

Questions to Southern Response (SR)

Clarification of Progress Figures released at 10:00am on 10 February 2014 and advertised in The ChCh Press on 10 February 2014

Response requested by email by 3pm 11 February 2014



1. You state in your advertisement on 10 February 2013, that you have 6,765 claims as at 31 January 2014, however your website states you have 6,813. Which is correct?

For the Press article that you had referred to, Southern Response had a deadline to submit the advertisement for the Press. Our number of claims reflected progress as at 31 December 2013

Following the Press article, Southern Response updated its progress on its website, which reflects the number of over cap claims at 31 January 2014.

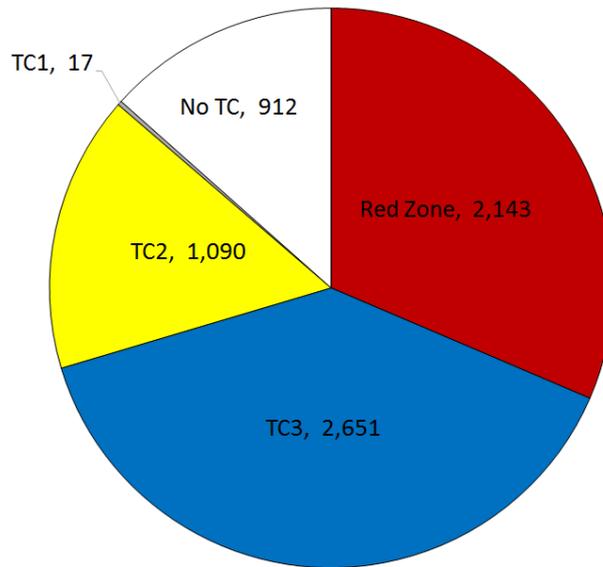
2. Is the net increase of 48 in your website primarily due to EQC claim ownership transfers from EQC to Southern Response?

Southern Response received notification of 48 claims from the Earthquake Commission during the month of January as being over cap claims.

3. If so, do you expect this trend to continue?

Our actuaries expect the total number of over cap claims to be just slightly fewer than 6,900. The steep increase in claims in January 2014 appeared to have been an anomaly.

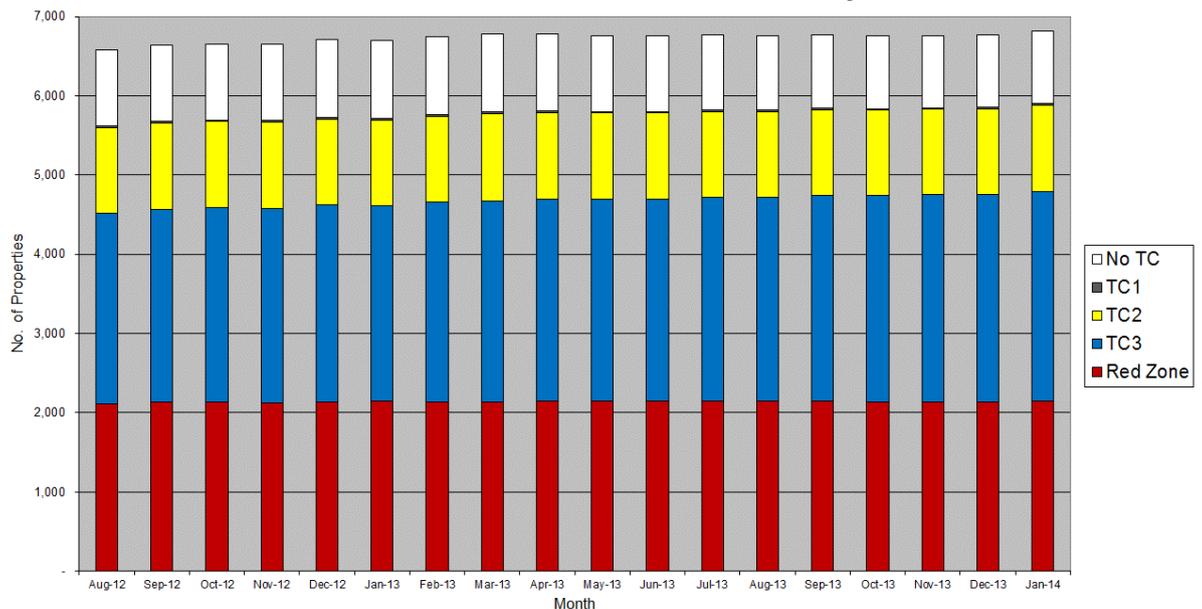
Claim Exposure by Technical Classification as at 31 January 2014



4. Is this your current claim exposure by TC?

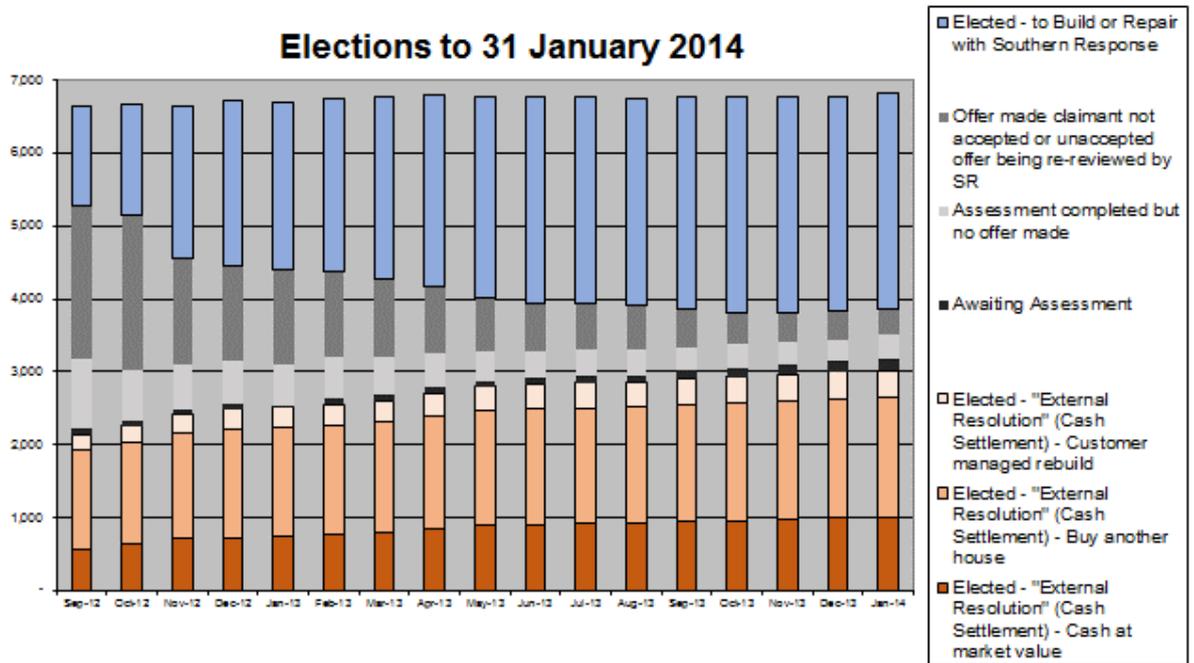
Yes –this information appears to have been directly uplifted from the progress section of our website. We would refer to ‘No TC’ as ‘Technical Category not applicable’ (which reflects hill and rural areas)

Claims Notified to SR as at 31 January 2014



5. Is this your claim exposure by TC and month?

It would seem so (without exact numbers from your analysis), it appears to have been mapped out through our monthly progress updates.



6. With reference to the above graph could you advise why there are:
- Offers made to claimants but they have not been accepted?

This is for a mix of reasons - some customers need to take their time with decision-making, which we understand. Also, a number of claims may have only been recently notified to us, which means following our DRA assessment, the customer may only have recently received our offer. Others are disputing the position.

- Assessments completed but no offers to claimants?

We explain this in the progress section of our website:

The gap between the Assessments & Costings being completed and Offers to customers can be due to the DRA (detailed rebuild/repair analysis) being withdrawn for review or maybe due to the time taken to prepare the offer to the customer. This percentage of over cap claims that have had an offer presented is shown as a percentage of over cap claims. Something else

- Assessments still not completed?

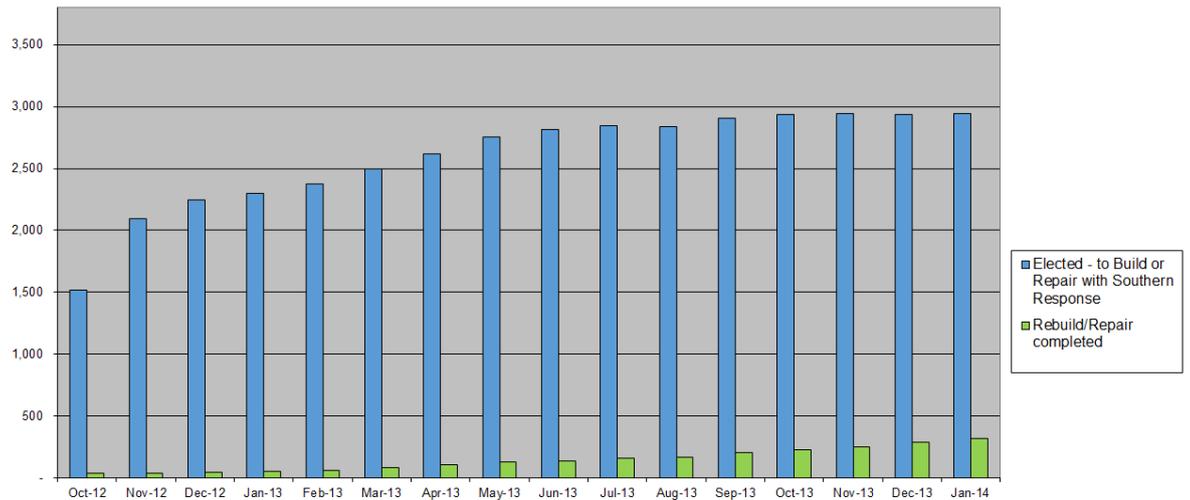
The majority are recent claims notified to us by the Earthquake Commission – we currently have 166 that have not yet had a DRA completed, a number of these have been assessed and the DRA document is being prepared.

7. Could you also explain why for the last 6 months why there has been very little progress in resolving customers in the categories (a) to (c) above?

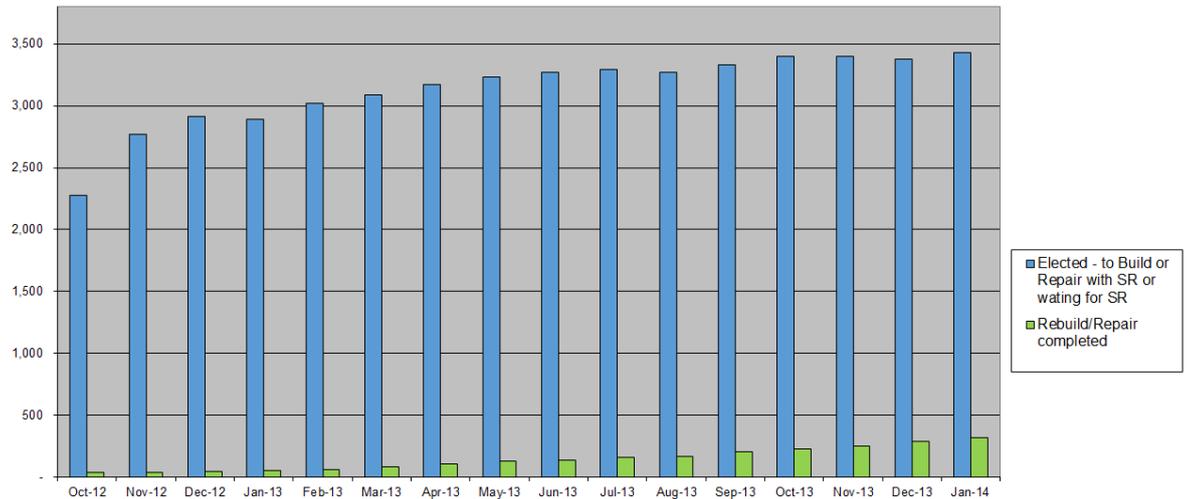
We only report on claims that are currently over cap. There will always be a small proportion of claims, yet to be inspected, a DRA prepared and an offer made.

However, Southern Response has in fact inspected over 7,500 properties, which includes a large number of claims that in consultation with the Earthquake Commission are determined as under cap claims.

Elected for SR to Rebuild or Repair v Rebuild/Repair completed



Elected for SR to Rebuild or Repair or waiting for SR to Provide Option v Rebuild/Repair completed



8. Please could you explain in detail the main issues that are preventing progress of SR managed rebuilds?

When considering the above progress in a more detailed manner, we would hope it is apparent that there is considerable progress in each step of our build programme towards a completed rebuild or repair.

We have offered Councillor Jones on a number of occasions to meet with us, as an elected representative, to understand the various initiatives in place to continue to improve our build throughput. To date, this has not been accepted. We would extend that offer again to be accompanied by someone acceptable to us (such as a reputable consultant for whom we would pay the fee to an agreed brief) – as the work streams are comprehensive and would not be fairly reflected in shortly answering this question.

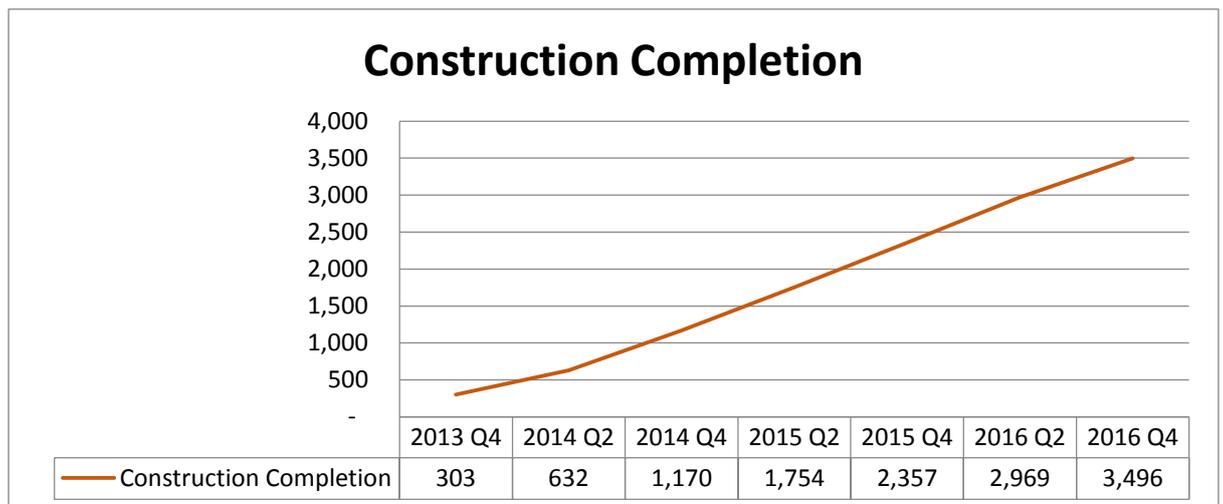
9. Please could you explain what actions are underway to improve progress?

See response to question 8 above.

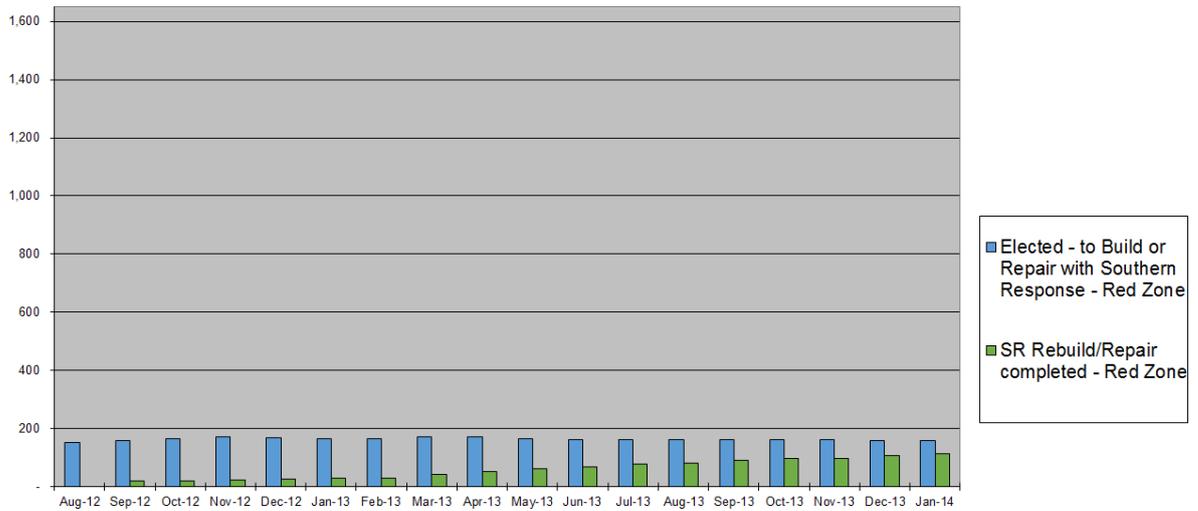
10. Are you on target to complete the approx. 3,000 – 3,500 SR managed repairs and rebuilds by June 2016?

We have stated publically that we intend to complete approximately 90% of all Southern Response managed builds by the end of 2016 (not by June 2016).

11. Could you provide a construction completion forecast to substantiate your answer to 10 above?



**Customer Decision to Rebuild or Repair with Southern Response v
Rebuilds or Repairs completed by SR (Red Zone only)**

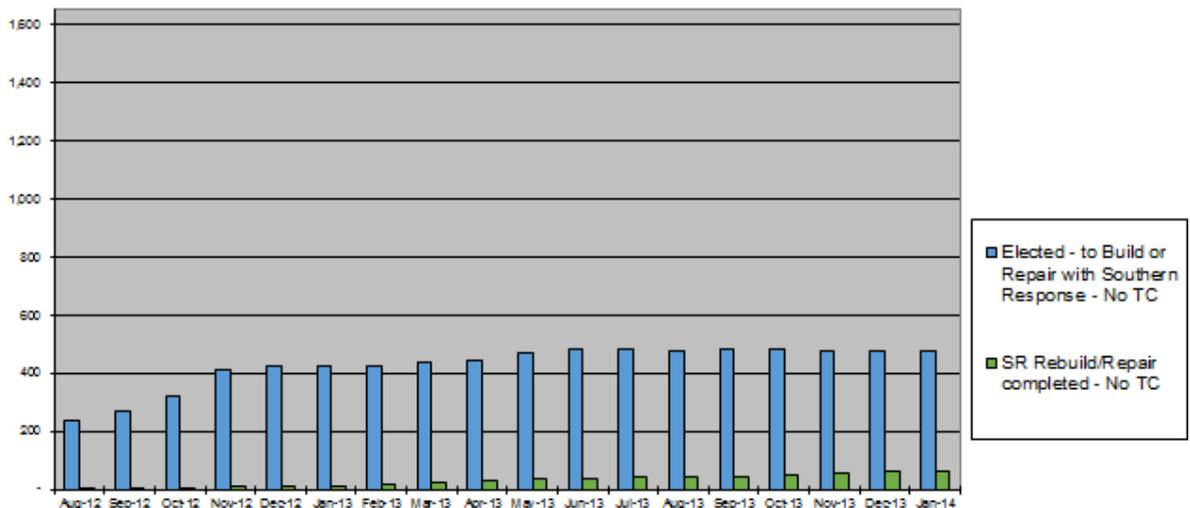


11. Does Southern Response have an opinion/explanation on, whilst 31% of its claimants are from the Red Zone, only 159 are building with Southern Response, in comparison with TC3 claimants which are 39% of SR's claimants, but at least 1,638 are building with Southern Response?

Customers in the red zone have generally chosen to buy another house, or take a cash settlement. We presume these funds were combined with the Crown offer for the purchase of the land, which allowed more options.

Customers in TC3 have not received land compensation, as it is deemed suitable to build on these sites – so this is what the majority of our customers on TC3 are doing, building with us.

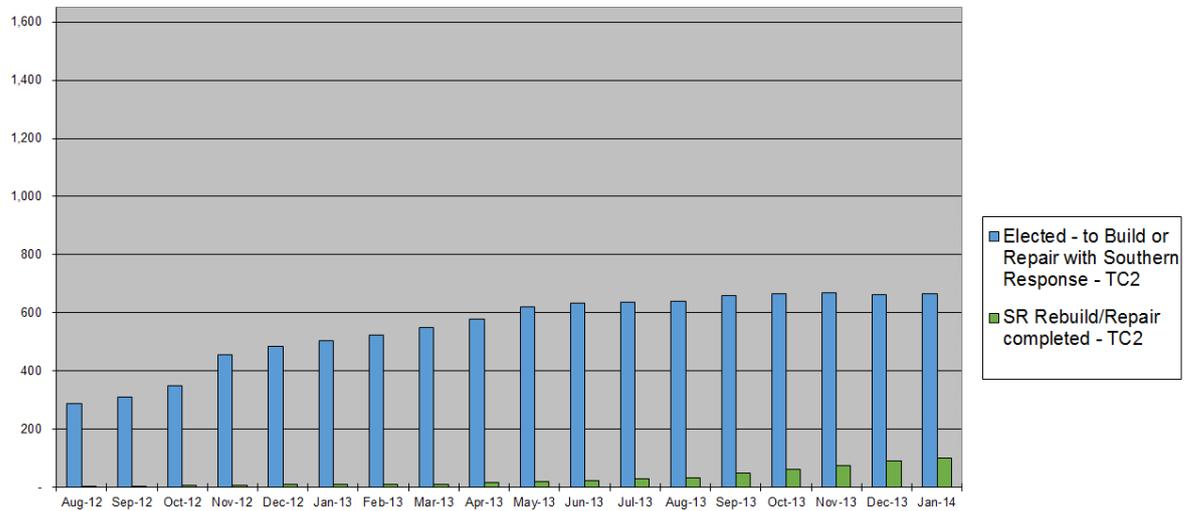
**Customer Decision to Rebuild or Repair with Southern Response v
Rebuilds or Repairs completed by SR (No TC only)**



12. What are the main reasons for slow progress in repairs and rebuilds on the Port Hills and other No TC areas?

See response to question 8 above. This applies across all land categories.

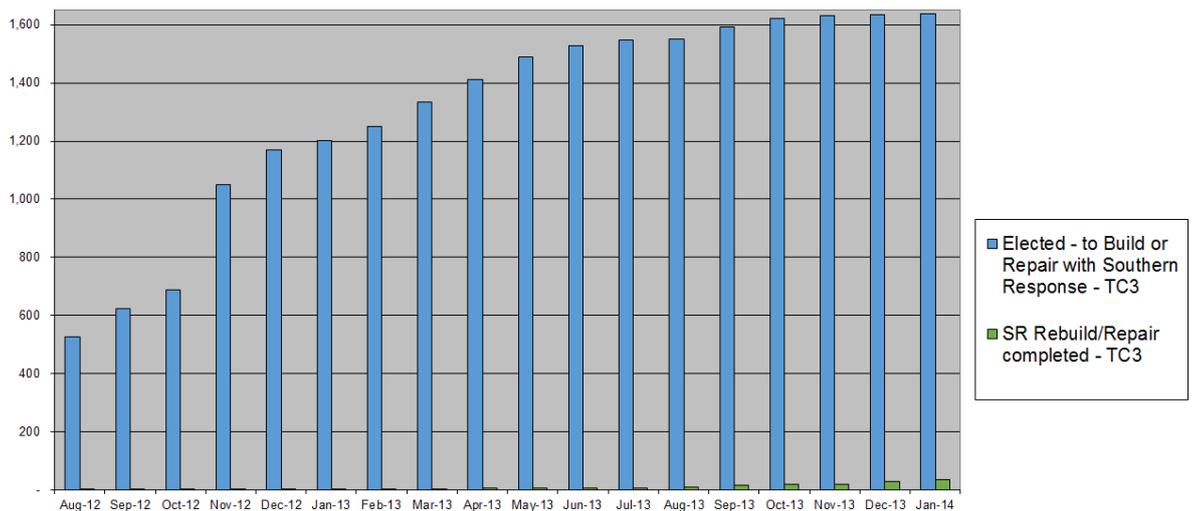
Customer Decision to Rebuild or Repair with Southern Response v Rebuilds or Repairs completed by SR (TC2 only)



13. What are the main reasons for slow progress in repairs and rebuilds in TC2 areas?

See answer to question 12.

Customer Decision to Rebuild or Repair with Southern Response v Rebuilds or Repairs completed by SR (TC3 only)



14. What are the main issues for only 92 rebuilds and 45 repairs to have been completed since 4 September 2010 in TC3?

See answer to question 12. Southern Response is the market leader in initiatives to progress builds in TC3 sites.

15. Will any of the answers in 11-13 above effect your ability to meet your deadline as outlined in question 10?

No – the progress of our build delivery programme is progressing as expected. As has been described publicly, these figures are projections. The reputable consultant referred to in the response to question 8 would be able to understand the ongoing barriers applying.

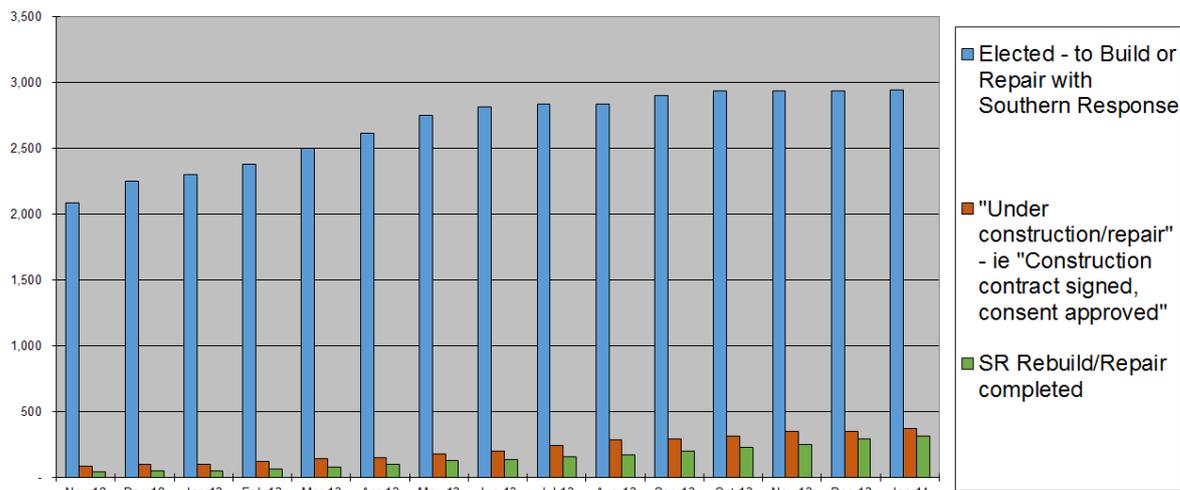
16. If so, what action/s is currently in progress to address these issues?

See answer to question 8.

17. How many repairs/rebuilds have been completed to date where an application for Building consent was not made?

Less than five (which are council exemptions).

Rebuild or Repairs completed or under construction by Southern Response v Customer Decision to Rebuild or Repair with Southern Response (excluding those who have not elected) – All TC’s



18. How many of the 373 “under construction” properties have builders (as at 31 January 2014) onsite?

The majority will – our definition of ‘under construction’ is building contract signed and building consent issued. At some sites building may not have physically started, as customers may not yet have been able to secure temporary accommodation or demolition is in progress, etc.

19. Are customer managed rebuilds/repairs included in your answer to 18 above?

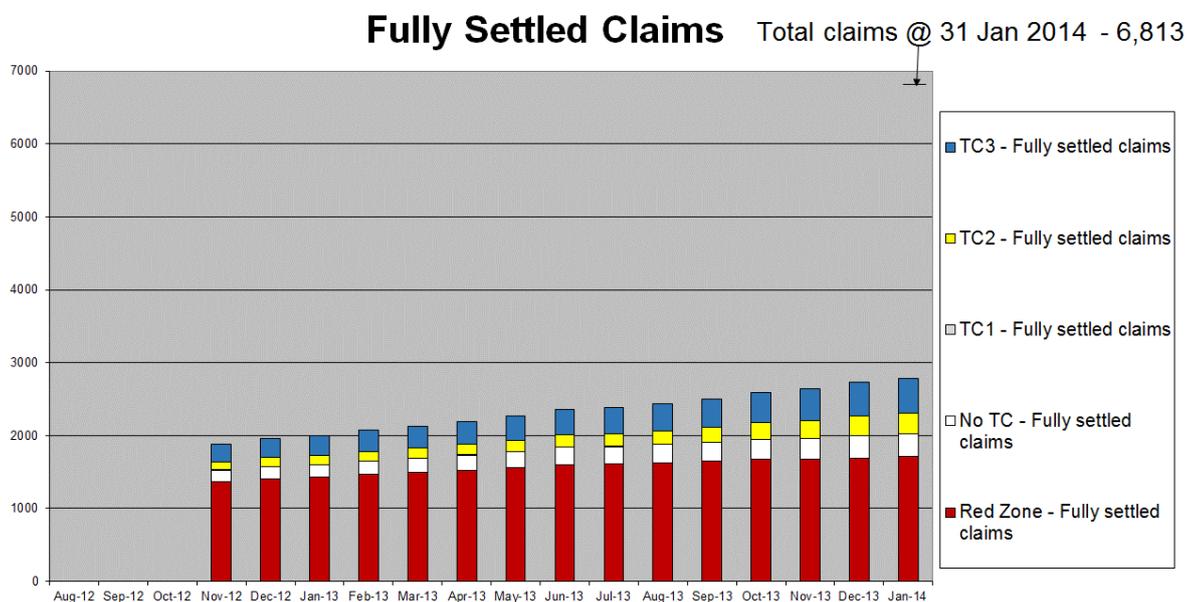
No.

20. Why has the number of properties “under construction” not increased over the last three months?

‘Under construction’ reflects the number of claims in that stage at that time. These claims will move from ‘in design’ to ‘under construction’ to ‘construction complete’. As at 31 January 2013, we have 373 ‘under construction’ at present, we expect this to increase.

21. Were the 25 completions for the month of January 2014 in line with your forecasts?

No, it was lower than expected.



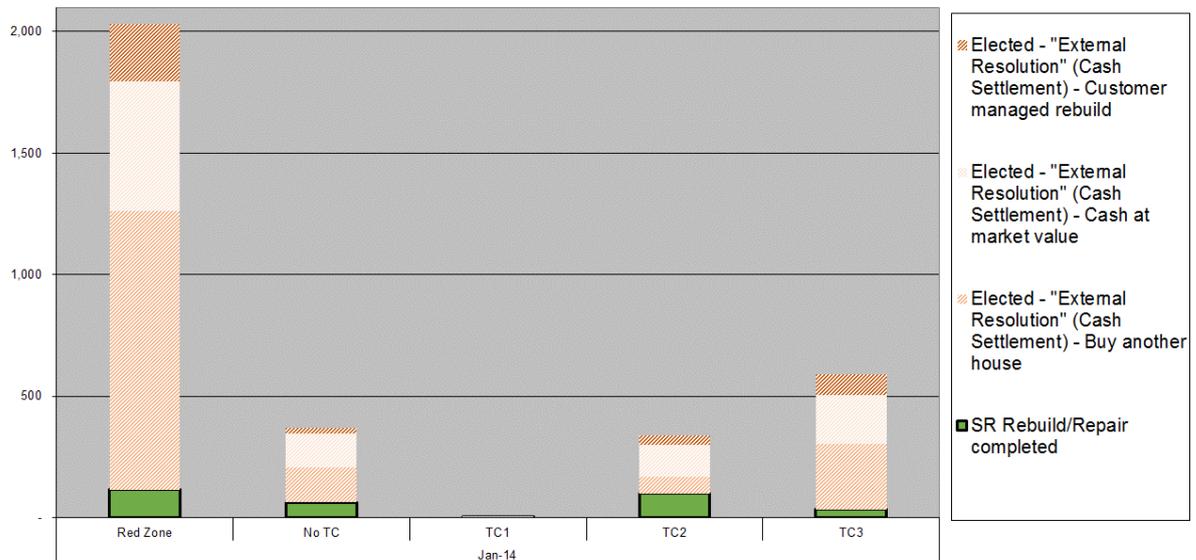
22. From your graph above it appears that the majority of your claim settlements are from the Red Zone. Is this correct?

Yes.

23. Given that there have only been a few hundred additional Red Zone settlements since November 2012 – could you explain why non Red Zone settlements are slower than Red Zone settlements?

The majority of customers outside of the red zone are building with us. We refer you to question 8 above, where we have described the steps in the build process – which by virtue of the process, will require more time than agreeing a cash settlement between Southern Response and its customers. Red zone settlements are generally to buy another house.

Final Settlement Profile by TC as at 31 Jan 2014



24. Can you confirm the material difference between the following settlement options:

We are not clear on what you mean by 'material difference', we have commented as it relates to the AMI policy.

- a. *Customer managed repair – Southern Response will pay the cash equivalent of the cost of repairs.*
- b. *Cash at market value – if the house is damaged beyond economic repair and the customer chooses this option, we will pay the market value of the house at the time of the loss.*

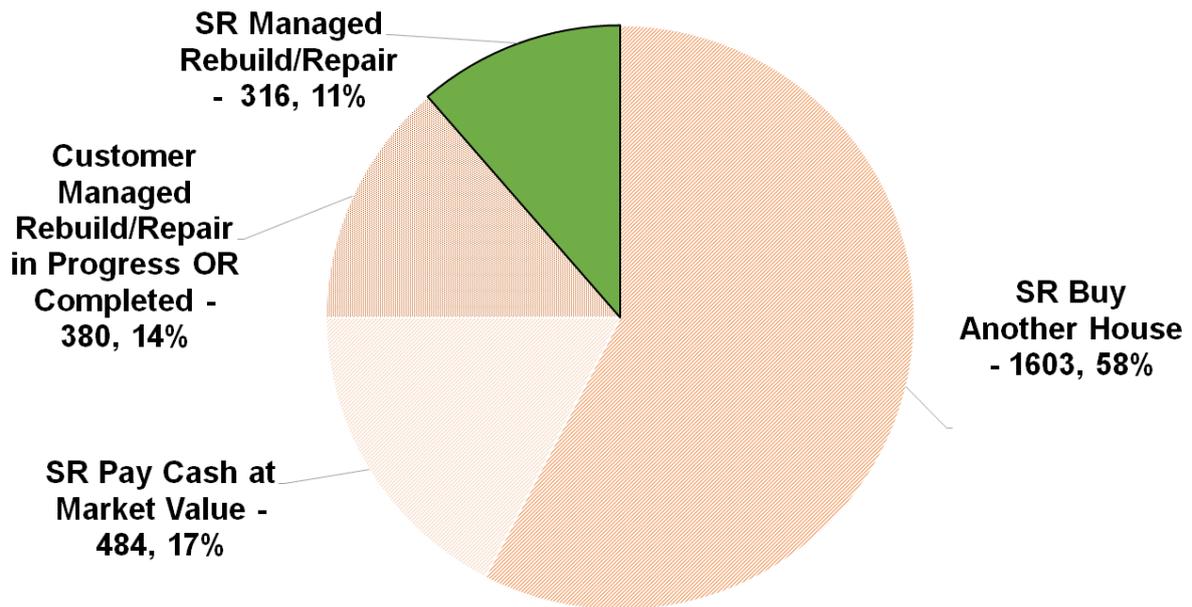
'Market value' means the value of an item immediately before the loss or damage occurred, taking into account wear tear and depreciation.

- c. *Buy another house - if the house is damaged beyond economic repair and the customer chooses this option, we will pay the cost of buying another house, including necessary legal and associated fees. The cost must not be greater than rebuilding your house on its present site.*

25. Do any of the options above involve SR capping its dollar exposure at full settlement stage?

We do not understand your question. If you mean, "capped" to replacement value of the existing house, plus legal and associated costs, yes.

Breakdown of 2,783 Fully Settled claims @ 31 Jan 2014



26. Can you confirm whether the above graph is an accurate summary of your fully settled claim results as at 31 January 2014?

Yes – these appears to be uplifted from the progress update we provided in the media recently.

27. Is there ANY action, intended or unintended [sic], that has or will be undertaken by SR or Arrow International, to delay the progress of SR managed rebuilds or repairs?

No –quite the opposite, it is in the best interests of Southern Response’s customers and Southern Response to resolve claims as quickly as practicable. However, this question could be too open-ended to be able to be responded definitively: for example, unreasonable financial demands from customers will of course delay progress.

Neither company has any incentive to delay if that is the meaning of the question.

Our progress:

Status Breakdown	Settlements Complete	
Totals (at 31st Jan 2014)	2,783	
	Purchasing another house	1,603
	Cash settlement	484
	Customer managed rebuild	380
	Southern Response construction complete (rebuilds and repairs)	316
	Subtotal rebuilds & repairs	696

28. Why is Southern Response advertising that Customer Managed Rebuilds (CMR), which may not be completed or be in construction are included in its Subtotal rebuilds and repairs” as highlighted?

Customer managed builds are still a meaningful indicator of progress in the residential recovery and represents that there is other Southern Response funded building work occurring. The customer’s settlement aspirations are fulfilled.

29. Does SR think this could be misleading?

No.

30. Does SR report ‘s these CMR in this manner to shareholders?

Yes.

In Progress			
3,181			
Cash settlements in progress	551		
In design Site considerations being reviewed, geotechnical, engineers, planning, design underway	2,257	Design/documentation - Rebuilds	441
		Design/documentation - Repairs	574
Under construction Construction contract signed, consent approved	373		

31. On Southern Response's website it is reporting 1,015 claims are "In Design/documentation" however in the ChCh Press of 10 February 2013 SR are advertising this number as 2,257.

a. Which is correct?

Both numbers are correct. The numbers reported in the Press are a combination of 'pre-design' (being worked on by Southern Response and Arrow) and 'design/documentation' (being worked on by the builder, designer or consenting authority). This is described in the description in the response to question 15.

b. What is the reconciliation between these two totals?

See answer to 31.a. above.

Progress for all years to 31 Jan 2014:

Construction completed - Rebuilds	195
Construction completed - Repairs	121
Total construction completed	316

Forecast Construction Starts For 2014	
1,090	
SR managed repairs	630
SR managed rebuilds	460

32. Southern Response/AMI have completed 316 SR managed repairs or rebuilds since 4 September 2010. It forecasts “starts” as 1,090 for 2014:
- Is this correct?
Yes that is correct.
 - What is the corresponding “completion” forecast for 2014?
SR managed repairs – 470
SR managed rebuilds - 397
 - How will SR achieve this?
See response to question 8 above.
 - Are SR on track to achieve this?
Yes and see response to question 15 above.
 - What is the average timeframe (at present) for the completion of a SR managed:
 - Repair
From the time that the physical building work starts for a repair, the timeframe is approximately four months.
 - Rebuild
From the time that the physical building work starts for a new build, the timeframe is approximately five months.