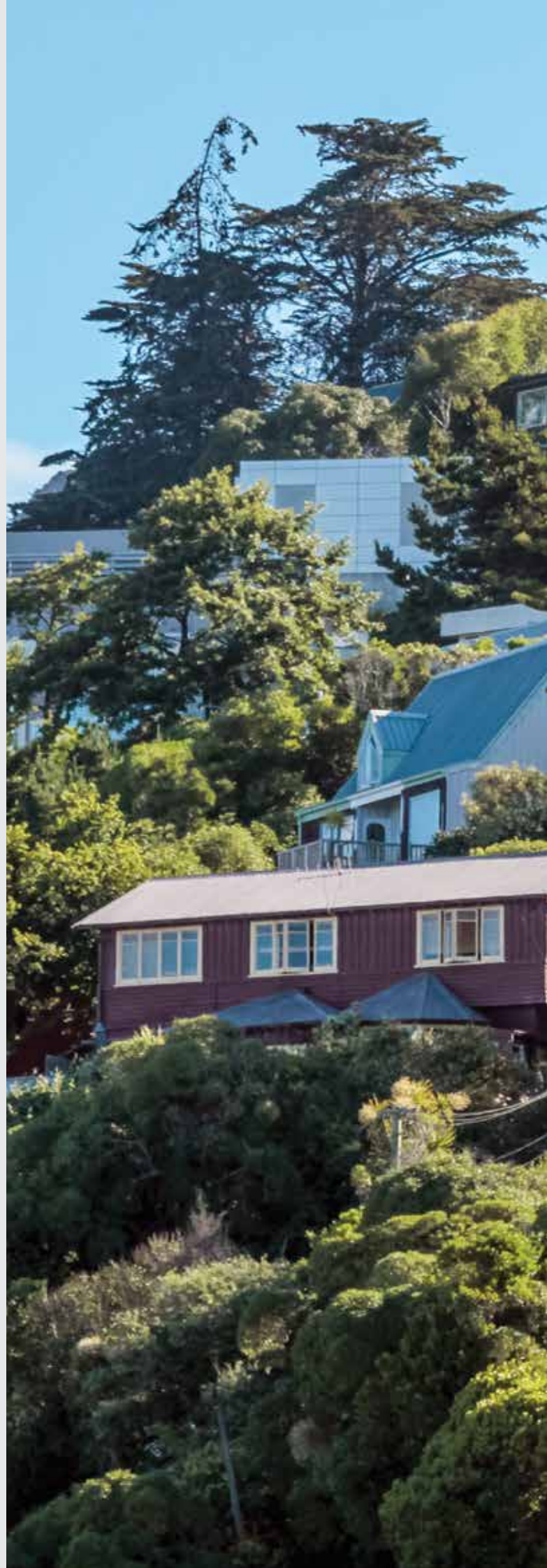
Signed on behalf of the Board:



Ross Butler  
Chairman  
18 August 2017



Anne Urlwin  
Deputy Chairman  
18 August 2017







**CLIFTON HILL, SUMNER**

# INDEPENDENT AUDITOR'S REPORT

## TO THE READERS OF SOUTHERN RESPONSE EARTHQUAKE SERVICES LIMITED'S FINANCIAL STATEMENTS AND PERFORMANCE INFORMATION FOR THE YEAR ENDED 30 JUNE 2017

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

### Opinion

We have audited:

- the financial statements of the company on pages 32 to 49, that comprise the statement of financial position as at 30 June 2017, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date and the notes to the financial statements that include accounting policies and other explanatory information; and
- the statement of performance of the company on pages 50 to 52.

In our opinion:

- the financial statements of the company on pages 32 to 49:
  - present fairly, in all material respects:
    - its financial position as at 30 June 2017; and
    - its financial performance and cash flows for the year then ended; and
  - comply with generally accepted accounting practice in New Zealand in accordance with New Zealand equivalents to International Financial Reporting Standards and International Financial Reporting Standards.

- the statement of performance on pages 50 to 52:
  - presents fairly, in all material respects, the company's performance for the year ended 30 June 2017, including for each class of reportable outputs:
    - its standards of delivery performance achieved as compared with forecasts included in the statement of performance expectations for the financial year; and
    - its actual revenue and output expenses as compared with the forecasts included in the statement of performance expectations for the financial year; and
  - complies with generally accepted accounting practice in New Zealand.

Our audit was completed on 18 August 2017. This is the date at which our opinion is expressed.

The basis of our opinion is explained below, and we draw your attention to other matters. In addition, we outline the responsibilities of the Board of Directors and our responsibilities relating to the financial statements and the statement of performance, and explain our independence.

### The company's ability to access additional share capital

Without modifying our opinion, we draw attention to the disclosure on page 36 of the financial statements about going concern. As at 30 June 2017, the liabilities of the company exceed its assets by \$563 million. The directors have concluded that the going concern assumption is appropriate given the funding arrangements described in note 5 of the financial statements. Those arrangements include funding available under the Crown support deed of up to \$622 million of additional share capital from the Crown.

### **Uncertainties associated with the outstanding claims liability**

Also without modifying our opinion, we draw your attention to note 11 of the financial statements. This note describes how the Canterbury earthquakes have affected the outstanding claims liability of the company. This note also describes the significance of the amount of the earthquake related outstanding claims liability, and the inherent uncertainties involved in estimating this amount using actuarial assumptions.

We consider disclosure of the above matters to be adequate.

### **Basis for opinion**

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

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

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

### **Responsibilities of the Board of Directors for the financial statements and the statement of performance**

The Board of Directors is responsible on behalf of the company for preparing financial statements and performance information that are fairly presented and that comply with generally accepted accounting practice in New Zealand.

The Board of Directors is responsible for such internal control as it determines is necessary to enable it to prepare financial statements and performance information that are free from material misstatement, whether due to fraud or error.

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

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

### **Responsibilities of the auditor for the audit of the financial statements and the statement of performance**

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

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



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

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

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

- We identify and assess the risks of material misstatement of the financial statements and the statement of performance, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- We obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control.
- We evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors.

- We evaluate the appropriateness of the reported statement of performance within the company's framework for reporting its performance.
- We conclude on the appropriateness of the use of the going concern basis of accounting by the Board of Directors and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements and the performance information or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the company to cease to continue as a going concern.
- We evaluate the overall presentation, structure and content of the financial statements and the statement of performance, including the disclosures, and whether the financial statements and the performance information represent the underlying transactions and events in a manner that achieves fair presentation.

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

Our responsibilities arise from the Public Audit Act 2001.

## Independence

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

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



**Mike Hoshek**

Partner

for Deloitte Limited

On behalf of the Auditor-General

Christchurch, New Zealand

18 August 2017

**Deloitte.**

# STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 30 JUNE 2017

	Note	2017 Budget \$000	2017 Actual \$000	2016 Actual \$000
Net claims incurred - non-earthquake	1	-	270	(10)
Net claims incurred - earthquake	1	(8,517)	(316,617)	(211,335)
Gain/(loss) on sale or disposal of property, plant and equipment		-	927	(28)
<b>Net underwriting loss</b>		<b>(8,517)</b>	<b>(315,420)</b>	<b>(211,373)</b>
Investment income and expenses	3	1,321	6,484	7,567
Unrealised gain on fair value of Crown receivable		-	-	12,091
<b>Loss for the year before tax</b>		<b>(7,196)</b>	<b>(308,936)</b>	<b>(191,715)</b>
Tax expense	4	-	-	-
<b>Loss for the year after tax</b>		<b>(7,196)</b>	<b>(308,936)</b>	<b>(191,715)</b>
<b>Other comprehensive income:</b>				
Other comprehensive income for the year after tax		-	-	-
<b>Total comprehensive loss for the year</b>		<b>(7,196)</b>	<b>(308,936)</b>	<b>(191,715)</b>

# STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 JUNE 2017

		Ordinary Shares	Convertible Preference Shares	Accumulated Losses	Property Revaluation Reserve	Total Equity/ (Deficit)
<b>2017</b>	<b>Note</b>	<b>\$000</b>	<b>\$000</b>	<b>\$000</b>	<b>\$000</b>	<b>\$000</b>
Opening balance 1 July 2016		520,939	-	(1,091,840)	2,052	(568,849)
Loss for the year		-	-	(308,936)	-	(308,936)
Other comprehensive income for the year		-	-	-	-	-
Total comprehensive income for the year		-	-	(308,936)	-	(308,936)
Call on uncalled ordinary shares	5	315,000	-	-	-	315,000
Transfer the property revaluation reserve		-	-	2,052	(2,052)	-
Closing balance 30 June 2017		835,939	-	(1,398,724)	-	(562,785)

		Ordinary Shares	Convertible Preference Shares	Accumulated Losses	Property Revaluation Reserve	Total Equity/ (Deficit)
<b>2016</b>		<b>\$000</b>	<b>\$000</b>	<b>\$000</b>	<b>\$000</b>	<b>\$000</b>
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		382,359	(382,359)	-	-	-
Call on uncalled ordinary shares		43,000	-	-	-	43,000
Closing balance 30 June 2016		520,939	-	(1,091,840)	2,052	(568,849)

# STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2017

		2017 <i>Budget</i> \$000	2017 <i>Actual</i> \$000	2016 <i>Actual</i> \$000
	<b>Note</b>			
<b>Shareholders' equity</b>				
<b>Total shareholders' deficit</b>		(179,171)	(562,785)	(568,849)
<b>Represented by:</b>				
<b>Assets</b>				
Financial assets				
Cash and cash equivalents	6	25,417	76,936	212,521
Receivables	8	3,912	5,221	7,883
Reinsurance receivables	10	3,593	28,795	19,030
Property held for sale	9	-	-	2,000
Plant and equipment		366	478	790
Intangible assets		-	156	173
<b>Total assets</b>		33,288	111,586	242,397
Less:				
<b>Liabilities</b>				
Trade and other payables		1,469	4,156	2,860
Employee entitlements		-	1,887	2,038
Outstanding claims – non-earthquake		-	159	643
Outstanding claims – earthquake	11	210,990	668,169	805,705
<b>Total liabilities</b>		212,459	674,371	811,246
<b>Net liabilities</b>		(179,171)	(562,785)	(568,849)

On behalf of the Board



Ross Butler, Chairman  
Authorised for issue on 18 August 2017



Anne Urlwin, Deputy Chairman



# STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 30 JUNE 2017

	Note	2017 Budget \$000	2017 Actual \$000	2016 Actual \$000
<b>Cash flows from operating activities</b>				
Interest received		2,011	2,584	3,444
Other investment income		-	3,900	3,964
Claim costs – non-earthquake		-	964	(378)
Claim costs – earthquake		(508,656)	(461,382)	(607,124)
Claim costs – reinsurance recoveries		8,421	20,159	97,424
Payments to suppliers and employees		(17,049)	(19,609)	(26,112)
Income tax paid		-	(5)	-
<b>Net cash outflow from operating activities</b>	7	(515,273)	(453,389)	(528,782)
<b>Cash flows from investing activities</b>				
Proceeds from sale of plant and equipment and property held for sale		2,280	2,927	264
Payments for plant and equipment and property held for sale		(222)	(53)	(103)
Payments for intangible assets		-	(70)	(180)
Sales and maturities of financial assets		-	-	100,038
<b>Net cash inflow from investing activities</b>		2,058	2,804	100,019
<b>Cash flows from financing activities</b>				
Proceeds from the Crown receivable		107,000	-	400,000
Proceeds from the uncalled capital facility		418,000	315,000	43,000
<b>Net cash inflow from financing activities</b>		525,000	315,000	443,000
<b>Net (decrease)/increase in cash and cash equivalents</b>		11,785	(135,585)	14,237
Add opening cash and cash equivalents		13,632	212,521	198,284
<b>Ending cash and cash equivalents</b>	6	25,417	76,936	212,521

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2017

## 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.

## Basis of preparation

The financial statements have been prepared:

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

## Going concern

As at 30 June 2017 the liabilities of the Company exceeded its assets. The directors have considered the appropriateness of the financial statements being presented on a going concern basis and have concluded that the going concern assumption is appropriate given the funding arrangements entered into with the Crown (note 5).

## Presentation format

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

## Critical accounting judgements and estimates

The Company makes estimates and assumptions in respect of certain liabilities. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual results may differ from these estimates. The key area in which critical estimates and judgements are applied is detailed in note 11 – the outstanding claims liability.

## Other accounting policies

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

## 1. NET CLAIMS INCURRED

Claim costs incurred have been separated between non-earthquake related claims and claims that relate to the Canterbury earthquakes. Gross claims expense represents movement in the gross outstanding claims liability.

	2017	2016
	\$000	\$000
<b>Non-earthquake:</b>		
Gross claims (recovery)/expense	(340)	140
Reinsurance recovery expense/(revenue)	70	(130)
Total net non-earthquake claims incurred	(270)	10
<b>Earthquake:</b>		
Gross claims expense	347,719	225,857
Reinsurance recovery expense/(revenue)	(31,102)	(14,522)
Total net earthquake claims incurred	316,617	211,335
Total net claims incurred	316,347	211,345

## 2. SPECIFIED COST DISCLOSURES

	2017	2016
	\$000	\$000
Employee benefit expenses <sup>1</sup>	12,781	14,157
Depreciation and amortisation	450	470
KiwiSaver <sup>2</sup>	235	259
Realised (gains)/losses on property, plant and equipment	(927)	28
Audit fees	156	161
Operating lease expenses	1,434	1,454

### <sup>1</sup>Accounting policy for short-term employee benefits

Liabilities for salaries (including non-monetary benefits), annual leave and accumulated sick leave expected to be settled within 12 months of the reporting date are recognised in respect of employee services up to the reporting date. They are measured at the amount expected to be paid when the liabilities are settled.

### <sup>2</sup>Accounting policy for employer contributions to KiwiSaver

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

## 3. INVESTMENT INCOME AND EXPENSES

Interest income is recognised using the effective interest rate method.

	2017	2016
	\$000	\$000
Interest income	2,584	3,621
Insurance claim settlement on properties	3,900	3,964
Other investment income/(expense)	-	(18)
	6,484	7,567

#### 4. INCOME TAX

Tax	2017 \$000	2016 \$000
Loss before tax	(308,936)	(191,715)
Tax at applicable rate of 28%	(86,502)	(53,680)
Non-taxable/deductible items	903	(4,282)
Deferred tax not recognised	(154)	192
Tax losses not recognised	85,753	57,770
Current tax expense	-	-

Tax	2017 \$000	2016 \$000
<b>Imputation credit account:</b>		
Closing balance	201	196

Deferred tax asset	2017 \$000	2016 \$000
The balance comprises temporary differences attributable to:		
Financial assets	-	-
Property, plant and equipment	26	(263)
Employee provisions and accruals	97	218
Other provisions and accruals	56	78
Deferred tax benefit not recognised	(179)	(33)
Net deferred tax asset	-	-

Taxation losses totalling \$1,149 million (tax effect \$321.688 million) have not been recognised as at 30 June 2017 (2016: tax losses \$839.765 million).

##### **Accounting policy for current income tax**

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

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

##### **Accounting policy for deferred income tax**

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

## 5. SHARE CAPITAL

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

As explained below, as the Company requires additional capital to meet its claims payment obligations it can access a further \$622 million of capital from the Crown.

	2017 <i>Shares</i>	2017 <i>\$000</i>	2016 <i>Shares</i>	2016 <i>\$000</i>
<b>Ordinary shares:</b>				
Balance 1 July	48,000,102	520,939	1,000,102	95,580
Conversion of preference shares to ordinary shares	-	-	4,000,000	382,359
Paid ordinary shares (from the uncalled capital facility)	315,000,000	315,000	43,000,000	43,000
Balance 30 June	363,000,102	835,939	48,000,102	520,939
<b>Convertible preference share capital:</b>				
Balance 1 July	-	-	4,000,000	382,359
Conversion of preference shares to ordinary shares	-	-	(4,000,000)	(382,359)
Balance 30 June	-	-	-	-
<b>Uncalled ordinary shares:</b>				
Balance 1 July	457,000,000	-	500,000,000	-
Called shares	(315,000,000)	-	(43,000,000)	-
Subscription for shares 20 October 2016	250,000,000	-	-	-
Balance 30 June	392,000,000	-	457,000,000	-

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

On 20 October 2016 the Crown extended the Crown support arrangement and subscribed for an additional \$250 million of capital in the Company. This arrangement was approved by the Shareholding Ministers on 28 June 2016.

On 21 June 2017 the Shareholding Ministers agreed that the Crown would extend the existing Crown Support arrangement

and subscribe for an additional \$230 million of capital in the Company. The shares are uncalled ordinary shares with an issue price of \$1 per share and were issued on 27 July 2017.

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

## 6. CASH AND CASH EQUIVALENTS

Cash and cash equivalents includes cash at bank, deposits on call and other short-term, highly liquid investments with original maturities of 32 days or less which are readily convertible to known amounts of cash and are subject to insignificant risk of changes in value.

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

	2017	2016
	¥000	¥000
<b>Cash and cash equivalents</b>		
Cash held for operational purposes	24,900	25,051
Cash on call and short term bank deposits	52,036	187,470
	76,936	212,521

## 7. CASH FLOWS FROM OPERATING ACTIVITIES

Reconciliation of the loss for the year to cash outflows from operating activities:

	2017	2016
	¥000	¥000
Loss for the year	(308,936)	(191,715)
Add/(less) non-cash items:		
Depreciation and amortisation	450	470
Unrealised losses/(gains)	-	18
Unrealised movement in discounting Crown receivable to fair value	-	(12,091)
Sub-total "A"	(308,486)	(203,318)
Movement in working capital items:		
Decrease in receivables	2,662	2,469
(Increase)/decrease in reinsurance and insurance receivables	(9,765)	82,772
Decrease in payables	(154)	(1,153)
(Decrease)/increase in employee entitlements	(151)	159
Decrease in insurance liabilities	(136,569)	(409,739)
Sub-total "B"	(143,977)	(325,492)
Items classified as investing activities:		
Net (gain)/loss on sale of property, plant and equipment	(926)	28
Sub-total "C"	(926)	28
Cash outflow from operating activities (A+B+C)	(453,389)	(528,782)

## 8. RECEIVABLES

	2017	2016
	\$000	\$000
Accrued receivables	153	128
Prepayments	423	438
GST refund due	4,645	7,317
	5,221	7,883

## 9. PROPERTY HELD FOR SALE

Property held for sale is measured at the lower of carrying value and fair value less costs to sell, by reference to external

market valuations, with any resultant unrealised gains and losses recognised in the statement of comprehensive income.

	2017	2016
	\$000	\$000
Opening balance at 1 July (carrying value)	2,000	2,280
Disposals	(2,000)	(280)
Closing balance at 30 June	-	2,000

The remaining property was sold on 16 June 2017. The gain on sale is recognised in the statement of comprehensive income.

On disposal, the related revaluation surplus remaining in the revaluation reserve was transferred directly to accumulated losses.

## 10. REINSURANCE RECEIVABLES

Reinsurance and other recoveries received or receivable on paid claims and on outstanding claims (notified and not yet notified) are recognised as income in net claims incurred. Reinsurance recoveries on paid claims are included as a component of reinsurance recoveries net of any provision for impairment based on objective evidence for individual receivables.

All recoveries receivable on outstanding claims are measured as the present value of the expected future receipts calculated on the same basis as the outstanding claims liability. Reinsurance does not relieve the originating insurer of its liabilities to policyholders and is presented separately on the statement of financial position.

	2017	2016
	\$000	\$000
Gross reinsurance receivable	29,272	19,138
Discount to present value	(477)	(108)
	28,795	19,030
Being:		
Non-earthquake	-	1,178
Earthquake (note 11)	28,795	17,852
	28,795	19,030
Changes in gross reinsurance receivable:		
Balance 1 July	19,138	103,463
Change in gross estimated recovery	31,401	13,099
Reinsurance collections	(21,267)	(97,424)
Balance 30 June	29,272	19,138

## 11. OUTSTANDING CLAIMS LIABILITY: EARTHQUAKE

### Outstanding claims liability

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

The outstanding claims liability is measured as the central estimate (which has an equal probability of being understated as overstated) of the present value of expected future claims payments plus a risk margin.

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

To allow for the inherent uncertainty of the central estimate, a risk margin is applied to the outstanding claims liability net of reinsurance and other recoveries. The risk margin increases to at least 75% the probability that the net liability is adequately provided for (2016: 75%).

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

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

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

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

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

	2017	2016
	\$000	\$000
<b>Changes in gross discounted outstanding claims liability</b>		
Outstanding claims beginning of year	805,705	1,215,533
Change in central estimate	360,313	187,071
Change in claims handling provision	(17,700)	(4,346)
Change in discounting to present value	1,778	28,111
Change in risk margin	(19,123)	(11,271)
Claim payments	(462,804)	(609,393)
Outstanding claims end of year	668,169	805,705



### Claims development

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

	2017	2016
	₪000	₪000
Central estimate	3,263,591	2,903,278
Claims handling expense	26,673	44,373
Cumulative payments	(2,690,466)	(2,227,662)
Discount of unpaid liability to present value	(10,142)	(11,920)
Discounted central estimate	589,656	708,069
Risk margin	78,513	97,636
Gross discounted outstanding claims liability	668,169	805,705
Reinsurance receivables (refer note 10)	(28,795)	(17,852)
Net outstanding claims liability	639,374	787,853

### Actuarial calculation, assumptions and methods

The effective date of the actuarial report on the earthquake insurance liabilities is 30 June 2017. The actuarial report has been 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

	2017	2016
Future inflation average		
· Building cost	see below	3.00%
· Temporary accommodation	0.00%	0.00%
· Other cover types	3.00%	3.00%
· Claims handling expenses	0.00%	0.00%
Discount rate	2.04%	2.11%
Risk margin – outstanding claims liabilities	14.00%	14.00%
Average weighted term to settlement from financial reporting date (years)	0.88	0.87

## Process to determine assumptions

### **Inflation**

Build cost inflation has been consistently reflected across both financial periods. With changes made to the valuation process in the current year, inflation is taken into account using nominal dollar values to examine past build experience. On this basis the actuarial model implicitly allows for future inflation in building costs. Cost increases, including inflationary impacts are projected within the model. The previous approach examined historic building cost development experience after adjusting for observed past inflation. Although the way inflation is reflected in the valuation model has changed year on year, inflation related to build costs has been consistently applied.

Other (non-building) cover types are subject to a future inflation allowance of 3.00% per annum, based on CPI.

### **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 2017.

### **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 claim liabilities. As the claim settlement process has progressed, a greater proportion of the outstanding claims liability relates to more complex claims, meaning the uncertainty around future settlement outcomes for outstanding claims is magnified (as compared to 'normal' residential property claims).

In response to the inherent uncertainties, the risk margin has been set at 14% of the estimated liability (2016: 14%).

### **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.

<b>Variable</b>	<b>Change in Variable</b>	<b>2017 \$000</b>	<b>2016 \$000</b>
Inflation rate	+1% p.a.	4,992	5,941
	-1% p.a.	(4,978)	(5,920)
Discount rate	+1% p.a.	(5,464)	(6,740)
	-1% p.a.	5,589	6,899
Claims handling expense	+10%	3,038	5,054
	-10%	(3,038)	(5,054)
Risk margin	+1%	5,608	6,974
	-1%	(5,608)	(6,974)
Future over cap claim numbers	+10%	12,638	3,513
	-10%	(11,347)	(3,513)

## 12. OVERALL RISK MANAGEMENT FRAMEWORK

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

Covered claims include any claim made by a policyholder under any customer insurance contract relating to any retained claim event<sup>1</sup>; any other claim relating to customer insurance contract indemnities; and any contract works or similar insurance policy under which the Company is or may be liable from time to time.

## 13. INSURANCE CONTRACTS – RISK MANAGEMENT POLICIES AND PROCEDURES

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

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

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

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

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

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

The Company now only issues contract works insurance cover in relation to the settlement of claims and manages associated reinsurance cover, the cost of which is charged directly to claims.

<sup>1</sup> Retained claim event means:

(a) the Canterbury earthquake events occurring between 5 September 2010 and 4 April 2012; and  
(b) any other event that occurred prior to 5 April 2012 which entitles the Company to make any claim under any reinsurance contract

## 14. FINANCIAL INSTRUMENTS – RISK MANAGEMENT POLICIES AND PROCEDURES

### Financial instrument information and risk management

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

The Board has delegated the responsibility of monitoring financial assets to the audit and risk committee.

### Specific financial risks involving financial instruments other than insurance contracts

#### Interest rate risk

Interest rate risk is the risk that arises from fluctuating interest rates in the market. The Company is funded quarterly by the Crown, based on expected cash outflows for that quarter and keeps temporary surplus cash on Call or 32 day maturity deposits with various financial institutions.

#### Credit risk

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

The maximum exposure to credit risk on receivables at reporting date is the carrying amounts on the statement of financial position. Reinsurance receivables are spread among 26 'A-' or better rated individual reinsurers (Standard & Pools). The largest individual reinsurance receivable comprising 21% of the total reinsurance receivable is rated A-.

Cash and cash equivalents are placed with high quality financial institutions and the amount of credit exposure to any one financial institution is limited. All of these financial institutions are rated A or better by Standard & Pools.

Receivables represent amounts owing by reinsurers for catastrophe claim recoveries and other debtors for insurance claim recoveries. All amounts are considered to be fully recoverable and there are no overdue amounts.

#### Liquidity risk

The Company's audit and risk committee and treasury function monitor cash flow forecasts and liquidity levels to ensure sufficient funds are available to meet obligations as they fall due. Requests for funding are submitted to the Crown quarterly in accordance with the Crown Support Deed (refer to note 5).

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

	Net discounted outstanding claims liability		Cash, term deposits and receivables	
	2017 \$000	2016 \$000	2017 \$000	2016 \$000
Cash and cash equivalents	-	-	76,936	212,521
Within 1 year	398,552	508,158	5,221	7,883
Within 1 to 2 years	240,981	229,571	-	-
Within 2 to 3 years	-	49,589	-	-
Within 3 to 4 years	-	-	-	-
Within 4 to 5 years	-	-	-	-
	639,533	787,318	85,157	220,404

## 15. EMPLOYEE REMUNERATION

Remuneration band	2017	2016
	Number of Employees	
\$510,000 pa - \$519,999 pa	-	1
\$430,000 pa - \$439,999 pa	1	-
\$280,000 pa - \$289,999 pa	1	-
\$270,000 pa - \$279,999 pa	1	-
\$260,000 pa - \$269,999 pa	-	2
\$250,000 pa - \$259,999 pa	1	-
\$220,000 pa - \$229,999 pa	2	-
\$210,000 pa - \$219,999 pa	1	4
\$200,000 pa - \$209,999 pa	1	-
\$180,000 pa - \$189,999 pa	-	1
\$170,000 pa - \$179,999 pa	1	-
\$160,000 pa - \$169,999 pa	1	1
\$150,000 pa - \$159,999 pa	1	2
\$140,000 pa - \$149,999 pa	2	4
\$130,000 pa - \$139,999 pa	3	2
\$120,000 pa - \$129,999 pa	2	5
\$110,000 pa - \$119,999 pa	4	1
\$100,000 pa - \$109,999 pa	9	5

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.

## 16. DIRECTOR REMUNERATION

	2017	2016
	\$000	
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
	261,000	261,000

The shareholding Ministers approved the above ordinary directors' fees.

## 17. OPERATING LEASES

	2017	2016
	\$000	\$000
Future expenses under non-cancellable operating leases:		
Not later than 1 year	636	1,064
Later than 1 year, not later than 5 years	92	367
Later than 5 years	-	-
	728	1,431

## 18. 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.

	2017	2016
	\$000	\$000
Short term employee benefits	1,247	1,027

### Transactions with Crown entities

Included in cash and cash equivalents at 30 June 2017 is \$5 million (2016: \$50 million) of deposits held in a State Owned Enterprise.

## 19. CAPITAL COMMITMENTS

At 30 June 2017, the Company has capital commitments of \$nil (2016: \$nil).

## 20. 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.

## 21. EVENTS AFTER REPORTING DATE

There have been no significant events after the reporting date.

## 22. NEW STANDARDS AND INTERPRETATIONS

The adoption of standards, interpretations and amendments that became effective in the current year has not led to any changes in the Company's accounting policies with measurement or recognition impact on the years presented in these financial statements.

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

Those considered relevant to the Company and their effective dates are:

• NZ IFRS 9 (2014)	Financial Instruments	1 Jan 2018
• NZ IFRS 15	Revenue	1 Jan 2018
• NZ IFRS 16	Leases	1 Jan 2019
• NZ IFRS 17	Insurance Contracts	1 Jan 2021

The Company has previously early adopted an earlier version of NZ IFRS 9. Upon preliminary review management do not expect the Financial Instruments (2014), Revenue, Leases or Insurance Contracts standards to have a material impact on the Company's financial statements, however the Company has not gone to the extent of determining the impact of these standards.

## 23. EXPLANATION OF SIGNIFICANT VARIANCES AGAINST BUDGET

As disclosed in Note 11, the estimation of the ultimate cost of settling earthquake related claims involves a number of key assumptions and is the most critical accounting estimate. The estimation of claims incurred but not reported is generally subject to a greater degree of uncertainty.

The 2017 financial year budget was approved by the Board in April 2016 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 an increase in the ultimate claim numbers.

### Statement of comprehensive income

- Net earthquake claims incurred is greater than budget principally due to the net effect of a \$395 million increase in the central estimate since the budget was finalised in April 2016 (see above comments) and a corresponding \$35 million increase in the reinsurance receivable.

### Statement of financial position

- Cash and cash equivalents are \$52 million greater than budget, due to lower than budget claim payments throughout the year.
- Reinsurance receivables are \$25 million greater than budget due to the increase in the claims liability across earthquake events that have not reached their reinsurance limit.

- The outstanding earthquake claims liability is \$457 million greater than budget principally due to the combined effect of the increase in the central estimate as commented on above.

### Statement of cash flows

- Claim payments are \$47 million less than budget, reflecting the decrease in anticipated settlements (see comments above).
- Reinsurance recoveries are \$12 million greater than budget, reflecting the increased claims cost and therefore higher claims spend on earthquake events where the reinsurance limit has not been reached. This has allowed higher than budget reinsurance collections on these events throughout the year.
- Proceeds from the Crown are in total \$210 million less than budget, principally due to a receipt of \$150 million of Crown funding received in June 2016 to be utilised in the quarter beginning 1 July 2016. The remaining \$60 million variance reflects the lower (compared to budget) claim payment experience.

# STATEMENT OF PERFORMANCE

1 JULY 2016 – 30 JUNE 2017

## OBJECTIVE 1

STRATEGIC OBJECTIVE	KEY INITIATIVES	PERFORMANCE TARGETS	STATUS
<p>To operate a claims management business that:</p> <ul style="list-style-type: none"> <li>Settles customers' claims in accordance with policy obligations in a fair and consistent manner</li> <li>Adopts efficient and cost effective processes in the management of those claims</li> <li>Is focused on settlement of all remaining claims</li> <li>Operates actively to reduce disputes with customers in a manner that delivers outcomes consistent with policy obligations, communicating openly and effectively with customers</li> </ul>	<ul style="list-style-type: none"> <li>Comply with good industry code of practice standards to facilitate successful outcomes for customers in a cost effective manner</li> <li>Regular and effective communication with customers appropriate for their stage in the claims settlement process</li> <li>Segmentation of and tailored strategies for the remaining claims</li> <li>Operate a dispute resolution system that is equitable and responsive to all customers while observing customers' entitlements from their AMI policy, and ensure the ongoing effectiveness of the dispute management strategy</li> </ul>	<p>87.5% claims notified by 30 June 2016 settled by 30 June 2017</p>	<p>Met: 7,909 claims were notified by 30 June 2016. 7,140 or 90.3% of these claimants have been settled as at 30 June 2017</p>
		<p>Year-on-year improvement in customer satisfaction survey result ratings</p>	<p>Met</p>
		<p>Formal disputes below 10% of all claims</p>	<p>Met</p>



## OBJECTIVE 2

STRATEGIC OBJECTIVE	KEY INITIATIVES	PERFORMANCE TARGETS	STATUS
To manage its building/repair programme in a manner that optimises timely delivery and quality while protecting the Health and Safety (H&S) of all people on the project in accordance with legislative responsibilities	<ul style="list-style-type: none"> <li>Seek to take industry-leading roles in utilisation of building capacity and in research and innovation that expedite and enhance the effectiveness of the build programme both in terms of time and costs</li> <li>Monitor all build arrangements through quantitative and qualitative metrics</li> <li>Monitor quality management of builds and repairs in the project and the health and safety of all involved in accordance with legislative responsibilities, while optimising timeliness</li> </ul>	An average of 75% per month of Practical Completion (PC) defects cleared within 4 weeks of notification	Partially Met: 68% of PC defects were cleared within 4 weeks of notification. 75% of PC defects were cleared within 7 weeks of notification
		Less than 5% of Southern Response managed repairs and rebuilds reaching practical completion use the Building Act 2014 provisions to address quality issues outside the PC maintenance period	Met
		Minimum average threshold of Health and Safety Audit scores of 80% for builder panel members	Met

## OBJECTIVE 3

STRATEGIC OBJECTIVE	KEY INITIATIVES	PERFORMANCE TARGETS	STATUS
To develop options for an orderly rundown of the Company in a manner that retains quality operations, a caring approach for employees and adequate provisions for residual obligations and liabilities, and opportunities to rationalise functions are utilised.	<ul style="list-style-type: none"> <li>Implement a phased approach to ending the Southern Response build programme</li> <li>Identify data and systems in use across the rebuild programme and determine appropriate retention strategies</li> <li>Identify any intangible assets (including intellectual property) which might appropriately be transferred to other Crown entities prior to the eventual wind down of the Company's operations</li> <li>Be a good employer for the purposes of the Crown Entities Act 2004 and 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</li> </ul>	Annualised voluntary staff turnover rate below 25%	Met: Voluntary staff turnover for the rolling 12 months to 30 June 2017 was 16.09%
		A target of at least 60% of both staff engagement and enablement ratings from staff survey	Partially met: An enablement rating of 67% and engagement rating of 57% was achieved
		Southern Response and Arrow personnel resources regularly reviewed and aligned to the ongoing demands of the business	Met

## OBJECTIVE 4

STRATEGIC OBJECTIVE	KEY INITIATIVES	PERFORMANCE TARGETS	STATUS
To manage its business and associated risks consistent with minimising the net cost to the Crown associated with running off of the existing claims portfolio, and operate the business within operational budgets.	<ul style="list-style-type: none"> <li>Maintain an effective risk management framework that balances risk with progress</li> <li>Maintain systems to achieve a positive audit report in relation to its management, financial and service performance, information systems and controls</li> <li>Maintain monitoring and management systems to ensure compliance with contractual obligations</li> <li>Maintain controls and scrutiny to manage the cost of key suppliers</li> </ul>	Actual build cost within 5% of assessed cost prior to issue of build offer to builders	Met
		Build cost inflation less than the movement in Statistics NZ Canterbury CPI (Housing) index	Met
		Audit rating of at least "good"	Met
		Operational expenses within annual budget	Not met: the annual budget approved in April 2016 assumed the operations of the Company would be significantly reduced by 30 June 2017. Since then, the Company's estimate of total Over cap claims increased by 672 which has led to an extension of operations.

## OBJECTIVE 5

STRATEGIC OBJECTIVE	KEY INITIATIVES	PERFORMANCE TARGETS	STATUS
To manage its liquidity in accordance with the investment management policy directed by the Crown for the time being including reporting of actual and projected shortfalls in a timely manner as provided for under the Crown support arrangements.	<ul style="list-style-type: none"> <li>Manage drawdown of Crown Receivable and uncalled capital facility funding in accordance with the terms of the Crown Support Deed</li> <li>Regularly review the adequacy of capital facilities at an appropriate confidence level</li> </ul>	Shortfall forecasts submitted to the Treasury within the agreed timetable	Met

## OBJECTIVE 6

STRATEGIC OBJECTIVE	KEY INITIATIVES	PERFORMANCE TARGETS	STATUS
To maintain effective relationships with third parties.	<ul style="list-style-type: none"> <li>Effective strategic and operational interaction with CERA's successors, EQC, insurers, reinsurers and key community groups</li> <li>Continue to use all opportunities to present key stakeholders and interested sections of the public generally with a transparent measure of its progress and issues in the way of that progress</li> </ul>	All OIA and Privacy Act requests responded to within statutory timeframes	Met
		The timetable adhered to for business planning, accountability and reporting to Shareholders	Met



# DIRECTORY

## SHAREHOLDERS

Minister of Finance  
Minister Responsible for the Earthquake Commission

## REGISTERED OFFICE

6 Show Place, Addington, Christchurch 8024, New Zealand

## OFFICE

Christchurch: PO Box 9052, Tower Junction,  
Christchurch 8149  
Phone: 0800 501 525  
Web: [www.southernresponse.co.nz](http://www.southernresponse.co.nz)

## EXECUTIVE MANAGEMENT

Peter Jensen	Chief Executive
Tony Feaver	Chief Financial Officer
Casey Hurren	General Manager Legal & Strategy
Linda Falwasser	General Manager Strategic Communications
Sarah Giles	General Manager Corporate Services
Anthony Honeybone	General Manager Claims Settlement

## 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.  
Mike Hoshek of Deloitte was appointed to perform the audit on behalf of the Auditor-General.

## BANKER

ANZ Bank of 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









PO Box 9052, Tower Junction, Christchurch 8149

0800 501 525 – [claims@southernresponse.co.nz](mailto:claims@southernresponse.co.nz)  
**[www.southernresponse.co.nz](http://www.southernresponse.co.nz)**

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

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