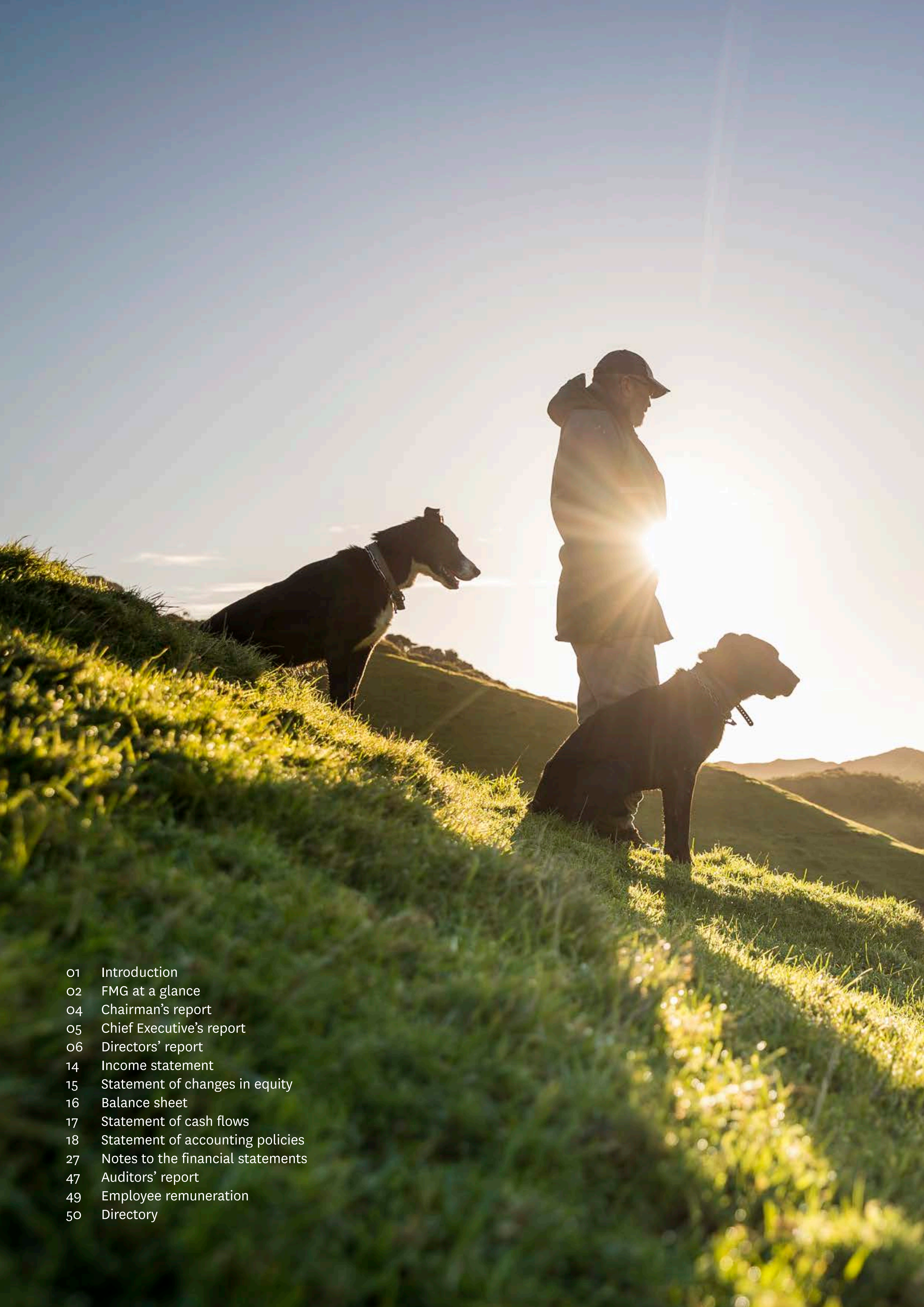
FMG
Advice & Insurance

Annual Report and Financial Statements
2017/2018

PROUD TO BE RURAL.



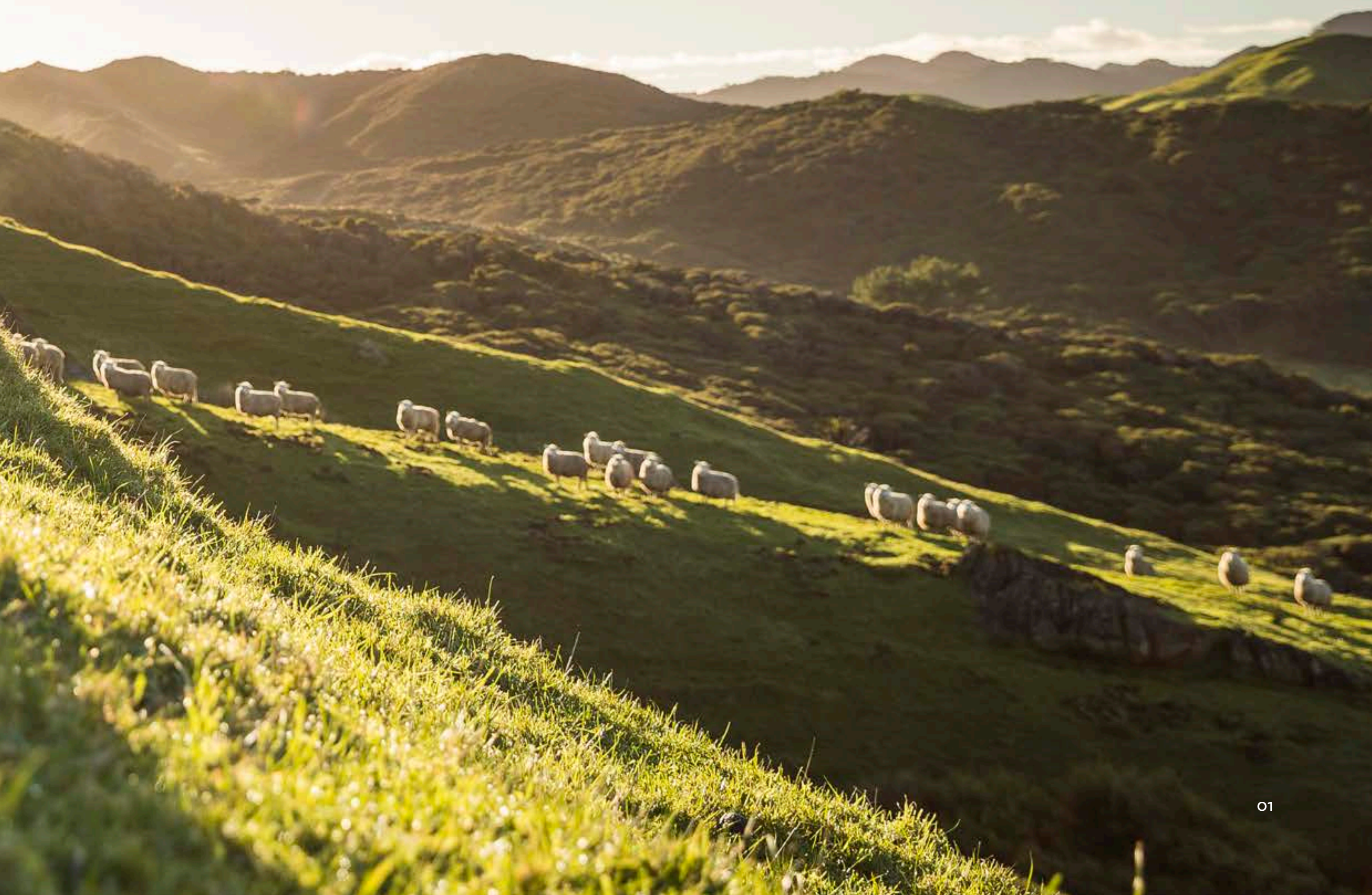
HELPING TO BUILD STRONG AND PROSPEROUS RURAL COMMUNITIES.

In 2017/18 we supported clients through an unprecedented year of seven major storms, responded to another record year of day-to-day claims and settled 95% of our Kaikoura Earthquake claims.

Being here when the unexpected happens is what we do—but it's only part of our commitment to you.

This year we've also been involved with more than 600 community events and give-back initiatives, supported the next generation coming through the rural sector with scholarships and our sponsorship of the FMG Young Farmer of the Year Grand Final. We're also continuing to support the wellbeing of farmers and growers with our Farmstrong programme moving into its third year.

Our mutual structure means we have a higher sense of purpose to support all aspects of the communities that support us. We're proud of this and proud to be rural.



$12.1M
(PROFIT AFTER TAX)

$238.3M
CAPITAL RESERVES

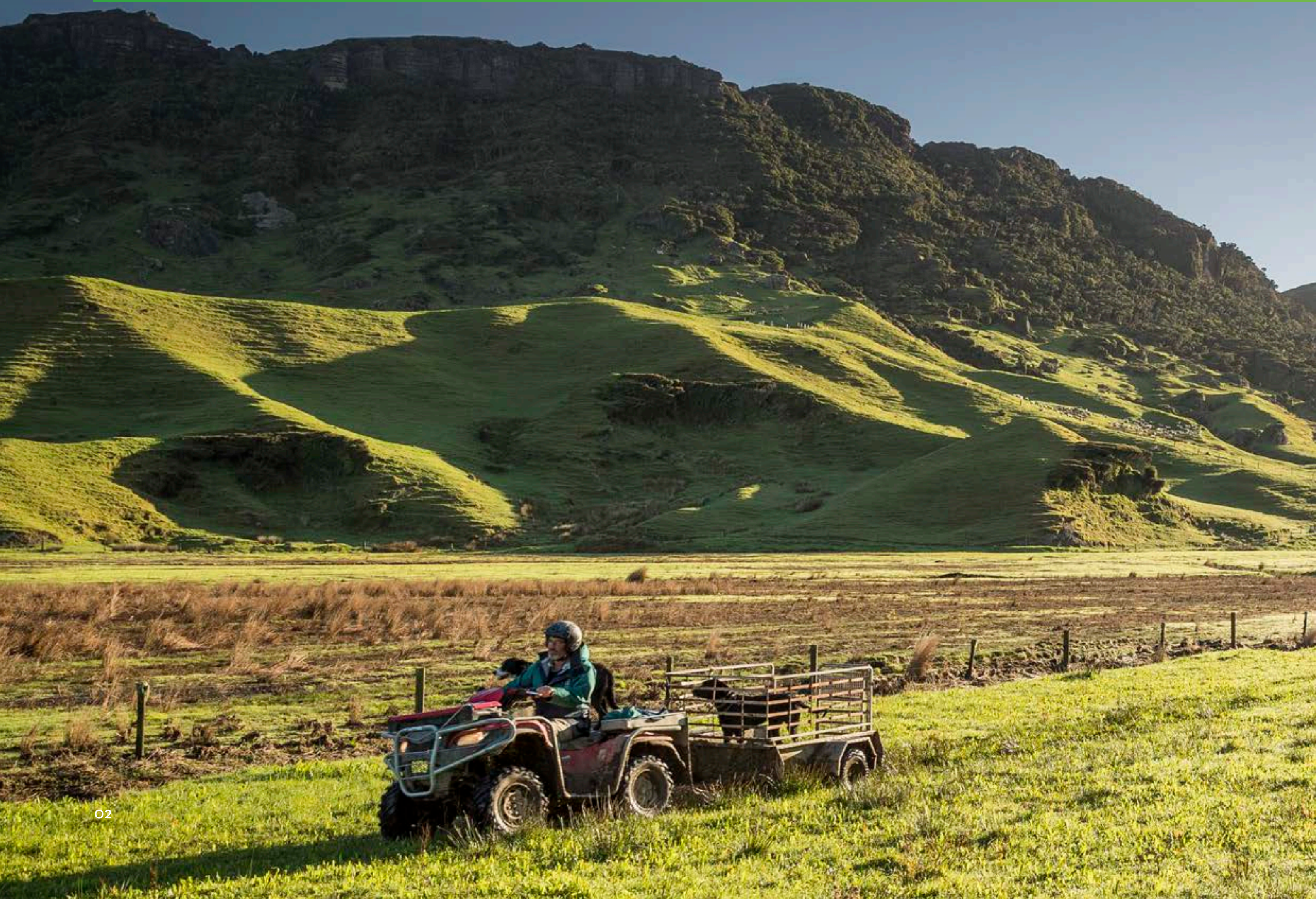
$283M
GROSS WRITTEN PREMIUM
(UP $37M ON LAST YEAR)

3,500
MAJOR STORM-RELATED CLAIMS

→

$26M
AMOUNT PAID ON THOSE STORMS

A
EXCELLENT
A.M. BEST CREDIT RATING



$162M

NET CLAIMS INCURRED
(UP AROUND $10M ON LAST YEAR)

$136M

ESTIMATED COST OF THE KAIKOURA EARTHQUAKE

95%

OF KAIKOURA EARTHQUAKE CLAIMS SETTLED

FINALIST

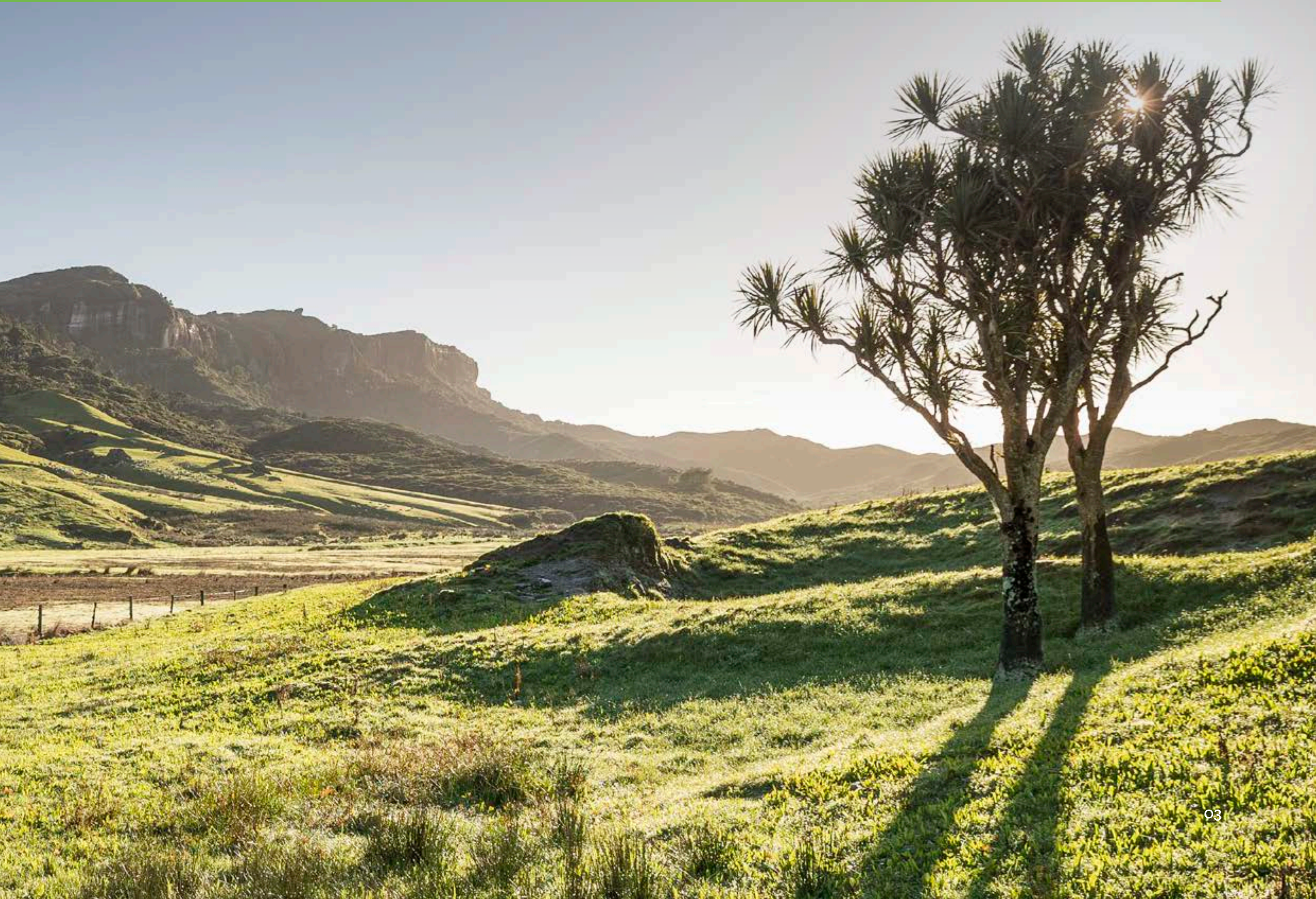
CO-OPERATIVE BUSINESS OF THE YEAR

DIRECT GENERAL INSURER OF THE YEAR

SECOND YEAR RUNNING
(ANZIIF INSURANCE AWARDS)

CONSUMER NZ

PEOPLE'S CHOICE AWARD
FOR HOUSE AND CAR INSURANCE



BUILDING STRONG AND PROSPEROUS RURAL COMMUNITIES.

"Through a well planned and executed strategy to make a difference where it counts, we've helped build strong rural communities through our specialised advice and support through initiatives such as Farmstrong and New Zealand Young Farmers."

Proud to be rural—we don't just talk about it, we are doing it.

Through a well planned and executed strategy to make a difference where it counts, we've helped build strong rural communities through our specialised advice and support through initiatives such as Farmstrong and New Zealand Young Farmers.

When you stop and think about the good work Farmstrong has been doing over the last three years, at the heart of it is helping build skills to manage the inevitable ups and downs of farming. This includes dealing with the unbalanced media profile the rural sector has borne the brunt of over the last 12 months particularly.

FMG was involved in the establishment of New Zealand Young Farmers early last century and we're proud to still be alongside this important organisation today, investing in the development of the next generation of farming leaders.

In the last 12 months FMG has continued to grow strongly, despite a period of significant change at both the senior leadership and governance levels, with over one-third of the Board being newly appointed last year.

While all of this change has been planned and will help shape the Mutual's future, in my view, we're at the top-end of what one might consider prudent for a mutual like FMG and a period of consolidation and stability (around the senior leadership and governance positions) is now required. Marise James will stand down at this year's AGM after 16 years on the Board, reinforcing this point. Marise is a loyal, passionate and dedicated Board member typifying what the Mutual is all about. With these attributes and her thoughtful and insightful approach, Marise will be missed around the Board table. Thank you Marise for your outstanding commitment and contribution.

I would like to thank our new directors for their input over the last year.

Posting a net after tax profit for the year of $12.1m was very pleasing, especially with the impact of seven major storms, which we had to absorb and deal with on behalf of clients. Seven large storms in a year is the highest number since records began in 1968. Equally pleasing are the other key business metrics including employee and client satisfaction and the growth in net client numbers, which all continue to head in the right direction from already high levels.

This year our Claims team has dealt with an exceptional number of claims. These were a combination of more business-as-usual claims, about 3,500 major storm-related claims and a similar number of Kaikoura Earthquake claims. It is a credit to the team that we dealt with this influx so ably.

I would like to thank all our members, employees and the Board for playing your part in another successful year—the Mutual is on an amazing journey. Special thanks to our Chief Executive, Chris Black, for a stellar year including the influential role you play at an industry level. The Mutual is in good hands and your commitment and leadership makes FMG an enjoyable place to work for everyone.

Tony Cleland
Chairman, FMG

"2018 was also a record year in terms of headline growth for the Mutual for both general and personal insurance."

One of the benefits of our mutual ownership and operating model is the ability to take a long-term view. In 2010 we set out a 10-year plan to protect and grow the Mutual on behalf of members as well as a wider stakeholder group. 2018 was the eighth year of that plan and it was marked by an unprecedented number of major storm events. We are proud of the way the Mutual has responded to these, helping affected clients and communities get back on their feet as soon as possible. I think the same can be said of the recovery effort after the Kaikoura Earthquake. We have now settled 95% of the 3,450 Kaikoura Earthquake claims we received. We'll remain focussed on the resolution of the residual storm and earthquake claims—including 43 Canterbury Earthquake claims—until the last one is settled satisfactorily.

The seven major storms this year cost the Mutual $26m. The Kaikoura Earthquake will cost the Mutual an estimated $136m. These are big numbers and while we've set the Mutual up to handle events like this, it's inevitable that insurance will cost more in New Zealand as a result. As a mutual, however, we strive to keep premium increases to a minimum so that insurance continues to be accessible and affordable for rural and regional New Zealand. We also work hard to ensure the level of cover for the premium paid represents good value for money.

2018 was also a record year in terms of headline growth for the Mutual for both general and personal insurance reflecting that more farmers and growers, commercial businesses, lifestyle block owners and residential clients are electing to put their trust in our mutual model. At the same time, client retention was the highest ever recorded.

While we need to run the business commercially and strive to make a modest profit in most years, our mutual philosophy is anchored around 'profit making' as opposed to the 'profit maximising' mindset of a listed insurance company looking to pay a dividend. Last year we recorded a net profit after tax of $12.1m.

This is a pleasing turnaround from the $3.3m loss in 2017 when extra costs associated with the Kaikoura Earthquake were incurred. Importantly, making a profit allows us to invest in new products and services on behalf of clients, such as the recent launch of an online service channel for vehicle-only clients. It also allows us to support important initiatives such as Farmstrong and the FMG Young Farmer of the Year Contest.

At the end of the year reserves stood at $238.3m. Adequate reserves not only allow the Mutual to handle the inherent ups and downs of being a general insurer, but also enable us to both meet the Reserve Bank of New Zealand (RBNZ) capital requirements and support future growth of the business.

2018 was also notable as a year of challenge and change for the Mutual. At an executive leadership team level we farewelled Conrad Wilkshire and Geoff Yeats who both ably served the Mutual for close to 10 years and have welcomed Natalie Lombe, Colin Philp and Pete Frizell. At a Board level we welcomed Geoff Copstick, Murray Taggart and Steve Allen. Marise James will retire at this year's AGM after a distinguished 16 years service on behalf of the Mutual.

I'm mindful that protecting and growing the Mutual requires a huge team effort; this year has been exceptional in both regards. Thank you to our chair Tony Cleland and the wider Board and my colleagues right across the Mutual who have all worked so hard over the last 12 months on behalf of our clients. Being proud of our rural heritage and making a difference for the rural sector continues to align well with the Mutual's vision of helping to build strong and prosperous rural communities. Finally, thank you to our clients for your ongoing trust and support for the Mutual. We appreciate and value this and will continue to work hard on your behalf.

Chris Black
Chief Executive Officer, FMG

Five year comparisons

Claims and catastrophes net of reinsurance recoveries ($000)

		Net catastrophe claims
2014	88,538	12,551
2015	95,776	7,558
2016	130,427	6,680
2017	143,018	8,722
2018	**153,535**	**8,406**

General insurance gross written premium ($000)

2014	204,511
2015	209,279
2016	224,946
2017	246,231
2018	**283,098**

Equity ($000)

2014	197,428
2015	224,221
2016	229,493
2017	226,240
2018	**238,320**

Investment income ($000)

2014	16,273
2015	23,443
2016	12,715
2017	12,077
2018	**13,456**

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

2014	17,516
2015	26,793
2016	5,272
2017	-3,253
2018	**12,080**

The Directors have pleasure in presenting Farmers' Mutual Group's[1] 113th Annual Report and Financial Statements for the year ended 31 March 2018.

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 $283.1m from $246.2m
- Increase in net investment income from continuing operations to $13.5m from $12.1m
- Increase in net claims incurred from continuing operations to $161.9m from $151.7m
- Increase in profit from continuing operations after tax to a $12.1m profit from a $3.3m loss

	2018 $000	2017 $000
Profit/(loss) from continuing operations before taxation	**15,105**	(5,523)
Taxation	**(3,025)**	2,270
Profit/(loss) for the year	**12,080**	(3,253)

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

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

Membership

As at 31 March 2018, membership of the Parent stands at 58,865.

Directorate

In accordance with the tenure provisions of the Director Appointment and Reappointment Policy, Tony Cleland and Michael Ahie will retire by rotation and will stand for re-election at this year's Annual General Meeting. Mr Greg Gent and Mr Graeme Milne retired at the 2017 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 is directly supervised by the Financial Markets Authority.

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 2017 AGM the Membership voted in favour of maintaining the Chairman's remuneration at $90k and Directors' at $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 $0.433m (2017: $0.383m). The amounts paid to each director for both the FMG and FMG Insurance Limited Boards are as follows:

Name		2017 – 2018 $000	2016 – 2017 $000
G W Gent*	***	25	82
T D Cleland		90	56
M L James		50	49
G R Milne*	***	25	49
M J T Ahie		50	49
C L Mitchener		50	49
D Chan		50	49
S Allen**	****	31	–
M Taggart**	****	31	–
G Copstick**	****	31	–
Total		433	383

* Retired at the 2017 AGM

** Elected at the 2017 AGM

*** Paid in accordance with the FMG Constitution

**** Pro-rated from Election at 2017 AGM

FMG BOARD OF DIRECTORS

The Board as at 31 March 2018

Tony Cleland (Chair)

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

Marise James

Marise is based in the Taranaki as a Chartered Accountant specialising in rural business and tax planning. She has a plenty of experience in the rural sector having previously served as a director for Landcorp Farming Ltd and Fonterra. Marise and her husband Bryn have also previously held the Sharemilker of the Year title and she's a former Nuffield Scholar.

Michael Ahie

Michael is passionate about his country and the commercial and cultural success of organisations in New Zealand.

He is Chancellor of Massey University and Chairman of Plant & Food Research. He is a director of FMG and Chair of the board of ComplyWith, Spring Sheep New Zealand, the New Zealand Food Safety and Assurance Advisory Council and the Plant Market Access Council. He is a member of Inland Revenue's Risk & Assurance Committee.

Cindy Mitchener

Cindy's experience in communications and media brings an important perspective to the FMG Board. After previous senior roles at Radio NZ, Saatchis and TV3, Cindy now runs her own media consultancy and is a partner of marketing and recruitment company Marsden Inch. She's heavily involved in equestrian, owning family business Tootill Equestrian and standing as an independent director of Horse of the Year Hawke's Bay.

Danny Chan

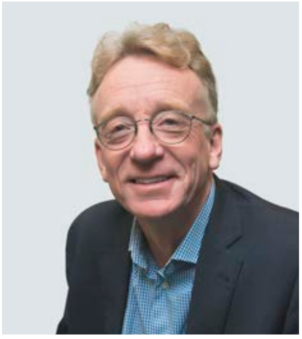
Born and bred in Wellington, Danny has held a number of significant international governance roles. From being on the Asia-Pacific Board of Fidelity Investments to his directorship roles at Everbright Pacific and AgResearch, Danny brings a wealth of financial, investment management and advisory experience to the Board. Danny currently holds several directorships, including at Abano Healthcare, Flowerzone International, Bio Pacific Management and ASPEQ.

Steve Allen

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

Murray Taggart

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



Geoff Copstick

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

FMG EXECUTIVE LEADERSHIP TEAM

Chris Black
CHIEF EXECUTIVE OFFICER

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

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

Andrea Brunner
CHIEF CLIENT OFFICER

Andrea started her working career as a lawyer specialising in employment law. Andrea then moved into the area of employment relations in the banking industry for close to a decade. During her time in banking Andrea broadened her focus taking up key HR business partner roles and leading large generalist HR teams.

In 2009 Andrea joined FMG as General Manager HR and subsequently broadened her role taking on accountability for Marketing, Communications and Client Propositions. In 2017 Andrea moved to a new role as FMG's Chief Client Officer. In this role Andrea is accountable for the overall sales and service performance of the business in respect of both general and personal insurance.

Dave Kibblewhite
CHIEF FINANCIAL, INVESTMENT & RISK OFFICER

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

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

Pete Frizzell
GENERAL MANAGER CLIENT PROPOSITIONS, MARKETING & RISK SERVICES

After completing a PhD in Operations Research, Pete has worked in analysis, project/programme management and consulting roles across a number of organisations in New Zealand and the United Kingdom. He has accumulated a wealth of experience at navigating complexity to manage and deliver outcomes that provide client value and are aligned to the organisation's objectives.

After an earlier stint contracting with FMG, Pete joined in a full time role in 2010. Pete's role has responsibility for Marketing, Communications, Products, Pricing, Segment Management, Risk Services, and Research.

Nathan Barrett
CHIEF UNDERWRITING & CLAIMS OFFICER

Nathan 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 Claims functions within the business.

Colin Philp
CHIEF INFORMATION OFFICER

Colin joined FMG as Chief Information Officer in 2017. Before that, Colin was CIO at the New Zealand Racing Board for four years and held a number of roles at Spark Digital including Head of ICT Operations and Head of Client Delivery and Technology Australia.

Colin has also held several roles at the Bank of New Zealand including Head of Application Development and Testing.

Natalie Lombe
GENERAL MANAGER HUMAN RESOURCES

Natalie joined FMG in 2017. Prior to FMG, Natalie has held executive positions across human resource and organisational development in New Zealand with Synlait Milk, Christchurch International Airport, Goodman Fielder, Mainland Products and Allied Telesys. Natalie also has significant strategy facilitation, human resource, organisational development and change management experience working in a number of fast moving consumer goods and utility companies in Australia. Natalie is responsible for leading human resources, organisational development, workplace relations and learning capability functions.

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 2018

The Audit & Risk Management Committee is currently comprised of Mrs Marise James (Chair), Mr Tony Cleland, Mr Michael Ahie, Mr Murray Taggart and Mr Geoff Copstick 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 Danny Chan and Mr Steve Allen. 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.

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

	Number of meetings	Number attended
FMG Board Meetings (Total 8)		
G W Gent	4	4
T D Cleland	8	8
M L James	8	8
G R Milne	4	3
M J T Ahie	8	7
C L Mitchener	8	8
D Chan	8	8
S Allen	4	4
M Taggart	4	4
G Copstick	4	4
Audit & Risk Management Committee Meetings (Total 3)		
M L James	3	3
G W Gent	1	1
G R Milne	1	1
M J T Ahie	3	2
T D Cleland	3	3
M Taggart	2	2
G Copstick	2	2
D Chan (for M Ahie)	1	1
Nomination, Remuneration & Governance Meetings (Total 2)		
G W Gent	1	1
M J T Ahie	2	2
T D Cleland	2	2
C L Mitchener	2	2
D Chan	2	1
S Allen	1	1

Directors of FMG's Subsidiaries as at 31 March 2018

The current FMG Insurance Limited Directors are Mr Tony Cleland, Mrs Marise James, Mr Michael Ahie, Ms Cindy Mitchener, Mr Danny Chan, Mr Steve Allen, Mr Murray Taggart and Mr Geoff Copstick. 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 2018

(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 07.

(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 2018 $000	Group 2017 $000
General insurance activities			
Gross written premium		**283,098**	246,231
Movement in unearned premium		**(17,351)**	(10,649)
Gross earned premium	1	**265,747**	235,582
Outwards reinsurance premium expense		**(27,578)**	(32,627)
Net premium revenue		**238,169**	202,955
Claims expense	8	**(219,492)**	(258,092)
Reinsurance and other recoveries revenue	1, 8	**57,551**	106,352
Net claims incurred		**(161,941)**	(151,740)
Other income	1	**13,601**	9,927
Operating expenses	2	**(88,180)**	(78,742)
General insurance underwriting result		**1,649**	(17,600)
Investment revenue	1	**13,456**	12,077
Profit/(loss) before taxation		**15,105**	(5,523)
Income tax (expense)/benefit	3	**(3,025)**	2,270
Net profit/(loss)		**12,080**	(3,253)
Profit/(loss) for the year attributable to members		**12,080**	(3,253)
Total comprehensive income for the year, net of tax, attributable to members		**12,080**	(3,253)

The financial statements should be read in conjunction with the accounting policies and notes on pages 18 to 46.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 31 March

	Group 2018 $000	Group 2017 $000
Retained earnings		
Retained earnings at the beginning of the year	**226,240**	229,493
Total profit/(loss) and comprehensive income	**12,080**	(3,253)
Retained earnings at the end of the year	**238,320**	226,240
Total equity at the end of the year	**238,320**	226,240
Attributable to:		
Members	**238,320**	226,240
	238,320	226,240

The financial statements should be read in conjunction with the accounting policies and notes on pages 18 to 46.

CONSOLIDATED BALANCE SHEET

as at 31 March

	Notes	Group 2018 $000	Group 2017 $000
Assets			
Cash and cash equivalents	4	**29,235**	30,714
Trade and other receivables	6	**116,144**	88,022
Insurance recoveries	7, 8	**98,174**	112,047
Deferred acquisition costs	9	**3,510**	3,805
Investments	5	**288,748**	285,428
Current tax asset		**–**	2,425
Property, plant and equipment	10	**9,004**	7,125
Intangible assets	11	**10,187**	12,813
Deferred tax assets	12	**7,311**	8,497
Total assets		**562,313**	550,876
Liabilities			
Trade and other liabilities	13	**25,374**	23,930
Current tax liability		**1,607**	–
Make good provision		**87**	57
Underwriting provisions	7	**289,418**	293,135
Deferred tax liabilities	12	**7,507**	7,514
Total liabilities		**323,993**	324,636
Net assets		**238,320**	226,240
Equity			
Retained earnings		**238,320**	226,240
Attributable to:			
Members		**238,320**	226,240
Total equity		**238,320**	226,240

Signed on behalf of the Board of Directors, who authorised the issue of these financial statements on 28 June 2018.

T D Cleland
Chairman
28 June 2018

M L JAMES
Director
28 June 2018

The financial statements should be read in conjunction with the accounting policies and notes on pages 18 to 46.

CONSOLIDATED STATEMENT OF CASH FLOWS

for the year ended 31 March

	Notes	Group 2018 $000	Group 2017 $000
Cash flows from operating activities			
Premium and other receipts from clients		**273,818**	247,767
Reinsurance recoveries		**68,361**	11,988
Interest and fees received		**504**	646
Other income		**1,991**	–
Claims paid		**(241,133)**	(155,111)
Reinsurance premium paid		**(31,587)**	(24,695)
Cash paid to suppliers and employees		**(79,312)**	(75,343)
Tax recovered/(paid)		**3,270**	(2,405)
Net cash flows from operating activities	4	**(4,088)**	2,847
Cash flows from investing activities			
Dividends received		**499**	579
Investment dealings with fund managers		**10,000**	5,000
Purchase of property, plant and equipment and intangible assets		**(7,890)**	(4,182)
Net cash flows from investing activities		**2,609**	1,397
Net increase/(decrease) in cash and cash equivalents		**(1,479)**	4,244
Cash and cash equivalents at the beginning of the year		**30,714**	26,470
Cash and cash equivalents at the end of the year	4	**29,235**	30,714

The financial statements should be read in conjunction with the accounting policies and notes on pages 18 to 46.

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 Group 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 1, PwC Centre, 10 Waterloo Quay, Wellington.

Statement of compliance

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

The consolidated financial statements also comply with International Financial Reporting Standards (IFRS).

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

Significant accounting policies

Basis of preparation

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

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

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

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

Basis of consolidation

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

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

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

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

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

STATEMENT OF ACCOUNTING POLICIES
for the year ended 31 March

General insurance contracts

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

General insurance liabilities

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

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

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

Assets backing general insurance contract liabilities

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

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

Claims expense

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

Policy acquisition costs

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

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

Outwards reinsurance

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

Reinsurance recoveries

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

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

STATEMENT OF ACCOUNTING POLICIES
for the year ended 31 March

Revenue recognition

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

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

Premium revenue

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

Other fee income

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

Interest income

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

Dividend income

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

Taxes

Current income tax

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

Deferred tax

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

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

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

GST

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

Foreign currencies

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

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

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

STATEMENT OF ACCOUNTING POLICIES
for the year ended 31 March

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

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

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

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

Financial assets at fair value through profit or loss
Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition at fair value through profit or loss. The Group has equity and debt securities that are designated upon initial recognition at fair value through profit or loss. These assets are carried in the balance sheet at fair value with net changes in fair value presented as finance costs (negative net changes in fair value) or finance income (positive net changes in fair value) in the statement of profit or loss.

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

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

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

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

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

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

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

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

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

Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

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

STATEMENT OF ACCOUNTING POLICIES

for the year ended 31 March

Leases

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

The Group has not entered into any finance leases.

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

Payables

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

Provisions

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

Employee entitlements

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

Statement of cash flows

The statement of cash flows is prepared exclusive of GST, which is consistent with the method used in the income statement.
The following are definitions of the terms used in the statement of cash flows.

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

STATEMENT OF ACCOUNTING POLICIES

for the year ended 31 March

Changes in accounting policies and disclosures

There are no changes in accounting policies and disclosures from the 31 March 2017 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 2018.

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. 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

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.	1 January 2021

STATEMENT OF ACCOUNTING POLICIES
for the year ended 31 March

Adopting NZ IFRS 9 is not expected to have a material impact on the numbers presented in the Group financial statements.

The Group derives the significant majority of its revenue from Insurance Contracts and Investment Income which are scoped out of NZ IFRS 15; the recognition of the balance of the revenue is not expected to change materially however the Group is currently assessing the impact of the standard on all relevant revenue streams in particular commission received from third parties.

Whilst a full assessment of the impact of NZ IFRS 16 has not yet been performed by the Group; NZ IFRS 16 will see the recognition of lease assets primarily related to buildings and motor vehicles and an associated lease liability on the balance sheet. Note 20 Commitments gives an indication of the potential impact on the balance sheet.

A detailed assessment of the impact of NZ IFRS 17 is planned for the 2018/19 financial year. 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
- 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 based on the share price of a significant off market transaction i.e. the recent New Zealand Superannuation Fund investment of $100m to acquire a 41.1% cornerstone stake in Fidelity Life. Previously the shares had been valued by an independent third party 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 2018 $000	Group 2017 $000
General insurance revenue		
Gross earned premiums	265,747	235,582
Reinsurance and other recoveries revenue	57,551	106,352
Investment revenue:		
Dividends – other entities	499	579
Interest income – other entities	504	588
Movement in financial assets at fair value through profit and loss	12,453	10,910
Total investment revenue	13,456	12,077
Fee income and other revenue	13,601	9,927
Total revenue	350,355	363,938

2. Other expenses

	Group 2018 $000	Group 2017 $000
Operating expenses include:		
Employee expenses	55,953	47,477
Operating lease rental expenses	4,078	3,905
Depreciation on property, plant and equipment	2,585	2,229
Amortisation on intangible assets	5,746	5,491
(Gain)/loss on disposal of property, plant and equipment	305	270
Directors' fees	433	384
Donations	5	9
Auditors' remuneration – audit of financial statements	147	142
Auditors' remuneration – solvency returns	17	17
Auditors' remuneration – taxation services	23	46
Auditors' remuneration – IT quality assurance (non-recurring)	48	11
Auditors' remuneration – HR consulting	37	38

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 March

3. Income tax

	Group 2018 $000	Group 2017 $000
a) Income tax expense from continuing operations		
Current tax	**1,818**	–
Deferred tax expense/(benefit)	**1,178**	(2,420)
(Over)/under provided in prior years	**29**	150
Income tax expense/(benefit) for the year from continuing operations	**3,025**	(2,270)
b) Numerical reconciliation of income tax expense to prima facie tax payable		
Profit/(loss) before taxation		
Continuing operations	**15,105**	(5,523)
Total profit/(loss) before taxation	**15,105**	(5,523)
Prima facie income tax @ 28%	**4,229**	(1,546)
Tax effect of amounts which are non-deductible expenses/non-assessable revenue:		
Non-assessable income and other items	**(1,123)**	(794)
Non-deductible expenses and other items	**54**	46
Imputation credits on dividends	**(103)**	(125)
Foreign tax credit	**(3)**	–
(Over)/under provided in prior years	**(29)**	150
Income tax expense/(benefit) for the year	**3,025**	(2,270)
c) Imputation credit account		
Balance at the beginning of the year	**67,383**	68,381
Net taxation paid/(refunded)	**(2,184)**	879
Imputation credit attached to dividends received and dividends paid	**103**	126
Foreign dividend withholding payment adjustment	**–**	(2,003)
Balance at the end of the year	**65,302**	67,383

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 March

4. Cash and cash equivalents

	Group 2018 $000	Group 2017 $000
Cash at bank and in hand	29,235	30,714
Total cash and cash equivalents	29,235	30,714
a) Reconciliation of profit to net cash flows from operating activities		
Profit/(loss) for the year	12,080	(3,253)
Adjustments for non-cash items		
Amortisation	5,746	5,491
Depreciation	2,585	2,229
Movement in deferred tax	1,179	(2,420)
Movement in unearned premium	17,924	10,999
Movement in outstanding claims	(21,641)	102,981
Movement in bad debts provision	1,710	564
Movement in deferred acquisition costs	295	388
Movement in make good provision	30	20
Unrealised investment (gain)/loss	(13,321)	(11,732)
	(5,493)	108,520
Movements in other working capital items		
Movement in accounts receivable	(15,959)	(106,607)
Movement in accounts payable	308	5,049
Movement in accrued leave/bonuses	1,138	268
Movement in taxation recoverable	4,032	(821)
	(10,481)	(102,111)
Items classified as investing activities		
Net loss/(gain) on sale of property, plant and equipment	305	270
Dividends received	(499)	(579)
	(194)	(309)
Net cash flows from operating activities	(4,088)	2,847

5. Investments

	Group 2018 $000	Group 2017 $000
Equity securities		
Investments in unlisted New Zealand companies	**19,111**	20,773
Total equity securities	**19,111**	20,773
Unit trust investments		
New Zealand equities	**10,384**	10,604
Offshore equities	**49,902**	49,648
Fixed interest investments – New Zealand	**167,614**	163,858
Fixed interest investments – Offshore	**41,737**	40,545
Total unit trust investments	**269,637**	264,655
Total other financial assets	**288,748**	285,428

Determination of fair value hierarchy 2018

	Group			
	Level 1 $000	**Level 2 $000**	**Level 3 $000**	**Total fair value $000**
Financial assets designated at fair value through profit and loss:				
Equity securities	**–**	**–**	**19,111**	**19,111**
Unit trust investments	**–**	**269,637**	**–**	**269,637**
Total financial assets	**–**	**269,637**	**19,111**	**288,748**

Determination of fair value hierarchy 2017

	Group			
	Level 1 $000	Level 2 $000	Level 3 $000	Total fair value $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

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

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

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

During the year there were no transfers between categories.

Reconciliation of movements in level 3 instruments measured at fair value

	As at 1 April 2017	**Total loss in profit and loss**	**As at 31 March 2018**
	$000	**$000**	**$000**
Equity securities	**20,773**	**(1,662)**	**19,111**
	20,773	**(1,662)**	**19,111**

	As at 1 April 2016	Total loss 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

Sensitivity of Level 3 financial instruments to changes in key assumptions

	Carrying value at 31 March 2018	**Effect of reasonably possible alternate assumptions (+/-)**
	$000	**$000**
Equity securities	**19,111**	**831**
	19,111	**831**

	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 year end share price. The adjustment was made to increase and decrease the share price by $5 per share, which is considered by the Group to be within a range of reasonably possible alternatives. In the comparative period the Group adjusted the average price earnings ratio used in the valuation method. The adjustment made was to increase and decrease the assumed price earnings ratio by one, which was 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 2018 $000	Group 2017 $000
Trade debtors		**95,037**	81,297
Reinsurance debtors		**6,540**	3,778
Other receivables		**14,154**	2,725
Uninsured third party recoveries		**4,132**	2,231
Allowance for collective impairment	14	**(3,719)**	(2,009)
		116,144	88,022
Current		**116,144**	88,022

There are no past due or impaired trade debtors, reinsurance debtors or other receivables as at 31 March 2018. The allowance for collective impairment relates specifically to uninsured third party recoveries when amounts are past due.

7. Underwriting provisions and reinsurance and other recoveries

	Group 2018 $000	Group 2017 $000
Underwriting provisions comprise:		
Liability for outstanding claims		
Expected future claim payments (undiscounted)	**150,681**	172,510
Discount to present value	**(1,543)**	(1,731)
	149,138	170,779
Provision for unearned premiums	**140,280**	122,356
Underwriting provisions	**289,418**	293,135
Current	**259,068**	239,891
Non-current	**30,350**	53,244
	289,418	293,135
Provision for reinsurance and other recoveries comprise:		
Expected future recoveries (undiscounted)	**(99,251)**	(113,201)
Discount to present value	**1,077**	1,154
Net insurance recoveries	**(98,174)**	(112,047)
Current	**(81,902)**	(69,073)
Non-current	**(16,272)**	(42,974)
	(98,174)	(112,047)

8. General insurance contracts

a) Net general insurance claims incurred

	2018			2017		
	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	**179,328**	**39,975**	**219,303**	241,608	17,419	259,027
Discount	**(745)**	**934**	**189**	(1,340)	405	(935)
Gross claims expense	**178,583**	**40,909**	**219,492**	240,268	17,824	258,092
Reinsurance and other recoveries						
Reinsurance and other recoveries revenue – undiscounted	**(15,547)**	**(41,927)**	**(57,474)**	(94,457)	(12,805)	(107,262)
Discount	**140**	**(217)**	**(77)**	934	(24)	910
Reinsurance and other recoveries	**(15,407)**	**(42,144)**	**(57,551)**	(93,523)	(12,829)	(106,352)
Net claims incurred	**163,176**	**(1,235)**	**161,941**	146,745	4,995	151,740

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						
	2013	2014	2015	2016	2017	2018	Total
	$000	$000	$000	$000	$000	$000	$000
Ultimate claims cost estimate							
At end of accident year	73,246	113,319	111,706	134,206	243,860	178,877	
One year later	74,810	112,932	113,618	135,266	289,823		
Two years later	74,915	114,236	114,006	132,830			
Three years later	75,214	114,506	113,956				
Four years later	75,145	114,447					
Five years later	75,106						
Current estimate of ultimate claims cost	75,106	114,447	113,956	132,830	289,823	178,877	
Cumulative payments	75,100	113,885	112,960	132,244	228,910	116,749	
Undiscounted central estimate	6	562	996	586	60,913	62,128	125,191
Discount to present value	–	(8)	(11)	(8)	(527)	(704)	(1,258)
Discounted central estimate	6	554	985	578	60,386	61,424	123,933
Prior years							19,135
Risk margin							6,070
Gross outstanding claims liabilities							149,138
Reinsurance recoveries on outstanding claims and other recoveries							(98,174)
Net outstanding claims liabilities							50,964

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c) Analysis of outstanding claims

	Group 2018 $000	Group 2017 $000
Gross central estimate of present value of future claims payment	143,068	164,378
Risk margin	6,070	6,401
Total outstanding claims liability	149,138	170,779
The expected settlement pattern of the outstanding claims liability is as follows:		
Current	118,788	117,535
Non-current	30,350	53,244
Total outstanding claims liability	149,138	170,779

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 2018. The previous assessment of the Insurance Liabilities was performed at 31 March 2017.

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.

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:

	2018	2017
Inflation rate	**Implicit**	Implicit
Discount rate	**1.81%**	1.88%
Claims handling expense ratio – outstanding claims liabilities	**3.9%**	4.1%
Claims handling expense ratio – premium liabilities	**4.9%**	5.3%
Risk margin – outstanding claims liabilities	**13.6%**	12.5%
Risk margin – premium liabilities	**14.0%**	13.9%
Weighted average expected term to settlement	**191 days**	216 days

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

	Group 2018 $000	Group 2017 $000
Outstanding claims liability		
Gross outstanding claims at the beginning of the year	**170,779**	67,798
Claims incurred during the year	**219,492**	258,092
Claims payments made during the year	**(241,133)**	(155,111)
Gross outstanding claims at the end of the year	**149,138**	170,779
Reinsurance and other recoveries receivable		
Reinsurance and other recoveries receivable at the beginning of the year	**(112,047)**	(18,606)
Reinsurance and other recoveries incurred during the year	**(57,551)**	(106,352)
Reinsurance and other recoveries received during the year	**71,424**	12,911
Reinsurance and other recoveries receivable at the end of the year	**(98,174)**	(112,047)

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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.

		2018		2017	
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%	**168**	**560**	190	619
	Decrease of 1%	**(172)**	**(574)**	(194)	(634)
Claims handling expense ratio	Increase of 1%	**(674)**	**(674)**	(533)	(598)
	Decrease of 1%	**674**	**674**	532	532
Risk margin	Increase of 1%	**(239)**	**(239)**	(369)	(369)
	Decrease of 1%	**239**	**239**	369	369
Weighted average expected term to settlement	Increase 0.5 years	**252**	**886**	385	1,134
	Decrease 0.5 years	**(255)**	**(894)**	(388)	(1,144)

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

(iii) Concentration of reinsurance risk

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

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

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 2018 $000	Group 2017 $000
Net central estimate of the present value of expected future cash flows from future claims	**102,528**	88,442
Risk margin of the present value of expected future cash flows	**14,317**	12,301

(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 2018 (2017: A (Excellent)).

9. Deferred acquisition costs

	Group 2018 $000	Group 2017 $000
Balance at the beginning of the year	**3,805**	4,193
Deferred Acquisition costs recognised during the year	**(3,805)**	(4,193)
Acquisition costs deferred during the year	**3,510**	3,805
Balance at the end of the year	**3,510**	3,805
Current	**3,510**	3,805

10. Property, plant and equipment

2018 – Group	**Land and buildings $000**	**Leasehold improvements $000**	**Furniture and fittings $000**	**Computer equipment $000**	**Motor vehicles $000**	**Total $000**
Cost						
Balance at the beginning of the year	73	7,678	1,574	9,066	277	18,668
Additions	692	1,481	568	2,046	54	4,841
Disposals and transfers	(63)	(3,406)	(624)	(248)	(48)	(4,389)
Balance at the end of the year	702	5,753	1,518	10,864	283	19,120
Depreciation and impairment losses						
Balance at the beginning of the year	17	5,445	959	5,043	79	11,543
Depreciation for the year	–	739	289	1,499	58	2,585
Disposals and transfers	(17)	(3,270)	(553)	(160)	(12)	(4,012)
Balance at the end of the year	–	2,914	695	6,382	125	10,116
Carrying amounts						
At the beginning of the year	56	2,233	615	4,023	198	7,125
At the end of the year	702	2,839	823	4,482	158	9,004

2017 – Group	Land and buildings $000	Leasehold improvements $000	Furniture and fittings $000	Computer equipment $000	Motor vehicles $000	Total $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

11. Intangible assets

2018 – Group	**Computer software $000**	**Total $000**
Cost		
Balance at the beginning of the year	36,189	36,189
Acquisitions – internally developed	3,120	3,120
Acquisitions – other additions	–	–
Disposals	(426)	(426)
Balance at the end of the year	38,883	38,883
Amortisation and impairment losses		
Balance at the beginning of the year	23,376	23,376
Amortisation for the year	5,746	5,746
Disposals	(426)	(426)
Balance at the end of the year	28,696	28,696
Carrying amounts		
At the beginning of the year	12,813	12,813
At the end of the year	10,187	10,187

2017 – Group	Computer software $000	Client base $000	Total $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

Amortisation of intangible assets is included in operating expenses.

12. Deferred tax

2018 – Group	Opening balance at 1 April 2017 $000	Charged/ (credited) to profit and loss $000	Closing balance at 31 March 2018 $000
Movements in deferred tax assets			
Provisions and accruals	6,418	893	7,311
Tax losses	2,079	(2,079)	–
Total deferred tax assets	8,497	(1,186)	7,311
Movement in deferred tax liabilities			
Deferred revenue liability	(7,514)	7	(7,507)
Total deferred tax liabilities	(7,514)	7	(7,507)
Deferred tax liabilities, net	983	(1,179)	(196)

2017 – Group	Opening balance at 1 April 2016 $000	Charged/ (credited) to profit and loss $000	Closing balance at 31 March 2017 $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

13. Trade and other liabilities

	Group 2018 $000	Group 2017 $000
Trade creditors	**4,348**	4,296
Reinsurance creditors	**4,109**	8,117
Employee benefits	**6,350**	5,212
Other liabilities	**10,567**	6,305
	25,374	23,930
Current	**25,374**	23,930

14. Allowances for impaired assets

Group	**Total $000**
At 1 April 2016	1,445
Utilised	(1,445)
Additional provision	2,009
As at 31 March 2017	**2,009**
Utilised	**(2,009)**
Additional provision	**3,719**
As at 31 March 2018	**3,719**

There was no interest income on impaired financial assets accrued for the current year (2017: $Nil). The allowance is entirely for collectively impaired assets.

15. Related party transactions

a) Group Holdings

At 31 March 2018 the following percentage shareholdings were held in related entities which, unless stated otherwise, all have balance dates ending on 31 March.

	2018	2017	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 (2017: $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 2018 $000	Group 2017 $000
Short-term employee benefits	3,758	2,996

*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 unit trust investments at fair value through the profit and loss.

Unit price risk sensitivity analysis

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

	Group	
	Impact on profit $000	Impact on equity $000
2018		
10% increase in unit prices	**26,964**	**26,964**
10% decrease in unit prices	**(26,964)**	**(26,964)**
2017		
10% increase in unit prices	26,466	26,466
10% decrease in unit prices	(26,466)	(26,466)

Interest rate risk

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

Interest rate cash flows risk analysis

	Group	
	Impact on profit $000	Impact on equity $000
2018		
0.25% increase in interest rates	**69**	**69**
0.25% decrease in interest rates	**(69)**	**(69)**
2017		
0.25% increase in interest rates	75	75
0.25% decrease in interest rates	(75)	(75)

18. Liquidity risk

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

2018 – Group	Weighted average interest rate %	0–6 months $000
Bank deposits	1.75%	29,235
Trade and other current receivables		116,144
Total financial assets		145,379
Trade and other current liabilities		25,374
Total financial liabilities		25,374
Net financial position		120,005
2017 – Group		
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

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.

	2018 $000	2017 $000
Actual Solvency Capital	210,541	197,424
Minimum Solvency Capital	93,893	87,647
Solvency Margin	116,649	109,777
Solvency Ratio	2.24	2.25

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

2018 – Group	Designated at fair value through profit or loss $000	Loans and receivables $000	Total carrying amount at fair value $000
Bank deposits	–	29,235	29,235
Investments	288,748	–	288,748
Trade and other current receivables	–	116,144	116,144
Total assets	288,748	145,379	434,127

	Designated at fair value through profit or loss $000	Other financial liabilities at amortised cost $000	Total carrying amount at fair value $000
Trade and other current liabilities	–	25,374	25,374
Total liabilities	–	25,374	25,374

2017 – Group	Designated at fair value through profit or loss $000	Loans and receivables $000	Total carrying amount at fair value $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 $000	Other financial liabilities at amortised cost $000	Total carrying amount at fair value $000
Trade and other current liabilities	–	23,930	23,930
Total liabilities	–	23,930	23,930

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 2018 $000	Group 2017 $000
Operating lease commitments		
Due within 1 year	**6,191**	5,873
Due between 1 to 2 years	**5,580**	5,747
Due between 2 to 5 years	**11,726**	13,678
Beyond 5 years	**11,851**	14,161
	35,348	39,459

There are no capital commitments at 31 March 2018 (2017: $Nil).

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

There was no contingent rent recognised as an expense for the current year (2017: $Nil).

21. Contingencies

There are no contingent liabilities at 31 March 2018 (2017: $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 14 to 46, which comprise the consolidated balance sheet of the Group as at 31 March 2018, 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 14 to 46 present fairly, in all material respects, the consolidated financial position of the Group as at 31 March 2018 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/audit-report-7/. This description forms part of our auditor's report.

Ernst & Young

Wellington
28 June 2018

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 2018	Group 2017
100,000–110,000	**47**	52
110,001–120,000	**42**	32
120,001–130,000	**24**	27
130,001–140,000	**26**	19
140,001–150,000	**11**	5
150,001–160,000	**8**	11
160,001–170,000	**12**	9
170,001–180,000	**3**	9
180,001–190,000	**2**	3
190,001–200,000	**4**	2
200,001–210,000	**1**	–
210,001–220,000	**–**	2
220,001–230,000	**2**	3
230,001–240,000	**4**	1
240,001–250,000	**2**	2
250,001–260,000	**1**	2
260,001–270,000	**2**	2
270,001–280,000	**1**	–
280,001–290,000	**1**	2
310,001–320,000	**–**	1
320,001–330,000	**1**	–
360,001–370,000	**1**	–
370,001–380,000	**1**	–
400,001–410,000	**–**	1
410,001–420,000	**–**	1
450,001–460,000	**–**	1
460,001–470,000	**1**	–
500,001–510,000	**1**	–
840,001–850,000	**–**	1
920,001–930,000	**1**	–

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The Bank of New Zealand

Legal advisors
DLA Piper, Wellington

Auditors
Ernst & Young, Wellington

Board of Directors

Tony Cleland – *Chairman*

Marise James

Michael Ahie

Cindy Mitchener

Danny Chan

Steve Allen

Murray Taggart

Geoff Copstick

Leadership team

Chris Black – *Chief Executive Officer*

Andrea Brunner – *Chief Client Officer*

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

Pete Frizzell – *General Manager Client Propositions, Marketing and Risk Services*

Nathan Barrett – *Chief Underwriting and Claims Officer*

Colin Philp – *Chief Information Officer*

Natalie Lombe – *General Manager Human Resources*

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