2014

ANNUAL REPORT

Civic Assurance

PROTECTING COMMUNITY ASSETS

AM Best Rating at 1 May 2015: B+ (Good), Negative Outlook

Your Directors and Chief Executive have pleasure in submitting the 54th Annual Report of the affairs of the Company for the year ended 31 December 2014, which is to be presented at the Annual General Meeting of Members in June 2015.

1. FINANCIAL STRENGTH

Civic made a before-tax profit in 2014 of $1,098,765. This is a welcome change after four years of losses. The net asset value per share has increased from $1.12 at the end of 2013 to $1.20 as at 31 December 2014.

Civic's losses in 2010-13 were a direct result of the 2010–11 Canterbury earthquakes. Claims in 2010 and in particular the 4 September 2010 Canterbury earthquake reduced Civic's capital base in the 2010 year from $19.5 million to $15.5 million. The 2011 February and June earthquakes contributed gross losses of another $7.2 million. At 31 December 2014 Civic's capital base was $13.25 million, up $0.9 million on the figure from 31 December 2013.

Environment Canterbury's claim for $36 million (including GST) was settled in April 2015. Waimakariri District Council's claim should be settled in the next few months. A mediation to settle Christchurch City Council's 2010–11 earthquake claims is scheduled for September 2015, so all of Civic's Canterbury earthquake claims could be settled before the end of 2015.

Civic's claims paying ability rating from AM Best on 1 May 2015 was B+ (Good) with negative outlook, so unchanged from this time last year.

2. OPERATIONS 2014

Insurance Business

Civic continues to operate with a provisional insurance licence and in practice will not be able to apply for a full insurance licence, which it requires before it can issue new insurance policies, until its Canterbury earthquake claims are settled.

An arbitration between Civic and AIG, one of Civic's 2010–11 reinsurers, took place in March 2014. Civic, as it expected, won this arbitration.

Civic's arbitration with R+V Versicherung AG, another of Civic's 2010–11 reinsurers, took place in December 2014. As with its arbitration with AIG, Civic also expects to win this arbitration.

It has been agreed between Civic and R+V that the result of the Civic / R+V arbitration will not be made available to the parties until after the September 2015 mediation with Christchurch City Council has taken place. If this mediation does not lead to a global settlement and Civic does not get the reinsurance policy wording interpretation from the arbitrators that it expects, then it has a very strong case for suing its reinsurance broker.

Administration Services

Fees from providing services to LAPP, Riskpool, SuperEasy and the SuperEasy KiwiSaver Superannuation Scheme in 2014 were $2.67 million. These fees make an important contribution to Civic's overheads.

Investment Revenue

Interest rates continued at historic lows during 2014. This combined with fewer funds to invest compared to previous years meant lower investment income for Civic, down from $294,550 in 2013 to $262,636 in 2014. On the other hand, the value of Civic Assurance House increased $430,000 from $6.625 million to $7.055 million.

Sponsorship and Support for the Sector

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

3. BUSINESS OUTLOOK

It will take several years for Civic to rebuild its insurance portfolio. Meanwhile, Civic through its investment income and its SuperEasy, LAPP and Riskpool administration fees is able to cover its running costs.

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

4. ASSOCIATED ENTITIES

LAPP Disaster Fund

The LAPP disaster fund is a charitable trust that was set up by LGNZ and Civic in 1993. LAPP's membership is 33. 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).

The LAPP disaster fund at 30 April 2015 was $17.3 million, supported by a further $80 million of reinsurance (being $40 million with one free reinstatement of another $40 million).

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

Riskpool

Riskpool provides public liability and professional indemnity cover for councils and has done so since 1997. It is not a company, but a mutual liability fund governed by a trust deed. For the current fund year Riskpool has 54 members.

The trustee of Riskpool is Local Government Mutual Funds Trustee Limited, a 100% subsidiary of Civic. Civic is also the Fund Manager and Scheme Manager for Riskpool.

Since 1997, Riskpool has paid $143 million in claims.

Riskpool's website is: www.riskpool.org.nz.

Local Government Superannuation Trustee Limited

One of the two trustees for the two superannuation schemes (SuperEasy KiwiSaver Superannuation Scheme and SuperEasy) administered by Civic is Local Government Superannuation Trustee Limited (LGST), a 100% subsidiary of Civic. To provide a degree of independence to LGST, four of the six directors of LGST are not appointed by Civic. These four appointments are made by LGNZ (two), SOLGM (one) and CTU (one). The other trustee for the two superannuation schemes is Graeme Mitchell, a former partner of Deloitte.

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 4 May 2015 were $218 million (May 2014: $172 million). SuperEasy's fund managers are AMP Capital Investors (New Zealand) Ltd and ASB Group Investments Ltd. Of the councils that have a preferred provider for KiwiSaver, 92% have appointed Civic (68 out of 74 councils).

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

5. DIRECTORS

As at 31 December 2014 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 2014 :

Mark Butcher	6 / 7
Tony Gray	4 / 5
Mike Hannan	9 / 9
Tony Marryatt	9 / 9
John Melville	8 / 9
Basil Morrison	9 / 9
Bryan Taylor	4 / 4

Section 139 of the Companies Act 1993

There are no notices required under section 139 of the Companies Act 1993 except for Directors' remuneration. For the year ended 31 December 2014, Directors' remuneration was:

	$
Mark Butcher (Appointed May 2014)	12,053
Tony Gray (Appointed June 2014)	10,630
Mike Hannan	18,563
Tony Marryatt	36,824
John Melville	18,563
Basil Morrison	18,563
Bryan Taylor (Resigned June 2014)	8,250
	123,446

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

		$
Mike Hannan	(Riskpool)	8,075
Tony Marryatt	(Riskpool)	8,075
Basil Morrison	(LGST)	7,498
Bryan Taylor	(Riskpool)	8,075
		31,723

Interests Register

Directors' interests are tabled at the beginning of each Board meeting. Directorship and other disclosures as at 31 December 2014 were:

M. Butcher	Chief Executive of Local Government Funding Agency Ltd; Board Member of INFINZ.
T. Gray	Ngati Apa Developments Ltd; Gisborne Airport Ltd; Eastland Group Ltd including Eastland Port; Eastland Network Ltd; Hawkes Bay Opera House Ltd; Chair of Ngati Pukenga Investments Ltd; Employee of Hastings District Council; Member of the Advisory Committee of Omarunui Generation Ltd Partnership.
M. Hannan	Trustee of Civic Property Pool; Director of Local Government Mutual Funds Trustee Ltd.
T. Marryatt	Local Government Mutual Funds Trustee Ltd; AJM Holdings Ltd; Trustee of Civic Property Pool.
J. Melville	Trustee of Civic Property Pool.
B. Morrison	Chair of the Local Government Commission; Basil J Morrison & Associates Ltd; Waitangi Tribunal Member; Trustee of Civic Property Pool; Member of the Auckland Council Mediation/Facilitator Panel; Chairman of Local Government Superannuation Trustee Ltd; Auckland Council Independent Hearings Commissioner.

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

Civic made a before-tax profit in 2014 of $1,098,765. The net asset value per share has increased from $1.12 at the end of 2013 to $1.20 as at 31 December 2014.

6. EMPLOYEE REMUNERATION

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

Remuneration $	Number of Employees
110,000 – 120,000	2
140,000 – 150,000	1
170,000 – 180,000	1
180,000 – 190,000	1
190,000 – 200,000	1
380,000 – 390,000	1

The above remunerations include Company contributions to employees' superannuation (KiwiSaver and other), medical insurances and recognition by way of bonus payments of long working hours over a long period of time.

7. 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 Mr Dave Shadwell using the staff and resources of Deloitte to carry out the audit on her behalf.

The Risk and Audit Committee (RAC) comprises the full Board plus Bryan Taylor who is a consultant to the Board. Mr. Taylor is the Chairman of this committee. RAC met six times in 2014: the Auditor attended two of those meetings and a part of each of those meetings was held without management present.

The RAC now has 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.

8. DIRECTORS

One director retired in 2014. We record our thanks to Mr. Taylor for his contribution both as a Director and Chairman of the Board.

9. STAFF

We sincerely thank Caroline Bedford, Ian Brown, Jane Brown, Oliver Gilmore, Roger Gyles, Alistair Hanning, Frank Heaton, Sylvia Jackson, Juliet Martin, Wendy Riley, Grace van Dyk and Glenn Watkin for their contributions to another challenging year for the Company. A huge effort in particular is being made to settle the Christchurch City Council earthquake claims, but ultimately it will depend on the willingness of Civic's reinsurers and Christchurch City Council to reach agreement.

Tony Marryatt
Chairman

Tim Sole
Chief Executive

May 2015

DIRECTORS

Tony J. Marryatt (Chairman)
Mark A. Butcher (Appointed May 2014)
Anthony (Tony) T. Gray (Appointed June 2014)
Michael C. Hannan
John B. Melville
Basil J. Morrison CNZM JP

CONSULTANT TO THE BOARD

Bryan G. Taylor JP

EXECUTIVE OFFICERS

Chief Executive	Tim Sole BSc MBA ANZIIF (Fellow) CIP FIAA FNZSA
Manager – Insurance	Alistair Hanning ANZIIF (Snr Assoc) CIP DipBusStud (Mktg) CDM
General Manager – Finance	Roger Gyles CA

AUDITORS

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

BANKERS

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

LEGAL ADVISERS

Mahony Burrowes Horner
Brandons

COMPANY REGISTRATION NO: 13271

REGISTERED OFFICE

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

POSTAL ADDRESS

Civic Assurance, PO Box 5521, Wellington 6145

OTHER CONTACT DETAILS

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

The Company is a participant in the Insurance & Savings Ombudsman Scheme (Inc).

STATEMENT OF ACCOUNTS

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2014

	Notes	2014 Group $	2013 Group $	2014 Parent $	2013 Parent $
REVENUE					
Income Attributable to Insurance Business					
Premiums Earned		-	222,155	-	222,155
Unearned Premium Reserve		-	814,000	-	814,000
Reinsurance Paid		-	(122,477)	-	(122,477)
Expense & Legal Fee Recovery		3,250,000	-	3,250,000	-
Net Claims Expense	3	(388,198)	(287,279)	(388,198)	(287,279)
Underwriting Surplus/(Deficit)		2,861,802	626,399	2,861,802	626,399
Commissions & Claims Management Expenses		-	-	-	-
		2,861,802	626,399	2,861,802	626,399
Administration Fees		2,668,597	2,430,283	2,668,597	2,430,283
Income from Investments	9	262,636	294,550	262,636	294,550
Property Income		729,866	756,673	729,866	756,673
Other Income		1,095	3,631	1,095	3,631
Net Operating Revenue		6,523,996	4,111,536	6,523,996	4,111,536
EXPENDITURE					
Audit Fee					
Statutory Audit		100,472	111,096	100,472	111,096
Other Fees Paid to Auditors re Taxation Advisory		38,443	45,700	38,443	45,700
Claims Paying Ability Rating		27,226	4,141	27,226	4,141
Consultants		64,129	242,693	64,129	242,693
Depreciation	11	64,828	85,220	64,828	85,220
Amortisation	11	47,430	52,255	47,430	52,255
Interest Expense		35,000	493	35,000	493
Directors' Remuneration		123,446	105,990	123,446	105,990
Insurance Council of New Zealand		15,000	12,500	15,000	12,500
Legal Fees	23	1,712,720	756,636	1,712,720	756,636
Property Operating Expenses		375,206	537,401	375,206	537,401
Other Expenses		1,669,664	1,207,881	1,669,640	1,207,857
Employee Remuneration		1,412,993	1,452,365	1,412,993	1,452,365
Superannuation Subsidies		132,316	183,647	132,316	183,647
Total Expenditure		5,818,873	4,798,018	5,818,849	4,797,994
Surplus/(Loss) Before Share of Profit from Associate, Revaluation of Investment Property and Taxation		705,123	(686,482)	705,147	(686,458)
Subvention Payment		-	-	(7)	(7)
Revaluation of Investment Property	10	430,000	(165,000)	430,000	(165,000)
Share of Profit of Associate		(36,358)	43,410	35,000	50,000
Surplus/(Loss) Before Taxation		1,098,765	(808,072)	1,170,140	(801,465)
Taxation Expense/(Credit)	8	201,565	(187,950)	201,572	(187,943)
TOTAL COMPREHENSIVE SURPLUS/(LOSS) NET OF TAX	14	897,200	(620,122)	968,568	(613,522)

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 2014

	Notes	2014 Group $	2013 Group $	2014 Parent $	2013 Parent $
SHAREHOLDERS' EQUITY					
Issued and Paid-Up Ordinary Shares					
11,030,364 Ordinary Shares fully paid-up	20	10,566,406	10,566,406	10,566,406	10,566,406
Retained Earnings	20	2,684,850	1,787,650	2,751,161	1,782,593
TOTAL EQUITY		**13,251,256**	**12,354,056**	**13,317,567**	**12,348,999**
Represented By:					
CURRENT ASSETS					
Bank & Cash Equivalents		4,224,278	8,345,202	4,173,716	8,294,624
Sundry Debtors and Prepayments	17	1,117,857	1,226,746	1,117,848	1,226,738
Premiums Receivable		-	-	-	-
Reinsurance Recoveries	6	506,976,959	587,703,734	506,976,959	587,703,734
Reinsurance Prepayments	7	-	-	-	-
Income Tax Receivable	8	42,128	159,565	42,128	159,565
Total Current Assets		512,361,222	597,435,247	512,310,651	597,384,661
NON CURRENT ASSETS					
NZ Government Stock	13	100,697	103,482	100,697	103,482
Shares in Local Government Online		3,287	104,635	-	30,000
Property, Plant and Equipment	11	164,697	223,856	164,697	223,856
Intangible Assets (Software)	11	52,511	65,441	52,511	65,441
Deferred Tax Asset	8	3,676,018	3,877,590	3,676,018	3,877,590
Investment Property	10	7,055,000	6,625,000	7,055,000	6,625,000
Total Non Current Assets		11,052,210	11,000,004	11,048,923	10,925,369
TOTAL ASSETS		**523,413,432**	**608,435,251**	**523,359,574**	**608,310,030**

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 2014

	Notes	2014 Group $	2013 Group $	2014 Parent $	2013 Parent $
CURRENT LIABILITIES					
Sundry Creditors & Accrued Charges		1,022,962	4,877,584	1,022,969	4,877,596
Reinsurance Received in Advance		326,264	730,114	326,264	730,114
Accrued Holiday Pay		122,874	108,922	122,874	108,922
Subordinated Debt	16	120,176	120,176	-	-
		1,592,276	5,836,795	1,472,107	5,716,631
Insurance Provisions					
Unearned Premium Reserve	7	-	-	-	-
Outstanding Claims Liability	3	508,569,900	590,244,400	508,569,900	590,244,400
Total Insurance Provisions		508,569,900	590,244,400	508,569,900	590,244,400
Total Current Liabilities		510,162,176	596,081,195	510,042,007	595,961,031
TOTAL LIABILITIES		**510,162,176**	**596,081,195**	**510,042,007**	**595,961,031**
EXCESS OF ASSETS OVER LIABILITIES		**13,251,256**	**12,354,056**	**13,317,567**	**12,348,999**

For and on behalf of the Directors

Director
Tony Marryatt

25 March 2015

Director
John Melville

25 March 2015

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 2014

	2014 Group $	2013 Group $	2014 Parent $	2013 Parent $
OPENING EQUITY	12,354,056	12,974,178	12,348,999	12,962,521
Total Comprehensive Surplus/(Loss)	897,200	(620,122)	968,568	(613,522)
Total Recognised Revenue and Expenses	897,200	(620,122)	968,568	(613,522)
Ordinary Shares issued during the year	-	-	-	-
CLOSING EQUITY	13,251,256	12,354,056	13,317,567	12,348,999

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 2014

	Notes	2014 Group $	2013 Group $	2014 Parent $	2013 Parent $
CASH FLOWS FROM OPERATING ACTIVITIES					
Cash was provided from:					
Premiums Received		-	24,786	-	24,786
Rent Received		731,325	766,887	731,325	766,887
Administration Fees Received		2,949,205	2,132,294	2,949,205	2,132,294
Interest Received		265,421	298,686	265,421	298,686
Expense & Legal Fee Recovery		3,250,000	-	3,250,000	-
Reinsurance Recoveries		5,929,655	15,893,188	5,929,655	15,893,188
Reinsurance Received in Advance		(403,850)	730,114	(403,850)	730,114
		12,721,756	19,845,955	12,721,756	19,845,955
Cash was applied to:					
Claims Expenses		8,245,533	22,165,702	8,245,533	22,165,702
Taxation Paid/(Refunded)		(123,270)	(38,366)	(123,270)	(38,366)
Interest Expense		-	-	-	-
Payments to Suppliers		8,741,494	3,872,756	8,741,471	3,872,732
Payments to Reinsurers		(1,095)	122,477	(1,095)	122,477
		16,862,662	26,122,569	16,862,639	26,122,545
Net Cash Flow from Operating Activities	14	(4,140,906)	(6,276,614)	(4,140,883)	(6,276,590)
CASH FLOWS FROM INVESTING ACTIVITIES					
Cash was provided from:					
Dividend – LGOL		35,000	50,000	35,000	50,000
Return of LGOL Capital		30,000	-	30,000	-
Sale of Fixed Assets		-	435	-	435
		65,000	50,435	65,000	50,435
Cash was applied to:					
Purchase of Fixed Assets		45,018	46,340	45,018	46,340
		45,018	46,340	45,018	46,340
Net Cash Flow from Investing Activities		19,982	4,095	19,982	4,095
CASH FLOWS FROM FINANCING ACTIVITIES					
Cash was provided from:					
Receipt of Subvention Payment		-	-	-	-
Ordinary Shares issued during the year		-	-	-	-
		-	-	-	-
Cash was applied to:					
Payment of Subvention Payment		-	-	7	7
		-	-	7	7
Net Cash Flow from Financing Activities		-	-	(7)	(7)
Net Decrease in Cash Held		(4,120,924)	(6,272,519)	(4,120,908)	(6,272,502)
Opening Cash Balance as at 1 January		8,345,202	14,617,721	8,294,624	14,567,126
Closing Cash Balance as at 31 December		**4,224,278**	**8,345,202**	**4,173,716**	**8,294,624**
Being: Bank & Cash Equivalents		**4,224,278**	**8,345,202**	**4,173,716**	**8,294,624**

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2014

NOTE 1. REPORTING ENTITY

The reporting entity is New Zealand Local Government Insurance Corporation Limited, trading as Civic Assurance (the "Company"). The Group comprises the Company and its subsidiaries listed in Note 2 (p). The Group provides insurance products and other financial services principally for New Zealand local government.

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

Statement of Compliance

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

NOTE 2. STATEMENT OF ACCOUNTING POLICIES

General Accounting Policies

The 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 subject to the requirements under the Insurance (Prudential Supervision) Act 2010 as a provisional licence holder.

Critical Judgements and Estimates in Applying the Accounting Policies

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

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 insurance activities (Notes 3 to 7 and 23), including recovery of reinsurance receivables, the recognition of the deferred tax asset and the valuation of investment property (Note 10).

Particular Accounting Policies

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

(a) Consolidation of Subsidiaries

The Group financial statements incorporate the financial statements of the Company and its subsidiaries, which have been consolidated using the 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) Significant Accounting Policies Related to General Insurance Contracts

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.

NOTE 2. STATEMENT OF ACCOUNTING POLICIES CONTINUED

(c) Income Attributable to Insurance Business

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

(d) Reinsurance Expense

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

(e) Claims

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

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

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

(f) Reinsurance and Other Recoveries

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

(g) Liability Adequacy Test

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

(h) Assets which back Insurance Liabilities

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

(i) Investment Property

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.

NOTE 2. STATEMENT OF ACCOUNTING POLICIES CONTINUED

(j) Property, Plant & Equipment and Software Intangible

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

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

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

(k) Financial Instruments

(i) Classification and Measurement

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

Held To Maturity Investments

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, Subordinated Debt and Outstanding Claims. 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.

(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.

NOTE 2. STATEMENT OF ACCOUNTING POLICIES CONTINUED

(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).

NZ Government Stock is categorised as Level 1. That is, the fair value of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices. The fair value of Level 1 financial assets are derived from quoted prices from Bank of New Zealand. Transfers between levels are recognised at the end of the reporting period.

(v) Derivatives

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

(l) Taxation

Current Tax

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

Deferred Tax

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

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

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

(m) Goods and Services Tax (GST)

Revenue, expenses, 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 2. STATEMENT OF ACCOUNTING POLICIES CONTINUED

(n) Statement of Cash Flows

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.

(o) Employee Benefits

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

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

(p) Investment in Subsidiaries

The Company has six wholly owned subsidiaries which are all incorporated in New Zealand. Five 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 2013 and 31 December 2014. New Zealand Local Government Finance Corporation Limited (NZLGFC) commenced business on the 29 November 1999 and had total assets of $50,560 at 31 December 2014 (2013: $50,584) and ceased active operations in February 2010. The five 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.

(q) Investment in Associate Company

The Company holds a 25% share of Local Government Online Limited (LGOL). 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. The Parent financial statements record the investment at cost less impairment. During the year LGOL returned the shareholders capital and ceased operations on 31 March 2014 (refer to Note 17).

(r) Administration Fees

Administration fees are recognised at the agreed amounts based on time and expenses incurred.

(s) Property Income

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

(t) Basis of Measuring Income and Expenses

Income and expenses are accounted for on an accruals basis.

NOTE 2. STATEMENT OF ACCOUNTING POLICIES CONTINUED

(u) Changes in Accounting Policies

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

The implementation of accounting standards adopted during the year, in particular NZ IFRS 12 *Disclosure of Interests in Other Entities* has had no material impact on the financial statements although additional disclosures have been included as required. The implementation of NZ IFRS 13 *Fair Value Measurement* has had no impact on the fair value measurement although additional disclosure has been included as required.

NOTE 3. CLAIMS

(a) Claims

	2014 Group $	2013 Group $	2014 Parent $	2013 Parent $
Claims Incurred and Provision for Outstanding Claims				
Revaluation of claims during the year	74,812,772	215,631,345	74,812,772	215,631,345
Less: Revised estimate of reinsurance recoveries during the year	(75,200,970)	(215,918,624)	(75,200,970)	(215,918,624)
Net Claims	**(388,198)**	**(287,279)**	**(388,198)**	**(287,279)**

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

(b) Reconciliation of Movements in Gross Outstanding Claims Liability

	2014 Group $	2013 Group $	2014 Parent $	2013 Parent $
Outstanding Claims liability at the beginning of the financial year	590,244,400	829,306,800	590,244,400	829,306,800
Revaluation of claims during the year	(74,812,772)	(215,631,345)	(74,812,772)	(215,631,345)
Claims Paid	(6,861,728)	(23,431,055)	(6,861,728)	(23,431,055)
Outstanding Claims Liability at the End of the Financial Year	**508,569,900**	**590,244,400**	**508,569,900**	**590,244,400**

(c) Actuarial Methodology and Assumptions

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

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

NOTE 3. CLAIMS CONTINUED

(c) Actuarial Methodology and Assumptions continued

The different components of the outstanding claims liability are subject to different levels of uncertainty. The estimation of the cost of claims reported but not yet paid in full is made on a case by case basis by claims personnel having regard to the facts and circumstances of the claim as reported, any information available from assessors and information on the cost of settling claims with similar characteristics in previous periods. A further amount, which may be a reduction, is included for IBNER on the basis of past experience with the accuracy of initial claims estimates. With IBNR, the estimation is generally subject to a greater degree of uncertainty than the estimation of the cost of settling claims already notified, as no information is currently available about the claim. In calculating the estimated cost of unpaid claims a variety of estimating techniques are used generally based on statistical analysis of historical experience, which assumes that the development pattern of the current claims will be consistent with past experience. Allowance is made however for changes or uncertainties which may create distortions in the underlying statistics which might cause the cost of unsettled claims to increase or reduce when compared with the cost of previously settled claims.

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

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

The 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 for the year, with over 3,000 claims being received. As at 31 December 2014 the Outstanding Claims Liability in relation to Canterbury earthquake claims was $509m (2013: $590m) of which $504m (2013: $585m) is covered by reinsurance treaties resulting in a net incurred claims liability of $4m (2013: $5m). As a result of the Canterbury earthquake events, reinsurance cover has been less affordable than in previous years. In addition to this, the Company has faced logistical issues detailing the exposures that were to be written due to a lack of detailed information being readily available on the local government assets. As a consequence of this, the Company was unable to obtain reinsurance at an appropriate price for the reinsurance year commencing 1 July 2011 and has not accepted any new material damage risk from this date.

As at 31 December 2014 valuation of outstanding claims liability and risk margins in relation to the Canterbury earthquake claims was evaluated by Craig Lough (Fellow of the NZ Society of Actuaries) of Melville Jessup Weaver. The actuaries are satisfied as to the nature, sufficiency and accuracy of data used in the calculation of the outstanding claims liability.

The principal concern in determining the outstanding claims liabilities for Canterbury earthquake claims is the unique nature of the event. Despite the material nature of the outstanding claims liability, it has been decided at this stage that no actuarial adjustment should be applied to the case estimates recorded for these claims. The reasons for this are:

- The unique and continuing nature of the Canterbury earthquake events means that at this stage there is 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, few claims have been closed so there are unlikely to be reopened claims.

NOTE 3. CLAIMS CONTINUED

(d) Canterbury Earthquakes Claims continued

Despite the considerable gross claims costs, the financial impact on the Company has been significantly mitigated by the catastrophe reinsurance treaties in place until 30 June 2011. These reinsurance treaties limit the Company's net claims liability to $3.6m net incurred claims per event (net of reinsurance). While it is expected that the gross claims will be larger than the net retention (after catastrophe reinsurance) any increase in the claims costs will be borne by the reinsurers and therefore the risk margin on the net claims liability is zero. The overall risk margin for both outstanding claims and liability adequacy testing have been determined using a combination of historical results and professional judgement.

Although the Company's exposure to insurance risk is limited to $3.6m net incurred claims per event, it continues to be exposed to credit risk relating to the ability of the reinsurers to pay the gross reinsurance recoveries receivable. Civic uses only reinsurers with rating A- or better from AM Best (or equivalent). Details of the Company's credit risk management policies are included in Note 4 (d).

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 2014 the central estimate of the outstanding claims liability and risk margins in relation to Business as Usual and Riskpool claims was evaluated by Craig Lough (Fellow of the NZ Society of Actuaries) of Melville Jessup Weaver. The actuaries are satisfied as to the nature, sufficiency and accuracy of data used in the calculation of the outstanding claims liability.

The outstanding claims liability in respect of Business as Usual and Riskpool claims has been determined based on professional judgement. This approach is considered reasonable given the very small number of outstanding claims, where previously applied statistical methods are considered inappropriate.

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

The overall risk margin for both outstanding claims and liability adequacy testing has been determined using stochastic techniques and have been determined allowing for diversification between groups of business and having regard to the inherent variation observed in claims development in each group of business. The undiversified risk margins for each group of business are applied to the net central estimates and the results aggregated, allowing for diversification, in order to arrive at an overall net provision that is intended to provide a probability of sufficiency of 85%. For the non-Canterbury earthquake claims a risk margin of $29,000 (2013: $40,000) has been included in the Outstanding Claims Liability as at balance date, as required in terms of NZIFRS 4 clause 17.2.

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

The period between the valuation date and the settlement of most claims is short, and the valuation implicitly allows for past levels of inflation to continue in the future. Therefore, any increase in costs as a result of inflation is limited.

Also due to the short settlement periods the effect of discounting expected future payments is also limited and therefore the estimates are not discounted for the time value of money.

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 is primarily an insurer only of risks owned or managed by local authorities. Records of results and trends exclusively in this market sector that have been built up over a number of years are available as tools for the Company's underwriter. The portfolio was essentially property risks. A "ring fenced" maximum liability layer of liability risk has been written to support the local government liability pool, provided by New Zealand Mutual Liability Riskpool ("Riskpool").
- Pricing – Many years of underwriting results for a tight homogenous group of risks enables the Company's underwriters to calculate acceptable pricing and acceptable terms and conditions of cover.
- Reinsurance – Through reinsurance the Company, 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 are allocated settling limits and authorities. These authority levels are reviewed regularly. Senior claims staff are very experienced, particularly in local government claims. Overall authority and claims management is provided by the Company's Insurance Manager.
- Investment management – All premium income is held in NZ Registered Bank accounts and short-term deposits except for $100,000 NZ Government Stock. All investments are regularly reviewed by the Board.
- Risk reduction – The Company's underwriter and its Insurance Manager analyse and review claims data with a view to educating and training insureds in recognition and prevention of manageable risks. 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 are entered into on a standard form and on an annual basis. There are no special terms and conditions in any non-standard contracts that would have a material impact on the financial 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 is 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 relates primarily to:

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

(e) Interest Rate Risk

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

(f) Reinsurance Risk

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

(g) Operational Risk

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

(h) Liquidity Risk

All assets and liabilities used in relation to the liquidity of the insurance business are 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 are reviewed annually and change in accordance with current best estimates using advice from an actuary. There is no insurance risk sensitivity as full exposure has been taken.

NOTE 5. INSURANCE PROVISIONS

The Company has a claims payable credit rating of “B+, negative outlook” issued by AM Best at 7 October 2014. The Company’s reinsurance programme is structured to adequately protect the Company's solvency and capital position. It covers per risk and event losses in New Zealand. Counterparty reinsurers with credit ratings no less than “ A-” (AM Best scale) participate in the reinsurance catastrophe programme.

(a) Solvency Margin

In accordance with the Insurance (Prudential Supervision) Act 2010 the solvency margin as at balance date was negative $493.844m (2013: negative $10.691m) with a ratio of 0.02 (2013: 0.44). Civic’s net assets, which is total assets less total liabilities, was $13.251m. Civic has adopted an ultra-conservative position in respect of reinsurance recoverable.

NOTE 6. REINSURANCE RECEIVABLE ON OUTSTANDING CLAIMS

(a) Reconciliation of Movements for the Financial Year

	2014 Group $	2013 Group $	2014 Parent $	2013 Parent $
Reinsurance recoveries receivable on outstanding claims at the beginning of the year	587,703,734	820,245,659	587,703,734	820,245,659
Reinsurance recoveries received	(5,525,805)	(16,623,301)	(5,525,805)	(16,623,301)
Revised estimate of reinsurance recoveries during the year	(75,200,970)	(215,918,624)	(75,200,970)	(215,918,624)
Reinsurance recoveries receivable on outstanding claims at the end of the year	**506,976,959**	**587,703,734**	**506,976,959**	**587,703,734**

(b) Actuarial Assumptions

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

(c) The Effect of Changes in Assumption

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

(d) Risk Management

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

(e) Reinsurance Risk Management

Risks underwritten are reinsured in order to limit exposure to losses, stabilise earnings, protect capital resources and ensure efficient control and spread of the risks underwritten. The Company has its own reinsurance programme and determines its own risk limits. The Company buys reinsurance in only two forms, a quota share programme on every property risk and a catastrophe programme over its whole portfolio. These programmes are negotiated on an annual basis from 1 July to 30 June. As a consequence of the Canterbury earthquakes the Company has been unable to obtain property reinsurance from 1 July 2011 on suitable terms and has therefore ceased providing material damage cover since this date. The Company is currently in arbitration with one of its reinsurers. More detail is disclosed in Note 23.

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

NOTE 7. UNEARNED PREMIUM LIABILITY AND REINSURANCE PREPAYMENTS

(a) Reconciliation of Movements for the Financial Year

	2014 Group $	2013 Group $	2014 Parent $	2013 Parent $
Unearned net premium liability at the beginning of the financial year	-	1,040,069	-	1,040,069
Deferral of gross premiums on contracts written in the year	-	-	-	-
Deferral of reinsurance expense payable on contracts written in the year	-	-	-	-
Earning of premiums written in previous years	-	(226,109)	-	(226,109)
Payment of reinsurance expense payable written in previous years	-	40	-	40
Unexpired Risk Reserve	-	(814,000)	-	(814,000)
Unearned net premium liability at the end of the financial year	**-**	**-**	**-**	**-**

(b) Liability Adequacy Test

The Company has no active insurance policies therefore both the gross premiums deferred and the Unexpired Risk Reserve are nil.

NOTE 8. TAXATION

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

	2014 Group $	2013 Group $	2014 Parent $	2013 Parent $
Tax credit comprises:				
Current tax expense	199,763	-	199,770	-
Adjustments recognised in the current year in relation to the current tax of prior years	-	-	-	-
Deferred tax (income) relating to the origination and reversal of temporary differences	1,802	(187,953)	1,802	(187,946)
Total tax expense/credit	**201,565**	**(187,953)**	**201,572**	**(187,946)**
Attributable to:				
Continuing operations	201,565	(187,953)	201,572	(187,946)
	201,565	**(187,953)**	**201,572**	**(187,946)**

NOTE 8. TAXATION CONTINUED

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

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:

	2014 Group $	2013 Group $	2014 Parent $	2013 Parent $
Profit from continuing operations	705,123	(686,482)	705,147	(686,458)
Profit from discontinued operations	-	-	-	-
Profit from operations	705,123	(686,482)	705,147	(686,458)
Subvention payable	-	-	(7)	(7)
Revaluation of Investment Property	430,000	(165,000)	430,000	(165,000)
Share of Profit of Associate	(36,358)	43,410	35,000	50,000
	1,098,765	(808,073)	1,170,140	(801,465)
Income tax calculated at 28%	307,654	(226,262)	327,639	(224,409)
Tax effect of permanent differences	(106,089)	38,312	(126,067)	36,466
	201,565	(187,950)	201,572	(187,943)
Under provision of income tax in previous year	-	-	-	-
Income Tax Credit	**201,565**	**(187,950)**	**201,572**	**(187,943)**

(b) Current tax assets and liabilities

	2014 Group $	2013 Group $	2014 Parent $	2013 Parent $
Tax refund receivable	42,128	159,565	42,128	159,565
Tax payable	-	-	-	-
	42,128	**159,565**	**42,128**	**159,565**

(c) Deferred tax balances

	2014 Group $	2013 Group $	2014 Parent $	2013 Parent $
Deferred tax assets comprise:				
Temporary differences	4,123,699	4,319,564	4,123,699	4,319,564
	4,123,699	4,319,564	4,123,699	4,319,564
Deferred tax liabilities comprise:				
Temporary differences	(447,682)	(441,974)	(447,682)	(441,974)
	(447,682)	(441,974)	(447,682)	(441,974)
Net Deferred Tax balance	**3,676,016**	**3,877,590**	**3,676,016**	**3,877,590**

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 $
2014	Investment gains	(40,315)	-	-	-	(40,315)
	Building, property and equipment	(1,538,158)	(20,389)	-	-	(1,558,547)
		(1,578,473)	**(20,389)**	**-**	**-**	**(1,598,862)**
	Employee entitlements	108,922	13,953	-	-	122,875
	Losses carried forward	15,318,095	(713,472)	-	-	14,604,623
	Other	-	-	-	-	-
		15,427,017	**(699,519)**	**-**	**-**	**14,727,498**
	Attributable to:					
	Continuing operations	13,848,545	(719,908)	-	-	13,128,637
	Discontinued operations	-	-	-	-	-
	Total	13,848,545	(719,908)	-	-	13,128,637
	Tax effect at 28%	3,877,590	(201,577)	-	-	3,676,016
2013	Investment gains	(40,315)	-	-	-	(40,315)
	Building, property and equipment	(1,506,570)	(31,588)	-	-	(1,538,158)
		(1,546,885)	**(31,588)**	**-**	**-**	**(1,578,473)**
	Employee entitlements	84,553	24,369	-	-	108,922
	Losses carried forward	14,639,642	678,453	-	-	15,318,095
	Other	-	-	-	-	-
		14,724,195	**702,822**	**-**	**-**	**15,427,017**
	Attributable to:					
	Continuing operations	13,177,310	671,234	-	-	13,848,545
	Discontinued operations	-	-	-	-	-
	Total	13,177,310	671,234	-	-	13,848,545
	Tax effect at 28%	3,689,647	187,943	-	-	3,877,590

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

The deferred tax asset relating to tax losses carried forward has been recognised as the financial forecasts anticipate the Company re-entering the insurance market and returning to profits in future financial years (refer Note 23).

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2014 continued

NOTE 8. TAXATION CONTINUED

(d) Imputation Credit Account

	2014 Group $	2013 Group $	2014 Parent $	2013 Parent $
Opening Balance	5,606,060	5,647,006	5,606,060	5,647,006
Plus Credits				
Income Tax Paid	-	-	-	-
Resident Withholding Tax	1,980	40,147	1,980	40,147
Imputation Credits Received	33,056	-	33,056	-
	35,036	40,147	35,036	40,147
Less Debits				
Tax Refund	119,418	81,093	119,418	81,093
Imputation Credits Attached to Dividends Paid	-	-	-	-
	119,418	81,093	119,418	81,093
Closing Balance	**5,521,678**	**5,606,060**	**5,521,678**	**5,606,060**

NOTE 9. INCOME RELATING TO FINANCIAL INSTRUMENTS

	2014 Group $	2013 Group $	2014 Parent $	2013 Parent $
Held to Maturity				
Interest Received – NZ Government Stock	3,232	7,864	3,232	7,864
	3,232	7,864	3,232	7,864
Cash & Cash Equivalents				
Interest Received – Short-term Deposits at Bank	259,404	286,686	259,404	286,686
	262,636	**294,550**	**262,636**	**294,550**

NOTE 10. INVESTMENT PROPERTY

	2014 Group $	2013 Group $	2014 Parent $	2013 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)	3,700,000	3,850,000	3,700,000	3,850,000
Refurbishment	-	15,000	-	15,000
Increase/(Decrease) in value	430,000	(165,000)	430,000	(165,000)
Level 3 Fair Value	4,130,000	3,700,000	4,130,000	3,700,000
(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
	7,055,000	**6,625,000**	**7,055,000**	**6,625,000**

The investment property is revalued every year. The investment property was valued on 31 December 2014 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. During the year the fair value of the Investment property was transferred from Level 2 to Level 3.

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

		2014	2013
Contract Yield	Average	6.70%	8.87%
	Maximum	7.00%	9.50%
	Minimum	6.00%	8.50%
Market Yield	Average	8.75%	9.43%
	Maximum	9.25%	10.00%
	Minimum	8.25%	9.00%
Occupancy (rent)	Occupancy (net lettable area)	78.22%	98.41%
	Weighted average lease term	2.33	1.73

NOTE 11. PROPERTY, PLANT & EQUIPMENT AND INTANGIBLE ASSETS

	2014 Group $	2013 Group $	2014 Parent $	2013 Parent $
Property, Plant and Equipment				
(a) Office Furniture and Equipment – cost	584,194	562,114	584,194	562,114
Plus Additions	10,518	23,887	10,518	23,887
Less Disposals	(63,272)	(1,807)	(63,272)	(1,807)
Closing Value – cost	531,440	584,194	531,440	584,194
Office Furniture and Equipment – Accumulated Depreciation	(360,338)	(275,992)	(360,338)	(275,992)
Less Depreciation Charge	(64,828)	(85,220)	(64,828)	(85,220)
Less Disposals	58,423	874	58,423	874
Closing Accumulated Depreciation	(366,743)	(360,338)	(366,743)	(360,338)
Net Book Value	**164,697**	**223,856**	**164,697**	**223,856**

The Net Deficit after Taxation in the Statement of Financial Performance includes a $4,849 loss on disposal of fixed assets (2013: $499).

	2014 Group $	2013 Group $	2014 Parent $	2013 Parent $
Intangible Assets				
(b) Software – cost	426,182	418,731	426,182	418,731
Plus Additions	34,500	7,451	34,500	7,451
Less Disposals	-	-	-	-
Closing Value – cost	460,682	426,182	460,682	426,182
Software – Accumulated Amortisation	(360,741)	(308,486)	(360,741)	(308,486)
Less Amortisation Charge	(47,430)	(52,255)	(47,430)	(52,255)
Less Disposals	-	-	-	-
Closing Accumulated Amortisation	(408,171)	(360,741)	(408,171)	(360,741)
Net Book Value	**52,511**	**65,441**	**52,511**	**65,441**

NOTE 12. CONTINGENT LIABILITIES

There are no contingent liabilities.

NOTE 13. FINANCIAL INSTRUMENTS

(1) 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.

NOTE 13. FINANCIAL INSTRUMENTS CONTINUED

(1) Financial Assets and Liabilities continued

Carrying value of Financial Assets and Financial Liabilities

	2014 Group $	2013 Group $	2014 Parent $	2013 Parent $
Financial Asset: Held to Maturity				
NZ Government Stock	100,697	103,482	100,697	103,482
Total Held to Maturity	**100,697**	**103,482**	**100,697**	**103,482**
Financial Asset: Loans and Receivables				
Sundry Debtors	79,648	19,314	79,640	19,307
Premiums Receivable	-	-	-	-
Total Loans and Receivables	**79,648**	**19,314**	**79,640**	**19,307**
Financial Asset: Carried at Amortised Cost				
Bank & Cash Equivalents	4,224,278	8,345,202	4,173,716	8,294,624
Financial Liability: Amortised Cost				
Subordinated Debt	120,176	120,176	-	-
Accounts Payable	606,706	120,089	606,706	120,089
Reinsurance Received in Advance	326,264	730,114	326,264	730,114
Total Amortised Cost	**1,053,146**	**970,379**	**932,970**	**850,203**

(2) 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, interest bearing deposits and NZ Government stock. 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 investments.

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.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2014 continued

NOTE 13. FINANCIAL INSTRUMENTS CONTINUED

(2) 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 2014 (Group)							
Assets							
Cash at Bank	0% to 4.60%	4,117,254	-	-	-	107,024	4,224,278
Other Receivable	n/a	-	-	-	-	79,648	79,648
Reinsurance Recoveries	n/a	-	-	-	-	506,976,959	506,976,959
NZ Government Stock	6.00%	100,697	-	-	-	-	100,697
Total Financial Assets		**4,217,951**	**-**	**-**	**-**	**507,163,631**	**511,381,582**
Liabilities							
Sundry Creditors	n/a	-	-	-	-	606,706	606,706
Reinsurance Received in Advance	n/a	-	-	-	-	326,264	326,264
Outstanding Claims	n/a	-	-	-	-	508,569,900	508,569,900
Subordinated Debt	n/a	-	-	-	-	120,176	120,176
Total Financial Liabilities		**-**	**-**	**-**	**-**	**509,623,046**	**509,623,046**
As at 31 December 2013 (Group)							
Assets							
Cash at Bank	0% to 3.00%	8,333,673	-	-	-	11,529	8,345,202
Other Receivable	n/a	-	-	-	-	19,314	19,314
Reinsurance Recoveries	n/a	-	-	-	-	587,703,734	587,703,734
NZ Government Stock	6.00%	-	-	103,482	-	-	103,482
Total Financial Assets		**8,333,673**	**-**	**103,482**	**-**	**587,734,578**	**596,171,732**
Liabilities							
Sundry Creditors	n/a	-	-	-	-	120,089	120,089
Reinsurance Received in Advance	n/a	-	-	-	-	730,114	730,114
Outstanding Claims	n/a	-	-	-	-	590,244,400	590,244,400
Subordinated Debt	n/a	-	-	-	-	120,176	120,176
Total Financial Liabilities		**-**	**-**	**-**	**-**	**591,214,779**	**591,214,779**

NOTE 13. FINANCIAL INSTRUMENTS CONTINUED

(2) 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 2014 (Parent)							
Assets							
Cash at Bank	0% to 4.60%	4,117,254	-	-	-	56,462	4,173,716
Other Receivable	n/a	-	-	-	-	79,640	79,640
Reinsurance Recoveries	n/a	-	-	-	-	506,976,959	506,976,959
NZ Government Stock	6.00%	100,697	-	-	-	-	100,697
Total Financial Assets		**4,217,951**	**-**	**-**	**-**	**507,113,061**	**511,331,012**
Liabilities							
Sundry Creditors	n/a	-	-	-	-	606,706	606,706
Reinsurance Received in Advance	n/a	-	-	-	-	326,264	326,264
Outstanding Claims	n/a	-	-	-	-	508,569,900	508,569,900
Total Financial Liabilities		**-**	**-**	**-**	**-**	**509,502,870**	**509,502,870**
As at 31 December 2013 (Parent)							
Assets							
Cash at Bank	0% to 3.00%	8,268,493	-	-	-	26,131	8,294,624
Other Receivable	n/a	-	-	-	-	19,307	19,307
Reinsurance Recoveries	n/a	-	-	-	-	587,703,734	587,703,734
NZ Government Stock	6.00%	-	-	103,482	-	-	103,482
Total Financial Assets		**8,268,493**	**-**	**103,482**	**-**	**587,749,172**	**596,121,147**
Liabilities							
Sundry Creditors	n/a	-	-	-	-	120,089	120,089
Reinsurance Received in Advance	n/a	-	-	-	-	730,114	730,114
Outstanding Claims	n/a	-	-	-	-	590,244,400	590,244,400
Total Financial Liabilities		**-**	**-**	**-**	**-**	**591,094,603**	**591,094,603**

NOTE 13. FINANCIAL INSTRUMENTS CONTINUED

(2) Financial Risk – Structure and Management continued

(a) Market Risk continued

(ii) Carrying Amount and Fair Value

	2014 Group Carrying Amount $	2014 Group Fair Value $	2013 Group Carrying Amount $	2013 Group Fair Value $
Assets				
Cash at Bank	4,224,278	4,224,278	8,345,202	8,345,202
Other Receivable	79,648	79,648	19,314	19,314
Reinsurance Recoveries	506,976,959	506,976,959	587,703,734	587,703,734
NZ Government Stock	100,697	100,697	103,482	103,482
Total Financial Assets	**511,381,582**	**511,381,582**	**596,171,732**	**596,171,732**
Liabilities				
Sundry Creditors	606,706	606,706	120,089	120,089
Reinsurance Received in Advance	326,264	326,264	730,114	730,114
Outstanding Claims	508,569,900	508,569,900	590,244,400	590,244,400
Subordinated Debt	120,176	120,176	120,176	120,176
Total Financial Liabilities	**509,623,046**	**509,623,046**	**591,214,779**	**591,214,779**

	2014 Parent Carrying Amount $	2014 Parent Fair Value $	2013 Parent Carrying Amount $	2013 Parent Fair Value $
Assets				
Cash at Bank	4,173,716	4,173,716	8,294,624	8,294,624
Other Receivable	79,640	79,640	19,307	19,307
Reinsurance Recoveries	506,976,959	506,976,959	587,703,734	587,703,734
NZ Government Stock	100,697	100,697	103,482	103,482
Total Financial Assets	**511,331,012**	**511,331,012**	**596,121,147**	**596,121,147**
Liabilities				
Sundry Creditors	606,706	606,706	120,089	120,089
Reinsurance Received in Advance	326,264	326,264	730,114	730,114
Outstanding Claims	508,569,900	508,569,900	590,244,400	590,244,400
Total Financial Liabilities	**509,502,870**	**509,502,870**	**591,094,603**	**591,094,603**

NOTE 13. FINANCIAL INSTRUMENTS CONTINUED

(2) 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 2014					
Assets					
Cash at Bank	4,224,278	-	-	-	4,224,278
Other Receivable	79,648	-	-	-	79,648
Reinsurance Recoveries	50,697,696	456,279,263	-	-	506,976,959
NZ Government Stock	100,000	-	-	-	100,000
Total Financial Assets	**55,101,622**	**456,279,263**	**-**	**-**	**511,380,885**
Liabilities					
Sundry Creditors	606,706	-	-	-	606,706
Reinsurance Received in Advance	326,264	-	-	-	326,264
Outstanding Claims	52,290,637	456,279,263	-	-	508,569,900
Subordinated Debt	-	-	-	120,176	120,176
Total Financial Liabilities	**53,223,607**	**456,279,263**	**-**	**120,176**	**509,623,046**
Maturity Analysis (Group) As at 31 December 2013					
Assets					
Cash at Bank	8,345,203	-	-	-	8,345,203
Other Receivable	19,314	-	-	-	19,314
Reinsurance Recoveries	58,770,374	528,933,360	-	-	587,703,734
NZ Government Stock	-	-	100,000	-	100,000
Total Financial Assets	**67,134,891**	**528,933,360**	**100,000**	**-**	**596,168,251**
Liabilities					
Sundry Creditors	120,089	-	-	-	120,089
Reinsurance Received in Advance	730,114	-	-	-	730,114
Outstanding Claims	61,311,040	528,933,360	-	-	590,244,400
Subordinated Debt	-	-	-	120,176	120,176
Total Financial Liabilities	**62,161,243**	**528,933,360**	**-**	**120,176**	**591,214,779**

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2014 continued

NOTE 13. FINANCIAL INSTRUMENTS CONTINUED

(2) 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 2014					
Assets					
Cash at Bank	4,173,716	-	-	-	4,173,716
Other Receivable	79,640	-	-	-	79,640
Reinsurance Recoveries	50,697,696	456,279,263	-	-	506,976,959
NZ Government Stock	100,000	-	-	-	100,000
Total Financial Assets	**55,051,052**	**456,279,263**	**-**	**-**	**511,330,315**
Liabilities					
Sundry Creditors	606,706	-	-	-	606,706
Reinsurance Received in Advance	326,264	-	-	-	326,264
Outstanding Claims	52,290,637	456,279,263	-	-	508,569,900
Total Financial Liabilities	**53,223,607**	**456,279,263**	**-**	**-**	**509,502,870**
Maturity Analysis (Parent) As at 31 December 2013					
Assets					
Cash at Bank	8,294,625	-	-	-	8,294,625
Other Receivable	19,306	-	-	-	19,306
Reinsurance Recoveries	58,770,374	528,933,360	-	-	587,703,734
NZ Government Stock	-	-	100,000	-	100,000
Total Financial Assets	**67,084,305**	**528,933,360**	**100,000**	**-**	**596,117,665**
Liabilities					
Sundry Creditors	120,089	-	-	-	120,089
Reinsurance Received in Advance	730,114	-	-	-	730,114
Outstanding Claims	61,311,040	528,933,360	-	-	590,244,400
Total Financial Liabilities	**62,161,243**	**528,933,360**	**-**	**-**	**591,094,603**

(c) Credit Risk

All investments except for the $100,000 Government Stock holding are in cash at registered banks. The registered banks have a credit rating of “AA-”. All reinsurance is held with reinsurers with credit ratings no less than “A-” (AM Best scale).

NOTE 13. FINANCIAL INSTRUMENTS CONTINUED

(2) Financial Risk – Structure and Management continued

(c) Credit Risk continued

(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.

	2014 Group $	2013 Group $	2014 Parent $	2013 Parent $
Cash at Registered Banks	4,224,278	8,345,203	4,173,716	8,294,625
Other Receivable	79,648	19,314	79,640	19,306
Reinsurance Recoveries	506,976,959	587,703,734	506,976,959	587,703,734
NZ Government Stock	100,697	103,482	100,697	103,482
Total	**511,381,582**	**596,171,733**	**511,331,012**	**596,121,147**

(ii) Concentration of Credit Exposure

The major credit exposure greater than 10% of total assets is with the reinsurers. All reinsurers, except Local Authority Protection Programme ("LAPP"), have claims paying ratings greater than "A". LAPP is, because of its cash holdings, expected to be able to pay its liabilities to the Company and has robust reinsurance to cover its below ground related claims.

(3) Foreign Currency Risk

Foreign currency risk is the risk that the Company and Group will incur losses through exposure to foreign exchange movements. At balance date the Company and Group had no foreign currency exposure.

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

	2014 Group $	2013 Group $	2014 Parent $	2013 Parent $
Total Comprehensive Surplus/(Loss)	897,200	(620,122)	968,568	(613,522)
Add/(less) non cash items				
Depreciation	64,828	85,220	64,828	85,220
Amortisation	47,430	52,255	47,430	52,255
Movement in Insurance Provisions	(82,078,350)	(239,372,395)	(82,078,350)	(239,372,395)
Movement in Deferred Tax Liability	201,572	(187,943)	201,572	(187,943)
Effective interest rate adjustments	-	-	-	-
Net change in fair value of investment property	(430,000)	165,000	(430,000)	165,000
Share of Profit/(Loss) of Associate	101,349	6,590	-	-
Unrealised net change in value of investments	2,785	4,136	2,785	4,136
	(82,090,386)	(239,247,137)	(82,191,735)	(239,253,727)

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2014 continued

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

	2014 Group $	2013 Group $	2014 Parent $	2013 Parent $
Add/(less) movements in other working capital items				
Accounts Receivable	80,835,661	231,774,115	80,835,663	231,774,129
Accounts Payable	(3,840,677)	1,825,078	(3,840,675)	1,825,078
Reinsurance Received in Advance	-	-	-	-
Maturing Local Authority Stock	-	-	-	-
Tax Refund Due	117,438	40,945	117,438	40,945
Maturing Civic Bonds	-	-	-	-
	77,112,422	233,640,138	77,112,426	233,640,152
Add/(Less) Items Classified as investing activity	(60,150)	(49,500)	(30,150)	(49,500)
Add/(Less) Items Classified as financing activity	7	7	7	7
Net Cash Flow from Operating Activities	**(4,140,906)**	**(6,276,614)**	**(4,140,883)**	**(6,276,590)**

NOTE 15. OPERATING LEASE COMMITMENTS

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

	2014 Group $	2013 Group $	2014 Parent $	2013 Parent $
not later than one year	17,277	15,588	17,277	15,588
later than one year but not later than two years	16,176	15,588	16,176	15,588
later than two years but not later than five years	47,854	31,380	47,854	31,380
later than five years	-	-	-	-
	81,307	**62,556**	**81,307**	**62,556**

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

	2014 Group $	2013 Group $	2014 Parent $	2013 Parent $
not later than one year	666,470	814,415	666,470	814,415
later than one year but not later than two years	495,578	564,918	495,578	564,918
later than two years but not later than five years	494,795	780,287	494,795	780,287
later than five years	221,960	-	221,960	-
	1,878,803	**2,159,620**	**1,878,803**	**2,159,620**

NOTE 16. 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 17. RELATED PARTIES

During the reporting period the Company administered risk financing products provided to Local Authorities, some of which are shareholders of the Company (shareholders are listed at the back of the annual report).

The Company is the Fund Manager and, for the period 1 July 2008 to 30 June 2012, was an insurer for New Zealand Mutual Liability Riskpool ("Riskpool"). Local Government Mutual Funds Trustee Limited ("LGMFTL") has been appointed to act as the Trustee for Riskpool. The Company holds all of the shares in LGMFTL in trust on behalf of Riskpool's members. Following an increase in services, during the year the Company charged fund management fees to Riskpool of $889,066 (2013: $776,587). The balance outstanding at balance date for Riskpool was $nil (2013: $nil). The Company received insurance premiums of $nil (2013: $nil). Claims outstanding (Civic to Riskpool) at balance date is $494,541 (2013: $1,476,000).

The Company is the Administration Manager and was an insurer for New Zealand Local Authority Protection Programme Disaster Fund ("LAPP") for the year to 30 June 2011. Following a decrease in services relating to LAPP's court cases, both of which it won, during the year the Company charged administration fees to LAPP of $445,058 (2013: $529,060). The balance outstanding for administration fees at balance date for LAPP was $nil (2013: $nil). The Company received insurance premiums of $nil (2013: $nil) and paid reinsurance premiums of $nil (2013: $nil). Claims payments made to LAPP were $1,451,204 (2013: $8,098,366) and claims reinsurance recovered from LAPP were $1,171,963 (2013: $2,230,822). Claims outstanding due as at 31 December 2014 was $nil (2013: $nil). At 31 December 2014 there is a balance outstanding of $495,550 for catastrophe reinsurance allocated to LAPP that was received by the Company in December 2014.

The Company is the Administration and Investment Manager of the Local Government Superannuation Scheme and SuperEasy KiwiSaver Superannuation Scheme ("SuperEasy"). Local Government Superannuation Trustee Limited ("LGSTL") has been appointed to act as the Trustee for SuperEasy. Graeme R Mitchell is appointed to act as the independent Trustee for SuperEasy. The Company holds all of the shares in LGSTL. During the year the Company charged administration and investment management fees to SuperEasy of $1,074,957 (2013: $838,400). The balance outstanding at balance date is $212,800 (2013: $226,594) and is included in sundry debtors and prepayments. The audit fee incurred by the superannuation funds of $32,375 (2013: $31,150) is paid by the Company out of the management fee received.

The Company is the Administration Manager of Civic Property Pool ("CPP"). During the year the Company charged administration fees to CPP of $22,147 (2013: $11,233). The balance outstanding for administration fees at balance date for CPP was $nil (2013: $nil).

NZ Local Government Finance Corporation Limited has a subordinated debt owed to the Company of $298,750 (2013: $298,750).

Mr John Melville was appointed to the Board on 6 March 2013. Mr Melville was the senior Principal of the Actuarial firm Melville Jessup Weaver (MJW) working out of the Wellington office. At the time of Mr Melville's appointment he disclosed his interest in MJW and also advised that he had announced his retirement from MJW which was effective from 31 March 2013. Mr Melville has no continuing association with MJW. Actuarial work relating to the Company's affairs had been and still continues to be performed by Principals based in MJW's Auckland office.

The Company holds 25% of the shares of Local Government Online Limited (LGOL) and provided accounting services to LGOL. During the year the Company charged administration fees of $4,100 (2013: $8,187). The balance outstanding at balance date was $nil (2013: $nil). During the year LGOL returned shareholders' capital, ceased operations on 31 March 2014 and is in the process of being wound up.

NOTE 17. RELATED PARTIES CONTINUED

Key Management Personnel

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

	2014 Group $	2013 Group $	2014 Parent $	2013 Parent $
Compensation				
Short-term employee benefits	940,413	858,590	940,413	858,590
Post-employment benefits	-	-	-	-
Other long-term benefits	-	-	-	-
Termination benefits	-	-	-	-
	940,413	**858,590**	**940,413**	**858,590**

NOTE 18. ANALYSIS OF FINANCIAL ASSETS NOT IMPAIRED

		Not due	Past due	30 days	60 days	Total $
2014	Trade Debtors	78,701	-	-	939	79,640
	Premiums Receivable	-	-	-	-	-
	Reinsurance Recoveries	506,976,959	-	-	-	506,976,959
		507,055,660	**-**	**-**	**939**	**507,056,599**
2013	Trade Debtors	206,027	-	-	-	206,027
	Premiums Receivable	-	-	-	-	-
	Reinsurance Recoveries	587,703,734	-	-	-	587,703,734
		587,909,761	**-**	**-**	**-**	**587,909,761**

NOTE 19. STANDARDS APPROVED BUT NOT YET EFFECTIVE

Standards and Interpretations in issue not yet adopted

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

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

	Effective for annual reporting periods beginning on or after	Expected to be initially applied in the financial year ending
Revised NZ IFRS 9 'Financial Instruments'	1 January 2017	31 December 2017
Amendments to NZ IAS 32 Offsetting Financial Assets and Financial Liabilities	1 January 2015	31 December 2015

NOTE 20. 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 no new shares were issued.

	2014 Group $	2013 Group $	2014 Parent $	2013 Parent $
Retained Earnings				
Opening Balance	1,787,650	2,407,772	1,782,593	2,396,115
Net Surplus/(loss) After Taxation	897,200	(620,122)	968,568	(613,222)
Closing balance	**2,684,850**	**1,787,650**	**2,751,161**	**1,782,593**

NOTE 21. EQUITY RETAINED FOR FINANCIAL SOUNDNESS

All shareholder equity is retained to ensure the financial soundness of the Company and Group. The high level of liquidity in fixed interest ($4.2m) investments is retained for cash flow purposes and also to balance the funds allocated in the building investment. The Company & Group believes that a high liquidity ratio is necessary for attaining an A- (Excellent) claims paying ability rating from AM Best.

NOTE 22. COMPARISON WITH STATEMENT OF INTENT

The following is a comparison of the actual performance against the Statement of Intent for the year ended 31 December 2014.

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

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 23. GOING CONCERN

The magnitude of the Canterbury events has had a significant impact on the operational and financial results of the Company, with over 3,000 claims being submitted. As at 31 December 2014 the Outstanding Claims Liability in relation to Canterbury earthquake claims as determined by the Company's independent actuary was in excess of $508m (2013: $590m). The financial impact to the Company of the considerable gross claims costs has been significantly mitigated by its catastrophe reinsurance programme, which limits the net of reinsurance claims costs to $3.6m per event. At 31 December 2014 the Company had settled $8.6m (2013: $8.4m) of its exposure leaving the Company's net outstanding claims liability at $4.2m (2013: $5.0m). Of this amount $3.3m (2013: $2.9m) relates to its remaining exposure to the Canterbury earthquake claims. The financial statements have been prepared on a going concern basis, the validity of which depends, inter alia, on the limitation of the net liability to $4.2m.

As a consequence of the Canterbury earthquakes and some reinsurance issues, the Company's claims payable credit rating was reduced by AM Best in 2013 to "B+, negative watch" which remains as at 31 December 2014. The Company had been unable to obtain property reinsurance from 1 July 2011 and for this reason the Company ceased offering material damage cover for this year. For the year commencing 30 June 2012 the Company was able to secure reinsurance and was able to offer material damage cover however without an upgrade in the AM Best rating the cover offered was not taken up. The Reserve Bank of New Zealand has issued the Company a provisional licence under the Insurance (Prudential Supervision) Act 2010, and the Company is in the process of applying for a full licence. However presently it is a condition of the provisional licence that the Company does not write any new business.

During the year the Company was successful in the arbitration with one of its reinsurers. The second arbitration with another of its reinsurers relating to the limits of cover under the reinsurance programme was held in December 2014. The result is pending. This reinsurer has favourable credit ratings which endorses their ability to pay.

Based on external legal advice the Directors believe that the case against this reinsurer is sound and that the amount accounted for as receivable is legally and contractually payable. The Company expects to meet its liabilities. The Directors do acknowledge the inherent uncertainties associated with the outcome of any legal dispute and that there is uncertainty as to when the Company will resume its insurance business activities.

The Directors note that legal costs in 2014 of $1,713,720 (2013: $611,945) relate to the reinsurance recoveries and are regarded as one off costs.

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 the asset to be recovered as the Company expects to resume its insurance business activities. The amount of deferred tax assets considered realisable, however, could change.

NOTE 23. GOING CONCERN CONTINUED

The resolution of the reinsurance issues is necessary to enable the Company to restore a claims payable credit rating of "A-" or better, which is a pre-requisite for Local Authorities being able to resume placing their property damage insurance with the Company.

The financial statements do not include any adjustments that would result should the aforementioned not materialise. Adjustments may have to be made to reflect the situation that assets may need to be realised other than in the normal course of business and at amounts which could differ significantly from the amount at which they are currently recorded in the Statement of Financial Position. It is possible the Company may have to provide for further liabilities that might arise, and to reclassify non-current assets and liabilities as current assets and liabilities.

NOTE 24. SUBSEQUENT EVENTS

Share Offer

In 2012 the Company issued a share offer to shareholders and other non-shareholding local authorities in New Zealand to subscribe for shares in the Company. The share offer was extended and will close on 19 June 2015 unless the closing date is further extended.

Deloitte.

INDEPENDENT AUDITOR'S REPORT

To the readers of New Zealand Local Government Insurance Corporation Limited and Group's Financial Statements for the year ended 31 December 2014

The Auditor-General is the auditor of New Zealand Local Government Insurance Limited (the 'Company') and Group. The Auditor-General has appointed me, Dave Shadwell, using the staff and resources of Deloitte to carry out the audit of the financial statements of the Company and Group on her behalf.

We have audited the financial statements of the Company and Group on pages 7 to 41, that comprise the statement of financial position as at 31 December 2014, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date and the notes to the financial statements that include accounting policies and other explanatory information.

OPINION

FINANCIAL STATEMENTS

In our opinion the financial statements of the Company and Group on pages 7 to 41:

- comply with generally accepted accounting practice in New Zealand;
- comply with International Financial Reporting Standards; and
- give a true and fair view of the Company's:
  - financial position as at 31 December 2014; and
  - financial performance and cash flows for the year ended on that date.

VALIDITY OF THE GOING CONCERN BASIS ON WHICH THE FINANCIAL STATEMENTS HAVE BEEN PREPARED

Without modifying our opinion, we considered the adequacy of the disclosures made in note 23 on page 40 & 41 about the going concern assumption, which notes that:

- the Company is currently in arbitration with one of its reinsurers relating to the limits of cover under the reinsurance programme; and
- the validity of the going concern assumption on which the financial statements are prepared depends, inter alia, on the limitation of the Company's net outstanding claims liability to $4.2m.

Also as set out in note 23, there is uncertainty as to:

- when the Company will be able to resume its insurance business activities; and
- whether the Company will make sufficient profits to allow all of the deferred tax asset to be recovered.

We consider the disclosures to be adequate.

OTHER LEGAL REQUIREMENTS

In accordance with the Financial Reporting Act 1993 we report that, in our opinion, proper accounting records have been kept by the Company and Group as far as appears from an examination of those records.

Our audit was completed on 25 March 2015. This is the date at which our opinion is expressed.

The basis of our opinion is explained below. In addition, we outline the responsibilities of the Board of Directors and our responsibilities, and 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). Those standards require that we comply with ethical requirements and plan and carry out our audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

Material misstatements are differences or omissions of amounts and disclosures that, in our judgement, are likely to influence readers overall understanding of the financial statements. If we had found material misstatements that were not corrected, we would have referred to them in our opinion.

An audit involves carrying out procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgement, including our assessment of risks of material misstatement of the financial statements whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the preparation of the Company and Group's financial statements that give a true and fair view of the matters to which they relate. We consider internal control 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.

An audit also involves evaluating:

- the appropriateness of accounting policies used and whether they have been consistently applied;
- the reasonableness of the significant accounting estimates and judgements made by the Board of Directors;
- the adequacy of all disclosures in the financial statements; and
- the overall presentation of the financial statements.

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

In accordance with the Financial Reporting Act 1993, we report that we have obtained all the information and explanations we have required. We believe we have obtained sufficient and appropriate audit evidence to provide a basis for our audit opinion.

RESPONSIBILITIES OF THE BOARD OF DIRECTORS

The Board of Directors is responsible for preparing financial statements that:

- comply with generally accepted accounting practice in New Zealand; and
- give a true and fair view of the Company's financial position, financial performance and cash flows for the year ended on that date.

The Board of Directors is responsible for such internal control as it determines is necessary to enable the preparation of 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.

The Board of Directors' responsibilities arise from the Financial Reporting Act 1993.

RESPONSIBILITIES OF THE AUDITOR

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

INDEPENDENCE

When carrying out the audit, we followed the independence requirements of the Auditor-General, which incorporate the independence requirements of the External Reporting Board.

Other than the audit, and taxation compliance services, we have no relationship with or interests in the Company or any of its subsidiaries. These services have not impaired our independence as auditor of the Company or any of its subsidiaries.

Dave Shadwell
DELOITTE
ON BEHALF OF THE AUDITOR-GENERAL
WELLINGTON, NEW ZEALAND

MELVILLE JESSUP WEAVER
Towers Watson Alliance Partner

25 March 2015

Roger Gyles
General Manager – Finance
Civic Assurance
PO Box 5521
WELLINGTON 6145

Dear Roger

Formal Statements – Section 78 Report

Section 78 of the Insurance (Prudential Supervision) Act 2010 ("Act") requires that the Appointed Actuary make the following statements:

- This report has been completed by Craig Lough FNZSA, Appointed Actuary to Civic Assurance ('Civic').
- I have provided to Civic an Insurance Liability Valuation Report as at 31 December 2014 (dated 25 March 2015). In that report I provided determinations of the outstanding claims provisions and the premium liabilities for Civic. These have been used in Civic's financial accounts.

  I have also carried out an assessment of the Company's current and expected future solvency position determined under the Solvency Standard for Civic Assurance issued by the Reserve Bank of New Zealand in August 2013.
- There were no restrictions or limitations placed on my work or on my report.
- I have no relationship with Civic other than being its Appointed Actuary. I hold no interests in Civic.
- I obtained all of the information I required.
- In my opinion and from an actuarial perspective (and subject to the comments below):
  - the actuarial information included in the Civic financial statements as at 31 December 2014 was appropriately included in those financial statements, and
  - the actuarial information used in the preparation of the Civic financial statements as at 31 December 2014 was used appropriately.
- The solvency margin that applies to Civic under a condition imposed under section 21(2)(b) of the Insurance (Prudential Supervision) Act 2010 as at 31 December 2014 was the margin set out in their provisional licence issued by the Reserve Bank of New Zealand in August 2013. Civic do not currently maintain that solvency margin as at 31 December 2014.

Yours sincerely

Craig Lough FNZSA
Appointed Actuary

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Civic Assurance
PROTECTING COMMUNITY ASSETS

CIVIC ASSURANCE SHAREHOLDERS AS AT 31 DECEMBER 2014

SHAREHOLDER MEMBER	NO. OF SHARES	
CITY COUNCILS		
Auckland	2,195,042	19.9%
Christchurch	1,417,704	12.9%
Dunedin	470,966	4.3%
Hamilton	202,729	1.8%
Hutt	479,822	4.4%
Invercargill	407,927	3.7%
Napier	283,842	2.6%
Nelson	95,543	0.9%
Palmerston North	411,737	3.7%
Porirua	140,146	1.3%
Upper Hutt	51,209	0.5%
Wellington	526,821	4.8%
DISTRICT COUNCILS		
Ashburton	56,016	0.5%
Buller	27,698	0.3%
Carterton	23,642	0.2%
Central Hawke's Bay	28,580	0.3%
Central Otago	91,238	0.8%
Clutha	33,711	0.3%
Far North	35,440	0.3%
Gisborne	99,404	0.9%
Gore	44,589	0.4%
Grey	33,742	0.3%
Hastings	129,170	1.2%
Hauraki	63,434	0.6%
Horowhenua	110,689	1.0%
Hurunui	14,000	0.1%
Kaipara	13,629	0.1%
Kapiti Coast	15,060	0.1%
Kawerau	31,161	0.3%
Manawatu	203,964	1.8%
Marlborough	86,022	0.8%
Masterton	127,230	1.2%
Matamata-Piako	122,554	1.1%
New Plymouth	441,456	4.0%
Otorohanga	5,000	0.0%
Queenstown-Lakes	31,149	0.3%
Rangitikei	23,338	0.2%

SHAREHOLDER MEMBER	NO. OF SHARES	
DISTRICT COUNCILS (Cont'd)		
Rotorua	175,906	1.6%
Ruapehu	56,666	0.5%
Southland	13,715	0.1%
South Taranaki	135,496	1.2%
South Waikato	42,374	0.4%
South Wairarapa	53,930	0.5%
Stratford	65,608	0.6%
Tararua	99,972	0.9%
Tasman	65,584	0.6%
Taupo	83,971	0.8%
Tauranga	124,242	1.1%
Thames-Coromandel	7,120	0.1%
Timaru	230,118	2.1%
Waikato	41,070	0.4%
Waimakariri	88,172	0.8%
Waimate	30,458	0.3%
Waipa	149,082	1.4%
Wairoa	22,992	0.2%
Waitaki	120,000	1.1%
Waitomo	16,940	0.2%
Wanganui	289,660	2.6%
Western Bay of Plenty	28,142	0.3%
Westland	16,356	0.1%
Whakatane	38,788	0.4%
Whangarei	63,524	0.6%
REGIONAL COUNCILS		
Canterbury	152,696	1.4%
Waikato	22,000	0.2%
Horizons	2,000	0.0%
Taranaki	1,000	0.0%
Wellington	80,127	0.7%
OTHER		
TrustPower	137,251	1.2%
Total Shares	**11,030,364**	