



ANNUAL REPORT | 2006



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DIRECTORY

DIRECTORS

Bryan G Taylor (Chairman from 28 July 2006)
Kinsley N Sampson MNZM JP (Chairman until 28 July 2006)
Darryl C Griffin
Michael C Hannan (from 25 March 2006)
Robert A Lineham
Howard J Stone

EXECUTIVE OFFICERS

Chief Executive Officer	Tim Sole BSc MBA CStat ANZIIF (Fellow) CIP FNZIM FIAA FNZSA
General Manager	Geoff M Mercer AINZ AAI ANZIM
General Manager – Finance	Roger Gyles CA

AUDITORS

The Auditor General, who has appointed Mr G R Mitchell, Deloitte to carry out the audit on his behalf

BANKERS

ANZ Banking Group (New Zealand) Limited
Bank of New Zealand

LEGAL ADVISERS

Burrowes and Co.
Brandons

REGISTERED OFFICE

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Civic Assurance House
114 – 118 Lambton Quay
Wellington, New Zealand

POSTAL ADDRESS

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FINANCIAL HIGHLIGHTS

Financial Highlights

	2006 \$m	2005 \$m	2004 \$m	2003 \$m	2002 \$m
Premium Income	15.233	15.208	17.098	15.494	13.889
Income as shown in the Statement of Financial Performance (which is net of reinsurance)	5.631	5.155	4.427	3.047	1.827
Taxation	1.264	1.125	0.923	0.555	0.131
Dividend	.805	.767	-	-	-
Profit Retained	1.719	1.415	1.979	1.263	0.491
Surplus Before Taxation	3.788	3.307	2.902	1.818	0.622
EARNINGS Per Share after tax	39.5 cents	34.2 cents	31.0 cents	19.8 cents	7.7 cents
Dividends per share	12.6 cents	12.0 cents	-	-	-

Civic Assurance Staff, May 2007



Civic Assurance Staff Members from left to right: Geoff Mercer (General Manager), Dean Gates (Assistant Accountant), Caroline Bedford (Investments Accountant), Ian Brown (Superannuation Manager), Sarah Burtonwood (Personal Assistant), Glenn Watkin (Accountant), Roger Gyles (General Manager – Finance), Ron Haward (Insurance Underwriter), Tim Sole (Chief Executive).

CHAIRMAN'S REPORT 2006

2006 proved to be another highly successful year for Civic Assurance. The Company achieved its principal goal of operating as a successful business and its specific goal of containing the cost of risk for local government in New Zealand by providing councils with cost effective risk financing solutions.



Board of Directors from left to right: (back row) Bob Lineham, Kinsley Sampson, Mike Hannan, Darryl Griffin, (front row) Howard Stone, Bryan Taylor.

The profit before tax of \$3,788,401 was the highest profit on record for the third year in a row. Assisting this result was benign claims and favourable investment conditions for the Company's core business of property insurance.

In 1999 the Board made a decision to retain profits for the purpose of strengthening the Company's balance sheet. Because of this decision, Civic has been able to save on its reinsurance costs while retaining its AM Best "A Excellent" claims paying ability rating. This has been good for the Company's profitability and therefore for further building its reserves.

The decision to retain profits to strengthen the balance sheet was reviewed in the 2005 year. Because the financial objectives set in 1999 had been achieved, the Directors

resolved in 2005 to pay a dividend of 12 cents per share. In 2006 the dividend payment was 12.6 cents per share. It has been possible at the same time to make a dividend payment and to strengthen the Company's balance sheet because of the Company's strong profitability.

Maintaining an AM Best "A Excellent" Claims paying ability rating is an important objective for the Company. It is important because it provides Civic's customers with confidence in Civic's ability to meet claims.

It is interesting to note that the net asset value per share at the end of December 2006 was \$2.78 compared to \$1.56 at the end of December 2000. Adding back the two dividend payments of 12 cents and 12.6 cents per share, this represents an increase over the six years of 94%.

Superannuation

On 1 June 2005 the Company launched a new superannuation facility – SuperEasy. SuperEasy and Civic's existing Superplan coexist and at the end of April 2007 had between them over 1,500 members. With the launch of KiwiSaver SuperEasy on 1 July 2007, this membership number is set to increase significantly.

External experts have made very complimentary remarks about KiwiSaver SuperEasy. Its Automatic Fund is a market leader, its charges very competitive, and we believe that KiwiSaver SuperEasy is the best route for every council to *"make KiwiSaver super easy"*.

At a time when staff retention and recruitment for councils has never been more difficult, Civic is delighted that through SuperEasy and KiwiSaver SuperEasy it has been able to offer councils a quality and market-leading superannuation product designed just for them and their staff.

LAPP Disaster Fund

The LAPP Disaster Fund provides protection for 54 members and is firmly established. The Fund, which provides financial protection for the Councils' 40% share of re-establishing generally uninsurable infrastructure in the event of catastrophic damage, is financially strong and internationally recognised. Members' funds exceed \$30 million and the Fund has disaster reinsurance placed on the international market of an additional \$75 million (soon to be \$100 million) that automatically reinstates itself if there's a claim. This level of protection enables the Fund to meet the estimated maximum claims for at least two major catastrophic events.

Riskpool

Riskpool continues to provide a significant level of protection for its members. The weathertightness issue is still the dominant matter for the Riskpool Trustees and has proved to be time consuming and demanding.

Not only is Riskpool a very important risk financing tool for Local Government, it also provides a collective approach to local government liability claims and risk management.

NZ Local Government Finance Corporation Ltd (LGFC)

LGFC is a wholly owned subsidiary of Civic and was set up as a vehicle for raising funds for councils from retail investors using "Civic Bonds". Between December 1999 and February 2004, a total of \$117.9 million was raised. These bonds are

gradually being retired, with the sum being held at the end of 2006 down to \$22.2 million and the last bond due to mature in February 2010.

Local Government Online Ltd (LGOL)

Civic owns 25% of the shares of LGOL. LGOL's primary business is the provision to local government of a sophisticated inter-council communication system for the benefit of local government professionals. Since its inception in 1997, LGOL has retained 100% local authority membership.

In addition, LGOL provides a twice-weekly eZine newsletter, online functions such as a survey tool and specialised databases, and access to application resources such as an electronic tender system, a recruitment system and the Readynet emergency management system.

Civic Assurance House

Civic Assurance House, formerly known as the Local Government Building, is situated in downtown Wellington in a prime location. It is a valuable component of Civic's investment portfolio as well as being a centre for local government. The building continues to be fully let and its value has continued to increase.

Accounting Services

Civic provides accounting and payroll services to LGNZ (Local Government New Zealand) and SOLGM (Society of Local Government Managers). Both LGNZ and SOLGM are tenants of Civic Assurance House.

Board Service

I wish to place on record on behalf of the Company my sincere thanks to my predecessor, Kinsley Sampson MNZM JP. Kinsley has served on the Civic Board since 1992 and as Civic's Chairman from 1998 to 2006. I am delighted that Kinsley has agreed to stay on Civic's Board for a further three-year term beginning July 2007.

Early in 2006 and with the aid of an executive search company, the Board co-opted a new director – Mike Hannan. Mike is well experienced in insurance matters having worked for NZI Insurance and associated companies for 39 years, including just over three years as NZI's Chief Executive. At the Company's AGM held in June 2006, Mike was elected Director by Civic's shareholders for a three-year term.

I believe the Board has a good mix of skills and experience and serves the Company's shareholders well.

Sponsorship

During the year, Civic was a Principal Sponsor of the SOLGM Annual Conference, the Principal Sponsor of the Local Government 2006 International Best Practices Symposium in Rotorua, a sponsor of the 2006 Ingenium Conference, and a sponsor of ICLEI Local Governments for Sustainability, where Civic funds will assist interns to work with ten local authorities joining the Communities for Climate Protection – New Zealand (CCP-NZ) Program.

The 2006 Civic Assurance United States Manager Exchange was awarded to Stephen Bunting, Manager Community Services, Hastings District Council.

Civic Roadside Rescue

This new service was introduced in July 2006 and allows councils who insure their cars and property with Civic to have free use of Civic Roadside Recovery. This service allows the driver of any Civic insured vehicle (except in the Chatham Islands) to ring for assistance, usually in the event of:

- Flat battery
- Lost/locked keys
- Flat tyre
- Out of fuel
- Mechanical breakdown

Staff

Our Company and its subsidiaries and associated organisations exist to provide top class financial and risk management services to Local Government. It does this very well and enjoys an excellent reputation in the Insurance Industry and with Local Government. The Company could not perform as it does without top class, committed, professional staff.

On behalf of the Board and all shareholders I would like to record our thanks to Chief Executive, Tim Sole; General Manager, Geoff Mercer; General Manager – Finance, Roger Gyles; Superannuation Manager, Ian Brown; and Ron Haward, Glenn Watkin, Caroline Bedford, Dean Gates and Sarah Burtonwood for their commitment to the Company.

Conclusion

Once again it is pleasing to confirm that the Company is in a very strong financial position and is well placed to play a major role for local government in providing protection for community assets. Our products are and will continue to be competitive and designed to meet the special needs of councils. The Board and management are committed to growing the Company for the benefit of shareholders in a responsible and prudent manner.

The threat (and some say certainty) of global warming means interesting times for the insurance industry with predictions overall of increased intensity of fire risk and more frequent floods, landslides and storms. It is therefore important that New Zealand local government continues to own and operate a strong and financially secure risk finance management facility that is professionally managed by skilled and specialist staff.

KiwiSaver SuperEasy is a valuable option for councils and their staff that both shareholder and non-shareholder councils are urged to make full use of.

The Company, which is operating in a competitive market, values the support that it receives from councils, all of which in one way or another are its customers. Last year we were pleased to see the percentage of councils insuring with Civic increase from 83% to 87%. The greater the local government participation in its own insurance company and its own KiwiSaver product the greater the strength of the Company and the more competitive we will be. We look forward to continuing growth and member participation. Collectively, we can achieve a great deal.



Bryan Taylor
Chairman

ANNUAL REPORT AND STATEMENT OF ACCOUNTS

FOR THE YEAR ENDED 31 DECEMBER 2006 ■

AM Best's Rating: A (Excellent)

Your Directors and Chief Executive have pleasure in submitting the Annual Report of the affairs of the Company for the year ended 31 December 2006 which is to be presented at the 46th Annual General Meeting of Members.

1. STATEMENT OF INTENT

Our Statement of Intent provides that our Company's principal goal is to operate as a successful business. This it is clearly doing. Our Company's mission statement is to ensure the long-term provision of stable, cost effective, and proactive risk financing solutions for the local government sector in New Zealand. It is clear that Civic Assurance is doing this also.

A goal of Civic that has become very pertinent with the introduction of KiwiSaver from 1 July 2007 is to facilitate the provision of and support for a secure, competitive superannuation scheme which meets the needs of local governments and their staff. Through the promotion of KiwiSaver SuperEasy, Civic is doing this.

The Statement of Intent for your Company also sets out a range of financial objectives regarding the Company's sound financial strength. All of these objectives have been met. For a full copy of Civic's Statement of Intent, see Civic's website on www.civicassurance.co.nz.

2. PROPERTY INSURANCE

Recently published research such as the Stern Report has reinforced concerns regarding global climate change and these are likely to impact significantly on insurers' and reinsurers' future rating mechanisms. However, insurance rates for the time being continue to cheapen, offset in part by increases to underlying sums insured and for Civic's profitability, at least for the time being, by increases in Civic's level of retention.

Although continuing to be a small niche player, Civic's 'A (Excellent)' claims paying ability rating from AM Best reinforces the Company's strong financial position. Civic's shareholders and the local government sector as a whole continue to benefit from local government's ownership of its own insurer.

The percentage of councils that insure their property with Civic increased during the year from 83% to 87%.

3. ASSOCIATED ENTITIES***Superannuation***

The trustee for SuperEasy and Superplan is Local Government Superannuation Trustee Limited, a 100% subsidiary of Civic. The SuperEasy scheme, launched 1 June 2005, includes the unique Automatic Fund in which members' risk exposure is automatically switched from growth assets to income assets gradually as the member gets older. This Fund is proving to be very popular with new members.

Superannuation funds under management are currently \$24.4 million and the total membership of SuperEasy and Superplan just over 1500.

KiwiSaver SuperEasy will be launched on 1 July 2007 with many councils already committed to having KiwiSaver SuperEasy as their preferred provider. External experts have made very complimentary remarks about KiwiSaver SuperEasy's design and charging structure. The SuperEasy website is www.supereasy.co.nz.

LAPP Disaster Fund

Civic is the administration and fund manager for the LAPP Disaster Fund.

Members' equity currently exceeds \$30 million and reinsurance protection is in place for a further \$75 million, soon to be increased to \$100 million. Assuming central government support as outlined in Section 19(e) of their Disaster Recovery Plan, local authority Fund members have cover for a single claim in excess of \$260 million (soon to be \$325 million), plus a reinstatement provision from LAPP's reinsurers should two major claims happen in the one year.

Membership of LAPP at 31 December 2006 was 54 local authorities. See www.lappfund.co.nz.

ANNUAL REPORT AND STATEMENT OF ACCOUNTS CONTINUED

■ FOR THE YEAR ENDED 31 DECEMBER 2006

Liability Riskpool

The trustee of Riskpool is Local Government Mutual Funds Trustee Limited, a 100% subsidiary of Civic Assurance for which Civic holds the shares in trust for Riskpool's members. Civic is also the Fund Manager for Riskpool. The day to day running of Riskpool is contracted to Jardine Lloyd Thompson as Scheme Manager.

Scheme membership includes 82 local authorities out of a potential 85.

The ninth year of Riskpool, completed on 30th June 2006, was again dominated by weathertightness issues and much time and effort was concentrated on managing the potential exposures that the "leaky building" syndrome presents to local government.

Finance Company

LGFC (Local Government Finance Corporation) continues to meet all its statutory and commercial obligations since it closed its door to new business in early 2004.

4. OPERATIONS 2006***Underwriting Retention and Commissions***

2006 was a successful year for our core insurance activities despite a softening market. Because of increased sums insured and an increase from 83% to 87% in the number of councils insuring their property with Civic, premium income for the year was up on 2005. Claims experience was benign.

Premium Income for the past five years is:

2002	\$13,888,426
2003	\$15,494,180
2004	\$17,098,268
2005	\$15,208,045
2006	\$15,232,756

Civic insures local government owned assets with values in excess of \$13 billion.

Sponsorship

The Company has during the year increased the level of its sponsorship of local authority activities. Various SOLGM events along with Ingenium and the Communities for Climate Change project benefited in 2006.

Councils to date who have benefited from Civic's sponsorship of Communities for Climate Change project interns include Southland DC, Papakura DC, Environment Waikato, Greater Wellington RC, Nelson CC and New Plymouth DC.

Investment Income

Group income declined by \$0.940 million. This was, as was the case last year, because of reducing interest income earned by LGFC (down by \$1.023 million) as its local authority debt holding reduced through Civic Bonds maturing.

Offsetting this decline, better returns were achieved on the parent company's reserve funds as market interest rates increased during the year.

Property Revenue

Civic Assurance House continues to be fully tenanted.

The building is near the government centre, an area that has continued to benefit from improved property valuations brought about by shortages of good office space in the Wellington city area. The revaluation increase of \$1.140 million has, in accordance with Financial Reporting Standards, been recorded through the property income account. Partially offsetting this revaluation is the cost of the refurbishment of the level 3 foyer and the provision of four new offices on level 9.

The net return on the property was \$1.471 million.

Operating Expenses

Overhead costs decreased by \$0.004 million due to the reduced expenditure on the SuperEasy superannuation fund which was launched and promoted in 2004/05. This saving was offset by employment of an extra staff member in the second half of the year and increased sponsorship to SOLGM and local authority related entities.

Surplus Before Tax

The surplus for the year before taxation increased by \$0.481 million to \$3.788 million.

Provision for Taxation

The Company is liable for taxation on its current year's profit adjusted for non-deductible costs. A provision for tax amounting to \$1.264 million has been made accordingly.

ANNUAL REPORT AND STATEMENT OF ACCOUNTS

FOR THE YEAR ENDED 31 DECEMBER 2006 ■

Dividend

A dividend of 12.6 cents per share with full imputation credits attached was paid on 27 July 2006.

Retained Earnings

The residual surplus for the year after providing for taxation has been transferred to the retained earnings of the Company, which after the payment of the dividend in July 2006 totals \$11.349 million at 31 December 2006.

5. CAPITAL AND SHAREHOLDERS' FUNDS

Paid up capital at 31 December 2006 was unchanged at \$6.391 million. Consolidated Shareholders' funds have increased to \$17.739 million compared with \$16.020 million the previous year.

6. DIRECTORS**Board**

The Company's Constitution requires at least two directors to be appointed from outside the local authority sector. As at 31 December 2006, M.C. Hannan, K.N. Sampson, H. J. Stone and B G Taylor are the non local authority sector directors.

Chairman of Directors

Mr Kinsley Sampson resigned as Chairman of the Board at the Board's meeting held on 28 July 2006. At that meeting, following Mr Sampson's resignation as Chairman, the Board elected Mr Bryan Taylor Chairman of the Board.

Section 159 of the Companies Act 1993.

There are no notices required under section 159 of the Companies Act 1993 except for Directors' remuneration.

For the year ended 31 December 2006 Directors' remuneration was:

	Director Fees \$
Kinsley Sampson	15,978
Bryan Taylor	15,023
Darryl Griffin	12,250
Mike Hannan (appointed 25/3/06)	9,235
Bob Lineham	12,250
Howard Stone	12,250
	76,986

Director attendance at Board meetings held during the 2006 year was

Kinsley Sampson	9
Bryan Taylor	9
Darryl Griffin	8
Mike Hannan (appointed 25/3/06)	7
Bob Lineham	9
Howard Stone	7

Directors' Indemnity & Insurance

In accordance with section 162 of the Companies Act 1993 and the Constitution of the Company, the Company has insured its Directors against liabilities to other parties that may arise from their positions as Directors of the Company. This insurance does not cover liabilities arising from criminal actions and deliberate and reckless acts or omissions by the Directors.

Interests Register**i) Director Interests**

There were no new entries made in the Interests Register during 2006.

ii) Other

Particulars of the following transactions were entered in the Interests Register pursuant to sections 162 and 163 of the Companies Act 1993:

- the renewal of the Company's Directors' and Officers' liability insurance cover.

7. MEMBERS

The membership of the Company reduced to 75 following the amalgamation of Banks Peninsula District Council with Christchurch City Council and the absorption of the Rotorua Area Electricity Authority and the Tauranga Electric Power Board by TrustPower. A list of members of the Company with their respective shareholding and voting rights is printed on the back cover of this report.

ANNUAL REPORT AND STATEMENT OF ACCOUNTS CONTINUED

■ FOR THE YEAR ENDED 31 DECEMBER 2006

8. EMPLOYEE REMUNERATION

Detailed below is the number of employees who received remuneration and other benefits in their capacity as employees of \$100,000 or more during the year.

Remuneration \$	Number of Employees
120,000 – 130,000	1
140,000 – 150,000	1
230,000 – 240,000	1

The above remuneration includes employer's contribution to superannuation, medical insurance and the cost to the company relating to the provision of a company car where applicable.

9. AUDIT COMMITTEE

The Board has not appointed an Audit Committee. However the Auditor attends at least one Board meeting per annum and, for at least part of that meeting, management are not present.

10. AUDITORS

Pursuant to Section 15 of the Public Audit Act 2001 the Company's auditor is the Auditor General who has appointed Mr G R Mitchell using the staff and resources of Deloitte to carry out the audit on his behalf.

11. MANAGEMENT AND STAFF

The Directors again express their sincere thanks to the Chief Executive, General Managers and Staff for their efforts and contributions to the results of another challenging year.

12. CONCLUSION

The year to 31 December 2006 was another excellent year for Civic with the Company for the third year in a row recording its highest ever profit. This result was undoubtedly assisted, the same as last year, by a year of benign claims and good investment returns particularly through the revaluation of Civic Assurance House.

Neither claims experience nor investment returns might be as good for 2007. Nevertheless, we are hopeful that the target gross return of 12.5% of net equity as presented in the Company's Statement of Intent will be achieved for 2007.

We are committed to the continued growth of the Company and to further enhancing the range of products and services we provide to local government.



Bryan Taylor
Chairman

May 2007



Tim Sole
Chief Executive

STATEMENT OF FINANCIAL PERFORMANCE

FOR THE YEAR ENDED 31 DECEMBER 2006 ■

	Notes	2006 Group \$	2005 Group \$	2006 Parent \$	2005 Parent \$
REVENUE					
Income Attributable to Insurance Business					
Premium Written		15,232,756	15,208,045	15,232,756	15,208,045
Reinsurance Paid		(12,128,814)	(12,642,887)	(12,128,814)	(12,642,887)
Net Claims	3	(1,897,991)	(1,839,866)	(1,897,991)	(1,839,866)
Underwriting Surplus		1,205,951	725,292	1,205,951	725,292
Commission Income		2,172,685	2,087,488	2,172,685	2,087,488
Commissions, Claims & Risk Management Expenses		(710,492)	(754,927)	(710,492)	(754,927)
		2,668,144	2,057,853	2,668,144	2,057,853
Administration Fees		561,289	468,338	561,289	468,338
Income from Investments	8	2,671,084	3,611,577	914,038	831,533
Interest Expense		(1,739,942)	(2,753,163)	-	-
Net Property Income	4	1,470,839	1,770,298	1,470,839	1,770,298
Net Operating Revenue		5,631,414	5,154,903	5,614,310	5,128,022
EXPENDITURE					
Audit Fee					
Statutory Audit		52,740	60,250	52,740	60,250
Other Fees Paid to Auditors		43,720	39,950	43,720	39,950
Claims Paying Ability Rating		22,707	21,891	22,707	21,891
Consultants		52,758	33,092	52,758	33,092
Depreciation	10	33,089	31,369	33,089	31,369
Directors' Remuneration		76,986	75,073	76,986	75,073
Global Superannuation Scheme		207,244	341,616	207,244	341,616
Insurance Council of New Zealand		12,500	12,500	12,500	12,500
Legal Fees		34,318	30,237	34,318	29,074
Subvention Payment		25,328	26,315	25,328	26,315
Other Expenses		460,881	406,275	431,933	369,618
Employee Remuneration		820,742	769,170	820,742	769,170
Total Expenditure		1,843,013	1,847,738	1,814,065	1,809,918
Net Surplus Before Taxation		3,788,401	3,307,165	3,800,245	3,318,104
Less Taxation Expense	5	1,264,050	1,124,612	1,267,959	1,128,222
NET SURPLUS AFTER TAXATION	14	2,524,351	2,182,553	2,532,286	2,189,882

The Notes to the Financial Statements form part of, and should be read in conjunction with these Statements.

STATEMENT OF FINANCIAL POSITION

■ AS AT 31 DECEMBER 2006

	Notes	2006 Group \$	2005 Group \$	2006 Parent \$	2005 Parent \$
SHAREHOLDERS EQUITY					
Issued and Paid-Up Ordinary Shares					
6,390,790 Ordinary Shares fully paid up	22	6,390,790	6,390,790	6,390,790	6,390,790
Retained Earnings		11,348,692	9,629,580	11,386,226	9,659,179
TOTAL EQUITY		17,739,482	16,020,370	17,777,016	16,049,969
Represented By:					
CURRENT ASSETS					
Bank & Short Term Deposits		10,273,246	8,597,245	10,182,167	8,509,436
Sundry Debtors and Prepayments		1,146,025	1,141,649	1,146,025	1,141,649
Premiums Receivable		1,825,559	2,251,009	1,825,559	2,251,009
Reinsurance Recoveries		2,602,735	3,072,982	2,602,735	3,072,982
Interest Accrued		530,280	687,295	84,976	33,539
Income Tax Receivable	5	41,220	216,836	41,220	216,836
Local Authority Stock	6	12,823,707	10,673,545	-	-
Deferred Acquisition Fees		10,610	18,514	-	-
Loan	19	1,481	9,660	1,481	9,660
Total Current Assets		29,254,863	26,668,735	15,884,163	15,235,111
TOTAL FIXED ASSETS	10	77,473	85,738	77,473	85,738
NON CURRENT ASSETS					
Managed Funds	7	4,012,550	3,722,021	4,012,550	3,722,021
NZ Government Stock		103,299	101,165	103,299	101,165
Local Authority Stock	6	9,160,795	21,933,940	-	-
Shares in Local Government Online		30,000	30,000	30,000	30,000
Investment Property	9	7,825,000	6,685,000	7,825,000	6,685,000
Total Non Current Assets		21,131,644	32,472,126	11,970,849	10,538,186
TOTAL ASSETS		50,463,980	59,226,599	27,932,485	25,859,035

The Notes to the Financial Statements form part of, and should be read in conjunction with these Statements.

STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2006 ■

	Notes	2006 Group \$	2005 Group \$	2006 Parent \$	2005 Parent \$
CURRENT LIABILITIES					
Sundry Creditors & Accrued Charges		2,508,589	2,612,412	2,495,488	2,598,297
Accrued Holiday Pay		35,828	46,370	35,828	46,370
Accrued Interest Payable		445,304	653,756	-	-
Civic Bonds Issued	6	12,825,944	10,671,315	-	-
Deferred Tax Liability	5	1,537,035	1,127,044	1,544,554	1,155,982
Subordinated Debt	16	120,176	120,176	-	-
Total Current Liabilities		17,472,876	15,231,073	4,075,870	3,800,649
INSURANCE PROVISIONS					
Unearned Premium Reserve		2,234,599	2,478,417	2,234,599	2,478,417
Outstanding Claims Liability		3,845,000	3,530,000	3,845,000	3,530,000
Total Insurance Provisions		6,079,599	6,008,417	6,079,599	6,008,417
NON CURRENT LIABILITY					
Civic Bonds Issued	6	9,172,023	21,966,739	-	-
TOTAL LIABILITIES		32,724,498	43,206,229	10,155,469	9,809,066
EXCESS OF ASSETS OVER LIABILITIES		17,739,482	16,020,370	17,777,016	16,049,969

For and on behalf of the Directors

Director Bryan Taylor



23 March 2007

Director Bob Lineham



23 March 2007

The Notes to the Financial Statements form part of, and should be read in conjunction with these Statements.

STATEMENT OF MOVEMENTS IN EQUITY

■ FOR THE YEAR ENDED 31 DECEMBER 2006

	2006 Group \$	2005 Group \$	2006 Parent \$	2005 Parent \$
OPENING EQUITY	16,020,370	14,604,712	16,049,969	14,626,982
Net Surplus After Taxation	2,524,351	2,182,553	2,532,286	2,189,882
Total Recognised Revenue and Expenses	2,524,351	2,182,553	2,532,286	2,189,882
Dividend Payment	(805,239)	(766,895)	(805,239)	(766,895)
CLOSING EQUITY	17,739,482	16,020,370	17,777,016	16,049,969

The Notes to the Financial Statements form part of, and should be read in conjunction with these Statements.

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2006 ■

	Notes	2006 Group \$	2005 Group \$	2006 Parent \$	2005 Parent \$
Cash Flows from Operating Activities					
Cash was provided from:					
Premiums Received		15,367,116	15,823,418	15,367,116	15,823,418
Commissions Received		2,176,945	2,126,477	2,176,945	2,126,477
Rent Received		709,017	698,942	709,017	698,942
Administration Fees Received		588,414	381,663	588,414	381,663
Interest Received		2,523,376	3,816,593	574,982	578,051
		21,364,868	22,847,093	19,416,474	19,608,551
Cash was applied to:					
Claims Expenses		1,177,771	1,531,589	1,177,771	1,531,589
Taxation Paid		690,158	956,153	690,158	956,153
Interest Expense		1,948,430	3,251,601	-	-
Payments to Reinsurers and Suppliers		14,969,652	15,803,264	14,947,630	15,779,149
		18,786,011	21,542,607	16,815,559	18,266,891
Net Cash Flow from Operating Activities	14	2,578,857	1,304,486	2,600,915	1,341,660
Cash Flows from Investing Activities					
Cash was provided from:					
Maturing Local Authority Stock		10,677,000	22,722,000	-	-
		10,677,000	22,722,000	-	-
Cash was applied to:					
Maturing Civic Bonds		10,677,000	22,722,000	-	-
Purchase of Investments		80,972	124,293	80,972	124,293
Purchase of Fixed Assets		24,824	51,890	24,824	51,890
		10,782,796	22,898,183	105,796	176,183
Net Cash Flow from Investing Activities		(105,796)	(176,183)	(105,796)	(176,183)
Cash Flows from Financing Activities					
Cash was provided from:					
Receipt of Loan Payments		8,179	1,136	8,179	1,136
		8,179	1,136	8,179	1,136
Cash was applied to:					
Payment of Subvention Payment		-	-	25,328	26,315
Payment of Dividend		805,239	766,895	805,239	766,895
		805,239	766,895	830,567	793,210
Net Cash Flow from Financing Activities		(797,060)	(765,759)	(822,388)	(792,074)
Net Increase in Cash Held		1,676,001	362,544	1,672,731	373,403
Opening Cash Balance as at 1 January		8,597,245	8,234,701	8,509,436	8,136,033
Closing Cash Balance as at 31 December		10,273,246	8,597,245	10,182,167	8,509,436
Being:					
Bank and Short Term Deposits		10,273,246	8,597,245	10,182,167	8,509,436

The Notes to the Financial Statements form part of, and should be read in conjunction with these Statements.

NOTES TO THE FINANCIAL STATEMENTS

■ FOR THE YEAR ENDED 31 DECEMBER 2006

NOTE 1

NATURE OF BUSINESS

The Group provides insurance products and other financial services principally for New Zealand local government.

NOTE 2

STATEMENT OF ACCOUNTING POLICIES

General Accounting Policies

The financial statements are presented in accordance with the Companies Act 1993 and have been prepared to comply with the requirements of the Financial Reporting Act 1993.

The financial statements have been prepared in accordance with generally accepted accounting practices.

The measurement and reporting of profits on an historical cost basis have been followed by the Company and Group, except for specific policies as described below.

Particular Accounting Policies

The following particular accounting policies which materially affect the measurement of profit and financial position have been applied.

a) Consolidation of Subsidiaries

The Group financial statements incorporate the financial statements of the Company and its subsidiaries, which have been consolidated using the purchase method. The results of any subsidiaries acquired or disposed of during the year are consolidated from the effective dates of acquisition or until the effective dates of disposal. All inter-company transactions, balances and unrealised profits are eliminated on consolidation.

b) Income Attributable to Insurance Business

Premium and commission income is taken into account when the insurance policies are effected or renewed.

c) Claims

Claims under policies are accounted for when notified and the liability under the policy is provided for under the provision for outstanding claims in the Statement of Financial Position. Due to the short term nature of claims these are not discounted in the financial statements.

d) Investment Property

The investment property, which is valued annually, has been valued at net current value based on a valuation performed by registered public valuer, TelferYoung (Wgtn) Ltd as at 31 December 2006. The Statement of Financial Performance does not include a charge for depreciation on the investment property but does include the refurbishment expenses incurred in 2006.

e) Depreciation of Fixed Assets

Fixed Assets are depreciated on a straight line basis at rates calculated to allocate the assets' cost, in equal instalments over their estimated useful lives which are assessed and regularly reviewed.

Fixed Assets are carried at historic cost value. The useful lives attributed to various assets are:

Office Furniture and Equipment	up to 5 years
Software	5 years
Motor Vehicles	5 years

f) Investments

With the exception of local authority stock, investments are included at market valuation. Local authority stocks are included at settlement value. Any discount or premium on settlement is amortised over the life of the Civic Bonds. The Company has a 25% share in Local Government Online Ltd which is stated at cost.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2006 ■

g) Civic Bonds

Civic Bonds are included at settlement value. Any discount or premium on settlement is amortised over the life of the stock.

h) Deferred Acquisition Fees

Acquisition fees in relation to Civic Bonds issued are capitalised and amortised over the life of the underlying Civic Bonds.

i) Taxation

The income tax expense charged against the profit for the year is the estimated liability in respect of that profit and is calculated after allowance for permanent differences. The liability method of accounting for deferred taxation is applied on a comprehensive basis. Deferred taxation arises when items of income or expenditure are recognised in one period for accounting purposes and a different period for tax purposes. Future tax benefits attributable to timing differences are only recognised when there is virtual certainty of realisation.

j) Investment in Subsidiaries

The Company has five wholly owned subsidiaries which are all incorporated in New Zealand. Four of these, Local Government Global Superannuation Trustee Ltd, SuperEasy Ltd and Civic Assurance Limited with balance dates of 31 December and Local Government Mutual Funds Trustee Ltd with its balance date of 30 June did not have any significant assets, liabilities, revenue or expenses at 31 December 2006. New Zealand Local Government Finance Corporation Limited (LGFC) commenced business on the 29 November 1999 and had total assets of \$22,539,014 at balance date. The four companies have been consolidated within the financial statements. The operating companies are subject to ongoing review of their operations to ensure they are meeting their agreed strategic objectives. Any impairment in value of these companies is reflected in the Statement of Financial Performance.

k) Basis of Measuring Interest Income and Expenses

Interest income and expenses are accounted for on an accruals basis.

l) Changes in Accounting Policies

All accounting policies have been applied on bases consistent with prior years.

NOTE 3

NET CLAIMS

	2006 Group \$	2005 Group \$	2006 Parent \$	2005 Parent \$
Claims incurred and Provision for Outstanding Claims				
Total claims incurred during the year	(4,941,370)	(5,180,027)	(4,941,370)	(5,180,027)
Less total claims cost recovered from reinsurers	3,043,379	3,340,161	3,043,379	3,340,161
Net Claims	(1,897,991)	(1,839,866)	(1,897,991)	(1,839,866)

NOTE 4

PROPERTY INCOME

Gross Rent Received	692,201	681,787	692,201	681,787
Unrealised Net Change in Value of Investment Property	1,140,000	1,460,000	1,140,000	1,460,000
Property Refurbishment Costs	(75,928)	(94,293)	(75,928)	(94,293)
Property Operating Costs	(285,434)	(277,196)	(285,434)	(277,196)
	1,470,839	1,770,298	1,470,839	1,770,298

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

■ FOR THE YEAR ENDED 31 DECEMBER 2006

NOTE 5

TAXATION

	2006 Group \$	2005 Group \$	2006 Parent \$	2005 Parent \$
Taxation Expense				
Net Surplus Before Tax	3,788,401	3,307,165	3,800,245	3,318,104
Permanent Differences	42,054	100,750	42,054	100,750
Prior period Adjustment	-	-	-	-
	3,830,455	3,407,915	3,842,299	3,418,854
Taxation @ 33%	1,264,050	1,124,612	1,267,959	1,128,222
Tax Loss not recognised	-	-	-	-
Taxation Expense	1,264,050	1,124,612	1,267,959	1,128,222
Taxation Expense comprises:				
Current Tax	879,387	530,180	879,387	530,180
Deferred Tax/(Future Income Tax Benefit)	384,663	594,432	388,572	598,042
	1,264,050	1,124,612	1,267,959	1,128,222
Deferred Tax Liability				
Opening Balance	(1,127,044)	(506,297)	(1,155,982)	(557,940)
Current year charge	(384,663)	(594,432)	(388,572)	(598,042)
Prior period adjustment	(25,328)	(26,315)	-	-
Closing Balance	(1,537,035)	(1,127,044)	(1,544,554)	(1,155,982)
(Provision for Taxation) / Tax Refund Due				
Opening Balance	216,836	(209,137)	216,836	(209,137)
Prior period Adjustment	-	-	-	-
Tax paid	703,771	956,153	703,771	956,153
Tax refund	-	-	-	-
Tax Expenses	(879,387)	(530,180)	(879,387)	(530,180)
Closing Balance	41,220	216,836	41,220	216,836
Imputation Credit Account				
Opening Balance	4,931,081	4,352,652	4,931,081	4,352,652
Plus Credits				
Income Tax Paid	505,000	765,000	505,000	765,000
Resident Withholding Tax	198,771	191,153	198,771	191,153
Imputation Credits Received	-	-	-	-
	703,771	956,153	703,771	956,153
Less Debits				
Tax refund	-	-	-	-
Imputation Credits Attached to Dividends Paid	396,611	377,724	396,611	377,724
	396,611	377,724	396,611	377,724
Closing Balance	5,238,241	4,931,081	5,238,241	4,931,081

NOTE 6

LOCAL AUTHORITY STOCK

The cost of investments in local authority stock at 31 December 2006 was \$21,984,502 (2005: \$32,607,485). Market value of local authority stock at 31 December 2006 was \$22,200,542 (2005: \$33,006,724). Market value of Civic Bonds at

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2006 ■

31 December 2006 was \$22,197,945 (2005: \$33,002,604). At balance date the Company had exposure to ten local authorities in thirteen parcels of local authority stock. The maximum exposure to any one local authority being 18.3% of total stock held.

VALUATION

	2006	2005
Local Authority Stock		
Face Value at 31 December 2006	22,109,500	32,786,500
Less: Premium / Discount	(124,998)	(179,015)
Book Value	21,984,502	32,607,485
Civic Bonds		
Face Value at 31 December 2006	22,109,500	32,786,500
Less: Premium / Discount	(111,533)	(148,446)
Book Value	21,997,967	32,638,054

MATURITY AND CREDIT EXPOSURES

Maturity profile of Monetary Assets Receivable and Liabilities Payable as at 31 December 2006

	Monetary Assets	Monetary Liabilities
At call or not later than 6 months	9,914,579	9,823,500
Later than 6 months but not later than 12 months	3,025,000	3,025,000
Later than 12 months but not later than 24 months	6,547,000	6,547,000
Later than 24 months but not later than 60 months	2,714,000	2,714,000
Later than 60 months	-	-
	22,200,579	22,109,500

In respect of such of those monetary assets as are amounts receivable – Other than interest receivable on Local Authority Stock, there are no receivables outstanding. Debtors who owe the 6 largest amounts make up 84.8% (2005 68.8%) of the total Monetary Assets Receivable.

NOTE 7

MANAGED FUNDS

The cost of investments in managed funds at 31 December 2006 was \$3,000,000 (2005: \$3,000,000).
Market value of managed funds at 31 December 2006 was \$4,012,550 (2005: \$3,722,021).

NOTE 8

INCOME FROM INVESTMENTS

	2006 Group \$	2005 Group \$	2006 Parent \$	2005 Parent \$
Interest Received – Short Term Deposits at Bank	626,419	530,550	626,419	530,550
Interest Received – Local Authority Stock	1,757,046	2,780,044	-	-
Revaluation – NZ Government Stock	(2,910)	(1,925)	(2,910)	(1,925)
Managed Fund	290,529	302,908	290,529	302,908
	2,671,084	3,611,577	914,038	831,533

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

■ FOR THE YEAR ENDED 31 DECEMBER 2006

NOTE 9**INVESTMENT PROPERTY***(Civic Assurance House, Lambton Quay, Wellington)*

	2006 Group \$	2005 Group \$	2006 Parent \$	2005 Parent \$
a) Land valuation at 1/01/06 (Original Cost \$289,253)	2,650,000	2,100,000	2,650,000	2,100,000
Plus increase in value at 31/12/06	850,000	550,000	850,000	550,000
Net Current Value at 31/12/06	3,500,000	2,650,000	3,500,000	2,650,000
b) Building valuation at 1/01/06 plus additions in the year at cost (Original Cost \$860,571)	4,010,000	3,100,000	4,010,000	3,100,000
Plus increase in value at 31/12/06	290,000	910,000	290,000	910,000
Net Current Value at 31/12/06	4,300,000	4,010,000	4,300,000	4,010,000
c) Artwork at Cost	8,844	8,844	8,844	8,844
Plus increase in value at 31/12/06	16,156	16,156	16,156	16,156
Net Current Value at 31/12/06	25,000	25,000	25,000	25,000
	7,825,000	6,685,000	7,825,000	6,685,000

NOTE 10**FIXED ASSETS**

a) Office Furniture and Equipment – cost	234,258	209,434	234,258	209,434
Less Accumulated Depreciation at 31/12/05	(140,295)	(119,707)	(140,295)	(119,707)
	93,963	89,727	93,963	89,727
Less Depreciation for 2006	(23,704)	(20,588)	(23,704)	(20,588)
Book Value at 31/12/06	70,259	69,139	70,259	69,139
b) Software – cost	173,124	173,124	173,124	173,124
Less Accumulated Depreciation at 31/12/05	(169,446)	(164,686)	(169,446)	(164,686)
	3,678	8,438	3,678	8,438
Less Depreciation for 2006	(3,363)	(4,760)	(3,363)	(4,760)
Book Value at 31/12/06	315	3,678	315	3,678
c) Motor Vehicles – cost	30,986	30,986	30,986	30,986
Less Accumulated Depreciation at 31/12/05	(18,065)	(12,043)	(18,065)	(12,043)
	12,921	18,943	12,921	18,943
Less Depreciation for 2006	(6,022)	(6,022)	(6,022)	(6,022)
Book Value at 31/12/06	6,899	12,921	6,899	12,921
	77,473	85,738	77,473	85,738

The Net Surplus after Taxation in the Statement of Financial Performance includes an \$89 gain on disposal of fixed assets in 2006 (2005: \$3,028 loss).

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2006 ■

NOTE 11**CONTINGENT LIABILITIES**

The contingent liabilities are:

- i) 100,000 uncalled shares in the wholly owned subsidiary, Local Government Superannuation Trustee Limited
- ii) 1,000 uncalled shares in the wholly owned subsidiary, Local Government Mutual Funds Trustee Limited
- iii) 1,000 uncalled shares in the wholly owned subsidiary, Civic Assurance Limited
- iv) a guarantee given by the Company to Local Government Mutual Funds Trustee Limited (LGMFTL) indemnifying (LGMFTL) for a period of 5 years from 30/6/97 for the total liability of the Riskpool scheme claims. This provision only applies after all scheme assets and calls on members as provided in the Trust Deed are exhausted. The total liability under the guarantee is limited to \$2,000,000. No notice of claim under the guarantee has been received.
- v) 100,000 uncalled shares in the wholly owned subsidiary, NZ Local Government Finance Corporation Limited (LGFC).
- vi) 100 uncalled shares in the wholly owned subsidiary, SuperEasy Limited.

NOTE 12**FINANCIAL INSTRUMENTS****1) Financial Assets and Liabilities**

The carrying amounts of all financial assets and liabilities, with the exception of local authority Stock and Civic Bonds, are considered to be equivalent to their market and fair value. Market values for the Local Authority Stock and Civic Bonds are disclosed in Note 6.

2) Credit Risk

Financial instruments which potentially subject the Company to a concentration of credit risk consist principally of cash, interest bearing deposits, local authority stocks and investments in managed funds.

With the exception of Local Authority Stock held by Local Government Finance, the Company does not require collateral or other security to support financial instruments with credit risk and as such, no collateral exists for any of the investments held by the Company. The maximum credit risk exposure is the carrying amount of the individual investments.

The Company has placed interest bearing deposits and funds to be managed with financial institutions and local authorities of high credit worthiness and limits its amount of credit exposure to any one such institution.

Local Authority Debt Securities acquired by Local Government Finance are secured by a rates charge from the issuing local authority. Civic Bonds issued by Local Government Finance are secured by a floating charge over the Charged Assets of Local Government Finance, including the Local Authority Debt Securities held by Local Government Finance. The floating charge also secures payment of Bank Money to Banks. Neither the Company, the Manager, any Dealer, the Trustee, any Approved Counterparty nor any other person guarantees the Civic Bonds.

The investment portfolio consists of a wide range of assets both in New Zealand and overseas.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

■ FOR THE YEAR ENDED 31 DECEMBER 2006

3) Interest Rate and Currency Risk

The Company is exposed to interest rate and foreign exchange rate risk in that interest rate and foreign exchange rate movements will affect cash flows and the market value of fixed interest, units and other investment assets.

The effective interest rate and maturities of financial instruments are as follows:

Asset	Effective Interest Rate 2006	Maturity Date 2006	Effective Interest Rate 2005	Maturity Date 2005
NZ Government Stock	6.4%	15/11/11	6.2%	15/11/06
NZ Local Authority Stock	5.5% to 7.7%	15/2/07 to 15/2/10	5.5% to 7.9%	15/2/06 to 15/2/10

Liability	Coupon Interest Rate 2006	Maturity Date 2006	Coupon Interest Rate 2005	Maturity Date 2005
Civic Bonds	5.5% to 7.7%	15/2/07 to 15/2/10	5.5% to 7.9%	15/2/06 to 15/2/10

All other financial instruments are current.

Foreign Currency Risk

Foreign currency risk is the risk that the company will incur losses through exposure to foreign exchange movements. The Company manages this risk by ensuring a small portion of the managed fund portfolio is denominated in foreign currency. At balance date the Company had \$843,084 invested in an unhedged global equities fund.

4) New Zealand Local Government Finance Corporation Limited – Interest Rate Risk

Local Government Finance's business is to lend money to Local Authorities by acquiring Local Authority Debt Securities. It finances this by issuing bonds. The terms of the Civic Bonds issued are required to be matched (either physically or by the use of a financial derivative product) to the terms of Local Authority Debt Securities acquired by Local Government Finance.

Civic Bonds are constituted and issued pursuant to a Trust Deed dated 23 November 1999 between Local Government Finance and The Public Trustee, as trustee. The Trust Deed creates a floating charge over Local Government Finance's Charged Assets to secure the payment of bond money to holders and the payment of bank money to banks.

Civic Bonds are issued on a "matched" basis, that is when Local Government Finance acquires financial assets (being, essentially, Local Authority Debt Securities and any associated swaps or financial derivatives) it then issues Civic Bonds which in aggregate have the same principal amount, are in the same currency, have the same principal and interest payment dates, and have at least the same initial yield to Local Government Finance, taking into account the costs and margin associated with the Civic Bonds.

Local Government Finance may enter into swaps or other financial derivatives with approved counterparties to ensure that the terms of Local Authority Debt Securities acquired by it, and Civic Bonds issued by it, are matched as described in the preceding paragraph.

NOTE 13**SUBSEQUENT EVENTS**

There have been no material events since balance date that impact on the operation or viability of the Company and the Group.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2006 ■

NOTE 14

RECONCILIATION OF NET SURPLUS AFTER TAX WITH CASH FLOW FROM OPERATING ACTIVITY

	2006 Group \$	2005 Group \$	2006 Parent \$	2005 Parent \$
Reported Surplus After Taxation	2,524,351	2,182,553	2,532,286	2,189,882
Add/(less) non cash items				
Depreciation	33,089	31,369	33,089	31,369
Insurance Provisions	71,182	1,177,545	71,182	1,177,545
Deferred Tax Liability	388,572	598,042	388,572	598,042
Amortisation of discount on local authority stock	(17,103)	(26,881)	-	-
Net change in market value of property	(1,064,072)	(1,365,707)	(1,064,072)	(1,365,707)
Unrealised net change in value of investments	(287,619)	(300,983)	(287,619)	(300,983)
	(875,951)	113,385	(858,848)	140,266
Add/(less) movements in other working capital items				
Accounts Receivable	891,321	(134,887)	891,321	(134,887)
Accounts Payable	(114,365)	(513,734)	(113,351)	(501,444)
Interest Receivable	157,015	532,880	(51,437)	47,501
Interest Payable	(208,452)	(485,379)	-	-
Deferred acquisition fees	7,904	12,936	-	-
Tax Refund Due	171,706	(429,583)	175,616	(425,973)
Subordinated Loan	-	-	-	-
	905,129	(1,017,767)	902,149	(1,014,803)
Add/(Less) Items Classified as investing activity	-	-	-	-
Add/(Less) Items Classified as financing activity	25,328	26,315	25,328	26,315
Net Cash Inflow from Operating Activities	2,578,857	1,304,486	2,600,915	1,341,660

NOTE 15

OPERATING LEASE COMMITMENTS

There are no operating lease commitments.

NOTE 16

SUBORDINATED DEBT

Local Government Finance Corporation's Investment Manager's brokerage has been subordinated. The subordinated loan ranks behind all other Local Government Finance creditors. Under the terms of the subordination, amounts payable including interest shall only be payable at such time, or times, as the Directors determine that the Company has available funds to make such payments.

NOTE 17

CIVIC BONDS

Local Government Finance's business is to lend money to Local Authorities by acquiring Local Authority Debt Securities. It finances this by issuing bonds. The terms of the Civic Bonds issued are required to be matched (either physically or by the use of a financial derivative product) to the terms of Local Authority Debt Securities acquired by Local Government Finance.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

■ FOR THE YEAR ENDED 31 DECEMBER 2006

Local Authority Debt Securities acquired by Local Government Finance will be secured by a rates charge from the issuing Local Authority. Civic Bonds issued by Local Government Finance are secured by a floating charge over the Charged Assets of Local Government Finance, including the Local Authority Debt Securities held by Local Government Finance. The floating charge also secures payment of Bank Money to Banks. Neither NZ Local Government Insurance Corporation Ltd (Trading as Civic Assurance), the Manager, any Dealer, the Trustee, any Approved Counterparty nor any other person guarantees the Civic Bonds.

The Civic Bonds will be constituted and issued pursuant to a Trust Deed dated 23 November 1999 between Local Government Finance and The Public Trustee, as trustee. The Trust Deed creates a floating charge over Local Government Finance's Charged Assets to secure the payment of Bond Money to Holders and the payment of Bank Money to Banks.

The Civic Bonds are issued on a "matched" basis, that is when Local Government Finance acquires financial assets (being, essentially, Local Authority Debt Securities and any swaps or financial derivatives) it then issues Civic Bonds which in aggregate have the same principal amount, are in the same currency, have the same principal and interest payment dates, and have at least the same initial yield to Local Government Finance, taking into account the costs and margin associated with the Civic Bonds.

NOTE 18**INSURANCE PROVISIONS**

The Company has a claims payable credit rating of "A (Excellent)" issued by A M Best. The Company's reinsurance programme is structured to adequately protect the company's solvency and capital position. It covers per risk and event losses in New Zealand. Counterparty reinsurers with credit ratings ranging from "A-" to "AAA" participate in the reinsurance catastrophe programme.

NOTE 19**LOAN**

The Company, late in 2002, advanced \$20,000 as a 4 year loan at interest to a tenant as a contribution for fitout costs. Monthly repayments commenced in February 2003.

NOTE 20**RELATED PARTIES**

Related party transactions are:

- 1) the subvention payment Civic Assurance made to Local Government Finance Corporation of \$25,328
- 2) Civic Assurance has charged administration fees to Riskpool of \$200,275 and Superplan and SuperEasy of \$71,026

Outstanding Balances

There are no amounts outstanding between the company and related parties.

NOTE 21**TOTAL REVENUE**

	2006 Group \$	2005 Group \$	2006 Parent \$	2005 Parent \$
Premium Written	15,232,756	15,208,045	15,232,756	15,208,045
Commission Income	2,172,685	2,087,488	2,172,685	2,087,488
Administration Fees	561,289	468,338	561,289	468,338
Income from Investments	2,671,084	3,611,577	914,038	831,533
Property Income	1,832,201	2,141,787	1,832,201	2,141,787
	22,470,015	23,517,235	20,712,969	20,737,191

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2006 ■

NOTE 22

SHAREHOLDERS EQUITY

The Capital of the Company comprises solely of Ordinary shares fully paid to \$1 with each share ranking equally in votes, dividends and surpluses.

NOTE 23

EQUITY RETAINED FOR FINANCIAL SOUNDNESS

All the equity is retained to ensure the financial soundness of the Company. The high level of liquidity in the fixed interest (\$10.3m) and managed funds (\$3.1m) investments is retained for cash flow purposes and also to balance the funds allocated in the building investment. For this reason the Company believes that the high liquidity ratio is a significant factor in attaining the A (Excellent) claims paying ability rating from AM Best.

NOTE 24

COMPARISON WITH STATEMENT OF INTENT

The following is a comparison of the actual performance against the Statement of Intent for the year ended 31 December 2006.

	SI Target	Actual
– Annual claims paying ability rating by AM Best	A (Excellent)	A (Excellent)
– To exceed the average insurance industry solvency standards as published by the NZ Insurance Council		Well exceeded
– Pretax surplus – (Before property revaluation items)	\$2,031,000	\$3,788,401
Net Asset Value –	\$16,556,000	\$17,777,016
Net Asset Value per share –	\$2.59	\$2.78

NOTE 25

ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS

In December 2002 the New Zealand Accounting Standards Review Board announced that New Zealand equivalents of International Financial Reporting Standards ("NZ IFRS") will apply to all New Zealand reporting entities for the periods commencing on or after 1 January 2007. Entities have the option to adopt NZ IFRS for periods beginning on or after 1 January 2005.

In preparation for adoption of NZ IFRS, the Company has investigated the impact of changes required in accounting policies and the impact on its financial statements. The result of these investigations indicates that apart from a movement in deferred tax relating to the unrealised appreciation in the value of the building there is unlikely to be any material variation to the financial statements of the Company.

The Company will adopt NZ IFRS for the year ending 31 December 2007.

TO THE READERS OF NEW ZEALAND LOCAL GOVERNMENT INSURANCE CORPORATION LIMITED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2006

The Auditor-General is the auditor of New Zealand Local Government Insurance Corporation Limited (the Company) and Group. The Auditor-General has appointed me, G R Mitchell, using the staff and resources of Deloitte, to carry out the audit of the financial statements of the Company and Group, on his behalf, for the year ended 31 December 2006.

Unqualified Opinion

In our opinion:

- The financial statements of the New Zealand Local Government Insurance Corporation and Group on pages 1 to 12:
 - comply with generally accepted accounting practice in New Zealand; and
 - fairly reflect:
 - the Company's and Group's financial position as at 31 December 2006.
 - the results of their operations and cash flows for the year ended on that date; and
 - their service performance achievements measured against the performance targets adopted for the year ended on that date.
- Based on our examination the Company kept proper accounting records.

The audit was completed on 23 March 2007 and is the date at which our opinion is expressed.

The basis of our opinion is explained below. In addition, we outline the responsibilities of the Directors and the Auditor, and explain our independence.

Basis of Opinion

We carried out the audit in accordance with the Auditor-General's Auditing Standards, which incorporate the New Zealand Auditing Standards.

We planned and performed the audit to obtain all the information and explanations we considered necessary in order to obtain reasonable assurance that the financial statements did not have material misstatements, whether caused by fraud or error.

Material misstatements are differences or omissions of amounts and disclosures that would affect a reader's overall understanding of the financial statements. If we had found material misstatements that were not corrected, we would have referred to them in our opinion.

The audit involved performing procedures to test the information presented in the financial statements. We assessed the results of those procedures in forming our opinion.

Audit procedures generally include:

- determining whether significant financial and management controls are working and can be relied on to produce complete and accurate data;
- verifying samples of transactions and account balances;
- performing analyses to identify anomalies in the reported data;
- reviewing significant estimates and judgements made by the Board of Directors;
- confirming year-end balances;
- determining whether accounting policies are appropriate and consistently applied; and
- determining whether all financial statement disclosures are adequate.

We did not examine every transaction, nor do we guarantee complete accuracy of the financial statements.

We evaluated the overall adequacy of the presentation of information in the financial statements. We obtained all the information and explanations we required to support our opinion above.

Responsibilities of the Board of Directors and the Auditor

The Board of Directors (the Board) is responsible for preparing financial statements in accordance with generally accepted accounting practice in New Zealand. Those financial statements must fairly reflect the financial position of the Company and Group as at 31 December 2006. They must also fairly reflect the results of their operations and cash flows and service performance achievements for the year ended on that date.

We are responsible for expressing an independent opinion on the financial statements and reporting that opinion to you. This responsibility arises from section 15 of the Public Audit Act 2001.

Independence

When carrying out the audit we followed the independence requirements of the Auditor-General, which incorporate the independence requirements of the Institute of Chartered Accountants of New Zealand.

In addition to the audit we have carried out assignments in the areas of tax compliance services and other assurance services, which are compatible with those independence requirements. Other than the audit and these assignments, we have no relationship with or interests in the Company or Group.



G R Mitchell

DELOITTE

ON BEHALF OF THE AUDITOR-GENERAL

WELLINGTON, NEW ZEALAND

CIVIC ASSURANCE SHAREHOLDERS AS AT 31 DECEMBER 2006

SHAREHOLDER MEMBER		NO. OF SHARES	SHAREHOLDER MEMBER		NO. OF SHARES
CITY COUNCILS			DISTRICT COUNCILS (Cont'd)		
Auckland	657,820	10.3%	Papakura	37,103	0.6%
Christchurch	464,568	7.3%	Queenstown-Lakes	31,149	0.5%
Dunedin	470,966	7.4%	Rangitikei	23,338	0.4%
Hamilton	202,729	3.2%	Rodney	13,554	0.2%
Hutt	233,911	3.7%	Rotorua	87,953	1.4%
Invercargill	153,864	2.4%	Ruapehu	44,666	0.7%
Manukau	208,878	3.3%	Southland	13,715	0.2%
Napier	141,921	2.2%	South Taranaki	61,748	1.0%
Nelson	95,543	1.5%	South Waikato	15,187	0.2%
North Shore	234,061	3.7%	South Wairarapa	26,965	0.4%
Palmerston North	193,514	3.0%	Stratford	26,804	0.4%
Porirua	70,073	1.1%	Tararua	43,986	0.7%
Upper Hutt	51,209	0.8%	Tasman	26,792	0.4%
Waitakere	66,205	1.0%	Taupo	83,971	1.3%
Wellington	526,821	8.2%	Tauranga	124,242	1.9%
			Thames-Coromandel	7,120	0.1%
DISTRICT COUNCILS			Timaru	109,059	1.7%
Ashburton	28,008	0.4%	Waikato	41,070	0.6%
Buller	15,698	0.2%	Waimakariri	38,086	0.6%
Carterton	11,821	0.2%	Waimate	9,229	0.1%
Central Hawke’s Bay	8,290	0.1%	Waipa	68,541	1.1%
Central Otago	39,619	0.6%	Wairoa	22,992	0.4%
Clutha	33,711	0.5%	Waitaki	59,087	0.9%
Far North	35,440	0.6%	Waitomo	2,470	0.0%
Franklin	61,767	1.0%	Wanganui	138,830	2.2%
Gisborne	43,702	0.7%	Western Bay of Plenty	16,142	0.3%
Gore	44,589	0.7%	Westland	16,356	0.3%
Grey	33,742	0.5%	Whakatane	13,394	0.2%
Hastings	58,585	0.9%	Whangarei	25,762	0.4%
Hauraki	31,717	0.5%	REGIONAL COUNCILS		
Horowhenua	45,012	0.7%	Auckland	72,258	1.1%
Hurunui	1,000	0.0%	Canterbury	70,348	1.1%
Kaipara	13,629	0.2%	Horizons	2,000	0.0%
Kapiti Coast	15,060	0.2%	Taranaki	1,000	0.0%
Kawerau	31,161	0.5%	Waikato	5,000	0.1%
Manawatu	62,219	1.0%	Wellington	80,127	1.3%
Marlborough	74,022	1.2%			
Masterton	57,615	0.9%	OTHER		
Matamata-Piako	55,277	0.9%	Trust Power	137,251	2.1%
New Plymouth	214,728	3.4%			
Otorohanga	5,000	0.1%			
			Total Shares	6,390,790	