Civic Assurance
PROTECTING COMMUNITY ASSETS

2010

50th ANNUAL REPORT

TESTED BY TIME AND DISASTER

TABLE OF CONTENTS

Directory

DIRECTORS

Bryan G Taylor JP (Chairman)
Darryl C Griffin
Michael C Hannan
Robert A Lineham
Tony J Marryatt
Basil J Morrison CNZM JP

EXECUTIVE OFFICERS

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

AUDITORS

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

BANKERS

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

LEGAL ADVISERS

Burrowes and Co.
Brandons

REGISTERED OFFICE

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

POSTAL ADDRESS

Civic Assurance, PO Box 5521, Wellington 6145

OTHER CONTACT DETAILS

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

Chairman's Report 2010

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

Early September 2010 marked the beginning of a series of earthquakes and aftershocks in the Canterbury region causing devastation and damage on a scale not previously seen in New Zealand. The sequence began at 4.35 am on 4 September 2010 with a relatively shallow earthquake, centred near the town of Darfield, about 40 km west of Christchurch City. It was at a depth of 10 km and resulted in extensive damage throughout the Canterbury region and as far away as Timaru.

Christchurch and the Canterbury region had not been considered New Zealand's most serious earthquake risk. It is believed to be 16,000 years since the Greendale Fault that ruptured on 4 September last moved. Because the earthquake occurred at an early hour on a Saturday morning, because of New Zealand's strong building codes and because of an element of good fortune, there were no deaths.

Damage from the Christchurch earthquake on 22 February 2011 will constitute the largest claim ever faced by the insurance industry in New Zealand. The claim to Civic/LAPP from Christchurch City Council for this earthquake, expected to exceed $450 million, is thought to be bigger than any single insurance claim ever paid by a New Zealand insurance company to any single policyholder.

Civic's loss for 2010 was $4,011,651 (2009: profit of $737,276) and no dividend was paid. To enable the Company to rebuild its capital dividends are not expected to be paid for the next three or four years. A strong capital base is essential for maintaining Civic's excellent claims paying ability rating from AM Best. This is considered important because it provides Civic's customers with a high level of confidence in Civic's ability to meet claims.

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

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

B G Taylor

Bryan Taylor | Chairman

Annual Report and Statement of Accounts

FOR THE YEAR ENDED 31 DECEMBER 2010

AM Best Rating 30 May 2011: A (Excellent), Negative Outlook

Your Directors and Chief Executive have pleasure in submitting the 50th Annual Report of the affairs of the Company for the year ended 31 December 2010, which is to be presented at the Annual General Meeting of Members in June 2011.

1. ASSURING AND ENDURING – 50 YEARS

Civic Assurance was formed under the Municipal Insurance Act 1960 and was originally called the Municipalities Cooperative Insurance Company Ltd. It began trading on 1 April 1961. Civic has therefore been operating for more than 50 years.

A book to celebrate and record Civic's first 50 years called *Assuring and Enduring* is being published in October 2011.

2. OPERATIONS 2010

Christchurch Earthquakes

The magnitude 7.1 Darfield earthquake on 4 September 2010 resulted in extensive damage throughout the Canterbury region. This earthquake by a substantial margin caused more property damage than any previous event in New Zealand's history. It was therefore somewhat surprising that less than six months later, another Canterbury earthquake should cause even more damage. Sadly, this earthquake on 22 February 2011 resulted in the loss of 181 lives.

The cost to Civic of the 4 September earthquake after allowing for reinsurance recoveries was $3.6 million. The cost to LAPP and Civic combined of both earthquakes before reinsurance recoveries is expected to exceed $600 million.

Insurance Business

A very heavy year for claims (having had an unusually light year for claims in 2009) was the reason for the first loss Civic has had in its 50 years of operation. Civic's net loss ratio for 2010 (net claims divided by net premium earned) was 305% compared to 35% in 2009.

The main reason for such a high loss ratio was the claims from the 4 September earthquake, but property claims in 2010 apart from this were still high. The second reason was the requirement to increase reserves by $2.5 million for Civic's reinsurance of Riskpool, a facility provided to Riskpool by Civic since 1 July 2007.

Also contributing to Civic's very high loss ratio was that average premium rates for local government insurance in 2010 were unusually low, being well below the previous lows achieved in 2001.

The percentage of councils insured with Civic at 31 December 2010 was 59% (2009: 48%).

From 1 July 2010, Civic has been managing property claims in house, which we believe provides councils with a more personalised and comprehensive service.

Investment Revenue

The official cash rate during 2010 was between 2.5% and 3.0%. The rate of 2.5% is an historic low. Low interest rates mean lower investment income for Civic.

Civic Assurance House, now valued at $7,825,000, is 99.4% tenanted. It is a nine-storey building near the government centre. The increase of $50,000 in the valuation was after spending $144,208 on refurbishment. In accordance with financial reporting standards, this has been recorded through the comprehensive income account.

Gross rents received for Civic Assurance House increased from $814,644 to $871,229. Operating costs reduced from $331,287 to $315,511.

Administration and Accounting Services

Civic provides administration and accounting services to LAPP, Riskpool, SuperEasy, SuperEasy KiwiSaver, and various local government entities including SOLGM and LGOL. Fees generated from these activities in 2010 were $1.25 million. Profits to Civic after allowing for the expenses it incurs in doing this work are modest, but the fees collected make an important contribution to Civic's overheads.

Civic Roadside Recovery

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

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

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

Sponsorship

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

The 2011 Civic Assurance United States Manager Exchange was awarded to David Ward of Horowhenua District Council.

3. FINANCIAL STRENGTH

High claims in 2010 reduced Civic's capital base from $19.5 million to $15.5 million. The 22 February 2011 earthquake has further reduced Civic's capital base as at 31 March 2011 to an unaudited $13.3 million. Following the 22 February 2011 earthquake, Civic's claims paying ability rating from AM Best of A (Excellent) with stable outlook was put on negative watch.

Civic has therefore put in place arrangements to raise an additional $2.5 million of capital in the form of subordinated debt, which it expects to repay from profits within the next three years. Civic's rating from AM Best will be reviewed when Civic has put in place its reinsurance arrangements for the year beginning 1 July.

Beginning March 2012, Civic's financial strength (along with that of other New Zealand's insurers) will be monitored by RBNZ (the Reserve Bank of New Zealand) using the solvency standard made under Section 55 of the Insurance (Prudential Supervision) Act 2010.

4. BUSINESS OUTLOOK

It was reported in the 2009 Annual Report that aggressive competitor pricing, some would suggest predatory pricing, meant the percentage of councils who insured their property with Civic fell from 84% to 48%. That percentage at 31 December 2010 had improved to 59%, but disappointingly did not include any of Civic's three largest shareholders.

To retain business, Civic has provided very low prices. Even though Civic is able to operate on significantly lower overheads than the rest of the insurance industry, these prices were not sufficient to cover unusually high claims. Others in the insurance sector have also experienced losses in 2010, which have continued into 2011 because of the 22 February 2011 Christchurch earthquake.

Insurance premiums across the board will now rise significantly. This should mean that Civic as it renews polices in 2011 can begin to operate again with premiums that properly reflect Civic's exposure whilst maintaining its competitiveness.

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

5. ASSOCIATED ENTITIES

Local Government Superannuation Trustee Limited

The trustee for the two superannuation schemes administered by Civic (SuperEasy KiwiSaver and SuperEasy) is Local Government Superannuation Trustee Limited (LGST), a 100% subsidiary of Civic. To ensure independence of 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).

A third superannuation scheme administered by Civic, Superplan, was absorbed into SuperEasy at the end of 2010. Superplan had been operating since April 1991.

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.

From 29 April 2011, it has been a requirement of the SuperEasy KiwiSaver trust deed that with minor exceptions, new members must work within the local government sector or be an immediate family member of such a person. Having SuperEasy KiwiSaver exclusive to local government provides local government with an additional recruitment tool.

Superannuation funds under management are $94 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, 88% have appointed Civic (62 out of 70 councils).

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

LAPP Disaster Fund

The LAPP disaster fund is a charitable trust that was set up by LGNZ and Civic in 1993. LAPP's membership numbers 58.

LAPP was designed to cover back-to-back major disasters and this is what happened of course with the two large Christchurch earthquakes. It is expected that LAPP's contribution to the repair and replacement of Canterbury's reticulation and flood protection assets following these earthquakes will be of the order of $180 million.

Claims from these two earthquakes exhausted LAPP's reinsurance programme for reticulation and flood protection assets and will use up all the money, approximately $40 million as at 1 July 2010, in LAPP's disaster fund. One consequence of this is that LAPP will no longer be able to offer 'above-ground' covers from 1 July 2011.

There is no better way that LAPP could have proved its worth than by what it will be able to contribute to the Canterbury rebuild. The architects of LAPP are to be congratulated. With overwhelming support from its members at a member meeting held on 17 May 2011, the process of rebuilding the LAPP Disaster Fund begins on 1 July 2011.

Other claims made to LAPP for events occurring in 2010 were for damage to the freshwater pipes running from Lyttelton to Diamond Harbour in Christchurch following the tsunami generated by the 27 February 2010 Chile earthquake and for flood damage affecting Bay of Plenty Regional Council, Horizons Regional Council, Tararua District Council and Tasman District Council.

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.

The trustee of Riskpool is Local Government Mutual Funds Trustee Limited, a 100% subsidiary of Civic. Directors of Local Government Mutual Funds Trustee Limited are appointed by Civic. Civic is also one of Riskpool's reinsurers and the Fund Manager for Riskpool.

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

Local Government Online (LGOL)

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

LGOL amongst other services provides a twice-weekly eZine newsletter and a local government jobs board. LGOL promotes a number of products to local government including Tenderlink and ReadyNet. During 2010, LGOL set up and ran the local government elections information website.

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

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

Finance Company

LGFC (Local Government Finance Corporation) commenced in 1999 and in the following five years raised funds for 20 different councils by issuing Civic Bonds. The last of these Bonds matured in February 2010.

For the last two and a half years, Civic has actively lobbied for a 'Local Government Bond Bank' to replace LGFC. It is expected that such a vehicle will be introduced before the end of 2011.

6. PROFIT/LOSS, CAPITAL AND DIVIDENDS

The loss for the year after taxation was $4.01 million (2009: a profit of $0.74 million). Consolidated shareholders' funds at 31 December 2010 were $15.48 million (2009: $19.49 million).

As a consequence of this loss, the Company did not pay a dividend in 2010. Net asset value per share as at 31 December 2010 was $2.42 (2009: $3.05). Although the fall in net asset value and no dividend is disappointing, the insurance rates for members over the last two years have been the cheapest for many years and probably the cheapest they will be for many years to come.

7. DIRECTORS

Board

The Company's constitution requires at least two directors to be appointed from outside the local authority sector. As at 31 December 2010 there were four: M.C. Hannan, R.A. Lineham, B.J. Morrison and B.G. Taylor.

Section 159 of the Companies Act 1993

There are no notices required under section 159 of the Companies Act 1993 except for Directors' remuneration. For the year ended 31 December 2010, Directors' remuneration was:

	$
Darryl Griffin	15,750
Mike Hannan	15,750
Bob Lineham	15,750
Tony Marryatt	15,750
Basil Morrison	8,580
Kinsley Sampson	7,170
Bryan Taylor	31,200
	109,950

Interests Register

Directors' interests are tabled at the beginning of each Board meeting. Directorship disclosures as at 31 December 2010 were:

D Griffin	Local Government Superannuation Trustee Ltd
M Hannan	Wesfarmers Broking (NZ) Ltd, AUT Enterprises Ltd and Crombie Lockwood (NZ) Ltd
R Lineham	Christchurch City Networks Ltd and New Zealand Local Government Finance Corporation Ltd
T Marryatt	CCC Two Ltd, Tuam Ltd and AJM Holdings Ltd
B Morrison	Local Government Superannuation Trustee Ltd, Landcorp Farming Ltd, Landcorp Pastoral Ltd, Waiuta Farms Ltd and Basil J Morrison & Associates Ltd
B Taylor	Local Government Mutual Funds Trustee Ltd

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 and deliberate and reckless acts or omissions by the Directors.

Director attendances at Board meetings held during the 2010 year were:

Darryl Griffin	7 / 8
Mike Hannan	8 / 8
Bob Lineham	7 / 8
Tony Marryatt	8 / 8
Basil Morrison	3 / 4
Kinsley Sampson	4 / 4
Bryan Taylor	8 / 8

8. 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
100,000 - 110,000	2
160,000 - 170,000	1
180,000 - 190,000	1
310,000 - 320,000	1

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

9. AUDITORS AND AUDIT COMMITTEE

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

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

10. STAFF

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

Bryan Taylor
Chairman

Tim Sole
Chief Executive

May 2011

Statement of Comprehensive Income

FOR THE YEAR ENDED 31 DECEMBER 2010

	Notes	2010 Group $	2009 Group $	2010 Parent $	2009 Parent $
REVENUE					
Income Attributable to Insurance Business					
Premium Earned		9,752,068	9,154,971	9,752,068	9,154,971
Reinsurance Paid		(6,676,807)	(5,141,606)	(6,676,807)	(5,141,606)
Net Claims	3	(9,372,108)	(1,405,421)	(9,372,108)	(1,405,421)
Underwriting (Deficit) / Surplus		(6,296,847)	2,607,944	(6,296,847)	2,607,944
Commissions & Claims Management Expenses		(100,000)	(431,428)	(100,000)	(431,428)
		(6,396,847)	2,176,516	(6,396,847)	2,176,516
Administration Fees		1,247,710	941,205	1,247,710	941,205
Income from Investments	9	839,440	842,809	806,940	725,626
Property Income		871,229	814,644	871,229	814,644
Net Operating Revenue		(3,438,468)	4,775,174	(3,470,968)	4,657,991
EXPENDITURE					
Audit Fee					
Statutory Audit		64,530	72,200	64,530	72,200
Other Fees Paid to Auditors re Taxation Advisory		32,429	55,600	32,429	55,600
Claims Paying Ability Rating		22,036	21,817	22,036	21,817
Consultants		122,902	110,008	122,902	110,008
Depreciation	11	31,571	28,731	31,571	28,731
Amortisation	11	35,971	6,369	35,971	6,369
Interest Expense		32,500	116,706	-	-
Directors' Remuneration		109,950	105,000	109,950	105,000
Insurance Council of New Zealand		12,500	12,500	12,500	12,500
Legal Fees		56,089	17,191	56,089	16,759
Property Operating Expenses		315,511	331,287	315,511	331,287
Other Expenses		997,870	810,595	993,165	797,298
Employee Remuneration		1,275,398	1,176,701	1,275,398	1,176,701
Total Expenditure		3,109,257	2,864,705	3,072,052	2,734,270
Net (Deficit) / Surplus Before Share of Profit from Associate, Revaluation of Investment Property and Taxation		(6,547,725)	1,910,469	(6,543,020)	1,923,721
Subvention Payment		(1,411)	(3,975)	(1,411)	(3,975)
Revaluation of Investment Property	10	(94,208)	(629,823)	(94,208)	(629,823)
Share of Profit of Associate		3,145	(9,368)	-	-
Net (Deficit) / Surplus Before Taxation		(6,640,199)	1,267,303	(6,638,639)	1,289,923
Less Taxation (Credit) / Expense	8	(2,628,548)	530,027	(2,627,137)	534,002
TOTAL COMPREHENSIVE (LOSS) / INCOME	14	(4,011,651)	737,276	(4,011,502)	755,921

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 2010

	Notes	2010 Group $	2009 Group $	2010 Parent $	2009 Parent $
SHAREHOLDERS' EQUITY					
Issued and Paid-Up Ordinary Shares					
6,390,790 Ordinary Shares fully paid up	20	6,390,790	6,390,790	6,390,790	6,390,790
Retained Earnings	20	9,082,887	13,094,538	9,125,041	13,136,543
TOTAL EQUITY		**15,473,677**	**19,485,328**	**15,515,831**	**19,527,333**
Represented By:					
CURRENT ASSETS					
Bank & Cash Equivalents		7,992,117	10,591,393	7,946,835	10,542,705
Sundry Debtors and Prepayments		2,194,691	1,183,365	2,189,305	1,179,390
Premiums Receivable		686,473	563,233	686,473	563,233
Reinsurance Recoveries	6	80,461,914	2,594,470	80,461,914	2,594,470
Income Tax Receivable	8	180,040	(85,893)	180,040	(85,893)
Managed Funds	13	5,012,461	4,560,600	5,012,461	4,560,600
Local Authority Stock	13	-	1,000,000	-	-
Total Current Assets		96,527,696	20,407,168	96,477,028	19,354,505
NON CURRENT ASSETS					
NZ Government Stock	13	107,369	106,510	107,369	106,510
Shares in Local Government Online		57,354	54,209	30,000	30,000
Property, Plant and Equipment	11	125,944	88,984	125,944	88,984
Intangible Assets (Software)	11	199,376	30,529	199,376	30,529
Deferred Tax Asset	8	1,596,876	-	1,596,876	-
Investment Property	10	7,825,000	7,775,000	7,825,000	7,775,000
Total Non Current Assets		9,911,919	8,055,232	9,884,565	8,031,023
TOTAL ASSETS		**106,439,615**	**28,462,400**	**106,361,593**	**27,385,528**

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 2010

	Notes	2010 Group $	2009 Group $	2010 Parent $	2009 Parent $
CURRENT LIABILITIES					
Sundry Creditors & Accrued Charges		915,109	998,359	915,109	997,299
Accrued Holiday Pay		56,776	69,167	56,776	69,167
Civic Bonds Issued	13	-	997,641	-	-
Subordinated Debt	16	120,176	120,176	-	-
		1,092,061	2,185,343	971,885	1,066,466
Insurance Provisions					
Unearned Premium Reserve	7	1,593,651	1,823,480	1,593,651	1,823,480
Outstanding Claims Liability	3	88,280,226	3,905,000	88,280,226	3,905,000
Total Insurance Provisions		89,873,877	5,728,480	89,873,877	5,728,480
Total Current Liabilities		90,965,938	7,913,823	90,845,762	6,794,946
NON CURRENT LIABILITIES					
Deferred Tax Liability	8	-	1,063,249	-	1,063,249
Total Non Current Liabilities		-	1,063,249	-	1,063,249
TOTAL LIABILITIES		**90,965,938**	**8,977,072**	**90,845,762**	**7,858,195**
EXCESS OF ASSETS OVER LIABILITIES		**15,473,677**	**19,485,328**	**15,515,831**	**19,527,333**

For and on behalf of the Directors

Director Bryan Taylor B G Taylor 1 April 2011

Director Bob Lineham 1 April 2011

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 2010

	2010 Group $	2009 Group $	2010 Parent $	2009 Parent $
OPENING EQUITY	19,485,328	19,233,752	19,527,333	19,257,112
Total Comprehensive (Loss) / Income	(4,011,651)	737,276	(4,011,502)	755,921
Total Recognised Revenue and Expenses	(4,011,651)	737,276	(4,011,502)	755,921
Dividend Payment	-	(485,700)	-	(485,700)
CLOSING EQUITY	**15,473,677**	**19,485,328**	**15,515,831**	**19,527,333**

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 2010

	Notes	2010 Group $	2009 Group $	2010 Parent $	2009 Parent $
CASH FLOWS FROM OPERATING ACTIVITIES					
Cash was provided from:					
Premiums Received		9,110,213	8,909,637	9,110,213	8,909,637
Rent Received		864,665	799,888	864,665	799,888
Administration Fees Received		1,245,583	936,800	1,245,583	936,800
Interest Received		386,720	580,027	354,220	463,607
Maturing Local Authority Stock		1,000,000	6,547,000	-	-
		12,607,181	17,773,352	11,574,681	11,109,932
Cash was applied to:					
Net Claims Expenses		2,898,618	2,475,626	2,898,618	2,475,626
Taxation Paid		298,921	231,439	298,921	231,439
Interest Expense		32,500	116,420	-	-
Payments to Reinsurers and Suppliers		10,558,904	8,722,056	10,555,498	8,708,460
Maturing Civic Bonds		1,000,000	6,547,000	-	-
		14,788,943	18,092,541	13,753,037	11,415,525
Net Cash Flow from Operating Activities	14	(2,181,762)	(319,189)	(2,178,356)	(305,593)
CASH FLOWS FROM INVESTING ACTIVITIES					
Cash was provided from:					
Sale of Fixed Assets		43	375	43	375
		43	375	43	375
Cash was applied to:					
Purchase of Fixed Assets		417,557	139,219	417,557	139,219
		417,557	139,219	417,557	139,219
Net Cash Flow from Investing Activities		(417,514)	(138,844)	(417,514)	(138,844)
CASH FLOWS FROM FINANCING ACTIVITIES					
Cash was provided from:					
Receipt of Loan Payments		-	-	-	-
		-	-	-	-
Cash was applied to:					
Payment of Subvention Payment		-	-	-	4,013
Payment of Dividend		-	485,700	-	485,700
		-	485,700	-	489,713
Net Cash Flow from Financing Activities		-	(485,700)	-	(489,713)
Net (Decrease)/Increase in Cash Held		(2,599,276)	(943,733)	(2,595,870)	(934,150)
Opening Cash Balance as at 1 January		10,591,393	11,535,126	10,542,705	11,476,855
Closing Cash Balance as at 31 December		**7,992,117**	**10,591,393**	**7,946,835**	**10,542,705**
Being: Bank & Cash Equivalents		**7,992,117**	**10,591,393**	**7,946,835**	**10,542,705**

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 2010

NOTE 1. REPORTING ENTITY

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

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

Statement of Compliance

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

NOTE 2. STATEMENT OF ACCOUNTING POLICIES

General Accounting Policies

The financial statements have been prepared in accordance with generally accepted accounting practices.
The measurement and reporting of profits on an historical cost basis have been followed by the Company and Group, except for specific policies as described below.

The reporting currency is New Zealand dollars.

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

Critical Judgements and Estimates in Applying the Accounting Policies

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

The Directors believe that, as at the date of these Financial Statements, there are no significant sources of estimation uncertainty that have not been disclosed in these notes. 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), including recovery of reinsurance receivables 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 purchase method. The results of any subsidiaries acquired or disposed of during the year are consolidated from the effective dates of acquisition or until the effective dates of disposal. All inter-company transactions, balances and unrealised profits are eliminated on consolidation.

(b) Significant Accounting Policies Related to General Insurance Contracts

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

(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 impact profit and loss in the year in which the estimates are changed.

(f) Reinsurance and Other Recoveries

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

(g) Liability Adequacy Test

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

(h) Assets which back Insurance Liabilities

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

(i) Investment Property

The investment property, which is valued annually, has been valued at fair value based on a valuation performed by registered public valuer, TelferYoung (Wgtn) Ltd as at 31 December 2010.

Notes to the Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2010 continued

NOTE 2. STATEMENT OF ACCOUNTING POLICIES CONTINUED

(j) Property, Plant & Equipment and Software Intangible

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

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

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

(k) Financial Instruments

(i) Classification and Measurement

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

Held To Maturity Investments

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

Loans and Receivables

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

Bank and Cash Equivalents

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

Designated at Fair Value Through Profit or Loss

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

Financial Liabilities

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

(ii) Offsetting Financial Instruments

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

(iii) Asset Quality

Impairment of Financial Assets

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

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

(iv) Fair value of financial instruments

Fair value measurements recognised in the Statement of Financial Position

Financial instruments are categorised into 3 levels:

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

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

(v) Derivatives

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

(l) Taxation

Current Tax

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

Deferred Tax

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

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

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the Statement of Comprehensive Income. The Company has applied the deferred tax amendments under NZIAS12 in the period under review as permitted under paragraph 98 of the standard.

(m) Goods and Services Tax (GST)

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

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

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

Notes to the Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2010 continued

NOTE 2. STATEMENT OF ACCOUNTING POLICIES CONTINUED

(n) Cash Flow Statement

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

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

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

(o) Employee Benefits

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

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

(p) Investment in Subsidiaries

The Company has six wholly owned subsidiaries which are all incorporated in New Zealand. Five of these, Local Government Superannuation Trustee Ltd, SuperEasy Ltd, Local Government Finance Corporation Ltd and Civic Assurance Ltd with balance dates of 31 December and Local Government Mutual Funds Trustee Ltd with its balance date of 30 June did not have any significant assets, liabilities, revenue or expenses at 31 December 2010. NZ Local Government Finance Corporation Ltd (LGFC) commenced business on the 29 November 1999 and had total assets of $50,668 (2009: $1,052,663) at balance date. The five companies have been recognised in the parent at cost less impairment and consolidated in the group accounts. The operating companies are subject to ongoing review of their operations to ensure they are meeting their agreed strategic objectives.

(q) Investment in Associate Company

The share of the income of the associate company, Local Government Online Ltd, 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 accounts for the investment at cost less impairment.

(r) Basis of Measuring Income and Expenses

Income and expenses are accounted for on an accruals basis.

(s) Changes in Accounting Policies

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

NOTE 3. CLAIMS

(a) Claims

	2010 Group $	2009 Group $	2010 Parent $	2009 Parent $
Claims incurred and Provision for Outstanding Claims				
Total claims incurred during the year	(91,856,086)	(5,930,209)	(91,856,086)	(5,930,209)
Less: Reinsurance recoveries receivable on claims incurred during the year	82,483,978	4,524,788	82,483,978	4,524,788
Net Claims	**(9,372,108)**	**(1,405,421)**	**(9,372,108)**	**(1,405,421)**

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

	2010 Group $	2009 Group $	2010 Parent $	2009 Parent $
Outstanding Claims liability at the beginning of the financial year	3,905,000	7,545,000	3,905,000	7,545,000
Claims Expense in the current year	91,856,086	5,930,209	91,856,086	5,930,209
Claims Paid	(7,480,860)	(9,570,209)	(7,480,860)	(9,570,209)
Outstanding Claims liability at the end of the financial year	**88,280,226**	**3,905,000**	**88,280,226**	**3,905,000**

(c) Central Estimate and Risk Margin

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

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

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

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

Notes to the Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2010 continued

NOTE 3. CLAIMS CONTINUED

In calculating the estimated cost of unpaid claims a variety of estimating techniques are used generally based on statistical analysis of historical experience, which assumes that the development pattern of the current claims will be consistent with past experience. Allowance is made however for changes or uncertainties which may create distortions in the underlying statistics which might cause the cost of unsettled claims to increase or reduce when compared with the cost of previously settled claims.

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

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

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

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

As at 31 December 2010 the central estimate of the outstanding claims liability was evaluated by Craig Lough and Janet Lockett (Fellows of the NZ Society of Actuaries) of Melville Jessup Weaver. The actuaries are satisfied to the nature and accuracy of data in the outstanding claims liability.

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

(d) Actuarial Methodology and Assumptions

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

(1) Future incurred claim settlement patterns

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

Overall, the average estimated weighted term to settlement is about 6.8 months (2009: 5.3 months).

(2) Inflation and discount rates

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

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

(3) Reinsurance

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

(4) Risk margin

The overall risk margin for both outstanding claims and liability adequacy testing have been determined using stochastic techniques and have been determined allowing for diversification between groups of business and having regard to the inherent variation observed in claims development in each group of business. The undiversified risk margins for each group of business are applied to the net central estimates and the results aggregated, allowing for diversification, in order to arrive at an overall net provision that is intended to provide a probability of sufficiency of 85%. For the Canterbury earthquake net outstanding claim liabilities, it is known that the net retention (after catastrophe reinsurance) has already been paid. Consequently the net risk margin is zero. The impact of the catastrophe reinsurance treaty means that the net of reinsurance incurred claims costs are known with certainty. Uncertainty will arise however in the development of the gross of reinsurance incurred claims costs. A risk margin of $477,000 (2009: $318,000) has been included in the Outstanding Claims Liability as at balance date as required in terms of NZ IFRS 4 clause 17.2.

NOTE 4. INSURANCE CONTRACT RISK MANAGEMENT

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

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

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

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

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

- Acceptance of risk – The Company is primarily an insurer only of risks owned or managed by local authorities. Records of results and trends exclusively in this market sector that have been built up over a number of years are available as tools for the Company’s two underwriters both of whom each have over 35 years experience in the industry and over ten years experience in underwriting local government risks. The portfolio is essentially property risks. A “ring fenced” maximum liability layer of liability risk has been written to support the local government liability pool, Riskpool.
- Pricing – Many years of underwriting results for a tight homogenous group of risks enables the Company’s underwriters to calculate acceptable pricing and acceptable terms and conditions of cover.
- Reinsurance – Through reinsurance the Company has been able to cap its maximum liability in the event of a catastrophe to $3.6 million. This amount is well within the Company’s reserves.
- Claims management – Claims are handled inhouse by experienced claims handling staff. Staff are allocated settling limits and authorities commensurate with their levels of experience. 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 General Manager Insurance who has over ten years experience as a commercial claims manager in New Zealand.
- Investment management – All premium income is held in NZ Registered Bank accounts and short term deposits. The investments are regularly reviewed by the Board and is set with a low exposure to shares (less than 5%).
- Risk reduction – The Company’s underwriter and its General Manager regularly analyse and review claims data with a view to educating and training insureds in recognition and prevention of manageable risks.

Notes to the Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2010 continued

NOTE 4. INSURANCE CONTRACT RISK MANAGEMENT CONTINUED

(b) Terms and Conditions of Insurance Contracts

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

(c) Concentration of Insurance Risk

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

(d) Credit Risk

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

The credit risk relating to insurance contracts relates primarily to:

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

(e) Interest Rate Risk

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

(f) Reinsurance Risk

Refer to note 6.

(g) Operational Risk

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

(h) Liquidity Risk

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

(i) Sensitivity Analysis

Sensitivity of risks relates primarily to the risk margin assessments which are set out above in Note 3. These are reviewed annually and change in accordance with current best estimates using advice of an actuary.

NOTE 5. INSURANCE PROVISIONS

The Company had a claims payable credit rating of "A (Excellent)" issued by A M Best at 31 December 2010. The Company's reinsurance programme is structured to adequately protect the company's solvency and capital position. It covers per risk and event losses in New Zealand. Counterparty reinsurers with credit ratings no less than "A-" (A M Best scale) participate in the reinsurance catastrophe programme.

NOTE 6. REINSURANCE RECEIVABLE ON OUTSTANDING CLAIMS

(a) Reconciliation of Movements for the Financial Year

	2010 Group $	2009 Group $	2010 Parent $	2009 Parent $
Reinsurance recoveries receivable on outstanding claims at the beginning of the year	2,594,470	5,185,464	2,594,470	5,185,464
Reinsurance recoveries received	(4,616,534)	(7,115,782)	(4,616,534)	(7,115,782)
Reinsurance recoveries receivable on claims incurred during the year	82,483,978	4,524,788	82,483,978	4,524,788
Reinsurance recoveries receivable on outstanding claims at the end of the year	**80,461,914**	**2,594,470**	**80,461,914**	**2,594,470**

(b) Actuarial Assumptions

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

(c) The Effect Of Changes In Assumption

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

(d) Risk Management

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

(e) Reinsurance Programme

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

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

Notes to the Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2010 continued

NOTE 7. UNEARNED PREMIUM LIABILITY

(a) Reconciliation of Movements for the Financial Year

	2010 Group $	2009 Group $	2010 Parent $	2009 Parent $
Unearned net premium liability at the beginning of the financial year	1,823,480	2,906,819	1,823,480	2,906,819
Deferral of gross premiums on contracts written in the year	4,099,951	3,480,134	4,099,951	3,480,134
Deferral of reinsurance expense payable on contracts written in the year	(2,506,300)	(1,656,654)	(2,506,300)	(1,656,654)
Earning of premiums written in previous years	(3,480,134)	(6,401,631)	(3,480,134)	(6,401,631)
Payment of reinsurance expense payable written in previous years	1,656,654	3,494,812	1,656,654	3,494,812
Unearned net premium liability at the end of the financial year	**1,593,651**	**1,823,480**	**1,593,651**	**1,823,480**

(b) Liability Adequacy Test

The conduct of the liability adequacy test as at 31 December 2010 identified a surplus (2009: surplus).

The test is based on prospective information and so is dependent on assumptions and judgements. It does not appear that any reasonably possible changes in the key assumptions on which the calculations are based would result in a deficiency being recognised at 31 December 2010 at the level of 75% probability of sufficiency.

NOTE 8. TAXATION

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

	2010 Group $	2009 Group $	2010 Parent $	2009 Parent $
Tax expense / (income) comprises:				
Current tax expense	(1,973,665)	454,232	(1,972,254)	458,207
Adjustments recognised in the current year in relation to the current tax of prior years	6,228	75,795	6,228	75,795
Deferred tax (income) relating to the origination and reversal of temporary differences	-	-	-	-
Deferred tax expense/(income) relating to changes in tax rates or imposition of new taxes	(661,111)	-	(661,111)	-
Total tax expense	**(2,628,548)**	**530,027**	**(2,627,137)**	**534,002**
Attributable to:				
Continuing operations	(2,628,548)	530,027	(2,627,137)	534,002
Discontinued operations	-	-	-	-
	(2,628,548)	**530,027**	**(2,627,137)**	**534,002**

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:

	2010 Group $	2009 Group $	2010 Parent $	2009 Parent $
Profit from continuing operations	(6,547,725)	1,910,469	(6,543,020)	1,923,721
Profit from discontinued operations	-	-	-	-
Profit from operations	(6,547,725)	1,910,469	(6,543,020)	1,923,721
Subvention payable	(1,411)	(3,975)	(1,411)	(3,975)
Revaluation of Investment Property	(94,208)	(629,823)	(94,208)	(629,823)
	(6,643,344)	1,276,671	(6,638,639)	1,289,923
Income tax expense calculated at 30%	(1,993,003)	383,002	(1,991,592)	386,977
Non-deductible expenses / (taxable income)	19,338	71,230	19,338	71,230
Deferred tax income relating to early adoption of amendments to NZIAS 12	(775,173)	-	(775,173)	-
Effect of change in corporate tax rate	114,062	-	114,062	-
	(2,634,776)	454,232	(2,633,365)	458,207
(Over) / under provision of income tax in previous year	6,228	75,795	6,228	75,795
	(2,628,548)	**530,027**	**(2,627,137)**	**534,002**

(b) Current tax assets and liabilities

	2010 Group $	2009 Group $	2010 Parent $	2009 Parent $
Tax refund receivable	180,040	-	180,040	-
Tax payable	-	(85,893)	-	(85,893)
	180,040	**(85,893)**	**180,040**	**(85,893)**

(c) Deferred tax balances

	2010 Group $	2009 Group $	2010 Parent $	2009 Parent $
Deferred tax assets comprise:				
Temporary differences	1,946,432	55,832	1,946,432	55,832
	1,946,432	55,832	1,946,432	55,832
Deferred tax liabilities comprise:				
Temporary differences	(349,556)	(1,119,081)	(349,556)	(1,119,081)
	(349,556)	(1,119,081)	(349,556)	(1,119,081)
Net Deferred Tax balance	**1,596,876**	**(1,063,249)**	**1,596,876**	**(1,063,249)**

Notes to the Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2010 continued

NOTE 8. TAXATION CONTINUED

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

		Opening Balance	Charged to income	Charged to Equity	Prior period adjustment	Closing Balance
2010	Investment gains	(40,315)	-	-	-	(40,315)
	Building, property and equipment	(3,689,950)	2,505,975	-	(24,124)	(1,208,099)
	Other	-	-	-	-	-
		(3,730,265)	**2,505,975**	**-**	**(24,124)**	**(1,248,414)**
	Employee entitlements	69,167	(12,391)	-	-	56,776
	Doubtful debts and impairment losses	-	-	-	-	-
	Losses carried forward	-	4,729,053	-	-	4,729,053
	Other	116,938	1,936,278	-	112,500	2,165,716
		186,105	**6,652,940**	**-**	**112,500**	**6,951,545**
	Attributable to:					
	Continuing operations	(3,544,160)	9,158,915	-	88,376	5,703,131
	Discontinued operations	-	-	-	-	-
	Total	(3,544,160)	9,158,915	-	88,376	5,703,131
	Tax effect at 30%	(1,063,248)	2,747,675	-	26,513	1,710,939
	Adjust Deferred Tax to 28% for change in tax rate					(114,063)
	Tax effect at 28%					1,596,876
2009	Investment gains	(40,315)	-	-	-	(40,315)
	Building, property and equipment	(3,679,210)	293,483	-	(304,223)	(3,689,950)
	Other	-	-	-	-	-
		(3,719,525)	**293,483**	**-**	**(304,223)**	**(3,730,265)**
	Employee entitlements	75,170	(6,003)	-	-	69,167
	Doubtful debts and impairment losses	-	-	-	-	-
	Other	9,270	(34,945)	-	142,613	116,938
		84,440	**(40,948)**	**-**	**142,613**	**186,105**
	Attributable to:					
	Continuing operations	(3,635,085)	252,535	-	(161,610)	(3,544,160)
	Discontinued operations	-	-	-	-	-
	Total	(3,635,085)	252,535	-	(161,610)	(3,544,160)
	Tax effect at 30%	(1,090,526)	75,761	-	(48,483)	(1,063,249)

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

Notes to the Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2010

(d) Imputation Credit Account

	2010 Group $	2009 Group $	2010 Parent $	2009 Parent $
Opening Balance	5,521,464	5,554,111	5,521,464	5,554,111
Plus Credits				
Income Tax Paid	-	-	-	-
Resident Withholding Tax	116,827	175,510	116,827	175,510
Imputation Credits Received	-	-	-	-
	116,827	175,510	116,827	175,510
Less Debits				
Tax Refund	-	-	-	-
Imputation Credits Attached to Dividends Paid	-	208,157	-	208,157
	-	208,157	-	208,157
Closing Balance	**5,638,291**	**5,521,464**	**5,638,291**	**5,521,464**

NOTE 9. INCOME RELATING TO FINANCIAL INSTRUMENTS

	2010 Group $	2009 Group $	2010 Parent $	2009 Parent $
Designated Fair Value through Profit or Loss				
Managed Fund – Reinvested interest and change in value	452,108	278,453	452,108	278,453
Dividends Received	-	-	-	-
	452,108	278,453	452,108	278,453
Held to Maturity				
Interest Received – NZ Government Stock	8,860	4,364	8,860	4,364
Interest Received – Local Authority Stock	32,500	117,183	-	-
	41,360	121,547	8,860	4,364
Cash & Cash Equivalents				
Interest Received – Short Term Deposits at Bank	345,972	442,809	345,972	442,809
	839,440	**842,809**	**806,940**	**725,626**

Notes to the Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2010 continued

NOTE 10. INVESTMENT PROPERTY

	2010 Group $	2009 Group $	2010 Parent $	2009 Parent $
(Civic Assurance House, Lambton Quay, Wellington)				
(a) Land valuation (Original Cost $289,253)	2,950,000	3,200,000	2,950,000	3,200,000
Less decrease in value	(50,000)	(250,000)	(50,000)	(250,000)
Fair Value	2,900,000	2,950,000	2,900,000	2,950,000
(b) Building valuation (Original Cost $860,571)	4,800,000	5,100,000	4,800,000	5,100,000
Refurbishment	144,208	79,823	144,208	79,823
Less decrease in value	(44,208)	(379,823)	(44,208)	(379,823)
Fair Value	4,900,000	4,800,000	4,900,000	4,800,000
(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
	7,825,000	**7,775,000**	**7,825,000**	**7,775,000**

Investment properties are revalued every year. Investment properties were valued on 31 December 2010 by independent registered valuers of the firm Telfer Young (Wgtn) Ltd. The properties are valued in accordance with NZ Property Practice Standard 3 – valuations for financial reporting purposes at fair value arrived at using comparable market rental information. The rental capitalisation rate adopted for the valuation as at 31 December 2010 was 8.5% (2009: 8.25%).

NOTE 11. PROPERTY, PLANT & EQUIPMENT AND INTANGIBLE ASSETS

	2010 Group $	2009 Group $	2010 Parent $	2009 Parent $
Property, Plant and Equipment				
(a) Office Furniture and Equipment – cost	317,571	308,274	317,571	308,274
Plus Additions	68,531	22,636	68,531	22,636
Less Disposals	(78,855)	(13,339)	(78,855)	(13,339)
Closing Value – cost	307,247	317,571	307,247	317,571
Office Furniture and Equipment – Accumulated Depreciation	(228,587)	(209,639)	(228,587)	(209,639)
Less Depreciation Charge	(31,571)	(28,731)	(31,571)	(28,731)
Less Disposals	78,855	9,783	78,855	9,783
Closing Accumulated Depreciation	(181,303)	(228,587)	(181,303)	(228,587)
Net Book Value	**125,944**	**88,984**	**125,944**	**88,984**

The Net Surplus after Taxation in the Statement of Financial Performance includes a $43 gain on disposal of fixed assets (2009: $3,182 loss).

	2010 Group $	2009 Group $	2010 Parent $	2009 Parent $
Intangible Assets				
(b) Software – cost	209,883	173,124	209,883	173,124
Plus Additions	204,818	36,759	204,818	36,759
Less Disposals	(6,604)	-	(6,604)	-
Closing Value – cost	408,097	209,883	408,097	209,883
Software – Accumulated Amortisation	(179,354)	(172,985)	(179,354)	(172,985)
Less Amortisation Charge	(35,971)	(6,369)	(35,971)	(6,369)
Less Disposals	6,604	-	6,604	-
Closing Accumulated Amortisation	(208,721)	(179,354)	(208,721)	(179,354)
Net Book Value	**199,376**	**30,529**	**199,376**	**30,529**

NOTE 12. CONTINGENT LIABILITIES

The contingent liabilities are:

i) 100,000 uncalled shares in the wholly owned subsidiary, Local Government Superannuation Trustee Ltd.

ii) 1,000 uncalled shares in the wholly owned subsidiary, Local Government Mutual Funds Trustee Ltd.

iii) 1,000 uncalled shares in the wholly owned subsidiary, Civic Assurance Ltd.

iv) A guarantee given by the Company to Local Government Mutual Funds Trustee Ltd (LGMFTL) indemnifying LGMFTL for a period of 5 years from 30/6/97 for the total liability of the Riskpool scheme claims in that period. This provision only applies after all scheme assets and calls on members as provided in the Trust Deed are exhausted. The total liability under the guarantee is limited to $2,000,000. No notice of claim under the guarantee has been received or is expected.

v) 100,000 uncalled shares in the wholly owned subsidiary, NZ Local Government Finance Corporation Ltd (LGFC).

vi) 100 uncalled shares in the wholly owned subsidiary, SuperEasy Ltd.

vii) 100 uncalled shares in the wholly owned subsidiary, Local Government Finance Corporation Ltd.

viii) Other than described above there are no other contingent liabilities or capital commitments.

NOTE 13. FINANCIAL INSTRUMENTS

(1) Financial Assets and Liabilities

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

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

The cost of investments in managed funds at 31 December 2010 was $3,000,000 (2009: $3,000,000).
Market value of managed funds at 31 December 2010 was $5,012,461 (2009: $4,560,600).

Notes to the Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2010 continued

NOTE 13. FINANCIAL INSTRUMENTS CONTINUED

Carrying value of Financial Assets and Financial Liabilities.

	2010 Group $	2009 Group $	2010 Parent $	2009 Parent $
Financial Asset: Designated Fair Value Through Profit or Loss				
Managed Funds	**5,012,461**	**4,560,600**	**5,012,461**	**4,560,600**
Financial Asset: Held to Maturity				
Local Authority Stock				
Face Value at Balance date	-	1,000,000	-	-
Effective interest rate adjustment (settlement premium)	-	(24,375)	-	-
Accrued Interest	-	24,375	-	-
Carrying value	-	1,000,000	-	-
NZ Government Stock	107,369	106,510	107,369	106,510
Total Held to Maturity	**107,369**	**1,106,510**	**107,369**	**106,510**
Financial Asset: Loans and Receivables				
Sundry Debtors	2,194,691	1,183,365	2,189,305	1,179,390
Premiums Receivable	686,473	563,233	686,473	563,233
Reinsurance Recoveries	80,461,914	2,594,470	80,461,914	2,594,470
Total Loans and Receivables	**83,343,078**	**4,341,068**	**83,337,692**	**4,337,093**
Financial Asset: Carried at Amortised Cost				
Bank & Cash Equivalents	7,992,117	10,591,393	7,946,835	10,542,705
Financial Liability: Amortised Cost				
Civic Bonds				
Face Value at Balance date	-	1,000,000	-	-
Effective interest rate adjustment (settlement premium)	-	(24,375)	-	-
Effective interest rate adjustment (set up fees)	-	(2,359)	-	-
Accrued Interest	-	24,375	-	-
Carrying value	-	997,641	-	-
Subordinated Debt	120,176	120,176	-	-
Accounts Payable	915,109	998,359	915,109	997,299
Outstanding Claims Liability	88,280,226	3,905,000	88,280,226	3,905,000
Total Amortised Cost	**89,315,511**	**6,021,176**	**89,195,335**	**4,902,299**

CIVIC BONDS

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

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

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

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

(2) Financial Risk – Structure and Management

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

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

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

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

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

(a) Market Risk

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

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

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

Sensitivity Analysis

Sensitivity of Net Profit After Tax for the year to 31 December 2010, and Shareholders Funds at that date, to possible changes is as follows:

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

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

Notes to the Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2010 continued

NOTE 13. FINANCIAL INSTRUMENTS CONTINUED

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

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

(i) Interest Rate Repricing Schedule

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

	Interest Rate Spread %	Within 6 months $	6 to 12 months $	1 to 2 years $	2 to 5 years $	Non Interest Bearing $	Total $
As at 31 December 2010 (Group)							
Assets							
Cash at Bank	0% to 5.15%	7,890,372	-	-	-	101,745	7,992,117
Other Receivable	n/a	-	-	-	-	83,343,078	83,343,078
Managed Funds	n/a	4,296,360	-	-	-	716,101	5,012,461
NZ Government Stock	6.00%	-	107,369	-	-	-	107,369
Total Financial Assets		**12,186,732**	**107,369**	**-**	**-**	**84,160,924**	**96,455,025**
Liabilities							
Accounts Payable	n/a	-	-	-	-	915,109	915,109
Outstanding Claims	n/a	-	-	-	-	88,280,226	88,280,226
Subordinated Debt	n/a	-	-	-	-	120,176	120,176
Total Financial Liabilities		**-**	**-**	**-**	**-**	**89,315,511**	**89,315,511**
As at 31 December 2009 (Group)							
Assets							
Cash at Bank	0% to 4.60%	10,460,962	3,252	-	-	127,179	10,591,393
Other Receivable	n/a	-	-	-	-	3,660,978	3,660,978
Managed Funds	n/a	3,874,139	-	-	-	686,461	4,560,600
Local Authority Stock	6.00% to 6.20%	1,000,000	-	-	-	-	1,000,000
NZ Government Stock	6.00%	-	-	106,510	-	-	106,510
Total Financial Assets		**15,335,101**	**3,252**	**106,510**	**-**	**4,474,618**	**19,919,481**
Liabilities							
Accounts Payable	n/a	-	-	-	-	998,359	998,359
Civic Bonds Issued	6.00% to 6.20%	997,641	-	-	-	-	997,641
Outstanding Claims	n/a	-	-	-	-	3,905,000	3,905,000
Subordinated Debt	n/a	-	-	-	-	120,176	120,176
Total Financial Liabilities		**997,641**	**-**	**-**	**-**	**5,023,535**	**6,021,176**

Notes to the Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2010

	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 2010 (Parent)							
Assets							
Cash at Bank	0% to 5.15%	7,890,372	-	-	-	56,463	7,946,835
Other Receivable	n/a	-	-	-	-	83,337,692	83,337,692
Managed Funds	n/a	4,296,360	-	-	-	716,101	5,012,461
NZ Government Stock	6.00%	-	107,369	-	-	-	107,369
Total Financial Assets		**12,186,732**	**107,369**	**-**	**-**	**84,110,256**	**96,404,357**
Liabilities							
Accounts Payable	n/a	-	-	-	-	915,109	915,109
Outstanding Claims	n/a	-	-	-	-	88,280,226	88,280,226
Total Financial Liabilities		**-**	**-**	**-**	**-**	**89,195,335**	**89,195,335**
As at 31 December 2009 (Parent)							
Assets							
Cash at Bank	0% to 4.60%	10,460,962	3,252	-	-	78,491	10,542,705
Other Receivable	n/a	-	-	-	-	3,657,003	3,657,003
Managed Funds	n/a	3,874,139	-	-	-	686,461	4,560,600
NZ Government Stock	6.00%	-	-	106,510	-	-	106,510
Total Financial Assets		**14,335,101**	**3,252**	**106,510**	**-**	**4,421,955**	**18,866,818**
Liabilities							
Accounts Payable	n/a	-	-	-	-	997,299	997,299
Outstanding Claims	n/a	-	-	-	-	3,905,000	3,905,000
Total Financial Liabilities		**-**	**-**	**-**	**-**	**4,902,299**	**4,902,299**

Notes to the Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2010 continued

NOTE 13. FINANCIAL INSTRUMENTS CONTINUED

(ii) Carrying Amount and Fair Value

	2010 Group Carrying Amount $	2010 Group Fair Value $	2009 Group Carrying Amount $	2009 Group Fair Value $
Assets				
Cash at Bank	7,992,117	7,992,117	10,591,393	10,591,393
Other Receivable	83,343,078	83,343,078	3,660,978	3,660,978
Managed Funds	5,012,461	5,012,461	4,560,600	4,560,600
Local Authority Stock	-	-	1,000,000	1,026,773
NZ Government Stock	107,369	107,369	106,510	106,510
Total Financial Assets	**96,455,025**	**96,455,025**	**19,919,481**	**19,946,254**
Liabilities				
Accounts Payable	915,109	915,109	998,359	998,359
Civic Bonds Issued	-	-	997,641	1,026,773
Outstanding Claims	88,280,226	88,280,226	3,905,000	3,905,000
Subordinated Debt	120,176	120,176	120,176	120,176
Total Financial Liabilities	**89,315,511**	**89,315,511**	**6,021,176**	**6,050,308**

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

	2010 Parent Carrying Amount $	2010 Parent Fair Value $	2009 Parent Carrying Amount $	2009 Parent Fair Value $
Assets				
Cash at Bank	7,946,835	7,946,835	10,542,705	10,542,705
Other Receivable	83,337,692	83,337,692	3,657,003	3,657,003
Managed Funds	5,012,461	5,012,461	4,560,600	4,560,600
NZ Government Stock	107,369	107,369	106,510	106,510
Total Financial Assets	**96,404,357**	**96,404,357**	**18,866,818**	**18,866,818**
Liabilities				
Accounts Payable	915,109	915,109	997,299	997,299
Outstanding Claims	88,280,226	88,280,226	3,905,000	3,905,000
Total Financial Liabilities	**89,195,335**	**89,195,335**	**4,902,299**	**4,902,299**

Notes to the Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2010

(b) Liquidity Risk

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

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

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

	Within 6 months $	6 to 12 months $	1 to 2 years $	2 to 5 years $	Total $
Maturity Analysis (Group) As at 31 December 2010					
Assets					
Cash at Bank	7,992,117	-	-	-	7,992,117
Other Receivable	3,843,078	20,000,000	55,000,000	4,500,000	83,343,078
Managed Funds	5,012,461	-	-	-	5,012,461
NZ Government Stock	-	105,000	-	-	105,000
Total Financial Assets	**16,847,656**	**20,105,000**	**55,000,000**	**4,500,000**	**96,452,656**
Liabilities					
Accounts Payable	915,109	-	-	-	915,109
Outstanding Claims	8,780,226	20,000,000	55,000,000	4,500,000	88,280,226
Subordinated Debt	-	-	-	120,176	120,176
Total Financial Liabilities	**9,695,335**	**20,000,000**	**55,000,000**	**4,620,176**	**89,315,511**
Maturity Analysis (Group) As at 31 December 2009					
Assets					
Cash at Bank	10,588,141	3,252	-	-	10,591,393
Other Receivable	3,660,978	-	-	-	3,660,978
Managed Funds	4,560,600	-	-	-	4,560,600
Local Authority Stock	1,000,000	-	-	-	1,000,000
NZ Government Stock	-	-	105,000	-	105,000
Total Financial Assets	**19,809,719**	**3,252**	**105,000**	**-**	**19,917,971**
Liabilities					
Accounts Payable	998,359	-	-	-	998,359
Civic Bonds Issued	997,641	-	-	-	997,641
Outstanding Claims	3,905,000	-	-	-	3,905,000
Subordinated Debt	-	-	-	120,176	120,176
Total Financial Liabilities	**5,901,000**	**-**	**-**	**120,176**	**6,021,176**

Notes to the Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2010 continued

NOTE 13. FINANCIAL INSTRUMENTS CONTINUED

	Within 6 months $	6 to 12 months $	1 to 2 years $	2 to 5 years $	Total $
Maturity Analysis (Parent) As at 31 December 2010					
Assets					
Cash at Bank	7,946,835	-	-	-	7,946,835
Other Receivable	3,837,692	20,000,000	55,000,000	4,500,000	83,337,692
Managed Funds	5,012,461	-	-	-	5,012,461
NZ Government Stock	-	105,000	-	-	105,000
Total Financial Assets	**16,796,988**	**20,105,000**	**55,000,000**	**4,500,000**	**96,401,988**
Liabilities					
Accounts Payable	915,109	-	-	-	915,109
Outstanding Claims	8,780,226	20,000,000	55,000,000	4,500,000	88,280,226
Total Financial Liabilities	**9,695,335**	**20,000,000**	**55,000,000**	**4,500,000**	**89,195,335**
Maturity Analysis (Parent) As at 31 December 2009					
Assets					
Cash at Bank	10,539,453	3,252	-	-	10,542,705
Other Receivable	3,657,003	-	-	-	3,657,003
Managed Funds	4,560,600	-	-	-	4,560,600
NZ Government Stock	-	-	105,000	-	105,000
Total Financial Assets	**18,757,056**	**3,252**	**105,000**	**-**	**18,865,308**
Liabilities					
Accounts Payable	997,299	-	-	-	997,299
Outstanding Claims	3,905,000	-	-	-	3,905,000
Total Financial Liabilities	**4,902,299**	**-**	**-**	**-**	**4,902,299**

(c) Credit Risk

All investments except for the $105,000 Government Stock holding and the managed fund are in cash at registered banks. The registered banks have a credit rating of AA.

NZ Local Government Finance Corporation is not issuing new Bonds or making new investments with the final Local Authority Stock and Civic Bond maturity date of February 2010. At balance date the Company has no exposure as all Local Authority Stock has matured.

Notes to the Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2010

(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.

	2010 Group $	2009 Group $	2010 Parent $	2009 Parent $
Cash at registered Banks	7,992,117	10,591,393	7,946,835	10,542,705
Other Receivable	83,343,078	3,660,978	83,337,692	3,657,003
Managed Funds	5,012,461	4,560,600	5,012,461	4,560,600
NZ Government Stock	107,369	106,510	107,369	106,510
NZ Local Authority Stock	-	1,000,000	-	-
Total	**96,455,025**	**19,919,481**	**96,404,357**	**18,866,818**

(ii) Concentration of Credit Exposure

The major credit exposure greater than 10% of total assets is with the reinsurers. All reinsurers, except 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) Off Balance Sheet Financial Instruments

NZ Local Government Finance may enter into swaps or other financial derivatives with Approved Counterparties to ensure that the terms of Local Authority Debt Securities acquired by it, and Civic Bonds issued by it, are matched in terms of maturity amount, interest rate and maturity date. At balance date the Group did not have any outstanding interest rate swaps as part of its operations. The Group does not have any other off balance sheet exposures.

(4) Foreign Currency Risk

Foreign currency risk is the risk that the company will incur losses through exposure to foreign exchange movements.
At balance date the Group had $716,101 invested in an unhedged global equities fund which is less than 5% of net equity.

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

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

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

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

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

Notes to the Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2010 continued

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

	2010 Group $	2009 Group $	2010 Parent $	2009 Parent $
Reported Comprehensive (Loss) / Income After Taxation	(4,011,651)	737,276	(4,011,502)	755,921
Add / (less) non cash items				
Depreciation	31,571	28,731	31,571	28,731
Amortisation	35,971	6,369	35,971	6,369
Insurance Provisions	84,145,397	(4,723,339)	84,145,397	(4,723,339)
Deferred Tax Liability	(2,660,125)	(27,277)	(2,660,125)	(27,277)
Effective interest rate adjustments	2,359	(286)	-	-
Net change in fair value of property	(50,000)	550,000	(50,000)	550,000
Share of Profit of Associate	(3,145)	9,368	-	-
Unrealised net change in value of investments	(452,720)	(262,019)	(452,720)	(262,019)
	81,049,308	(4,418,453)	81,050,094	(4,427,535)
Add / (less) movements in other working capital items				
Accounts Receivable	(79,002,010)	3,306,149	(79,000,599)	3,310,124
Accounts Payable	(95,641)	(361,019)	(94,581)	(360,961)
Maturing Local Authority Stock	(1,000,000)	(1,714,000)	-	-
Tax Refund Due	(265,933)	329,840	(265,933)	329,840
Maturing Civic Bonds	1,000,000	1,714,000	-	-
	(79,363,584)	3,274,970	(79,361,113)	3,279,003
Add / (Less) Items Classified as investing activity	-	-	-	-
Add / (Less) Items Classified as financing activity	144,165	87,018	144,165	87,018
Net Cash Inflow from Operating Activities	(2,181,762)	(319,189)	(2,178,356)	(305,593)

NOTE 15. OPERATING LEASE COMMITMENTS

There are the following operating lease expense commitments:

	2010 Group $	2009 Group $	2010 Parent $	2009 Parent $
not later than one year	11,911	14,173	11,911	14,173
later than one year but not later than two years	-	11,911	-	11,911
later than two years but not later than five years	-	-	-	-
later than five years	-	-	-	-
	11,911	**26,084**	**11,911**	**26,084**

There are the following operating lease income commitments:

	2010 Group $	2009 Group $	2010 Parent $	2009 Parent $
not later than one year	743,430	695,233	743,430	695,233
later than one year but not later than two years	373,938	483,720	373,938	483,720
later than two years but not later than five years	90,596	275,518	90,596	275,518
later than five years	-	-	-	-
	1,207,964	**1,454,471**	**1,207,964**	**1,454,471**

NOTE 16. SUBORDINATED DEBT

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

NOTE 17. RELATED PARTIES

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

Specific related party transactions are:

1) Civic Assurance has charged administration fees to Riskpool of $284,490 and Superplan and SuperEasy of $541,416. There were balances outstanding at balance date for Riskpool of $161,000 and Superplan and SuperEasy of $129,332.

2) Local Authority bonds and interest (refer Note 13).

Outstanding Balances

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

Key Management Personnel

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

	2010 Group $	2009 Group $	2010 Parent $	2009 Parent $
Compensation				
Short term employee benefits	770,010	733,395	770,010	733,395
Post-employment benefits	-	-	-	-
Other long-term benefits	-	-	-	-
Termination benefits	-	-	-	-
	770,010	**733,395**	**770,010**	**733,395**

Notes to the Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2010 continued

NOTE 18. ANALYSIS OF FINANCIAL ASSETS NOT IMPAIRED

	Not due	Past due	Past due + 30 days	Past due + 60 days	Total
Sundry Debtors and Prepayments	2,164,058	11,857	8,588	4,802	2,189,305
Premiums Receivable	641,554	30,926	7,080	6,913	686,473
Reinsurance Recoveries	80,461,914	-	-	-	80,461,914
	83,267,526	**42,783**	**15,668**	**11,715**	**83,337,692**

NOTE 19. STANDARDS APPROVED BUT NOT YET EFFECTIVE

Standards and Interpretations in issue not yet adopted

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

Except as noted below, initial application of the following Standards will not affect any of the amounts recognised in the financial report, or change the presentation and disclosures presently made in or in 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
Amendment to NZ IAS 32 'Financial Instruments: Presentation' – Classification of Rights Issues	1 February 2010	31 December 2011
Amendments to NZ IAS 24 'Related Party Disclosures'	1 January 2011	31 December 2011
NZ IFRS 9 'Financial Instruments'	1 January 2013	31 December 2013
* Revised NZ IFRS 9 'Financial Instruments'	1 January 2013	31 December 2013
NZ IFRIC 19 'Extinguishing Financial Liabilities with Equity Instruments'	1 July 2010	31 December 2011
Amendments to NZ IFRIC 14 'Prepayments of a Minimum Funding Requirement'	1 January 2011	31 December 2011
Improvements to New Zealand Equivalents to International Financial Reporting Standards 2010		
- Improvements to NZ IFRS 3 and NZ IAS 27	1 July 2010	31 December 2011
- Improvements to other standards	1 January 2011	31 December 2011
Amendments to NZ IAS 26 'Accounting and Reporting by Retirement Benefit Plans'	1 April 2011	31 December 2012
Amendments to NZ IFRS 7 'Financial Instruments: Disclosures'	1 July 2011	31 December 2012

* The revised NZ IFRS 9 adds guidance on the classification and measurement of financial liabilities and derecognition of financial instruments. The effective date remains the same as the previous version of NZ IFRS 9, with earlier adoption permitted.

Notes to the Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2010

NOTE 20. SHAREHOLDERS EQUITY

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

	2010 Group $	2009 Group $	2010 Parent $	2009 Parent $
Retained Earnings				
Opening Balance	13,094,538	12,842,962	13,136,543	12,866,322
Net Surplus After Taxation	(4,011,651)	737,276	(4,011,502)	755,921
Dividends Paid	-	(485,700)	-	(485,700)
Closing balance	9,082,887	13,094,538	9,125,041	13,136,543

NOTE 21. EQUITY RETAINED FOR FINANCIAL SOUNDNESS

All the equity is retained to ensure the financial soundness of the Group. The high level of liquidity in the non NZ Local Government Finance fixed interest ($7.9m) and managed funds ($5.0m) investments is retained for cash flow purposes and also to balance the funds allocated in the building investment. For this reason the Company & Group believes that the high liquidity ratio is a significant factor in attaining the A (Excellent) claims paying ability rating from AM Best.

NOTE 22. COMPARISON WITH STATEMENT OF INTENT

The following is a comparison of the actual performance against the Statement of Intent for the year ended 31 December 2010.

	SI Target	Actual
- Annual claims paying ability rating by AM Best	A (Excellent)	A (Excellent)
- To exceed the average insurance industry solvency standards as published by the NZ Insurance Council		Well exceeded
- Pretax (deficit) / surplus	$500,000	($6,638,639)
- Net Asset Value	$19,200,000	$15,473,677
- Net Asset Value per share	$3.00	$2.42

The primary reason for the Company not meeting performance targets is due to the Canterbury Earthquake on 4 September 2010.

NOTE 23. SUBSEQUENT EVENTS

Subsequent to balance date, on 22 February 2011, a significant earthquake centred near Christchurch caused severe damage across the region. The Company has reinsurance which caps the Company's liability to $3.6 million per event. A gross estimate of claims cannot be made at this point but it will exceed $100 million.

Deloitte.

Independent Auditor's Report

To the readers of the New Zealand Local Government Insurance Corporation Limited and group's financial statements for the year ended 31 December 2010

The Auditor-General is the auditor of New Zealand Local Government Insurance Corporation Limited (the 'Company') and Group. The Auditor-General has appointed me, Michael Wilkes, using the staff and resources of Deloitte, to carry out an 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 9 to 41 that comprise the statement of financial position as at 31 December 2010, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date; and a summary of significant accounting policies and other explanatory information.

OPINION ON THE FINANCIAL STATEMENTS

In our opinion, the financial statements of the Company and Group on pages 9 to 41:

- comply with generally accepted accounting practice in New Zealand;
- comply with International Financial Reporting Standards; and
- give a true and fair view of the Company and Group's:
  - financial position as at 31 December 2010; and
  - financial performance and cash flows for the year ended on that date.

OPINION ON 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 1 April 2011, and is the date at which our opinion is expressed.

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

BASIS OF OPINION

We carried out our audit in accordance with the Auditor-General's Auditing Standards, which incorporate the International Standards on Auditing (New Zealand). 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 would affect a reader's overall understanding of the financial statements. If we had found material misstatements that were not corrected, we would have referred to them in our opinion.

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 entity's preparation of the 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 entity'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;
- give a true and fair view of the company and group's financial position, financial performance and cash flows.

The Board of Directors is also 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' 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 New Zealand Institute of Chartered Accountants.

Other than the audit, and taxation compliance services, we have no relationship with or interests in the Company or any of its subsidiaries.

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

Civic Assurance

PROTECTING COMMUNITY ASSETS

CIVIC ASSURANCE SHAREHOLDERS AS AT 31 DECEMBER 2010

SHAREHOLDER MEMBER	NO. OF SHARES	
CITY COUNCILS		
Auckland	1,351,646	21.1%
Christchurch	464,568	7.3%
Dunedin	470,966	7.4%
Hamilton	202,729	3.2%
Hutt	233,911	3.7%
Invercargill	153,864	2.4%
Napier	141,921	2.2%
Nelson	95,543	1.5%
Palmerston North	193,514	3.0%
Porirua	70,073	1.1%
Tauranga	124,242	1.9%
Upper Hutt	51,209	0.8%
Wellington	526,821	8.2%
DISTRICT COUNCILS		
Ashburton	28,008	0.4%
Buller	15,698	0.2%
Carterton	11,821	0.2%
Central Hawke's Bay	8,290	0.1%
Central Otago	39,619	0.6%
Clutha	33,711	0.5%
Far North	35,440	0.6%
Gisborne	43,702	0.7%
Gore	44,589	0.7%
Grey	33,742	0.5%
Hastings	58,585	0.9%
Hauraki	31,717	0.5%
Horowhenua	45,012	0.7%
Hurunui	1,000	0.0%
Kaipara	13,629	0.2%
Kapiti Coast	15,060	0.2%
Kawerau	31,161	0.5%
Manawatu	62,219	1.0%
Marlborough	74,022	1.2%
Masterton	57,615	0.9%
Matamata-Piako	55,277	0.9%
New Plymouth	214,728	3.4%
Otorohanga	5,000	0.1%
Queenstown-Lakes	31,149	0.5%

SHAREHOLDER MEMBER	NO. OF SHARES	
DISTRICT COUNCILS (Cont'd)		
Rangitikei	23,338	0.4%
Rotorua	87,953	1.4%
Ruapehu	44,666	0.7%
Southland	13,715	0.2%
South Taranaki	61,748	1.0%
South Waikato	15,187	0.2%
South Wairarapa	26,965	0.4%
Stratford	26,804	0.4%
Tararua	43,986	0.7%
Tasman	26,792	0.4%
Taupo	83,971	1.3%
Thames-Coromandel	7,120	0.1%
Timaru	109,059	1.7%
Waikato	41,070	0.6%
Waimakariri	38,086	0.6%
Waimate	9,229	0.1%
Waipa	68,541	1.1%
Wairoa	22,992	0.4%
Waitaki	59,087	0.9%
Waitomo	2,470	0.0%
Wanganui	138,830	2.2%
Western Bay of Plenty	16,142	0.3%
Westland	16,356	0.3%
Whakatane	13,394	0.2%
Whangarei	25,762	0.4%
REGIONAL COUNCILS		
Canterbury	70,348	1.1%
Horizons	2,000	0.0%
Taranaki	1,000	0.0%
Waikato	5,000	0.1%
Wellington	80,127	1.3%
OTHER		
Trust Power	137,251	2.1%
Total Shares	**6,390,790**	