FMG INSURANCE LIMITED

ANNUAL REPORT
2014

Contents

FMG Insurance Limited
Annual Report 2014

DIRECTORS' REPORT

The Directors have pleasure in presenting the Annual Report and Financial Statements for the year ended 31 March 2014.

Financial Results

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

- Increase in gross written premium from continuing operations to $116.2m from $39.3m
- Decrease in net investment income from continuing operations to $1.8m from $2.6m
- Increase in net claims incurred from continuing operations to $25.3m from $22.3m
- Increase in profit from continuing operations after tax to a $8.4m profit from $6.1m

	2014	2013
	$000	$000
Profit from continuing operations before taxation	**11,469**	8,074
Taxation	**(3,046)**	(1,967)
Profit for the year	**8,423**	6,107

Dividends

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

Share Capital

At 31 March 2014 there were 1,250,000 shares issued, and fully paid.

Directorate

As required by the Company's constitution the Directors are appointed by the Parent, Farmers' Mutual Group. In accordance with the tenure provisions of the Director Appointment and Reappointment Policy, Mr. Murray Donald will retire after 15 years of service at this year's Annual General Meeting.

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 members.

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 2014

The FMG Directors are Mr. Greg Gent (Chair), Mr. Murray Donald, Mrs. Marise James, Mr. Graeme Milne, Mr. Tony Cleland, Mr. Michael Ahie, Mrs. Cindy Mitchener and Mr. Danny Chan.

The following are the Directors' qualifications and expertise:

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.

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 her husband are former winners of Sharemilker of the Year. Mrs. James, a recipient of the Nuffield Scholarship, is a former Landcorp Farming Ltd and Fonterra Director.

Graeme Milne

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

DIRECTORS' REPORT *(continued)*

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 Field Power Northland.

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

Cindy Mitchener

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

Danny Chan

Early in his career Mr. Chan worked in financial services with MLC, Westpac and Fidelity Investments, a leading global asset management company. He is now a large grower/exporter of flowers and has a Nelson based seafood export operation and founded a private educational institution that now operates in five countries. He has extensive governance experience including six years on the board of AgResearch.

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 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.

Legislative and Regulatory Compliance

The Company is also 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 hold full 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.

Employees 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 27 of the Farmers Mutual Group Act 2007 and Section 196 of the Companies Act 1993, EY has been appointed as Auditors for the company.

INCOME STATEMENT

for the year ended 31 March

	Notes	2014 $000	2013 $000
Continuing operations			
General insurance activities			
Gross written premium		**116,176**	39,343
Movement in unearned premium		**(57,263)**	(2,877)
Gross earned premium	**1**	**58,913**	36,466
Outwards reinsurance premium expense		**(6,454)**	(2,582)
Net premium revenue		**52,459**	33,884
Claims expense		**(25,930)**	(24,587)
Reinsurance and other recoveries revenue	**1**	**654**	2,260
Net claims incurred		**(25,276)**	(22,327)
Other income	**1**	**2,122**	1,397
Management expenses		**(19,995)**	(8,115)
General insurance underwriting result		**9,310**	4,839
Investment revenue	**1**	**1,800**	2,647
Profit from general insurance activities		**11,110**	7,486
Finance activities			
Interest income	**1**	**171**	433
Fee income	**1**	**-**	4
Operating expenses		**188**	151
Profit from finance activities		**359**	588
Profit before taxation		**11,469**	8,074
Income tax credit/(expense)	**3**	**(3,046)**	(1,967)
Profit from continuing operations		**8,423**	6,107
Profit for the year attributable to shareholders		**8,423**	6,107
Total comprehensive income for the year, net of tax, attributable to shareholders		**8,423**	6,107

The financial statements should be read in conjunction with the accounting policies and notes on pages 7 to 30.

EY

STATEMENT OF CHANGES IN EQUITY

for the year ended 31 March

	Notes	2014 $000	2013 $000
Share capital			
Share capital at the beginning of the year		**12,500**	12,500
Total contributions by and distributions to shareholders		**65,500**	-
Share capital at the end of the year	**14**	**78,000**	12,500
Retained earnings			
Retained earnings at the beginning of the year		**27,419**	21,312
Total profit and comprehensive income		**8,423**	6,107
Retained earnings at the end of the year		**35,842**	27,419
Total equity at the end of the year		**113,842**	39,919
Attributable to:			
Shareholders		**113,842**	39,919
		113,842	39,919

The financial statements should be read in conjunction with the accounting policies and notes on pages 7 to 30.

FMG Insurance Limited
Annual Report 2014

BALANCE SHEET
as at 31 March

	Notes	2014 $000	2013 $000
Assets			
Cash and cash equivalents	4	**19,896**	15,676
Trade and other receivables	9	**55,458**	9,678
Loans and receivables	6	**222**	2,044
Insurance recoveries	7	**9,287**	16,891
Related party receivable	9	**8,148**	3,576
Deferred acquisition costs	10	**3,196**	1,133
Investments under management	5	**126,995**	34,320
Property, plant and equipment		**1**	1
Deferred tax assets	11	**144**	245
Total assets		**223,347**	83,564
Liabilities			
Trade and other liabilities	12	**5,518**	974
Current tax liability		**2,343**	1,896
Underwriting provisions	7	**100,749**	40,457
Deferred tax liabilities	11	**895**	318
Total liabilities		**109,505**	43,645
Net assets		**113,842**	39,919
Equity			
Share capital	13	**78,000**	12,500
Retained earnings		**35,842**	27,419
Total equity		**113,842**	39,919

Signed on behalf of the Board of Directors, who authorised the issue of these financial statements on 19 June 2014.

G W Gent
Chairman
19-Jun-14

M L James
Director
19-Jun-14

The financial statements should be read in conjunction with the accounting policies and notes on pages 7 to 30.

STATEMENT OF CASH FLOWS

for the year ended 31 March

	Notes	**2014** **$000**	2013 $000
Cash flows from operating activities			
Premium and other receipts from clients		**75,618**	39,299
Reinsurance recoveries		**4,180**	5,440
Interest and fees received		**166**	450
Other income		**-**	225
Claims paid		**(21,675)**	(25,651)
Reinsurance premium paid		**(5,967)**	(2,872)
Cash paid to suppliers and employees		**(18,673)**	(8,734)
Income tax (paid)/recovered		**(1,764)**	273
Net cash flows from operating activities	**4**	**31,885**	8,430
Cash flows from investing activities			
Proceeds from advances/(repayments) of finance receivables		**2,101**	3,842
Interest received from investments		**15**	49
Investment dealings with fund managers		**(90,709)**	(96)
Proceeds from foreign exchange contracts		**-**	(21)
Net cash flows from investing activities		**(88,593)**	3,774
Cash flows from financing activities			
Movement of intergroup accounts		**(4,572)**	(4,491)
Capital transfer from parent		**65,500**	-
Net cash flows from financing activities		**60,928**	(4,491)
Net increase / (decrease) in cash and cash equivalents		**4,220**	7,713
Cash and cash equivalents at the beginning of the year		**15,676**	7,963
Cash and cash equivalents at the end of the year	**4**	**19,896**	15,676

The financial statements should be read in conjunction with the accounting policies and notes on pages 7 to 30.

EY

STATEMENT OF ACCOUNTING POLICIES
for the year ended 31 March

REPORTING ENTITY

FMG Insurance Limited (the "Company") is a company domiciled in New Zealand, registered under the Companies Act 1993. The Company is a licenced insurer under the Insurance Prudential Supervision Act 2010 and is an issuer under the Financial Reporting Act 1993.

The Company is primarily involved in the delivery of insurable farm risk advice and general insurance.

The Company's registered office is Level 20, Vodafone on the Quay, 157 Lambton Quay, Wellington.

STATEMENT OF COMPLIANCE

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

SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

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

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

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

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

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.

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 ascertain 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 income statement 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.

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

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 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 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.

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 Company 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 Company 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 Company 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".

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

Loan establishment fees and expense

Fees and direct costs relating to loan establishment or restructuring are deferred and amortised to fee income or operating expenses over the expected life of the loan using the effective interest method.

Commission expense

Commissions paid to dealers and brokers for the referral of loans and investments are deferred and amortised to operating expenses over the term of the loan or investment using the effective interest method.

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 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 income statement.

Financial instruments

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

Initial recognition and measurement of financial assets

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

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

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

Loans and receivables

Loans and receivables 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 receivables are initially measured at fair value including transaction costs that are directly attributable to the issue of the loan or receivable. They are subsequently measured at amortised cost using the effective interest method, less any impairment loss.

EY

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

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition at fair value through profit or loss. The Company has equity and debt securities that are designated upon initial recognition at fair value through profit or loss. These assets are carried in the statement of financial position 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 income statement.

Derecognition

A financial asset is derecognised (i.e. removed from the Company's statement of financial position) when:

- the rights to receive cash flows from the asset have expired; or
- the Company 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 Company has transferred substantially all the risks and rewards of the asset, or (b) the Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Impairment of financial assets

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

Asset quality

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 consist of restructured assets, assets acquired through the enforcement of security and other impaired assets. Assets acquired through the enforcement of security are those real estate or other assets acquired in full or partial satisfaction of a debt. Restructured assets are loans and receivables that would otherwise be past due or impaired assets whose terms have been renegotiated. Other impaired assets include any loans and receivables for which an impairment loss is required as all amounts owing are not expected to be collected from the client.

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 the income statement.

Initial recognition and measurement of financial liabilities

All of the Company'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 Company has not designated any financial liability as at fair value through profit or loss.

Derecognition

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.

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. No hedge accounting is undertaken by the Company.

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 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 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.

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

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

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 Company and its cost can be measured reliably. The costs of the day-to-day servicing of property, plant and equipment are recognised in the income statement as incurred.

Depreciation

Depreciation is calculated using either the diminishing value method or the straight line method. The estimated depreciation rates for the current and comparative periods, along with depreciation method, are as follows:

Furniture and office equipment	20% diminishing value

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.

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

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 Company. This includes debt not falling within the definition of cash; and
- operating activities include all transactions and other events that are not investing or financing activities.

Comparative figures

Comparative figures have been reclassified as required to ensure consistency with the current year presentation. The reclassifications have no impact on overall financial position and performance for the comparative years.

CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The financial statements have been updated to reflect all new standards and interpretations issued. The following standard has been applied for the first time in 2014, resulting in consequential changes to the accounting policies and other note disclosures. No material adjustments have been made as a result of these changes.

Standard	Requirement	Impact on financial statements
NZ IFRS 13 - Fair Value Measurement	Establishes a single source of guidance under NZ IFRS for determining the fair value of assets and liabilities. The standard 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. The standard also expands the disclosure requirements for all assets or liabilities carried at fair value, such as requiring information about the assumptions made and the qualitative impact of those assumptions on the fair value determined.	This standard has not had a material impact on the financial statements.

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

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 2014.

Standard	Requirement	Effective for annual reporting periods beginning on or after:
NZ IFRS 9 Financial Instruments (2009)	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	1 January 2017*
NZ IFRS 9 Financial Instruments (2010)	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.	1 January 2017*
NZ IFRS 9 Financial Instruments (2013)	NZ IFRS 9 (2013) is a revised version of NZ IFRS 9. The revised standard incorporates three primary changes: - new hedge accounting requirements including changes to hedge effectiveness testing, treatment of hedging costs, risk components that can be hedged and disclosures; - entities may elect to apply only the accounting for gains and losses from own credit risk without applying the other requirements of NZ IFRS 9 at the same time; and - the mandatory effective date moved to 1 January 2017*.	1 January 2017*

* The International Accounting Standards Board announced a tentative decision to establish a new effective date for IFRS 9, being for periods beginning on or after 1 January 2018. Once the new effective date has been issued by the IASB, it is likely that the New Zealand Accounting Standards Board will amend the effective date for NZ IFRS 9 to align with IFRS 9.

Adopting the above Standards and Interpretations is not expected to have a material impact on the numbers presented in the Company financial statements, however a full assessment of the impact has not yet been performed by the Company.

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

SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

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

Claims liabilities under general insurance contracts

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

- 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 7 and 8.

Recovery of deferred tax assets

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

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 March

1 REVENUE

	2014	2013
	$000	$000
General insurance revenue		
Gross earned premiums	**58,913**	36,466
Reinsurance and other recoveries revenue	**654**	2,260
Investment revenue:		
Interest income	**-**	48
Movement in financial assets at fair value through profit and loss	**1,800**	2,599
Total investment revenue	**1,800**	2,647
Fee income and other revenue	**2,122**	1,397
Total general insurance revenue	**63,489**	42,770
Finance activities revenue		
Interest income:		
Interest income on lending	**139**	414
Interest income on bank deposits	**32**	19
Total interest income	**171**	433
Fee income	**-**	4
Total financial activities revenue	**171**	437
Total revenue	**63,660**	43,207

2 OTHER EXPENSES

	2014	2013
	$000	$000
Other insurance and operating expenses includes:		
Auditors' remuneration – audit	**67**	58
Auditors' remuneration – solvency returns	**8**	8

EY

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

3 INCOME TAX

	2014 $000	2013 $000
a) Income tax expense from continuing operations		
Current tax	**2,344**	1,861
Deferred tax expense	**712**	72
(Over)/under provided in prior years	**(10)**	34
Income tax expense/(credit) for the year from continuing operations	**3,046**	1,967
b) Amounts charged or credited directly to equity		
Current tax expense/(income)	**-**	-
Deferred tax expense/(income)	**-**	-
Income tax benefit reported in equity	**-**	-
c) Analysis of taxation expense/(credit) - continuing and discontinued operations		
Continuing operations	**3,046**	1,967
Income tax expense/(credit) for the year	**3,046**	1,967
d) Numerical reconciliation of income tax expense/(credit) to prima facie tax payable		
Profit/(loss) before taxation		
Continuing operations	**11,469**	8,074
Total profit/(loss) before taxation	**11,469**	8,074
Prima facie income tax @ 28%	**3,211**	2,261
Tax effect of amounts which are non-deductible expenses/non-assessable revenue:		
Non-assessable income and other items	**(196)**	(391)
Non-deductible expenses and other items	**(651)**	10
Imputation credits on dividends	**(19)**	(17)
Foreign tax credit	**(1)**	(1)
Deferred tax expense/(credit)	**678**	72
(Over)/under provided in prior years	**24**	33
Income tax expense/(credit) for the year	**3,046**	1,967

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

4 CASH AND CASH EQUIVALENTS

	2014 $000	2013 $000
Cash at bank and in hand	**19,896**	15,676
Total cash and cash equivalents	**19,896**	15,676

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:

	2014 $000	2013 $000
Balances as above	**19,896**	15,676
Balance per Statement of Cash Flows	**19,896**	15,676

b) Reconciliation of profit to net cash flows from operating activities

	2014 $000	2013 $000
Profit for the year	**8,423**	6,107
Adjustments for non-cash items		
Movement in deferred tax	**678**	72
Movement in unearned premium	**60,010**	2,055
Movement in outstanding claims	**282**	(1,064)
Movement in bad debts provision	**(64)**	3
Movement in deferred acquisition costs	**(2,063)**	-
Unrealised investment loss/(gain)	**(1,975)**	(2,776)
	56,868	(1,710)
Movements in other working capital items		
Movement in accounts receivable	**(38,855)**	2,121
Movement in accounts payable	**5,017**	(255)
Movement in taxation recoverable	**447**	2,235
	(33,391)	4,101
Items classified as investing activities		
Net (gain)/loss on sale of investments	**-**	(96)
Dividends received	**-**	(21)
Foreign exchange contract (gain)/loss	**-**	49
Interest received from investments	**(15)**	-
	(15)	(68)
Net cash flows from operating activities	**31,885**	8,430

EY

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

5 OTHER FINANCIAL ASSETS

	2014 $000	2013 $000
Unit trust investments		
New Zealand equities	**11,073**	1,572
Offshore equities	**32,231**	6,165
Government and public authority bonds	**-**	516
Fixed interest investments - New Zealand	**67,243**	17,435
Fixed interest investments - Offshore	**16,448**	8,632
Total unit trust investments	**126,995**	34,320

Determination of fair value hierarchy 2014

	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	**-**	**126,995**	**-**	**126,995**
Total financial assets	**-**	**126,995**	**-**	**126,995**

Determination of fair value hierarchy 2013

	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	-	34,320	-	34,320
Total financial assets	-	34,320	-	34,320

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.

During the year there were no transfers between categories.

6 LOANS AND RECEIVABLES

	2014 $000	2013 $000
Gross loans and receivables	**422**	2,523
Allowance for collective impairment	**-**	(453)
Allowance for individual impairment	**(200)**	(26)
Net loans and receivables	**222**	2,044
Current portion of gross loans and receivables	**422**	2,106
Non-current portion of gross loans and receivables	**-**	417
Gross loans and receivables	**422**	2,523

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

7 UNDERWRITING PROVISIONS AND REINSURANCE AND OTHER RECOVERIES

	2014 $000	2013 $000
Underwriting provisions comprise:		
Liability for outstanding claims		
Expected future claim payments (undiscounted)	**24,711**	24,166
Discount to present value	**(687)**	(424)
	24,024	23,742
Provision for unearned premiums	**76,725**	16,715
Underwriting provisions	**100,749**	40,457
Current	**93,936**	29,967
Non-current	**6,813**	10,490
	100,749	40,457
Provision for reinsurance and other recoveries comprise:		
Expected future recoveries (undiscounted)	**9,605**	17,211
Discount to present value	**(318)**	(320)
Net insurance recoveries	**9,287**	16,891
Current	**6,653**	10,311
Non-current	**2,634**	6,580
	9,287	16,891

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

		2014	2013
New Zealand:	Inflation rate	**Implicit**	Implicit
	Discount rate	**3.19% per annum**	2.47% per annum
	Weighted average term to closure	**0.9 years**	0.9 years

8 GENERAL INSURANCE CONTRACTS

(a) Net general insurance claims incurred

	2014			2013		
	Risks borne in current year $000	**Risks borne in prior years $000**	**Total $000**	Risks borne in current year $000	Risks borne in prior years $000	Total $000
Gross claims expense						
Direct claims - undiscounted	**27,752**	**(1,560)**	**26,192**	19,517	5,240	24,757
Discount	**(331)**	**69**	**(262)**	(123)	(47)	(170)
Gross claims expense	**27,421**	**(1,491)**	**25,930**	19,394	5,193	24,587
Reinsurance and other recoveries						
Reinsurance and other recoveries revenue - undiscounted	**(375)**	**(278)**	**(653)**	(145)	(2,222)	(2,367)
Discount	**51**	**(52)**	**(1)**	20	87	107
Reinsurance and other recoveries	**(324)**	**(330)**	**(654)**	(125)	(2,135)	(2,260)
Net claims incurred	**27,097**	**(1,821)**	**25,276**	19,269	3,058	22,327

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.

EY

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

8 GENERAL INSURANCE CONTRACTS *(continued)*

	2014	2013
	$000	$000
(b) Analysis of outstanding claims		
Gross central estimate of present value of future claims payment	**22,539**	22,967
Risk margin	**1,485**	775
Total outstanding claims liability	**24,024**	23,742
The expected settlement pattern of the outstanding claims liability is as follows:		
Current	**17,211**	13,252
Non-current	**6,813**	10,490
Total outstanding claims liability	**24,024**	23,742

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 2014. The previous assessment of the Insurance Liabilities was performed at 31 March 2013.

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

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

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

	2014	2013
Inflation rate	**Implicit**	Implicit
Discount rate	**3.19%**	2.47%
Claims handling expense ratio - outstanding claims liabilities	**4.2%**	5.0%
Claims handling expense ratio - premium liabilities	**5.2%**	6.5%
Risk margin - outstanding claims liabilities	**11.3%**	11.7%
Risk margin - premium liabilities	**16.6%**	16.8%
Weighted average expected term to settlement	**328 days**	329 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

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.

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

8 GENERAL INSURANCE CONTRACTS *(continued)*

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.

Weighted average expected term to settlement

Expected payment patterns are used in determining the outstanding claims liability. A decrease in the average term to settlement would lead to claims being paid sooner than anticipated.

	2014 $000	2013 $000
Reconciliation of movements in assets and liabilities arising from general insurance contracts		
Reinsurance and other recoveries receivable		
Reinsurance and other recoveries receivable at the beginning of the year	**16,891**	20,177
Reinsurance and other recoveries incurred during the year	**654**	2,260
Reinsurance and other recoveries received during the year	**(8,258)**	(5,546)
Reinsurance and other recoveries receivable at the end of the year	**9,287**	16,891
Outstanding claims liability		
Gross outstanding claims at the beginning of the year	**23,742**	24,806
Claims incurred during the year	**25,930**	24,587
Claims payments made during the year	**(25,648)**	(25,651)
Gross outstanding claims at the end of the year	**24,024**	23,742
Reconciliation of outstanding claims to liability for outstanding claims		
Outstanding claims undiscounted	**24,711**	24,166
Discount	**(687)**	(424)
Total outstanding claims	**24,024**	23,742

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.

Variable	**Movement**	**2014**		2013	
		Impact on profit after tax (net of reinsurance) $000	**Impact on profit after tax (gross of reinsurance) $000**	Impact on profit after tax (net of reinsurance) $000	Impact on profi after tax (gross of reinsurance) $000
Discount rate	Increase of 1%	**129**	**66**	29	117
	Decrease of 1%	**(132)**	**(67)**	(29)	(119)
Claims handling expense ratio	Increase of 1%	**-**	**-**	-	-
	Decrease of 1%	**-**	**-**	-	-
Risk margin	Increase of 1%	**(95)**	**(95)**	(43)	(43)
	Decrease of 1%	**95**	**95**	43	43
Weighted average expected term to settlement	Increase 0.5 years	**269**	**165**	58	202
	Decrease 0.5 years	**(273)**	**(168)**	(59)	(204)

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

8 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 18 to 20.

(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 reinsurance 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-. The internal policy is to limit the maximum exposure to a single reinsurer to 30%.

(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.

			Incident year				
	2009	2010	2011	2012	2013	2014	Total
	$000	$000	$000	$000	$000	$000	$000
Ultimate claims cost estimate							
At end of accident year	15,130	16,749	37,460	18,031	15,030	27,017	
One year later	13,787	15,250	45,732	19,882	14,700		
Two years later	13,754	15,120	53,040	18,630			
Three years later	13,735	15,064	52,686				
Four years later	13,735	15,072					
Five years later	13,737						
Current estimate of ultimate claims cost	13,737	15,072	52,686	18,630	14,700	27,017	
Cumulative payments	13,734	15,069	42,900	17,790	14,333	15,845	
Undiscounted central estimate	3	3	9,786	840	367	11,172	22,173
Discount to present value	-	-	(241)	(21)	(9)	(307)	(579)
Discounted central estimate	3	3	9,545	819	358	10,865	21,594
Prior years							3
Claims handling expense							942
Risk margin							1,485
Gross outstanding claims liabilities							24,024
Reinsurance recoveries on outstanding claims and other recoveries							(9,287)
Net outstanding claims liabilities							14,737

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

8 GENERAL INSURANCE CONTRACTS *(continued)*

(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 Group on 13 June 2013.

(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.

(g) General insurance risk

Terms and conditions of insurance

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.

9 TRADE AND OTHER RECEIVABLES

	2014	2013
	$000	$000
Trade debtors	**55,699**	10,056
Related party receivables	**8,148**	3,576
Other receivables	**74**	1
Allowance for collective impairment	**(315)**	(379)
	63,606	13,254
Current	**63,606**	13,254

10 DEFERRED ACQUISITION COSTS

	2014	2013
	$000	$000
Balance at the beginning of the year	**1,133**	1,133
Acquisition costs deferred during the year	**2,063**	-
Balance at the end of the year	**3,196**	1,133
Current	**3,196**	1,133

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

11 DEFERRED TAX

	Opening balance at 1 April 2013	Assets/ Liabilities held for sale	Charged/ (credited) to profit and loss	Charged to equity	Closing balance at 31 March 2014
2014					
Movements in deferred tax assets					
Provisions and accruals	**240**	**-**	**(96)**	**-**	**144**
Other	**5**	**-**	**(5)**	**-**	**-**
Total deferred tax assets	**245**	**-**	**(101)**	**-**	**144**
Movement in deferred tax liabilities					
Deferred revenue liability	**(318)**	**-**	**(577)**	**-**	**(895)**
Total deferred tax liabilities	**(318)**	**-**	**(577)**	**-**	**(895)**

	Opening balance at 1 April 2012	Assets/ Liabilities held for sale	Charged/ (credited) to profit and loss	Charged to equity	Closing balance at 31 March 2013
2013					
Movements in deferred tax assets					
Provisions and accruals	305	-	(65)	-	240
Other	12	-	(7)	-	5
Total deferred tax assets	317	-	(72)	-	245
Movement in deferred tax liabilities					
Deferred revenue liability	(318)	-	-	-	(318)
Total deferred tax liabilities	(318)	-	-	-	(318)

12 TRADE AND OTHER LIABILITIES

	2014	2013
	$000	$000
Trade creditors	**261**	131
Reinsurance creditors	**350**	(138)
Other liabilities	**4,907**	981
	5,518	974
Current	**5,518**	974

13 CONTRIBUTED EQUITY

Fully paid ordinary shares at the beginning of the year	**12,500**	12,500
Additional capital investment	**65,500**	-
Fully paid ordinary shares at the end of the year	**78,000**	12,500

As at 31 March 2014 there were 1,250,000 ordinary shares. Ordinary shares have no par value.

The parent has provided additional capital during the year to support the underwriting provisions within the Company.

14 PAST DUE AND IMPAIRED ASSETS

The following amounts for past due and impaired assets are included in the amounts shown in Note 6.

	Past due assets $000	Restructured assets $000	Individually impaired assets $000	Total $000
2014				
Opening balance	**526**	-	**26**	**552**
Plus additions	-	-	**403**	**403**
Less write-offs	-	-	**(3)**	**(3)**
Less repayments and deletions	**(526)**	-	**(4)**	**(530)**
Gross past due and impaired assets	-	-	**422**	**422**
2013				
Opening balance	242	-	711	953
Plus additions	1,031	-	-	1,031
Less write-offs	-	-	(65)	(65)
Less repayments and deletions	(747)	-	(620)	(1,367)
Gross past due and impaired assets	526	-	26	552

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.

	2014 **$000**	2013 $000
Ageing of past due not impaired assets		
Past due 0-90 days	-	490
Past due 90+ days	-	36
	-	526

15 ALLOWANCES FOR IMPAIRED ASSETS

	Individually impaired $000	Collectively impaired $000	Total $000
At 1 April 2012	91	990	1,081
Utilised	(63)	(990)	(1,053)
Unused amounts reversed	(2)	-	(2)
Additional provision	-	832	832
As at 31 March 2013	**26**	**832**	**858**
Utilised	**(3)**	**(379)**	**(382)**
Unused amounts reversed	**(4)**	**(453)**	**(457)**
Additional provision	**181**	**315**	**496**
As at 31 March 2014	**200**	**315**	**515**

There was no interest income on impaired financial assets accrued for the current year (2013: $nil)

16 RELATED PARTY TRANSACTIONS

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 2014 was $19.079m (2013: $8.416m).

The Company has made loans and advances to the Parent. Refer to Note 9 for balances owing from related parties at 31 March 2014. No interest is payable on current account balances. These balances are repayable on demand.

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

17 CREDIT RISK

Insurance credit risk

Credit risk relating to insurance contracts relates primarily to:

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

(b) Reinsurance recoveries receivable, which are discussed further in Note 8.

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 the Company's credit risk is disclosed in Note 14 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 the Company performing credit evaluations on all customers requesting loans. None of the Company'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 21.

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.

	2014 $000	2013 $000
Security type		
Motor vehicles	-	73
Agricultural equipment	-	37
Property mortgage	-	250
Other (a)	**422**	2,163
	422	2,523

(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 Group does not lend money outside New Zealand, and the geographic spread within New Zealand is as follows:

Geographic area		
Northland	-	42
Waikato	-	132
Taranaki	-	11
Central	**422**	509
Tasman / West Coast	-	21
Canterbury	-	1,777
Otago / Southland	-	31
	422	2,523

EY

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

17 CREDIT RISK (continued)

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:

	2014	2013
	$000	$000
Agriculture	-	206
Wholesale trade	-	1,750
Households	-	56
Transport and storage	-	5
Construction	-	30
Property	-	20
Retail trade	-	21
Other	**422**	435
	422	2,523

18 MARKET RISK

Foreign exchange risk

The Company undertakes transactions denominated in foreign currencies and resulting from these activities, exposures in foreign currency arise. The Company does not apply hedge accounting.

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 Company holds all of its investments in unit trusts at fair value through the profit and loss.

Unit price risk sensitivity analysis

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

	Impact on profit $000	**Impact on equity $000**
2014		
10% increase in unit prices	**12,700**	**12,700**
10% decrease in unit prices	**(12,700)**	**(12,700)**
2013		
10% increase in unit prices	3,432	3,432
10% decrease in unit prices	(3,432)	(3,432)

Interest rate risk

Interest rate risk is the risk that the value of the Company's assets and liabilities will fluctuate due to changes in market interest rates. FMG Insurance Limited is exposed to interest rate risk by lending and borrowing at fixed interest rates for differing terms. The Company manages interest rate risk by matching as far as possible the maturities of loans and borrowings. The Company's exposure to interest rate risk is represented by the fair value analysis shown in this note. Loans and receivables and borrowings are shown at amortised cost and as such are not exposed to fair value interest rate risk. Interest rates on loans and receivables and borrowings are not floating and therefore a change in the interest rate will not present a cashflow risk.

Interest rate cash flows risk analysis

	Impact on profit after tax $000	**Impact on equity $000**
2014		
0.25% increase in interest rates	**50**	**50**
0.25% decrease in interest rates	**(50)**	**(50)**
2013		
0.25% increase in interest rates	39	39
0.25% decrease in interest rates	(39)	(39)

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

19 LIQUIDITY RISK

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

	Weighted average interest rate %	0-6 months $000	6-12 months $000	12-24 months $000	24-60 months $000
2014					
Bank deposits	**2.51%**	**19,896**	-	-	-
Trade and other current receivables		**55,457**	-	-	-
Loans and receivables	**10.50%**	-	**222**	-	-
Related party receivable		**8,148**	-	-	-
Total financial assets		**83,501**	**222**	-	-
Undrawn lending facilities		-			
Trade and other current liabilities		**5,518**	-	-	-
Total financial liabilities		**5,518**	-	-	-
Net financial position		**77,983**	**222**	-	-
2013					
Bank deposits	2.50%	15,676	-	-	-
Trade and other current receivables		9,678	-	-	-
Loans and receivables	10.46%	519	1,184	341	-
Related party receivable		3,576	-	-	-
Total financial assets		29,449	1,184	341	-
Undrawn lending facilities		*900*			
Trade and other current liabilities		974	-	-	-
Total financial liabilities		974	-	-	-
Net financial position		28,475	1,184	341	-

Capital management

The Company's capital includes retained earnings.

The Company'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.

As an insurer licensed under the Insurance (Prudential Supervision) Act 2010, FMG Insurance Limited is required to maintain a solvency margin of 1. As at 31 March 2014 FMG Insurance Limited's solvency margin was 2.11 ($59.788m).

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.

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

20 FINANCIAL INSTRUMENTS

2014

	Designated at FVTPL $000	Available for sale $000	Loans and receivables $000	Held-to-maturity $000	Total carrying amount $000	Fair value $000
Bank deposits	-	-	19,896	-	19,896	19,896
Loans and receivables	-	-	222	-	222	222
Investments	126,995	-	-	-	126,995	126,995
Related party receivable	-	-	8,148	-	8,148	8,148
Trade and other current receivables	-	-	55,458	-	55,458	55,458
Total assets	**126,995**	**-**	**83,724**	**-**	**210,719**	**210,719**

	Designated at FVTPL $000	Other financial liabilities at amortised cost $000	Total carrying amount $000	Fair value $000
Trade and other current liabilities	-	5,518	5,518	5,518
Total liabilities	**-**	**5,518**	**5,518**	**5,518**

2013

	Designated at FVTPL $000	Available for sale $000	Loans and receivables $000	Held-to-maturity $000	Total carrying amount $000	Fair value $000
Bank deposits	-	-	15,676	-	15,676	15,676
Loans and receivables	-	-	2,044	-	2,044	2,041
Investments	34,320	-	-	-	34,320	34,320
Related party receivable	-	-	3,576	-	3,576	3,576
Trade and other current receivables	-	-	9,678	-	9,678	9,678
Total assets	34,320	-	30,974	-	65,294	65,291

	Designated at FVTPL $000	Other financial liabilities at amortised cost $000	Total carrying amount $000	Fair value $000
Trade and other current liabilities	-	974	974	974
Total liabilities	-	974	974	974

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.

21 UNDRAWN LENDING COMMITMENTS

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

	2014 $000	2013 $000
Undrawn lending commitments	-	900

22 COMMITMENTS

There are no capital commitments at 31 March 2014 (2013: $Nil).

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

23 CONTINGENCIES

There are no contingent liabilities at 31 March 2014 (2013: $Nil).

24 SUBSEQUENT EVENTS

There are no subsequent events.

25 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.

Appointed Actuary's review of actuarial information for Farmers' Mutual Group in respect of 31 March 2014 Financial Statements

This return is in respect of Farmers' Mutual Group and its subsidiary FMG Insurance 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 Margaret Cantwell (BSc, FIAA, FNZSA), Appointed Actuary 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 2014 financial 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 they comply with accounting standard NZ IFRS4 and have been prepared in accordance with New Zealand Society of Actuaries Professional Standard No. 4 (PS4).

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.

They have also been audited by EY.

In summary, I can confirm that:

- The actuarial information contained in the 31 March 2014 financial statements has been appropriately included in those statements without exception
- The actuarial information used in the preparation of the 31 March 2014 financial statements has been used appropriately without exception
- That in my opinion, as at 31 March 2014, 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 2014 financial statements.

Cantwell

Margaret Cantwell
Appointed Actuary
FMG

19 June 2014

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 3 to 30, which comprise the balance sheet of FMG Insurance Limited as at 31 March 2014, 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.

We provide taxation and other assurance services to FMG Insurance Limited. We have no other relationship with, or interest in FMG Insurance Limited.

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 3 to 30:

- 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 2014 and its financial performance and cash flows for the year then ended.

Building a better working world

Chartered Accountants

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

19 June 2014
Wellington