A BETTER DEAL FOR RURAL NEW ZEALAND

Annual Report and Financial Statements 2012/2013

FMG
Advice & Insurance

TOGETHER, GROWING STRONGER

CONTENTS

CHAIRMAN'S REPORT

"A GREAT RESULT AND A CREDIT TO ALL INVOLVED"

The year under review was an exceptional one for the Mutual; highlighted by the best profit FMG has made in its 108 year history, and strong growth in client numbers. Our increased premium pool, solid investment returns and a loss ratio low by historic levels all contributed to the result.

Our profit for the year was $41.3m before tax, and $31.3m after tax. Reserves at year end were $180m, up $31m on the year before. A great result and a credit to all involved. To remain a strong long term business, in 2010 we set a target of 200/200 – that is $200m in premium income by 2015 and $200m in reserves by the same date. I am pleased to report that we are on track to achieve that objective.

As a Mutual we all benefit from lower claims rates as they help to keep premium increases to a minimum. In 2013 the generally kind weather contributed to relatively low claim levels. As well however, FMG's proactive risk management initiatives including the high-profile tractor fire campaign, helped reduce claims in these areas for the year.

Within the business, a lot of effort and resource has been concentrated on a project to replace the outdated core computer system with a new dedicated solution which will better support our service delivery and business requirements. The project carries an anticipated cost of $23m and involves a team of up to 50 people. From November, policies will transition across to the new system upon renewal with full implementation planned to be completed by December next year.

The effects of the Canterbury earthquakes are still with us. 84% of claims have been settled at the time of writing and we are steadily working through the remainder.

With the complexities and pressures involved, settling the claims has been a mammoth undertaking for the employees responsible.

We have taken an in-depth look at our various sponsorships and donations over the year. With a large number of requests for sponsorship we needed a tool to evaluate these and identify those opportunities which best fit our overall objective of supporting rural achievement. A matrix has been developed to standardise and simplify the evaluation.

I would like to thank Chris Black our Chief Executive, his leadership team and all employees for an outstanding year. Their work to grow our client numbers has been very satisfying for the Board. It is exciting to be part of an organisation that is managing to grow rapidly in these tough economic times and serves rural New Zealand so well. Our employees at all levels continue to give a huge amount to the Mutual. It has also been a year of sadness with an unprecedented number of our employees experiencing personal tragedies.

I am privileged to lead a very committed Board who share my enjoyment and strong sense of pride in what our Mutual is achieving.

Greg Gent
Chairman
FMG

"WE'RE OWNED BY THE PEOPLE WE INSURE"

FMG was established 108 years ago to provide a better deal for rural New Zealand. This core purpose remains at the heart of our organisation today.

As New Zealand's largest Mutual we're owned by the people we insure. In that sense it's a closed system, rather than one which pays large dividends to offshore shareholders. Given this we're able to use the profits to ensure our Mutual remains well capitalised and is set up for future growth.

With client ownership we're able to reinvest back into the business and keep premium increases to a minimum. We're also better placed to respond to your needs for enhanced or new products.

The significant achievement of the largest profit in the history of the Mutual is arguably down to human resource, and our strategic approach. These factors, supported by others, are important determinants of the long-term health and sustainability of the Mutual.

The old adage 'you are only as good as your people' applies. We place considerable emphasis on recruiting and developing high calibre employees, giving them the training and tools they need and creating an environment in which they can succeed.

Our advice-led insurance strategy is working for us in the market, resulting in a net increase of 6% in our client base last year. Increased client numbers spread the fixed costs of running the Mutual over a wider base which further helps us to keep premium increases to a minimum.

To complement the advice we provide clients in respect of their general insurance requirements, we enhanced our distribution model in 2013 to also cover clients' personal insurance requirements.

This 'both sides of the coin' advice-led and employee-based approach sets us apart from others in the industry that has more of a focus on sales volumes and commission.

The settlement of Canterbury earthquake claims remains a top client priority. There are 469 claims left to settle at the time of writing. However we still receive one new claim, largely out of EQC, for every two we settle, which challenges progress.

Fortunately, our clients have had minimal impact from the recent quakes in central New Zealand, but we will work closely with those who need to claim and guide them through the EQC process.

For the future, we see there would be consumer benefits from property insurance being covered by the private insurers alone without EQC being involved as well. In our view, this approach could save the property owners time and money. Nonetheless it seems unlikely the Government would adopt this change.

2013 has been a record year for FMG and I would like to thank all my colleagues, and the Board, for their collective dedication and commitment to achieving this excellent result. It is a result we can all be proud of.

I am excited by the prospect of capitalising on the current investment we are making in new IT systems infrastructure. This 21st century platform will support our growth and vision of giving more New Zealanders a better deal.

Chris Black
Chief Executive
FMG

MUTUAL

Mutual success

As New Zealand's leading rural insurer, FMG continues to go from strength-to-strength. For the 2012-13 year, your Mutual recorded its most successful financial result in its proud 108 year history.

This result keeps us in a strong position to provide a better deal for rural and provincial New Zealand in respect of keeping insurance premiums fair and competitive and increases to a minimum.

Our strong overall performance can be attributed to four key aspects; lower than anticipated levels of claims, supported by no major catastrophic events, positive returns from a strategy to invest our capital conservatively, and importantly – continued strong client growth.

But what's equally important to our continued growth is our commitment to deliver fit-for-purpose insurance and risk advice. We aim to provide clients with market-leading products designed to give them the protection they need to take risks and achieve their goals and to provide peace-of-mind that FMG will be there to help them get back on track should something go wrong.

Risk advice

Building long-term sustainable relationships with clients is key to the Mutual's success. Linked to this, the primary sector remains the backbone of the New Zealand economy and we understand that for it to continue to grow and innovate, people need to have the confidence to take risks, because we know that without risk there cannot be success.

Through our risk advice campaigns and personalised insurance approach we aim to give individuals and businesses that confidence. We invest time and money in partnering with experts, such as the New Zealand Fire Service (NZFS), MetService and Thermoman to understand potential exposures and work on giving practical advice on how these can be mitigated.

As a Mutual it's important that we invest in sharing knowledge and information. By working with the New Zealand Rural Fire Authority for example we've helped highlight the threat starlings cause to tractors when they nest in the engine area. It takes just a few minutes for these birds to create a home, causing the potential for major damage and headaches to farmers when these nests heat up and catch on fire.

Helping people be aware of the risk enables them to avoid the danger, cost and disruption that is often caused by tractor fires. We recently partnered with the NZFS again, this time to raise awareness around the causes and risks related to household fires. House fires have cost members over $26m in claims in the past five years – which on average translates into almost three house fire related claims per week!

By working with leading experts we can share their knowledge with clients to help them mitigate risks. For example, in over 80% of the house fires attended by the NZFS, the house did not have a working fire alarm. Additionally, we were able to cross-reference their expertise with our claims data to identify that tenanted farm houses on dairy farms are at greater risk of fire and that more of these fires occur in Southland than any other part of the country. On average it takes longer for the NZFS to respond to these incidents due to the remote location of these properties.

SUCCESS

Our strong overall performance can be attributed to four key aspects; lower than anticipated levels of claims, supported by no major catastrophic events, positive returns from a strategy to invest our capital conservatively, and importantly - continued strong client growth.

Another recent successful initiative was with thermal imagery consultants, Thermoman where we provided free thermal imaging to clients with high-value farm buildings to help them identify possible wiring 'hot-spot' hazards. Not all danger is immediately visible and this campaign helped clients to understand that sometimes you need to look deeper, actually through the walls.

It's not just the expert advice of industry partners that we share – but also our own knowledge and that of our clients' experience. We've been around for more than a century, and our collective experiences have seen us respond to some pretty unusual situations, so it's fair to say we know a thing or two about rural life.

Our employees come from the very communities we insure, with many also coming from farming backgrounds, meaning clients get advice from people who know what they're talking about.

At FMG our success is not simply driven by profit, but by the commitment of over 400 employees who want to give rural New Zealand a better deal through personalised insurance and risk advice. We thrive on being different and are committed to ensuring our advice-led proposition continues to add value and supports individuals and businesses to take risks.

For more information about our risk advice campaigns, visit **www.fmg.co.nz**

SUPPORTING RURAL ACHIEVEMENT

We've been supporting the rural community for more than a hundred years and we get stuck in at a grass roots level.

Investing in individuals and communities that support and back FMG is vitally important to us, which is why we spend more than half-a-million dollars each year on sponsorship and events.

We're strong supporters of rural communities and focus our sponsorship support on backing rural achievement.

FMG is committed to the agricultural industry and we understand how important clear direction and vision is for shaping the sector's future. That's why we're proud partners of the Angus New Zealand Youth Programme, Waipaoa Farm Cadet Training Trust, Agri-Women's Development Trust and Nuffield New Zealand, to name just a few.

FMG's support of the Agri-Women's Development Trust (AWDT), for example shows our commitment to developing a stronger agriculture industry. Although research has found a strong representation of women in the agriculture sector, there is a very small representation of these women at governance and leadership levels. We believe that the entire sector benefits from a wide range of people and perspectives, which is why we're the cornerstone partner of AWDT's First Steps programme – a two day course designed to build the skills, experience and confidence of rural women.

Our commitment to the future of the primary sector is also shared in other ways. Each year we provide two scholarships that cover the tuition fees of students studying toward agriculture-focused degrees.

At FMG we have a graduate programme and each year take-on a selection of young people who want to work in and support the primary sector. Graduates are given the opportunity to grow into other roles within the business. As well as this we also provide three scholarships for students wanting to study at the Taratahi Agricultural Training Centre.

As an organisation which has been supporting the rural community for more than a hundred years we get stuck in at a grass roots level too, whether it's donating drink bottles to sports teams, or handing out give-aways at a local pet day. Added to this is our commitment of those already in the industry as we attend hundreds of farming, growing, equine and agribusiness events each year and also sponsor a variety of industry conferences.

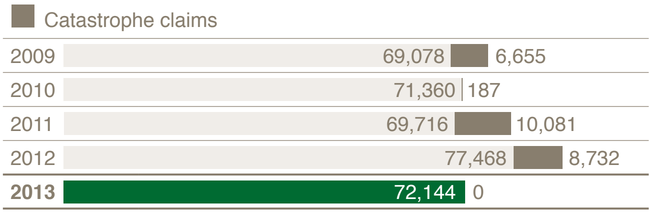
There are many ways we try and help the primary sector and give rural New Zealand a better deal. As a Mutual it's important we do this and help to ensure sustainability, development and growth in New Zealand's biggest industry. It's a commitment we're proud of and one which will continue and remain as a core part of our business.

For more sponsorship and events information, please visit our website **www.fmg.co.nz**

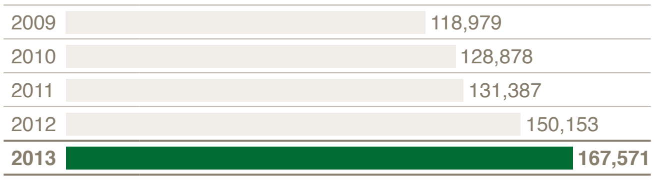
DIRECTORS' REPORT

Five year comparisons

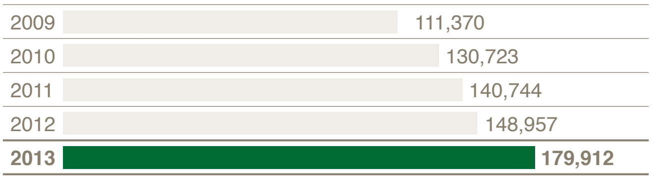
NZ Claims and catastrophes ($000)



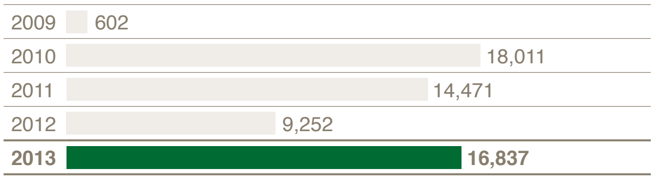
NZ General insurance gross written premium ($000)



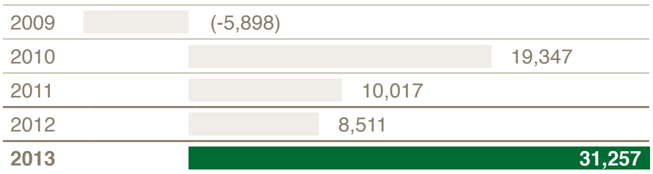
Equity ($000)



Investment income ($000)



Net profit/(loss) after tax ($000)



The Directors have pleasure in presenting Farmers' Mutual Group's[1] 108th Annual Report and Financial Statements for the year ended 31 March 2013.

Principal Activities

The Group[2] is focused on the provision of competitive and effective farm risk solutions. Group activities include the delivery of insurable farm risk advice, general insurance, life and health insurance.

Farmers' Mutual Group Act 2007

Farmers' Mutual Group is governed by the Farmers' Mutual Group Act 2007 and the Farmers' Mutual Group Constitution.

Financial Results

The Group's financial results for the year reflect the following:

- Increase in gross written premium from continuing operations to $167.6m from $150.2m.
- Increase in net investment income from continuing operations to $16.8m from $9.3m.
- Decrease in net claims incurred from continuing operations to $72.1m from $86.2m.
- Increase in profit from continuing operations after tax to a $31.3m profit from $8.5m.

	2013	2012
	$000	$000
Profit from continuing operations before taxation	**41,314**	11,713
Taxation	**(10,057)**	(3,202)
Profit for the year	**31,257**	8,511
Non-controlling interest in profit of subsidiaries	**-**	(18)
Profit added to retained earnings	**31,257**	8,493

1. Reference to "Farmers' Mutual Group" or "FMG" or the "Parent" in this report and the Financial Statements means Farmers' Mutual Group.
2. Reference to the "Group" in this report and the Financial Statements means the Parent and all subsidiaries.

DIRECTORS' REPORT

Membership

As at 31 March 2013, membership of the Parent stands at 35,169.

Directorate

In accordance with the provisions of FMG's Constitution and the Farmers' Mutual Group Act 2007, Mr. Greg Gent and Mrs. Marise James will retire by rotation at this year's Annual General Meeting, and being eligible, will offer themselves for re-election. Mr. Michael Ahie was appointed to the Board as a Special Director in 2009. As he is a Member, he will now stand for election as a Member Director.

Role of the Directors

The Board is responsible for the strategy, direction and control of the Group. This responsibility includes areas of stewardship such as the identification and control of the Group's business risks, the integrity of management information systems and reporting to policyholders and members.

While the Board acknowledges that it is responsible for the overall control framework of the Group, it recognises that no cost effective internal control system will preclude all errors and irregularities. The control system is based upon written procedures, policies and guidelines, organisational structures that provide an appropriate division of responsibility, a programme of internal audit and the careful selection and training of qualified personnel.

The Board meets on a regular basis.

Legislative and Regulatory Compliance

Farmers' Mutual Group is a Qualifying Financial Entity within the meaning of the Financial Advisers Act 2008 and thus is directly supervised by the Financial Markets Authority.

The Group is also subject to the Insurance (Prudential Supervision) Act 2010 and thus comes under the direct supervision of the Reserve Bank of New Zealand. In accordance with the requirements of that Act, the Group holds a Full Licence.

The Group makes use of its employees and external consultants to ensure compliance with relevant legislation and regulation. This includes compliance with securities, environmental and human resource related legislation.

Remuneration of Directors

Directors' remuneration received, or due and receivable during the year amounted to $0.263m (2012: $0.258m). At the August 2012 AGM, the Membership approved the following increase in Board annual remuneration:

Chairman $70,000

Directors $40,000

The amounts paid to each director for both the FMG and FMG Insurance Limited Boards are as follows:

	2012-2013	2011-2012
Name	**$000**	$000
G W Gent (Chair)	**68**	65
M L James	**39**	35
I R F McKelvie*	**-**	18
T D Cleland	**39**	35
G R Milne	**39**	35
M W A Donald	**39**	35
M J T Ahie	**39**	35
Total	**263**	258

* Mr Ian McKelvie resigned from his position as director from the 1 September 2011 board meeting.

DIRECTORS' REPORT

The Board as at 31 March 2013

The FMG Directors are Mr. Greg Gent (Chair), Mrs. Marise James, Mr. Graeme Milne, Mr. Murray Donald, Mr. Tony Cleland and Mr. Michael Ahie.

The following are the Directors' qualifications and experience:

Greg Gent

Greg is the Chairman of FMG's Board of Directors. Greg has extensive experience in the rural sector and along with being a dairy farmer, has held several directorships and chairmanships within the dairy industry, including over a decade as a Director of the Fonterra Co-operative. He is also a director of Southern Cross and board member of Northland District Health Board.

Marise James

Marise James is a Chartered Accountant based in Taranaki specialising in the rural sector and in particular, business and tax planning. She and husband Bryn are former winners of Sharemilker of the Year. Marise, a recipient of the Nuffield Scholarship, is a former Landcorp Farming Ltd and Fonterra Director.

Graeme Milne

Graeme has considerable experience in agribusiness as well as corporate governance, including his previous roles as CEO of Bay Milk Products, New Zealand Dairy Group, and Bonlac. He is currently the Chairman of the Waikato District Health Board, Synlait Milk Ltd and New Zealand Pharmaceuticals Limited and is a Director of Genesis Power Limited, among others.

COLLECTIVE COMMITTMENT

Murray Donald
Murray has extensive rural and management experience. He currently farms a 455 hectare property in Southland, and is also a Director of Alliance Group and Chairman of Alliance Group Trustee Limited. A former National President of the Young Farmers' Club, Murray also received a commemorative medal for services to agriculture in 1990.

Tony Cleland
Tony Cleland is a Southland dairy farming entrepreneur and founder of FarmRight, an independent dairy farming management and consultancy company based in Lumsden. He is also a director of Field Power Northland. Tony became a director of FMG in August 2007.

Michael Ahie
Michael is based in Wellington and the CEO and a founding partner of AltusQ. He has broad international business and governance experience with multinational companies including Toyota New Zealand Ltd, the New Zealand Dairy Board and Wrightson Ltd. Michael is also chairman of Plant and Food Research, a director of Vehicle Testing Group and has farming interests in Taranaki.

DIRECTORS' REPORT

Board Regulations

The Board is subject to the FMG Board Charter which outlines the specific role and responsibilities of the Board. The Board is also subject to the Director Appointment & Reappointment Policy which articulates the process for the appointment of prospective Directors, as well as the evaluation of Directors due to retire by rotation who intend to stand for re-election.

Each Director must be assessed as being fit and proper in accordance with FMG's Fit & Proper Policy and reassessed at least every three years. All Directors are independent as they are free from any associations that could materially interfere with the exercise of independent judgement. The Directors are all subject to FMG's Code of Ethics.

The Board Committees as at 31 March 2013

The Audit & Risk Management Committee is currently comprised of Mr. Murray Donald (Chair), Mr. Greg Gent, Mr. Graeme Milne and Mr Michael Ahie and is governed by its own Charter. The function of the Audit & Risk Management Committee is to assist the Board in carrying out its responsibilities under the Farmers' Mutual Group Act 2007, which incorporates by reference provisions of the Companies Act 1993 and the Financial Reporting Act 1993. These responsibilities include ensuring compliance with legal and regulatory standards and the New Zealand equivalents to International Financial Reporting Standards, reviewing management's accounting practices, policies and controls relative to the Group, identification and management of key financial and regulatory risks and reviewing and making appropriate inquiry into the audits of the Group by both internal and external auditors.

The Nomination, Remuneration & Governance Committee is currently comprised of Mr. Greg Gent (Chair), Mrs. Marise James and Mr. Tony Cleland. The Committee, which is governed by its own Charter, is responsible for the nomination of new Directors, Chief Executive and senior management appointments, corporate governance and remuneration policies of the Group.

Attendance of meetings for 2012-13 is detailed below:

FMG Board Meetings

Total number – 5

Name	Number of meetings	Number attended
G W Gent (Chair)	5	5
G R Milne	5	5
M W A Donald	5	5
M L James	5	5
T D Cleland	5	5
M J T Ahie	5	5

Audit Meetings

Total number – 3

Name	Number of meetings	Number attended
M W A Donald (Chair)	3	3
M L James	1*	1*
G W Gent	3	3
G R Milne	3	2
M J T Ahie	3	3

Nomination, Remuneration & Governance Meetings

Total number – 2

Name	Number of meetings	Number attended
G W Gent (Chair)	2	2
M L James	2	2
T D Cleland	2	2

*Substitute for G R Milne

Directors of FMG's Subsidiaries as at 31 March 2013

The current FMG Insurance Limited Directors are Mr. Greg Gent, Mrs. Marise James, Mr. Tony Cleland, Mr. Murray Donald, Mr. Graeme Milne and Mr. Michael Ahie. The amount paid to each director is reflected in the remuneration of directors of the group.

Interest Registers of the Group as at 31 March 2013

(a) There are no related party transactions recorded in the interest registers.

(b) A majority of Directors are required to be members of FMG. Any associated insurance policies or transactions are administered according to normal business practice at arm's length.

(c) Directors' remuneration is disclosed on page 11.

(d) The Group has arranged policies of Directors' Liability Insurance which ensures that generally Directors will incur no monetary loss as a result of action undertaken by them as Directors. Certain actions are specifically excluded, for example the incurring of penalties and fines which may be imposed in respect of breaches of statutory regulations.

Auditors

In accordance with Section 27 of the Farmers Mutual Group Act 2007 and Section 196 of the Companies Act 1993 Ernst & Young has been appointed as Auditors for the company.

THE MOST SIGNIFICANT FINANCIAL ACHIEVEMENT IN THE MUTUAL'S HISTORY

INCOME STATEMENT
for the year ended 31 March

	Note	Group 2013 $000	Group 2012 $000	Parent 2013 $000	Parent 2012 $000
Continuing operations					
General insurance activities					
Gross written premium		**167,571**	150,153	**128,228**	117,244
Movement in unearned premium		**(7,731)**	(8,158)	**(4,854)**	(5,757)
Gross earned premiums	1	**159,840**	141,995	**123,374**	111,487
Outwards reinsurance premium expense		**(12,227)**	(9,992)	**(9,646)**	(8,231)
Net premium revenue		**147,613**	132,003	**113,728**	103,256
Claims expense		**(89,717)**	(125,402)	**(65,130)**	(94,257)
Reinsurance and other recoveries revenue	1	**17,573**	39,202	**15,313**	30,999
Net claims incurred		**(72,144)**	(86,200)	**(49,817)**	(63,258)
Fee income and other revenue	1	**5,977**	4,347	**4,581**	3,000
Management expenses		**(57,708)**	(48,158)	**(49,469)**	(39,283)
General insurance underwriting result		**23,738**	1,992	**19,023**	3,715
Investment revenue	1	**16,837**	9,252	**13,966**	7,548
Profit from general insurance activities		**40,575**	11,244	**32,989**	11,263
Finance activities					
Interest income	1	**433**	1,014	**-**	-
Fee income	1	**4**	42	**-**	-
Finance costs	2	**-**	-	**-**	-
Operating expenses		**151**	(718)	**-**	-
Profit/(loss) from finance activities		**588**	338	**-**	-
Other					
Share of earnings of associates and joint ventures	15	**151**	131	**151**	131
Profit before taxation		**41,314**	11,713	**33,140**	11,394
Income tax expense	3	**(10,057)**	(3,202)	**(8,076)**	(3,174)
Profit from continuing operations		**31,257**	8,511	**25,064**	8,220
Profit for the year		**31,257**	8,511	**25,064**	8,220
Attributable to:					
Members		**31,257**	8,493	**25,064**	8,220
Non-controlling interest		**-**	18	**-**	-
Profit for the year		**31,257**	8,511	**25,064**	8,220
Total comprehensive income for the year, net of tax		**31,257**	8,511	**25,064**	8,220
Total comprehensive income attributable to:					
Members		**31,257**	8,493	**25,064**	8,220
Non-controlling interest		**-**	18	**-**	-
		31,257	8,511	**25,064**	8,220

The statement of accounting policies and notes 1 to 31 are an integral part of these financial statements.

STATEMENT OF CHANGES IN EQUITY

for the year ended 31 March

	Group	Group	Parent	Parent
	2013	2012	2013	2012
	$000	$000	$000	$000
Retained earnings				
Retained earnings at the beginning of the year	148,702	140,209	136,013	127,793
Total profit and total comprehensive income	31,257	8,493	25,064	8,220
Acquisition of minority interest	(47)	-	-	-
Retained earnings at the end of the year	179,912	148,702	161,077	136,013
Non-controlling interest				
Non-controlling interest at the beginning of the year	255	535	-	-
New non-controlling interest capital in Pinesmart	-	3	-	-
Reduction in non-controlling interest	(255)	(301)	-	-
Share of Pinesmart total profit and total comprehensive income	-	18	-	-
Non-controlling interest at the end of the year	-	255	-	-
Total equity at the end of the year	179,912	148,957	161,077	136,013
Attributable to:				
Members	179,912	148,702	161,077	136,013
Non-controlling interest	-	255	-	-
	179,912	148,957	161,077	136,013

The statement of accounting policies and notes 1 to 31 are an integral part of these financial statements.

INCREASE IN GROSS WRITTEN PREMIUM FROM CONTINUING OPERATIONS TO $167.6M

BALANCE SHEET

as at 31 March

	Note	Group 2013 $000	Group 2012 $000	Parent 2013 $000	Parent 2012 $000
Assets					
Cash and cash equivalents	4	**20,713**	20,879	**5,011**	12,861
Current tax asset		**-**	-	**-**	-
Trade and other current receivables	9	**30,660**	27,725	**21,116**	20,176
Loans and receivables	6	**2,044**	5,780	**-**	-
Insurance recoveries	7	**42,756**	52,026	**25,865**	31,849
Deferred acquisition costs	10	**3,954**	3,954	**2,821**	2,821
Investments under management	5	**217,711**	197,001	**183,391**	165,457
Deferred tax assets	16	**7,232**	4,460	**7,144**	4,304
Property, plant and equipment	11	**5,995**	6,907	**5,696**	6,608
Biological assets	13	**2,212**	2,007	**-**	-
Intangible assets	12	**14,105**	4,836	**14,105**	4,836
Investments in subsidiaries	14	**-**	-	**23,090**	22,810
Investments in associates and joint ventures	15	**1,160**	1,061	**1,160**	1,061
Total assets		**348,542**	326,636	**289,399**	272,783
Liabilities					
Trade and other current liabilities	17	**18,189**	18,771	**20,774**	17,513
Current tax liability		**4,551**	334	**2,520**	534
Deferred tax liabilities	16	**7,483**	4,840	**7,078**	4,455
Make good provision	21	**146**	141	**146**	141
Underwriting provisions	7	**138,261**	153,593	**97,804**	114,127
Total liabilities		**168,630**	177,679	**128,322**	136,770
Net assets		**179,912**	148,957	**161,077**	136,013
Equity					
Retained earnings		**179,912**	148,702	**161,077**	136,013
Total equity attributable to members		**179,912**	148,702	**161,077**	136,013
Non-controlling interests		**-**	255	**-**	-
Total equity		**179,912**	148,957	**161,077**	136,013

Signed on behalf of the Board of Directors, who authorised the issue of these financial statements on 31 July 2013.

G W GENT
Chairman
31 July 2013

M W A DONALD
Director
31 July 2013

The statement of accounting policies and notes 1 to 31 are an integral part of these financial statements.

STATEMENT OF CASH FLOWS
for the year ended 31 March

	Note	Group 2013 $000	Group 2012 $000	Parent 2013 $000	Parent 2012 $000
Cash flows from operating activities					
Premium and other receipts from clients		**170,963**	146,387	**131,514**	114,096
Reinsurance recoveries		**26,461**	23,374	**21,022**	20,224
Interest and fees received		**451**	1,114	**-**	-
Other income		**18**	3	**18**	3
Claims paid		**(110,480)**	(99,031)	**(84,830)**	(70,617)
Reinsurance premium paid		**(13,328)**	(9,648)	**(10,510)**	(8,006)
Cash paid to suppliers and employees		**(56,661)**	(44,040)	**(47,798)**	(35,094)
Interest paid		**(28)**	(101)	**(27)**	(10)
Income tax (paid)/recovered		**(6,231)**	(2,556)	**(6,219)**	(1,505)
Net cash flows from operating activities	4	**11,165**	15,502	**3,170**	19,091
Cash flows from investing activities					
Proceeds from advances/(repayments) of finance receivables		**3,844**	8,694	**-**	-
Purchase of investment securities		**-**	(976)	**-**	(976)
Investment dealings with fund managers		**(4,358)**	(10,066)	**(4,262)**	(10,206)
Proceeds from foreign exchange contracts		**(114)**	758	**(93)**	787
Interest received from investments		**555**	532	**506**	499
Dividends received		**393**	385	**393**	377
Other income		**1,311**	55	**52**	55
Purchase of property, plant and equipment and intangible assets		**(12,067)**	(7,578)	**(11,795)**	(7,580)
Net cash flows from investing activities		**(10,436)**	(8,196)	**(15,199)**	(17,044)
Cash flows from financing activities					
Proceeds from the issue/(redemption) of debenture stock and other loans		**-**	-	**-**	-
Purchase of minority interest shareholdings in subsidiaries		**(895)**	(324)	**(280)**	(324)
Movement of intergroup accounts		**-**	-	**4,459**	(1,414)
Net cash flows from financing activities		**(895)**	(324)	**4,179**	(1,738)
Net increase/(decrease) in cash and cash equivalents		**(166)**	6,982	**(7,850)**	309
Cash and cash equivalents at the beginning of the year		**20,879**	13,897	**12,861**	12,552
Cash and cash equivalents at the end of the year	4	**20,713**	20,879	**5,011**	12,861

The statement of accounting policies and notes 1 to 31 are an integral part of these financial statements.

INCREASE IN TOTAL ASSETS TO $348.5M

STATEMENT OF ACCOUNTING POLICIES

for the year ended 31 March

Reporting entity

Farmers' Mutual Group (the "Parent") is a mutual domiciled in New Zealand, registered under the Farmers' Mutual Group Act 2007.

This financial report includes separate financial statements for Farmers' Mutual Group (the "parent entity") as an individual entity and for the consolidated entity (the "FMG group") which consists of the parent entity and all entities that the parent entity controlled during the year and at the balance date.

The Group is primarily involved in the delivery of insurable farm risk advice, general insurance, life and health insurance.

The accounting policies below have been applied consistently to all periods presented in these financial statements. For new standards that have been applied for the first time in 2013 refer to change in accounting policies.

The mutual's registered office is Level 20, Vodafone on the Quay, 157 Lambton Quay, Wellington.

Basis of preparation

Statement of compliance

The financial statements have been prepared in accordance with NZ GAAP. They comply with New Zealand equivalents to International Financial Reporting Standards (NZ IFRS), and other applicable financial reporting standards as appropriate for profit-oriented entities. The financial statements comply with International Financial Reporting Standards (IFRS).

The financial statements have been prepared on a historical cost basis with any exceptions noted in the accounting policies below.

Functional and presentation currency

These financial statements are presented in New Zealand dollars ($), which is the primary economic environment in which the Parent operates. All financial information presented in New Zealand dollars has been rounded to the nearest thousand.

Significant accounting policies

Basis of Consolidation

Subsidiaries

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

The share of the net assets attributable to non-controlling interests is disclosed separately in the balance sheet.

Associates and joint ventures

Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies. Joint ventures are those entities over whose activities the Group has joint control, established by contractual agreement and requiring unanimous consent for strategic, financial and operating decisions.

Associates and joint ventures are accounted for using the equity method. The consolidated financial statements include the Group's share of the income and expenses of equity accounted investees, after adjustments to align the accounting policies with those of the Group, from the date that significant influence or joint control commences until the date that significant influence or joint control ceases. When the Group's share of losses exceeds its interest in an equity accounted investee, the carrying amount of that interest (including any long-term investments) is reduced to nil and the recognition of further losses is discontinued except to the extent that the Group has an obligation or has made payments on behalf of the investee.

Transactions eliminated on consolidation

Intra-group balances, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with equity accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

General insurance contracts

The general insurance operations of the Group comprise the management of the outstanding claims liability on previously issued insurance contracts. These contracts transfer significant insurance risk by agreeing to compensate the insured on the occurrence of a specified insured event, such as damage to property or the crystallisation of a third party liability (or the reinsurance thereof), within a given timeframe.

Under accounting standards, such contracts are defined as *general insurance contracts*.

General insurance liabilities

The outstanding claims liability for general insurance contracts is measured as the best estimate of the present value of expected future payments for claims incurred at the balance date. A risk margin is added to allow for the inherent uncertainty in the best estimate and to increase the probability that the liability is adequately provided for.

The liability includes an allowance for inflation and superimposed inflation and is discounted to present value using a risk-free rate.

Claims incurred at the balance date comprise:

- claims which have been reported but not yet paid;
- claims incurred but not yet reported;
- claims incurred but not enough reported; and
- the anticipated direct and indirect costs of settling these claims.

Outstanding claims are determined by the appointed actuary in accordance with actuarial and prudential standards.

Provision has been made for the estimate of claim recoveries from third parties in respect of general insurance business.

Liability adequacy testing is performed in order to ascertain any deficiencies in profit and loss arising from the carrying amount of the unearned premium liability less any related deferred acquisition costs and intangible assets not meeting the estimated future claims under current insurance conditions. Any deficiency is taken to the profit and loss and written off against any deferred acquisition costs. Liability adequacy is performed at a portfolio level of contracts that are subject to broadly similar risks and are managed together as a single portfolio.

Assets backing general insurance contract liabilities

These assets are measured on a basis that is consistent with the measurement of the liabilities, to the extent permitted under accounting standards. The Group has identified its investments in Pinesmart Forestry Partnership, Fidelity Life Assurance Company Limited and funds under management as assets backing general insurance contract liabilities.

As general insurance contract liabilities are measured as described in these accounting policies, assets backing such liabilities are measured at fair value, to the extent permitted under accounting standards. Realised and unrealised gains and losses arising from changes in the fair value are recognised in profit and loss, to the extent permitted under accounting standards. The accounting policies for individual asset classes, and any restrictions on application of fair value, are described in the statement of accounting policies.

Claims expense

Claims expenses in respect of general insurance contracts are recognised in profit and loss either as claims are incurred or as movements in outstanding claims owing.

Policy acquisition costs

Policy acquisition costs comprise the costs of acquiring new business, including commission, advertising, policy issue and underwriting costs, agency expenses and other sales costs. Acquisition costs incurred in obtaining general insurance contracts are deferred and recognised as assets where they can be reliably measured and where it is probable that they will give rise to premium revenue that will be recognised in subsequent reporting periods.

Deferred acquisition costs are amortised systematically in accordance with the expected pattern of the incidence of risk under the general insurance contracts to which they relate. This pattern of amortisation corresponds to the earning pattern of the corresponding premium revenue.

Outwards reinsurance

Premiums ceded to reinsurers under reinsurance contracts are recorded as an outwards reinsurance expense and are recognised over the period of indemnity of the reinsurance contract. Accordingly, a portion of outwards reinsurance premium is treated at balance date as a prepayment, and netted off against reinsurance creditors.

Loans and advances

Loans and advances are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and not classified as available-for-sale. The loans and advances are initially measured at fair value including transaction costs that are directly attributable to the issue of the loan or advance. They are subsequently measured at amortised cost using the effective interest method, less any impairment loss. They are derecognised when the rights to receive cash flows have expired or the Group has transferred substantially all the risks and rewards of ownership.

Asset quality

Past due assets

Past due assets are loans and receivables in which a customer has failed to make payment contractually due within their key terms, and which are not impaired assets.

Impaired assets

Impaired assets consist of restructured assets, assets acquired through the enforcement of security and other impaired assets.

Restructured assets are loans and receivables that would otherwise be past due or impaired assets whose terms have been renegotiated.

Assets acquired through the enforcement of security are those real estate or other assets acquired in full or partial satisfaction of a debt.

Other impaired assets means any loans and receivables for which an impairment loss is required as all amounts owing are not expected to be collected from the customer.

Provision for impairment

Loans and receivables are reviewed at each balance date to determine whether there is any objective evidence of impairment. Loans and receivables which are identified as being impaired assets are presented net of specific provisions to reduce the carrying amounts to their recoverable amounts. The recoverable amounts are calculated as the present value of the expected future cash flows discounted at the customer's original effective interest rate, and include expected proceeds from the sale of collateral held as security where appropriate.

Loans and receivables which are either past due assets or are not impaired assets are presented net of a collective provision to reduce the carrying amount of the portfolio to its estimated recoverable amount. The collective provision relates to incurred losses not yet specifically identified in the portfolio based on previous experience.

When a loan is known to be uncollectible and the final loss has been determined, the loan is written off directly to profit and loss.

Premium revenue

Premium revenue is recognised in the period in which the premiums are earned during the term of the contract that matches the incidence of risk. The proportion of premiums not earned in the profit and loss at the reporting date is recognised in the balance sheet as provision for unearned premiums.

Interest income and expense

The effective interest method is used to measure the interest income or expense recognised in the profit and loss. The effective interest method is a method of calculating the amortised cost of a financial asset or liability and of allocating the interest income or interest expense over the relevant period to provide a constant yield to maturity.

Loan establishment fees and expense

Fees and direct costs relating to loan establishment or restructuring are deferred and amortised to fee income or operating expenses over the expected life of the loan using the effective interest method.

Other fee income

Fees relating to specific transactions or events are recognised in the profit and loss when the service is provided to the customer.

Commission expense

Commissions paid to dealers and brokers for the referral of loans and investments are deferred and amortised to operating expenses over the term of the loan or investment using the effective interest method.

Dividend income

Revenue is recognised when the right to receive payment is established. Dividends are recorded as income at the date the shares become "ex-dividend".

Property, plant and equipment

Recognition and measurement

Items of property, plant and equipment are measured at cost less accumulated depreciation and impairment losses.

Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Subsequent costs

The cost of replacing part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. The costs of the day-to-day servicing of property, plant and equipment are recognised in the profit and loss as incurred.

Depreciation

Depreciation is calculated using either the diminishing value method or the straight line method. Land is not depreciated. The estimated depreciation rates for the current and comparative periods, along with depreciation method, are as follows:

Buildings	Straight line basis over their estimated economic life
Leasehold improvements	20% straight line or the term of the lease
Furniture and office equipment	20% diminishing value
Computer equipment	25% straight line
Motor vehicles	20% straight line
Capital work in progress	Not depreciated until the asset is commissioned

Intangible assets

Intangible assets that are acquired by the Group, which have finite useful lives, are measured at cost less accumulated amortisation and accumulated impairment losses.

Subsequent expenditure

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates.

Amortisation

Amortisation is recognised in the profit and loss on a straight-line basis over the estimated useful lives of intangible assets, other than goodwill, from the date that they are available for use. The estimated depreciation rates for the current and comparative periods are as follows:

Software	30% straight line
Client database	30% straight line

Biological assets

Biological assets are measured at their fair value less estimated point-of-sale costs, with any change therein recognised in profit or loss. The fair value of the Forests is determined by an independent valuer, based on the estimated future revenue (net of all harvesting costs) from the sale of logs, which is then discounted to the present day. A 9% discount rate (applied to pre-tax cash flow) has been used. Point-of-sale costs include all costs that would be necessary to sell the assets.

Leases

The determination of whether an arrangement is or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependant on the use of the specific asset or assets and the arrangement conveys a right to use the asset.

The Group has not entered into any finance leases.

All leases are classed as operating leases and the leased assets are not recognised on the Group's balance sheet. Lease payments are recognised on a systematic basis in the profit and loss.

Trade and other receivables

Trade and other receivables are initially recognised at their fair value. Subsequent recognition is at the amortised cost using the effective interest method.

Cash and cash equivalents

Cash and cash equivalents includes cash on hand and deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and bank overdrafts. Bank overdrafts are shown within borrowings on the balance sheet.

Derivative financial instruments

The Group uses derivative financial instruments to economically hedge its exposure to foreign exchange rate risks arising from operational, financing and investment activities (such as forward rate agreements, futures and options). The Group also holds derivative financial instruments for trading purposes. No hedge accounting is undertaken by the group.

Derivative financial instruments are recognised initially at fair value and transaction costs are expensed immediately. Subsequent to initial recognition, derivative financial instruments are stated at fair value. The gain or loss on remeasurement to fair value is recognised immediately in the profit and loss.

STATEMENT OF ACCOUNTING POLICIES

for the year ended 31 March

Equity securities

Equity securities are financial assets designated at fair value through the profit and loss and are initially recognised at fair value. Initial fair value is determined as the purchase cost of the asset, exclusive of any transaction costs. Equity securities are subsequently measured at fair value with any realised and unrealised gains or losses arising from changes in the fair value being recognised in the profit and loss in the period in which they arise.

Debt securities

Debt securities are financial assets designated at fair value through the profit and loss and are initially recognised at fair value. Initial fair value is determined as the purchase cost of the asset exclusive of any transaction costs. For debt securities, initial fair value is determined as the purchase cost of the asset.

Debt securities are subsequently measured at fair value, with any realised and unrealised gains or losses arising from changes in the fair value being recognised in the profit and loss for the period in which they arise.

Fair value estimation

The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date. The quoted market price used for financial assets held by the Group is the current bid price, the quoted market price for financial liabilities is the current offer price.

The fair value of financial instruments not traded in an active market is determined using valuation techniques. Valuation techniques include net-present-value techniques, discounted cash-flow methods and comparison to quoted market prices or dealer quotes for similar instruments. Inputs to the models are market observable.

Impairment of assets

Assets measured at fair value (like equity and debt securities and derivatives), where changes in value are reflected in the profit and loss, are not subject to impairment testing. Other assets such as property, plant and equipment, intangibles, loans and receivables, investments in subsidiaries, associates and joint ventures are subject to impairment testing.

Assets that have an indefinite useful life are not subject to amortisation but are tested at least annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognised in the profit and loss, being the amount by which the carrying amount of an asset exceeds its recoverable amount. The recoverable amount is the higher of an asset’s fair value (including realisation costs) and its value in use.

Recognition and derecognition of financial instruments

Financial assets are recognised at trade date. Financial assets are derecognised when the contractual rights to the cash flows from the financial assets expire, or are transferred. A transfer occurs when substantially all the risks and rewards of ownership of the financial asset are passed to an unrelated third party. Financial liabilities are derecognised when the obligation specified in the contract is discharged, cancelled or expires.

Foreign currency

Transactions in foreign currencies are translated to the respective functional currencies of Group entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the period. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Foreign currency differences arising on retranslation are recognised in the profit and loss.

Income tax expense

Income tax expense comprises current and deferred tax.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which temporary differences can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Borrowings
On initial recognition Borrowings are measured at fair value less directly attributable transaction costs. Subsequent to initial recognition Borrowings are recognised at amortised cost. Interest on borrowings is accrued and recognised in Other Liabilities using the effective interest method.

Payables
These amounts represent liabilities for goods and services provided to the Group prior to the end of the financial year which are unsettled. Payables are stated at cost as the impact of discounting is immaterial due to their short term nature.

Provisions
Provisions are only recognised when the Group has a present legal or constructive obligation as a result of a past event or decision, and it is more likely than not that an outflow of resources will be required to settle the obligation. Provisions are recognised at the best estimate of future cash flows discounted to present value where the effect is material.

Employee entitlements
Provision is made for employee entitlements for services rendered up to the balance date. This includes salaries, wages, bonuses, annual leave and long service leave. Liabilities arising in respect of employee entitlements expected to be settled within 12 months of the reporting date are measured at their nominal amounts. All other employee entitlements are measured at the present value of the estimated future cash outflows to be made in respect of services provided up to the balance date.

GST
All revenues, expenses and assets are recognised net of goods and services taxes (GST) except where the GST is not recoverable. In these circumstances the GST is included in the related asset or expense. Receivables and payables are reported inclusive of GST. The net GST payable to or recoverable from the tax authorities as at balance date is included as a receivable or payable in the balance sheet.

Cash flows are included in the statement of cash flows on a net basis.

Statement of cash flows
The statement of cash flows is prepared exclusive of GST, which is consistent with the method used in the profit and loss. The following are definitions of the terms used in the statement of cash flows:

- Cash is considered to be cash on hand and current accounts in banks, net of overdrafts;
- Investing activities are those relating to the acquisition, holding and disposal of property, plant and equipment and of investments;
- Financing activities are those activities which result in changes in the size and composition of the capital structure of the Group. This includes debt not falling within the definition of cash;
- Operating activities include all transactions and other events that are not investing or financing activities.

Reinsurance recoveries
Reinsurance assets represent balances due from reinsurance companies. Amounts recoverable from reinsurers are estimated in a manner consistent with the outstanding claims provision or settled claims associated with the reinsurer's policies and are in accordance with the related reinsurance contract.

Reinsurance assets are reviewed for impairment at each reporting date or more frequently when an indication of impairment arises during the reporting year. Impairment occurs when there is objective evidence as a result of an event that occurred after initial recognition of the reinsurance asset that the Group may not receive all outstanding amounts due under the terms of the contract and the event has a reliably measurable impact on the amounts that the Group will receive from the reinsurer. The impairment loss is recorded in the income statement.

STATEMENT OF ACCOUNTING POLICIES

for the year ended 31 March

Critical accounting judgements and estimates

The Group makes estimates and assumptions in respect of certain key assets and liabilities. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The key areas where critical accounting estimates and assumptions are applied are noted below.

Claims liabilities under general insurance contracts

Provision is made at the end of the year for the estimated cost of claims incurred but not settled at the balance sheet date, including the cost of claims incurred but not yet reported to the Group.

The estimated cost of claims includes direct expenses to be incurred in settling claims gross of the expected value of salvage and other recoveries. The Group takes all reasonable steps to ensure that it has appropriate information regarding its claims exposures. However, given the uncertainty in establishing claims provisions, it is likely that the final outcome will prove to be different from the original liability established.

The estimation of claims incurred but not reported ("IBNR") is generally subject to a greater degree of uncertainty than the estimation of the cost of settling claims already notified to the Group, where more information about the claim event is generally available. IBNR claims may often not be apparent until many years after the events giving rise to the claims has happened. In calculating the estimated cost of unpaid claims the Group uses a variety of estimation techniques, generally based on statistical analyses 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 or which may cause the cost of unsettled claims to increase or reduce when compared with the cost of previously settled claims including:

- changes in Group processes which might accelerate or slow down the development and/or recording of paid or incurred claims, compared with statistics from previous periods;
- changes in the legal environment;
- the effects of inflation;
- changes in the mix of business;
- the impact of large losses;
- movements in industry benchmarks;
- medical and technological developments.

A component of these estimation techniques is usually the estimation of the cost of notified but not paid claims. In estimating the cost of these the Group has regard to the claim circumstances as reported, any information available from loss adjusters and information on the cost of settling claims with similar characteristics in previous periods.

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.

Further information is contained in notes 7 and 8.

Biological assets

The fair value of the younger standing timber, is based on the net present value of both Hillcrest Forest and Beehive Creek Forest based on a theoretical economic model and using a pre-tax discount rate of 9%, net of harvesting costs. As at 31 March 2013 the forest assets are held as available for sale per IFRS 5 *Non-Current Assets Held for Sale and Discontinued Operations*.

Further information is contained in note 13.

Recovery of deferred tax assets

Deferred tax assets are recognised for deductible temporary differences that it is probable that future taxable profits will be available to utilise those temporary differences.

Investment in Fidelity Life Limited

The shares in Fidelity Life Limited are not listed and are not traded in an active market. The shares are valued by an independent third party during the year using a valuation based on a price earnings multiple (using comparable companies) and the estimated future maintainable earnings of the company. FMG updates this valuation at balance date to ensure the carrying value is still appropriate.

Further information is contained in note 5.

STATEMENT OF ACCOUNTING POLICIES
for the year ended 31 March

Change in accounting policies

The financial statements have been updated to reflect all new standards and interpretations issued since we published the 31 March 2012 statements. The following standards and interpretations have been applied for the first time in 2013, resulting in consequential changes to the accounting policies and other note disclosures. No material adjustments have been made as a result of these changes.

FRS 44 New Zealand Additional Disclosures (effective for periods commencing 1 January 2012)

FRS 44 is a consequence of the joint Trans-Tasman Convergence project of the Australian Accounting Standards Board (AASB) and Financial Reporting Standards Board (FRSB).

This standard relocates New Zealand specific disclosures from other standards to one place and revises disclosures in the following areas:

a) Compliance with NZ IFRS

b) The statutory basis or reporting framework for financial statements

c) Audit fees

d) Imputation credits

e) Reconciliation of net operating cash flow to profit (loss)

f) Prospective financial statements

g) Elements in the statement of service performance

Amendments to NZ IFRS to Harmonise with IFRS and Australian Accounting Standards (NZ IAS 1, 7, 8, 12, 16, 20, 28, 31, 34 & 40) (effective for periods commencing 1 January 2012)

These amendments:

a) Remove the disclosures which have been relocated to FRS 44

b) Harmonise audit fee disclosure requirements in NZ IFRS 1 with AASB 101

c) Harmonise imputation/franking credits' disclosure requirements in NZ IAS 12 with AASB 101

d) Introduce of the option to use the indirect method of reporting cash flows in NZ IAS 7

e) Introduce an accounting policy choice to use the cost model for investment property under NZ IAS 40

f) Remove the requirement to use an independent valuer and the related disclosure requirements currently in NZ IAS 16 and NZ IAS 40

g) Remove some NZ-specific disclosures.

STATEMENT OF ACCOUNTING POLICIES

for the year ended 31 March

New standards and interpretations not yet adopted

NZ IFRS 9 (2010) Financial Instruments (for periods commencing 1 January 2015)

NZ IFRS 9 (2010) supersedes NZ IFRS 9 (2009). The requirements for classifying and measuring financial liabilities were added to NZ IFRS 9 as issued in 2009. The existing NZ IAS 39 Financial Instruments: Recognition and Measurement requirements for the classification of financial liabilities and the ability to use the fair value option have been retained. However, where the fair value option is used for financial liabilities, the change in fair value is accounted for as follows:

The change attributable to changes in credit risk are presented in other comprehensive income (OCI). The remaining change is presented in profit or loss.

If this approach creates or enlarges an accounting mismatch in the profit or loss, the effect of the changes in credit risk are also presented in profit or loss.

NZ IFRS 9 (2009) includes requirements for the classification and measurement of financial assets resulting from the first part of Phase 1 of the IASB's project to replace NZ IAS 39.

NZ IFRS 9 (2009) Financial Instruments (for periods commencing 1 January 2015)

These requirements improve and simplify the approach for classification and measurement of financial assets compared with the requirements of NZ IAS 39. The revised Standard introduces a number of changes to the accounting for financial assets, the most significant of which includes:

- Two categories for financial assets being amortised cost or fair value
- Removal of the requirement to separate embedded derivatives in financial assets
- Strict requirements to determine which financial assets can be classified as amortised cost or fair value. Financial assets can only be classified as amortised cost if (a) the contractual cash flows from the instrument represent principal and interest and (b) the entity's purpose for holding the instrument is to collect the contractual cash flows
- An option for investments in equity instruments which are not held for trading to recognise fair value changes through other comprehensive income with no impairment testing and no recycling through profit or loss on derecognition
- Reclassifications between amortised cost and fair value no longer permitted unless the entity's business model for holding the asset changes
- Changes to the accounting and additional disclosures for equity instruments classified as fair value through other comprehensive income.

Adopting this standard is not expected to have a material impact on the numbers presented in the Group financial statements.

NZ IFRS 13 Fair Value Measurement (for period commencing 1 January 2013)

NZ IFRS 13 establishes a single source of guidance under NZ IFRS for determining the fair value of assets and liabilities. NZ IFRS 13 does not change when an entity is required to use fair value, but rather, provides guidance on how to determine fair value under NZ IFRS when fair value is required or permitted by NZ IFRS. Application of this guidance may result in different fair values being determined for the relevant assets.

NZ IFRS 13 also expands the disclosure requirements for all assets or liabilities carried at fair value. This includes information about the assumptions made and the qualitative impact of those assumptions on the fair value determined.

Adopting this standard is not expected to have a material impact on the numbers presented in the Group financial statements.

NZ IFRS 28 Investments in Associates and Joint Ventures (for period commencing 1 January 2013)

NZ IAS 28 Investments in Associates and Joint Ventures (as amended in 2011) supersedes NZ IAS 28 Investments in Associates (2004), as a result of the issue of NZ IFRS 11 Joint Arrangements and NZ IFRS 12 Disclosure of Interests in Other Entities.

NZ IAS 28 (as amended in 2011) prescribes the accounting for investments in associates and sets out the requirements for the application of the equity method when accounting for investments in associates and joint ventures. Disclosure requires relating to these investments are now contained in NZ IFRS 12.

Adopting this standard is not expected to have a material impact on the numbers presented in the Group financial statements.

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 March

1. Revenue

	Group 2013 $000	Group 2012 $000	Parent 2013 $000	Parent 2012 $000
a) General insurance revenue				
Gross earned premiums	**159,840**	141,995	**123,374**	111,487
Reinsurance and other recoveries revenue	**17,573**	39,202	**15,313**	30,999
Investment revenue:				
Dividends – other entities	**393**	385	**393**	379
Interest income – other entities	**573**	448	**506**	500
Movement in financial assets at fair value through profit and loss	**15,871**	8,419	**13,067**	6,669
Other investment revenue	**-**	-	**-**	-
Total investment revenue	**16,837**	9,252	**13,966**	7,548
Fee income and other revenue	**5,977**	4,347	**4,581**	3,000
Total general insurance revenue	**200,227**	194,796	**157,234**	153,034
b) Finance activities revenue				
Interest income:				
Interest income on lending	**414**	992	**-**	-
Interest income on bank deposits	**19**	6	**-**	-
Interest income on individually impaired assets	**-**	16	**-**	-
Total interest income	**433**	1,014	**-**	-
Other finance income:				
Fee income	**4**	42	**-**	-
Total other finance income	**4**	42	**-**	-
Total financial activities revenue	**437**	1,056	**-**	-
Total revenue	**200,664**	195,852	**157,234**	153,034

2. Other expenses

Other insurance and operating expenses includes:				
Loss on disposal of property, plant and equipment	**83**	44	**83**	42
Operating lease rental expenses	**3,238**	2,509	**3,198**	2,461
Employee expenses	**31,040**	26,668	**30,989**	26,482
Depreciation on property, plant and equipment	**1,752**	1,215	**1,752**	1,215
Amortisation on intangible assets	**450**	348	**450**	348
Directors' fees	**263**	258	**263**	258
Donations	**-**	3	**-**	3
Auditors' remuneration – audit	**151**	150	**86**	70
Auditors' remuneration – taxation services	**11**	65	**11**	38
Auditors' remuneration – quality assurance and prudential regulation review	**99**	129	**99**	129
Auditors' remuneration – other	**13**	-	**13**	-

3. Income tax

	Group	Group	Parent	Parent
	2013	2012	2013	2012
	$000	$000	$000	$000
a) Income tax expense from continuing operations				
Current tax	9,743	3,011	7,852	3,325
Deferred tax expense	25	363	(31)	21
Effect of tax rate change	-	-	-	-
(Over)/under provided in prior years	289	(172)	255	(172)
Income tax expense/(credit) for the year from continuing operations	10,057	3,202	8,076	3,174
b) Amounts charged or credited directly to equity				
Current tax expense/(income)	-	-	-	-
Deferred tax expense/(income)	-	-	-	-
Income tax benefit reported in equity	-	-	-	-
c) Analysis of taxation expense/(credit) – continuing and discontinued operations				
Continuing operations	10,057	3,202	8,076	3,174
Income tax expense/(credit) for the year	10,057	3,202	8,076	3,174
d) Numerical reconciliation of income tax expense/(credit) to prima facie tax payable				
Profit/(loss) before taxation				
Continuing operations	41,314	11,713	33,140	11,394
Total profit/(loss) before taxation	41,314	11,713	33,140	11,394
Prima facie income tax @ 28%	11,568	3,279	9,279	3,190
Tax effect of amounts which are non-deductible expenses/non-assessable revenue:				
Non-assessable income and other items	(2,674)	(233)	(2,020)	(161)
Non-deductible expenses and other items	1,084	134	812	470
Imputation credits on dividends	(203)	(157)	(186)	(145)
Withholding tax	(27)	(11)	(27)	(11)
Foreign dividend withholding tax	(7)	(20)	(6)	(17)
Deferred tax expense/(credit)	25	382	(31)	20
(Over)/under provided in prior years	291	(172)	255	(172)
Income tax expense/(credit) for the year	10,057	3,202	8,076	3,174
e) Imputation credit account				
Balance at the beginning of the year	49,286	46,826	47,854	45,303
Net taxation paid/(refunded)	5,958	2,315	5,958	2,406
Imputation credit attached to dividends received and dividends paid	186	145	186	145
Balance at the end of the year	55,430	49,286	53,998	47,854

4. Cash and cash equivalents

	Group	Group	Parent	Parent
	2013	2012	2013	2012
	$000	$000	$000	$000
Cash at bank and in hand	20,713	20,879	5,011	12,861
Short-term deposits	-	-	-	-
Total cash and cash equivalents	**20,713**	20,879	**5,011**	12,861
a) Reconciliation to cash at the end of the year The above figures are reconciled to cash at the end of the financial year as shown in the Statement of Cash Flows as follows:				
Balances as above	20,713	20,879	5,011	12,861
Balance per Statement of Cash Flows	**20,713**	20,879	**5,011**	12,861
b) Reconciliation of profit to net cash flows from operating activities				
Profit for the year	31,257	8,511	25,064	8,220
Associated entity (profit)/loss	(151)	(131)	(151)	(131)
Non-controlling interest share of (profit)	-	(18)	-	-
Profit for the year excluding associates and non-controlling interests	31,106	8,362	24,913	8,089
Adjustments for non cash items				
Amortisation	449	356	449	356
Depreciation	1,753	1,215	1,753	1,215
Impairment to assets	-	-	-	(343)
Movement in deferred tax	(129)	498	(217)	147
Movement in unearned premium	5,415	6,595	3,360	5,757
Movement in outstanding claims	(20,747)	37,306	(19,683)	22,842
Movement in bad debts provision	(166)	(428)	(170)	185
Movement in deferred acquisition costs	-	-	-	(255)
Movement in make good provision	5	4	5	4
Unrealised investment loss/(gain)	(15,915)	(5,867)	(12,934)	(4,484)
Unrealised forex (gain)/loss	-	(138)	-	(115)
	(29,335)	39,541	(27,437)	25,309
Movements in other working capital items				
Movement in accounts receivable	6,597	(35,558)	4,745	(19,294)
Movement in accounts payable	473	4,407	52	4,516
Movement in accrued leave/bonuses	(1,055)	644	(366)	644
Movement in taxation recoverable	4,205	534	1,986	1,960
	10,220	(29,973)	6,417	(12,174)
Items classified as investing activities				
Net loss/(gain) on sale of property, plant and equipment	83	44	83	44
Net (gain)/ loss on sale of investments	-	(1,868)	-	(1,514)
Dividends received	(393)	(385)	(393)	(377)
Foreign exchange contract (gain)/loss	114	(759)	93	(787)
Interest received from investments	(555)	540	(506)	501
	(751)	(2,428)	(723)	(2,133)
Net cash flows from operating activities	**11,240**	15,502	**3,170**	19,091

5. Other financial assets

	Group	Group	Parent	Parent
	2013	2012	2013	2012
	$000	$000	$000	$000
Equity securities				
Investments in unlisted New Zealand companies	14,840	14,287	14,840	14,287
Total equity securities	14,840	14,287	14,840	14,287
Unit trust investments				
New Zealand equities	8,412	6,606	6,840	5,364
Offshore equities	35,836	30,627	29,671	25,437
Government and public authority bonds	736	757	220	223
Fixed interest investments – New Zealand	107,965	122,075	90,530	101,416
Fixed interest investments – Offshore	49,922	22,649	41,290	18,730
Total Unit Trusts	202,871	182,714	168,551	151,170
Total other financial assets	217,711	197,001	183,391	165,457

Determination of fair value hierarchy 2013 (b)

	Group				Parent			
	Level 1	Level 2	Level 3	Total fair value	Level 1	Level 2	Level 3	Total fair value
	$000	$000	$000	$000	$000	$000	$000	$000
Financial Assets designated as fair value through profit and loss:								
Equity securities	-	-	14,840	14,840	-	-	14,840	14,840
Unit trust investments	-	202,871	-	202,871	-	168,551	-	168,551
	-	202,871	14,840	217,711	-	168,551	14,840	183,391
Total financial assets	-	202,871	14,840	217,711	-	168,551	14,840	183,391

Determination of fair value hierarchy 2012 (b)

	Group				Parent			
	Level 1	Level 2	Level 3	Total fair value	Level 1	Level 2	Level 3	Total fair value
	$000	$000	$000	$000	$000	$000	$000	$000
Financial Assets designated as fair value through profit and loss:								
Equity securities	-	-	14,287	14,287	-	-	14,287	14,287
Unit trust investments	-	182,714	-	182,714	-	151,170	-	151,170
	-	182,714	14,287	197,001	-	151,170	14,287	165,457
Total financial assets	-	182,714	14,287	197,001	-	151,170	14,287	165,457

5. Other financial assets (continued)

Included in the level 1 category are financial assets and liabilities that are measured by reference to published quotes in an active market. A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency and those prices represent actual and regularly occurring market transactions on an arm's length basis.

Level 2 financial assets and liabilities are measured using a valuation technique based on assumptions that are supported by prices from observable current market transactions are assets and liabilities for which pricing is obtained via pricing services but where prices have not been determined in an active market, financial assets with fair values based on broker quotes, investments in private equity funds with fair values obtained via fund managers and assets that are valued using the Group's own models whereby the majority of assumptions are market observable.

Level 3 financial assets are valued based on non market observable inputs meaning that fair values are determined in whole or in part using a valuation technique (model) based on assumptions that are neither supported by prices from observable current market transactions in the same instrument nor are they based on available market data. The main asset classes in this category are unlisted equity investments and limited partnerships. Valuation techniques are used to the extent that observable inputs are not available, thereby allowing for situations in which there is little, if any, market activity for the asset or liability at the measurement date. However, the fair value measurement objective remains the same, that is, an exit price from the perspective of the Group. Therefore, unobservable inputs reflect the Group's own assumptions about the assumptions that market participants would use in pricing the asset or liability (including assumptions about risk). These inputs are developed based on the best information available, which might include the Group's own data.

During the year there were no transfers between categories.

Reconciliation of movements in level 3 instruments measured at fair value (c)

Financial asset designated at fair value through profit and loss 2013 – Group and Parent

	As at April 1 2012	Total gain/ (loss) in profit and loss	Total gain/ loss recorded in other comprehensive income	Purchases	Sales	Transfer from level 1 and 2	As at 31 March 2013	Total gains or losses for the period included in profit or loss for assets held at 31 March 2013
	$000	$000	$000	$000	$000	$000	$000	$000
Equity securities	14,287	553	-	-	-	-	14,840	553
	14,287	**553**	**-**	**-**	**-**	**-**	**14,840**	**553**

Financial asset designated at fair value through profit and loss 2012 – Group and Parent

	As at April 1 2011	Total gain/ (loss) in profit and loss	Total gain/ loss recorded in other comprehensive income	Purchases	Sales	Transfer from level 1 and 2	As at 31 March 2012	Total gains or losses for the period included in profit or loss for assets held at 31 March 2012
	$000	$000	$000	$000	$000	$000	$000	$000
Equity securities	14,073	(763)	-	977	-	-	14,287	(763)
	14,073	**(763)**	**-**	**977**	**-**	**-**	**14,287**	**(763)**

Sensitivity of level 3 financial instruments to changes in key assumptions (d)

	Carrying value at 31 March 2013	**Effect of reasonably possible alternate assumptions (+/-)**
	$000	$000
Equity securities	14,840	2,069
	14,840	**2,069**

5. Other financial assets (continued)

For equities, the Group adjusted the average price earnings ratio. The adjustment made was to increase and decrease the assumed price earnings ratio by one, which is considered by the Group to be within a range of reasonably possible alternatives based on price earnings ratios of companies with similar industry and risk profiles.

6. Loans and receivables

	Group	Group	**Parent**	Parent
	2013	2012	**2013**	2012
	$000	$000	**$000**	$000
Gross loans and receivables	**2,523**	6,485	**-**	-
Allowance for collective impairment	**(453)**	(614)	**-**	-
Allowance for individual impairment	**(26)**	(91)	**-**	-
Net loans and receivables	**2,044**	5,780	**-**	**-**
Current portion of Gross Loans and Receivables	**2,106**	5,886	**-**	-
Non-current portion of Gross Loans and Receivables	**417**	599	**-**	-
Gross Loans and Receivables	**2,523**	6,485	**-**	-

7. Underwriting provisions and reinsurance and other recoveries

Underwriting provisions comprise:				
Liability for outstanding claims				
Expected future claim payments (undiscounted)	**73,664**	93,957	**49,497**	68,898
Discount to present value	**(1,729)**	(1,275)	**(1,304)**	(1,022)
	71,935	92,682	**48,193**	67,876
Provision for unearned premiums	**66,326**	60,911	**49,611**	46,251
Underwriting provisions	**138,261**	153,593	**97,804**	114,127
Current	**105,679**	143,372	**75,712**	106,642
Non-current	**32,582**	10,221	**22,092**	7,485
	138,261	153,593	**97,804**	114,127
Provision for reinsurance and other recoveries comprise:				
Expected future recoveries (undiscounted)	**(43,904)**	(52,738)	**(26,693)**	(32,349)
Discount to present value	**1,148**	712	**828**	500
Net insurance recoveries	**(42,756)**	(52,026)	**(25,865)**	(31,849)
Current	**(26,100)**	(46,288)	**(15,789)**	(28,337)
Non-current	**(16,656)**	(5,738)	**(10,076)**	(3,512)
	(42,756)	(52,026)	**(25,865)**	(31,849)

The following average inflation rates and discount rates were used in measuring the liability for outstanding claims:

		2013	2012
New Zealand:	Inflation rate	**Implicit**	Implicit
	Discount rate	**2.47% per annum**	2.65% per annum
New Zealand:	Weighted average term to closure	**0.9 years**	0.5 years

8. General insurance contracts

	2013			2012		
	Risks borne in current year	**Risks borne in prior years**	**Total**	Risks borne in current year	Risks borne in prior years	Total
	$000	**$000**	**$000**	$000	$000	$000
(a) Net general insurance claims incurred						
Group :						
Gross claims expense						
Direct claims – undiscounted	**75,218**	**14,952**	**90,170**	92,991	23,556	116,547
Discount	**(502)**	**49**	**(453)**	(573)	94	(479)
Gross claims expense	**74,716**	**15,001**	**89,717**	92,418	23,650	116,068
Reinsurance and other recoveries						
Reinsurance and other recoveries revenue – undiscounted	**(2,768)**	**(15,240)**	**(18,008)**	(3,752)	(26,939)	(30,691)
Discount	**128**	**307**	**435**	47	332	379
Reinsurance and other recoveries	**(2,640)**	**(14,933)**	**(17,573)**	(3,705)	(26,607)	(30,312)
Net claims incurred	**72,076**	**68**	**72,144**	88,713	(2,957)	85,756
Parent :						
Gross claims expense						
Direct claims – undiscounted	**55,701**	**9,712**	**65,413**	71,452	18,759	90,211
Discount	**(379)**	**96**	**(283)**	(507)	281	(226)
Gross claims expense	**55,322**	**9,808**	**65,130**	70,945	19,040	89,985
Reinsurance and other recoveries						
Reinsurance and other recoveries revenue – undiscounted	**(2,623)**	**(13,018)**	**(15,641)**	(3,561)	(23,161)	(26,722)
Discount	**108**	**220**	**328**	35	50	85
Reinsurance and other recoveries	**(2,515)**	**(12,798)**	**(15,313)**	(3,526)	(23,111)	(26,637)
Net claims incurred	**52,807**	**(2,990)**	**49,817**	67,419	(4,071)	63,348

Current year amounts relate to risks borne in the current financial year. Prior period amounts relate to a reassessment of the risks borne in all previous financial years.

	Group	Group	**Parent**	Parent
	2013	2012	**2013**	2012
	$000	$000	**$000**	$000
(b) Analysis of outstanding claims				
Gross central estimate of present value of future claims payment	**68,883**	88,909	**45,916**	64,553
Risk margin	**3,052**	3,773	**2,277**	3,323
Total outstanding claims liability	**71,935**	92,682	**48,193**	67,876
The expected settlement pattern of the outstanding claims liability is as follows:				
Current	**39,353**	82,461	**26,101**	60,391
Non Current	**32,582**	10,221	**22,092**	7,485
Total outstanding claims liability	**71,935**	92,682	**48,193**	67,876

The total liability relates to direct insurance.

8. General insurance contracts (continued)

Assumptions adopted in calculation of general insurance provisions

The effective date of the actuarial report on the Insurance Liabilities is 31 March 2013. The previous assessment of the Insurance Liabilities was performed at 31 March 2012.

The actuarial report was prepared by Tracey Short, a fellow of the NZ Society of Actuaries and the Australian Institute of Actuaries, and reviewed Margaret Cantwell, the appointed actuary, a fellow of the NZ Society of Actuaries and the Australian Institute of Actuaries. The Actuary is satisfied as to the accuracy of the data upon which the calculation of Insurance Liabilities has been made and is satisfied that the accounting provisions held in respect of the insurance liabilities are adequate.

The determination of the Insurance Liabilities has been prepared in accordance with New Zealand International Financial Reporting Standard (NZ IFRS 4) and with the NZ Society of Actuaries Professional Standard No 4 governing technical liability valuations for general insurance business.

The key assumptions used in determining net outstanding claims liabilities are as follows:

	2013	2012
Inflation rate	**Implicit**	Implicit
Discount rate	**2.47%**	2.65%
Claims handling expense ratio – outstanding claims liabilities	**5.0%**	3.5%
Claims handling expense ratio – premium liabilities	**6.5%**	4.4%
Risk margin – outstanding claims liabilities	**11.7%**	10.4%
Risk margin – premium liabilities	**16.8%**	16.9%
Weighted average expected term to settlement	**329 days**	182 days

Inflation rate

Insurance costs are subject to inflationary pressures. Inflation assumptions for all classes of business are based on current economic indicators.

Discount rate

The outstanding claims liability is discounted at the risk free rate. This rate is determined as the average rate for a portfolio of Government Stock that matches the liability cash flows by duration.

Claims handling expense

The estimate of outstanding claims liabilities incorporates an allowance for the future cost of administrating the claims. This allowance is determined after analysing historical claim related expenses incurred by the classes of business.

Process for determining risk margin

The risk margin was determined initially for each portfolio, allowing for the uncertainty of the outstanding claims estimate for each portfolio. Uncertainty was analysed for each portfolio, taking into account:

- past volatility in general insurance claims;
- potential uncertainties relating to the actuarial models and assumptions;
- the quality of the underlying data used in the models;
- the general insurance environment.

The estimate of uncertainty is generally greater for long tail classes when compared to short tail classes due to the longer time until settlement of outstanding claims.

The overall risk margin was determined allowing for diversification between the different portfolios and the relative uncertainty of each portfolio. The assumptions regarding uncertainty for each class were applied to the net central estimates, and the results were aggregated, allowing for diversification, in order to arrive at an overall provision that is intended to have a 75% probability of adequacy.

Weighted average expected term to settlement

Expected payment patterns are used in determining the outstanding claims liability. A decrease in the average term to settlement would lead to claims being paid sooner than anticipated.

8. General insurance contracts (continued)

	Group	Group	Parent	Parent
	2013	2012	**2013**	2012
	$000	$000	**$000**	$000
Reconciliation of movements in assets and liabilities arising from general insurance contracts				
Reinsurance and other recoveries receivable				
Reinsurance and other recoveries receivable at the beginning of the year	**52,026**	45,842	**31,849**	25,572
Reinsurance and other recoveries incurred during the year	**17,573**	30,312	**15,313**	26,637
Reinsurance and other recoveries received during the year	**(26,843)**	(24,128)	**(21,297)**	(20,360)
Reinsurance and other recoveries receivable at the end of the year	**42,756**	52,026	**25,865**	31,849
Outstanding claims liability				
Gross outstanding claims at the beginning of the year	**92,682**	75,607	**67,879**	48,470
Claims incurred during the year	**89,171**	125,402	**65,130**	94,257
Claims payments made during the year	**(109,918)**	(108,327)	**(84,816)**	(74,851)
Gross outstanding claims at the end of the year	**71,935**	92,682	**48,193**	67,876
Reconciliation of outstanding claims to liability for outstanding claims				
Outstanding claims undiscounted	**73,664**	93,957	**49,497**	68,898
Discount	**(1,729)**	(1,275)	**(1,304)**	(1,022)
Total outstanding claims	**71,935**	92,682	**48,193**	67,876

Sensitivity analysis

The impact of change in key variables on the outstanding claims liability is set out below. Each change has been calculated in isolation to other changes. The impact on net profit after tax is the same as the impact on equity.

		2013		2012	
Variable	**Movement**	**Impact on profit after tax (net of reinsurance)**	**Impact on profit after tax (gross of reinsurance)**	Impact on profit after tax (net of reinsurance)	Impact on profit after tax (gross of reinsurance)
		$000	**$000**	$000	$000
Discount rate	Increase of 1%	**160**	**477**	144	327
	Decrease of 1%	**(162)**	**(486)**	(146)	(332)
Claims handling expense ratio	Increase of 1%	**(126)**	**(148)**	(610)	(610)
	Decrease of 1%	**126**	**148**	610	610
Risk margin	Increase of 1%	**183**	**183**	258	258
	Decrease of 1%	**(183)**	**(183)**	(258)	(258)
Weighted average expected term to settlement	Increase 0.5 years	**248**	**611**	370	843
	Decrease 0.5 years	**(251)**	**(618)**	(375)	(854)

c) Risk management policies and procedures

The general insurance business of the Group involves a number of non-financial risks. Notes on the policies and procedures employed in managing these risks in the general insurance business are set out below. Financial risks involving the Group are in notes 23 to 25.

(i) Objectives in managing risks arising from insurance contracts and policies for mitigating those risks

The risk management activities include prudent underwriting, pricing, and management of risk, together with claims management, reserving and investment management. The objective of these disciplines is to enhance the financial performance of the insurance operations.

The key policies in place to mitigate risk arising from writing general insurance contracts include:

- comprehensive management information systems and actuarial models using historical information to calculate premiums and monitor claims;
- monitoring natural disasters such as earthquake, flood, storms and other catastrophes using models;
- the use of reinsurance to limit the Group's exposure;
- prudent investment management to match our liabilities.

8. General insurance contracts (continued)

(ii) Terms and conditions of insurance contracts that have a material effect on amount, timing and uncertainty of cash flows

The terms and conditions attached to insurance contracts affect the level of insurance risk accepted by the Group. There are no special terms and conditions in any non standard contracts that have a material impact on the financial statements.

(iii) Concentration of reinsurance risk

There are no significant concentrations of insurance risk for reinsurance recoveries. Reinsurance contracts are entered into with a number of reinsurers, all with a minimum credit rating of A-. The internal policy is to limit the maximum exposure to a single reinsurer to 30%.

(iv) Development of claims

The following table shows the development of net undiscounted outstanding claims relative to the current estimate of ultimate claims costs for the five most recent years.

				Incident year			
	2008	2009	2010	2011	2012	2013	Total
	$000	$000	$000	$000	$000	$000	$000
Ultimate claims cost estimate							
At end of accident year	71,596	77,951	76,416	128,162	88,170	73,247	
One year later	70,492	76,283	73,325	154,841	89,220		
Two years later	69,366	75,780	73,577	171,631			
Three years later	68,924	75,587	73,418				
Four years later	68,926	75,585					
Five years later	68,737						
Current estimate of ultimate claims cost	68,737	75,585	73,418	171,631	89,220	73,247	
Cumulative payments	68,707	75,566	72,654	130,915	81,639	53,850	
Undiscounted central estimate	30	19	764	40,716	7,581	19,397	68,507
Discount to present value	-	-	(13)	(1,089)	(137)	(437)	(1,676)
Discounted central estimate	30	19	751	39,627	7,444	18,960	66,831
Prior years							79
Claims handling expense							1,973
Risk margin							3,052
Gross outstanding claims liabilities							71,935
Reinsurance recoveries on outstanding claims and other recoveries							(42,756)
Net outstanding claims liabilities							29,179

d) Liability adequacy test

The liability adequacy test has identified a surplus for each portfolio of contracts that are subject to broadly similar risks and are managed together as a single portfolio.

The risk margin adopted in performing the liability adequacy test is 75%. The outstanding claims liability is set at a level that is appropriate and sustainable to cover the Group's claims obligations after having regard to the prevailing market environment and prudent industry practice.

e) Insurer financial strength rating

The Group has a financial strength rating of A (Excellent) as accorded by the international rating agency A M Best Group on 13 June 2012.

f) Reinsurance programme

The Group has a programme of reinsurance contracts to protect its insurance operations from high severity losses and catastrophic events. No inward reinsurance is written by the Group.

Reinsurance is placed to cover losses in excess of the Group's agreed retentions for each class of business, using both automatic treaties and facultative (one-off) placements. Dependent upon the class of business either excess of loss or proportional reinsurance is used.

8. General insurance contracts (continued)

g) General insurance risk

Terms and conditions of insurance

Insurance and reinsurance contracts were written on terms and conditions generally prevailing in the market at the time they were accepted. Such contracts transferred risk by indemnifying the insured and reinsured against the occurrence of specified events.

Concentration of insurance risk

The exposure to concentrations of insurance risk is able to be mitigated with the purchase of reinsurance where management believes that the price / risk transfer is suitable.

9. Trade and other current receivables

	Group	Group	**Parent**	Parent
	2013	2012	**2013**	2012
	$000	$000	**$000**	$000
Trade debtors	**29,510**	27,365	**19,442**	18,520
Reinsurance debtors	**1,030**	558	**1,030**	558
Related party receivables	**-**	-	**165**	1,053
Other receivables	**1,383**	1,231	**1,363**	1,099
Allowance for collective impairment	**(1,263)**	(1,429)	**(884)**	(1,054)
	30,660	27,725	**21,116**	20,176

10. Deferred acquisition costs

Balance at the beginning of the year	**3,954**	3,954	**2,821**	2,566
Acquisition costs deferred during the year	**-**	-	**-**	255
Balance at the end of the year	**3,954**	3,954	**2,821**	2,821
Current	**3,954**	3,954	**2,821**	2,821
	3,954	3,954	**2,821**	2,821

11. Property, plant and equipment

2013 Group	**Land and Buildings**	**Leasehold Improvements**	**Office Equipment**	**Computer Equipment**	**Motor Vehicles**	**Total**
	$000	**$000**	**$000**	**$000**	**$000**	**$000**
Cost						
Balance at the beginning of the year	389	5,935	1,944	4,226	113	12,607
Additions	-	397	35	424	-	856
Disposals	-	(89)	(75)	(4)	-	(168)
Balance at the end of the year	389	6,243	1,904	4,646	113	13,295
Depreciation and impairment losses						
Balance at the beginning of the year	32	2,792	1,423	1,440	13	5,700
Depreciation for the year	-	817	105	808	22	1,752
Impairment loss	-	-	-	-	-	-
Disposals	-	(84)	(65)	(3)	-	(152)
Balance at the end of the year	32	3,525	1,463	2,245	35	7,300
Carrying amounts						
At the beginning of the year	357	3,143	521	2,786	100	6,907
At the end of the year	357	2,718	441	2,401	78	5,995

2012 Group	Land and Buildings	Leasehold Improvements	Office Equipment	Computer Equipment	Motor Vehicles	Total
	$000	$000	$000	$000	$000	$000
Cost						
Balance at the beginning of the year	389	4,025	1,664	3,426	5	9,509
Additions	-	1,910	304	1,040	108	3,362
Disposals	-	-	(24)	(240)	-	(264)
Balance at the end of the year	389	5,935	1,944	4,226	113	12,607
Depreciation and impairment losses						
Balance at the beginning of the year	32	2,229	1,377	1,077	5	4,720
Depreciation for the year	-	563	68	576	8	1,215
Impairment loss	-	-	-	-	-	-
Disposals	-	-	(22)	(213)	-	(235)
Balance at the end of the year	32	2,792	1,423	1,440	13	5,700
Carrying amounts						
At the beginning of the year	357	1,796	287	2,349	-	4,789
At the end of the year	357	3,143	521	2,786	100	6,907

11. Property, plant and equipment (continued)

2013 Parent	Land and Buildings	Leasehold Improvements	Office Equipment	Computer Equipment	Motor Vehicles	Total
	$000	$000	$000	$000	$000	$000
Cost						
Balance at the beginning of the year	72	5,936	1,926	4,129	113	12,176
Additions	-	397	35	424	-	856
Disposals	-	(89)	(75)	(4)	-	(168)
Balance at the end of the year	72	6,244	1,886	4,549	113	12,864
Depreciation and impairment losses						
Balance at the beginning of the year	14	2,794	1,405	1,342	13	5,568
Depreciation for the year	-	817	105	808	22	1,752
Impairment loss	-	-	-	-	-	-
Disposals	-	(84)	(65)	(3)	-	(152)
Balance at the end of the year	14	3,527	1,445	2,147	35	7,168
Carrying amounts						
At the beginning of the year	58	3,142	521	2,787	100	6,608
At the end of the year	58	2,717	441	2,402	78	5,696

2012 Parent						
	$000	$000	$000	$000	$000	$000
Cost						
Balance at the beginning of the year	72	4,026	1,644	3,329	5	9,076
Additions	-	1,910	306	1,040	108	3,364
Disposals	-	-	(24)	(240)	-	(264)
Balance at the end of the year	72	5,936	1,926	4,129	113	12,176
Depreciation and impairment losses						
Balance at the beginning of the year	13	2,231	1,360	980	5	4,589
Depreciation for the year	1	563	67	576	8	1,215
Impairment loss	-	-	-	-	-	-
Disposals	-	-	(22)	(214)	-	(236)
Balance at the end of the year	14	2,794	1,405	1,342	13	5,568
Carrying amounts						
At the beginning of the year	59	1,795	284	2,349	-	4,487
At the end of the year	58	3,142	521	2,787	100	6,608

12. Intangible assets

	Group	Group
	2013	2012
Software	**$000**	$000
Cost		
Balance at the beginning of the year	**24,894**	21,182
Acquisitions – internally developed	**-**	289
Acquisitions – other additions	**9,719**	3,423
Balance at the end of the year	**34,613**	24,894
Amortisation and impairment losses		
Balance at the beginning of the year	**20,758**	20,402
Amortisation for the year	**345**	356
Balance at the end of the year	**21,103**	20,758
Client base		
Cost		
Balance at the beginning of the year	**700**	-
Acquisitions – other additions	**-**	700
Balance at the end of the year	**700**	700
Amortisation and impairment losses		
Balance at the beginning of the year	**-**	-
Amortisation for the year	**105**	-
Balance at the end of the year	**105**	-
Carrying amounts		
At the beginning of the year	**4,836**	780
At the end of the year	**14,105**	4,836

	Parent	Parent
Software		
Cost		
Balance at the beginning of the year	**23,824**	20,112
Acquisitions – internally developed	**-**	289
Acquisitions – other additions	**9,719**	3,423
Balance at the end of the year	**33,543**	23,824
Amortisation and impairment losses		
Balance at the beginning of the year	**19,688**	19,332
Amortisation for the year	**345**	356
Balance at the end of the year	**20,033**	19,688
Client base		
Cost		
Balance at the beginning of the year	**700**	-
Acquisitions – other additions	**-**	700
Balance at the end of the year	**700**	700
Amortisation and impairment losses		
Balance at the beginning of the year	**-**	-
Amortisation for the year	**105**	-
Balance at the end of the year	**105**	-
Carrying amounts		
At the beginning of the year	**4,836**	780
At the end of the year	**14,105**	4,836

Amortisation of intangible assets is included in other insurance and other operating expenses (for finance activities).

13. Biological assets

	Group 2013 $000	Group 2012 $000
Valuation at the beginning of the year	2,297	2,184
Change in fair value less estimated point-of-sale costs	215	113
Valuation at the end of the year	**2,512**	2,297
Obligation to restock	(300)	(290)
Carrying value at the end of the year	**2,212**	2,007

At 31 March 2013 standing timber comprised approximately 362.1 hectares (2012: 362.1 hectares) of pine tree plantations at the two Forests, Hillcrest and Beehive Creek. The Forests were established from Radiata pine seedlings between 1994 and 1998. The projected harvest age is 27-28 years. During the year the Group did not harvest the pine (2012: Nil harvesting).

Both the Hillcrest and Beehive Creek forest developments have been independently valued by Forme Consulting Group Limited, forest industry consultants. The above valuations, as at 31 March 2013, assessed the net present value of Hillcrest Forest and Beehive Creek forests based on a theoretical economic model and using a pre-tax discount rate of 9%.

The Forestry Right requires the Pinesmart Forestry Partnership to restock the land at Hillcrest Forest with Pinus Radiata seedlings immediately following harvesting. The estimated cost of doing this is $300,000 (2012: $290,000), this has been separately assessed by the valuer.

The Group is exposed to a number of risks related to its pine plantations:

Regulatory and environmental risks

The Group is subject to laws and regulations in countries in which it operates. The Group has established environmental policies and procedures aimed at compliance with local environmental and other laws. Management performs regular reviews to identify environmental risks and to ensure that the systems in place are adequate to manage those risks.

Supply and demand risk

The Group is exposed to risks arising from fluctuations in the price and sales volume of pine. Where possible the Group manages this risk by aligning its harvest volume to market supply and demand. Management performs regular industry trend analysis to ensure that the Group's pricing structure is in line with the market and to ensure that projected harvest volumes are consistent with the expected demand.

Climate and other risks

The Group's pine plantations are exposed to the risk of damage from climatic changes, diseases, forest fires and other natural forces. The Group has extensive processes in place aimed at monitoring and mitigating those risks, including regular forest health inspections and industry pest and disease surveys. The Group also insures itself against natural disasters such as floods and hurricanes.

14. Carrying value of shares in subsidiaries

	Parent 2013 $000	Parent 2012 $000
FMG Insurance Limited	20,500	20,500
Pinesmart Forestry Partnership - 100% ownership (2012: 99%)	2,590	2,310
	23,090	22,810

15. Investments in joint ventures

	Group	Group	Parent	Parent
	2013	2012	2013	2012
	$000	$000	$000	$000
Farming House (Bay of Plenty) Partnership				
Ownership interest held %	50%	50%	50%	50%
Carrying value of joint venture	1,160	1,061	1,160	1,061
Current assets	43	16	43	16
Non-current assets	1,144	1,068	1,144	1,068
Total assets	1,187	1,084	1,187	1,084
Current liabilities	12	8	12	8
Non-current liabilities	15	15	15	15
Total liabilities	27	23	27	23
Income	157	144	157	144
Expenses	(6)	(13)	(6)	(13)
(Loss)/Profit for the year	151	131	151	131

16. Deferred tax assets

	Opening balance at 1 April	Assets/ Liabilities held for sale	Charged/ (credited) to profit and loss	Charged to equity	Acquisition/ disposal of subsidiary	Change in tax rate	Closing balance at 31 March
2013 Group							
Movements in deferred tax assets							
Provisions and accruals	4,493	-	2,774	-	-	-	7,267
Unrealised losses	(126)	-	-	-	-	-	(126)
Tax losses	83	5	-	-	-	-	88
Other	10	-	(7)	-	-	-	3
Total deferred tax assets	4,460	5	2,767	-	-	-	7,232
Movement in deferred tax liabilities							
Deferred revenue liability	(4,599)	-	(2,622)	-	-	-	(7,221)
Fair value	(190)	-	(21)	-	-	-	(211)
Other	(51)	-	-	-	-	-	(51)
Total deferred tax liabilities	(4,840)	-	(2,643)	-	-	-	(7,483)
2012 Group							
Movements in deferred tax assets							
Provisions and accruals	3,033	-	1,460	-	-	-	4,493
Unrealised losses	(126)	-	-	-	-	-	(126)
Tax losses	83	-	-	-	-	-	83
Other	9	-	1	-	-	-	10
Total deferred tax assets	2,999	-	1,461	-	-	-	4,460
Movement in deferred tax liabilities							
Deferred revenue liability	(2,468)	-	(2,131)	-	-	-	(4,599)
Fair value	(362)	-	172	-	-	-	(190)
Other	(51)	-	-	-	-	-	(51)
Total deferred tax liabilities	(2,881)	-	(1,960)	-	-	-	(4,840)

16. Deferred tax assets (continued)

	Opening balance at 1 April	Assets/ Liabilities held for sale	Charged/ (credited) to profit and loss	Charged to equity	Acquisition/ disposal of subsidiary	Change in tax rate	Closing balance at 31 March
2013 Parent							
Movements in deferred tax assets							
Provisions and accruals	**4,304**	**-**	**2,840**	**-**	**-**	**-**	**7,144**
Total deferred tax assets	**4,304**	**-**	**2,840**	**-**	**-**	**-**	**7,144**
Movement in deferred tax liabilities							
Deferred revenue liability	**(4,455)**	**-**	**(2,623)**	**-**	**-**	**-**	**(7,078)**
Total deferred tax liabilities	**(4,455)**	**-**	**(2,623)**	**-**	**-**	**-**	**(7,078)**
2012 Parent							
Movements in deferred tax assets							
Provisions and accruals	2,247	-	2,057	-	-	-	4,304
Total deferred tax assets	2,247	-	2,057	-	-	-	4,304
Movement in deferred tax liabilities							
Deferred revenue liability	(2,251)	-	(2,204)	-	-	-	(4,455)
Total deferred tax liabilities	(2,251)	-	(2,204)	-	-	-	(4,455)

17. Trade and other current liabilities

	Group	Group	**Parent**	Parent
	2013	2012	**2013**	2012
	$000	$000	**$000**	$000
Trade creditors	**3,332**	3,634	**3,173**	3,527
Reinsurance creditors	**1,531**	2,686	**1,669**	2,533
Employee benefits	**4,076**	3,021	**1,780**	1,414
Related party creditors	**-**	-	**3,575**	-
Other liabilities	**9,250**	9,430	**10,577**	10,039
	18,189	18,771	**20,774**	17,513
Current	**17,189**	17,771	**19,774**	16,513
Non-current	**1,000**	1,000	**1,000**	1,000
	18,189	18,771	**20,774**	17,513

18. Past due and impaired assets

The following amounts for past due and impaired assets are included in the amounts shown in Note 7.

	Past due assets	Restructured assets	Individually impaired assets	Total
	$000	$000	$000	$000
2013 Group				
Opening balance	242	-	711	953
Plus additions	1,031	-	-	1,031
Less write-offs	-	-	(65)	(65)
Less repayments and deletions	(747)	-	(620)	(1,367)
Net past due and impaired assets	526	-	26	552
2012 Group				
Opening balance	1,136	-	5,262	6,398
Plus additions	4,652	-	72	4,724
Less write-offs	-	-	(2,499)	(2,499)
Less repayments and deletions	(5,546)	-	(2,124)	(7,670)
Net past due and impaired assets	242	-	711	953

Individually impaired assets are held at the net present value of expected future cashflows, based on an assessment of the collateral held and the ability of the customer to make future payments.

	Group	Group
	2013	2012
	$000	$000
Ageing of past due not impaired assets		
Past due 0-90 days	490	205
Past due 90+ days	36	37
	526	242

19. Allowances for impaired assets

	Group	Group	Parent	Parent
	2013	2012	2013	2012
	$000	$000	$000	$000
Allowance for individual impairment				
Balance at the beginning of the year	91	2,317	-	-
Net charge to profit and loss	(65)	(2,226)	-	-
Balance at the end of the year	26	91	-	-
Allowance for collective impairment				
Balance at the beginning of the year	2,043	1,767	1,054	869
Net charged to profit and loss	(327)	276	(170)	185
Balance at the end of the year	1,716	2,043	884	1,054

There was no interest income on impaired financial assets accrued for the current year (2012: nil).

20. Impaired asset expense

	Group 2013 $000	Group 2012 $000	**Parent 2013 $000**	Parent 2012 $000
(Decrease)/Increase in allowance for individual impairment	**(65)**	273	**-**	-
Release of allowance for individual impairment on write-off of bad debts	**(64)**	(2,499)	**-**	-
Net movement in allowance for individual impairment	**(129)**	(2,226)	**-**	-
Interest income on impaired assets	**-**	-	**-**	-
Movement in allowance for collective impairment	**160**	-	**-**	-
Bad debts written off	**64**	2,499	**-**	-
Bad debts recovered	**236**	(18)	**-**	-
Impaired asset expense	**331**	255	**-**	-

21. Make good provision

Opening balance	**141**	137	**141**	137
Increase/(decrease) in provision	**5**	4	**5**	4
Balance at the end of the year	**146**	141	**146**	141

In accordance with the lease agreements of all the FMG's offices, the premises must be restored to their original condition at their respective end of the lease term.

A provision has been recognised in respect of the FMG's obligation to return leased premises to their previous state and is included in the carrying amount of the leasehold improvements. Because of the long term nature of the liability, the greatest uncertainty in estimating the provision is the costs that will ultimately be incurred. The provision has been calculated by a contractor used by FMG to manage lease contracts.

22. Related party transactions

a) Group Holdings

At 31 March 2013 the following percentage shareholdings were held in related entities which, unless stated otherwise, all have balance dates ending on 31 March.

	2013 %	2012 %	**Principal Activities**
Subsidiaries			
FMG Insurance Limited	**100**	100	General Insurance
Pinesmart Forests Partnership	**100**	99	Forestry
Joint Ventures			
Farming House (Bay of Plenty) Partnership	**50**	50	Property Investment

Transactions with related parties have been entered into in the ordinary course of business and undertaken on normal commercial terms.

b) Related party transactions

The Parent charges administration, marketing, and management fees to its subsidiaries. In 2013 this amounted to $8.416m (2012: $8.364m).

The Parent has made loans and advances to certain subsidiaries and has received advances from certain subsidiaries during the year. The Parent has related party payables in 2013 of $3.575m (2012: $0.245m) and receivables of $0.165m (2012: $1.284m). These are interest free and repayable on demand.

The Group has related party receivables of $Nil (2012: $Nil).

22. Related party transactions (continued)

c) Loans to key management personnel*

There have been no loans made to directors of the Group and other key management personnel of the Group, including their personally related parties.

d) Other transactions with key management personnel*

Key management hold various policies and accounts with FMG. These are operated in the normal course of business on normal customer terms.

e) Key management personnel compensation comprised*:

	Group	Group	Parent	Parent
	2013	2012	2013	2012
	$000	$000	$000	$000
Short-term employee benefits	2,599	2,364	2,599	2,364
	2,599	2,364	2,599	2,364

*Key management personnel comprises of Directors and Executive Officers of the Group

23. Credit risk

Insurance Credit Risk

Credit risk relating to insurance contracts relates primarily to:

(a) Premium receivable from individual policyholders. Concentrations of credit risk are considered low due to the large number of customers comprising the customer base and their dispersion across New Zealand;

(b) Reinsurance recoveries receivable, which are discussed further in note 7.

Finance Lending Credit Risk

Credit risk relating to finance lending is the risk that customers to which the Group lends money will default on their repayment obligations resulting in losses being incurred. The financial effect of FMG's credit risk is disclosed in Note 20 Past Due and Impaired Assets. The maximum exposure to credit risk is the carrying amount of net loans and receivables included in the Balance Sheet and undrawn lending commitments.

Credit risk is managed through FMG performing credit evaluations on all customers requesting loans. None of FMG's loan customers have credit ratings. Internal controls are in place to ensure that the FMG staff members performing and/or approving the credit evaluation have the necessary delegated authority for the size of the transaction. Internal controls in place to mitigate credit risk include delegated authority levels, dual signatory requirements, hindsight reviews, segregation of duties between lending, credit control and administration staff, and monthly reporting of credit risk to the Board of Directors and Trustee.

Credit risk in a loan portfolio can be recognised in a number of forms, each of which are discussed below include; Collateral Risk, Geographic Risk and Industry Risk. Undrawn lending commitments are disclosed in note 27.

Other financial assets

With respect to credit risk arising from the other financial assets of the Group, which comprise cash and cash equivalents, financial assets and certain derivative instruments, the Group's exposure to credit risk arises from default of the counter party, with a maximum exposure equal to the carrying amount of these instruments.

23. Credit risk (continued)

Collateral risk

Collateral risk is the risk that a loan may have insufficient security to cover the value of the loan in the event of customer default. All loans are secured against collateral that is satisfactory to the Group's requirements. The Group does not provide unsecured lending in any form.

	Group	Group
	2013	2012
	$000	$000
Security type		
Motor vehicles	**73**	881
Agricultural equipment	**37**	788
Property mortgage	**250**	1,919
Other (a)	**2,163**	2,897
	2,523	6,485

(a) Other includes lending secured by company charges, machinery, aircraft or marine equipment.

Geographic risk

Geographic risk is the risk that significant concentrations of loans are held in a single geographic area, resulting in an increased exposure to economic or environmental impacts in that area. The Group does not lend money outside New Zealand, and the geographic spread within New Zealand is as follows:

	Group	Group
	2013	2012
	$000	$000
Geographic area		
Northland	**51**	102
Waikato	**158**	497
Bay of Plenty	**-**	19
Taranaki	**13**	90
Hawkes Bay	**-**	32
Central	**120**	1,314
Tasman / West Coast	**21**	720
Canterbury	**2,123**	3,573
Otago / Southland	**37**	138
	2,523	6,485

Industry risk

Industry risk is the risk that significant concentrations of loans are held in a single industry, resulting in an increased exposure to the macro-economic effects on that industry. The Group's industry spread is as follows:

	Group	Group
	2013	2012
	$000	$000
Agriculture	**206**	957
Wholesale Trade	**1,750**	3,054
Households	**56**	221
Transport and Storage	**5**	53
Construction	**30**	692
Property	**20**	47
Manufacturing	**-**	132
Retail Trade	**21**	628
Other	**435**	701
	2,523	6,485

24. Market risk

Foreign exchange risk

The Group undertakes transactions denominated in foreign currencies and resulting from these activities, exposures in foreign currency arise. The Group does not apply hedge accounting.

Unit price risk

Unit price risk is the risk that the fair value of investments in unit trusts will decrease as a result of changes in unit prices. The Group holds all of its investments in unit trusts at fair value through the profit and loss.

Unit price risk sensitivity analysis

The following table demonstrates the impact on profit and loss and equity of a reasonably possible change in unit prices prevailing at balance sheet date.

	Group	Group	**Parent**	Parent
	Impact on profit	Impact on equity	**Impact on profit**	Impact on equity
	$000	$000	**$000**	$000
2013				
10% increase in unit prices	**20,287**	20,287	**16,855**	16,855
10% decrease in unit prices	**(20,287)**	(20,287)	**(16,855)**	(16,855)
2012				
10% increase in unit prices	18,271	18,271	15,117	15,117
10% decrease in unit prices	(18,271)	(18,271)	(15,117)	(15,117)

Interest rate risk

Interest rate risk is the risk that the value of the Group's assets and liabilities will fluctuate due to changes in market interest rates. FMG Insurance Limited is exposed to interest rate risk by lending and borrowing at fixed interest rates for differing terms. The Group manages interest rate risk by matching as far as possible the maturities of loans and borrowings. The Group's exposure to interest rate risk is represented by the fair value analysis shown in this note. Loans and receivables and borrowings are shown at amortised cost and as such are not exposed to fair value interest rate risk. Interest rates on loans and receivables and borrowings are not floating and therefore a change in the interest rate will not present a cashflow risk.

Interest rate cash flows risk analysis

	Group	Group	**Parent**	Parent
	Impact on profit after tax	Impact on equity	**Impact on profit after tax**	Impact on equity
	$000	$000	**$000**	$000
2013				
0.25% increase in interest rates	**52**	52	**13**	13
0.25% decrease in interest rates	**(52)**	(52)	**(13)**	(13)
2012				
0.25% increase in interest rates	52	52	32	32
0.25% decrease in interest rates	(52)	(52)	(32)	(32)

25. Liquidity risk

The contractual cashflows of financial assets and liabilities are as follows:

2013 Group	**Weighted average interest rate**	**0-6 months**	**6-12 months**	**12-24 months**	**24-60 months**
	%	**$000**	**$000**	**$000**	**$000**
Bank deposits	**2.50**	**20,713**	-	-	-
Trade and other current receivables		**30,660**	-	-	-
Gross loans and receivables	**10.46**	**519**	**1,184**	**341**	-
Total financial assets		**51,892**	**1,184**	**341**	-
Undrawn lending facilities		***900***	-	-	-
Trade and other current liabilities		**18,189**	-	-	-
Total liabilities		**18,189**	-	-	-
Net financial position		**33,703**	**1,184**	**341**	-
2012 Group					
	%	$000	$000	$000	$000
Bank deposits	2.50	20,879	-	-	-
Trade and other current receivables		27,725	-	-	-
Gross loans and receivables	11.16	3,714	1,531	207	328
Total financial assets		52,318	1,531	207	328
Undrawn lending facilities		*621*	-	-	-
Trade and other current liabilities		18,771	-	-	-
Total liabilities		18,771	-	-	-
Net financial position		33,547	1,531	207	328

25. Liquidity risk (continued)

2013 Parent	Weighted average interest rate	0-6 months	6-12 months	12-24 months	24-60 months
	%	$000	$000	$000	$000
Bank deposits	2.50	5,011	-	-	-
Trade and other current receivables		21,116	-	-	-
Total financial assets		26,127	-	-	-
Trade and other current liabilities		20,774	-	-	-
Total liabilities		20,774	-	-	-
Net financial position		5,353	-	-	-
2012 Parent					
	%	$000	$000	$000	$000
Bank deposits	2.50	12,861	-	-	-
Trade and other current receivables		20,176	-	-	-
Total financial assets		33,037	-	-	-
Trade and other current liabilities		17,513	-	-	-
Total liabilities		17,513	-	-	-
Net financial position		15,524	-	-	-

Capital management

The Group's capital includes retained earnings.

The Group's policy is to maintain a strong equity base so as to maintain members, creditor and market confidence and to sustain future development of the business. The impact of the level of capital on members' return is also recognised and the Parent recognises the need to maintain a balance between the higher returns that might be possible with greater gearing and the advantages and security afforded by a sound capital position

As an insurer licenced under the Insurance (Prudential Supervision) Act 2010, FMG and its subsidiaries are required to maintain a solvency margin of 1. As at 31 March 2013, Farmers' Mutual Group had a solvency margin of 2.33, FMG Insurance Limited's solvency margin was 2.79 and the solvency margin for the Group being both Farmers' Mutual Group and FMG Insurance Limited was 2.47.

The allocation of capital between its specific business segments' operations and activities is, to a large extent, driven by optimisation of the return achieved on the capital allocated. The process of allocating capital to specific business segment operations and activities is undertaken independently of those responsible for the operation.

The Group policies in respect of capital management and allocation are reviewed regularly by the Board of Directors.

The Group manages liquidity risk by maintaining adequate reserves and banking facilities and undrawn funding facilities by continuously monitoring forecast and actual cash flows and matching maturity profiles of financial assets and liabilities. The Group also regularly reviews insurance premiums to ensure they are set at an appropriate level to cover insurance claims.

There have been no material changes in the Group's management of capital during the period.

26. Financial instruments

2013 Group	Designated at fair value through profit or loss	Available for sale	Loans and receivables	Other liabilities amortised cost	Total carrying amount	Fair value
	$000	$000	$000	$000	$000	$000
Assets						
Bank deposits	-	-	20,713	-	20,713	20,713
Loans and receivables	-	-	2,044	-	2,044	2,041
Investments	217,711	-	-	-	217,711	217,711
Trade and other current receivables	-	-	30,660	-	30,660	30,660
Total assets	217,711	-	53,417	-	271,128	271,125
Liabilities						
Trade and other current liabilities	-	-	-	19,867	19,867	19,867
Total liabilities	-	-	-	19,867	19,867	19,867

2012 Group						
	$000	$000	$000	$000	$000	$000
Assets						
Bank deposits	-	-	20,879	-	20,879	20,879
Loans and receivables	-	-	5,780	-	5,780	5,738
Investments	197,001	-	-	-	197,001	197,001
Trade and other current receivables	-	-	27,725	-	27,725	27,725
Total assets	197,001	-	54,384	-	251,385	251,343
Liabilities						
Trade and other current liabilities	-	-	-	18,771	18,771	18,771
Total liabilities	-	-	-	18,771	18,771	18,771

2013 Parent	Designated at fair value through profit or loss	Available for sale	Loans and receivables	Other liabilities amortised cost	Total carrying amount	Fair value
	$000	$000	$000	$000	$000	$000
Assets						
Bank deposits	-	-	5,011	-	5,011	5,011
Investments	183,391	-	-	-	183,391	183,391
Trade and other current receivables	-	-	21,116	-	21,116	21,116
Total assets	183,391	-	26,127	-	209,518	209,518
Liabilities						
Trade and other current liabilities	-	-	-	20,227	20,227	20,227
Total liabilities	-	-	-	20,227	20,227	20,227

2012 Parent						
	$000	$000	$000	$000	$000	$000
Assets						
Bank deposits	-	-	12,861	-	12,861	12,861
Investments	165,457	-	-	-	165,457	165,457
Trade and other current receivables	-	-	20,176	-	20,176	20,176
Total assets	165,457	-	33,037	-	198,494	198,494
Liabilities						
Trade and other current liabilities	-	-	-	17,513	17,513	17,513
Total liabilities	-	-	-	17,513	17,513	17,513

26. Financial instruments (continued)

For financial instruments not presented in the Balance Sheet at their fair value, fair value is estimated using the following methods:

- For loans and receivables and borrowings where the applicable interest rate is fixed, fair value is estimated using discounted cash flow models based on the repayment profile. Discount rates applied in these calculations are based on current market interest rates for loans and receivables or borrowings with similar credit and maturity profiles;
- The fair value calculation of loans and receivables is made after making allowances for the fair value of impaired assets;
- Bank deposits, other assets, related party liabilities and other liabilities are short term in nature and the related carrying amount is equivalent to their fair value.

27. Undrawn lending commitments

The following credit facility limits are committed but not drawn down as at balance date:

	Group	Group	**Parent**	Parent
	2013	2012	**2013**	2012
	$000	$000	**$000**	$000
Undrawn lending commitments	**900**	621	**-**	-

28. Contingent liabilities and future commitments

There are no contingent liabilities at 31 March 2013 (2012: $Nil).

29. Subsequent events

Subsequent to balance date, Fidelity Assurance Company Limited (Fidelity), which the Group owns 11.5% of, entered into an agreement to acquire the life insurance policies of TOWER Life N.Z. Limited. FMG's investment which makes up the investment in Unlisted New Zealand companies disclosed in note 5. The financial impact of this transaction is not known at this time and has not been factored into the valuation as at 31 March 2013.

30. Commitments

Operating lease commitments				
Due within a year	**3,434**	2,432	**3,434**	2,432
Due between 1 to 2 years	**3,001**	4,971	**3,001**	4,971
Due between 2 to 5 years	**5,028**	4,456	**5,028**	4,456
Beyond 5 years	**2,325**	1,541	**2,325**	1,541
	13,788	13,400	**13,788**	13,400
Capital commitments				
Estimated capital expenditure	**-**	647	**-**	647
Total commitments	**13,788**	14,047	**13,788**	14,047

The Group leases a number of office premises and equipment under operating leases. The leases typically run for a period of 1 to 9 years, with an option to renew the lease after that date. Lease payments are increased every 1, 2 or 3 years to reflect market rentals. Some leases provide for additional rent payments that are based on changes in a local price index.

During the year ended 31 March 2013 $3.198m was recognised as an expense in profit and loss in respect of operating leases (2012: $2.509m). Contingent rent recognised as an expense amounted to $Nil (2012: $Nil).

31. Charge over assets

FMG was required to hold deposits with the Public Trust under the Life Insurance Act 1908 and the Insurance Companies' Deposits Act 1953, both Acts were repealed with the introduction of the Insurance (Prudential Supervision) Act 2010.

Independent Auditor's Report

To the Members of Farmers' Mutual Group

Report on the Financial Statements

We have audited the financial statements of Farmers' Mutual Group (the "Mutual") and its subsidiaries (the "Group") on pages 16 to 54, which comprise the balance sheet of the Mutual and Group as at 31 March 2013, and the income statement, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

This report is made solely to the Mutual's members, as a body, in accordance with Section 27 of the Farmers Mutual Group Act 2007. Our audit has been undertaken so that we might state to the Mutual's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Mutual and the Mutual's members as a body, for our audit work, for this report, or for the opinions we have formed.

Directors Responsibility for the Financial Statements

The directors are responsible for the preparation of the financial statements, in accordance with generally accepted accounting practice in New Zealand and that give a true and fair view of the matters to which they relate, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing (New Zealand). These auditing standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we have considered the internal control relevant to the entity's preparation of the financial statements that give a true and fair view of the matters to which they relate in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates, as well as evaluating the overall presentation of the financial statements.

We believe we have obtained sufficient and appropriate audit evidence to provide a basis for our audit opinion.

We provide taxation and other assurance services to the Mutual and its subsidiaries. We have no other relationship with, or interest in, the Mutual or any of its subsidiaries.

Partners and employees of our firm may deal with the Mutual and Group on normal terms within the ordinary course of trading activities of the business of the Mutual and Group.

Opinion

In our opinion, the financial statements on pages 16 to 54:

- comply with generally accepted accounting practice in New Zealand;
- comply with International Financial Reporting Standards; and
- give a true and fair view of the financial position of Farmers' Mutual Group and its subsidiaries as at 31 March 2013 and their financial performance and cash flows for the year then ended.

Report on Other Legal and Regulatory Requirements

In accordance with the Financial Reporting Act 1993, we report that:

- We have obtained all the information and explanations that we have required.
- In our opinion proper accounting records have been kept by the Mutual as far as appears from our examination of those records.

Ernst + Young

31 July 2013
Wellington

EMPLOYEE REMUNERATION

Employee Remuneration

Remuneration and other benefits of $100,000 per annum or more received by employees in their capacity as employees were:

	Group	Group
	2013	2012
	$	$
100,001-110,000	32	26
110,001-120,000	12	18
120,001-130,000	16	9
130,001-140,000	12	8
140,001-150,000	9	3
150,001-160,000	4	5
160,001-170,000	4	3
170,001-180,000	4	1
180,001-190,000	1	1
190,000-200,000	1	-
200,001-210,000	1	3
220,001-230,000	1	1
280,001-290,000	1	1
290,001-300,000	1	1
310,000-320,000	-	-
320,001-330,000	1	1
330,001-340,000	-	1
390,001-400,000	-	1
410,001-420,000	1	-
440,001-450,000	1	-
590,001-600,000	-	1
680,001-690,000	1	-

APPOINTED ACTUARY'S REVIEW OF ACTUARIAL INFORMATION FOR FARMERS' MUTUAL GROUP IN RESPECT OF 31 MARCH 2013 FINANCIAL STATEMENTS

This return is in respect of Farmers' Mutual Group and its subsidiary FMG Insurance Limited, collectively referred to as FMG.

This return is prepared under section 78 of the Insurance (Prudential Supervision) Act 2010 ("the Act") in respect of section 77 of the Act which requires that each licensed insurer within New Zealand must ensure that the actuarial information contained in, or used in the preparation of, the financial statements of the insurer and any group financial statements is reviewed by the appointed actuary.

This return has been prepared by Margaret Cantwell (BSc, FIAA, FNZSA), FMG's Appointed Actuary. I am an employee of FMG; other than my employment relationship I have no financial or ownership interest in FMG.

I have reviewed actuarial information contained in the 31 March 2013 financial statements.

FMG has supplied me with all the information and explanations necessary to allow me to undertake this review.

It is FMG's established policy to seek the advice of the Appointed Actuary in respect of all actuarial information and to adopt that advice in its financial statements.

The following actuarial items have been reviewed and reflect the scope and limitations of this review:

- Outstanding Claims Liabilities
- Reinsurance Recoveries
- Premium Liabilities
- Application of the Liability Adequacy Test
- The level of deferred acquisition costs in the financial statements after the application of the Liability Adequacy Test

In my opinion there was no other information that required actuarial review for the purposes of this return.

I reviewed the outstanding claims (and sensitivity analysis thereof), premium liabilities and the Liability Adequacy Test which were calculated by Tracey Short, the previous Appointed Actuary. In my opinion they comply with accounting standard NZ IFRS4 and have been prepared in accordance with New Zealand Society of Actuaries Professional Standard No. 4 (PS4). They have also been audited by Ernst & Young.

These items have all been used without adjustment in the financial statements, which I believe to be appropriate. They have also been used without adjustment in the solvency calculation, which again I believe to be appropriate.

In summary, I can confirm that:

- The actuarial information contained in the 31 March 2013 financial statements has been appropriately included in those statements without exception
- The actuarial information used in the preparation of the 31 March 2013 financial statements has been used appropriately without exception
- That in my opinion, as at 31 March 2013, FMG is maintaining a solvency margin as defined in The Solvency Standard for Non-Life Insurance Business issued by the Reserve Bank (Oct 2011 amendments to May 2012)

For further detail on the items listed above please refer to the 31 March 2013 financial statements.

Cantwell

Margaret Cantwell
Appointed Actuary
FMG

26 July 2013

DIRECTORY

FMG comprising
Farmers' Mutual Group
FMG Insurance Limited

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The Bank of New Zealand

Legal advisors
DLA Phillips Fox, Wellington

Auditors
Ernst & Young, Wellington

Board of Directors
G W (Greg) Gent *Chairman*
M L (Marise) James
G R (Graeme) Milne
M W A (Murray) Donald
T D (Tony) Cleland
M J T (Michael) Ahie

Leadership team
Chris Black *Chief Executive*
David Kibblewhite *Chief Financial, Investment and Risk Officer*
Geoff Yeats *General Manager – Business Information Services*
Conrad Wilkshire *General Manager – Advice and Insurance*
Mike Lange *General Manager – Products and Services*
Andrea Brunner *General Manager – Marketing, Distribution and Human Resources*

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