

ANNUAL REPORT 2017



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DIRECTORS' REPORT

ANNUAL REPORT AND STATEMENT OF ACCOUNTS FOR THE YEAR ENDED 31 DECEMBER 2017

Your Directors have pleasure in submitting the 57th 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 2017, which is to be presented at the Annual General Meeting of Members in June 2018.

1. PERFORMANCE

Civic's before-tax profit in 2017 was \$30,812 (2016: \$1,333,868).

Civic made a pre-tax surplus from normal operations of \$828,855 for the year ended 31 December 2017, compared to the forecasted surplus of \$338,000 as set out in the 2017 Statement of Intent.

The ongoing seismic assessment review on Civic Assurance House has resulted in the value of the building being reduced by \$798,043 bringing the before-tax profit to \$30,812 for the year ended 31 December 2017.

2. OPERATIONS

Administration Services

Fees in 2017 from providing services to LAPP, Riskpool and the SuperEasy and SuperEasy KiwiSaver Superannuation Schemes were \$2,750,037 (2016: \$2,358,859).

Investment Revenue

Income from investments was \$173,515 (2016: \$283,739). Income from Civic Assurance House was \$808,771 (2016: \$762,633).

Civic Assurance House

At the Special General Meeting on 5 October 2017 held in Wellington our shareholders voted in favour of the resolution to sell Civic Assurance House.

As part of the sales pack we had requested an updated seismic assessment review before taking the building to market.

The ongoing seismic assessment review has identified there is strengthening work required for the non-structural south and west boundary walls of Civic Assurance House. The cost to complete this work has

been estimated at \$820,000 and is expected to be completed within a twelve-month timeframe. Having taken professional advice, the decision was made to complete the strengthening work before taking the building to market.

Upon completion of the strengthening work the value of the building is expected to be restored.

Sponsorship and Support for the Sector

The Company continues as a sponsor of SOLGM (Society of Local Government Managers) events both at a regional and national level.

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 from 1 April 2016 both have been 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 December 2017 were \$323 million (December 2016: \$271 million) and the combined membership 10,263.

DIRECTORS' REPORT

SuperEasy's fund managers are AMP Capital Investors (New Zealand) Ltd and ANZ New Zealand Investments Ltd. Of the councils that have a preferred provider for KiwiSaver, 94% have appointed Civic (68 out of 72 councils).

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 21. It could be said that LAPP is New Zealand's original LASS (Local Authority Shared Services).

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.

LAPP extended its cover arrangement from two events to three events from July 2017.

LAPP is currently managing the Kaikoura-Hurunui earthquake claims involving the Kaikoura, Hurunui and Marlborough District Councils. At the time of writing it is unknown how much these claims will be, but it will be well within LAPP's ability to pay, providing 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 fund year ending 30 June 2017 Riskpool/CLP had 31 members.

As support had dropped off in recent years to this low level Riskpool could no longer offer the competitively priced cover and risk management services that it had provided over the previous 20 years.

As a result Riskpool/CLP decided to no longer provide cover after 30 June 2017 and will therefore be in run-off mode for at least the next five years.

Local Government Mutual Funds Trustee Limited (LGMFT) is the trustee of Riskpool and CLP. Civic is the Fund Manager and Scheme Manager for Riskpool and Administration Manager for CLP.

Civic has entered into two arm's length secured loan facility agreements on commercial terms with Local Government Mutual Funds Trustee Limited to enable Riskpool to manage its cashflows.

4. DIRECTORS

As at 31 December 2017 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 2017:

Mark Butcher	6 / 6
Tony Gray	6 / 6
Mike Hannan	6 / 6
Tony Marryatt	6 / 6
John Melville	6 / 6
Basil Morrison	6 / 6

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

All Civic directors are directors of LGMFT except Mark Butcher who resigned from LGMFT in February 2017 to ensure that one Civic director was independent of LGMFT. Subsequently two secured loan facility agreements between the Company and LGMFT were entered into whereby the Civic loans LGMFT up to \$3,000,000 under each loan at commercial interest rates to assist with Riskpool's cashflows.

DIRECTORS' REPORT

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. For the year ended 31 December 2017, Directors' remuneration was:

Mark Butcher	\$17,812
Tony Gray	\$17,812
Mike Hannan	\$17,812
Tony Marryatt	\$35,625
John Melville	\$26,720
Basil Morrison	\$17,812
	\$133,593

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

Mark Butcher	(Riskpool)	\$1,062
Tony Gray	(Riskpool)	\$8,310
Mike Hannan	(Riskpool)	\$8,310
Tony Marryatt	(Riskpool)	\$16,620
John Melville	(Riskpool)	\$8,310
Basil Morrison	(Riskpool, LGST)	\$18,677
		\$61,289

Interests Register

Directors' interests are tabled at the beginning of each Board meeting. Directorship and other disclosures as at 31 December 2017 were:

M.A. Butcher	Chief Executive of Local Government Funding Agency Ltd; Chair of New Plymouth District Perpetual Investment Fund Guardians Ltd; Member of SuperEasy KiwiSaver Superannuation Scheme; Trustee of Civic Property Pool; Board Member of INFENZ.
A.T. Gray	Ngati Apa Developments Ltd; Eastland Group Ltd including Gisborne Airport Ltd, Eastland Port; Eastland Network Ltd; Chair of Ngati Pukenga Investments Ltd; Maungaharuru - Tangitu Ltd; Executive Project Advisor to Hastings District Council; Artemis Nominees Ltd; Quality Roading and Services (Wairoa) Limited; Local Government Mutual Funds Trustee Ltd; Trustee of Civic Property Pool; Origin Earth Ltd; a party to agreements for finance with the LGMFT.
M.C. Hannan	Trustee of Civic Property Pool; Director of Local Government Mutual Funds Trustee Ltd; a party to agreements for finance with the LGMFT.
A.J. Marryatt	Chair of Local Government Mutual Funds Trustee Ltd; AJM Holdings Ltd; Trustee of Civic Property Pool; Member of SuperEasy KiwiSaver Superannuation Scheme; a party to agreements for finance with the LGMFT.
J.B. Melville	Trustee of Civic Property Pool; Director of Local Government Mutual Funds Trustee Ltd; a party to agreements for finance with the LGMFT.
B.J. 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; a party to agreements for finance with the LGMFT.

DIRECTORS' REPORT

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.

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 2017.

Remuneration	Number of Employees
\$100,000 – \$110,000	1
\$130,000 – \$140,000	1
\$140,000 – \$150,000	1
\$420,000 – \$430,000	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. John Melville is the Chairman of this committee. RAC met six times in 2017: the Auditor attended two of those meetings and a part of one of those meetings was held without management present.

7. DONATIONS

No donations have been made during the year by any Company in the Group (2016: \$0).

8. STAFF

We sincerely thank the staff for their work during the year. They are: Caroline Bedford, Ian Brown, Jane Brown, Chathuri Mendis, Sylvia Jackson, Tim Sole, Bas van Laanen, and Glenn Watkin.



Tony Marryatt **Chairman**
March 2018

DIRECTORS

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

EXECUTIVE OFFICERS

Chief Executive : Ian Brown

Chief Operating Officer : Caroline Bedford CPA

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
Kensington Swan

COMPANY REGISTRATION NO: 13271

REGISTERED OFFICE

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

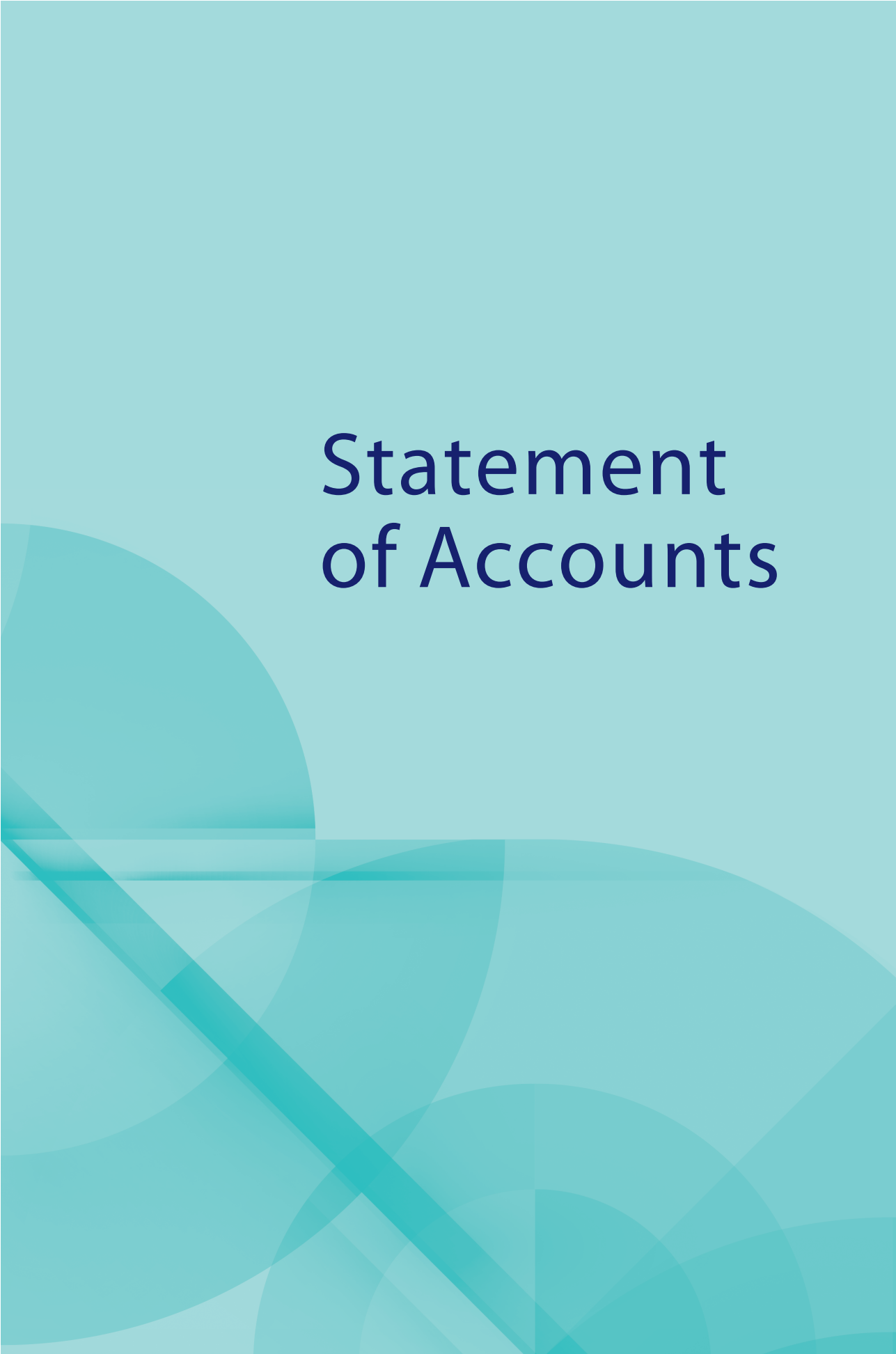
POSTAL ADDRESS

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

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Statement of Accounts

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2017

	NOTE	2017 \$	2016 \$
REVENUE			
Administration Fees		2,750,037	2,358,859
Interest Income	4	173,515	283,739
Property Income		808,771	762,633
Other Income	16	120,355	542
		3,852,678	3,405,773
EXPENDITURE			
Audit Fee			
Statutory Audit of the Financial Statements		114,317	71,980
Other Fees Paid to Auditors Re Assurance Services		41,358	4,830
Other Fees Paid to Auditors Re Taxation Compliance		22,550	9,890
Compliance Costs		110,899	303,519
Consultants		85,020	78,331
Depreciation	6	38,609	38,761
Amortisation	6	406	3,238
Directors' Remuneration	3	133,594	133,594
Legal Fees		60,401	29,910
Property Operating Expenses		518,811	510,118
Other Expenses		977,958	1,139,336
Employee Remuneration		868,860	939,852
Superannuation Subsidies		51,040	99,653
Total Expenditure		3,023,823	3,363,012
Surplus Before Share of Profit from Associate, Revaluation of Investment Property and Taxation		828,855	42,761
Net Change in Value of Investment Property	7	(798,043)	96,571
Share of Profit of Associate		-	(3,152)
Surplus Before Taxation From Continuing Operations		30,812	136,180
Surplus Before Taxation From Discontinued Operations	15	-	1,197,688
Surplus Before Taxation		30,812	1,333,868
Taxation Expense From Continuing Operations	10	186,932	21,992
Taxation Expense From Discontinued Operations	15	-	337,564
Taxation Expense		186,932	359,556
TOTAL COMPREHENSIVE (DEFICIT)/SURPLUS AFTER TAX ATTRIBUTABLE TO OWNERS OF THE COMPANY	14	(156,120)	974,312

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2017

	NOTE	2017 \$	2016 \$
SHAREHOLDERS' EQUITY			
Issued and Paid-Up Ordinary Shares			
Ordinary Shares fully paid-up	14	10,763,506	10,763,506
Retained Earnings	14	6,284,094	6,440,214
TOTAL EQUITY		17,047,600	17,203,720
Represented By:			
CURRENT ASSETS			
Cash & Cash Equivalents		5,202,397	6,111,694
Sundry Debtors and Prepayments	12	728,100	556,715
Loan Receivable	13	1,109,874	-
Income Tax Receivable	10	3,580	990
Total Current Assets		7,043,951	6,669,399
NON CURRENT ASSETS			
Property, Plant and Equipment	6	189,831	189,155
Intangible Assets (Software)	6	89,246	89,652
Deferred Tax Asset	10	3,085,852	3,272,784
Investment Property	7	7,175,000	7,925,000
Total Non Current Assets		10,539,929	11,476,591
TOTAL ASSETS		17,583,880	18,145,990
CURRENT LIABILITIES			
Sundry Creditors & Accrued Charges	12	150,901	385,923
Accrued Holiday Pay		42,853	49,766
CLP/ Riskpool Admin Fee Reserve		52,530	112,969
Subordinated Debt	16	-	120,176
Total Current Liabilities		246,284	668,834
NON-CURRENT LIABILITIES			
CLP/ Riskpool Admin Fee Reserve		289,996	273,436
Total Non Current Liabilities		289,996	273,436
TOTAL LIABILITIES		536,280	942,270
EXCESS OF ASSETS OVER LIABILITIES		17,047,600	17,203,720

For and on behalf of the Directors:


Chairman Tony Marryatt
28 March 2018

Director John Melville
28 March 2018

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2017

	NOTE	2017 \$	2016 \$
OPENING EQUITY		17,203,720	16,032,308
Total Comprehensive (Deficit)/Surplus Net of Tax		(156,120)	974,312
Ordinary Shares issued during the year	14	-	197,100
CLOSING EQUITY		17,047,600	17,203,720

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

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2017

	NOTE	2017 \$	2016 \$
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash was provided from:			
Rent Received		808,516	778,617
Administration Fees Received		2,693,894	2,348,707
Investment Income		91,914	277,415
Loan Interest Received		68,280	-
Other Income		179	542
Reinsurance Recoveries*		-	496,346,310
Taxation (Paid)/ Refunded		(5,390)	2,843
		3,657,393	499,754,434
Cash was applied to:			
Claims Expenses*		-	488,705,997
Payments to Suppliers and Employees		3,382,809	5,135,207
		3,382,809	493,841,204
Net Cash Flow from Operating Activities	11	274,584	5,913,230
CASH FLOWS FROM INVESTING ACTIVITIES			
Cash was provided from:			
Dividend – LGOL		-	6,335
Sale of Property, Plant and Equipment		-	1,252
Loans Repaid		4,416,421	-
		4,416,421	7,587
Cash was applied to:			
Purchase of Property, Plant and Equipment		39,285	57,210
Purchase of Investment Property		48,043	403,428
Loans Issued		5,512,974	-
		5,600,302	460,638
Net Cash Flow from Investing Activities		(1,183,881)	(453,051)
CASH FLOWS FROM FINANCING ACTIVITIES			
Cash was provided from:			
Ordinary Shares issued during the year		-	197,100
		-	197,100
Net Cash Flow from Financing Activities		-	197,100
Net (Decrease)/Increase in Cash Held		(909,297)	5,657,279
Opening Cash Balance as at 1 January		6,111,694	454,415
Closing Cash Balance as at 31 December		5,202,397	6,111,694
Being: Cash & Cash Equivalents		5,202,397	6,111,694

* In 2016, 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

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 (b). The Group provides financial services principally for New Zealand local government and also provides property services. The Company provided insurance products to New Zealand local authorities until 31 December 2016 and subsequently opted to cancel its provisional insurance licence with the Reserve Bank of New Zealand (refer to Note 15).

The Company is a 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.

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 a historical cost basis have been followed by the 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 15).

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 recognition of the deferred tax asset (Note 10) and the valuation of investment property (Note 7).

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) Investment in Subsidiaries

At 31 December 2017 the Company had four wholly owned subsidiaries which are all incorporated in New Zealand. Three of these, Local Government Superannuation Trustee Limited, SuperEasy Limited and Local Government Finance Corporation 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 2016 and 31 December 2017.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

NOTE 2. STATEMENT OF ACCOUNTING POLICIES CONTINUED

(b) Investment in Subsidiaries continued

- i) Civic Assurance Ltd was removed from the New Zealand Companies register on 22 May 2017. Civic Assurance Ltd did not have any significant assets, liabilities, revenue or expenses during the years ended 31 December 2016 and the period to 22 May 2017.
- ii) New Zealand Local Government Finance Corporation Limited (NZLGFC) commenced business on the 29 November 1999, ceased active operations in February 2010 and was removed from the New Zealand Companies register on 25 September 2017. NZLGFC had total assets of \$50,533 and total liabilities of \$120,176 at 31 December 2016.

(c) 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. In 2016 the share of the income of LGOL was included in the consolidated Statement of Comprehensive Income.

(d) 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.

(e) Property Income

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

(f) 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.

Basis of Measuring Other Income and Expenses

Income and expenses are accounted for on an accruals basis. All revenue is exchange revenue.

(g) 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

NOTE 3. KEY MANAGEMENT PERSONNEL AND RELATED PARTIES

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

	2017 Number	2016	2017 \$	2016 \$
Short term employee benefits				
Executive Management Personnel	3	4	537,194	865,135
Directors	6	6	133,594	146,953
			670,788	1,012,088

In 2016, restructuring costs totalling \$235,609 had been included in Executive Management Personnel Remuneration and Directors Remuneration include fees related to the discontinued insurance business.

All related party transactions that the 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. Refer to Note 13 for information relating to loans with subsidiaries.

NOTE 4. 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.

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

ii) Offsetting Financial Instruments

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

NOTE 4. FINANCIAL INSTRUMENTS CONTINUED

Accounting Policies continued

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 Group do not use any derivative financial instruments.

(1) Income Relating to Financial Assets

	2017 \$	2016 \$
Loans		
Interest Received – Loans	81,601	-
Cash & Cash Equivalents		
Interest Received – Short Term Deposits	91,914	283,739
Total Interest Income	173,515	283,739

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

NOTE 4. FINANCIAL INSTRUMENTS CONTINUED

(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 "A" or equivalent.

Loans are secured against Riskpool's future contributions and repayable with six months notice (refer to Note 13).

Carrying value of Financial Assets and Financial Liabilities

	2017 \$	2016 \$
Financial Asset: Loans and Receivables		
Sundry Debtors	590,921	421,098
Loans	1,109,874	-
Total Loans and Receivables	1,700,795	421,098
Financial Asset: Amortised Cost		
Cash & Cash Equivalents	5,202,397	6,111,694
Financial Liability: Amortised Cost		
Subordinated Debt	-	120,176
Sundry Creditors & Accrued Charges	150,901	385,923
Total Amortised Cost	150,901	506,099

(3) Financial Risk – Structure and Management

The 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 Group to a concentration of credit risk consist principally of cash and interest bearing deposits. The Group has no debt liability instruments.

The Group 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 Group. The maximum credit risk exposure is the carrying amount of the individual debtor and investment balances.

The 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

NOTE 4. FINANCIAL INSTRUMENTS CONTINUED

(3) Financial Risk - Structure and Management continued

(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.

(b) Carrying Amount and Fair Value

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

(c) Liquidity Risk

Liquidity Risk is the risk that the 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 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 Group's financial assets and liabilities categorised by the maturity dates.

	Interest Rate Spread %	Within 6 months \$	6 to 12 months \$	1 to 2 years \$	2 to 5 years \$	Total \$
Maturity Analysis as at 31 December 2017						
Assets						
Cash & Cash Equivalents	0 to 3.45%	5,202,397	-	-	-	5,202,397
Other Receivables	n/a	590,921	-	-	-	590,921
Loans	5.13% to 5.15%	1,109,874	-	-	-	1,109,874
Total Financial Assets		6,903,192	-	-	-	6,903,192
Liabilities						
Sundry Creditors & Accrued Charges	n/a	150,901	-	-	-	150,901
Total Financial Liabilities		150,901	-	-	-	150,901
Maturity Analysis as at 31 December 2016						
Assets						
Cash & Cash Equivalents	0 to 3.76%	6,111,694	-	-	-	6,111,694
Other Receivables	n/a	421,098	-	-	-	421,098
Total Financial Assets		6,532,792	-	-	-	6,532,792
Liabilities						
Sundry Creditors & Accrued Charges	n/a	385,923	-	-	-	385,923
Subordinated Debt		-	-	120,176	-	120,176
Total Financial Liabilities		385,923	-	120,176	-	506,099

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

NOTE 4. FINANCIAL INSTRUMENTS CONTINUED

(3) Financial Risk - Structure and Management continued

(d) Credit Risk

All investments are in the form of cash held at registered banks and loans. The registered banks have a credit rating of "A" or better. Loans are with Riskpool (refer to Note 13).

(i) Exposure to Credit Risk

	2017 \$	2016 \$
Cash & Cash Equivalents	5,202,397	6,111,694
Other Receivables	590,921	421,098
Loans	1,109,874	-
Total	6,903,192	6,532,792

(ii) Concentration of Credit Exposure

The major credit exposure greater than 20% of total assets is with registered banks.

NOTE 5. OPERATING LEASE COMMITMENTS

	2017 \$	2016 \$
Operating Lease Expense Commitments:		
not later than one year	12,444	12,444
later than one year but not later than five years	41,478	53,922
	53,922	66,366
Operating Lease Income Commitments:		
not later than one year	823,306	760,980
later than one year but not later than five years	2,984,210	2,421,422
later than five years	285,729	525,063
	4,093,245	3,707,465

Operating lease income relates to a combination of office and retail tenancies to the Investment Property referred to in Note 7. The property is subject to a combination of multiple office and retail tenancies over varying lease periods.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

NOTE 6. 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.

Depreciation Rates	
Office Furniture and Equipment	up to 17 years
Intangibles – Software	5 years

	2017 \$	2016 \$
(a) Property, Plant and Equipment		
Office Furniture and Equipment – cost	629,989	595,688
Plus Additions	39,285	36,596
Less Disposals	-	(2,295)
Closing Value - cost	669,274	629,989
Office Furniture and Equipment - Accumulated Depreciation	(440,834)	(402,540)
Less Depreciation Charge	(38,609)	(38,761)
Less Disposals	-	467
Closing Accumulated Depreciation	(479,443)	(440,834)
Net Book Value	189,831	189,155

The Total Comprehensive (Deficit)/Surplus After Tax in the Statement of Comprehensive Income includes a \$nil loss on disposal of fixed assets (2016: nil).

(b) Intangible Assets		
Software - cost	519,453	498,839
Plus Additions	-	20,614
Less Disposals	-	-
Closing Value - cost	519,453	519,453
Software - Accumulated Amortisation	(429,801)	(426,563)
Less Amortisation Charge	(406)	(3,238)
Less Disposals	-	-
Closing Accumulated Amortisation	(430,207)	(429,801)
Net Book Value	89,246	89,652

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

NOTE 7. 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.

	2017 \$	2016 \$
Civic Assurance House, Lambton Quay, Wellington		
(a) Land valuation (Original Cost \$289,253)	2,900,000	2,900,000
Level 3 Fair Value	2,900,000	2,900,000
(b) Opening Building valuation (Original Cost \$860,571)	5,000,000	4,500,000
Refurbishment	48,043	403,429
(Decrease)/Increase in value	(798,043)	96,571
Level 3 Fair Value	4,250,000	5,000,000
(c) Opening Artwork valuation (Original Cost \$8,844)	25,000	25,000
Fair Value	25,000	25,000
	7,175,000	7,925,000

The Company has received preliminary advice that investigations and calculations as part of a seismic assessment review have highlighted an issue with unreinforced masonry in non-structural parts of the building and, under the Building (Earthquake-prone Buildings) Amendment Act 2016, the building is therefore potentially earthquake prone.

The Company has resolved to mitigate this risk and proceed with seismic strengthening with expected completion within 12 months. The investment property valuation has been obtained as at 31 December 2017 on an 'as if complete' basis with the estimated costs for the strengthening works (approximately \$820,000) being deducted from the 'as if complete' value.

The investment property is revalued every year. The investment property valuation for the year ended 31 December 2017 was completed on 6 March 2018 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 2017. The Investment property is Level 3 fair value.

The adopted market value has been established by consideration of the Income Capitalisation and Discounted Cashflow approaches. Major inputs and assumptions used in the valuation are income and expense growth forecasts, capital expenditure, an analysis of yields, capitalisation rate and market rent per square metre, discount rate, occupancy and weighted average lease terms.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

NOTE 7. INVESTMENT PROPERTY CONTINUED

Investment Property Metrics

	2017	2016
Average Growth Factor	1.40%	1.38%
Capitalisation Rate	8.00%	8.00%
Terminal Yield	8.25%	8.25%
Discount Rate	9.25%	9.25%
Rent per sqm	\$355	\$357
Occupancy (net lettable area)	92.84%	83.66%
Weighted average lease term (years)	2.00	2.30

NOTE 8. ANALYSIS OF FINANCIAL ASSETS NOT IMPAIRED

There are no financial assets that are impaired or past due at balance date (2016: \$nil).

NOTE 9. CONTINGENT LIABILITIES

There are no contingent liabilities (2016: \$nil).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

NOTE 10. TAXATION

Accounting Policies:

i) Current Tax

The current income tax expense charged against the profit for the year is the estimated liability in respect of the taxable 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

NOTE 10. TAXATION CONTINUED

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

	2017 \$	2016 \$
Tax expense comprises:		
Current tax expense	-	(7)
Adjustments recognised in the current year in relation to the current tax of prior years	(13,947)	-
Deferred tax relating to temporary differences	200,879	21,999
Total Tax Expense	186,932	21,992
Attributable to:		
Continuing operations	186,932	21,992
	186,932	21,992

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:

	2017 \$	2016 \$
Surplus before tax	30,812	136,180
Income tax calculated at 28%	8,628	38,130
Tax effect of permanent differences	192,251	(16,138)
Prior Period Adjustment	(13,947)	-
Income Tax Expense	186,932	21,992

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

NOTE 10. TAXATION CONTINUED

(b) Current tax assets and liabilities

	2017 \$	2016 \$
Tax refund receivable	3,580	990
	3,580	990

(c) Deferred tax balances

	2017 \$	2016 \$
Deferred tax assets comprise:		
Temporary differences	3,588,348	3,759,692
	3,588,348	3,759,692
Deferred tax liabilities comprise:		
Temporary differences	(502,496)	(486,908)
	(502,496)	(486,908)
Net Deferred Tax balance	3,085,852	3,272,784

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

NOTE 10. TAXATION CONTINUED

(c) Deferred tax balances continued

Gross taxable and deductible temporary differences for the Group arise from the following:

	Opening Balance \$	Charged to Income \$	Charged to Equity \$	Prior Period Adjustment \$	Closing Balance \$
2017	Investment gains	(40,315)	-	40,315	-
	Building, property and equipment	(1,698,639)	(95,989)	-	(1,794,628)
		(1,738,954)	(95,989)	40,315	(1,794,628)
	Employee entitlements	54,914	6,572	(21,221)	40,265
	Losses carried forward	13,372,556	(628,007)	30,716	12,775,265
		13,427,470	(621,435)	9,495	12,815,530
	Attributable to:				
	Continuing operations	11,688,516	(717,424)	49,810	11,020,902
	Total	11,688,516	(717,424)	49,810	11,020,902
	Tax effect at 28%	3,272,784	(200,879)	13,947	3,085,852
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	12,972,666	(1,284,150)	-	11,688,516
	Total	12,972,666	(1,284,150)	-	11,688,516
	Tax effect at 28%	3,632,344	(359,560)	-	3,272,784

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 Group maintaining sufficient profitability in future financial years (refer Note 20).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

NOTE 10. TAXATION CONTINUED

(d) Imputation Credit Account

	2017 \$	2016 \$
Opening Balance	5,257,222	5,256,739
Plus Credits		
Income Tax Paid	-	-
Resident Withholding Tax	3,580	-
Imputation Credits Received	-	2,463
	3,580	2,463
Less Debits		
Tax Refund	990	1,980
Imputation Credits Attached to Dividends Paid	-	-
Other Debits	-	-
	990	1,980
Closing Balance	5,259,812	5,257,222

NOTE 11. 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

NOTE 11. RECONCILIATION OF COMPREHENSIVE INCOME AFTER TAX WITH CASH FLOW FROM OPERATING ACTIVITIES CONTINUED

	2017 \$	2016 \$
Total Comprehensive (Deficit)/Surplus	(156,120)	974,312
Add/(less) non cash items		
Loan Interest	(13,321)	-
Depreciation	38,609	38,761
Amortisation	406	3,238
Movement in CLP / Riskpool Admin Fee Reserve	(43,879)	386,405
Movement in Deferred Tax Asset	186,932	359,562
Net change in fair value of investment property	798,043	(96,571)
Share of Loss of Associate	-	3,152
Debt Write-off	(120,176)	-
	846,614	694,547
Add/(less) movements in other working capital items		
Sundry Debtors and Prepayments and Reinsurance Recoveries	(171,391)	568,347,733
Sundry Creditors and Accrued Charges	(241,936)	(553,491,392)
Movement in Insurance Provisions	-	(10,608,200)
Tax Refund Due	(2,590)	1,981
	(415,917)	4,250,122
Add/(Less) Items Classified as Investing Activity	-	(5,758)
Add/(Less) Items Classified as Financing Activity	7	7
Net Cash Flow from Operating Activities	274,584	5,913,230

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

NOTE 12. SUNDRY DEBTORS AND CREDITORS

(a) Sundry Debtors and Prepayments

	2017 \$	2016 \$
Sundry Debtors	590,921	421,097
Prepayments	124,191	86,396
GST Receivable	12,988	49,222
Sundry Debtors and Prepayments	728,100	556,715

(b) Sundry Creditors and Accrued Charges

	2017 \$	2016 \$
Sundry Creditors & Accrued Charges	150,901	385,923
Sundry Creditors & Accrued Charges	150,901	385,923

NOTE 13. LOANS

A secured loan agreement between the Company and Local Government Mutual Funds Trustee Limited on behalf of New Zealand Mutual Liability Riskpool ("Riskpool") was entered into in February 2017 and again in August 2017 to assist with Riskpool's cashflow. The amount under each agreement is for a loan of up to \$3,000,000 and under the terms of the loan the interest rate is set as BKBM plus a margin. Any loan may be repaid by Riskpool at any time without penalty and the agreement terminated by either party with six months' notice. The first loan including interest of \$68,280 under the first agreement was repaid in full in October 2017. The loan outstanding at 31 December 2017 is \$1,109,874.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

NOTE 14. SHAREHOLDERS' EQUITY

The Share Capital of the Group comprises solely authorised and issued ordinary shares with each share ranking equally in votes, dividends and surpluses. In 2016, 219,000 shares were issued at \$0.90 per share to existing shareholders. There were no shares issued during 2017.

	2017 \$	2016 \$
Retained Earnings		
Opening Balance	6,440,214	5,465,902
Net Surplus After Taxation	(156,120)	974,312
Closing balance	6,284,094	6,440,214

	2017 \$	2016 \$
Shareholders Capital		
Opening Balance	10,763,506	10,566,406
Ordinary Shares Issued during the year	-	197,100
Closing balance	10,763,506	10,763,506
Number of Ordinary Shares Fully Paid	11,249,364	11,249,364

NOTE 15. DISCONTINUED OPERATIONS

As a consequence of the Canterbury earthquakes the Company ceased providing material damage from 1 July 2011. 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. The Company met its insurance liabilities in full in December 2016 and opted to cancel its provisional insurance licence with the Reserve Bank of New Zealand. The license was cancelled on 17 January 2017. Consequently, the Company is not required to hold a credit rating or maintain a solvency margin.

Analysis of Profit from discontinued operations

The results of the discontinued insurance operations for 2016 and 2017 are set out below. The comparative profit and cash flows from discontinued operations have been represented in the Consolidated Statement of Comprehensive Income and the Consolidated Statement of Cash Flows to include those operations classified as discontinued in the current year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

NOTE 15. DISCONTINUED OPERATIONS CONTINUED

	2017 \$	2016 \$
Surplus for the year from discontinued operations		
Underwriting Surplus	-	1,998,024
Insurance Related Expenses	-	(800,336)
Insurance Surplus Before Taxation	-	1,197,688
Taxation Expense Attributable to Insurance	-	337,564
Surplus After Tax Attributable to Owners of the Company	-	860,124

	2017 \$	2016 \$
Cash flows from discontinued operations		
Net Cash Flow from Operating Activities	-	5,547,816
Net Cash Flow from Investment Activities	-	-
Net Cash Flow from Financing Activities	-	-
Net Cash Flows	-	5,547,816

NOTE 16. SUBORDINATED DEBT

New Zealand Local Government Finance Corporation Limited (NZLGFC) ceased active operations in February 2010 and was removed from the New Zealand Companies register on 25 September 2017. NZLGFC had total assets of \$50,533 and total liabilities of \$120,176 at 31 December 2016. On completion of the windup process during 2017, NZLGFC had no remaining assets available for distribution and was released from the remaining debt of \$120,176. This amount is included in the Statement of Comprehensive Income in 2017.

NOTE 17. EQUITY RETAINED FOR FINANCIAL SOUNDNESS

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

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, one Standard and Interpretation was in issue that was relevant to the Group, but not yet effective.

Initial application of the following Standard is not expected to affect any of the amounts recognised in the financial report or change the presentation and disclosures presently made in or relation to the Group's financial report:

	<i>Effective for annual reporting periods beginning on or after</i>	<i>Expected to be initially applied in the financial year ending</i>
Revised NZ IFRS 9 'Financial Instruments'	1 January 2018	31 December 2018

NOTE 19. SUBSEQUENT EVENTS

A seismic assessment review for the investment property is being undertaken by the Company and at the date of signing these financial statements the review is ongoing. Preliminary advice is that non-structural elements of the building are potentially earthquake prone and the property has been valued on that basis. The estimated cost of strengthening is \$820,000 and the financial statements adjusted accordingly. To proactively mitigate this risk, the Company has embarked on the process of seismic strengthening. Refer to Note 7 for more information.

There have been no other material events subsequent to 31 December 2017 that require adjustment to or disclosure in the financial statements.

NOTE 20. GOING CONCERN

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

The profitability of financial and property services supports the going concern assumption for Civic Financial Services Ltd as a whole. The deferred tax asset is reviewed regularly and at balance date against forecast profits and future business opportunities. The Directors believe that it is probable that sufficient taxable profits will be available in the future against which the unused tax losses can be utilised.

INDEPENDENT AUDITOR'S REPORT

TO THE READERS OF CIVIC FINANCIAL SERVICES LIMITED'S FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

The Auditor-General is the auditor of Civic Financial Services Limited and its subsidiaries (the '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 financial statements of the Group on his behalf.

OPINION

We have audited the consolidated financial statements of the Group on pages 7 to 30, that comprise the consolidated statement of financial position as at 31 December 2017, the consolidated statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date and notes to the consolidated financial statements that include accounting policies and other explanatory information.

In our opinion, the consolidated financial statements of the Group:

- present fairly, in all material respects:
 - its financial position as at 31 December 2017; and
 - its financial performance and cash flows 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 28 March 2018. 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 financial statements, we comment on other information, and we explain our independence.

BASIS FOR OUR OPINION

We carried out our audit in accordance with the Auditor-General's Auditing Standards, which incorporate the Professional and Ethical Standards and the International Standards on Auditing (New Zealand) issued by the New Zealand Auditing and Assurance Standards Board. Our responsibilities under those standards are further described in the Responsibilities of the auditor section of our report.

We have fulfilled our responsibilities in accordance with the Auditor-General's Auditing Standards.

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

RESPONSIBILITIES OF THE BOARD OF DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The Board of Directors is responsible on behalf of the Group for preparing consolidated financial statements that are fairly presented and that comply with generally accepted accounting practice in New Zealand. The Board of Directors is responsible for such internal control as it determines is necessary to enable it to prepare financial statements that are free from material misstatement, whether due to fraud or error.

INDEPENDENT AUDITOR'S REPORT *CONTINUED*

In preparing the consolidated financial statements, the Board of Directors is responsible, on behalf of the Group, for assessing the 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 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.

RESPONSIBILITIES OF THE AUDITOR FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated 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 financial statements.

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

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 risk of material misstatement of the consolidated 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 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 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 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 Group to cease to continue as a going concern.
- We evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated 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.

OTHER INFORMATION

The Board of Directors is responsible for the other information. The other information comprises the information in the Directors' report that accompanies the consolidated financial statements and our audit report.

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information. In doing so, we consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on our work, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

INDEPENDENCE

We are independent of the 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.

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



Michael Wilkes
for Deloitte Limited
On behalf of the Auditor-General
Christchurch, New Zealand

**CIVIC FINANCIAL SERVICES SHAREHOLDERS
AS AT 31 DECEMBER 2017**

SHAREHOLDER MEMBER			SHAREHOLDER MEMBER		
NO. OF SHARES			NO. OF SHARES		
CITY COUNCILS			DISTRICT COUNCILS (Cont'd)		
Auckland	2,195,042	19.51%	Rangitikei	35,338	0.31%
Christchurch	1,417,704	12.60%	Rotorua	175,906	1.56%
Dunedin	470,966	4.19%	Ruapehu	56,666	0.50%
Hamilton	202,729	1.80%	South Taranaki	135,496	1.20%
Hutt	479,822	4.27%	South Waikato	42,374	0.38%
Invercargill	407,927	3.63%	South Wairarapa	53,930	0.48%
Napier	283,842	2.52%	Southland	13,715	0.12%
Nelson	95,543	0.85%	Stratford	65,608	0.58%
Palmerston North	411,737	3.66%	Taranua	99,972	0.89%
Porirua	140,146	1.25%	Tasman	65,584	0.58%
Tauranga	124,242	1.10%	Taupo	83,971	0.75%
Upper Hutt	51,209	0.46%	Thames-Coromandel	27,120	0.24%
Wellington	526,821	4.68%	Timaru	230,118	2.05%
			Waikato	41,070	0.37%
			Waimakariri	88,172	0.78%
Ashburton	56,016	0.50%	Waimate	30,458	0.27%
Buller	27,698	0.25%	Waipa	149,082	1.33%
Carterton	23,642	0.21%	Wairoa	22,992	0.20%
Central Hawke’s Bay	28,580	0.25%	Waitaki	120,000	1.07%
Central Otago	91,238	0.81%	Waitomo	16,940	0.15%
Clutha	33,711	0.30%	Wanganui	289,660	2.57%
Far North	85,440	0.76%	Western Bay of Plenty	28,142	0.25%
Gisborne	99,404	0.88%	Westland	28,356	0.25%
Gore	54,589	0.49%	Whakatane	38,788	0.34%
Grey	33,742	0.30%	Whangarei	63,524	0.56%
Hastings	129,170	1.15%			
Hauraki	63,434	0.56%	REGIONAL COUNCILS		
Horowhenua	110,689	0.98%	Bay of Plenty	55,000	0.49%
Hurunui	14,000	0.12%	Canterbury	152,696	1.36%
Kaikoura	10,000	0.09%	Hawke’s Bay	20,000	0.18%
Kaipara	13,629	0.12%	Horizons	2,000	0.02%
Kapiti Coast	15,060	0.13%	Southland	10,000	0.09%
Kawerau	31,161	0.28%	Taranaki	1,000	0.01%
Manawatu	203,964	1.81%	Waikato	22,000	0.20%
Marlborough	86,022	0.76%	Wellington	80,127	0.71%
Masterton	127,230	1.13%			
Matamata-Piako	122,554	1.09%	OTHER		
New Plymouth	441,456	3.92%	TrustPower	137,251	1.22%
Opotiki	20,000	0.18%			
Otorohanga	5,000	0.04%			
Queenstown-Lakes	31,149	0.28%			
			Total Shares	11,249,364	