2012

ANNUAL REPORT

Civic Assurance

PROTECTING COMMUNITY ASSETS

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Directory

DIRECTORS

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

EXECUTIVE OFFICERS

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

AUDITORS

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

BANKERS

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

LEGAL ADVISERS

Burrowes and Co.
Brandons

REGISTERED OFFICE

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

POSTAL ADDRESS

Civic Assurance, PO Box 5521, Wellington 6145

OTHER CONTACT DETAILS

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

AM Best Rating at 3 May 2013: B++ u (Good), Negative Outlook

Your Directors and Chief Executive have pleasure in submitting the 52nd Annual Report of the affairs of the Company for the year ended 31 December 2012, which is to be presented at the Annual General Meeting of Members in June 2013.

1. OPERATIONS 2012

Insurance Business

Civic's property reinsurance programme for 30 June 2010 to 30 June 2011 was uncapped. The cost to Civic of the September 2010, February 2011 and June 2011 Canterbury 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 reinsurance it obviously would have been considerably more.

The large reinsurance losses from the Canterbury 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. Civic was able to secure property reinsurance from 1 July 2012, but councils were not prepared to buy property insurance from Civic without Civic holding an 'A' credit rating.

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

Investment Revenue

Interest rates continued at historic lows during 2012. This combined with fewer funds to invest compared to previous years meant lower investment income for Civic, down from $440,289 in 2011 to $415,930 in 2012.

Civic Assurance House is a nine-storey building near the government centre. Its value in 2012 fell $150,000 from $6,925,000 to $6,775,000. Gross rents received for Civic Assurance House decreased from $778,609 to $761,215. Operating costs increased from $379,197 to $427,344.

Administration and Accounting Services

Civic provides administration services to LAPP, Riskpool, SuperEasy, SuperEasy KiwiSaver, and LGOL. Fees generated from these activities in 2012 were $1.59 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.

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 and in particular the 4 September 2010 Canterbury earthquake 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 any property insurance, which prior to September 2010 had been Civic's main source of profit. Civic's claims paying ability rating from AM Best at 3 May 2013 was B++ u (Good), with negative outlook.

Civic is in arbitration with two of its reinsurers: R+V Versicherung AG and AIG. Civic's legal advice is that it will win both of these. We should know before the end of 2013.

In early 2012 the Company had a rights issue at 90 cents per share. This was supported by 42 of Civic's 68 shareholders and raised $4.2 million of new capital. The primary reason for the rights issue and the reason that it was supported was for Civic to get back its 'A rating' so it could again be active in the local government property insurance market. A second share issue has also been made offering shares to all councils, whether a current shareholder or not. With disputes outstanding on Civic's reinsurance recoveries, the closing date of this second share issue has been extended to 13 December 2013.

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 will take a number of years before Civic can rebuild its insurance portfolio to where it was. To assist councils with managing their insurances and to reduce their long-term insurance costs, Civic hopes to launch, subject to confirming 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.

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.

Civic continues to offer other lines of insurance such as motor insurance and will re-enter the property insurance market as soon as its rating and reinsurance availability allows it to do so. Meanwhile, Civic through its income from SuperEasy, LAPP and Riskpool administration fees and rent from Civic Assurance House is able to cover the bulk of its running costs.

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

4. ASSOCIATED ENTITIES

Local Government Superannuation Trustee Limited

One of the trustees 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 a degree of independence to LGST, four of the six directors of LGST are not appointed by Civic. These four appointments are made by LGNZ (two), SOLGM (one) and CTU (one).

From October 2012, SuperEasy KiwiSaver and SuperEasy also have an independent trustee: Graeme Mitchell, a former partner of Deloitte.

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

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

Superannuation funds under management are $141 million. SuperEasy's fund managers are AMP Capital Investors (New Zealand) Ltd and ASB Group Investments Ltd. Of the councils that have a preferred provider for KiwiSaver, 92% have appointed Civic (66 out of 72 councils).

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

LAPP Disaster Fund

The LAPP disaster fund is a charitable trust that was set up by LGNZ and Civic in 1993, so is 20 years old this year. LAPP's membership is 58.

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

With the LAPP fund being exhausted by the Canterbury earthquake claims, LAPP uses a reinsurance programme to provide top up 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. To reduce reinsurance costs, LAPP introduced a mutual self-insurance scheme from 1 July 2012, which just in the 2012-13 year is expected to save LAPP's members $6 million.

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

Riskpool

Riskpool provides public liability and professional indemnity cover for councils and has done so since 1997. It is not a company, but a mutual liability fund governed by a trust deed. For the current fund year Riskpool has 57 members.

The trustee of Riskpool is Local Government Mutual Funds Trustee Limited, a 100% subsidiary of Civic. Civic is also the Fund Manager and Scheme Manager for Riskpool. In July 2012 Juliet Martin was appointed by Civic to the position of General Manager Riskpool.

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

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 *LGOL What's New* newsletter and a local government careers board. 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.

5. PROFIT/LOSS, CAPITAL AND DIVIDENDS

The loss for the year after tax was $1.31 million (2011: a loss of $5.41 million). Consolidated shareholders' funds at 31 December 2012 were $12.97 million (2011: $10.08 million). The increase in shareholders' funds was because of the $4.2 million of new capital raised during the year.

The Company did not pay a dividend in 2012. Net asset value per share as at 31 December 2012 was $1.17 (2010: $1.58). Through the rights issue the number of shares increased from 6,390,790 at the beginning of the year to 11,030,364 at year end.

6. DIRECTORS

The Company's constitution requires at least two directors to be appointed from outside the local authority sector. As at 31 December 2012 there were four: M.C. Hannan, R.A. Lineham, B.J. Morrison and B.G. Taylor.

Section 159 of the Companies Act 1993

There are no notices required under section 159 of the Companies Act 1993 except for Directors' remuneration. For the year ended 31 December 2012, Directors' remuneration was:

	$
Darryl Griffin	16,500
Mike Hannan	16,500
Bob Lineham	16,500
Tony Marryatt	22,679
Basil Morrison	16,500
Bryan Taylor	26,221
	114,900

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

	$
Darryl Griffin	3,000
Mike Hannan	6,000
Tony Marryatt	6,000
Basil Morrison	4,500
Bryan Taylor	12,000
	31,500

Interests Register

Directors' interests are tabled at the beginning of each Board meeting. Directorship and other disclosures as at 31 December 2012 were:

D. Griffin	Local Government Superannuation Trustee Ltd; Trustee of Civic Property Pool; Employee of Auckland Council.
M. Hannan	Lumley General Insurance (NZ) Ltd; AUT Enterprises Ltd; Trustee of Civic Property Pool; Advisory Director of Local Government Mutual Funds Trustee Ltd.
R. Lineham	New Zealand Local Government Finance Corporation Ltd; Red Bus Ltd; Sandona Olives Ltd; Trustee of Civic Property Pool; Chief Executive of Christchurch City Holdings Ltd; 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; AJM Holdings Ltd; Trustee of Civic Property Pool; Chief Executive of Christchurch City Council.
B. Morrison	Local Government Superannuation Trustee Ltd; Landcorp Farming Ltd; Landcorp Pastoral Ltd; Waiuta Farms Ltd; Basil J Morrison & Associates Ltd; Trustee of Civic Property Pool; Chair of the Local Government Commission; Waitangi Tribunal Member; Member NZ Geographic Board.
B. Taylor	Local Government Mutual Funds Trustee Ltd; Trustee of Civic Property Pool; 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.

Director attendances at Board meetings held during the 2012 year were:

Darryl Griffin	8 / 10
Mike Hannan	9 / 10
Bob Lineham	10 / 10
Tony Marryatt	9 / 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
110,000 - 120,000	1
170,000 - 180,000	2
330,000 - 340,000	1

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

8. AUDITORS, AUDIT AND RISK COMMITTEE

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

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

The Audit and Risk Committee now has the additional responsibility of oversight of compliance with the insurance company licencing requirements under the Insurance (Prudential Supervision) Act 2010 and the Company's risk management programme.

9. STAFF

We sincerely thank Caroline Bedford, Ian Brown, Alan Denham, Oliver Gilmore, Roger Gyles, Kirsten Herrick, Daphne Hodder, Sylvia Jackson, Juliet Martin, Christopher Munden, Wendy Riley and Glenn Watkin for their valuable contributions to a very demanding year for the Company.

Tony Marryatt
Chairman

Tim Sole
Chief Executive

May 2013

STATEMENT OF ACCOUNTS

Statement of Comprehensive Income

FOR THE YEAR ENDED 31 DECEMBER 2012

	Notes	2012 Group $	2011 Group $	2012 Parent $	2011 Parent $
REVENUE					
Income Attributable to Insurance Business					
Premium Earned		(100,323)	4,457,514	(100,323)	4,457,514
Reinsurance Paid		(169,094)	(2,827,659)	(169,094)	(2,827,659)
Net Claims	3	84,955	(7,382,282)	84,955	(7,382,282)
Underwriting (Deficit)		(184,462)	(5,752,427)	(184,462)	(5,752,427)
Commissions & Claims Management Expenses		-	-	-	-
		(184,462)	(5,752,427)	(184,462)	(5,752,427)
Administration Fees		1,593,505	1,392,366	1,593,505	1,392,366
Income from Investments	9	415,930	440,289	415,930	440,289
Property Income		761,215	788,609	761,215	788,609
Net Operating Revenue		2,586,188	(3,131,162)	2,586,188	(3,131,162)
EXPENDITURE					
Audit Fee					
Statutory Audit		109,169	73,475	109,169	73,475
Other Fees Paid to Auditors re Taxation Advisory		30,850	36,150	30,850	36,150
Claims Paying Ability Rating		21,798	21,611	21,798	21,611
Consultants		143,229	153,898	143,229	153,898
Depreciation	11	67,700	30,070	67,700	30,070
Amortisation	11	50,346	49,419	50,346	49,419
Interest Expense		8,658	-	8,658	-
Directors' Remuneration		114,900	114,900	114,900	114,900
Insurance Council of New Zealand		12,500	12,500	12,500	12,500
Legal Fees		246,322	56,778	246,322	56,778
Property Operating Expenses		427,344	379,197	427,344	379,197
Bad Debts		-	107	-	107
Other Expenses		1,185,933	985,727	1,185,908	985,657
Employee Remuneration		1,431,064	1,293,509	1,431,064	1,293,509
Total Expenditure		3,849,813	3,207,341	3,849,788	3,207,271
Profit/(Deficit) Before Share of Profit from Associate, Revaluation of Investment Property and Taxation		(1,263,625)	(6,338,503)	(1,263,600)	(6,338,433)
Subvention Payment		-	-	(7)	672
Revaluation of Investment Property	10	(323,161)	(900,000)	(323,161)	(900,000)
Share of Profit of Associate		29,461	24,410	-	-
Profit/(Deficit) Before Taxation		(1,557,325)	(7,214,093)	(1,586,768)	(7,237,761)
Less Taxation (Credit) / Expense	8	(272,439)	(1,823,864)	(272,432)	(1,823,172)
TOTAL COMPREHENSIVE PROFIT/(LOSS) NET OF TAX	14	(1,284,886)	(5,390,229)	(1,314,336)	(5,414,589)

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 2012

	Notes	2012 Group $	2011 Group $	2012 Parent $	2011 Parent $
SHAREHOLDERS' EQUITY					
Issued and Paid-Up Ordinary Shares					
11,030,364 Ordinary Shares fully paid up	20	10,566,406	6,390,790	10,566,406	6,390,790
Retained Earnings	20	2,407,772	3,692,658	2,396,115	3,710,451
TOTAL EQUITY		12,974,178	10,083,448	12,962,521	10,101,241
Represented By:					
CURRENT ASSETS					
Bank & Cash Equivalents		14,617,721	24,099,400	14,567,126	24,048,110
Sundry Debtors and Prepayments		425,904	970,367	425,897	971,038
Premiums Receivable		33,005	23,450	33,005	23,450
Reinsurance Recoveries	6	820,245,659	702,715,777	820,245,659	702,715,777
Reinsurance Prepayments	7	40	60,067	40	60,067
Income Tax Receivable	8	200,510	197,920	200,510	197,920
Managed Funds	13	-	-	-	-
Total Current Assets		835,522,839	728,066,981	835,472,237	728,016,362
NON CURRENT ASSETS					
NZ Government Stock	13	107,618	110,374	107,618	110,374
Shares in Local Government Online		111,224	81,764	30,000	30,000
Property, Plant and Equipment	11	286,122	94,460	286,122	94,460
Intangible Assets (Software)	11	110,245	159,151	110,245	159,151
Deferred Tax Asset	8	3,689,647	3,417,215	3,689,647	3,417,215
Investment Property	10	6,775,000	6,925,000	6,775,000	6,925,000
Total Non Current Assets		11,079,856	10,787,964	10,998,632	10,736,200
TOTAL ASSETS		846,602,695	738,854,945	846,470,869	738,752,562

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 2012

	Notes	2012 Group $	2011 Group $	2012 Parent $	2011 Parent $
CURRENT LIABILITIES					
Sundry Creditors & Accrued Charges		3,076,879	526,675	3,076,886	526,675
Reinsurance Received in Advance		-	14,936,206	-	14,936,206
Accrued Holiday Pay		84,553	53,359	84,553	53,359
Subordinated Debt	16	120,176	120,176	-	-
		3,281,608	15,636,416	3,161,439	15,516,240
Insurance Provisions					
Unearned Premium Reserve	7	1,040,109	436,081	1,040,109	436,081
Outstanding Claims Liability	3	829,306,800	712,699,000	829,306,800	712,699,000
Total Insurance Provisions		830,346,909	713,135,081	830,346,909	713,135,081
Total Current Liabilities		833,628,517	728,771,497	833,508,348	728,651,321
TOTAL LIABILITIES		833,628,517	728,771,497	833,508,348	728,651,321
EXCESS OF ASSETS OVER LIABILITIES		12,974,178	10,083,448	12,962,521	10,101,241

For and on behalf of the Directors

Chairman Tony Marryatt 22 April 2013

Director Bryan Taylor 22 April 2013

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 2012

	2012 Group $	2011 Group $	2012 Parent $	2011 Parent $
OPENING EQUITY	10,083,448	15,473,677	10,101,241	15,515,831
Total Comprehensive Profit/(Loss)	(1,284,886)	(5,390,229)	(1,314,336)	(5,414,589)
Total Recognised Revenue and Expenses	(1,284,886)	(5,390,229)	(1,314,336)	(5,414,589)
Ordinary Shares issued during the year	4,175,616	-	4,175,616	-
CLOSING EQUITY	12,974,178	10,083,448	12,962,521	10,101,241

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 2012

	Notes	2012 Group $	2011 Group $	2012 Parent $	2011 Parent $
CASH FLOWS FROM OPERATING ACTIVITIES					
Cash was provided from:					
Premiums Received		585,607	1,589,380	585,607	1,589,380
Rent Received		763,016	797,060	763,016	797,060
Administration Fees Received		1,709,752	1,317,938	1,709,752	1,317,938
Interest Received		418,685	438,874	418,685	438,874
Reinsurance Recoveries		22,556,241	4,530,237	22,556,241	4,530,237
Receipt of Reinsurance Payments		-	14,936,206	-	14,936,206
		26,033,301	23,609,695	26,033,301	23,609,695
Cash was applied to:					
Claims Expenses		22,888,840	9,743,873	22,888,840	9,743,873
Taxation Paid		35,531	14,353	35,531	15,045
Interest Expense		-	-	-	-
Payments to Reinsurers and Suppliers		16,332,263	2,746,125	16,332,240	2,746,055
		39,256,634	12,504,351	39,256,611	12,504,973
Net Cash Flow from Operating Activities	14	(13,223,333)	11,105,344	(13,223,310)	11,104,722
CASH FLOWS FROM INVESTING ACTIVITIES					
Cash was provided from:					
Managed Funds		-	5,012,461	-	5,012,461
Sale of Fixed Assets		-	5,010	-	5,010
		-	5,017,471	-	5,017,471
Cash was applied to:					
Purchase of Government Stock		-	1,590	-	1,590
Purchase of Fixed Assets		433,962	13,942	433,962	13,942
		433,962	15,532	433,962	15,532
Net Cash Flow from Investing Activities		(433,962)	5,001,939	(433,962)	5,001,939
CASH FLOWS FROM FINANCING ACTIVITIES					
Cash was provided from:					
Receipt of Subvention Payment		-	-	672	-
Ordinary Shares issued during the year		4,175,616	-	4,175,616	-
		4,175,616	-	4,176,288	-
Cash was applied to:					
Payment of Subvention Payment		-	-	-	5,386
		-	-	-	5,386
Net Cash Flow from Financing Activities		4,175,616	-	4,176,288	(5,386)
Net (Decrease)/Increase in Cash Held		(9,481,679)	16,107,283	(9,480,984)	16,101,275
Opening Cash Balance as at 1 January		24,099,400	7,992,117	24,048,110	7,946,835
Closing Cash Balance as at 31 December		**14,617,721**	**24,099,400**	**14,567,126**	**24,048,110**
Being: Bank & Cash Equivalents		**14,617,721**	**24,099,400**	**14,567,126**	**24,048,110**

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 2012

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.

(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 2012 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.

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.

(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 2012 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 years ended 31 December 2011 and 31 December 2012. New Zealand Local Government Finance Corporation Limited (NZLGFC) commenced business on the 29 November 1999 and had total assets of $50,601 at 31 December 2012 (2011: $50,668) and ceased active operations in February 2010. The five companies have been recognised in the Parent financial statements at cost less impairment and consolidated in the Group financial statements. The operating companies are subject to ongoing review of their operations to ensure they are meeting their agreed strategic objectives.

(q) Investment in Associate Company

The 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

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

NOTE 3. CLAIMS

(a) Claims

	2012 Group $	2011 Group $	2012 Parent $	2011 Parent $
Claims Incurred and Provision for Outstanding Claims				
Total claims incurred during the year	(140,001,168)	(634,166,382)	(140,001,168)	(634,166,382)
Less: Reinsurance recoveries receivable on claims incurred during the year	140,086,123	626,784,100	140,086,123	626,784,100
Net Claims	**84,955**	**(7,382,282)**	**84,955**	**(7,382,282)**

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

	2012 Group $	2011 Group $	2012 Parent $	2011 Parent $
Outstanding Claims liability at the beginning of the financial year	712,699,000	88,280,226	712,699,000	88,280,226
Claims Expense in the current year	140,001,168	634,166,382	140,001,168	634,166,382
Claims Paid	(23,393,368)	(9,747,608)	(23,393,368)	(9,747,608)
Outstanding Claims liability at the end of the financial year	**829,306,800**	**712,699,000**	**829,306,800**	**712,699,000**

(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.

NOTE 3. CLAIMS CONTINUED

(c) Actuarial Methodology and Assumptions 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, with over 900 claims being received. As at 31 December 2012 the Outstanding Claims Liability in relation to Canterbury earthquake claims was $826,012,000 of which $822,069,000 is covered by reinsurance treaties resulting in a net incurred claims liability of $3,943,000. 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 reinsurance year commencing 1 July 2011 and has 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 2012 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 as 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.

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 $96,000 (2011: $184,000) 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 2012 continued

NOTE 4. INSURANCE CONTRACT RISK MANAGEMENT CONTINUED

(a) Risk Management Objectives and Policies for Mitigating Insurance Risk 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 material damage cover policies.

(b) Terms and Conditions of Insurance Contracts

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

(c) Concentration of Insurance Risk

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

(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 in Note 3. These are reviewed annually and change in accordance with current best estimates using advice from an actuary.

NOTE 5. INSURANCE PROVISIONS

The Company had a claims payable credit rating of "B++ u, negative outlook" issued by A M Best at 31 December 2012. 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

	2012 Group $	2011 Group $	2012 Parent $	2011 Parent $
Reinsurance recoveries receivable on outstanding claims at the beginning of the year	702,715,777	80,461,914	702,715,777	80,461,914
Reinsurance recoveries received	(22,556,241)	(4,530,237)	(22,556,241)	(4,530,237)
Reinsurance recoveries receivable on claims incurred during the year	140,086,123	626,784,100	140,086,123	626,784,100
Reinsurance recoveries receivable on outstanding claims at the end of the year	**820,245,659**	**702,715,777**	**820,245,659**	**702,715,777**

(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 2012 continued

NOTE 7. UNEARNED PREMIUM LIABILITY AND REINSURANCE PREPAYMENTS

(a) Reconciliation of Movements for the Financial Year

	2012 Group $	2011 Group $	2012 Parent $	2011 Parent $
Unearned net premium liability at the beginning of the financial year	376,014	1,593,651	376,014	1,593,651
Deferral of gross premiums on contracts written in the year	226,109	436,081	226,109	436,081
Deferral of reinsurance expense payable on contracts written in the year	(40)	(60,067)	(40)	(60,067)
Earning of premiums written in previous years	(436,081)	(4,099,951)	(436,081)	(4,099,951)
Payment of reinsurance expense payable written in previous years	60,067	2,506,300	60,067	2,506,300
Unexpired Risk Reserve	814,000	-	814,000	-
Unearned net premium liability at the end of the financial year	**1,040,069**	**376,014**	**1,040,069**	**376,014**

(b) Liability Adequacy Test

The conduct of the liability adequacy test as at 31 December 2012 identified a deficit (2011: deficit) and therefore an Unexpired Risk Reserve, that is intended to provide a probability of sufficiency of 75%, has been brought to account in the balance sheet. The deficit is a result of the Company incurring expenses including claims work related to the Canterbury earthquakes despite not providing cover for the year under review.

NOTE 8. TAXATION

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

	2012 Group $	2011 Group $	2012 Parent $	2011 Parent $
Tax expense/(income) comprises:				
Current tax expense	(352,698)	(1,776,329)	(352,691)	(1,776,337)
Adjustments recognised in the current year in relation to the current tax of prior years	80,259	(46,835)	80,259	(46,835)
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	-	-	-	-
Total tax expense	**(272,439)**	**(1,823,164)**	**(272,432)**	**(1,823,172)**
Attributable to:				
Continuing operations	(272,439)	(1,823,164)	(272,432)	(1,823,172)
Discontinued operations	-	-	-	-
	(272,439)	**(1,823,164)**	**(272,432)**	**(1,823,172)**

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:

	2012 Group $	2011 Group $	2012 Parent $	2011 Parent $
Profit from continuing operations	(1,263,625)	(6,338,503)	(1,263,600)	(6,338,433)
Profit from discontinued operations	-	-	-	-
Profit from operations	(1,263,625)	(6,338,503)	(1,263,600)	(6,338,433)
Subvention payable	-	-	(7)	672
Revaluation of Investment Property	(323,161)	(900,000)	(323,161)	(900,000)
	(1,586,786)	(7,238,503)	(1,586,768)	(7,237,761)
Income tax calculated at 28%	(444,302)	(2,026,781)	(444,295)	(2,026,573)
Non-deductible expenses / (taxable income)	91,604	249,752	91,604	250,236
Deferred tax income relating to early adoption of amendments to NZIAS 12	-	-	-	-
Effect of change in corporate tax rate	-	-	-	-
	(352,698)	(1,777,029)	(352,691)	(1,776,337)
(Over)/under provision of income tax in previous year	80,259	(46,835)	80,259	(46,835)
Income Tax (Credit) / Expense	**(272,439)**	**(1,823,864)**	**(272,432)**	**(1,823,172)**

(b) Current tax assets and liabilities

	2012 Group $	2011 Group $	2012 Parent $	2011 Parent $
Tax refund receivable	200,510	197,920	200,510	197,920
Tax payable	-	-	-	-
	200,510	**197,920**	**200,510**	**197,920**

(c) Deferred tax balances

	2012 Group $	2011 Group $	2012 Parent $	2011 Parent $
Deferred tax assets comprise:				
Temporary differences	4,122,775	3,830,067	4,122,775	3,830,067
	4,122,775	3,830,067	4,122,775	3,830,067
Deferred tax liabilities comprise:				
Temporary differences	(433,128)	(412,852)	(433,128)	(412,852)
	(433,128)	(412,852)	(433,128)	(412,852)
Net Deferred Tax balance	**3,689,647**	**3,417,215**	**3,689,647**	**3,417,215**

Notes to the Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2012 continued

NOTE 8. TAXATION CONTINUED

(c) Deferred tax balances continued

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

		Opening Balance $	Charged to Income $	Charged to Equity $	Prior Period Adjustment $	Closing Balance $
2012	Investment gains	(40,315)	-	-	-	(40,315)
	Building, property and equipment	(1,434,154)	(72,416)	-	-	(1,506,570)
	Other	-	-	-	-	-
		(1,474,469)	(72,416)	-	-	(1,546,885)
	Employee entitlements	53,359	31,194	-	-	84,553
	Doubtful debts and impairment losses	-	-	-	-	-
	Losses carried forward	10,598,453	1,300,832	-	2,740,357	14,639,642
	Other	3,027,000	-	-	(3,027,000)	-
		13,678,812	1,332,026	-	(286,643)	14,724,195
	Attributable to:					
	Continuing operations	12,204,343	1,259,610	-	(286,643)	13,177,310
	Discontinued operations	-	-	-	-	-
	Total	12,204,343	1,259,610	-	(286,643)	13,177,310
	Tax effect at 28%	3,417,215	352,691	-	(80,259)	3,689,647
2011	Investment gains	(40,315)	-	-	-	(40,315)
	Building, property and equipment	(1,208,099)	(95,824)	-	(130,231)	(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
	Attributable to:					
	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

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 re-entering the insurance market and returning to profits in future financial years (refer Note 23).

(d) Imputation Credit Account

	2012 Group $	2011 Group $	2012 Parent $	2011 Parent $
Opening Balance	5,650,387	5,638,291	5,650,387	5,638,291
Plus Credits				
Income Tax Paid	-	-	-	-
Resident Withholding Tax	119,418	81,094	119,418	81,094
Imputation Credits Received	-	-	-	-
	119,418	81,094	119,418	81,094
Less Debits				
Tax Refund	122,799	68,998	122,799	68,998
Imputation Credits Attached to Dividends Paid	-	-	-	-
	122,799	68,998	122,799	68,998
Closing Balance	**5,647,006**	**5,650,387**	**5,647,006**	**5,650,387**

NOTE 9. INCOME RELATING TO FINANCIAL INSTRUMENTS

	2012 Group $	2011 Group $	2012 Parent $	2011 Parent $
Designated Fair Value through Profit or Loss				
Managed Fund – Reinvested interest and change in value	-	156,946	-	156,946
Dividends Received	-	-	-	-
	-	156,946	-	156,946
Held to Maturity				
Interest Received – NZ Government Stock	3,243	4,885	3,243	4,885
Interest Received – Local Authority Stock	-	-	-	-
	3,243	4,885	3,243	4,885
Cash & Cash Equivalents				
Interest Received – Short Term Deposits at Bank	412,687	278,458	412,687	278,458
	415,930	**440,289**	**415,930**	**440,289**

Notes to the Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2012 continued

NOTE 10. INVESTMENT PROPERTY

	2012 Group $	2011 Group $	2012 Parent $	2011 Parent $
(Local Government Building, Lambton Quay, Wellington)				
(a) Land valuation (Original Cost $289,253)	2,900,000	2,900,000	2,900,000	2,900,000
Less decrease in value	-	-	-	-
Fair Value	2,900,000	2,900,000	2,900,000	2,900,000
(b) Building valuation (Original Cost $860,571)	4,000,000	4,900,000	4,000,000	4,900,000
Refurbishment	173,161	-	173,161	-
Less decrease in value	(323,161)	(900,000)	(323,161)	(900,000)
Fair Value	3,850,000	4,000,000	3,850,000	4,000,000
(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
	6,775,000	**6,925,000**	**6,775,000**	**6,925,000**

The investment property is revalued every year. The investment property was valued on 31 December 2012 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 2012 was 9.5% (2011: 9.0%).

NOTE 11. PROPERTY, PLANT & EQUIPMENT AND INTANGIBLE ASSETS

	2012 Group $	2011 Group $	2012 Parent $	2011 Parent $
Property, Plant and Equipment				
(a) Office Furniture and Equipment – cost	302,752	307,247	302,752	307,247
Plus Additions	259,362	4,748	259,362	4,748
Less Disposals	-	(9,243)	-	(9,243)
Closing Value – cost	562,114	302,752	562,114	302,752
Office Furniture and Equipment – Accumulated Depreciation	(208,292)	(181,303)	(208,292)	(181,303)
Less Depreciation Charge	(67,700)	(30,070)	(67,700)	(30,070)
Less Disposals	-	3,081	-	3,081
Closing Accumulated Depreciation	(275,992)	(208,292)	(275,992)	(208,292)
Net Book Value	**286,122**	**94,460**	**286,122**	**94,460**

The Net Surplus after Taxation in the Statement of Financial Performance includes a nil gain or loss on disposal of fixed assets (2011: $1,152 loss).

	2012 Group $	2011 Group $	2012 Parent $	2011 Parent $
Intangible Assets				
(b) Software – cost	417,291	408,097	417,291	408,097
Plus Additions	1,440	9,194	1,440	9,194
Less Disposals	-	-	-	-
Closing Value – cost	418,731	417,291	418,731	417,291
Software – Accumulated Amortisation	(258,140)	(208,721)	(258,140)	(208,721)
Less Amortisation Charge	(50,346)	(49,419)	(50,346)	(49,419)
Less Disposals	-	-	-	-
Closing Accumulated Amortisation	(308,486)	(258,140)	(308,486)	(258,140)
Net Book Value	**110,245**	**159,151**	**110,245**	**159,151**

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.

All 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 2012 was nil (2011: nil).

Market value of managed funds at 31 December 2012 was nil (2011: nil).

Carrying value of Financial Assets and Financial Liabilities.

	2012 Group $	2011 Group $	2012 Parent $	2011 Parent $
Financial Asset: Held to Maturity				
NZ Government Stock	107,618	110,374	107,618	110,374
Total Held to Maturity	**107,618**	**110,374**	**107,618**	**110,374**
Financial Asset: Loans and Receivables				
Sundry Debtors	59,545	401,480	59,538	402,151
Premiums Receivable	33,005	23,450	33,005	23,450
Reinsurance Recoveries	820,245,659	702,715,777	820,245,659	702,715,777
Total Loans and Receivables	**820,338,209**	**703,140,707**	**820,338,202**	**703,141,378**

Notes to the Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2012 continued

NOTE 13. FINANCIAL INSTRUMENTS CONTINUED

(1) Financial Assets and Liabilities continued

	2012 Group $	2011 Group $	2012 Parent $	2011 Parent $
Financial Asset: Carried at Amortised Cost				
Bank & Cash Equivalents	14,617,721	24,099,400	14,567,126	24,048,110
Financial Liability: Amortised Cost				
Subordinated Debt	120,176	120,176	-	-
Accounts Payable	1,222,920	206,096	1,222,920	206,096
Reinsurance Received in Advance	-	14,936,206	-	14,936,206
Outstanding Claims Liability	829,306,800	712,699,000	829,306,800	712,699,000
Total Amortised Cost	**830,649,896**	**727,961,478**	**830,529,720**	**727,841,302**

(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.

	Interest Rate Spread %	Within 6 months $	6 to 12 months $	1 to 2 years $	2 to 5 years $	Non Interest Bearing $	Total $
As at 31 December 2012 (Group)							
Assets							
Cash at Bank	0% to 3.00%	14,606,193	-	-	-	11,528	14,617,721
Other Receivable	n/a	-	-	-	-	92,550	92,550
Reinsurance Recoveries	n/a	-	-	-	-	820,245,659	820,245,659
NZ Government Stock	6.00%	-	-	-	107,618	-	107,618
Total Financial Assets		**14,606,193**	**-**	**-**	**107,618**	**820,349,737**	**835,063,548**
Liabilities							
Sundry Creditors	n/a	-	-	-	-	1,222,920	1,222,920
Reinsurance Received in Advance	n/a	-	-	-	-	-	-
Outstanding Claims	n/a	-	-	-	-	829,306,800	829,306,800
Subordinated Debt	n/a	-	-	-	-	120,176	120,176
Total Financial Liabilities		**-**	**-**	**-**	**-**	**830,649,896**	**830,649,896**
As at 31 December 2011 (Group)							
Assets							
Cash at Bank	0% to 3.06%	24,017,133	-	-	-	82,267	24,099,400
Other Receivable	n/a	-	-	-	-	424,930	424,930
Reinsurance Recoveries	n/a	-	-	-	-	702,715,777	702,715,777
NZ Government Stock	6.00%	-	-	-	110,374	-	110,374
Total Financial Assets		**24,017,133**	**-**	**-**	**110,374**	**703,222,974**	**727,350,481**
Liabilities							
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
Total Financial Liabilities		**-**	**-**	**-**	**-**	**727,961,478**	**727,961,478**

Notes to the Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2012 continued

NOTE 13. FINANCIAL INSTRUMENTS CONTINUED

(2) Financial Risk – Structure and Management continued

(a) Market Risk continued

(i) Interest Rate Repricing Schedule continued

	Interest Rate Spread %	Within 6 months $	6 to 12 months $	1 to 2 years $	2 to 5 years $	Non Interest Bearing $	Total $
As at 31 December 2012 (Parent)							
Assets							
Cash at Bank	0% to 3.00%	14,555,598	-	-	-	11,528	14,567,126
Other Receivable	n/a	-	-	-	-	92,543	92,543
Reinsurance Recoveries	n/a	-	-	-	-	820,245,659	820,245,659
NZ Government Stock	6.00%	-	-	-	107,618	-	107,618
Total Financial Assets		**14,555,598**	**-**	**-**	**107,618**	**820,349,730**	**835,012,946**
Liabilities							
Sundry Creditors	n/a	-	-	-	-	1,222,920	1,222,920
Reinsurance Received in Advance	n/a	-	-	-	-	-	-
Outstanding Claims	n/a	-	-	-	-	829,306,800	829,306,800
Total Financial Liabilities		**-**	**-**	**-**	**-**	**830,529,720**	**830,529,720**
As at 31 December 2011 (Parent)							
Assets							
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
NZ Government Stock	6.00%	-	-	110,374	-	-	110,374
Total Financial Assets		**24,017,133**	**-**	**110,374**	**-**	**703,172,354**	**727,299,861**
Liabilities							
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
Total Financial Liabilities		**-**	**-**	**-**	**-**	**727,841,302**	**727,841,302**

(a) Market Risk continued

(ii) Carrying Amount and Fair Value

	2012 Group Carrying Amount $	2012 Group Fair Value $	2011 Group Carrying Amount $	2011 Group Fair Value $
Assets				
Cash at Bank	14,617,721	14,617,721	24,099,400	24,099,400
Other Receivable	92,550	92,550	424,930	424,930
Reinsurance Recoveries	820,245,659	820,245,659	702,715,777	702,715,777
NZ Government Stock	107,618	107,618	110,374	110,374
Total Financial Assets	**835,063,548**	**835,063,548**	**727,350,481**	**727,350,481**
Liabilities				
Sundry Creditors	1,222,920	1,222,920	206,096	206,096
Reinsurance Received in Advance	-	-	14,936,206	14,936,206
Outstanding Claims	829,306,800	829,306,800	712,699,000	712,699,000
Subordinated Debt	120,176	120,176	120,176	120,176
Total Financial Liabilities	**830,649,896**	**830,649,896**	**727,961,478**	**727,961,478**

	2012 Parent Carrying Amount $	2012 Parent Fair Value $	2011 Parent Carrying Amount $	2011 Parent Fair Value $
Assets				
Cash at Bank	14,567,126	14,567,126	24,048,110	24,048,110
Other Receivable	92,543	92,543	425,600	425,600
Reinsurance Recoveries	820,245,659	820,245,659	702,715,777	702,715,777
NZ Government Stock	107,618	107,618	110,374	110,374
Total Financial Assets	**835,012,946**	**835,012,946**	**727,299,861**	**727,299,861**
Liabilities				
Sundry Creditors	1,222,920	1,222,920	206,096	206,096
Reinsurance Received in Advance	-	-	14,936,206	14,936,206
Outstanding Claims	829,306,800	829,306,800	712,699,000	712,699,000
Total Financial Liabilities	**830,529,720**	**830,529,720**	**727,841,302**	**727,841,302**

Notes to the Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2012 continued

NOTE 13. FINANCIAL INSTRUMENTS CONTINUED

(2) Financial Risk – Structure and Management continued

(b) Liquidity Risk

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

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

	Within 6 months $	6 to 12 months $	1 to 2 years $	2 to 5 years $	Total $
Maturity Analysis (Group) As at 31 December 2012					
Assets					
Cash at Bank	14,617,721	-	-	-	14,617,721
Other Receivable	92,550	-	-	-	92,550
Reinsurance Recoveries	187,802,159	70,271,500	140,543,000	421,629,000	820,245,659
NZ Government Stock	-	-	-	100,000	100,000
Total Financial Assets	**202,512,430**	**70,271,500**	**140,543,000**	**421,729,000**	**835,055,930**
Liabilities					
Sundry Creditors	1,222,920	-	-	-	1,222,920
Reinsurance Received in Advance	-	-	-	-	-
Outstanding Claims	196,863,300	70,271,500	140,543,000	421,629,000	829,306,800
Subordinated Debt	-	-	-	120,176	120,176
Total Financial Liabilities	**198,086,220**	**70,271,500**	**140,543,000**	**421,749,176**	**830,649,896**
Maturity Analysis (Group) As at 31 December 2011					
Assets					
Cash at Bank	24,099,400	-	-	-	24,099,400
Other Receivable	424,930	-	-	-	424,930
Reinsurance Recoveries	70,272,277	70,271,500	140,543,000	421,629,000	702,715,777
NZ Government Stock	-	-	-	100,000	100,000
Total Financial Assets	**94,796,607**	**70,271,500**	**140,543,000**	**421,729,000**	**727,340,107**
Liabilities					
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
Total Financial Liabilities	**95,397,802**	**70,271,500**	**140,543,000**	**421,749,176**	**727,961,478**

NOTE 13. FINANCIAL INSTRUMENTS CONTINUED

(2) Financial Risk – Structure and Management continued

*(b) **Liquidity Risk** continued*

	Within 6 months $	6 to 12 months $	1 to 2 years $	2 to 5 years $	Total $
Maturity Analysis (Parent) As at 31 December 2012					
Assets					
Cash at Bank	14,567,126	-	-	-	14,567,126
Other Receivable	92,542	-	-	-	92,542
Reinsurance Recoveries	187,802,159	70,271,500	140,543,000	421,629,000	820,245,659
NZ Government Stock	-	-	-	100,000	100,000
Total Financial Assets	**202,461,827**	**70,271,500**	**140,543,000**	**421,729,000**	**835,005,327**
Liabilities					
Sundry Creditors	1,222,920	-	-	-	1,222,920
Reinsurance Received in Advance	-	-	-	-	-
Outstanding Claims	196,863,300	70,271,500	140,543,000	421,629,000	829,306,800
Total Financial Liabilities	**198,086,220**	**70,271,500**	**140,543,000**	**421,629,000**	**830,529,720**
Maturity Analysis (Parent) As at 31 December 2011					
Assets					
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
NZ Government Stock	-	-	-	100,000	100,000
Total Financial Assets	**94,745,987**	**70,271,500**	**140,543,000**	**421,729,000**	**727,289,487**
Liabilities					
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
Total Financial Liabilities	**95,397,802**	**70,271,500**	**140,543,000**	**421,629,000**	**727,841,302**

*(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).

Notes to the Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2012 continued

NOTE 13. FINANCIAL INSTRUMENTS CONTINUED

(c) Credit Risk continued

(i) Concentration of Credit Risk

The following table includes the Company's & Group's assets at their carrying amounts at balance date.

This equates to the Company's and Group's maximum exposure to credit risk.

	2012 Group $	2011 Group $	2012 Parent $	2011 Parent $
Cash at registered Banks	14,617,721	24,099,400	14,567,126	24,048,110
Other Receivable	92,550	424,930	92,542	425,600
Reinsurance Recoveries	820,245,659	702,715,777	820,245,659	702,715,777
Managed Funds	-	-	-	-
NZ Government Stock	107,618	110,374	107,618	110,374
Total	**835,063,548**	**727,350,481**	**835,012,945**	**727,299,861**

(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

	2012 Group $	2011 Group $	2012 Parent $	2011 Parent $
Total Comprehensive (Loss) / Income	(1,284,886)	(5,390,229)	(1,314,336)	(5,414,589)
Add/(less) non cash items				
Depreciation	67,700	30,070	67,700	30,070
Amortisation	50,346	49,419	50,346	49,419
Movement in Insurance Provisions	117,211,828	620,754,904	117,211,828	620,754,904
Movement in Deferred Tax Liability	(272,432)	(1,820,339)	(272,432)	(1,820,339)
Effective interest rate adjustments	-	-	-	-
Net change in fair value of investment property	323,161	900,000	323,161	900,000
Share of Profit of Associate	(29,460)	(24,410)	-	-
Unrealised net change in value of investments	2,757	(1,415)	2,757	(1,415)
	117,353,900	619,888,229	117,383,360	619,912,639

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

	2012 Group $	2011 Group $	2012 Parent $	2011 Parent $
Add/(less) movements in other working capital items				
Accounts Receivable	(116,934,283)	(617,920,281)	(116,934,270)	(617,926,338)
Accounts Payable	(12,354,801)	(391,851)	(12,354,801)	(391,851)
Reinsurance Received in Advance	-	14,936,206	-	14,936,206
Maturing Local Authority Stock	-	-	-	-
Tax Refund Due	(2,591)	(17,880)	(2,591)	(17,880)
Maturing Civic Bonds	-	-	-	-
	(129,291,675)	(603,393,806)	(129,291,662)	(603,399,863)
Add/(Less) Items Classified as investing activity	-	-	-	-
Add/(Less) Items Classified as financing activity	(672)	1,150	(672)	6,536
Net Cash Inflow from Operating Activities	**(13,223,333)**	**11,105,344**	**(13,223,310)**	**11,104,723**

NOTE 15. OPERATING LEASE COMMITMENTS

There are the following operating lease expense commitments:

	2012 Group $	2011 Group $	2012 Parent $	2011 Parent $
not later than one year	15,588	15,808	15,588	15,808
later than one year but not later than two years	15,588	15,808	15,588	15,808
later than two years but not later than five years	31,380	16,634	31,380	16,634
later than five years	-	-	-	-
	62,556	**48,250**	**62,556**	**48,250**

There are the following operating lease income commitments:

	2012 Group $	2011 Group $	2012 Parent $	2011 Parent $
not later than one year	638,974	539,350	638,974	539,350
later than one year but not later than two years	499,610	217,600	499,610	217,600
later than two years but not later than five years	783,965	103,325	783,965	103,325
later than five years	-	-	-	-
	1,922,549	**860,275**	**1,922,549**	**860,275**

Notes to the Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2012 continued

NOTE 16. SUBORDINATED DEBT

NZ Local Government Finance Corporation's Investment Manager's brokerage was subordinated. The subordinated loan ranks behind all other NZ 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, for the period 1 July 2009 to 30 June 2011, was an insurer for New Zealand Mutual Liability Riskpool ("Riskpool"). Local Government Mutual Funds Trustee Limited ("LGMFTL") has been appointed to act as the Trustee for Riskpool. The Company holds all of the shares in LGMFTL in trust on behalf of Riskpool's members. During the year the Company charged fund management fees to Riskpool of $438,376 (2011: $282,800). The balance outstanding at balance date for Riskpool was $nil (2011: $185,640). The Company received insurance premiums of $nil (2011: $525,000). Claims outstanding at balance date are $1,887,000 (2011: $3,027,000).

The Company is the Administration Manager and was an insurer for New Zealand Local Authority Protection Programme Disaster Fund ("LAPP") up to 30 June 2011. During the year the Company charged administration fees to LAPP of $394,423 (2011: $390,667). The balance outstanding for administration fees at balance date for LAPP was $nil (2011: $130,054).
The Company received insurance premiums of $nil (2011: $44,878) and paid reinsurance premiums of $nil (2011: $168,681). Claims payments made to LAPP were $5,630,928 (2011: $3,533,672) and claims reinsurance recovered from LAPP were $7,302,689 (2011: $11,383,533). Claims outstanding due as at 31 December 2012 was $nil (2011: $10,216,467).

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 - SuperEasy ("SuperEasy"). Local Government Superannuation Trustee Limited ("LGSTL") has been appointed to act as the Trustee for SuperEasy. Graeme R Mitchell has been appointed to act as the Independant Trustee for SuperEasy. The Company holds all of the shares in LGSTL. During the year the Company charged administration and investment management fees to SuperEasy of $721,717 (2011: $607,416). The balance outstanding at balance date is $192,013 (2011: $160,794). The audit fee incurred by the superannuation funds of $50,500 (2011: $25,000) is paid by the Company out of the management fee received.

New Zealand Local Government Finance Corporation Limited has a subordinated debt owed to the Company of $298,750 (2011: $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:

	2012 Group $	2011 Group $	2012 Parent $	2011 Parent $
Compensation				
Short term employee benefits	858,590	787,137	858,590	787,137
Post-employment benefits	-	-	-	-
Other long-term benefits	-	-	-	-
Termination benefits	-	-	-	-
	858,590	**787,137**	**858,590**	**787,137**

NOTE 18. ANALYSIS OF FINANCIAL ASSETS NOT IMPAIRED

		Not due	Past due	Past due + 30 days	Past due + 60 days	Total $
2012	Trade Debtors	59,538	-	-	-	59,538
	Premiums Receivable	33,004	-	-	-	33,004
	Reinsurance Recoveries	820,245,659	-	-	-	820,245,659
		820,338,201	**-**	**-**	**-**	**820,338,201**
2011	Trade Debtors	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**

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 reporting periods beginning on or after	Expected to be initially applied in the 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
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

Notes to the Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2012 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
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 with each share ranking equally in votes, dividends and surpluses. In 2011 6,390,790 were paid issued at $1 per share. During the year 4,639,574 shares were issued at $0.90 per share to existing shareholders.

	2012 Group $	2011 Group $	2012 Parent $	2011 Parent $
Retained Earnings				
Opening Balance	3,692,658	9,082,887	3,710,451	9,125,040
Net Surplus After Taxation	(1,284,886)	(5,390,229)	(1,314,336)	(5,414,589)
Ordinary Shares issued during the year	4,175,616	-	4,175,616	-
Closing balance	6,583,388	3,692,658	6,571,731	3,710,451

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 ($9.1 million) investments is retained for cash flow purposes and also to balance the funds allocated in the building investment. The Company & Group believes that a high liquidity ratio is necessary for attaining an A (Excellent) claims paying ability rating from AM Best.

NOTE 22. COMPARISON WITH STATEMENT OF INTENT

The following is a comparison of the actual performance against the Statement of Intent for the year ended 31 December 2012.

	SI Target	Actual
• Annual claims paying ability rating by AM Best	"A" (Excellent)	"B++ u, negative outlook"
• To exceed the average insurance industry solvency standards as published by the NZ Insurance Council		Exceeded

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

NOTE 23. SUBSEQUENT EVENTS

Share Offer.
Prior to balance date the Company had issued a share offer to shareholders and other non-shareholding local authorities in New Zealand to subscribe for shares in the Company. The share offer will close on 3 May 2013 unless the closing date is extended.

NOTE 24. GOING CONCERN

The magnitude of the Canterbury events has had a significant impact on the operational and financial results of the Company, with over 900 claims being submitted. As at 31 December 2012 the Outstanding Claims Liability in relation to Canterbury earthquake claims as determined by the Company's independent actuary was in excess of $800 million. The financial impact to the Company of the considerable gross claims costs has been significantly mitigated by its catastrophe reinsurance programme, which limits the net of reinsurance claims costs to $3.6 million per event. At 31 December 2012 the Company had settled $7.6 million of its exposure leaving the Company's net outstanding claims liability at $6.6 million. Of this amount $3.8 million relates to its remaining exposure to the Canterbury earthquake claims.

As a consequence of the Canterbury earthquakes and some reinsurance issues, the Company's claims payable credit rating was reduced by A M Best in 2011 to "B++ u, negative outlook" which remains as at 31 December 2012. The Company had been unable to obtain property reinsurance from 1 July 2011 and for this reason the Company ceased offering material damage cover for the year 1 July 2011 to 30 June 2012. For the year commencing 30 June 2012 the Company was able to offer material damage cover however without an upgrade in the AM Best rating no cover was issued. The Reserve Bank of New Zealand has issued the Company a provisional licence under the Insurance (Prudential Supervision) Act 2010 and the Company is in the process of applying for a full licence.

The Company's reinsurers have not unanimously agreed to meet the claims made and some issues outstanding are being resolved through the court process. The Company is currently in arbitration with two of its reinsurers relating to the limits of cover under the reinsurance programme. Both these reinsurers have very favourable credit ratings which endorses their ability to pay. Based on external legal advice the Directors believe that the cases against these two reinsurers are sound and that the amounts accounted for as receivable are legally and contractually payable. The Directors are also pursuing other actions to collect the amounts currently owed by one other party.

The financial statements have been prepared on a going concern basis, the validity of which depends, inter alia, on the limitation of the net liability to $6.6 million. The resolution of the reinsurance issues referred to above is necessary to enable the Company to restore a claims payable credit rating of "A-" or better, which is a pre-requisite for the Company's clients being able to resume placing their property damage insurance with the Company. The Company expects to meet its liabilities. The Directors do acknowledge the inherent uncertainties associated with the outcome of any legal dispute and that there is uncertainty as to when the Company will resume its normal business activities.

The financial statements do not include any adjustments that would result should the aforementioned not materialise. If this occurs the Company may be unable to continue its insurance activities for the foreseeable future. Adjustments may have to be made to reflect the situation that assets may need to be realised other than in the normal course of business and at amounts which could differ significantly from the amount at which they are currently recorded in the Statement of Financial Position. In addition, the company may have to provide for further liabilities that might arise, and to reclassify non current assets and liabilities as current assets and liabilities.

The deferred tax asset has been reviewed at balance date. The Directors believe that it is probable that sufficient taxable profits will be available to allow all the asset to be recovered as the Company expects to resume its normal business activities. The amount of deferred tax assets considered realisable, however, could change in the near term if future estimates of projected taxable income during the carryforward period are revised.

Deloitte.

Independent Auditor's Report

To the readers of New Zealand Local Government Insurance Corporation Limited and Group's Financial Statements for the year ended 31 December 2012

The Auditor-General is the auditor of New Zealand Local Government Insurance Corporation Limited (the "Company") and Group. The Auditor-General has appointed me, Dave Shadwell, using the staff and resources of Deloitte, to carry out the audit of the financial statements of the Company 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 2012, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date and the notes to the financial statements that include accounting policies and other explanatory information.

OPINION

FINANCIAL STATEMENTS

In our opinion the financial statements of the Company and Group on pages 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 2012; and
  - financial performance and cash flows for the year ended on that date.

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

Without modifying our opinion, we considered the adequacy of the disclosures made in note 24 on page 41 about the going concern assumption, which notes that the Company's reinsurers have not unanimously agreed to meet the claims made, and the uncertainty as to when the Company will resume its normal business activities.

The outcome of the reinsurance issues and the Company's ability to continue its material damage cover insurance activities are uncertain at this stage. The validity of the going concern assumption on which the financial statements are prepared depends, inter alia, on the limitation of the Company's net outstanding claims liability to $6.6m.

We consider the disclosures to be adequate.

OTHER LEGAL REQUIREMENTS

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

Our audit was completed on 22 April 2013. 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.

Dave Shadwell

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

Civic Assurance
PROTECTING COMMUNITY ASSETS

CIVIC ASSURANCE SHAREHOLDERS AS AT 31 DECEMBER 2012

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

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