Civic Assurance

PROTECTING COMMUNITY ASSETS

ANNUAL REPORT 2007

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DIRECTORY

DIRECTORS

Bryan G Taylor (Chairman)

Darryl C Griffin

Michael C Hannan

Robert A Lineham

Kinsley N Sampson MNZM JP

Howard J Stone

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

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Civic Assurance House
114 – 118 Lambton Quay
Wellington 6011, New Zealand

POSTAL ADDRESS

PO Box 5521, Wellington 6145, New Zealand

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

CHAIRMAN'S REPORT 2007

2007 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 risk financing solutions.

The profit after tax of $1,957,949 (2006: $2,822,786) was a net return on equity of 10.8%. Assisting this result were a favourable revaluation of Civic Assurance House, favourable tax adjustments, and a number of accounting changes relating to the introduction of IFRS (International Financial Reporting Standards). Moving the result the other way was a reduction in premium income due to softening rates and, as will happen from time to time, a level of insurance claims well above normal.

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 and in 2007 13.2 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 strong profitability.

A strong capital base is essential for maintaining Civic's "A Excellent" claims paying ability rating from AM Best, confirmed for 2008, and 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 2008 will be made by your Board later in the year.

Shareholders will note with interest that the net asset value per share at the end of 2007 was $3.00 compared to $1.69 at the beginning of 2002. Adding back the three dividend payments of 12 cents, 12.6 cents and 13.2 cents per share, this represents an increase over the last six years of just over 100%.

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 risk financing solutions.

B G Taylor

Bryan Taylor
Chairman

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

AM Best's Rating: A (Excellent)

Your Directors and Chief Executive have pleasure in submitting the Annual Report of the affairs of the Company for the year ended 31 December 2007 which is to be presented at the 48th Annual General Meeting of Members.

1. STATEMENT OF INTENT

Our Company's mission statement is to ensure the long-term provision of stable, cost effective, and proactive risk financing solutions for the local government sector in New Zealand, and Civic Assurance is achieving this. What is more, over the last six years Civic's return to its shareholders when measured as the increase in net asset value plus net dividends paid has been 100.4%.

A goal of Civic that has become very pertinent with the launch of KiwiSaver from 1 July 2007 is to facilitate the provision of and support for a secure, competitive superannuation scheme which meets the needs of councils and their staff. Through the introduction and promotion of KiwiSaver SuperEasy, Civic is providing this.

The Statement of Intent for your Company also has an objective regarding the Company's financial strength measured by its credit rating. Once again, AM Best has awarded Civic a credit rating of A (Excellent). The sub-prime crisis that has affected a number of other financial institutions has not affected Civic.

For a full copy of Civic's Statement of Intent, see Civic's website on www.civicassurance.co.nz.

2. PROPERTY AND OTHER INSURANCES

The insurance year of 2007 in New Zealand was one of floods, fires and earthquakes; storms, tornadoes and snow. Over a twelve-month period that would not be unusual, but the third quarter of 2007 for the New Zealand insurance industry was the worst quarter for claims on record.

That third quarter included floods in the Far North, a tornado in Taranaki and snow storms in Canterbury. Three earthquakes in Auckland in February 2007 and an earthquake measuring 6.8 that badly damaged Gisborne's central business district on 21 December were also recorded. Insurance claims arising from the Gisborne earthquake damage are estimated by the Insurance Council of New Zealand to be $52 million.

Floods in June 2007 in and around the UK city of Hull illustrated very clearly the risks of not having adequate insurance. Hull City Council held reserves of less than $25 million for flood damage estimated at $550 million to Hull City Council's assets. More than nine months later, as at 31 March 2008, 2,269 households in Hull – around 10 per cent of the population – were still in temporary accommodation.

However, commercial insurance rates generally continue to cheapen, with lost premium offset in part by increases to underlying sums insured and for Civic's profitability, at least for the time being, by increases in Civic's level of retention.

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

3. ASSOCIATED ENTITIES

KiwiSaver SuperEasy

KiwiSaver commenced on 1 July 2007. With over 500,000 members in its first nine months of operation and with compulsory employer contributions from 1 April 2008, it seems safe to say that KiwiSaver is here to stay.

Civic's product KiwiSaver SuperEasy was also introduced on 1 July 2007. The trustee is Local Government Superannuation Trustee Limited (LGST), a 100% subsidiary of Civic. KiwiSaver SuperEasy features low member charges, simple administration for councils, and its unique 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 $30 million. The fund managers for KiwiSaver SuperEasy are AMP Capital Investors (New Zealand) Ltd and ASB Group Investments Ltd. Membership of KiwiSaver SuperEasy, SuperEasy and Superplan total 3500.

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

LAPP Disaster Fund

The LAPP disaster fund, a charitable trust that was set up by Civic in 1993, offers protection to local authorities for their reticulation and flood protection assets against flood, earthquake and other catastrophes. It is now in its 15th year.

Membership of LAPP is 56 local authorities and members' equity is $35 million. Civic is the administration and fund manager for LAPP.

LAPP has reinsurance protection in place for a further $100 million. Assuming support from central government as outlined in Section 26 of their Disaster Recovery Plan, LAPP members have cover for claims for damage to their reticulation and flood protection assets of up to $335 million. There is also a guaranteed reinstatement of cover from LAPP's reinsurers effectively providing another $250 million of cover should two major claims happen in the one year.

The LAPP 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. Civic is also the fund manager for Riskpool and one of its reinsurers. The day to day running of Riskpool is contracted to Jardine Lloyd Thompson as scheme manager.

Notwithstanding its exposure to leaky building claims, Riskpool's finances are in good heart. The 30 June 2008 accounts, which will be Riskpool's 11th since its inception in 1997, are expected overall to show a reasonable surplus.

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.

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

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.

4. OPERATIONS 2007

Underwriting Result

2007 was a difficult year for the New Zealand insurance industry with much higher claims than normal coinciding with further downward pressure on premiums. This has meant lower premiums for many of the insurance industry's customers, but these reductions are unlikely to be sustainable.

Civic mirrored this experience, with its claims increasing from $4.9 million to $5.9 million while at the same time its premium income reduced from $17.4 million to $14.9 million. Adjusting for reinsurance premiums (2007: $9.8 million) and reinsurance claims, this was a net deterioration from the 2006 underwriting result of $934,560.

The 2007 result for Civic contained no large claims. Should there be a major insurance event, a 7.5 earthquake centred in Wellington or an Auckland tsunami for example, Civic's reinsurance program limits the net cost to Civic to $4.8 million. With Civic having net equity of over $19 million, this is clearly a manageable amount.

As in previous years, Civic continues to be well supported by its reinsurers, all of whom have a credit rating of A or better. In the event that a reinsurer's credit rating 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 insures local government owned assets with values in excess of $10 billion.

Investment Income

Income from investments compared to 2006 declined by $0.827 million. This was because of reducing interest income earned by LGFC (down by $0.868 million) as a consequence of LGFC's reducing local authority debt holding because of maturing LGFC Civic Bonds.

Offsetting this decline, better returns were achieved on the parent company's reserve funds as interest rates increased slightly during the year.

Good investment returns including another good return on Civic Assurance House, see next paragraph, helped neutralise a bad year for claims.

Property Revenue

Civic Assurance House continues to be fully tenanted.

The building is near the government centre, an area that has continued to benefit from improved property valuations brought about by shortages of good office space in that part of Wellington. The revaluation increase of $650,000, in accordance with Financial Reporting Standards, has been recorded through the property income account.

Gross rents received increased from $692,201 to $744,496, but operating costs were up from $285,434 to $420,864. Nearly all of this increase related to the cost of having the building painted.

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.

Civic's net expenses including the expenses of running KiwiSaver SuperEasy as a percentage of premium for 2007 is 15%. The industry average is more than 25%, a saving of 10% of premium.

Other expenses and employee remuneration both increased in 2007 because of the extra work associated with the launching and running of KiwiSaver SuperEasy.

Civic Roadside Recovery

Civic Roadside Recovery was introduced in July 2006 and allows councils who insure their cars and buildings 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 900 repairers.

Sponsorship

The Company is 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.

The 2007 Civic Assurance United States Manager Exchange was awarded to Robert Mallinson, Corporate Services Manager, West Coast Regional Council.

5. SURPLUS, CAPITAL AND DIVIDENDS

The surplus for the year before taxation was $2.155 million (2006: $3.798 million). Consolidated shareholders' funds at 31 December 2007 were $19.2 million (2006: $18.1 million).

A dividend of 13.2 cents per share with full imputation credits attached was paid in September 2007 (12.6 cents in July 2006). The cost of this dividend was $843,584 (2006: $805,239).

The following table shows net asset value per share for the last seven 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

Over six years, Civic's return to its shareholders when measured as the increase in net asset value plus net dividends paid has been 100.4%.

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 2007, there were four: M.C. Hannan, K.N. Sampson, H. J. Stone 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 2007, Directors' remuneration was:

	Director Fees $
Darryl Griffin	13,625
Mike Hannan	13,625
Bob Lineham	13,625
Kinsley Sampson	13,625
Howard Stone	13,625
Bryan Taylor	24,375
	92,500

Interests Register

Directors' interests are tabled at the beginning of each Board meeting. Directorship disclosures as at 31 December 2007 were:

M Hannan	Wesfarmers Broking (NZ) Ltd, AUT Enterprises LTD, Crombie Lockwood (NZ) Ltd
R Lineham	Christchurch City Networks Ltd, Local Government Mutual Funds Trustee Ltd, New Zealand Local Government Finance Corporation Ltd
K Sampson	Interlog (NZ) Ltd, Mission Rest Home Ltd
H Stone	Marlborough Lines Ltd, Southern Lines Ltd, Local Government Superannuation Trustee Ltd
B Taylor	Metro Water 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.

Director attendances at Board meetings held during the 2007 year were

Darryl Griffin	8 / 9
Mike Hannan	9 / 9
Bob Lineham	9 / 9
Kinsley Sampson	8 / 9
Howard Stone	8 / 9
Bryan Taylor	8 / 9

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
140,000 - 150,000	1
250,000 - 260,000	1

The above remunerations include Company contributions to employees' superannuation 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 attends at least one Board meeting per annum and, for at least part of that meeting, management are not present.

9. STAFF

Mr Geoff Mercer retired from the Company at the end of December after 15 years of service. We again express our sincere thanks to Mr Mercer for his contribution.

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

Bryan Taylor
Chairman

Tim Sole
Chief Executive

May 2008

INCOME STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2007

	Notes	2007 Group $	2006 Group $	2007 Parent $	2006 Parent $
REVENUE					
Income Attributable to Insurance Business					
Premium Earned		14,920,320	17,405,441	14,920,320	17,405,441
Reinsurance Paid		(9,764,641)	(12,128,814)	(9,764,641)	(12,128,814)
Net Claims	3	(2,711,603)	(1,897,991)	(2,711,603)	(1,897,991)
Underwriting Surplus		2,444,076	3,378,636	2,444,076	3,378,636
Commissions, Claims & Risk Management Expenses		(672,516)	(710,492)	(672,516)	(710,492)
		1,771,560	2,668,144	1,771,560	2,668,144
Administration Fees		696,111	561,289	696,111	561,289
Income from Investments	9	1,844,451	2,671,084	994,697	914,038
Interest Expense		(840,390)	(1,739,942)	-	-
Net Property Income	16	973,632	1,480,839	973,632	1,480,839
Net Operating Income		4,445,364	5,641,414	4,436,000	5,624,310
EXPENDITURE					
Audit Fee					
Statutory Audit		52,500	52,740	52,500	52,740
Other Fees Paid to Auditors re Tax and Advisory		74,333	43,720	74,333	43,720
Claims Paying Ability Rating		20,226	22,707	20,226	22,707
Consultants		59,048	52,758	59,048	52,758
Depreciation	11	29,420	29,726	29,420	29,726
Amortisation	11	88	3,363	88	3,363
Directors' Remuneration		92,500	76,986	92,500	76,986
Insurance Council of New Zealand		12,500	12,500	12,500	12,500
Legal Fees		42,145	34,318	39,699	34,318
Subvention Payment		3,610	25,328	3,610	25,328
Other Expenses		872,507	668,125	851,753	639,177
Employee Remuneration		1,031,582	820,742	1,031,582	820,742
Total Expenditure		2,290,459	1,843,013	2,267,259	1,814,065
Net Surplus Before Share of Profit from Associate and Taxation		2,154,905	3,798,401	2,168,741	3,810,245
Share of Profit of Associate		22,796	7,374	-	-
Net Surplus Before Taxation		2,177,701	3,805,775	2,168,741	3,810,245
Less Taxation Expense	8	219,752	983,550	223,548	987,459
NET SURPLUS AFTER TAXATION	15	1,957,949	2,822,225	1,945,193	2,822,786

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

BALANCE SHEET

AS AT 31 DECEMBER 2007

	Notes	2007 Group $	2006 Group $	2007 Parent $	2006 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		12,804,304	11,689,939	12,821,708	11,720,099
TOTAL EQUITY		19,195,094	18,080,729	19,212,498	18,110,889
Represented By:					
CURRENT ASSETS					
Bank & Cash Equivalents		9,733,955	10,358,222	9,665,792	10,267,143
Sundry Debtors and Prepayments		1,298,355	1,155,025	1,287,040	1,147,506
Premiums Receivable		1,816,227	1,825,559	1,816,227	1,825,559
Reinsurance Recoveries	6	4,825,799	2,602,735	4,825,799	2,602,735
Income Tax Receivable	8	444,740	41,220	444,740	41,220
Managed Funds	13	4,227,239	4,012,550	4,227,239	4,012,550
Local Authority Stock	13	6,662,929	13,083,782	-	-
Total Current Assets		29,009,244	33,079,093	22,266,837	19,896,713
NON CURRENT ASSETS					
NZ Government Stock	13	101,355	103,299	101,355	103,299
Local Authority Stock	13	2,706,798	9,346,024	-	-
Shares in Local Government Online		60,170	37,374	30,000	30,000
Property, Plant and Equipment	11	49,109	77,158	49,109	77,158
Intangible Assets (Software)	11	227	315	227	315
Investment Property	10	8,625,000	7,975,000	8,625,000	7,975,000
Total Non Current Assets		11,542,659	17,539,170	8,805,691	8,185,772
TOTAL ASSETS		40,551,903	50,618,263	31,072,528	28,082,485

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

BALANCE SHEET

AS AT 31 DECEMBER 2007

	Notes	2007 Group $	2006 Group $	2007 Parent $	2006 Parent $
CURRENT LIABILITIES					
Sundry Creditors & Accrued Charges		1,424,821	1,629,183	1,416,272	1,616,082
Accrued Holiday Pay		51,800	35,828	51,800	35,828
Civic Bonds Issued	13	6,658,701	13,075,409	-	-
Subordinated Debt	18	120,176	120,176	-	-
		8,255,498	14,860,596	1,468,072	1,651,910
Insurance Provisions					
Unearned Premium Reserve	7	3,032,427	3,114,005	3,032,427	3,114,005
Outstanding Claims Liability	3	6,196,500	3,845,000	6,196,500	3,845,000
Total Insurance Provisions		9,228,927	6,959,005	9,228,927	6,959,005
Total Current Liabilities		17,484,425	21,819,601	10,696,999	8,610,915
NON CURRENT LIABILITIES					
Civic Bonds Issued	13	2,709,353	9,357,252	-	-
Deferred Tax Liability	8	1,163,031	1,360,681	1,163,031	1,360,681
Total Non Current Liabilities		3,872,384	10,717,933	1,163,031	1,360,681
TOTAL LIABILITIES		21,356,809	32,537,534	11,860,030	9,971,596
EXCESS OF ASSETS OVER LIABILITIES		19,195,094	18,080,729	19,212,498	18,110,889

For and on behalf of the Directors

Director Bryan Taylor B G Taylor 2 May 2008

Director Darryl Griffin 2 May 2008

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 2007

	2007 Group $	2006 Group $	2007 Parent $	2006 Parent $
OPENING EQUITY	18,080,729	16,063,743	18,110,889	16,093,342
Net Surplus After Taxation	1,957,949	2,822,225	1,945,193	2,822,786
Total Recognised Revenue and Expenses	1,957,949	2,822,225	1,945,193	2,822,786
Dividend Payment	(843,584)	(805,239)	(843,584)	(805,239)
CLOSING EQUITY	19,195,094	18,080,729	19,212,498	18,110,889

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 2007

	Notes	2007 Group $	2006 Group $	2007 Parent $	2006 Parent $
CASH FLOWS FROM OPERATING ACTIVITES					
Cash was provided from:					
Premiums Received		14,708,101	17,544,061	14,708,101	17,544,061
Rent Received		740,078	709,017	740,078	709,017
Administration Fees Received		535,267	588,414	535,267	588,414
Interest Received		1,882,632	2,574,813	781,952	626,419
Maturing Local Authority Stock		12,848,500	10,677,000	-	-
		30,714,578	32,093,305	16,765,398	19,467,911
Cash was applied to:					
Claims Expenses		2,542,694	1,177,771	2,542,694	1,177,771
Taxation Paid		831,717	690,158	831,717	690,158
Interest Expense		1,106,166	1,948,430	-	-
Payments to Reinsurers and Suppliers		13,166,294	14,969,652	13,145,254	14,947,630
Maturing Civic Bonds		12,848,500	10,677,000	-	-
		30,495,371	29,463,011	16,519,665	16,815,559
Net Cash Flow from Operating Activities	15	219,207	2,630,294	245,733	2,652,352
CASH FLOWS FROM INVESTING ACTIVITIES					
Cash was provided from:					
		-	-	-	-
		-	-	-	-
Cash was applied to:					
Purchase of Investments		-	80,972	-	80,972
Purchase of Fixed Assets		1,371	24,824	1,371	24,824
		1,371	105,796	1,371	105,796
Net Cash Flow from Investing Activities		(1,371)	(105,796)	(1,371)	(105,796)
CASH FLOWS FROM FINANCING ACTIVITIES					
Cash was provided from:					
Receipt of Loan Payments		1,481	8,179	1,481	8,179
		1,481	8,179	1,481	8,179
Cash was applied to:					
Payment of Subvention Payment		-	-	3,610	25,328
Payment of Dividend		843,584	805,239	843,584	805,239
		843,584	805,239	847,194	830,567
Net Cash Flow from Financing Activities		(842,103)	(797,060)	(845,713)	(822,388)
Net (Decrease)/Increase in Cash Held		(624,267)	1,727,438	(601,351)	1,724,168
Opening Cash Balance as at 1 January		10,358,222	8,630,784	10,267,143	8,542,975
Closing Cash Balance as at 31 December		9,733,955	10,358,222	9,665,792	10,267,143
Being:					
Bank & Cash Equivalents		9,733,955	10,358,222	9,665,792	10,267,143

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

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. Compliance with NZ IFRS ensures that the financial statements also comply with International Financial Reporting Standards (IFRS).

Adoption of NZ IFRS

The Company adopted NZ IFRS as of 1 January 2007 and this is the first set of financial statements prepared based on NZ IFRS. The transition to NZ IFRS is accounted for in accordance with NZ IFRS-1 "First time adoption of New Zealand Equivalents to International Reporting Standards" with 1 January 2006 as the date of transition. An explanation of how the transition to NZ IFRS affected the reported Income Statement, Balance Sheet and Statement of Cashflows of the Group is provided in Note 20.

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.

(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 2007.

(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 instuments 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.

(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.

(n) Cash Flow Statement (continued)

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.

(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 2007.

New Zealand Local Government Finance Corporation Limited (LGFC) commenced business on the 29 November 1999 and had total assets of $9,449,205 (2006: $22,528,404) 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, except for those affected by NZ IFRS, have been applied on bases consistent with prior years.

NOTE 3

CLAIMS

(a) Claims

	2007 Group $	2006 Group $	2007 Parent $	2006 Parent $
Claims incurred and Provision for Outstanding Claims				
Total claims incurred during the year	(5,882,948)	(4,941,370)	(5,882,948)	(4,941,370)
Less total claims cost recovered from reinsurers	3,171,345	3,043,379	3,171,345	3,043,379
Net Claims	(2,711,603)	(1,897,991)	(2,711,603)	(1,897,991)

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

	2007 Group $	2006 Group $	2007 Parent $	2006 Parent $
Outstanding Claims liability at the beginning of the financial year	3,845,000	3,530,000	3,845,000	3,530,000
Claims Expense in the current year	5,882,948	4,941,370	5,882,948	4,941,370
Claims Paid	(3,531,448)	(4,626,370)	(3,531,448)	(4,626,370)
Outstanding Claims liability at the end of the financial year	6,196,500	3,845,000	6,196,500	3,845,000

(c) Central Estimate and Risk Margin

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

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

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

The different components of the outstanding claims liability are subject to different levels of uncertainty. The estimation of the cost of claims reported but not yet paid in full is made on a case by case basis by claims personnel having regard to the facts and circumstances of the claim as reported, any information available from assessors and information on the cost of settling claims with similar characteristics in previous periods. A further amount, which may be a reduction, is included for IBNER on the basis of past experience with the accuracy of initial claims estimates. With IBNR, the estimation is generally subject to a greater degree of uncertainty than the estimation of the cost of settling claims already notified, as no information is currently available about the claim. 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.

(c) Central Estimate and Risk Margin (continued)

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 2007 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.

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 so 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 with these two elements being small and acting in opposite directions, both have been ignored.

(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 other 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 $455,000 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.

(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 $4.8 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.

(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 ranging from "A-" to "AAA" participate in the reinsurance catastrophe programme.

NOTE 6

REINSURANCE RECEIVABLE ON OUTSTANDING CLAIMS

(a) Reconciliation of Movements for the Financial Year

	2007 Group $	2006 Group $	2007 Parent $	2006 Parent $
Reinsurance recoveries receivable on outstanding claims at the beginning of the year	2,602,735	842,982	2,602,735	842,982
Reinsurance recoveries received	(948,281)	(1,283,626)	(948,281)	(1,283,626)
Reinsurance recoveries receivable on claims incurred during the year	3,171,345	3,043,379	3,171,345	3,043,379
Reinsurance recoveries receivable on outstanding claims at the end of the year	4,825,799	2,602,735	4,825,799	2,602,735

(b) Actuarial Assumptions

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

(c) The Effect Of Changes In Assumption

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

(d) Risk Management

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

(e) Reinsurance Programme

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

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

NOTE 7

UNEARNED PREMIUM LIABILITY

(a) Reconciliation of Movements for the Financial Year

	2007 Group $	2006 Group $	2007 Parent $	2006 Parent $
Unearned net premium liability at the beginning of the financial year	3,114,005	2,478,417	3,114,005	2,478,417
Deferral of gross premiums on contracts written in the year	6,874,567	7,944,073	6,874,567	7,944,073
Deferral of reinsurance expense payable on contracts written in the year	(3,842,140)	(4,830,068)	(3,842,140)	(4,830,068)
Earning of premiums written in previous years	(7,944,073)	(7,606,514)	(7,944,073)	(7,606,514)
Payment of reinsurance expense payable written in previous years	4,830,068	5,128,097	4,830,068	5,128,097
Unearned net premium liability at the end of the financial year	3,032,427	3,114,005	3,032,427	3,114,005

(b) Liability Adequacy Test

The conduct of the liability adequacy test as at 31 December 2007 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 2007 at the level of 85% probability of sufficiency.

NOTE 8

TAXATION

(a) Income tax recognised in the Income Statement

	2007 Group $	2006 Group $	2007 Parent $	2006 Parent $
Tax expense/(income) comprises:				
Current tax expense	728,240	983,550	732,806	987,459
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	219,752	983,550	223,548	987,459
Attributable to:				
Continuing operations	219,752	983,550	223,548	987,459
Discontinued operations	-	-	-	-
	219,752	983,550	223,548	987,459

(a) Income tax recognised in the Income Statement (continued)

	2007 Group $	2006 Group $	2007 Parent $	2006 Parent $
The prima facie income tax expense on pre-tax accounting profit from operations reconciles to the income tax expense in the financial statements as follows:				
Profit from continuing operations	2,154,905	3,798,401	2,168,741	3,810,245
Profit from discontinued operations	-	-	-	-
Profit from operations	2,154,905	3,798,401	2,168,741	3,810,245
Subvention payable	-	-	-	-
	2,154,905	3,798,401	2,168,741	3,810,245
Income tax expense calculated at 33%	711,119	1,253,472	715,685	1,257,381
Non-deductible expenses / (taxable income)	17,121	(269,922)	17,121	(269,922)
Effect of change in corporate tax rate	(115,533)	-	(116,303)	-
	612,707	983,550	616,503	987,459
(Over)/under provision of income tax in previous year	(392,955)	-	(392,955)	-
	219,752	983,550	223,548	987,459

The tax rate used for current year tax provisioning, in the above reconciliation, is the corporate tax rate of 33% payable by New Zealand corporate entities on taxable profits under New Zealand tax law up until 31 December 2007. The closing balance of deferred tax balances has been calculated using the reduced company tax rate of 30% that will apply from 1 January 2008.

(b) Current tax assets and liabilities

	2007 Group $	2006 Group $	2007 Parent $	2006 Parent $
Tax refund receivable	444,740	41,220	444,740	41,220
Tax payable	-	-	-	-
	444,740	41,220	444,740	41,220

(c) Deferred tax balances

	2007 Group $	2006 Group $	2007 Parent $	2006 Parent $
Deferred tax assets comprise:				
Temporary differences	18,321	12,740	18,321	12,740
	18,321	12,740	18,321	12,740
Deferred tax liabilities comprise:				
Temporary differences	(1,181,352)	(1,373,421)	(1,181,352)	(1,373,421)
	(1,181,352)	(1,373,421)	(1,181,352)	(1,373,421)
Net Deferred Tax balance	(1,163,031)	(1,360,681)	(1,163,031)	(1,360,681)

(c) Deferred tax balances (continued)

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

2007	Opening Balance	Charged to income	Charged to Equity	Prior period adjustment	Closing Balance
Investment gains	(1,109,176)	28,107	-	1,040,754	(40,315)
Building, Property and equipment	(3,052,707)	(849,765)	-	4,948	(3,897,524)
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)

2006	Opening Balance	Charged to income	Charged to Equity	Prior period adjustment	Closing Balance
Investment gains	(1,109,176)	-	-	-	(1,109,176)
Building, Property and equipment	(2,697,939)	(354,768)	-	-	(3,052,707)
Other	-	-	-	-	-
	(3,807,115)	(354,768)	-	-	(4,161,883)
Employee entitlements	46,370	(10,542)	-	-	35,828
Doubtful debts and impairment losses	-	-	-	-	-
Other	2,779	-	-	-	2,779
	49,149	(10,542)	-	-	38,607
Attributable to:					
Continuing operations					(4,123,276)
Discontinued operations					-
					(4,123,276)

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.

(d) Imputation Credit Account

	2007 Group $	2006 Group $	2007 Parent $	2006 Parent $
Opening Balance	5,238,241	4,931,081	5,238,241	4,931,081
Plus Credits				
Income Tax Paid	585,000	505,000	585,000	505,000
Resident Withholding Tax	239,718	198,771	239,718	198,771
Imputation Credits Received	-	-	-	-
	824,718	703,771	824,718	703,771
Less Debits				
Tax refund	-	-	-	-
Imputation Credits Attached to Dividends Paid	415,497	396,611	415,497	396,611
	415,497	396,611	415,497	396,611
Closing Balance	5,647,462	5,238,241	5,647,462	5,238,241

NOTE 9

INCOME RELATING TO FINANCIAL INSTRUMENTS

	2007 Group $	2006 Group $	2007 Parent $	2006 Parent $
Designated Fair Value through Profit or Loss				
Managed Fund – Reinvested interest and change in value	214,689	290,529	214,689	290,529
Held to Maturity				
Interest Received – NZ Government Stock	(1,944)	(2,910)	(1,944)	(2,910)
Interest Received – Local Authority Stock	849,754	1,757,046	-	-
	847,810	1,754,136	(1,944)	(2,910)
Cash & Cash Equivalents				
Interest Received – Short Term Deposits at Bank	781,952	626,419	781,952	626,419
	1,844,451	2,671,084	994,697	914,038

NOTE 10

INVESTMENT PROPERTY

		2007 Group $	2006 Group $	2007 Parent $	2006 Parent $
(Civic Assurance House, Lambton Quay, Wellington)					
(a)	Land valuation (Original Cost $289,253)	3,500,000	2,650,000	3,500,000	2,650,000
	Plus increase in value	-	850,000	-	850,000
	Fair Value	3,500,000	3,500,000	3,500,000	3,500,000
(b)	Building valuation (Original Cost $860,571)	4,450,000	4,150,000	4,450,000	4,150,000
	Plus increase in value	650,000	300,000	650,000	300,000
	Fair Value	5,100,000	4,450,000	5,100,000	4,450,000
(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
		8,625,000	7,975,000	8,625,000	7,975,000

Investment properties are revalued every year. Investment properties were valued on 31 December 2007 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.

NOTE 11

FIXED AND INTANGIBLE ASSETS

		2007 Group $	2006 Group $	2007 Parent $	2006 Parent $
Property, Plant and Equipment					
(a)	Office Furniture and Equipment – cost	234,258	234,258	234,258	234,258
	Plus Additions	1,370	-	1,370	-
	Less Disposals	-	-	-	-
	Closing Value – cost	235,628	234,258	235,628	234,258
	Office Furniture and Equipment – Accumulated Depreciation	(163,999)	(140,295)	(163,999)	(140,295)
	Less Depreciation Charge	(23,398)	(23,704)	(23,398)	(23,704)
	Less Disposals	-	-	-	-
	Closing Accumulated Depreciation	(187,397)	(163,999)	(187,397)	(163,999)
	Net Book Value	48,231	70,259	48,231	70,259
(b)	Motor Vehicles – cost	30,986	30,986	30,986	30,986
	Plus Additions	-	-	-	-
	Less Disposals	-	-	-	-
	Closing Value – cost	30,986	30,986	30,986	30,986
	Motor Vehicles – Accumulated Depreciation	(24,087)	(18,065)	(24,087)	(18,065)
	Less Depreciation Charge	(6,021)	(6,022)	(6,021)	(6,022)
	Less Disposals	-	-	-	-
	Closing Accumulated Depreciation	(30,108)	(24,087)	(30,108)	(24,087)
	Net Book Value	878	6,899	878	6,899
	Total Property, Plant and Equipment	49,109	77,158	49,109	77,158

The Net Surplus after Taxation in the Income Statement includes an $89 gain on disposal of fixed assets in 2006 (2007: nil).

		2007 Group $	2006 Group $	2007 Parent $	2006 Parent $
Intangible Assets					
	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	(172,809)	(169,446)	(172,809)	(169,446)
	Less Amortisation Charge	(88)	(3,363)	(88)	(3,363)
	Less Disposals	-	-	-	-
	Closing Accumulated Amortisation	(172,897)	(172,809)	(172,897)	(172,809)
	Net Book Value	227	315	227	315

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.

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 2007 was $3,000,000 (2006: $3,000,000).

Market value of managed funds at 31 December 2007 was $4,227,239 (2006: $4,012,550).

Carrying value of Financial Assets and Financial Liabilities.

	2007 Group $	2006 Group $	2007 Parent $	2006 Parent $
Financial Asset: Designated Fair Value Through Profit or Loss				
Managed Funds	4,227,239	4,012,550	4,227,239	4,012,550
Financial Asset: Held to Maturity				
Local Authority Stock				
Face Value at Balance date	9,261,000	22,109,500	-	-
Effective interest rate adjustment (settlement premium)	(76,287)	(124,998)	-	-
Accrued Interest	185,014	445,304	-	-
Carrying value	9,369,727	22,429,806	-	-
NZ Government Stock	101,355	103,299	101,355	103,299
Total Held to Maturity	9,471,082	22,533,105	101,355	103,299

(1) Financial Assets and Liabilities (continued)

	2007 Group $	2006 Group $	2007 Parent $	2006 Parent $
Financial Asset: Loans and Receivables				
Sundry Debtors	1,298,355	1,155,025	1,287,040	1,147,506
Premiums Receivable	1,816,227	1,825,559	1,816,227	1,825,559
Reinsurance Recoveries	4,825,799	2,602,735	4,825,799	2,602,735
Total Loans and Receivables	7,940,381	5,583,319	7,929,066	5,575,800
Financial Asset: Carried at Amortised Cost				
Bank & Cash Equivalents	9,733,955	10,358,222	9,665,792	10,267,143
Financial Liability: Amortised Cost				
Civic Bonds				
Face Value at Balance date	9,261,000	22,109,500	-	-
Effective interest rate adjustment (settlement premium)	(72,186)	(111,533)	-	-
Effective interest rate adjustment (set up fees)	(5,774)	(10,610)	-	-
Accrued Interest	185,014	445,304	-	-
Carrying value	9,368,054	22,432,661	-	-
Subordinated Debt	120,176	120,176	-	-
Accounts Payable	1,424,821	1,629,183	1,416,272	1,616,082
Total Amortised Cost	10,913,051	24,182,020	1,416,272	1,616,082

Civic Bonds

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

Local Authority Debt Securities acquired by Local Government Finance 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 2007, and Shareholders Funds at that date, to possible changes is as follows:

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

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

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.

(a) Market Risk (continued)

(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 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	8.9% to 9.1%	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	8.9% to 9.1%	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
As at 31 December 2006 (Group)							
Assets							
Cash at Bank	0% to 7.66%	10,310,668	-	-	-	47,554	10,358,222
Other Receivable	n/a	-	-	-	-	5,583,319	5,583,319
Managed Funds	n/a	3,169,466	-	-	-	843,084	4,012,550
Local Authority Stock	7.6% to 7.96%	10,041,155	3,042,627	6,645,273	2,700,751	-	22,429,806
NZ Government Stock	6.00%	-	-	-	103,299	-	103,299
Total Financial Assets		23,521,289	3,042,627	6,645,273	2,804,050	6,473,957	42,487,196
Liabilities							
Accounts Payable	n/a	-	-	-	-	1,629,183	1,629,183
Civic Bonds Issued	7.6% to 7.96%	10,031,433	3,043,976	6,651,998	2,705,254	-	22,432,661
Subordinated Debt	n/a	-	-	-	-	120,176	120,176
Total Financial Liabilities		10,031,433	3,043,976	6,651,998	2,705,254	1,749,359	24,182,020

(a) *Market Risk* (continued)

(i) Interest Rate Repricing Schedule (continued)

	Interest Rate Spread %	Within 6 months $	6 to 12 months $	1 to 2 years $	2 to 5 years $	Non Interest Bearing $	Total $
As at 31 December 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
Local Authority Stock	8.9% to 9.1%	-	-	-	-	-	-
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
As at 31 December 2006 (Parent)							
Assets							
Cash at Bank	0% to 7.66%	10,310,668	-	-	-	(43,525)	10,267,143
Other Receivable	n/a	-	-	-	-	5,575,800	5,575,800
Managed Funds	n/a	3,169,466	-	-	-	843,084	4,012,550
Local Authority Stock	7.6% to 7.96%	-	-	-	-	-	-
NZ Government Stock	6.00%	-	-	-	103,299	-	103,299
Total Financial Assets		13,480,134	-	-	103,299	6,375,359	19,958,792
Liabilities							
Accounts Payable	n/a	-	-	-	-	1,616,082	1,616,082
Total Financial Liabilities		-	-	-	-	1,616,082	1,616,082

***(a) Market Risk* (continued)**

(ii) Carrying Amount and Fair Value

	2007 Group Carrying Amount $	2007 Group Fair Value $	2006 Group Carrying Amount $	2006 Group Fair Value $
Assets				
Cash at Bank	9,733,955	9,733,955	10,358,222	10,358,222
Other Receivable	7,940,381	7,940,381	5,583,319	5,583,319
Managed Funds	4,227,239	4,227,239	4,012,550	4,012,550
Local Authority Stock	9,369,727	9,276,751	22,429,806	22,269,903
NZ Government Stock	101,355	101,355	103,299	103,299
Total Financial Assets	31,372,657	31,279,680	42,487,196	42,327,293
Liabilities				
Accounts Payable	1,424,821	1,424,821	1,629,183	1,629,183
Civic Bonds Issued	9,368,054	9,276,751	22,432,661	22,262,881
Subordinated Debt	120,176	120,176	120,176	120,176
Total Financial Liabilities	10,913,051	10,821,748	24,182,020	24,012,240

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

	2007 Parent Carrying Amount $	2007 Parent Fair Value $	2006 Parent Carrying Amount $	2006 Parent Fair Value $
Assets				
Cash at Bank	9,665,792	9,665,792	10,267,143	10,267,143
Other Receivable	7,929,066	7,929,066	5,575,800	5,575,800
Managed Funds	4,227,239	4,227,239	4,012,550	4,012,550
Local Authority Stock	-	-	-	-
NZ Government Stock	101,355	101,355	103,299	103,299
Total Financial Assets	21,822,097	21,923,452	19,855,493	19,958,792
Liabilities				
Accounts Payable	1,416,272	1,416,272	1,616,082	1,616,082
Civic Bonds Issued	-	-	-	-
Subordinated Debt	-	-	-	-
Total Financial Liabilities	1,416,272	1,416,272	1,616,082	1,616,082

(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.

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

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 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
Maturity Analysis (Group)					
As at 31 December 2006					
Assets					
Cash at Bank	10,358,222	-	-	-	10,358,222
Other Receivable	5,583,319	-	-	-	5,583,319
Managed Funds	4,012,550	-	-	-	4,012,550
Local Authority Stock	9,823,500	3,025,000	6,547,000	2,714,000	22,109,500
NZ Government Stock	-	-	-	105,000	105,000
Total Financial Assets	29,777,591	3,025,000	6,547,000	2,819,000	42,168,591
Liabilities					
Accounts Payable	1,629,183	-	-	-	1,629,183
Civic Bonds Issued	9,823,500	3,025,000	6,547,000	2,714,000	22,109,500
Subordinated Debt	-	-	-	120,176	120,176
Total Financial Liabilities	11,452,683	3,025,000	6,547,000	2,834,176	23,858,859

(b) Liquidity Risk (continued)

	Within 6 months $	6 to 12 months $	1 to 2 years $	2 to 5 years $	Total $
Maturity Analysis (Parent)					
As at 31 December 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
Maturity Analysis (Parent)					
As at 31 December 2006					
Assets					
Cash at Bank	10,267,143	-	-	-	10,267,143
Other Receivable	5,575,800	-	-	-	5,575,800
Managed Funds	4,012,550	-	-	-	4,012,550
Local Authority Stock	-	-	-	-	-
NZ Government Stock	-	-	-	105,000	105,000
Total Financial Assets	19,855,493	-	-	105,000	19,960,493
Liabilities					
Accounts Payable	1,616,082	-	-	-	1,616,082
Total Financial Liabilities	1,616,082	-	-	-	1,616,082

(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 six 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 Finance Corporation is exposed to six local authorities in six parcels of local authority stock; the maximum exposure to any one local authority being 32.4% 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.

(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-07 Group $	Dec-06 Group $	Dec-07 Parent $	Dec-06 Parent $
Cash at registered Banks	9,733,955	10,358,222	9,665,792	10,267,143
Other Receivable	7,940,381	5,583,319	7,929,066	5,575,800
Managed Funds	4,227,239	4,012,550	4,227,239	4,012,550
NZ Government Stock	101,355	103,299	101,355	103,299
NZ Local Authority Stock	9,369,727	22,429,806	-	-
Total	31,372,657	42,487,196	21,923,452	19,958,792

(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 $843,084 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.

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

	2007 Group $	2006 Group $	2007 Parent $	2006 Parent $
Reported Surplus After Taxation	1,957,949	2,822,225	1,945,193	2,822,786
Add/(less) non cash items				
Depreciation	29,420	29,726	29,420	29,726
Amortisation	88	3,363	88	3,363
Insurance Provisions	2,269,922	71,182	2,269,922	71,182
Deferred Tax Liability	(197,650)	108,072	(197,650)	108,072
Effective interest rate adjustments	(4,528)	(9,199)	-	-
Net change in fair value of property	(650,000)	(1,074,072)	(650,000)	(1,074,072)
Share of Profit of Associate	(22,796)	(7,374)	-	-
Unrealised net change in value of investments	(212,745)	(287,619)	(212,745)	(287,619)
	1,211,711	(1,165,921)	1,239,035	(1,149,348)
Add/(less) movements in other working capital items				
Accounts Receivable	(2,357,062)	891,321	(2,353,266)	891,321
Accounts Payable	(188,390)	(114,365)	(183,838)	(113,351)
Maturing Local Authority Stock	(13,108,790)	(10,885,452)	-	-
Tax Refund Due	(403,520)	171,706	(403,520)	175,616
Maturing Civic Bonds	13,108,790	10,885,452	-	-
	(2,948,972)	948,662	(2,940,624)	953,586
Add/(Less) Items Classified as investing activity	-	-	-	-
Add/(Less) Items Classified as financing activity	(1,481)	25,328	2,129	25,328
Net Cash Inflow from Operating Activities	219,207	2,630,294	245,733	2,652,352

NOTE 16

PROPERTY INCOME

	2007 Group $	2006 Group $	2007 Parent $	2006 Parent $
Gross Rent Received	744,496	692,201	744,496	692,201
Unrealised Net Change in Value of Investment Property	650,000	1,150,000	650,000	1,150,000
Property Refurbishment Costs	-	(75,928)	-	(75,928)
Property Operating Costs	(420,864)	(285,434)	(420,864)	(285,434)
	973,632	1,480,839	973,632	1,480,839

NOTE 17

OPERATING LEASE COMMITMENTS

There are no operating lease expense commitments.
There are the following operating lease income commitments:

	2007 Group $	2006 Group $	2007 Parent $	2006 Parent $
not later than one year	657,620	608,205	657,620	608,205
later than one year but not later than two years	455,075	536,068	455,075	536,068
later than two years but not later than five years	558,532	763,385	558,532	763,385
later than five years	-	33,275	-	33,275
	1,671,227	1,940,933	1,671,227	1,940,933

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.

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 payment Civic Assurance made to Local Government Finance Corporation of $3,610.
2) Civic Assurance has charged administration fees to Riskpool of $219,662 and Superplan and SuperEasy of $152,103.
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:

	2007 Group $	2006 Group $	2007 Parent $	2006 Parent $
Compensation				
Short term employee benefits	685,145	574,785	685,145	574,785
Post-employment benefits	-	-	-	-
Other long-term benefits	-	-	-	-
Termination benefits	-	-	-	-
	685,145	574,785	685,145	574,785

NOTE 20

EXPLANATION OF TRANSITION TO NZ IFRS

(a) Reconciliation of the Statement of Financial Performance for the year ended 31 December 2006

	Note	NZ GAAP 31-Dec-06 GROUP $	Effect of Transition GROUP $	NZ IFRS 31-Dec-06 GROUP $
OPERATING REVENUE				
Premium Earned		17,405,441	-	17,405,441
Reinsurance Paid		(12,128,814)	-	(12,128,814)
Net Claims		(1,897,991)	-	(1,897,991)
Underwriting Surplus		3,378,636	-	3,378,636
Commissions, Claims & Risk Management Expenses		(710,492)	-	(710,492)
		2,668,144	-	2,668,144
Administration Fees		561,289	-	561,289
Income from Investments		2,671,084	-	2,671,084
Interest Expense		(1,739,942)	-	(1,739,942)
Net Property Income	(vii)	1,470,839	10,000	1,480,839
Net Operating Revenue		5,631,414	10,000	5,641,414
EXPENDITURE				
Audit Fee				
Statutory Audit		52,740	-	52,740
Other Fees Paid to Auditors		43,720	-	43,720
Claims Paying Ability Rating		22,707	-	22,707
Consultants		52,758	-	52,758
Depreciation	(iv)	33,089	(3,363)	29,726
Amortisation	(iv)	-	3,363	3,363
Directors' Remuneration		76,986	-	76,986
Insurance Council of New Zealand		12,500	-	12,500
Legal Fees		34,318	-	34,318
Subvention Payment		25,328	-	25,328
Other Expenses		668,125	-	668,125
Employee Remuneration		820,742	-	820,742
Total Expenditure		1,843,013	-	1,843,013
Net Surplus Before Taxation		3,788,401	10,000	3,798,401
Share of Profit of Associate	(v)	-	7,374	7,374
Less Taxation Expense	(vi)	1,264,050	(280,500)	983,550
NET SURPLUS AFTER TAXATION		2,524,351	297,874	2,822,225

(b) Reconciliation of the Statement of Changes in Equity for the year ended 31 December 2006

	Note	NZ GAAP 31-Dec-06 GROUP $	Effect of Transition GROUP $	NZ IFRS 31-Dec-06 GROUP $
OPENING EQUITY		16,020,370	43,373	16,063,743
Net Surplus After Taxation		2,524,351	297,874	2,822,225
Total Recognised Revenue and Expenses		18,544,721	341,247	18,885,968
Dividend Payment		(805,239)	-	(805,239)
CLOSING EQUITY		17,739,482	341,247	18,080,729

(c) Reconciliation of the Statement of Financial Position as at 1 January 2006

	Note	NZ GAAP 1-Jan-06 GROUP $	Effect of Transition GROUP $	Opening NZ IFRS 1-Jan-06 GROUP $
SHAREHOLDERS EQUITY				
Issued and Paid-Up Ordinary Shares				
6,390,790 Ordinary Shares fully paid up		6,390,790	-	6,390,790
Retained Earnings		9,629,580	43,373	9,672,953
TOTAL EQUITY		16,020,370	43,373	16,063,743
Represented by:				
CURRENT ASSETS				
Bank & Cash Equivalents	(viii)	8,597,245	33,539	8,630,784
Sundry Debtors and Prepayments	(vi)	1,151,309	28,938	1,180,247
Accrued Interest	(i)&(viii)	687,295	(687,295)	-
Premiums Receivable		2,251,009	-	2,251,009
Reinsurance Recoveries		3,072,982	-	3,072,982
Income Tax Receivable		216,836	-	216,836
Managed Funds	(x)	-	3,722,021	3,722,021
Local Authority Stock maturing within one year	(i)	10,673,545	653,756	11,327,301
Deferred Acquisition Fees	(ii)	18,514	(18,514)	-
Total Current Assets		26,668,735	3,732,445	30,401,180
TOTAL FIXED ASSETS	(iv)	85,738	(3,678)	82,060
INTANGIBLE ASSETS (Software)	(iv)	-	3,678	3,678
NON CURRENT ASSETS				
Managed Funds	(x)	3,722,021	(3,722,021)	-
NZ Government Stock		101,165	-	101,165
Local Authority Stock		21,933,940	-	21,933,940
Shares in Local Government Online	(v)	30,000	-	30,000
Investment Property	(vii)	6,685,000	140,000	6,825,000
Total Non Current Assets		32,472,126	(3,582,021)	28,890,105
TOTAL ASSETS		59,226,599	150,424	59,377,023

c) Reconciliation of the Statement of Financial Position as at 1 January 2006 (continued)

	Note	NZ GAAP 1-Jan-06 GROUP $	Effect of Transition GROUP $	Opening NZ IFRS 1-Jan-06 GROUP $
CURRENT LIABILITIES				
Sundry Creditors & Accrued Charges	(ix)	2,612,412	(875,147)	1,737,265
Accrued Holiday Pay		46,370	-	46,370
Accrued Interest Payable	(ii)	653,756	(653,756)	-
Civic Bonds maturing within one year	(ii)	10,671,315	635,242	11,306,557
Deferred Tax Liability	(vii)&(xi)	1,127,044	(1,127,044)	-
Subordinated Debt		120,176	-	120,176
		15,231,073	(2,020,705)	13,210,368
Insurance Provisions				
Unearned Premium Reserve	(ix)	2,478,417	875,147	3,353,564
Outstanding Claims Liability		3,530,000	-	3,530,000
Total Insurance Provisions		6,008,417	875,147	6,883,564
Total Current Liabilities		21,239,490	(1,145,558)	20,093,932
NON CURRENT LIABILITY				
Civic Bonds Issued		21,966,739	-	21,966,739
Deferred Tax Liability	(vii)&(xi)	-	1,252,609	1,252,609
Total Non Current Liabilities		21,966,739	1,252,609	23,219,348
TOTAL LIABILITIES		43,206,229	107,051	43,313,280
EXCESS OF ASSETS OVER LIABILITIES		16,020,370	43,373	16,063,743

(d) Reconciliation of the Statement of Financial Position as at 31 December 2006

	Note	NZ GAAP 31-Dec-06 GROUP $	Effect of Transition GROUP $	NZ IFRS 31-Dec-06 GROUP $
SHAREHOLDERS EQUITY				
Issued and Paid-Up Ordinary Shares				
6,390,790 Ordinary Shares fully paid up		6,390,790	-	6,390,790
Retained Earnings		11,348,692	341,247	11,689,939
TOTAL EQUITY		17,739,482	341,247	18,080,729

(d) Reconciliation of the Statement of Financial Position as at 31 December 2006 (continued)

	Note	NZ GAAP 31-Dec-06 GROUP $	Effect of Transition GROUP $	NZ IFRS 31-Dec-06 GROUP $
Represented by:				
CURRENT ASSETS				
Bank & Cash Equivalents	(viii)	10,273,246	84,976	10,358,222
Sundry Debtors and Prepayments	(vi)	1,147,506	7,519	1,155,025
Accrued Interest	(i)&(viii)	530,280	(530,280)	-
Premiums Receivable		1,825,559	-	1,825,559
Reinsurance Recoveries		2,602,735	-	2,602,735
Income Tax Receivable		41,220	-	41,220
Managed Funds	(x)	-	4,012,550	4,012,550
Local Authority Stock maturing within one year	(i)&(xi)	12,823,707	260,075	13,083,782
Deferred Acquisition Fees	(ii)	10,610	(10,610)	-
Total Current Assets		29,254,863	3,824,230	33,079,093
TOTAL FIXED ASSETS	(iv)	77,473	(315)	77,158
INTANGIBLE ASSETS (Software)	(iv)	-	315	315
NON CURRENT ASSETS				
Managed Funds	(x)	4,012,550	(4,012,550)	-
NZ Government Stock		103,299	-	103,299
Local Authority Stock	(xi)	9,160,795	185,229	9,346,024
Shares in Local Government Online	(v)	30,000	7,374	37,374
Investment Property	(vii)	7,825,000	150,000	7,975,000
Total Non Current Assets		21,131,644	(3,669,947)	17,461,697
TOTAL ASSETS		50,463,980	154,283	50,618,263
CURRENT LIABILITIES				
Sundry Creditors & Accrued Charges	(ix)	2,508,589	(879,406)	1,629,183
Accrued Holiday Pay		35,828	-	35,828
Accrued Interest Payable	(ii)	445,304	(445,304)	-
Civic Bonds maturing within one year	(ii)&(xi)	12,825,944	249,465	13,075,409
Deferred Tax Liability	(vii)&(xi)	1,537,035	(1,537,035)	-
Subordinated Debt		120,176	-	120,176
		17,472,876	(2,612,280)	14,860,596
Insurance Provisions				
Unearned Premium Reserve	(ix)	2,234,599	879,406	3,114,005
Outstanding Claims Liability		3,845,000	-	3,845,000
Total Insurance Provisions		6,079,599	879,406	6,959,005
Total Current Liabilities		23,552,475	(1,732,874)	21,819,601
NON CURRENT LIABILITY				
Civic Bonds Issued	(xi)	9,172,023	185,229	9,357,252
Deferred Tax Liability	(vii)&(xi)	-	1,360,681	1,360,681
Total Non Current Liabilities		9,172,023	1,545,910	10,717,933
TOTAL LIABILITIES		32,724,498	(186,964)	32,537,534
EXCESS OF ASSETS OVER LIABILITIES		17,739,482	341,247	18,080,729

(e) Reconciliation of the Statement of Cash Flows for the year ended 31 December 2006

	Note	NZ GAAP 31-Dec-06 GROUP $	Effect of Transition GROUP $	NZ IFRS 31-Dec-06 GROUP $
CASH FLOWS FROM OPERATING ACTIVITIES				
Cash was provided from:				
Premiums Received		17,544,061	-	17,544,061
Rent Received		709,017	-	709,017
Administration Fees Received		588,414	-	588,414
Interest Received	(viii)	2,523,376	51,437	2,574,813
Maturing Local Authority Stock	(iii)	-	10,677,000	10,677,000
		21,364,868	10,728,437	32,093,305
Cash was applied to:				
Claims Expenses		(1,177,771)	-	(1,177,771)
Taxation Paid		(690,158)	-	(690,158)
Interest Expense		(1,948,430)	-	(1,948,430)
Payments to Reinsurers and Suppliers		(14,969,652)	-	(14,969,652)
Maturing Civic Bonds	(iii)	-	(10,677,000)	(10,677,000)
		(18,786,011)	(10,677,000)	(29,463,011)
Net Cash Inflow from Operating Activities		**2,578,857**	**51,437**	**2,630,294**
CASH FLOWS FROM INVESTING ACTIVITIES				
Cash was provided from:				
Maturing Local Authority Stock	(iii)	10,677,000	(10,677,000)	-
		10,677,000	(10,677,000)	-
Cash was applied to:				
Maturing Civic Bonds	(iii)	(10,677,000)	10,677,000	-
Purchase of Investments		(80,972)	-	(80,972)
Purchase of Fixed Assets		(24,824)	-	(24,824)
		(10,782,796)	10,677,000	(105,796)
Net Cash Flow from Investing Activities		**(105,796)**	**-**	**(105,796)**
CASH FLOWS FROM FINANCING ACTIVITIES				
Cash was provided from:				
Receipt of Loan Payments		8,179	-	8,179
		8,179	-	8,179
Cash was applied to:				
Payment of Subvention Payment		-	-	-
Payment of Dividend		(805,239)	-	(805,239)
		(805,239)	-	(805,239)
Net Cash Flow from Financing Activities		**(797,060)**	**-**	**(797,060)**
Net Increase in Cash Held		1,676,001	51,437	1,727,438
Opening Cash Balance as at 1 January		8,597,245	33,539	8,630,784
Closing Cash Balance as at 31 December		10,273,246	84,976	10,358,222

(f) Reconciliation of the Statement of Financial Performance for the year ended 31 December 2006

	Note	NZ GAAP 31-Dec-06 PARENT $	Effect of Transition PARENT $	NZ IFRS 31-Dec-06 PARENT $
OPERATING REVENUE				
Premium Earned		17,405,441	-	17,405,441
Reinsurance Paid		(12,128,814)	-	(12,128,814)
Net Claims		(1,897,991)	-	(1,897,991)
Underwriting Surplus		3,378,636	-	3,378,636
Commissions, Claims & Risk Management Expenses		(710,492)	-	(710,492)
		2,668,144	-	2,668,144
Administration Fees		561,289	-	561,289
Income from Investments		914,038	-	914,038
Interest Expense		-	-	-
Net Property Income	(vii)	1,470,839	10,000	1,480,839
Net Operating Revenue		5,614,310	10,000	5,624,310
EXPENDITURE				
Audit Fee				
Statutory Audit		52,740	-	52,740
Other Fees Paid to Auditors		43,720	-	43,720
Claims Paying Ability Rating		22,707	-	22,707
Consultants		52,758	-	52,758
Depreciation	(iv)	33,089	(3,363)	29,726
Amortisation	(iv)	-	3,363	3,363
Directors' Remuneration		76,986	-	76,986
Insurance Council of New Zealand		12,500	-	12,500
Legal Fees		34,318	-	34,318
Subvention Payment		25,328	-	25,328
Other Expenses		639,177	-	639,177
Employee Remuneration		820,742	-	820,742
Total Expenditure		1,814,065	-	1,814,065
Net Surplus Before Taxation		3,800,245	10,000	3,810,245
Share of Profit of Associate	(v)	-	-	-
Less Taxation Expense	(vi)	1,267,959	(280,500)	987,459
NET SURPLUS AFTER TAXATION		2,532,286	290,500	2,822,786

(g) Reconciliation of the Statement of Changes in Equity for the year ended 31 December 2006

	Note	NZ GAAP 31-Dec-06 PARENT $	Effect of Transition PARENT $	NZ IFRS 31-Dec-06 PARENT $
OPENING EQUITY		16,049,969	43,373	16,093,342
Net Surplus After Taxation		2,532,286	290,500	2,822,786
Total Recognised Revenue and Expenses		18,582,255	333,873	18,916,128
Dividend Payment		(805,239)	-	(805,239)
CLOSING EQUITY		17,777,016	333,873	18,110,889

(h) Reconciliation of the Statement of Financial Position as at 1 January 2006

	Note	NZ GAAP 1-Jan-06 PARENT $	Effect of Transition PARENT $	Opening NZ IFRS 1-Jan-06 PARENT $
SHAREHOLDERS EQUITY				
Issued and Paid-Up Ordinary Shares				
6,390,790 Ordinary Shares fully paid up		6,390,790	-	6,390,790
Retained Earnings		9,659,179	43,373	9,702,552
TOTAL EQUITY		16,049,969	43,373	16,093,342
Represented by:				
CURRENT ASSETS				
Bank & Cash Equivalents	(viii)	8,509,436	33,539	8,542,975
Sundry Debtors and Prepayments	(vi)	1,151,309	-	1,151,309
Accrued Interest	(i)&(viii)	33,539	(33,539)	-
Premiums Receivable		2,251,009	-	2,251,009
Reinsurance Recoveries		3,072,982	-	3,072,982
Income Tax Receivable		216,836	-	216,836
Managed Funds	(x)	-	3,722,021	3,722,021
Local Authority Stock maturing within one year	(i)	-	-	-
Deferred Acquisition Fees	(ii)	-	-	-
Total Current Assets		15,235,111	3,722,021	18,957,132
TOTAL FIXED ASSETS	(iv)	85,738	(3,678)	82,060
INTANGIBLE ASSETS (Software)	(iv)	-	3,678	3,678
NON CURRENT ASSETS				
Managed Funds	(x)	3,722,021	(3,722,021)	-
NZ Government Stock		101,165	-	101,165
Local Authority Stock		-	-	-
Shares in Local Government Online	(v)	30,000	-	30,000
Investment Property	(vii)	6,685,000	140,000	6,825,000
Total Non Current Assets		10,538,186	(3,582,021)	6,956,165
TOTAL ASSETS		25,859,035	140,000	25,999,035
CURRENT LIABILITIES				
Sundry Creditors & Accrued Charges	(ix)	2,598,297	(875,147)	1,723,150
Accrued Holiday Pay		46,370	-	46,370
Accrued Interest Payable	(ii)	-	-	-
Civic Bonds maturing within one year	(ii)	-	-	-
Deferred Tax Liability	(vii)&(xi)	1,155,982	(1,155,982)	-
Subordinated Debt		-	-	-
		3,800,649	(2,031,129)	1,769,520
Insurance Provisions				
Unearned Premium Reserve	(ix)	2,478,417	875,147	3,353,564
Outstanding Claims Liability		3,530,000	-	3,530,000
Total Insurance Provisions		6,008,417	875,147	6,883,564
Total Current Liabilities		9,809,066	(1,155,982)	8,653,084

(h) Reconciliation of the Statement of Financial Position as at 1 January 2006 (continued)

	Note	NZ GAAP 1-Jan-06 PARENT $	Effect of Transition PARENT $	Opening NZ IFRS 1-Jan-06 PARENT $
NON CURRENT LIABILITY				
Civic Bonds Issued		-	-	-
Deferred Tax Liability	(vii)&(xi)	-	1,252,609	1,252,609
Total Non Current Liabilities		-	1,252,609	1,252,609
TOTAL LIABILITIES		9,809,066	96,627	9,905,693
EXCESS OF ASSETS OVER LIABILITIES		16,049,969	43,373	16,093,342

(i) Reconciliation of the Statement of Financial Position as at 31 December 2006

	Note	NZ GAAP 31-Dec-06 PARENT $	Effect of Transition PARENT $	NZ IFRS 31-Dec-06 PARENT $
SHAREHOLDERS EQUITY				
Issued and Paid-Up Ordinary Shares				
6,390,790 Ordinary Shares fully paid up		6,390,790	-	6,390,790
Retained Earnings		11,386,226	333,873	11,720,099
TOTAL EQUITY		17,777,016	333,873	18,110,889
Represented by:				
CURRENT ASSETS				
Bank & Cash Equivalents	(viii)	10,182,167	84,976	10,267,143
Sundry Debtors and Prepayments	(vi)	1,147,506	-	1,147,506
Accrued Interest	(i)&(viii)	84,976	(84,976)	-
Premiums Receivable		1,825,559	-	1,825,559
Reinsurance Recoveries		2,602,735	-	2,602,735
Income Tax Receivable		41,220	-	41,220
Managed Funds	(x)	-	4,012,550	4,012,550
Local Authority Stock maturing within one year	(i)	-	-	-
Deferred Acquisition Fees	(ii)	-	-	-
Total Current Assets		15,884,163	4,012,550	19,896,713
TOTAL FIXED ASSETS	(iv)	77,473	(315)	77,158
INTANGIBLE ASSETS (Software)	(iv)	-	315	315
NON CURRENT ASSETS				
Managed Funds	(x)	4,012,550	(4,012,550)	-
NZ Government Stock		103,299	-	103,299
Local Authority Stock		-	-	-
Shares in Local Government Online	(v)	30,000	-	30,000
Investment Property	(vii)	7,825,000	150,000	7,975,000
Total Non Current Assets		11,970,849	(3,862,550)	8,108,299
TOTAL ASSETS		27,932,485	150,000	28,082,485

(i) Reconciliation of the Statement of Financial Position as at 31 December 2006 (continued)

	Note	NZ GAAP 31-Dec-06 PARENT $	Effect of Transition PARENT $	NZ IFRS 31-Dec-06 PARENT $
CURRENT LIABILITIES				
Sundry Creditors & Accrued Charges	(ix)	2,495,488	(879,406)	1,616,082
Accrued Holiday Pay		35,828	-	35,828
Accrued Interest Payable	(ii)	-	-	-
Civic Bonds maturing within one year	(ii)	-	-	-
Deferred Tax Liability	(vii)&(xi)	1,544,554	(1,544,554)	-
Subordinated Debt		-	-	-
		4,075,870	(2,423,960)	1,651,910
Insurance Provisions				
Unearned Premium Reserve	(ix)	2,234,599	879,406	3,114,005
Outstanding Claims Liability		3,845,000	-	3,845,000
Total Insurance Provisions		6,079,599	879,406	6,959,005
Total Current Liabilities		10,155,469	(1,544,554)	8,610,915
NON CURRENT LIABILITY				
Civic Bonds Issued		-	-	-
Deferred Tax Liability	(vii)&(xi)	-	1,360,681	1,360,681
Total Non Current Liabilities		-	1,360,681	1,360,681
TOTAL LIABILITIES		10,155,469	(183,873)	9,971,596
EXCESS OF ASSETS OVER LIABILITIES		17,777,016	333,873	18,110,889

(j) Reconciliation of the Statement of Cash Flows for the year ended 31 December 2006

	Note	NZ GAAP 31-Dec-06 PARENT $	Effect of Transition PARENT $	NZ IFRS 31-Dec-06 PARENT $
CASH FLOWS FROM OPERATING ACTIVITIES				
Cash was provided from:				
Premiums Received		17,544,061	-	17,544,061
Rent Received		709,017	-	709,017
Administration Fees Received		588,414	-	588,414
Interest Received	(viii)	574,982	51,437	626,419
Maturing Local Authority Stock	(iii)	-	-	-
		19,416,474	51,437	19,467,911
Cash was applied to:				
Claims Expenses		(1,177,771)	-	(1,177,771)
Taxation Paid		(690,158)	-	(690,158)
Interest Expense		-	-	-
Payments to Reinsurers and Suppliers		(14,947,630)	-	(14,947,630)
Maturing Civic Bonds	(iii)	-	-	-
		(16,815,559)	-	(16,815,559)
Net Cash Inflow from Operating Activities		**2,600,915**	**51,437**	**2,652,352**

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

(j) Reconciliation of the Statement of Cash Flows for the year ended 31 December 2006 (continued)

	Note	NZ GAAP 31-Dec-06 PARENT $	Effect of Transition PARENT $	NZ IFRS 31-Dec-06 PARENT $
CASH FLOWS FROM INVESTING ACTIVITIES				
Cash was provided from:				
Maturing Local Authority Stock	(iii)	-	-	-
		-	-	-
Cash was applied to:				
Maturing Civic Bonds	(iii)	-	-	-
Purchase of Investments		(80,972)	-	(80,972)
Purchase of Fixed Assets		(24,824)	-	(24,824)
		(105,796)	-	(105,796)
Net Cash Flow from Investing Activities		**(105,796)**	**-**	**(105,796)**
CASH FLOWS FROM FINANCING ACTIVITIES				
Cash was provided from:				
Receipt of Loan Payments		8,179	-	8,179
		8,179	-	8,179
Cash was applied to:				
Payment of Subvention Payment		(25,328)	-	(25,328)
Payment of Dividend		(805,239)	-	(805,239)
		(830,567)	-	(830,567)
Net Cash Flow from Financing Activities		**(822,388)**	**-**	**(822,388)**
Net Increase in Cash Held		**1,672,731**	**51,437**	**1,724,168**
Opening Cash Balance as at 1 January		8,509,436	33,539	8,542,975
Closing Cash Balance as at 31 December		10,182,167	84,976	10,267,143

(k) Presentation and Measurement Changes

(i) Financial Instruments

On transition to IFRS, the Company & Group chose to designate the Local Authority Stocks as Held To Maturity measured at amortised cost. Accrued interest is now accounted for as part of the carrying value of the local authority stock.

(ii) Financial Liabilities

Civic Bonds are measured at amortised cost less the amortisation of direct fees capitalised on set up. Amortised cost includes interest accrued.

(iii) Reclassification of Investing Activities

On transition to IFRS, the Company & Group as a financial institution classifies principal receipts and repayments of Local Authority Stock and Civic Bonds as operating activities

(iv) Reclassification of Software as an Intangible Asset

On transition to IFRS computer software is now classified as an intangible asset.

(v) Share of profit of Associate Company

Transition to recording the Company's & Group's share of the associate company's profit. This change has been reflected for each year but has been estimated as nil at 1 January 2006.

(vi) Deferred Tax Liability

On transition to IFRS there is a change in the treatment of deferred tax relating to the previously accounted for deferred tax on the revaluation of the land content of the investment property. Measurement changes on transition to IFRS may also have a deferred taxation consequence.

(vii) Property Valuation

On transition to IFRS property valuation is now fair value as opposed to market value (fair value less selling costs).

(viii) Interest Accrued

Accrued interest is now presented as "Bank and Cash Equivalents" rather than as a separate asset to the extent that it relates to bank deposits. For bonds it is included in the Bond amortised cost.

(ix) Unearned Premium Liability

On transition to IFRS there has been a presentation change between unearned premium liability and sundry creditors due to some commission now being classified as premium.

(x) Managed Funds

The managed funds have been reclassified as current due to a change in the liquidity requirements in relation to this fund.

(xi) Reclassification of Current and Non Current Assets and Liabilities

On transition to IFRS there has been a reclassification of Deferred Tax Liability and some Local Authority Stocks and Civic Bonds.

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 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 -11 'NZ IFRS-2 – Group and Treasury Share Transactions'	1 March 2007	31 December 2008
NZ IFRIC-12 'Service Concession Arrangements'	1 January 2008	31 December 2008
NZ IFRIC-13 'Customer Loyalty Programmes'	1 July 2008	31 December 2009
NZ IFRIC-14 'NZ IAS-19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction'	1 January 2008	31 December 2008
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

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.

NOTE 22

SHAREHOLDERS EQUITY

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

Retained Earnings	2007 Group $	2006 Group $	2007 Parent $	2006 Parent $
Opening Balance	11,689,939	9,672,953	11,720,099	9,702,552
Net Surplus After Taxation	1,957,949	2,822,225	1,945,193	2,822,786
Dividends Paid	(843,584)	(805,239)	(843,584)	(805,239)
Closing balance	12,804,304	11,689,939	12,821,708	11,720,099

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 ($9.5m) 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 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
31 December 2006				
Revenue	5,624,310	17,104	-	5,641,414
Share of Profit of Associate	7,374	-	-	7,374
Operating Revenue	5,631,684	17,104	-	5,648,788
Total Assets	28,082,485	22,528,404	-	50,610,889

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 2007.

	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	$2,243,000	$2,177,701
- Net Asset Value	$18,600,000	$19,195,094
- Net Asset Value per share	$2.91	$3.00

Deloitte.

TO THE READERS OF NEW ZEALAND LOCAL GOVERNMENT INSURANCE CORPORATION LIMITED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2007

The Auditor-General is the auditor of New Zealand Local Government Insurance Corporation Limited and 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 2007.

Unqualified Opinion

In our opinion:

- The financial statements of the Company and Group on pages 9 to 53:
  - comply with generally accepted accounting practice in New Zealand;
  - comply with International Financial Reporting Standards; and
  - give a true and fair view of:
    - the Company and Group's financial position as at 31 December 2007; and
    - the results of operations and cash flows for the year ended on that date.
- Based on our examination the Company and Group kept proper accounting records.

The audit was completed on 2 May 2008 and is the date at which our opinion is expressed.

The basis of the opinion is explained 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 the 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 our opinion.

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

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 our opinion above.

Responsibilities of the Board of Directors and the Auditor

The Board of Directors is responsible for preparing financial statements in accordance with generally accepted accounting practice in New Zealand. The financial statements must give a true and fair view of the financial position of the Company and Group as at 31 December 2007 and the results of 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 the provision of accounting and taxation advice, we have no relationship with or interests in the Company or any of its subsidiaries.

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

Civic Assurance

PROTECTING COMMUNITY ASSETS

CIVIC ASSURANCE SHAREHOLDERS AS AT 31 DECEMBER 2007

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%
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%
Tauranga	124,242	1.9%
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**	