

21 June 2012

Mr Peter Rose
Chief Executive Officer
Southern Response Earthquake Services Ltd
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Christchurch 8149
NEW ZEALAND

Dear Peter

Non Earthquake Claim Liabilities for Southern Response Earthquake Services as at 5 April 2012

Introduction and Purpose

The purpose of this letter is to provide an estimate of the non-earthquake claim liabilities for Southern Response Earthquake Services Limited ("SRES") as at the close of business on 5 April 2012.

We understand that this advice will be used by SRES in preparing its management accounts. This letter should be read in conjunction with the advice we provided on the earthquake claim liabilities that were transferred from AMI Insurance Limited ("AMI") to SRES also at the close of business on 5 April 2012.

Summary of Results

Table 1 summarises our estimates of SRES' non-earthquake liabilities at 5 April 2012. The figures in the body of the table are net of payments made to 5 April 2012. Our recommended provisions incorporate a risk margin which we believe to be consistent with the requirements to establish provisions which incorporate at least a 75% probability of sufficiency.



Table 1 – Recommended Non-Earthquake Provisions at 5 April 2012

		Gross Incurred	less Paid to Cost 5 April 2012	Gross Outstanding Claims	Claims Handling Expense	Gross Central Estimate	Reinsurance Recoveries	Net Central Estimate	Risk Margin	Recommended Provision
Events	Cat 90	786.9	(779.7)	7.3				8.2	1.1	
	Cat 91	2,184.1	(2,184.1)	(0.0)				(0.0)	(0.0)	
	Cat 96	1,469.6	(1,468.5)	1.1				1.7	0.2	
	Cat 98	349.4	(343.8)	5.6				6.8	0.9	
	Cat 100	1,467.3	(1,465.8)	1.6				2.2	0.3	
	Cat 105	1,545.2	(1,533.6)	11.6				14.3	1.9	
	Cat 108	1,494.7	(1,383.3)	111.4				114.1	15.4	
	Cat 115	1,508.2	(1,341.9)	166.3				204.7	27.6	
	Cat 116	3,346.6	(2,850.2)	496.4				612.5	82.7	
	Cat 121	2,246.7	(529.3)	1,717.4				1,762.5	237.9	
	Per Risk Claims	1,580.0	(90.4)	1,489.6				910.2	0.0	
Total		17,978.6	(13,970.5)	4,008.1				3,637.1	368.1	

Event Costs

section 9(2)(b)(ii)

The Deed of Agreement for the transfer of liabilities from AMI Insurance Limited to SRES states that in addition to the Canterbury earthquake events, “Retained Claim Events” are included, which are defined as:

“any other event that occurs prior to or is continuing in progress as at Completion and which entitles the Vendor to make any claim under any Reinsurance Contract with respect to that event”.

We have interpreted this to mean that any event that may contribute to a recovery on a reinsurance contract is to be retained by SRES. For the purposes of the aggregate reinsurance contracts, we have assumed any event with an incurred cost above the per event deductible (and thus involves losses which “contribute” to the calculation of a potential reinsurance recovery under the aggregate contracts) will be retained by SRES. This situation has come about in order to provide certainty of reinsurance cover for these claims following the separation of the AMI business into AMI NewCo and SRES.

Attachment A outlines the events and per risk XOL claims that we have included in the transfer of liabilities to SRES, as they exceed the relevant reinsurance retentions. We were provided with this list by AMI.

Note that we have not allowed for any movement in the events or large claims between entities in the future. If the claim estimates on the listed events/large claims develop such that the event/large claim falls below the reinsurance retention, we have assumed that the event/large claim will remain with SRES (rather than transferring back to NewCo).

Similarly, we have not allowed for any movement between entities for those events/large claims that are currently below the reinsurance retentions and have the potential to move into the reinsurance protection (all of these events/large claims are assumed to stay with NewCo). This is our current understanding of the terms of the Agreement; if this is incorrect, then we may need to revise our estimates and the advice contained in this letter.

There are three aggregate reinsurance arrangements that are relevant to the non-earthquake events:

1. An aggregate reinsurance contract with a deductible of \$5 million and a limit of \$5 million, with a per event excess of \$250,000, applying from 1 January 2010 to 31 December 2010;
2. An aggregate reinsurance contract with a deductible of \$2 million and a limit of \$4 million, with a per event excess of \$3 million, apply from 1 July 2010 to 30 June 2011; and
3. An aggregate reinsurance contract with a deductible of \$5 million and a limit of \$5 million, with a per event excess of \$750,000, applying from 1 January 2011 to 31 December 2011.

All events with an incurred cost of more than \$250,000 that occurred within the 2010 calendar year, and more than \$750,000 in the 2011 calendar year are included in our valuation of non-earthquake claim liabilities at 5 April 2012. There are 10 events in total, and these are detailed in Attachment A.

For all events except the most recent, we have assumed that there will be no further claim development beyond the current incurred to date value. For Cat 121, which occurred in December 2011, we have applied a future development factor of 4%. These assumptions are consistent with the basis that Finity applied to events at previous valuations of insurance liabilities for AMI.

The total incurred to date at 5 April for non-earthquake events is \$16.316 million, and the ultimate value projected is \$16.399 million, implying an IBNR of \$0.083 million for Cat 121. We do not apply any inflation or discounting to valuation of the catastrophe events due to their short tailed nature, and again, this is consistent with the approach we took at previous valuations for AMI.

Per Risk Claims

There are two claim matters that exceed the individual excess of loss (XOL) retention of \$500,000 per claim. We have valued these claims at their incurred cost of \$1.580 million as at 5 April 2012 ie we have assumed there will be no further development of the incurred cost.

Reinsurance Recoveries

Our estimates of reinsurance recoveries are based on the incurred cost of events, and the order of events within each of the relevant financial periods including the retained value of any earthquake events. Based on these calculations (shown in Attachment B), we estimate that all three aggregate reinsurance arrangements have been exhausted and as such, we project no future reinsurance recoveries relating to the non-earthquake events.

We have been advised by SRES that a receivable amount of \$6.605 million is included in the balance sheet at 5 April to allow for recoveries not yet received on the three aggregate reinsurance contracts.

For the per risk claims, we have assumed that any incurred cost over the \$500,000 retention for the individual XOL arrangement will be recovered. Based on the current estimates of the two claims, this is estimated to total \$0.580 million.

Other Assumptions

We have been advised that a claims handling expense of \$300 per claim will apply to the non-earthquake events and per risk claims as per the contract between AMI and SRES. We have therefore applied this charge to all open and unreported claims in our valuation of the liabilities; this totals \$0.209 million and relates to around 700 claims.

withheld pursuant to sections 9(2)(i) and (j)

We have adopted a risk margin of ■% of the gross central estimate for each event, which is consistent with the risk margin assumed in the AMI valuation at 5 April 2012 for Home outstanding claims at a 75% probability of sufficiency. We have adopted this assumption as most of the outstanding liabilities at 5 April 2012 relate to Home claims.

We have applied no risk margin to the two per risk claims as these are expected to reach the individual XOL reinsurance retention, and thus any future development will be fully recovered through reinsurance.

Uncertainty

There is always an element of uncertainty attaching to our estimates of claims liabilities. As noted above, in recognition of this uncertainty, we have incorporated a risk margin of ■% in our recommended provisions – a level which is intended to produce a 75% probability of sufficiency. This margin is consistent with analysis carried out for the AMI valuation at 5 April 2012. withheld pursuant to sections 9(2)(i) and 9(2)(j)

Reliances and Limitations

This letter is being provided for the sole use of SRES for the purposes stated earlier in this letter. It is not intended, nor necessarily suitable, for any other purpose. This letter should only be relied on by SRES for the purpose for which it is intended.

We understand that SRES may need to provide this letter to New Zealand Treasury. Permission is hereby granted for such distribution for this purpose on the condition that the entire letter, rather than any excerpt, is distributed.

No other distribution of, use of or reference to this letter (or any part thereof) is permitted without our prior written consent. Third parties, whether authorised or not to receive this letter, should recognise that the furnishing of this letter is not a substitute for their own due diligence and should place no reliance on this letter or the data contained herein which would result in the creation of any duty or liability by Finity to the third party.

Finity has performed the work assigned and has prepared this letter in conformity with its intended utilisation by a person technically competent in the areas addressed and for the

stated purposes only. Judgements about the conclusions drawn in this letter should be made only after considering the letter in its entirety, as the conclusions reached by a review of a section or sections on an isolated basis may be incorrect.

This letter should be considered as a whole. Members of Finity staff are available to answer any queries, and the reader should seek that advice before drawing conclusions on any issue in doubt.

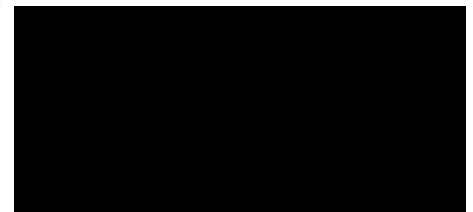
We have relied on the accuracy and completeness of all data and other information (qualitative, quantitative, written and verbal) provided to us for the purpose of this letter. We have not independently verified or audited the data, however we have reviewed the data for general reasonableness and consistency. It should be noted that if any data or other information is inaccurate or incomplete, we should be advised so that our advice can be revised, if warranted.

It is not possible to put a value on outstanding claim liabilities with certainty. As well as difficulties caused by limitations on the historical information, outcomes remain dependent on future events, including legislative, social and economic forces. Although we consider that the estimates have been prepared in conformity with what we believe to be the likely future experience, actual experience could vary considerably from our estimates. Deviations from our estimate, perhaps material, are normal and are to be expected.

It has been assumed that any amounts arising from the reinsurance programs protecting SRES will be fully recoverable on a prompt basis. If any reinsurance proves not to be recoverable (either through insolvency of a reinsurer or contract dispute) the net liability of SRES could be higher than stated in this letter. We are not aware of any current reinsurer insolvency problems or disputes over reinsurance recoveries.

Yours sincerely

withheld pursuant to section 9(2)(a)



Fellows of the Institute of Actuaries of Australia

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A List of Events and Per Risk Claims Included in the Transfer to SRES

Table A.1 – Non-Earthquake Catastrophe Events Retained by SRES

Cat Code	Event	Date	Location	Incurred Cost at 5 April 2012
90	Rain/Flood	23-May-10	Mainly Canterbury, Sth Cnty, Otago	786,931
91	Rain/Flood	1-Jun-10	Northland/Bay of Plenty	2,184,075
96	Rain	17-Sep-10	Whole country	1,469,575
98	Sth Is Gales	21-Dec-10	Canterbury, South Canterbury	349,356
100	NZ Storm	27-Dec-10	Whole country	1,467,325
105	Cyclone	28-Jan-11	Upper & eastern North Island	1,545,188
108	Storm	26-Apr-11	Central North Island	1,494,709
115	Snow	24-Jul-11	Mainly Canterbury & SI, some NI	1,508,151
116	Snow	14-Aug-11	Mainly Canterbury & SI, some NI	3,346,602
121	Rain/Landslip	14-Dec-11	Nelson & region	2,163,760
				16,315,672

Table A.2 – Per Risk XOL Claims Retained by SRES

Claim No. (House)	Claim No. (Contents)	Customer	Current Estimate	Non-RI Recovery	Deductible	Potential Claim
██████	██████	████████████████████	██████	██████	██████	██████
██████	██████	████████████████████	1,580,000	0	██████	580,000

withheld pursuant to section 9(2)(a)

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B Calculation of Aggregate Reinsurance Recoveries

Our estimates of reinsurance recoveries are based on the estimated ultimate cost of events and the order of events within each of the relevant financial periods including the retained value of any earthquake events. Our calculations for each of the contracts are shown in Table B.1.

Table B.1 – Calculation of Aggregate Reinsurance Recoveries

Treaty 1: 1 Jan 2010 to 31 Dec 2010

5m x 5m, 250k excess per event

Cat Code	Event Date	Type	5 Apr Ultimate					Aggregate Recovery
			5 Apr Ultimate	Net of Cat Programme	Per event retention	Ultimate net of retention	Contribution to Deductible	
90	23-May-10	Non EQ	786,931	786,931	(250,000)	536,931	536,931	0
91	1-Jun-10	Non EQ	2,184,075	2,184,075	(250,000)	1,934,075	1,934,075	0
93	4-Sep-10	EQ	621,819,573	5,000,000	(250,000)	4,750,000	2,528,993	2,221,007
96	17-Sep-10	Non EQ	1,469,575	1,469,575	(250,000)	1,219,575	0	1,219,575
97	19-Oct-10	EQ	1,775,947	1,775,947	(250,000)	1,525,947	0	1,525,947
98	21-Dec-10	Non EQ	349,356	349,356	(250,000)	99,356	0	33,472
99	26-Dec-10	EQ	13,158,705	5,000,000	(250,000)	4,750,000	0	0
100	27-Dec-10	Non EQ	1,467,325	1,467,325	(250,000)	1,217,325	0	0
Total							5,000,000	5,000,000

Treaty 2: 1 July 2010 to 30 Jun 2011

4m x 2m, 3m excess per event

Cat Code	Event Date	Type	5 Apr Ultimate					Aggregate Recovery
			5 Apr Ultimate	Net of Cat Programme	Per event retention	Ultimate net of retention	Contribution to Deductible	
93	4-Sep-10	EQ	621,819,573	5,000,000	(3,000,000)	2,000,000	2,000,000	0
99	26-Dec-10	EQ	13,158,705	5,000,000	(3,000,000)	2,000,000	0	2,000,000
106	22-Feb-11	EQ	1,332,423,724	5,000,000	(3,000,000)	2,000,000	0	2,000,000
112	13-Jun-11	EQ	71,217,236	5,000,000	(3,000,000)	2,000,000	0	0
Total							2,000,000	4,000,000

Treaty 3: 1 Jan 2011 to 31 Dec 2011

5m x 5m, 750k excess per event

Cat Code	Event Date	Type	5 Apr Ultimate					Aggregate Recovery
			5 Apr Ultimate	Net of Cat Programme	Per event retention	Ultimate net of retention	Contribution to Deductible	
103	20-Jan-11	EQ	781,966	781,966	(750,000)	31,966	31,966	0
105	28-Jan-11	Non EQ	1,545,188	1,545,188	(750,000)	795,188	795,188	0
106	22-Feb-11	EQ	1,332,423,724	5,000,000	(750,000)	4,250,000	4,172,846	77,154
107	16-Apr-11	EQ	1,356,247	1,356,247	(750,000)	606,247	0	606,247
108	26-Apr-11	Non EQ	1,494,709	1,494,709	(750,000)	744,709	0	744,709
111	6-Jun-11	EQ	1,112,003	1,112,003	(750,000)	362,003	0	362,003
112	13-Jun-11	EQ	71,217,236	5,000,000	(750,000)	4,250,000	0	3,209,888
114	21-Jun-11	EQ	1,347,543	1,347,543	(750,000)	597,543	0	0
115	24-Jul-11	Non EQ	1,508,151	1,508,151	(750,000)	758,151	0	0
116	14-Aug-11	Non EQ	3,346,602	3,346,602	(750,000)	2,596,602	0	0
117	9-Oct-11	EQ	944,411	944,411	(750,000)	194,411	0	0
121	14-Dec-11	Non EQ	2,246,710	2,246,710	(750,000)	1,496,710	0	0
122	23-Dec-11	EQ	27,783,427	8,250,000	(750,000)	7,500,000	0	0
Total							5,000,000	5,000,000