

09

ANNUAL REPORT

DIRECTORY

DIRECTORS

Bryan G Taylor JP (Chairman)
Darryl C Griffin
Michael C Hannan
Robert A Lineham
Tony J Marryatt
Kinsley N Sampson MNZM JP

EXECUTIVE OFFICERS

Chief Executive	Tim Sole BSc MBA CStat ANZIIF (Fellow) CIP FIAA FNZSA
General Manager – Insurance	Christopher Munden ANZIIF (Senior Associate)
General Manager – Finance	Roger Gyles CA

AUDITORS

The Auditor General, who has appointed Michael Wilkes, Deloitte to carry out the audit on her behalf

BANKERS

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

LEGAL ADVISERS

Burrowes and Co.
Brandons

REGISTERED OFFICE

Level 9, Civic Assurance House, 114-118 Lambton Quay, Wellington 6011

POSTAL ADDRESS

Civic Assurance, PO Box 5521, Wellington 6145

OTHER CONTACT DETAILS

Telephone	(04) 978 1250
Facsimile	(04) 978 1260
Email	info@civicassurance.co.nz
Website	www.civicassurance.co.nz

CHAIRMAN'S REPORT 2009



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

2009 was another challenging but 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 solutions for risk financing.

The profit before tax was \$1,267,303 (2008: \$1,338,609), which was sufficient to meet the gross cost of the 2009 dividend. The deterioration in the profit compared to 2008 in a year of light claims was primarily because of a further softening of rates leading to reduced premium income and a net reduction of \$629,823 in the capital value of Civic Assurance House.

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

The decision to retain 100% of profits was reviewed by your Board in 2005. Because the Board's capital-strengthening objectives set in 1999 had been achieved, the Directors resolved in 2005 to renew paying dividends. Last year, following further reductions in premium rates, the Board targeted a reduction in dividend in its Statement of Intent and it was this lower dividend that was subsequently paid.

A strong capital base is essential for maintaining Civic's "A Excellent" claims paying ability rating from AM Best, confirmed for 2010, and the "A Excellent" rating is very important because it provides Civic's customers with a high level of confidence in Civic's ability to meet claims. A decision on whether a dividend will be paid in 2010 will be made by your Board later in the year.

It is Civic that drives the other insurance companies to be extra competitive with the premiums they offer to local authorities, so whether insured with Civic or not, all councils and CCOs are getting a better deal for their insurances than they would if Civic did not exist. I thank the local authorities who directly or indirectly support Civic, because that is what enables Civic to do the good work it does and ensures that Civic can keep doing this in the future.

The Company is ably led by Tim Sole its Chief Executive and I am confident that Civic and its family of LAPP, Riskpool, LGST (for SuperEasy) and LGFC, will continue to provide its customers with innovative and cost effective financing and risk financing solutions.

Bryan Taylor | Chairman

ANNUAL REPORT AND STATEMENT OF ACCOUNTS

FOR THE YEAR ENDED 31 DECEMBER 2009

AM Best Rating: A (Excellent) stable, confirmed 13 May 2010.

Your Directors and Chief Executive have pleasure in submitting the Annual Report of the affairs of the Company for the year ended 31 December 2009, which is to be presented at the Annual General Meeting of Members in June 2010.

1. OPERATIONS 2009

Insurance Business

Last year will be remembered across the globe as the year of the great recession. New Zealand, already in a recession when the GFC (Global Financial Crisis) struck, has fared better than expected. The most direct effect of the GFC on Civic has been a reduction in Civic's investment income for 2009 by an amount equivalent to one moderately large fire claim.

2009 in New Zealand also saw some very aggressive pricing in Civic's market prompted, we believe, by the introduction of above-ground covers through the Local Authority Protection Programme Disaster Fund (LAPP). Although this attack has meant the loss during the year of just over half of Civic's clients, undoubtedly it has meant significant savings across the sector. Rates for local government insurance are now well below their previous lows, reached in 2001.

Compounding the problems of this aggressive pricing was the fierce competition between insurance brokers for local government accounts.

Claims for 2009 were unusually light; both for Civic and the whole of the New Zealand insurance industry, and because of this Civic's 2009 profit exceeded its budget.

Property Revenue

Civic Assurance House, now valued at \$7,750,000, is 99.4% tenanted. It is a nine-storey building near the government centre. A revaluation decrease of \$629,823 for 2009, in accordance with financial reporting standards, has been recorded through the comprehensive income account.

Gross rents received for Civic Assurance House increased from \$766,176 to \$814,644 and the operating costs from \$321,895 to \$331,287.

Civic Roadside Recovery

Civic Roadside Recovery was introduced in July 2006 and allows councils who insure their vehicles with Civic to have free use of Civic Roadside Recovery. Any driver of any Civic insured vehicle in the South Island or the North Island can ring for free assistance, usually in the event of:

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

Civic has received many compliments regarding Civic Roadside Recovery, which is supported by a 24 hour call centre and a network of over 1,000 repairers.

Sponsorship

The Company continued as a gold sponsor of SOLGM (Society of Local Government Managers) and a conference sponsor for LGNZ (Local Government New Zealand), Ingenium, and various SOLGM branch events in both the North and South Islands.

The 2010 Civic Assurance United States Manager Exchange was awarded to Richard Mabon of Waitaki District Council.

ANNUAL REPORT AND STATEMENT OF ACCOUNTS

FOR THE YEAR ENDED 31 DECEMBER 2009

2. RECOVERING LOST BUSINESS

Aggressive competitor pricing, some would suggest predatory pricing, particularly in the June 2009 renewal round, meant the percentage of councils who insure their property with Civic fell from 84% to 48%, and many of the councils that switched from Civic were the bigger accounts.

Effective July 2009 however, Civic moved its property book retention from 30% to 60%, which to a large extent nullified its reduction in client numbers. Over the next two years and working with LAPP, the figure of 60% retained is expected to increase and then settle at 75%.

With LAPP being not-for-profit and Civic having significantly lower overheads than the rest of the insurance industry, it can only be a question of time before the business Civic lost in 2009 returns to Civic/LAPP. Local Government thus has the best of both worlds: they benefit from the lows in the insurance cycle and because of the presence of Civic and LAPP need not fear its highs.

3. FINANCIAL STRENGTH

To maintain its membership of ICNZ (Insurance Council of New Zealand), Civic is required to have a solvency ratio of 120% or better. As at 31 December 2009 it was 779%.

Civic has again been awarded a credit rating of A (Excellent) with stable outlook from AM Best. All of Civic's reinsurers, which are chosen and monitored with the advice of an international reinsurance broker, have a credit rating of A or better. In the event that a credit rating of one of Civic's reinsurer's drops below A-, there is provision in Civic's reinsurance treaties to replace that reinsurer. When this happened in 2004, the replacement clause was exercised within a week.

Civic's reinsurance programme is unusually strong. Any individual loss to Civic is capped at \$2.4 million and for an event of ANY size the exposure to Civic is capped at \$7.2 million. Within New Zealand, it is believed Civic's capped reinsurance programme is unique.

Civic's financial strength is further improved by its prudent investment strategy.

Civic's website is www.civicasurance.co.nz.

4. ASSOCIATED ENTITIES

Local Government Superannuation Trustee Limited

The trustee for all three superannuation schemes administered by Civic (SuperEasy KiwiSaver, SuperEasy, and Superplan) is Local Government Superannuation Trustee Limited (LGST), a 100% subsidiary of Civic. To ensure independence of LGST, the six directors of LGST are appointed by Civic (2), LGNZ (2), SOLGM (1) and CTU (1).

The two SuperEasy schemes feature low member charges, simple administration for councils, and are 'PIE' compliant. Both make use of passive fund managers, which allows for lower member fees while reducing the possibility of a fund manager making a bad call. The SuperEasy schemes also offer an 'Automatic Fund', in which each member's risk exposure is automatically and very gradually switched from growth assets to income assets as the member gets older.

Superannuation funds under management are \$69 million. SuperEasy's fund managers are AMP Capital Investors (New Zealand) Ltd and ASB Group Investments Ltd. Civic Assurance is the appointed KiwiSaver preferred provider for 73% (62 out of 85) councils.

The SuperEasy website is www.supereasy.co.nz.

LAPP Disaster Fund

The LAPP disaster fund is a charitable trust that was set up by LGNZ and Civic in 1993. With another new member accepted in 2009, LAPP's membership is now 59 local authorities.

LAPP provides protection for both 'above-ground' and 'below-ground' assets. Over the long term it offers its members lower protection costs than standard insurance policies and better cover.

For above-ground assets, LAPP shares Civic's reinsurance programme. For below ground assets, LAPP buys reinsurance to cover a 1 in 9000 year event with back up reinsurance provisions should two major events occur in the same year.

LAPP, like Civic, has an AM Best credit rating of A (Excellent).

Civic is the administration and fund manager for LAPP, whose website is www.lappfund.co.nz.

ANNUAL REPORT AND STATEMENT OF ACCOUNTS CONTINUED

FOR THE YEAR ENDED 31 DECEMBER 2009

Riskpool

Riskpool provides public liability and professional indemnity cover for councils and has done so since 1997. It is not a company, but a mutual liability fund governed by a trust deed. A successful revision and modernisation of Riskpool's trust deed, which required unanimous approval from all of Riskpool's 82 members, was completed in 2007.

The trustee of Riskpool is Local Government Mutual Funds Trustee Limited, a 100% subsidiary of Civic Assurance. Directors of Local Government Mutual Funds Trustee Limited are appointed by Civic. Civic is also the Fund Manager for Riskpool and one of its reinsurers. The Scheme Manager for Riskpool, who is responsible for claims management, risk management and member communication, is JLT.

Riskpool's latest annual report, which contains its trust deed, can be found on Civic's website.

Local Government Online (LGOL)

LGOL's primary business is the provision of an internet platform to provide local government with a sophisticated inter-council communications system for the benefit of local government professionals. Since its founding in 1998 it has retained 100% local authority membership.

LGOL amongst other services provides a twice-weekly eZine newsletter, a local government jobs board, and a web-based resource library. LGOL promotes a number of products to local government including Tenderlink and ReadyNet.

LGOL has four shareholders, each holding 25% of the company. They are Civic, SOLGM, ALGIM and LGNZ.

The LGOL website is www.localgovt.co.nz.

Finance Company

LGFC (Local Government Finance Corporation) continues to meet all its statutory and commercial obligations since it closed its doors to new business in early 2004. The last of the Civic Bonds issued by LGFC matured in February 2010.

5. SURPLUS, CAPITAL AND DIVIDENDS

The surplus for the year before taxation was \$1.267 million (2008: \$1.338 million). Consolidated shareholders' funds at 31 December 2009 were \$19.49 million (2008: \$19.23 million).

As signalled in the Company's 2009 Statement of Intent, a dividend of 7.6 cents per share with full imputation credits attached was paid in December 2009 (13.9 cents in September 2008). The cost of this dividend was \$485,700 (2008: \$888,320).

The following table shows net asset value per share for the last eight years as at 31 December and the dividend in cents per share.

Year	Dividend per share	Net Asset Value per share
2002	-	\$1.78
2003	-	\$1.98
2004	-	\$2.29
2005	12.0 cents	\$2.51
2006	12.6 cents	\$2.83
2007	13.2 cents	\$3.00
2008	13.9 cents	\$3.01
2009	7.6 cents	\$3.05

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 2009 there were four: M.C. Hannan, R.A. Lineham, K.N. Sampson and B.G. Taylor.

ANNUAL REPORT AND STATEMENT OF ACCOUNTS

FOR THE YEAR ENDED 31 DECEMBER 2009

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 2009, Directors' remuneration was:

	\$
Darryl Griffin	15,000
Mike Hannan	15,000
Bob Lineham	15,000
Tony Marryatt	15,000
Kinsley Sampson	15,000
Bryan Taylor	30,000
	105,000

Interests Register

Directors' interests are tabled at the beginning of each Board meeting. Directorship disclosures as at 31 December 2009 were:

D Griffin	Local Government Superannuation Trustee Ltd
M Hannan	Wesfarmers Broking (NZ) Ltd, AUT Enterprises LTD, Crombie Lockwood (NZ) Ltd
R Lineham	Christchurch City Networks Ltd, New Zealand Local Government Finance Corporation Ltd
A Marryatt	AJM Holdings Ltd, CCC Two Ltd, Tuam Ltd
K Sampson	Interlog (NZ) Ltd, Mission Rest Home Ltd, Trustee of LAPP
B Taylor	Metrowater Ltd, Waitakere Properties Ltd, Local Government Mutual Funds Trustee Ltd

The following transaction was 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.

Director attendances at Board meetings held during the 2009 year were

Darryl Griffin	8 / 8
Mike Hannan	7 / 8
Bob Lineham	8 / 8
Tony Marryatt	8 / 8
Kinsley Sampson	8 / 8
Bryan Taylor	8 / 8

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.

7. EMPLOYEE REMUNERATION

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

Remuneration \$	Number of Employees
150,000 - 160,000	1
170,000 - 180,000	1
300,000 - 310,000	1

The above remunerations include Company contributions to employees' superannuation (KiwiSaver and other) and medical insurances.

ANNUAL REPORT AND STATEMENT OF ACCOUNTS CONTINUED

FOR THE YEAR ENDED 31 DECEMBER 2009

8. AUDITORS AND AUDIT COMMITTEE

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

The Audit Committee, which meets three times a year under the Chairmanship of Mr Lineham, comprises the full Board. The Auditor attended three Committee meetings during the year and a part of each meeting was run without management present.

9. STAFF

We sincerely thank Caroline Bedford, Ian Brown, Sarah Burtonwood, Dean Gates, Roger Gyles, Ron Haward, Christopher Munden, Wendy Riley and Glenn Watkin for their contribution to a demanding but successful year for the Company.



Bryan Taylor
Chairman

May 2010



Tim Sole
Chief Executive

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2009

	Notes	2009 Group \$	2008 Group \$	2009 Parent \$	2008 Parent \$
REVENUE					
Income Attributable to Insurance Business					
Premium Earned		9,154,971	13,831,076	9,154,971	13,831,076
Reinsurance Paid		(5,141,606)	(8,678,418)	(5,141,606)	(8,678,418)
Net Claims	3	(1,405,421)	(2,856,598)	(1,405,421)	(2,856,598)
Underwriting Surplus		2,607,944	2,296,060	2,607,944	2,296,060
Commissions, Claims & Risk Management Expenses		(431,428)	(628,295)	(431,428)	(628,295)
		2,176,516	1,667,765	2,176,516	1,667,765
Administration Fees		941,205	927,049	941,205	927,049
Income from Investments	9	842,809	1,265,186	725,626	944,363
Property Income		814,644	766,176	814,644	766,176
Net Operating Income		4,775,174	4,626,176	4,657,991	4,305,353
EXPENDITURE					
Audit Fee					
Statutory Audit		72,200	77,000	72,200	77,000
Other Fees Paid to Auditors re Tax and Advisory		55,600	72,345	55,600	72,345
Claims Paying Ability Rating		21,817	23,158	21,817	23,158
Consultants		110,008	49,702	110,008	49,702
Depreciation	11	28,731	22,242	28,731	22,242
Amortisation	11	6,369	88	6,369	88
Interest Expense		116,706	317,199	-	-
Directors' Remuneration		105,000	105,726	105,000	105,726
Insurance Council of New Zealand		12,500	12,500	12,500	12,500
Legal Fees		17,191	26,225	16,759	26,225
Property Operating Expenses		331,287	321,895	331,287	321,895
Other Expenses		810,595	833,110	797,298	816,110
Employee Remuneration		1,176,701	1,118,066	1,176,701	1,118,066
Total Expenditure		2,864,705	2,979,256	2,734,270	2,645,057
Net Surplus Before Share of Profit from Associate, Revaluation of Investment Property and Taxation		1,910,469	1,646,920	1,923,721	1,660,296
Subvention Payment		(3,975)	(11,718)	(3,975)	(11,718)
Revaluation of Investment Property	10	(629,823)	(300,000)	(629,823)	(300,000)
Share of Profit of Associate		(9,368)	3,407	-	-
Net Surplus Before Taxation		1,267,303	1,338,609	1,289,923	1,348,578
Less Taxation Expense	8	530,027	411,631	534,002	415,644
TOTAL COMPREHENSIVE INCOME	14	737,276	926,978	755,921	932,934

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 2009

	Notes	2009 Group \$	2008 Group \$	2009 Parent \$	2008 Parent \$
SHAREHOLDERS EQUITY					
Issued and Paid-Up Ordinary Shares					
6,390,790 Ordinary Shares fully paid up	20	6,390,790	6,390,790	6,390,790	6,390,790
Retained Earnings	20	13,094,538	12,842,962	13,136,543	12,866,322
TOTAL EQUITY		19,485,328	19,233,752	19,527,333	19,257,112
Represented By:					
CURRENT ASSETS					
Bank & Cash Equivalents		10,591,393	11,535,126	10,542,705	11,476,855
Sundry Debtors and Prepayments		1,183,365	966,865	1,179,390	962,852
Premiums Receivable		563,233	1,498,901	563,233	1,498,901
Reinsurance Recoveries	6	2,594,470	5,185,464	2,594,470	5,185,464
Income Tax Receivable	8	(85,893)	243,947	(85,893)	243,947
Managed Funds	13	4,560,600	4,294,945	4,560,600	4,294,945
Local Authority Stock	13	1,000,000	1,714,000	-	-
Total Current Assets		20,407,168	25,439,248	19,354,505	23,662,964
NON CURRENT ASSETS					
NZ Government Stock	13	106,510	110,146	106,510	110,146
Local Authority Stock	13	-	999,237	-	-
Shares in Local Government Online		54,209	63,577	30,000	30,000
Property, Plant and Equipment	11	88,984	98,635	88,984	98,635
Intangible Assets (Software)	11	30,529	139	30,529	139
Investment Property	10	7,775,000	8,325,000	7,775,000	8,325,000
Total Non Current Assets		8,055,232	9,596,734	8,031,023	8,563,920
TOTAL ASSETS		28,462,400	35,035,982	27,385,528	32,226,884

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 2009

	Notes	2009 Group \$	2008 Group \$	2009 Parent \$	2008 Parent \$
CURRENT LIABILITIES					
Sundry Creditors & Accrued Charges		998,359	1,353,375	997,299	1,352,257
Accrued Holiday Pay		69,167	75,170	69,167	75,170
Civic Bonds Issued	13	997,641	1,711,450	-	-
Subordinated Debt	16	120,176	120,176	-	-
		2,185,343	3,260,171	1,066,466	1,427,427
Insurance Provisions					
Unearned Premium Reserve	7	1,823,480	2,906,819	1,823,480	2,906,819
Outstanding Claims Liability	3	3,905,000	7,545,000	3,905,000	7,545,000
Total Insurance Provisions		5,728,480	10,451,819	5,728,480	10,451,819
Total Current Liabilities		7,913,823	13,711,990	6,794,946	11,879,246
NON CURRENT LIABILITIES					
Civic Bonds Issued	13	-	999,714	-	-
Deferred Tax Liability	8	1,063,249	1,090,526	1,063,249	1,090,526
Total Non Current Liabilities		1,063,249	2,090,240	1,063,249	1,090,526
TOTAL LIABILITIES		8,977,072	15,802,230	7,858,195	12,969,772
EXCESS OF ASSETS OVER LIABILITIES		19,485,328	19,233,752	19,527,333	19,257,112

For and on behalf of the Directors

Director Bryan Taylor



26 March 2010

Director Tony Marryatt



26 March 2010

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

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2009

	2009 Group \$	2008 Group \$	2009 Parent \$	2008 Parent \$
OPENING EQUITY	19,233,752	19,195,094	19,257,112	19,212,498
Total Comprehensive Income	737,276	926,978	755,921	932,934
Total Recognised Revenue and Expenses	737,276	926,978	755,921	932,934
Dividend Payment	(485,700)	(888,320)	(485,700)	(888,320)
CLOSING EQUITY	19,485,328	19,233,752	19,527,333	19,257,112

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 2009

	Notes	2009 Group \$	2008 Group \$	2009 Parent \$	2008 Parent \$
CASH FLOWS FROM OPERATING ACTIVITIES					
Cash was provided from:					
Premiums Received		8,909,637	13,987,535	8,909,637	13,987,535
Rent Received		799,888	764,154	799,888	764,154
Administration Fees Received		936,800	806,751	936,800	806,751
Interest Received		580,027	1,301,127	463,607	870,815
Maturing Local Authority Stock		6,547,000	6,547,000	-	-
Dividends Received		-	16,815	-	16,815
		17,773,352	23,423,382	11,109,932	16,446,070
Cash was applied to:					
Net Claims Expenses		2,475,626	1,891,395	2,475,626	1,891,395
Taxation Paid		231,439	273,808	231,439	273,808
Interest Expense		116,420	436,352	-	-
Payments to Reinsurers and Suppliers		8,722,056	11,518,735	8,708,460	11,507,178
Maturing Civic Bonds		6,547,000	6,547,000	-	-
		18,092,541	20,667,290	11,415,525	13,672,381
Net Cash Flow from Operating Activities	14	(319,189)	2,756,092	(305,593)	2,773,689
CASH FLOWS FROM INVESTING ACTIVITIES					
Cash was provided from:					
Sale of Fixed Assets		375	6,045	375	6,045
		375	6,045	375	6,045
Cash was applied to:					
Purchase of Fixed Assets		139,219	72,646	139,219	72,646
		139,219	72,646	139,219	72,646
Net Cash Flow from Investing Activities		(138,844)	(66,601)	(138,844)	(66,601)
CASH FLOWS FROM FINANCING ACTIVITIES					
Cash was provided from:					
Receipt of Loan Payments		-	-	-	-
		-	-	-	-
Cash was applied to:					
Payment of Subvention Payment		-	-	4,013	7,705
Payment of Dividend		485,700	888,320	485,700	888,320
		485,700	888,320	489,713	896,025
Net Cash Flow from Financing Activities		(485,700)	(888,320)	(489,713)	(896,025)
Net (Decrease)/Increase in Cash Held		(943,733)	1,801,171	(934,150)	1,811,063
Opening Cash Balance as at 1 January		11,535,126	9,733,955	11,476,855	9,665,792
Closing Cash Balance as at 31 December		10,591,393	11,535,126	10,542,705	11,476,855
Being: Bank & Cash Equivalents		10,591,393	11,535,126	10,542,705	11,476,855

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 2009

NOTE 1. REPORTING ENTITY

The reporting entity is New Zealand Local Government Insurance Corporation Limited, trading as Civic Assurance. The Group provides insurance products and other financial services principally for New Zealand local government.

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.

Statement of compliance

The financial statements have been prepared in accordance with generally accepted accounting practice in New Zealand. They comply with New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS) and other applicable Financial Reporting Standards, as appropriate for profit-oriented entities. The financial statements also comply with International Financial Reporting Standards ("IFRS").

NOTE 2. STATEMENT OF ACCOUNTING POLICIES

General Accounting Policies

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.

The reporting currency is New Zealand dollars.

The Group meets the definition of a financial institution under NZ IFRS 7 "Financial Instruments Disclosures" and is subject to its requirements due to NZ Local Government Finance Corporation Ltd, a subsidiary, being an issuer.

Critical Judgements and Estimates in Applying the Accounting Policies

In the application of NZ IFRS the Directors are required to make judgements, estimates and assumptions about the carrying value of assets and liabilities that are not readily apparent from other sources. These are based on historical experience and other various factors and are reviewed on an ongoing basis.

The Directors believe that, as at the date of these Financial Statements, there are no significant sources of estimation uncertainty that have not been disclosed in these notes. However they do make estimates and assumptions concerning the future. The resulting accounting estimates may not equal the related actual results.

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 incorporation or until the effective dates of disposal. All inter-company transactions, balances and unrealised profits are eliminated on consolidation.

(b) Significant Accounting Policies Related to General Insurance Contracts

All of the general insurance products and reinsurance products on offer, or utilised, meet the definition of an insurance contract (a contract under which one party, the insurer, accepts significant insurance risk from another party, the policyholder, by agreeing to compensate the policyholder if a specified uncertain future event, the insured event, adversely affects the policyholder) and none of the contracts contain embedded derivatives or are required to be unbundled.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2009

(c) Income Attributable to Insurance Business

Premium revenue comprises amounts charged to policyholders and excludes fire service and earthquake levies collected on behalf of statutory bodies. The earned portion of premium received and receivable is recognised as revenue. Premium and commission revenue is recognised as earned from the date of attachment of risk (generally the date a contract is agreed to) over the period of the related insurance contract in accordance with the pattern of the risk expected under the contract. The unearned portion of premium is recognised as an unearned premium liability on the balance sheet.

(d) Reinsurance Expense

Premium ceded to reinsurers is recognised as an expense that is evenly spread from the date of attachment of risk to the end of the period of the reinsurance contract over the period of indemnity of the reinsurance contract in line with the expected pattern of incidence of risk.

(e) Claims

The outstanding claims liability is measured as the central estimate of expected future payments relating to claims incurred at the reporting date with an additional risk margin to allow for the inherent uncertainty in the central estimate. The expected future payments include those in relation to claims reported but not yet paid in full, claims incurred but not reported ("IBNR"), and claims incurred but not enough reported ("IBNER"). Due to the short term nature of the Company's claims these are not discounted in the financial statements.

Claims expense represents claim payments adjusted for movement in the outstanding claims liability.

The estimation of the outstanding claims liability involves a number of key assumptions and is the most critical accounting estimate. The Company takes all reasonable steps to ensure that it has appropriate information regarding its claims exposures and employs external actuarial advice. However, given the uncertainty in establishing the liability, it is likely that the final outcome will be different from the original liability established. Changes in claims estimates impact profit and loss in the year in which the estimates are changed.

(f) Reinsurance and Other Recoveries

Reinsurance and other recoveries received or receivable on paid claims and on outstanding claims liabilities (notified and not yet notified) are recognised as income. Reinsurance does not relieve the originating insurer of its liabilities to policyholders.

(g) Liability Adequacy Test

The liability adequacy test is an assessment of whether the carrying amount of the unearned premium liability is adequate and is conducted at each reporting date. If current estimates of the expected future cash flows relating to future claims arising from the rights and obligations under current general insurance contracts, plus an additional risk margin to reflect the inherent uncertainty in the central estimate, exceed the unearned premium liability then the unearned premium liability is deemed to be deficient. The test is performed at the level of a portfolio of contracts that are subject to broadly similar risks and that are managed together as a single portfolio. Any deficiency arising from the test is recognised in the statement of comprehensive income, with the corresponding impact on the statement of financial position.

(h) Assets which back Insurance Liabilities

Ultimately all assets of the parent company are available to back insurance liabilities.

(i) Investment Property

The investment property, which is valued annually, has been valued at fair value based on a valuation performed by registered public valuer, TelferYoung (Wgtn) Ltd as at 31 December 2009.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 31 DECEMBER 2009

NOTE 2. STATEMENT OF ACCOUNTING POLICIES CONTINUED

(j) Property, Plant & Equipment and Software Intangible

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.

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

Office Furniture and Equipment	up to 5 years
Intangibles – Software	5 years

(k) Financial Instruments

(i) Classification and Measurement

Financial instruments are transacted on a commercial basis to derive an interest yield / cost with the terms and conditions having due regard to the nature of the transaction and the risks involved. Financial instruments are recognised and accounted for on a settlement date basis.

Held To Maturity Investments

Local Authority Stocks and NZ Government Stock are valued at Held To Maturity. These assets are measured at amortised cost using the effective interest method.

Loans and Receivables

Other receivables are measured at initial recognition at fair value, and are subsequently measured at amortised cost using the effective interest rate.

Bank and Cash Equivalents

Bank and cash equivalents are measured at amortised cost using the effective interest rate.

Designated at Fair Value Through Profit or Loss

The managed funds are designated at fair value through profit or loss due to their performance being evaluated on a fair value basis in accordance with a documented investment strategy.

Financial Liabilities

Financial liabilities include Civic Bonds and Accounts Payable. Liabilities are recorded initially at fair value, net of transactions costs. Subsequent to initial recognition, liabilities are measured at amortised cost. Any discount or premium arising on settlement, including the direct fees incurred on set up, are amortised through the Statement of Comprehensive Income over the life of the bond, using the effective interest rate.

(ii) Offsetting Financial Instruments

Financial assets and liabilities are not offset as there is no legally enforceable right to set-off.

(iii) Asset Quality

Impairment of Financial Assets

Financial assets measured at amortised cost are reviewed at each balance date to determine whether there is any objective evidence of impairment. If any such condition exists, the asset's recoverable amount is estimated and provision is made for the difference between the carrying amount and the recoverable amount.

As at the date of these Financial Statements, no such evidence of impairment exists.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2009

(iv) Fair value of financial instruments

Fair value measurements recognised in the Statement of Financial Position

Financial instruments are categorised into 3 levels:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

All financial instruments disclosed in these Financial Statements are categorised as Level 1, except for subordinated debt which is categorised as Level 3. That is, the fair value of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices. The fair value of all financial assets is derived from quoted prices from ING. There were no transfers between any of the Levels.

(v) Derivatives

The Company and Group do not use any derivative financial instruments.

(l) Taxation

Current Tax

The income tax expense charged against the profit for the year is the estimated liability in respect of that profit. It is calculated using tax rates and tax laws that have been enacted or substantively enacted by reporting date. Current tax for the current and prior periods is recognised as a liability (or asset) to the extent that it is unpaid (or refundable). Tax assets are offset only when there is a legally enforceable right to set off the recognised amounts, and an intention to settle on a net basis.

Deferred Tax

The liability method of accounting for deferred taxation is applied on a comprehensive balance sheet basis in respect of temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax base of those items.

Deferred tax liabilities are recognised for all temporary differences. Deferred tax assets are reviewed at each balance date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the Statement of Comprehensive Income.

(m) Goods and Services Tax (GST)

Revenue, expenses and assets are recognised net of the amount of GST except:

- When the GST incurred on a purchase of goods and services is not recoverable from the taxation authority in which case the GST is recognised as part of the cost of the acquisition of the assets or as part of the expense item as applicable.
- Receivables and payables, which are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the balance sheet.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 31 DECEMBER 2009

NOTE 2. STATEMENT OF ACCOUNTING POLICIES CONTINUED

(n) Cash Flow Statement

The Cash Flow Statement is prepared exclusive of GST, which is consistent with the method used in the statement of comprehensive income. The GST component of cash flows arising from investing and financing activities, which is recoverable from or payable to, the taxation authority is classified as operating cash flow.

The following are definitions of the terms used in the Cash Flow Statement:

- Bank comprises cash on hand and demand deposits.
- Cash equivalents are short term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to insignificant risk of changes in value.
- Cash flows are inflows and outflows of cash and cash equivalents.
- Operating activities are the principal revenue producing activities of the entity and other activities that are not investing or financing activities.
- Investing activities are the acquisition and disposal of long-term assets.
- Financing activities are activities that result in changes in the size and composition of the contributed equity and borrowings of the entity.

(o) Employee Benefits

Provision is made for benefits accruing to employees in respect of wages and salaries and annual leave when it is probable that settlement will be required and they are capable of being measured reliably.

Provisions made in respect of employee benefits are measured at their nominal values using the remuneration rate expected to apply at the time of settlement.

(p) Investment in Subsidiaries

The Company has five wholly owned subsidiaries which are all incorporated in New Zealand. Four of these, Local Government Superannuation Trustee Ltd, SuperEasy Ltd and Civic Assurance Ltd 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 2009.

New Zealand Local Government Finance Corporation Ltd (LGFC) commenced business on the 29 November 1999 and had total assets of \$1,052,663 (2008: \$2,775,521) at balance date. The five companies have been recognised in the parent at cost less impairment and consolidated in the group accounts. The operating companies are subject to ongoing review of their operations to ensure they are meeting their agreed strategic objectives.

(q) Investment in Associate Company

The share of the income of the associate company has been included in the consolidated statement of comprehensive income and added to the cost of the investment in the consolidated balance sheet. The parent accounts for the investment at cost less impairment.

(r) Basis of Measuring Income and Expenses

Income and expenses are accounted for on an accruals basis.

(s) Changes in Accounting Policies

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2009

NOTE 3. CLAIMS

(a) Claims

	2009 Group \$	2008 Group \$	2009 Parent \$	2008 Parent \$
Claims incurred and Provision for Outstanding Claims				
Total claims incurred during the year	(5,930,209)	(6,256,104)	(5,930,209)	(6,256,104)
Less recoveries from reinsurers on claims incurred during the year	4,524,788	3,399,506	4,524,788	3,399,506
Net Claims	(1,405,421)	(2,856,598)	(1,405,421)	(2,856,598)

Claims costs are reliably estimated and claims are usually settled within one year therefore there is no claims development from prior years claims.

(b) Reconciliation of Movements in Gross Outstanding Claims Liability

	2009 Group \$	2008 Group \$	2009 Parent \$	2008 Parent \$
Outstanding Claims liability at the beginning of the financial year	7,545,000	6,196,500	7,545,000	6,196,500
Claims Expense in the current year	5,930,209	6,256,104	5,930,209	6,256,104
Claims Paid	(9,570,209)	(4,907,604)	(9,570,209)	(4,907,604)
Outstanding Claims liability at the end of the financial year	3,905,000	7,545,000	3,905,000	7,545,000

(c) Central Estimate and Risk Margin

The estimation of the outstanding claims liability is based on a variety of actuarial techniques that analyse experience, trends and other relevant factors. The claims estimation process commences with the actuarial projection of the future payments relating to claims incurred at the reporting date. The expected future payments include those in relation to claims reported but not yet paid or not yet paid in full, claims incurred but not reported ("IBNR"), claims incurred but not enough reported ("IBNER").

The estimation process involves using the Company's specific data, relevant industry data and more general economic data. Each class of business is usually examined separately and the process involves consideration of a large number of factors including the risks to which the business is exposed at a point in time, claim frequencies and average claim sizes, historical trends in the incidence and development of claims reported and finalised, legal, social and economic factors that may impact upon each class of business as well as the key actuarial assumptions set out below, and the impact of reinsurance and other recoveries.

Different actuarial valuation models are used for different claims types with the results then being aggregated. This aggregation of results enhances the valuation process by allowing the use of the model best suited to particular claims types. The selection of the appropriate model takes into account the characteristics of a class of business and the extent of development of past claims periods.

The different components of the outstanding claims liability are subject to different levels of uncertainty. The estimation of the cost of claims reported but not yet paid in full is made on a case by case basis by claims personnel having regard to the facts and circumstances of the claim as reported, any information available from assessors and information on the cost of settling claims with similar characteristics in previous periods. A further amount, which may be a reduction, is included for IBNER on the basis of past experience with the accuracy of initial claims estimates.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 31 DECEMBER 2009

NOTE 3. CLAIMS CONTINUED

With IBNR, the estimation is generally subject to a greater degree of uncertainty than the estimation of the cost of settling claims already notified, as no information is currently available about the claim. In calculating the estimated cost of unpaid claims a variety of estimating techniques are used generally based on statistical analysis of historical experience, which assumes that the development pattern of the current claims will be consistent with past experience. Allowance is made however for changes or uncertainties which may create distortions in the underlying statistics which might cause the cost of unsettled claims to increase or reduce when compared with the cost of previously settled claims.

Large claims impacting each relevant business class are generally assessed separately, being measured on a case by case basis or projected separately in order to allow for the possible distortive effect of the development and incidence of these large claims.

Reserves are not established for catastrophes in advance of such events and so these events will cause volatility in the results for a period and, in the levels of the outstanding claims liability.

The outstanding claims liability has been reviewed by external actuaries. These actuaries are from an organisation which are independent of the external auditor who itself employs its own actuaries.

The central estimate of the outstanding claims liability is an estimate which is intended to contain no deliberate or conscious over or under estimation and is commonly described as providing the mean of the distribution. It is considered appropriate for the measurement of the claims liability to represent a higher degree of certainty regarding the sufficiency of the liability over time, and so a risk margin is added to the central estimate. The risk margin refers to the amount by which the liability recognised in the financial statements is greater than the actuarial central estimate of the liability. The risk margin added to the central estimate increases the probability that the net outstanding claims liability will ultimately prove to be adequate.

As at 31 December 2009 the central estimate of the outstanding claims liability was evaluated by Craig Lough and Janet Lockett (Fellows of the NZ Society of Actuaries) of Melville Jessup Weaver. The actuaries are satisfied to the nature and accuracy of data in the outstanding claims liability.

Risk margins are held to allow for uncertainty surrounding the outstanding claims liability estimation process. Potential uncertainties include those relating to the actuarial models and assumptions, the quality of the underlying data used in the models, general statistical uncertainty and the general insurance environment. Uncertainty from the above sources is examined for each class of business and expressed as a volatility of the net central estimate. The volatility for each class is derived after consideration of stochastic modelling and benchmarking to industry analysis.

(d) Actuarial Methodology and Assumptions

The outstanding claim liability valuation and unearned premium reserve liability adequacy test included in the reported results have been calculated using the following methodologies and assumptions, including:

(1) Future incurred claim settlement patterns

The outstanding claims liability has been determined using the Bornhuetter-Fergusson (incurred claims) methodology. It has been assumed that future incurred claims patterns for each group of business will continue to follow observed historic patterns.

Overall, the average estimated weighted term to settlement is about 5.3 months (2008: 7.4 months).

(2) Inflation and discount rates

Insurance costs are subject to inflationary pressures over time. However, the period between the valuation date and the settlement of most claims is short, and the valuation implicitly allows for past levels of inflation to continue in the future.

Therefore, any increase in costs as a result of inflation is limited. Also due to the short settlement periods the effect of discounting expected future payments is also limited and therefore the estimates are not discounted for the time value of money.

(3) Reinsurance

The actuarial valuation net of reinsurance assumes that all reinsurance recoveries will be collected.

The Company uses only reinsurers with rating "A-" or better from AM Best (or equivalent).

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2009

(4) Risk margin

The overall risk margin for both outstanding claims and liability adequacy testing have been determined using stochastic techniques and have been determined allowing for diversification between groups of business and having regard to the inherent variation observed in claims development in each group of business. The undiversified risk margins for each group of business are applied to the net central estimates and the results aggregated, allowing for diversification, in order to arrive at an overall net provision that is intended to provide a probability of sufficiency of 85%.

A risk margin of \$318,000 (2008: \$704,000) has been included in Provision for Claims as at balance date as required in terms of NZ IFRS 4 clause 17.2.

NOTE 4. INSURANCE CONTRACT RISK MANAGEMENT

A key risk from operating in the general insurance industry is the exposure to insurance risk arising from underwriting general insurance contracts. The insurance contracts transfer risk to the insurer by indemnifying the policyholders against adverse affects arising from the occurrence of specified uncertain future events. The risk is that the actual claims to be paid in relation to contracts will be different to that estimated at the time a product was designed and priced. The Company is exposed to this risk because the price for a contract must be set before the losses relating to the product are known. Hence the insurance business involves inherent uncertainty. The Company also faces other risks relating to the conduct of the general insurance business including financial risks and capital risks.

A fundamental part of the overall risk management strategy is the effective governance and management of the risks that impact the amount, timing and uncertainty of cash flows arising from insurance contracts.

(a) Risk Management Objectives and Policies for Mitigating Insurance Risk

The risk management activities can be broadly separated into underwriting (acceptance and pricing of risk), claims management, reserving, and investment management. The objective of these risk management functions is to enhance the longer term financial performance of the overall insurance operations.

The key policies in place to mitigate risks arising from underwriting insurance contracts include the following:

- **Acceptance of risk** – The Company is primarily an insurer only of risks owned or managed by local authorities. Records of results and trends exclusively in this market sector that have been built up over a number of years are available as tools for the Company's two underwriters both of whom each have over 35 years experience in the industry and over ten years experience in underwriting local government risks. The portfolio is essentially property risks. A "ring fenced" maximum liability layer of liability risk has been written to support the local government liability pool, Riskpool.
- **Pricing** – Many years of underwriting results for a tight homogenous group of risks enables the Company's underwriters to calculate acceptable pricing and acceptable terms and conditions of cover.
- **Reinsurance** – Through reinsurance the Company has been able to cap its maximum liability in the event of a catastrophe to \$7.2 million. This amount is well within the Company's reserves.
- **Claims management** – Claims are handled independently by contract with a claims handling company. Staff of the contract company are allocated settling limits and authorities commensurate with their levels of experience. These authority levels are reviewed regularly. Contract senior claims staff are very experienced, particularly in local government claims. Overall authority and claims management is provided by the company's General Manager Insurance who has over ten years experience as a commercial claims manager in New Zealand. Claims files are regularly randomly audited.
- **Investment management** – All premium income is held in NZ Registered Bank accounts and short term deposits. The investments are regularly reviewed by the Board and is set with a low exposure to shares (less than 5%).
- **Risk reduction** – The Company's underwriter and its General Manager regularly analyse and review claims data with a view to educating and training insureds in recognition and prevention of manageable risks. The Company has a programme of regular client visits by an independently employed risk manager.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 31 DECEMBER 2009

NOTE 4. INSURANCE CONTRACT RISK MANAGEMENT CONTINUED

(b) Terms and Conditions of Insurance Contracts

Almost all the Company's insurance contracts written are entered into on a standard form and on an annual basis. There are no special terms and conditions in any non standard contracts that would have a material impact on the financial report.

(c) Concentration of Insurance Risk

Concentration risk is particularly relevant in the case of natural disasters and other catastrophes. The Company deals with this by having uncapped reinsurance cover. All geographical risk is in New Zealand.

(d) Credit Risk

Financial assets or liabilities arising from insurance contracts are presented in the statement of financial position. These amounts best represent the maximum credit risk exposure at reporting date.

The credit risk relating to insurance contracts relates primarily to:

- Premium receivable which is due from policyholders and intermediaries (brokers). The brokers collect premium from policyholders and remit the monies to the insurer in accordance with contractual arrangements, being held in a trust account and paid within 90 days. The recoverability of premium receivable is assessed and provision is made for impairment based on objective evidence and having regard to past default experience. Concentrations of credit risk are determined by the clients who each independently appoint their own insurance broker.
- Reinsurance recoveries receivable, which are discussed further in note 6.

(e) Interest Rate Risk

The underwriting of general insurance contracts creates no exposure to the risk that interest rate movements may impact the value of the outstanding claims liability because the outstanding claims liability is not discounted due to the short tail nature of claims.

(f) Reinsurance Risk

Refer to note 6.

(g) Operational Risk

Operational risk is the risk of financial loss (including lost opportunities) resulting from external events and/or inadequate or failed internal processes, people and systems. Operational risk is identified, and assessed on an ongoing basis and the capital management strategy includes consideration of operational risk. Management and staff are responsible for identifying, assessing and managing operational risks in accordance with their roles and responsibilities.

(h) Liquidity Risk

All assets and liabilities used in relation to the liquidity of the insurance business are included in the sensitivity analysis in note 13.

(i) Sensitivity Analysis

The effect of risks on net profit and Equity in the areas of Runoff, Loss Ratio, Expense Rate and Discount Rate is nil.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2009

NOTE 5. 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 no less than “A-” (A M Best scale) participate in the reinsurance catastrophe programme.

NOTE 6. REINSURANCE RECEIVABLE ON OUTSTANDING CLAIMS

(a) Reconciliation of Movements for the Financial Year

	2009 Group \$	2008 Group \$	2009 Parent \$	2008 Parent \$
Reinsurance recoveries receivable on outstanding claims at the beginning of the year	5,185,464	4,825,799	5,185,464	4,825,799
Reinsurance recoveries received	(7,115,782)	(3,039,841)	(7,115,782)	(3,039,841)
Reinsurance recoveries receivable on claims incurred during the year	4,524,788	3,399,506	4,524,788	3,399,506
Reinsurance recoveries receivable on outstanding claims at the end of the year	2,594,470	5,185,464	2,594,470	5,185,464

(b) Actuarial Assumptions

Reinsurance and other recoveries on outstanding claims are computed using actuarial assumptions and methods similar to that used for outstanding claims (refer note 3). The outstanding claims liability is calculated gross of any reinsurance recoveries and a separate estimate is then made of the amounts that are expected to be recoverable from reinsurers based upon the gross provisions.

(c) The Effect Of Changes In Assumption

The effect of changes in assumptions on the net outstanding claims liability, which incorporates the reinsurance and other recoveries receivable on outstanding claims, is disclosed in note 3.

(d) Risk Management

The Board and senior management assess the Company’s reinsurance programme as existing and for the following year based on identification of the Company’s exposure and its ability to meet claims from its capital base.

(e) Reinsurance Programme

Risks underwritten are reinsured in order to limit exposure to losses, stabilise earnings, protect capital resources and ensure efficient control and spread of the risks underwritten. The Company has its own reinsurance programme and determines its own risk limits. The Company buys reinsurance in only two forms, a quota share programme on every property risk and a catastrophe programme over its whole portfolio. These programmes are negotiated on an annual basis.

Reinsurance arrangements mitigate insurance risk but can expose the Company to credit risk. Reinsurance is placed with companies based on an evaluation of the financial strength of the reinsurers, terms of coverage, and price. The Company has clearly defined credit policies for the approval and management of credit risk in relation to reinsurers. It is Company policy to only deal with reinsurers with credit ratings of at least AM Best “A-” (or other rating agency equivalent). The Company monitors the financial condition of its reinsurers on an ongoing basis and periodically reviews reinsurers abilities to fulfil their obligations to the Company under respective existing and future reinsurance contracts.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 31 DECEMBER 2009

NOTE 7. UNEARNED PREMIUM LIABILITY

(a) Reconciliation of Movements for the Financial Year

	2009 Group \$	2008 Group \$	2009 Parent \$	2008 Parent \$
Unearned net premium liability at the beginning of the financial year	2,906,819	3,032,427	2,906,819	3,032,427
Deferral of gross premiums on contracts written in the year	3,480,134	6,401,631	3,480,134	6,401,631
Deferral of reinsurance expense payable on contracts written in the year	(1,656,654)	(3,494,812)	(1,656,654)	(3,494,812)
Earning of premiums written in previous years	(6,401,631)	(6,874,567)	(6,401,631)	(6,874,567)
Payment of reinsurance expense payable written in previous years	3,494,812	3,842,140	3,494,812	3,842,140
Unearned net premium liability at the end of the financial year	1,823,480	2,906,819	1,823,480	2,906,819

(b) Liability Adequacy Test

The conduct of the liability adequacy test as at 31 December 2009 identified a surplus.

The test is based on prospective information and so is dependent on assumptions and judgements. It does not appear that any reasonably possible changes in the key assumptions on which the calculations are based would result in a deficiency being recognised at 31 December 2009 at the level of 75% probability of sufficiency.

NOTE 8. TAXATION

(a) Income tax recognised in the statement of comprehensive income

	2009 Group \$	2008 Group \$	2009 Parent \$	2008 Parent \$
Tax expense/(income) comprises:				
Current tax expense	454,232	411,631	458,207	415,644
Adjustments recognised in the current year in relation to the current tax of prior years	75,795	-	75,795	-
Deferred tax (income) relating to the origination and reversal of temporary differences	-	-	-	-
Deferred tax expense/(income) relating to changes in tax rates or imposition of new taxes	-	-	-	-
Total tax expense	530,027	411,631	534,002	415,644
Attributable to:				
Continuing operations	530,027	411,631	534,002	415,644
Discontinued operations	-	-	-	-
	530,027	411,631	534,002	415,644

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2009

The prima facie income tax expense on pre-tax accounting profit from operations reconciles to the income tax expense in the financial statements as follows:

	2009 Group \$	2008 Group \$	2009 Parent \$	2008 Parent \$
Profit from continuing operations	1,910,469	1,646,920	1,923,721	1,660,296
Profit from discontinued operations	-	-	-	-
Profit from operations	1,910,469	1,646,920	1,923,721	1,660,296
Subvention payable	(3,975)	(11,718)	(3,975)	(11,718)
Revaluation of Investment Property	(629,823)	(300,000)	(629,823)	(300,000)
	1,276,671	1,335,202	1,289,923	1,348,578
Income tax expense calculated at 30%	383,002	400,560	386,977	404,573
Non-deductible expenses / (taxable income)	71,230	11,071	71,230	11,071
Effect of change in corporate tax rate	-	-	-	-
	454,232	411,631	458,207	415,644
(Over)/under provision of income tax in previous year	75,795	-	75,795	-
	530,027	411,631	534,002	415,644

(b) Current tax assets and liabilities

	2009 Group \$	2008 Group \$	2009 Parent \$	2008 Parent \$
Tax refund receivable	-	243,947	-	243,947
Tax payable	(85,893)	-	(85,893)	-
	(85,893)	243,947	(85,893)	243,947

(c) Deferred tax balances

	2009 Group \$	2008 Group \$	2009 Parent \$	2008 Parent \$
Deferred tax assets comprise:				
Temporary differences	55,832	25,332	55,832	25,332
	55,832	25,332	55,832	25,332
Deferred tax liabilities comprise:				
Temporary differences	(1,119,081)	(1,115,858)	(1,119,081)	(1,115,858)
	(1,119,081)	(1,115,858)	(1,119,081)	(1,115,858)
Net Deferred Tax balance	(1,063,249)	(1,090,526)	(1,063,249)	(1,090,526)

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 31 DECEMBER 2009

NOTE 8. TAXATION CONTINUED

Gross Taxable and deductible temporary differences for both the Company and Group arise from the following:

		Opening Balance	Charged to income	Charged to Equity	Prior period adjustment	Closing Balance
2009	Investment gains	(40,315)	-	-	-	(40,315)
	Building, Property and equipment	(3,679,210)	293,483	-	(304,223)	(3,689,950)
	Other	-	-	-	-	-
		(3,719,525)	293,483	-	(304,223)	(3,730,265)
	Employee entitlements	75,170	(6,003)	-	-	69,167
	Doubtful debts and impairment losses	-	-	-	-	-
	Other	9,270	(34,945)	-	142,613	116,938
		84,440	(40,948)	-	142,613	186,105
	Attributable to:					
	Continuing operations	(3,635,085)	252,535	-	(161,610)	(3,544,160)
	Discontinued operations	-	-	-	-	-
	Total	(3,635,085)	252,535	-	(161,610)	(3,544,160)
	Tax effect at 30%	(1,090,526)	75,761	-	(48,483)	(1,063,249)
2008	Investment gains	(40,315)	-	-	-	(40,315)
	Building, Property and equipment	(3,897,525)	218,315	-	-	(3,679,210)
	Other	-	-	-	-	-
		(3,937,840)	218,315	-	-	(3,719,525)
	Employee entitlements	51,800	23,370	-	-	75,170
	Doubtful debts and impairment losses	-	-	-	-	-
	Other	9,270	-	-	-	9,270
		61,070	23,370	-	-	84,440
	Attributable to:					
	Continuing operations	(3,876,770)	241,685	-	-	(3,635,085)
	Discontinued operations	-	-	-	-	-
	Total	(3,876,770)	241,685	-	-	(3,635,085)
	Tax effect at 30%	(1,163,031)	72,506	-	-	(1,090,526)

At the balance sheet date, the aggregate amount of temporary differences associated with undistributed earnings of subsidiaries for which deferred tax liabilities have not been recognised is \$nil. No liability has been recognised in respect of these differences because the Group is in a position to control the timing of the reversal of the temporary differences and it is probable that such differences will not reverse in the foreseeable future.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2009

(d) Imputation Credit Account

	2009 Group \$	2008 Group \$	2009 Parent \$	2008 Parent \$
Opening Balance	5,554,111	5,647,462	5,554,111	5,647,462
Plus Credits				
Income Tax Paid	-	-	-	-
Resident Withholding Tax	175,510	279,075	175,510	279,075
Imputation Credits Received	-	8,282	-	8,282
	175,510	287,357	175,510	287,357
Less Debits				
Tax refund	-	-	-	-
Imputation Credits Attached to Dividends Paid	208,157	380,708	208,157	380,708
	208,157	380,708	208,157	380,708
Closing Balance	5,521,464	5,554,111	5,521,464	5,554,111

NOTE 9. INCOME RELATING TO FINANCIAL INSTRUMENTS

	2009 Group \$	2008 Group \$	2009 Parent \$	2008 Parent \$
Designated Fair Value through Profit or Loss				
Managed Fund – Reinvested interest and change in value	278,453	96,735	278,453	96,735
Dividends Received	-	25,097	-	25,097
	278,453	121,832	278,453	121,832
Held to Maturity				
Interest Received – NZ Government Stock	4,364	8,791	4,364	8,791
Interest Received – Local Authority Stock	117,183	320,823	-	-
	121,547	329,614	4,364	8,791
Cash & Cash Equivalents				
Interest Received – Short Term Deposits at Bank	442,809	813,740	442,809	813,740
	842,809	1,265,186	725,626	944,363

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 31 DECEMBER 2009

NOTE 10. INVESTMENT PROPERTY

	2009 Group \$	2008 Group \$	2009 Parent \$	2008 Parent \$
<i>(Local Government Building, Lambton Quay, Wellington)</i>				
(a) Land valuation (Original Cost \$289,253)	3,200,000	3,500,000	3,200,000	3,500,000
Less decrease in value	(250,000)	(300,000)	(250,000)	(300,000)
Fair Value	2,950,000	3,200,000	2,950,000	3,200,000
(b) Building valuation (Original Cost \$860,571)	5,100,000	5,100,000	5,100,000	5,100,000
Refurbishment	79,823	-	79,823	-
Less decrease in value	(379,823)	-	(379,823)	-
Fair Value	4,800,000	5,100,000	4,800,000	5,100,000
(c) Artwork valuation (Original Cost \$8,844)	25,000	25,000	25,000	25,000
Plus increase in value	-	-	-	-
Fair Value	25,000	25,000	25,000	25,000
	7,775,000	8,325,000	7,775,000	8,325,000

Investment properties are revalued every year. Investment properties were valued on 31 December 2009 by independent registered valuers of the firm TelferYoung (Wgtn) Ltd. The properties are valued in accordance with NZ Property Practice Standard 3 – valuations for Financial reporting purposes at fair value arrived at using comparable market rental information.

NOTE 11. PROPERTY, PLANT & EQUIPMENT AND INTANGIBLE ASSETS

	2009 Group \$	2008 Group \$	2009 Parent \$	2008 Parent \$
Property, Plant and Equipment				
(a) Office Furniture and Equipment – cost	308,274	235,628	308,274	235,628
Plus Additions	22,636	72,646	22,636	72,646
Less Disposals	(13,339)	-	(13,339)	-
Closing Value – cost	317,571	308,274	317,571	308,274
Office Furniture and Equipment – Accumulated Depreciation	(209,639)	(187,397)	(209,639)	(187,397)
Less Depreciation Charge	(28,731)	(22,242)	(28,731)	(22,242)
Less Disposals	9,783	-	9,783	-
Closing Accumulated Depreciation	(228,587)	(209,639)	(228,587)	(209,639)
Net Book Value	88,984	98,635	88,984	98,635

The Net Surplus after Taxation in the Statement of Financial Performance includes a \$3,182 loss on disposal of fixed assets (2008: \$5,166 gain).

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2009

	2009 Group \$	2008 Group \$	2009 Parent \$	2008 Parent \$
Intangible Assets				
(b) Software – cost	173,124	173,124	173,124	173,124
Plus Additions	36,759	-	36,759	-
Less Disposals	-	-	-	-
Closing Value – cost	209,883	173,124	209,883	173,124
Software – Accumulated Amortisation	(172,985)	(172,897)	(172,985)	(172,897)
Less Amortisation Charge	(6,369)	(88)	(6,369)	(88)
Less Disposals	-	-	-	-
Closing Accumulated Amortisation	(179,354)	(172,985)	(179,354)	(172,985)
Net Book Value	30,529	139	30,529	139

NOTE 12. 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 in that period. 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 or is expected.
- 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.
- vii) 100 uncalled shares in the wholly owned subsidiary, Local Government Finance Corporation Limited.
- viii) Other than described above there are no other contingent liabilities or capital commitments.

NOTE 13. FINANCIAL INSTRUMENTS

(1) Financial Assets and Liabilities

The carrying amounts of all financial assets and liabilities, with the exception of Local Authority Stock, Civic Bonds and Subordinated Debt, are considered to be equivalent to their market value, which for these assets and liabilities is also considered to be fair value. Market values for the Local Authority Stock and Civic Bonds are disclosed below. The Subordinated Debt is measured at amortised cost.

The managed fund which is managed by ING (NZ) Ltd consists of two components being an investment in a world equity fund and investments in directly held NZ fixed interest investments. The mandate to ING does not allow any gearing or use of derivatives. All other fixed interest investments are managed around a 90 day duration and carry a minimum Standard and Poors credit rating of A1 or equivalent.

The cost of investments in managed funds at 31 December 2009 was \$3,000,000 (2008: \$3,000,000).

Market value of managed funds at 31 December 2009 was \$4,560,600 (2008: \$4,294,945).

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 31 DECEMBER 2009

NOTE 13. FINANCIAL INSTRUMENTS CONTINUED

Carrying value of Financial Assets and Financial Liabilities.

	2009 Group \$	2008 Group \$	2009 Parent \$	2008 Parent \$
Financial Asset: Designated Fair Value Through Profit or Loss				
Managed Funds	4,560,600	4,294,945	4,560,600	4,294,945
Financial Asset: Held to Maturity				
Local Authority Stock				
Face Value at Balance date	1,000,000	2,714,000	-	-
Effective interest rate adjustment (settlement premium)	(24,375)	(63,423)	-	-
Accrued Interest	24,375	62,660	-	-
Carrying value	1,000,000	2,713,237	-	-
NZ Government Stock	106,510	110,146	106,510	110,146
Total Held to Maturity	1,106,510	2,823,383	106,510	110,146
Financial Asset: Loans and Receivables				
Sundry Debtors	1,183,365	966,865	1,179,390	962,852
Premiums Receivable	563,233	1,498,901	563,233	1,498,901
Reinsurance Recoveries	2,594,470	5,185,464	2,594,470	5,185,464
Total Loans and Receivables	4,341,068	7,651,230	4,337,093	7,647,217
Financial Asset: Carried at Amortised Cost				
Bank & Cash Equivalents	10,591,393	11,535,126	10,542,705	11,476,855
Financial Liability: Amortised Cost				
Civic Bonds				
Face Value at Balance date	1,000,000	2,714,000	-	-
Effective interest rate adjustment (settlement premium)	(24,375)	(62,946)	-	-
Effective interest rate adjustment (set up fees)	(2,359)	(2,550)	-	-
Accrued Interest	24,375	62,660	-	-
Carrying value	997,641	2,711,164	-	-
Subordinated Debt	120,176	120,176	-	-
Accounts Payable	998,359	1,353,375	997,299	1,352,257
Total Amortised Cost	2,116,176	4,184,715	997,299	1,352,257

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.

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.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2009

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.

(2) Financial Risk – Structure and Management

Financial instruments which potentially subject the Company & Group 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 & Group 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.

(a) Market Risk

The only significant market risk is the risk that the value of financial instruments and the interest margin will fluctuate as a result of changes in market interest rates. The risk is that financial assets may reprice at a different time and/ or by a different amount than financial liabilities. However other than financial instruments held in Local Government Finance and the managed funds there is little market risk due to the instruments being non marketable, fixed term and fixed price.

Local Government Finance has managed this risk by matching the interest rates and maturities of the Local Authority Stock and the Civic Bonds.

Managed Funds do not have a specific interest rate as they are based on unit pricing. Subordinated debt is shown at amortised cost.

Sensitivity Analysis

Sensitivity of Net Profit After Tax for the year to 31 December 2009, and Shareholders Funds at that date, to possible changes is as follows:

	Interest Rate Increase by 1%	Interest Rate Decrease by 1%
Impact on Net Profit After Tax	-	-
Shareholders Funds	-	-

The methodology used to determine analysis takes into account that the bank accounts are interest free or at call, term deposits are fixed term, fixed rate and that all market factors move adversely at the same time.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 31 DECEMBER 2009

NOTE 13. FINANCIAL INSTRUMENTS CONTINUED

The Company & Group is also indirectly exposed to interest rate and foreign currency risk through its investments in ING managed funds. As this exposure is through an indirect investment, the sensitivity of net profit after tax in respect of these investments can not be reliably estimated.

Other financial assets and liabilities are recorded at amortised cost, therefore changes in interest rates do not impact on their carrying value.

(i) Interest Rate Repricing Schedule

The following tables include the Company's assets and liabilities at their carrying amounts, categorised by the maturity dates.

	Interest Rate Spread %	Within 6 months \$	6 to 12 months \$	1 to 2 years \$	2 to 5 years \$	Non Interest Bearing \$	Total \$
As at 31 December 2009 (Group)							
Assets							
Cash at Bank	0% to 4.60%	10,460,962	3,252	-	-	127,179	10,591,393
Other Receivable	n/a	-	-	-	-	3,660,978	3,660,978
Managed Funds	n/a	3,874,139	-	-	-	686,461	4,560,600
Local Authority Stock	6.00% to 6.20%	1,000,000	-	-	-	-	1,000,000
NZ Government Stock	6.00%	-	-	106,510	-	-	106,510
Total Financial Assets		15,335,101	3,252	106,510	-	4,474,618	19,919,481
Liabilities							
Accounts Payable	n/a	-	-	-	-	998,359	998,359
Civic Bonds Issued	6.00% to 6.20%	997,641	-	-	-	-	997,641
Subordinated Debt	n/a	-	-	-	-	120,176	120,176
Total Financial Liabilities		997,641	-	-	-	1,118,535	2,116,176
As at 31 December 2008 (Group)							
Assets							
Cash at Bank	0% to 8.30%	10,120,192	1,561,524	-	-	(146,590)	11,535,126
Other Receivable	n/a	-	-	-	-	7,188,333	7,188,333
Managed Funds	n/a	3,633,033	-	-	-	661,912	4,294,945
Local Authority Stock	6.00% to 6.20%	1,714,000	-	999,237	-	-	2,713,237
NZ Government Stock	6.00%	-	-	-	110,146	-	110,146
Total Financial Assets		15,467,225	1,561,524	999,237	110,146	7,703,655	25,841,787
Liabilities							
Accounts Payable	n/a	-	-	-	-	1,353,375	1,353,375
Civic Bonds Issued	6.00% to 6.20%	1,711,450	-	999,714	-	-	2,711,164
Subordinated Debt	n/a	-	-	-	-	120,176	120,176
Total Financial Liabilities		1,711,450	-	999,714	-	1,473,551	4,184,715

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2009

	Interest Rate Spread %	Within 6 months \$	6 to 12 months \$	1 to 2 years \$	2 to 5 years \$	Non Interest Bearing \$	Total \$
As at 31 December 2009 (Parent)							
Assets							
Cash at Bank	0% to 4.60%	10,460,962	3,252	-	-	78,491	10,542,705
Other Receivable	n/a	-	-	-	-	3,657,003	3,657,003
Managed Funds	n/a	3,874,139	-	-	-	686,461	4,560,600
NZ Government Stock	6.00%	-	-	106,510	-	-	106,510
Total Financial Assets		14,335,101	3,252	106,510	-	4,421,955	18,866,818
Liabilities							
Accounts Payable	n/a	-	-	-	-	997,299	997,299
Total Financial Liabilities		-	-	-	-	997,299	997,299
As at 31 December 2008 (Parent)							
Assets							
Cash at Bank	0% to 8.30%	10,120,192	1,561,524	-	-	(204,861)	11,476,855
Other Receivable	n/a	-	-	-	-	7,184,320	7,184,320
Managed Funds	n/a	3,633,033	-	-	-	661,912	4,294,945
NZ Government Stock	6.00%	-	-	-	110,146	-	110,146
Total Financial Assets		13,753,225	1,561,524	-	110,146	7,641,371	23,066,266
Liabilities							
Accounts Payable	n/a	-	-	-	-	1,352,257	1,352,257
Total Financial Liabilities		-	-	-	-	1,352,257	1,352,257

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 31 DECEMBER 2009

NOTE 13. FINANCIAL INSTRUMENTS CONTINUED

(ii) Carrying Amount and Fair Value

	2009 Group Carrying Amount \$	2009 Group Fair Value \$	2008 Group Carrying Amount \$	2008 Group Fair Value \$
Assets				
Cash at Bank	10,591,393	10,591,393	11,535,126	11,535,126
Other Receivable	3,660,978	3,660,978	7,188,333	7,188,333
Managed Funds	4,560,600	4,560,600	4,294,945	4,294,945
Local Authority Stock	1,000,000	1,026,773	2,713,237	2,781,084
NZ Government Stock	106,510	106,510	110,146	110,146
Total Financial Assets	19,919,481	19,946,254	25,841,787	25,909,634
Liabilities				
Accounts Payable	998,359	998,359	1,353,375	1,353,375
Civic Bonds Issued	997,641	1,026,773	2,711,164	2,781,084
Subordinated Debt	120,176	120,176	120,176	120,176
Total Financial Liabilities	2,116,176	2,145,308	4,184,715	4,254,635

The fair value of all financial liabilities is calculated using discounted cashflow models based on the interest rate repricing and maturity of the bonds.

	2009 Parent Carrying Amount \$	2009 Parent Fair Value \$	2008 Parent Carrying Amount \$	2008 Parent Fair Value \$
Assets				
Cash at Bank	10,542,705	10,542,705	11,476,855	11,476,855
Other Receivable	3,657,003	3,657,003	7,184,320	7,184,320
Managed Funds	4,560,600	4,560,600	4,294,945	4,294,945
NZ Government Stock	106,510	106,510	110,146	110,146
Total Financial Assets	18,866,818	18,866,818	23,066,266	23,066,266
Liabilities				
Accounts Payable	997,299	997,299	1,352,257	1,352,257
Total Financial Liabilities	997,299	997,299	1,352,257	1,352,257

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2009

(b) Liquidity Risk

Liquidity Risk is the risk that the Company & Group will encounter difficulties in raising funds at short notice to meet commitments associated with financial instruments. Management of liquidity risk is designed to ensure that the Company & Group has the ability to meet financial obligations as they fall due.

The Company & Group monitors this risk by matching the maturities of the financial assets and liabilities. All maturities are expected on the contracted date.

The following tables include the Company's & Group's assets and liabilities at their face value, categorised by the maturity dates.

	Within 6 months \$	6 to 12 months \$	1 to 2 years \$	2 to 5 years \$	Total \$
Maturity Analysis (Group) As at 31 December 2009					
Assets					
Cash at Bank	10,588,141	3,252	-	-	10,591,393
Other Receivable	3,660,978	-	-	-	3,660,978
Managed Funds	4,560,600	-	-	-	4,560,600
Local Authority Stock	1,000,000	-	-	-	1,000,000
NZ Government Stock	-	-	105,000	-	105,000
Total Financial Assets	19,809,719	3,252	105,000	-	19,917,971
Liabilities					
Accounts Payable	998,359	-	-	-	998,359
Civic Bonds Issued	997,641	-	-	-	997,641
Subordinated Debt	-	-	-	120,176	120,176
Total Financial Liabilities	1,996,000	-	-	120,176	2,116,176
Maturity Analysis (Group) As at 31 December 2008					
Assets					
Cash at Bank	9,973,602	1,561,524	-	-	11,535,126
Other Receivable	7,188,333	-	-	-	7,188,333
Managed Funds	4,294,945	-	-	-	4,294,945
Local Authority Stock	1,714,000	-	1,000,000	-	2,714,000
NZ Government Stock	-	-	-	105,000	105,000
Total Financial Assets	23,170,880	1,561,524	1,000,000	105,000	25,837,404
Liabilities					
Accounts Payable	1,353,375	-	-	-	1,353,375
Civic Bonds Issued	1,714,000	-	1,000,000	-	2,714,000
Subordinated Debt	-	-	-	120,176	120,176
Total Financial Liabilities	3,067,375	-	1,000,000	120,176	4,187,551

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 31 DECEMBER 2009

NOTE 13. FINANCIAL INSTRUMENTS CONTINUED

	Within 6 months \$	6 to 12 months \$	1 to 2 years \$	2 to 5 years \$	Total \$
Maturity Analysis (Parent) As at 31 December 2009					
Assets					
Cash at Bank	10,539,453	3,252	-	-	10,542,705
Other Receivable	3,657,003	-	-	-	3,657,003
Managed Funds	4,560,600	-	-	-	4,560,600
NZ Government Stock	-	-	105,000	-	105,000
Total Financial Assets	18,757,056	3,252	105,000	-	18,865,308
Liabilities					
Accounts Payable	997,299	-	-	-	997,299
Total Financial Liabilities	997,299	-	-	-	997,299
Maturity Analysis (Parent) As at 31 December 2008					
Assets					
Cash at Bank	9,915,331	1,561,524	-	-	11,476,855
Other Receivable	7,184,320	-	-	-	7,184,320
Managed Funds	4,294,945	-	-	-	4,294,945
NZ Government Stock	-	-	-	105,000	105,000
Total Financial Assets	21,394,596	1,561,524	-	105,000	23,061,120
Liabilities					
Accounts Payable	1,352,257	-	-	-	1,352,257
Total Financial Liabilities	1,352,257	-	-	-	1,352,257

(c) Credit Risk

All investments except for the \$105,000 Government Stock holding and the managed fund are in Local Authority Stocks and cash at registered banks. The registered banks have a credit rating of AA. The Local Authority Stock is receivable from one Local Authority with no credit rating however that Local Authority is a shareholder of the Parent Company.

Local Government Finance is not issuing new Bonds or making new investments with the final Local Authority Stock and Civic Bond maturity date of February 2010. The Directors intention is, and always has been, to acquire assets and pay liabilities on their maturity. The purpose of the operations of Local Government Finance is to match Stocks and Bonds in terms of interest rate and maturity dates. At balance date Local Government Finance is exposed to one Local Authority in one parcel of Local Authority stock. The Directors do not consider this as a credit risk and no impairment is deemed necessary as there are no past due, restructured or acquired assets.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2009

(i) Concentration of Credit Risk

The following table includes the Company's & Group's assets at their carrying amounts at balance date.

This equates to the Company's and Group's maximum exposure to credit risk.

	2009 Group \$	2008 Group \$	2009 Parent \$	2008 Parent \$
Cash at registered Banks	10,591,393	11,535,126	10,542,705	11,476,855
Other Receivable	3,660,978	7,188,333	3,657,003	7,184,320
Managed Funds	4,560,600	4,294,945	4,560,600	4,294,945
NZ Government Stock	106,510	110,146	106,510	110,146
NZ Local Authority Stock	1,000,000	2,713,237	-	-
Total	19,919,481	25,841,787	18,866,818	23,066,266

(ii) Concentration of Credit Exposure

No single asset's carrying value is greater than 10% of total assets other than managed funds and cash and bank term deposits placed with ANZ National Bank Ltd.

(3) Off Balance Sheet Financial Instruments

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 in terms of maturity amount, interest rate and maturity date. At balance date the Group did not have any outstanding interest rate swaps as part of its operations. The Group does not have any other off balance sheet exposures.

(4) Foreign Currency Risk

Foreign currency risk is the risk that the company will incur losses through exposure to foreign exchange movements. At balance date the Group had \$686,461 invested in an unhedged global equities fund which is less than 5% of net equity.

(5) 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.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 31 DECEMBER 2009

NOTE 14. RECONCILIATION OF COMPREHENSIVE INCOME AFTER TAX WITH CASH FLOW FROM OPERATING ACTIVITY

	2009 Group \$	2008 Group \$	2009 Parent \$	2008 Parent \$
Reported Comprehensive Income After Taxation	737,276	926,978	755,921	932,934
Add/(less) non cash items				
Depreciation	28,731	22,242	28,731	22,242
Amortisation	6,369	88	6,369	88
Insurance Provisions	(4,723,339)	1,222,892	(4,723,339)	1,222,892
Deferred Tax Liability	(27,277)	(72,505)	(27,277)	(72,505)
Effective interest rate adjustments	(286)	(400)	-	-
Net change in fair value of property	550,000	300,000	550,000	300,000
Share of Profit of Associate	9,368	(3,407)	-	-
Unrealised net change in value of investments	(262,019)	(76,497)	(262,019)	(76,497)
	(4,418,453)	1,392,413	(4,427,535)	1,396,220
Add/(less) movements in other working capital items				
Accounts Receivable	3,306,149	289,151	3,310,124	281,849
Accounts Payable	(361,019)	(48,076)	(360,961)	(40,645)
Maturing Local Authority Stock	(1,714,000)	(6,547,000)	-	-
Tax Refund Due	329,840	200,793	329,840	200,793
Maturing Civic Bonds	1,714,000	6,547,000	-	-
	3,274,970	441,868	3,279,003	441,997
Add/(Less) Items Classified as investing activity	-	-	-	-
Add/(Less) Items Classified as financing activity	87,018	(5,167)	87,018	2,538
Net Cash flow from Operating Activities	(319,189)	2,756,092	(305,593)	2,773,689

NOTE 15. OPERATING LEASE COMMITMENTS

There are the following operating lease expense commitments:

	2009 Group \$	2008 Group \$	2009 Parent \$	2008 Parent \$
not later than one year	14,173	14,173	14,173	14,173
later than one year but not later than two years	11,911	14,173	11,911	14,173
later than two years but not later than five years	-	11,911	-	11,911
later than five years	-	-	-	-
	26,084	40,257	26,084	40,257

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2009

There are the following operating lease income commitments:

	2009 Group \$	2008 Group \$	2009 Parent \$	2008 Parent \$
not later than one year	695,233	531,734	695,233	531,734
later than one year but not later than two years	483,720	334,222	483,720	334,222
later than two years but not later than five years	275,518	315,135	275,518	315,135
later than five years	-	10,847	-	10,847
	1,454,471	1,191,938	1,454,471	1,191,938

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. RELATED PARTIES

During the reporting period the Company, in accordance with its reason for existence ie. provision of risk financing products, had related party transactions with all its shareholders (Local Authorities as listed on back cover of the annual report) and NZ Mutual Funds Trustee Ltd ('Riskpool'), the Company is the fund manager for Riskpool. All transactions were at normal market rates with in excess of 90% of premium income being derived from transactions with New Zealand local authorities and Riskpool.

Specific related party transactions are:

- 1) the subvention payments Civic Assurance made to Local Government Finance Corporation of \$3,975.
- 2) Civic Assurance has charged administration fees to Riskpool of \$258,966 and Superplan and SuperEasy of \$269,569. There were balances outstanding at balance date for Riskpool of \$147,547 and Superplan and SuperEasy of \$128,321.
- 3) Local Authority bonds and interest (refer Note 13).

Outstanding Balances

Apart from normal business trading with standard credit terms there are no amounts outstanding between the Group and related parties.

Key Management Personnel

The compensation of the Directors and executives, being the key management personnel of the Company and Group is set out below:

	2009 Group \$	2008 Group \$	2009 Parent \$	2008 Parent \$
Compensation				
Short term employee benefits	733,395	706,701	733,395	706,701
Post-employment benefits	-	-	-	-
Other long-term benefits	-	-	-	-
Termination benefits	-	-	-	-
	733,395	706,701	733,395	706,701

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 31 DECEMBER 2009

NOTE 18. ANALYSIS OF FINANCIAL ASSETS NOT IMPAIRED

	Not due	Past due	Past due + 30 days	Past due + 60 days	Total
Sundry Debtors and Prepayments	1,115,012	6,428	-	-	1,121,440
Premiums Receivable	504,350	390	26,730	31,763	563,233
Reinsurance Recoveries	2,458,968	135,288	-	214	2,594,470
	4,078,330	142,106	26,730	31,977	4,279,143

All receivables have been received subsequent to the reporting date hence no impairment.

NOTE 19. STANDARDS APPROVED BUT NOT YET EFFECTIVE

Standards and Interpretations in issue not yet adopted

At the date of authorisation of the financial report, a number of Standards and Interpretations were in issue but not yet effective.

Except as noted below, initial application of the following Standards will not affect any of the amounts recognised in the financial report, change the presentation and disclosures presently made in or relation to the Company's and Group's financial report:

	Effective for annual reporting periods beginning on or after	Expected to be initially applied in the financial year ending
NZ IFRIC 17 'Distributions of Non-Cash Assets to Owners'	1 July 2009	31 December 2010
NZ IFRIC 18 'Transfers of Assets from Customers'	1 July 2009	31 December 2010
NZ IFRS 3 'Business Combinations' – revised 2008	1 July 2009	31 December 2010
NZ IAS 27 'Consolidated and Separate Financial Statements' – revised 2008	1 July 2009	31 December 2010
Amendments to NZ IAS 39 'Financial Instruments: Recognition and Measurement' – Eligible Hedged Items	1 July 2009	31 December 2010
Omnibus Amendments (2009)	1 July 2009	31 December 2010
Improvements to New Zealand Equivalents to International Financial Reporting Standards 2009	*	31 December 2010
Amendments to NZ IFRS 2 'Share-Based Payment' – Group Cash-Settled Share-Based Payment Transactions	1 January 2010	31 December 2010
Amendment to NZ IAS 32 'Financial Instruments: Presentation' – Classification of Rights Issues	1 February 2010	31 December 2011
Amendments to NZ IAS 24 'Related Party Disclosures'	1 January 2011	31 December 2011
NZ IFRS 9 'Financial Instruments'	1 January 2013	31 December 2013
NZ IFRIC 19 'Extinguishing Financial Liabilities with Equity Instruments'	1 July 2010	31 December 2011
Amendments to NZ IFRIC 14 'Prepayments of a Minimum Funding Requirement'	1 January 2011	31 December 2011
* The effective date and transitional provisions vary by Standard. Most of the improvements are effective for annual periods beginning on or after 1 January 2010, with earlier adoption permitted.		

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2009

NOTE 20. SHAREHOLDERS EQUITY

The Capital of the Company comprises solely authorised and issued ordinary shares paid to \$1 with each share ranking equally in votes, dividends and surpluses. There has been no change in Share Capital during the year.

	2009 Group \$	2008 Group \$	2009 Parent \$	2008 Parent \$
Retained Earnings				
Opening Balance	12,842,962	12,804,304	12,866,322	12,821,708
Net Surplus After Taxation	737,276	926,978	755,921	932,934
Dividends Paid	(485,700)	(888,320)	(485,700)	(888,320)
Closing balance	13,094,538	12,842,962	13,136,543	12,866,322

NOTE 21. EQUITY RETAINED FOR FINANCIAL SOUNDNESS

All the equity is retained to ensure the financial soundness of the Group. The high level of liquidity in the non Local Government Finance fixed interest (\$10.5m) and managed funds (\$4.5m) investments is retained for cash flow purposes and also to balance the funds allocated in the building investment. For this reason the Company & Group believes that the high liquidity ratio is a significant factor in attaining the A (Excellent) claims paying ability rating from AM Best.

NOTE 22. 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 2009.

	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	\$1,000,000	\$1,289,923
- Net Asset Value	\$19,448,000	\$19,485,328
- Net Asset Value per share	\$3.04	\$3.05

NOTE 23. SUBSEQUENT EVENTS

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

REPORT OF THE AUDITOR-GENERAL

TO THE MEMBERS OF THE NEW ZEALAND LOCAL GOVERNMENT INSURANCE CORPORATION LIMITED (THE 'COMPANY') AND GROUP FOR THE YEAR ENDED 31 DECEMBER 2009

The Auditor-General is the auditor of the Company and Group. The Auditor-General has appointed me, Michael Wilkes, using the staff and resources of Deloitte, to carry out the audit of the financial statements of the Company and Group, on her behalf, for the year ended 31 December 2009.

UNQUALIFIED OPINION

In our opinion:

- the financial statements of the Company and Group on pages 9 to 41:
 - comply with generally accepted accounting practice in New Zealand;
 - comply with International Financial Reporting Standards; and
 - give a true and fair view of:
 - the Company and Group's financial position as at 31 December 2009; and
 - the results of their operations and cash flows for the year ended on that date.
- Based on our examination the Company and Group kept proper accounting records.

The audit was completed on 26 March 2010 and our unqualified opinion is expressed as at that date.

The basis of the opinion is expressed below. In addition, we outline the responsibilities of the Board of 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 our 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 the opinion.

Our 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 the opinion above.

RESPONSIBILITIES OF THE BOARD OF DIRECTORS AND AUDITOR

The Board of Directors is responsible for preparing financial statements in accordance with generally accepted accounting practice in New Zealand. Those financial statements must fairly present the financial position of the Company and Group as at 31 December 2009 and the results of its operations and cash flows for the year ended on that date. The Board of Directors' responsibilities arise from the Financial Reporting Act 1993.

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 New Zealand Institute of Chartered Accountants.

Other than the audit, and taxation compliance services, we have no relationship with or interests in the Company and Group.



Michael Wilkes
DELOITTE
ON BEHALF OF THE AUDITOR-GENERAL
WELLINGTON, NEW ZEALAND

