Rural spirit in Aotearoa New Zealand.

Annual Report and Financial Statements
2020/2021

FMG
Advice & Insurance

Optimism, progress, problem solving and innovation. These are but a few of the elements that make up rural spirit in Aotearoa New Zealand, and which FMG is proud to support.

Rural spirit in action.

Showcasing FMG clients

Over the Moon Dairy - New Zealand cheese makers.

If you live, work or travel through the Waikato region, chances are high that you've found yourself at Over the Moon Dairy—one of New Zealand's leading artisan cheesemakers.

Over the Moon Dairy is Waikato-local Sue Arthur's small business-dream come true.

"Nearly 13 years ago I was working in local government, in my mid-forties and really wanted to see if I was capable of, and could succeed, working for myself."

Content in the beautiful South Waikato region, Sue considered what she could do locally. A fondness for eating cheese and the abundance of farmers in the region producing a variety of high-quality milk products made the decision to go into cheese-making a winning one.

Award winning products.

Fast forward to today, and the Over the Moon Dairy is certainly winning. There's a long list of accolades and awards from New Zealand and around the world praising the cheesemaker's feta, camembert, brie, creamy blue, ricotta, manchego, and the list goes on.

"We create New Zealand's widest range of specialty cheeses from the world's finest ingredients—and locally sourced goat, cow, sheep and buffalo milk. We make over 25,000 kilograms a year and have a big commitment to developing and promoting New Zealand dairy using international research, development and innovation," says Sue.

Over the Moon Dairy has a Putaruru base, where the main factory and retail store is located, as well as a deli in Cambridge. It also supplies cheeses throughout New Zealand—but the story doesn't end there.

"We make over 25,000 kilograms a year and have a big commitment to developing and promoting New Zealand dairy using international research, development and innovation."

The New Zealand Cheese School.

Excited by her business idea, in 2005 Sue looked to hone her technical cheesemaking skills.

"I had good business skills, but I couldn't find anywhere here that I could learn more about making cheese. Cheesemakers in New Zealand are largely self-taught, so I looked overseas. I found a course at the Gilbert Chandler Institute of Dairy in Melbourne and trained under Neil Willman," says Sue.

Together Sue and Neil (now New Zealand-based and Sue's partner) also run The New Zealand Cheese School, above Over the Moon Dairy's factory. They've filled a gap in the market.

But wait there's more...cheese

Sue is now the proud owner of the Cheese Cartel—a New Zealand business created to support small-scale farmers and artisan producers by delivering cheese subscriptions around the country.

"This is a really exciting next step."

Eden's Road Orchard - leveraging New Zealand's fresh image.

Jono Sutton is a third-generation orchardist based out of the small Nelson settlement of Hope, on the Waimea plains.

Alongside his parents and grandfather, he runs Eden's Road Fruit, which grows a broad variety of apples and stunning New Zealand boysenberries.

"We currently have three varieties of boysenberry along with a variety of apples, including Royal Gala, Red Braeburn, Kanzi, Lady n Red and Dazzle," says Jono.

For Eden's Road Fruit, the busy seasons generally kick off from mid-December with the boysenberry harvest says Jono.

"Boysenberry harvesting lasts through to until mid to late January with a few weeks break before our apple picking season starts."

It's both the seasonality of the work and the harvesting of high-quality fruit that Jono enjoys most about his career, and something he sees as a key opportunity for the sector to attract others into horticulture careers.

"With such an emphasis on healthy eating internationally, we have a real opportunity to leverage New Zealand's fresh image."

Of course, Jono's business isn't without challenges too—the top of mind one being the current availability of staff given the impacts of Covid-19.

Supporting clients like Jono is what FMG is here for and it's great to be here to support clients for the long haul. As Jono says, his family has been with FMG for "longer than I've been around".

What Jono values most about FMG is his relationship with his adviser, their approachability and the Mutual's fair approach to insurance.

"FMG are awesome to deal with—they always want to help in your time of need," says Jono.

"With such an emphasis on healthy eating internationally, we have a real opportunity to leverage New Zealand's fresh image."

A passion for Perendales

Jane Smith has a passion for Perendale sheep.

Growing up on her parents' sheep farm in North Otago she now runs a 9,000-stock unit operation called Newhaven Perendales with her husband, Blair. The Smith's three children are also the 5th generation to live on the North Otago-based farm.

Jane has a self-confessed 'obsession with agriculture' and her success both on and off the farm is evidence of this. Before returning to the farm she was awarded the New Zealand Young Rural Achiever Award and the Sir Ronald Trotter Gold Medal during her 10 years in agribusiness.

Back on the farm, continuing her family's legacy of raising exceptional dual-purpose Perendale sheep is her focus. "We put equal weighting on having a great fleece and lamb product—why not produce the best possible fleece that you can?" she says.

With a stud flock as well, genetics are also critical. "At Newhaven, every single animal needs to perform both in the paddock and on paper—not one or the other—genotype and phenotype are both important, but physical conformation and performance are always our number one priority," says Jane.

Jane is particularly proud of the Perendale fleece and is an advocate for the many benefits of New Zealand wool, including the fire safety attributes wool has over its synthetic counterparts.

As a former volunteer firefighter, Jane says she saw first-hand the differences in the damage a house with synthetic carpet sustained.

"Wool is naturally resistant to fire whereas synthetic carpets melt. The fumes from the synthetic carpet are actually very harmful hydrogen cyanide fumes; experts tell us that these fumes are even worse than the smoke itself," says Jane.

Jane says the other benefits of wool for carpets inside the home are that it's hypo-allergenic, easy to clean, improves indoor air quality and is naturally crush resistant. The Perendale fleece performs particularly well in high traffic areas such as hotels, due to its 'bulk' attributes. The fleece also sits at the finer end of the crossbred scale and because it has a natural whiteness, it's easy to colour.

With these qualities it's easy to understand Jane's position on New Zealand wool. As a mother she points out that with a synthetic carpet, a crawling baby is spending a lot of time on a flooring that is the equivalent of tens-of-thousands of plastic bags. Further, synthetic carpet has added stain and fire-resistant treatments applied to it, which is another layer of toxic chemicals.

"Synthetic carpets have been marketed well, considering they are a product made of oil and plastic. There is a perception around the cost of wool carpet, but I do think people need to consider all the other benefits of wool and the fact that the upper end of synthetic carpet sits in the same price range as a wool carpet.

"Wool is energy efficient as it's produced from renewable and natural resources—sheep need to be shorn, and it's biodegradable. Also, wool is a 100% New Zealand made product. This is something that we value and need to make sure that today's savvy global consumer does as well," says Jane.

At a glance.

100,000+
CLIENTS

$59.3M
PROFIT AFTER TAX

$210.3M
NET CLAIMS INCURRED

A
EXCELLENT
A.M. BEST CREDIT RATING

$322.8M

CAPITAL RESERVES

$406.4M

GROSS WRITTEN PREMIUM

16,000+

CLIENTS USING FMG CONNECT

2020

CANSTAR MOST SATISFIED CUSTOMER AWARDS 2020 HOME AND CONTENTS, AND CAR INSURANCE.

2020

CONSUMER PEOPLE'S CHOICE AWARD 2020 HOUSE, CAR AND CONTENTS INSURANCE.

A sustainable future.

As a mutual, sustainability has always been at the core of FMG's DNA. We're over a century old, we're 100% Kiwi owned and operated, we live in the communities we serve and all our profits either go back into the business to keep premiums fair and affordable, or go on to support strong and prosperous rural communities.

After all, to be here for the good of the country, we must do good for the country.

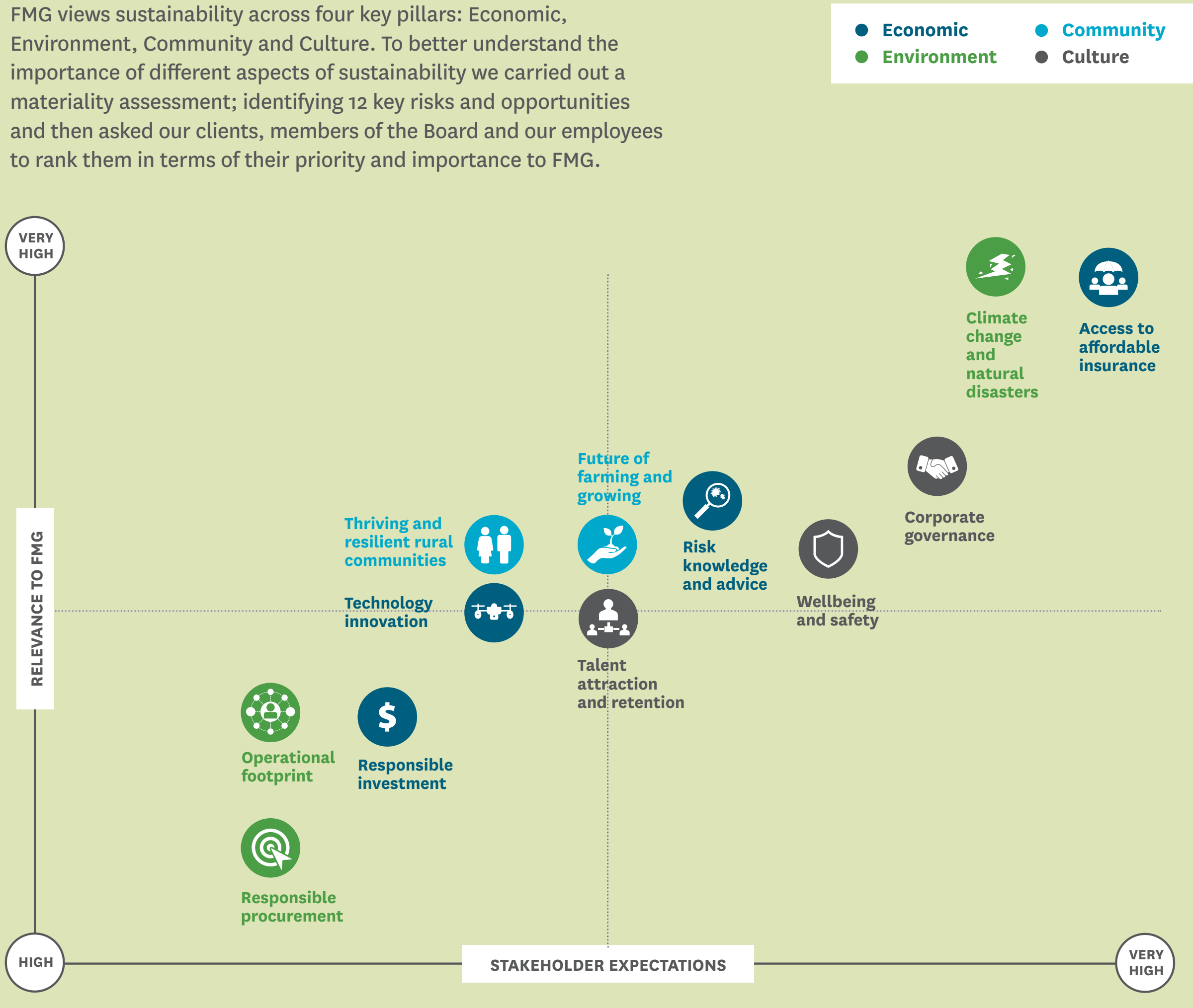
Farmers and growers will continue to play a pivotal role in ensuring a sustainable future for New Zealand; from our environment and economy—to our communities and beyond. They are doing this through innovation, collaboration, technology and stewardship.

Doing things differently means you need the backing to take risks and try something new, while at the same time protecting the legacies and livelihoods that already exist.

FMG will continue to back rural New Zealand every step of the way, and we'll tread lightly on our own land while doing it. After all, to be here for the good of the country, we must do good for the country.

Materiality assessment

FMG views sustainability across four key pillars: Economic, Environment, Community and Culture. To better understand the importance of different aspects of sustainability we carried out a materiality assessment; identifying 12 key risks and opportunities and then asked our clients, members of the Board and our employees to rank them in terms of their priority and importance to FMG.



12 key risks and opportunities

Access to affordable insurance

FMG is first and foremost a rural insurer. Our job is to be there when the unexpected happens and we will continue to offer fair and affordable insurance products that meet the needs of rural communities.

Climate change and natural disasters

As we continue to see an increase in the frequency and severity of extreme weather-related events and natural disasters, FMG will focus on building financial and operational resilience, products and advice to ensure we can respond and support clients through the impacts of climate change, natural disasters and biosecurity.

Evidence of this is FMG's role in developing the new EQC model, helping to make the claims process even simpler for our clients.

Corporate governance

FMG will continue to make certain that appropriate structures and controls are in place to ensure the Mutual is run effectively and within legislative and regulatory requirements.

This includes maintaining our "A" Excellent AM Best credit rating and complying with the Fair Insurance Code as a member of the Insurance Council of New Zealand.

Wellbeing and safety

Like our farmers and growers, FMG will continue to prioritise the wellbeing and safety of our employees to create a zero harm, mature and integrated wellbeing and safety culture.

Alongside a dedicated wellbeing and safety team, accountability extends to both Executive and Board leadership.

Talent attraction and retention

Everything is about people and FMG will continue to invest in a working environment that will attract and retain the very best talent to the Mutual. We value a happy, skilful, and diverse employee culture because the better we look after ourselves, the better we look after our clients. That's why we strive to be a great place to work, as measured by the Gallup Q12 survey.

Globally, compared against 800,000 organisations also using the Q12 survey, we rank in the top quartile.

Technology innovation

FMG will continue to invest in technology to improve the products and services provided to clients. A great example of this is FMG Connect—our new online services channel. While it's still early days, over 16,000 clients who registered now have the choice, convenience and control to manage their insurance and claims at any time and from any device.

Future of farming and growing

FMG will continue to take an active role in addressing future challenges and risks facing farmers and growers in NZ. For FMG this extends beyond our advice led insurance and includes supporting new and emerging leaders through the rural leadership programmes, The FMG Young Farmer of the Year Contest and through our partnerships with Federated Farmers, Farmlands, Rural Co and Irrigation New Zealand.

Risk knowledge and awareness

FMG will continue to provide specialised advice to help clients make informed decisions to avoid losses and minimise disruption to their businesses, families, and lives. Highlights from the past year include:

- 13,000 on-farm/onsite visits
- 9 quad bike safety workshops
- 9 irrigator workshops
- 2 cyber security workshops
- 2 governance risk essentials workshops
- 6 rural crime prevention hubs
- 3 fire prevention workshops

Thriving and resilient rural communities

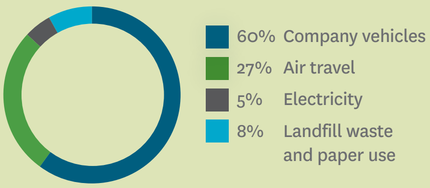
FMG will continue to invest in programmes and events that support strong and prosperous rural communities. Farmstrong is a premier example of this. Into its sixth year, 20,000 farmers and farm workers have engaged with Farmstrong, and 22% of all farmers surveyed attributed improvement in their wellbeing and on-farm safety to Farmstrong. In 2020 Farmstrong took overall honours at the New Zealand Workplace Health and Safety Awards.

In addition, FMG sponsors and attends some 700 events annually.

Operational footprint

FMG have completed an audited carbon footprint assessment for the past two years and will look to implement a number of mitigation initiatives in the coming years.

FMG emissions by emission source for FY20



Total GHG emissions in FY20 were 2,329 tonnes CO2e or 3.26 tonnes CO2e per FTE.

Responsible investment

Sustainability plays an important role in our investments and is considered part of the decision-making process. When assessing a fund manager we emphasise the importance of sustainable investing. All of FMG's current fund managers meet these three requirements:

1. Operate policies that prevent investment in companies that are directly involved in the activities excluded by the New Zealand Superannuation Fund;
2. Be signatories to the United Nations Principles for Responsible Investment ("UNPRI"); and
3. Have a socially responsible investment policy, ethical investment policy, or similar policy that can be inspected and reviewed.

Responsible procurement

FMG will look to improve and prioritise ethical procurement and supply chain partners. Currently, FMG uses client-produced and locally-produced products and service where possible. We're also seeking more transparency from our suppliers in terms of their environmental and social impact.

FMG's leading approved repairer network is purposely designed to allow locally owned and Kiwi operated businesses the support and resource to not only repair vehicles to the highest safety and quality standards, but also improve their environmental practice, invest in their employees and give back to their local communities.

A year to remember.

It is a great pleasure to present the 116th annual report. It has been an extraordinary year and despite having to work through Covid-19, we have had some exceptional results.

This reflects rural and regional NZ fronting into the Covid-19 challenges in their usual stoic way, supported by a team effort inside the Mutual that has been second-to-none. FMG is proud of its role as an enabler of the rural sector through the sharing of risk and acknowledges the key role the sector has played helping lead NZ through this pandemic. A strong balance sheet from results like those achieved this last year means FMG can progressively share more of the risks rural NZ faces.

With the ongoing challenges facing rural NZ including labour shortages, water plan rules, carbon emission standards, general compliance and licence to operate requirements, FMG's strength and stability becomes even more important to ensure the Mutual is in a position to provide farmers and growers with ongoing best-in-class advice, service and support.

This reinforces the importance of FMG having a long-term view and goals to match. These goals include increasing our share of the rural insurance market to 60% by 2025 and 70% by 2030, whilst progressively improving our solvency ratio from the current 2.3 times the minimum regulatory requirement towards three times by 2030.

The results we have achieved this year have helped move us closer to achieving these long-term targets. Our net profit after tax of close to $60m is an exceptional result and reflects a very good underwriting result, a relatively benign year in terms of storm and catastrophe events, and the bounce back in equity markets, noting this profit will be added to reserves. In a volatile industry like insurance, one needs a year like this occasionally.

Having 100,000 clients putting their trust in the Mutual is a significant milestone for the Mutual. In behind this our share of the rural market has increased to 52% and there has been a steady uplift in our share of the Commercial, Lifestyle and Residential general insurance markets, and the Life & Health market as well. Being the insurer for the majority of rural NZ allows FMG to have a stronger voice on topics relevant to farmers and growers. It also provides more scope to give back to rural NZ via important sponsorships such as the FMG Young Farmer of the Year Contest and initiatives like Farmstrong.

The package of results outlined above is testament to the vibrant and winning culture at FMG. It was fitting for the Board to be able to celebrate the progress and achievements of the Mutual with all employees at a recent conference in Wellington. I can assure you the Board walked away from the day feeling proud of being part of FMG.

This culture is a credit to the Executive Leadership Team and how they lead the Mutual by example. Their positive attitude and clear expectations set the stage for their teams to be successful, all the while operating with a high level of respect and integrity. The part that Chris has played in this has been pivotal in changing our Mutual for generations to come. Chris is retiring as CEO of FMG at the end of August and we will miss his input into the Mutual. While all good things must come to an end, we are fortunate to have had 13 years continuity of CEO tenure and leadership. We will always be grateful for the impact Chris has made to FMG and us all individually.

I would also like to thank Michael Ahie for his 12 years of service to the Mutual and his great support to me as Chair. Michael steps down as a Director at this AGM. Michael's insightful challenge and dedication to the Mutual around the Board table will be sorely missed. Thank you to the full Board as well for its work over the last twelve months. I think we have dealt with the various Covid-19 issues that have presented themselves extremely well. Sincere thanks to all our employees as well for helping us lead through this last year. Lastly, thank you to all the members for your support, for without you we wouldn't have a strong mutual.

Tony Cleland
Chairman, FMG

Despite the various challenges Covid-19 and multiple storms, floods and fires presented, the overall scorecard for last year was one for the record books.

This was underpinned by improved levels of both employee and client engagement and on the back of this, the Mutual experienced very strong net client growth (up 6.8% year on year) as more and more people and businesses elected to put their trust in a 100% New Zealand owned Mutual.

During the year the Mutual passed the significant milestone of 100,000 clients, something that we had been working towards since 2014. Headline growth for the year at 11% well outpaced the insurance industry average of 2%. Importantly this was good quality growth in key target markets that was well underwritten, rather than growth for growth's sake.

While posting a record net profit after tax was pleasing, if we look at the last five years, profits have ranged from an exceptional near $60m this year to a loss of $3m in 2017 when the business was impacted by both the Kaikoura Earthquake and multiple storm events in the same year. On average over this period the after-tax profit has been $19m per annum, which is about the level we need to support a steadily growing business such as ours.

Another highlight this year was the increased awareness of our Life & Health business. This dimension of the Mutual is important in the context of our core purpose of giving rural New Zealand a better deal and this equally applies to life and health insurance alongside our general insurance offering.

This is my final annual report as Chief Executive. In stepping down at the end of August after close to 13 years at the helm I feel I am handing over the reins of a Mutual that is in good shape and great heart. There is no doubt in my mind this has been a collective team effort. Special thanks to my Executive and Senior Leadership team colleagues for their unwavering commitment throughout, as well as all my colleagues more broadly. Thank you also to Tony, our FMG Chair and the FMG Board for its support and giving me the opportunity to lead what is a fine organisation that plays a vital role as the farmers' and growers' insurance Mutual. My time with FMG has been a career highlight for me personally. Finally, thank you to all our clients and members for your trust and loyalty over a long period. It is very much appreciated and highly valued.

Chris Black
Chief Executive Officer, FMG

DIRECTOR'S REPORT

Five year comparisons

Claims and catastrophes net of reinsurance recoveries ($000)

		Net catastrophe claims
2017	143,018	8,722
2018	153,535	8,406
2019	176,609	4,006
2020	201,218	7,735
2021	**208,599**	**1,713**

General insurance gross written premium ($000)

2017	246,231
2018	283,098
2019	324,101
2020	366,304
2021	**406,362**

Equity ($000)

2017	226,240
2018	238,320
2019	257,403
2020	263,528
2021	**322,781**

Investment income ($000)

2017	12,077
2018	13,456
2019	14,236
2020	200
2021	**34,408**

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

2017	-3,253
2018	12,080
2019	19,083
2020	6,125
2021	**59,253**

The Directors have pleasure in presenting Farmers' Mutual Group's[1] 116th Annual Report and Financial Statements for the year ended 31 March 2021.

Principal activities

The Group[2] is focused on the provision of competitive insurance 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 Company's financial results for the year reflect the following:

- Increase in gross written premium from continuing operations to $406.4m from $366.3m
- Increase in net investment income from continuing operations to $34.4m from $0.2m
- Increase in net claims incurred from continuing operations to $210.3m from $209m
- Increase in profit from continuing operations after tax to $59.3m from $6.1m

	2021	2020
	$000	$000
Profit/(loss) from continuing operations before taxation	74,505	10,975
Taxation	(15,252)	(4,850)
Profit/(loss) for the year	**59,253**	6,125

[1] Reference to "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.

Membership

As at 31 March 2021, membership of the Parent stands at 70,224.

Directorate

In accordance with the tenure provisions of the Member Director Election & Special Director Appointment Policy, G Copstick will retire by rotation and will stand for re-election at this year’s Annual General Meeting (AGM). M Ahie will retire and not seek re-election.

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 overall culture and conduct, 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

FMG holds a transitional Financial Advice Provider Licence within the meaning of the Financial Markets Conduct Act 2013 and is directly supervised by the Financial Markets Authority. Farmers’ Mutual Group is applying for 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

Taking into account the Covid-19 dynamic, at the 2020 AGM the Membership voted in favour of maintaining the Chairman’s remuneration at $100k and Directors’ fees at $50k, which applies to the quarter in which the resolution was passed. The Membership also voted in favour of maintaining the additional remuneration for the Chairs of the relevant Board sub-committees being; People & Governance Committee Chair - $7k per annum and the Risk & Audit Committee Chair - $7.5k per annum. Directors’ remuneration received, or due and receivable during the year amounted to $438k (2020: $385k). The amounts paid to each Director for both the FMG and FMG Insurance Limited Boards including Chair fees associated with the Board sub-committees are as follows:

Name	**2020-2021 $000**	2019-2020 $000
T Cleland	**100**	100
M Ahie	**57**	57
S Allen	**50**	50
M Taggart*	**54**	57
G Copstick	**50**	50
S Horgan*	**46**	-
S von Dadelszen*	**30**	-
S Smith*	**30**	-
D Chan**	**21**	50
C Mitchener***	**-**	21
Total	**438**	385

* Fees are Pro-rated as at commencement/assuming changes to roles of Committee Chairs.

** Retired at the 2020 AGM and Pro-rated fees.

*** Retired at the 2019 AGM and Pro-rated fees.

FMG Board of Directors.

The Board as at 31 March 2021.
The FMG Directors are Mr. Tony Cleland (Chair), Mr. Michael Ahie, Mr. Geoff Copstick, Mr. Steve Allen, Mr. Murray Taggart, Ms. Sinead Horgan, Ms. Sarah Smith and Mrs. Sarah von Dadelszen.

The following are the Directors' qualifications and expertise:

TONY CLELAND (CHAIR)

Tony heads the Board as Chairman and has extensive experience in the rural sector. Tony is a dairy farming entrepreneur from Southland and a founder of FarmRight. Tony's been a Director on FMG's board since 2007, and has also held a range of other governance roles, including Director of several large scale farming businesses.

MICHAEL AHIE

Michael is passionate about his country and is dedicated to the commercial and cultural success of organisations in New Zealand. He is Chancellor of Massey University, a Director of FMG and Chair of the Board of Spring Sheep Milk Co., the New Zealand Plant Market Access Council (PMAC) and He Waka Eke Noa, the steering group overseeing the Primary Sector's climate change commitment. Michael is also Chair of Inland Revenue's Risk & Assurance Committee.

GEOFF COPSTICK

Geoff was CFO of Gallagher Group in Hamilton for nine years. He is now on Gallagher's board and Chair of their Audit & Risk Committee. Geoff also serves as a Director of Northland Regional Council on finance, audit and economic development issues (Northland Inc Limited). Geoff is a Director and previous Chair of ChildFund New Zealand and has 20 years of executive-level finance experience with New Zealand companies. He has specialised in corporate governance, risk management and corporate treasury operations.

STEVE ALLEN

Steve has enjoyed over 20 years as a Chairman, Director and Trustee of a number of Private Companies, Private Trusts and Charitable Trusts. Steve's career has included time in the commercial sector with IBM NZ, and comprises extensive dairy industry experience with directorships on both the NZ Dairy Board and LIC. More recently, Steve has been a member of the Waikato Dairy Leaders Group and he is a trustee of the Waikato based David Johnstone Charitable Trust. Steve has been Chairman of the Tatua Board since 2003.

MURRAY TAGGART

Murray farms sheep, beef and arable crops under irrigation near Oxford in North Canterbury. Prior to farming he worked for ANZ Bank. Murray was a Nuffield Scholar in 1996 and in 2006 won the Tasman region FMG Rural Excellence Award. His is a former National Meat and Fibre Chairman of Federated Farmers and was a Director of CRT Society for 15 years. Murray is experienced in corporate governance and is currently Chairman of Alliance Group and Taumata Plantations, and a Director of Ballance Agri-Nutrients.

SINEAD HORGAN

Sinead is a Chartered Accountant with a background in accounting, corporate finance, strategy and risk. She is a Director and Chair of the Audit & Risk committees of Bank of China, Eco Central, Taggart Earthmoving and Advisory Chair of Fuse IT. She is also a trustee for Maia Health Foundation and Chair of Assistance Dogs New Zealand Trust.

SARAH SMITH

Sarah is an insurance and banking professional with over 30 years’ experience and is proud to have learnt insurance from the ‘ground-up’. Sarah’s more recent positions include General Manager of Insurance for ANZ and CEO MARAC Insurance (which is owned by Heartland Bank) and as at 31 March 2021, she was the Chief Technology Officer at Heartland Bank. Sarah has a strong working knowledge of the regulatory requirements and conduct and culture expectations of the industry.

SARAH VON DADELSZEN

Sarah has spent the last 19 years in a variety of agricultural and energy related governance and leadership roles. These positions have been with organisations that are committed to maintaining strong communities, particularly in the rural sector including the NZ Beef Council, Fonterra Shareholders Council and NZ Young Farmers. Sarah is a Director for Centralines and a Director of Ballance Agri-Nutrients and the Chair of its Remuneration Committee. Sarah also owns a large farming business with sheep and beef and dairy interests.

FMG's Executive Leadership Team.

CHRIS BLACK
CHIEF EXECUTIVE OFFICER

Chief Executive of FMG since December 2008, Chris Black chose to step down from his position as a Director of the organisation to take up the reins of FMG in an operational management capacity. Chris came to the role with a wealth of experience from the banking sector as well as broad insurance experience and expertise in corporate strategy, customer service and financial and risk management.

Chris holds a strong affinity with rural New Zealand through his family and business background and having been a Land Surveyor early in his career.

ANDREA BRUNNER
CHIEF CLIENT OFFICER

Andrea started her working career as a lawyer specialising in employment law then moved into the area of employment relations in the banking industry working for the Bank of New Zealand and National Australia Bank for close to a decade.

During her time in banking Andrea broadened her focus taking up key HR business partner roles and leading large generalist HR teams.

In 2009 Andrea joined FMG in the role of General Manager HR and subsequently broadened her role taking on accountability for Marketing, Communications & Client Propositions.

In 2017 Andrea moved to a new role as FMG's Chief Client Officer. In this role Andrea is accountable for the overall sales and service performance of the business in respect of both general and Life & Health.

DAVE KIBBLEWHITE
CHIEF FINANCIAL, INVESTMENT & RISK OFFICER

When Dave joined FMG as Chief Financial Officer in 2003, he brought a wealth of knowledge after 10 years with Ernst Young, and from his experience working for Insurers Tower and Colonial. Dave has also worked in Australia and Hungary prior to joining FMG, giving him a good understanding of industry practice including regulation.

Sixteen years in the CFO role has provided Dave with a thorough understanding of FMG's business and niche rural insurance market as well as the NZ Insurance Industry. This has allowed an easy progression to Chief Financial, Investment and Risk Officer.

GLENN CROASDALE
GENERAL MANAGER CLIENT PROPOSITIONS & ONLINE SERVICES

Glenn has been with FMG since February 2011, holding responsibilities heading up the Marketing, Communications and Risk Services functions of the Mutual, before stepping into lead a transformational programme to develop FMG's online capability. He is now responsible for the Client Propositions and Online Services functions.

Glenn brings 18 years local and international experience working in marketing, communications and management within the insurance, construction, forestry, mining and primary industries.

At an industry level, Glenn has represented FMG on the New Zealand Insurance Council (ICNZ) Communications Committee established immediately in the wake of the Canterbury earthquakes.

PETE FRIZZELL
GENERAL MANAGER, PEOPLE & CULTURE AND COMMUNICATIONS

Pete is a passionate supporter of the Mutual model and how FMG is striving to help grow strong and prosperous rural communities. Joining FMG in 2010, Pete currently has responsibility for People & Culture & Communications and is the FMG Sponsor for their support of the Farmstrong rural wellbeing programme.

This role involves understanding the challenges and opportunities that are coming and to support on-going sustainability — both for FMG and rural New Zealand. Previously, Pete oversaw the Marketing, Projects and Improvement teams at FMG and was Product Owner for the implementation of the Guidewire Insurance Suite. Prior to joining FMG, Pete completed a PhD in Operations Research at Massey University and has worked in a number of technology-based analysis, management and consulting roles across various industries in New Zealand and the United Kingdom.

NATHAN BARRETT
CHIEF PRODUCT & PRICING, UNDERWRITING AND CLAIMS OFFICER

Nathan has over 20 years local and international insurance experience in business development, risk management, underwriting and claims management, having worked with insurers such as Ace Insurance, Amlin PLC and State Insurance, as well as over 10 years with FMG.

Sitting on the executive leadership team he is responsible and provides leadership of the Product & Pricing, Underwriting and Claims functions within the business.

COLIN PHILP
CHIEF INFORMATION OFFICER

Before joining FMG, Colin was CIO at the New Zealand Racing Board for four years and held a number of roles at Spark Digital including Head of ICT Operations and Head of Client Delivery at Technology Australia.

Colin has also held several roles at the Bank of New Zealand including Head of Application Development and Testing. Colin is based out of FMG's Palmerston North office.

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 Member Election & Special Director Appointment Policy which articulates the process for the election and appointment of prospective Directors, as well as the evaluation of Member 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 2021

The Risk & Audit Committee is currently comprised of Sinead Horgan (Chair), Murray Taggart, Tony Cleland, Geoff Copstick and Sarah Smith. This Committee is governed by its own Charter. The function of the Risk & Audit 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 Markets Conduct Act 2013. 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 risks and reviewing and making appropriate inquiry into the audits of the Group by both internal and external auditors.

The People & Governance Committee is currently comprised of Michael Ahie (Chair), Tony Cleland, Steve Allen and Sarah von Dadelszen. The Committee, which is governed by its own Charter, is responsible for the evaluation of new Directors, Chief Executive and senior management appointments, corporate governance and remuneration policies of the Group.

The number of Board and Board Committee meetings Directors were able to attend and their actual attendance (based on election and retirement dates) is detailed below:

	Number of meetings	Number attended
FMG Board Meetings (Total 8)		
T Cleland (Chair)	8	8
M Ahie	8	8
D Chan*	4	4
S Allen	8	8
M Taggart	8	8
G Copstick	8	8
S Horgan**	7	7
S von Dadelszen***	4	4
S Smith***	4	4

*Retired at the 2020 AGM

**Appointed at June 2020

***Elected/Appointed at August 2020

	Number of meetings	Number attended
Risk & Audit Committee (Total 3)		
S Horgan (Chair) at October 2020	3	3
M Taggart (Chair) to October 2020	3	3
T Cleland	3	2
G Copstick	3	3
S Smith*	2	2
D Chan **	1	1

*Joined Committee October 2020

**Retired at the 2020 AGM

	Number of meetings	Number attended
People & Governance Meetings (Total 4)		
M Ahie (Chair)	4	4
T Cleland	4	4
S Allen	4	4
M Taggart*	2	2
S von Dadeleszen**	2	2

* Left the Committee at October 2020

**Joined Committee October 2020

Directors of FMG's Subsidiaries as at 31 March 2021

The current FMG Insurance Limited Directors are Tony Cleland, Michael Ahie, Geoff Copstick, Steve Allen, Murray Taggart, Sinead Horgan, Sarah Smith and Sarah von Dadelszen. 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 2021

(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 15.

(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

EY has been appointed as Auditors for the Group.

CONSOLIDATED INCOME STATEMENT

FOR THE YEAR ENDED 31 MARCH

	Notes	Group 2021 $000	Group 2020 $000
General insurance activities			
Gross written premium		**406,362**	366,304
Movement in unearned premium		**(20,927)**	(18,539)
Gross earned premium	1	**385,435**	347,765
Outwards reinsurance premium expense		**(45,410)**	(41,264)
Net premium revenue		**340,025**	306,501
Claims expense	8	**(238,015)**	(216,607)
Reinsurance and other recoveries revenue	1, 8	**27,703**	7,654
Net claims incurred		**(210,312)**	(208,953)
Other income	1	**18,438**	16,106
Operating expenses	2	**(108,054)**	(102,879)
General insurance underwriting result		**40,097**	10,775
Investment income	1	**34,408**	200
Profit/(loss) before taxation		**74,505**	10,975
Income tax (expense)/benefit	3	**(15,252)**	(4,850)
Net profit/(loss)		**59,253**	6,125
Profit/(loss) from continuing operations for the year attributable to members		**59,253**	6,125
Total comprehensive income for the year, net of tax, attributable to members		**59,253**	6,125

The financial statements should be read in conjunction with the accounting policies and notes on pages 26 to 54.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 MARCH

	Group 2021 $000	Group 2020 $000
Retained earnings		
Retained earnings at the beginning of the year	**263,528**	257,403
Total profit/(loss) and comprehensive income	**59,253**	6,125
Retained earnings at the end of the year	**322,781**	263,528
Total equity at the end of the year	**322,781**	263,528
Attributable to:		
Members	**322,781**	263,528
	322,781	263,528

The financial statements should be read in conjunction with the accounting policies and notes on pages 26 to 54.

CONSOLIDATED BALANCE SHEET

AS AT 31 MARCH

	Notes	Group 2021 $000	Group 2020 $000
Assets			
Cash and cash equivalents	4	**68,246**	39,631
Trade and other receivables	6	**142,297**	131,454
Insurance recoveries	7, 8	**22,257**	19,347
Investments	5	**413,203**	353,351
Deferred acquisition costs	9	**3,667**	3,667
Property, plant and equipment	10	**7,642**	8,652
Intangible assets	11	**10,931**	11,942
Right of use assets	12	**21,186**	20,459
Deferred tax assets	13	**1,508**	1,005
Total assets		**690,937**	589,508
Liabilities			
Trade and other liabilities	14	**30,790**	28,593
Current tax liability		**9,927**	3,516
Make good provision		**295**	279
Underwriting provisions	7	**304,684**	272,186
Lease liabilities	12	**22,460**	21,406
Total liabilities		**368,155**	325,980
Net assets		**322,781**	263,528
Equity			
Retained earnings		**322,781**	263,528
Attributable to:			
Members		**322,781**	263,528
Total equity		**322,781**	263,528

Signed on behalf of the Board of Directors, who authorised the issue of these financial statements on 24 June 2021.

T D Cleland
Chairman
24 June 2021

G R Copstick
Director
24 June 2021

The financial statements should be read in conjunction with the accounting policies and notes on pages 26 to 54.

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 MARCH

	Notes	Group 2021 $000	Group 2020 $000
Cash flows from operating activities			
Premium and other receipts from clients		421,460	375,536
Reinsurance recoveries		20,456	22,918
Interest and fees received		141	558
Other income		245	65
Claims paid		(227,131)	(220,989)
Reinsurance premium paid		(46,348)	(41,558)
Cash paid to suppliers and employees		(93,818)	(92,579)
Tax (paid)/recovered		(9,288)	(8,517)
Lease interest paid		(930)	(1,000)
Net cash flows from operating activities	4	64,787	34,434
Cash flows from investing activities			
Investment dealings with fund managers		(25,000)	(30,333)
Purchase of property, plant and equipment and intangible assets		(7,186)	(6,440)
Net cash flows from investing activities		(32,186)	(36,773)
Cash flows from financing activities			
Lease payments		(3,986)	(3,704)
Net cash flows from financing activities		(3,986)	(3,704)
Net (decrease) / increase in cash and cash equivalents		28,615	(6,043)
Cash and cash equivalents at the beginning of the year		39,631	45,674
Cash and cash equivalents at the end of the year	4	68,246	39,631

The financial statements should be read in conjunction with the accounting policies and notes on pages 26 to 54.

STATEMENT OF ACCOUNTING POLICIES

FOR THE YEAR ENDED 31 MARCH

Reporting entity

The consolidated financial statements consist of Farmers' Mutual Group and its subsidiaries (the "Group").

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

This financial report includes financial statements for the consolidated entity (the "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.

Statement of compliance

The consolidated financial statements comply with New Zealand equivalents to International Financial Reporting Standards (NZ IFRS). The consolidated financial statements also comply with International Financial Reporting Standards (IFRS).

The financial statements are prepared in accordance with the Constitution of the Mutual.

Significant accounting policies

Basis of preparation

The consolidated financial statements have been prepared in accordance with generally accepted accounting practice in New Zealand (NZ GAAP) as appropriate for profit-oriented entities.

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

The consolidated financial statements are presented in New Zealand dollars and all values are rounded to the nearest thousand ($000), unless otherwise stated.

The consolidated financial statements provide comparative information in respect of the previous period.

Basis of consolidation

The consolidated financial statements comprise the financial statements of the Group and its subsidiaries. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if and only if the Group has:

- Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee);
- Exposure, or rights, to variable returns from its involvement with the investee; and
- The ability to use its power over the investee to affect its returns.

The consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated financial statements from the date the Group gains control until the date the Group ceases to control the subsidiary.

Intra-group balances, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements.

STATEMENT OF ACCOUNTING POLICIES

FOR THE YEAR ENDED 31 MARCH

General insurance contracts

The insurance operations of the Group comprise administration and claims management of 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. In addition, the Group distributes personal insurance (life insurance contracts) underwritten by third parties.

General insurance liabilities

The outstanding claims for general insurance contracts are measured as the best estimate of the present value of expected future payments for claims incurred at the balance date. The estimate is inclusive of claims management expenses required to settle the claim but is net of reinsurance and other recoveries. The outstanding claims liability also includes a risk margin to allow for the inherent uncertainty in the best estimate and to increase the probability that the liability is adequately provided for.

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

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 not meeting the estimated future claims in prevailing market conditions. Any deficiency is taken to the income statement and written off against any deferred acquisition costs. Liability adequacy is determined for groups 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 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 the income statement, 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 the income statement either as claims are incurred or as movements in outstanding claims owing.

Policy acquisition costs

Policy acquisition costs comprise the costs of acquiring and recording new business, including 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.

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

Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured, regardless of when the payment is being made.

The specific recognition criteria described below must also be met before revenue is recognised.

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 income statement at the reporting date is recognised in the balance sheet as a provision for unearned premiums.

Other fee income

Fees relating to specific transactions or events are recognised in the income statement when the service is provided to the customer.

Interest income

The effective interest method is used to measure the interest income recognised in the income statement. 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.

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”.

Taxes

Current income 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

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.

Deferred tax liabilities are recognised for taxable temporary differences while deferred tax assets are recognised for all deductible temporary differences, the carry forward or unused tax credits and any unused tax losses.

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.

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.

Foreign currencies

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 income statement.

STATEMENT OF ACCOUNTING POLICIES

FOR THE YEAR ENDED 31 MARCH

Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

Initial recognition and measurement of financial assets

The Group classifies its financial assets in the following measurement categories:

- Those to be measured subsequently at fair value through profit and loss; and
- Those to be measured at amortised cost.

Financial assets at fair value through profit and loss

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets backing insurance contracts. The Group has equity, debt securities and units in unlisted funds that are recognised at fair value through profit or loss. These assets are carried in the balance sheet at fair value with net changes in fair value presented as finance costs (negative net changes in fair value) or finance income (positive net changes in fair value) in the statement of profit or loss.

Derecognition of financial assets

A financial asset is derecognised (i.e. removed from the Group's consolidated balance sheet) when:

- the rights to receive cash flows from the asset have expired; or
- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party through a 'pass-through' arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Impairment of financial assets

Assets measured at fair value (like equity and debt securities), where changes in value are reflected in the income statement, are not subject to impairment testing. Other assets such as receivables and joint ventures are subject to impairment testing.

Asset quality

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

Initial recognition and measurement of financial liabilities

All of the Group's financial liabilities are recognised initially at fair value and in the case of loans and borrowings and payables, net of directly attributable transaction costs. Financial liabilities are subsequently measured at amortised cost using the effective interest rate method. Amortisation and foreign exchange gains and losses are recognised in the income statement.

The Group has not designated any financial liability as at fair value through profit or loss.

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the income statement.

Fair value measurement

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, earning multiple valuation method and comparison to quoted market prices or dealer quotes for similar instruments.

Cash and cash equivalents

Cash and cash equivalents in the statement of financial position comprise cash at banks and on hand and short-term deposits with a maturity of three months or less.

Trade and other receivables

All receivables reflecting rights arising under an insurance contract as defined in NZ IFRS 4 Insurance Contracts are recognised at the amount receivable less a provision for impairment. A provision for impairment is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original term of the receivable.

Receivables within the scope of NZ IFRS 9 are managed to collect contractual cash flows and their contractual terms generate cash flows that are solely payments of principal (and interest thereon, if any). Receivables are initially recognised at fair value and are subsequently measured at amortised cost less a provision for impairment if appropriate.

Impairment is calculated as a provision for expected credit losses (ECLs). The provision for ECLs is based on the difference between the cash flows due in accordance with the contract and the cash flows that the Group expect to receive. The assessment of ECLs reflect judgements and assumptions that take into account prior credit risk and loss history, current and expected future market conditions and individual debtor circumstances.

The Group adopts the simplified approach permitted by NZ IFRS 9 with regard to non-insurance trade receivables and calculates the provision with reference to lifetime ECLs. For all other receivables, the provision is based on the portion of lifetime ECLs that result from possible defaults events within 12 months from reporting date unless there has been a significant increase in credit risk since initial recognition in which case the provision is based on lifetime ECLs.

Any increase or decrease in the provision for impairment is recognised in the statement of profit or loss and other comprehensive income. When a receivable is uncollectable, it is written off against the provision for impairment account. Subsequent recoveries of amounts previously written off are credits against expenses.

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 income statement as incurred.

Depreciation

Depreciation is calculated using 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	2% straight line
Leasehold improvements	20% straight line or the term of the lease
Furniture and office equipment	20% straight line
Computer equipment	25% straight line
Motor vehicles	20% straight line
Capital work in progress	Not depreciated until the asset is commissioned

Intangible assets

Recognition and measurement

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 costs

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 income statement 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 amortisation rates for the current and comparative periods are as follows:

Software	20%–30% straight line

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 income statement, 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.

Leases
On entering into a contract, the Group determines whether the contract contains a lease that conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Determining whether there is a right of control involves the assessment of whether the contract involves the use of an identified asset, whether the Group has the right to obtain substantially all of the economic benefits from use of that asset through the period of use, and whether the Group has the right to direct the use of the asset.

As a lessee
The Group recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost net of any lease incentives received and is subsequently depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted at the Group's incremental borrowing rate or the interest rate implicit in the lease, if this can be determined. The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate or if the Group changes its assessment of whether it will exercise a purchase, extension or termination option, with a corresponding adjustment made to the carrying value of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

Short-term leases and leaser of low-value assets
The Group has elected not to recognise right-of-use assets and lease liabilities for short term leases (lease term less than 12 months) or leases of low-value assets including IT equipment. The Group recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

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.

Statement of cash flows
The statement of cash flows is prepared exclusive of GST, which is consistent with the method used in the income statement.
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; and
- operating activities include all transactions and other events that are not investing or financing activities.

STATEMENT OF ACCOUNTING POLICIES

FOR THE YEAR ENDED 31 MARCH

Changes in accounting policies and disclosures

There have been no significant changes in accounting policies during the current period. Accounting policies have been applied on a basis consistent with the prior year, where applicable.

New standards and interpretations not yet adopted

The following standards and interpretations have been issued but are not yet effective for the period ending 31 March 2021.

Standard	Requirement	Effective for annual reporting periods beginning on or after:
NZ IFRS 17 Insurance Contracts	NZ IFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects. The core of NZ IFRS 17 is the General (building block) Model, supplemented by: – A specific adaptation for contracts with direct participation features (the Variable Fee Approach) – A simplified approach (Premium Allocation Approach) mainly for short-duration contracts The main features of the new accounting model for insurance contracts are: – A measurement of the present value of future cash flows, incorporating an explicit risk adjustment, remeasured every reporting period (the fulfilment cash flows) – A Contractual Service Margin (CSM) that is equal and opposite to any day one gain in the fulfilment cash flows of a group of contracts, representing the unearned profitability of the insurance contract to be recognised in profit or loss over the service period (i.e. coverage period) – Certain changes in the expected present value of future cash flows are adjusted against the CSM and thereby recognised in profit or loss over the remaining contract service period – The effect of changes in discount rates will be reported in either profit or loss or other comprehensive income (OCI), determined by an accounting policy choice – A presentation of insurance revenue and insurance service expenses in the statement of comprehensive income based on the concept of services provided during the period – Amounts that the policyholder will always receive regardless of whether an insured event happens (non-distinct investment components) are not presented in the income statement, but are recognised directly in the balance sheet – Insurance services results (earned revenue less incurred claims) are presented separately from the insurance finance income or expense – Extensive disclosures to provide information on the recognised amounts from insurance contracts and the nature and extent of risks arising from these contracts Early application is permitted, provided the entity also applies NZ IFRS 9 Financial Instruments and NZ IFRS 15 Revenue from Contracts with Customers on or before the date it first applies NZ IFRS 17.	1 January 2023

Work continues on the transition requirements for NZ IFRS 17 overseen by a Project Steering Group. A detailed assessment of the impact began in the 2020/21 financial year and systems development will commence in the coming year. The Group does not intend to adopt any of this standard early.

Significant accounting judgements, estimates and assumptions

The Company 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:

- claims which have been reported but not yet paid;
- claims incurred but not yet reported;
- claims incurred but not enough reported;
- the anticipated direct and indirect costs of settling these claims; and
- a risk margin to allow for the inherent uncertainty in the best estimate.

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. Claims are separated into classes of business with broadly similar reporting and settlement behaviour and the results from each class combined to determine the value of unpaid claims. Gross claims costs are established with a separate assessment of reinsurance and other recoveries.

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. Accumulations of losses from a single event are also assessed separately to allow for delays in the settlement pattern and higher degrees of uncertainty as well as any reinsurance programs that are specific to these losses.

Further information is contained in Notes 7 and 8.

Investment in Fidelity Life Limited

The shares in Fidelity Life Limited are not listed and are not traded in an active market. The shares have been valued by an independent third party using the discounted cash flow method (an income approach) and price to tangible book value multiple of using analysis of comparable companies (market approach). The valuation adopted as at 31 March 2021 is at the lower end of the average of the two valuation methods. In the prior year the shares were valued using several valuation approaches including market movements since the last valuation, price to earnings and price to tangible book value multiples. In completing the valuation price to earnings multiples in the range of 10 to 12 were considered and price to net tangible assets multiples of 0.8 to 0.9 were considered.

Description of significant unobservable inputs to valuation:

The significant unobservable inputs used in the fair value measurement categorised within Level 3 of the fair value hierarchy as at 31 March 2021 are as shown below:

Valuation technique	**Significant unobservable inputs**	Range
Price-to-Tangible Book Value Method (market approach)	Price-to-Tangible Book Value Multiples	0.70x - 0.80x TBV
Discounted Cash Flow Method (income approach)	Discount rate	11.0% - 13.0%

Further information is contained in Note 5.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH

1. Revenue

	Group 2021 $000	Group 2020 $000
General insurance revenue		
Gross earned premiums	385,435	347,765
Reinsurance and other recoveries revenue	27,703	7,654
Investment revenue:		
Interest income - other entities	141	558
Movement in financial assets at fair value through profit and loss	34,267	(358)
Total investment revenue	34,408	200
Other income:		
Other premium income	10,681	9,184
Personal Insurance revenue	5,654	5,164
Other revenue	2,103	1,758
Total other revenue	18,438	16,106
Total revenue	465,984	371,725

2. Operating expenses

	Group 2021 $000	Group 2020 $000
Employee expenses	73,355	69,191
Expenses related to low-value leases	635	205
Expenses related to short-term leases	11	13
Lease interest expense	930	1,000
Depreciation on property, plant and equipment	3,521	3,086
Depreciation on right of use assets	4,328	4,193
Amortisation on intangible assets	5,707	4,479
(Gain)/Loss on disposal of property, plant and equipment	-	(25)
Directors’ fees	438	385
Donations	14	8
Auditors' remuneration – audit of financial statements	149	150
Auditors' remuneration – solvency returns	19	19
Auditors' remuneration – taxation services	28	43
Auditors' remuneration – HR consulting	24	88

3. Income tax

	Group 2021 $000	Group 2020 $000
a) Income tax expense from continuing operations		
Current tax	15,726	5,500
Deferred tax (benefit)/expense	(503)	(581)
(Over)/under provided in prior years	29	(69)
Income tax expense/(benefit) for the year from continuing operations	15,252	4,850
b) Numerical reconciliation of income tax expense to prima facie tax payable		
Profit/(loss) before taxation		
Continuing operations	74,505	10,975
Total profit/(loss) before taxation	74,505	10,975
Prima facie income tax @ 28%	20,861	3,073
Tax effect of amounts which are non-deductible expenses/non-assessable revenue:		
Non-assessable investment (income)/loss and other items	(5,479)	1,962
Non-deductible expenses and other items	52	57
Imputation credits on dividends	(63)	(102)
Foreign tax credit	(148)	(71)
(Over)/under provided in prior years	29	(69)
Income tax expense/(benefit) for the year	15,252	4,850
c) Imputation credit account		
Balance at the beginning of the year	75,592	67,386
Net taxation paid/(refunded)	9,344	8,104
Imputation credit attached to dividends received	63	102
Balance at the end of the year	84,999	75,592

4. Cash and cash equivalents

	Group 2021 $000	Group 2020 $000
Cash at bank and in hand	68,246	39,631
Total cash and cash equivalents	68,246	39,631
a) Reconciliation of profit to net cash flows from operating activities		
Profit/(loss) for the year	59,253	6,125
Adjustments for non-cash items		
Amortisation	5,707	4,479
Depreciation	7,849	7,279
Movement in deferred tax	(503)	(580)
Movement in unearned premium	21,614	19,260
Movement in outstanding claims	10,884	(4,382)
Movement in bad debts provision	(793)	(94)
Movement in make good provision	16	26
Unrealised investment (gain)/loss	(34,852)	(304)
	9,922	25,686
Movements in other working capital items		
Movement in accounts receivable and insurance recoveries	(12,960)	4,133
Movement in accounts payable	412	1,765
Movement in accrued leave/incentives	1,749	(577)
Movement in taxation recoverable	6,411	(2,674)
	(4,388)	2,648
Items classified as investing activities		
Net (gain)/loss on sale of property, plant and equipment	-	(25)
	-	(25)
Net cash flows from operating activities	64,787	34,434

5. Investments

	Group 2021 $000	Group 2020 $000
Equity securities		
Investments in unlisted New Zealand companies	18,737	18,613
Total equity securities	18,737	18,613
Unit trust investments		
New Zealand equities	16,141	11,771
Offshore equities	75,272	47,917
Fixed interest investments - New Zealand	245,296	224,266
Fixed interest investments - Offshore	57,757	50,784
Total unit trust investments	394,466	334,738
Total other financial assets	413,203	353,351

Determination of fair value hierarchy 2021

	Level 1 $000	Level 2 $000	Level 3 $000	Total fair value $000
Financial assets at fair value through profit and loss:				
Equity securities	-	-	18,737	18,737
Unit trust investments	-	394,466	-	394,466
Total financial assets	-	394,466	18,737	413,203

Determination of fair value hierarchy 2020

	Level 1 $000	Level 2 $000	Level 3 $000	Total fair value $000
Financial assets at fair value through profit and loss:				
Equity securities	-	-	18,613	18,613
Unit trust investments	-	334,738	-	334,738
Total financial assets	-	334,738	18,613	353,351

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 asset in this category is an unlisted equity investment. 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 include expected future maintainable earnings and market multiples and 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

	As at 1 April 2020	Total gain in profit and loss	As at 31 March 2021
	$000	$000	$000
Equity securities	18,613	124	18,737
	18,613	124	18,737

	As at 1 April 2019	Total loss in profit and loss	As at 31 March 2020
	$000	$000	$000
Equity securities	20,108	(1,495)	18,613
	20,108	(1,495)	18,613

Sensitivity of level 3 financial instruments to changes in key assumptions

	Carrying value at 31 March 2021	Effect of reasonably possible alternate assumptions (+/-)
	$000	$000
Equity securities	18,737	1,662
	18,737	1,662

	Carrying value at 31 March 2020	Effect of reasonably possible alternate assumptions (+/-)
	$000	$000
Equity securities	18,613	1,662
	18,613	1,662

For equities, the Company adjusted the share price by $10 per share, which was considered by the Company to be within a range of reasonably possible alternatives.

6. Trade and other receivables

	Notes	Group 2021 $000	Group 2020 $000
Trade debtors		137,278	124,547
Reinsurance debtors		1,035	931
Other receivables		3,584	5,506
Uninsured third party recoveries		4,004	4,867
Allowance for collective impairment	15	(3,604)	(4,397)
		142,297	131,454
Current		142,297	131,454

There are no past due or impaired trade debtors, reinsurance debtors or other receivables as at 31 March 2021. The allowance for collective impairment relates specifically to uninsured third party recoveries when amounts are past due.

7. Underwriting provisions and reinsurance and other recoveries

	Group 2021 $000	Group 2020 $000
Underwriting provisions comprise:		
Liability for outstanding claims		
Expected future claim payments (undiscounted)	104,531	93,406
Discount to present value	(438)	(197)
	104,093	93,209
Provision for unearned premiums	200,591	178,977
Underwriting provisions	304,684	272,186
Current	287,625	256,999
Non-current	17,059	15,187
	304,684	272,186
Provision for reinsurance and other recoveries comprise:		
Expected future recoveries (undiscounted)	(22,345)	(19,388)
Discount to present value	88	41
Net insurance recoveries	(22,257)	(19,347)
Current	(16,543)	(13,849)
Non-current	(5,714)	(5,498)
	(22,257)	(19,347)

8. General insurance contracts

(a) Net general insurance claims incurred

	2021			2020		
	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
Group						
Gross claims expense						
Direct claims – undiscounted	228,960	9,296	238,256	219,373	(3,777)	215,596
Discount	(230)	(11)	(241)	(158)	1,169	1,011
Gross claims expense	228,730	9,285	238,015	219,215	(2,608)	216,607
Reinsurance and other recoveries						
Reinsurance and other recoveries revenue – undiscounted	(18,770)	(8,980)	(27,750)	(9,707)	2,560	(7,147)
Discount	24	23	47	16	(523)	(507)
Reinsurance and other recoveries	(18,746)	(8,957)	(27,703)	(9,691)	2,037	(7,654)
Net claims incurred	209,984	328	210,312	209,524	(571)	208,953

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.

(b) 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						
	2016	2017	2018	2019	2020	2021	Total
	$000	$000	$000	$000	$000	$000	$000
Ultimate claims cost estimate							
At end of accident year	134,206	243,860	178,886	177,007	212,499	230,811	
One year later	135,266	277,987	178,348	179,875	211,517		
Two years later	132,830	285,783	178,916	179,405			
Three years later	133,683	288,362	179,776				
Four years later	134,144	289,206					
Five years later	134,043						
Current estimate of ultimate claims cost	134,043	289,206	179,776	179,405	211,517	230,811	
Cumulative payments	134,026	284,721	179,336	177,979	204,943	158,744	
Undiscounted central estimate	17	4,484	439	1,426	6,574	72,067	85,008
Discount to present value	-	(6)	(1)	(7)	(25)	(126)	(165)
Discounted central estimate	17	4,478	438	1,419	6,549	71,941	84,843
Prior years							10,805
Risk margin							8,445
Gross outstanding claims liabilities							104,093
Reinsurance recoveries on outstanding claims and other recoveries							(22,257)
Net outstanding claims liabilities							81,836

(c) Analysis of outstanding claims

	Group 2021 $000	Group 2020 $000
Gross central estimate of present value of future claims payment	95,648	85,344
Risk margin	8,445	7,865
Total outstanding claims liability	104,093	93,209
The expected settlement pattern of the outstanding claims liability is as follows:		
Current	87,034	78,022
Non-current	17,059	15,187
Total outstanding claims liability	104,093	93,209

The total liability relates to direct insurance.

Assumptions adopted in calculation of general insurance provisions

The effective date of the actuarial report on the Insurance Liabilities is 31 March 2021. The previous assessment of the Insurance Liabilities was performed at 31 March 2020.

The actuarial report was prepared by Margaret Cantwell, the actuary, a fellow of the NZ Society of Actuaries and the Institute of Actuaries of Australia. 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. 30 governing technical liability valuations for general insurance business.

The past patterns of claim reporting and settlement have been analysed to determine the best estimate of the current outstanding claims. Claims inflation and direct claims handling expenses are implicit within the historical data and future experience is assumed to continue at similar levels. Internal claims handling expenses assume recent experience continues. The resulting cash flows have been discounted using a single discount rate determined as the average rate for a portfolio of Government Stock that matches the liability cash flows by duration.

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.

The risk margins for the Liability Adequacy Test at the same probability of adequacy are higher than for the outstanding claims as claims to be incurred over the remainder of the insurance contract is less certain.

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

	2021	2020
Inflation rate	**Implicit**	Implicit
Discount rate	**0.35%**	0.31%
Claims handling expense ratio – outstanding claims liabilities	**5.00%**	4.0%
Claims handling expense ratio – premium liabilities	**6.30%**	5.2%
Risk margin – outstanding claims liabilities	**11.60%**	12.0%
Risk margin – premium liabilities	**13.90%**	14.0%
Weighted average expected term to settlement	**220 days**	208 days

Reconciliation of movements in assets and liabilities arising from general insurance contracts

	Group 2021 $000	Group 2020 $000
Outstanding claims liability		
Gross outstanding claims at the beginning of the year	**93,209**	97,591
Claims incurred during the year	**238,015**	216,607
Claims payments made during the year	**(227,131)**	(220,989)
Gross outstanding claims at the end of the year	**104,093**	93,209
Reinsurance and other recoveries receivable		
Reinsurance and other recoveries receivable at the beginning of the year	**(19,347)**	(37,855)
Reinsurance and other recoveries incurred during the year	**(27,703)**	(7,654)
Reinsurance and other recoveries received during the year	**24,793**	26,162
Reinsurance and other recoveries receivable at the end of the year	**(22,257)**	(19,347)

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.

		2021		2020	
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%	**222**	**368**	252	331
	Decrease of 1%	**(295)**	**(378)**	(79)	(104)
Claims handling expense ratio	Increase of 1%	**(582)**	**(582)**	(577)	(577)
	Decrease of 1%	**582**	**582**	577	577
Risk margin	Increase of 1%	**(558)**	**(558)**	(472)	(472)
	Decrease of 1%	**558**	**558**	472	472
Weighted average expected term to settlement	Increase 0.5 years	**472**	**603**	425	540
	Decrease 0.5 years	**(475)**	**(608)**	(429)	(545)

(d) 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 17 to 19.

(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 including reinsurance together with claims management, reserving and investment management. The objective of these disciplines is to maintain sustainable 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;
- the use of reinsurance to limit the Group's exposure;
- prudent investment management to match the Group's liabilities.

(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. 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. 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

The Group has a programme of reinsurance contracts to protect its insurance operations from volatility in claims costs due to high severity losses and catastrophic events. The Group monitors areas of concentration risk and the reinsurance programme is constructed accordingly. No inward reinsurance is written by the Group.

Reinsurance is placed to cover losses in excess of the Group's agreed retention 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. The catastrophe programme provides cover up to the estimated losses from a 1 in 1,000 year event.

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 5%-25% of the reinsurance programme depending on the credit rating of the reinsurer.

(e) Liability adequacy test

The probability of adequacy adopted in performing the liability adequacy test is 75%.

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.

	Group 2021 $000	Group 2020 $000
Net central estimate of the present value of expected future cash flows from future claims	150,360	134,109
Risk margin of the present value of expected future cash flows	20,933	18,748

(f) Insurer financial strength rating

The Group has a financial strength rating of A (Excellent) as accorded by the international rating agency AM Best Group on 4 March 2021 (2020: A (Excellent)).

9. Deferred acquisition costs

	Group 2021 $000	Group 2020 $000
Balance at the beginning of the year	3,667	3,667
Deferred Acquisition costs recognised during the year	(3,667)	(3,667)
Acquisition costs deferred during the year	3,667	3,667
Balance at the end of the year	3,667	3,667
Current	3,667	3,667

10. Property, plant and equipment

2021 – Group	**Land and Buildings $000**	**Leasehold Improvement $000**	**Furniture and Fittings $000**	**Computer Equipment $000**	**Motor Vehicles $000**	**Total $000**
Cost						
Balance at the beginning of the year	713	6,754	2,096	13,532	164	23,259
Additions	-	1,205	314	992	-	2,511
Disposals and transfers	-	-	-	-	-	-
Balance at the end of the year	713	7,959	2,410	14,524	164	25,770
Depreciation and impairment losses						
Balance at the beginning of the year	30	3,306	1,220	10,005	46	14,607
Depreciation for the year	14	1,170	369	1,935	33	3,521
Disposals and transfers	-	-	-	-	-	-
Balance at the end of the year	44	4,476	1,589	11,940	79	18,128
Carrying amounts						
At the beginning of the year	683	3,448	877	3,527	118	8,652
At the end of the year	669	3,483	821	2,584	85	7,642

2020 – Group	Land and Buildings $000	Leasehold Improvement $000	Furniture and Fittings $000	Computer Equipment $000	Motor Vehicles $000	Total $000
Cost						
Balance at the beginning of the year	713	6,564	1,466	12,265	262	21,269
Additions	-	190	631	1,270	-	2,091
Disposals and transfers	-	-	(1)	(3)	(98)	(101)
Balance at the end of the year	713	6,754	2,096	13,532	164	23,259
Depreciation and impairment losses						
Balance at the beginning of the year	16	2,493	812	8,190	54	11,565
Depreciation for the year	14	813	408	1,815	36	3,086
Disposals and transfers	-	-	-	-	(44)	(44)
Balance at the end of the year	30	3,306	1,220	10,005	46	14,607
Carrying amounts						
At the beginning of the year	697	4,071	654	4,075	208	9,705
At the end of the year	683	3,448	877	3,527	118	8,652

11. Intangible assets

2021 – Group	**Computer software $000**	**Total $000**
Cost		
Balance at the beginning of the year	**49,684**	**49,684**
Acquisitions – internally developed	**4,696**	**4,696**
Acquisitions – other additions	**-**	**-**
Disposals	**-**	**-**
Balance at the end of the year	**54,380**	**54,380**
Amortisation and impairment losses		
Balance at the beginning of the year	**37,742**	**37,742**
Amortisation for the year	**5,707**	**5,707**
Disposals	**-**	**-**
Balance at the end of the year	**43,449**	**43,449**
Carrying amounts		
At the beginning of the year	**11,942**	**11,942**
At the end of the year	**10,931**	**10,931**

2020 – Group	Computer software $000	Total $000
Cost		
Balance at the beginning of the year	45,252	45,252
Acquisitions – internally developed	4,432	4,432
Acquisitions – other additions	-	-
Disposals	-	-
Balance at the end of the year	49,684	49,684
Amortisation and impairment losses		
Balance at the beginning of the year	33,263	33,263
Amortisation for the year	4,479	4,479
Disposals	-	-
Balance at the end of the year	37,742	37,742
Carrying amounts		
At the beginning of the year	11,989	11,989
At the end of the year	11,942	11,942

Amortisation of intangible assets is included in operating expenses.

12. Lease assets and liabilities

(a) Right of use assets

2021 – Group	Property Leases $000	Motor Vehicles Leases $000	Other Leases $000	Total $000
Cost				
Balance at the beginning of the year	19,302	1,078	78	20,458
Additions	3,372	2,528	-	5,900
Disposals	(736)	(108)	-	(844)
Depreciation for the year	(3,311)	(994)	(23)	(4,328)
Balance at the end of the year	18,627	2,504	55	21,186

2020 – Group	Property Leases $000	Motor Vehicles Leases $000	Other Leases $000	Total $000
Cost				
Balance at the beginning of the year	22,500	2,051	102	24,653
Additions	-	-	-	-
Disposals	-	-	-	-
Depreciation for the year	(3,198)	(972)	(24)	(4,193)
Balance at the end of the year	19,302	1,078	78	20,459

Other leases includes leases of office equipment.

(b) Lease liabilities

2021 – Group	$000
Lease liabilities	
Balance at the beginning of the year	(21,406)
Additions	(5,900)
Disposals	860
Interest Charged	(930)
Repayments	4,916
Balance at the end of the year	(22,460)

Total repayments during the year of $4,916k is made of $3,986k of principal repayments and $930k of interest repayments.

The maturity of the contractual undiscounted cashflows is as follows:

	$000
Less than one year	5,021
One to five years	15,395
More than five years	5,050
Total undiscounted lease liabilities	25,466

The maturity of the lease liabilities included in the balance sheet is as follows:

	$000
Less than one year	4,523
One to five years	13,652
More than five years	4,285
Total lease liabilities	22,460

2020 – Group	$000
Lease liabilities	
Balance at the beginning of the year	(25,174)
Additions	-
Disposals	-
Interest Charged	(1,000)
Repayments	4,768
Balance at the end of the year	(21,406)

Total repayments during the year of $4,768k is made of $3,768k of principal repayments and $1,000k of interest repayments.

The maturity of the contractual undiscounted cashflows is as follows:

	$000
Less than one year	4,495
One to five years	13,866
More than five years	6,143
Total undiscounted lease liabilities	24,504

The maturity of the lease liabilities included in the balance sheet is as follows:

	$000
Less than one year	4,026
One to five years	12,127
More than five years	5,254
Total lease liabilities	21,406

13. Deferred tax

2021 – Group	Opening balance at 1 April 2020	Charged/ (credited) to profit and loss	Closing balance at 31 March 2021
Movements in deferred tax assets			
Provisions and accruals	9,053	29	9,082
Total deferred tax assets	9,053	29	9,082
Movement in deferred tax liabilities			
Property, plant & equipment & Software	(5,767)	751	(5,016)
Deferred acquisition costs	(1,027)	-	(1,027)
Other	(1,254)	(277)	(1,531)
Total deferred tax liabilities	(8,048)	474	(7,574)
Deferred tax assets/(liabilities), net	1,005	503	1,508

2020 – Group	Opening balance at 1 April 2019	Charged/ (credited) to profit and loss	Closing balance at 31 March 2020
Movements in deferred tax assets			
Provisions and accruals	8,956	97	9,053
Total deferred tax assets	8,956	97	9,053
Movement in deferred tax liabilities			
Property, plant & equipment & Software	(6,075)	308	(5,767)
Deferred acquisition costs	(1,027)	-	(1,027)
Other	(1,429)	175	(1,254)
Total deferred tax liabilities	(8,531)	483	(8,048)
Deferred tax assets/(liabilities), net	425	580	1,005

14. Trade and other liabilities

	Group 2021 $000	Group 2020 $000
Trade creditors	**6,183**	5,847
Reinsurance creditors	**1,212**	2,151
Employee benefits	**9,291**	7,564
Other liabilities	**14,104**	13,031
	30,790	28,593
Current	**30,790**	28,593

15. Allowances for impaired assets

Group	**Total $000**
At 1 April 2019	4,491
Utilised	(4,491)
Additional provision	4,397
As at 31 March 2020	**4,397**
Utilised	**(4,397)**
Additional provision	**3,604**
As at 31 March 2021	**3,604**

There was no interest income on impaired financial assets accrued for the current year (2020: $Nil). The allowance is entirely for collectively impaired assets.

16. Related party transactions

a) Group Holdings

At 31 March 2021 the following percentage shareholdings were held in related entities which, unless stated otherwise, all have balance dates ending on 31 March:

	2021	2020	**Principal Activities**
	%	%	
Subsidiaries			
FMG Insurance Limited	**100**	100	General Insurance

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 Group has related party receivables of $Nil (2020: $Nil).

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 and Directors 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 2021 $000	Group 2020 $000
Short-term employee benefits	**4,051**	5,281

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

17. 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.

Other financial assets

With respect to credit risk arising from the other financial assets of the Group, which comprise cash and cash equivalents and financial assets, 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.

18. 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. The risk is not considered material.

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 unit trust investments 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	
	Impact on profit $000	Impact on equity $000
2021		
10% increase in unit prices	**39,447**	**39,447**
10% decrease in unit prices	**(39,447)**	**(39,447)**
2020		
10% increase in unit prices	33,474	33,474
10% decrease in unit prices	(33,474)	(33,474)

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. The Group's exposure to bank interest rate risk is represented by the fair value analysis shown in this note. The Group also has exposure to interest rate risk via its fixed interest funds investments, which would result in change in unit prices. Receivables are shown at amortised cost and as such are not exposed to fair value interest rate risk. Interest rates on receivables are not floating and therefore a change in the interest rate will not present a cashflow risk.

Interest rate cash flows risk analysis

	Group	
	Impact on profit $000	Impact on equity $000
2021		
0.25% increase in interest rates	**167**	**167**
0.25% decrease in interest rates	**(167)**	**(167)**
2020		
0.25% increase in interest rates	97	97
0.25% decrease in interest rates	(97)	(97)

19. Liquidity risk

The contractual cash flows of financial assets and liabilities are as follows:

2021 – Group	Weighted average interest rate	0-6 months $000
Bank deposits	0.25%	68,246
Trade and other current receivables		142,297
Total financial assets		210,543
Trade and other current liabilities		30,790
Total financial liabilities		30,790
Net financial position		179,753
2020 – Group		
Bank deposits	1.17%	39,631
Trade and other current receivables		131,454
Total financial assets		171,085
Trade and other current liabilities		28,593
Total financial liabilities		28,593
Net financial position		142,493

There are no contractual cash flows of financial assets and liabilities greater than 6 months.

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 Group 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.

FMG Insurance Limited (a subsidiary of Farmers' Mutual Group), as an insurer licensed under the Insurance (Prudential Supervision) Act 2010, is required to disclose information with regards to our solvency position. The minimum solvency capital required to be retained to meet solvency requirements are shown below. The methodology and bases for determining the solvency margin are in accordance with the requirements of the Solvency Standard for Non-Life Insurance Business published by the Reserve Bank of New Zealand.

	2021 $000	2020 $000
Actual Solvency Capital	293,755	236,151
Minimum Solvency Capital	128,772	106,731
Solvency Margin	164,983	129,420
Solvency Ratio	2.28	2.21

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 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.

20. Financial instruments

2021 – Group	**At fair value through profit or loss**	**Other financial assets at amortised cost**	**Total carrying amount at fair value**
	$000	**$000**	**$000**
Bank deposits	**-**	**68,246**	**68,246**
Investments	**413,203**	**-**	**413,203**
Trade and other current receivables	**-**	**142,297**	**142,297**
Total assets	**413,203**	**210,543**	**623,746**

	At fair value through profit or loss	**Other financial liabilities at amortised cost**	**Total carrying amount at fair value**
	$000	**$000**	**$000**
Trade and other current liabilities	**-**	**30,790**	**30,790**
Total liabilities	**-**	**30,790**	**30,790**

2020 – Group	At fair value through profit or loss	Other financial assets at amortised cost	Total carrying amount at fair value
	$000	$000	$000
Bank deposits	-	39,631	39,631
Investments	353,351	-	353,351
Trade and other current receivables	-	131,454	131,454
Total assets	353,351	171,085	524,436

	At fair value through profit or loss	Other financial liabilities at amortised cost	Total carrying amount at fair value
	$000	$000	$000
Trade and other current liabilities	-	28,593	28,593
Total liabilities	-	28,593	28,593

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

- For receivables 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 receivables with similar credit and maturity profiles;
- The fair value calculation of 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.

21. Commitments

There are no capital commitments at 31 March 2021 (2020: $Nil).

The Group has commitments related to computer software which expire in September 2021, the current commitment as at 31 March 2021 is $1,040k (2020: $2,350k).

21. Contingencies

There are no contingent liabilities at 31 March 2021 (2020: $Nil).

22. Subsequent events

There are no subsequent events.

Building a better working world

Independent auditor's report to the Members of Farmers' Mutual Group

Opinion

We have audited the financial statements of Farmers' Mutual Group ("the Mutual") and its subsidiaries (together "the Group") on pages 22 to 54, which comprise the consolidated balance sheet of the Group as at 31 March 2021, and the consolidated income statement, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended of the Group, and the notes to the financial statements including a summary of significant accounting policies.

In our opinion, the consolidated financial statements on pages 22 to 54 present fairly, in all material respects, the consolidated financial position of the Group as at 31 March 2021 and its consolidated financial performance and cash flows for the year then ended in accordance with New Zealand Equivalents to International Financial Reporting Standards and International Financial Reporting Standards.

This report is made solely to the Mutual's members as a body. 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.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (New Zealand). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report.

We are independent of the Group in accordance with Professional and Ethical Standard 1 *International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand)* issued by the New Zealand Auditing and Assurance Standards Board, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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

We provide taxation services, remuneration services and other assurance services to the Mutual and its subsidiaries. Partners and employees of our firm may deal with the Group on normal terms within the ordinary course of trading activities of the business of the Group. We have no other relationship with, or interest in, the Group.

Information other than the consolidated financial statements and auditor's report

Those charged with governance are responsible for the Annual Report, which includes information other than the consolidated financial statements and auditor's report.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained during the audit, or otherwise appears to be materially misstated.

If, based upon the work we have performed on the other information obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Those charged with governance responsibilities for the consolidated financial statements

Those charged with governance are responsible, on behalf of the Mutual, for the preparation and fair presentation of the consolidated financial statements in accordance with New Zealand Equivalents to International Financial Reporting Standards and International Financial Reporting Standards, and for such internal control as those charged with governance determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, those charged with governance are responsible for assessing on behalf of the Mutual the Mutual's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless those charged with governance either intend to liquidate the Mutual or cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards on Auditing (New Zealand) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

A further description of our responsibilities for the audit of the consolidated financial statements is located at the External Reporting Board website: https://www.xrb.govt.nz/standards-for-assurance-practitioners/auditors-responsibilities/audit-report-7/. This description forms part of our auditor's report.

Ernst + Young

Chartered Accountants
Wellington
24 June 2021

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 2021	Group 2020
100,000 – 110,000	**66**	57
110,001 – 120,000	**61**	55
120,001 – 130,000	**39**	37
130,001 – 140,000	**26**	17
140,001 – 150,000	**18**	25
150,001 – 160,000	**15**	19
160,001 – 170,000	**14**	14
170,001 – 180,000	**10**	9
180,001 – 190,000	**4**	3
190,001 – 200,000	**7**	7
200,001 – 210,000	**5**	4
210,001 – 220,000	**2**	1
220,001 – 230,000	**2**	1
230,001 – 240,000	**1**	2
240,001 – 250,000	**1**	3
250,001 – 260,000	**5**	2
260,001 – 270,000	**1**	2
270,001 – 280,000	**1**	2
280,001 – 290,000	**1**	-
310,001 – 320,000	**1**	1
320,001 – 330,000	**1**	1
340,001 – 350,000	**2**	1
360,001 – 370,000	**-**	1
370,001 – 380,000	**1**	-
380,001 – 390,000	**-**	1
400,001 – 410,000	**-**	1
430,001 – 440,000	**1**	-
440,001 – 450,000	**-**	1
490,001 – 500,000	**1**	-
570,001 – 580,000	**1**	1
660,001 – 670,000	**-**	1
710,001 – 720,000	**-**	1
1,020,001 – 1,030,000	**1**	-
1,360,001 – 1,370,000	**-**	1

DIRECTORY

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FMG Insurance Limited

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PO Box 521
Wellington 6140

Bankers
The Bank of New Zealand

Primary External Legal Provider
DLA Piper, Wellington

Auditors
Ernst & Young, Wellington

Board of Directors
Tony Cleland – *Chair of the Board*
Michael Ahie – *Chair of the People & Governance Committee*
Geoff Copstick
Steve Allen
Murray Taggart
Sinead Horgan – *Chair of the Risk & Audit Committee*
Sarah Smith
Sarah von Dadelszen

Executive Leadership Team
Chris Black – *Chief Executive Officer*
Andrea Brunner – *Chief Client Officer*
Dave Kibblewhite – *Chief Financial, Investment and Risk Officer*
Glenn Croasdale – *General Manager Client Propositions & Online Services*
Pete Frizzell – *General Manager People & Culture and Communications*
Nathan Barrett – *Chief Product & Pricing, Underwriting and Claims Officer*
Colin Philp – *Chief Information Officer*

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