HERE FOR THE GOOD OF THE COUNTRY

Annual Report and Financial Statements
2019/2020

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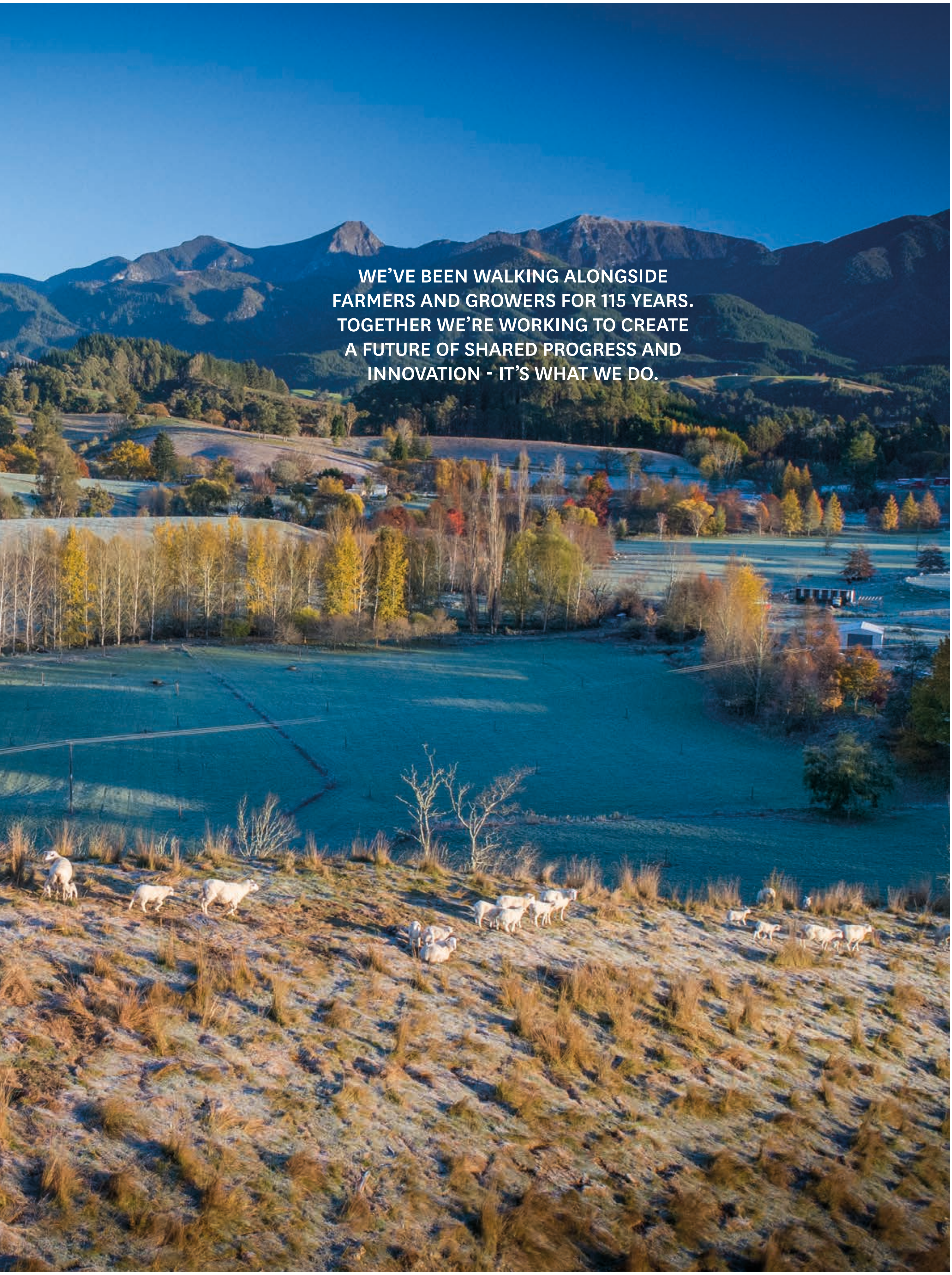
WE'VE BEEN WALKING ALONGSIDE
FARMERS AND GROWERS FOR 115 YEARS.
TOGETHER WE'RE WORKING TO CREATE
A FUTURE OF SHARED PROGRESS AND
INNOVATION - IT'S WHAT WE DO.

HELPING TO MAKE THINGS HAPPEN.

Many of our clients have great stories to tell as they continue to innovate and break new ground. We're proud to support them every step of the way in their important work - to be here for the good of the country.

CLEVEDON BUFFALO

When Richard and Helen Dorresteyn wanted to sell a cornerstone product, they chose to make buffalo mozzeralla.

"It seemed like a really exciting idea—and a viable idea—to bring water buffalo into the country and start making buffalo mozzarella," says Helen.

The first herd of buffalo originally came from Australia on a Lufthansa aeroplane in 2007.

The Dorresteyn's are true pioneers of the buffalo farming scene locally, and now run 200 head of buffalo. They produce award-winning fresh buffalo mozzarella, bocconcini, ricotta, yoghurt and marinated buffalo cheese.

FUTURE POST

Future Post was founded in the time-honoured kiwi way of trying to find an ingenious solution for a challenging problem says fencer and founder, Jerome Wenzlick.

“I was fencing around an old rubbish dump up in Papakura, didn’t actually know it was a rubbish dump and was trying to ram in wooden posts. The posts were breaking and I was literally digging rubbish out of the ground. That’s where the idea came from — I wondered if we can make better posts out of this plastic in the ground?”

Jerome, alongside business partner and farmer, Bindi Ground did quite a bit of research and development before they started, including travelling to the United States of America.

Today, FuturePost produces 100% recycled, environmentally and organic farm-friendly plastic posts that are as strong as timber posts.

“Our posts are going everywhere… from dairy, sheep and cattle and deer farming to marine guys who are sick of their posts rotting in seawater,” says Jerome.

“Our posts are going everywhere… from dairy, sheep and cattle and deer farming to marine guys who are sick of their posts rotting in seawater.”

ELEMENTAL DISTILLERS

In the space of a day, Elemental Distillers Ben Leggett moved from distilling gin to producing hand sanitiser just as New Zealand needed it most.

“As a gin distillery we already had stocks of high strength, gin scented alcohol as a bi-product of our distilling runs.”

Ben says supporting local essential businesses like the medical centres during the COVID-19 lockdown while also helping to generate cash flow was a no-brainer.

“Knowing we were supplying an essential product to essential services at a time of national crisis is an exciting, stressful but overall incredible experience. The response from those we were able to support and the way the community came together in support of each other was humbling,” says Ben.

AT A GLANCE.

51%
RURAL MARKET SHARE

$6.1M
PROFIT AFTER TAX

$209.0M
NET CLAIMS INCURRED

A
EXCELLENT
A.M. BEST CREDIT RATING

$263.5M

CAPITAL RESERVES

$366.3M

GROSS WRITTEN PREMIUM

2019

CANSTAR MOST SATISFIED CUSTOMERS AWARD 2019 HOME AND CONTENTS INSURANCE

5,000

CLIENTS USING FMG CONNECT

2020

CANSTAR MOST SATISFIED CUSTOMERS AWARD 2020 FOR CAR INSURANCE

2019

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

ANOTHER YEAR OF STRONG GROWTH.

The Mutual has experienced another year of strong growth against the backdrop of an uncertain and volatile external environment. Net client growth for the year was a record +6,384 bringing overall client numbers to 94,300. FMG continues to outperform the market growing at twice the rate of other insurers. We are mindful it is essential this growth is targeted and profitable and not simply growth for growth's sake. Continued good quality growth enables us to progressively lower the unit cost of delivery for all clients and allows us to remain competitive in the insurance market. It aligns with the Mutual's core purpose of "giving rural New Zealand a better deal" and our target is to reduce the cost ratio from its current 31% of premium income to 25% over the next ten years.

FMG has always prided itself on delivering high quality advice across a broad scope of insurance cover and at a competitive and affordable premium, all the while backed up by exceptional service and support. This year, as measured by Net Promoter Score (NPS), client engagement reached a new world-class high, confirming that our teams across the Mutual are continuing to deliver on these promises.

On-going investment in our new online service 'FMG Connect' is now an integral part of our service proposition, and the number of clients registered to use our digital portal has doubled over the last 12 months.

The Mutual was pleased to post a net profit after tax for the year of $6.1 million. This will be added to reserves to take the reserves total to $263.5 million which gives us a solvency ratio of 2.21 times the minimum requirement prescribed by the Reserve Bank of New Zealand (RBNZ). In keeping with our conservative governance on behalf of members, FMG remains one of the most well-capitalised insurers in New Zealand. FMG has been part of the fabric of rural New Zealand for over a century and we want to make sure we keep that going for the next 100 years. At the end of the day, we are 'here for the good of the country'.

We are a licensed insurance company working under the watchful eye of the RBNZ and Financial Markets Authority (FMA), and as such the expectation is all directorships are reviewed periodically to ensure the full range of skills, knowledge and experience required to effectively run the insurer continue to be covered.

Following on from an independent review of Board processes and performance last year, I am delighted with the appointment of two new Special Directors; Sinead Horgan and Sarah Smith who will bring a fresh perspective to the Board table and complement the current mix of skills and experience.

Alongside this broader review, it was also timely to revisit the market benchmarking of Board remuneration. This showed current director remuneration is at the low end of the recommended range for a licenced insurer like FMG, which the Board will need to address this over the coming years.

I would like to thank Danny Chan who is stepping down from the Board at this year's AGM for his insightful contribution as a Special Director over the last six years. Danny's wealth of experience across a broad spectrum of interests, including insurance, has really benefited the Mutual. It is noteworthy that when Danny steps down the current Board will be left with just 33 years collective experience around the FMG board table, with over 70% of that sitting with just two directors.

I would like to thank my current Board for their ability to test management thinking in the best interests of the Mutual and then support the final agreed plan. I value this as Chair.

The Board has taken the step of increasing the number of Member-elected directors by one to six. This is designed to get a better spread of tenure over time with two directors retiring by rotation each year and to help with Board succession.

Looking forward we have a clear and exciting blueprint for the development and growth of the Mutual over the next decade. At the heart of this strategic plan is lifting our share of the rural insurance market from the current 51% to 70% and at the same time progressively lifting FMG's solvency ratio towards three-times the minimum required by the RBNZ, thereby creating a stronger Mutual for the next generation. I can assure you that throughout we will retain our focus on timely, insightful and practical risk advice to help clients make more informed decisions so as to avoid losses and interruptions in the first place. As we have seen over the last ten years this creates a win-win for both clients and the Mutual.

One of the highlights for me personally last year was FMG hosting the biennial International Co-operative & Mutual Insurance (ICMIF) conference in Auckland. This was the first time in its almost 100 year history that this conference has been held in Australasia. It was well attended by over 300 delegates from the large mutuals and co-operative insurers around the world and the feedback, networking and learning opportunities from the conference were invaluable.

Another highlight was celebrating the fifth anniversary of Farmstrong, FMG's key give-back programme to the rural community. Farmstrong is designed to help people develop techniques to better handle the inevitable ups and downs of farming and growing and evidence shows it's making a real difference.

I would like to take this opportunity to thank Chris Black and the entire FMG team for their tireless efforts again this year, and especially for the way they adapted so nimbly to the extraordinary challenge presented by COVID-19 and keeping the Mutual running throughout. Finally, thank you to our clients and members for your continued support. It is much appreciated.

Tony Cleland
Chairman, FMG

"The theme for this year's AGM is 'here for the good of the country'. This is timely given the challenges everybody is facing."

The theme for this year's AGM is 'here for the good of the country'. This is timely given the challenges everybody is facing as a result of the impact of COVID-19 and the key role farmers and growers played during lockdown and continue to play in New Zealand's economic recovery.

The ability to take a long-term view is one of the many benefits of our mutual ownership and operating model.

In 2010 we set out a strategic plan to protect and grow the Mutual on behalf of the members. 2020 was marked by record net client growth and client satisfaction. This reflects the value people see in a mutual insurance model where the interests of owners and clients are aligned. It is a model which, while it is set up to make a profit, does not seek to maximise profit. It is a model which is based on an enduring core purpose of 'giving Rural New Zealand a better deal' and within the business, we use the Mutual's solid set of values every day to attract and retain talent, and guide decision making. We strive to keep premium increases to a minimum for the cover offered so our insurance remains affordable for rural and regional New Zealand. These unique mutual features distinguish FMG from most other insurance companies in New Zealand.

With the continuing strong growth story, it would be easy to lose sight of serving existing clients, many of whom have put their trust in the Mutual over a long period, often for generations. We have been working hard to ensure this doesn't happen and so were pleased to see that at the same time as achieving record growth, client satisfaction reached new highs as well.

2020 was also a record year for the number of claims we received and dealt with. Settling claims effectively is something we at the Mutual are proud of as it is through the claims experience that our members test the quality of the Mutual.

In behind both the record net client growth and record claims volume was a commitment from our employees that was second to none over this last year.

This year's modest profit result of $6.1m after tax was impacted by a severe correction in global share markets in March 2020. That's not a problem per se and something we anticipate from time to time. Fortuitously, 2020 happened to be a relatively benign year in terms of storms and other catastrophes.

This contrasted with recent years where we had to help clients recover from multiple major storm events and the Kaikoura earthquake two years before that. This serves to highlight and reinforce the premise that in the insurance industry, as in farming and growing, one needs to take a long-term view.

Making a profit allows us to invest in new products and services, such as our new online service channel. While it's still early days, we are pleased to have over 5,000 clients now registered and using FMG Connect as another service option to help manage their insurance. Supporting important initiatives such as Farmstrong and the FMG Young Farmer of the Year Contest is also enabled by having a strong financial position, which we do with reserves of $263.5m.

Thank you to our chair Tony Cleland and the wider Board and my colleagues right across the Mutual who have all worked extremely hard over the last 12 months, often going well above and beyond and despite facing uncertainty and personal challenges themselves. The importance of being 'here for the good of the country' has never been more important than right now as the country recovers from the economic impact of COVID-19. We are proud of the role can play in that regard for the rural sector which aligns well with the Mutual's vision of 'helping to build strong and prosperous rural communities'.

Finally, thank you to our clients and members 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
2016	130,427	6,680
2017	143,018	8,722
2018	153,535	8,406
2019	176,609	4,006
2020	**201,218**	**7,735**

General insurance gross written premium ($000)

2016	224,946
2017	246,231
2018	283,098
2019	324,101
2020	**366,304**

Equity ($000)

2016	229,493
2017	226,240
2018	238,320
2019	257,403
2020	**263,528**

Investment income ($000)

2016	12,715
2017	12,077
2018	13,456
2019	14,236
2020	**200**

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

2016	5,272
2017	-3,253
2018	12,080
2019	19,083
2020	**6,125**

The Directors have pleasure in presenting Farmers' Mutual Group's[1] 115th Annual Report and Financial Statements for the year ended 31 March 2020.

Principal activities

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

Farmers' Mutual Group Act 2007

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

Financial results

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

- Increase in gross written premium from continuing operations to $366.3m from $324.1m
- Decrease in net investment income from continuing operations to $0.2m from $14.2m
- Increase in net claims incurred from continuing operations to $209.0m from $180.6m
- Decrease in profit from continuing operations after tax to $6.1m from $19.1m

	2020 $000	2019 $000
Profit/(loss) from continuing operations before taxation	**10,975**	25,047
Taxation	**(4,850)**	(5,964)
Profit/(loss) for the year	**6,125**	19,083

[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 2020, membership of the Parent stands at 70,698.

Directorate

In accordance with the tenure provisions of the Director Appointment & Reappointment Policy, Mr. Tony Cleland and Mr. Murray Taggart will retire by rotation and will stand for re-election at this year's Annual General Meeting (AGM). Ms. Cindy Mitchener's appointment as a Special Director expired as at the 2019 AGM.

Role of the Directors

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

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

The Board meets on a regular basis.

Legislative and Regulatory Compliance

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 and has obtained a Transitional Financial Advice Provider licence under the new financial services regime.

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 2019 AGM the Membership voted in favour of maintaining the Chairman's remuneration at $100k and Directors' fees at $50k, which applies to the quarter in which the resolution was passed. The Membership also voted in favour of maintaining the additional remuneration for the Chairs of the relevant Board sub-committees being; People & Governance Committee Chair – $7k per annum and the Risk & Audit Committee Chair – $7.5k per annum. Directors' remuneration received, or due and receivable during the year amounted to $385k (2019: $432k). The amounts paid to each director for both the FMG and FMG Insurance Limited Boards including Chair fees associated with the Board sub-committees are as follows:

Name	**2019 – 2020 $000**	2018 – 2019 $000
T D Cleland	**100**	98
M J T Ahie	**57**	54
D Chan	**50**	50
S B Allen	**50**	50
M J Taggart	**57**	54
G Copstick	**50**	50
C L Mitchener*	**21**	50
M L James**	**–**	27
Total	**385**	432

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

** Retired at the 2018 AGM and Pro-rated fees.

FMG BOARD OF DIRECTORS.

THE BOARD AS AT 31 MARCH 2020

The FMG Directors are Mr. Tony Cleland (Chair), Mr. Michael Ahie, Mr. Danny Chan, Mr. Steve Allen, Mr. Murray Taggart and Mr. Geoff Copstick.

The following are the Directors' qualifications and expertise:

TONY CLELAND (CHAIR)

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

MICHAEL AHIE

Michael has broad international business and governance experience with multinational companies including Toyota New Zealand Ltd, the New Zealand Dairy Board and Wrightson Ltd. He is also Chairman of Plant Market Access Council, Chancellor at Massey University and has farming interests in Taranaki.

DANNY CHAN

Early in his career Danny worked in financial services with MLC, Westpac and Fidelity Investments, a leading global asset management company. He is a founder of a private educational institution that now operates in three countries. He has extensive governance experience including the board of NZX listed Abano Healthcare Ltd.

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 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 a Director of Northland Regional Council on finance, audit and economic development issues (Northland Inc Ltd). 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 is FMG's Chief Client Officer and oversees the overall sales and service performance for both general and personal insurance.

Andrea joined FMG in 2009 as General Manager Human Resources (HR). Following this she was also General Manager Marketing, Communications & Client Propositions, before moving into her current role. Both these past roles give Andrea an excellent understanding across the business.

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

DAVE KIBBLEWHITE
CHIEF FINANCIAL, INVESTMENT & RISK OFFICER

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

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

GLENN CROASDALE
GENERAL MANAGER CLIENT PROPOSITIONS & ONLINE SERVICES

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

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

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

PETE FRIZZELL
GENERAL MANAGER, PEOPLE & CULTURE AND COMMUNICATIONS

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

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

NATHAN BARRETT
CHIEF PRODUCT & PRICING, UNDERWRITING AND CLAIMS OFFICER

Nathan has 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 and State Insurance, as well as 10 years with FMG.

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

COLIN PHILP
CHIEF INFORMATION OFFICER

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

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

The Board is subject to the FMG Board Charter which outlines the specific role and responsibilities of the Board. The Board is also subject to the 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 2020

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

The People & Governance Committee is currently comprised of Mr. Michael Ahie (Chair), Mr. Tony Cleland, Mr. Murray Taggart 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 on page 15.

	Number of meetings	Number attended
FMG Board Meetings (Total 8)		
T D Cleland (Chair)	8	8
M J T Ahie	8	7
C L Mitchener*	4	4
D Chan	8	6
S B Allen	8	8
M J Taggart	8	7
G Copstick	8	8

*Retired at the 2019 AGM

	Number of meetings	Number attended
Risk & Audit Committee (Total 3)		
M J Taggart (Chair)	3	3
T D Cleland	3	3
G Copstick	3	3
D Chan	3	2

	Number of meetings	Number attended
People & Governance Meetings (Total 3)		
M J T Ahie (Chair)	3	3
T D Cleland	3	3
C L Mitchener*	1	1
S B Allen	3	3
M J Taggart**	1	1

* Appointment expired at the 2019 AGM

** M J Taggart replaced C L Mitchener

Directors of FMG's Subsidiaries as at 31 March 2020

The current FMG Insurance Limited Directors are Mr. Tony Cleland, Mr. Michael Ahie, 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 2020

(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 09.

(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 2020 $000	Group 2019 $000
General insurance activities			
Gross written premium		366,304	324,101
Movement in unearned premium		(18,539)	(18,793)
Gross earned premium	1	347,765	305,309
Outwards reinsurance premium expense		(41,264)	(34,847)
Net premium revenue		306,501	270,462
Claims expense	8	(216,607)	(195,806)
Reinsurance and other recoveries revenue	1, 8	7,654	15,191
Net claims incurred		(208,953)	(180,615)
Other income	1	16,106	14,066
Operating expenses	2	(102,879)	(93,102)
General insurance underwriting result		10,775	10,811
Investment revenue	1	200	14,236
Profit/(loss) before taxation		10,975	25,047
Income tax (expense)/benefit	3	(4,850)	(5,964)
Net profit/(loss)		6,125	19,083
Profit/(loss) from continuing operations for the year attributable to members		6,125	19,083
Total comprehensive income for the year, net of tax, attributable to members		6,125	19,083

The financial statements should be read in conjunction with the accounting policies and notes on pages 20 to 49.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 MARCH

	Group 2020 $000	Group 2019 $000
Retained earnings		
Retained earnings at the beginning of the year	**257,403**	238,320
Total profit/(loss) and comprehensive income	**6,125**	19,083
Retained earnings at the end of the year	**263,528**	257,403
Total equity at the end of the year	**263,528**	257,403
Attributable to:		
Members	**263,528**	257,403
	263,528	257,403

The financial statements should be read in conjunction with the accounting policies and notes on pages 20 to 49.

CONSOLIDATED BALANCE SHEET

AS AT 31 MARCH

	Notes	Group 2020 $000	Group 2019 $000
Assets			
Cash and cash equivalents	4	39,631	45,674
Trade and other receivables	6	131,454	117,061
Insurance recoveries	7, 8	19,347	37,855
Investments	5	353,351	322,713
Deferred acquisition costs	9	3,667	3,667
Property, plant and equipment	10	8,652	9,705
Intangible assets	11	11,942	11,989
Right of use assets	12	20,459	–
Deferred tax assets	13	9,053	8,956
Total assets		597,556	557,620
Liabilities			
Trade and other liabilities	14	28,593	27,935
Current tax liability		3,516	6,190
Make good provision		279	253
Underwriting provisions	7	272,186	257,308
Lease liabilities	12	21,406	–
Deferred tax liabilities	13	8,048	8,531
Total liabilities		334,028	300,217
Net assets		263,528	257,403
Equity			
Retained earnings		263,528	257,403
Attributable to:			
Members		263,528	257,403
Total equity		263,528	257,403

Signed on behalf of the Board of Directors, who authorised the issue of these financial statements on 25 June 2020.

T D Cleland
Chairman
25 June 2020

M J Taggart
Director
25 June 2020

The financial statements should be read in conjunction with the accounting policies and notes on pages 20 to 49.

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 MARCH

	Notes	Group 2020 $000	Group 2019 $000
Cash flows from operating activities			
Premium and other receipts from clients		375,536	343,906
Reinsurance recoveries		22,918	72,411
Interest and fees received		558	718
Other income		65	234
Claims paid		(220,989)	(247,353)
Reinsurance premium paid		(41,558)	(36,493)
Cash paid to suppliers and employees		(92,579)	(85,790)
Tax (paid)/recovered		(8,517)	(1,683)
Lease interest paid		(1,000)	–
Net cash flows from operating activities	4	34,434	45,951
Cash flows from investing activities			
Dividends received		–	333
Investment dealings with fund managers		(30,333)	(20,000)
Purchase of property, plant and equipment and intangible assets		(6,440)	(9,845)
Net cash flows from investing activities		(36,773)	(29,512)
Cash flows from financing activities			
Lease payments		(3,704)	–
Net cash flows from financing activities		(3,704)	–
Net (decrease) / increase in cash and cash equivalents		(6,043)	16,439
Cash and cash equivalents at the beginning of the year		45,674	29,235
Cash and cash equivalents at the end of the year	4	39,631	45,674

The financial statements should be read in conjunction with the accounting policies and notes on pages 20 to 49.

STATEMENT OF ACCOUNTING POLICIES

FOR THE YEAR ENDED 31 MARCH

Reporting entity

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

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

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

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

Statement of compliance

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

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

Significant accounting policies

Basis of preparation

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

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

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

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

Basis of consolidation

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

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

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

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

General insurance contracts

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

General insurance liabilities

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

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

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

Assets backing general insurance contract liabilities

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

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

Claims expense

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

Policy acquisition costs

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

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

Outwards reinsurance

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

Reinsurance recoveries

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

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

STATEMENT OF ACCOUNTING POLICIES
FOR THE YEAR ENDED 31 MARCH

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

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

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

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

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

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

Taxes

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

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

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

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

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

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

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

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

STATEMENT OF ACCOUNTING POLICIES

FOR THE YEAR ENDED 31 MARCH

Financial instruments

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

Initial recognition and measurement of financial assets

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

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

Financial assets at fair value through profit and loss

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

Derecognition of financial assets

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

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

Impairment of financial assets

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

Asset quality

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

Initial recognition and measurement of financial liabilities

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

Trade and other receivables

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

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

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

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

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

Property, plant and equipment

Recognition and measurement

Items of property, plant and equipment are measured at cost less accumulated depreciation and impairment losses.

Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Subsequent costs

The cost of replacing part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. The costs of the day-to-day servicing of property, plant and equipment are recognised in the income statement as incurred.

Depreciation

Depreciation is calculated using the straight line method. Land is not depreciated. The estimated depreciation rates for the current and comparative periods, along with depreciation method, are as follows:

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

Intangible assets

Recognition and measurement

Intangible assets that are acquired by the Group, which have finite useful lives, are measured at cost less accumulated amortisation and accumulated impairment losses.

Subsequent costs

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates.

STATEMENT OF ACCOUNTING POLICIES
FOR THE YEAR ENDED 31 MARCH

Amortisation
Amortisation is recognised in the income statement on a straight-line basis over the estimated useful lives of intangible assets, other than goodwill, from the date that they are available for use. The estimated amortisation rates for the current and comparative periods are as follows:

Software	20%–30% straight line

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

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

Leases

Policy applicable from 1 April 2019
On entering into a contract, the Group determines whether the contract contains a lease that conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Determining whether there is a right of control involves the assessment of whether the contract involves the use of an identified asset, whether the Group has the right to obtain substantially all of the economic benefits from use of that asset through the period of use, and whether the Group has the right to direct the use of the asset.

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

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

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

Under IAS 17 Leases
In the comparative period, as a lessee the Group classified leases that transfer substantially all of the risks and rewards of ownership as finance leases. The Group had not entered into any finance leases.

Assets held under other leases were classified as operating leases and were not recognised in the Group's statement of financial position. Payments made under operating leases were recognised in profit or loss on a straight-line basis over the term of the lease.

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

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

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

Statement of cash flows

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

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

Changes in accounting policies and disclosures

The Group mandatorily adopted the following accounting policies which became effective for annual reporting periods commencing 1 January 2019.

NZ IFRS 16 Leases – The Group has adopted NZ IFRS 16 using the modified retrospective transition approach. Under this approach, the cumulative effect of initially applying NZ IFRS 16 is recognised as an adjustment to retained earnings at 1 April 2019. Comparative figures for the year ended 31 March 2019 are not restated but instead continue to reflect the accounting policies under NZ IAS 17 Leases. The impact of the changes is disclosed in Note 12.

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

New standards and interpretations not yet adopted

The following standards and interpretations have been issued but are not yet effective for the period ending 31 March 2020.

Standard	Requirement	Effective for annual reporting periods beginning on or after
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 2023

Work continues on the transition requirements for NZ IFRS 17 and a detailed assessment of the impact is planned for the 2020/21 financial year. The Group does not intend to adopt any of this standard early.

STATEMENT OF ACCOUNTING POLICIES

FOR THE YEAR ENDED 31 MARCH

Significant accounting judgements, estimates and assumptions

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

Claims liabilities under general insurance contracts

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

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

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

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

Further information is contained in Notes 7 and 8.

Investment in Fidelity Life Limited

The shares in Fidelity Life Limited are not listed and are not traded in an active market. The shares have been valued using several valuation approaches including market movements since the last valuation, price to earnings and price to tangible book value multiples. In completing the valuation price to earnings multiples in the range of 10 to 12 were considered and price to net tangible assets multiples of 0.8 to 0.9 were considered. In the prior year the shares were valued by an independent third party using a price to earnings multiple of 11.5 (using comparable companies) and the estimated future maintainable earnings of the company.

Further information is contained in Note 5.

Impact of Coronavirus (COVID-19)

On 11 March 2020, the World Health Organization declared the outbreak of a coronavirus (COVID-19) a pandemic and two weeks later the New Zealand Government declared a State of National Emergency. The country was moved to COVID-19 Alert Level 4 and put into lockdown. As a result of both the outbreak and the response of Governments in dealing with the pandemic, economic uncertainties have arisen which are likely to affect our operations, services and financial results going forward.

While there remains a significant amount of uncertainty, the possible effects on the Group as a result of the COVID-19 pandemic include:

- A reduction in the number of new policies issued or current members reducing the extent of their cover
- Members experiencing financial hardship may have difficulty paying their premiums
- Claims experience differing to what has occurred historically
- Greater volatility in the value of investments

At this time it is difficult to determine the full effect of the COVID-19 pandemic or Governments' varying efforts to combat the outbreak and support businesses, and there could be other related matters that affect the Group. To the extent possible we have considered the likely impact of COVID-19 in areas such as our provisioning for doubtful debts and in considering any impairment triggers relevant to fixed assets and intangible assets. To date there has not been a significant impact on the Group's financial performance or position.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH

1. Revenue

	Group 2020 $000	Group 2019 $000
General insurance revenue		
Gross earned premiums	347,765	305,309
Reinsurance and other recoveries revenue	7,654	15,191
Investment revenue:		
Dividends – other entities	–	333
Interest income – other entities	558	717
Movement in financial assets at fair value through profit and loss	(358)	13,186
Total investment revenue	200	14,236
Other income:		
Other premium income	9,184	7,675
Personal Insurance revenue	5,164	4,630
Other revenue	1,758	1,761
Total other revenue	16,106	14,066
Total revenue	371,725	348,802

2. Operating expenses

	Group 2020 $000	Group 2019 $000
Operating expenses include:		
Employee expenses	69,191	61,323
Operating lease rental expenses	–	5,201
Expenses related to low-value leases	205	–
Expenses related to short-term leases	13	–
Lease interest expense	1,000	–
Depreciation on property, plant and equipment	7,279	3,029
Amortisation on intangible assets	4,479	4,567
(Gain)/Loss on disposal of property, plant and equipment	(25)	(256)
Directors’ fees	385	432
Donations	8	13
Auditors' remuneration – audit of financial statements	150	148
Auditors' remuneration – solvency returns	19	19
Auditors' remuneration – taxation services	43	27
Auditors' remuneration – HR consulting	88	18

3. Income tax

	Group 2020 $000	Group 2019 $000
a) Income tax expense from continuing operations		
Current tax	5,500	6,796
Deferred tax (benefit)/expense	(581)	(621)
(Over)/under provided in prior years	(69)	(211)
Income tax expense/(benefit) for the year from continuing operations	4,850	5,964
b) Numerical reconciliation of income tax expense to prima facie tax payable		
Profit/(loss) before taxation		
Continuing operations	10,975	25,047
Total profit/(loss) before taxation	10,975	25,047
Prima facie income tax @ 28%	3,073	7,013
Tax effect of amounts which are non-deductible expenses/non-assessable revenue:		
Non-assessable investment (income)/loss and other items	1,962	(800)
Non-deductible expenses and other items	57	51
Imputation credits on dividends	(102)	(83)
Foreign tax credit	(71)	(6)
(Over)/under provided in prior years	(69)	(211)
Income tax expense/(benefit) for the year	4,850	5,964
c) Imputation credit account		
Balance at the beginning of the year	67,386	65,302
Net taxation paid/(refunded)	8,104	2,001
Imputation credit attached to dividends received	102	83
Balance at the end of the year	75,592	67,386

4. Cash and cash equivalents

	Group 2020 $000	Group 2019 $000
Cash at bank and in hand	39,631	45,674
Total cash and cash equivalents	39,631	45,674
a) Reconciliation of profit to net cash flows from operating activities		
Profit/(loss) for the year	6,125	19,083
Adjustments for non-cash items		
Amortisation	4,479	4,567
Depreciation	7,279	3,029
Movement in deferred tax	(580)	(621)
Movement in unearned premium	19,260	19,437
Movement in outstanding claims	(4,382)	(51,547)
Movement in bad debts provision	(94)	772
Movement in deferred acquisition costs	–	(157)
Movement in make good provision	26	166
Unrealised investment (gain)/loss	(304)	(13,964)
	25,686	(38,318)
Movements in other working capital items		
Movement in accounts receivable and insurance recoveries	4,133	58,630
Movement in accounts payable	1,765	772
Movement in accrued leave/incentives	(577)	1,790
Movement in taxation recoverable	(2,674)	4,583
	2,648	65,775
Items classified as investing activities		
Net (gain)/loss on sale of property, plant and equipment	(25)	(256)
Dividends received	–	(333)
	(25)	(589)
Net cash flows from operating activities	34,434	45,951

5. Investments

	Group 2020 $000	Group 2019 $000
Equity securities		
Investments in unlisted New Zealand companies	18,613	20,108
Total equity securities	18,613	20,108
Unit trust investments		
New Zealand equities	11,771	11,185
Offshore equities	47,917	51,551
Fixed interest investments – New Zealand	224,266	193,677
Fixed interest investments – Offshore	50,784	46,192
Total unit trust investments	334,738	302,605
Total other financial assets	353,351	322,713

Determination of fair value hierarchy 2020

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

Determination of fair value hierarchy 2019

	Level 1 $000	Level 2 $000	Level 3 $000	Total fair value $000
Financial assets at fair value through profit and loss:				
Equity securities	–	–	20,108	20,108
Unit trust investments	–	302,605	–	302,605
Total financial assets	–	302,605	20,108	322,713

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

	As at 1 April 2018 $000	Total gain in profit and loss $000	As at 31 March 2019 $000
Equity securities	19,111	997	20,108
	19,111	997	20,108

Sensitivity of level 3 financial instruments to changes in key assumptions

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

	Carrying value at 31 March 2019 $000	Effect of reasonably possible alternate assumptions (+/-) $000
Equity securities	20,108	1,828
	20,108	1,828

For equities, the Company adjusted the share price by $10 per share, which was considered by the Company to be within a range of reasonably possible alternatives. In the comparative period an adjustment was made to increase and decrease the assumed price earnings ratio by one, which was considered by the Company 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 2020 $000	Group 2019 $000
Trade debtors		**124,547**	108,770
Reinsurance debtors		**931**	3,776
Other receivables		**5,506**	4,018
Uninsured third party recoveries		**4,867**	4,989
Allowance for collective impairment	14	**(4,397)**	(4,491)
		131,454	117,061
Current		**131,454**	117,061

There are no past due or impaired trade debtors, reinsurance debtors or other receivables as at 31 March 2020. 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 2020 $000	Group 2019 $000
Underwriting provisions comprise:		
Liability for outstanding claims		
Expected future claim payments (undiscounted)	**93,406**	98,798
Discount to present value	**(197)**	(1,207)
	93,209	97,591
Provision for unearned premiums	**178,977**	159,717
Underwriting provisions	**272,186**	257,308
Current	**256,999**	230,526
Non-current	**15,187**	26,782
	272,186	257,308
Provision for reinsurance and other recoveries comprise:		
Expected future recoveries (undiscounted)	**(19,388)**	(38,403)
Discount to present value	**41**	548
Net insurance recoveries	**(19,347)**	(37,855)
Current	**(13,849)**	(21,670)
Non-current	**(5,498)**	(16,185)
	(19,347)	(37,855)

8. General insurance contracts

(a) Net general insurance claims incurred

	2020			2019		
	Risks borne in current year $000	**Risks borne in prior years $000**	**Total $000**	Risks borne in current year $000	Risks borne in prior years $000	Total $000
Group						
Gross claims expense						
Direct claims – undiscounted	**219,373**	**(3,777)**	**215,596**	180,727	14,744	195,471
Discount	**(158)**	**1,169**	**1,011**	(632)	967	335
Gross claims expense	**219,215**	**(2,608)**	**216,607**	180,095	15,711	195,806
Reinsurance and other recoveries						
Reinsurance and other recoveries revenue – undiscounted	**(9,707)**	**2,560**	**(7,147)**	(2,919)	(11,743)	(14,662)
Discount	**16**	**(523)**	**(507)**	–	(529)	(529)
Reinsurance and other recoveries	**(9,691)**	**2,037**	**(7,654)**	(2,919)	(12,272)	(15,191)
Net claims incurred	**209,524**	**(571)**	**208,953**	177,176	3,439	180,615

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						
	2015 $000	2016 $000	2017 $000	2018 $000	2019 $000	2020 $000	Total $000
Ultimate claims cost estimate							
At end of accident year	111,706	134,206	243,860	178,886	177,007	212,499	
One year later	113,618	135,266	277,987	178,348	179,875		
Two years later	114,006	132,830	285,783	178,916			
Three years later	113,956	133,683	288,362				
Four years later	113,967	134,144					
Five years later	114,050						
Current estimate of ultimate claims cost	114,050	134,144	288,362	178,916	179,875	212,499	
Cumulative payments	113,735	133,833	285,249	177,279	173,917	145,769	
Undiscounted central estimate	315	311	3,113	1,637	5,958	66,730	78,064
Discount to present value	(1)	(1)	(2)	(5)	(19)	(104)	(132)
Discounted central estimate	314	310	3,111	1,632	5,939	66,626	77,932
Prior years							7,412
Risk margin							7,865
Gross outstanding claims liabilities							93,209
Reinsurance recoveries on outstanding claims and other recoveries							(19,347)
Net outstanding claims liabilities							73,862

(c) Analysis of outstanding claims

	Group 2020 $000	Group 2019 $000
Gross central estimate of present value of future claims payment	85,344	91,246
Risk margin	7,865	6,345
Total outstanding claims liability	93,209	97,591
The expected settlement pattern of the outstanding claims liability is as follows:		
Current	78,022	70,809
Non-current	15,187	26,782
Total outstanding claims liability	93,209	97,591

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 2020. The previous assessment of the Insurance Liabilities was performed at 31 March 2019.

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

The determination of the Insurance Liabilities has been prepared in accordance with New Zealand International Financial Reporting Standard (NZ IFRS 4) and with the NZ Society of Actuaries Professional Standard No. 30 governing technical liability valuations for general insurance business.

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

Process for determining risk margin

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

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

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

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

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

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

	2020	2019
Inflation rate	Implicit	Implicit
Discount rate	0.31%	1.63%
Claims handling expense ratio – outstanding claims liabilities	4.0%	3.4%
Claims handling expense ratio – premium liabilities	5.2%	4.6%
Risk margin – outstanding claims liabilities	12.0%	12.0%
Risk margin – premium liabilities	14.0%	13.9%
Weighted average expected term to settlement	208 days	237 days

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

	Group 2020 $000	Group 2019 $000
Outstanding claims liability		
Gross outstanding claims at the beginning of the year	97,591	149,138
Claims incurred during the year	216,607	195,806
Claims payments made during the year	(220,989)	(247,353)
Gross outstanding claims at the end of the year	93,209	97,591
Reinsurance and other recoveries receivable		
Reinsurance and other recoveries receivable at the beginning of the year	(37,855)	(98,174)
Reinsurance and other recoveries incurred during the year	(7,654)	(15,191)
Reinsurance and other recoveries received during the year	26,162	75,510
Reinsurance and other recoveries receivable at the end of the year	(19,347)	(37,855)

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.

		2020		2019	
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%	252	331	217	428
	Decrease of 1%	(79)	(104)	(222)	(441)
Claims handling expense ratio	Increase of 1%	(577)	(577)	(509)	(510)
	Decrease of 1%	577	577	510	509
Risk margin	Increase of 1%	(472)	(472)	(381)	(381)
	Decrease of 1%	472	472	381	381
Weighted average expected term to settlement	Increase 0.5 years	425	540	343	566
	Decrease 0.5 years	(429)	(545)	(346)	(570)

(d) Risk management policies and procedures

The general insurance business of the Group involves a number of non-financial risks. Notes on the policies and procedures employed in managing these risks in the general insurance business are set out below. Financial risks involving the Group are in Notes 17 to 19.

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

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

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 for an event greater than the estimated losses from a 1 in 1,000 year event.

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

(e) Liability adequacy test

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

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

	Group 2020 $000	Group 2019 $000
Net central estimate of the present value of expected future cash flows from future claims	134,109	106,355
Risk margin of the present value of expected future cash flows	18,748	14,773

(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 19 February 2020 (2019: A (Excellent)).

9. Deferred acquisition costs

	Group 2020 $000	Group 2019 $000
Balance at the beginning of the year	3,667	3,510
Deferred Acquisition costs recognised during the year	(3,667)	(3,510)
Acquisition costs deferred during the year	3,667	3,667
Balance at the end of the year	3,667	3,667
Current	3,667	3,667

10. Property, plant and equipment

2020 – Group	Land and Buildings $000	Leasehold Improvement $000	Furniture and Fittings $000	Computer Equipment $000	Motor Vehicles $000	Total $000
Cost						
Balance at the beginning of the year	713	6,564	1,466	12,265	262	21,270
Additions	–	190	631	1,270	–	2,091
Disposals and transfers	–	–	(1)	(3)	(98)	(102)
Balance at the end of the year	713	6,754	2,096	13,532	164	23,259
Depreciation and impairment losses						
Balance at the beginning of the year	16	2,493	812	8,190	54	11,565
Depreciation for the year	14	813	408	1,815	36	3,086
Disposals and transfers	–	–	–	–	(44)	(44)
Balance at the end of the year	30	3,306	1,220	10,005	46	14,607
Carrying amounts						
At the beginning of the year	697	4,071	654	4,075	208	9,705
At the end of the year	683	3,448	876	3,527	118	8,652

2019 – Group	Land and Buildings $000	Leasehold Improvement $000	Furniture and Fittings $000	Computer Equipment $000	Motor Vehicles $000	Total $000
Cost						
Balance at the beginning of the year	702	5,753	1,518	10,864	283	19,120
Additions	11	2,439	61	1,455	169	4,135
Disposals and transfers	–	(1,628)	(113)	(54)	(190)	(1,985)
Balance at the end of the year	713	6,564	1,466	12,265	262	21,270
Depreciation and impairment losses						
Balance at the beginning of the year	–	2,914	695	6,382	125	10,116
Depreciation for the year	16	903	209	1,851	50	3,029
Disposals and transfers	–	(1,324)	(92)	(43)	(121)	(1,580)
Balance at the end of the year	16	2,493	812	8,190	54	11,565
Carrying amounts						
At the beginning of the year	702	2,839	823	4,482	158	9,004
At the end of the year	697	4,071	654	4,075	208	9,705

11. Intangible assets

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

2019 – Group	Computer software $000	Total $000
Cost		
Balance at the beginning of the year	38,883	38,883
Acquisitions – internally developed	6,369	6,369
Acquisitions – other additions	–	–
Disposals	–	–
Balance at the end of the year	45,252	45,252
Amortisation and impairment losses		
Balance at the beginning of the year	28,696	28,696
Amortisation for the year	4,567	4,567
Disposals	–	–
Balance at the end of the year	33,263	33,263
Carrying amounts		
At the beginning of the year	10,187	10,187
At the end of the year	11,989	11,989

Amortisation of intangible assets is included in operating expenses.

12. LEASE ASSETS AND LIABILITIES

Recognition and measurement of leasing activities

The Group predominantly leases property for fixed periods of 1-10 years, but may have extension options. These extension options are usually at the discretion of the Group and are included in the measurement of the lease asset if management intends to exercise the extension. Lease terms are negotiated on an individual basis and contain a variety of terms and conditions. However, these lease agreements do not impose any covenants.

Prior to 31 March 2019, leases of property, plant and equipment were classified as either finance or operating leases. Payments made under operating leases (net of any incentives received from the lessor) were charged to profit or loss on a straight-line basis over the period of the lease.

From 1 April 2019, leases are recognised as a right of use asset (lease asset) and a corresponding liability at the date at which the leased asset is available for use by the Group. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period. The lease asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable
- variable lease payments that are based on an index or a rate
- amounts expected to be payable by the lessee under residual value guarantees
- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option, and
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option

The lease payments are discounted using the interest rate implicit in the lease or the lessee's incremental borrowing rate, being the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

Lease assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability
- any lease payments made at or before the commencement date less any lease incentives received
- any initial direct costs, and
- restoration costs.

Adjustments recognised on adoption of NZ IFRS 16

On adoption of NZ IFRS 16, the Group recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of NZ IAS 17. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 April 2019. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on 1 April 2019 was 4.29%.

The Group held no finance leases at 31 March 2019.

A reconciliation of operating lease commitments at 31 March 2019 to the lease liability recognised at 1 April 2019 is shown below:

	$000
Operating lease commitments at 31 March 2019	33,603
Discounted at the date of initial application	(4,134)
Relief option for short-term & low value asset leases	(461)
Other commitments not recongnised under NZ IFRS 16	(3,834)
Lease liabilities recognised as at 1 April 2019	25,174

Classified as:	
Less than one year	–
One to five years	4,700
More than five years	20,474
Lease liabilities recognised as at 1 April 2019	25,174

Practical expedients used

In applying NZ IFRS 16 for the first time, the Group has used the following practical expedients permitted by the standard:

- use of hindsight in determining a lease term;
- not to apply the new guidance to leases whose term will end within twelve months of the date of initial application:
- reliance on previous assessments on whether leases are onerous; and
- exclusion of initial direct costs for the measurement of the lease asset at the date of initial application.

The Group has also elected not to reassess whether a contract contains a lease at the date of initial application. Instead, for contracts entered into before the transition date, the Group relied on its assessment made applying NZ IAS 17 Leases and IFRIC 4 Determining whether an arrangement contains a lease.

(a) Right of use assets

2020 – Group	Property Leases $000	Motor Vehicles Leases $000	Other Leases $000	Total $000
Cost				
Balance at the beginning of the year	22,500	2,051	102	24,653
Additions	–	–	–	–
Depreciation for the year	3,198	972	24	4,194
Balance at the end of the year	19,302	1,079	78	20,459

Other leases includes leases of office equipment

(b) Lease liabilities

The maturity of the contractual undiscounted cashflows is as follows:

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

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

	$000
Less than one year	–
One to five years	4,949
More than five years	16,457
Total lease liabilities	21,406

13. Deferred tax

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

2019 – Group	Opening balance at 1 April 2018	Charged/ (credited) to profit and loss	Closing balance at 31 March 2019
Movements in deferred tax assets			
Provisions and accruals	7,311	1,645	8,956
Total deferred tax assets	7,311	1,645	8,956
Movement in deferred tax liabilities			
Property, plant & equipment & Software	(5,405)	(670)	(6,075)
Deferred acquisition costs	(983)	(44)	(1,027)
Other	(1,119)	(310)	(1,429)
Total deferred tax liabilities	(7,507)	(1,024)	(8,531)
Deferred tax assets/(liabilities), net	(196)	621	425

14. Trade and other liabilities

	Group 2020 $000	Group 2019 $000
Trade creditors	**5,847**	5,195
Reinsurance creditors	**2,151**	2,445
Employee benefits	**7,564**	8,140
Other liabilities	**13,031**	12,155
	28,593	27,935
Current	**28,593**	27,935

15. Allowances for impaired assets

Group	Total $000
At 1 April 2018	3,719
Utilised	(3,719)
Additional provision	4,491
As at 31 March 2019	**4,491**
Utilised	**(4,491)**
Additional provision	**4,397**
As at 31 March 2020	**4,397**

There was no interest income on impaired financial assets accrued for the current year (2019: $Nil). The allowance is entirely for collectively impaired assets.

16. Related party transactions

a) Group Holdings

At 31 March 2020 the following percentage shareholdings were held in related entities which, unless stated otherwise, all have balance dates ending on 31 March:

	2020	2019	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 (2019: $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 2020 $000	Group 2019 $000
Short-term employee benefits	**5,281**	3,953

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

17. Credit risk

Insurance credit risk

Credit risk relating to insurance contracts relates primarily to:

(a) Premium receivable from individual policyholders. Concentrations of credit risk are considered low due to the large number of customers comprising the customer base and their dispersion across New Zealand;

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

Other financial assets

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

18. Market risk

Foreign exchange risk

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

Unit price risk

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

Unit price risk sensitivity analysis

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

	Group	
	Impact on profit $000	Impact on equity $000
2020		
10% increase in unit prices	**33,474**	**33,474**
10% decrease in unit prices	**(33,474)**	**(33,474)**
2019		
10% increase in unit prices	30,260	30,260
10% decrease in unit prices	(30,260)	(30,260)

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 fund 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
2020		
0.25% increase in interest rates	**97**	**97**
0.25% decrease in interest rates	**(97)**	**(97)**
2019		
0.25% increase in interest rates	112	112
0.25% decrease in interest rates	(112)	(112)

19. Liquidity risk

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

2020 – Group	Weighted average interest rate	0-6 months $000
Bank deposits	1.17%	39,631
Trade and other current receivables		131,454
Total financial assets		171,085
Undrawn lending facilities		
Trade and other current liabilities		28,593
Total financial liabilities		28,593
Net financial position		142,492
2019 – Group		
Bank deposits	1.75%	45,674
Trade and other current receivables		117,061
Total financial assets		162,735
Trade and other current liabilities		27,935
Total financial liabilities		27,935
Net financial position		134,800

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 basis 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.

	2020 $000	2019 $000
Actual Solvency Capital	236,151	229,299
Minimum Solvency Capital	106,731	102,576
Solvency Margin	129,420	126,723
Solvency Ratio	2.21	2.24

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

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

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

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

20. Financial instruments

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

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

2019 – Group	At fair value through profit or loss $000	Other financial assets at amortised cost $000	Total carrying amount at fair value $000
Bank deposits	–	45,674	45,674
Investments	322,713	–	322,713
Trade and other current receivables	–	117,061	117,061
Total assets	322,713	162,735	485,448

	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	–	27,935	27,935
Total liabilities	–	27,935	27,935

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

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

21. Commitments

There are no capital commitments at 31 March 2020 (2019: $Nil).

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

21. Contingencies

There are no contingent liabilities at 31 March 2020 (2019: $Nil).

22. Subsequent events

There are no subsequent events.

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

Opinion

We have audited the financial statements of Farmers' Mutual Group ("the Mutual") and its subsidiaries (together "the Group") on pages 16 to 49, which comprise the consolidated balance sheet of the Group as at 31 March 2020, and the consolidated income statement, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended of the Group, and the notes to the financial statements including a summary of significant accounting policies.

In our opinion, the consolidated financial statements on pages 16 to 49 present fairly, in all material respects, the consolidated financial position of the Group as at 31 March 2020 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 services, remuneration services 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 consolidated financial statements and auditor's report

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

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

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

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

Those charged with governance responsibilities for the consolidated financial statements

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

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

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

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

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

Ernst + Young

Chartered Accountants
Wellington
26 June 2020

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 2020	Group 2019
100,000 – 110,000	**57**	51
110,001 – 120,000	**55**	46
120,001 – 130,000	**37**	30
130,001 – 140,000	**17**	26
140,001 – 150,000	**25**	16
150,001 – 160,000	**19**	20
160,001 – 170,000	**14**	9
170,001 – 180,000	**9**	8
180,001 – 190,000	**3**	3
190,001 – 200,000	**7**	4
200,001 – 210,000	**4**	2
210,001 – 220,000	**1**	1
220,001 – 230,000	**1**	–
230,001 – 240,000	**2**	1
240,001 – 250,000	**3**	5
250,001 – 260,000	**2**	3
260,001 – 270,000	**2**	1
270,001 – 280,000	**2**	1
280,001 – 290,000	**–**	2
300,001 – 310,000	**–**	2
310,001 – 320,000	**1**	–
320,001 – 330,000	**1**	1
340,001 – 350,000	**1**	–
360,001 – 370,000	**1**	–
370,001 – 380,000	**–**	1
380,001 – 390,000	**1**	–
400,001 – 410,000	**1**	–
440,001 – 450,000	**1**	–
510,001 – 520,000	**–**	1
520,001 – 530,000	**–**	1
570,001 – 580,000	**1**	–
660,001 – 670,000	**1**	–
710,001 – 720,000	**1**	–
1,060,001 – 1,070,000	**–**	1
1,360,001 – 1,370,000	**1**	–

DIRECTORY

FMG comprising
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FMG Insurance Limited

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10 Waterloo Quay
PO Box 521
Wellington 6140

Bankers
The Bank of New Zealand

Legal advisors
DLA Piper, Wellington

Auditors
Ernst & Young, Wellington

Board of Directors
Tony Cleland – *Chairman*
Michael Ahie
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*
Glenn Croasdale – *General Manager Client Propositions & Online Services*
Pete Frizzell – *General Manager People & Culture and Communications*
Nathan Barrett – *Chief Product & Pricing, Underwriting and Claims Officer*
Colin Philp – *Chief Information Officer*

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FMG 07/20 SAT 4608