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**“Despite a tough year for everyone, it’s as important, if not more, to keep delivering for our clients.”**

# THROUGH THE UPS AND DOWNS, WE'RE WITH YOU ALL THE WAY.

Insurance, like farming, is a long term game, with many ups and downs along the way. As a Mutual we continue to grow, while at the same time ensuring we have the financial resources to handle the tough years. Claims can vary wildly from one year to the next, and this year has been a sharp reminder that your claims and our ability to honour them in a timely manner is one of the reasons why we exist. Being there when clients need us is at the heart of what the Mutual is all about.

## CHAIRMAN'S REPORT

**“The year under review was a very satisfactory one, even though the financial result does not necessarily reflect that.”**



I have pleasure in writing this, the 111th Annual Report for our Mutual, FMG. Farming is a long term game, with many ups and downs along the way. In that sense our insurance business follows a very similar pattern; handling volatility is something we have to live with, at the same time as ensuring we have the financial resources to handle the tough claims years.

The year under review was a very satisfactory one, even though the financial result does not necessarily reflect that. We had an after tax profit of \$5.3m, well down on the \$26.8m achieved the previous year. The upside to the financial result was a \$15.7m lift in headline premium income driven by our continued growth in net client numbers. Standard operating costs were at planned levels. All of this was dwarfed however by the fact claims were well up on our budget predictions, with no one single reason accounting for the large increase year on year. Claims can vary wildly from one year to the next and this is a sharp reminder that your claims and our ability to honour them in a timely manner is one of the main reasons why we exist.

Over the last six years we have been progressively replacing our core computer system. Recently we implemented the claims part of the system at a cost of \$12m, bringing the whole project to a close at a total cost of \$35m. In spite of this large investment programme, we closed the year with reserves up at just under \$230m.

Being a Mutual means we are very committed to the rural communities which support us. Related to this, the launch in June 2015 of the rural-wellbeing initiative Farmstrong – a partnership between ourselves and the Mental Health Foundation – was key for us. It was also timely given the intense pressure many in the dairy industry in particular

are currently under. Farmstrong is about helping farmers right across the primary sector to take care of themselves ahead of time, to better handle the pressures that can get on top of any of us when things get tough. The programme is one we are very proud to be supporting, especially given it takes a different approach with a focus on prevention. We are also pleased that ACC will partner with Farmstrong in the future development of the programme.

On a similar theme of supporting rural New Zealand, we have become the naming rights sponsor for the FMG Young Farmer of the Year contest. The contest began in 1969 and supports the whole Young Farmers movement and importantly celebrates the best of youth in our sector. I write this soon after the Grand Final which was won by Athol New of Aorangi. The quality of the finalists was outstanding and a true celebration of all things rural.

I would particularly like to thank Chief Executive Chris Black, his management team and all employees for what has been a very solid year. I am privileged to lead a very capable Board who show a real commitment to our Mutual.

**Greg Gent**  
Chairman  
FMG

## CHIEF EXECUTIVE'S REPORT

**“Being there when clients need us is at the heart of what the Mutual is all about.”**



Against a backdrop of not only a tough external environment for many of our clients but also the very competitive insurance market, I think the Mutual has performed well overall in the last 12 months. Client satisfaction reached a new high and on the back of this client numbers grew over 5% as more people and businesses elected to switch to New Zealand's largest mutual insurer. Of particular note was the fact that net claims costs last year were up \$26.2m from \$103.3m to \$129.5m due to more frost, flood, house fire and vehicle claims. On the face of it this significant spike in claims costs might look problematic but is in fact something we anticipate from time to time and are well placed to absorb. Being there when clients need us is at the heart of what the Mutual is all about. As a result of these higher claims however, while net profit after tax was still positive, it was down on the previous few years. Again we are comfortable with this given our strong capital base and long term approach to managing the Mutual.

The reception Farmstrong has received in its first year has exceeded expectations. Established jointly by the Mental Health Foundation and FMG just a year ago to help farmers stay in good shape personally, in order to handle the ups and downs of farming, we have been delighted with the broad support Farmstrong has received from right across the primary sector. Sincere thanks to all those people and organisations that have got in behind the launch of Farmstrong in the spirit of making a positive and tangible difference for rural communities.

Within FMG there have also been a number of notable milestones this last year, including the completion of a six-year integrated programme to replace our core computer system. At a cost of \$35m this has been implemented successfully on time and within budget.

This significant infrastructure investment helps set the Mutual up for the next 15-20 years and supports our growth strategy and aspiration as an organisation. Not unrelated to this, it was a thrill for FMG to be judged the best large workplace in New Zealand last year, which I think is not only a positive endorsement of the healthy culture we try to foster but just as important means we have a better chance of attracting and retaining high calibre people to provide you with the top flight advice, service and support you have come to expect from the Mutual.

Thank you to all my colleagues who it is a privilege to work alongside and have gone the extra mile this year in probably the toughest operating environment we have seen for a while. Thank you also to the Board for its foresight, courage and commitment over recent years to set up the Mutual in order to handle a year like the one we have just experienced.

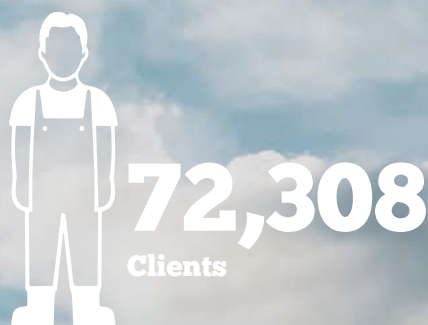
A handwritten signature in green ink, appearing to read 'Chris Black', written over a faint, light green circular watermark.

**Chris Black**  
Chief Executive Officer  
FMG

# FMG at a glance



## ENGAGED EMPLOYEES



## SERVING OUR CLIENTS





Launched  
**FARM STRONG™**

## IN THE COMMUNITY

Profit of  
**\$5.3m**  
(AFTER TAX)



**A**  
**Excellence**  
A.M BEST CREDIT RATING

## A STRONG MUTUAL

# DIRECTORS' REPORT

## Five year comparisons

### NZ Claims and catastrophes (\$000)

■ Catastrophe claims

2012	77,468	8,732
2013	72,144	0
2014	88,538	12,551
2015	95,776	7,558
2016	122,835	6,680

### NZ General insurance gross written premium (\$000)

2012	150,153
2013	167,571
2014	204,511
2015	209,279
2016	224,946

### Equity (\$000)

2012	148,957
2013	179,912
2014	197,428
2015	224,221
2016	229,493

### Investment income (\$000)

2012	9,252
2013	16,837
2014	16,273
2015	23,443
2016	12,715

### Net profit after tax (\$000)

2012	8,511
2013	31,257
2014	17,516
2015	26,793
2016	5,272

The Directors have pleasure in presenting Farmers' Mutual Group's 111th Annual Report and Financial Statements for the year ended 31 March 2016.

### Principal Activities

The Group<sup>2</sup> 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 \$224.9m from \$209.3m
- Decrease in net investment income from continuing operations to \$12.7m from \$23.4m
- Increase in net claims incurred from continuing operations to \$129.5m from \$103.3m
- Decrease in profit from continuing operations after tax to a \$5.3m profit from \$26.8m

	2016	2015
	\$000	\$000
Profit from continuing operations before taxation	6,757	31,436
Taxation	(1,485)	(4,643)
Profit for the year	5,272	26,793

<sup>1</sup> Reference to "Farmers' Mutual Group" or "FMG" or the "Parent" in this report and the Financial Statements means Farmers' Mutual Group.

<sup>2</sup> Reference to the "Group" in this report and the Financial Statements means the Parent and all subsidiaries.



# DIRECTORS' REPORT

## Membership

As at 31 March 2016, membership of the Parent stands at 48,655.

## Directorate

In accordance with the tenure provisions of the Director Appointment and Reappointment Policy, Mr. Greg Gent and Mr. Michael Ahie will retire by rotation and will stand for re-election 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.

In February 2015 all the Group's insurance business was consolidated into FMG Insurance Limited. In accordance with the requirements of the Insurance (Prudential Supervision) Act 2010 FMG Insurance Limited holds a full licence and is supervised by the Reserve Bank of New Zealand.

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 \$0.367m (2015: \$0.373m). The amounts paid to each director for both the FMG and FMG Insurance Limited Boards are as follows:

	2015-2016	2014-2015
Name	\$000	\$000
G W Gent (Chair)	85	81
M W A Donald	-	22
M L James	47	45
T D Cleland	47	45
G R Milne	47	45
M J T Ahie	47	45
C L Mitchener	47	45
D Chan	47	45
Total	367	373

# The Board of Directors

### The Board as at 31 March 2016

The FMG Directors are Mr. Greg Gent (Chair), Mrs. Marise James, Mr. Graeme Milne, Mr. Tony Cleland, Mr. Michael Ahie, Ms. Cindy Mitchener and Mr. Danny Chan.

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 the Chairman of Southern Cross.



#### 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 is a Director of Genesis Energy Ltd. and Alliance Group Ltd., amongst others.

# DIRECTORS' REPORT



## **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 a founding partner and director 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**

Ms. 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. Ms Mitchener is a lifestyle block owner and is a Director of media consultancy Mitchener Gillman Communications Ltd. Cindy is also a partner of marketing and recruitment company Marsden Inch Recruitment.



## **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 a founder of a private educational institution that now operates in three countries. He has extensive governance experience including eight years on the board of NZX listed Abano Healthcare Ltd. and six years on the board of AgResearch.



# 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 & Reappointment Policy which articulates the process for the appointment of prospective Directors, as well as the evaluation of Directors due to retire by rotation who intend to stand for re-election.

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

## The Board Committees as at 31 March 2016

The Audit & Risk Management Committee is currently comprised of Mrs. Marise James (Chair), Mr. Greg Gent, Mr. Graeme Milne, Mr. Tony Cleland and Mr Michael Ahie and is governed by its own Charter. The function of the Audit & Risk Management Committee is to assist the Board in carrying out its responsibilities under the Farmers' Mutual Group Act 2007, which incorporates by reference provisions of the Companies Act 1993 and the Financial Markets Conduct Act 2013. These responsibilities include ensuring compliance with legal and regulatory standards and the New Zealand equivalents to International Financial Reporting Standards, reviewing management's accounting practices, policies and controls relative to the Group, identification and management of key financial and regulatory risks and reviewing and making appropriate inquiry into the audits of the Group by both internal and external auditors.

The Nomination, Remuneration & Governance Committee is currently comprised of Mr. Greg Gent (Chair), Mr. Michael Ahie, Ms. Cindy Mitchener, Mr. Tony Cleland and Mr. Danny Chan. 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 2015-16 is detailed below:

	Number of meetings	Number attended
<b>FMG Board Meetings</b>		
G W Gent (Chair)	7	7
M L James	7	7
T D Cleland	7	7
G R Milne	7	5
M J T Ahie	7	7
C L Mitchener	7	7
D Chan	7	6
<b>Audit Meetings</b>		
M L James	3	3
G W Gent	3	3
G R Milne	3	2
M J T Ahie	3	3
T D Cleland	3	3
<b>Nomination, Remuneration and Governance Meetings</b>		
G W Gent (Chair)	2	2
M J T Ahie	2	2
T D Cleland	2	2
C L Mitchener	2	2
D Chan	2	1

## Directors of FMG's Subsidiaries as at 31 March 2016

The current FMG Insurance Limited Directors are Mr. Greg Gent, Mrs. Marise James, Mr. Tony Cleland, Mr. Graeme Milne, Mr. Michael Ahie, Mr. Danny Chan and Ms. 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 2016

- There are no related party transactions recorded in the interest registers.
- 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.
- Directors' remuneration is disclosed on page 7.
- The Group has arranged policies of Directors' Liability Insurance which ensures that generally Directors will incur no monetary loss as a result of action undertaken by them as Directors. Certain actions are specifically excluded, for example the incurring of penalties and fines which may be imposed in respect of breaches of statutory regulations.

## Auditors

EY has been appointed as Auditors for the Group.

## DIRECTORS' REPORT

# The Leadership Team



### The Leadership Team as at 31 March 2016\*

From left to right; Mr. Conrad Wilkshire, Mrs. Andrea Brunner, Mr. Chris Black, Mr. Geoff Yeats and Mr. Dave Kibblewhite.

#### **Chris Black – Chief Executive Officer**

Chief Executive of FMG since 2008, Chris Black entered the role with a wealth of experience from the banking sector as well as broad insurance experience and expertise in corporate strategy, financial and risk management and customer service. At an industry level Chris is currently the President of the Insurance Council of New Zealand (ICNZ) and is on the Board of the International Cooperatives and Mutual Insurance Federation (ICMIF).

#### **Conrad Wilkshire – Chief Operations Officer**

Conrad Wilkshire has been with FMG since May 2009 and leads all frontline client facing activities including sales and claims. Conrad's previous experience includes senior roles within the rural sector and 20 years banking experience. Notable achievements during his 16 years with the Bank of New Zealand include appointments as Head of BNZ Private Banking and General Manager Agribusiness.

#### **Andrea Brunner – Chief Marketing & Human Resources Officer**

Starting with FMG in 2009 Andrea Brunner provides leadership to both the Human Resources and Marketing functions of the Mutual. Andrea began her working career as a lawyer specialising in employment law before moving into the area of employment relations in the banking industry. During her time in banking Andrea broadened her focus taking up key HR business partner roles and leading large generalist HR teams.

#### **Geoff Yeats – Chief Information Officer**

Geoff Yeats joined FMG in 2008. As the Chief Information Officer, Geoff is responsible for the provision of infrastructure, service delivery, programme office, business analysis, business intelligence and information management functions to the organisation. Geoff has worked in information management for more than 25 years with a number of government and private sector organisations.

#### **Dave Kibblewhite – Chief Finance, Investment & Risk Officer**

Dave Kibblewhite began with FMG in 2003 as the Mutual's Chief Financial Officer, a role that includes FMG's financial management and oversight of the Mutual's investment strategy and portfolio management. Dave's experience includes 10 years as an auditor with Ernst & Young, both in New Zealand and internationally. Prior to joining FMG Dave also worked in senior finance roles for both Tower Investments and Colonial Mutual.

### \*Leadership Team changes

FMG bid farewell to Mike Lange, General Manager Agribusiness Strategy in February 2016. Mike served the Mutual with distinction over 15 years and leaves to take up a General Manager role at Fonterra.

Nathan Barrett was appointed to the FMG Leadership Team effective 1 May 2016 as General Manager Underwriting & Risk Quality.

# CONSOLIDATED INCOME STATEMENT

for the year ended 31 March

		Group	Group
		2016	2015
	Notes	\$000	\$000
<b>General insurance activities</b>			
Gross written premium		224,946	209,279
Movement in unearned premium		(6,797)	(8,454)
Gross earned premium	1	218,149	200,825
Outwards reinsurance premium expense		(20,548)	(19,918)
<b>Net premium revenue</b>		<b>197,601</b>	<b>180,907</b>
Claims expense	8	(134,320)	(123,285)
Reinsurance and other recoveries revenue	1, 8	4,805	19,951
<b>Net claims incurred</b>		<b>(129,515)</b>	<b>(103,334)</b>
Other income	1	8,881	8,032
Operating expenses	2	(82,855)	(77,686)
<b>General insurance underwriting result</b>		<b>(5,888)</b>	<b>7,919</b>
Investment revenue	1	12,715	23,443
<b>Profit from general insurance activities</b>		<b>6,827</b>	<b>31,362</b>
<b>Other</b>			
Share of earnings/(loss) of joint ventures	13	(70)	74
<b>Profit before taxation</b>		<b>6,757</b>	<b>31,436</b>
Income tax expense	3	(1,485)	(4,643)
<b>Net profit</b>		<b>5,272</b>	<b>26,793</b>
<b>Profit for the year attributable to members</b>		<b>5,272</b>	<b>26,793</b>
<b>Total comprehensive income for the year, net of tax, attributable to members</b>		<b>5,272</b>	<b>26,793</b>

The financial statements should be read in conjunction with the accounting policies and notes on pages 16 to 45.



## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

*for the year ended 31 March*

	Group	Group
	2016	2015
	\$000	\$000
<b>Retained earnings</b>		
Retained earnings at the beginning of the year	224,221	197,428
Total profit and comprehensive income	5,272	26,793
Retained earnings at the end of the year	229,493	224,221
<b>Total equity at the end of the year</b>	<b>229,493</b>	<b>224,221</b>
Attributable to:		
Members	229,493	224,221
	229,493	224,221

The financial statements should be read in conjunction with the accounting policies and notes on pages 16 to 45.

# CONSOLIDATED BALANCE SHEET

as at 31 March

		<b>Group</b>	Group
		<b>2016</b>	2015
	Notes	<b>\$000</b>	\$000
<b>Assets</b>			
Cash and cash equivalents	4	26,470	28,407
Trade and other receivables	6	75,420	74,868
Insurance recoveries	7, 8	18,606	27,314
Deferred acquisition costs	9	4,193	3,954
Investments	5	278,695	256,651
Current tax asset		1,604	120
Property, plant and equipment	10	6,949	5,970
Intangible assets	11	16,799	14,379
Investments in joint ventures	13	-	1,098
Deferred tax assets	14	6,713	6,356
<b>Total assets</b>		<b>435,449</b>	<b>419,117</b>
<b>Liabilities</b>			
Trade and other liabilities	15	18,614	18,423
Make good provision		37	60
Underwriting provisions	7	179,155	169,387
Deferred tax liabilities	14	8,150	7,026
<b>Total liabilities</b>		<b>205,956</b>	<b>194,896</b>
<b>Net assets</b>		<b>229,493</b>	<b>224,221</b>
<b>Equity</b>			
Retained earnings		229,493	224,221
<i>Attributable to:</i>			
Members		229,493	224,221
<b>Total equity</b>		<b>229,493</b>	<b>224,221</b>

Signed on behalf of the Board of Directors, who authorised the issue of these financial statements on 30 June 2016.



**G W GENT**  
Chairman  
30 June 2016



**M L JAMES**  
Director  
30 June 2016

The financial statements should be read in conjunction with the accounting policies and notes on pages 16 to 45.

# CONSOLIDATED STATEMENT OF CASH FLOWS

for the year ended 31 March

		<b>Group</b>	Group
		<b>2016</b>	2015
	Notes	<b>\$000</b>	\$000
<b>Cash flows from operating activities</b>			
Premium and other receipts from clients		237,083	212,518
Reinsurance recoveries		13,184	22,225
Interest and fees received		970	895
Other income		-	197
Claims paid		(131,629)	(127,168)
Reinsurance premium paid		(21,737)	(21,087)
Cash paid to suppliers and employees		(79,596)	(75,020)
Interest paid		(22)	27
Income tax paid		(2,342)	(4,433)
<b>Net cash flows from operating activities</b>	4	<b>15,911</b>	<b>8,154</b>
<b>Cash flows from investing activities</b>			
Proceeds from advances/(repayments) of finance receivables		411	1
Dividends received		550	523
Other income		(1,116)	49
Investment dealings with fund managers		(9,977)	216
Purchase of property, plant and equipment and intangible assets		(9,860)	(1,807)
<b>Net cash flows from investing activities</b>		<b>(19,992)</b>	<b>(1,018)</b>
<b>Cash flows from financing activities</b>			
Proceeds from sale of investment		2,144	-
<b>Net cash flows from financing activities</b>		<b>2,144</b>	<b>-</b>
Net increase/(decrease) in cash and cash equivalents		(1,937)	7,136
Cash and cash equivalents at the beginning of the year		28,407	21,271
Cash and cash equivalents at the end of the year	4	<b>26,470</b>	<b>28,407</b>

The financial statements should be read in conjunction with the accounting policies and notes on pages 16 to 45.



# STATEMENT OF ACCOUNTING POLICIES

*for the year ended 31 March*

## Reporting entity

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

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

This financial report includes financial statements for the consolidated entity (the "Group") which consists of the parent entity and all entities that the parent entity controlled during the year and at the balance date.

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

The Mutual's registered office is Level 5, Grant Thornton House, 215 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).

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

## Significant accounting policies

### Basis of preparation

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

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

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

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

### Basis of consolidation

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

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

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

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.

# STATEMENT OF ACCOUNTING POLICIES

*for the year ended 31 March*

## **General insurance contracts**

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

## **General insurance liabilities**

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

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

Liability adequacy testing is performed in order to ascertain any deficiencies in profit and loss arising from the carrying amount of the unearned premium liability not meeting the estimated future claims in prevailing market conditions. Any deficiency is taken to the income statement and written off against any deferred acquisition costs. Liability adequacy is determined for groups of contracts that are subject to broadly similar risks and are managed together as a single portfolio.

## **Assets backing general insurance contract liabilities**

These assets are measured on a basis that is consistent with the measurement of the liabilities, to the extent permitted under accounting standards. The Group has identified its funds under management as assets backing general insurance contract liabilities.

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

## **Claims expense**

Claims expenses in respect of general insurance contracts are recognised in the income statement either as claims are incurred or as movements in outstanding claims owing.

## **Policy acquisition costs**

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

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

## **Outwards reinsurance**

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

## **Reinsurance recoveries**

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

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

# STATEMENT OF ACCOUNTING POLICIES

*for the year ended 31 March*

## Revenue recognition

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

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

## Premium revenue

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

## Other fee income

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

## Interest income

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

## Dividend income

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

## Taxes

### Current income tax

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

### Deferred tax

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

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

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

## GST

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

## Foreign currencies

Transactions in foreign currencies are translated to the respective functional currencies of Group entities at exchange rates at the dates of the transactions.

Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the period.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Foreign currency differences arising on retranslation are recognised in the income statement.



# STATEMENT OF ACCOUNTING POLICIES

*for the year ended 31 March*

## Financial instruments

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

### Initial recognition and measurement of financial assets

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.

### 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 balance sheet at fair value with net changes in fair value presented as finance costs (negative net changes in fair value) or finance income (positive net changes in fair value) in the statement of profit or loss.

### Derecognition of financial assets

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

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

### Impairment of financial assets

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

### Asset quality

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

### Initial recognition and measurement of financial liabilities

All of the Group's financial liabilities are recognised initially at fair value and are subsequently measured at amortised cost using the effective interest rate method. Amortisation and foreign exchange gains and losses are recognised in the income statement.

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

### Derecognition of financial liabilities

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

## Fair value measurement

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

The fair value of financial instruments not traded in an active market is determined using valuation techniques. Valuation techniques include net-present-value techniques, discounted cash-flow methods 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.

# STATEMENT OF ACCOUNTING POLICIES

*for the year ended 31 March*

## 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. Receivables are subject to impairment testing with an allowance for collective impairment recognised.

## 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 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*

## 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

There are no changes in accounting policies and disclosures from the 31 March 2015 statements.

## 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 2016.

Standard	Requirement	Effective for annual reporting periods beginning on or after:
NZ IAS 1 Disclosure Initiative	The amendments clarify existing NZ IAS 1 requirements that relate to materiality, order of the notes, subtotals, accounting policies and disaggregation.	1 January 2016
NZ IFRS 9 (2014) Financial Instruments	<p>The final version of NZ IFRS 9 Financial Instruments, brings together the classification and measurement, impairment and hedge accounting phases of the International Accounting Standards Board's project. The standard will replace NZ IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of NZ IFRS 9.</p> <p>An entity may elect to apply earlier versions of NZ IFRS 9 if, and only if, the entity's relevant date of initial application is before 1 February 2015. Otherwise, early application is only permitted if the complete version of NZ IFRS 9 is adopted in its entirety for reporting periods beginning after 4 September 2014. The transition to NZ IFRS 9 differs by requirements and is partly retrospective and partly prospective. Despite the requirement to apply NZ IFRS 9 in its entirety, entities may elect to early apply only the requirements for the presentation of gains and losses on financial liabilities designated as at fair value through profit or loss without applying the other requirements in the standard. An entity that elects to do so is required to disclose that fact and provide the related disclosures set out in paragraphs 10-11 of NZ IFRS 7 Financial Instruments: Disclosures.</p>	1 January 2018
NZ IFRS 15 Revenue from Contracts with Customers	<p>NZ IFRS 15 establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers.</p> <p>NZ IFRS 15 supersedes:</p> <ul style="list-style-type: none"> <li>(a) NZ IAS 11 Construction Contracts</li> <li>(b) NZ IAS 18 Revenue</li> <li>(c) NZ IFRIC 13 Customer Loyalty Programmes</li> <li>(d) NZ IFRIC 15 Agreements for the Construction of Real Estate</li> <li>(e) NZ IFRIC 18 Transfers of Assets from Customers</li> <li>(f) NZ SIC-31 Revenue – Barter transactions Involving Advertising Services</li> </ul> <p>The core principle of NZ IFRS 15 is that an entity recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. An entity recognises revenue in accordance with that core principle by applying the following steps:</p> <ul style="list-style-type: none"> <li>(a) Step 1: Identify the contract(s) with a customer</li> <li>(b) Step 2: Identify the performance obligations in the contract</li> <li>(c) Step 3: Determine the transaction price</li> <li>(d) Step 4: Allocate the transaction price to the performance obligations in the contract</li> <li>(e) Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation</li> </ul>	1 January 2018

# STATEMENT OF ACCOUNTING POLICIES

for the year ended 31 March

Standard	Requirement	Effective for annual reporting periods beginning on or after:
NZ IAS 16 and NZ IAS 38 Clarification of Acceptable Methods of Depreciation and Amortisation (Amendments to NZ IAS 16 and NZ IAS 38)	<p>NZ IAS 16 and NZ IAS 38 both establish the principle for the basis of depreciation and amortisation as being the expected pattern of consumption of the future economic benefits of an asset.</p> <p>The IASB has clarified that the use of revenue-based methods to calculate the depreciation of an asset is not appropriate because revenue generated by an activity that includes the use of an asset generally reflects factors other than the consumption of the economic benefits embodied in the asset.</p> <p>The IASB also clarified that revenue is generally presumed to be an inappropriate basis for measuring the consumption of the economic benefits embodied in an intangible asset. This presumption, however, can be rebutted in certain limited circumstances.</p>	1 January 2016
NZ IFRS 16 Leases	<p>NZ IFRS 16 is the new standard on the recognition, measurement, presentation and disclosure of leases. This standard will replace:</p> <ul style="list-style-type: none"> <li>(a) NZ IAS 17 Leases;</li> <li>(b) NZ IFRIC 4 Determining whether an Arrangement contains a Lease;</li> <li>(c) NZ SIC-15 Operating Leases—Incentives; and</li> <li>(d) NZ SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease.</li> </ul> <p>The scope of the new standard includes leases of all assets, with certain exceptions. A lease is defined as a contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration.</p> <p>NZ IFRS 16 requires lessees to account for all leases under a single on-balance sheet model (subject to certain exemptions) in a similar way to finance leases under NZ IAS 17.</p> <p>Lessees recognise a liability to pay rentals with a corresponding asset, and recognise interest expense and depreciation separately.</p> <p>Reassessment of certain key considerations (e.g. lease term, variable rents based on an index or rate, discount rate) by the lessee is required upon certain events.</p> <p>Lessor accounting is substantially the same as today's lessor accounting, using NZ IAS 17's dual classification approach.</p> <p>Application of NZ IFRS 16 is required for annual periods beginning on or after 1 January 2019. Early application is permitted, but not before an entity applies NZ IFRS 15.</p>	1 January 2019

A full assessment of the impact of adopting the above Standards and Interpretations has not yet been performed by the Group. The Group does not intend to adopt any of these standards early.



# STATEMENT OF ACCOUNTING POLICIES

*for the year ended 31 March*

## Significant accounting judgements, estimates and assumptions

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

### Claims liabilities under general insurance contracts

Provision is made at the end of the year for the estimated cost of claims incurred but not settled at the balance sheet date, including:

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

In calculating the estimated cost of unpaid claims the Group uses a variety of estimation techniques, generally based on statistical analyses of historical experience, which assumes that the development pattern of the current claims will be consistent with past experience. Claims are separated into classes of business with broadly similar reporting and settlement behavior and the results from each class combined to determine the value of unpaid claims. Gross claims costs are established with a separate assessment of reinsurance and other recoveries.

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

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

Further information is contained in Notes 7 and 8.

### 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	Group
	2016	2015
	\$000	\$000
<b>General insurance revenue</b>		
Gross earned premiums	218,149	200,825
Reinsurance and other recoveries revenue	4,805	19,951
<i>Investment revenue:</i>		
Dividends – other entities	550	523
Interest income – other entities	972	786
Movement in financial assets at fair value through profit and loss	11,193	22,134
Total investment revenue	12,715	23,443
Fee income and other revenue	8,881	8,032
<b>Total revenue</b>	<b>244,550</b>	<b>252,251</b>

## 2. Other expenses

	Group	Group
	2016	2015
	\$000	\$000
Operating expenses include:		
Employee expenses	45,573	43,094
Operating lease rental expenses	3,668	3,681
Depreciation on property, plant and equipment	2,028	2,272
Amortisation on intangible assets	4,435	4,331
(Gain)/loss on disposal of property, plant and equipment	(1)	109
Directors' fees	367	373
Donations	1	-
Auditors' remuneration – audit of financial statements	140	137
Auditors' remuneration – solvency returns	17	17
Auditors' remuneration – taxation services	42	60
Auditors' remuneration – IT quality assurance (non-recurring)	147	-
Auditors' remuneration – HR consulting	45	44

# NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 March

## 3. Income tax

	Group	Group
	2016	2015
	\$000	\$000
<b>a) Income tax expense from continuing operations</b>		
Current tax	795	4,055
Deferred tax expense	735	595
(Over)/under provided in prior years	62	(2)
Utilised prior year's tax losses	(107)	(5)
<b>Income tax expense for the year from continuing operations</b>	<b>1,485</b>	<b>4,643</b>
<b>b) Numerical reconciliation of income tax expense to prima facie tax payable</b>		
<i>Profit before taxation</i>		
Continuing operations	6,757	31,436
<b>Total profit before taxation</b>	<b>6,757</b>	<b>31,436</b>
Prima facie income tax @ 28%	1,891	8,802
<i>Tax effect of amounts which are non-deductible expenses/non-assessable revenue:</i>		
Non-assessable income and other items	(688)	(4,335)
Non-deductible expenses and other items	(259)	(325)
Imputation credits on dividends	(126)	(117)
Gain on asset disposal	-	30
RWT	(22)	-
Foreign tax credit	(1)	-
Deferred tax expense	735	595
(Over)/under provided in prior years	62	(2)
Utilised prior year's tax losses	(107)	(5)
<b>Income tax expense/(credit) for the year</b>	<b>1,485</b>	<b>4,643</b>
<b>c) Imputation credit account</b>		
Balance at the beginning of the year	65,505	61,450
Net taxation paid/(refunded)	2,750	4,055
Imputation credit attached to dividends received and dividends paid	126	-
<b>Balance at the end of the year</b>	<b>68,381</b>	<b>65,505</b>

# NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 March

## 4. Cash and cash equivalents

	Group 2016 \$000	Group 2015 \$000
Cash at bank and in hand	26,470	28,407
<b>Total cash and cash equivalents</b>	<b>26,470</b>	<b>28,407</b>
<b>a) Reconciliation of profit to net cash flows from operating activities</b>		
Profit for the year	5,272	26,793
Joint venture (profit)/loss	70	(74)
Profit for the year excluding joint venture	5,342	26,719
<b>Adjustments for non-cash items</b>		
Amortisation	4,435	4,331
Depreciation	2,028	2,272
Movement in deferred tax	767	397
Movement in unearned premium	7,077	9,372
Movement in outstanding claims	2,691	(3,883)
Movement in bad debts provision	77	56
Movement in deferred acquisition costs	(239)	-
Movement in make good provision	(23)	(140)
Loss on sale of biological assets	-	156
Unrealised investment loss/(gain)	(12,068)	(23,051)
	4,745	(10,490)
<b>Movements in other working capital items</b>		
Movement in accounts receivable	7,675	(5,829)
Movement in accounts payable	161	(1,821)
Movement in accrued leave/bonuses	23	385
Movement in taxation recoverable	(1,484)	(396)
	6,375	(7,661)
<b>Items classified as investing activities</b>		
Net loss/(gain) on sale of property, plant and equipment	(1)	109
Dividends received	(550)	(523)
	(551)	(414)
<b>Net cash flows from operating activities</b>	<b>15,911</b>	<b>8,154</b>

# NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 March

## 5. Investments

	Group 2016 \$000	Group 2015 \$000
<b>Equity securities</b>		
Investments in unlisted New Zealand companies	24,163	22,850
<b>Total equity securities</b>	<b>24,163</b>	<b>22,850</b>
<b>Unit trust investments</b>		
New Zealand equities	9,654	9,489
Offshore equities	40,053	44,891
Fixed interest investments – New Zealand	167,626	144,194
Fixed interest investments – Offshore	37,199	35,227
<b>Total unit trust investments</b>	<b>254,532</b>	<b>233,801</b>
<b>Total other financial assets</b>	<b>278,695</b>	<b>256,651</b>

### Determination of fair value hierarchy 2016

	Group			Total fair value
	Level 1 \$000	Level 2 \$000	Level 3 \$000	\$000
<b>Financial assets designated at fair value through profit and loss:</b>				
Equity securities	-	-	24,163	24,163
Unit trust investments	-	254,532	-	254,532
<b>Total financial assets</b>	<b>-</b>	<b>254,532</b>	<b>24,163</b>	<b>278,695</b>

### Determination of fair value hierarchy 2015

	Group			Total fair value
	Level 1 \$000	Level 2 \$000	Level 3 \$000	\$000
<b>Financial assets designated at fair value through profit and loss:</b>				
Equity securities	-	-	22,850	22,850
Unit trust investments	-	233,801	-	233,801
<b>Total financial assets</b>	<b>-</b>	<b>233,801</b>	<b>22,850</b>	<b>256,651</b>



# NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 March

## 5. Investments (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 asset in this category is an unlisted equity investment. Valuation techniques are used to the extent that observable inputs are not available, thereby allowing for situations in which there is little, if any, market activity for the asset or liability at the measurement date. However, the fair value measurement objective remains the same, that is, an exit price from the perspective of the Group. Therefore, unobservable inputs reflect the Group's own assumptions about the assumptions that market participants would use in pricing the asset or liability (including assumptions about risk). These inputs include expected future maintainable earnings and market multiples and are developed based on the best information available, which might include the Group's own data.

During the year there were no transfers between categories.

### Financial assets designated at fair value through profit and loss 2016 – Group

	As at 1 April 2015	Total gain in profit and loss	As at 31 March 2016
	\$000	\$000	\$000
Equity securities	22,850	1,313	24,163
	22,850	1,313	24,163

### Financial assets designated at fair value through profit and loss 2015 – Group

	As at 1 April 2014	Total gain in profit and loss	As at 31 March 2015
	\$000	\$000	\$000
Equity securities	19,194	3,656	22,850
	19,194	3,656	22,850

### Sensitivity of level 3 financial instruments to changes in key assumptions

	Carrying value at 31 March 2016	Effect of reasonably possible alternate assumptions (+/-)
	\$000	\$000
Equity securities	24,163	2,659
	24,163	2,659

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.

# NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 March

## 6. Trade and other receivables

	Group 2016	Group 2015
Notes	\$000	\$000
Trade debtors	74,846	71,039
Reinsurance debtors	273	2,455
Other receivables	1,746	2,742
Allowance for collective impairment	16 (1,445)	(1,368)
	75,420	74,868

There are no past due or impaired trade debtors or reinsurance debtors as at 31 March 2016. The allowance for collective impairment relates to other receivables where there are past due amounts.

## 7. Underwriting provisions and reinsurance and other recoveries

	Group 2016	Group 2015
Notes	\$000	\$000
<b>Underwriting provisions comprise:</b>		
<i>Liability for outstanding claims</i>		
Expected future claim payments (undiscounted)	68,595	66,366
Discount to present value	(797)	(1,259)
	67,798	65,107
Provision for unearned premiums	111,357	104,280
<b>Underwriting provisions</b>	<b>179,155</b>	<b>169,387</b>
Current	170,155	159,207
Non-current	9,000	10,180
	179,155	169,387
<b>Provision for reinsurance and other recoveries comprise:</b>		
Expected future recoveries (undiscounted)	(19,008)	(28,046)
Discount to present value	402	732
<b>Net insurance recoveries</b>	<b>(18,606)</b>	<b>(27,314)</b>
Current	(16,136)	(23,043)
Non-current	(2,470)	(4,271)
	(18,606)	(27,314)

# NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 March

## 8. General insurance contracts

### a) Net general insurance claims incurred

	2016			2015		
	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
<b>Group</b>						
<b>Gross claims expense</b>						
Direct claims – undiscounted	132,333	1,525	133,858	108,883	13,766	122,649
Discount	(480)	942	462	(619)	1,255	636
<b>Gross claims expense</b>	<b>131,853</b>	<b>2,467</b>	<b>134,320</b>	<b>108,264</b>	<b>15,021</b>	<b>123,285</b>
<b>Reinsurance and other recoveries</b>						
Reinsurance and other recoveries revenue – undiscounted	(3,108)	(1,358)	(4,466)	(7,834)	(11,773)	(19,607)
Discount	25	(364)	(339)	110	(454)	(344)
<b>Reinsurance and other recoveries</b>	<b>(3,083)</b>	<b>(1,722)</b>	<b>(4,805)</b>	<b>(7,724)</b>	<b>(12,227)</b>	<b>(19,951)</b>
<b>Net claims incurred</b>	<b>128,770</b>	<b>745</b>	<b>129,515</b>	<b>100,540</b>	<b>2,794</b>	<b>103,334</b>

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

### b) Development of claims

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

	Incident year						Total
	2011	2012	2013	2014	2015	2016	
	\$000	\$000	\$000	\$000	\$000	\$000	\$000
<b>Ultimate claims cost estimate</b>							
At end of accident year	128,162	88,170	73,246	113,319	110,276	127,293	
One year later	154,841	89,220	74,810	112,772	111,782		
Two years later	171,631	87,725	74,906	113,994			
Three years later	172,555	88,197	75,189				
Four years later	186,429	88,440					
Five years later	188,093						
Current estimate of ultimate claims cost	188,093	88,440	75,189	113,994	111,782	127,293	
Cumulative payments	173,450	86,873	74,948	111,788	108,156	89,009	
Undiscounted central estimate	14,643	1,567	241	2,206	3,626	38,284	60,567
Discount to present value	(117)	(14)	(4)	(46)	(68)	(462)	(711)
<b>Discounted central estimate</b>	<b>14,526</b>	<b>1,553</b>	<b>237</b>	<b>2,160</b>	<b>3,558</b>	<b>37,822</b>	<b>59,856</b>
Prior years							26
Claims handling expense							2,814
Risk margin							5,102
<b>Gross outstanding claims liabilities</b>							<b>67,798</b>
Reinsurance recoveries on outstanding claims and other recoveries							(18,606)
<b>Net outstanding claims liabilities</b>							<b>49,192</b>

# NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 March

## 8. General insurance contracts (continued)

### c) Analysis of outstanding claims

	<b>Group</b>	Group
	<b>2016</b>	2015
	<b>\$000</b>	\$000
Gross central estimate of present value of future claims payment	62,696	61,406
Risk margin	5,102	3,701
<b>Total outstanding claims liability</b>	<b>67,798</b>	<b>65,107</b>
The expected settlement pattern of the outstanding claims liability is as follows:		
Current	58,798	54,927
Non-current	9,000	10,180
<b>Total outstanding claims liability</b>	<b>67,798</b>	<b>65,107</b>

The total liability relates to direct insurance.

### Assumptions adopted in calculation of general insurance provisions

The effective date of the actuarial report on the Insurance Liabilities is 31 March 2016. The previous assessment of the Insurance Liabilities was performed at 31 March 2015.

The actuarial report was prepared by Margaret Cantwell, the 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 30 governing technical liability valuations for general insurance business.

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

# NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 March

## 8. General insurance contracts (continued)

### Process for determining risk margin

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

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

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

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

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

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

	2016	2015
Inflation rate	Implicit	Implicit
Discount rate	2.16%	3.42%
Claims handling expense ratio – outstanding claims liabilities	4.7%	4.7%
Claims handling expense ratio – premium liabilities	5.9%	5.9%
Risk margin – outstanding claims liabilities	11.6%	10.9%
Risk margin – premium liabilities	13.9%	13.4%
Weighted average expected term to settlement	221 days	170 days

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

	Group	Group
	2016	2015
	\$000	\$000
<b>Outstanding claims liability</b>		
Gross outstanding claims at the beginning of the year	65,107	68,990
Claims incurred during the year	134,320	123,285
Claims payments made during the year	(131,629)	(127,168)
<b>Gross outstanding claims at the end of the year</b>	<b>67,798</b>	<b>65,107</b>
<b>Reinsurance and other recoveries receivable</b>		
Reinsurance and other recoveries receivable at the beginning of the year	(27,314)	(29,847)
Reinsurance and other recoveries incurred during the year	(4,805)	(19,951)
Reinsurance and other recoveries received during the year	13,513	22,484
<b>Reinsurance and other recoveries receivable at the end of the year</b>	<b>(18,606)</b>	<b>(27,314)</b>



# NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 March

## 8. General insurance contracts (continued)

### 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.

Variable	Movement	2016		2015	
		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%	179	259	137	256
	Decrease of 1%	(182)	(263)	(139)	(260)
Claims handling expense ratio	Increase of 1%	(431)	(431)	(422)	(422)
	Decrease of 1%	431	431	422	422
Risk margin	Increase of 1%	316	316	244	244
	Decrease of 1%	(316)	(316)	(244)	(244)
Weighted average expected term to settlement	Increase 0.5 years	375	519	452	782
	Decrease 0.5 years	(379)	(524)	(460)	(795)

### d) Risk management policies and procedures

The general insurance business of the Group involves a number of non-financial risks. Notes on the policies and procedures employed in managing these risks in the general insurance business are set out below. Financial risks involving the Group are in Notes 19 to 21.

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

The risk management activities include prudent underwriting, pricing, and management of risk including reinsurance together with claims management, reserving and investment management. The objective of these disciplines is to maintain a sustainable insurance operations.

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

- comprehensive management information systems and actuarial models using historical information to calculate premiums and monitor claims;
- the use of reinsurance to limit the Group's exposure;
- prudent investment management to match our liabilities.

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

The terms and conditions attached to insurance contracts affect the level of insurance risk accepted by the Company. Insurance and reinsurance contracts were written on terms and conditions generally prevailing in the market at the time they were accepted. Such contracts transferred risk by indemnifying the insured and reinsured against the occurrence of specified events. There are no special terms and conditions in any non standard contracts that have a material impact on the financial statements.

#### (iii) Concentration of reinsurance risk

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

Reinsurance is placed to cover losses in excess of the Company's agreed retention for each class of business, using both automatic treaties and facultative (one-off) placements. Dependent upon the class of business either excess of loss or proportional reinsurance is used. The catastrophe programme provides cover up to the expected losses from a 1 in 1,000 year event.

There are no significant concentrations of insurance risk for reinsurance recoveries. Reinsurance contracts are entered into with a number of reinsurers, all with a minimum credit rating of A-. The internal policy is to limit the maximum exposure to a single reinsurer to 5-25% of the reinsurance programme depending on the credit rating of the reinsurer.

# NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 March

## 8. General insurance contracts (continued)

### e) Liability adequacy test

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

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

	Group	Group
	2016	2015
	\$000	\$000
Net central estimate of the present value of expected future cash flows from future claims	81,557	74,643
Risk margin of the present value of expected future cash flows	11,276	9,995

### f) 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 29 January 2016 (2015: A (Excellent)).

## 9. Deferred acquisition costs

	Group	Group
	2016	2015
	\$000	\$000
Balance at the beginning of the year	3,954	3,954
Deferred acquisition costs recognised during the year	(3,954)	(3,954)
Acquisition costs deferred during the year	4,193	3,954
Balance at the end of the year	4,193	3,954
Current	4,193	3,954

# NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 March

## 10. Property, plant and equipment

2016 – Group	Land and buildings	Leasehold improvements	Furniture and fittings	Computer equipment	Motor vehicles	Total
	\$000	\$000	\$000	\$000	\$000	\$000
<i>Cost</i>						
Balance at the beginning of the year	73	6,759	1,705	5,512	148	14,197
Additions	-	684	360	3,499	93	4,636
Disposals and transfers	-	(304)	(632)	(1,338)	(48)	(2,322)
<b>Balance at the end of the year</b>	<b>73</b>	<b>7,139</b>	<b>1,433</b>	<b>7,673</b>	<b>193</b>	<b>16,511</b>
<i>Depreciation and impairment losses</i>						
Balance at the beginning of the year	15	3,738	769	3,690	15	8,227
Depreciation for the year	1	970	140	876	41	2,028
Disposals and transfers	-	(226)	(55)	(407)	(5)	(693)
<b>Balance at the end of the year</b>	<b>16</b>	<b>4,482</b>	<b>854</b>	<b>4,159</b>	<b>51</b>	<b>9,562</b>
<i>Carrying amounts</i>						
At the beginning of the year	58	3,021	936	1,822	133	5,970
At the end of the year	57	2,657	579	3,514	142	6,949
<b>2015 – Group</b>	<b>Land and buildings</b>	<b>Leasehold improvements</b>	<b>Furniture and fittings</b>	<b>Computer equipment</b>	<b>Motor vehicles</b>	<b>Total</b>
	\$000	\$000	\$000	\$000	\$000	\$000
<i>Cost</i>						
Balance at the beginning of the year	389	6,631	1,912	5,262	111	14,305
Additions	-	1,471	809	629	98	3,007
Disposals and transfers	(316)	(1,343)	(1,016)	(379)	(61)	(3,115)
<b>Balance at the end of the year</b>	<b>73</b>	<b>6,759</b>	<b>1,705</b>	<b>5,512</b>	<b>148</b>	<b>14,197</b>
<i>Depreciation and impairment losses</i>						
Balance at the beginning of the year	32	3,876	1,551	3,097	31	8,587
Depreciation for the year	-	1,122	155	973	22	2,272
Disposals and transfers	(17)	(1,260)	(937)	(380)	(38)	(2,632)
<b>Balance at the end of the year</b>	<b>15</b>	<b>3,738</b>	<b>769</b>	<b>3,690</b>	<b>15</b>	<b>8,227</b>
<i>Carrying amounts</i>						
At the beginning of the year	357	2,755	361	2,165	80	5,718
At the end of the year	58	3,021	936	1,822	133	5,970

# NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 March

## 11. Intangible assets

2016 – Group	Computer software \$000	Client base \$000	Total \$000
<b>Cost</b>			
Balance at the beginning of the year	28,580	700	29,280
Acquisitions – internally developed	6,359	-	6,359
Acquisitions – other additions	533	-	533
Disposals	(163)	-	(163)
<b>Balance at the end of the year</b>	<b>35,309</b>	<b>700</b>	<b>36,009</b>
<b>Amortisation and impairment losses</b>			
Balance at the beginning of the year	14,394	507	14,901
Amortisation for the year	4,242	193	4,435
Disposals	(126)	-	(126)
<b>Balance at the end of the year</b>	<b>18,510</b>	<b>700</b>	<b>19,210</b>
<b>Carrying amounts</b>			
At the beginning of the year	14,186	193	14,379
At the end of the year	16,799	-	16,799
<b>2015 – Group</b>	<b>Computer software \$000</b>	<b>Client base \$000</b>	<b>Total \$000</b>
<b>Cost</b>			
Balance at the beginning of the year	28,813	700	29,513
Acquisitions – internally developed	1,012	-	1,012
Acquisitions – other additions	156	-	156
Disposals	(1,401)	-	(1,401)
<b>Balance at the end of the year</b>	<b>28,580</b>	<b>700</b>	<b>29,280</b>
<b>Amortisation and impairment losses</b>			
Balance at the beginning of the year	11,662	297	11,959
Amortisation for the year	4,121	210	4,331
Disposals	(1,389)	-	(1,389)
<b>Balance at the end of the year</b>	<b>14,394</b>	<b>507</b>	<b>14,901</b>
<b>Carrying amounts</b>			
At the beginning of the year	17,151	403	17,554
At the end of the year	14,186	193	14,379

Amortisation of intangible assets is included in operating expenses.

# NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 March

## 12. Biological assets

	Group	Group
	2016	2015
	\$000	\$000
Valuation at the beginning of the year	-	2,486
<b>Valuation at the end of the year</b>	-	2,486
Sale	-	(2,486)
<b>Carrying value at the end of the year</b>	-	-

Hillcrest and Beehive Creek forest developments were disposed of during the 2015 year.

## 13. Investments in joint ventures

	Group	Group
	2016	2015
	\$000	\$000
<b>Farming House (Bay of Plenty) Partnership</b>		
Ownership interest held %	0%	50%
<b>Carrying value of joint venture</b>	-	1,098
Current assets	-	20
Non-current assets	-	1,127
<b>Total assets</b>	-	1,147
Current liabilities	-	13
Non-current liabilities	-	36
<b>Total liabilities</b>	-	49
Income	36	5
(Expense)/Expense Recovery	(106)	69
<b>(Loss)/Profit for the year</b>	(70)	74

During the year the Farming House (Bay of Plenty) Partnership sold its property. The partnership was dissolved, and a loss on sale of \$0.2m was realised.



# NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 March

## 14. Deferred tax

	Opening balance at 1 April 2015	Charged/ (credited) to profit and loss	Closing balance at 31 March 2016
	\$000	\$000	\$000
<b>2016 – Group</b>			
<b>Movements in deferred tax assets</b>			
Provisions and accruals	6,396	209	6,605
Unrealised losses	(126)	126	-
Tax losses	88	20	108
Other	(2)	2	-
<b>Total deferred tax assets</b>	<b>6,356</b>	<b>357</b>	<b>6,713</b>
<b>Movement in deferred tax liabilities</b>			
Deferred revenue liability	(6,971)	(1,179)	(8,150)
Fair value	(4)	4	-
Other	(51)	51	-
<b>Total deferred tax liabilities</b>	<b>(7,026)</b>	<b>(1,124)</b>	<b>(8,150)</b>
<b>Deferred tax liabilities, net</b>	<b>(670)</b>	<b>(767)</b>	<b>(1,437)</b>
	Opening balance at 1 April 2014	Charged/ (credited) to profit and loss	Closing balance at 31 March 2015
	\$000	\$000	\$000
<b>2015 – Group</b>			
<b>Movements in deferred tax assets</b>			
Provisions and accruals	8,110	(1,714)	6,396
Unrealised losses	(126)	-	(126)
Tax losses	93	(5)	88
Other	(2)	-	(2)
<b>Total deferred tax assets</b>	<b>8,075</b>	<b>(1,719)</b>	<b>6,356</b>
<b>Movement in deferred tax liabilities</b>			
Deferred revenue liability	(8,089)	1,118	(6,971)
Fair value	(208)	204	(4)
Other	(51)	-	(51)
<b>Total deferred tax liabilities</b>	<b>(8,348)</b>	<b>1,322</b>	<b>(7,026)</b>
<b>Deferred tax liabilities, net</b>	<b>(273)</b>	<b>(397)</b>	<b>(670)</b>

# NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 March

## 15. Trade and other liabilities

	Group	Group
	2016	2015
	\$000	\$000
Trade creditors	3,796	3,451
Reinsurance creditors	310	1,375
Employee benefits	4,944	4,921
Other liabilities	9,564	8,676
	18,614	18,423
Current	18,614	18,423
	18,614	18,423

## 16. Allowances for impaired assets

Group	Total
	\$000
At 1 April 2014	1,130
Utilised	(1,130)
Additional provision	1,368
As at 31 March 2015	1,368
Utilised	(1,368)
Additional provision	1,445
As at 31 March 2016	1,445

There was no interest income on impaired financial assets accrued for the current year (2015: \$Nil). The allowance is entirely for collectively impaired assets.

# NOTES TO THE FINANCIAL STATEMENTS

## for the year ended 31 March

### 17. Related party transactions

#### a) Group Holdings

At 31 March 2016 the following percentage shareholdings were held in related entities which, unless stated otherwise, all have balance dates ending on 31 March:

	2016	2015	Principal Activities
	%	%	
<b>Subsidiaries</b>			
FMG Insurance Limited	100	100	General Insurance
Pinesmart Forests Partnership	-	100	Forestry
<b>Joint Ventures</b>			
Farming House (Bay of Plenty) Partnership	-	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 Group has related party receivables of \$Nil (2015: \$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
	2016	2015
	\$000	\$000
Short-term employee benefits	3,427	3,029

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

### 18. Credit risk

#### Insurance credit risk

Credit risk relating to insurance contracts relates primarily to:

- (a) Premium receivable from individual policyholders. Concentrations of credit risk are considered low due to the large number of customers comprising the customer base and their dispersion across New Zealand;
- (b) Reinsurance recoveries receivable, which are discussed further in Note 7.

#### Other financial assets

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

# NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 March

## 19. Market risk

### Foreign exchange risk

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

### Unit price risk

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

### Unit price risk sensitivity analysis

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

	Group	
	Impact on profit	Impact on equity
	\$000	\$000
<b>2016</b>		
10% increase in unit prices	25,453	25,453
10% decrease in unit prices	(25,453)	(25,453)
<b>2015</b>		
10% increase in unit prices	23,380	23,380
10% decrease in unit prices	(23,380)	(23,380)

### Interest rate risk

Interest rate risk is the risk that the value of the Group's assets and liabilities will fluctuate due to changes in market interest rates.

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

### Interest rate cash flows risk analysis

	Group	
	Impact on profit	Impact on equity
	\$000	\$000
<b>2016</b>		
0.25% increase in interest rates	66	66
0.25% decrease in interest rates	(66)	(66)
<b>2015</b>		
0.25% increase in interest rates	71	71
0.25% decrease in interest rates	(71)	(71)

# NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 March

## 20. Liquidity risk

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

	Weighted average interest rate	0-6 months
2016 – Group	%	\$000
Bank deposits	2.90%	26,470
Trade and other current receivables		75,420
<b>Total financial assets</b>		<b>101,890</b>
Trade and other current liabilities		18,614
<b>Total financial liabilities</b>		<b>18,614</b>
<b>Net financial position</b>		<b>83,276</b>
2015 – Group		
Bank deposits	3.36%	28,407
Trade and other current receivables		74,868
<b>Total financial assets</b>		<b>103,275</b>
Trade and other current liabilities		18,423
<b>Total financial liabilities</b>		<b>18,423</b>
<b>Net financial position</b>		<b>84,852</b>

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

## Capital management

The Group's capital includes retained earnings.

The Group's policy is to maintain a strong equity base so as to maintain members, creditor and market confidence and to sustain future development of the business. The impact of the level of capital on members' return is also recognised and the 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.

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

	2016	2015
	\$000	\$000
Actual Solvency Capital	176,219	173,588
Minimum Solvency Capital	74,403	75,975
Solvency Margin	101,816	97,613
Solvency Ratio	2.37	2.28

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

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

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

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

# NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 March

## 21. Financial instruments

2016 – Group	Designated at fair value through profit or loss \$000	Loans and receivables \$000	Total carrying amount at fair value \$000
Bank deposits	-	26,470	26,470
Investments	278,695	-	278,695
Trade and other current receivables	-	75,420	75,420
<b>Total assets</b>	<b>278,695</b>	<b>101,890</b>	<b>380,585</b>

	Designated at fair value through profit or loss \$000	Other financial liabilities at amortised cost \$000	Total carrying amount at fair value \$000
Trade and other current liabilities	-	18,614	18,614
<b>Total liabilities</b>	<b>-</b>	<b>18,614</b>	<b>18,614</b>

2015 – Group	Designated at fair value through profit or loss \$000	Loans and receivables \$000	Total carrying amount at fair value \$000
Bank deposits	-	28,407	28,407
Investments	256,651	-	256,651
Trade and other current receivables	-	74,868	74,868
<b>Total assets</b>	<b>256,651</b>	<b>103,275</b>	<b>359,926</b>

	Designated at fair value through profit or loss \$000	Other financial liabilities at amortised cost \$000	Total carrying amount at fair value \$000
Trade and other current liabilities	-	18,423	18,423
<b>Total liabilities</b>	<b>-</b>	<b>18,423</b>	<b>18,423</b>

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

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



# NOTES TO THE FINANCIAL STATEMENTS

*for the year ended 31 March*

## 22. Commitments

	Group	Group
	2016	2015
	\$000	\$000
<b>Operating lease commitments</b>		
Due within 1 year	4,567	4,066
Due between 1 to 2 years	3,424	3,433
Due between 2 to 5 years	6,263	5,212
Beyond 5 years	2,230	1,942
	<b>16,484</b>	<b>14,653</b>

There are no capital commitments at 31 March 2016 (2015: \$Nil).

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.

There was no contingent rent recognised as an expense for the current year (2015: \$Nil).

## 23. Contingencies

There are no contingent liabilities at 31 March 2016 (2015: \$Nil).

## 24. Subsequent events

There are no subsequent events.

## Independent Auditor's Report

### To the members of Farmers' Mutual Group

#### Report on the Financial Statements

We have audited the group financial statements of Farmers' Mutual Group ("the Mutual") and its subsidiaries (together "the Group") on pages 12 to 45, which comprise the balance sheet of the Group as at 31 March 2016, and the income statement, statement of changes in equity and statement of cash flows for the year then ended of the Group, and a summary of significant accounting policies and other explanatory information.

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

#### Directors' Responsibility for the Financial Statements

The directors are responsible on behalf of the Mutual for the preparation and fair presentation of the financial statements in accordance with New Zealand Equivalents to International Financial Reporting Standards and International Financial Reporting Standards, 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 and fair presentation of the financial statements 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.

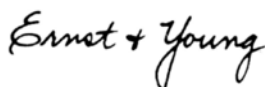
We believe we have obtained sufficient and appropriate audit evidence to provide a basis for our audit opinion.

We provide taxation compliance services, remuneration advice and information technology and regulatory assurance services to the Mutual and its subsidiaries. We have no other relationship with, or interest in, the Group.

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

#### Opinion

In our opinion, the financial statements on pages 12 to 45 present fairly, in all material respects, the financial position of the Group as at 31 March 2016 and the financial performance and cash flows of the Group for the year then ended in accordance with New Zealand Equivalents to International Financial Reporting Standards and International Financial Reporting Standards.



30 June 2016  
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 2016	Group 2015
100,000 - 110,000	28	17
110,001 - 120,000	18	10
120,001 - 130,000	10	10
130,001 - 140,000	9	6
140,001 - 150,000	11	13
150,001 - 160,000	9	4
160,001 - 170,000	2	3
170,001 - 180,000	4	4
180,001 - 190,000	-	3
190,001 - 200,000	3	2
200,001 - 210,000	3	1
210,001 - 220,000	-	1
220,001 - 230,000	1	2
230,001 - 240,000	1	-
240,001 - 250,000	2	1
260,001 - 270,000	1	1
280,001 - 290,000	1	-
330,001 - 340,000	1	-
340,001 - 350,000	-	1
370,001 - 380,000	-	1
390,001 - 400,000	-	1
420,001 - 430,000	2	-
450,001 - 460,000	-	1
510,001 - 520,000	1	-
590,001 - 600,000	-	1
900,001 - 910,000	1	-
920,001 - 930,000	-	1

# DIRECTORY

## FMG comprising

Farmers' Mutual Group  
FMG Insurance Limited

## Head Office

Level 5  
Grant Thornton House  
215 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

Greg Gent – *Chairman*

Marise James

Graeme Milne

Tony Cleland

Michael Ahie

Cindy Mitchener

Danny Chan

## Leadership team

Chris Black – *Chief Executive Officer*

David Kibblewhite – *Chief Finance, Investment and Risk Officer*

Geoff Yeats – *Chief Information Officer*

Conrad Wilkshire – *Chief Operations Officer*

Andrea Brunner – *Chief Marketing and Human Resources Officer*

Mike Lange – *General Manager Rural Strategy*

*(Mike resigned from FMG, effective as at 26 February 2016)*

Nathan Barrett – *General Manager Underwriting and Risk Quality*

*(Nathan joined the FMG Leadership team, effective as at 1 May 2016)*



*We're easy to contact*

*Call us on*  
**0800 366 466**

*Write to us at*  
**PO Box 1943  
Palmerston North 4440**

*Email us*  
**[contact@fmg.co.nz](mailto:contact@fmg.co.nz)**

*Visit our website*  
**[www.fmg.co.nz](http://www.fmg.co.nz)**

*Visit our YouTube channel*  
**[www.youtube.com/  
FMGInsurance](http://www.youtube.com/FMGInsurance)**

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Advice & Insurance