Civic Assurance

PROTECTING COMMUNITY ASSETS

ANNUAL REPORT 08

TABLE OF CONTENTS

DIRECTORY	2
CHAIRMAN'S REPORT 2008	4
ANNUAL REPORT AND STATEMENT OF ACCOUNTS	6
INCOME STATEMENT	11
BALANCE SHEET	12
STATEMENT OF MOVEMENTS IN EQUITY	14
STATEMENT OF CASH FLOWS	15
NOTES TO THE FINANCIAL STATEMENTS	16
AUDIT REPORT	46
SHAREHOLDING DETAILS	Back cover

DIRECTORY

DIRECTORS

Bryan G Taylor (Chairman)
Darryl C Griffin
Michael C Hannan
Robert A Lineham
Tony J Marryatt (From 14 March 2008)
Kinsley N Sampson MNZM JP
Howard J Stone (Until 10 March 2008)

EXECUTIVE OFFICERS

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

AUDITORS

The Auditor General, who has appointed Michael Wilkes, Deloitte to carry out the audit on his 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
Emailinfo@civicassurance.co.nz
Website www.civicassurance.co.nz

"2008 WAS ANOTHER SUCCESSFUL YEAR FOR CIVIC ASSURANCE."

CHAIRMAN'S REPORT 2008

2008 was another successful year for Civic Assurance. The Company achieved its principal goal of operating as a successful business and its specific goal of containing the cost of risk for local government in New Zealand by providing councils with cost effective solutions for risk financing.

The profit before tax was $1,338,609 (2007: $2,177,701), which was just sufficient to meet the gross cost of the 2008 dividend. The deterioration in the profit compared to 2007 was for a number of reasons: a further softening of rates leading to reduced premium income, increased claims, and a net reduction in capital value of $300,000 for Civic Assurance House.

In 1999 the Board made a decision to retain profits for the purpose of strengthening the Company's balance sheet. Because of this decision and while still retaining its AM Best "A Excellent" claims paying ability rating, Civic has since been able to increase its risk retention and reduce its reinsurance costs. This has been good for the Company's profitability and therefore for the further building of the Company's reserves.

The decision to retain 100% of profits was reviewed by your Board in 2005. Because the Board's capital-strengthening objectives set in 1999 had been achieved, the Directors resolved in 2005 to renew paying dividends and a dividend of 12 cents per share was paid. In 2006 the dividend payment was 12.6 cents per share, in 2007 13.2 cents per share, and in 2008 13.9 cents per share. It has been possible to continue strengthening the Company's balance sheet while making worthwhile dividend payments because of the Company's efficiency.

A strong capital base is essential for maintaining Civic's "A Excellent" claims paying ability rating from AM Best, confirmed for 2009. The "A Excellent" rating is very important because it provides Civic's customers with a high level of confidence in Civic's ability to meet claims. A decision on whether a dividend will be paid in 2009 will be made by your Board later in the year.

The main decision made by your Board in 2008 was to enter in a partnership with LAPP for protecting local authorities' 'above-ground' assets. Exclusive to local authorities and CCOs (Council Controlled Organisations), LAPP will bring long-term savings to the sector, better continuity of cover, and less volatility in the pricing.

The Company is ably led by Tim Sole its Chief Executive and I am confident that Civic will continue to provide its shareholders and customers with innovative and cost effective financing and risk financing solutions.

Bryan Taylor
Chairman

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

ANNUAL REPORT &
STATEMENT OF ACCOUNTS

ANNUAL REPORT AND STATEMENT OF ACCOUNTS

FOR THE YEAR ENDED 31 DECEMBER 2008

AM Best Rating: A (Excellent) stable, confirmed 15 May 2009.

Your Directors and Chief Executive have pleasure in submitting the Annual Report of the affairs of the Company for the year ended 31 December 2008, which is to be presented at the 49th Annual General Meeting of Members.

1. PARTNERSHIP WITH LAPP

Civic's new partnership with LAPP (the New Zealand Local Authority Protection Programme Disaster Fund) is a huge step for Civic and very good news for Civic's customers and shareholders.

Under this partnership, the bulk of Civic's protection programmes are expected to transfer to LAPP. Consequently, some of Civic's capital could be available to be returned to Civic's shareholders at a future date OR Civic may use this capital to invest in other risk-financing or financing opportunities for local government.

Civic's customers can certainly expect to be better off by using LAPP for their asset protection and can look forward to a lower long-term cost for their risk financing beginning immediately. By using LAPP the cost of their protection will also be less volatile and easier to budget for.

Importantly, Civic's policyholders who transfer their asset protection to LAPP can expect to enjoy the same can-do approach to the payment of their claims as they enjoy with Civic.

For further details, see **www.civicassurance.co.nz**

2. FINANCIAL STRENGTH

To maintain its membership of ICNZ (Insurance Council of New Zealand), Civic is required to have a solvency ratio of 120% or better. As at 31 December 2008 it was 591%.

Civic has once again been awarded a credit rating of A (Excellent) with stable outlook from AM Best. All of Civic's reinsurers, which are chosen and monitored with the advice of a leading international reinsurance broker, have a credit rating of A or better. In the event that a credit rating of one of Civic's reinsurer's drops below A–, there is provision in Civic's reinsurance treaties to replace that reinsurer. When this happened in 2004, the replacement clause was exercised.

Civic's reinsurance programme is unusually strong. Any individual loss to Civic is capped at $1.2 million and for an event of ANY size the exposure to Civic is capped at $6 million. An advantage of Civic's niche position is that it does not have the huge and varied exposures to risk that bigger insurance companies have. Within New Zealand, Civic's capped reinsurance programme is unique.

Civic has no borrowings and no need to borrow. The sub-prime crisis that affected a number of other financial institutions in 2008 has not directly affected Civic.

3. OPERATIONS 2008

Underwriting Result

2008 was an even more difficult year for the New Zealand insurance industry than 2007, with some companies, including larger ones, reporting significant losses. It is inevitable that New Zealand insurance premiums on average will rise.

The table below could not illustrate more clearly the difficulties Civic (and the rest of the New Zealand insurance industry) is facing:

Year	2006	2007	2008
Premium $000	17,405	14,920	13,831
Claims $000	4,941	5,883	6,256
Claims Ratio	28%	39%	45%

ANNUAL REPORT AND STATEMENT OF ACCOUNTS

FOR THE YEAR ENDED 31 DECEMBER 2008

Although a claims ratio of 45% may seem low, the rest of the premium is required for reinsurance costs (catastrophe cover), other expenses (including claims handling), and for building Civic's reserves. The latter is needed because in a year when there is a catastrophe or just a series of large losses, the claims ratio will be considerably more than 45%!

The percentage of councils that insure with Civic is 84%. Insurances offered by Civic include:

- Business interruption
- Civil defence expenses
- Contractors all risk (building work)
- Election expenses
- Fidelity guarantee
- Forest and rural fires
- Marine hull
- Material damage (buildings)
- Motor vehicle
- Travel.

Civic insures local government owned assets with values in excess of $12 billion.

Investment Income

Income from investments compared to 2007 declined by $0.579 million even though interest rates in 2008 were slightly higher than in 2007. The reason as in previous years was because of reducing interest income earned by LGFC (down by $0.529 million) following the maturing of LGFC Civic Bonds that have not been replaced.

Property Revenue

Civic Assurance House continues to be fully tenanted. This nine-storey building is near the government centre, an area that in recent years has benefited from improved property valuations brought about by shortages of good office space in that part of Wellington. This trend reversed at the end of 2008 and a revaluation decrease of $300,000, in accordance with Financial Reporting Standards, has been recorded through the property income account.

Gross rents received increased from $744,496 to $766,176 and operating costs were down from $420,864 to $321,895. The figures for operating costs are not directly comparable however as the 2007 figure includes the cost in that year of painting the building.

Operating Expenses

Because it is operating in a niche market and strongly supported by its customers/shareholders, Civic's insurance expenses as a percentage of its premium is significantly lower than the insurance industry average. Thus in 2008 Civic was still able to show a profit in adverse investment conditions and on a claims ratio of over 45% when some of its bigger competitors could not.

Civic's net expenses *including the expenses* of running SuperEasy, KiwiSaver SuperEasy and Superplan as a percentage of premium for 2008 is 17%, a slight increase on 2007, which is related more to the drop in premium than any material increase in expenses. The average expense ratio for the insurance industry is between 25% and 30%, so Civic's low expenses represent an annual saving in the order of 10% of premium.

Civic Roadside Recovery

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

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

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

Sponsorship

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

The 2008 Civic Assurance United States Manager Exchange was awarded to Clare Hadley of Rangitikei District Council.

ANNUAL REPORT AND STATEMENT OF ACCOUNTS CONTINUED

FOR THE YEAR ENDED 31 DECEMBER 2008

4. ASSOCIATED ENTITIES

Local Government Superannuation Trustee Limited

The trustee for all three superannuation schemes administered by Civic (KiwiSaver SuperEasy, SuperEasy, and Superplan) is Local Government Superannuation Trustee Limited (LGST), a 100% subsidiary of Civic. To ensure independence of LGST, the six directors of LGST are appointed by Civic (2), LGNZ (2), SOLGM (1) and CTU (1).

KiwiSaver and Civic's KiwiSaver SuperEasy were introduced on 1 July 2007. KiwiSaver now has over 1,000,000 members, with the six default KiwiSaver providers having the lion's share. The newly elected National government changed some of the KiwiSaver rules late in 2008, but mostly left the scheme intact.

SuperEasy and KiwiSaver SuperEasy feature low member charges, simple administration for councils, and are 'PIE' compliant. Both make use of passive fund managers, which allows for lower member fees while reducing the possibility of a fund manager making a bad call. Both schemes also offer an 'Automatic Fund', in which each member's risk exposure is automatically and gradually switched from growth assets to income assets as the member gets older.

Superannuation funds under management are $40 million. The fund managers for SuperEasy and KiwiSaver SuperEasy are AMP Capital Investors (New Zealand) Ltd and ASB Group Investments Ltd. Membership of KiwiSaver SuperEasy, SuperEasy and Superplan total 4,700.

Civic Assurance has in place superannuation arrangements with 80% of local authorities (68 out of 85) and has been appointed KiwiSaver preferred provider for 67% (57 out of 85) 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. With two new members in the last twelve months, LAPP's current membership is 58 local authorities.

LAPP provides protection for both 'above ground' and 'below ground' assets. As a not-for-profit fund it can offer its members over the long term lower protection costs than standard insurance polices. LAPP, like councils, does not pay tax on income.

For above ground assets, LAPP shares Civic's reinsurance programme. For below ground assets, LAPP buys reinsurance to cover a 1 in 6000 year event with back up reinsurance provisions should two major events occur in the same year. This is how LAPP, with members' equity of $37 million, is able to provide its members with full cover for a major earthquake in Wellington (for example) followed by another earthquake or major tsunami in Christchurch (for example). LAPP does not have the call facility on members that Riskpool has.

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. It is not a company, it is a mutual liability fund governed by a trust deed. A successful revision and modernisation of Riskpool's trust deed, which required unanimous approval from all of Riskpool's 82 members, was carried out during 2007.

The trustee of Riskpool is Local Government Mutual Funds Trustee Limited, a 100% subsidiary of Civic Assurance. Directors of Local Government Mutual Funds Trustee Limited are appointed by Civic. Civic is also the fund manager for Riskpool and one of its reinsurers.

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

Local Government Online (LGOL)

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

LGOL provides daily news updates on its website, a twice-weekly eZine newsletter, a local government jobs board, and a web-based resource library. LGOL promotes a number of products to local government including Tenderlink and ReadyNet.

LGOL is 25% owned by Civic, and is trading effectively and profitably. LGOL paid a dividend during the year.

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

ANNUAL REPORT AND STATEMENT OF ACCOUNTS

FOR THE YEAR ENDED 31 DECEMBER 2008

Finance Company

LGFC (Local Government Finance Corporation) continues to meet all its statutory and commercial obligations since it closed its doors to new business in early 2004. The last of the Civic Bonds issued by LGFC mature in February 2010.

Discussions have been held with various government officials on how LGFC could once again open its doors to new business with the same aim that LGFC originally had – reducing the cost of borrowing for local government.

5. SURPLUS, CAPITAL AND DIVIDENDS

The surplus for the year before taxation was $1.338 million (2007: $2.177 million). Consolidated shareholders' funds at 31 December 2008 were $19.23 million (2007: $19.20 million).

A dividend of 13.9 cents per share with full imputation credits attached was paid in December 2008 (13.2 cents in September 2007). The cost of this dividend was $888,320 (2007: $843,584).

The following table shows net asset value per share for the last eight years as at 31 December and the dividend in cents per share.

Year	Dividend per share	Net Asset Value per share
2001	-	$1.69
2002	-	$1.78
2003	-	$1.98
2004	-	$2.29
2005	12.0 cents	$2.51
2006	12.6 cents	$2.83
2007	13.2 cents	$3.00
2008	13.9 cents	$3.01

6. DIRECTORS

Board

The Company's constitution requires at least two directors to be appointed from outside the local authority sector. As at 31 December 2008, there were three: M.C. Hannan, K.N. Sampson 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 2008, Directors' remuneration was:

	Director Fees $
Darryl Griffin	15,000
Mike Hannan	15,000
Bob Lineham	15,000
Tony Marryatt	11,976
Kinsley Sampson	15,000
Howard Stone	2,903
Bryan Taylor	30,000
	104,879

Interests Register

Directors' interests are tabled at the beginning of each Board meeting. Directorship disclosures as at 31 December 2008 were:

D Griffin	Local Government Superannuation Trustee Ltd
M Hannan	Wesfarmers Broking (NZ) Ltd, AUT Enterprises LTD, Crombie Lockwood (NZ) Ltd
R Lineham	Christchurch City Networks Ltd, New Zealand Local Government Finance Corporation Ltd
A Marryatt	AJM Holdings Ltd
K Sampson	Interlog (NZ) Ltd, Mission Rest Home Ltd, Trustee of LAPP
B Taylor	Metrowater Ltd, Waitakere Properties Ltd, Local Government Mutual Funds Trustee Ltd

The following transaction was entered in the Interests Register pursuant to sections 162 and 163 of the Companies Act 1993:

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

ANNUAL REPORT AND STATEMENT OF ACCOUNTS CONTINUED

FOR THE YEAR ENDED 31 DECEMBER 2008

Director attendances at Board meetings held during the 2008 year were

Darryl Griffin	8 / 8
Mike Hannan	8 / 8
Bob Lineham	8 / 8
Tony Marryatt	6 / 7
Kinsley Sampson	8 / 8
Howard Stone	1 / 1
Bryan Taylor	8 / 8

Howard Stone retired from the Board on 10 March 2008 because of ill health. On behalf of the Directors, staff and shareholders, we sincerely record our appreciation for the skills and wisdom that Howard brought to the Company.

Directors' Indemnity & Insurance

In accordance with section 162 of the Companies Act 1993 and the Constitution of the Company, the Company has insured its Directors against liabilities to other parties that may arise from their positions as Directors of the Company. This insurance does not cover liabilities arising from criminal actions and deliberate and reckless acts or omissions by the Directors.

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
130,000 - 140,000	1
150,000 - 160,000	1
270,000 - 280,000	1

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

8. AUDITORS AND AUDIT COMMITTEE

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

The Audit Committee, which meets three times a year under the Chairmanship of Mr Lineham, comprises the full Board. The Auditor attended two Board meetings during the year and, for at least part of those meetings, management was not present.

9. STAFF

We sincerely thank Caroline Bedford, Ian Brown, Sarah Burtonwood, Dean Gates, Roger Gyles, Ron Haward, Christopher Munden, Wendy Riley and Glenn Watkin for their contribution to another successful year for the Company.

Bryan Taylor
Chairman

Tim Sole
Chief Executive

May 2009

INCOME STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2008

	Notes	2008 Group $	2007 Group $	2008 Parent $	2007 Parent $
REVENUE					
Income Attributable to Insurance Business					
Premium Earned		13,831,076	14,920,320	13,831,076	14,920,320
Reinsurance Paid		(8,678,418)	(9,764,641)	(8,678,418)	(9,764,641)
Net Claims	3	(2,856,598)	(2,711,603)	(2,856,598)	(2,711,603)
Underwriting Surplus		2,296,060	2,444,076	2,296,060	2,444,076
Commissions, Claims & Risk Management Expenses		(628,295)	(672,516)	(628,295)	(672,516)
		1,667,765	1,771,560	1,667,765	1,771,560
Administration Fees		927,049	696,111	927,049	696,111
Income from Investments	9	1,265,186	1,844,451	944,363	994,697
Interest Expense		(317,199)	(840,390)	-	-
Net Property Income	16	144,281	973,632	144,281	973,632
Net Operating Income		3,687,082	4,445,364	3,683,458	4,436,000
EXPENDITURE					
Audit Fee					
Statutory Audit		77,000	52,500	77,000	52,500
Other Fees Paid to Auditors re Tax and Advisory		72,345	74,333	72,345	74,333
Claims Paying Ability Rating		23,158	20,226	23,158	20,226
Consultants		49,702	59,048	49,702	59,048
Depreciation	11	22,242	29,420	22,242	29,420
Amortisation	11	88	88	88	88
Directors' Remuneration		105,726	92,500	105,726	92,500
Insurance Council of New Zealand		12,500	12,500	12,500	12,500
Legal Fees		26,225	42,145	26,225	39,699
Other Expenses		833,110	872,507	816,110	851,753
Employee Remuneration		1,118,066	1,031,582	1,118,066	1,031,582
Total Expenditure		2,340,162	2,286,849	2,323,162	2,263,649
Net Surplus Before Share of Profit from Associate and Taxation		1,346,920	2,158,515	1,360,296	2,172,351
Subvention Payment		(11,718)	(3,610)	(11,718)	(3,610)
Share of Profit of Associate		3,407	22,796	-	-
Net Surplus Before Taxation		1,338,609	2,177,701	1,348,578	2,168,741
Less Taxation Expense	8	411,631	219,752	415,644	223,548
NET SURPLUS AFTER TAXATION	15	926,978	1,957,949	932,934	1,945,193

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

BALANCE SHEET

AS AT 31 DECEMBER 2008

	Notes	2008 Group $	2007 Group $	2008 Parent $	2007 Parent $
SHAREHOLDERS EQUITY					
Issued and Paid-Up Ordinary Shares					
6,390,790 Ordinary Shares fully paid up	22	6,390,790	6,390,790	6,390,790	6,390,790
Retained Earnings		12,842,962	12,804,304	12,866,322	12,821,708
TOTAL EQUITY		19,233,752	19,195,094	19,257,112	19,212,498
Represented By:					
CURRENT ASSETS					
Bank & Cash Equivalents		11,535,126	9,733,955	11,476,855	9,665,792
Sundry Debtors and Prepayments		966,865	1,298,355	962,852	1,287,040
Premiums Receivable		1,498,901	1,816,227	1,498,901	1,816,227
Reinsurance Recoveries	6	5,185,464	4,825,799	5,185,464	4,825,799
Income Tax Receivable	8	243,947	444,740	243,947	444,740
Managed Funds	13	4,294,945	4,227,239	4,294,945	4,227,239
Local Authority Stock	13	1,714,000	6,662,929	-	-
Total Current Assets		25,439,248	29,009,244	23,662,964	22,266,837
NON CURRENT ASSETS					
NZ Government Stock	13	110,146	101,355	110,146	101,355
Local Authority Stock	13	999,237	2,706,798	-	-
Shares in Local Government Online		63,577	60,170	30,000	30,000
Property, Plant and Equipment	11	98,635	49,109	98,635	49,109
Intangible Assets (Software)	11	139	227	139	227
Investment Property	10	8,325,000	8,625,000	8,325,000	8,625,000
Total Non Current Assets		9,596,734	11,542,659	8,563,920	8,805,691
TOTAL ASSETS		35,035,982	40,551,903	32,226,884	31,072,528

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

BALANCE SHEET

AS AT 31 DECEMBER 2008

	Notes	2008 Group $	2007 Group $	2008 Parent $	2007 Parent $
CURRENT LIABILITIES					
Sundry Creditors & Accrued Charges		1,353,375	1,424,821	1,352,257	1,416,272
Accrued Holiday Pay		75,170	51,800	75,170	51,800
Civic Bonds Issued	13	1,711,450	6,658,701	-	-
Subordinated Debt	18	120,176	120,176	-	-
		3,260,171	8,255,498	1,427,427	1,468,072
Insurance Provisions					
Unearned Premium Reserve	7	2,906,819	3,032,427	2,906,819	3,032,427
Outstanding Claims Liability	3	7,545,000	6,196,500	7,545,000	6,196,500
Total Insurance Provisions		10,451,819	9,228,927	10,451,819	9,228,927
Total Current Liabilities		13,711,990	17,484,425	11,879,246	10,696,999
NON CURRENT LIABILITIES					
Civic Bonds Issued	13	999,714	2,709,353	-	-
Deferred Tax Liability	8	1,090,526	1,163,031	1,090,526	1,163,031
Total Non Current Liabilities		2,090,240	3,872,384	1,090,526	1,163,031
TOTAL LIABILITIES		15,802,230	21,356,809	12,969,772	11,860,030
EXCESS OF ASSETS OVER LIABILITIES		19,233,752	19,195,094	19,257,112	19,212,498

For and on behalf of the Directors

Director Bryan Taylor B G Taylor 31 March 2009

Director Bob Lineham 31 March 2009

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

STATEMENT OF MOVEMENTS IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2008

	2008 Group $	2007 Group $	2008 Parent $	2007 Parent $
OPENING EQUITY	19,195,094	18,080,729	19,212,498	18,110,889
Net Surplus After Taxation	926,978	1,957,949	932,934	1,945,193
Total Recognised Revenue and Expenses	926,978	1,957,949	932,934	1,945,193
Dividend Payment	(888,320)	(843,584)	(888,320)	(843,584)
CLOSING EQUITY	19,233,752	19,195,094	19,257,112	19,212,498

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 2008

	Notes	2008 Group $	2007 Group $	2008 Parent $	2007 Parent $
CASH FLOWS FROM OPERATING ACTIVITES					
Cash was provided from:					
Premiums Received		13,987,535	14,708,101	13,987,535	14,708,101
Rent Received		764,154	740,078	764,154	740,078
Administration Fees Received		806,751	535,267	806,751	535,267
Interest Received		1,301,127	1,882,632	870,815	781,952
Maturing Local Authority Stock		6,547,000	12,848,500	-	-
Dividends Received		16,815	-	16,815	-
		23,423,382	30,714,578	16,446,070	16,765,398
Cash was applied to:					
Net Claims Expenses		1,891,395	2,542,694	1,891,395	2,542,694
Taxation Paid		273,808	831,717	273,808	831,717
Interest Expense		436,352	1,106,166	-	-
Payments to Reinsurers and Suppliers		11,518,735	13,166,294	11,507,178	13,145,254
Maturing Civic Bonds		6,547,000	12,848,500	-	-
		20,667,290	30,495,371	13,672,381	16,519,665
Net Cash Flow from Operating Activities	15	2,756,092	219,207	2,773,689	245,733
CASH FLOWS FROM INVESTING ACTIVITIES					
Cash was provided from:					
Sale of Fixed Assets		6,045	-	6,045	-
		6,045	-	6,045	-
Cash was applied to:					
Purchase of Fixed Assets		72,646	1,371	72,646	1,371
		72,646	1,371	72,646	1,371
Net Cash Flow from Investing Activities		(66,601)	(1,371)	(66,601)	(1,371)
CASH FLOWS FROM FINANCING ACTIVITIES					
Cash was provided from:					
Receipt of Loan Payments		-	1,481	-	1,481
		-	1,481	-	1,481
Cash was applied to:					
Payment of Subvention Payment		-	-	7,705	3,610
Payment of Dividend		888,320	843,584	888,320	843,584
		888,320	843,584	896,025	847,194
Net Cash Flow from Financing Activities		(888,320)	(842,103)	(896,025)	(845,713)
Net (Decrease)/Increase in Cash Held		1,801,171	(624,267)	1,811,063	(601,351)
Opening Cash Balance as at 1 January		9,733,955	10,358,222	9,665,792	10,267,143
Closing Cash Balance as at 31 December		11,535,126	9,733,955	11,476,855	9,665,792
Being: Bank & Cash Equivalents		11,535,126	9,733,955	11,476,855	9,665,792

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 2008

NOTE 1. REPORTING ENTITY

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

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

Statement of compliance

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

NOTE 2. STATEMENT OF ACCOUNTING POLICIES

General Accounting Policies

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

The reporting currency is New Zealand dollars.

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

Critical Judgements and Estimates in Applying the Accounting Policies

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

The Directors believe that, as at the date of these Financial Statements, there are no significant sources of estimation uncertainty that have not been disclosed in these notes. However they do make estimates and assumptions concerning the future. The resulting accounting estimates may not equal the related actual results.

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 incorporation or until the effective dates of disposal. All inter-company transactions, balances and unrealised profits are eliminated on consolidation.

(b) Significant Accounting Policies Related to General Insurance Contracts

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2008

(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 and commission 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 balance sheet.

(d) Reinsurance Expense

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

(e) Claims

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

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

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

(f) Reinsurance and Other Recoveries

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

(g) Liability Adequacy Test

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

(h) Assets which back Insurance Liabilities

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

(i) Investment Property

The investment property, which is valued annually, has been valued at fair value based on a valuation performed by registered public valuer, TelferYoung (Wgtn) Ltd as at 31 December 2008.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 31 DECEMBER 2008

(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
Motor Vehicles	5 years

(k) Financial Instruments

(i) Classification and Measurement

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

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

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

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

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

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

(ii) Offsetting Financial Instruments

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

(iii) Asset Quality

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

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

(iv) Derivatives

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2008

(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 Income Statement.

(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 balance sheet.

(n) Cash Flow Statement

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

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

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

(o) Employee Benefits

Provision is made for benefits accruing to employees in respect of wages and salaries, annual leave and sick 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.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 31 DECEMBER 2008

(p) Investment in Subsidiaries

The Company has five wholly owned subsidiaries which are all incorporated in New Zealand. Four of these, Local Government Superannuation Trustee Ltd, SuperEasy Ltd and Civic Assurance Limited with balance dates of 31 December and Local Government Mutual Funds Trustee Ltd with its balance date of 30 June did not have any significant assets, liabilities, revenue or expenses at 31 December 2008.

New Zealand Local Government Finance Corporation Limited (LGFC) commenced business on the 29 November 1999 and had total assets of $2,775,521 (2007: $9,449,205) at balance date. The five companies have been recognised in the parent at cost less impairment and consolidated in the group accounts. The operating companies are subject to ongoing review of their operations to ensure they are meeting their agreed strategic objectives.

(q) Investment in Associate Company

The share of the income of the associate company has been included in the consolidated Income statement and added to the cost of the investment in the consolidated balance sheet. The parent accounts for the investment at cost less impairment.

(r) Basis of Measuring Income and Expenses

Income and expenses are accounted for on an accruals basis.

(s) Changes in Accounting Policies

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

NOTE 3. CLAIMS

(a) Claims

	2008 Group $	2007 Group $	2008 Parent $	2007 Parent $
Claims incurred and Provision for Outstanding Claims				
Total claims incurred during the year	(6,256,104)	(5,882,948)	(6,256,104)	(5,882,948)
Less total claims cost recovered from reinsurers	3,399,506	3,171,345	3,399,506	3,171,345
Net Claims	(2,856,598)	(2,711,603)	(2,856,598)	(2,711,603)

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

	2008 Group $	2007 Group $	2008 Parent $	2007 Parent $
Outstanding Claims liability at the beginning of the financial year	6,196,500	3,845,000	6,196,500	3,845,000
Claims Expense in the current year	6,256,104	5,882,948	6,256,104	5,882,948
Claims Paid	(4,907,604)	(3,531,448)	(4,907,604)	(3,531,448)
Outstanding Claims liability at the end of the financial year	7,545,000	6,196,500	7,545,000	6,196,500

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2008

(c) Central Estimate and Risk Margin

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

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

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

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

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

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

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

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

As at 31 December 2008 the central estimate of the outstanding claims liability was evaluated by Neil Christie and Janet Lockett (Fellows of the NZ Society of Actuaries) of Melville Jessup Weaver. The actuaries are satisfied to the nature and accuracy of data in the outstanding claims liability.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 31 DECEMBER 2008

(c) Central Estimate and Risk Margin (continued)

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

(d) Actuarial Methodology and Assumptions

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

(1) Future incurred claim settlement patterns

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

Overall, the average estimated weighted term to settlement is about 7.4 months.

(2) Inflation and discount rates

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

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

(3) Reinsurance

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

(4) Risk margin

The overall risk margin for both outstanding claims and liability adequacy testing have been determined using stochastic techniques and have been determined allowing for diversification between groups of business and having regard to the inherent variation observed in claims development in each group of business. The undiversified risk margins for each group of business are applied to the net central estimates and the results aggregated, allowing for diversification, in order to arrive at an overall net provision that is intended to provide a probability of sufficiency of 85%.

A risk margin of $704,000 has been included in Provision for Claims as at balance date as required in terms of IFRS 4 clause 17.2.

NOTE 4. INSURANCE CONTRACT RISK MANAGEMENT

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

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2008

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

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

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

- Acceptance of risk – The Company is primarily an insurer only of risks owned or managed by local authorities. Records of results and trends exclusively in this market sector that have been built up over a number of years are available as tools for the Company's two underwriters both of whom each have over 35 years experience in the industry and over ten years experience in underwriting local government risks. The portfolio is essentially property risks. A "ring fenced" maximum liability layer of liability risk has been written to support the local government liability pool, Riskpool.
- Pricing – Many years of underwriting results for a tight homogenous group of risks enables the Company's underwriters to calculate acceptable pricing and acceptable terms and conditions of cover.
- Reinsurance – Through reinsurance the Company has been able to cap its maximum liability in the event of a catastrophe to $6 million. This amount is well within the Company's reserves.
- Claims management – Claims are handled independently by contract with a claims handling company. Staff of the contract company are allocated settling limits and authorities commensurate with their levels of experience. These authority levels are reviewed regularly. Contract 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. Claims files are regularly randomly audited.
- 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. The Company has a programme of regular client visits by an independently employed risk manager.

(b) Terms and Conditions of Insurance Contracts

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

(c) Concentration of Insurance Risk

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

(d) Credit Risk

Financial assets or liabilities arising from insurance contracts are presented on the balance sheet. 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.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 31 DECEMBER 2008

(e) Interest Rate Risk

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

(f) Reinsurance Risk

Refer to note 6.

(g) Operational Risk

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

(h) Liquidity Risk

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

(i) Sensitivity Analysis

The effect of risks on net profit and Equity in the areas of Runoff, Loss Ratio, Expense Rate and Discount Rate is nil.

NOTE 5. INSURANCE PROVISIONS

The Company has a claims payable credit rating of "A (Excellent)" issued by A M Best. 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.

NOTE 6. REINSURANCE RECEIVABLE ON OUTSTANDING CLAIMS

(a) Reconciliation of Movements for the Financial Year

	2008 Group $	2007 Group $	2008 Parent $	2007 Parent $
Reinsurance recoveries receivable on outstanding claims at the beginning of the year	4,825,799	2,602,735	4,825,799	2,602,735
Reinsurance recoveries received	(3,039,841)	(948,281)	(3,039,841)	(948,281)
Reinsurance recoveries receivable on claims incurred during the year	3,399,506	3,171,345	3,399,506	3,171,345
Reinsurance recoveries receivable on outstanding claims at the end of the year	5,185,464	4,825,799	5,185,464	4,825,799

(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.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2008

(c) The Effect Of Changes In Assumption

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

(d) Risk Management

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

(e) Reinsurance Programme

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

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

NOTE 7. UNEARNED PREMIUM LIABILITY

(a) Reconciliation of Movements for the Financial Year

	2008 Group $	2007 Group $	2008 Parent $	2007 Parent $
Unearned net premium liability at the beginning of the financial year	3,032,427	3,114,005	3,032,427	3,114,005
Deferral of gross premiums on contracts written in the year	6,401,631	6,874,567	6,401,631	6,874,567
Deferral of reinsurance expense payable on contracts written in the year	(3,494,812)	(3,842,140)	(3,494,812)	(3,842,140)
Earning of premiums written in previous years	(6,874,567)	(7,944,073)	(6,874,567)	(7,944,073)
Payment of reinsurance expense payable written in previous years	3,842,140	4,830,068	3,842,140	4,830,068
Unearned net premium liability at the end of the financial year	2,906,819	3,032,427	2,906,819	3,032,427

(b) Liability Adequacy Test

The conduct of the liability adequacy test as at 31 December 2008 identified a surplus.

The test is based on prospective information and so is dependent on assumptions and judgements. It does not appear that any reasonably possible changes in the key assumptions on which the calculations are based would result in a deficiency being recognised at 31 December 2008 at the level of 85% probability of sufficiency.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 31 DECEMBER 2008

NOTE 8. TAXATION

(a) Income tax recognised in the statement of financial performance

	2008 Group $	2007 Group $	2008 Parent $	2007 Parent $
Tax expense/(income) comprises:				
Current tax expense	411,631	728,240	415,644	732,806
Adjustments recognised in the current year in relation to the current tax of prior years	-	(392,955)	-	(392,955)
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	-	(115,533)	-	(116,303)
Total tax expense	411,631	219,752	415,644	223,548
Attributable to:				
Continuing operations	411,631	219,752	415,644	223,548
Discontinued operations	-	-	-	-
	411,631	219,752	415,644	223,548

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	1,335,202	2,154,905	1,360,296	2,168,741
Profit from discontinued operations	-	-	-	-
Profit from operations	1,335,202	2,154,905	1,360,296	2,168,741
Subvention payable	-	-	(11,718)	(3,610)
	1,335,202	2,154,905	1,348,578	2,165,131
Income tax expense calculated at 30%	400,560	711,119	404,573	714,493
Non-deductible expenses / (taxable income)	11,071	17,121	11,071	17,121
Effect of change in corporate tax rate	-	(115,533)	-	(116,303)
	411,631	612,707	415,644	615,311
(Over)/under provision of income tax in previous year	-	(392,955)	-	(392,955)
	411,631	219,752	415,644	222,356

(b) Current tax assets and liabilities

	2008 Group $	2007 Group $	2008 Parent $	2007 Parent $
Tax refund receivable	243,947	444,740	243,947	444,740
Tax payable	-	-	-	-
	243,947	444,740	243,947	444,740

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2008

(c) Deferred tax balances

	2008 Group $	2007 Group $	2008 Parent $	2007 Parent $
Deferred tax assets comprise:				
Temporary differences	25,332	18,321	25,332	18,321
	25,332	18,321	25,332	18,321
Deferred tax liabilities comprise:				
Temporary differences	(1,115,858)	(1,181,352)	(1,115,858)	(1,181,352)
	(1,115,858)	(1,181,352)	(1,115,858)	(1,181,352)
Net Deferred Tax balance	(1,090,526)	(1,163,031)	(1,090,526)	(1,163,031)

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
2008	Investment gains	(40,315)	-	-	-	(40,315)
	Building, Property and equipment	(3,897,525)	218,315	-	-	(3,679,210)
	Other	-	-	-	-	-
		(3,937,840)	218,315	-	-	(3,719,525)
	Employee entitlements	51,800	23,370	-	-	75,170
	Doubtful debts and impairment losses	-	-	-	-	-
	Other	9,270	-	-	-	9,270
		61,070	23,370	-	-	84,440
	Attributable to:					
	Continuing operations					(3,635,085)
	Discontinued operations					-
						(3,635,085)
2007	Investment gains	(1,109,176)	28,107	-	1,040,754	(40,315)
	Building, Property and equipment	(3,052,708)	(849,765)	-	4,948	(3,897,525)
	Other	-	-	-	-	-
		(4,161,883)	(821,658)	-	1,045,702	(3,937,840)
	Employee entitlements	35,828	15,972	-	-	51,800
	Doubtful debts and impairment losses	-	-	-	-	-
	Other	2,779	-	-	6,491	9,270
		38,607	15,972	-	6,491	61,070
	Attributable to:					
	Continuing operations					(3,876,770)
	Discontinued operations					-
						(3,876,770)

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

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 31 DECEMBER 2008

(d) Imputation Credit Account

	2008 Group $	2007 Group $	2008 Parent $	2007 Parent $
Opening Balance	5,647,462	5,238,241	5,647,462	5,238,241
Plus Credits				
Income Tax Paid	-	585,000	-	585,000
Resident Withholding Tax	279,075	239,718	279,075	239,718
Imputation Credits Received	8,282	-	8,282	-
	287,357	824,718	287,357	824,718
Less Debits				
Tax refund	-	-	-	-
Imputation Credits Attached to Dividends Paid	380,708	415,497	380,708	415,497
	380,708	415,497	380,708	415,497
Closing Balance	5,554,111	5,647,462	5,554,111	5,647,462

NOTE 9. INCOME RELATING TO FINANCIAL INSTRUMENTS

	2008 Group $	2007 Group $	2008 Parent $	2007 Parent $
Designated Fair Value through Profit or Loss				
Managed Fund – Reinvested interest and change in value	96,735	214,689	96,735	214,689
Dividends Received	25,097	-	25,097	-
	121,832	214,689	121,832	214,689
Held to Maturity				
Interest Received – NZ Government Stock	8,791	(1,944)	8,791	(1,944)
Interest Received – Local Authority Stock	320,823	849,754	-	-
	329,614	847,810	8,791	(1,944)
Cash & Cash Equivalents				
Interest Received – Short Term Deposits at Bank	813,740	781,952	813,740	781,952
	1,265,186	1,844,451	944,363	994,697

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2008

NOTE 10. INVESTMENT PROPERTY

	2008 Group $	2007 Group $	2008 Parent $	2007 Parent $
(Local Government Building, Lambton Quay, Wellington)				
(a) Land valuation (Original Cost $289,253)	3,500,000	3,500,000	3,500,000	3,500,000
Plus increase in value	(300,000)	-	(300,000)	-
Fair Value	3,200,000	3,500,000	3,200,000	3,500,000
(b) Building valuation (Original Cost $860,571)	5,100,000	4,450,000	5,100,000	4,450,000
Plus increase in value	-	650,000	-	650,000
Fair Value	5,100,000	5,100,000	5,100,000	5,100,000
(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
	8,325,000	8,625,000	8,325,000	8,625,000

Investment properties are revalued every year. Investment properties were valued on 31 December 2008 by independent registered valuers of the firm Telfer Young (Wgtn) Ltd. The properties are valued in accordance with NZ Property Practice Standard 3 – valuations for Financial reporting purposes at fair value arrived at using comparable market rental information.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 31 DECEMBER 2008

NOTE 11. PROPERTY, PLANT & EQUIPMENT AND INTANGIBLE ASSETS

	2008 Group $	2007 Group $	2008 Parent $	2007 Parent $
Property, Plant and Equipment				
(a) Office Furniture and Equipment – cost	235,628	234,258	235,628	234,258
Plus Additions	72,646	1,370	72,646	1,370
Less Disposals	-	-	-	-
Closing Value – cost	308,274	235,628	308,274	235,628
Office Furniture and Equipment – Accumulated Depreciation	(187,397)	(163,999)	(187,397)	(163,999)
Less Depreciation Charge	(22,242)	(23,398)	(22,242)	(23,398)
Less Disposals	-	-	-	-
Closing Accumulated Depreciation	(209,639)	(187,397)	(209,639)	(187,397)
Net Book Value	98,635	48,231	98,635	48,231
(b) Motor Vehicles – cost	30,986	30,986	30,986	30,986
Plus Additions	-	-	-	-
Less Disposals	(30,986)	-	(30,986)	-
Closing Value – cost	-	30,986	-	30,986
Motor Vehicles – Accumulated Depreciation	(30,108)	(24,087)	(30,108)	(24,087)
Less Depreciation Charge	-	(6,021)	-	(6,021)
Less Disposals	30,108	-	30,108	-
Closing Accumulated Depreciation	-	(30,108)	-	(30,108)
Net Book Value	-	878	-	878
Total Property, Plant and Equipment	**98,635**	**49,109**	**98,635**	**49,109**

The Net Surplus after Taxation in the Statement of Financial Performance includes a $5,166 gain on disposal of fixed assets (2007: nil).

	2008 Group $	2007 Group $	2008 Parent $	2007 Parent $
Intangible Assets				
(c) Software – cost	173,124	173,124	173,124	173,124
Plus Additions	-	-	-	-
Less Disposals	-	-	-	-
Closing Value – cost	173,124	173,124	173,124	173,124
Software – Accumulated Amortisation	(172,897)	(172,809)	(172,897)	(172,809)
Less Amortisation Charge	(88)	(88)	(88)	(88)
Less Disposals	-	-	-	-
Closing Accumulated Amortisation	(172,985)	(172,897)	(172,985)	(172,897)
Net Book Value	139	227	139	227

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2008

NOTE 12. CONTINGENT LIABILITIES

The contingent liabilities are:

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

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

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

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

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

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

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

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

NOTE 13. FINANCIAL INSTRUMENTS

(1) Financial Assets and Liabilities

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

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

The cost of investments in managed funds at 31 December 2008 was $3,000,000 (2007: $3,000,000).

Market value of managed funds at 31 December 2008 was $4,294,945 (2007: $4,227,239).

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 31 DECEMBER 2008

Carrying value of Financial Assets and Financial Liabilities.

	2008 Group $	2007 Group $	2008 Parent $	2007 Parent $
Financial Asset: Designated Fair Value Through Profit or Loss				
Managed Funds	4,294,945	4,227,239	4,294,945	4,227,239
Financial Asset: Held to Maturity				
Local Authority Stock				
Face Value at Balance date	2,714,000	9,261,000	-	-
Effective interest rate adjustment (settlement premium)	(63,423)	(76,287)	-	-
Accrued Interest	62,660	185,014	-	-
Carrying value	2,713,237	9,369,727	-	-
NZ Government Stock	110,146	101,355	110,146	101,355
Total Held to Maturity	2,823,383	9,471,082	110,146	101,355
Financial Asset: Loans and Receivables				
Sundry Debtors	966,865	1,298,355	962,852	1,287,040
Premiums Receivable	1,498,901	1,816,227	1,498,901	1,816,227
Reinsurance Recoveries	5,185,464	4,825,799	5,185,464	4,825,799
Total Loans and Receivables	7,651,230	7,940,381	7,647,217	7,929,066
Financial Asset: Carried at Amortised Cost				
Bank & Cash Equivalents	11,535,126	9,733,955	11,476,855	9,665,792
Financial Liability: Amortised Cost				
Civic Bonds				
Face Value at Balance date	2,714,000	9,261,000	-	-
Effective interest rate adjustment (settlement premium)	(62,946)	(72,186)	-	-
Effective interest rate adjustment (set up fees)	(2,550)	(5,774)	-	-
Accrued Interest	62,660	185,014	-	-
Carrying value	2,711,164	9,368,054	-	-
Subordinated Debt	120,176	120,176	-	-
Accounts Payable	1,353,375	1,424,821	1,352,257	1,416,272
Total Amortised Cost	4,184,715	10,913,051	1,352,257	1,416,272

CIVIC BONDS

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2008

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

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

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

(2) Financial Risk – Structure and Management

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

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

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

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

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

(a) Market Risk

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

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

Sensitivity Analysis

Sensitivity of Net Profit After Tax for the year to 31 December 2008, and Shareholders Funds at that date, to possible changes is as follows:

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

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 31 DECEMBER 2008

(a) Market Risk (continued)

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

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

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

(i) Interest Rate Repricing Schedule

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

	Interest Rate Spread %	Within 6 months $	6 to 12 months $	1 to 2 years $	2 to 5 years $	Non Interest Bearing $	Total $
As at 31 December 2008 (Group)							
Assets							
Cash at Bank	0% to 8.30%	10,120,192	1,561,524	-	-	(146,590)	11,535,126
Other Receivable	n/a	-	-	-	-	7,651,230	7,651,230
Managed Funds	n/a	3,633,033	-	-	-	661,912	4,294,945
Local Authority Stock	6.00% to 6.20%	1,714,000	-	999,237	-	-	2,713,237
NZ Government Stock	6.00%	-	-	-	110,146	-	110,146
Total Financial Assets		15,467,225	1,561,524	999,237	110,146	8,166,552	26,304,684
Liabilities							
Accounts Payable	n/a	-	-	-	-	1,353,375	1,353,375
Civic Bonds Issued	6.00% to 6.20%	1,711,450	-	999,714	-	-	2,711,165
Subordinated Debt	n/a	-	-	-	-	120,176	120,176
Total Financial Liabilities		1,711,450	-	999,714	-	1,473,551	4,184,716
As at 31 December 2007 (Group)							
Assets							
Cash at Bank	0% to 8.87%	8,095,710	1,553,553	-	-	84,692	9,733,955
Other Receivable	n/a	-	-	-	-	7,940,381	7,940,381
Managed Funds	n/a	3,387,120	-	-	-	840,119	4,227,239
Local Authority Stock	8.90% to 9.10%	4,610,234	2,052,695	2,706,798	-	-	9,369,727
NZ Government Stock	6.00%	-	-	-	101,355	-	101,355
Total Financial Assets		16,093,064	3,606,248	2,706,798	101,355	8,865,192	31,372,657
Liabilities							
Accounts Payable	n/a	-	-	-	-	1,424,821	1,424,821
Civic Bonds Issued	8.90% to 9.10%	4,605,319	2,053,382	2,709,353	-	-	9,368,054
Subordinated Debt	n/a	-	-	-	-	120,176	120,176
Total Financial Liabilities		4,605,319	2,053,382	2,709,353	-	1,544,997	10,913,051

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2008

	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 2008 (Parent)							
Assets							
Cash at Bank	0% to 8.30%	10,120,192	1,561,524	-	-	(204,861)	11,476,855
Other Receivable	n/a	-	-	-	-	7,647,217	7,647,217
Managed Funds	n/a	3,633,033	-	-	-	661,912	4,294,945
NZ Government Stock	6.00%	-	-	-	110,146	-	110,146
Total Financial Assets		13,753,225	1,561,524	-	110,146	8,104,268	23,529,163
Liabilities							
Accounts Payable	n/a	-	-	-	-	1,352,257	1,352,257
Total Financial Liabilities		-	-	-	-	1,352,257	1,352,257
As at 31 December 2007 (Parent)							
Assets							
Cash at Bank	0% to 8.87%	8,095,710	1,553,553	-	-	16,529	9,665,792
Other Receivable	n/a	-	-	-	-	7,929,066	7,929,066
Managed Funds	n/a	3,387,120	-	-	-	840,119	4,227,239
NZ Government Stock	6.00%	-	-	-	101,355	-	101,355
Total Financial Assets		11,482,830	1,553,553	-	101,355	8,785,714	21,923,452
Liabilities							
Accounts Payable	n/a	-	-	-	-	1,416,272	1,416,272
Total Financial Liabilities		-	-	-	-	1,416,272	1,416,272

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 31 DECEMBER 2008

(ii) Carrying Amount and Fair Value

	2008 Group Carrying Amount $	2008 Group Fair Value $	2007 Group Carrying Amount $	2007 Group Fair Value $
Assets				
Cash at Bank	11,535,126	11,535,126	9,733,955	9,733,955
Other Receivable	7,651,230	7,651,230	7,940,381	7,940,381
Managed Funds	4,294,945	4,294,945	4,227,239	4,227,239
Local Authority Stock	2,713,237	2,781,084	9,369,727	9,276,751
NZ Government Stock	110,146	110,146	101,355	101,355
Total Financial Assets	26,304,684	26,372,530	31,372,657	31,279,681
Liabilities				
Accounts Payable	1,353,375	1,353,375	1,424,821	1,424,821
Civic Bonds Issued	2,711,164	2,781,084	9,368,054	9,276,751
Subordiated Debt	120,176	120,176	120,176	120,176
Total Financial Liabilities	4,184,715	4,254,635	10,913,051	10,821,748

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

	2008 Parent Carrying Amount $	2008 Parent Fair Value $	2007 Parent Carrying Amount $	2007 Parent Fair Value $
Assets				
Cash at Bank	11,476,855	11,476,855	9,665,792	9,665,792
Other Receivable	7,647,217	7,647,217	7,929,066	7,929,066
Managed Funds	4,294,945	4,294,945	4,227,239	4,227,239
NZ Government Stock	110,146	110,146	101,355	101,355
Total Financial Assets	23,529,163	23,529,163	21,923,452	21,923,452
Liabilities				
Accounts Payable	1,352,257	1,352,257	1,416,272	1,416,272
Total Financial Liabilities	1,352,257	1,352,257	1,416,272	1,416,272

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2008

(b) Liquidity Risk

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

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

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

	Within 6 months $	6 to 12 months $	1 to 2 years $	2 to 5 years $	Total $
Maturity Analysis (Group) As at 31 December 2008					
Assets					
Cash at Bank	9,973,602	1,561,524	-	-	11,535,126
Other Receivable	7,651,230	-	-	-	7,651,230
Managed Funds	4,294,945	-	-	-	4,294,945
Local Authority Stock	1,714,000	-	1,000,000	-	2,714,000
NZ Government Stock	-	-	-	105,000	105,000
Total Financial Assets	23,633,777	1,561,524	1,000,000	105,000	26,300,301
Liabilities					
Accounts Payable	1,353,375	-	-	-	1,353,375
Civic Bonds Issued	1,714,000	-	1,000,000	-	2,714,000
Subordinated Debt	-	-	-	120,176	120,176
Total Financial Liabilities	3,067,375	-	1,000,000	120,176	4,187,551
Maturity Analysis (Group) As at 31 December 2007					
Assets					
Cash at Bank	8,180,402	1,553,553	-	-	9,733,955
Other Receivable	7,940,381	-	-	-	7,940,381
Managed Funds	4,227,239	-	-	-	4,227,239
Local Authority Stock	4,528,000	2,019,000	2,714,000	-	9,261,000
NZ Government Stock	-	-	-	105,000	105,000
Total Financial Assets	24,876,022	3,572,553	2,714,000	105,000	31,267,575
Liabilities					
Accounts Payable	1,424,821	-	-	-	1,424,821
Civic Bonds Issued	4,528,000	2,019,000	2,714,000	-	9,261,000
Subordinated Debt	-	-	-	120,176	120,176
Total Financial Liabilities	5,952,821	2,019,000	2,714,000	120,176	10,805,997

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 31 DECEMBER 2008

	Within 6 months $	6 to 12 months $	1 to 2 years $	2 to 5 years $	Total $
Maturity Analysis (Parent) As at 31 December 2008					
Assets					
Cash at Bank	9,915,331	1,561,524	-	-	11,476,855
Other Receivable	7,647,217	-	-	-	7,647,217
Managed Funds	4,294,945	-	-	-	4,294,945
NZ Government Stock	-	-	-	105,000	105,000
Total Financial Assets	21,857,493	1,561,524	-	105,000	23,524,017
Liabilities					
Accounts Payable	1,352,257	-	-	-	1,352,257
Total Financial Liabilities	1,352,257	-	-	-	1,352,257
Maturity Analysis (Parent) As at 31 December 2007					
Assets					
Cash at Bank	8,112,239	1,553,553	-	-	9,665,792
Other Receivable	7,929,066	-	-	-	7,929,066
Managed Funds	4,227,239	-	-	-	4,227,239
NZ Government Stock	-	-	-	105,000	105,000
Total Financial Assets	20,268,544	1,553,553	-	105,000	21,927,097
Liabilities					
Accounts Payable	1,416,272	-	-	-	1,416,272
Total Financial Liabilities	1,416,272	-	-	-	1,416,272

(c) Credit Risk

All investments except for the $105,000 Government Stock holding and the managed fund are in Local Authority Stocks and cash at registered banks. The registered banks have a credit rating of AA. The Local Authority Stocks are receivable from two Local Authorities with no credit rating however each local authority is a shareholder of the Parent Company.

Local Government Finance Corporation is not issuing new Bonds or making new investments with the final Local Authority Stock and Civic Bond maturity date of February 2010. The Directors intention is, and always has been, to acquire assets and pay liabilities on their maturity. The purpose of the operations of Local Government Finance Corporation is to match Stocks and Bonds in terms of interest rate and maturity dates. At balance date Local Government Insurance Corporation is exposed to two local authorities in two parcels of local authority stock; the maximum exposure to any one local authority being 63.2% of total stock held. The Directors do not consider this as a credit risk and no impairment is deemed necessary as there are no past due, restructured or acquired assets.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2008

(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.

	Dec-08 Group $	Dec-07 Group $	Dec-08 Parent $	Dec-07 Parent $
Cash at registered Banks	11,535,126	9,733,955	11,476,855	9,665,792
Other Receivable	7,651,230	7,940,381	7,647,217	7,929,066
Managed Funds	4,294,945	4,227,239	4,294,945	4,227,239
NZ Government Stock	110,146	101,355	110,146	101,355
NZ Local Authority Stock	2,713,237	9,369,727	-	-
Total	26,304,684	31,372,657	23,529,163	21,923,452

(ii) Concentration of Credit Exposure

No single asset's carrying value is greater than 10% of total assets.

(3) Off Balance Sheet Financial Instruments

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

(4) Foreign Currency Risk

Foreign currency risk is the risk that the company will incur losses through exposure to foreign exchange movements. At balance date the Group had $822,454 invested in an unhedged global equities fund which is less than 5% of net equity.

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

Local Government Finance's business is to lend money to local authorities by acquiring Local Authority Debt Securities. It finances this by issuing bonds. The terms of the Civic Bonds issued are required to be matched (either physically or by the use of a financial derivative product) to the terms of Local Authority Debt Securities acquired by Local Government Finance. Civic Bonds are constituted and issued pursuant to a Trust Deed dated 23 November 1999 between Local Government Finance and The Public Trustee, as trustee. The Trust Deed creates a floating charge over Local Government Finance's Charged Assets to secure the payment of bond money to holders and the payment of bank money to banks.

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

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

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 31 DECEMBER 2008

NOTE 14. SUBSEQUENT EVENTS

There have been no material events since balance date that impact on the operation or viability of the Company and the Group.

NOTE 15. RECONCILIATION OF NET SURPLUS AFTER TAX WITH CASH FLOW FROM OPERATING ACTIVITY

	2008 Group $	2007 Group $	2008 Parent $	2007 Parent $
Reported Surplus After Taxation	926,978	1,957,949	932,934	1,945,193
Add/(less) non cash items				
Depreciation	22,242	29,420	22,242	29,420
Amortisation	88	88	88	88
Insurance Provisions	1,222,892	2,269,922	1,222,892	2,269,922
Deferred Tax Liability	(72,505)	(197,650)	(72,505)	(197,650)
Effective interest rate adjustments	(400)	(4,528)	-	-
Net change in fair value of property	300,000	(650,000)	300,000	(650,000)
Share of Profit of Associate	(3,407)	(22,796)	-	-
Unrealised net change in value of investments	(76,497)	(212,745)	(76,497)	(212,745)
	1,392,413	1,211,711	1,396,220	1,239,035
Add/(less) movements in other working capital items				
Accounts Receivable	289,151	(2,357,062)	281,849	(2,353,266)
Accounts Payable	(48,076)	(188,390)	(40,645)	(183,838)
Maturing Local Authority Stock	(6,547,000)	(13,108,790)	-	-
Tax Refund Due	200,793	(403,520)	200,793	(403,520)
Maturing Civic Bonds	6,547,000	13,108,790	-	-
	441,868	(2,948,972)	441,997	(2,940,624)
Add/(Less) Items Classified as investing activity	-	-	-	-
Add/(Less) Items Classified as financing activity	(5,167)	(1,481)	2,538	2,129
Net Cash Inflow from Operating Activities	2,756,092	219,207	2,773,689	245,733

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2008

NOTE 16. PROPERTY INCOME

	2008 Group $	2007 Group $	2008 Parent $	2007 Parent $
Gross Rent Received	766,176	744,496	766,176	744,496
Unrealised Net Change in Value of Investment Property	(300,000)	650,000	(300,000)	650,000
Property Refurbishment Costs	-	-	-	-
Property Operating Costs	(321,895)	(420,864)	(321,895)	(420,864)
	144,281	973,632	144,281	973,632

NOTE 17. OPERATING LEASE COMMITMENTS

There are the following operating lease expense commitments:

	2008 Group $	2007 Group $	2008 Parent $	2007 Parent $
not later than one year	14,173	-	14,173	-
later than one year but not later than two years	14,173	-	14,173	-
later than two years but not later than five years	11,911	-	11,911	-
later than five years	-	-	-	-
	40,257	-	40,257	-

There are the following operating lease income commitments:

not later than one year	531,734	657,620	531,734	657,620
later than one year but not later than two years	334,222	455,075	334,222	455,075
later than two years but not later than five years	315,135	558,532	315,135	558,532
later than five years	10,847	-	10,847	-
	1,191,938	1,671,227	1,191,938	1,671,227

NOTE 18. SUBORDINATED DEBT

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

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 31 DECEMBER 2008

NOTE 19. RELATED PARTIES

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

Specific related party transactions are:

1) the subvention payments Civic Assurance made to Local Government Finance Corporation of $12,271.

2) Civic Assurance has charged administration fees to Riskpool of $239,875 and Superplan and SuperEasy of $284,622. There were balances outstanding at balance date for Riskpool of $143,790 and Superplan and SuperEasy of $131,000.

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

Outstanding Balances

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

Key Management Personnel

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

	2008 Group $	2007 Group $	2008 Parent $	2007 Parent $
Compensation				
Short term employee benefits	706,701	685,145	706,701	685,145
Post-employment benefits	-	-	-	-
Other long-term benefits	-	-	-	-
Termination benefits	-	-	-	-
	706,701	685,145	706,701	685,145

NOTE 20. ANALYSIS OF FINANCIAL ASSETS NOT IMPAIRED

	Not due	Past due	Past due + 30 days	Past due + 60 days	Total
Sundry Debtors and Prepayments	962,851	-	-	-	962,851
Premiums Receivable	1,478,450	1,489	15,486	3,476	1,498,901
Reinsurance Recoveries	5,084,599	52,870	47,292	703	5,185,464
	7,525,900	54,359	62,778	4,179	7,647,216

All receivables have been received subsequent to the reporting date hence no impairment.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2008

NOTE 21. 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-8 'Operating Segments'	1 January 2009	31 December 2009
NZ IAS-1 'Presentation of Financial Statements' – Revised Standard	1 January 2009	31 December 2009
Amendments to NZIAS 32 and NZ IAS 1 – Puttable Financial Instruments and Obligations Arising on Liquidation	1 January 2009	31 December 2009
Amendments to NZ IFRS-4 'Insurance Contracts – The Scope of Insurance Activities and Differential Reporting Concessions	1 January 2009	31 December 2009
NZ IFRIC-13 'Customer Loyalty Programmes'	1 July 2008	31 December 2009
NZ IFRIC-15 'Agreements for the Construction of Real Estate'	1 January 2009	31 December 2009
NZ IFRIC-16 'Hedges of a Net Investment in a Foreign Operation'	1 October 2008	31 December 2009
NZ IFRIC-17 'Distributions of Non-Cash Assets to Owners'	1 July 2009	31 December 2010
NZ IFRIC-18 'Transfers of Assets from Customers'	1 July 2009	31 December 2010
NZ IAS-23 'Borrowing Costs' – revised standard	1 January 2009	31 December 2009
IFRS-2 'Share-Based Payment' – revised standard	1 January 2009	31 December 2009
IFRS-3 'Business Combinations' – revised standard	1 July 2009	31 December 2010
IAS-27 'Consolidated and Separate Financial Statements' – revised standard	1 July 2009	31 December 2010
Improvements to New Zealand Equivalents to International Financial Reporting Standards 2008	Various	31 December 2009
Amendments to NZ IFRS 1 'First-time Adoption of New Zealand Equivalents to International Financial Reporting Standards' and NZ IAS 27 'Consolidated and Separate Financial Statements' – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate	1 January 2009	31 December 2009
Omnibus Amendments (2008)	1 January 2009	31 December 2009
Amendments to NZ IAS 39 'Financial Instruments: Recognition and Measurement' – Eligible Hedged Items	1 July 2009	31 December 2010

NZ IAS-1

The revised NZ IAS 1 requires the presentation of all recognised income and expenses in one statement (a statement of comprehensive income) or in two statements (an income statement and a statement of comprehensive income), separately from owner changes in equity.

The revised standard also includes other minor changes to presentation and disclosure requirements.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 31 DECEMBER 2008

NOTE 22. SHAREHOLDERS EQUITY

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

	2008 Group $	2007 Group $	2008 Parent $	2007 Parent $
Retained Earnings				
Opening Balance	12,804,304	11,689,939	12,821,708	11,720,099
Net Surplus After Taxation	926,978	1,957,949	932,934	1,945,193
Dividends Paid	(888,320)	(843,584)	(888,320)	(843,584)
Closing balance	12,842,962	12,804,304	12,866,322	12,821,708

NOTE 23. EQUITY RETAINED FOR FINANCIAL SOUNDNESS

All the equity is retained to ensure the financial soundness of the Group. The high level of liquidity in the non Local Government Finance fixed interest ($11.3m) and managed funds ($4.2m) investments is retained for cash flow purposes and also to balance the funds allocated in the building investment. For this reason the Company & Group believes that the high liquidity ratio is a significant factor in attaining the A (Excellent) claims paying ability rating from AM Best.

NOTE 24. SEGMENTAL INFORMATION SUMMARY

The Group, for IFRS purposes, has two operating segments. The first is the insurance business and its related activities and the second is the finance company which is winding down repaying its debt and trade creditors as they fall due.

	Insurance	Finance	Consolidation Adjustments	Group
31 December 2008				
Revenue	3,683,458	3,624	-	3,687,082
Share of Profit of Associate	3,407	-	-	3,407
Operating Revenue	3,686,865	3,624	-	3,690,489
Total Assets	32,226,884	2,809,098	-	35,035,982
31 December 2007				
Revenue	4,436,000	9,364	-	4,445,364
Share of Profit of Associate	22,796	-	-	22,796
Operating Revenue	4,458,796	9,364	-	4,468,160
Total Assets	31,072,528	9,449,205	-	40,521,733

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2008

NOTE 25. 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 2008.

	SI Target	Actual
- Annual claims paying ability rating by AM Best	A (Excellent)	A (Excellent)
- To exceed the average insurance industry solvency standards as published by the NZ Insurance Council		Well exceeded
- Pretax surplus	$1,500,000	$1,348,578
- Net Asset Value	$19,364,000	$19,233,752
- Net Asset Value per share	$3.03	$3.01

REPORT OF THE AUDITOR-GENERAL

TO THE READERS OF THE NEW ZEALAND LOCAL GOVERNMENT INSURANCE CORPORATION LIMITED'S FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2008

The Auditor-General is the auditor of the New Zealand Local Government Insurance Corporation Limited (the 'Company') and its subsidiaries (the "Group"). The Auditor-General has appointed me, Michael Wilkes, using the staff and resources of Deloitte, to carry out the audit of the financial statements of the Company and Group, on his behalf, for the year ended 31 December 2008.

UNQUALIFIED OPINION

In our opinion:

- the financial statements of the Company and Group on pages 11 to 45:
  - comply with generally accepted accounting practice in New Zealand;
  - comply with with International Financial Reporting Standards; and
  - give a true and fair view of:
    - the Company and Group's financial position as at 31 December 2008; and
    - the results of their operations and cash flows for the year ended on that date.
- Based on our examination the Company kept proper accounting records.

The audit was completed on 31 March 2009 and our unqualified opinion is expressed as at that date.

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

BASIS OF OPINION

We carried out the audit in accordance with the Auditor-General's Auditing Standards, which incorporate the New Zealand Auditing Standards.

We planned and performed our audit to obtain all the information and explanations we considered necessary in order to obtain reasonable assurance that the financial statements did not have material misstatements, whether caused by fraud or error.

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 the opinion.

Our audit involved performing procedures to test the information presented in the financial statements. We assessed the results of those procedures in forming our opinion.

Deloitte.

Audit procedures generally include:

- determining whether significant financial and management controls are working and can be relied on to produce complete and accurate data;
- verifying samples of transactions and account balances;
- performing analyses to identify anomalies in the reported data;
- reviewing significant estimates and judgements made by the Board of Directors;
- confirming year-end balances;
- determining whether accounting policies are appropriate and consistently applied; and
- determining whether all financial statement disclosures are adequate.

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

We evaluated the overall adequacy of the presentation of information in the financial statements. We obtained all the information and explanations we required to support the opinion above.

RESPONSIBILITIES OF THE BOARD OF DIRECTORS AND AUDITOR

The Board of Directors is responsible for preparing financial statements in accordance with generally accepted accounting practice in New Zealand. Those financial statements must give a true and fair view of the financial position of the Company and Group as at 31 December 2008 and the results of their operations and cash flows for the year ended on that date. The Board of Directors' responsibilities arise from the Financial Reporting Act 1993.

We are responsible for expressing an independent opinion on the financial statements and reporting that opinion to you. This 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 and Group.

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

Civic Assurance

PROTECTING COMMUNITY ASSETS

CIVIC ASSURANCE SHAREHOLDERS AS AT 31 DECEMBER 2008

SHAREHOLDER MEMBER	NO. OF SHARES	
CITY COUNCILS		
Auckland	657,820	10.3%
Christchurch	464,568	7.3%
Dunedin	470,966	7.4%
Hamilton	202,729	3.2%
Hutt	233,911	3.7%
Invercargill	153,864	2.4%
Manukau	208,878	3.3%
Napier	141,921	2.2%
Nelson	95,543	1.5%
North Shore	234,061	3.7%
Palmerston North	193,514	3.0%
Porirua	70,073	1.1%
Tauranga	124,242	1.9%
Upper Hutt	51,209	0.8%
Waitakere	66,205	1.0%
Wellington	526,821	8.2%
DISTRICT COUNCILS		
Ashburton	28,008	0.4%
Buller	15,698	0.2%
Carterton	11,821	0.2%
Central Hawke's Bay	8,290	0.1%
Central Otago	39,619	0.6%
Clutha	33,711	0.5%
Far North	35,440	0.6%
Franklin	61,767	1.0%
Gisborne	43,702	0.7%
Gore	44,589	0.7%
Grey	33,742	0.5%
Hastings	58,585	0.9%
Hauraki	31,717	0.5%
Horowhenua	45,012	0.7%
Hurunui	1,000	0.0%
Kaipara	13,629	0.2%
Kapiti Coast	15,060	0.2%
Kawerau	31,161	0.5%
Manawatu	62,219	1.0%
Marlborough	74,022	1.2%
Masterton	57,615	0.9%
Matamata-Piako	55,277	0.9%
New Plymouth	214,728	3.4%
Otorohanga	5,000	0.1%

SHAREHOLDER MEMBER	NO. OF SHARES	
DISTRICT COUNCILS (Cont'd)		
Papakura	37,103	0.6%
Queenstown-Lakes	31,149	0.5%
Rangitikei	23,338	0.4%
Rodney	13,554	0.2%
Rotorua	87,953	1.4%
Ruapehu	44,666	0.7%
Southland	13,715	0.2%
South Taranaki	61,748	1.0%
South Waikato	15,187	0.2%
South Wairarapa	26,965	0.4%
Stratford	26,804	0.4%
Tararua	43,986	0.7%
Tasman	26,792	0.4%
Taupo	83,971	1.3%
Thames-Coromandel	7,120	0.1%
Timaru	109,059	1.7%
Waikato	41,070	0.6%
Waimakariri	38,086	0.6%
Waimate	9,229	0.1%
Waipa	68,541	1.1%
Wairoa	22,992	0.4%
Waitaki	59,087	0.9%
Waitomo	2,470	0.0%
Wanganui	138,830	2.2%
Western Bay of Plenty	16,142	0.3%
Westland	16,356	0.3%
Whakatane	13,394	0.2%
Whangarei	25,762	0.4%
REGIONAL COUNCILS		
Auckland	72,258	1.1%
Canterbury	70,348	1.1%
Horizons	2,000	0.0%
Taranaki	1,000	0.0%
Waikato	5,000	0.1%
Wellington	80,127	1.3%
OTHER		
Trust Power	137,251	2.1%
Total Shares	**6,390,790**	