BACKING A GREAT NZ STORY

Annual Report and Financial Statements 2013/2014

FMG
Advice & Insurance

ALL **GOOD BOOKS**
START WITH A GOOD STORY,
OURS STARTED
109 YEARS AGO

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CHAIRMAN'S REPORT

"WE FINISHED THE YEAR WITH A **PRE-TAX PROFIT OF $19.8M**"

This the 109th year was a very successful one for the Mutual; our fourth best financial result, the successful introduction of a new policy and billing computer system and record new client growth, coupled with an enviable retention rate in terms of our existing client base. This was against a backdrop of some very serious claims events, including the Canterbury wind storms in September/October 2013.

We finished the year with a pre-tax profit of $19.8m compared to $41.3m for the previous financial year. The earlier year was a record result and much higher than anticipated and allowed us to hold base premium rates for a year - a very tangible way to demonstrate the mutual ethos. While we need to make a profit to ensure the Mutual will endure, our clients who are also members should expect our base premium levels reflect that mutuality.

Operating profit was made up of $3.5m from underwriting activities and income of $16.3m on our investment portfolio. Reserves were up $17.5m on the previous year to $197.4m at the year end, with international rating agency A.M. Best again confirming FMG's credit rating at A (Excellent)*.

The year was a very busy one for all those involved in seeing the culmination of a three year project to introduce a new computer system to FMG at a cost of $22m. Implementing complex information systems are notoriously difficult so it was with some trepidation we went live with our new system on the 9th of September 2013. This current year will see us begin to replace the claims module of the system at a cost of about $12m.

For the past five years we have been on a very single minded strategy of growth. The Board is particularly proud that during a period of major internal change with the introduction of a new computer system, the rate of growth was not compromised - a credit to everybody.

*A copy of the A.M.Best's Financial Strength Rating Scale is available for inspection at every FMG office in New Zealand and is also available on our website www.fmg.co.nz

As I signalled in last year's annual report, the impact and cost of new compliance legislation for insurance organisations has continued. Pleasingly, we are performing well in terms of meeting the raft of new requirements. This year will see the enactment of new Health and Safety legislation that will have another impact with liability resting firmly with boards of directors. Fortunately, we already place a lot of emphasis on Health and Safety across FMG. On farm, the new regulations are also likely to have a significant impact.

It is with sadness that this year's AGM will be the last for retiring director Murray Donald who has served FMG admirably for fifteen years and will retire in accordance with the Board's tenure policy. Murray will be missed for his dedication and very wise counsel. I am sure you will join me in wishing Murray and Carolynn well for the future.

Not unrelated to Murray's retirement, for the first time in FMG's recent corporate memory, we will have a contested election at the upcoming AGM for a position on the Board. I see this as a healthy evolution for the Mutual.

I would like to thank my fellow Board members for the time and dedication they have shown over the last year. The Board is a very challenging but constructive one and a privilege to lead.

The employee effort this year has been quite exceptional in the context of achieving record client growth and at the same time introducing a complex new core computer system. Congratulations and a huge "thank you" to Chief Executive, Chris Black and his entire FMG team for a year of outstanding achievement.

Greg Gent
Chairman
FMG

"CLIENT SATISFACTION **IS AT THE HIGHEST LEVELS ON RECORD**"

This year has been an exceptional one for the Mutual with record client growth of 11% and a fifth consecutive profit. Making a profit and increasing reserves each year is a pre-requisite to supporting a growth model because under the Prudential (Insurance Supervision) Act 2010, the Reserve Bank of New Zealand specifies certain minimum capital thresholds insurance organisations must meet at all times. In simple terms, the larger the business the more capital is required.

Equally, we are very mindful of the need to keep overall premium increases to a minimum. This is in the spirit of sticking to the core purpose of the Mutual which is to give rural New Zealand a better deal. A philosophy which was set 109 years ago, and one we have worked hard to deliver on again this year.

It is noteworthy in this year's financial statements that premiums in the Parent entity of FMG decreased by $40m over the previous year and increased the same amount in the Subsidiary, FMG Insurance Limited. At a Group level, the results are unaffected. The reason for the change relates to simplifying the management of the Mutual's corporate affairs and has been approved by our regulator, The Reserve Bank of New Zealand.

The year's headline underwriting result of $3.5m masks the material financial impact of nine major storms and three significant earthquakes during the year, the highest number of such events this century. These unpredictable events cost the Mutual $16m (net of reinsurance recoveries) and reinforce the need for a conservative and sustainable capital management strategy that allows the business to absorb shocks like multiple storms and earthquakes on behalf of clients and members.

Despite the impact of severe weather and more earthquakes, it is pleasing to note that client satisfaction is currently running at the highest levels on record. This reflects the extraordinary commitment employees have to providing good quality advice, personalised day-to-day service and good support in a client's hour of need. Related to this, in terms of the 2010 and 2011 Canterbury earthquakes, we have settled 91% of claims, leaving fewer than 300 still to settle.

FMG was rated the second best large workplace in New Zealand in 2013. It is a privilege for me to be able to work alongside such a committed team of professionals on behalf of clients and members. This last year has been extra challenging with the introduction of a large new computer system – thank you to all my colleagues who went above and beyond in so many ways for extended periods during the last year to make this possible, and to the board who provided excellent support and guidance throughout what was a very complex project.

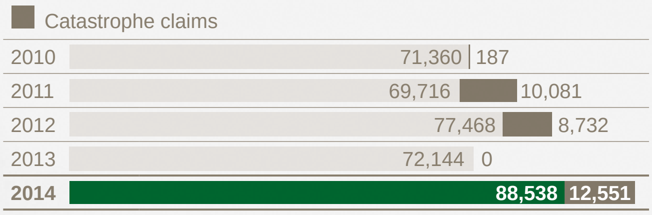
On behalf of the FMG team, special thanks to Murray Donald, who is retiring as a director at this year's AGM, for his positive, well-grounded and insightful contribution over the last 15 years. Murray leaves the mutual in great heart, good shape and growing strongly.

Chris Black
Chief Executive
FMG

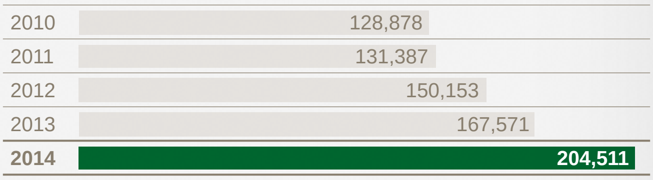
DIRECTORS' REPORT

Five year comparisons

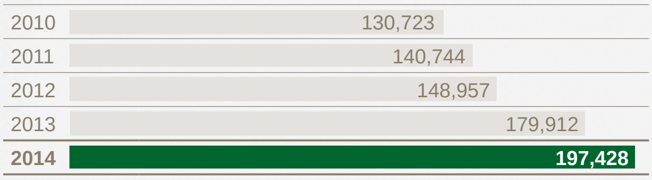
NZ Claims and catastrophes ($000)



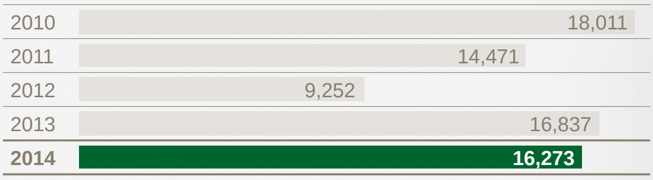
NZ General insurance gross written premium ($000)



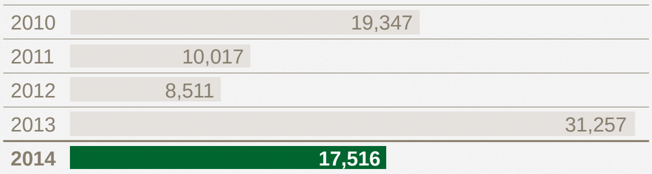
Equity ($000)



Investment income ($000)



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



The Directors have pleasure in presenting Farmers' Mutual Group's[1] 109th Annual Report and Financial Statements for the year ended 31 March 2014.

Principal Activities

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

Farmers' Mutual Group Act 2007

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

Financial Results

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

- Increase in gross written premium from continuing operations to $204.5m from $167.6m
- Decrease in net investment income from continuing operations to $16.3m from $16.8m
- Increase in net claims incurred from continuing operations to $101.1m from $72.1m
- Decrease in profit from continuing operations after tax to a $17.5m profit from $31.3m

	2014	2013
	$000	$000
Profit from continuing operations before taxation	**19,772**	41,314
Taxation	**(2,256)**	(10,057)
Profit for the year	**17,516**	31,257

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

[2] Reference to the "Group" in this report and the Financial Statements means the Parent and all subsidiaries.

Membership
As at 31 March 2014, membership of the Parent stands at 48,815.

Directorate
In accordance with the tenure provisions of the Director Appointment and Reappointment Policy, Mr. Murray Donald will retire after 15 years of service at this year's Annual General Meeting.

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

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

The Board meets on a regular basis.

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

The Group is also subject to the Insurance (Prudential Supervision) Act 2010 and thus comes under the direct supervision of the Reserve Bank of New Zealand. In accordance with the requirements of that Act, Farmers' Mutual Group and FMG Insurance Limited each hold full Licences.

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

Remuneration of Directors
Directors' remuneration received, or due and receivable during the year amounted to $0.290m (2013: $0.263m). The amounts paid to each director for both the FMG and FMG Insurance Limited Boards are as follows:

	2013-2014	2012-2013
Name	**$000**	$000
G W Gent (Chair)	**70**	68
M W A Donald	**40**	39
M L James	**40**	39
T D Cleland	**40**	39
G R Milne	**40**	39
M J T Ahie	**40**	39
C L Mitchener	**10**	-
D Chan	**10**	-
Total	**290**	263

NINE MAJOR WEATHER EVENTS THREE EARTHQUAKES

DIRECTORS' REPORT

The Board as at 31 March 2014

The FMG Directors are Mr. Greg Gent (Chair), Mr. Murray Donald, Mrs. Marise James, Mr. Graeme Milne, Mr. Tony Cleland, Mr. Michael Ahie, Mrs. Cindy Mitchener and Mr. Danny Chan. Mr. Chan and Mrs. Mitchener were appointed as Special Directors in November 2013 in accordance with the FMG Constitution.

The following are the Directors' qualifications and expertise:

Greg Gent

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

Murray Donald

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

Marise James

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

Graeme Milne

Mr. Milne has considerable experience in agribusiness as well as corporate governance, including his previous roles as CEO of Bay Milk Products, New Zealand Dairy Group and Bonlac. He is currently the Chairman of Synlait Milk Ltd and New Zealand Pharmaceuticals Limited and is a Director of Genesis Energy Limited, amongst others.

Tony Cleland
Mr. Cleland is a Southland dairy farming entrepreneur and founder of FarmRight, an independent dairy farming management and consultancy company based in Lumsden. He is also a Director of Field Power Northland.

Michael Ahie
Mr. Ahie is the CEO and a founding partner of AltusQ. He has broad international business and governance experience with multinational companies including Toyota New Zealand Ltd, the New Zealand Dairy Board and Wrightson Ltd. Mr. Ahie is also Chairman of Plant and Food Research, Pro Chancellor at Massey University and has farming interests in Taranaki.

Cindy Mitchener
Mrs. Mitchener has an extensive career in media including senior roles with Radio NZ, Saatchi & Saatchi and TV3. This was followed by a three year stint as CEO of e-ventures. Mrs. Mitchener is a lifestyle block owner and currently runs a number of her own digital, advertising and recruitment companies.

Danny Chan
Early in his career Mr. Chan worked in financial services with MLC, Westpac and Fidelity Investments, a leading global asset management company. He is now a large grower/exporter of flowers and has a Nelson based seafood export operation and founded a private educational institution that now operates in five countries. He has extensive governance experience including six years on the board of AgResearch.

RECORD CLIENT
GROWTH
OF 11%

DIRECTORS' REPORT

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

Each Director must be assessed as being fit and proper in accordance with FMG's Fit and 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 2014

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

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

Attendance of meetings for 2013-2014 is detailed below:

	Number of meetings	Number attended
FMG Board Meetings – total number 7		
G W Gent (Chair)	7	7
M W A Donald	7	7
M L James	7	7
T D Cleland	7	7
G R Milne	7	7
M J T Ahie	7	7
C L Mitchener	3	3
D Chan	3	3

	Number of meetings	Number attended
Audit Meetings – total number 3		
M W A Donald (Chair)	3	3
G W Gent	3	3
G R Milne	3	2
M J T Ahie	3	3
T D Cleland (sub for G Milne)	1	1

	Number of meetings	Number attended
Nomination, Remuneration and Governance Meetings – total number 2		
G W Gent (Chair)	2	2
M L James	2	2
T D Cleland	2	2

DIRECTORS' REPORT

Directors of FMG's Subsidiaries as at 31 March 2014

The current FMG Insurance Limited Directors are Mr. Greg Gent, Mrs. Marise James, Mr. Tony Cleland, Mr. Murray Donald, Mr. Graeme Milne, Mr. Michael Ahie, Mr. Danny Chan and Mrs. Cindy Mitchener. 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 2014

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

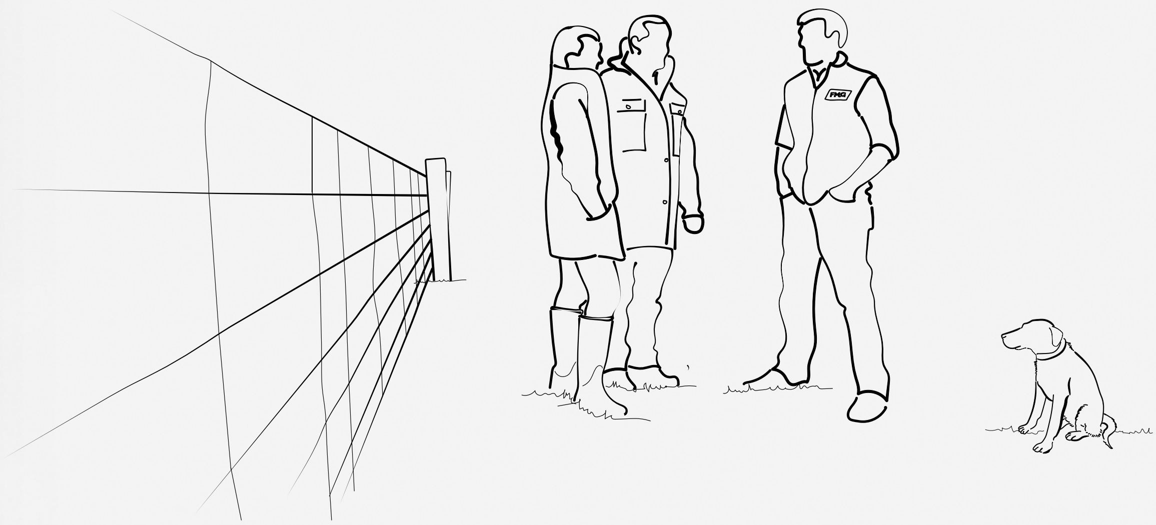
(b) A majority of Directors are required to be members of FMG. Any associated insurance policies or transactions are administered according to normal business practice at arm's length.

(c) Directors' remuneration is disclosed on page 5.

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

Auditors

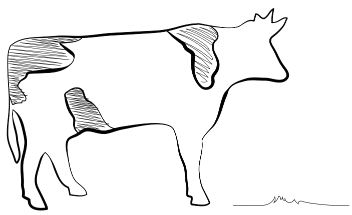
In accordance with Section 27 of the Farmers' Mutual Group Act 2007 and Section 196 of the Companies Act 1993, EY has been appointed as Auditors for the Group.



INCOME STATEMENT
for the year ended 31 March

	Notes	Group 2014 $000	Group 2013 $000	Parent 2014 $000	Parent 2013 $000
Continuing operations					
General insurance activities					
Gross written premium		**204,511**	167,571	**88,335**	128,228
Movement in unearned premium		**(23,023)**	(7,731)	**34,240**	(4,854)
Gross earned premium	1	**181,488**	159,840	**122,575**	123,374
Outwards reinsurance premium expense		**(17,716)**	(12,227)	**(11,262)**	(9,646)
Net premium revenue		**163,772**	147,613	**111,313**	113,728
Claims expense		**(115,774)**	(89,717)	**(89,844)**	(65,130)
Reinsurance and other recoveries revenue	1	**14,685**	17,573	**14,031**	15,313
Net claims incurred		**(101,089)**	(72,144)	**(75,813)**	(49,817)
Other income	1	**7,258**	5,977	**5,135**	4,581
Management expenses		**(66,768)**	(57,708)	**(46,683)**	(49,469)
General insurance underwriting result		**3,173**	23,738	**(6,048)**	19,023
Investment revenue	1	**16,273**	16,837	**14,545**	13,966
Profit from general insurance activities		**19,446**	40,575	**8,497**	32,989
Finance activities					
Interest income	1	**171**	433	**-**	-
Fee income	1	**-**	4	**-**	-
Operating expenses		**188**	151	**-**	-
Profit from finance activities		**359**	588	**-**	-
Other					
Share of earnings of associates and joint ventures	15	**(33)**	151	**(33)**	151
Profit before taxation		**19,772**	41,314	**8,464**	33,140
Income tax credit/(expense)	3	**(2,256)**	(10,057)	**782**	(8,076)
Profit from continuing operations		**17,516**	31,257	**9,246**	25,064
Profit for the year attributable to members		**17,516**	31,257	**9,246**	25,064
Total comprehensive income for the year, net of tax, attributable to members		**17,516**	31,257	**9,246**	25,064

The financial statements should be read in conjunction with the accounting policies and notes on pages 14 to 52.



STATEMENT OF CHANGES IN EQUITY
for the year ended 31 March

	Notes	**Group 2014 $000**	Group 2013 $000	**Parent 2014 $000**	Parent 2013 $000
Retained earnings					
Retained earnings at the beginning of the year		**179,912**	148,702	**161,077**	136,013
Total profit and comprehensive income		**17,516**	31,257	**9,246**	25,064
Acquisition of minority interest		**-**	(47)	**-**	-
Retained earnings at the end of the year		**197,428**	179,912	**170,323**	161,077
Non-controlling interest					
Non-controlling interest at the beginning of the year		**-**	255	**-**	-
Reduction in non-controlling interest		**-**	(255)	**-**	-
Non-controlling interest at the end of the year		**-**	-	**-**	-
Total equity at the end of the year		**197,428**	179,912	**170,323**	161,077
Attributable to:					
Members		**197,428**	179,912	**170,323**	161,077
		197,428	179,912	**170,323**	161,077

The financial statements should be read in conjunction with the accounting policies and notes on pages 14 to 52.

BALANCE SHEET

as at 31 March

	Notes	Group 2014 $000	Group 2013 $000	Parent 2014 $000	Parent 2013 $000
Assets					
Cash and cash equivalents	4	21,271	20,713	978	5,011
Trade and other receivables	9	65,281	30,660	10,033	21,116
Loans and receivables	6	222	2,044	-	-
Insurance recoveries	7	29,847	42,756	20,560	25,865
Deferred acquisition costs	10	3,954	3,954	758	2,821
Investments under management	5	233,817	217,711	106,822	183,391
Current tax asset		-	-	2,205	-
Property, plant and equipment	11	5,718	5,995	5,419	5,696
Biological assets	13	2,136	2,212	-	-
Intangible assets	12	17,554	14,105	17,554	14,105
Investments in subsidiaries	14	-	-	88,590	23,090
Investments in joint ventures	15	1,072	1,160	1,072	1,160
Deferred tax assets	16	8,075	7,232	8,083	7,144
Total assets		388,947	348,542	262,074	289,399
Liabilities					
Trade and other liabilities	17	18,797	18,189	21,033	20,774
Current tax liability		276	4,551	-	2,520
Make good provision	20	200	146	200	146
Underwriting provisions	7	163,898	138,261	63,149	97,804
Deferred tax liabilities	16	8,348	7,483	7,369	7,078
Total liabilities		191,519	168,630	91,751	128,322
Net assets		197,428	179,912	170,323	161,077
Equity					
Retained earnings		197,428	179,912	170,323	161,077
Attributable to:					
Members		197,428	179,912	170,323	161,077
Total equity		197,428	179,912	170,323	161,077

Signed on behalf of the Board of Directors, who authorised the issue of these financial statements on 19 June 2014.

G W GENT
Chairman
19 June 2014

M L JAMES
Director
19 June 2014

The financial statements should be read in conjunction with the accounting policies and notes on pages 14 to 52.

STATEMENT OF CASH FLOWS

for the year ended 31 March

		Group	Group	Parent	Parent
		2014	2013	**2014**	2013
	Notes	**$000**	$000	**$000**	$000
Cash flows from operating activities					
Premium and other receipts from clients		**184,373**	170,963	**108,778**	131,514
Reinsurance recoveries		**19,484**	26,461	**15,304**	21,022
Interest and fees received		**166**	451	**-**	-
Other income		**81**	18	**81**	18
Claims paid		**(111,116)**	(110,480)	**(89,441)**	(84,830)
Reinsurance premium paid		**(16,704)**	(13,328)	**(10,736)**	(10,510)
Cash paid to suppliers and employees		**(64,445)**	(56,661)	**(46,079)**	(47,798)
Interest paid		**-**	(28)	**-**	(27)
Income tax paid		**(6,562)**	(6,231)	**(4,809)**	(6,219)
Net cash flows from operating activities	4	**5,277**	11,165	**(26,902)**	3,170
Cash flows from investing activities					
Proceeds from advances/(repayments) of finance receivables		**2,101**	3,844	**-**	-
Interest received from investments		**536**	555	**516**	506
Dividends received		**499**	393	**499**	393
Other income		**54**	1,311	**54**	52
Investment dealings with fund managers		**32**	(4,358)	**90,741**	(4,262)
Net proceeds from foreign exchange contracts		**-**	(114)	**-**	(93)
Purchase of property, plant and equipment and intangible assets		**(7,941)**	(12,067)	**(7,941)**	(11,795)
Net cash flows from investing activities		**(4,719)**	(10,436)	**83,869**	(15,199)
Cash flows from financing activities					
Movement of intergroup accounts		**-**	-	**4,500**	4,459
Capital transfer to subsidiary		**-**	-	**(65,500)**	-
Purchase of minority interest shareholdings in subsidiaries		**-**	(895)	**-**	(280)
Net cash flows from financing activities		**-**	(895)	**(61,000)**	4,179
Net increase/(decrease) in cash and cash equivalents		**558**	(166)	**(4,033)**	(7,850)
Cash and cash equivalents at the beginning of the year		**20,713**	20,879	**5,011**	12,861
Cash and cash equivalents at the end of the year	4	**21,271**	20,713	**978**	5,011

The financial statements should be read in conjunction with the accounting policies and notes on pages 14 to 52.

STATEMENT OF ACCOUNTING POLICIES

for the year ended 31 March

Reporting entity

Farmers' Mutual Group (the "Parent") is a mutual domiciled in New Zealand, registered under the Farmers' Mutual Act 2007. The Parent is a licenced insurer under the Insurance (Prudential Supervision) Act 2010 and is an issuer under the Financial Reporting Act 1993.

This financial report includes financial statements for Farmers' Mutual Group (the "parent entity") as an individual entity and 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.

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

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).

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.

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

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

In the Parent separate financial statements, subsidiaries are recorded at cost.

STATEMENT OF ACCOUNTING POLICIES
for the year ended 31 March

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

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

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

Claims incurred at the balance date comprise:

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

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

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

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

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

As general insurance contract liabilities are measured as described in these accounting policies, assets backing such liabilities are measured at fair value, to the extent permitted under accounting standards. Realised and unrealised gains and losses arising from changes in the fair value are recognised in 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 new business, including commission, advertising, policy issue and underwriting costs, agency expenses and other sales costs. Acquisition costs incurred in obtaining general insurance contracts are deferred and recognised as assets where they can be reliably measured and where it is probable that they will give rise to premium revenue that will be recognised in subsequent reporting periods.

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

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

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.

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”.

Loan establishment fees and expense

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

Commission expense

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

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.

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

Financial assets are initially recognised at fair value. For the purpose of subsequent measurement, the Group has categorised financial assets into the following categories:

- Financial assets at fair value through profit or loss
- Loans and receivables

The Group does not have financial assets in the held-to-maturity and available-for-sale categories.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and not classified as available-for-sale. The loans and receivables are initially measured at fair value including transaction costs that are directly attributable to the issue of the loan or receivable. They are subsequently measured at amortised cost using the effective interest method, less any impairment loss.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition at fair value through profit or loss. The Group has equity and debt securities that are designated upon initial recognition at fair value through profit or loss. These assets are carried in the statement of financial position 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.

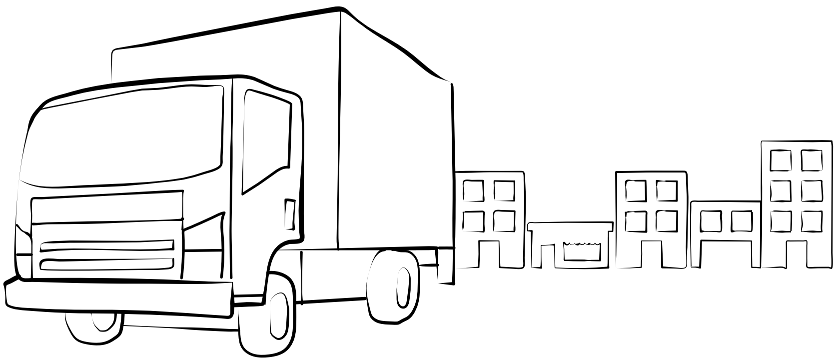
Derecognition

A financial asset is derecognised (i.e. removed from the Group's consolidated statement of financial position) 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 and derivatives), where changes in value are reflected in the income statement, are not subject to impairment testing. Other assets such as loans and receivables, investments in subsidiaries, associates and joint ventures are subject to impairment testing.



STATEMENT OF ACCOUNTING POLICIES
for the year ended 31 March

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

Impaired assets consist of restructured assets, assets acquired through the enforcement of security and other impaired assets. Assets acquired through the enforcement of security are those real estate or other assets acquired in full or partial satisfaction of a debt. Restructured assets are loans and receivables that would otherwise be past due or impaired assets whose terms have been renegotiated. Other impaired assets include any loans and receivables for which an impairment loss is required as all amounts owing are not expected to be collected from the client.

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

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

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

Initial recognition and measurement of financial liabilities
All of the Group's financial liabilities are recognised initially at fair value and 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
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.

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

Derivative financial instruments are recognised initially at fair value and transaction costs are expensed immediately. Subsequent to initial recognition, derivative financial instruments are stated at fair value. The gain or loss on remeasurement to fair value is recognised immediately in the 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 and comparison to quoted market prices or dealer quotes for similar instruments. Inputs to the models are market observable.

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

STATEMENT OF ACCOUNTING POLICIES
for the year ended 31 March

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

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

Intangible assets

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
Client database	30% straight line

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

An impairment loss is recognised in the 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.

STATEMENT OF ACCOUNTING POLICIES

for the year ended 31 March

Biological assets

Biological assets are measured at their fair value less estimated point-of-sale costs, with any change therein recognised in profit or loss. The fair value of the Forests is determined by an independent valuer, based on the estimated future revenue (net of all harvesting costs) from the sale of logs, which is then discounted to the present day.

Non-current assets held for sale

The Group classifies non-current assets as held for sale if their carrying amounts will be recovered principally through a sale rather than through continuing use. Such non-current assets classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell.

Property, plant and equipment are not depreciated once classified as held for sale.

Leases

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

The Group has not entered into any finance leases.

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

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.

Comparative figures

Comparative figures have been reclassified as required to ensure consistency with the current year presentation. The reclassifications have no impact on overall financial position and performance for the comparative years.

STATEMENT OF ACCOUNTING POLICIES

for the year ended 31 March

Changes in accounting policies and disclosures

The financial statements have been updated to reflect all new standards and interpretations issued since we published the 31 March 2013 statements. The following standards and interpretations have been applied for the first time in 2014, resulting in consequential changes to the accounting policies and other note disclosures. No material adjustments have been made as a result of these changes.

Standard	Requirement	Impact on financial statements
NZ IFRS 10 – Consolidated Financial Statements	NZ IFRS 10 establishes a new control model. It replaces parts of NZ IAS 27 *Consolidated and Separate Statements* dealing with the accounting for consolidated financial statements and SIC-12 *Consolidation – Special Purpose Entities.* The new control model broadens the situations when an entity is considered to control another entity and includes new guidance for applying the model to specific situations, including when acting as a manager may give control, the impact of potential voting rights and when holding less than a majority voting rights may give control.	This standard has had no material impact on the Group financial statements.
NZ IFRS 11 – Joint Arrangements	NZ IFRS 11 replaces NZ IAS 31 *Interests in Joint Ventures* and SIC-13 *Jointly-controlled Entities – Non-monetary Contributions by Ventures.* NZ IFRS 11 uses the principle of control in NZ IFRS 10 to define joint control. In addition NZ IFRS 11 removes the option to account for jointly controlled entities (JCEs) using proportionate consolidation. Instead, accounting for a joint arrangement is dependent on the nature of the rights and obilgations arising from the arrangement. Joint operations that give the venturers a right to the underlying assets and obligations themselves are accounted for by recognising the share of those assets and obligations. Joint ventures that give the venturers the right to the net assets are accounted for using the equity method.	This standard has had no material impact on the Group financial statements.
NZ IFRS 12 – Disclosures of Interests in Other Entities	NZ IFRS 12 includes all disclosures relating to an entity's interests in subsidiaries, joint arrangements, associates and structure entities. New disclosures have been introduced about the judgments made by management to determine whether control exists, and to require summarised information about joint arrangements, associates and structured entities and subsidiaries with non-controlling interests.	This standard has had no material impact on the Group financial statements.
NZ IFRS 13 – Fair Value Measurement	Establishes a single source of guidance under NZ IFRS for determining the fair value of assets and liabilities. The standard does not change when an entity is required to use fair value, but rather, provides guidance on how to determine fair value under NZ IFRS. The standard also expands the disclosure requirements for all assets or liabilities carried at fair value, such as requiring information about the assumptions made and the qualitative impact of those assumptions on the fair value determined.	This standard has not had a material impact on the Group financial statements.
NZ IAS 28 – Investments in Associates and Joint Ventures	This standard supersedes NZ IAS 28 *Investments in Associates (2004)* as a result of the issue of NZ IFRS 11 *Joint Arrangements* and NZ IFRS 12 *Disclosure of Interests in Other Entities.* NZ IAS 28 prescribes the accounting for investments in associates and sets out the requirements for the application of the equity method when accounting for investments in associates and joint ventures. Disclosure requirements relating to these investments are now contained in NZ IFRS 12.	This standard has not had a material impact on the Group financial statements.

STATEMENT OF ACCOUNTING POLICIES
for the year ended 31 March

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 2014.

Standard	Requirement	Effective for annual reporting periods beginning on or after:
NZ IFRS 9 Financial Instruments (2009)	These requirements improve and simplify the approach for classification and measurement of financial assets compared with the requirements of NZ IAS 39. The revised standard introduces a number of changes to the accounting for financial assets, the most significant of which includes: • two categories for financial assets being amortised cost or fair value • removal of the requirement to separate embedded derivatives in financial assets • strict requirements to determine which financial assets can be classified as amortised cost or fair value. Financial assets can only be classified as amortised cost if (a) the contractual cash flows from the instrument represent principal and interest and (b) the entity's purpose for holding the instrument is to collect the contractual cash flows • an option for investments in equity instruments which are not held for trading to recognise fair value changes through other comprehensive income with no impairment testing and no recycling through profit or loss on derecognition • reclassifications between amortised cost and fair value no longer permitted unless the entity's business model for holding the asset changes • changes to the accounting and additional disclosures for equity instruments classified as fair value through other comprehensive income.	1 January 2017*
NZ IFRS 9 Financial Instruments (2010)	NZ IFRS 9 (2010) supersedes NZ IFRS 9 (2009). The requirements for classifying and measuring financial liabilities were added to NZ IFRS 9 as issued in 2009. The existing NZ IAS 39 *Financial Instruments: Recognition and Measurement* requirements for the classification of financial liabilities and the ability to use the fair value option have been retained. However, where the fair value option is used for financial liabilities, the change in fair value is accounted for as follows: • the change attributable to changes in credit risk are presented in other comprehensive income (OCI) • the remaining change is presented in profit or loss If this approach creates or enlarges an accounting mismatch in the profit or loss, the effect of the changes in credit risk are also presented in profit or loss.	1 January 2017*
NZ IFRS 9 Financial Instruments (2013)	NZ IFRS 9 (2013) is a revised version of NZ IFRS 9. The revised standard incorporates three primary changes: • new hedge accounting requirements including changes to hedge effectiveness testing, treatment of hedging costs, risk components that can be hedged and disclosures; • entities may elect to apply only the accounting for gains and losses from own credit risk without applying the other requirements of NZ IFRS 9 at the same time; and • the mandatory effective date moved to 1 January 2017*.	1 January 2017*

* The International Accounting Standards Board announced a tentative decision to establish a new effective date for IFRS 9, being for periods beginning on or after 1 January 2018. Once the new effective date has been issued by the IASB, it is likely that the New Zealand Accounting Standards Board will amend the effective date for NZ IFRS 9 to align with IFRS 9.

Adopting the above Standards and Interpretations is not expected to have a material impact on the numbers presented in the Group financial statements, however a full assessment of the impact has not yet been performed by the Group.

Significant accounting judgements, estimates and assumptions

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

Claims liabilities under general insurance contracts

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

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

The estimation of claims incurred but not reported ("IBNR") is generally subject to a greater degree of uncertainty than the estimation of the cost of settling claims already notified to the Group, where more information about the claim event is generally available. IBNR claims may often not be apparent until many years after the events giving rise to the claims has happened. In calculating the estimated cost of unpaid claims the Group uses a variety of estimation techniques, generally based on statistical analyses of historical experience, which assumes that the development pattern of the current claims will be consistent with past experience. Allowance is made, however, for changes or uncertainties which may create distortions in the underlying statistics or which may cause the cost of unsettled claims to increase or reduce when compared with the cost of previously settled claims including:

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

A component of these estimation techniques is usually the estimation of the cost of notified but not paid claims. In estimating the cost of these the Group has considered the following:

- claim circumstances as reported;
- any information available from loss adjusters; and
- information on the cost of settling claims with similar characteristics in previous periods.

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

Further information is contained in Notes 7 and 8.

Biological assets

The fair value of the younger standing timber, is based on the net present value of both Hillcrest Forest and Beehive Creek Forest based on a theoretical economic model and using a pre-tax discount rate of 9%, net of harvesting costs. As at 31 March 2014 the forest assets are held as available for sale per IFRS 5 *Non-Current Assets Held for Sale and Discontinued Operations*.

Further information is contained in Note 13.

Recovery of deferred tax assets

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

Investment in Fidelity Life Limited

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

Further information is contained in Note 5.

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 March

1. Revenue

	Group 2014 $000	Group 2013 $000	Parent 2014 $000	Parent 2013 $000
General insurance revenue				
Gross earned premiums	**181,488**	159,840	**122,575**	123,374
Reinsurance and other recoveries revenue	**14,685**	17,573	**14,031**	15,313
Investment revenue:				
Dividends – other entities	**499**	393	**499**	393
Interest income – other entities	**515**	573	**511**	506
Movement in financial assets at fair value through profit and loss	**15,259**	15,871	**13,535**	13,067
Total investment revenue	**16,273**	16,837	**14,545**	13,966
Fee income and other revenue	**7,258**	5,977	**5,135**	4,581
Total general insurance revenue	**219,704**	200,227	**156,286**	157,234
Finance activities revenue				
Interest income:				
Interest income on lending	**139**	414	**-**	-
Interest income on bank deposits	**32**	19	**-**	-
Total interest income	**171**	433	**-**	-
Fee income	**-**	4	**-**	-
Total financial activities revenue	**171**	437	**-**	-
Total revenue	**219,875**	200,664	**156,286**	157,234

2. Other expenses

Other insurance and operating expenses includes:				
Employee expenses	**37,642**	31,040	**37,639**	30,989
Operating lease rental expenses	**3,277**	3,238	**3,244**	3,198
Depreciation on property, plant and equipment	**1,991**	1,752	**1,991**	1,752
Amortisation on intangible assets	**2,719**	450	**2,719**	450
Loss on disposal of property, plant and equipment	**58**	83	**58**	83
Directors' fees	**290**	263	**290**	263
Auditors' remuneration – audit	**137**	126	**70**	69
Auditors' remuneration – solvency returns	**25**	25	**17**	17
Auditors' remuneration – taxation services	**39**	11	**39**	11
Auditors' remuneration – quality assurance	**65**	99	**65**	99
Auditors' remuneration – other	**-**	13	**-**	13

3. Income tax

	Group 2014 $000	Group 2013 $000	Parent 2014 $000	Parent 2013 $000
a) Income tax expense from continuing operations				
Current tax	2,265	9,743	(79)	7,852
Deferred tax expense	231	25	(473)	(31)
(Over)/under provided in prior years	(240)	289	(230)	255
Income tax expense/(credit) for the year from continuing operations	2,256	10,057	(782)	8,076
b) Amounts charged or credited directly to equity				
Current tax expense/(income)	-	-	-	-
Deferred tax expense/(income)	-	-	-	-
Income tax benefit reported in equity	-	-	-	-
c) Analysis of taxation expense/(credit) – continuing and discontinued operations				
Continuing operations	2,256	10,057	(782)	8,076
Income tax expense/(credit) for the year	2,256	10,057	(782)	8,076
d) Numerical reconciliation of income tax expense/(credit) to prima facie tax payable				
Profit/(loss) before taxation				
Continuing operations	19,772	41,314	8,464	33,140
Total profit/(loss) before taxation	19,772	41,314	8,464	33,140
Prima facie income tax @ 28%	5,536	11,568	2,370	9,279
Tax effect of amounts which are non-deductible expenses/non-assessable revenue:				
Non-assessable income and other items	(3,030)	(2,674)	(2,879)	(2,020)
Non-deductible expenses and other items	(149)	1,084	502	812
Imputation credits on dividends	(86)	(203)	(67)	(186)
Withholding tax	-	(27)	-	(27)
Foreign tax credit	(6)	(7)	(5)	(6)
Deferred tax expense/(credit)	22	25	(648)	(31)
(Over)/under provided in prior years	(31)	291	(55)	255
Income tax expense/(credit) for the year	2,256	10,057	(782)	8,076
e) Imputation credit account				
Balance at the beginning of the year	55,430	49,286	53,998	47,854
Net taxation paid/(refunded)	5,953	5,958	5,953	5,958
Imputation credit attached to dividends received and dividends paid	67	186	67	186
Balance at the end of the year	61,450	55,430	60,018	53,998

4. Cash and cash equivalents

	Group 2014 $000	Group 2013 $000	**Parent 2014 $000**	Parent 2013 $000
Cash at bank and in hand	**21,271**	20,713	**978**	5,011
Total cash and cash equivalents	**21,271**	20,713	**978**	5,011
a) Reconciliation to cash at the end of the year The above figures are reconciled to cash at the end of the financial year as shown in the Statement of Cash Flows as follows:				
Balances as above	**21,271**	20,713	**978**	5,011
Balance per Statement of Cash Flows	**21,271**	20,713	**978**	5,011
b) Reconciliation of profit to net cash flows from operating activities				
Profit for the year	**17,516**	31,257	**9,246**	25,064
Associated entity (profit)/loss	**33**	(151)	**33**	(151)
Profit for the year excluding associates and non-controlling interests	**17,549**	31,106	**9,279**	24,913
Adjustments for non-cash items				
Amortisation	**2,719**	449	**2,719**	449
Depreciation	**1,991**	1,753	**1,991**	1,753
Movement in deferred tax	**22**	(129)	**(648)**	(217)
Movement in unearned premium	**28,582**	5,415	**(31,428)**	3,360
Movement in outstanding claims	**(2,945)**	(20,747)	**(3,227)**	(19,683)
Movement in bad debts provision	**(133)**	(166)	**(99)**	(170)
Movement in deferred acquisition costs	**-**	-	**2,063**	-
Movement in make good provision	**54**	5	**54**	5
Unrealised investment loss/(gain)	**(16,029)**	(15,915)	**(14,178)**	(12,934)
	14,261	(29,335)	**(42,753)**	(27,437)
Movements in other working capital items				
Movement in accounts receivable	**(22,636)**	6,522	**16,295**	4,745
Movement in accounts payable	**896**	473	**(4,500)**	52
Movement in accrued leave/bonuses	**460**	(1,055)	**460**	(366)
Movement in taxation recoverable	**(4,275)**	4,205	**(4,725)**	1,986
	(25,555)	10,145	**7,530**	6,417
Items classified as investing activities				
Net loss/(gain) on sale of property, plant and equipment	**57**	83	**57**	83
Dividends received	**(499)**	(393)	**(499)**	(393)
Foreign exchange contract (gain)/loss	**-**	114	**-**	93
Interest received from investments	**(536)**	(555)	**(516)**	(506)
	(978)	(751)	**(958)**	(723)
Net cash flows from operating activities	**5,277**	11,165	**(26,902)**	3,170

5. Other financial assets

	Group 2014 $000	Group 2013 $000	Parent 2014 $000	Parent 2013 $000
Equity securities				
Investments in unlisted New Zealand companies	19,194	14,840	19,194	14,840
Total equity securities	19,194	14,840	19,194	14,840
Unit trust investments				
New Zealand equities	11,073	8,412	-	6,840
Offshore equities	40,185	35,836	7,954	29,671
Government and public authority bonds	-	736	-	220
Fixed interest investments – New Zealand	131,891	107,965	64,648	90,530
Fixed interest investments – Offshore	31,474	49,922	15,026	41,290
Total unit trust investments	214,623	202,871	87,628	168,551
Total other financial assets	233,817	217,711	106,822	183,391

Determination of fair value hierarchy 2014

	Group				Parent			
	Level 1	Level 2	Level 3	Total fair value	Level 1	Level 2	Level 3	Total fair value
	$000	$000	$000	$000	$000	$000	$000	$000
Financial assets designated at fair value through profit and loss:								
Equity securities	-	-	19,194	19,194	-	-	19,194	19,194
Unit trust investments	-	214,623	-	214,623	-	87,628	-	87,628
Total financial assets	-	214,623	19,194	233,817	-	87,628	19,194	106,822

Determination of fair value hierarchy 2013

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

5. Other financial assets (continued)

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

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

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

During the year there were no transfers between categories.

Reconciliation of movements in Level 3 instruments measured at fair value

Financial assets designated at fair value through profit and loss 2014 – Group and Parent

	As at April 1 2013	Total gain/ (loss) in profit and loss	Total gain/ (loss) in OCI	Purchases	Sales	Transfer from Level 1 and 2	As at 31 March 2014	Total gains/ (losses) included in profit or loss for assets held at 31 March 2014
	$000	$000	$000	$000	$000	$000	$000	$000
Equity securities	14,840	4,354	-	-	-	-	19,194	4,354
	14,840	4,354	-	-	-	-	19,194	4,354

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

	As at April 1 2012	Total gain/ (loss) in profit and loss	Total gain/ (loss) in OCI	Purchases	Sales	Transfer from Level 1 and 2	As at 31 March 2013	Total gains/ (losses) included in profit or loss for assets held at 31 March 2013
	$000	$000	$000	$000	$000	$000	$000	$000
Equity securities	14,287	553	-	-	-	-	14,840	553
	14,287	553	-	-	-	-	14,840	553

Sensitivity of Level 3 financial instruments to changes in key assumptions

	Carrying value at 31 March 2014	Effect of reasonably possible alternate assumptions (+/-)
	$000	$000
Equity securities	19,194	2,194
	19,194	2,194

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

6. Loans and receivables

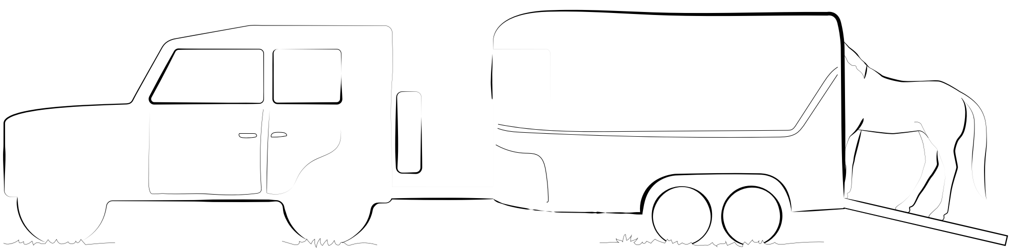
	Group	Group	Parent	Parent
	2014	2013	2014	2013
	$000	$000	$000	$000
Gross loans and receivables	422	2,523	-	-
Allowance for collective impairment	-	(453)	-	-
Allowance for individual impairment	(200)	(26)	-	-
Net loans and receivables	222	2,044	-	-
Current portion of gross loans and receivables	422	2,106	-	-
Non-current portion of gross loans and receivables	-	417	-	-
Gross loans and receivables	422	2,523	-	-

7. Underwriting provisions and reinsurance and other recoveries

	Group 2014 $000	Group 2013 $000	Parent 2014 $000	Parent 2013 $000
Underwriting provisions comprise:				
Liability for outstanding claims				
Expected future claim payments (undiscounted)	70,886	73,664	46,175	49,497
Discount to present value	(1,896)	(1,729)	(1,209)	(1,304)
	68,990	71,935	44,966	48,193
Provision for unearned premiums	94,908	66,326	18,183	49,611
Underwriting provisions	163,898	138,261	63,149	97,804
Current	144,334	105,679	50,398	75,712
Non-current	19,564	32,582	12,751	22,092
	163,898	138,261	63,149	97,804
Provision for reinsurance and other recoveries comprise:				
Expected future recoveries (undiscounted)	(30,773)	(43,904)	(21,168)	(26,693)
Discount to present value	926	1,148	608	828
Net insurance recoveries	(29,847)	(42,756)	(20,560)	(25,865)
Current	(21,383)	(26,100)	(14,730)	(15,789)
Non-current	(8,464)	(16,656)	(5,830)	(10,076)
	(29,847)	(42,756)	(20,560)	(25,865)

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

		2014	2013
New Zealand:	Inflation rate	Implicit	Implicit
	Discount rate	3.19% per annum	2.47% per annum
	Weighted average term to closure	0.9 years	0.9 years



8. General insurance contracts

a) Net general insurance claims incurred

	2014			2013		
	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	**114,258**	**1,683**	**115,941**	75,218	14,952	90,170
Discount	**(1,034)**	**867**	**(167)**	(502)	49	(453)
Gross claims expense	**113,224**	**2,550**	**115,774**	74,716	15,001	89,717
Reinsurance and other recoveries						
Reinsurance and other recoveries revenue – undiscounted	**(12,555)**	**(1,909)**	**(14,464)**	(2,768)	(15,240)	(18,008)
Discount	**253**	**(474)**	**(221)**	128	307	435
Reinsurance and other recoveries	**(12,302)**	**(2,383)**	**(14,685)**	(2,640)	(14,933)	(17,573)
Net claims incurred	**100,922**	**167**	**101,089**	72,076	68	72,144
Parent						
Gross claims expense						
Direct claims – undiscounted	**86,506**	**3,243**	**89,749**	55,701	9,712	65,413
Discount	**(703)**	**798**	**95**	(379)	96	(283)
Gross claims expense	**85,803**	**4,041**	**89,844**	55,322	9,808	65,130
Reinsurance and other recoveries						
Reinsurance and other recoveries revenue – undiscounted	**(12,180)**	**(1,631)**	**(13,811)**	(2,623)	(13,018)	(15,641)
Discount	**202**	**(422)**	**(220)**	108	220	328
Reinsurance and other recoveries	**(11,978)**	**(2,053)**	**(14,031)**	(2,515)	(12,798)	(15,313)
Net claims incurred	**73,825**	**1,988**	**75,813**	52,807	(2,990)	49,817

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) Analysis of outstanding claims

	Group	Group	**Parent**	Parent
	2014	2013	**2014**	2013
	$000	$000	**$000**	$000
Gross central estimate of present value of future claims payment	**65,025**	68,883	**42,486**	45,916
Risk margin	**3,965**	3,052	**2,480**	2,277
Total outstanding claims liability	**68,990**	71,935	**44,966**	48,193
The expected settlement pattern of the outstanding claims liability is as follows:				
Current	**49,426**	39,353	**32,215**	26,101
Non-current	**19,564**	32,582	**12,751**	22,092
Total outstanding claims liability	**68,990**	71,935	**44,966**	48,193

The total liability relates to direct insurance.

8. General insurance contracts (continued)

Assumptions adopted in calculation of general insurance provisions

The effective date of the actuarial report on the Insurance Liabilities is 31 March 2014. The previous assessment of the Insurance Liabilities was performed at 31 March 2013.

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

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

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

	2014	2013
Inflation rate	**Implicit**	Implicit
Discount rate	**3.19%**	2.47%
Claims handling expense ratio – outstanding claims liabilities	**4.2%**	5.0%
Claims handling expense ratio – premium liabilities	**5.2%**	6.5%
Risk margin – outstanding claims liabilities	**11.3%**	11.7%
Risk margin – premium liabilities	**16.6%**	16.8%
Weighted average expected term to settlement	**328 days**	329 days

Inflation rate

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

Discount rate

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

Claims handling expense

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

Process for determining risk margin

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

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

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

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

Weighted average expected term to settlement

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

8. General insurance contracts (continued)

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

	Group	Group	**Parent**	Parent
	2014	2013	**2014**	2013
	$000	$000	**$000**	$000
Reinsurance and other recoveries receivable				
Reinsurance and other recoveries receivable at the beginning of the year	**42,756**	52,026	**25,865**	31,849
Reinsurance and other recoveries incurred during the year	**14,685**	17,573	**14,031**	15,313
Reinsurance and other recoveries received during the year	**(27,594)**	(26,843)	**(19,336)**	(21,297)
Reinsurance and other recoveries receivable at the end of the year	**29,847**	42,756	**20,560**	25,865
Outstanding claims liability				
Gross outstanding claims at the beginning of the year	**71,935**	92,682	**48,193**	67,879
Claims incurred during the year	**115,774**	89,171	**89,844**	65,130
Claims payments made during the year	**(118,719)**	(109,918)	**(93,071)**	(84,816)
Gross outstanding claims at the end of the year	**68,990**	71,935	**44,966**	48,193
Reconciliation of outstanding claims to liability for outstanding claims				
Outstanding claims undiscounted	**70,886**	73,664	**46,175**	49,497
Discount	**(1,896)**	(1,729)	**(1,209)**	(1,304)
Total outstanding claims	**68,990**	71,935	**44,966**	48,193

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.

		2014		2013	
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%	**374**	**181**	160	477
	Decrease of 1%	**(383)**	**(186)**	(162)	(486)
Claims handling expense ratio	Increase of 1%	**(449)**	**(449)**	(126)	(148)
	Decrease of 1%	**449**	**448**	126	148
Risk margin	Increase of 1%	**(253)**	**(253)**	(183)	(183)
	Decrease of 1%	**253**	**253**	183	183
Weighted average expected term to settlement	Increase 0.5 years	**772**	**438**	248	611
	Decrease 0.5 years	**(785)**	**(445)**	(251)	(618)

c) Risk management policies and procedures

The general insurance business of the Group involves a number of non-financial risks. Notes on the policies and procedures employed in managing these risks in the general insurance business are set out below. Financial risks involving the Group are in Notes 22 to 24.

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

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

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

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

8. General insurance contracts (continued)

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

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

(iii) Concentration of reinsurance risk

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

(iv) Development of claims

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

	Incident year						
	2009	2010	2011	2012	2013	2014	Total
	$000	$000	$000	$000	$000	$000	$000
Ultimate claims cost estimate							
At end of accident year	77,951	76,416	128,162	88,170	73,246	113,319	
One year later	76,283	73,325	154,841	89,220	74,810		
Two years later	75,780	73,577	171,631	87,725			
Three years later	75,587	73,418	172,555				
Four years later	75,585	73,323					
Five years later	75,583						
Current estimate of ultimate claims cost	75,583	73,323	172,555	87,725	74,810	113,319	
Cumulative payments	75,578	72,798	148,912	86,183	73,739	76,145	
Undiscounted central estimate	5	525	23,643	1,542	1,071	37,174	63,960
Discount to present value	-	(11)	(572)	(23)	(39)	(1,035)	(1,680)
Discounted central estimate	5	514	23,071	1,519	1,032	36,139	62,280
Prior years							7
Claims handling expense							2,738
Risk margin							3,965
Gross outstanding claims liabilities							68,990
Reinsurance recoveries on outstanding claims and other recoveries							(29,847)
Net outstanding claims liabilities							39,143

d) Liability adequacy test

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

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

e) Insurer financial strength rating

The Group has a financial strength rating of A (Excellent) as accorded by the international rating agency A M Best Group on 13 June 2013.

f) Reinsurance programme

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

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

g) General insurance risk

Terms and conditions of insurance

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

Concentration of insurance risk

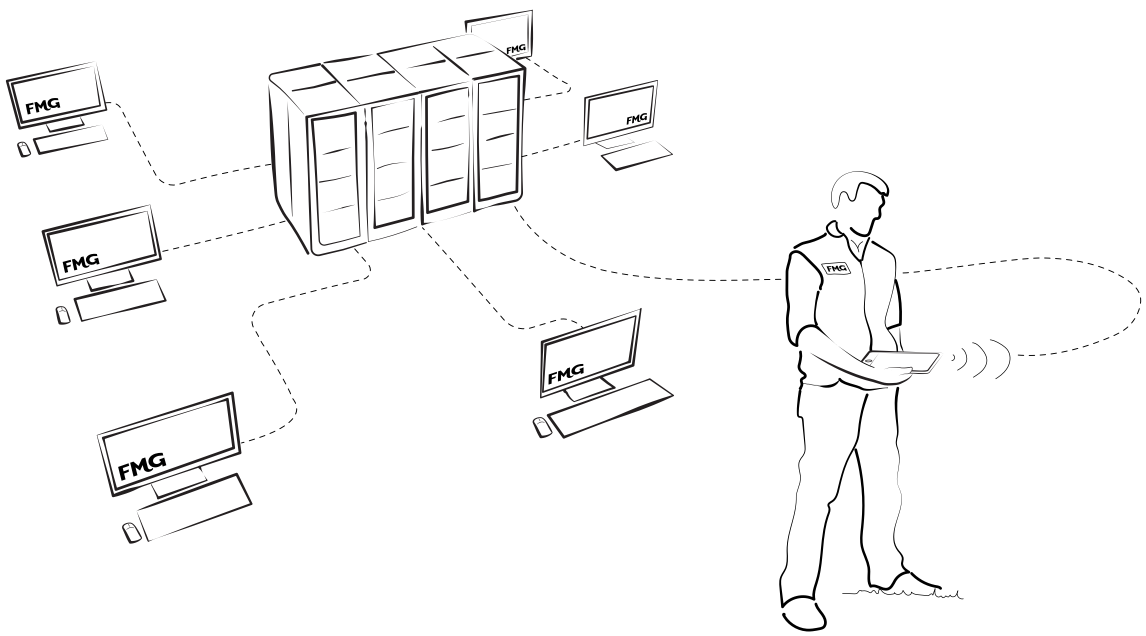
The exposure to concentrations of insurance risk is able to be mitigated with the purchase of reinsurance where management believes that the price/risk transfer is suitable.

9. Trade and other receivables

	Group	Group	Parent	Parent
	2014	2013	2014	2013
	$000	$000	$000	$000
Trade debtors	62,366	29,510	6,668	19,442
Reinsurance debtors	1,678	1,030	1,678	1,030
Related party receivables	-	-	237	165
Other receivables	2,367	1,383	2,235	1,363
Allowance for collective impairment	(1,130)	(1,263)	(785)	(884)
	65,281	30,660	10,033	21,116
Current	65,281	30,660	10,033	21,116

10. Deferred acquisition costs

	Group 2014 $000	Group 2013 $000	Parent 2014 $000	Parent 2013 $000
Balance at the beginning of the year	3,954	3,954	2,821	2,821
Amortisation	-	-	(2,063)	-
Balance at the end of the year	3,954	3,954	758	2,821
Current	3,954	3,954	758	2,821



11. Property, plant and equipment

2014 Group	**Land and buildings**	**Leasehold improvements**	**Furniture and fittings**	**Computer equipment**	**Motor vehicles**	**Total**
	$000	**$000**	**$000**	**$000**	**$000**	**$000**
Cost						
Balance at the beginning of the year	389	6,243	1,904	4,646	113	13,295
Additions	-	987	8	723	50	1,768
Disposals	-	(599)	-	(107)	(52)	(758)
Balance at the end of the year	389	6,631	1,912	5,262	111	14,305
Depreciation and impairment losses						
Balance at the beginning of the year	32	3,525	1,463	2,245	35	7,300
Depreciation for the year	-	945	88	937	21	1,991
Disposals	-	(594)	-	(85)	(25)	(704)
Balance at the end of the year	32	3,876	1,551	3,097	31	8,587
Carrying amounts						
At the beginning of the year	357	2,718	441	2,401	78	5,995
At the end of the year	357	2,755	361	2,165	80	5,718

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

NEW CORE
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11. Property, plant and equipment (continued)

2014 Parent	**Land and buildings**	**Leasehold improvements**	**Furniture and fittings**	**Computer equipment**	**Motor vehicles**	**Total**
	$000	**$000**	**$000**	**$000**	**$000**	**$000**
Cost						
Balance at the beginning of the year	**72**	**6,244**	**1,886**	**4,549**	**113**	**12,864**
Additions	**-**	**987**	**8**	**723**	**50**	**1,768**
Disposals	**-**	**(600)**	**-**	**(37)**	**(52)**	**(689)**
Balance at the end of the year	**72**	**6,631**	**1,894**	**5,235**	**111**	**13,943**
Depreciation and impairment losses						
Balance at the beginning of the year	**14**	**3,527**	**1,445**	**2,147**	**35**	**7,168**
Depreciation for the year	**-**	**945**	**88**	**937**	**21**	**1,991**
Disposals	**-**	**(596)**	**-**	**(14)**	**(25)**	**(635)**
Balance at the end of the year	**14**	**3,876**	**1,533**	**3,070**	**31**	**8,524**
Carrying amounts						
At the beginning of the year	**58**	**2,717**	**441**	**2,402**	**78**	**5,696**
At the end of the year	**58**	**2,755**	**361**	**2,165**	**80**	**5,419**

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

12. Intangible assets

2014 Group	**Computer software**	**Client base**	**Total**
	$000	**$000**	**$000**
Cost			
Balance at the beginning of the year	**22,803**	**700**	**23,503**
Acquisitions – internally developed	**5,807**	**-**	**5,807**
Acquisitions – other additions	**361**	**-**	**361**
Disposals	**(158)**	**-**	**(158)**
Balance at the end of the year	**28,813**	**700**	**29,513**
Amortisation and impairment losses			
Balance at the beginning of the year	**9,293**	**105**	**9,398**
Amortisation for the year	**2,527**	**192**	**2,719**
Disposals	**(158)**	**-**	**(158)**
Balance at the end of the year	**11,662**	**297**	**11,959**
Carrying amounts			
At the beginning of the year	**13,510**	**595**	**14,105**
At the end of the year	**17,151**	**403**	**17,554**

2013 Group			
Cost			
Balance at the beginning of the year	13,084	700	13,784
Acquisitions – internally developed	8,765	-	8,765
Acquisitions – other additions	954	-	954
Disposals	-	-	-
Balance at the end of the year	22,803	700	23,503
Amortisation and impairment losses			
Balance at the beginning of the year	8,948	-	8,948
Amortisation for the year	345	105	450
Disposals	-	-	-
Balance at the end of the year	9,293	105	9,398
Carrying amounts			
At the beginning of the year	4,136	700	4,836
At the end of the year	13,510	595	14,105

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

12. Intangible assets (continued)

2014 Parent	**Computer software**	**Client base**	**Total**
	$000	**$000**	**$000**
Cost			
Balance at the beginning of the year	**22,803**	**700**	**23,503**
Acquisitions – internally developed	**5,807**	**-**	**5,807**
Acquisitions – other additions	**361**	**-**	**361**
Disposals	**(158)**	**-**	**(158)**
Balance at the end of the year	**28,813**	**700**	**29,513**
Amortisation and impairment losses			
Balance at the beginning of the year	**9,293**	**105**	**9,398**
Amortisation for the year	**2,527**	**192**	**2,719**
Disposals	**(158)**	**-**	**(158)**
Balance at the end of the year	**11,662**	**297**	**11,959**
Carrying amounts			
At the beginning of the year	**13,510**	**595**	**14,105**
At the end of the year	**17,151**	**403**	**17,554**

2013 Parent			
Cost			
Balance at the beginning of the year	13,084	700	13,784
Acquisitions – internally developed	8,765	-	8,765
Acquisitions – other additions	954	-	954
Disposals	-	-	-
Balance at the end of the year	22,803	700	23,503
Amortisation and impairment losses			
Balance at the beginning of the year	8,948	-	8,948
Amortisation for the year	345	105	450
Disposals	-	-	-
Balance at the end of the year	9,293	105	9,398
Carrying amounts			
At the beginning of the year	4,136	700	4,836
At the end of the year	13,510	595	14,105

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

13. Biological assets

	Group 2014 $000	Group 2013 $000	Parent 2014 $000	Parent 2013 $000
Valuation at the beginning of the year	**2,512**	2,297	**-**	-
Change in fair value less estimated point-of-sale costs	**(26)**	215	**-**	-
Valuation at the end of the year	**2,486**	2,512	**-**	-
Obligation to restock	**(350)**	(300)	**-**	-
Carrying value at the end of the year	**2,136**	2,212	**-**	-

At 31 March 2014 standing timber comprised approximately 362.1 hectares (2013: 362.1 hectares) of pine tree plantations at the two Forests, Hillcrest and Beehive Creek. The Forests were established from Radiata pine seedlings between 1994 and 1998. The projected harvest age is 27-28 years. During the year the Group did not harvest the pine (2013: Nil harvesting).

Both the Hillcrest and Beehive Creek forest developments are held for sale, and as such, the above valuations at 31 March 2014 reflect the latest estimated market value.

The Forestry Right requires the Pinesmart Forestry Partnership to restock the land at Hillcrest Forest with Pinus Radiata seedlings immediately following harvesting. The estimated cost of doing this is $350,000 (2013: $300,000), this has been separately assessed by Forme Consulting Group Limited, forest industry consultants.

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

Regulatory and environmental risks

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

Supply and demand risk

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

Climate and other risks

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

14. Investments in subsidiaries

	Parent 2014 $000	Parent 2013 $000
FMG Insurance Limited	**86,000**	20,500
Pinesmart Forestry Partnership – 100% ownership (2013: 100%)	**2,590**	2,590
	88,590	23,090

15. Investments in joint ventures

	Group	Group	**Parent**	Parent
	2014	2013	**2014**	2013
	$000	$000	**$000**	$000
Farming House (Bay of Plenty) Partnership				
Ownership interest held %	**50%**	50%	**50%**	50%
Carrying value of joint venture	**1,072**	1,160	**1,072**	1,160
Current assets	**13**	43	**13**	43
Non-current assets	**1,126**	1,144	**1,126**	1,144
Total assets	**1,139**	1,187	**1,139**	1,187
Current liabilities	**7**	12	**7**	12
Non-current liabilities	**60**	15	**60**	15
Total liabilities	**67**	27	**67**	27
Income	**4**	157	**4**	157
Expenses	**(37)**	(6)	**(37)**	(6)
(Loss)/Profit for the year	**(33)**	151	**(33)**	151

16. Deferred tax assets

2014 Group	**Opening balance at 1 April 2013**	**Assets/ liabilities held for sale**	**Charged/ (credited) to profit and loss**	**Charged to equity**	**Acquisition/ disposal of subsidiary**	**Change in tax rate**	**Closing balance at 31 March 2014**
	$000	**$000**	**$000**	**$000**	**$000**	**$000**	**$000**
Movements in deferred tax assets							
Provisions and accruals	**7,267**	**-**	**843**	**-**	**-**	**-**	**8,110**
Unrealised losses	**(126)**	**-**	**-**	**-**	**-**	**-**	**(126)**
Tax losses	**88**	**5**	**-**	**-**	**-**	**-**	**93**
Other	**3**	**-**	**(5)**	**-**	**-**	**-**	**(2)**
Total deferred tax assets	**7,232**	**5**	**838**	**-**	**-**	**-**	**8,075**
Movement in deferred tax liabilities							
Deferred revenue liability	**(7,221)**	**-**	**(868)**	**-**	**-**	**-**	**(8,089)**
Fair value	**(211)**	**-**	**3**	**-**	**-**	**-**	**(208)**
Other	**(51)**	**-**	**-**	**-**	**-**	**-**	**(51)**
Total deferred tax liabilities	**(7,483)**	**-**	**(865)**	**-**	**-**	**-**	**(8,348)**

2013 Group	Opening balance at 1 April 2012	Assets/ liabilities held for sale	Charged/ (credited) to profit and loss	Charged to equity	Acquisition/ disposal of subsidiary	Change in tax rate	Closing balance at 31 March 2013
	$000	$000	$000	$000	$000	$000	$000
Movements in deferred tax assets							
Provisions and accruals	4,493	-	2,774	-	-	-	7,267
Unrealised losses	(126)	-	-	-	-	-	(126)
Tax losses	83	5	-	-	-	-	88
Other	10	-	(7)	-	-	-	3
Total deferred tax assets	4,460	5	2,767	-	-	-	7,232
Movement in deferred tax liabilities							
Deferred revenue liability	(4,599)	-	(2,622)	-	-	-	(7,221)
Fair value	(190)	-	(21)	-	-	-	(211)
Other	(51)	-	-	-	-	-	(51)
Total deferred tax liabilities	(4,840)	-	(2,643)	-	-	-	(7,483)

16. Deferred tax assets (continued)

2014 Parent	Opening balance at 1 April 2013	Assets/ liabilities held for sale	Charged/ (credited) to profit and loss	Charged to equity	Acquisition/ disposal of subsidiary	Change in tax rate	Closing balance at 31 March 2014
	$000	$000	$000	$000	$000	$000	$000
Movements in deferred tax assets							
Provisions and accruals	7,144	-	939	-	-	-	8,083
Total deferred tax assets	7,144	-	939	-	-	-	8,083
Movement in deferred tax liabilities							
Deferred revenue liability	(7,078)	-	(291)	-	-	-	(7,369)
Total deferred tax liabilities	(7,078)	-	(291)	-	-	-	(7,369)

2013 Parent	Opening balance at 1 April 2012	Assets/ liabilities held for sale	Charged/ (credited) to profit and loss	Charged to equity	Acquisition/ disposal of subsidiary	Change in tax rate	Closing balance at 31 March 2013
	$000	$000	$000	$000	$000	$000	$000
Movements in deferred tax assets							
Provisions and accruals	4,304	-	2,840	-	-	-	7,144
Total deferred tax assets	4,304	-	2,840	-	-	-	7,144
Movement in deferred tax liabilities							
Deferred revenue liability	(4,455)	-	(2,623)	-	-	-	(7,078)
Total deferred tax liabilities	(4,455)	-	(2,623)	-	-	-	(7,078)

17. Trade and other liabilities

	Group	Group	Parent	Parent
	2014	2013	2014	2013
	$000	$000	$000	$000
Trade creditors	3,347	3,332	3,051	3,173
Reinsurance creditors	2,544	1,531	2,194	1,669
Employee benefits	4,536	4,076	4,536	4,076
Related party creditors	-	-	8,148	3,575
Other liabilities	8,370	9,250	3,104	8,281
	18,797	18,189	21,033	20,774
Current	18,532	17,189	20,768	19,774
Non-current	265	1,000	265	1,000
	18,797	18,189	21,033	20,774

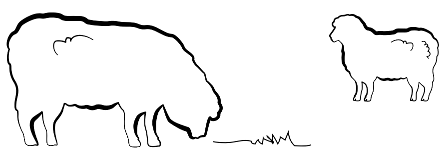
18. Past due and impaired loans and receivables

The following amounts for past due and impaired assets are included in the amounts shown in Note 6.

	Past due assets	Restructured assets	Individually impaired assets	Total
	$000	$000	$000	$000
2014 Group				
Opening balance	**526**	**-**	**26**	**552**
Plus additions	**-**	**-**	**403**	**403**
Less write-offs	**-**	**-**	**(3)**	**(3)**
Less repayments and deletions	**(526)**	**-**	**(4)**	**(530)**
Gross past due and impaired assets	**-**	**-**	**422**	**422**
2013 Group				
Opening balance	242	-	711	953
Plus additions	1,031	-	-	1,031
Less write-offs	-	-	(65)	(65)
Less repayments and deletions	(747)	-	(620)	(1,367)
Gross past due and impaired assets	526	-	26	552

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

	Group	Group
	2014	2013
	$000	$000
Loans past due but not impaired		
Past due 0-90 days	**-**	490
Past due 90+ days	**-**	36
	-	526



19. Allowances for impaired assets

Group	Individually impaired	Collectively impaired	Total
	$000	$000	$000
At 1 April 2012	91	2,043	2,134
Utilised	(63)	(2,043)	(2,106)
Unused amounts reversed	(2)	-	(2)
Additional provision	-	1,716	1,716
As at 31 March 2013	**26**	**1,716**	**1,742**
Utilised	**(3)**	**(1,263)**	**(1,266)**
Unused amounts reversed	**(4)**	**(453)**	**(457)**
Additional provision	**181**	**1,130**	**1,311**
As at 31 March 2014	**200**	**1,130**	**1,330**

Parent	Individually impaired	Collectively impaired	Total
	$000	$000	$000
At 1 April 2012	-	1,054	1,054
Utilised	-	(1,054)	(1,054)
Unused amounts reversed	-	-	-
Additional provision	-	884	884
As at 31 March 2013	**-**	**884**	**884**
Utilised	**-**	**(884)**	**(884)**
Unused amounts reversed	**-**	**-**	**-**
Additional provision	**-**	**785**	**785**
As at 31 March 2014	**-**	**785**	**785**

There was no interest income on impaired financial assets accrued for the current year (2013: $Nil).

20. Make good provision

	Group	Group	**Parent**	Parent
	2014	2013	**2014**	2013
	$000	$000	**$000**	$000
Opening balance	**146**	141	**146**	141
Increase/(decrease) in provision	**54**	5	**54**	5
Balance at the end of the year	**200**	146	**200**	146

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

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

21. Related party transactions

a) Group Holdings

At 31 March 2014 the following percentage shareholdings were held in related entities which, unless stated otherwise, all have balance dates ending on 31 March.

	2014	2013	
	%	%	Principal Activities
Subsidiaries			
FMG Insurance Limited	100	100	General Insurance
Pinesmart Forests Partnership	100	100	Forestry
Joint Ventures			
Farming House (Bay of Plenty) Partnership	50	50	Property Investment

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

b) Related party transactions

The Parent charges administration, marketing, and management fees to its subsidiaries. In 2014 this amounted to $19.079m (2013: $8.416m).

The Parent has made loans and advances to certain subsidiaries and has received advances from certain subsidiaries during the year. The Parent has related party payables in 2014 of $8.996m (2013: $3.575m) and receivables of $0.237m (2013: $0.165m). These are interest free and repayable on demand.

The Group has related party receivables of $Nil (2013: $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 hold various policies and accounts with FMG. These are operated in the normal course of business on normal customer terms.

e) Key management personnel compensation comprised*:

	Group	Group	Parent	Parent
	2014	2013	2014	2013
	$000	$000	$000	$000
Short-term employee benefits	2,970	2,599	2,970	2,599

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

PROFITS REMAIN IN
NEW ZEALAND
AND ARE REINVESTED BACK INTO
THE MUTUAL

22. 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; and

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

Finance lending credit risk

Credit risk relating to finance lending is the risk that customers to which the Group lends money will default on their repayment obligations resulting in losses being incurred. The financial effect of FMG's credit risk is disclosed in Note 18 Past Due and Impaired Loans and Receivables. The maximum exposure to credit risk is the carrying amount of net loans and receivables included in the Balance Sheet and undrawn lending commitments.

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

Credit risk in a loan portfolio can be recognised in a number of forms, each of which are discussed below include; Collateral Risk, Geographic Risk and Industry Risk. Undrawn lending commitments are disclosed in Note 24.

Other financial assets

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

Collateral risk

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

	Group	Group
	2014	2013
	$000	$000
Security type		
Motor vehicles	**-**	73
Agricultural equipment	**-**	37
Property mortgage	**-**	250
Other (a)	**422**	2,163
	422	2,523

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

22. Credit risk (continued)

Geographic risk

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

	Group	Group
	2014	2013
	$000	$000
Geographic area		
Northland	**-**	42
Waikato	**-**	132
Taranaki	**-**	11
Central	**422**	509
Tasman / West Coast	**-**	21
Canterbury	**-**	1,777
Otago / Southland	**-**	31
	422	2,523

Industry risk

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

	Group	Group
	2014	2013
	$000	$000
Agriculture	**-**	206
Wholesale trade	**-**	1,750
Households	**-**	56
Transport and storage	**-**	5
Construction	**-**	30
Property	**-**	20
Retail trade	**-**	21
Other	**422**	435
	422	2,523

23. Market risk

Foreign exchange risk

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

Unit price risk

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

23. Market risk (continued)

Unit price risk sensitivity analysis

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

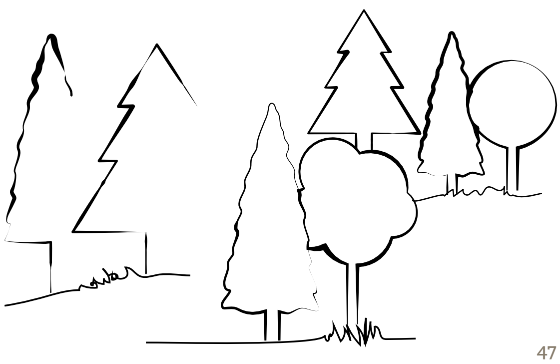
	Group	Group	Parent	Parent
	Impact on profit	Impact on equity	Impact on profit	Impact on equity
	$000	$000	$000	$000
2014				
10% increase in unit prices	**21,462**	**21,462**	**8,763**	**8,763**
10% decrease in unit prices	**(21,462)**	**(21,462)**	**(8,763)**	**(8,763)**
2013				
10% increase in unit prices	20,287	20,287	16,855	16,855
10% decrease in unit prices	(20,287)	(20,287)	(16,855)	(16,855)

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

Interest rate cash flows risk analysis

	Group	Group	Parent	Parent
	Impact on profit	Impact on equity	Impact on profit	Impact on equity
	$000	$000	$000	$000
2014				
0.25% increase in interest rates	**53**	**53**	**2**	**2**
0.25% decrease in interest rates	**(53)**	**(53)**	**(2)**	**(2)**
2013				
0.25% increase in interest rates	52	52	13	13
0.25% decrease in interest rates	(52)	(52)	(13)	(13)



24. Liquidity risk

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

2014 Group	Weighted average interest rate	0-6 months	6-12 months	12-24 months	24-60 months
	%	$000	$000	$000	$000
Bank deposits	2.51%	21,271	-	-	-
Trade and other receivables		65,281	-	-	-
Loans and receivables	10.50%	-	222	-	-
Total financial assets		86,552	222	-	-
Undrawn lending facilities		-			
Trade and other liabilities		18,797	-	-	-
Total financial liabilities		18,797	-	-	-
Net financial position		67,755	222	-	-

2013 Group					
Bank deposits	2.50%	20,713	-	-	-
Trade and other receivables		30,660	-	-	-
Loans and receivables	10.46%	519	1,184	341	-
Total financial assets		51,892	1,184	341	-
Undrawn lending facilities		*900*			
Trade and other liabilities		18,189	-	-	-
Total financial liabilities		18,189	-	-	-
Net financial position		33,703	1,184	341	-

24. Liquidity risk (continued)

2014 Parent	Weighted average interest rate	0-6 months	6-12 months	12-24 months	24-60 months
	%	$000	$000	$000	$000
Bank deposits	2.51%	978	-	-	-
Trade and other receivables		10,033	-	-	-
Total financial assets		11,011	-	-	-
Trade and other liabilities		21,033			
Total financial liabilities		21,033	-	-	-
Net financial position		(10,022)	-	-	-

2013 Parent					
Bank deposits	2.50%	5,011	-	-	-
Trade and other receivables		21,116	-	-	-
Total financial assets		26,127	-	-	-
Trade and other liabilities		20,774	-	-	-
Total financial liabilities		20,774	-	-	-
Net financial position		5,353	-	-	-

Capital management

The Group's capital includes retained earnings.

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

As an insurer licensed under the Insurance (Prudential Supervision) Act 2010, FMG and its subsidiaries are required to maintain a solvency margin of 1. As at 31 March 2014, Farmers' Mutual Group had a solvency margin of 2.01 ($31.830m), FMG Insurance Limited's solvency margin was 2.11 ($59.788m) and the solvency margin for the Group being both Farmers' Mutual Group and FMG Insurance Limited was 2.32 ($101.229m).

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

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

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

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

25. Financial instruments

2014 Group	Designated at FVTPL	Available for sale	Loans and receivables	Held-to-maturity	Total carrying amount	Fair value
	$000	$000	$000	$000	$000	$000
Bank deposits	-	-	21,271	-	21,271	21,271
Loans and receivables	-	-	222	-	222	222
Investments	233,817	-	-	-	233,817	233,817
Trade and other receivables	-	-	65,281	-	65,281	65,281
Total assets	233,817	-	86,774	-	320,591	320,591

	Designated at FVTPL	Other financial liabilities at amortised cost	Total carrying amount	Fair value
	$000	$000	$000	$000
Trade and other liabilities	-	18,797	18,797	18,797
Total liabilities	-	18,797	18,797	18,797

2013 Group	Designated at FVTPL	Available for sale	Loans and receivables	Held-to-maturity	Total carrying amount	Fair value
	$000	$000	$000	$000	$000	$000
Bank deposits	-	-	20,713	-	20,713	20,713
Loans and receivables	-	-	2,044	-	2,044	2,041
Investments	217,711	-	-	-	217,711	217,711
Trade and other receivables	-	-	30,660	-	30,660	30,660
Total assets	217,711	-	53,417	-	271,128	271,125

	Designated at FVTPL	Other financial liabilities at amortised cost	Total carrying amount	Fair value
	$000	$000	$000	$000
Trade and other liabilities	-	19,867	19,867	19,867
Total liabilities	-	19,867	19,867	19,867

FIFTH
CONSECUTIVE
PROFIT

25. Financial instruments (continued)

2014 Parent	Designated at FVTPL	Available for sale	Loans and receivables	Held-to-maturity	Total carrying amount	Fair value
	$000	$000	$000	$000	$000	$000
Bank deposits	-	-	978	-	978	978
Investments	106,822	-	-	-	106,822	106,822
Trade and other receivables	-	-	10,033	-	10,033	10,033
Total assets	106,822	-	11,011	-	117,833	117,833

	Designated at FVTPL	Other financial liabilities at amortised cost	Total carrying amount	Fair value
	$000	$000	$000	$000
Trade and other liabilities	-	21,033	21,033	21,033
Total liabilities	-	21,033	21,033	21,033

2013 Parent	Designated at FVTPL	Available for sale	Loans and receivables	Held-to-maturity	Total carrying amount	Fair value
	$000	$000	$000	$000	$000	$000
Bank deposits	-	-	5,011	-	5,011	5,011
Investments	183,391	-	-	-	183,391	183,391
Trade and other receivables	-	-	21,116	-	21,116	21,116
Total assets	183,391	-	26,127	-	209,518	209,518

	Designated at FVTPL	Other financial liabilities at amortised cost	Total carrying amount	Fair value
	$000	$000	$000	$000
Trade and other liabilities	-	20,227	20,227	20,227
Total liabilities	-	20,227	20,227	20,227

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

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

26. Undrawn lending commitments

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

	Group	Group	**Parent**	Parent
	2014	2013	**2014**	2013
	$000	$000	**$000**	$000
Undrawn lending commitments	**-**	900	**-**	-

27. Commitments

Operating lease commitments				
Due within 1 year	**3,633**	3,312	**3,633**	3,312
Due between 1 to 2 years	**2,815**	2,591	**2,815**	2,591
Due between 2 to 5 years	**4,249**	4,269	**4,249**	4,269
Beyond 5 years	**940**	1,382	**940**	1,382
	11,637	11,554	**11,637**	11,554
Capital commitments				
Estimated capital expenditure	**-**	-	**-**	-
Total commitments	**11,637**	11,554	**11,637**	11,554

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

During the year ended 31 March 2014 $3.277m was recognised as an expense in profit and loss in respect of operating leases (2013: $3.238m). Contingent rent recognised as an expense amounted to $Nil (2013: $Nil).

28. Contingencies

There are no contingent liabilities at 31 March 2014 (2013: $Nil).

29. Subsequent events

There are no subsequent events.

30. Charge over assets

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

Independent Auditor's Report

To the Members of Farmers' Mutual Group

Report on the Financial Statements

We have audited the financial statements of Farmers' Mutual Group (the "Mutual") and its subsidiaries (the "Group") on pages 10 to 52, which comprise the balance sheet of the Mutual and Group as at 31 March 2014, and the income statement, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

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

Directors Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

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

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

Opinion

In our opinion, the financial statements on pages 10 to 52:

- comply with generally accepted accounting practice in New Zealand;
- comply with International Financial Reporting Standards; and
- give a true and fair view of the financial position of Farmers' Mutual Group and its subsidiaries as at 31 March 2014 and their financial performance and cash flows for the year then ended.

Report on Other Legal and Regulatory Requirements

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

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

Ernst + Young

19 June 2014
Wellington

EMPLOYEE REMUNERATION

Employee Remuneration

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

	Group 2014 $	Group 2013 $
100,000 - 110,000	33	32
110,001 - 120,000	15	12
120,001 - 130,000	7	16
130,001 - 140,000	18	12
140,001 - 150,000	5	9
150,001 - 160,000	6	4
160,001 - 170,000	4	4
170,001 - 180,000	3	4
180,001 - 190,000	2	1
190,001 - 200,000	3	1
200,001 - 210,000	2	1
210,001 - 220,000	1	-
220,001 - 230,000	1	1
230,001 - 240,000	1	-
280,001 - 290,000	-	1
290,001 - 300,000	-	1
320,001 - 330,000	1	1
340,001 - 350,000	1	-
370,001 - 380,000	1	-
410,001 - 420,000	-	1
440,001 - 450,000	-	1
450,001 - 460,000	2	-
680,001 - 690,000	-	1
800,001 - 810,000	1	-

APPOINTED ACTUARY'S REVIEW OF ACTUARIAL INFORMATION FOR FARMERS' MUTUAL GROUP IN RESPECT OF 31 MARCH 2014 FINANCIAL STATEMENTS

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

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

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

I have reviewed actuarial information contained in the 31 March 2014 financial statements.

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

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

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

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

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

The outstanding claims (and sensitivity analysis of), premium liabilities and the Liability Adequacy Test have been calculated by me and in my opinion they comply with accounting standard NZ IFRS 4 and have been prepared in accordance with New Zealand Society of Actuaries Professional Standard No. 4 (PS4).

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

They have also been audited by EY.

In summary, I can confirm that:

- The actuarial information contained in the 31 March 2014 financial statements has been appropriately included in those statements without exception
- The actuarial information used in the preparation of the 31 March 2014 financial statements has been used appropriately without exception
- That in my opinion, as at 31 March 2014, FMG is maintaining a solvency margin as defined in The Solvency Standard for Non-Life Insurance Business issued by the Reserve Bank (Oct 2011 amendments to May 2012).

For further detail on the items listed above please refer to the 31 March 2014 financial statements.

Margaret Cantwell
Appointed Actuary
FMG

19 June 2014

DIRECTORY

FMG comprising
Farmers' Mutual Group
FMG Insurance Limited

Head Office
Level 20
Vodafone on the Quay
157 Lambton Quay
PO Box 521
Wellington 6140

Bankers
The Bank of New Zealand

Legal advisors
DLA Phillips Fox, Wellington

Auditors
Ernst & Young, Wellington

Board of Directors
G W (Greg) Gent *Chairman*

M L (Marise) James

G R (Graeme) Milne

M W A (Murray) Donald

M J T (Michael) Ahie

C L (Cindy) Mitchener

D (Danny) Chan

Leadership team
Chris Black *Chief Executive*

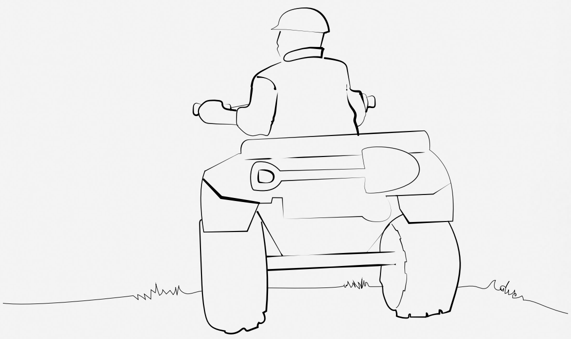
David Kibblewhite *Chief Financial, Investment and Risk Officer*

Geoff Yeats *General Manager – Business Information Services*

Conrad Wilkshire *General Manager – Advice and Insurance*

Mike Lange *General Manager – Products and Services*

Andrea Brunner *General Manager – Marketing, Distribution and Human Resources*



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