Annual Report and Financial Statements
2016/2017

FMG
Advice & Insurance

HERE WHEN IT COUNTS

CONTENTS

"Despite a tough year for everyone, it's as important, if not more, to keep delivering for our clients."

ANTICIPATING. ABSORBING. ALWAYS.

These past several years have been tough for New Zealand's rural communities. The earthquakes in Darfield, Christchurch and Kaikoura, cyclones Debbie and Cook have all taken their toll on members and clients. But throughout the challenges that Mother Nature sends our way, FMG has steadfastly anticipated the impact and been there to absorb the financial loss. That's what we were designed to do, and will continue to do.

FMG AT A GLANCE

A

Excellence

A.M BEST CREDIT RATING

544

EMPLOYEES
(UP 27)

93%

OF CLIENTS WOULD
RECOMMEND FMG

+$15m

Increase in net claims costs from last year

CAPITAL RESERVES

$226m

($230m 2015/16)

-$3.3m

(NET PROFIT AFTER TAX)

76,613
Clients

+6%
Client growth
(4,305 CLIENTS)

46%
Rural market share
(UP 3%)

Finalist
IBM KENEXA NZ BEST WORKPLACES AWARDS

#1
Direct Insurer of the Year 2016
(ANZIF INSURANCE AWARDS)

#1
Cooperative Business of the Year 2016

CHAIRMAN'S REPORT

It's with pleasure I present my first Chairman's Report for FMG and with it, the Mutual's 112th Annual Report.

Being here when it counts is core to any insurance business. For me, that's been very evident this year with the Mutual supporting clients through two large catastrophe events and also responding to another record year of underlying claims. This increase in claims costs, along with responding to the 14 November 2016 Kaikoura Earthquake, are the main reasons the Mutual recorded a loss this year of $3.3m.

We take a long-term approach in governing the Mutual and ensure that we are set up to handle a loss. We have a clear strategy for growing the business and this remains focused on our main market of farmers and growers in the context of providing a 'better deal for rural New Zealand'.

Pleasingly, more and more farmers and growers are joining the Mutual and this year has been no exception, with FMG increasing its rural market share to around 46%. Overall, our share of the general insurance market is up and now close to 5%.

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

The business remains in good health. We're one of the most well capitalised insurers in New Zealand with reserves of $226m. We've maintained an A (Excellent) credit rating and have 2.25 times the minimum capital required by our regulator, the Reserve Bank of New Zealand.

We continue to support the rural sector in so many ways, with this being the second year sponsoring the FMG Young Farmer of the Year contest. FMG's key giveback programme is Farmstrong, which has just completed its second year and continues to go from strength to strength. ACC's renewed commitment to being a Farmstrong strategic partner is very pleasing. Their financial support will help underpin the programme's continued development over the coming years.

Helping clients recover from the Kaikoura Earthquake remains a top priority for the Mutual. We're pleased that we have already settled over one-third of the approximate 3,300 claims received. Two-thirds of these are being managed by FMG under a new arrangement, where insurers manage claims on behalf of EQC. This new model makes it easier for clients as they just deal with their insurer and it means the industry has had greater clarity on its overall exposure.

I'd like to acknowledge Chief Executive Chris Black, his management team and all employees on their collective efforts in delivering another year of outstanding day-to-day service to the sector. Congratulations also on winning a number of awards this year including the Direct Insurer of the Year and the Cooperative Business of the year.

I would like to thank the Board members for their continued commitment to the Mutual. This year sees two exceptionally talented rural governors in Greg Gent and Graeme Milne stepping down after serving FMG for the last 12 years. They've played an important part in helping reposition FMG and in the progress we've made over recent years. A special thanks to Greg for chairing the FMG Board so ably for the last 10 years.

I would like to thank members of the Mutual for giving us your support too. I can assure you we see our role as building on what previous leaders have started and leaving an organisation the next generation will get excited about taking on. In my view, the core reason and value in having a strong rural mutual, is here to stay.

Tony Cleland
Chairman
FMG

CHIEF EXECUTIVE'S REPORT

As an insurer, being here when it counts is one of the main reasons we exist. This last year has been an exceptional year in that regard. We've experienced more claims than ever before both at an underlying level and as a result of another major earthquake.

While this has put considerable extra pressure on the business, stepping up to help those who have been adversely impacted is something we take a lot of pride in as a Mutual.

This aligns with our values of 'doing what's right', 'being in it together' and 'making things happen'. With regards to the 14 November Kaikoura Earthquake, we're making good progress and have settled over one-third of all related claims. We've achieved this, while at the same time responding to the much higher level of non-earthquake claims, including those related to ex-cyclones Debbie and Cook.

As a result of the higher level of claims, the Mutual has posted a modest $3.3m loss this year. Given the volatile nature of our industry, this is something we anticipate from time-to-time and are set up to handle. That's part of running the Mutual conservatively in the context of having a long-term view. Having said that, the unprecedented level and cost of claims last year is consistent with a steadily increasing trend of higher claim numbers and costs over recent years. While we have worked hard to absorb these on behalf of clients, we obviously can't keep doing this. We have taken the prudent step of adjusting premiums this year, to ensure the Mutual remains in a strong position to continue to be able to support you when you need it most.

Pleasingly, the underlying business continues to perform well and grow. Last year we experienced headline income growth of 9.5% in comparison with expense growth of just 4.6%. The strong growth was on both the general insurance and personal insurance side, underpinned by our specialised advice-led insurance strategy.

Growing a business is not all about attracting new clients, but rather ensuring one serves existing clients well. In this regard, we were pleased to see a further lift in overall client satisfaction during the year.

More broadly, it was very pleasing to be recognised as the Direct Insurer of the Year and Cooperative Business of the Year in 2016. I think this is a real credit to the effort and commitment of our whole team at FMG. They work hard every day on behalf of clients in the context of the core cooperative and mutual principles that underpin the business. These are such an important feature of our unique and special model.

Thank you to the colleagues I have the privilege of working alongside every day to try to make the difference we do as a team. This year has been particularly challenging with the highest level of inbound enquiry and claims in the Mutual's 112-year history.

Thank you also to the Board for its support and guidance as we have worked hard to balance the increased operational demands of the year with the need to continue to grow and invest in the future.

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

A special thanks to our talented retiring Directors—Graeme Milne and Greg Gent. Both are passionate advocates of the Mutual and have served it extremely well for 12 years. In addition, I've had the privilege of working alongside Greg in his capacity as Chairman. It's been a real career highlight for me both professionally and personally.

Chris Black
Chief Executive Officer
FMG

DIRECTORS' REPORT

Five year comparisons

NZ Claims and catastrophes ($000)

Catastrophe claims

2013	72,144	0
2014	88,538	12,551
2015	95,776	7,558
2016	130,427	6,680
2017	**143,018**	8,722

NZ General insurance gross written premium ($000)

2013	167,571
2014	204,511
2015	209,279
2016	224,946
2017	**246,231**

Equity ($000)

2013	179,912
2014	197,428
2015	224,221
2016	229,493
2017	**226,240**

Investment income ($000)

2013	16,837
2014	16,273
2015	23,443
2016	12,715
2017	**12,077**

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

2013	31,257
2014	17,516
2015	26,793
2016	5,272
2017	**-3,253**

The Directors have pleasure in presenting Farmers' Mutual Group's[1] 112th Annual Report and Financial Statements for the year ended 31 March 2017.

Principal Activities

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

Farmers' Mutual Group Act 2007

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

Financial Results

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

- Increase in gross written premium from continuing operations to $246.2m from $224.9m
- Decrease in net investment income from continuing operations to $12.1m from $12.7m
- Increase in net claims incurred from continuing operations to $151.7m from $137.1m
- Decrease in profit from continuing operations after tax to a $3.3m loss from a $5.3m profit

	2017	2016
	$000	$000
(Loss)/profit from continuing operations before taxation	**(5,523)**	6,757
Taxation	**2,270**	(1,485)
(Loss)/profit for the year	**(3,253)**	5,272

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

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

DIRECTORS' REPORT

Membership
As at 31 March 2017, membership of the Parent stands at 54,161.

Directorate
In accordance with the tenure provisions of the Director Appointment and Reappointment Policy, Mr. Tony Cleland will retire by rotation and will stand for re-election at this year's Annual General Meeting. Mr. Greg Gent and Mr. Graeme Milne will retire at this year's Annual General meeting both having served on the Board for 12 years.

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
At the 2016 AGM the Membership voted in favour of increasing the Chairman's remuneration to $90k and Directors' to $50k which applies to the quarter in which the resolution was passed. In January 2017, G Gent retired as Chairman and T Cleland took up this position. Directors' remuneration received, or due and receivable during the year amounted to $0.383m (2016: $0.367m). The amounts paid to each director for both the FMG and FMG Insurance Limited Boards are as follows:

	2016-2017	2015-2016
Name	**$000**	$000
G W Gent	**82**	85
T D Cleland	**56**	47
M L James	**49**	47
G R Milne	**49**	47
M J T Ahie	**49**	47
C L Mitchener	**49**	47
D Chan	**49**	47
Total	**383**	367

The Board of Directors

The Board as at 31 March 2017

The FMG Directors are Mr. Tony Cleland (Chair post January 2017), Mr. Greg Gent (Chair until January 2017), Mrs. Marise James, Mr. Graeme Milne, Mr. Michael Ahie, Ms. Cindy Mitchener and Mr. Danny Chan.

The following are the Directors' qualifications and expertise:

Tony Cleland

Mr. Cleland is the current Chairman of FMG. He is also a Southland dairy farming entrepreneur and founder of FarmRight, an independent dairy farming management and consultancy company based in Lumsden.

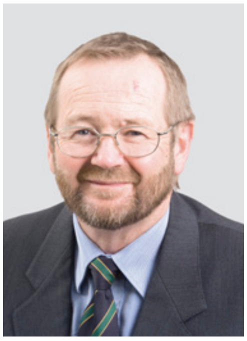
Greg Gent

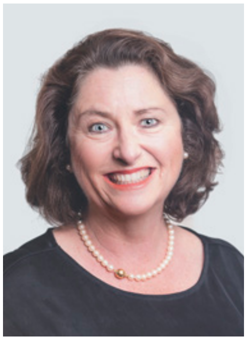
Mr. Gent has extensive experience in the rural sector and, along with being a dairy farmer, has held several directorships and chairmanships within the dairy industry, including over a decade as a Director of the Fonterra Co-operative. He is also the Chairman of Southern Cross and is the Mayor of Kaipara.

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.

DIRECTORS' REPORT





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 Alliance Group Limited, amongst others.

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, Chancellor at Massey University and has farming interests in Taranaki.

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

Danny Chan
Early in his career Mr. Chan worked in financial services with MLC, Westpac and Fidelity Investments, a leading global asset management company. He is 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.

The Leadership Team

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 and 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 and 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 and Colonial Mutual.

Nathan Barrett – General Manager Underwriting and Risk Quality

Nathan Barrett has 18 years local and international insurance experience in business development, risk management, underwriting and claims management, having worked with insurers such as Ace Insurance, Amlin PLC (a syndicate of Lloyds of London) and State Insurance, as well as 10 years with FMG. Sitting on the executive leadership team he is responsible and provides leadership of the Underwriting and Risk Quality functions within the business.

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 2017

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. Tony Cleland (Chair), Mr. Michael Ahie, Ms. Cindy Mitchener, Mr. Greg Gent 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 2016-17 is detailed below:

	Number of meetings	Number attended
FMG Board Meetings		
G W Gent	7	7
M L James	7	7
T D Cleland	7	7
G R Milne	7	7
M J T Ahie	7	7
C L Mitchener	7	7
D Chan	7	7
Audit Meetings		
M L James	3	3
G W Gent	3	3
G R Milne	3	3
M J T Ahie	3	3
T D Cleland	3	3
Nomination, Remuneration and Governance Meetings		
G W Gent	2	2
M J T Ahie	2	2
T D Cleland	2	2
C L Mitchener	2	2
D Chan	2	2

Directors of FMG's Subsidiaries as at 31 March 2017

The current FMG Insurance Limited Directors are Mr. Tony Cleland, Mr. Greg Gent, Mrs. Marise James, Mr. Graeme Milne, Mr. Michael Ahie, Ms. Cindy Mitchener and Mr. Danny Chan. 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 2017

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

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

(c) Directors' remuneration is disclosed on page 7.

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

Auditors

EY has been appointed as Auditors for the Group.

CONSOLIDATED INCOME STATEMENT
for the year ended 31 March

	Notes	Group 2017 $000	Group 2016 $000
General insurance activities			
Gross written premium		**246,231**	224,946
Movement in unearned premium		**(10,649)**	(6,797)
Gross earned premium	1	**235,582**	218,149
Outwards reinsurance premium expense		**(32,627)**	(20,548)
Net premium revenue		**202,955**	197,601
Claims expense	8	**(258,092)**	(141,912)
Reinsurance and other recoveries revenue	1, 8	**106,352**	4,805
Net claims incurred		**(151,740)**	(137,107)
Other income	1	**9,927**	8,881
Operating expenses	2	**(78,742)**	(75,263)
General insurance underwriting result		**(17,600)**	(5,888)
Investment revenue	1	**12,077**	12,715
(Loss)/profit from general insurance activities		**(5,523)**	6,827
Other			
Share of earnings/(loss) of joint ventures		**-**	(70)
(Loss)/profit before taxation		**(5,523)**	6,757
Income tax benefit/(expense)	3	**2,270**	(1,485)
Net (loss)/profit		**(3,253)**	5,272
(Loss)/profit for the year attributable to members		**(3,253)**	5,272
Total comprehensive income for the year, net of tax, attributable to members		**(3,253)**	5,272

The financial statements should be read in conjunction with the accounting policies and notes on pages 17 to 45.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 31 March

	Group 2017 $000	Group 2016 $000
Retained earnings		
Retained earnings at the beginning of the year	229,493	224,221
Total (loss)/profit and comprehensive income	(3,253)	5,272
Retained earnings at the end of the year	226,240	229,493
Total equity at the end of the year	226,240	229,493
Attributable to:		
Members	226,240	229,493
	226,240	229,493

The financial statements should be read in conjunction with the accounting policies and notes on pages 17 to 45.

CONSOLIDATED BALANCE SHEET

as at 31 March

	Notes	Group 2017 $000	Group 2016 $000
Assets			
Cash and cash equivalents	4	**30,714**	26,470
Trade and other receivables	6	**88,022**	75,420
Insurance recoveries	7, 8	**112,047**	18,606
Deferred acquisition costs	9	**3,805**	4,193
Investments	5	**285,428**	278,695
Current tax asset		**2,425**	1,604
Property, plant and equipment	10	**7,125**	6,949
Intangible assets	11	**12,813**	16,799
Deferred tax assets	12	**8,497**	6,713
Total assets		**550,876**	435,449
Liabilities			
Trade and other liabilities	13	**23,930**	18,614
Make good provision		**57**	37
Underwriting provisions	7	**293,135**	179,155
Deferred tax liabilities	12	**7,514**	8,150
Total liabilities		**324,636**	205,956
Net assets		**226,240**	229,493
Equity			
Retained earnings		**226,240**	229,493
Attributable to:			
Members		**226,240**	229,493
Total equity		**226,240**	229,493

Signed on behalf of the Board of Directors, who authorised the issue of these financial statements on 29 June 2017.

T D Cleland
Chairman
29 June 2017

M L JAMES
Director
29 June 2017

The financial statements should be read in conjunction with the accounting policies and notes on pages 17 to 45.

CONSOLIDATED STATEMENT OF CASH FLOWS

for the year ended 31 March

	Notes	Group 2017 $000	Group 2016 $000
Cash flows from operating activities			
Premium and other receipts from clients		**247,767**	237,083
Reinsurance recoveries		**11,988**	13,184
Interest and fees received		**646**	970
Claims paid		**(155,111)**	(139,221)
Reinsurance premium paid		**(24,695)**	(21,737)
Cash paid to suppliers and employees		**(75,343)**	(72,004)
Interest paid		**-**	(22)
Income tax paid		**(2,405)**	(2,342)
Net cash flows from operating activities	4	**2,847**	15,911
Cash flows from investing activities			
Proceeds from advances/(repayments) of finance receivables		**-**	411
Dividends received		**579**	550
Other income		**-**	1,028
Investment dealings with fund managers		**5,000**	(9,977)
Purchase of property, plant and equipment and intangible assets		**(4,182)**	(9,860)
Net cash flows from investing activities		**1,397**	(17,848)
Net increase/(decrease) in cash and cash equivalents		**4,244**	(1,937)
Cash and cash equivalents at the beginning of the year		**26,470**	28,407
Cash and cash equivalents at the end of the year	4	**30,714**	26,470

The financial statements should be read in conjunction with the accounting policies and notes on pages 17 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.

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.

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.

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, earning multiple valuation method 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.

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 2016 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 2017.

Standard	Requirement	Effective for annual reporting periods beginning on or after:
NZ IFRS 9 (2014) Financial Instruments	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. 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.	1 January 2018
NZ IFRS 15 Revenue from Contracts with Customers	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. NZ IFRS 15 supersedes: (a) NZ IAS 11 Construction Contracts (b) NZ IAS 18 Revenue (c) NZ IFRIC 13 Customer Loyalty Programmes (d) NZ IFRIC 15 Agreements for the Construction of Real Estate (e) NZ IFRIC 18 Transfers of Assets from Customers (f) NZ SIC-31 Revenue – Barter transactions Involving Advertising Services 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: (a) Step 1: Identify the contract(s) with a customer (b) Step 2: Identify the performance obligations in the contract (c) Step 3: Determine the transaction price (d) Step 4: Allocate the transaction price to the performance obligations in the contract (e) Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation	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 IFRS 16 Leases	NZ IFRS 16 is the new standard on the recognition, measurement, presentation and disclosure of leases. This standard will replace: (a) NZ IAS 17 Leases; (b) NZ IFRIC 4 Determining whether an Arrangement contains a Lease; (c) NZ SIC-15 Operating Leases—Incentives; and (d) NZ SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. 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. 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. Lessees recognise a liability to pay rentals with a corresponding asset, and recognise interest expense and depreciation separately. 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. Lessor accounting is substantially the same as today's lessor accounting, using NZ IAS 17's dual classification approach. 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.	1 January 2019
IFRS 17 Insurance Contracts	IFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects. The core of IFRS 17 is the General (building block) Model, supplemented by: • A specific adaptation for contracts with direct participation features (the Variable Fee Approach) • A simplified approach (Premium Allocation Approach) mainly for short-duration contracts The main features of the new accounting model for insurance contracts are: • A measurement of the present value of future cash flows, incorporating an explicit risk adjustment, remeasured every reporting period (the fulfilment cash flows) • A Contractual Service Margin (CSM) that is equal and opposite to any day one gain in the fulfilment cash flows of a group of contracts, representing the unearned profitability of the insurance contract to be recognised in profit or loss over the service period (i.e., coverage period) • Certain changes in the expected present value of future cash flows are adjusted against the CSM and thereby recognised in profit or loss over the remaining contract service period • The effect of changes in discount rates will be reported in either profit or loss or other comprehensive income (OCI), determined by an accounting policy choice • A presentation of insurance revenue and insurance service expenses in the statement of comprehensive income based on the concept of services provided during the period • Amounts that the policyholder will always receive regardless of whether an insured event happens (non-distinct investment components) are not presented in the income statement, but are recognised directly in the balance sheet • Insurance services results (earned revenue less incurred claims) are presented separately from the insurance finance income or expense • Extensive disclosures to provide information on the recognised amounts from insurance contracts and the nature and extent of risks arising from these contracts Early application is permitted, provided the entity also applies IFRS 9 Financial Instruments and IFRS 15 Revenue from Contracts with Customers on or before the date it first applies IFRS 17. Note that the NZASB has not yet issued IFRS 17 in New Zealand as NZ IFRS 17, but this standard is expected to be issued in the near future.	1 January 2021

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.

Significant accounting judgements, estimates and assumptions

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

Claims liabilities under general insurance contracts

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

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

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

Large claims impacting each relevant business class are generally assessed separately, being measured on a case by case basis or projected separately in order to allow for the possible distortive effect of the development and incidence of these large claims. Accumulations of losses from a single event are also assessed separately to allow for delays in the settlement pattern and higher degrees of uncertainty as well as any reinsurance programs that are specific to these losses.

Further information is contained in Notes 7 and 8.

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 have been valued by an independent third party at year-end using a valuation based on a price earnings multiple (using comparable companies) and the estimated future maintainable earnings of the company.

Further information is contained in Note 5.

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 March

1. Revenue

	Group	Group
	2017	2016
	$000	$000
General insurance revenue		
Gross earned premiums	235,582	218,149
Reinsurance and other recoveries revenue	106,352	4,805
Investment revenue:		
Dividends – other entities	579	550
Interest income – other entities	588	972
Movement in financial assets at fair value through profit and loss	10,910	11,193
Total investment revenue	12,077	12,715
Fee income and other revenue	9,927	8,881
Total revenue	363,938	244,550

2. Other expenses

	Group	Group
	2017	2016
	$000	$000
Operating expenses include:		
Employee expenses	47,477	45,573
Operating lease rental expenses	3,905	3,668
Depreciation on property, plant and equipment	2,229	2,028
Amortisation on intangible assets	5,491	4,435
(Gain)/loss on disposal of property, plant and equipment	270	(1)
Directors' fees	384	367
Donations	9	1
Auditors' remuneration – audit of financial statements	142	140
Auditors' remuneration – solvency returns	17	17
Auditors' remuneration – taxation services	46	42
Auditors' remuneration – IT quality assurance (non-recurring)	11	147
Auditors' remuneration – HR consulting	38	45

3. Income tax

	Group	Group
	2017	2016
	$000	$000
a) Income tax expense from continuing operations		
Current tax	-	795
Deferred tax (benefit)/expense	(2,420)	735
(Over)/under provided in prior years	150	62
Utilised prior year's tax losses	-	(107)
Income tax (benefit)/expense for the year from continuing operations	**(2,270)**	1,485
b) Numerical reconciliation of income tax expense to prima facie tax payable		
(Loss)/profit before taxation		
Continuing operations	(5,523)	6,757
Total (loss)/profit before taxation	**(5,523)**	6,757
Prima facie income tax @ 28%	(1,546)	1,891
Tax effect of amounts which are non-deductible expenses/non-assessable revenue:		
Non-assessable income and other items	(794)	(257)
Non-deductible expenses and other items	46	45
Imputation credits on dividends	(125)	(126)
RWT	-	(22)
Foreign tax credit	-	(1)
(Over)/under provided in prior years	150	62
Utilised prior year's tax losses	-	(107)
Income tax (benefit)/expense for the year	**(2,270)**	1,485
c) Imputation credit account		
Balance at the beginning of the year	68,381	65,505
Net taxation paid/(refunded)	1,530	2,750
Imputation credit attached to dividends received and dividends paid	126	**126**
Foreign dividend withholding payment adjustment	(2,003)	-
Balance at the end of the year	68,034	68,381

4. Cash and cash equivalents

	Group 2017 $000	Group 2016 $000
Cash at bank and in hand	**30,714**	26,470
Total cash and cash equivalents	**30,714**	26,470
a) Reconciliation of profit to net cash flows from operating activities		
(Loss)/profit for the year	**(3,253)**	5,272
Joint venture (profit)/loss	**-**	70
(Loss)/profit for the year excluding joint venture	**(3,253)**	5,342
Adjustments for non-cash items		
Amortisation	**5,491**	4,435
Depreciation	**2,229**	2,028
Movement in deferred tax	**(2,420)**	767
Movement in unearned premium	**10,999**	7,077
Movement in outstanding claims	**102,981**	2,691
Movement in bad debts provision	**564**	77
Movement in deferred acquisition costs	**388**	(239)
Movement in make good provision	**20**	(23)
Unrealised investment loss/(gain)	**(11,732)**	(12,068)
	108,520	4,745
Movements in other working capital items		
Movement in accounts receivable	**(106,607)**	7,675
Movement in accounts payable	**5,049**	161
Movement in accrued leave/bonuses	**268**	23
Movement in taxation recoverable	**(821)**	(1,484)
	(102,111)	6,375
Items classified as investing activities		
Net loss/(gain) on sale of property, plant and equipment	**270**	(1)
Dividends received	**(579)**	(550)
	(309)	(551)
Net cash flows from operating activities	**2,847**	15,911

5. Investments

	Group 2017 $000	Group 2016 $000
Equity securities		
Investments in unlisted New Zealand companies	20,773	24,163
Total equity securities	**20,773**	**24,163**
Unit trust investments		
New Zealand equities	10,604	9,654
Offshore equities	49,648	40,053
Fixed interest investments – New Zealand	163,858	167,626
Fixed interest investments – Offshore	40,545	37,199
Total unit trust investments	**264,655**	**254,532**
Total other financial assets	**285,428**	**278,695**

Determination of fair value hierarchy 2017

	Group			
	Level 1	Level 2	Level 3	Total fair value
	$000	$000	$000	$000
Financial assets designated at fair value through profit and loss:				
Equity securities	-	-	20,773	20,773
Unit trust investments	-	264,655	-	264,655
Total financial assets	-	264,655	20,773	285,428

Determination of fair value hierarchy 2016

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

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 2017 – Group

	As at 1 April 2016	**Total gain in profit and loss**	**As at 31 March 2017**
	$000	**$000**	**$000**
Equity securities	**24,163**	**(3,390)**	**20,773**
	24,163	**(3,390)**	**20,773**

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

Sensitivity of Level 3 financial instruments to changes in key assumptions

	Carrying value at 31 March 2017	**Effect of reasonably possible alternate assumptions (+/-)**
	$000	**$000**
Equity securities	**20,773**	**415**
	20,773	**415**

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

6. Trade and other receivables

	Notes	**Group 2017 $000**	Group 2016 $000
Trade debtors		**81,297**	73,243
Reinsurance debtors		**3,778**	273
Other receivables		**4,956**	3,349
Allowance for collective impairment	14	**(2,009)**	(1,445)
		88,022	75,420
Current		**88,022**	75,420

There are no past due or impaired trade debtors or reinsurance debtors as at 31 March 2017. The allowance for collective impairment relates to other receivables where there are past due amounts.

7. Underwriting provisions and reinsurance and other recoveries

	Group 2017 $000	Group 2016 $000
Underwriting provisions comprise:		
Liability for outstanding claims		
Expected future claim payments (undiscounted)	**172,510**	68,595
Discount to present value	**(1,731)**	(797)
	170,779	67,798
Provision for unearned premiums	**122,356**	111,357
Underwriting provisions	**293,135**	179,155
Current	**239,891**	170,155
Non-current	**53,244**	9,000
	293,135	179,155
Provision for reinsurance and other recoveries comprise:		
Expected future recoveries (undiscounted)	**(113,201)**	(19,008)
Discount to present value	**1,154**	402
Net insurance recoveries	**(112,047)**	(18,606)
Current	**(69,073)**	(16,136)
Non-current	**(42,974)**	(2,470)
	(112,047)	(18,606)

8. General insurance contracts

a) Net general insurance claims incurred

	2017			2016		
	Risks borne in current year	**Risks borne in prior years**	**Total**	Risks borne in current year	Risks borne in prior years	Total
	$000	**$000**	**$000**	$000	$000	$000
Group						
Gross claims expense						
Direct claims – undiscounted	**241,608**	**17,419**	**259,027**	137,469	3,981	141,450
Discount	**(1,340)**	**405**	**(935)**	(480)	942	462
Gross claims expense	**240,268**	**17,824**	**258,092**	136,989	4,923	141,912
Reinsurance and other recoveries						
Reinsurance and other recoveries revenue – undiscounted	**(94,457)**	**(12,805)**	**(107,262)**	(3,108)	(1,358)	(4,466)
Discount	**934**	**(24)**	**910**	25	(364)	(339)
Reinsurance and other recoveries	**(93,523)**	**(12,829)**	**(106,352)**	(3,083)	(1,722)	(4,805)
Net claims incurred	**146,745**	**4,995**	**151,740**	133,906	3,201	137,107

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						
	2012	2013	2014	2015	2016	2017	Total
	$000	$000	$000	$000	$000	$000	$000
Ultimate claims cost estimate							
At end of accident year	88,170	73,246	113,319	111,706	134,206	244,746	
One year later	89,220	74,810	112,932	113,618	135,266		
Two years later	87,725	74,915	114,236	114,006			
Three years later	88,268	75,214	114,506				
Four years later	88,526	75,145					
Five years later	89,558						
Current estimate of ultimate claims cost	89,558	75,145	114,506	114,006	135,266	244,746	
Cumulative payments	87,261	75,064	113,103	112,658	129,029	108,771	
Undiscounted central estimate	2,297	81	1,403	1,348	6,237	135,975	147,341
Discount to present value	(41)	(1)	(14)	(22)	(120)	(1,953)	(2,151)
Discounted central estimate	2,256	80	1,389	1,326	6,117	134,022	145,190
Prior years							19,188
Risk margin							6,401
Gross outstanding claims liabilities							170,779
Reinsurance recoveries on outstanding claims and other recoveries							(112,047)
Net outstanding claims liabilities							58,732

8. General insurance contracts (continued)

c) Analysis of outstanding claims

	Group	Group
	2017	2016
	$000	$000
Gross central estimate of present value of future claims payment	164,378	62,696
Risk margin	6,401	5,102
Total outstanding claims liability	170,779	67,798
The expected settlement pattern of the outstanding claims liability is as follows:		
Current	117,535	58,798
Non-current	53,244	9,000
Total outstanding claims liability	170,779	67,798

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 2017. The previous assessment of the Insurance Liabilities was performed at 31 March 2016.

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.

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:

	2017	2016
Inflation rate	**Implicit**	Implicit
Discount rate	**1.88%**	2.16%
Claims handling expense ratio – outstanding claims liabilities	**4.1%**	4.7%
Claims handling expense ratio – premium liabilities	**5.3%**	5.9%
Risk margin – outstanding claims liabilities	**12.5%**	11.6%
Risk margin – premium liabilities	**13.9%**	13.9%
Weighted average expected term to settlement	**216 days**	221 days

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

	Group	Group
	2017	2016
	$000	$000
Outstanding claims liability		
Gross outstanding claims at the beginning of the year	**67,798**	65,107
Claims incurred during the year	**258,092**	141,912
Claims payments made during the year	**(155,111)**	(139,221)
Gross outstanding claims at the end of the year	**170,779**	67,798
Reinsurance and other recoveries receivable		
Reinsurance and other recoveries receivable at the beginning of the year	**(18,606)**	(27,314)
Reinsurance and other recoveries incurred during the year	**(106,352)**	(4,805)
Reinsurance and other recoveries received during the year	**12,911**	13,513
Reinsurance and other recoveries receivable at the end of the year	**(112,047)**	(18,606)

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.

		2017		2016	
Variable	Movement	Impact on profit after tax (net of reinsurance)	Impact on profit after tax (gross of reinsurance)	Impact on profit after tax (net of reinsurance)	Impact on profit after tax (gross of reinsurance)
		$000	$000	$000	$000
Discount rate	Increase of 1%	190	619	179	259
	Decrease of 1%	(194)	(634)	(182)	(263)
Claims handling expense ratio	Increase of 1%	(533)	(598)	(431)	(431)
	Decrease of 1%	532	532	431	431
Risk margin	Increase of 1%	(369)	(369)	(316)	(316)
	Decrease of 1%	369	369	316	316
Weighted average expected term to settlement	Increase 0.5 years	385	1,134	375	519
	Decrease 0.5 years	(388)	(1,144)	(379)	(524)

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 16 to 18.

(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 the Group's liabilities.

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

The terms and conditions attached to insurance contracts affect the level of insurance risk accepted by the 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.

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 2017 $000	Group 2016 $000
Net central estimate of the present value of expected future cash flows from future claims	88,442	81,557
Risk margin of the present value of expected future cash flows	12,301	11,276

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 26 January 2017 (2016: A (Excellent)).

9. Deferred acquisition costs

	Group 2017 $000	Group 2016 $000
Balance at the beginning of the year	4,193	3,954
Deferred acquisition costs recognised during the year	(4,193)	(3,954)
Acquisition costs deferred during the year	3,805	4,193
Balance at the end of the year	3,805	4,193
Current	3,805	4,193

10. Property, plant and equipment

2017 – Group	**Land and buildings**	**Leasehold improvements**	**Furniture and fittings**	**Computer equipment**	**Motor vehicles**	**Total**
	$000	**$000**	**$000**	**$000**	**$000**	**$000**
Cost						
Balance at the beginning of the year	**73**	**7,139**	**1,433**	**7,673**	**193**	**16,511**
Additions	**-**	**539**	**167**	**1,609**	**134**	**2,449**
Disposals and transfers	**-**	**-**	**(26)**	**(216)**	**(50)**	**(292)**
Balance at the end of the year	**73**	**7,678**	**1,574**	**9,066**	**277**	**18,668**
Depreciation and impairment losses						
Balance at the beginning of the year	**16**	**4,482**	**854**	**4,159**	**51**	**9,562**
Depreciation for the year	**1**	**963**	**128**	**1,083**	**54**	**2,229**
Disposals and transfers	**-**	**-**	**(23)**	**(199)**	**(26)**	**(248)**
Balance at the end of the year	**17**	**5,445**	**959**	**5,043**	**79**	**11,543**
Carrying amounts						
At the beginning of the year	**57**	**2,657**	**579**	**3,514**	**142**	**6,949**
At the end of the year	**56**	**2,233**	**615**	**4,023**	**198**	**7,125**

2016 – Group	Land and buildings	Leasehold improvements	Furniture and fittings	Computer equipment	Motor vehicles	Total
	$000	$000	$000	$000	$000	$000
Cost						
Balance at the beginning of the year	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)
Balance at the end of the year	73	7,139	1,433	7,673	193	16,511
Depreciation and impairment losses						
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)
Balance at the end of the year	16	4,482	854	4,159	51	9,562
Carrying amounts						
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

11. Intangible assets

2017 – Group	**Computer software**	**Client base**	**Total**
	$000	**$000**	**$000**
Cost			
Balance at the beginning of the year	**35,309**	**700**	**36,009**
Acquisitions – internally developed	**1,195**	**-**	**1,195**
Acquisitions – other additions	**311**	**-**	**311**
Disposals	**(626)**	**(700)**	**(1,326)**
Balance at the end of the year	**36,189**	**-**	**36,189**
Amortisation and impairment losses			
Balance at the beginning of the year	**18,510**	**700**	**19,210**
Amortisation for the year	**5,491**	**-**	**5,491**
Disposals	**(625)**	**(700)**	**(1,325)**
Balance at the end of the year	**23,376**	**-**	**23,376**
Carrying amounts			
At the beginning of the year	**16,799**	**-**	**16,799**
At the end of the year	**12,813**	**-**	**12,813**

2016 – Group	Computer software	Client base	Total
	$000	$000	$000
Cost			
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)
Balance at the end of the year	35,309	700	36,009
Amortisation and impairment losses			
Balance at the beginning of the year	14,394	507	14,901
Amortisation for the year	4,242	193	4,435
Disposals	(126)	-	(126)
Balance at the end of the year	18,510	700	19,210
Carrying amounts			
At the beginning of the year	14,186	193	14,379
At the end of the year	16,799	-	16,799

Amortisation of intangible assets is included in operating expenses.

12. Deferred tax

2017 – Group	**Opening balance at 1 April 2016**	**Charged/ (credited) to profit and loss**	**Closing balance at 31 March 2017**
	$000	**$000**	**$000**
Movements in deferred tax assets			
Provisions and accruals	**6,605**	**(187)**	**6,418**
Tax losses	**108**	**1,971**	**2,079**
Total deferred tax assets	**6,713**	**1,784**	**8,497**
Movement in deferred tax liabilities			
Deferred revenue liability	**(8,150)**	**636**	**(7,514)**
Total deferred tax liabilities	**(8,150)**	**636**	**(7,514)**
Deferred tax liabilities, net	**(1,437)**	**2,420**	**983**

2016 – Group	Opening balance at 1 April 2015	Charged/ (credited) to profit and loss	Closing balance at 31 March 2016
	$000	$000	$000
Movements in deferred tax assets			
Provisions and accruals	6,396	209	6,605
Unrealised losses	(126)	126	-
Tax losses	88	20	108
Other	(2)	2	-
Total deferred tax assets	6,356	357	6,713
Movement in deferred tax liabilities			
Deferred revenue liability	(6,971)	(1,179)	(8,150)
Fair value	(4)	4	-
Other	(51)	51	-
Total deferred tax liabilities	(7,026)	(1,124)	(8,150)
Deferred tax liabilities, net	(670)	(767)	(1,437)

13. Trade and other liabilities

	Group	Group
	2017	2016
	$000	$000
Trade creditors	**4,296**	3,796
Reinsurance creditors	**8,117**	310
Employee benefits	**5,212**	4,944
Other liabilities	**6,305**	9,564
	23,930	18,614
Current	**23,930**	18,614

14. Allowances for impaired assets

Group	**Total**
	$000
At 1 April 2015	1,368
Utilised	(1,368)
Additional provision	1,445
As at 31 March 2016	**1,445**
Utilised	**(1,445)**
Additional provision	**2,009**
As at 31 March 2017	**2,009**

There was no interest income on impaired financial assets accrued for the current year (2016: $Nil). The allowance is entirely for collectively impaired assets.

15. Related party transactions

a) Group Holdings

At 31 March 2017 the following percentage shareholdings were held in related entities which, unless stated otherwise, all have balance dates ending on 31 March:

	2017	2016	Principal Activities
	%	%	
Subsidiaries			
FMG Insurance Limited	**100**	100	General Insurance

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

b) Related party transactions

The Group has related party receivables of $Nil (2016: $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
	2017	2016
	$000	$000
Short-term employee benefits	**2,996**	3,427

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

16. 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.

17. 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
2017		
10% increase in unit prices	**26,466**	**26,466**
10% decrease in unit prices	**(26,466)**	**(26,466)**
2016		
10% increase in unit prices	25,453	25,453
10% decrease in unit prices	(25,453)	(25,453)

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
2017		
0.25% increase in interest rates	**75**	**75**
0.25% decrease in interest rates	**(75)**	**(75)**
2016		
0.25% increase in interest rates	66	66
0.25% decrease in interest rates	(66)	(66)

18. Liquidity risk

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

2017 – Group	**Weighted average interest rate**	**0-6 months**
	%	**$000**
Bank deposits	**1.99%**	**30,714**
Trade and other current receivables		**88,022**
Total financial assets		**118,736**
Trade and other current liabilities		**23,930**
Total financial liabilities		**23,930**
Net financial position		**94,806**
2016 – Group		
Bank deposits	2.90%	26,470
Trade and other current receivables		75,420
Total financial assets		101,890
Trade and other current liabilities		18,614
Total financial liabilities		18,614
Net financial position		83,276

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.

	2017	2016
	$000	$000
Actual Solvency Capital	**197,424**	176,219
Minimum Solvency Capital	**87,647**	74,403
Solvency Margin	**109,777**	101,816
Solvency Ratio	**2.25**	2.37

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.

19. Financial instruments

2017 – Group	**Designated at fair value through profit or loss**	**Loans and receivables**	**Total carrying amount at fair value**
	$000	**$000**	**$000**
Bank deposits	-	30,714	30,714
Investments	285,428	-	285,428
Trade and other current receivables	-	88,022	88,022
Total assets	285,428	118,736	404,164

	Designated at fair value through profit or loss	**Other financial liabilities at amortised cost**	**Total carrying amount at fair value**
	$000	**$000**	**$000**
Trade and other current liabilities	-	23,930	23,930
Total liabilities	-	23,930	23,930

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

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

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.

20. Commitments

	Group	Group
	2017	2016
	$000	$000
Operating lease commitments		
Due within 1 year	**5,873**	4,567
Due between 1 to 2 years	**5,747**	3,424
Due between 2 to 5 years	**13,678**	6,263
Beyond 5 years	**14,161**	2,230
	39,459	16,484

There are no capital commitments at 31 March 2017 (2016: $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.

The increase in the Group lease commitments for 2017 reflects the inclusion of the lease commitments for new Palmerston North and Wellington offices, which commence in the 2018 calendar year. The new offices are being built to at least 130% of the New Building Standard (NBS).

There was no contingent rent recognised as an expense for the current year (2016: $Nil).

21. Contingencies

There are no contingent liabilities at 31 March 2017 (2016: $Nil).

22. Subsequent events

There are no subsequent events.

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

Report on the audit of the financial statements

Opinion

We have audited the financial statements of Farmers' Mutual Group ("the Mutual") and its subsidiaries (together "the Group") on pages 13 to 45, which comprise the consolidated balance sheet of the Group as at 31 March 2017, and the consolidated income statement, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended of the Group, and the notes to the consolidated financial statements including a summary of significant accounting policies.

In our opinion, the consolidated financial statements on pages 13 to 45 present fairly, in all material respects, the consolidated financial position of the Group as at 31 March 2017 and its consolidated financial performance and cash flows for the year then ended in accordance with New Zealand Equivalents to International Financial Reporting Standards and International Financial Reporting Standards.

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

Basis for opinion

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

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

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

We provide taxation advice, remuneration advice and other 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.

Information other than the financial statements and auditor's report

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

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

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

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

Those charged with governance responsibilities for the financial statements

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

Ernst & Young

Wellington
29 June 2017

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 2017	Group 2016
100,000 - 110,000	29	28
110,001 - 120,000	24	18
120,001 - 130,000	18	10
130,001 - 140,000	7	9
140,001 - 150,000	8	11
150,001 - 160,000	13	9
160,001 - 170,000	5	2
170,001 - 180,000	3	4
180,001 - 190,000	2	-
190,001 - 200,000	2	3
200,001 - 210,000	1	3
210,001 - 220,000	2	-
220,001 - 230,000	1	1
230,001 - 240,000	1	1
240,001 - 250,000	3	2
250,001 - 260,000	1	-
260,001 - 270,000	-	1
280,001 - 290,000	1	1
330,001 - 340,000	-	1
360,001 - 370,000	2	-
410,001 - 420,000	1	-
420,001 - 430,000	-	2
510,001 - 520,000	-	1
810,001 - 820,000	1	-
900,001 - 910,000	-	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 Piper, Wellington

Auditors
Ernst & Young, Wellington

Board of Directors
Tony Cleland – *Chairman*
Greg Gent
Marise James
Graeme Milne
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*
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

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Email us
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Visit our website
www.fmg.co.nz

Visit our YouTube channel
www.youtube.com/FMGInsurance

FMG
Advice & Insurance

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