Civic Financial Services Ltd
SERVICING LOCAL GOVERNMENT ACROSS NEW ZEALAND

ANNUAL REPORT 2016

DIRECTORS' REPORT

ANNUAL REPORT AND STATEMENT OF ACCOUNTS FOR THE YEAR ENDED 31 DECEMBER 2016

Your Directors have pleasure in submitting the 56th Annual Report of the affairs of the Company (formerly New Zealand Local Government Insurance Corporation Ltd trading as Civic Assurance) for the year ended 31 December 2016, which is to be presented at the Annual General Meeting of Members in June 2017.

1. PERFORMANCE

During the year, Civic settled in full its remaining insurance claims. In total, LAPP and Civic between them paid $1.03 billion (including GST) for their 2010 and 2011 Canterbury earthquakes claims.

Civic's before-tax profit in 2016 was $1,333,868 (2015: $2,824,715). The net asset value per share increased from $1.46 at the end of 2015 to $1.53 as at 31 December 2016.

2. OPERATIONS 2016

Insurance Business

Your Board decided in December 2016 to withdraw Civic's application for a full insurance licence and not offer property insurance. This decision was not taken lightly, but in the current market Civic cannot write insurance profitably. Subsequent to this decision the Reserve Bank of New Zealand cancelled Civic's provisional licence on 17 January 2017.

Civic will be able to provide property covers through CPP (Civic Property Pool) in the future if this is what the sector wants and market conditions favour doing so.

Administration Services

Fees in 2016 from providing services to LAPP, Riskpool and the SuperEasy and SuperEasy KiwiSaver Superannuation Schemes were $2,358,859 (2015: $2,756,915). The reduction occurred because of a lower fee from Riskpool.

Investment Revenue

Income from investments was $283,739 (2015: $67,969). Income from Civic Assurance House was $762,633 (2015: $718,356).

Sponsorship and Support for the Sector

The Company continued as a sponsor of SOLGM (Society of Local Government Managers) and various SOLGM branch events.

Name Change

A company without an insurance licence is not allowed to have the word insurance in its name. Recognising this and its changed focus, Civic changed its formal name from *New Zealand Local Government Insurance Corporation Ltd* to *Civic Financial Services Ltd* on 1 March 2017.

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

3. ASSOCIATED ENTITIES

Local Government Superannuation Trustee Limited

Local Government Superannuation Trustee Limited (LGST) is a 100% subsidiary of Civic and is the trustee to the SuperEasy and SuperEasy KiwiSaver Superannuation Schemes. Both are administered by Civic and both from 1 April 2016 are registered with the FMA (Financial Markets Authority). Director appointments to LGST are made by LGNZ (two), Civic (one), CTU (one), SOLGM (one) and one, who must be a Licensed Independent Trustee, by the LGST Board.

The SuperEasy schemes feature low member charges and simple administration for councils. Both make use of passive fund managers, which as well as allowing lower member fees removes the possibility of a fund manager making a bad call, which is something that can happen at any time.

The SuperEasy schemes also offer an '*Automatic Fund*', in which each member's risk exposure is gradually and automatically switched from growth assets to income assets as the member gets older.

Superannuation funds under management as at March 2017 were $280 million (May 2016: $251 million) and the combined membership 10,055. SuperEasy's fund managers are AMP Capital Investors (New Zealand) Ltd and ANZ New Zealand Investments Ltd. 69 councils from a possible 78 have chosen SuperEasy KiwiSaver as their preferred provider for KiwiSaver.

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

LAPP Disaster Fund

LAPP is a charitable trust that was set up by LGNZ and Civic in 1993. LAPP's membership is 30. It could be said that LAPP is New Zealand's original LASS (Local Authority Shared Services). The cost of mutual self-insurance averages out at less than half the cost of insurance.

LAPP was designed to cover back-to-back major disasters and this is what happened of course with the Canterbury earthquakes in 2010 and 2011. LAPP settled the claims from Waimakariri District Council and Christchurch City Council for damage to their underground assets with a total payout of $217 million (excluding GST). LAPP's highest claim before this was just over $5 million for claims arising from the 2004 Manawatu floods.

At the time of writing it is unknown how much the Kaikoura-Hurunui earthquake claims will be, but it will be well within LAPP's ability to pay. The affected councils, Kaikoura, Hurunui and Marlborough, will have the benefit of full cover for all of their earthquake damaged assets registered with LAPP.

Civic is the administration and fund manager for LAPP. LAPP's website is: www.lappfund.co.nz.

Riskpool/ Civic Liability Pool (CLP)

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. CLP is similar to Riskpool, but has no facility for calls. For the current fund year Riskpool/CLP has 31 members.

Local Government Mutual Funds Trustee Limited (LGMFT) is the trustee of Riskpool and CLP. The shares of LGMFT are held in trust by Civic for Riskpool's members. Civic is also the Fund Manager and Scheme Manager for Riskpool and Administration Manager for CLP.

We estimate that over the last 20 years Riskpool has saved the sector around $250 million in insurance premiums. In addition, Riskpool has provided risk management services to members, established a considerable body of new case law, and helped to clarify local authorities' duties of care.

4. DIRECTORS

As at 31 December 2016 there were six directors: M.A. Butcher, A.T. Gray, M.C. Hannan, A.J. Marryatt, J.B. Melville and B.J. Morrison. The Company's constitution allows for up to six directors of which at least two are to be appointed from outside the local authority sector.

Director attendances at Board meetings held in 2016:

Mark Butcher	7 / 8
Tony Gray	8 / 8
Mike Hannan	7 / 8
Tony Marryatt	7 / 8
John Melville	8 / 8
Basil Morrison	7 / 8

The Chairmen of each of the Board and the Risk and Audit Committee are elected at the first meeting held after each year's AGM.

Section 139 of the Companies Act 1993

During the year John Melville received $6,700 for Risk Management services. There are no other notices required under section 139 of the Companies Act 1993 except for Directors' remuneration. Changes to the Directors' fee pool are approved by shareholders at an AGM. The Board determines the allocation per Director based on the duties of the individual Director. The Director fees for subsidiary companies are set by the Parent Company Board.

Civic made a before-tax profit in 2016 of $1,333,868. The net asset value per share has increased from $1.46 at the end of 2015 to $1.53 as at 31 December 2016.

DIRECTORS' REPORT

For the year ended 31 December 2016, Directors' remuneration was:

	$
Mark Butcher	20,625
Tony Gray	20,625
Mike Hannan	20,625
Tony Marryatt	41,250
John Melville	23,203
Basil Morrison	20,625
	146,953

In addition, the following Directors received director fees in relation to their directorships of Riskpool or LGST:

		$
Mark Butcher	(Riskpool)	1,468
Tony Gray	(Riskpool)	1,468
Mike Hannan	(Riskpool)	8,310
Tony Marryatt	(Riskpool)	9,778
John Melville	(Riskpool)	2,078
Basil Morrison	(Riskpool & LGST)	10,208
		33,310

The Company provides Directors and officers with, and pays the premiums for, Directors' and Officers' liability insurance to the full extent allowed for, and in accordance with the requirements of the Companies Act 1993. The renewal of the Company's Directors' and Officers' liability insurance was entered in the Interests Register pursuant to sections 162 and 163 of the Companies Act 1993. This insurance does not cover liabilities arising from criminal actions or deliberate and reckless acts or omissions by the Directors. The cover includes indemnity of costs and expenses incurred in defending an action that falls within the scope of the indemnity.

Interests Register

Directors' interests are tabled at the beginning of each Board meeting. Directorship and other disclosures as at 31 December 2016 were:

M. Butcher	Chief Executive of Local Government Funding Agency Ltd; Chair of New Plymouth District Perpetual Investment Fund Guardians Ltd; Director of Local Government Mutual Funds Trustee Ltd; Member of SuperEasy KiwiSaver Superannuation Scheme; Trustee of Civic Property Pool; Board Member of INFINZ.
T. Gray	Director of Ngati Apa Developments Ltd; Gisborne Airport Ltd; Eastland Group Ltd including Eastland Port; Eastland Network Ltd; Chair of Ngati Pukenga Investments Ltd; Director of Maungaharuru - Tangitu Ltd; Executive Project Advisor to Hastings District Council; Artemis Nominees Ltd; Local Government Mutual Funds Trustee Ltd; Consultant to THT Properties Ltd; Trustee of Civic Property Pool.
M. Hannan	Trustee of Civic Property Pool; Director of Local Government Mutual Funds Trustee Ltd.
T. Marryatt	Chair of Local Government Mutual Funds Trustee Ltd; AJM Holdings Ltd; Trustee of Civic Property Pool; Member of SuperEasy KiwiSaver Superannuation Scheme.
J. Melville	Trustee of Civic Property Pool; Director of Local Government Mutual Funds Trustee Ltd.
B. Morrison	Chairman of Local Government Superannuation Trustee Ltd; Basil J Morrison & Associates Ltd; Member of SuperEasy KiwiSaver Superannuation Scheme; Trustee of Civic Property Pool; Director of Local Government Mutual Funds Trustee Ltd; Waitangi Tribunal Member; Independent Hearings Commissioner for Auckland Council; Thames-Coromandel District Council Hearings Panel; Waikato Regional Council Hearings Commissioner; Accredited Commissioner – RMA.

Conduct of the Board and Board Committee

The Board has put in place and regularly reviews a number of good governance policies including Charters for the Board and the Risk and Audit Committee, Fit and Proper Policy, Code of Conduct, and a Risk Management Plan.

Use of Information

Directors, individually or collectively, may obtain independent professional advice relating to any matters concerning the Company's business or in relation to the discharge of the Director's responsibilities. Subject to approval of the Chairman the Company will reimburse the Director(s) some or all of the reasonable costs of the advice. During the reporting period, no Director has sought leave to obtain such advice.

Loans to Directors

No loans or advances have been made to Directors, their spouses or dependants, or to related parties during the year.

5. 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 ended 31 December 2016.

Remuneration $	Number of Employees
100,000 – 110,000	2
110,000 – 120,000	1
130,000 – 140,000	1
190,000 – 200,000	1
430,000 – 440,000	1

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

6. AUDIT AND RISK MANAGEMENT

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

The Risk and Audit Committee (RAC) comprises the full Board and, until 30 September 2016 Bryan Taylor, who was a consultant to the Board. John Melville is the Chairman of this committee. RAC met four times in 2016: the Auditor attended two of those meetings and a part of one of those meetings was held without management present.

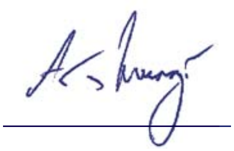
During the year the RAC had the additional responsibility of oversight of compliance with the insurance company licencing requirements under the Insurance (Prudential Supervision) Act 2010 and the Company's risk management program.

7. DONATIONS

No donations have been made during the year by any Company in the Group (2015: $0).

8. STAFF

We sincerely thank the staff for their work during the year. They are: Caroline Bedford, Ian Brown, Jane Brown, Oliver Gilmore, Roger Gyles, Sylvia Jackson, Amber Lundt, Wendy Johnson, Tim Sole, Grace van Dyk and Glenn Watkin.



Tony Marryatt **Chairman**
March 2017

DIRECTORY

DIRECTORS

Anthony (Tony) J. Marryatt (Chairman)
Mark A. Butcher
Anthony (Tony) T. Gray
Michael C. Hannan
John B. Melville
Basil J. Morrison CNZM JP

CONSULTANT TO THE BOARD

Bryan G. Taylor JP (to 30 June 2016)

EXECUTIVE OFFICERS

Chief Executive:	Tim Sole BSc MBA ANZIIF (Fellow) CIP FIAA FNZSA
Chief Financial Officer:	Caroline Bedford CPA (Aust), BCA, NZCS

AUDITORS

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

BANKERS

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

LEGAL ADVISERS

Brandons
Heaney & Partners
Kensington Swan
Young Hunter

COMPANY REGISTRATION NO: 13271

REGISTERED OFFICE

Level 9, Civic Assurance House, 116 Lambton Quay, Wellington 6011

POSTAL ADDRESS

Civic Financial Services Ltd, PO Box 5521, Wellington 6140

OTHER CONTACT DETAILS

Telephone	(04) 978 1250
Facsimile	(04) 978 1260
Email	admin@civicfs.co.nz
Website	www.civicfs.co.nz

The Company is a participant in the Insurance & Financial Services Ombudsman Scheme (Inc)
Participant Number 2000427

Statement of Accounts

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2016

	Notes	2016 Group $	2015 Group $	2016 Parent $	2015 Parent $
REVENUE					
Income Attributable to Insurance Business					
Net Claims Income/(Expense)	3	1,998,024	2,612,715	1,998,024	2,612,715
Underwriting Surplus		1,998,024	2,612,715	1,998,024	2,612,715
Administration Fees		2,358,859	2,756,915	2,358,859	2,756,915
Income from Investments	11	283,739	67,969	283,750	67,969
Property Income		762,633	718,356	762,633	718,356
Interest Income		-	4,403	-	4,403
Other Income		542	376	542	376
Net Operating Revenue		5,403,797	6,160,734	5,403,808	6,160,734
EXPENDITURE					
Audit Fee					
Statutory Audit of the Financial Statements		94,560	71,987	94,560	71,987
Other Fees Paid to Auditors re Taxation Compliance		67,710	66,966	67,710	66,966
Claims Paying Ability Rating		34,093	27,752	34,093	27,752
Compliance Costs		334,048	236,062	334,048	236,062
Consultants		102,457	149,831	102,457	149,831
Depreciation	10	38,761	35,797	38,761	35,797
Amortisation	10	3,238	18,392	3,238	18,392
Directors' Remuneration	16	146,953	144,375	146,953	144,375
Insurance Council of New Zealand		15,525	15,525	15,525	15,525
Legal Fees		53,996	178,566	53,996	178,566
Property Operating Expenses		510,118	415,525	510,118	415,525
Bad Debts		-	1,070	-	1,070
Other Expenses		1,139,602	785,993	1,071,993	785,969
Employee Remuneration	19	1,429,684	1,190,774	1,429,684	1,190,774
Superannuation Subsidies		192,603	130,585	192,603	130,585
Total Expenditure		4,163,348	3,469,200	4,163,324	3,469,176
Surplus Before Share of Profit from Associate, Revaluation of Investment Property and Taxation		1,240,449	2,691,534	1,240,484	2,691,558
Subvention Payment		-	-	(7)	(7)
Revaluation of Investment Property	9	96,571	133,331	96,571	133,331
Share of Profit of Associate		(3,152)	(150)	-	-
Surplus Before Taxation		1,333,868	2,824,715	1,337,048	2,824,882
Taxation Expense	8	359,556	43,663	359,563	43,670
TOTAL COMPREHENSIVE SURPLUS NET OF TAX	19	974,312	2,781,052	977,485	2,781,212

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 2016

	Notes	2016 Group $	2015 Group $	2016 Parent $	2015 Parent $
SHAREHOLDERS' EQUITY					
Issued and Paid-Up Ordinary Shares					
Ordinary Shares fully paid-up	19	10,763,506	10,566,406	10,763,506	10,566,406
Retained Earnings	19	6,440,214	5,465,902	6,509,858	5,532,373
TOTAL EQUITY		**17,203,720**	**16,032,308**	**17,273,364**	**16,098,779**
Represented By:					
CURRENT ASSETS					
Bank & Cash Equivalents		6,111,694	454,415	6,061,168	403,870
Sundry Debtors and Prepayments	7a)	556,715	49,345,499	556,709	49,345,491
Reinsurance Recoveries	6	-	519,558,958	-	519,558,958
Income Tax Receivable	8	990	2,971	990	2,971
Total Current Assets		6,669,399	569,361,843	6,618,867	569,311,290
NON CURRENT ASSETS					
Shares in Local Government Online		-	3,152	-	-
Property, Plant and Equipment	10	189,155	193,147	189,155	193,147
Intangible Assets (Software)	10	89,652	72,276	89,652	72,276
Deferred Tax Asset	8	3,272,784	3,632,346	3,272,784	3,632,346
Investment Property	9	7,925,000	7,425,000	7,925,000	7,425,000
Total Non Current Assets		11,476,591	11,325,921	11,476,591	11,322,769
TOTAL ASSETS		**18,145,990**	**580,687,764**	**18,095,458**	**580,634,059**

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 2016

	Notes	2016 Group $	2015 Group $	2016 Parent $	2015 Parent $
CURRENT LIABILITIES					
Sundry Creditors & Accrued Charges	7b)	385,923	553,796,248	385,923	553,796,248
Accrued Holiday Pay		49,766	130,832	49,766	130,832
CLP / Riskpool Admin Fee Reserve (Current)		112,969	-	112,969	-
Subordinated Debt	15	120,176	120,176	-	-
		668,834	554,047,256	548,658	553,927,080
Insurance Provisions					
Outstanding Claims Liability	3b)	-	10,608,200	-	10,608,200
Total Insurance Provisions		-	10,608,200	-	10,608,200
Total Current Liabilities		668,834	564,655,456	548,658	564,535,280
NON-CURRENT LIABILITIES					
CLP / Riskpool Admin Fee Reserve	7b)	273,436	-	273,436	-
Total Non-Current Liabilities		273,436	-	273,436	-
TOTAL LIABILITIES		942,270	564,655,456	822,094	564,535,280
EXCESS OF ASSETS OVER LIABILITIES		17,203,720	16,032,308	17,273,364	16,098,779

For and on behalf of the Directors

Director Tony Marryatt

17 March 2017

Director John Melville

17 March 2017

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 2016

	Notes	2016 Group $	2015 Group $	2016 Parent $	2015 Parent $
OPENING EQUITY		16,032,308	13,251,256	16,098,779	13,317,567
Total Comprehensive Surplus Net of Tax		974,312	2,781,052	977,485	2,781,212
Ordinary Shares issued during the year	19	197,100	-	197,100	-
CLOSING EQUITY		**17,203,720**	**16,032,308**	**17,273,364**	**16,098,779**

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 2016

	Notes	2016 Group $	2015 Group $	2016 Parent $	2015 Parent $
CASH FLOWS FROM OPERATING ACTIVITIES					
Cash was provided from:					
Rent Received		778,617	707,979	778,617	707,979
Administration Fees Received		2,348,707	2,969,715	2,348,707	2,969,715
Interest Received and Investment Income		277,415	168,667	277,415	168,667
Other Income		542	376	542	376
Reinsurance Recoveries*		496,346,310	2,876,573	496,346,310	2,876,573
Taxation Refunded		2,843	45,698	2,843	45,698
		499,754,434	6,769,008	499,754,434	6,769,008
Cash was applied to:					
Claims Expenses*		488,705,997	7,551,635	488,705,997	7,551,635
Interest Expense		-	4,403	-	4,403
Payments to Suppliers and Employees		5,135,207	2,317,497	5,135,181	2,317,473
Reinsurance Received in Advance		-	326,264	-	326,264
		493,841,204	10,199,799	493,841,178	10,199,775
Net Cash Flow from Operating Activities	12	5,913,230	(3,430,791)	5,913,256	(3,430,767)
CASH FLOWS FROM INVESTING ACTIVITIES					
Cash was provided from:					
Dividend – LGOL		6,335	-	6,335	-
Sale of Property, Plant and Equipment		1,252	-	1,252	-
		7,587	-	7,587	-
Cash was applied to:					
Purchase of Property, Plant and Equipment		57,210	-	57,210	-
Purchase of Investment Property		403,428	339,072	403,428	339,072
		460,638	339,072	460,638	339,072
Net Cash Flow from Investing Activities		(453,051)	(339,072)	(453,051)	(339,072)
CASH FLOWS FROM FINANCING ACTIVITIES					
Cash was provided from:					
Ordinary Shares issued during the year		197,100	-	197,100	-
		197,100	-	197,100	-
Cash was applied to:					
Payment of Subvention Payment		-	-	7	7
		-	-	7	7
Net Cash Flow from Financing Activities		197,100	-	197,093	(7)
Net Decrease in Cash Held		5,657,279	(3,769,863)	5,657,298	(3,769,846)
Opening Cash Balance as at 1 January		454,415	4,224,278	403,870	4,173,716
Closing Cash Balance as at 31 December		**6,111,694**	**454,415**	**6,061,168**	**403,870**
Being: Bank & Cash Equivalents		**6,111,694**	**454,415**	**6,061,168**	**403,870**

* The Canterbury Earthquake Claims Global settlement agreement required that certain reinsurance monies totalling $363m was transacted through a third party Trust account. This amount is included in Cash provided from Reinsurance Recoveries and Cash applied to Claims Expenses.

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

NOTE 1. REPORTING ENTITY

The reporting entity is Civic Financial Services Ltd (the "Company"), formerly known as New Zealand Local Government Insurance Corporation Ltd (trading as Civic Assurance). The Group comprises the Company and its subsidiaries listed in note 2 (d). The Group provides financial services principally for New Zealand local government and also provides property services. The Group has continued to provide insurance products to New Zealand local authorities until 31 December 2016. Subsequent to year end the Group opted to cancel its provisional insurance licence with the Reserve Bank of New Zealand (refer to Note 22).

The Company is an FMC reporting entity under the Financial Markets Conduct Act (FMCA) 2013 and the group financial statements have been prepared in accordance with the FMCA 2013. The financial statements of the Company are also included for the readers' information but are not required under legislation.

Statement of Compliance

The Group is a Tier 1 Public Sector Public Benefit Entity and the financial statements have been prepared in accordance with and comply with Tier 1 Public Sector Public Benefit Entity (PBE) Standards.

NOTE 2. STATEMENT OF ACCOUNTING POLICIES

General Accounting Policies

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 is no longer subject to the requirements under the Insurance (Prudential Supervision) Act 2010 as a provisional licence holder (refer to Note 22).

Critical Judgements and Estimates in Applying the Accounting Policies

In the application of the PBE Standards 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. The most significant judgements, estimates and assumptions made in the preparation of these financial statements are in respect of the valuation of insurance claim liability (Note 3), the recognition of the deferred tax asset (Note 8) and the valuation of investment property (Note 9).

Particular Accounting Policies

The following particular accounting policies which materially affect the measurement of surplus and financial position have been applied. Further particular accounting policies are contained in the relevant notes to the financial statements.

(a) Consolidation of Subsidiaries

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

(b) Assets which back Insurance Liabilities

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

NOTE 2. STATEMENT OF ACCOUNTING POLICIES CONTINUED

(c) 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.

(d) Investment in Subsidiaries

The Company has six wholly owned subsidiaries which are all incorporated in New Zealand. Four of these, Local Government Superannuation Trustee Limited, SuperEasy Limited, Local Government Finance Corporation Limited and Civic Assurance Limited with balance dates of 31 December and Local Government Mutual Funds Trustee Limited with its balance date of 30 June did not have any significant assets, liabilities, revenue or expenses during the years ended 31 December 2015 and 31 December 2016. New Zealand Local Government Finance Corporation Limited (NZLGFC) commenced business on the 29 November 1999 and had total assets of $50,533 at 31 December 2016 (2015: $50,550) and ceased active operations in February 2010. The four companies have been recognised in the Parent financial statements at cost less impairment and consolidated in the Group financial statements. The operating companies are subject to ongoing review of their operations to ensure they are meeting their agreed strategic objectives.

(e) Investment in Associate Company

The Company held a 25% share of Local Government Online Limited (LGOL). In 2014 LGOL returned the shareholders capital, ceased operations on 31 March 2014 and was wound up on 12 October 2016. The share of the income of LGOL has been included in the consolidated Statement of Comprehensive Income and added to the cost of the investment in the Consolidated Statement of Financial Position.

(f) Administration Fees

Administration fees are recognised at the agreed amounts based on time and expenses incurred. Administration fees collected during the year that will be utilised in future periods are held within the administration fee reserve on the Statement of Financial Position, until the point in time where administration services have been provided.

(g) Property Income

Property rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease.

(h) Basis of Measuring Other Income and Expenses

Income and expenses are accounted for on an accruals basis.

(i) Changes in Accounting Policies

There have been no material changes in the accounting policies during the year. All policies have been applied on bases consistent with those used in the prior year.

NOTE 3. CLAIMS

Accounting Policy:

All of the general insurance products and reinsurance products offered or utilised met 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.

The outstanding claims liability is measured as the central estimate of expected future payments relating to unsettled 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 a 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. Changes in claims estimates are recognised in profit and loss in the year in which the estimates are changed.

(a) Claims

	2016 Group $	2015 Group $	2016 Parent $	2015 Parent $
Claims Incurred and Provision for Outstanding Claims				
Revaluation of claims liability during the year	2,166,774	10,524,304	2,166,774	10,524,304
Less: Revised estimate of reinsurance recoveries during the year	(168,750)	(7,911,589)	(168,750)	(7,911,589)
Net Claims Income	**1,998,024**	**2,612,715**	**1,998,024**	**2,612,715**

Claims costs 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

	2016 Group $	2015 Group $	2016 Parent $	2015 Parent $
Outstanding Claims liability at the beginning of the financial year	10,608,200	508,569,900	10,608,200	508,569,900
Revaluation of claims liability during the year	(2,166,774)	(10,524,304)	(2,166,774)	(10,524,304)
Claims Paid / Payable	(8,441,426)	(487,437,396)	(8,441,426)	(487,437,396)
Outstanding Claims Liability at the End of the Financial Year	**-**	**10,608,200**	**-**	**10,608,200**

All outstanding claims were settled during the year.

NOTE 3. CLAIMS CONTINUED

(c) Actuarial Methodology and Assumptions

The estimation process involved using the Company's specific data, relevant industry data and more general economic data. Each class of business was usually examined separately and the process involved consideration of a large number of factors including the risks to which the business was 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 settled or 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. 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 settled or 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 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.

The actuarial valuation net of reinsurance assumes that all reinsurance recoveries will be collected. The Company's policy is to use only reinsurers with rating "A-" or better from AM Best (or equivalent).

(d) Canterbury Earthquakes Claims

The Canterbury earthquakes have had a significant impact on the operational and financial results of the Company over the last 6 years with over 3,000 claims being received. On 11th December 2015 a global settlement was signed between the Company, its reinsurers and the insured parties in relation to a significant portion of Canterbury earthquakes claims which were subsequently settled with the insured in February 2016. The settlement included a commutation of the remaining open claims, totalling 83 at 31 December 2015, that were settled with the insured in April 2016.

As at 31 December 2016 the Outstanding Claims Liability in relation to the remaining Canterbury earthquake claims was $nil (2015: $9.6m).

NOTE 3. CLAIMS CONTINUED

(d) Canterbury Earthquakes Claims continued

In prior years the principal concern in determining the outstanding claims liabilities for Canterbury earthquake claims was the unique nature of the event. Despite the material nature of the outstanding claims liability, it was decided that no actuarial adjustment should be applied to the case estimates recorded for these claims. The reasons for this were:

- The unique and continuing nature of the Canterbury earthquake events means that at this stage there was very limited data upon which to base a meaningful actuarial analysis.
- All claims have been assessed by loss adjusters who have expertise in this area. We understand that there is no reason to believe that there is any systemic under or over estimation of reported claims. The estimates of outstanding claims incorporates an allowance for both the future direct and indirect costs associated with those claims.
- To date, given the global settlement referred to above, it is highly unlikely that any of the claims would be reopened.

The outstanding claims liabilities for the current year have been determined using both the loss adjusters assessment of the claims and the global settlement agreement.

The overall risk margin for outstanding claims has been determined using a combination of historical results and professional judgement.

No discounting of the outstanding claims liabilities or associated reinsurance recoveries receivable has been made on the basis that the Company's net insured claims are expected to be settled in the year.

(e) Other Claims

As at 31 December 2016 there are no outstanding claims liability in relation to Business as Usual and Riskpool claims (2015: $1.0m).

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 effects 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 was 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 were available as tools for the Company's underwriter. The portfolio was essentially property risks.
- **Reinsurance** – Through reinsurance the Company, up until 30 June 2011, was able to cap its maximum liability in the event of a catastrophe to $3.6m. This amount was well within the Company's reserves.
- **Claims management** – Claims are handled in house by experienced claims handling staff. Staff were allocated settling limits and authorities. These authority levels were reviewed regularly. Senior claims staff were very experienced, particularly in local government claims. Overall authority and claims management was provided by the Company's Insurance Manager.
- **Investment management** – All premium income is held in NZ Registered Bank accounts and short-term deposits. All investments are regularly reviewed by the Board.
- **Risk reduction** – Due to the Company being unable to reinsure risks after 1 July 2011 the risk was managed by not writing material damage cover policies.

(b) Terms and Conditions of Insurance Contracts

Almost all the Company's insurance contracts written were 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 had a material impact on the financial statements.

(c) Concentration of Insurance Risk

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

NOTE 4. INSURANCE CONTRACT RISK MANAGEMENT CONTINUED

(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 related primarily to reinsurance recoveries receivable, which are discussed further in Note 6.

(e) Interest Rate Risk

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

(f) Reinsurance Risk

Risks underwritten were reinsured in order to limit exposure to losses, stabilise earnings, protect capital resources and ensure efficient control and spread of the risks underwritten.

(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 were addressed through maintaining sufficient highly liquid assets.

(i) Sensitivity Analysis

Sensitivity of risks relates primarily to the risk margin assessments which are set out in Note 3. These were reviewed annually and change in accordance with current best estimates using advice from an actuary. There was no insurance risk sensitivity as full exposure has been taken.

NOTE 5. INSURANCE PROVISIONS

The Company had a claims payable credit rating of “B+” (Good) issued by AM Best at 1 May 2016. The Company’s reinsurance programme was structured to adequately protect the Company’s solvency and capital position. It covered per risk and event losses in New Zealand. Counterparty reinsurers with credit ratings no less than“ A-” (AM Best scale) participated in the reinsurance catastrophe programme.

NOTE 6. REINSURANCE RECEIVABLE ON OUTSTANDING CLAIMS

Accounting Policy:

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.

(a) Reconciliation of Movements for the Financial Year

	2016 Group $	2015 Group $	2016 Parent $	2015 Parent $
Reinsurance recoveries receivable on outstanding claims at the beginning of the year	519,558,958	506,976,959	519,558,958	506,976,959
Reinsurance recoveries received	(496,346,310)	(2,550,310)	(496,346,310)	(2,550,310)
Reinsurance recoveries receivable on claims incurred during the year	(168,750)	(7,911,589)	(168,750)	(7,911,589)
GST payable / receivable on Reinsurance recoveries incurred during the year	(23,043,898)	23,043,898	(23,043,898)	23,043,898
Reinsurance recoveries receivable on outstanding claims at the end of the year	**-**	**519,558,958**	**-**	**519,558,958**

(b) Actuarial Assumptions

Due to the settlement of the Canterbury claims no actuarial assumptions were made on the reinsurance recoveries.
In 2015, GST totalling $23m was included in the $519m reinsurance receivable. Reinsurance was paid out to the insured in February and April 2016 in full and final settlement of the Canterbury Earthquake claims.

(c) The Effect Of Changes In Assumption

There have been no changes in the actuarial assumptions for the period under review.

(d) Risk Management

The Board and senior management assessed 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 Risk Management

As a consequence of the Canterbury earthquakes the Company had been unable to obtain property reinsurance from 1 July 2011 on suitable terms and therefore ceased providing material damage cover from that date.

All reinsurance monies were received in February 2016 and the final payment to the insured made in April 2016.

NOTE 7. SUNDRY DEBTORS AND CREDITORS

(a) Sundry Debtors and Prepayments

	2016 Group $	2015 Group $	2016 Parent $	2015 Parent $
Sundry Debtors	421,098	144,432	421,091	144,424
Prepayments	86,396	123,411	86,396	123,411
GST Receivable	49,222	49,077,656	49,222	49,077,656
Sundry Debtors and Prepayments	**556,716**	**49,345,499**	**556,709**	**49,345,491**

GST Receivable has decreased significantly due to the Claims Payable and Reinsurance Receivable resulting from the Global settlement referred to in Note 3.

(b) Sundry Creditors and Accrued Charges

	2016 Group $	2015 Group $	2016 Parent $	2015 Parent $
Sundry Creditors & Accrued Charges	385,923	9,390,823	385,923	9,390,823
Claims Payable	-	544,405,425	-	544,405,425
Sundry Creditors & Accrued Charges	**385,923**	**553,796,248**	**385,923**	**553,796,248**

NOTE 8. TAXATION

Accounting Policies:

i) 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.

ii) 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.

iii) Goods and Services Tax (GST)

Revenue, expenses, assets and liabilities 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 Statement of Financial Position.

NOTE 8. TAXATION CONTINUED

(a) Income tax recognised in the Statement of Comprehensive Income

	2016 Group $	2015 Group $	2016 Parent $	2015 Parent $
Tax expense comprises:				
Current tax expense	(7)	699,734	-	699,741
Adjustments recognised in the current year in relation to the current tax of prior years	-	(712,668)	-	(712,668)
Deferred tax relating to the origination and reversal of temporary differences	359,563	56,597	359,563	56,597
Total Tax Expense	**359,556**	**43,663**	**359,563**	**43,670**
Attributable to:				
Continuing operations	359,556	43,663	359,563	43,670
	359,556	**43,663**	**359,563**	**43,670**

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:

	2016 Group $	2015 Group $	2016 Parent $	2015 Parent $
Profit from continuing operations	1,240,449	2,691,534	1,240,484	2,691,558
Subvention payable	-	-	(7)	(7)
Revaluation of Investment Property	96,571	133,331	96,571	133,331
Share of Profit of Associate	(3,152)	(150)	-	-
	1,333,868	2,824,715	1,337,048	2,824,882
Income tax calculated at 28%	373,483	790,920	374,372	790,967
Tax effect of permanent differences	(13,927)	(34,589)	(14,809)	(34,629)
	359,556	756,331	359,563	756,338
Under/Over provision of income tax in previous year	-	(712,668)	-	(712,668)
Income Tax Expense	**359,556**	**43,663**	**359,563**	**43,670**

NOTE 8. TAXATION CONTINUED

(b) Current tax assets and liabilities

	2016 Group $	2015 Group $	2016 Parent $	2015 Parent $
Tax refund receivable	990	2,971	990	2,971
Tax payable	-	-	-	-
	990	2,971	990	2,971

(c) Deferred tax balances

	2016 Group $	2015 Group $	2016 Parent $	2015 Parent $
Deferred tax assets comprise:				
Temporary differences	3,759,692	4,138,854	3,759,692	4,138,854
	3,759,692	4,138,854	3,759,692	4,138,854
Deferred tax liabilities comprise:				
Temporary differences	(486,908)	(506,508)	(486,908)	(506,508)
	(486,908)	(506,508)	(486,908)	(506,508)
Net Deferred Tax balance	3,272,784	3,632,346	3,272,784	3,632,346

NOTE 8. TAXATION CONTINUED

(c) Deferred tax balances 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 $
2016	Investment gains	(40,315)	-	-	-	(40,315)
	Building, property and equipment	(1,768,639)	(98,085)	-	168,085	(1,698,639)
		(1,808,954)	**(98,085)**	**-**	**168,085**	**(1,738,954)**
	Employee entitlements	130,833	(80,703)	-	4,784	54,914
	Losses carried forward	14,650,787	(1,105,362)	-	(172,869)	13,372,556
		14,781,620	**(1,186,065)**	**-**	**(168,085)**	**13,427,470**
	Attributable to:					
	Continuing operations	12,972,665	(1,284,151)	-	-	11,688,514
	Total	12,972,665	(1,284,151)	-	-	11,688,514
	Tax effect at 28%	3,632,344	(359,560)	-	-	3,272,784
2015	Investment gains	(40,315)	-	-	-	(40,315)
	Building, property and equipment	(1,558,547)	(210,092)	-	-	(1,768,639)
		(1,598,862)	**(210,092)**	**-**	**-**	**(1,808,954)**
	Employee entitlements	122,875	7,958	-	-	130,833
	Losses carried forward	14,604,623	(2,499,080)	-	2,545,244	14,650,787
		14,727,498	**(2,491,122)**	**-**	**2,545,244**	**14,781,620**
	Attributable to:					
	Continuing operations	13,128,636	(2,701,214)	-	2,545,244	12,972,666
	Total	13,128,636	(2,701,214)	-	2,545,244	12,972,666
	Tax effect at 28%	3,676,016	(756,338)	-	712,668	3,632,346

No liability has been recognised in respect of the undistributed earnings of subsidiaries 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.

The deferred tax asset relating to tax losses carried forward has been recognised as the financial forecasts anticipate the Company maintaining sufficient profitability in future financial years (refer Note 22).

NOTE 8. TAXATION CONTINUED

(d) Imputation Credit Account

	2016 Group $	2015 Group $	2016 Parent $	2015 Parent $
Opening Balance	5,256,739	5,521,678	5,256,739	5,521,678
Plus Credits				
Income Tax Paid	-	-	-	-
Resident Withholding Tax	-	990	-	990
Imputation Credits Received	2,463	-	2,463	-
	2,463	990	2,463	990
Less Debits				
Tax Refund	1,980	40,147	1,980	40,147
Imputation Credits Attached to Dividends Paid	-	-	-	-
Other Debits	-	225,782	-	225,782
	1,980	265,929	1,980	265,929
Closing Balance	**5,257,222**	**5,256,739**	**5,257,222**	**5,256,739**

NOTE 9. INVESTMENT PROPERTY

Accounting Policy:

Investment property is measured at fair value, by reference to an external market valuation (performed annually), with any resulting unrealised gain or loss recognised in the Statement of Comprehensive Income.

	2016 Group $	2015 Group $	2016 Parent $	2015 Parent $
Civic Assurance House, Lambton Quay, Wellington				
(a) Land valuation (Original Cost $289,253)	2,900,000	2,900,000	2,900,000	2,900,000
Less decrease in value	-	-	-	-
Level 3 Fair Value	2,900,000	2,900,000	2,900,000	2,900,000
(b) Building valuation (Original Cost $860,571)	4,500,000	4,130,000	4,500,000	4,130,000
Refurbishment	403,429	236,669	403,429	236,669
Increase/(Decrease) in value	96,571	133,331	96,571	133,331
Level 3 Fair Value	5,000,000	4,500,000	5,000,000	4,500,000
(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
	7,925,000	**7,425,000**	**7,925,000**	**7,425,000**

The investment property is revalued every year. The investment property valuation for the year ended 31 December 2016 was completed on 3 November 2016 by independent registered valuer Martin Veale (ANZIV, SPINZ) of the firm Telfer Young (Wgtn) Ltd. The property is valued in accordance with International Valuation Standards 2013. The Investment property is Level 3 fair value.

The valuation has been establised by the Income Capitalisation and Discounted Cashflow approaches and consideration of market rental and sales evidence and property specific attributes. The major inputs and assumptions used in the valuation technique are current and expected market rentals, potential vacancies, capital outlay, terminal and investment yields and the discount rate.

Investment Property Metrics

		2016	2015
Contract Yield	Average	6.02%	6.83%
	Maximum	6.50%	7.00%
	Minimum	5.50%	6.50%
Market Yield	Average	8.31%	9.02%
	Maximum	8.50%	9.25%
	Minimum	8.00%	8.75%
Occupancy	Occupancy (net lettable area)	83.66%	83.20%
	Weighted average lease term	2.30	1.80

NOTE 10. PROPERTY, PLANT & EQUIPMENT AND INTANGIBLE ASSETS

Accounting Policy:

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.

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

	2016 Group $	2015 Group $	2016 Parent $	2015 Parent $
Property, Plant and Equipment				
(a) Office Furniture and Equipment – cost	595,688	531,440	595,688	531,440
Plus Additions	36,596	64,247	36,596	64,247
Less Disposals	(2,295)	-	(2,295)	-
Closing Value – cost	629,989	595,687	629,989	595,687
Office Furniture and Equipment – Accumulated Depreciation	(402,540)	(366,743)	(402,540)	(366,743)
Less Depreciation Charge	(38,761)	(35,797)	(38,761)	(35,797)
Less Disposals	467	-	467	-
Closing Accumulated Depreciation	(440,834)	(402,540)	(440,834)	(402,540)
Net Book Value	**189,155**	**193,147**	**189,155**	**193,147**

The Total Comprehensive Surplus Net of Tax in the Statement of Comprehensive Income includes a $nil loss on disposal of fixed assets (2015: nil).

	2016 Group $	2015 Group $	2016 Parent $	2015 Parent $
Intangible Assets				
(b) Software – cost	498,839	460,682	498,839	460,682
Plus Additions	20,614	38,157	20,614	38,157
Less Disposals	-	-	-	-
Closing Value – cost	519,453	498,839	519,453	498,839
Software – Accumulated Amortisation	(426,563)	(408,171)	(426,563)	(408,171)
Less Amortisation Charge	(3,238)	(18,392)	(3,238)	(18,392)
Less Disposals	-	-	-	-
Closing Accumulated Amortisation	(429,802)	(426,563)	(429,801)	(426,563)
Net Book Value	**89,652**	**72,276**	**89,652**	**72,276**

NOTE 11. FINANCIAL INSTRUMENTS

Accounting Policies:

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

NZ Government Stock is classified as Held To Maturity and is 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.

Financial Liabilities

Financial liabilities include Sundry Creditors and Accrued Charges, Subordinated Debt. Financial liabilities are recorded initially at fair value, net of transaction costs. Subsequent to initial recognition, liabilities are measured at amortised cost.

The Outstanding Claims Liability is an actuarial estimate recorded at Fair Value.

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.

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).*

v) Derivatives

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

NOTE 11. FINANCIAL INSTRUMENTS CONTINUED

(1) Income Relating to Financial Assets

	2016 Group $	2015 Group $	2016 Parent $	2015 Parent $
Held to Maturity				
Interest Received – NZ Government Stock	-	2,320	-	2,320
	-	2,320	-	2,320
Cash & Cash Equivalents				
Interest Received – Short Term Deposits at Bank	283,739	65,649	283,750	65,649
	283,739	**67,969**	**283,750**	**67,969**

(2) Financial Assets and Liabilities

The carrying amounts of all financial assets and liabilities are considered to be equivalent to their market value, which for these assets and liabilities is also considered to be fair value. The Subordinated Debt is measured at amortised cost which is considered to be fair value.

All fixed interest investments were managed around a 90 day duration and carry a minimum Standard and Poors credit rating of “A1” or equivalent.

Carrying value of Financial Assets and Financial Liabilities

	2016 Group $	2015 Group $	2016 Parent $	2015 Parent $
Financial Asset: Loans and Receivables				
Sundry Debtors	421,098	49,131,257	421,090	49,131,249
Reinsurance Receivable on agreed settlement	-	519,558,958	-	519,558,958
Total Loans and Receivables	**421,098**	**568,690,215**	**421,090**	**568,690,207**
Financial Asset: Carried at Amortised Cost				
Bank & Cash Equivalents	6,111,694	454,415	6,061,168	403,870
Financial Liability: Amortised Cost				
Subordinated Debt	120,176	120,176	-	-
Sundry Creditors & Accrued Charges	385,923	553,796,248	385,923	553,796,248
Total Amortised Cost	**506,099**	**553,916,424**	**385,923**	**553,796,248**

NOTE 11. FINANCIAL INSTRUMENTS CONTINUED

(3) Financial Risk - Structure and Management

The Company & Group manages its capital to ensure that the entities in the Group will be able to continue as a going concern. The Group's overall strategy is reviewed annually and remains unchanged.

Financial instruments which potentially subject the Company & Group to a concentration of credit risk consist principally of cash and interest bearing deposits and reinsurance receivable. The Company and Group has no debt instruments.

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 investment balances.

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

(a) Market Risk

All financial assets and liabilities are New Zealand Dollar based and are recorded at amortised cost, therefore changes in interest rates and foreign currency values do not impact on their carrying value.

(i) Interest Rate Repricing Schedule

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

NOTE 11. FINANCIAL INSTRUMENTS CONTINUED

(3) Financial Risk – Structure and Management continued

(a) *Market Risk continued*

(i) Interest Rate Repricing Schedule continued

	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 2016 (Group)							
Assets							
Cash at Bank	0% to 3.76%	6,021,221	-	-	-	90,473	6,111,694
Other Receivable	n/a	-	-	-	-	421,098	421,098
Total Financial Assets		**6,021,221**	**-**	**-**	**-**	**511,571**	**6,532,792**
Liabilities							
Sundry Creditors & Accrued Charges	n/a	-	-	-	-	385,923	385,923
Subordinated Debt	n/a	-	-	-	-	120,176	120,176
Total Financial Liabilities		**-**	**-**	**-**	**-**	**506,099**	**506,099**
As at 31 December 2015 (Group)							
Assets							
Cash at Bank	0% to 3.76%	367,618	-	-	-	86,797	454,415
Other Receivable	n/a	-	-	-	-	49,131,257	49,131,257
Reinsurance Recoveries	2.5%	519,558,958	-	-	-	-	519,558,958
Total Financial Assets		**519,926,576**	**-**	**-**	**-**	**49,218,054**	**569,144,630**

The Reinsurance Recovery was interest bearing from 24 December 2015 to 19 February 2016.

	Interest Rate Spread %	Within 6 months $	6 to 12 months $	1 to 2 years $	2 to 5 years $	Non Interest Bearing $	Total $
Liabilities							
Sundry Creditors & Accrued Charges	n/a	-	-	-	-	553,796,248	553,796,248
Outstanding Claims	n/a	-	-	-	-	10,608,200	10,608,200
Subordinated Debt	n/a	-	-	-	-	120,176	120,176
Total Financial Liabilities		**-**	**-**	**-**	**-**	**564,524,624**	**564,524,624**

NOTE 11. FINANCIAL INSTRUMENTS CONTINUED

(3) Financial Risk – Structure and Management continued

(a) Market Risk continued

(i) Interest Rate Repricing Schedule continued

	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 2016 (Parent)							
Assets							
Cash at Bank	0% to 3.76%	6,028,815	-	-	-	32,353	6,061,168
Other Receivable	n/a	-	-	-	-	421,090	421,090
Total Financial Assets		**6,028,815**	**-**	**-**	**-**	**453,443**	**6,482,258**
Liabilities							
Sundry Creditors & Accrued Charges	n/a	-	-	-	-	385,923	385,923
Total Financial Liabilities		**-**	**-**	**-**	**-**	**385,923**	**385,923**
As at 31 December 2015 (Parent)							
Assets							
Cash at Bank	0% to 3.76%	367,635	-	-	-	36,235	403,870
Other Receivable	n/a	-	-	-	-	49,131,249	49,131,249
Reinsurance Recoveries	n/a	519,558,958	-	-	-	-	519,558,958
Total Financial Assets		**519,926,593**	**-**	**-**	**-**	**49,167,484**	**569,094,077**
Liabilities							
Sundry Creditors & Accrued Charges	n/a	-	-	-	-	553,796,248	553,796,248
Outstanding Claims	n/a	-	-	-	-	10,608,200	10,608,200
Total Financial Liabilities		**-**	**-**	**-**	**-**	**564,404,448**	**564,404,448**

(ii) Carrying Amount and Fair Value

The carrying amounts of all financial assets and liabilities are considered to be equivalent to their fair value.

NOTE 11. FINANCIAL INSTRUMENTS CONTINUED

(3) Financial Risk – Structure and Management continued

(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 following tables include an analysis of the contractual undiscounted cash flows relating to the Company's & Group's financial 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 2016					
Assets					
Cash at Bank	6,111,694	-	-	-	6,111,694
Other Receivable	421,098	-	-	-	421,098
Total Financial Assets	**6,532,792**	**-**	**-**	**-**	**6,532,792**
Liabilities					
Sundry Creditors & Accrued Charges	385,923	-	-	-	385,923
Subordinated Debt	-	-	120,176	-	120,176
Total Financial Liabilities	**385,923**	**-**	**120,176**	**-**	**506,099**
Maturity Analysis (Group) As at 31 December 2015					
Assets					
Cash at Bank	454,415	-	-	-	454,415
Other Receivable	49,131,257	-	-	-	49,131,257
Reinsurance Recoveries	519,558,958	-	-	-	519,558,958
Total Financial Assets	**569,144,630**	**-**	**-**	**-**	**569,144,630**
Liabilities					
Sundry Creditors & Accrued Charges	553,796,248	-	-	-	553,796,248
Outstanding Claims	10,608,200	-	-	-	10,608,200
Subordinated Debt	-	-	120,176	-	120,176
Total Financial Liabilities	**564,404,448**	**-**	**120,176**	**-**	**564,524,624**

NOTE 11. FINANCIAL INSTRUMENTS CONTINUED

(3) Financial Risk – Structure and Management continued

(b) Liquidity Risk continued

	Within 6 months $	6 to 12 months $	1 to 2 years $	2 to 5 years $	Total $
Maturity Analysis (Parent) As at 31 December 2016					
Assets					
Cash at Bank	6,061,168	-	-	-	6,061,168
Other Receivable	421,090	-	-	-	421,090
Total Financial Assets	**6,482,258**	**-**	**-**	**-**	**6,482,258**
Liabilities					
Sundry Creditors and Accrued Charges	385,923	-	-	-	385,923
Total Financial Liabilities	**385,923**	**-**	**-**	**-**	**385,923**
Maturity Analysis (Parent) As at 31 December 2015					
Assets					
Cash at Bank	403,870	-	-	-	403,870
Other Receivable	49,131,249	-	-	-	49,131,249
Reinsurance Recoveries	519,558,958	-	-	-	519,558,958
Total Financial Assets	**569,094,077**	**-**	**-**	**-**	**569,094,077**
Liabilities					
Sundry Creditors and Accrued Charges	553,796,248	-	-	-	553,796,248
Outstanding Claims	**10,608,200**	-	-	-	10,608,200
Total Financial Liabilities	**564,404,448**	**-**	**-**	**-**	**564,404,448**

NOTE 11. FINANCIAL INSTRUMENTS CONTINUED

(3) Financial Risk – Structure and Management continued

(c) Credit Risk

All investments are in cash at registered banks. The registered banks have a credit rating of "A+" or better. All reinsurance was held with reinsurers with credit ratings no less than "A-" (AM Best scale).

(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.

	2016 Group $	2015 Group $	2016 Parent $	2015 Parent $
Cash at Registered Banks	6,111,694	454,415	6,061,168	403,870
Other Receivable	421,098	49,131,257	421,090	49,131,249
Reinsurance Recoveries	-	519,558,958	-	519,558,958
Total	**6,532,792**	**569,144,630**	**6,482,258**	**569,094,077**

(ii) Concentration of Credit Exposure

The major credit exposure greater than 10% of total assets is with registered banks. All reinsurers, except Local Authority Protection Programme ("LAPP"), have claims paying ratings greater than "A". All reinsurers have settled their liabilities in full.

NOTE 12. RECONCILIATION OF COMPREHENSIVE INCOME AFTER TAX WITH CASH FLOW FROM OPERATING ACTIVITIES

Accounting Policy:

The Statement of Cash Flows 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 Statement of Cash Flows:

- *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.*

NOTE 12. RECONCILIATION OF COMPREHENSIVE INCOME AFTER TAX WITH CASH FLOW FROM OPERATING ACTIVITIES CONTINUED

	2016 Group $	2015 Group $	2016 Parent $	2015 Parent $
Total Comprehensive Surplus	974,312	2,781,052	977,485	2,781,212
Add/(less) non cash items				
Depreciation	38,761	35,797	38,761	35,797
Amortisation	3,238	18,392	3,238	18,392
Movement in CLP / Riskpool Admin Fee Reserve	386,405	-	386,405	-
Movement in Deferred Tax Asset	359,562	43,672	359,562	43,672
Net change in fair value of investment property	(96,571)	(133,331)	(96,571)	(133,331)
Share of Loss of Associate	3,152	136	-	-
Unrealised net change in value of investments	-	100,697	-	100,697
	694,547	65,363	691,395	65,227
Add/(less) movements in other working capital items				
Sundry Debtors and Prepayments and Reinsurance Recoveries	568,347,733	(60,809,643)	568,347,738	(60,809,643)
Sundry Creditors and Accrued Charges	(553,491,392)	552,781,237	(553,491,392)	552,781,237
Movement in Insurance Provisions	(10,608,200)	(497,961,700)	(10,608,200)	(497,961,700)
Reinsurance Received in Advance	-	(326,264)	-	(326,264)
Tax Refund Due	1,981	39,157	1,981	39,157
	4,250,122	(6,277,213)	4,250,127	(6,277,213)
Add/(Less) Items Classified as investing activity	(5,758)	-	(5,758)	-
Add/(Less) Items Classified as financing activity	7	7	7	7
Net Cash Flow from Operating Activities	**5,913,230**	**(3,430,791)**	**5,913,256**	**(3,430,767)**

NOTE 13. OPERATING LEASE COMMITMENTS

There are the following operating **lease expense** commitments:

	2016 Group $	2015 Group $	2016 Parent $	2015 Parent $
not later than one year	12,444	16,709	12,444	16,709
later than one year but not later than five years	-	15,843	-	15,843
	12,444	**32,552**	**12,444**	**32,552**

There are the following operating **lease income** commitments:

	2016 Group $	2015 Group $	2016 Parent $	2015 Parent $
not later than one year	760,980	738,946	760,980	738,946
later than one year but not later than five years	2,421,422	1,043,984	2,421,422	1,043,984
later than five years	525,063	160,000	525,063	160,000
	3,707,465	**1,942,930**	**3,707,465**	**1,942,930**

Operating lease income relates to a combination of office and retail tenancies to the Investment Property referred to in Note 9. The property is subject to a combination of multiple office and retail tenancies over varying lease periods.

NOTE 14. CONTINGENT LIABILITIES

There are no contingent liabilities (2015: $nil).

NOTE 15. SUBORDINATED DEBT

NZ Local Government Finance Corporation Ltd's (NZLGFC) Investment Manager's brokerage was subordinated. The subordinated loan ranks behind all other NZLGFC 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. NZLGFC ceased active operations in February 2010.

NOTE 16. KEY MANAGEMENT PERSONNEL

The compensation of the Directors and executives, being the 10 key management personnel of the Company and Group is set out below:

	2016 Group $	2015 Group $	2016 Parent $	2015 Parent $
Short-term employee benefits				
Four Executive Management Personnel	865,135	781,369	865,135	781,369
Six Directors	146,953	144,375	146,953	144,375
	1,012,088	**925,744**	**1,012,088**	**925,744**

Restructuring costs totalling $235,609 have been included in Employee Remuneration.

All related party transactions that the Company and Group entered into during the year occurred within a normal client / supplier relationship and under terms equivalent to those that prevail in arm's length transactions in similar circumstances.

NOTE 17. ANALYSIS OF FINANCIAL ASSETS NOT IMPAIRED

There are no financial assets that are impaired or past due at balance date (2015: nil)

NOTE 18. STANDARDS APPROVED BUT NOT YET EFFECTIVE

Standards and Interpretations in issue not yet adopted

At the date of authorisation of the financial report, there were no Standards and Interpretations on issue that were relevant to the Group, but not yet effective.

NOTE 19. SHAREHOLDERS' EQUITY

The Share Capital of the Company and Group comprises solely authorised and issued ordinary shares with each share ranking equally in votes, dividends and surpluses. During the year 219,000 shares were issued at $0.90 per share to existing shareholders. There were no other shares issued during the year.

	2016 Group $	2015 Group $	2016 Parent $	2015 Parent $
Retained Earnings				
Opening Balance	5,465,902	2,684,850	5,532,373	2,751,161
Net Surplus After Taxation	974,312	2,781,052	977,485	2,781,212
Closing balance	**6,440,213**	**5,465,902**	**6,509,858**	**5,532,373**

	2016 Group $	2015 Group $	2016 Parent $	2015 Parent $
Ordinary Share Capital				
Opening Balance	10,566,406	10,566,406	10,566,406	10,566,406
Shares Issued During The Year	197,100	-	197,100	-
Closing balance	**10,763,506**	**10,566,406**	**10,763,506**	**10,566,406**
Number of Ordinary Shares Fully Paid	**11,249,364**	**11,030,364**	**11,249,364**	**11,030,364**

NOTE 20. EQUITY RETAINED FOR FINANCIAL SOUNDNESS

All shareholder equity is retained to ensure the financial soundness of the Company and Group. The cash is retained for cash flow purposes and also to balance the funds allocated in the building investment.

NOTE 21. 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 2016.

	SI Target	Actual
• Annual claims paying ability rating by AM Best	"A-" (Excellent)	"B+" (Good)

The primary reason for the Company not meeting performance targets is due to the flow on effects of the Canterbury Earthquakes on 22 February 2011 and 13 June 2011.

NOTE 22. GOING CONCERN

The financial statements have been prepared on a going concern basis.

In December 2015 the Company reached a global settlement of the majority of the Canterbury earthquake claims and a commutation agreement of the remaining open Canterbury earthquake claims with the reinsurers. Based on the actuaries' valuations and expertise of the loss adjusters, the Company met its insurance liabilities in full in 2016.

The Company is no longer carrying on an insurance business and the provisional license held under the Insurance (Prudential Supervision) Act 2010 issued by the RBNZ was cancelled on 17 January 2017. Consequently the Company is not required to hold a credit rating or maintain a solvency margin.

The profitability of financial and property services supports the going concern assumption for Civic Financial Services Ltd as a whole.

The deferred tax asset has been reviewed at balance date. The Directors believe that it is probable that sufficient taxable profits will be available to allow all of the asset to be recovered.

NOTE 23. SUBSEQUENT EVENTS

In February 2017 a secured loan facility agreement between the Company and LGMFT was entered into whereby the Company loans LGMFT up to $3,000,000 at commercial interest rates.

There have been no other material events subsequent to 31 December 2016 that requires adjustment to or disclosure in the financial statements.

Deloitte.

INDEPENDENT AUDITOR'S REPORT

To the readers of Civic Financial Services Limited (previously known as New Zealand Local Government Insurance Corporation Limited) and Group's Financial Statements for the year ended 31 December 2016

The Auditor-General is the auditor of Civic Financial Services Limited (previously known as New Zealand Local Government Insurance Corporation Limited) (the company) and group. The Auditor-General has appointed me, Michael Wilkes, using the staff and resources of Deloitte Limited, to carry out the audit of the consolidated and separate financial statements of the company and group on his behalf.

OPINION

We have audited the consolidated and separate financial statements of the company and group on pages 8 to 41, that comprise the consolidated and separate statements of financial position as at 31 December 2016, and the consolidated and separate statements of comprehensive income, statements of changes in equity and statements of cash flows for the year ended on that date and the notes to the consolidated and separate financial statements that include accounting policies and other explanatory information.

In our opinion, the consolidated and separate financial statements of the company and group:

- present fairly, in all material respects:
  - the financial position of the company and group as at 31 December 2016; and
  - the financial performance and cash flows of the company and group for the year then ended; and
- comply with generally accepted accounting practice in New Zealand in accordance with Public Sector Public Benefit Entity Standards.

Our audit was completed on 17 March 2017. This is the date at which our opinion is expressed.

The basis for our opinion is explained below. In addition, we outline the responsibilities of the Board of Directors and our responsibilities relating to the audit of the consolidated and separate financial statements, we comment on other information, and we explain our independence.

BASIS OF OPINION

We carried out our audit in accordance with the Auditor-General's Auditing Standards, which incorporate the International Standards on Auditing (New Zealand) (ISA (NZ)) issued by the New Zealand Auditing and Assurance Standards Board. Our responsibilities under those standards are further described in the *Auditors responsibilities for the audit of the consolidated and separate financial statements* section of our report.

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

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

In addition to the audit we have carried out assignments in the area of tax compliance. Other than the audit and these assignments, we have no relationship with or interests in the company and group. These services have not impaired our independence as auditor of the company and group.

OTHER INFORMATION

The Board of Directors is responsible for the other information. The other information comprises the information included on pages 2 to 6 that accompany the consolidated and separate financial statements and our audit report.

Our opinion on the consolidated and separate financial statements does not cover the other information and we do not express any form of audit opinion or assurance conclusion thereon.

Our responsibility is to read the other information and consider whether it is materially inconsistent with the consolidated and separate financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If so, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF THE BOARD OF DIRECTORS FOR THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

The Board of Directors is responsible on behalf of the company and group for the preparation and fair presentation of consolidated and separate financial statements in accordance with Public Sector Public Benefit Entity Standards.

The Board of Directors is responsible for such internal control as it determines is necessary to enable it to prepare consolidated and separate financial statements that are free from material misstatement, whether due to fraud or error. The Board of Directors is also responsible for the publication of the financial statements, whether in printed or electronic form.

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

The Board of Directors' responsibilities arise from the Financial Markets Conduct Act 2013.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

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

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

We did not evaluate the security and controls over the electronic publication of the consolidated and separate financial statements.

Deloitte.

INDEPENDENT AUDITOR'S REPORT *CONTINUED*

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

- We identify and assess the risks of material misstatement of the consolidated and separate financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- We obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company and group's internal control.
- We evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors.
- We conclude on the appropriateness of the use of the going concern basis of accounting by the Board of Directors and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the company and group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated and separate financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the company and group to cease to continue as a going concern.
- We evaluate the overall presentation, structure and content of the consolidated and separate financial statements, including the disclosures, and whether the consolidated and separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

Our responsibilities arise from the Public Audit Act 2001.

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

CIVIC FINANCIAL SERVICES SHAREHOLDERS AS AT 31 DECEMBER 2016

SHAREHOLDER MEMBER	NO. OF SHARES	
CITY COUNCILS		
Auckland	2,195,042	19.51%
Christchurch	1,417,704	12.60%
Dunedin	470,966	4.19%
Hamilton	202,729	1.80%
Hutt	479,822	4.27%
Invercargill	407,927	3.63%
Napier	283,842	2.52%
Nelson	95,543	0.85%
Palmerston North	411,737	3.66%
Porirua	140,146	1.25%
Tauranga	124,242	1.10%
Upper Hutt	51,209	0.46%
Wellington	526,821	4.68%
DISTRICT COUNCILS		
Ashburton	56,016	0.50%
Buller	27,698	0.25%
Carterton	23,642	0.21%
Central Hawke's Bay	28,580	0.25%
Central Otago	91,238	0.81%
Clutha	33,711	0.30%
Far North	85,440	0.76%
Gisborne	99,404	0.88%
Gore	54,589	0.49%
Grey	33,742	0.30%
Hastings	129,170	1.15%
Hauraki	63,434	0.56%
Horowhenua	110,689	0.98%
Hurunui	14,000	0.12%
Kaikoura	10,000	0.09%
Kaipara	13,629	0.12%
Kapiti Coast	15,060	0.13%
Kawerau	31,161	0.28%
Manawatu	203,964	1.81%
Marlborough	86,022	0.76%
Masterton	127,230	1.13%
Matamata-Piako	122,554	1.09%
New Plymouth	441,456	3.92%
Opotiki	20,000	0.18%
Otorohanga	5,000	0.04%
Queenstown-Lakes	31,149	0.28%

SHAREHOLDER MEMBER	NO. OF SHARES	
DISTRICT COUNCILS (Cont'd)		
Rangitikei	35,338	0.31%
Rotorua	175,906	1.56%
Ruapehu	56,666	0.50%
South Taranaki	135,496	1.20%
South Waikato	42,374	0.38%
South Wairarapa	53,930	0.48%
Southland	13,715	0.12%
Stratford	65,608	0.58%
Tararua	99,972	0.89%
Tasman	65,584	0.58%
Taupo	83,971	0.75%
Thames-Coromandel	27,120	0.24%
Timaru	230,118	2.05%
Waikato	41,070	0.37%
Waimakariri	88,172	0.78%
Waimate	30,458	0.27%
Waipa	149,082	1.33%
Wairoa	22,992	0.20%
Waitaki	120,000	1.07%
Waitomo	16,940	0.15%
Wanganui	289,660	2.57%
Western Bay of Plenty	28,142	0.25%
Westland	28,356	0.25%
Whakatane	38,788	0.34%
Whangarei	63,524	0.56%
REGIONAL COUNCILS		
Bay of Plenty	55,000	0.49%
Canterbury	152,696	1.36%
Hawke's Bay	20,000	0.18%
Horizons	2,000	0.02%
Southland	10,000	0.09%
Taranaki	1,000	0.01%
Waikato	22,000	0.20%
Wellington	80,127	0.71%
OTHER		
TrustPower	137,251	1.22%
Total Shares	**11,249,364**	