

# 2011

## ANNUAL REPORT



TESTED BY  
TIME AND DISASTER

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## 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

|                                    |   |
|------------------------------------|---|
| <b>Chief Executive</b>             | Tim Sole BSc MBA CStat ANZIIF (Fellow) CIP FIAA FNZSA |
| <b>General Manager – Insurance</b> | Christopher Munden ANZIIF (Senior Associate)          |
| <b>General Manager – Finance</b>   | 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     | <a href="mailto:info@civicasurance.co.nz">info@civicasurance.co.nz</a> |
| Website   | <a href="http://www.civicasurance.co.nz">www.civicasurance.co.nz</a>   |

## Chairman's Report 2011

The 2010 and 2011 years will perhaps go down as the both the best and the worst in the Company's history. The worst because after 49 consecutive years of profit a loss of \$4.0 million in 2010 has been followed by an even bigger loss of \$5.4 million in 2011. The best because the essence of every good insurance company is meeting claims, and from the 2010 and 2011 years Civic has a \$900 million opportunity to do exactly that.

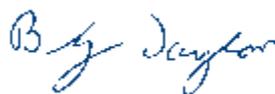
The loss of Civic's reinsurance partners in June 2011 was a big blow to the Company and its customers, but the reinsurers had never expected such large losses, which for Civic's book exceeded by a magnitude of ten the worst they were expected to be. It did not help that elsewhere within the region (Chile, Australia and Japan) there had also been some other very large reinsurance losses.

The large earthquake claims and the Company's inability to write property insurance (because of the unavailability of suitable property reinsurance) were the two reasons behind a downgrade from AM Best to B++ (Good) in July 2011. With the successful capital raising carried out at the beginning of 2012 we are optimistic of winning back an upgrade to at least A- (Excellent) in the near future.

The superannuation funds under management continue to grow and during 2011 passed the \$100 million mark, placing the company very much on target for its original goal of managing \$200 million of superannuation funds by 2015. Those who are in SuperEasy or SuperEasy KiwiSaver have the evidence of their own account balances to see how effective regular workplace savings can be. With SuperEasy KiwiSaver being enshrined in legislation as "the" local government scheme, I look forward to the day when every council has nominated SuperEasy KiwiSaver as its preferred provider.

30 June 2012 will be a key day for Civic. It is expected to mark Civic's re-entry into the local government property insurance market and subject to obtaining suitable reinsurance it will be the launch date for a new local government pool: the Civic Property Pool. With nearly every council using at least four insurers for their cover, it is hoped that the sector will support its own insurer even if for the bigger councils it is only for a small proportion of their total property covers. It is Civic's presence in the market that drives the other insurance companies to be extra competitive with the premiums and the protection covers that they offer to local authorities.

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



Bryan Taylor | Chairman

# Annual Report and Statement of Accounts

FOR THE YEAR ENDED 31 DECEMBER 2011

Your Directors and Chief Executive have pleasure in submitting the 51st Annual Report of the affairs of the Company for the year ended 31 December 2011, which is to be presented at the Annual General Meeting of Members in June 2012.

## 1. OPERATIONS 2011

### *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 185 lives.

A third major Canterbury earthquake occurred on 13 June 2011. Above-ground claims from Christchurch City Council, Waimakariri District Council and Environment Canterbury from the September, February and June earthquakes are expected to total around \$900 million.

### *Insurance Business*

Civic's property reinsurance programme for 30 June 2010 to 30 June 2011 was uncapped. The cost to Civic of the September, February and June earthquakes has therefore been limited to three retentions of \$3.6 million – a total of \$10.8 million. That is still a lot of money, but without Civic's strong reinsurance programme it obviously would have been considerably more.

The large reinsurance losses from the Christchurch earthquakes for what with the benefit of hindsight were very modest premiums meant that Civic's reinsurers for 2010–11 were not prepared to renew Civic's programme. Unsurprisingly with what had happened, no other reinsurers were willing to offer Civic uncapped cover either. Unable to secure suitable property reinsurance protection, Civic withdrew from offering property insurance from 30 June 2011.

Other lines of insurance business such as motor insurance have continued to be provided.

### *Investment Revenue*

Interest rates continued at historic lows during 2011. This combined with fewer funds to invest meant lower investment income for Civic, down from \$806,940 in 2010 to \$440,289 in 2011.

Civic Assurance House is a nine-storey building near the government centre. Its value in 2011 fell \$900,000 from \$7,825,000 to \$6,925,000. Gross rents received for Civic Assurance House decreased from \$871,229 to \$778,609. Operating costs increased from \$315,511 to \$379,197.

### *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 2011 were \$1.39 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

# Annual Report and Statement of Accounts

FOR THE YEAR ENDED 31 DECEMBER 2011 continued

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 sponsor of SOLGM (Society of Local Government Managers), LGNZ (Local Government New Zealand), Ingenium, and various SOLGM branch events.

## **2. FINANCIAL STRENGTH**

High claims in 2010 reduced Civic's capital base from \$19.5 million to \$15.5 million. The 2011 February and June earthquakes contributed gross losses of another \$7.2 million. Compounding these losses is that Civic from 30 June 2011 has not been writing property insurance, which prior to September 2010 had been Civic's main source of profit. Civic's claims paying ability rating from AM Best from 18 July 2011 has been B++ (Good) with negative outlook.

The arrangements put in place last year to raise an additional \$2.5 million of capital in the form of subordinated debt were put on hold following the 13 June earthquake. Instead, and as agreed by a special general meeting of shareholders held on 16 December, the Company had a rights issue. This was supported by 42 of Civic's 68 shareholders and raised \$4.2 million of new capital.

Had this new capital been available on 31 December 2011, then Civic's solvency margin at that time using the RBNZ (Reserve Bank of New Zealand) solvency standard would have increased from just over 100% to 163%.

Civic received a provisional licence on 29 February 2012 from the RBNZ under section 244 of the Insurance (Prudential Supervision) Act 2010 to carry on insurance business in New Zealand. It is expected that a full licence from RBNZ will be issued during the course of 2013. This situation applies to all New Zealand insurers.

## **3. BUSINESS OUTLOOK**

It is expected to take a number of years before Civic can rebuild its insurance portfolio to where it was. However, negotiations with reinsurers to enable Civic to re-enter the property insurance market from 30 June 2012 are well advanced.

These have been difficult times for councils too, who have been faced with very large premium increases and generally with less favourable policy wordings, including higher deductibles (both earthquake and other perils) and the introduction of loss limits because of reduced capacity at a reasonable price.

To assist councils with managing their insurances and to reduce their long-term insurance costs, Civic plans to launch on 30 June 2012, subject to obtaining a suitable reinsurance programme, a new pool – the Civic Property Pool (CPP). CPP will provide Civic with an additional revenue stream from the administration of CPP and councils with a new, cost-effective option for their property risk financing.

Civic's website is [www.civicasurance.co.nz](http://www.civicasurance.co.nz).

# Annual Report and Statement of Accounts

FOR THE YEAR ENDED 31 DECEMBER 2011 continued

## 4. 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 provide independence to LGST, four of the six directors of LGST are not appointed by Civic. These four appointments are made by LGNZ (two), SOLGM (one) and CTU (one).

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

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

Superannuation funds under management are \$115 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, 90% have appointed Civic (64 out of 71 councils).

The SuperEasy website is [www.supereasy.co.nz](http://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 57.

LAPP was designed to cover back-to-back major disasters and this is what happened of course with the first two large Christchurch earthquakes. LAPP is soon to settle the claims for damage to underground assets with an expected total payout to the affected Councils of \$250.7 million (GST included).

With the LAPP fund exhausted by the Christchurch earthquake claims, LAPP relies on reinsurance to provide meaningful cover to its members.

That reinsurance does not come cheap, so it is going to take a number of years for LAPP to rebuild its disaster fund.

Civic is the administration and fund manager for LAPP, whose website is: [www.lappfund.co.nz](http://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, the Fund Manager for Riskpool, and from 30 June 2012 it will be the Scheme Manager too.

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

### *Local Government Online (LGOL)*

LGOL was established to run 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 *What's New* newsletter and a local government careers board. LGOL promotes a select number of products to local government namely Tenderlink, Plan.IT.Road and Readynet. LGOL also runs elections information websites for both local body and general elections and is currently leading a technology shared services project for the sector.

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](http://www.localgovt.co.nz).

# Annual Report and Statement of Accounts

FOR THE YEAR ENDED 31 DECEMBER 2011 continued

## 5. PROFIT/LOSS, CAPITAL AND DIVIDENDS

The loss for the year after tax was \$5.41 million (2010: a loss of \$4.01 million). Consolidated shareholders' funds at 31 December 2011 were \$10.08 million (2010: \$15.48 million).

The Company did not pay a dividend in 2011. Net asset value per share as at 31 December 2011 was \$1.58 (2010: \$2.42). As mentioned in section 3 above, the Company subsequent to balance date has raised \$4.2 million in new capital.

## 6. DIRECTORS

### Board

The Company's constitution requires at least two directors to be appointed from outside the local authority sector. As at 31 December 2011 there were four: M.C. Hannan, RA 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 2011, Directors' remuneration was:

|                | \$      |
|----------------|---------|
| Darryl Griffin | 16,500  |
| Mike Hannan    | 16,500  |
| Bob Lineham    | 16,500  |
| Tony Marryatt  | 16,500  |
| Basil Morrison | 16,500  |
| Bryan Taylor   | 32,400  |
|                | 114,900 |

### Interests Register

Directors' interests are tabled at the beginning of each Board meeting. Directorship and other disclosures as at 31 December 2011 were:

|            |   |
|------------|---|
| D Griffin  | Local Government Superannuation Trustee Ltd, employee of Auckland Council   |
| M Hannan   | Wesfarmers Broking (NZ) Ltd, AUT Enterprises Ltd, Crombie Lockwood (NZ) Ltd and advisory Director of Local Government Mutual Funds Trustee Ltd  |
| R Lineham  | New Zealand Local Government Finance Corporation Ltd and Sandona Olives Ltd, Chief Executive of Christchurch City Holdings Ltd and Member of the Finance Audit and Risk Committee of the Canterbury District Health Board   |
| T Marryatt | Local Government Mutual Funds Trustee Ltd, V Base Ltd, Tuam Ltd, EcoCentral Ltd and AJM Holdings Ltd, Chief Executive of Christchurch City Council  |
| B Morrison | Local Government Superannuation Trustee Ltd, MANZ Dairying Co Ltd, Landcorp Farming Ltd, Landcorp Pastoral Ltd, Waiuta Farms Ltd and Basil J Morrison & Associates Ltd. Chair of the Local Government Commission, Waitangi Tribunal Member and Member NZ Geographic Board |
| B Taylor   | Local Government Mutual Funds Trustee Ltd, part time consultant with PriceWaterhouseCoopers and GHD   |

The renewal of the Company's Directors' and Officers' liability insurance cover was entered in the Interests Register pursuant to sections 162 and 163 of the Companies Act 1993. This insurance does not cover liabilities arising from criminal actions or deliberate and reckless acts or omissions by the Directors.

# Annual Report and Statement of Accounts

FOR THE YEAR ENDED 31 DECEMBER 2011 continued

## Director attendances at Board meetings held during the 2011 year were:

|                |         |
|----------------|---------|
| Darryl Griffin | 10 / 10 |
| Mike Hannan    | 10 / 10 |
| Bob Lineham    | 10 / 10 |
| Tony Marryatt  | 10 / 10 |
| Basil Morrison | 9 / 10  |
| Bryan Taylor   | 10 / 10 |

## 7. EMPLOYEE REMUNERATION

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

| Remuneration \$   | Number of Employees |
|-------------------|---------------------|
| 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.

## 8. AUDITORS AND AUDIT COMMITTEE

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

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

The Audit Committee now has the additional responsibility of oversight of compliance with the insurance company licencing requirements under the Insurance (Prudential Supervision) Act 2010.

## 9. 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 2012

# Statement of Comprehensive Income

FOR THE YEAR ENDED 31 DECEMBER 2011

|   | Notes     | 2011<br>Group<br>\$ | 2010<br>Group<br>\$ | 2011<br>Parent<br>\$ | 2010<br>Parent<br>\$ |
|---|-----------|---------------------|---------------------|----------------------|----------------------|
| <b>REVENUE</b>  |           |                     |                     |                      |                      |
| Income Attributable to Insurance Business   |           |                     |                     |                      |                      |
| Premium Earned  |           | 4,457,514           | 8,902,422           | 4,457,514            | 8,902,422            |
| Reinsurance Paid  |           | (2,827,659)         | (5,827,161)         | (2,827,659)          | (5,827,161)          |
| Net Claims  | 3         | (7,382,282)         | (9,372,108)         | (7,382,282)          | (9,372,108)          |
| Underwriting (Deficit)  |           | (5,752,427)         | (6,296,847)         | (5,752,427)          | (6,296,847)          |
| Commissions & Claims Management Expenses  |           | -                   | (100,000)           | -                    | (100,000)            |
|   |           | (5,752,427)         | (6,396,847)         | (5,752,427)          | (6,396,847)          |
| Administration Fees   |           | 1,392,366           | 1,247,710           | 1,392,366            | 1,247,710            |
| Income from Investments   | 9         | 440,289             | 839,440             | 440,289              | 806,940              |
| Property Income   |           | 788,609             | 871,229             | 788,609              | 871,229              |
| <b>Net Operating Revenue</b>  |           | <b>(3,131,162)</b>  | <b>(3,438,468)</b>  | <b>(3,131,162)</b>   | <b>(3,470,968)</b>   |
| <b>EXPENDITURE</b>  |           |                     |                     |                      |                      |
| Audit Fee   |           |                     |                     |                      |                      |
| Statutory Audit   |           | 73,475              | 64,530              | 73,475               | 64,530               |
| Other Fees Paid to Auditors re Taxation Advisory  |           | 36,150              | 32,429              | 36,150               | 32,429               |
| Claims Paying Ability Rating  |           | 21,611              | 22,036              | 21,611               | 22,036               |
| Consultants   |           | 153,898             | 122,902             | 153,898              | 122,902              |
| Depreciation  | 11        | 30,070              | 31,571              | 30,070               | 31,571               |
| Amortisation  | 11        | 49,419              | 35,971              | 49,419               | 35,971               |
| Interest Expense  |           | -                   | 32,500              | -                    | -                    |
| Directors' Remuneration   |           | 114,900             | 109,950             | 114,900              | 109,950              |
| Insurance Council of New Zealand  |           | 12,500              | 12,500              | 12,500               | 12,500               |
| Legal Fees  |           | 56,778              | 56,089              | 56,778               | 56,089               |
| Property Operating Expenses   |           | 379,197             | 315,511             | 379,197              | 315,511              |
| Bad Debts   |           | 107                 | -                   | 107                  | -                    |
| Other Expenses  |           | 985,727             | 997,870             | 985,657              | 993,165              |
| Employee Remuneration   |           | 1,293,509           | 1,275,398           | 1,293,509            | 1,275,398            |
| <b>Total Expenditure</b>  |           | <b>3,207,341</b>    | <b>3,109,257</b>    | <b>3,207,271</b>     | <b>3,072,052</b>     |
| <b>Net (Deficit) Before Share of Profit from Associate, Revaluation of Investment Property and Taxation</b> |           | <b>(6,338,503)</b>  | <b>(6,547,725)</b>  | <b>(6,338,433)</b>   | <b>(6,543,020)</b>   |
| Subvention Payment  |           | -                   | -                   | 672                  | (1,411)              |
| Revaluation of Investment Property  | 10        | (900,000)           | (94,208)            | (900,000)            | (94,208)             |
| Share of Profit of Associate  |           | 24,410              | 3,145               | -                    | -                    |
| <b>Net (Deficit) Before Taxation</b>  |           | <b>(7,214,093)</b>  | <b>(6,638,788)</b>  | <b>(7,237,761)</b>   | <b>(6,638,639)</b>   |
| Less Taxation (Credit) / Expense  | 8         | (1,823,864)         | (2,627,137)         | (1,823,172)          | (2,627,137)          |
| <b>TOTAL COMPREHENSIVE (LOSS) NET OF TAX</b>  | <b>14</b> | <b>(5,390,229)</b>  | <b>(4,011,651)</b>  | <b>(5,414,589)</b>   | <b>(4,011,502)</b>   |

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 2011

|   | Notes | 2011<br>Group<br>\$ | 2010<br>Group<br>\$ | 2011<br>Parent<br>\$ | 2010<br>Parent<br>\$ |
|---|-------|---------------------|---------------------|----------------------|----------------------|
| <b>SHAREHOLDERS' EQUITY</b>               |       |                     |                     |                      |                      |
| <b>Issued and Paid-Up Ordinary Shares</b> |       |                     |                     |                      |                      |
| 6,390,790 Ordinary Shares fully paid up   | 20    | 6,390,790           | 6,390,790           | 6,390,790            | 6,390,790            |
| Retained Earnings                         | 20    | 3,692,658           | 9,082,887           | 3,710,451            | 9,125,041            |
| <b>TOTAL EQUITY</b>                       |       | <b>10,083,448</b>   | <b>15,473,677</b>   | <b>10,101,241</b>    | <b>15,515,831</b>    |
| Represented By:                           |       |                     |                     |                      |                      |
| <b>CURRENT ASSETS</b>                     |       |                     |                     |                      |                      |
| Bank & Cash Equivalents                   |       | 24,099,400          | 7,992,117           | 24,048,110           | 7,946,835            |
| Sundry Debtors and Prepayments            |       | 970,367             | 2,194,691           | 971,038              | 2,189,305            |
| Premiums Receivable                       |       | 23,450              | 686,473             | 23,450               | 686,473              |
| Reinsurance Recoveries                    | 6     | 702,715,777         | 80,461,914          | 702,715,777          | 80,461,914           |
| Reinsurance Prepayments                   | 7     | 60,067              | 2,506,300           | 60,067               | 2,506,300            |
| Income Tax Receivable                     | 8     | 197,920             | 180,040             | 197,920              | 180,040              |
| Managed Funds                             | 13    | -                   | 5,012,461           | -                    | 5,012,461            |
| <b>Total Current Assets</b>               |       | <b>728,066,981</b>  | <b>99,033,996</b>   | <b>728,016,362</b>   | <b>98,983,328</b>    |
| <b>NON CURRENT ASSETS</b>                 |       |                     |                     |                      |                      |
| NZ Government Stock                       | 13    | 110,374             | 107,369             | 110,374              | 107,369              |
| Shares in Local Government Online         |       | 81,764              | 57,354              | 30,000               | 30,000               |
| Property, Plant and Equipment             | 11    | 94,460              | 125,944             | 94,460               | 125,944              |
| Intangible Assets (Software)              | 11    | 159,151             | 199,376             | 159,151              | 199,376              |
| Deferred Tax Asset                        | 8     | 3,417,215           | 1,596,876           | 3,417,215            | 1,596,876            |
| Investment Property                       | 10    | 6,925,000           | 7,825,000           | 6,925,000            | 7,825,000            |
| <b>Total Non Current Assets</b>           |       | <b>10,787,964</b>   | <b>9,911,919</b>    | <b>10,736,200</b>    | <b>9,884,565</b>     |
| <b>TOTAL ASSETS</b>                       |       | <b>738,854,945</b>  | <b>108,945,915</b>  | <b>738,752,562</b>   | <b>108,867,893</b>   |

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 2011 continued

|  | Notes | 2011<br>Group<br>\$ | 2010<br>Group<br>\$ | 2011<br>Parent<br>\$ | 2010<br>Parent<br>\$ |
|--|-------|---------------------|---------------------|----------------------|----------------------|
| <b>CURRENT LIABILITIES</b>               |       |                     |                     |                      |                      |
| Sundry Creditors & Accrued Charges       |       | 526,675             | 915,109             | 526,675              | 915,109              |
| Reinsurance Received in Advance          |       | 14,936,206          | -                   | 14,936,206           | -                    |
| Accrued Holiday Pay                      |       | 53,359              | 56,776              | 53,359               | 56,776               |
| Subordinated Debt                        | 16    | 120,176             | 120,176             | -                    | -                    |
|  |       | 15,636,416          | 1,092,061           | 15,516,240           | 971,885              |
| <b>Insurance Provisions</b>              |       |                     |                     |                      |                      |
| Unearned Premium Reserve                 | 7     | 436,081             | 4,099,951           | 436,081              | 4,099,951            |
| Outstanding Claims Liability             | 3     | 712,699,000         | 88,280,226          | 712,699,000          | 88,280,226           |
| <b>Total Insurance Provisions</b>        |       | <b>713,135,081</b>  | <b>92,380,177</b>   | <b>713,135,081</b>   | <b>92,380,177</b>    |
| <b>Total Current Liabilities</b>         |       | <b>728,771,497</b>  | <b>93,472,238</b>   | <b>728,651,321</b>   | <b>93,352,062</b>    |
| <b>TOTAL LIABILITIES</b>                 |       | <b>728,771,497</b>  | <b>93,472,238</b>   | <b>728,651,321</b>   | <b>93,352,062</b>    |
| <b>EXCESS OF ASSETS OVER LIABILITIES</b> |       | <b>10,083,448</b>   | <b>15,473,677</b>   | <b>10,101,241</b>    | <b>15,515,831</b>    |

## For and on behalf of the Directors

Director Bryan Taylor



30 March 2012

Director Mike Hannan



30 March 2012

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 2011

|                                       | 2011<br>Group<br>\$ | 2010<br>Group<br>\$ | 2011<br>Parent<br>\$ | 2010<br>Parent<br>\$ |
|---------------------------------------|---------------------|---------------------|----------------------|----------------------|
| <b>OPENING EQUITY</b>                 | 15,473,677          | 19,485,328          | 15,515,831           | 19,527,333           |
| Total Comprehensive (Loss)            | (5,390,229)         | (4,011,651)         | (5,414,589)          | (4,011,502)          |
| Total Recognised Revenue and Expenses | (5,390,229)         | (4,011,651)         | (5,414,589)          | (4,011,502)          |
| Dividend Payment                      | -                   | -                   | -                    | -                    |
| <b>CLOSING EQUITY</b>                 | <b>10,083,448</b>   | <b>15,473,677</b>   | <b>10,101,241</b>    | <b>15,515,831</b>    |

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 2011

|  | Notes | 2011<br>Group<br>\$ | 2010<br>Group<br>\$ | 2011<br>Parent<br>\$ | 2010<br>Parent<br>\$ |
|--|-------|---------------------|---------------------|----------------------|----------------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>    |       |                     |                     |                      |                      |
| <b>Cash was provided from:</b>                 |       |                     |                     |                      |                      |
| Premiums Received                              |       | 1,589,380           | 9,110,213           | 1,589,380            | 9,110,213            |
| Rent Received                                  |       | 797,060             | 864,665             | 797,060              | 864,665              |
| Administration Fees Received                   |       | 1,317,938           | 1,245,583           | 1,317,938            | 1,245,583            |
| Interest Received                              |       | 438,874             | 386,720             | 438,874              | 354,220              |
| Reinsurance Recoveries                         |       | 4,530,237           | 4,616,534           | 4,530,237            | 4,616,534            |
| Receipt of Reinsurance Payments                |       | 14,936,206          | -                   | 14,936,206           | -                    |
| Maturing Local Authority Stock                 |       | -                   | 1,000,000           | -                    | -                    |
|  |       | 23,609,695          | 17,223,715          | 23,609,695           | 16,191,215           |
| <b>Cash was applied to:</b>                    |       |                     |                     |                      |                      |
| Claims Expenses                                |       | 9,743,873           | 7,515,152           | 9,743,873            | 7,515,152            |
| Taxation Paid                                  |       | 14,353              | 298,921             | 15,045               | 298,921              |
| Interest Expense                               |       | -                   | 32,500              | -                    | -                    |
| Payments to Reinsurers and Suppliers           |       | 2,746,125           | 10,558,904          | 2,746,055            | 10,555,498           |
| Maturing Civic Bonds                           |       | -                   | 1,000,000           | -                    | -                    |
|  |       | 12,504,351          | 19,405,477          | 12,504,973           | 18,369,571           |
| <b>Net Cash Flow from Operating Activities</b> | 14    | 11,105,344          | (2,181,762)         | 11,104,722           | (2,178,356)          |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>    |       |                     |                     |                      |                      |
| <b>Cash was provided from:</b>                 |       |                     |                     |                      |                      |
| Managed Funds                                  |       | 5,012,461           | -                   | 5,012,461            | -                    |
| Sale of Fixed Assets                           |       | 5,010               | 43                  | 5,010                | 43                   |
|  |       | 5,017,471           | 43                  | 5,017,471            | 43                   |
| <b>Cash was applied to:</b>                    |       |                     |                     |                      |                      |
| Purchase of Government Stock                   |       | 1,590               | -                   | 1,590                | -                    |
| Purchase of Fixed Assets                       |       | 13,942              | 417,557             | 13,942               | 417,557              |
|  |       | 15,532              | 417,557             | 15,532               | 417,557              |
| <b>Net Cash Flow from Investing Activities</b> |       | 5,001,939           | (417,514)           | 5,001,939            | (417,514)            |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>    |       |                     |                     |                      |                      |
| <b>Cash was applied to:</b>                    |       |                     |                     |                      |                      |
| Payment of Subvention Payment                  |       | -                   | -                   | 5,386                | -                    |
|  |       | -                   | -                   | 5,386                | -                    |
| <b>Net Cash Flow from Financing Activities</b> |       | -                   | -                   | (5,386)              | -                    |
| Net (Decrease)/Increase in Cash Held           |       | 16,107,283          | (2,599,276)         | 16,101,275           | (2,595,870)          |
| Opening Cash Balance as at 1 January           |       | 7,992,117           | 10,591,393          | 7,946,835            | 10,542,705           |
| <b>Closing Cash Balance as at 31 December</b>  |       | <b>24,099,400</b>   | <b>7,992,117</b>    | <b>24,048,110</b>    | <b>7,946,835</b>     |
| <b>Being: Bank &amp; Cash Equivalents</b>      |       | <b>24,099,400</b>   | <b>7,992,117</b>    | <b>24,048,110</b>    | <b>7,946,835</b>     |

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 2011

## NOTE 1. REPORTING ENTITY

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

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

### Statement of Compliance

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

## NOTE 2. STATEMENT OF ACCOUNTING POLICIES

### General Accounting Policies

The measurement and reporting of profits on an historical cost basis have been followed by the Company and Group, except for specific policies as described below.

The reporting currency is New Zealand dollars.

The Group meets the definition of a financial institution under NZ IFRS 7 “Financial Instruments Disclosures” and is subject to its requirements due to New Zealand Local Government Finance Corporation Limited, 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.

# Notes to the Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2011 continued

## (c) Income Attributable to Insurance Business

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

## (d) Reinsurance Expense

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

## (e) Claims

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

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

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

## (f) Reinsurance and Other Recoveries

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

## (g) Liability Adequacy Test

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

## (h) Assets which back Insurance Liabilities

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

## (i) Investment Property

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

# Notes to the Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2011 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*

NZ Government Stock is classified as Held To Maturity and is measured at amortised cost using the effective interest method.

#### *Loans and Receivables*

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

#### *Bank and Cash Equivalents*

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

#### *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 Sundry Creditors, Subordinated Debt and Outstanding Claims. Financial liabilities are recorded initially at fair value, net of transaction costs. Subsequent to initial recognition, liabilities are measured at amortised cost.

#### (ii) Offsetting Financial Instruments

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

#### (iii) Asset Quality

##### *Impairment of Financial Assets*

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

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

# Notes to the Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2011 continued

## NOTE 2. STATEMENT OF ACCOUNTING POLICIES CONTINUED

### (iv) Fair value of financial instruments

#### *Fair value measurements recognised in the Statement of Financial Position*

Financial instruments are categorised into 3 levels:

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

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 during the year.

### (v) Derivatives

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

## (l) Taxation

### *Current Tax*

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

### *Deferred Tax*

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

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

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

## (m) Goods and Services Tax (GST)

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

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

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

# Notes to the Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2011 continued

## NOTE 2. STATEMENT OF ACCOUNTING POLICIES CONTINUED

### (n) Statement of Cash Flows

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

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

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

### (o) Employee Benefits

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

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

### (p) Investment in Subsidiaries

The Company has six wholly owned subsidiaries which are all incorporated in New Zealand. Five of these, Local Government Superannuation Trustee Limited, SuperEasy Limited, Local Government Finance Corporation Limited and Civic Assurance Limited with balance dates of 31 December and Local Government Mutual Funds Trustee Limited with its balance date of 30 June did not have any significant assets, liabilities, revenue or expenses during the year's ended 31 December 2010 and 31 December 2011. New Zealand Local Government Finance Corporation Limited (LGFC) commenced business on the 29 November 1999 and had total assets of \$50,668 (2010: \$50,668) at 31 December 2011. The five companies have been recognised in the Parent financial statements at cost less impairment and consolidated in the Group financial statements. The operating companies are subject to ongoing review of their operations to ensure they are meeting their agreed strategic objectives.

### (q) Investment in Associate Company

The share of the income of the associate company, Local Government Online Limited, has been included in the consolidated Statement of Comprehensive Income and added to the cost of the investment in the consolidated Statement of Financial Position. The Parent financial statements record the investment at cost less impairment.

### (r) Basis of Measuring Income and Expenses

Income and expenses are accounted for on an accruals basis.

### (s) Changes in Accounting Policies

For 2011, the presentation for recognising reinsurance paid in advance has been amended to report this separately from the unearned premium reserve. Previously, the unearned premium reserve was reported net of reinsurance prepayments. This change of presentation has also resulted in the grossing up of premiums earned and reinsurance paid figures in the Statement of Comprehensive Income.

# Notes to the Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2011 continued

## NOTE 3. CLAIMS

### (a) Claims

|  | 2011<br>Group<br>\$ | 2010<br>Group<br>\$ | 2011<br>Parent<br>\$ | 2010<br>Parent<br>\$ |
|--|---------------------|---------------------|----------------------|----------------------|
| <i>Claims incurred and Provision for Outstanding Claims</i>                |                     |                     |                      |                      |
| Total claims incurred during the year                                      | (634,166,382)       | (91,856,086)        | (634,166,382)        | (91,856,086)         |
| Less: Reinsurance recoveries receivable on claims incurred during the year | 626,784,100         | 82,483,978          | 626,784,100          | 82,483,978           |
| <b>Net Claims</b>  | <b>(7,382,282)</b>  | <b>(9,372,108)</b>  | <b>(7,382,282)</b>   | <b>(9,372,108)</b>   |

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

|  | 2011<br>Group<br>\$ | 2010<br>Group<br>\$ | 2011<br>Parent<br>\$ | 2010<br>Parent<br>\$ |
|--|---------------------|---------------------|----------------------|----------------------|
| Outstanding Claims liability at the beginning of the financial year  | 88,280,226          | 3,905,000           | 88,280,226           | 3,905,000            |
| Claims Expense in the current year                                   | 634,166,382         | 91,856,086          | 634,166,382          | 91,856,086           |
| Claims Paid  | (9,747,608)         | (7,480,860)         | (9,747,608)          | (7,480,860)          |
| <b>Outstanding Claims liability at the end of the financial year</b> | <b>712,699,000</b>  | <b>88,280,226</b>   | <b>712,699,000</b>   | <b>88,280,226</b>    |

### (c) Actuarial Methodology and Assumptions

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

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

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

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

# Notes to the Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2011 continued

## NOTE 3. CLAIMS CONTINUED

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

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

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

### (d) Canterbury Earthquakes Claims

The Canterbury earthquakes have had a significant impact on the operational and financial results of the Company for the year ended 31 December 2011, with over 900 claims being received. As at 31 December 2011 the Outstanding Claims Liability in relation to Canterbury earthquake claims was \$707,030,000 of which \$701,354,000 is covered by reinsurance treaties resulting in a net incurred claims liability of \$5,679,000. As a result of the Canterbury earthquake events, reinsurance cover has been less affordable than in previous years. In addition to this, the Company has faced logistical issues detailing the exposures that were to be written due to a lack of detailed information being readily available on the local government assets. As a consequence of this, the Company was unable to obtain reinsurance at an appropriate price for the current reinsurance year commencing 1 July 2011 and has therefore not accepted any new material damage risk from this date.

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

- The unique and continuing nature of the Canterbury earthquake events means that at this stage there is very limited data upon which to base a meaningful actuarial analysis.
- All claims have been assessed by loss adjusters who have expertise in this area. We understand that there is no reason to believe that there is any systemic under or over estimation of reported claims.
- To date, few claims have been closed so there are unlikely to be reopened claims.

Despite the considerable gross claims costs, the financial impact on the Company has been significantly mitigated by the existing catastrophe reinsurance treaties in place until 30 June 2011. These reinsurance treaties limit the Company's net claims liability to \$3.6 million net incurred claims per event (net of reinsurance). While it is expected that the gross claims will be larger than the net retention (after catastrophe reinsurance) any increase in the claims costs will be borne by the reinsurers and therefore the risk margin on the net claims liability is zero.

Although the Company's exposure to insurance risk is limited to \$3.6 million net incurred claims per event, it continues to be exposed to credit risk relating to the ability of the reinsurers to pay the gross reinsurance recoveries receivable. Details of the Company's credit risk management policies are included in note 4(d).

No discounting of the outstanding claims liabilities or associated reinsurance recoveries receivable has been made on the basis of the short payment period expected in relation to the Company's net insured claims.

### (e) Other Claims

As at 31 December 2011 the central estimate of the outstanding claims liability and risk margins in relation to Business as Usual and Riskpool claims was evaluated by Craig Lough 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 used in the calculation of the outstanding claims liability.

The outstanding claims liability in respect of Business as Usual and Riskpool claims has been determined 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.

# Notes to the Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2011 continued

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

The overall risk margin for both outstanding claims and liability adequacy testing has been determined using stochastic techniques and have been determined allowing for diversification between groups of business and having regard to the inherent variation observed in claims development in each group of business. The undiversified risk margins for each group of business are applied to the net central estimates and the results aggregated, allowing for diversification, in order to arrive at an overall net provision that is intended to provide a probability of sufficiency of 85%. For the non Canterbury earthquake claims a risk margin of \$184,000 (2010: \$477,000) has been included in the Outstanding Claims Liability as at balance date, as required in terms of NZ IFRS 4 clause 17.2.

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

The period between the valuation date and the settlement of most claims is short, and the valuation implicitly allows for past levels of inflation to continue in the future. Therefore, any increase in costs as a result of inflation is limited. Also due to the short settlement periods the effect of discounting expected future payments is also limited and therefore the estimates are not discounted for the time value of money.

## NOTE 4. INSURANCE CONTRACT RISK MANAGEMENT

A key risk from operating in the general insurance industry is the exposure to insurance risk arising from underwriting general insurance contracts. The insurance contracts transfer risk to the insurer by indemnifying the policyholders against adverse 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 underwriter who has 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, provided by New Zealand Mutual Liability Riskpool (“Riskpool”).
- Pricing – Many years of underwriting results for a tight homogenous group of risks enables the Company’s underwriters to calculate acceptable pricing and acceptable terms and conditions of cover.
- Reinsurance – Through reinsurance the Company, up until 30 June 2011, was able to cap its maximum liability in the event of a catastrophe to \$3.6 million. This amount was well within the Company’s reserves.

# Notes to the Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2011 continued

## NOTE 4. INSURANCE CONTRACT RISK MANAGEMENT CONTINUED

- 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. Due to the Company being unable to reinsure risks after 1 July 2011 the risk was managed by not writing policies.

### (b) Terms and Conditions of Insurance Contracts

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

### (c) Concentration of Insurance Risk

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

### (d) Credit Risk

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

The credit risk relating to insurance contracts relates primarily to:

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

### (e) Interest Rate Risk

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

### (f) Reinsurance Risk

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

### (g) Operational Risk

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

### (h) Liquidity Risk

All assets and liabilities used in relation to the liquidity of the insurance business are 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 from an actuary.

# Notes to the Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2011 continued

## NOTE 5. INSURANCE PROVISIONS

The Company had a claims payable credit rating of “B++” issued by A M Best at 31 December 2011. 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

|   | 2011<br>Group<br>\$ | 2010<br>Group<br>\$ | 2011<br>Parent<br>\$ | 2010<br>Parent<br>\$ |
|---|---------------------|---------------------|----------------------|----------------------|
| Reinsurance recoveries receivable on outstanding claims at the beginning of the year  | 80,461,914          | 2,594,470           | 80,461,914           | 2,594,470            |
| Reinsurance recoveries received   | (4,530,237)         | (4,616,534)         | (4,530,237)          | (4,616,534)          |
| Reinsurance recoveries receivable on claims incurred during the year                  | 626,784,100         | 82,483,978          | 626,784,100          | 82,483,978           |
| <b>Reinsurance recoveries receivable on outstanding claims at the end of the year</b> | <b>702,715,777</b>  | <b>80,461,914</b>   | <b>702,715,777</b>   | <b>80,461,914</b>    |

### (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 Risk Management

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

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 2011 continued

## NOTE 7. UNEARNED PREMIUM LIABILITY AND REINSURANCE PREPAYMENTS

### (a) Reconciliation of Movements for the Financial Year

|  | 2011<br>Group<br>\$ | 2010<br>Group<br>\$ | 2011<br>Parent<br>\$ | 2010<br>Parent<br>\$ |
|--|---------------------|---------------------|----------------------|----------------------|
| Unearned net premium liability at the beginning of the financial year    | 1,593,651           | 1,823,480           | 1,593,651            | 1,823,480            |
| Deferral of gross premiums on contracts written in the year              | 436,081             | 4,099,951           | 436,081              | 4,099,951            |
| Deferral of reinsurance expense payable on contracts written in the year | (60,067)            | (2,506,300)         | (60,067)             | (2,506,300)          |
| Earning of premiums written in previous years                            | (4,099,951)         | (3,480,134)         | (4,099,951)          | (3,480,134)          |
| Payment of reinsurance expense payable written in previous years         | 2,506,300           | 1,656,654           | 2,506,300            | 1,656,654            |
| <b>Unearned net premium liability at the end of the financial year</b>   | <b>376,014</b>      | <b>1,593,651</b>    | <b>376,014</b>       | <b>1,593,651</b>     |

### (b) Liability Adequacy Test

The conduct of the liability adequacy test as at 31 December 2011 identified a deficit (2010: surplus).

This is a result of the Company incurring expenses including claims work related to the Canterbury earthquakes despite not providing cover for the second six months of its year under review.

## NOTE 8. TAXATION

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

|   | 2011<br>Group<br>\$ | 2010<br>Group<br>\$ | 2011<br>Parent<br>\$ | 2010<br>Parent<br>\$ |
|---|---------------------|---------------------|----------------------|----------------------|
| <b>Tax expense/(income) comprises:</b>  |                     |                     |                      |                      |
| Current tax expense   | (1,777,029)         | (1,972,254)         | (1,776,337)          | (1,972,254)          |
| Adjustments recognised in the current year in relation to the current tax of prior years  | (46,835)            | 6,228               | (46,835)             | 6,228                |
| 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)            |
| <b>Total tax expense</b>  | <b>(1,823,864)</b>  | <b>(2,627,137)</b>  | <b>(1,823,172)</b>   | <b>(2,627,137)</b>   |
| <b>Attributable to:</b>   |                     |                     |                      |                      |
| Continuing operations   | (1,823,864)         | (2,627,137)         | (1,823,172)          | (2,627,137)          |
| Discontinued operations   | -                   | -                   | -                    | -                    |
|   | <b>(1,823,864)</b>  | <b>(2,627,137)</b>  | <b>(1,823,172)</b>   | <b>(2,627,137)</b>   |

# Notes to the Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2011 continued

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

|  | 2011<br>Group<br>\$ | 2010<br>Group<br>\$ | 2011<br>Parent<br>\$ | 2010<br>Parent<br>\$ |
|--|---------------------|---------------------|----------------------|----------------------|
| Profit from continuing operations  | (6,338,503)         | (6,547,725)         | (6,338,433)          | (6,543,020)          |
| Profit from discontinued operations                                      | -                   | -                   | -                    | -                    |
| Profit from operations   | (6,338,503)         | (6,547,725)         | (6,338,433)          | (6,543,020)          |
| Subvention payable   | -                   | -                   | 672                  | (1,411)              |
| Revaluation of Investment Property                                       | (900,000)           | (94,208)            | (900,000)            | (94,208)             |
|  | (7,238,503)         | (6,641,933)         | (7,237,761)          | (6,638,639)          |
| Income tax calculated at 28% (2010 30%)                                  | (2,026,781)         | (1,992,579)         | (2,026,573)          | (1,991,592)          |
| Non-deductible expenses / (taxable income)                               | 249,752             | 20,325              | 250,236              | 19,338               |
| 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              |
|  | (1,777,029)         | (2,633,365)         | (1,776,337)          | (2,633,365)          |
| (Over) / under provision of income tax in previous year                  | (46,835)            | 6,228               | (46,835)             | 6,228                |
| <b>Income Tax (Credit) / Expense</b>                                     | <b>(1,823,864)</b>  | <b>(2,627,137)</b>  | <b>(1,823,172)</b>   | <b>(2,627,137)</b>   |

## (b) Current tax assets and liabilities

|                       | 2011<br>Group<br>\$ | 2010<br>Group<br>\$ | 2011<br>Parent<br>\$ | 2010<br>Parent<br>\$ |
|-----------------------|---------------------|---------------------|----------------------|----------------------|
| Tax refund receivable | 197,920             | 180,040             | 197,920              | 180,040              |
| Tax payable           | -                   | -                   | -                    | -                    |
|                       | 197,920             | 180,040             | 197,920              | 180,040              |

## (c) Deferred tax balances

|   | 2011<br>Group<br>\$ | 2010<br>Group<br>\$ | 2011<br>Parent<br>\$ | 2010<br>Parent<br>\$ |
|---|---------------------|---------------------|----------------------|----------------------|
| <b>Deferred tax assets comprise:</b>      |                     |                     |                      |                      |
| Temporary differences                     | 3,830,067           | 1,946,432           | 3,830,067            | 1,946,432            |
|   | 3,830,067           | 1,946,432           | 3,830,067            | 1,946,432            |
| <b>Deferred tax liabilities comprise:</b> |                     |                     |                      |                      |
| Temporary differences                     | (412,852)           | (349,556)           | (412,852)            | (349,556)            |
|   | (412,852)           | (349,556)           | (412,852)            | (349,556)            |
| <b>Net Deferred Tax balance</b>           | <b>3,417,215</b>    | <b>1,596,876</b>    | <b>3,417,215</b>     | <b>1,596,876</b>     |

# Notes to the Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2011 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 |             |
|---|--------------------------------------|-------------------|-------------------|-------------------------|-----------------|-------------|
| 2011  | Investment gains                     | (40,315)          | -                 | -                       | (40,315)        |             |
|   | Building, property and equipment     | (1,208,099)       | (95,824)          | -                       | (1,434,154)     |             |
|   | Other                                | -                 | -                 | -                       | -               |             |
|   |                                      | (1,248,414)       | (95,824)          | -                       | (130,231)       | (1,474,469) |
|   | Employee entitlements                | 56,776            | (3,417)           | -                       | -               | 53,359      |
|   | Doubtful debts and impairment losses | -                 | -                 | -                       | -               | -           |
|   | Losses carried forward               | 4,729,053         | 5,672,020         | -                       | 197,380         | 10,598,453  |
|   | Other                                | 2,165,716         | 771,284           | -                       | 90,000          | 3,027,000   |
|   |                                      | 6,951,545         | 6,439,887         | -                       | 287,380         | 13,678,812  |
|   | <b>Attributable to:</b>              |                   |                   |                         |                 |             |
|   | Continuing operations                | 5,703,131         | 6,344,063         | -                       | 157,149         | 12,204,343  |
|   | Discontinued operations              | -                 | -                 | -                       | -               | -           |
|   | Total                                | 5,703,131         | 6,344,063         | -                       | 157,149         | 12,204,343  |
|   | Tax effect at 28%                    | 1,596,876         | 1,776,338         | -                       | 44,002          | 3,417,215   |
| 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   |
|   | <b>Attributable to:</b>              |                   |                   |                         |                 |             |
|   | 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       |             |

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.

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

# Notes to the Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2011 continued

## NOTE 8. TAXATION CONTINUED

### (d) Imputation Credit Account

|   | 2011<br>Group<br>\$ | 2010<br>Group<br>\$ | 2011<br>Parent<br>\$ | 2010<br>Parent<br>\$ |
|---|---------------------|---------------------|----------------------|----------------------|
| Opening Balance                               | 5,638,291           | 5,521,464           | 5,638,291            | 5,521,464            |
| Plus Credits                                  |                     |                     |                      |                      |
| Income Tax Paid                               | -                   | -                   | -                    | -                    |
| Resident Withholding Tax                      | 81,094              | 116,827             | 81,094               | 116,827              |
| Imputation Credits Received                   | -                   | -                   | -                    | -                    |
|   | 81,094              | 116,827             | 81,094               | 116,827              |
| Less Debits                                   |                     |                     |                      |                      |
| Tax Refund                                    | 68,998              | -                   | 68,998               | -                    |
| Imputation Credits Attached to Dividends Paid | -                   | -                   | -                    | -                    |
|   | 68,998              | -                   | 68,998               | -                    |
| Closing Balance                               | 5,650,387           | 5,638,291           | 5,650,387            | 5,638,291            |

## NOTE 9. INCOME RELATING TO FINANCIAL INSTRUMENTS

|  | 2011<br>Group<br>\$ | 2010<br>Group<br>\$ | 2011<br>Parent<br>\$ | 2010<br>Parent<br>\$ |
|--|---------------------|---------------------|----------------------|----------------------|
| <b>Designated Fair Value through Profit or Loss</b>    |                     |                     |                      |                      |
| Managed Fund – Reinvested interest and change in value | 156,946             | 452,108             | 156,946              | 452,108              |
| Dividends Received                                     | -                   | -                   | -                    | -                    |
|  | 156,946             | 452,108             | 156,946              | 452,108              |
| <b>Held to Maturity</b>                                |                     |                     |                      |                      |
| Interest Received – NZ Government Stock                | 4,885               | 8,860               | 4,885                | 8,860                |
| Interest Received – Local Authority Stock              | -                   | 32,500              | -                    | -                    |
|  | 4,885               | 41,360              | 4,885                | 8,860                |
| <b>Cash &amp; Cash Equivalents</b>                     |                     |                     |                      |                      |
| Interest Received – Short Term Deposits at Bank        | 278,458             | 345,972             | 278,458              | 345,972              |
|  | 440,289             | 839,440             | 440,289              | 806,940              |

# Notes to the Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2011 continued

## NOTE 10. INVESTMENT PROPERTY

|  | 2011<br>Group<br>\$ | 2010<br>Group<br>\$ | 2011<br>Parent<br>\$ | 2010<br>Parent<br>\$ |
|--|---------------------|---------------------|----------------------|----------------------|
| <i>(Civic Assurance House, Lambton Quay, Wellington)</i> |                     |                     |                      |                      |
| (a) Land valuation (Original Cost \$289,253)             | 2,900,000           | 2,950,000           | 2,900,000            | 2,950,000            |
| Less decrease in value                                   | -                   | (50,000)            | -                    | (50,000)             |
| Fair Value   | 2,900,000           | 2,900,000           | 2,900,000            | 2,900,000            |
| (b) Building valuation (Original Cost \$860,571)         | 4,900,000           | 4,800,000           | 4,900,000            | 4,800,000            |
| Refurbishment  | -                   | 144,208             | -                    | 144,208              |
| Less decrease in value                                   | (900,000)           | (44,208)            | (900,000)            | (44,208)             |
| Fair Value   | 4,000,000           | 4,900,000           | 4,000,000            | 4,900,000            |
| (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               |
|  | 6,925,000           | 7,825,000           | 6,925,000            | 7,825,000            |

The investment property is revalued every year. The investment property was valued on 31 December 2011 by independent registered valuer Martin Veale (ANZIV, SPINZ) of the firm Telfer Young (Wgtn) Ltd. The property is 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 2011 was 9.0% (2010: 8.5%).

## NOTE 11. PROPERTY, PLANT & EQUIPMENT AND INTANGIBLE ASSETS

|   | 2011<br>Group<br>\$ | 2010<br>Group<br>\$ | 2011<br>Parent<br>\$ | 2010<br>Parent<br>\$ |
|---|---------------------|---------------------|----------------------|----------------------|
| <b>Property, Plant and Equipment</b>                      |                     |                     |                      |                      |
| (a) Office Furniture and Equipment – cost                 | 307,247             | 317,571             | 307,247              | 317,571              |
| Plus Additions  | 4,748               | 68,531              | 4,748                | 68,531               |
| Less Disposals  | (9,243)             | (78,855)            | (9,243)              | (78,855)             |
| Closing Value – cost                                      | 302,752             | 307,247             | 302,752              | 307,247              |
| Office Furniture and Equipment – Accumulated Depreciation | (181,303)           | (228,587)           | (181,303)            | (228,587)            |
| Less Depreciation Charge                                  | (30,070)            | (31,571)            | (30,070)             | (31,571)             |
| Less Disposals  | 3,081               | 78,855              | 3,081                | 78,855               |
| Closing Accumulated Depreciation                          | 208,292             | (181,303)           | (208,292)            | (181,303)            |
| Net Book Value  | 94,460              | 125,944             | 94,460               | 125,944              |

The Net Surplus after Taxation in the Statement of Financial Performance includes a \$1,152 loss on disposal of fixed assets (2010: \$43 gain).

# Notes to the Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2011 continued

## NOTE 11. PROPERTY, PLANT & EQUIPMENT AND INTANGIBLE ASSETS CONTINUED

|                                     | 2011<br>Group<br>\$ | 2010<br>Group<br>\$ | 2011<br>Parent<br>\$ | 2010<br>Parent<br>\$ |
|-------------------------------------|---------------------|---------------------|----------------------|----------------------|
| <b>Intangible Assets</b>            |                     |                     |                      |                      |
| (b) Software – cost                 | 408,097             | 209,883             | 408,097              | 209,883              |
| Plus Additions                      | 9,194               | 204,818             | 9,194                | 204,818              |
| Less Disposals                      | -                   | (6,604)             | -                    | (6,604)              |
| Closing Value – cost                | 417,291             | 408,097             | 417,291              | 408,097              |
| Software – Accumulated Amortisation | (208,721)           | (179,354)           | (208,721)            | (179,354)            |
| Less Amortisation Charge            | (49,419)            | (35,971)            | (49,419)             | (35,971)             |
| Less Disposals                      | -                   | 6,604               | -                    | 6,604                |
| Closing Accumulated Amortisation    | (258,140)           | (208,721)           | (258,140)            | (208,721)            |
| <b>Net Book Value</b>               | <b>159,151</b>      | <b>199,376</b>      | <b>159,151</b>       | <b>199,376</b>       |

## NOTE 12. CONTINGENT LIABILITIES

There are no contingent liabilities.

## NOTE 13. FINANCIAL INSTRUMENTS

### (1) Financial Assets and Liabilities

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

The managed fund which was managed by OnePath (NZ) Ltd consisted of two components being an investment in a world equity fund and investments in directly held NZ fixed interest investments. The mandate to OnePath did not allow any gearing or use of derivatives. All other fixed interest investments were 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 2011 was nil (2010: \$3,000,000).

Market value of managed funds at 31 December 2011 was nil (2010: \$5,012,461).

Carrying value of Financial Assets and Financial Liabilities.

|  | 2011<br>Group<br>\$ | 2010<br>Group<br>\$ | 2011<br>Parent<br>\$ | 2010<br>Parent<br>\$ |
|--|---------------------|---------------------|----------------------|----------------------|
| <b>Financial Asset: Designated Fair Value Through Profit or Loss</b> |                     |                     |                      |                      |
| Managed Funds  | -                   | 5,012,461           | -                    | 5,012,461            |
| <b>Financial Asset: Held to Maturity</b>                             |                     |                     |                      |                      |
| NZ Government Stock  | 110,374             | 107,369             | 110,374              | 107,369              |
| <b>Total Held to Maturity</b>  | <b>110,374</b>      | <b>107,369</b>      | <b>110,374</b>       | <b>107,369</b>       |

# Notes to the Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2011 continued

## NOTE 13. FINANCIAL INSTRUMENTS CONTINUED

|   | 2011<br>Group<br>\$ | 2010<br>Group<br>\$ | 2011<br>Parent<br>\$ | 2010<br>Parent<br>\$ |
|---|---------------------|---------------------|----------------------|----------------------|
| <b>Financial Asset: Loans and Receivables</b>     |                     |                     |                      |                      |
| Sundry Debtors                                    | 401,480             | 711,256             | 402,151              | 705,870              |
| Premiums Receivable                               | 23,450              | 686,473             | 23,450               | 686,473              |
| Reinsurance Recoveries                            | 702,715,777         | 80,461,914          | 702,715,777          | 80,461,914           |
| <b>Total Loans and Receivables</b>                | <b>703,140,706</b>  | <b>81,859,643</b>   | <b>703,141,377</b>   | <b>81,854,257</b>    |
| <b>Financial Asset: Carried at Amortised Cost</b> |                     |                     |                      |                      |
| Bank & Cash Equivalents                           | 24,099,400          | 7,992,117           | 24,048,110           | 7,946,835            |
| <b>Financial Liability: Amortised Cost</b>        |                     |                     |                      |                      |
| Subordinated Debt                                 | 120,176             | 120,176             | -                    | -                    |
| Accounts Payable                                  | 206,096             | 801,431             | 206,096              | 801,431              |
| Reinsurance Received in Advance                   | 14,936,206          | -                   | 14,936,206           | -                    |
| Outstanding Claims Liability                      | 712,699,000         | 88,280,226          | 712,699,000          | 88,280,226           |
| <b>Total Amortised Cost</b>                       | <b>727,961,478</b>  | <b>89,201,833</b>   | <b>727,841,302</b>   | <b>89,081,657</b>    |

### (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.

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.

#### (a) Market Risk

Previously the Company & Group were indirectly exposed to interest rate and foreign currency risk through its investments in OnePath (NZ) Ltd managed funds. Since April 2011, all 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 and Group's financial assets and liabilities at their carrying amounts, categorised by the maturity dates.

# Notes to the Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2011 continued

## NOTE 13. FINANCIAL INSTRUMENTS CONTINUED

|                                       | Interest Rate<br>Spread | Within<br>6 months | 6 to 12<br>months | 1 to 2<br>years | 2 to 5<br>years | Non Interest<br>Bearing<br>\$ | Total              |
|---------------------------------------|-------------------------|--------------------|-------------------|-----------------|-----------------|-------------------------------|--------------------|
|                                       | %                       | \$                 | \$                | \$              | \$              | \$                            | \$                 |
| <b>As at 31 December 2011 (Group)</b> |                         |                    |                   |                 |                 |                               |                    |
| <b>Assets</b>                         |                         |                    |                   |                 |                 |                               |                    |
| Cash at Bank                          | 0% to 3.06%             | 24,017,133         | -                 | -               | -               | 82,267                        | 24,099,400         |
| Other Receivable                      | n/a                     | -                  | -                 | -               | -               | 424,929                       | 424,929            |
| Reinsurance Recoveries                | n/a                     | -                  | -                 | -               | -               | 702,715,777                   | 702,715,777        |
| Managed Funds                         | n/a                     | -                  | -                 | -               | -               | -                             | -                  |
| NZ Government Stock                   | 6.00%                   | -                  | -                 | -               | 110,374         | -                             | 110,374            |
| <b>Total Financial Assets</b>         |                         | <b>24,017,133</b>  | <b>-</b>          | <b>-</b>        | <b>110,374</b>  | <b>703,222,973</b>            | <b>727,350,480</b> |
| <b>Liabilities</b>                    |                         |                    |                   |                 |                 |                               |                    |
| Sundry Creditors                      | n/a                     | -                  | -                 | -               | -               | 206,096                       | 206,096            |
| Reinsurance Received in Advance       | n/a                     | -                  | -                 | -               | -               | 14,936,206                    | 14,936,206         |
| Outstanding Claims                    | n/a                     | -                  | -                 | -               | -               | 712,699,000                   | 712,699,000        |
| Subordinated Debt                     | n/a                     | -                  | -                 | -               | -               | 120,176                       | 120,176            |
| <b>Total Financial Liabilities</b>    |                         | <b>-</b>           | <b>-</b>          | <b>-</b>        | <b>-</b>        | <b>727,961,478</b>            | <b>727,961,478</b> |
| <b>As at 31 December 2010 (Group)</b> |                         |                    |                   |                 |                 |                               |                    |
| <b>Assets</b>                         |                         |                    |                   |                 |                 |                               |                    |
| Cash at Bank                          | 0% to 4.60%             | 7,890,372          | -                 | -               | -               | 101,745                       | 7,992,117          |
| Other Receivable                      | n/a                     | -                  | -                 | -               | -               | 1,397,729                     | 1,397,729          |
| Reinsurance Recoveries                | n/a                     | -                  | -                 | -               | -               | 80,461,914                    | 80,461,914         |
| Managed Funds                         | n/a                     | 4,296,360          | -                 | -               | -               | 716,101                       | 5,012,461          |
| NZ Government Stock                   | 6.00%                   | -                  | 107,369           | -               | -               | -                             | 107,369            |
| <b>Total Financial Assets</b>         |                         | <b>12,186,732</b>  | <b>107,369</b>    | <b>-</b>        | <b>-</b>        | <b>82,677,489</b>             | <b>94,971,590</b>  |
| <b>Liabilities</b>                    |                         |                    |                   |                 |                 |                               |                    |
| Sundry Creditors                      | n/a                     | -                  | -                 | -               | -               | 801,431                       | 801,431            |
| Outstanding Claims                    | n/a                     | -                  | -                 | -               | -               | 88,280,226                    | 88,280,226         |
| Subordinated Debt                     | n/a                     | -                  | -                 | -               | -               | 120,176                       | 120,176            |
| <b>Total Financial Liabilities</b>    |                         | <b>-</b>           | <b>-</b>          | <b>-</b>        | <b>-</b>        | <b>89,201,833</b>             | <b>89,201,833</b>  |

# Notes to the Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2011 continued

## NOTE 13. FINANCIAL INSTRUMENTS CONTINUED

|  | Interest Rate<br>Spread | Within<br>6 months | 6 to 12<br>months | 1 to 2<br>years | 2 to 5<br>years | Non Interest<br>Bearing<br>\$ | Total<br>\$        |
|--|-------------------------|--------------------|-------------------|-----------------|-----------------|-------------------------------|--------------------|
|  | %                       | \$                 | \$                | \$              | \$              |                               | \$                 |
| <b>As at 31 December 2011 (Parent)</b> |                         |                    |                   |                 |                 |                               |                    |
| <b>Assets</b>                          |                         |                    |                   |                 |                 |                               |                    |
| Cash at Bank                           | 0% to 3.06%             | 24,017,133         | -                 | -               | -               | 30,977                        | 24,048,110         |
| Other Receivable                       | n/a                     | -                  | -                 | -               | -               | 425,600                       | 425,600            |
| Reinsurance Recoveries                 | n/a                     | -                  | -                 | -               | -               | 702,715,777                   | 702,715,777        |
| Managed Funds                          | n/a                     | -                  | -                 | -               | -               | -                             | -                  |
| NZ Government Stock                    | 6.00%                   | -                  | -                 | -               | 110,374         | -                             | 110,374            |
| <b>Total Financial Assets</b>          |                         | <b>24,017,133</b>  | <b>-</b>          | <b>-</b>        | <b>110,374</b>  | <b>703,172,354</b>            | <b>727,299,861</b> |
| <b>Liabilities</b>                     |                         |                    |                   |                 |                 |                               |                    |
| Sundry Creditors                       | n/a                     | -                  | -                 | -               | -               | 206,096                       | 206,096            |
| Reinsurance Received<br>in Advance     | n/a                     | -                  | -                 | -               | -               | 14,936,206                    | 14,936,206         |
| Outstanding Claims                     | n/a                     | -                  | -                 | -               | -               | 712,699,000                   | 712,699,000        |
| <b>Total Financial Liabilities</b>     |                         | <b>-</b>           | <b>-</b>          | <b>-</b>        | <b>-</b>        | <b>727,841,302</b>            | <b>727,841,302</b> |
| <b>As at 31 December 2010 (Parent)</b> |                         |                    |                   |                 |                 |                               |                    |
| <b>Assets</b>                          |                         |                    |                   |                 |                 |                               |                    |
| Cash at Bank                           | 0% to 4.60%             | 7,890,372          | -                 | -               | -               | 56,463                        | 7,946,835          |
| Other Receivable                       | n/a                     | -                  | -                 | -               | -               | 2,875,778                     | 2,875,778          |
| Reinsurance Recoveries                 | n/a                     | -                  | -                 | -               | -               | 80,461,914                    | 80,461,914         |
| Managed Funds                          | n/a                     | 4,296,360          | -                 | -               | -               | 716,101                       | 5,012,461          |
| NZ Government Stock                    | 6.00%                   | -                  | -                 | 107,369         | -               | -                             | 107,369            |
| <b>Total Financial Assets</b>          |                         | <b>12,186,732</b>  | <b>-</b>          | <b>107,369</b>  | <b>-</b>        | <b>84,110,256</b>             | <b>96,404,357</b>  |
| <b>Liabilities</b>                     |                         |                    |                   |                 |                 |                               |                    |
| Sundry Creditors                       | n/a                     | -                  | -                 | -               | -               | 801,431                       | 801,431            |
| Outstanding Claims                     | n/a                     | -                  | -                 | -               | -               | 88,280,226                    | 88,280,226         |
| <b>Total Financial Liabilities</b>     |                         | <b>-</b>           | <b>-</b>          | <b>-</b>        | <b>-</b>        | <b>89,081,657</b>             | <b>89,081,657</b>  |

# Notes to the Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2011 continued

## NOTE 13. FINANCIAL INSTRUMENTS CONTINUED

### (ii) Carrying Amount and Fair Value

|                                    | 2011<br>Group<br>Carrying<br>Amount<br>\$ | 2011<br>Group<br>Fair<br>Value<br>\$ | 2010<br>Group<br>Carrying<br>Amount<br>\$ | 2010<br>Group<br>Fair<br>Value<br>\$ |
|------------------------------------|---|--------------------------------------|---|--------------------------------------|
| <b>Assets</b>                      |   |                                      |   |                                      |
| Cash at Bank                       | 24,099,400                                | 24,099,400                           | 7,992,117                                 | 7,992,117                            |
| Other Receivable                   | 424,929                                   | 424,929                              | 1,397,729                                 | 1,397,729                            |
| Reinsurance Recoveries             | 702,715,777                               | 702,715,777                          | 80,461,914                                | 80,461,914                           |
| Managed Funds                      | -   | -                                    | 5,012,461                                 | 5,012,461                            |
| NZ Government Stock                | 110,374                                   | 110,374                              | 107,369                                   | 107,369                              |
| <b>Total Financial Assets</b>      | <b>727,350,480</b>                        | <b>727,350,480</b>                   | <b>94,971,590</b>                         | <b>94,971,590</b>                    |
| <b>Liabilities</b>                 |   |                                      |   |                                      |
| Sundry Creditors                   | 206,096                                   | 206,096                              | 801,431                                   | 801,431                              |
| Reinsurance Received in Advance    | 14,936,206                                | 14,936,206                           | -   | -                                    |
| Outstanding Claims                 | 712,699,000                               | 712,699,000                          | 88,280,226                                | 88,280,226                           |
| Subordinated Debt                  | 120,176                                   | 120,176                              | 120,176                                   | 120,176                              |
| <b>Total Financial Liabilities</b> | <b>727,961,478</b>                        | <b>727,961,478</b>                   | <b>89,201,833</b>                         | <b>89,201,833</b>                    |

|                                    | 2011<br>Parent<br>Carrying<br>Amount<br>\$ | 2011<br>Parent<br>Fair<br>Value<br>\$ | 2010<br>Parent<br>Carrying<br>Amount<br>\$ | 2010<br>Parent<br>Fair<br>Value<br>\$ |
|------------------------------------|--|---------------------------------------|--|---------------------------------------|
| <b>Assets</b>                      |  |                                       |  |                                       |
| Cash at Bank                       | 24,048,110                                 | 24,048,110                            | 7,946,835                                  | 7,946,835                             |
| Other Receivable                   | 425,600                                    | 425,600                               | 2,875,778                                  | 2,875,778                             |
| Reinsurance Recoveries             | 702,715,777                                | 702,715,777                           | 80,461,914                                 | 80,461,914                            |
| Managed Funds                      | -  | -                                     | 5,012,461                                  | 5,012,461                             |
| NZ Government Stock                | 110,374                                    | 110,374                               | 107,369                                    | 107,369                               |
| <b>Total Financial Assets</b>      | <b>727,299,861</b>                         | <b>727,299,861</b>                    | <b>96,404,357</b>                          | <b>96,404,357</b>                     |
| <b>Liabilities</b>                 |  |                                       |  |                                       |
| Sundry Creditors                   | 206,096                                    | 206,096                               | 801,431                                    | 801,431                               |
| Reinsurance Received in Advance    | 14,936,206                                 | 14,936,206                            | -  | -                                     |
| Outstanding Claims                 | 712,699,000                                | 712,699,000                           | 88,280,226                                 | 88,280,226                            |
| <b>Total Financial Liabilities</b> | <b>727,841,302</b>                         | <b>727,841,302</b>                    | <b>89,081,657</b>                          | <b>89,081,657</b>                     |

# Notes to the Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2011 continued

## NOTE 13. FINANCIAL INSTRUMENTS CONTINUED

### (b) Liquidity Risk

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

The following tables include an analysis of the contractual undiscounted cash flows relating to the Company's & Group's financial assets and liabilities at their face value, categorised by the maturity dates.

|   | Within<br>6 months<br>\$ | 6 to 12<br>months<br>\$ | 1 to 2<br>years<br>\$ | 2 to 5<br>years<br>\$ | Total<br>\$        |
|---|--------------------------|-------------------------|-----------------------|-----------------------|--------------------|
| <b>Maturity Analysis (Group) As at 31 December 2011</b> |                          |                         |                       |                       |                    |
| <b>Assets</b>   |                          |                         |                       |                       |                    |
| Cash at Bank  | 24,099,400               | -                       | -                     | -                     | 24,099,400         |
| Other Receivable  | 424,929                  | -                       | -                     | -                     | 424,929            |
| Reinsurance Recoveries                                  | 70,272,277               | 70,271,500              | 140,543,000           | 421,629,000           | 702,715,777        |
| Managed Funds   | -                        | -                       | -                     | -                     | -                  |
| NZ Government Stock                                     | -                        | -                       | -                     | 100,000               | 100,000            |
| <b>Total Financial Assets</b>                           | <b>94,796,606</b>        | <b>70,271,500</b>       | <b>140,543,000</b>    | <b>421,729,000</b>    | <b>727,340,106</b> |
| <b>Liabilities</b>                                      |                          |                         |                       |                       |                    |
| Sundry Creditors  | 206,096                  | -                       | -                     | -                     | 206,096            |
| Reinsurance Received in Advance                         | 14,936,206               | -                       | -                     | -                     | 14,936,206         |
| Outstanding Claims                                      | 80,255,500               | 70,271,500              | 140,543,000           | 421,629,000           | 712,699,000        |
| Subordinated Debt                                       | -                        | -                       | -                     | 120,176               | 120,176            |
| <b>Total Financial Liabilities</b>                      | <b>95,397,802</b>        | <b>70,271,500</b>       | <b>140,543,000</b>    | <b>421,749,176</b>    | <b>727,961,478</b> |
| <b>Maturity Analysis (Group) As at 31 December 2010</b> |                          |                         |                       |                       |                    |
| <b>Assets</b>   |                          |                         |                       |                       |                    |
| Cash at Bank  | 7,992,117                | -                       | -                     | -                     | 7,992,117          |
| Other Receivable  | 1,397,729                | -                       | -                     | -                     | 1,397,729          |
| Reinsurance Recoveries                                  | 961,914                  | 20,000,000              | 55,000,000            | 4,500,000             | 80,461,914         |
| Managed Funds   | 5,012,461                | -                       | -                     | -                     | 5,012,461          |
| NZ Government Stock                                     | -                        | 105,000                 | -                     | -                     | 105,000            |
| <b>Total Financial Assets</b>                           | <b>15,364,221</b>        | <b>20,105,000</b>       | <b>55,000,000</b>     | <b>4,500,000</b>      | <b>94,969,221</b>  |
| <b>Liabilities</b>                                      |                          |                         |                       |                       |                    |
| Sundry Creditors  | 801,431                  | -                       | -                     | -                     | 801,431            |
| Outstanding Claims                                      | 8,780,226                | 20,000,000              | 55,000,000            | 4,500,000             | 88,280,226         |
| Subordinated Debt                                       | -                        | -                       | -                     | 120,176               | 120,176            |
| <b>Total Financial Liabilities</b>                      | <b>9,581,657</b>         | <b>20,000,000</b>       | <b>55,000,000</b>     | <b>4,620,176</b>      | <b>89,201,833</b>  |

# Notes to the Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2011 continued

## NOTE 13. FINANCIAL INSTRUMENTS CONTINUED

|  | Within<br>6 months<br>\$ | 6 to 12<br>months<br>\$ | 1 to 2<br>years<br>\$ | 2 to 5<br>years<br>\$ | Total<br>\$        |
|--|--------------------------|-------------------------|-----------------------|-----------------------|--------------------|
| <b>Maturity Analysis (Parent) As at 31 December 2011</b> |                          |                         |                       |                       |                    |
| <b>Assets</b>  |                          |                         |                       |                       |                    |
| Cash at Bank   | 24,048,110               | -                       | -                     | -                     | 24,048,110         |
| Other Receivable   | 425,600                  | -                       | -                     | -                     | 425,600            |
| Reinsurance Recoveries                                   | 70,272,277               | 70,271,500              | 140,543,000           | 421,629,000           | 702,715,777        |
| Managed Funds  | -                        | -                       | -                     | -                     | -                  |
| NZ Government Stock                                      | -                        | -                       | -                     | 100,000               | 100,000            |
| <b>Total Financial Assets</b>                            | <b>94,745,987</b>        | <b>70,271,500</b>       | <b>140,543,000</b>    | <b>421,729,000</b>    | <b>727,289,487</b> |
| <b>Liabilities</b>                                       |                          |                         |                       |                       |                    |
| Sundry Creditors   | 206,096                  | -                       | -                     | -                     | 206,096            |
| Reinsurance Received in Advance                          | 14,936,206               | -                       | -                     | -                     | 14,936,206         |
| Outstanding Claims                                       | 80,255,500               | 70,271,500              | 140,543,000           | 421,629,000           | 712,699,000        |
| <b>Total Financial Liabilities</b>                       | <b>95,397,802</b>        | <b>70,271,500</b>       | <b>140,543,000</b>    | <b>421,629,000</b>    | <b>727,841,302</b> |
| <b>Maturity Analysis (Parent) As at 31 December 2010</b> |                          |                         |                       |                       |                    |
| <b>Assets</b>  |                          |                         |                       |                       |                    |
| Cash at Bank   | 7,946,835                | -                       | -                     | -                     | 7,946,835          |
| Other Receivable   | 2,875,778                | -                       | -                     | -                     | 2,875,778          |
| Reinsurance Recoveries                                   | 961,914                  | 20,000,000              | 55,000,000            | 4,500,000             | 80,461,914         |
| Managed Funds  | 5,012,461                | -                       | -                     | -                     | 5,012,461          |
| NZ Government Stock                                      | -                        | 105,000                 | -                     | -                     | 105,000            |
| <b>Total Financial Assets</b>                            | <b>16,796,988</b>        | <b>20,105,000</b>       | <b>55,000,000</b>     | <b>4,500,000</b>      | <b>96,401,988</b>  |
| <b>Liabilities</b>                                       |                          |                         |                       |                       |                    |
| Sundry Creditors   | 801,431                  | -                       | -                     | -                     | 801,431            |
| Outstanding Claims                                       | 8,780,226                | 20,000,000              | 55,000,000            | 4,500,000             | 88,280,226         |
| <b>Total Financial Liabilities</b>                       | <b>9,581,657</b>         | <b>20,000,000</b>       | <b>55,000,000</b>     | <b>4,500,000</b>      | <b>89,081,657</b>  |

### (c) Credit Risk

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

#### (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.

# Notes to the Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2011 continued

## NOTE 13. FINANCIAL INSTRUMENTS CONTINUED

### (c) Credit Risk continued

|                          | 2011<br>Group<br>\$ | 2010<br>Group<br>\$ | 2011<br>Parent<br>\$ | 2010<br>Parent<br>\$ |
|--------------------------|---------------------|---------------------|----------------------|----------------------|
| Cash at registered Banks | 24,099,400          | 7,992,117           | 24,048,110           | 7,946,835            |
| Other Receivable         | 424,929             | 1,397,729           | 425,600              | 2,875,778            |
| Reinsurance Recoveries   | 702,715,777         | 80,461,914          | 702,715,777          | 80,461,914           |
| Managed Funds            | -                   | 5,012,461           | -                    | 5,012,461            |
| NZ Government Stock      | 110,374             | 107,369             | 110,374              | 107,369              |
| <b>Total</b>             | <b>727,350,480</b>  | <b>94,971,590</b>   | <b>727,299,861</b>   | <b>96,404,357</b>    |

### (ii) Concentration of Credit Exposure

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

### (3) Foreign Currency Risk

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

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

|   | 2011<br>Group<br>\$ | 2010<br>Group<br>\$ | 2011<br>Parent<br>\$ | 2010<br>Parent<br>\$ |
|---|---------------------|---------------------|----------------------|----------------------|
| <b>Total Comprehensive (Loss) / Income</b>      | <b>(5,390,229)</b>  | <b>(4,011,651)</b>  | <b>(5,414,589)</b>   | <b>(4,011,502)</b>   |
| <b>Add/(less) non cash items</b>                |                     |                     |                      |                      |
| Depreciation                                    | 30,070              | 31,571              | 30,070               | 31,571               |
| Amortisation                                    | 49,419              | 35,971              | 49,419               | 35,971               |
| Movement in Insurance Provisions                | 620,754,904         | 84,145,397          | 620,754,904          | 84,145,397           |
| Movement in Deferred Tax Liability              | (1,820,339)         | (2,660,125)         | (1,820,339)          | (2,660,125)          |
| Effective interest rate adjustments             | -                   | 2,359               | -                    | -                    |
| Net change in fair value of investment property | 900,000             | (50,000)            | 900,000              | (50,000)             |
| Share of Profit of Associate                    | (24,410)            | (3,145)             | -                    | -                    |
| Unrealised net change in value of investments   | (1,415)             | (452,720)           | (1,415)              | (452,720)            |
|   | <b>619,888,229</b>  | <b>81,049,308</b>   | <b>619,912,639</b>   | <b>81,050,094</b>    |

# Notes to the Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2011 continued

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

|  | 2011<br>Group<br>\$ | 2010<br>Group<br>\$ | 2011<br>Parent<br>\$ | 2010<br>Parent<br>\$ |
|--|---------------------|---------------------|----------------------|----------------------|
| <b>Add/(less) movements in other working capital items</b> |                     |                     |                      |                      |
| Accounts Receivable  | (617,920,281)       | (79,002,010)        | (617,926,338)        | (79,000,599)         |
| Accounts Payable   | (391,851)           | (95,641)            | (391,851)            | (94,581)             |
| Reinsurance Received in Advance                            | 14,936,206          | -                   | 14,936,206           | -                    |
| Maturing Local Authority Stock                             | -                   | (1,000,000)         | -                    | -                    |
| Tax Refund Due   | (17,880)            | (265,933)           | (17,880)             | (265,933)            |
| Maturing Civic Bonds                                       | -                   | 1,000,000           | -                    | -                    |
|  | (603,393,806)       | (79,363,584)        | (603,399,863)        | (79,361,113)         |
| Add/(Less) Items Classified as investing activity          | -                   | -                   | -                    | -                    |
| Add/(Less) Items Classified as financing activity          | 1,150               | 144,165             | 6,536                | 144,165              |
| <b>Net Cash Inflow from Operating Activities</b>           | <b>11,105,344</b>   | <b>(2,181,762)</b>  | <b>11,104,722</b>    | <b>(2,178,356)</b>   |

## NOTE 15. OPERATING LEASE COMMITMENTS

There are the following operating lease expense commitments:

|  | 2011<br>Group<br>\$ | 2010<br>Group<br>\$ | 2011<br>Parent<br>\$ | 2010<br>Parent<br>\$ |
|--|---------------------|---------------------|----------------------|----------------------|
| not later than one year                            | 15,808              | 11,911              | 15,808               | 11,911               |
| later than one year but not later than two years   | 15,808              | -                   | 15,808               | -                    |
| later than two years but not later than five years | 16,634              | -                   | 16,634               | -                    |
| later than five years                              | -                   | -                   | -                    | -                    |
|  | 48,250              | 11,911              | 48,250               | 11,911               |

There are the following operating lease income commitments:

|  | 2011<br>Group<br>\$ | 2010<br>Group<br>\$ | 2011<br>Parent<br>\$ | 2010<br>Parent<br>\$ |
|--|---------------------|---------------------|----------------------|----------------------|
| not later than one year                            | 539,350             | 743,430             | 539,350              | 743,430              |
| later than one year but not later than two years   | 217,600             | 373,938             | 217,600              | 373,938              |
| later than two years but not later than five years | 103,325             | 90,596              | 103,325              | 90,596               |
| later than five years                              | -                   | -                   | -                    | -                    |
|  | 860,275             | 1,207,964           | 860,275              | 1,207,964            |

# Notes to the Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2011 continued

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

The Company is the Fund Manager and an insurer for New Zealand Mutual Liability Riskpool ("Riskpool"). Local Government Mutual Funds Trustee Limited ("LGMFTL") has been appointed to act as the Trustee for Riskpool. The Company holds all of the shares in LGMFTL in trust on behalf of Riskpool's members. During the year the Company charged fund management fees to Riskpool of \$282,800 (2010: \$284,490). The balance outstanding at balance date for Riskpool was \$185,640 (2010: \$161,000). The Company received insurance premiums of \$525,000 (2010: \$637,500). Claims outstanding at balance date are \$3,027,000 (2010: \$2,255,000).

The Company is the Administration Manager and an insurer for New Zealand Local Authority Protection Programme Disaster Fund ("LAPP"). During the year the Company charged administration fees to LAPP of \$390,667 (2010: \$245,158). The balance outstanding for administration fees at balance date for LAPP was \$130,054 (2010: \$70,482). The Company received insurance premiums of \$44,878 (2010: \$1,202,478) and paid reinsurance premiums of \$168,681 (2010: \$2,561,843). Claims payments made to LAPP were \$3,533,672 (2010: \$1,259,065) and claims reinsurance recovered from LAPP were \$11,383,533 (2010: \$86,574). Claims outstanding due as at 31 December 2011 was \$10,216,467 (2010: \$7,113,639).

All Transactions with Local Authorities, Riskpool and LAPP represent in excess of 90% of total premium income recorded during the year.

The Company is the Administration and Investment Manager of Local Government Global Superannuation Scheme - Superplan ("Superplan") and Local Government Global Superannuation Scheme - SuperEasy ("SuperEasy"). Local Government Superannuation Trustee Limited ("LGSTL") has been appointed to act as the Trustee for Superplan and SuperEasy. The Company holds all of the shares in LGSTL. During the year the Company charged administration and investment management fees to Superplan (2010) and SuperEasy of \$607,416 (2010: \$541,416). The audit fee incurred by the superannuation funds of \$25,000 (2010: \$20,000) is paid by the Company out of the management fee received. The balance outstanding at balance date is \$160,794 (2010: \$129,332).

Local Government Finance Corporation Limited has a subordinated debt owed to the Company of \$298,750 (2010: \$298,750).

## Key Management Personnel

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

|                              | 2011<br>Group<br>\$ | 2010<br>Group<br>\$ | 2011<br>Parent<br>\$ | 2010<br>Parent<br>\$ |
|------------------------------|---------------------|---------------------|----------------------|----------------------|
| <b>Compensation</b>          |                     |                     |                      |                      |
| Short term employee benefits | 787,137             | 770,010             | 787,137              | 770,010              |
| Post-employment benefits     | -                   | -                   | -                    | -                    |
| Other long-term benefits     | -                   | -                   | -                    | -                    |
| Termination benefits         | -                   | -                   | -                    | -                    |
|                              | <b>787,137</b>      | <b>770,010</b>      | <b>787,137</b>       | <b>770,010</b>       |

# Notes to the Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2011 continued

## NOTE 18. ANALYSIS OF FINANCIAL ASSETS NOT IMPAIRED

|      |                                | Not due     | Past due | Past due<br>+ 30 days | Past due<br>+ 60 days | Total       |
|------|--------------------------------|-------------|----------|-----------------------|-----------------------|-------------|
| 2011 | Sundry Debtors and Prepayments | 381,137     | 10,711   | 2,499                 | 4,104                 | 398,451     |
|      | Premiums Receivable            | 21,020      | -        | -                     | 2,430                 | 23,450      |
|      | Reinsurance Recoveries         | 702,715,777 | -        | -                     | -                     | 702,715,777 |
|      |                                | 703,117,934 | 10,711   | 2,499                 | 6,534                 | 703,137,678 |
| 2010 | Sundry Debtors and Prepayments | 680,623     | 11,857   | 8,588                 | 4,802                 | 705,870     |
|      | Premiums Receivable            | 641,554     | 30,926   | 7,080                 | 6,913                 | 686,473     |
|      | Reinsurance Recoveries         | 80,461,914  | -        | -                     | -                     | 80,461,914  |
|      |                                | 81,784,091  | 42,783   | 15,668                | 11,715                | 81,854,257  |

## NOTE 19. STANDARDS APPROVED BUT NOT YET EFFECTIVE

### Standards and Interpretations in issue not yet adopted

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

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

|  | Effective for annual<br>reporting periods<br>beginning on or after | Expected to be<br>initially applied in the<br>financial year ending |
|--|--|---|
| NZ IFRS 9 'Financial Instruments'  | 1 January 2013   | 31 December 2013  |
| * Revised NZ IFRS 9 'Financial Instruments'  | 1 January 2013   | 31 December 2013  |
| Amendments to NZ IFRS 7 'Financial Instruments: Disclosures'   | 1 July 2011  | 31 December 2012  |
| Amendments to NZ IFRS 7 – Appendix E   | 1 April 2011   | 31 December 2012  |
| Amendments to New Zealand Equivalents to International Financial Reporting Standards to Harmonise with International Financial Reporting Standards and Australian Accounting Standards | 1 July 2011  | 31 December 2012  |
| FRS 44 'NZ Additional Disclosures'   | 1 July 2011  | 31 December 2012  |
| Amendments to FRS 44 'NZ Additional Disclosures'   | 1 July 2011  | 31 December 2012  |
| NZ IFRS 10 'Consolidated Financial Statements'   | 1 January 2013   | 31 December 2013  |
| NZ IAS 28 'Investments in Associates and Joint Ventures' (revised 2011)  | 1 January 2013   | 31 December 2013  |
| NZ IFRS 9 'Financial Instruments'  | 1 January 2013   | 31 December 2013  |

# Notes to the Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2011 continued

## NOTE 19. STANDARDS APPROVED BUT NOT YET EFFECTIVE CONTINUED

|  | Effective for annual reporting periods beginning on or after | Expected to be initially applied in the financial year ending |
|--|--|---|
| Revised NZ IFRS 9 'Financial Instruments' (2010)   | 1 January 2013   | 31 December 2013  |
| NZ IFRS 13 'Fair Value Measurement'  | 1 January 2013   | 31 December 2013  |
| NZ IAS 27 'Separate Financial Statements' (revised 2011)   | 1 January 2013   | 31 December 2013  |
| Amendments to IFRS 7 'Financial Instruments : Disclosures' – Offsetting Financial Assets and Financial Liabilities | 1 January 2013   | 31 December 2013  |
| Amendments to IAS 32 'Financial Instruments: Presentation' - Offsetting Financial Assets and Financial Liabilities | 1 January 2014   | 31 December 2014  |
| Amendments to IFRS 9 and IFRS 7 Mandatory Effective Date and Transition Disclosures                                | 1 January 2015   | 31 December 2015  |

\* 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.

## NOTE 20. SHAREHOLDERS EQUITY

The Share Capital of the Company and Group 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.

|                            | 2011<br>Group<br>\$ | 2010<br>Group<br>\$ | 2011<br>Parent<br>\$ | 2010<br>Parent<br>\$ |
|----------------------------|---------------------|---------------------|----------------------|----------------------|
| <b>Retained Earnings</b>   |                     |                     |                      |                      |
| Opening Balance            | 9,082,887           | 13,094,538          | 9,125,041            | 13,136,543           |
| Net Surplus After Taxation | (5,390,229)         | (4,011,651)         | (5,414,589)          | (4,011,502)          |
| Dividends Paid             | -                   | -                   | -                    | -                    |
| Closing balance            | 3,692,657           | 9,082,887           | 3,710,451            | 9,125,041            |

## NOTE 21. EQUITY RETAINED FOR FINANCIAL SOUNDNESS

All shareholder equity is retained to ensure the financial soundness of the Company and Group. The high level of liquidity in fixed interest (\$9.1m) investments is retained for cash flow purposes and also to balance the funds allocated in the building investment. The Company & Group believes that a high liquidity ratio is necessary for attaining an A (Excellent) claims paying ability rating from AM Best.

# Notes to the Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2011 continued

## 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 2011.

|  | SI Target     | Actual        |
|--|---------------|---------------|
| - Annual claims paying ability rating by AM Best   | A (Excellent) | B++           |
| - To exceed the average insurance industry solvency standards as published by the NZ Insurance Council |               | Well exceeded |
| - Pretax (deficit) / surplus   | (\$2,000,000) | (\$7,237,761) |
| - Net Asset Value  | \$14,074,000  | \$10,083,448  |
| - Net Asset Value per share  | \$2.20        | \$1.58        |

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

## NOTE 23. SUBSEQUENT EVENTS

Subsequent to balance date the company completed a capital raising programme by way of a rights issue to existing shareholders which resulted in 4.626m (\$4.1m) new shares being issued in March 2012. The capital raising was initiated by the Board following the adverse impact on the Company's equity as a result of the Canterbury earthquakes in 2010 and 2011. The additional capital was sought to ensure the Company continued to meet its capital and solvency requirements under the Insurance (Prudential Supervision) Act and to assist with its credit rating review. Both these are critical to the Company being able to return to offering a full insurance programme.

## 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 2011

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 the audit of the financial statements of the Company 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 2011, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date and the notes to the financial statements that include accounting policies and other explanatory information.

### OPINION 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 2011; 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 30 March 2012. This is the date at which our opinion is expressed.

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

### BASIS OF OPINION

We carried out our audit in accordance with the Auditor-General's Auditing Standards, which incorporate the International Standards on Auditing (New Zealand). Those standards require that we comply with ethical requirements and plan and carry out our audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

Material misstatements are differences or omissions of amounts and disclosures that 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 Company'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 Company's internal control.

An audit also involves evaluating:

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

We did not examine every transaction, nor do we guarantee complete accuracy of the financial statements. In accordance with the Financial Reporting Act 1993, we report that we have obtained all the information and explanations we have required. We believe we have obtained sufficient and appropriate audit evidence to provide a basis for our audit opinion.

### **RESPONSIBILITIES OF THE BOARD OF DIRECTORS**

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

- comply with generally accepted accounting practice in New Zealand; and
- give a true and fair view of the Company 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 SHAREHOLDERS AS AT 31 DECEMBER 2011

| SHAREHOLDER MEMBER       | NO. OF SHARES |       | SHAREHOLDER MEMBER                   | NO. OF SHARES       |                  |  |
|--------------------------|---------------|-------|--------------------------------------|---------------------|------------------|--|
| <b>CITY COUNCILS</b>     |               |       | <b>DISTRICT COUNCILS (Continued)</b> |                     |                  |  |
| Auckland                 | 1,351,646     | 21.1% | Rangitikei                           | 23,338              | 0.4%             |  |
| Christchurch             | 464,568       | 7.3%  | Rotorua                              | 87,953              | 1.4%             |  |
| Dunedin                  | 470,966       | 7.4%  | Ruapehu                              | 44,666              | 0.7%             |  |
| Hamilton                 | 202,729       | 3.2%  | Southland                            | 13,715              | 0.2%             |  |
| Hutt                     | 233,911       | 3.7%  | South Taranaki                       | 61,748              | 1.0%             |  |
| Invercargill             | 153,864       | 2.4%  | South Waikato                        | 15,187              | 0.2%             |  |
| Napier                   | 141,921       | 2.2%  | South Wairarapa                      | 26,965              | 0.4%             |  |
| Nelson                   | 95,543        | 1.5%  | Stratford                            | 26,804              | 0.4%             |  |
| Palmerston North         | 193,514       | 3.0%  | Tararua                              | 43,986              | 0.7%             |  |
| Porirua                  | 70,073        | 1.1%  | Tasman                               | 26,792              | 0.4%             |  |
| Tauranga                 | 124,242       | 1.9%  | Taupo                                | 83,971              | 1.3%             |  |
| Upper Hutt               | 51,209        | 0.8%  | Thames-Coromandel                    | 7,120               | 0.1%             |  |
| Wellington               | 526,821       | 8.2%  | Timaru                               | 109,059             | 1.7%             |  |
| <b>DISTRICT COUNCILS</b> |               |       | Waikato                              | 41,070              | 0.6%             |  |
| Ashburton                | 28,008        | 0.4%  | Waimakariri                          | 38,086              | 0.6%             |  |
| Buller                   | 15,698        | 0.2%  | Waimate                              | 9,229               | 0.1%             |  |
| Carterton                | 11,821        | 0.2%  | Waipa                                | 68,541              | 1.1%             |  |
| Central Hawke's Bay      | 8,290         | 0.1%  | Wairoa                               | 22,992              | 0.4%             |  |
| Central Otago            | 39,619        | 0.6%  | Waitaki                              | 59,087              | 0.9%             |  |
| Clutha                   | 33,711        | 0.5%  | Waitomo                              | 2,470               | 0.0%             |  |
| Far North                | 35,440        | 0.6%  | Wanganui                             | 138,830             | 2.2%             |  |
| Gisborne                 | 43,702        | 0.7%  | Western Bay of Plenty                | 16,142              | 0.3%             |  |
| Gore                     | 44,589        | 0.7%  | Westland                             | 16,356              | 0.3%             |  |
| Grey                     | 33,742        | 0.5%  | Whakatane                            | 13,394              | 0.2%             |  |
| Hastings                 | 58,585        | 0.9%  | Whangarei                            | 25,762              | 0.4%             |  |
| Hauraki                  | 31,717        | 0.5%  | <b>REGIONAL COUNCILS</b>             |                     |                  |  |
| Horowhenua               | 45,012        | 0.7%  | Canterbury                           | 70,348              | 1.1%             |  |
| Hurunui                  | 1,000         | 0.0%  | Horizons                             | 2,000               | 0.0%             |  |
| Kaipara                  | 13,629        | 0.2%  | Taranaki                             | 1,000               | 0.0%             |  |
| Kapiti Coast             | 15,060        | 0.2%  | Waikato                              | 5,000               | 0.1%             |  |
| Kawerau                  | 31,161        | 0.5%  | Wellington                           | 80,127              | 1.3%             |  |
| Manawatu                 | 62,219        | 1.0%  | <b>OTHER</b>                         |                     |                  |  |
| Marlborough              | 74,022        | 1.2%  | Trust Power                          | 137,251             | 2.1%             |  |
| 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%  |                                      |                     |                  |  |
|                          |               |       |                                      | <b>Total Shares</b> | <b>6,390,790</b> |  |