FMG
Advice & Insurance

PROUD TO BE MUTUAL.

Annual Report and Financial Statements
2018/2019

MUTUALITY IS ABOUT BEING IN IT TOGETHER.

It's about pitching in and helping people get through the ups and downs.

With this sense of togetherness and support, it's not surprising that the rural sector has a long history of successful Mutual and Cooperative businesses supporting it.

Established in 1905 by farmers for farmers, FMG is proud to be part of this country's Mutual and Cooperative legacy.

For us as an insurer and a mutual, this means going beyond the transaction of premiums and claims.

It's a relationship.

As an advice-led insurer we want to help protect and build your business, as well as be there when the unexpected happens.

Mutuality is also about supporting the communities that support us. From lamb and calf days, through to investing in initiatives such as Farmstrong and the FMG Young Farmer of the Year. We're doing all we can to meet our vision of helping to build strong and prosperous rural communities.

We're proud of the role we've played for 114 years to support rural New Zealand and put simply, proud to be mutual.

AT A GLANCE.

$19.1M
(PROFIT AFTER TAX)

$257M
CAPITAL RESERVES

$324M
GROSS WRITTEN PREMIUM
(UP $41M ON LAST YEAR)

$181M
NET CLAIMS INCURRED
(UP $19M ON LAST YEAR)

573
INDUSTRY AND COMMUNITY EVENTS

50%
RURAL MARKET SHARE

A
EXCELLENT
A.M. BEST CREDIT RATING

2018
ANZIIF DIRECT INSURER AWARDS
FINALIST

ENG
ALL FMG POLICIES IN PLAIN ENGLISH

A STRONGER VOICE FOR RURAL NEW ZEALAND.

"A net increase of 6,752 clients brought the overall number of clients insuring with the Mutual to nearly 88,000."

I am very pleased to present another excellent overall result for the Mutual at our 114th AGM. Over the last year we have continued to make considerable strides towards the long-term targets set by the board and management several years ago. Achieving 50% rural market share for the first time is a clear highlight and means the Mutual can have a stronger voice on behalf of rural New Zealand.

In behind this milestone was a year of record client growth across the board. A net increase of 6,752 clients brought the overall number of clients insuring with the Mutual to nearly 88,000. FMG has continued to out-perform the market in terms of net client growth, however, 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. We have a strategic target to reduce the cost ratio of the Mutual from the current 32% to 25% of premium income over the coming years. A reducing cost ratio allows us to remain competitive in the insurance market and aligns with the Mutual's core purpose of 'giving rural New Zealand a better deal'.

However, these goals of growing the Mutual and reducing the cost ratio need to be balanced against the need to continually invest in the people, processes and infrastructure required to support a highly regulated insurance company.

Financially it was pleasing to post a $19.1m net profit after tax. This is added to capital reserves to both support the growth in the business and meet the minimum solvency requirements of the Reserve Bank of New Zealand, our prudential regulator. At the year-end our reserves stood at $257.4m.

A conservative approach to capital management both in terms of reserves and reinsurance cover is a deliberate strategy of the Mutual that continues to serve us well. The board is committed to making sure we have a strong insurance mutual to support rural New Zealand for the next 100 years and our conservative capital management approach underpins this. We have a highly engaged and talented team of employees throughout FMG. This is ably led by Chris Black, our Chief Executive, who continues to do a great job of attracting and empowering high calibre staff. Sincere thanks to all our employees.

I was fortunate to spend some time recently with National Farmers Union (NFU) Mutual in the UK. FMG has enjoyed a beneficial association with NFU Mutual spanning more than 50 years. NFU has been successful in leveraging their market position in the UK to support a stronger voice for the rural sector and I was interested to learn from their experience. Our current sponsorship approach is anchored around the theme of rural leadership and this aligns well with having a strong voice in relevant rural sector debates.

During the year, with the help of an external consultant, the board completed a thorough review of its processes and performance. The board felt the review was timely, especially with three relatively new member-elected directors and Cindy Mitchener's term as a Special Director coming to an end at this year's AGM. Reassuringly the review didn't identify any major weaknesses, but constructively suggested areas where the board could enhance its overall effectiveness.

I would like to thank Cindy for her contribution over the last 5 years. Cindy has brought important diversity to board discussions and will be missed. Thank you to the board more broadly for its commitment and valuable input over the last 12 months. Personally, it is a privilege to be part of such a great organisation.

Finally, thank you to our clients and members for your continued support. It is much appreciated.

Tony Cleland
Chairman, FMG

"2019 was marked by breaking through the significant milestone of a 50% share of New Zealand's Farmers and Growers market."

The theme for this year's AGM is Proud to be Mutual.

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. 2019 was marked by breaking through the significant milestone of a 50% share of New Zealand's Farmers and Growers market. A steady increase from a mid-thirties share in 2011 reflects the value people see in a mutual insurance model. This is a 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'. Within the business, we use the mutual model'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 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.

FMG experienced a record 8.3% net client growth last year. 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.

2019 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 claim volumes was a commitment from our employees that was second to none.

This year's good profit result of $19.1m after tax reflected a relatively benign year in terms of storms and other catastrophes. This contrasts with the previous year where we helped clients to recover from seven major storm events and the Kaikoura earthquake the year before. The difference from the last 2 years to this year reinforces the point that in the insurance industry, as in farming, one needs to take a long-term view.

Making a profit allows us to invest in new products and services, such as the recent launch of an online service channel. At this early stage, the channel is limited to clients with only domestic risks insured with the Mutual (i.e. house, content and car). We have plans to extend the reach of our online service over the next few years, but given the significant investment this requires, will need to do this in a staged and managed way.

Supporting important initiatives such as Farmstrong and the FMG Young Farmer of the Year Contest is also enabled by having a strong financial position.

Thank you to our chair Tony Cleland and the wider board and my colleagues right across the Mutual who have all worked very hard over the last 12 months. Being proud of our mutual heritage and making a difference for the rural sector 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 on-going 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

2015	95,776	7,558
2016	130,427	6,680
2017	143,018	8,722
2018	153,535	8,406
2019	**176,609**	**4,006**

General insurance gross written premium ($000)

2015	209,279
2016	224,946
2017	246,231
2018	283,098
2019	**324,101**

Equity ($000)

2015	224,221
2016	229,493
2017	226,240
2018	238,320
2019	**257,403**

Investment income ($000)

2015	23,443
2016	12,715
2017	12,077
2018	13,456
2019	**14,236**

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

2015	26,793
2016	5,272
2017	-3,253
2018	12,080
2019	**19,083**

The Directors have pleasure in presenting Farmers' Mutual Group's[1] 114th Annual Report and Financial Statements for the year ended 31 March 2019.

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 $324.1m from $283.1m
- Increase in net investment income from continuing operations to $14.2m from $13.5m
- Increase in net claims incurred from continuing operations to $180.6m from $161.9m
- Increase in profit from continuing operations after tax to $19.1m from $12.1m

	2019 $000	2018 $000
Profit/(loss) from continuing operations before taxation	25,047	15,105
Taxation	(5,964)	(3,025)
Profit/(loss) for the year	**19,083**	12,080

[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 2019, membership of the Parent stands at 65,006.

Directorate

In accordance with the tenure provisions of the Director Appointment & Reappointment Policy, Mr. Geoff Copstick and Mr. Steve Allen 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 expires at this year's AGM. Mrs. Marise James retired at the 2018 Annual General meeting having served on the Board for 16 years.

Role of the Directors

The Board is responsible for the strategy, direction and control of the Group. This responsibility includes areas of stewardship such as the identification and control of the Group's 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.

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 2018 AGM the Membership voted in favour of increasing the Chairman's remuneration to $100k and maintaining Directors' fees at $50k, which applies to the quarter in which the resolution was passed. The Membership also voted in favour of additional remuneration to the Chairs of the relevant Board sub-committees being; Nomination, Remuneration & Governance Committee Chair receiving an additional $7k per annum and the Audit & Risk Management Committee Chair receiving an additional $7.5k per annum. Directors' remuneration received, or due and receivable during the year amounted to $0.432m (2018: $0.433m). 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	2018 – 2019 $000	2017 – 2018 $000
T D Cleland	98	90
M L James*	27	50
M J T Ahie	54	50
C L Mitchener	50	50
D Chan	50	50
S B Allen	50	31
M J Taggart	54	31
G Copstick	50	31
G W Gent**	–	25
G R Milne**	–	25
Total	432	433

* Retired at the 2018 AGM and Pro-rated fees

** Retired at the 2017 AGM

FMG BOARD OF DIRECTORS.

The Board as at 31 March 2019

The FMG Directors are Mr. Tony Cleland (Chair), Mr. Michael Ahie, Ms. Cindy Mitchener, 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 and Food Research, Chancellor at Massey University and has farming interests in Taranaki.

Cindy Mitchener

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

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 Limited). Geoff is a previous Chair of ChildFund New Zealand and has 20 years of executive-level finance experience with New Zealand companies. He has specialised in corporate governance, risk management and corporate treasury operations.

FMG EXECUTIVE LEADERSHIP TEAM.

Chris Black
CHIEF EXECUTIVE OFFICER

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

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

Andrea Brunner
CHIEF CLIENT OFFICER

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

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

Dave Kibblewhite
CHIEF FINANCIAL, INVESTMENT & RISK OFFICER

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

As CFO Dave has a thorough understanding of FMG's business and niche rural insurance market as well as the NZ Insurance Industry. While at FMG Dave's role has evolved to Chief Financial, Investment and Risk Officer which includes responsibility for Reinsurance.

Pete Frizzell
GENERAL MANAGER CLIENT PROPOSITIONS, MARKETING & RISK SERVICES

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

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

Nathan Barrett
CHIEF UNDERWRITING & CLAIMS OFFICER

Nathan has 19 years local and international insurance experience in business development, risk management, underwriting and claims management, having worked with insurers such as Ace Insurance, Amlin PLC (a syndicate of Lloyds of London) and State Insurance, as well as 11 years with FMG.

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

Colin Philp
CHIEF INFORMATION OFFICER

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

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

Natalie Lombe
GENERAL MANAGER HUMAN RESOURCES

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

The Board is subject to the FMG Board Charter which outlines the specific role and responsibilities of the Board. The Board is also subject to the Director Appointment & Reappointment Policy which articulates the process for the appointment of prospective Directors, as well as the evaluation of Directors due to retire by rotation who intend to stand for re-election.
Each Director must be assessed as being fit and proper in accordance with FMG's Fit & Proper Policy and reassessed at least every three years. All Directors are independent as they are free from any associations that could materially interfere with the exercise of independent judgement. The Directors are all subject to FMG's Code of Ethics.

The Board Committees as at 31 March 2019

The Audit & Risk Management Committee is currently comprised of Mr. Murray Taggart (Chair), Mr. Tony Cleland, Mr. Danny Chan and Mr. Geoff Copstick (noting the Committee composition changed post the 2018 AGM). This Committee is governed by its own Charter. The function of the Audit & Risk Management Committee is to assist the Board in carrying out its responsibilities under the Farmers' Mutual Group Act 2007, which incorporates by reference provisions of the Companies Act 1993 and the Financial Markets Conduct Act 2013. These responsibilities include ensuring compliance with legal and regulatory standards and the New Zealand equivalents to International Financial Reporting Standards, reviewing management's accounting practices, policies and controls relative to the Group, identification and management of key financial and regulatory risks and reviewing and making appropriate inquiry into the audits of the Group by both internal and external auditors.

The Nomination, Remuneration & Governance Committee is currently comprised of Mr. Michael Ahie (Chair), Mr. Tony Cleland, Ms. Cindy Mitchener, and Mr. Steve Allen (noting the Committee composition changed post the 2018 AGM). 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 13:

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

*Retired at the 2018 AGM

	Number of meetings	Number attended
Audit & Risk Management Committee Meetings (Total 3)		
M J Taggart (Chair)*	3	3
M L James**	1	1
M J T Ahie	1	–
T D Cleland	3	3
G Copstick	3	3
D Chan	2	3***

*Chair post 2018 AGM
**Retired at the 2018 AGM (previous Chair)
***Standing in for M Ahie for 1 meeting

	Number of meetings	Number attended
Nomination, Remuneration & Governance Meetings (Total 2)		
M J T Ahie (Chair)*	2	2
T D Cleland **	2	2
C L Mitchener	2	2
D Chan	1	1
S B Allen	2	1

*Chair Post 2018 AGM
**Chair prior to 2018 AGM

Directors of FMG's Subsidiaries as at 31 March 2019

The current FMG Insurance Limited Directors are Mr. Tony Cleland, Mr. Michael Ahie, Ms. Cindy Mitchener, Mr. Danny Chan, Mr. Steve Allen, Mr. Murray Taggart and Mr. Geoff Copstick. The amount paid to each director is reflected in the remuneration of directors of the group.

Interest Registers of the Group as at 31 March 2019

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

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

(c) Directors' remuneration is disclosed on page 07.

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

Auditors

EY has been appointed as Auditors for the Group.

CONSOLIDATED INCOME STATEMENT
for the year ended 31 March

	Notes	Group 2019 $000	Group 2018 $000
General insurance activities			
Gross written premium		**324,101**	283,098
Movement in unearned premium		**(18,793)**	(17,351)
Gross earned premium	1	**305,309**	265,747
Outwards reinsurance premium expense		**(34,847)**	(27,578)
Net premium revenue		**270,462**	238,169
Claims expense	8	**(195,806)**	(219,492)
Reinsurance and other recoveries revenue	1, 8	**15,191**	57,551
Net claims incurred		**(180,615)**	(161,941)
Other income	1	**14,066**	13,601
Operating expenses	2	**(93,102)**	(88,180)
General insurance underwriting result		**10,811**	1,649
Investment revenue	1	**14,236**	13,456
Profit/(loss) before taxation		**25,047**	15,105
Income tax (expense)/benefit	3	**(5,964)**	(3,025)
Net profit/(loss)		**19,083**	12,080
Profit/(loss) from continuing operations for the year attributable to members		**19,083**	12,080
Total comprehensive income for the year, net of tax, attributable to members		**19,083**	12,080

The financial statements should be read in conjunction with the accounting policies and notes on pages 18 to 45.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 31 March

	Group 2019 $000	Group 2018 $000
Retained earnings		
Retained earnings at the beginning of the year	**238,320**	226,240
Total profit/(loss) and comprehensive income	**19,083**	12,080
Retained earnings at the end of the year	**257,403**	238,320
Total equity at the end of the year	**257,403**	238,320
Attributable to:		
Members	**257,403**	238,320
	257,403	238,320

The financial statements should be read in conjunction with the accounting policies and notes on pages 18 to 45.

CONSOLIDATED BALANCE SHEET

as at 31 March

	Notes	Group 2019 $000	Group 2018 $000
Assets			
Cash and cash equivalents	4	**45,674**	29,235
Trade and other receivables	6	**117,061**	116,144
Insurance recoveries	7, 8	**37,855**	98,174
Investments	5	**322,713**	288,748
Deferred acquisition costs	9	**3,667**	3,510
Property, plant and equipment	10	**9,705**	9,004
Intangible assets	11	**11,989**	10,187
Deferred tax assets	12	**8,956**	7,311
Total assets		**557,620**	562,313
Liabilities			
Trade and other liabilities	13	**27,935**	25,374
Current tax liability		**6,190**	1,607
Make good provision		**253**	87
Underwriting provisions	7	**257,308**	289,418
Deferred tax liabilities	12	**8,531**	7,507
Total liabilities		**300,217**	323,993
Net assets		**257,403**	238,320
Equity			
Retained earnings		**257,403**	238,320
Attributable to:			
Members		**257,403**	238,320
Total equity		**257,403**	238,320

Signed on behalf of the Board of Directors, who authorised the issue of these financial statements on 28 June 2019.

T D Cleland
Chairman
28 June 2019

M J Taggart
Director
28 June 2019

The financial statements should be read in conjunction with the accounting policies and notes on pages 18 to 45.

CONSOLIDATED STATEMENT OF CASH FLOWS

for the year ended 31 March

	Notes	Group 2019 $000	Group 2018 $000
Cash flows from operating activities			
Premium and other receipts from clients		**343,906**	273,818
Reinsurance recoveries		**72,411**	68,361
Interest and fees received		**718**	504
Other income		**234**	1,991
Claims paid		**(247,353)**	(241,133)
Reinsurance premium paid		**(36,493)**	(31,587)
Cash paid to suppliers and employees		**(85,790)**	(79,312)
Tax (paid)/recovered		**(1,683)**	3,270
Net cash flows from operating activities	4	**45,951**	(4,088)
Cash flows from investing activities			
Dividends received		**333**	499
Investment dealings with fund managers		**(20,000)**	10,000
Purchase of property, plant and equipment and intangible assets		**(9,845)**	(7,890)
Net cash flows from investing activities		**(29,512)**	2,609
Net increase/(decrease) in cash and cash equivalents		**16,439**	(1,479)
Cash and cash equivalents at the beginning of the year		**29,235**	30,714
Cash and cash equivalents at the end of the year	4	**45,674**	29,235

The financial statements should be read in conjunction with the accounting policies and notes on pages 18 to 45.

STATEMENT OF ACCOUNTING POLICIES

for the year ended 31 March

Reporting entity

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

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

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

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

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 or 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.

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

Until 31 March 2018, the Group classified its finance assets into the following categories: financial assets at fair value through profit and loss and loans and receivables. From 1 April 2018 following the application of NZ IFRS 9, 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 and 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 and 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 and 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 (e.g. 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 and 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, earnings 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 at 31 March 2018 and from 1 April 2018 being receivables reflecting rights arising under an insurance contract as defined in NZ IFRS 4 Insurance Contracts are recognised at 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 from 1 April 2018 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.

The transition to NZ IFRS 9 had no material impact on the amounts recorded in respect of these receivables.

Any increase or decrease in the provision for impairment is recognised in the statement of profit and 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.

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

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

The Group has not entered into any finance leases.

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

Payables

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

Provisions

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

Employee entitlements

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

Statement of cash flows

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

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

Changes in accounting policies and disclosures

The Group mandatorily adopted the following accounting policies which became effective for annual reporting periods commencing 1 January 2018. The adoption of the following amendments did not have any material impact on the amounts recognised in prior periods and also will not materially affect the current or future periods.

NZ IFRS 9 Financial Instruments – NZ IFRS 9 replaces NZ IAS 39. It addresses the classification, measurement and de-recognition of financial assets and liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets. The new impairment model requires impairment losses to be recognised using the expected credit loss model, rather than only incurred credit losses under NZ IAS 39. The Group has adopted the standard and its effect is not significant.

NZ IFRS 15 Revenue from Contracts with Customers – NZ IFRS 15 replaces NZ IAS 18 which covers revenue arising from the sale of goods and the rendering of services and NZ IAS 11 which covers construction contracts. The new standard is based on the principle that revenue is recognised when control of a good or service transfers to the customer. The Group has adopted the standard and it does not have a material impact on the Group as the majority of revenue is recognised in line with NZ IFRS 4 Insurance Contracts.

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 2019.

Standard	Requirement	Effective for annual reporting periods beginning on or after
NZ IFRS 16 Leases	NZ IFRS 16 is the new standard on the recognition, measurement, presentation and disclosure of leases. This standard will replace: (a) NZ IAS 17 Leases; (b) NZ IFRIC 4 Determining whether an Arrangement contains a Lease; (c) NZ SIC-15 Operating Leases—Incentives; and (d) NZ SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. The scope of the new standard includes leases of all assets, with certain exceptions. A lease is defined as a contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration. NZ IFRS 16 requires lessees to account for all leases under a single on-balance sheet model (subject to certain exemptions) in a similar way to finance leases under NZ IAS 17. Lessees recognise a liability to pay rentals with a corresponding asset, and recognise interest expense and depreciation separately. Reassessment of certain key considerations (e.g., lease term, variable rents based on an index or rate, discount rate) by the lessee is required upon certain events. Lessor accounting is substantially the same as today's lessor accounting, using NZ IAS 17's dual classification approach. Application of NZ IFRS 16 is required for annual periods beginning on or after 1 January 2019. Early application is permitted, but not before an entity applies NZ IFRS 15.	1 January 2019
IFRS 17 Insurance Contracts	IFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects. The core of IFRS 17 is the General (building block) Model, supplemented by: • A specific adaptation for contracts with direct participation features (the Variable Fee Approach) • A simplified approach (Premium Allocation Approach) mainly for short-duration contracts The main features of the new accounting model for insurance contracts are: • A measurement of the present value of future cash flows, incorporating an explicit risk adjustment, remeasured every reporting period (the fulfilment cash flows) • A Contractual Service Margin (CSM) that is equal and opposite to any day one gain in the fulfilment cash flows of a group of contracts, representing the unearned profitability of the insurance contract to be recognised in profit or loss over the service period (i.e., coverage period) • Certain changes in the expected present value of future cash flows are adjusted against the CSM and thereby recognised in profit or loss over the remaining contract service period • The effect of changes in discount rates will be reported in either profit or loss or other comprehensive income (OCI), determined by an accounting policy choice • A presentation of insurance revenue and insurance service expenses in the statement of comprehensive income based on the concept of services provided during the period • Amounts that the policyholder will always receive regardless of whether an insured event happens (non-distinct investment components) are not presented in the income statement, but are recognised directly in the balance sheet • Insurance services results (earned revenue less incurred claims) are presented separately from the insurance finance income or expense • Extensive disclosures to provide information on the recognised amounts from insurance contracts and the nature and extent of risks arising from these contracts Early application is permitted, provided the entity also applies IFRS 9 Financial Instruments and IFRS 15 Revenue from Contracts with Customers on or before the date it first applies IFRS 17.	1 January 2022

STATEMENT OF ACCOUNTING POLICIES
for the year ended 31 March

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

Work continues on the transition requirements for NZ IFRS 17 and a detailed assessment of the impact is planned for the 2019/20 financial year. The Group does not intend to adopt either of these standards early.

Significant accounting judgements, estimates and assumptions

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

Claims liabilities under general insurance contracts

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

- 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 by an independent third party using a valuation based on a price earnings multiple of 11.5 (using comparable companies) and the estimated future maintainable earnings of the company. In the prior year the shares were valued based on the share price of a significant off market transaction i.e. New Zealand Superannuation Fund’s investment of $100m to acquire a 41.1% cornerstone stake in Fidelity Life.

Further information is contained in Note 5.

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 March

1. Revenue

	Group 2019 $000	Group 2018 $000
General insurance revenue		
Gross earned premiums	**305,309**	265,747
Reinsurance and other recoveries revenue	**15,191**	57,551
Investment revenue:		
Dividends – other entities	**333**	499
Interest income – other entities	**717**	504
Movement in financial assets at fair value through profit and loss	**13,186**	12,453
Total investment revenue	**14,236**	13,456
Other income:		
Other premium income	**7,675**	6,336
Personal Insurance revenue	**4,630**	3,889
Other revenue	**1,761**	3,376
Total other revenue	**14,066**	13,601
Total revenue	**348,802**	350,355

2. Other expenses

	Group 2019 $000	Group 2018 $000
Operating expenses include:		
Employee expenses	**61,323**	55,953
Operating lease rental expenses	**5,201**	4,078
Depreciation on property, plant and equipment	**3,029**	2,585
Amortisation on intangible assets	**4,567**	5,746
(Gain)/Loss on disposal of property, plant and equipment	**(256)**	305
Directors' fees	**432**	433
Donations	**13**	5
Auditors' remuneration – audit of financial statements	**148**	147
Auditors' remuneration – solvency returns	**19**	17
Auditors' remuneration – taxation services	**27**	23
Auditors' remuneration – IT quality assurance (non-recurring)	**–**	48
Auditors' remuneration – HR consulting	**18**	37

3. Income tax

	Group 2019 $000	Group 2018 $000
a) Income tax expense from continuing operations		
Current tax	**6,796**	1,875
Deferred tax (benefit)/expense	**(621)**	1,179
(Over)/under provided in prior years	**(211)**	(29)
Income tax expense/(benefit) for the year from continuing operations	**5,964**	3,025
b) Numerical reconciliation of income tax expense to prima facie tax payable		
Profit/(loss) before taxation		
Continuing operations	**25,047**	15,105
Total profit/(loss) before taxation	**25,047**	15,105
Prima facie income tax @ 28%	**7,013**	4,229
Tax effect of amounts which are non-deductible expenses/non-assessable revenue:		
Non-assessable investment income and other items	**(800)**	(1,123)
Non-deductible expenses and other items	**51**	54
Imputation credits on dividends	**(83)**	(103)
Foreign tax credit	**(6)**	(3)
(Over)/under provided in prior years	**(211)**	(29)
Income tax expense/(benefit) for the year	**5,964**	3,025
c) Imputation credit account		
Balance at the beginning of the year	**65,302**	67,383
Net taxation paid/(refunded)	**2,001**	(2,184)
Imputation credit attached to dividends received	**83**	103
Balance at the end of the year	**67,386**	65,302

4. Cash and cash equivalents

	Group 2019 $000	Group 2018 $000
Cash at bank and in hand	45,674	29,235
Total cash and cash equivalents	45,674	29,235
a) Reconciliation of profit to net cash flows from operating activities		
Profit/(loss) for the year	19,083	12,080
Adjustments for non-cash items		
Amortisation	4,567	5,746
Depreciation	3,029	2,585
Movement in deferred tax	(621)	1,179
Movement in unearned premium	19,437	17,924
Movement in outstanding claims	(51,547)	(21,641)
Movement in bad debts provision	772	1,710
Movement in deferred acquisition costs	(157)	295
Movement in make good provision	166	30
Unrealised investment (gain)/loss	(13,964)	(13,321)
	(38,318)	(5,493)
Movements in other working capital items		
Movement in accounts receivable and insurance recoveries	58,630	(15,959)
Movement in accounts payable	772	308
Movement in accrued leave/incentives	1,790	1,138
Movement in taxation recoverable	4,583	4,032
	65,775	(10,481)
Items classified as investing activities		
Net (gain)/loss on sale of property, plant and equipment	(256)	305
Dividends received	(333)	(499)
	(589)	(194)
Net cash flows from operating activities	45,951	(4,088)

5. Investments

	Group 2019 $000	Group 2018 $000
Equity securities		
Investments in unlisted New Zealand companies	**20,108**	19,111
Total equity securities	**20,108**	19,111
Unit trust investments		
New Zealand equities	**11,185**	10,384
Offshore equities	**51,551**	49,902
Fixed interest investments – New Zealand	**193,677**	167,614
Fixed interest investments – Offshore	**46,192**	41,737
Total unit trust investments	**302,605**	269,637
Total other financial assets	**322,713**	288,748

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**

Determination of fair value hierarchy 2018

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

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

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

Sensitivity of level 3 financial instruments to changes in key assumptions

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

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

For equities, the Group adjusted the average price earnings ratio used in the valuation method. The adjustment made was to increase and decrease the assumed price earnings ratio by one, which was considered by the Group to be within a range of reasonably possible alternatives based on price earnings ratios of companies with similar industry and risk profiles. In the comparative period an adjustment was made to increase and decrease the share price by $5 per share, which was considered by the Group to be within a range of reasonably possible alternatives.

6. Trade and other receivables

	Notes	Group 2019 $000	Group 2018 $000
Trade debtors		**108,770**	95,037
Reinsurance debtors		**3,776**	6,540
Other receivables		**4,018**	14,154
Uninsured third party recoveries		**4,989**	4,132
Allowance for collective impairment	14	**(4,491)**	(3,719)
		117,061	116,144
Current		**117,061**	116,144

There are no past due or impaired trade debtors, reinsurance debtors or other receivables as at 31 March 2019. 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 2019 $000	Group 2018 $000
Underwriting provisions comprise:		
Liability for outstanding claims		
Expected future claim payments (undiscounted)	**98,798**	150,681
Discount to present value	**(1,207)**	(1,543)
	97,591	149,138
Provision for unearned premiums	**159,717**	140,280
Underwriting provisions	**257,308**	289,418
Current	**230,526**	259,068
Non-current	**26,782**	30,350
	257,308	289,418
Provision for reinsurance and other recoveries comprise:		
Expected future recoveries (undiscounted)	**(38,403)**	(99,251)
Discount to present value	**548**	1,077
Net insurance recoveries	**(37,855)**	(98,174)
Current	**(21,670)**	(81,902)
Non-current	**(16,185)**	(16,272)
	(37,855)	(98,174)

8. General insurance contracts

(a) Net general insurance claims incurred

	2019			2018		
	Risks borne in current year	**Risks borne in prior years**	**Total**	Risks borne in current year	Risks borne in prior years	Total
	$000	**$000**	**$000**	$000	$000	$000
Group						
Gross claims expense						
Direct claims – undiscounted	**180,727**	**14,744**	**195,471**	179,328	39,975	219,303
Discount	**(632)**	**967**	**335**	(745)	934	189
Gross claims expense	**180,095**	**15,711**	**195,806**	178,583	40,909	219,492
Reinsurance and other recoveries						
Reinsurance and other recoveries revenue – undiscounted	**(2,919)**	**(11,743)**	**(14,662)**	(15,547)	(41,927)	(57,474)
Discount	**–**	**(529)**	**(529)**	140	(217)	(77)
Reinsurance and other recoveries	**(2,919)**	**(12,272)**	**(15,191)**	(15,407)	(42,144)	(57,551)
Net claims incurred	**177,176**	**3,439**	**180,615**	163,176	(1,235)	161,941

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						
	2014	2015	2016	2017	2018	2019	Total
	$000	$000	$000	$000	$000	$000	$000
Ultimate claims cost estimate							
At end of accident year	113,319	111,706	134,206	243,860	178,886	177,007	
One year later	112,932	113,618	135,266	277,987	179,816		
Two years later	114,236	114,006	132,830	284,315			
Three years later	114,506	113,956	133,683				
Four years later	114,447	113,967					
Five years later	114,414						
Current estimate of ultimate claims cost	114,414	113,967	133,683	284,315	179,816	177,007	
Cumulative payments	113,944	113,560	133,213	267,062	172,068	129,341	
Undiscounted central estimate	470	407	470	17,253	7,748	47,666	74,014
Discount to present value	(5)	(4)	(3)	(404)	(100)	(388)	(904)
Discounted central estimate	465	403	467	16,849	7,648	47,278	73,110
Prior years							18,136
Risk margin							6,345
Gross outstanding claims liabilities							97,591
Reinsurance recoveries on outstanding claims and other recoveries							(37,855)
Net outstanding claims liabilities							59,736

(c) Analysis of outstanding claims

	Group 2019 $000	Group 2018 $000
Gross central estimate of present value of future claims payment	**91,246**	143,068
Risk margin	**6,345**	6,070
Total outstanding claims liability	**97,591**	149,138
The expected settlement pattern of the outstanding claims liability is as follows:		
Current	**70,809**	118,788
Non-current	**26,782**	30,350
Total outstanding claims liability	**97,591**	149,138

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 2019. The previous assessment of the Insurance Liabilities was performed at 31 March 2018.

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:

	2019	2018
Inflation rate	**Implicit**	Implicit
Discount rate	**1.63%**	1.81%
Claims handling expense ratio – outstanding claims liabilities	**3.4%**	3.9%
Claims handling expense ratio – premium liabilities	**4.6%**	4.9%
Risk margin – outstanding claims liabilities	**12.0%**	13.6%
Risk margin – premium liabilities	**13.9%**	14.0%
Weighted average expected term to settlement	**237 days**	191 days

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

	Group 2019 $000	Group 2018 $000
Outstanding claims liability		
Gross outstanding claims at the beginning of the year	**149,138**	170,779
Claims incurred during the year	**195,806**	219,492
Claims payments made during the year	**(247,353)**	(241,133)
Gross outstanding claims at the end of the year	**97,591**	149,138
Reinsurance and other recoveries receivable		
Reinsurance and other recoveries receivable at the beginning of the year	**(98,174)**	(112,047)
Reinsurance and other recoveries incurred during the year	**(15,191)**	(57,551)
Reinsurance and other recoveries received during the year	**75,510**	71,424
Reinsurance and other recoveries receivable at the end of the year	**(37,855)**	(98,174)

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.

		2019		2018	
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%	**217**	**428**	168	560
	Decrease of 1%	**(222)**	**(441)**	(172)	(574)
Claims handling expense ratio	Increase of 1%	**(509)**	**(510)**	(674)	(674)
	Decrease of 1%	**510**	**509**	674	674
Risk margin	Increase of 1%	**(381)**	**(381)**	(239)	(239)
	Decrease of 1%	**381**	**381**	239	239
Weighted average expected term to settlement	Increase 0.5 years	**343**	**566**	252	886
	Decrease 0.5 years	**(346)**	**(570)**	(255)	(894)

(d) Risk management policies and procedures

The general insurance business of the Group involves a number of non-financial risks. Notes on the policies and procedures employed in managing these risks in the general insurance business are set out below. Financial risks involving the Group are in Notes 16 to 18.

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

The risk management activities include prudent underwriting, pricing, and management of risk including reinsurance together with claims management, reserving and investment management. The objective of these disciplines is to maintain a sustainable insurance 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 2019 $000	Group 2018 $000
Net central estimate of the present value of expected future cash flows from future claims	**106,355**	102,528
Risk margin of the present value of expected future cash flows	**14,773**	14,317

(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 25 January 2019 (2018: A (Excellent)).

9. Deferred acquisition costs

	Group 2019 $000	Group 2018 $000
Balance at the beginning of the year	**3,510**	3,805
Deferred Acquisition costs recognised during the year	**(3,510)**	(3,805)
Acquisition costs deferred during the year	**3,667**	3,510
Balance at the end of the year	**3,667**	3,510
Current	**3,667**	3,510

10. Property, plant and equipment

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	4,136
Disposals and transfers	–	(1,628)	(113)	(54)	(190)	(1,986)
Balance at the end of the year	713	6,564	1,466	12,265	262	21,269
Depreciation and impairment losses						
Balance at the beginning of the year	–	2,914	695	6,382	125	10,116
Depreciation for the year	17	903	209	1,851	50	3,029
Disposals and transfers	–	(1,324)	(92)	(43)	(121)	(1,581)
Balance at the end of the year	17	2,492	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

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

11. Intangible assets

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

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

Amortisation of intangible assets is included in operating expenses.

12. Deferred tax

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			
Deferred revenue liability	**(7,507)**	**(1,024)**	**(8,531)**
Total deferred tax liabilities	**(7,507)**	**(1,024)**	**(8,531)**
Deferred tax assets/(liabilities), net	**(196)**	**621**	**425**

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

13. Trade and other liabilities

	Group 2019 $000	Group 2018 $000
Trade creditors	**5,195**	4,348
Reinsurance creditors	**2,445**	4,109
Employee benefits	**8,140**	6,350
Other liabilities	**12,155**	10,567
	27,935	25,374
Current	**27,935**	25,374

14. Allowances for impaired assets

Group	**Total $000**
At 1 April 2017	2,009
Utilised	(2,009)
Additional provision	3,719
As at 31 March 2018	**3,719**
Utilised	**(3,719)**
Additional provision	**4,491**
As at 31 March 2019	**4,491**

There was no interest income on impaired financial assets accrued for the current year (2018: $nil). The allowance is entirely for collectively impaired assets.

15. Related party transactions

a) Group Holdings

At 31 March 2019 the following percentage shareholdings were held in related entities which, unless stated otherwise, all have balance dates ending on 31 March:

	2019	2018	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 (2018: $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 2019 $000	Group 2018 $000
Short-term employee benefits	3,953	3,758

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

16. Credit risk

Insurance credit risk

Credit risk relating to insurance contracts relates primarily to:

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

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

Other financial assets

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

17. Market risk

Foreign exchange risk

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

Unit price risk

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

Unit price risk sensitivity analysis

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

	Group	
	Impact on profit $000	Impact on equity $000
2019		
10% increase in unit prices	**30,260**	**30,260**
10% decrease in unit prices	**(30,260)**	**(30,260)**
2018		
10% increase in unit prices	26,964	26,964
10% decrease in unit prices	(26,964)	(26,964)

Interest rate risk

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

Interest rate cash flows risk analysis

	Group	
	Impact on profit $000	Impact on equity $000
2019		
0.25% increase in interest rates	**112**	**112**
0.25% decrease in interest rates	**(112)**	**(112)**
2018		
0.25% increase in interest rates	69	69
0.25% decrease in interest rates	(69)	(69)

18. Liquidity risk

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

2019 – Group	Weighted average interest rate	0-6 months $000
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
2018 – Group		
Bank deposits	1.75%	29,235
Trade and other current receivables		116,144
Total financial assets		145,379
Trade and other current liabilities		25,374
Total financial liabilities		25,374
Net financial position		120,005

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

Capital management

The Group's capital includes retained earnings.

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

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

	2019 $000	2018 $000
Actual Solvency Capital	229,299	210,541
Minimum Solvency Capital	102,576	93,893
Solvency Margin	126,723	116,649
Solvency Ratio	2.24	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.

19. Financial instruments

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

2018 – 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	–	29,235	29,235
Investments	288,748	–	288,748
Trade and other current receivables	–	116,144	116,144
Total assets	288,748	145,379	434,127

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

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

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

20. Commitments

	Group 2019 $000	Group 2018 $000
Operating lease commitments		
Due within 1 year	6,831	6,191
Due between 1 to 2 years	6,203	5,580
Due between 2 to 5 years	11,513	11,726
Beyond 5 years	9,056	11,851
	33,603	35,348

There are no capital commitments at 31 March 2019 (2018: $Nil).

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

There was no contingent rent recognised as an expense for the current year (2018: $Nil).

21. Contingencies

There are no contingent liabilities at 31 March 2019 (2018: $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 14 to 45, which comprise the consolidated balance sheet of the Group as at 31 March 2019, 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 14 to 45 present fairly, in all material respects, the consolidated financial position of the Group as at 31 March 2019 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.

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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.

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
28 June 2019

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 2019	Group 2018
100,000 – 110,000	51	47
110,001 – 120,000	46	42
120,001 – 130,000	30	24
130,001 – 140,000	26	26
140,001 – 150,000	16	11
150,001 – 160,000	20	8
160,001 – 170,000	9	12
170,001 – 180,000	8	3
180,001 – 190,000	3	2
190,001 – 200,000	4	4
200,001 – 210,000	2	1
210,001 – 220,000	1	–
220,001 – 230,000	–	2
230,001 – 240,000	1	4
240,001 – 250,000	5	2
250,001 – 260,000	3	1
260,001 – 270,000	1	2
270,001 – 280,000	1	1
280,001 – 290,000	2	1
300,001 – 310,000	2	–
320,001 – 330,000	1	1
360,001 – 370,000	–	1
370,001 – 380,000	1	1
460,001 – 470,000	–	1
500,001 – 510,000	–	1
510,001 – 520,000	1	–
520,001 – 530,000	1	–
920,001 – 930,000	–	1
1,060,001 – 1,070,000	1	–

DIRECTORY

FMG comprising
Farmers' Mutual Group
FMG Insurance Limited

Head Office
Level 1
PwC Centre
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

Cindy Mitchener

Danny Chan

Steve Allen

Murray Taggart

Geoff Copstick

Leadership team
Chris Black – *Chief Executive Officer*

Andrea Brunner – *Chief Client Officer*

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

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

Nathan Barrett – *Chief Underwriting and Claims Officer*

Colin Philp – *Chief Information Officer*

Natalie Lombe – *General Manager Human Resources*

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