

NEW ZEALAND LOCAL GOVERNMENT INSURANCE CORPORATION LIMITED
Trading as Civic Assurance
ANNUAL REPORT
FOR THE YEAR ENDED 31 DECEMBER 2015



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 2015

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 and group, on her behalf.

Opinion

We have audited the financial statements of the company and group on pages 1 to 24, that comprise the statement of financial position as at 31 December 2015, the statement of comprehensive income, the statement of changes in equity and the 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.

In our opinion the financial statements:

- present fairly, in all material respects, the company and group's:
 - financial position as at 31 December 2015; and
 - financial performance and cash flows for the year then ended; and
- comply with generally accepted accounting practice in New Zealand and have been prepared in accordance with Public Sector Public Benefit Entity Standards.

Our audit was completed on 15 March 2016. 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 we explain our independence.

Basis of opinion

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

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

An audit involves carrying out procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgement, including our assessment of risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the preparation of the company and group's financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company and group's internal control.

Deloitte.

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 the 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. Also we did not evaluate the security and controls over the electronic publication of the financial statements.

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 the preparation and fair presentation of financial statements for the company and group that comply with generally accepted accounting practice in New Zealand and have been prepared in accordance with Public Sector Public Benefit Entity Standards.

The Board of Directors' responsibilities arise from the Financial Markets Conduct Act 2013.

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 is also responsible for the publication of the financial statements, whether in printed or electronic form.

Responsibilities of the Auditor

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

Independence

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

In addition to the audit we have carried out assignments in the area of taxation services, which are compatible with those independence requirements. Other than the audit and these assignments, we have no relationship with or interests in the company.



Dave Shadwell
Deloitte
On behalf of the Auditor-General
Wellington, New Zealand

NEW ZEALAND LOCAL GOVERNMENT INSURANCE CORPORATION LIMITED
STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2015

	Notes	2015 Group \$	2014 Group \$	2015 Parent \$	2014 Parent \$
REVENUE					
Income Attributable to Insurance Business					
Expense & Legal Fee Recovery		-	3,250,000	-	3,250,000
Net Claims Income/(Expense)	3	2,612,715	(388,198)	2,612,715	(388,198)
Underwriting Surplus		2,612,715	2,861,802	2,612,715	2,861,802
Administration Fees		2,756,915	2,668,597	2,756,915	2,668,597
Income from Investments	11	67,969	262,636	67,969	262,636
Property Income		718,356	729,866	718,356	729,866
Interest Income		4,403	-	4,403	-
Other Income		376	1,095	376	1,095
		6,160,734	6,523,996	6,160,734	6,523,996
EXPENDITURE					
Audit Fee					
Statutory Audit of the Financial Statements		71,987	100,472	71,987	100,472
Other Fees Paid to Auditors re Taxation Compliance		66,966	28,668	66,966	28,668
Other Fees Paid to Auditors re Solvency Return		-	9,775	-	9,775
Claims Paying Ability Rating		27,752	27,226	27,752	27,226
Consultants		100,088	64,129	100,088	64,129
Depreciation	10	35,797	64,828	35,797	64,828
Amortisation	10	18,392	47,430	18,392	47,430
Interest Expense		-	35,000	-	35,000
Directors' Remuneration		144,375	123,446	144,375	123,446
Insurance Council of New Zealand		15,525	15,000	15,525	15,000
Legal Fees		178,566	1,712,720	178,566	1,712,720
Property Operating Expenses		415,525	375,206	415,525	375,206
Bad Debts		1,070	-	1,070	-
Other Expenses		1,071,798	1,669,664	1,071,774	1,669,640
Employee Remuneration		1,190,774	1,412,993	1,190,774	1,412,993
Superannuation Subsidies		130,585	132,316	130,585	132,316
Total Expenditure		3,469,200	5,818,873	3,469,176	5,818,849
Surplus Before Share of Profit from Associate, Revaluation of Investment Property and Taxation		2,691,534	705,123	2,691,558	705,147
Subvention Payment		-	-	(7)	(7)
Revaluation of Investment Property	9	133,331	430,000	133,331	430,000
Share of Profit of Associate		(150)	(36,358)	-	35,000
Surplus Before Taxation		2,824,715	1,098,765	2,824,882	1,170,140
Taxation Expense	8	43,663	201,565	43,670	201,572
TOTAL COMPREHENSIVE SURPLUS NET OF TAX	19	2,781,052	897,200	2,781,212	968,568

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

NEW ZEALAND LOCAL GOVERNMENT INSURANCE CORPORATION LIMITED
STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2015

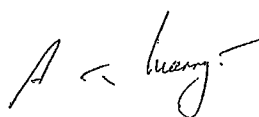
	2015 Group \$	2014 Group \$	2015 Parent \$	2014 Parent \$
OPENING EQUITY	13,251,256	12,354,056	13,317,567	12,348,999
Total Comprehensive Surplus	<u>2,781,052</u>	<u>897,200</u>	<u>2,781,212</u>	<u>968,568</u>
Ordinary Shares issued during the year	-	-	-	-
CLOSING EQUITY	<u><u>16,032,308</u></u>	<u><u>13,251,256</u></u>	<u><u>16,098,779</u></u>	<u><u>13,317,567</u></u>

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

NEW ZEALAND LOCAL GOVERNMENT INSURANCE CORPORATION LIMITED
STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2015

	Notes	2015 Group \$	2014 Group \$	2015 Parent \$	2014 Parent \$
SHAREHOLDERS' EQUITY					
Issued and Paid-Up Ordinary Shares					
11,030,364 Ordinary Shares fully paid up	20	10,566,406	10,566,406	10,566,406	10,566,406
Retained Earnings	19	5,465,902	2,684,850	5,532,373	2,751,161
TOTAL EQUITY		<u>16,032,308</u>	<u>13,251,256</u>	<u>16,098,779</u>	<u>13,317,567</u>
Represented By:					
CURRENT ASSETS					
Bank & Cash Equivalents		454,415	4,224,278	403,870	4,173,716
Sundry Debtors and Prepayments	7 a)	49,345,499	1,117,857	49,345,491	1,117,848
Reinsurance Recoveries	6	519,558,958	506,976,959	519,558,958	506,976,959
Income Tax Receivable	8	2,971	42,128	2,971	42,128
Total Current Assets		<u>569,361,843</u>	<u>512,361,222</u>	<u>569,311,290</u>	<u>512,310,651</u>
NON CURRENT ASSETS					
NZ Government Stock	11	-	100,697	-	100,697
Shares in Local Government Online		3,152	3,287	-	-
Property, Plant and Equipment	10	193,147	164,697	193,147	164,697
Intangible Assets (Software)	10	72,276	52,511	72,276	52,511
Deferred Tax Asset	8	3,632,346	3,676,018	3,632,346	3,676,018
Investment Property	9	7,425,000	7,055,000	7,425,000	7,055,000
Total Non Current Assets		<u>11,325,921</u>	<u>11,052,210</u>	<u>11,322,769</u>	<u>11,048,923</u>
TOTAL ASSETS		<u>580,687,764</u>	<u>523,413,432</u>	<u>580,634,059</u>	<u>523,359,574</u>
CURRENT LIABILITIES					
Sundry Creditors & Accrued Charges	7 b) , 3 b)	553,796,248	1,022,962	553,796,248	1,022,969
Reinsurance Received in Advance		-	326,264	-	326,264
Accrued Holiday Pay		130,832	122,874	130,832	122,874
Subordinated Debt	15	120,176	120,176	-	-
		<u>554,047,256</u>	<u>1,592,276</u>	<u>553,927,080</u>	<u>1,472,107</u>
Insurance Provisions					
Outstanding Claims Liability	3 b)	10,608,200	508,569,900	10,608,200	508,569,900
Total Insurance Provisions		<u>10,608,200</u>	<u>508,569,900</u>	<u>10,608,200</u>	<u>508,569,900</u>
Total Current Liabilities		<u>564,655,456</u>	<u>510,162,176</u>	<u>564,535,280</u>	<u>510,042,007</u>
TOTAL LIABILITIES		<u>564,655,456</u>	<u>510,162,176</u>	<u>564,535,280</u>	<u>510,042,007</u>
EXCESS OF ASSETS OVER LIABILITIES		<u>16,032,308</u>	<u>13,251,256</u>	<u>16,098,779</u>	<u>13,317,567</u>

For and on behalf of the Directors



Director

15th March 2016

Date



Director

15th March 2016

Date

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

NEW ZEALAND LOCAL GOVERNMENT INSURANCE CORPORATION LIMITED
STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2015

	Notes	2015 Group \$	2014 Group \$	2015 Parent \$	2014 Parent \$
Cash Flows from Operating Activities					
Cash was provided from:					
Rent Received		707,979	731,325	707,979	731,325
Administration Fees Received		2,969,716	2,949,205	2,969,716	2,949,205
Interest Received		168,667	265,421	168,667	265,421
Other Income		376	-	376	-
Expense & Legal Fee Recovery		-	3,250,000	-	3,250,000
Reinsurance Recoveries		2,876,573	5,929,655	2,876,573	5,929,655
Payments to Reinsurers		-	1,095	-	1,095
Taxation Refunded		45,698	123,270	45,698	123,270
		<u>6,769,009</u>	<u>13,249,971</u>	<u>6,769,009</u>	<u>13,249,971</u>
Cash was applied to:					
Claims Expenses		7,551,635	8,245,533	7,551,635	8,245,533
Interest Expense		4,403	-	4,403	-
Payments to Suppliers		2,317,497	8,741,494	2,317,473	8,741,471
Reinsurance Received in Advance		326,264	-	326,264	403,850
Payments to Reinsurers		-	-	-	-
		<u>10,199,799</u>	<u>16,987,027</u>	<u>10,199,775</u>	<u>17,390,854</u>
Net Cash Flow from Operating Activities	12	(3,430,790)	(4,140,906)	(3,430,766)	(4,140,883)
Cash Flows from Investing Activities					
Cash was provided from:					
Dividend - LGOL		-	35,000	-	35,000
Return of LGOL Capital		-	30,000	-	30,000
		<u>-</u>	<u>65,000</u>	<u>-</u>	<u>65,000</u>
Cash was applied to:					
Purchase of Fixed Assets		339,073	45,018	339,073	45,018
		<u>339,073</u>	<u>45,018</u>	<u>339,073</u>	<u>45,018</u>
Net Cash Flow from Investing Activities		(339,073)	19,982	(339,073)	19,982
Cash Flows from Financing Activities					
Cash was applied to:					
Payment of Subvention Payment		-	-	7	7
		<u>-</u>	<u>-</u>	<u>7</u>	<u>7</u>
Net Cash Flow from Financing Activities		-	-	(7)	(7)
Net Decrease in Cash Held		(3,769,863)	(4,120,924)	(3,769,846)	(4,120,908)
Opening Cash Balance as at 1 January		4,224,278	8,345,202	4,173,716	8,294,624
Closing Cash Balance as at 31 December		<u>454,415</u>	<u>4,224,278</u>	<u>403,870</u>	<u>4,173,716</u>
Being:					
Bank & Cash Equivalents		<u>454,415</u>	<u>4,224,278</u>	<u>403,870</u>	<u>4,173,716</u>

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

NEW ZEALAND LOCAL GOVERNMENT INSURANCE CORPORATION LIMITED
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

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 (d). The Group provides insurance products and other financial services principally for New Zealand local government and also provides property services. The Company is an FMC reporting entity under the Financial Markets Conduct Act (FMCA) 2013 and the group financial statements have been prepared in accordance with the FMCA 2013. The financial statements of the Company are also included for the readers' information but are not required under legislation.

Statement of Compliance

The Group is a Tier 1 Public Sector Public Benefit Entity and the financial statements have been prepared in accordance and compliance with Tier 1 Public Sector Public Benefit Entity (PBE) Standards. This is the first set of financial statements presented in accordance with the PBE Standards. There were no financial adjustments required to the comparatives for the period ended 31 December 2014.

NOTE 2 STATEMENT OF ACCOUNTING POLICIES

General Accounting Policies

The measurement and reporting of profits on an historical cost basis have been followed by the Company and Group, except for specific policies as described below. The reporting currency is New Zealand dollars. The Group is subject to the requirements under the Insurance (Prudential Supervision) Act 2010 as a provisional licence holder (refer to Note 22).

Critical Judgements and Estimates in Applying the Accounting Policies

In the application of the PBE Standards the Directors are required to make judgements, estimates and assumptions about the carrying value of assets and liabilities that are not readily apparent from other sources. These are based on historical experience and other various factors and are reviewed on an ongoing basis. No discounting of the outstanding claims liabilities or associated reinsurance recoveries receivable has been made on the basis that the Company's net insured claims are expected to be settled in the year.

The Directors believe that, as at the date of these financial statements, there are no significant sources of estimation uncertainty that have not been disclosed in these notes. The most significant judgements, estimates and assumptions made in the preparation of these financial statements are in respect of insurance activities (Notes 3 to 6), including recovery of reinsurance receivables, the recognition of the deferred tax asset and the valuation of investment property (Note 9).

Particular Accounting Policies

The following particular accounting policies which materially affect the measurement of profit and financial position have been applied. Further particular accounting policies are contained in the relevant notes to the financial statements.

a) Consolidation of Subsidiaries

The Group financial statements incorporate the financial statements of the Company and its subsidiaries, which have been consolidated using the acquisition method. The results of any subsidiaries acquired or disposed of during the year are consolidated from the effective dates of acquisition or until the effective dates of disposal. All inter-company transactions, balances and unrealised profits are eliminated on consolidation.

b) Assets which back Insurance Liabilities

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

NEW ZEALAND LOCAL GOVERNMENT INSURANCE CORPORATION LIMITED
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

Note 2 Statement of Accounting Policies (Cont'd)

c) 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.

d) 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 2014 and 31 December 2015. New Zealand Local Government Finance Corporation Limited (NZLGFC) commenced business on the 29 November 1999 and had total assets of \$50,550 at 31 December 2015 (2014: \$50,567) 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.

e) Investment in Associate Company

The Company holds a 25% share of Local Government Online Limited (LGOL). The share of the income of LGOL has been included in the consolidated Statement of Comprehensive Income and added to the cost of the investment in the consolidated Statement of Financial Position. The Parent financial statements record the investment at cost less impairment. In 2014 LGOL returned the shareholders capital and ceased operations on 31 March 2014 and is in the process of being wound up.

f) Administration Fees

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

g) Property Income

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

h) Basis of Measuring Other Income and Expenses

Income and expenses are accounted for on an accruals basis.

i) Changes in Accounting Policies

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

NOTE 3 CLAIMS

Accounting Policy:

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

The outstanding claims liability is measured as the central estimate of expected future payments relating to unsettled 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,

NEW ZEALAND LOCAL GOVERNMENT INSURANCE CORPORATION LIMITED
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

Note 3 Claims (Cont'd)

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. Changes in claims estimates are recognised in profit and loss in the year in which the estimates are changed.

a) Claims

	2015	2014	2015	2014
	Group	Group	Parent	Parent
	\$	\$	\$	\$
<i>Claims Incurred and Provision for Outstanding Claims</i>				
Revaluation of claims liability during the year	10,524,304	74,812,772	10,524,304	74,812,772
Less: Revised estimate of reinsurance recoveries during the year	(7,911,589)	(75,200,970)	(7,911,589)	(75,200,970)
Net Claims Income/ (Expense)	2,612,715	(388,198)	2,612,715	(388,198)

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

	2015	2014	2015	2014
	Group	Group	Parent	Parent
	\$	\$	\$	\$
Outstanding Claims liability at the beginning of the financial year	508,569,900	590,244,400	508,569,900	590,244,400
Revaluation of claims liability during the year	(10,524,304)	(74,812,772)	(10,524,304)	(74,812,772)
Claims Paid/ Payable	(487,437,396)	(6,861,728)	(487,437,396)	(6,861,728)
Outstanding Claims Liability at the End of the Financial Year	10,608,200	508,569,900	10,608,200	508,569,900

Of the \$487m claims settled during the year, \$473m is included in Sundry Creditors and was paid on 16 February 2016.

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 settled or 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

NEW ZEALAND LOCAL GOVERNMENT INSURANCE CORPORATION LIMITED
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

Note 3 c) Actuarial Methodology and Assumptions (Cont'd)

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

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

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

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

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

d) Canterbury Earthquakes Claims

The Canterbury earthquakes have had a significant impact on the operational and financial results of the Company over the last 5 years with over 3,000 claims being received. On 11th December 2015 a global settlement was signed between Civic, its reinsurers and the insured parties in relation to a significant portion of Canterbury earthquake claims. The settlement includes a commutation of the remaining open claims, totalling 83 at balance date, that are yet to be settled with the insured.

At the date of signing these financial statements the reinsurance monies have been received in full.

As at 31 December 2015 the Outstanding Claims Liability in relation to the remaining Canterbury earthquake claims was \$9.6m (2014: \$509m). As at 31 December 2015 valuation of outstanding claims liability and risk margins in relation to the Canterbury earthquake claims was evaluated by Craig Lough (Fellow of the NZ Society of Actuaries) of Melville Jessup Weaver. The actuaries are satisfied as to the nature, sufficiency and accuracy of data used in the calculation of the outstanding claims liability.

In prior years the principal concern in determining the outstanding claims liabilities for Canterbury earthquake claims was the unique nature of the event. Despite the material nature of the outstanding claims liability, it was decided that no actuarial adjustment should be applied to the case estimates recorded for these claims. The reasons for this were:

- The unique and continuing nature of the Canterbury earthquake events means that at this stage there was very limited data upon which to base a meaningful actuarial analysis.
- All claims have been assessed by loss adjusters who have expertise in this area. We understand that there is no reason to believe that there is any systemic under or over estimation of reported claims. The estimates of outstanding claims incorporates an allowance for both the future direct and indirect costs associated with those claims.

NEW ZEALAND LOCAL GOVERNMENT INSURANCE CORPORATION LIMITED
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

Note 3 d) Canterbury Earthquakes Claims (Cont'd)

- To date, given the global settlement referred to above, it is highly unlikely that any of the claims would be reopened.

The outstanding claims liabilities for the current year have been determined using both the loss adjusters assessment of the claims and the global settlement agreement.

The overall risk margin for outstanding claims has been determined using a combination of historical results and professional judgement.

No discounting of the outstanding claims liabilities or associated reinsurance recoveries receivable has been made on the basis that the Company's net insured claims are expected to be settled in the year.

e) Other Claims

As at 31 December 2015 the central estimate of the outstanding claims liability and risk margins in relation to Business as Usual and Riskpool claims was evaluated by Craig Lough (Fellow of the NZ Society of Actuaries) of Melville Jessup Weaver. The actuaries are satisfied as to the nature, sufficiency and accuracy of data used in the calculation of the outstanding claims liability.

For the remaining non-Canterbury earthquake claims a risk margin of \$nil (2014: \$29,000) has been included in the Outstanding Claims Liability as at balance date.

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

NOTE 4 INSURANCE CONTRACT RISK MANAGEMENT

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

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

a) Risk Management Objectives and Policies for Mitigating Insurance Risk

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

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

- Acceptance of risk - The Company is primarily an insurer only of risks owned or managed by local authorities. Records of results and trends exclusively in this market sector that have been built up over a number of years are available as tools for the Company's underwriter. The portfolio was essentially property risks. A "ring fenced" maximum liability layer of liability risk has been written to support the local government liability pool, provided by New Zealand Mutual Liability Riskpool ("Riskpool").

NEW ZEALAND LOCAL GOVERNMENT INSURANCE CORPORATION LIMITED
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

Note 4 Insurance Contract Risk Management (Cont'd)

- **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 m. This amount was well within the Company's reserves.
- **Claims management** - Claims are handled in house by experienced claims handling staff. Staff are allocated settling limits and authorities. These authority levels are reviewed regularly. Senior claims staff are very experienced, particularly in local government claims. Overall authority and claims management is provided by the Company's Insurance Manager.
- **Investment management** - All premium income is held in NZ Registered Bank accounts and short-term deposits. All investments are regularly reviewed by the Board.
- **Risk reduction** - The Company's underwriter and its Insurance Manager analyse and review claims data with a view to educating and training insureds in recognition and prevention of manageable risks. Due to the Company being unable to reinsure risks after 1 July 2011 the risk was managed by not writing material damage cover policies.

b) Terms and Conditions of Insurance Contracts

Almost all the Company's insurance contracts written have been 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 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 were 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.

NEW ZEALAND LOCAL GOVERNMENT INSURANCE CORPORATION LIMITED
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

Note 4 Insurance Contract Risk Management (Cont'd)

h) Liquidity Risk

All assets and liabilities used in relation to the liquidity of the insurance business are addressed through maintaining sufficient highly liquid assets.

i) Sensitivity Analysis

Sensitivity of risks relates primarily to the risk margin assessments which are set out in Note 3. These are reviewed annually and change in accordance with current best estimates using advice from an actuary. There is no insurance risk sensitivity as full exposure has been taken.

NOTE 5 INSURANCE PROVISIONS

The Company has a claims payable credit rating of "B+, negative outlook" issued by AM Best at 5 October 2015. The Company's reinsurance programme is structured to adequately protect the Company's solvency and capital position. It covers per risk and event losses in New Zealand. Counterparty reinsurers with credit ratings no less than "A-" (AM Best scale) participate in the reinsurance catastrophe programme.

Solvency Margin

In accordance with the Insurance (Prudential Supervision) Act 2010 the solvency margin as at balance date was negative \$2.342m (2014: negative \$493.844m) with a ratio of 0.84 (2014: 0.02). Civic's net assets, which is total assets less total liabilities, was \$16.098m (2014: \$13.318m).

NOTE 6 REINSURANCE RECEIVABLE ON OUTSTANDING CLAIMS

Accounting Policy:

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.

a) Reconciliation of Movements for the Financial Year

	2015 Group \$	2014 Group \$	2015 Parent \$	2014 Parent \$
Reinsurance recoveries receivable on outstanding claims at the beginning of the year	506,976,959	587,703,734	506,976,959	587,703,734
Reinsurance recoveries received	(2,550,310)	(5,525,805)	(2,550,310)	(5,525,805)
Reinsurance recoveries receivable on claims incurred during the year	(7,911,589)	(75,200,970)	(7,911,589)	(75,200,970)
GST receivable on Reinsurance recoveries incurred during the year	23,043,898	-	23,043,898	-
Reinsurance recoveries receivable on outstanding claims at the end of the year	519,558,958	506,976,959	519,558,958	506,976,959

b) Actuarial Assumptions

Due to the settlement of the Canterbury claims no actuarial assumptions are made on the reinsurance recoveries. GST totalling \$23m is included in the \$519m reinsurance receivable.

c) The Effect Of Changes In Assumption

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

NEW ZEALAND LOCAL GOVERNMENT INSURANCE CORPORATION LIMITED
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

Note 6 Reinsurance receivable on outstanding claims (Cont'd)

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 had its own reinsurance programme and determines its own risk limits. The Company bought reinsurance in only two forms, a quota share programme on every property risk and a catastrophe programme over its whole portfolio. These programmes are negotiated on an annual basis from 1 July to 30 June. As a consequence of the Canterbury earthquakes the Company has been unable to obtain property reinsurance from 1 July 2011 on suitable terms and has therefore ceased providing material damage cover since this date.

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

NOTE 7 SUNDRY DEBTORS AND CREDITORS

a) Sundry Debtors and Prepayments

	2015	2014	2015	2014
	Group	Group	Parent	Parent
	\$	\$	\$	\$
Sundry Debtors	144,431	809,220	144,424	809,220
Prepayments	123,411	123,563	123,411	123,563
GST Receivable	49,077,656	185,065	49,077,656	185,065
Sundry Debtors and Prepayments	49,345,498	1,117,848	49,345,491	1,117,848

GST Receivable has increased significantly due to the Claims Payable and Reinsurance Receivable resulting from the Global settlement referred to in Note 3.

b) Sundry Creditors and Accrued Charges

	2015	2014	2015	2014
	Group	Group	Parent	Parent
	\$	\$	\$	\$
Sundry Creditors & Accrued Charges	9,390,823	1,022,962	9,390,823	1,022,969
Claims Payable	544,405,425	-	544,405,425	-
Sundry Creditors & Accrued Charges	553,796,248	1,022,962	553,796,248	1,022,969

NEW ZEALAND LOCAL GOVERNMENT INSURANCE CORPORATION LIMITED
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

NOTE 8 TAXATION

Accounting Policies:

i) 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.

ii) Deferred Tax

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

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

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

iii) Goods and Services Tax (GST)

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

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

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

NEW ZEALAND LOCAL GOVERNMENT INSURANCE CORPORATION LIMITED
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

Note 8 Taxation (Cont'd)

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

	2015 Group \$	2014 Group \$	2015 Parent \$	2014 Parent \$
Tax expense comprises:				
Current tax expense	699,734	199,763	699,741	199,770
Adjustments recognised in the current year in relation to the current tax of prior years	(712,668)	-	(712,668)	-
Deferred tax relating to the origination and reversal of temporary differences	56,597	1,802	56,597	1,802
Total tax expense	43,663	201,565	43,670	201,572
Attributable to:				
Continuing operations	43,663	201,565	43,670	201,572
	<u>43,663</u>	<u>201,565</u>	<u>43,670</u>	<u>201,572</u>

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:

Profit from continuing operations	2,691,534	705,123	2,691,558	705,147
Subvention payable	-	-	(7)	(7)
Revaluation of Investment Property	133,331	430,000	133,331	430,000
Share of Profit of Associate	(150)	(36,358)	-	35,000
	<u>2,824,715</u>	<u>1,098,765</u>	<u>2,824,882</u>	<u>1,170,140</u>
Income tax calculated at 28%	790,920	307,654	790,967	327,639
Tax effect of permanent differences	(34,589)	(106,089)	(34,629)	(126,067)
	<u>756,331</u>	<u>201,565</u>	<u>756,338</u>	<u>201,572</u>
Over provision of income tax in previous year	(712,668)	-	(712,668)	-
Income Tax Expense	43,663	201,565	43,670	201,572
	<u>43,663</u>	<u>201,565</u>	<u>43,670</u>	<u>201,572</u>

(b) Current tax assets and liabilities

	2015 Group \$	2014 Group \$	2015 Parent \$	2014 Parent \$
Tax refund receivable	2,971	42,128	2,971	42,128
Tax payable	-	-	-	-
	<u>2,971</u>	<u>42,128</u>	<u>2,971</u>	<u>42,128</u>

(c) Deferred tax balances

	2015 Group \$	2014 Group \$	2015 Parent \$	2014 Parent \$
Deferred tax assets comprise:				
Temporary differences	4,138,854	4,123,699	4,138,854	4,123,699
	<u>4,138,854</u>	<u>4,123,699</u>	<u>4,138,854</u>	<u>4,123,699</u>
Deferred tax liabilities comprise:				
Temporary differences	(506,508)	(447,682)	(506,508)	(447,682)
	<u>(506,508)</u>	<u>(447,682)</u>	<u>(506,508)</u>	<u>(447,682)</u>
Net Deferred Tax balance	3,632,346	3,676,016	3,632,346	3,676,016
	<u>3,632,346</u>	<u>3,676,016</u>	<u>3,632,346</u>	<u>3,676,016</u>

NEW ZEALAND LOCAL GOVERNMENT INSURANCE CORPORATION LIMITED
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

Note 8 Taxation (Cont'd)

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

	2015	Opening Balance	Charged to Income	Charged to Equity	Prior Period Adjustment	Closing Balance
Investment gains		(40,315)	-	-	-	(40,315)
Building, property and equipment		(1,558,547)	(210,092)	-	-	(1,768,639)
		<u>(1,598,862)</u>	<u>(210,092)</u>	<u>-</u>	<u>-</u>	<u>(1,808,954)</u>
Employee entitlements		122,875	7,958	-	-	130,833
Losses carried forward		14,604,623	(2,499,080)	-	2,545,244	14,650,787
		<u>14,727,498</u>	<u>(2,491,121)</u>	<u>-</u>	<u>2,545,244</u>	<u>14,781,620</u>
Attributable to:						
Continuing operations		13,128,636	(2,701,213)	-	2,545,244	12,972,667
Total		<u>13,128,636</u>	<u>(2,701,213)</u>	<u>-</u>	<u>2,545,244</u>	<u>12,972,667</u>
Tax effect at 28%		<u>3,676,016</u>	<u>(756,338)</u>	<u>-</u>	<u>712,668</u>	<u>3,632,347</u>
	2014	Opening Balance	Charged to income	Charged to Equity	Prior period adjustment	Closing Balance
Investment gains		(40,315)	-	-	-	(40,315)
Building, property and equipment		(1,538,158)	(20,389)	-	-	(1,558,547)
		<u>(1,578,473)</u>	<u>(20,389)</u>	<u>-</u>	<u>-</u>	<u>(1,598,862)</u>
Employee entitlements		108,922	13,953	-	-	122,875
Losses carried forward		15,318,095	(713,472)	-	-	14,604,623
		<u>15,427,017</u>	<u>(699,519)</u>	<u>-</u>	<u>-</u>	<u>14,727,498</u>
Attributable to:						
Continuing operations		13,848,544	(719,908)	-	-	13,128,636
Total		<u>13,848,544</u>	<u>(719,908)</u>	<u>-</u>	<u>-</u>	<u>13,128,636</u>
Tax effect at 28%		<u>3,877,590</u>	<u>(201,573)</u>	<u>-</u>	<u>-</u>	<u>3,676,016</u>

No liability has been recognised in respect of the undistributed earnings of subsidiaries because the Group is in a position to control the timing of the reversal of the temporary differences and it is probable that such differences will not reverse in the foreseeable future.

The deferred tax asset relating to tax losses carried forward has been recognised as the financial forecasts anticipate the Company re-entering the insurance market and maintaining sufficient profitability in future financial years (refer Note 22).

(d) Imputation Credit Account

	2015 Group \$	2014 Group \$	2015 Parent \$	2014 Parent \$
Opening Balance	5,521,678	5,606,060	5,521,678	5,606,060
Plus Credits	-	-	-	-
Income Tax Paid	-	-	-	-
Resident Withholding Tax	990	1,980	990	1,980
Imputation Credits Received	-	33,056	-	33,056
	<u>990</u>	<u>35,036</u>	<u>990</u>	<u>35,036</u>
Less Debits				
Tax Refund	40,147	119,418	40,147	119,418
Imputation Credits Attached to Dividends Paid	-	-	-	-
Other debits	<u>225,782</u>	<u>-</u>	<u>225,782</u>	<u>-</u>
	<u>265,929</u>	<u>119,418</u>	<u>265,929</u>	<u>119,418</u>
Closing Balance	<u>5,256,739</u>	<u>5,521,678</u>	<u>5,256,739</u>	<u>5,521,678</u>

NEW ZEALAND LOCAL GOVERNMENT INSURANCE CORPORATION LIMITED
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

NOTE 9

INVESTMENT PROPERTY

Accounting Policy:

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

	2015 Group \$	2014 Group \$	2015 Parent \$	2014 Parent \$
(a) Civic Assurance House, Lambton Quay, Wellington				
Land valuation (Original Cost \$289,253)	2,900,000	2,900,000	2,900,000	2,900,000
Less decrease in value	-	-	-	-
Level 3 Fair Value	2,900,000	2,900,000	2,900,000	2,900,000
(b) Building valuation (Original Cost \$860,571)				
Refurbishment	4,130,000	3,700,000	4,130,000	3,700,000
Increase/ (Decrease) in value	236,669	-	236,669	-
Level 3 Fair Value	4,366,669	3,700,000	4,366,669	3,700,000
Artwork valuation (Original Cost \$8,844)	25,000	25,000	25,000	25,000
Plus increase in value	-	-	-	-
Fair Value	25,000	25,000	25,000	25,000
	7,425,000	7,055,000	7,425,000	7,055,000

The investment property is revalued every year. The investment property was valued on 31 December 2015 by independent registered valuer Martin Veale (ANZIV, SPINZ) of the firm Telfer Young (Wgm) Ltd. The property is valued in accordance with International Valuation Standards 2013. The Investment property is Level 3 fair value.

The valuation has been established by the Income Capitalisation and Discounted Cashflow approaches and consideration of market rental and sales evidence and property specific attributes. The major inputs and assumptions used in the valuation technique are current and expected market rentals, potential vacancies, capital outlay, terminal and investment yields and the discount rate.

Investment Property Metrics

		2015	2014
Contract Yield	Average	6.83%	6.70%
	Maximum	7.00%	7.00%
	Minimum	6.50%	6.00%
Market Yield	Average	9.02%	8.75%
	Maximum	9.25%	9.25%
	Minimum	8.75%	8.25%
	Occupancy (net lettable area)	83.20%	78.22%
	Weighted average lease term	1.80	2.33

NOTE 10

PROPERTY, PLANT & EQUIPMENT AND INTANGIBLE ASSETS

Accounting Policy:

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

Office Furniture and Equipment

up to 5 years

Intangibles – Software

5 years

	2015 Group \$	2014 Group \$	2015 Parent \$	2014 Parent \$
(a) Property, Plant and Equipment				
Office Furniture and Equipment - cost	531,440	584,194	531,440	584,194
Plus Additions	64,247	10,518	64,247	10,518
Less Disposals	-	(63,272)	-	(63,272)
Closing Value - cost	595,687	531,440	595,687	531,440
Office Furniture and Equipment - Accumulated Depreciation	(366,743)	(360,338)	(366,743)	(360,338)
Less Depreciation Charge	(35,797)	(64,828)	(35,797)	(64,828)
Less Disposals	-	58,423	-	58,423
Closing Accumulated Depreciation	(402,540)	(366,743)	(402,540)	(366,743)
Net Book Value	193,147	164,697	193,147	164,697

The Net Surplus after Taxation in the Statement of Financial Performance includes a \$nil loss on disposal of fixed assets (2014: 4,849).

Intangible Assets

(b)	Software - cost	460,682	426,182	460,682	426,182
	Plus Additions	38,157	34,500	38,157	34,500
	Less Disposals	-	-	-	-
	Closing Value - cost	498,839	460,682	498,839	460,682
	Software - Accumulated Amortisation	(408,171)	(360,741)	(408,171)	(360,741)
	Less Amortisation Charge	(18,392)	(47,430)	(18,392)	(47,430)
	Less Disposals	-	-	-	-
	Closing Accumulated Amortisation	(426,563)	(408,171)	(426,563)	(408,171)
	Net Book Value	72,276	52,511	72,276	52,511

*Accounting Policies:***i) Classification and Measurement**

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

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

The Outstanding Claims Liability is an actuarial estimate recorded at Fair Value.

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).*

v) Derivatives

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

NEW ZEALAND LOCAL GOVERNMENT INSURANCE CORPORATION LIMITED
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

Note 11 Financial Instruments (Cont'd)

(1) Income Relating to Financial Assets	2015 Group \$	2014 Group \$	2015 Parent \$	2014 Parent \$
Held to Maturity				
Interest Received - NZ Government Stock	2,320	3,232	2,320	3,232
	<u>2,320</u>	<u>3,232</u>	<u>2,320</u>	<u>3,232</u>
Cash & Cash Equivalents				
Interest Received - Short Term Deposits at Bank	65,649	259,404	65,649	259,404
	<u>67,969</u>	<u>262,636</u>	<u>67,969</u>	<u>262,636</u>

(2) Financial Assets and Liabilities

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

All fixed interest investments were managed around a 90 day duration and carry a minimum Standard and Poors credit rating of "A1" or equivalent.

Carrying value of Financial Assets and Financial Liabilities.

	2015 Group \$	2014 Group \$	2015 Parent \$	2014 Parent \$
Financial Asset: Held to Maturity				
NZ Government Stock	-	100,697	-	100,697
Total Held to Maturity	<u>-</u>	<u>100,697</u>	<u>-</u>	<u>100,697</u>
Financial Asset: Loans and Receivables				
Sundry Debtors	49,131,257	79,648	49,131,249	79,640
Reinsurance Receivable on agreed settlement	519,558,958	-	519,558,958	-
Total Loans and Receivables	<u>568,690,215</u>	<u>79,648</u>	<u>568,690,207</u>	<u>79,640</u>
Financial Asset: Carried at Amortised Cost				
Bank & Cash Equivalents	<u>454,415</u>	<u>4,224,278</u>	<u>403,870</u>	<u>4,173,716</u>
Financial Liability: Amortised Cost				
Subordinated Debt	120,176	120,176	-	-
Sundry Creditors & Accrued Charges	553,796,248	1,022,962	553,796,248	1,022,969
Reinsurance Received in Advance	-	326,264	-	326,264
Total Amortised Cost	<u>553,916,424</u>	<u>1,469,402</u>	<u>553,796,248</u>	<u>1,349,233</u>

(3) Financial Risk - Structure and Management

The Company & Group manages its capital to ensure that the entities in the Group will be able to continue as a going concern. The Group's overall strategy is reviewed annually and remains unchanged.

Financial instruments which potentially subject the Company & Group to a concentration of credit risk consist principally of cash and interest bearing deposits and reinsurance receivable. The Company and Group has no debt instruments.

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

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

(a) Market Risk

All financial assets and liabilities are New Zealand Dollar based and are recorded at amortised cost, therefore changes in interest rates and foreign currency values do not impact on their carrying value.

NEW ZEALAND LOCAL GOVERNMENT INSURANCE CORPORATION LIMITED
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

NOTE 11 Financial Instruments (Cont'd)

(3) Financial Risk - Structure and Management (Cont'd)

(a) Market Risk (Cont'd)

(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.

As at 31 December 2015 (Group)

	Interest Rate Spread %	Within 6 months \$	6 to 12 months \$	1 to 2 years \$	2 to 5 years \$	Non Interest Bearing \$	Total \$
Assets							
Cash at Bank	0% to 3.76%	367,618	-	-	-	86,797	454,415
Other Receivable	n/a	-	-	-	-	49,131,257	49,131,257
Reinsurance Recoveries	2.5%	519,558,958	-	-	-	-	519,558,958
		-	-	-	-	-	-
Total Financial Assets		519,926,576	-	-	-	49,218,054	569,144,630

The Reinsurance Recovery was interest bearing from 24 December 2015 to 19 February 2016.

Liabilities

Sundry Creditors & Accrued Charge	n/a	-	-	-	-	553,796,248	553,796,248
Reinsurance Received in Advance	n/a	-	-	-	-	-	-
Outstanding Claims	n/a	-	-	-	-	10,608,200	10,608,200
Subordinated Debt	n/a	-	-	-	-	120,176	120,176
Total Financial Liabilities		-	-	-	-	564,524,624	564,524,624

As at 31 December 2014 (Group)

	Interest Rate Spread %	Within 6 months \$	6 to 12 months \$	1 to 2 years \$	2 to 5 years \$	Non Interest Bearing \$	Total \$
Assets							
Cash at Bank	0% to 4.60%	4,117,254	-	-	-	107,024	4,224,278
Other Receivable	n/a	-	-	-	-	79,648	79,648
Reinsurance Recoveries	n/a	-	-	-	-	506,976,959	506,976,959
NZ Government Stock	6.00%	100,697	-	-	-	-	100,697
Total Financial Assets		4,217,951	-	-	-	507,163,631	511,381,582

Liabilities

Sundry Creditors & Accrued Charge	n/a	-	-	-	-	1,022,962	1,022,962
Reinsurance Received in Advance	n/a	-	-	-	-	326,264	326,264
Outstanding Claims	n/a	-	-	-	-	508,569,900	508,569,900
Subordinated Debt	n/a	-	-	-	-	120,176	120,176
Total Financial Liabilities		-	-	-	-	510,039,302	510,039,302

As at 31 December 2015 (Parent)

	Interest Rate Spread %	Within 6 months \$	6 to 12 months \$	1 to 2 years \$	2 to 5 years \$	Non Interest Bearing \$	Total \$
Assets							
Cash at Bank	0% to 3.76%	367,635	-	-	-	36,235	403,870
Other Receivable	n/a	-	-	-	-	49,131,249	49,131,249
Reinsurance Recoveries	n/a	519,558,958	-	-	-	-	519,558,958
NZ Government Stock	6.00%	-	-	-	-	-	-
Total Financial Assets		519,926,593	-	-	-	49,167,484	569,094,077

Liabilities

Sundry Creditors & Accrued Charge	n/a	-	-	-	-	553,796,248	553,796,248
Reinsurance Received in Advance	n/a	-	-	-	-	-	-
Outstanding Claims	n/a	-	-	-	-	10,608,200	10,608,200
Total Financial Liabilities		-	-	-	-	564,404,448	564,404,448

NEW ZEALAND LOCAL GOVERNMENT INSURANCE CORPORATION LIMITED
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

NOTE 11 Financial Instruments (Cont'd)

(3) Financial Risk - Structure and Management (Cont'd)

(a) Market Risk (Cont'd)

(i) Interest Rate Repricing Schedule (Cont'd)

As at 31 December 2014 (Parent)

	Interest Rate Spread %	Within 6 months \$	6 to 12 months \$	1 to 2 years \$	2 to 5 years \$	Non Interest Bearing \$	Total \$
Assets							
Cash at Bank	0% to 4.60%	4,117,254	-	-	-	56,462	4,173,716
Other Receivable	n/a	-	-	-	-	79,640	79,640
Reinsurance Recoveries	n/a	-	-	-	-	506,976,959	506,976,959
NZ Government Stock	6.00%	100,697	-	-	-	-	100,697
Total Financial Assets		4,217,951	-	-	-	507,113,061	511,331,012
Liabilities							
Sundry Creditors & Accrued Charges	n/a	-	-	-	-	1,022,969	1,022,969
Reinsurance Received in Advance	n/a	-	-	-	-	326,264	326,264
Outstanding Claims	n/a	-	-	-	-	508,569,900	508,569,900
Total Financial Liabilities		-	-	-	-	509,919,133	509,919,133

(ii) Carrying Amount and Fair Value

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

(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

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

Maturity Analysis (Group)

As at 31 December 2015

	Within 6 months \$	6 to 12 months \$	1 to 2 years \$	2 to 5 years \$	Total \$
Assets					
Cash at Bank	454,415	-	-	-	454,415
Other Receivable	49,131,257	-	-	-	49,131,257
Reinsurance Recoveries	519,558,958	-	-	-	519,558,958
NZ Government Stock	-	-	-	-	-
Total Financial Assets	569,144,630	-	-	-	569,144,630
Liabilities					
Sundry Creditors & Accrued Charges	553,796,248	-	-	-	553,796,248
Reinsurance Received in Advance	-	-	-	-	-
Outstanding Claims	10,608,200	-	-	-	10,608,200
Subordinated Debt	-	-	120,176	-	120,176
Total Financial Liabilities	564,404,448	-	120,176	-	564,524,624

Maturity Analysis (Group)

As at 31 December 2014

	Within 6 months \$	6 to 12 months \$	1 to 2 years \$	2 to 5 years \$	Total \$
Assets					
Cash at Bank	4,224,278	-	-	-	4,224,278
Other Receivable	79,648	-	-	-	79,648
Reinsurance Recoveries	50,697,696	456,279,263	-	-	506,976,959
NZ Government Stock	100,000	-	-	-	100,000
Total Financial Assets	55,101,622	456,279,263	-	-	511,380,885
Liabilities					
Sundry Creditors & Accrued Charges	1,022,962	-	-	-	1,022,962
Reinsurance Received in Advance	326,264	-	-	-	326,264
Outstanding Claims	52,290,637	456,279,263	-	-	508,569,900
Subordinated Debt	-	-	-	120,176	120,176
Total Financial Liabilities	53,639,863	456,279,263	-	120,176	510,039,302

NEW ZEALAND LOCAL GOVERNMENT INSURANCE CORPORATION LIMITED
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

NOTE 11 Financial Instruments (Cont'd)

(b) Liquidity Risk (Cont'd)

Maturity Analysis (Parent)
As at 31 December 2015

	Within 6 months \$	6 to 12 months \$	1 to 2 years \$	2 to 5 years \$	Total \$
Assets					
Cash at Bank	403,870	-	-	-	403,870
Other Receivable	49,131,249	-	-	-	49,131,249
Reinsurance Recoveries	519,558,958	-	-	-	519,558,958
NZ Government Stock	-	-	-	-	-
Total Financial Assets	569,094,077	-	-	-	569,094,077

Liabilities

Sundry Creditors and Accrued Charges	553,796,248	-	-	-	553,796,248
Reinsurance Received in Advance	-	-	-	-	-
Outstanding Claims	10,608,200	-	-	-	10,608,200
Total Financial Liabilities	564,404,448	-	-	-	564,404,448

Maturity Analysis (Parent)
As at 31 December 2014

	Within 6 months \$	6 to 12 months \$	1 to 2 years \$	2 to 5 years \$	Total \$
Assets					
Cash at Bank	4,173,716	-	-	-	4,173,716
Other Receivable	79,640	-	-	-	79,640
Reinsurance Recoveries	50,697,696	456,279,263	-	-	506,976,959
NZ Government Stock	100,000	-	-	-	100,000
Total Financial Assets	55,051,052	456,279,263	-	-	511,330,315

Liabilities

Sundry Creditors and Accrued Charges	1,022,969	-	-	-	1,022,969
Reinsurance Received in Advance	326,264	-	-	-	326,264
Outstanding Claims	52,290,637	456,279,263	-	-	508,569,900
Total Financial Liabilities	53,639,870	456,279,263	-	-	509,919,133

(c) Credit Risk

All investments are in cash at registered banks. The registered banks have a credit rating of "AA-". All reinsurance is held with reinsurers with credit ratings no less than "A-" (AM Best scale).

(i) Concentration of Credit Risk

The following table includes the Company's & Group's assets at their carrying amounts at balance date. This equates to the Company's and Group's maximum exposure to credit risk.

	2015 Group \$	2014 Group \$	2015 Parent \$	2014 Parent \$
Cash at Registered Banks	454,415	4,224,278	403,870	4,173,716
Other Receivable	49,131,257	79,648	49,131,249	79,640
Reinsurance Recoveries	519,558,958	506,976,959	519,558,958	506,976,959
Managed Funds	-	-	-	-
NZ Government Stock	-	100,697	-	100,697
Total	569,144,630	511,381,582	569,094,077	511,331,012

(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 above ground related claims.

NEW ZEALAND LOCAL GOVERNMENT INSURANCE CORPORATION LIMITED
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

NOTE 12

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

Accounting Policy:

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

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

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

	2015 Group \$	2014 Group \$	2015 Parent \$	2014 Parent \$
Total Comprehensive Surplus	2,781,052	897,200	2,781,212	968,568
Add/(less) non cash items				
Depreciation	35,797	64,828	35,797	64,828
Amortisation	18,392	47,430	18,392	47,430
Movement in Insurance Provisions	(497,961,700)	(82,078,350)	(497,961,700)	(82,078,350)
Movement in Deferred Tax Liability	43,672	201,572	43,672	201,572
Net change in fair value of investment property	(133,331)	(430,000)	(133,331)	(430,000)
Share of Profit of Associate	136	101,349	-	-
Unrealised net change in value of investments	100,697	2,785	100,697	2,785
	(497,896,337)	(82,090,386)	(497,896,473)	(82,191,735)
Add/(less) movements in other working capital items				
Sundry Debtors and Prepayments and Reinsurance Recoveries	(60,809,643)	80,835,661	(60,809,643)	80,835,663
Sundry Creditors and Accrued Charges	552,781,237	(3,840,677)	552,781,237	(3,840,675)
Reinsurance Received in Advance	(326,264)	-	(326,264)	-
Tax Refund Due	39,157	117,438	39,157	117,438
Maturing Civic Bonds	-	-	-	-
	491,684,487	77,112,422	491,684,487	77,112,426
Add/(Less) Items Classified as investing activity	-	(60,150)	-	(30,150)
Add/(Less) Items Classified as financing activity	7	7	7	7
Net Cash Flow from Operating Activities	(3,430,791)	(4,140,906)	(3,430,767)	(4,140,883)

NOTE 13

OPERATING LEASE COMMITMENTS

There are the following operating lease expense commitments:

	2015 Group \$	2014 Group \$	2015 Parent \$	2014 Parent \$
not later than one year	16,709	17,277	16,709	17,277
later than one year but not later than five years	15,843	64,030	15,843	64,030
later than five years	-	-	-	-
	32,552	81,307	32,552	81,307

There are the following operating lease income commitments:

	2015 Group \$	2014 Group \$	2015 Parent \$	2014 Parent \$
not later than one year	738,946	666,470	738,946	666,470
later than one year but not later than five years	1,043,984	990,373	1,043,984	990,373
later than five years	160,000	221,960	160,000	221,960
	1,942,930	1,878,803	1,942,930	1,878,803

Operating lease income relates a combination of office and retail tenancies to the Investment Property referred to in Note 9. The property is subject to a combination of multiple office and retail tenancies over varying lease periods.

NOTE 14**CONTINGENT LIABILITIES**

There are no contingent liabilities.

NOTE 15**SUBORDINATED DEBT**

NZ Local Government Finance Corporation Ltd's (NZLGFC) Investment Manager's brokerage was subordinated. The subordinated loan ranks behind all other NZLGFC creditors. Under the terms of the subordination, amounts payable including interest shall only be payable at such time, or times, as the Directors determine that the Company has available funds to make such payments. NZLGFC ceased active operations in February 2010.

NOTE 16**KEY MANAGEMENT PERSONNEL**

The compensation of the Directors and executives, being the 10 key management personnel of the Company and Group is set out below

	2015	2014	2015	2014
	Group	Group	Parent	Parent
	\$	\$	\$	\$
Short term employee benefits				
Four Executive Management Personnel	781,369	940,413	781,369	852,193
Six Directors	144,375	123,446	144,375	123,446
	<u>925,744</u>	<u>1,063,859</u>	<u>925,744</u>	<u>975,639</u>

NOTE 17**ANALYSIS OF FINANCIAL ASSETS NOT IMPAIRED**

There are no financial assets that are impaired or past due at balance date (2014: nil)

NOTE 18**STANDARDS APPROVED BUT NOT YET EFFECTIVE****Standards and Interpretations in issue not yet adopted**

At the date of authorisation of the financial report, there are no Standards and Interpretations were on issue that were relevant to the Group, but not yet effective.

NOTE 19**SHAREHOLDERS' EQUITY**

The Share Capital of the Company and Group comprises solely authorised and issued ordinary shares with each share ranking equally in votes, dividends and surpluses. During the year no new shares were issued.

Retained Earnings	2015	2014	2015	2014
	Group	Group	Parent	Parent
	\$	\$	\$	\$
Opening Balance	2,684,850	1,787,650	2,751,161	1,782,593
Net Surplus After Taxation	2,781,052	897,200	2,781,212	968,568
Closing balance	<u>5,465,902</u>	<u>2,684,850</u>	<u>5,532,373</u>	<u>2,751,161</u>

NOTE 20**EQUITY RETAINED FOR FINANCIAL SOUNDNESS**

All shareholder equity is retained to ensure the financial soundness of the Company and Group. The cash 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. Refer to Note 22 for more information.

NOTE 21**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 2015.

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

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

NOTE 22**GOING CONCERN**

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

In December 2015 the Company reached a global settlement of the majority of the Canterbury earthquake claims and a commutation agreement of the remaining open Canterbury earthquake claims with the reinsurers. Based on the actuaries' valuations and expertise of the loss adjusters, the Company expects to meet its liabilities.

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

The 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. Presently it is a condition of the provisional licence that the Company does not write any new business. The profitability of other financial and property services supports the going concern assumption for Civic as a whole.

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 of the asset to be recovered.

NOTE 23**SUBSEQUENT EVENTS****Share Offer.**

In 2012 the Company issued a share offer to shareholders and other non-shareholding local authorities in New Zealand to subscribe for shares in the Company. The share offer was extended and will close on 19 February 2016 unless the closing date is further extended. As at the date of signing these financial statements 219,000 shares at 90c per share have been taken up.

The Company has settled the largest commercial property claim in New Zealand history, with all reinsurance monies being received by 12th February and the final payment to the insured made on 19th February 2016 (refer to Note 3 b and 6 a).



15 March 2016

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

Dear Roger

Formal Statements – Section 78 Report

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

- This report has been completed by Craig Lough FNZSA, Appointed Actuary to Civic Assurance (‘Civic’).
- I have provided to Civic an Insurance Liability Valuation Report as at 31 December 2015 (dated 2 March 2016). In that report I provided determinations of the outstanding claims provisions and the premium liabilities for Civic. These have been used in Civic’s financial accounts.

I have also carried out an assessment of the Company’s current and expected future solvency position determined under the Solvency Standard for Civic Assurance issued by the Reserve Bank of New Zealand in December 2014.

- There were no restrictions or limitations placed on my work or on my report.
- I have no relationship with Civic other than being its Appointed Actuary. I hold no interests in Civic.
- I obtained all of the information I required.
- In my opinion and from an actuarial perspective (and subject to the comments below):
 - the actuarial information included in the Civic financial statements as at 31 December 2015 was appropriately included in those financial statements, and
 - the actuarial information used in the preparation of the Civic financial statements as at 31 December 2015 was used appropriately.
- The solvency margin that applies to Civic under a condition imposed under section 21(2)(b) of the Insurance (Prudential Supervision) Act 2010 as at 31 December 2015 was the margin set out in their provisional licence issued by the Reserve Bank of New Zealand in August 2013. Civic do not currently maintain that solvency margin as at 31 December 2015.

Civic have recorded the outstanding claim in respect of Christchurch City Council as a creditor item, on the grounds that it has been settled. My view is that it should be recorded as an insurance provision as it has not been paid at the valuation date. There is no financial or solvency impact from this treatment however.

Yours sincerely

Craig Lough FNZSA
Appointed Actuary

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