FMG INSURANCE LIMITED

ANNUAL REPORT 2012

CONTENTS

FMG Insurance Limited
Annual Report 2012

DIRECTORS' REPORT
The Directors have pleasure in presenting the Annual Report and Financial Statements for the year ended 31 March 2012.

FINANCIAL REPORT
The financial results for the year reflect the following:-

	2012	2011
	$000	$000
Profit before Taxation	348	5,083
Taxation	(104)	(1,372)
Profit after Taxation	244	3,711

Increase in Gross Premium Income from $28.1m to $30.5m
Increase in Claims Expense from $25.9m to $31.1m
Decrease in Investment Revenue from $2.0m to $1.7m

DIVIDENDS
No dividend has been paid or recommended for payment up to the date of this report.

SHARE CAPITAL
At 31 March 2012 there were 12,500,000 shares issued, and fully paid.

DIRECTORATE
In accordance with the Company's Constitution the Directors are appointed by the Parent, Farmers' Mutual Group.

ROLE OF THE DIRECTORS
The Board is responsible for the strategy, direction and control of the Company. This responsibility includes areas of stewardship such as the identification and control of the Company's business risks, the integrity of management information systems and reporting to policyholders and shareholders.

While the Board acknowledges that it is responsible for the overall control framework of the Company, 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 as at 31 March 2012
The company's directors are Mr. Greg Gent, Mrs. Marise James, Mr. Graeme Milne, Mr. Murray Donald, Mr. Tony Cleland and Mr. Michael Ahie. All were appointed in September 2011.

Mr. Chris Black and Mr. Dave Kibblewhite retired in September 2011.

The following are the Directors' qualifications and experience:

Greg Gent
Mr. Gent is the Chairman of FMG's Board of Directors. He has extensive experience in the rural sector and, along with being a dairy farmer, has held several directorships and chairmanships within the dairy industry, including over a decade as a Director of the Fonterra Co-operative. He is also a director of Southern Cross and board member of Northland District Health Board.

Murray Donald
Mr. Donald has extensive rural and management experience. He currently farms a 455 hectare property in Southland and is also a Director of Alliance Group and Chairman of Alliance Group Trustee Limited. A former National President of the Young Farmers' Club, Mr. Donald also received a commemorative medal for services to agriculture in 1990.

Marise James
Mrs. James is a Chartered Accountant based in Taranaki specialising in the rural sector and in particular, business and tax planning. She and husband are former winners of Sharemilker of the Year. Mrs. James, a recipient of the Nuffield Scholarship, is also a Director of TSB Bank, and a former Landcorp Farming Ltd and Fonterra Director.

Graeme Milne
Mr. Milne has considerable experience in agribusiness as well as corporate governance, including his previous roles as CEO of Bay Milk Products, New Zealand Dairy Group, and Bonlac. He is currently the Chairman of the Waikato District Health Board, Synlait Milk Ltd and New Zealand Pharmaceuticals Limited and is a Director of Genesis Power Limited, amongst others.

Tony Cleland
Mr. Cleland is a Southland dairy farming entrepreneur and founder of FarmRight, an independent dairy farming management and consultancy company based in Lumsden. He is also a director of Northland Field Power.

Michael Ahie
Mr. Ahie is the CEO and a founding partner of AltusQ. He has broad international business and governance experience with multinational companies including Toyota New Zealand Ltd, the New Zealand Dairy Board and Wrightson Ltd. Mr. Ahie is also chairman of Plant and Food Research, a director of Vehicle Testing Group and has farming interests in Taranaki

The Board is subject to the FMG /FMGIL 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 and who intend to stand for re-election to the FMG Board.

Each Director must be assessed as being fit and proper in accordance with FMG's Fit & Proper Policy and reassessed 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.

LEGISLATIVE AND REGULATORY COMPLIANCE

The company is subject to the Insurance (Prudential Supervision) Act 2010 and thus comes under the direct supervision of the Reserve Bank of New Zealand. In accordance with the requirements of that Act, the company and its parent both hold a Provisional Licences.

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.

DIRECTORS' REMUNERATION

The Directors of FMGIL are also directors of the Parent, Farmers' Mutual Group and thus any amount paid to each director is reflected in the remuneration of directors of the Group.

EMPLOYEE REMUNERATION

The company has no employees.

DIRECTORS' INTERESTS

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

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

(c) Directors' remuneration is included in the Group financial statements.

(d) The Parent 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.

e) The Directors have advised that their personal insurances have been arranged through the Group.

USE OF COMPANY INFORMATION

The Board has not received any notices from Directors of the Company or the Group requesting use of Company information received in their capacity as Directors which would not otherwise be available to them.

AUDITORS

In accordance with Section 196 of the Companies Act 1993 Ernst & Young has been appointed as Auditors for the company.

Signed on behalf of the Directors on 7 June 2012.

-------------------------------	-------------------------------
G W Gent	**M W A Donald**
Director	*Director*

Income statement

For the year ended 31 March

	Note	2012 $000	2011 $000
Continuing operations			
General insurance activities			
Gross written premium		32,909	28,485
Movement in unearned premium		(2,401)	(365)
Gross earned premium	1	30,508	28,120
Outwards reinsurance premium expense		(1,761)	(2,031)
Net premium revenue		28,747	26,089
Claims expense		(31,146)	(25,879)
Reinsurance and other recoveries revenue	1	8,204	10,033
Net claims incurred		(22,942)	(15,846)
Other income	1	1,126	1,035
Management expenses		(8,300)	(8,149)
General insurance underwriting result		(1,369)	3,129
Investment revenue	1	1,717	1,954
Profit from general insurance activities		348	5,083
Income tax expense	3	(104)	(1,372)
Profit from continuing operations		244	3,711
Profit for the year		244	3,711
Attributable to:			
Shareholders		244	3,711
Profit for the year		244	3,711
Total comprehensive income for the year, net of tax		244	3,711
Total comprehensive income attributable to:			
Shareholders		244	3,711
		244	3,711

Statement of changes in equity

For the year ended 31 March

	Note	2012 $000	2011 $000
Opening Equity		25,667	21,956
Opening Share Capital		12,500	12,500
Total Contributions by and Distributions to Shareholder		-	-
Closing Share Capital	15	12,500	12,500
Opening Retained Earnings		13,167	9,456
Total profit and total comprehensive income		244	3,711
Retained earnings acquired upon amalgamation	4	7,901	-
Closing Retained Earnings		21,312	13,167
Closing Equity		33,812	25,667

The statement of accounting policies and notes 1 to 27 are an integral part of these financial statements.

Balance Sheet

As at 31 March

	Note	2012 $000	2011 $000
Assets			
Cash and cash equivalents	**5**	7,963	1,267
Current tax asset		339	-
Investments	**6**	31,544	30,018
Loans and receivables	**7**	5,780	-
Insurance recoveries	**8**	20,177	20,268
Related party receivable	**10**	-	8,484
Trade and other current receivables	**10**	8,486	6,878
Deferred acquisition costs	**11**	1,133	1,388
Deferred tax assets	**12**	317	79
Property, plant and equipment	**13**	1	-
Total assets		75,740	68,382
Liabilities			
Related party payable	**14**	915	-
Current tax liability		-	1,348
Underwriting provisions	**8**	39,466	40,103
Trade and other current liabilities	**14**	1,229	875
Deferred tax liabilities	**12**	318	389
Total liabilities		41,928	42,715
Net assets		33,812	25,667
Equity			
Share capital		12,500	12,500
Retained earnings		21,312	13,167
Total equity		33,812	25,667

Signed on behalf of the Board of Directors, who authorised the issue of these financial statements on 7 June 2012.

G W Gent
Director
7 June 2012

M W A Donald
Director
7 June 2012

The statement of accounting policies and notes 1 to 27 are an integral part of these financial statements.

Statement of cash flows

For the year ended 31 March

	Note	2012 $000	2011 $000
Cash flows from operating activities			
Premium and other receipts from clients		32,297	29,626
Reinsurance recoveries		3,150	241
Claims paid		(28,414)	(15,281)
Reinsurance premium paid		(1,642)	(2,048)
Cash paid to suppliers and employees		(8,376)	(7,493)
Income tax paid		(1,304)	(2,221)
Net cash flows from operating activities	**5**	(4,289)	2,824
Cash flows from investing activities			
Proceeds from sale/(purchase) of investment securities		140	(230)
Proceeds from foreign exchange contracts		(29)	281
Interest received		33	32
Dividends received		8	9
Other income		1	-
Net cash flows from investing activities		153	92
Cash flows from financing activities			
Movement of inter company accounts		9,645	(5,108)
Net cash flows from financing activities		9,645	(5,108)
Net increase / (decrease) in cash and cash equivalents		5,509	(2,192)
Cash introduced on amalgamation		1,187	-
Cash and cash equivalents at the beginning of the year		1,267	3,459
Cash and cash equivalents at the end of the year	**5**	7,963	1,267

STATEMENT OF ACCOUNTING POLICIES

for the year ended 31 March

REPORTING ENTITY

FMG Insurance Limited is a company domiciled in New Zealand, registered under the Companies Act 1993.

The Company is primarily involved in providing Fire and General Insurance in New Zealand.

BASIS OF PREPARATION

Statement of compliance

The financial statements have been prepared in accordance with generally accepted accounting practice in New Zealand, the requirements of the Companies Act 1993 and the Financial Reporting Act 1993.

The financial statements have been prepared in accordance with NZ GAAP. They comply with New Zealand equivalents to International Financial Reporting Standards, and other applicable Financial Reporting Standards, as appropriate for profit-oriented entities. The financial statements comply with International Financial Reporting Standards (IFRS).

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

Functional and presentation currency

These financial statements are presented in New Zealand dollars ($), which is the primary economic environment in which FMG Insurance Limited operates. All financial information presented in New Zealand dollars has been rounded to the nearest thousand.

Amalgamations

On 31 March 2012 Farmers Mutual Finance Limited was amalgamated with FMG Insurance Limited. As a result of the amalgamation FMG Insurance Limited took control of the assets of $7,975k and assumed responsibility for the liabilities of $74k. The amalgamation has been conducted in line with Companies Act 1993 and combined the net assets of the amalgamated companies using the pooling of interest method. All share capital of Farmers' Mutual Finance Limited has been cancelled upon amalgamation.

General insurance contracts

The general insurance operations of the Company comprise the management of the outstanding claims liability on previously issued 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*.

General insurance liabilities

The outstanding claims liability for general insurance contracts is measured as the best estimate of the present value of expected future payments for claims incurred at the balance date. A risk margin is added to allow for the inherent uncertainty in the best estimate and to increase the probability that the liability is adequately provided for.

The liability includes an allowance for inflation and superimposed inflation and is discounted to present value using a risk-free rate.

STATEMENT OF ACCOUNTING POLICIES *(continued)*

for the year ended 31 March

Claims incurred at the balance date comprise:

- claims which have been reported but not yet paid
- claims incurred but not yet reported
- claims incurred but not enough reported and the anticipated direct and indirect costs of settling these claims.

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

Provision has been made for the estimate of claim recoveries from third parties in respect of general insurance business.

Liability adequacy testing is performed in order to recognise any deficiencies in profit and loss arising from the carrying amount of the unearned premium liability less any related deferred acquisition costs and intangible assets not meeting the estimated future claims under current insurance conditions. Any deficiency is taken to the profit and loss and written off against any deferred acquisition costs. Liability adequacy is performed at a portfolio level 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 Company has identified its investment funds 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 profit and loss, to the extent permitted under accounting standards. The accounting policies for individual asset classes, and any restrictions on application of fair value, are described below.

Claims expense

Claims expenses in respect of general insurance contracts are recognised in profit and loss either as claims are incurred or as movements in outstanding claims owing.

Policy acquisition costs

Policy acquisition costs comprise the costs of acquiring new business, including commission, advertising, 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.

STATEMENT OF ACCOUNTING POLICIES *(continued)*
for the year ended 31 March

Loans and advances
Loans and advances are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and not classified as available-for-sale. The loans and advances are initially measured at fair value including transaction costs that are directly attributable to the issue of the loan or advance. They are subsequently measured at amortised cost using the effective interest method, less any impairment loss. They are derecognised when the rights to receive cash flows have expired or the Group has transferred substantially all the risks and rewards of ownership.

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

Impaired assets
Impaired assets consist of restructured assets, assets acquired through the enforcement of security and other impaired assets.

Restructured assets are loans and receivables that would otherwise be past due or impaired assets whose terms have been renegotiated.

Assets acquired through the enforcement of security are those real estate or other assets acquired in full or partial satisfaction of a debt.

Other impaired assets means any loans and receivables for which an impairment loss is required as all amounts owing are not expected to be collected from the customer.

Provision for impairment
Loans and receivables are reviewed at each balance date to determine whether there is any objective evidence of impairment. Loans and receivables which are identified as being impaired assets are presented net of specific provisions to reduce the carrying amounts to their recoverable amounts. The recoverable amounts are calculated as the present value of the expected future cash flows discounted at the customer's original effective interest rate, and include expected proceeds from the sale of collateral held as security where appropriate.

Loans and receivables which are either past due assets or are not impaired assets are presented net of a collective provision to reduce the carrying amount of the portfolio to its estimated recoverable amount. The collective provision relates to incurred losses not yet specifically identified in the portfolio based on previous experience.

When a loan is known to be uncollectible and the final loss has been determined, the loan is written off directly to profit and loss.

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 profit and loss at the reporting date is recognised in the balance sheet as provision for unearned premiums.

STATEMENT OF ACCOUNTING POLICIES *(continued)*
for the year ended 31 March

Interest income and expense
The effective interest method is used to measure the interest income or expense recognised in the profit and loss. 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.

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

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".

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 profit and loss as incurred.

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

Buildings	Straight line basis over their estimated economic life
Furniture and fittings	20% diminishing value

Trade and other receivables
Trade and other receivables are initially recognised at their fair value. Subsequent recognition is at the amortised cost using the effective interest method.

Cash and cash equivalents
Cash and cash equivalents includes cash on hand and deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and bank overdrafts. Bank overdrafts are shown within borrowings on the balance sheet.

STATEMENT OF ACCOUNTING POLICIES *(continued)*

for the year ended 31 March

Derivative financial instruments

The Company uses derivative financial instruments to economically hedge its exposure to foreign exchange rate risks arising from operational, financing and investment activities (such as forward rate agreements, futures and options). The Company also holds derivative financial instruments for trading purposes. However, derivatives that do not qualify for hedge accounting are accounted for as trading instruments.

Derivative financial instruments are recognised initially at fair value and transaction costs are expensed immediately. Subsequent to initial recognition, derivative financial instruments are stated at fair value. The gain or loss on remeasurement to fair value is recognised immediately in the profit and loss.

Equity securities

Equity securities are financial assets designated at fair value through the profit and loss and are initially recognised at fair value. Initial fair value is determined as the purchase cost of the asset, exclusive of any transaction costs. Equity securities are subsequently measured at fair value with any realised and unrealised gains or losses arising from changes in the fair value being recognised in the profit and loss in the period in which they arise.

Debt securities

Debt securities are financial assets designated at fair value through the profit and loss and are initially recognised at fair value. Initial fair value is determined as the purchase cost of the asset exclusive of any transaction costs. For debt securities, initial fair value is determined as the purchase cost of the asset.

Debt securities are subsequently measured at fair value, with any realised and unrealised gains or losses arising from changes in the fair value being recognised in the profit and loss for the period in which they arise.

Fair value estimation

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 Company is the current bid price, the quoted market price for financial liabilities is the current offer price.

The fair value of financial instruments not traded in an active market is determined using valuation techniques. Valuation techniques include net-present-value techniques, discounted cash-flow methods and comparison to quoted market prices or dealer quotes for similar instruments. Inputs to the models are market observable.

Recognition and derecognition of financial instruments

Financial assets are recognised at trade date. Financial assets are derecognised when the contractual rights to the cash flows from the financial assets expire, or are transferred. A transfer occurs when substantially all the risks and rewards of ownership of the financial asset are passed to an unrelated third party. Financial liabilities are derecognised when the obligation specified in the contract is discharged, cancelled or expires.

STATEMENT OF ACCOUNTING POLICIES *(continued)*
for the year ended 31 March

Foreign currency
Transactions in foreign currencies are translated to the functional currency of the Company 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 profit and loss.

Income tax expense
Income tax expense comprises current and deferred 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 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.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which temporary difference 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.

Payables
These amounts represent liabilities for goods and services provided to the Company 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.

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. Trade 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.

Statement of cash flows
The statement of cash flows is prepared exclusive of GST, which is consistent with the method used in the profit and loss. 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 Company. This includes debt not falling within the definition of cash and related party balances;
- Operating activities include all transactions and other events that are not investing or financing activities.

STATEMENT OF ACCOUNTING POLICIES *(continued)*

for the year ended 31 March

Reinsurance recoveries

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

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

STATEMENT OF ACCOUNTING POLICIES *(continued)*
for the year ended 31 March

CRITICAL ACCOUNTING JUDGEMENTS AND ESTIMATES

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

Claims liabilities under general insurance contracts
Provision is made at the end of the year for the estimated cost of claims incurred but not settled at the balance sheet date, including the cost of claims incurred but not yet reported to the Company.

The estimated cost of claims includes direct expenses to be incurred in settling claims gross of the expected value of salvage and other recoveries. The Company takes all reasonable steps to ensure that it has appropriate information regarding its claims exposures. However, given the uncertainty in establishing claims provisions, it is likely that the final outcome will prove to be different from the original liability established.

The estimation of claims incurred but not reported ("IBNR") is generally subject to a greater degree of uncertainty than the estimation of the cost of settling claims already notified to the Company, where more information about the claim event is generally available. IBNR claims may often not be apparent until many years after the events giving rise to the claims has happened. In calculating the estimated cost of unpaid claims the Company 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. Allowance is made, however, for changes or uncertainties which may create distortions in the underlying statistics or which may cause the cost of unsettled claims to increase or reduce when compared with the cost of previously settled claims including:

- changes in Company processes which might accelerate or slow down the development and/or recording of paid or incurred claims, compared with statistics from previous periods;
- changes in the legal environment;
- the effects of inflation;
- changes in the mix of business;
- the impact of large losses;
- movements in industry benchmarks;
- medical and technological developments.

A component of these estimation techniques is usually the estimation of the cost of notified but not paid claims. In estimating the cost of these the Company has regard to the claim circumstances as reported, any information available from loss adjusters and information on the cost of settling claims with similar characteristics in previous periods.
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.

Further information is contained in notes 8 & 9.

Recovery of deferred tax assets
Deferred tax assets are recognised for deductible temporary differences that it is probable that future taxable profits will be available to utilise those temporary differences.

STATEMENT OF ACCOUNTING POLICIES *(continued)*
for the year ended 31 March

NEW STANDARDS AND INTERPRETATIONS NOT YET ADOPTED

A number of relevant new interpretations and new standards are not yet effective for the year ended 31 March 2012, and have not been applied by the Company in preparing these financial statements:

FRS 44 New Zealand Additional Disclosures (effective for periods commencing 1 January 2012)

FRS 44 is a consequence of the joint Trans-Tasman Convergence project of the Australian Accounting Standards Board (AASB) and Financial Reporting Standards Board (FRSB).
This standard relocates New Zealand specific disclosures from other standards to one place and revises disclosures in the following areas:
a) Compliance with NZ IFRS
b) The statutory basis or reporting framework for financial statements
c) Audit fees
d) Imputation credits
e) Reconciliation of net operating cash flow to profit (loss)
f) Prospective financial statements
g) Elements in the statement of service performance

Amendments to NZ IFRS to Harmonise with IFRS and Australian Accounting Standards (NZ IAS 1, 7, 8, 12, 16, 20, 28, 31, 34 & 40) (effective for periods commencing 1 January 2012)

These amendments;
a) Remove the disclosures which have been relocated to FRS 44
b) Harmonise audit fee disclosure requirements in NZ IFRS 1 with AASB 101
c) Harmonise imputation/franking credits' disclosure requirements in NZ IAS 12 with AASB 101
d) Introduce of the option to use the indirect method of reporting cash flows in NZ IAS 7
c) Introduce an accounting policy choice to use the cost model for investment property under NZ IAS 40
f) Remove the requirement to use an independent valuer and the related disclosure requirements currently in NZ IAS 16 and NZ IAS 40
g) Remove some NZ-specific disclosures

NZ IFRS 13 Fair Value Measurement (for periods commencing 1 January 2013)

NZ IFRS 13 establishes a single source of guidance under NZ IFRS for determining the fair value of assets and liabilities. NZ IFRS 13 does not change when an entity is required to use fair value, but rather, provides guidance on how to determine fair value under NZ IFRS when fair value is required or permitted by NZ IFRS. Application of this guidance may result in different fair values being determined for the relevant assets. NZ IFRS 13 also expands the disclosure requirements for all assets or liabilities carried at fair value. This includes information about the assumptions made and the qualitative impact of those assumptions on the fair value determined.

STATEMENT OF ACCOUNTING POLICIES *(continued)*
for the year ended 31 March

NZ IFRS 9 (2010) Financial Instruments (for periods commencing 1 January 2015)

NZ IFRS 9 (2010) supersedes NZ IFRS 9 (2009). The requirements for classifying and measuring financial liabilities were added to NZ IFRS 9 as issued in 2009. The existing NZ IAS 39 Financial Instruments: Recognition and Measurement requirements for the classification of financial liabilities and the ability to use the fair value option have been retained. However, where the fair value option is used for financial liabilities, the change in fair value is accounted for as follows:

The change attributable to changes in credit risk are presented in other comprehensive income (OCI). The remaining change is presented in profit or loss.

If this approach creates or enlarges an accounting mismatch in the profit or loss, the effect of the changes in credit risk are also presented in profit or loss.

NZ IFRS 9 (2009) Financial Instruments (for periods commencing 1 January 2015)

NZ IFRS 9 (2009) includes requirements for the classification and measurement of financial assets resulting from the first part of Phase 1 of the IASB's project to replace NZ IAS 39.

These requirements improve and simplify the approach for classification and measurement of financial assets compared with the requirements of NZ IAS 39. The revised Standard introduces a number of changes to the accounting for financial assets, the most significant of which includes:

- Two categories for financial assets being amortised cost or fair value
- Removal of the requirement to separate embedded derivatives in financial assets
- Strict requirements to determine which financial assets can be classified as amortised cost or fair value. Financial assets can only be classified as amortised cost if (a) the contractual cash flows from the instrument represent principal and interest and (b) the entity's purpose for holding the instrument is to collect the contractual cash flows
- An option for investments in equity instruments which are not held for trading to recognise fair value changes through other comprehensive income with no impairment testing and no recycling through profit or loss on derecognition
- Reclassifications between amortised cost and fair value no longer permitted unless the entity's business model for holding the asset changes
- Changes to the accounting and additional disclosures for equity instruments classified as fair value through other comprehensive income.

Adopting this standard is not expected to have a material impact on the numbers presented in the financial statements.

STATEMENT OF ACCOUNTING POLICIES *(continued)*
for the year ended 31 March

NZ IFRS 28 Investments in Associates and Joint Ventures (for period commencing 1 January 2013)

NZ IAS 28 Investments in Associates and Joint Ventures (as amended in 2011) supersedes NZ IAS 28 Investments in Associates (2004), as a result of the issue of NZ IFRS 11 Joint Arrangements and NZ IFRS 12 Disclosure of Interests in Other Entities.

NZ IAS 28 (as amended in 2011) prescribes the accounting for investments in associates and sets out the requirements for the application of the equity method when accounting for investments in associates and joint ventures. Disclosure requires relating to these investments are now contained in NZ IFRS 12.

Adopting this standard is not expected to have a material impact on the numbers presented in the financial statements.

NZ IFRS 13 Fair Value Measurement (for period commencing 1 January 2013)

NZ IFRS 13 establishes a single source of guidance under NZ IFRS for determining the fair value of assets and liabilities. NZ IFRS 13 does not change when an entity is required to use fair value, but rather, provides guidance on how to determine fair value under NZ IFRS when fair value is required or permitted by NZ IFRS. Application of this guidance may result in different fair values being determined for the relevant assets.

NZ IFRS 13 also expands the disclosure requirements for all assets or liabilities carried at fair value. This includes information about the assumptions made and the qualitative impact of those assumptions on the fair value determined.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 March

1 REVENUE

	2012 $000	2011 $000
General insurance revenue		
Gross earned premiums	30,508	28,120
Reinsurance and other recoveries revenue	8,204	10,033
Investment revenue:		
Dividends	8	9
Interest income	33	33
Movement in financial assets at fair value through profit and loss	1,676	1,912
Total investment revenue	1,717	1,954
Fee income and other revenue	1,126	1,035
Total general insurance revenue	41,555	41,142

2 OTHER EXPENSES

Other insurance and operating expenses includes:	2012 $000	2011 $000
Auditors' remuneration – audit	56	42
Auditors' remuneration – taxation services	16	14

3 INCOME TAX

	2012 $000	2011 $000
a) Income tax expense		
Current tax	201	1,348
Deferred tax expense	(97)	2
Under/(over) provided in prior years	-	44
Change in tax rate	-	(22)
Income tax expense	104	1,372
b) Numerical reconciliation of income tax expense to prima facie tax payable		
Profit before taxation	348	5,083
Prima facie income tax @ 28% (2010:30%)	98	1,525
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:		
Non deductible expenses and other items	117	(161)
Deferred tax expense	(97)	(2)
Change in tax rate	-	(22)
Prior period adjustment	-	44
Imputation credits on dividends	(14)	(12)
Income tax expense	104	1,372

NOTES TO THE FINANCIAL STATEMENTS *(continued)*
for the year ended 31 March

4 AMALGAMATION

On 31 March 2012 Farmers' Mutual Finance Limited was amalgamated into FMG Insurance Limited. The assets and liabilities acquired by FMG Insurance Limited are as follows:

	$000
Assets	
Cash at bank and in hand	1,187
Trade and other current receivables	10
Related party receivable	245
Income tax receivable	540
Loans and receivables	5,780
Deferred tax asset	212
Property, plant and equipment	1
	7,975
Liabilities	
Trade and other current liabilities	74
Retained earnings	7,901

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

for the year ended 31 March

5 CASH AND CASH EQUIVALENTS

	2012 $000	2011 $000
Cash at bank and in hand	7,963	1,267
Total cash and cash equivalents	7,963	1,267

a) Reconciliation to cash at the end of the year

The above figures are reconciled to cash at the end of the financial year as shown in the Statement of Cash Flows as follows:

Balances as above	7,963	1,267
Balances per Statement of Cash Flows	7,963	1,267

	2012 $000	2011 $000
b) Reconciliation of profit to net cash flows from operating activities		
Profit for the year	244	3,711
Adjustments for non cash items		
Movement in deferred tax	(97)	(20)
Movement in unearned premium	3,678	365
Movement in outstanding claims	1,410	10,599
Movement in deferred acquisition costs	255	-
Movement in bad debts provision	92	(7)
Unrealised investment (gain)	(1,310)	(320)
Unrealised forex (gain)/loss	(24)	31
	4,004	10,648
Movements in other working capital items		
Movement in accounts receivable	(7,542)	(9,057)
Movement in accounts payable	453	(481)
Movement in taxation	(1,148)	(394)
	(8,237)	(9,932)
Items classified as investing activities		
Net gain/ (loss) on sale of investments	(321)	(1,551)
Dividends received	(8)	(9)
Foreign exchange contract gains/(losses)	29	(43)
	(300)	(1,603)
Net cash flows from operating activities	(4,289)	2,824

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

for the year ended 31 March

6 OTHER FINANCIAL ASSETS

	2012 $000	2011 $000
Unit trust investments		
Investments in listed New Zealand companies (Unit Trust)	1,243	937
Offshore equities (Unit Trust)	5,190	4,040
Government and public authority bonds (Unit Trust)	535	545
Other fixed interest investments (Unit Trust)	24,576	24,496
Total unit trust investments	31,544	30,018

Determination of fair value hierarchy (b)
2012

	Level 1 $000	Level 2 $000	Level 3 $000	Total fair value $000
Financial Assets designated as fair value through profit and loss:				
Unit trust investments	-	31,544	-	31,544
Total financial assets	-	31,544	-	31,544

Determination of fair value hierarchy (b)
2011

	Level 1 $000	Level 2 $000	Level 3 $000	Total fair value $000
Financial Assets designated as fair value through profit and loss:				
Unit trust investments	-	30,018	-	30,018
Total financial assets	-	30,018	-	30,018

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 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 Company's own models whereby the majority of assumptions are market observable.

During the year there were no transfers between categories.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

for the year ended 31 March

7 LOANS AND RECEIVABLES

	2012 $000	2011 $000
Gross loans and receivables	6,485	-
Allowance for collective impairment	(614)	-
Allowance for individual impairment	(91)	-
Net loans and receivables	5,780	-
Current portion of Gross Loans and Receivables	5,886	-
Non-current portion of Gross Loans and Receivables	599	-
Gross Loans and Receivables	6,485	-

8 UNDERWRITING PROVISIONS AND REINSURANCE AND OTHER RECOVERIES

	2012 $000	2011 $000
Underwriting Provisions comprise:		
Liability for outstanding claims		
Expected future claim payments (undiscounted)	25,060	27,446
Discount to present value	(254)	(309)
	24,806	27,137
Provision for unearned premiums	14,660	12,966
Underwriting provisions	39,466	40,103
Current	36,731	38,312
Non-current	2,735	1,791
	39,466	40,103
Provision for reinsurance and other recoveries comprise:		
Expected future recoveries (undiscounted)	20,390	20,496
Discount to present value	(213)	(228)
Net insurance recoveries	20,177	20,268
Current	17,952	18,931
Non-current	2,225	1,337
	20,177	20,268

The following average inflation rates and discount rates were used in measuring the liability for outstanding claims:

		2012	2011
New Zealand:	Inflation rate	Implicit	Implicit
	Discount rate	2.65% per annum	2.85% per annum
New Zealand:	Weighted average term to closure	182 days	182 days

9 GENERAL INSURANCE CONTRACTS

(a) Net general insurance claims incurred

	2012 Risks borne in current year $000	2012 Risks borne in prior years $000	2012 Total $000	2011 Risks borne in current year $000	2011 Risks borne in prior years $000	2011 Total $000
Gross claims expense						
Direct claims – undiscounted	21,539	4,797	26,336	37,512	(1,707)	35,805
Discount	(66)	(187)	(253)	9	(9)	-
Gross claims expense	21,473	4,610	26,083	37,521	(1,716)	35,805
Reinsurance and other recoveries						
Reinsurance and other recoveries revenue - undiscounted	(191)	(3,777)	(3,968)	19,578	437	20,015
Discount	11	282	293	85	(141)	(56)
Reinsurance recoveries	(180)	(3,495)	(3,675)	19,663	296	19,959
Net claims incurred	21,293	1,115	22,408	17,858	(2,012)	15,846

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) Analysis of outstanding claims

	2012 $000	2011 $000
Gross central estimate of present value of future claims payment	24,357	26,457
Risk margin	449	680
Total outstanding claims liability	24,806	27,137
The expected settlement pattern of the outstanding claims liability is as follows:		
Current	22,581	25,346
Non Current	2,225	1,791
Total outstanding claims liability	24,806	27,137
The liability for outstanding claims is segmented as follows:		
Direct insurance	24,806	27,137
Total outstanding claims liability	24,806	27,137

Assumptions adopted in calculation of general insurance provisions

The effective date of the actuarial report on the Insurance Liabilities is 31 March 2012. The previous assessment of the Insurance Liabilities was performed at 31 March 2011.

The actuarial report was prepared by Tracey Short a member of the NZ Society of Actuaries. The Actuary is satisfied as to the accuracy of the data upon which the calculation of Insurance Liabilities has been made and is satisfied that the accounting provisions held in respect of the insurance liabilities are adequate.

9 GENERAL INSURANCE CONTRACTS *(CONTINUED)*

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

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

	2012	**2011**
Inflation rate	Implicit	Implicit
Discount rate	2.65%	2.85%
Claims handling expense ratio – outstanding claims liabilities	3.5%	3.5%
Claims handling expense ratio – premium liabilities	4.4%	4.4%
Risk margin – outstanding claims liabilities	10.4%	11.1%
Risk margin – premium liabilities	16.9%	16.9%
Weighted average expected term to settlement	182 days	182 days

Inflation rate
Insurance costs are subject to inflationary pressures. Inflation assumptions for all classes of business are based on current economic indicators.

Discount rate
The outstanding claims liability is discounted at the risk free rate. This rate is determined as the average rate for a portfolio of Government Stock that matches the liability cash flows by duration.

Claims handling expense
The estimate of outstanding claims liabilities incorporates an allowance for the future cost of administrating the claims. This allowance is determined after analysing historical claim related expenses incurred by the classes of business.

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.

9 GENERAL INSURANCE CONTRACTS *(CONTINUED)*

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

	2012 $000	2011 $000
Reinsurance and other recoveries receivable		
Reinsurance and other recoveries receivable at the beginning of the year	20,268	743
Reinsurance and other recoveries incurred during the year	3,675	9,492
Reinsurance and other recoveries received during the year	(3,766)	10,033
Reinsurance and other recoveries receivable at the end of the year	20,177	20,268
Outstanding claims liability		
Gross outstanding claims at the beginning of the year	27,137	6,612
Claims incurred during the year	31,145	25,881
Claims payments made during the year	(33,476)	(5,356)
Gross outstanding claims at the end of the year	24,806	27,137
Reconciliation of outstanding claims to liability for outstanding claims		
Outstanding claims undiscounted	25,060	27,446
Discount	(254)	(309)
Total outstanding claims	24,806	27,137

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.

2012

Variable	**Movement**	**Impact on profit after tax (net of reinsurance)**	**Impact on profit after tax (gross of reinsurance)**
Discount rate	Increase of 1%	10	65
	Decrease of 1%	(11)	(66)
Claims handling expense ratio	Increase of 1%	-	-
	Decrease of 1%	-	-
Risk margin	Increase of 1%	29	29
	Decrease of 1%	(29)	(29)
Weighted average expected term to settlement	Increase 0.5 years	42	226
	Decrease 0.5 years	(43)	(229)

2011

Variable	**Movement**	**Impact on profit after tax (net of reinsurance)**	**Impact on profit after tax (gross of reinsurance)**
Discount rate	Increase of 1%	19	74
	Decrease of 1%	(20)	(75)
Claims handling expense ratio	Increase of 1%	(31)	(182)
	Decrease of 1%	31	182
Risk margin	Increase of 1%	43	43
	Decrease of 1%	(43)	(43)
Weighted average expected term to settlement	Increase 0.5 years	67	265
	Decrease 0.5 years	(68)	(269)

9 GENERAL INSURANCE CONTRACTS *(CONTINUED)*

c) Risk Management policies and procedures

The general insurance business of the Company 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 Company are in notes 19 to 21.

(i) Objectives in managing risks arising from insurance contracts and policies for mitigating those risks
The risk management activities include prudent underwriting, pricing, and management of risk, together with claims management, reserving and investment management. The objective of these disciplines is to enhance the financial performance of the insurance operations.
The key policies in place to mitigate risk arising from writing general insurance contracts include:
- comprehensive management information systems and actuarial models using historical information to calculate premiums and monitor claims;
- monitoring natural disasters such as earthquake, flood, storms and other catastrophes using models;
- the use of reinsurance to limit the Company's exposure;
- prudent investment management to match our liabilities.

(ii) Terms and conditions of insurance contracts that have a material effect on amount timing and uncertainty of cash flows
The terms and conditions attached to insurance contracts affect the level of insurance risk accepted by the Company. There are no special terms and conditions in any non standard contracts that have a material impact on the financial statements.

(iii) Concentration of insurance risk
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-.

(iv) 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.

9 GENERAL INSURANCE CONTRACTS *(CONTINUED)*

	Incident year						
	2007	2008	2009	2010	2011	2012	Total
	$000	$000	$000	$000	$000	$000	$000
Ultimate claims cost estimate							
At end of accident year	12,116	16,543	15,130	16,749	37,460	18,031	
One year later	11,557	15,921	13,787	15,250	45,732		
Two years later	11,462	15,167	13,754	15,120			
Three years later	11,493	14,984	13,735				
Four years later	11,484	14,965					
Five years later	11,487						
Current estimate of ultimate claims cost	11,487	14,965	13,735	15,120	45,732	18,031	
Cumulative payments	11,486	14,940	13,729	15,052	27,302	12,294	
Undiscounted central estimate	1	25	6	68	18,430	5,737	24,267
Discount to present value	-	-	-	(2)	(185)	(92)	(279)
Discounted central estimate	1	25	6	66	18,245	5,645	23,988
Prior Years							-
Claims handling expense							369
Risk margin							449
Gross outstanding claims liabilities							24,806
Reinsurance recoveries on outstanding claims and other recoveries							(20,177)
Net outstanding claims liabilities							4,629

d) Liability adequacy test

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.
The risk margin adopted in performing the liability adequacy test is 75%. The outstanding claims liability is set at a level that is appropriate and sustainable to cover the Company's claims obligations after having regard to the prevailing market environment and prudent industry practice.

e) Insurer financial strength rating

The Company has a financial strength rating of A - (Excellent) as accorded by the international rating agency A M Best Company on 14 June 2011.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

for the year ended 31 March

9 GENERAL INSURANCE CONTRACTS *(CONTINUED)*

f) Reinsurance programme

The Company has a programme of reinsurance contracts to protect its insurance operations from high severity losses and catastrophic events. No inward reinsurance is written by the Company.

Reinsurance is placed to cover losses in excess of the Company's agreed retentions 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.

h) General insurance risk

Terms and conditions of insurance and inwards reinsurance business
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.

Concentration of insurance risk
The exposure to concentrations of insurance risk is able to be mitigated with the purchase of reinsurance where management believes that the price / risk transfer is suitable.

	2012 $000	2011 $000
10 TRADE AND OTHER CURRENT RECEIVABLES		
Trade debtors	8,855	7,033
Other receivables	7	128
	8,862	7,161
Collective Allowance for Impaired Assets		
Balance at the beginning of the year	(283)	(290)
Charged to profit and loss	(93)	7
Balance at the end of the year	(376)	(283)
	8,486	6,878
Related Party Debtors	-	8,484

	2012 $000	2011 $000
11 DEFERRED ACQUISITION COSTS		
Balance at the beginning of the year	1,388	1,388
Liability adequacy test deficiency	(255)	-
Balance at the end of the year	1,133	1,388
Current	1,133	1,388
	1,133	1,388

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

for the year ended 31 March

12 DEFERRED TAX ASSETS

	Opening balance at 1 April	Charged/ (credited) to profit and loss	Acquired through amalgam ation	Closing balance at 31 March
2012				
Movements in deferred taxation assets				
Provisions and accruals	79	26	200	305
Other	-	-	12	12
Total deferred tax assets	79	26	212	317
Movement in deferred taxation liabilities				
Deferred costs	(389)	71	-	(318)
Total deferred taxation liabilities	(389)	71	-	(318)
2011				
Movements in deferred taxation assets				
Provisions and accruals	87	(2)	(6)	79
Total deferred tax assets	87	(2)	(6)	79
Movement in deferred taxation liabilities				
Deferred costs	(417)	-	28	(389)
Total deferred taxation liabilities	(417)	-	28	(389)

13 PLANT AND EQUIPMENT

	Furniture and Fittings	Total Plant and Equipment
2012		
Cost	1	1
Accumulated Depreciation	-	-
Net Book Value	1	1
Opening Net Book Value	-	-
Additions	1	1
Disposals	-	-
Depreciation	-	-
Closing Net Book Value	1	1

14 TRADE AND OTHER CURRENT LIABILITIES

	2012 $000	2011 $000
Trade creditors	1,076	841
Reinsurance creditors	153	34
	1,229	875
Related party creditors	915	-

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

for the year ended 31 March

	2012 $000	2011 $000
15 CONTRIBUTED EQUITY		
Fully paid ordinary shares at 1 April	12,500	12,500
Fully paid ordinary shares at 31 March	12,500	12,500

As at 31 March there were 12,500,000 ordinary shares. Ordinary share have no par value.

16 PAST DUE AND IMPAIRED ASSETS

The following amounts for past due and impaired assets are included in the amounts shown in Note 7.

	Past due assets $000	Restructured assets $000	Individually impaired assets $000	Total $000
2012				
Opening balance	-	-	-	-
Plus additions	242	-	711	953
Less write-offs	-	-	-	-
Less repayments and deletions	-	-	-	-
Net past due and impaired assets	242	-	711	953

Individually impaired assets are held at the net present value of expected future cashflows, based on an assessment of the collateral held and the ability of the customer to make future payments.

Past due assets are assets that have not been operated by the counterparty within the agreed terms. Management has assessed these loans and does not consider them impaired.

	2012 $000	2011 $000
Ageing of past due not impaired assets		
Past due 0-90 days	205	-
Past due 90+ days	37	-
	242	-

17 ALLOWANCES FOR IMPAIRED ASSETS

	2012 $000	2011 $000
Allowance for individual impairment		
Balance at the beginning of the year	-	-
Allowance on assets acquired through amalgamation	91	-
Balance at the end of the year	91	-
Allowance for collective impairment		
Balance at the beginning of the year	283	290
Net charged to profit and loss	93	(7)
Allowance on assets acquired through amalgamation	614	-
Balance at the end of the year	990	283

There was no interest income on impaired financial assets accrued for the current year (2011: nil).

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

for the year ended 31 March

18 RELATED PARTY TRANSACTIONS

Farmers' Mutual Group

The Parent, Farmers' Mutual Group provides underwriting, accounting and secretarial services for which it charges a management fee. The fee charged for the period ended 31 March 2012 was $8,316k (2011: $8,316k). At balance date $915k is owed to the Parent.

The Company has made loans and advances from the Parent. Refer to Note 14 for balances owing from related parties at 31 March 2012. No interest is payable on current account balances.

Farmers' Mutual Group (FMG) is the ultimate controlling entity. FMG was incorporated in New Zealand and owns 100% of FMG Insurance Limited.

19 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 9.

Finance Lending Credit Risk

Credit risk relating to finance lending is the risk that customers to which the Company lends money will default on their repayment obligations resulting in losses being incurred. The financial effect of FMG's credit risk is disclosed in Note 16 Past Due and Impaired Assets. The maximum exposure to credit risk is the carrying amount of net loans and receivables included in the Balance Sheet and undrawn lending commitments. Credit risk is managed through FMG performing credit evaluations on all customers requesting loans. None of FMG's loan customers have credit ratings. Internal controls are in place to ensure that the FMG staff members performing and/or approving the credit evaluation have the necessary delegated authority for the size of the transaction. Internal controls in place to mitigate credit risk include delegated authority levels, dual signatory requirements, hindsight reviews, segregation of duties between lending, credit control and administration staff, and monthly reporting of credit risk to the Board of Directors and Trustee.

Credit risk in a loan portfolio can be recognised in a number of forms, each of which are discussed below include; Collateral Risk, Geographic Risk and Industry Risk. Undrawn lending commitments are disclosed in note 22.

Other financial assets

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

Collateral risk

Collateral risk is the risk that a loan may have insufficient security to cover the value of the loan in the event of customer default. All loans are secured against collateral that is satisfactory to the Company's requirements. The Company does not provide unsecured lending in any form.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

for the year ended 31 March

19 CREDIT RISK *(CONTINUED)*

	2012 $000	2011 $000
Security type		
Motor vehicles	881	-
Agricultural equipment	788	-
Property mortgage	1,919	-
Other (a)	2,897	-
	6,485	-

(a) Other includes lending secured by company charges, machinery, aircraft or marine equipment.

Geographic risk
Geographic risk is the risk that significant concentrations of loans are held in a single geographic area, resulting in an increased exposure to economic or environmental impacts in that area. The Company does not lend money outside New Zealand, and the geographic spread within New Zealand is as follows:

	2012 $000	2011 $000
Geographic area		
Northland	102	-
Waikato	497	-
Bay of Plenty	19	-
Taranaki	90	-
Hawkes Bay	32	-
Central	1,314	-
Tasman / West Coast	720	-
Canterbury	3,573	-
Otago / Southland	138	-
	6,485	-

Industry risk
Industry risk is the risk that significant concentrations of loans are held in a single industry, resulting in an increased exposure to the macro-economic effects on that industry. The Company's industry spread is as follows:

Agriculture	957	-
Wholesale Trade	3,054	-
Households	221	-
Transport and Storage	53	-
Construction	692	-
Property	47	-
Manufacturing	132	-
Retail Trade	628	-
Other	701	-
	6,485	-

20 MARKET RISK

Foreign exchange risk
The Company undertakes transactions denominated in foreign currencies and resulting from these activities, exposures in foreign currency arise.

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

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

	Impact on profit $000	**Impact on equity $000**
2012		
10% increase in unit prices	3,154	3,154
10% decrease in unit prices	(3,154)	(3,154)
2011		
10% increase in unit prices	3,001	3,001
10% decrease in unit prices	(3,001)	(3,001)

Interest rate risk
Interest rate risk is the risk that the value of The Companies assets and liabilities will fluctuate due to changes in market interest rates. The Company manages interest rate risk by matching as far as possible the maturities of loans and borrowings.

Interest rate cash flows risk analysis

	Impact on profit $000	**Impact on equity $000**
2012		
0.25% increase in interest rates	20	20
0.25% decrease in interest rates	(20)	(20)
2011		
0.25% increase in interest rates	3	3
0.25% decrease in interest rates	(3)	(3)

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

for the year ended 31 March

21 LIQUIDITY RISK *(CONTINUED)*

The contractual cashflows of financial assets and liabilities are as follows:

2012	Weighted average interest rate	0-6 months	6-12 months	12-24 months	24-60 months
	%	$000	$000	$000	$000
Bank deposits	2.50	7,963	-	-	-
Loans and receivables	11.16	3,714	1,531	207	328
Trade and other current receivables		8,486	-	-	-
Total financial assets		20,163	1,531	207	328
Undrawn lending facilities		*621*	-	-	-
Related party payable		915	-	-	-
Trade and other current liabilities		1,229	-	-	-
Total liabilities		2,144	-	-	-
Net financial position		18,019	1,531	207	328

2011	Weighted average interest rate	0-6 months	6-12 months	12-24 months	24-60 months
	%	$000	$000	$000	$000
Bank deposits	2.50	1,267	-	-	-
Related party receivable		8,484	-	-	-
Trade and other current receivables		6,878	-	-	-
Total financial assets		16,629	1,607	3,868	315
Trade and other current liabilities		875	-	-	-
Total liabilities		875	-	-	-
Net financial position		15,754	1,607	3,868	315

CAPITAL MANAGEMENT

The Company's capital includes retained earnings.

The Company's policy is to maintain a strong equity base so as to maintain 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

During the year a solvency standard applicable to all insurance companies operating in New Zealand was issued by the Reserve Bank of New Zealand (RBNZ). As a condition of the provisional licence the company will become an issuer under the Financial Reporting Act 1993 from 1 April 2012.

The solvency capital that the company is required to maintain is the minimum solvency capital amount calculated, for each entity, in accordance with the solvency standard. The directors believe that this requirement has been met by both entities.

21 LIQUIDITY RISK *(CONTINUED)*

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 Company's policies in respect of capital management and allocation are reviewed regularly by the Board of Directors.

The Company manages liquidity risk by maintaining adequate reserves and banking facilities and undrawn funding facilities by continuously monitoring forecast and actual cash flows and matching maturity profiles of financial assets and liabilities. The Company 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 Company's management of capital during the period.

22 FINANCIAL INSTRUMENTS

2012	Designated at fair value through profit and loss	Loans and receivables	Other liabilities amortised cost	Total carrying amount	Fair value
	$000	$000	$000	$000	$000
Assets					
Cash and cash equivalents	-	7,963	-	7,963	7,963
Loans and receivables	-	5,780	-	5,780	5,738
Investments	31,544	-	-	31,544	31,544
Trade and other current receivable	-	8,486	-	8,486	8,486
Total assets	31,544	22,229	-	53,773	53,731
Liabilities					
Related party payable	-	915	-	915	915
Trade and other current liabilities	-	-	1,229	1,229	1,229
Total liabilities	-	915	1,229	2,144	2,144

22 FINANCIAL INSTRUMENTS (CONTINUED)

2011	Designated at fair value through profit and loss	Loans and receivables	Other liabilities amortised cost	Total carrying amount	Fair value
	$000	$000	$000	$000	$000
Assets					
Cash and cash equivalents	-	1,267	-	1,267	1,267
Related party receivable	-	8,484	-	8,484	8,484
Investments	30,018	-	-	30,018	30,018
Trade and other current receivable	-	6,878	-	6,878	6,878
Total assets	30,018	16,629	-	46,647	46,647
Liabilities					
Trade and other current liabilities	-	-	875	875	875
Total liabilities	-	-	875	875	875

Financial instrument categories (continued)

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

- For loans and receivables and borrowings 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 loans and receivables or borrowings with similar credit and maturity profiles;
- The fair value calculation of loans and 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.

23 UNDRAWN LENDING COMMITMENTS

The following credit facility limits are committed but not drawn down as at balance date:

	2012	2011
	$000	$000
Undrawn lending commitments	621	2,175

24 CONTINGENT LIABILITIES

There are no contingent liabilities at 31 March 2012 (2011: $Nil).

25 COMMITMENTS

There are no capital commitments as at 31 March 2012 (2011: $Nil).

26 SUBSEQUENT EVENTS

There are no subsequent events.

27 CHARGE OVER ASSETS

FMG was required to hold deposits with the Public Trust under the Life Insurance Act 1908 and the Insurance Companies' Deposits Act 1953, both Acts were repealed with the introduction of the Insurance (Prudential Supervision) Act 2010.

ERNST & YOUNG

Chartered Accountants

Independent Auditor's Report

To the Shareholders of FMG Insurance Limited

Report on the Financial Statements

We have audited the financial statements of FMG Insurance Limited on pages 4 to 37, which comprise the balance sheet of FMG Insurance Limited as at 31 March 2012, and the income statement, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

This report is made solely to the company's shareholders, as a body, in accordance with section 205(1) of the Companies Act 1993. Our audit has been undertaken so that we might state to the company's shareholders 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 company and the company's shareholders as a body, for our audit work, for this report, or for the opinions we have formed.

Directors' Responsibility for the Financial Statements

The directors are responsible for the preparation of the financial statements in accordance with generally accepted accounting practice in New Zealand and that give a true and fair view of the matters to which they relate, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing (New Zealand). These auditing standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected, depend on our judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we have considered the internal control relevant to the company's preparation of the financial statements that give a true and fair view of the matters to which they relate in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates, as well as evaluating the overall presentation of the financial statements.

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

Ernst & Young provides taxation advice to the company. We have no other relationship, or interest in the company.

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

Opinion

In our opinion, the financial statements on pages 4 to 37:

- comply with generally accepted accounting practice in New Zealand;
- comply with International Financial Reporting Standards; and
- give a true and fair view of the financial position of FMG Insurance Limited as at 31 March 2012 and its financial performance and cash flows for the year then ended.

Report on Other Legal and Regulatory Requirements

In accordance with the Financial Reporting Act 1993, we report that:

- We have obtained all the information and explanations that we have required.
- In our opinion proper accounting records have been kept by FMG Insurance Limited as far as appears from our examination of those records.

Ernst & Young

7 June 2012
Wellington

Appointed Actuary's review of actuarial information for Farmers' Mutual Group in respect of 31 March 2012 Financial Statements

This return is in respect of Farmers' Mutual Group and its subsidiary Farmers' Mutual Group Limited, collectively referred to as FMG.

This return is prepared under section 78 of the Insurance (Prudential Supervision) Act 2010 ("The Act") in respect of section 77 of the Act which requires that each licensed insurer within New Zealand must ensure that the actuarial information contained in, or used in the preparation of, the financial statements of the insurer and any group financial statements are reviewed by the appointed actuary.

This return has been prepared by Tracey Short (Bsc, FIAA, FNZSA), Appointed Actuary FMG. This is the first such return prepared for FMG.

I am an employee of FMG; other than my employment relationship I have no financial or ownership interest in FMG.

I have reviewed actuarial information contained in the 31 March 2012 financial statements to confirm information and/or advice I have provided has been used appropriately in those statements.

FMG has supplied me with all the information and explanations necessary to allow me to undertake this review.

It is FMG's established policy to seek the advice of the appointed actuary in respect of all actuarial information and to adopt that advice in its financial statements.

The following actuarial items have been reviewed and reflect the scope and limitations of this review:

- Outstanding Claims Liabilities
- Reinsurance Recoveries
- Premium Liabilities
- Application of the Liability Adequacy Test
- The level of deferred acquisition costs in the financial statements after the application of the Liability Adequacy Test

In my opinion there was no other information that required actuarial review for the purposes of this return.

The outstanding claims (and sensitivity analysis of), premium liabilities and the Liability Adequacy Test have been calculated by me and in my opinion comply with accounting standard NZ IFRS4 and have been prepared in accordance with New Zealand Society of Actuaries Professional Standard No. 4 (PS4). They have also been audited by Ernst & Young Limited.

These items have all been used without adjustment in the financial statements, which I believe to be appropriate. They have also been used without adjustment in the solvency calculation, which again I believe to be appropriate.

In summary, I can confirm that:

- The actuarial information contained in the 31 March 2012 financial statements has been appropriately included in those statements without exception
- The actuarial information used in the preparation of the 31 March 2012 financial statements has been used appropriately without exception
- That in my opinion, as at 31 March 2012, FMG is maintaining a solvency margin as defined in The Solvency Standard for Non-Life Insurance Business issued by the Reserve Bank (Oct 2011 amendments to May 2012)

For further detail on the items listed above please refer to the 31 March 2012 financial statements.

Signed : Tracey Short

Date : 18/9/12