FMG INSURANCE LIMITED

ANNUAL REPORT 2018

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FMG Insurance Limited
Annual Report 2018

DIRECTORS' REPORT

The Directors have pleasure in presenting FMG Insurance Limited's Annual Report and Financial Statements for the year ended 31 March 2018.

Financial Results

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

- Increase in gross written premium from continuing operations to $283.1m from $246.2m
- Increase in net investment income from continuing operations to $13.0m from $10.9m
- Increase in net claims incurred from continuing operations to $161.9m from $151.7m
- Increase in profit from continuing operations after tax to a $11.9m profit from a $1.9m loss

	2018	2017
	$000	$000
Profit/(loss) from continuing operations before taxation	14,801	(3,962)
Taxation	(2,915)	2,037
Profit/(loss) for the year	11,886	(1,925)

Dividends

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

Share Capital

At 31 March 2018 there were 14,500,000 shares issued, and fully paid.

Directorate

As required by 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 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 2018

The FMG Directors are Mr. Tony Cleland (Chair), Mrs. Marise James, Mr. Michael Ahie, Ms. Cindy Mitchener, Mr. Danny Chan, Mr. Steve Allen, Mr. Murray Taggart and Mr. Geoff Copstick.

The following are the Directors' qualifications and expertise:

Tony Cleland

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

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.

Michael Ahie

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

Cindy Mitchener

Ms. 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. Ms. Mitchener is a lifestyle block owner and currently runs a number of her own digital, advertising and recruitment companies.

DIRECTORS' REPORT (continued)

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 a founder of a private educational institution that now operates in three countries. He has extensive governance experience including eight years on the board of NZX listed Abano Healthcare Ltd and six years on the board of AgResearch.

Steve Allen

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

Murray Taggart

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

Geoff Copstick

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

The Board is subject to the FMG Board Charter which outlines the specific role and responsibilities of the Board. The Board is also subject to the Director Appointment & Reappointment Policy which articulates the process for the appointment of prospective Directors, as well as the evaluation of Directors due to retire by rotation who intend to stand for re-election.

Each Director must be assessed as being fit and proper in accordance with FMG's Fit & Proper Policy and reassessed at least every three years. All Directors are independent as they are free from any associations that could materially interfere with the exercise of independent judgement. The Directors are all subject to FMG's Code of Ethics.

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 holds a full licence.

The Company 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 FMG Insurance Limited 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, Farmers' Mutual Group. 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 Company.

Use of Company Information

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

Auditors

EY has been appointed as Auditors for the Company.

INCOME STATEMENT
for the year ended 31 March

	Notes	2018 $000	2017 $000
General insurance activities			
Gross written premium		**283,098**	246,231
Movement in unearned premium		**(17,351)**	(10,649)
Gross earned premium	1	**265,747**	235,582
Outwards reinsurance premium expense		**(27,579)**	(32,627)
Net premium revenue		**238,168**	202,955
Claims expense	8	**(219,492)**	(258,092)
Reinsurance and other recoveries revenue	1, 8	**57,551**	106,352
Net claims incurred		**(161,941)**	(151,740)
Other income	1	**9,699**	6,503
Operating expenses	2	**(84,110)**	(72,590)
General insurance underwriting result		**1,816**	(14,872)
Investment revenue	1	**12,985**	10,910
Profit/(loss) before taxation		**14,801**	(3,962)
Income tax (expense)/benefit	3	**(2,915)**	2,037
Net profit/(loss)		**11,886**	(1,925)
Profit/loss for the year attributable to shareholders		**11,886**	(1,925)
Total comprehensive income/(loss) for the year, net of tax, attributable to shareholders		**11,886**	(1,925)

The financial statements should be read in conjunction with the accounting policies and notes on pages 7 to 25.

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FMG Insurance Limited
Annual Report 2018

STATEMENT OF CHANGES IN EQUITY
for the year ended 31 March

	Notes	2018 $000	2017 $000
Share capital			
Share capital at the beginning of the year		**145,000**	120,000
Total contributions by and distributions to shareholders		**-**	25,000
Share capital at the end of the year	**12**	**145,000**	145,000
Retained earnings			
Retained earnings at the beginning of the year		**54,697**	56,622
Total profit/(loss) and comprehensive income		**11,886**	(1,925)
Retained earnings at the end of the year		**66,583**	54,697
Total equity at the end of the year		**211,583**	199,697
Attributable to:			
Shareholders		**211,583**	199,697
		211,583	199,697

The financial statements should be read in conjunction with the accounting policies and notes on pages 7 to 25.

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BALANCE SHEET

as at 31 March

	Notes	2018 $000	2017 $000
Assets			
Cash and cash equivalents	4	**14,141**	18,239
Trade and other receivables	6	**113,950**	86,169
Insurance recoveries	7, 8	**98,174**	112,047
Deferred acquisition costs	9	**3,510**	3,805
Investments	5	**288,749**	285,428
Current tax asset		**-**	517
Deferred tax assets	10	**1,041**	2,273
Total assets		**519,565**	508,478
Liabilities			
Trade and other liabilities	11	**13,173**	14,369
Related party payable	14	**2,882**	212
Current tax liability		**1,526**	-
Underwriting provisions	7	**289,418**	293,135
Deferred tax liabilities	10	**983**	1,065
Total liabilities		**307,982**	308,781
Net assets		**211,583**	199,697
Equity			
Share capital	12	**145,000**	145,000
Retained earnings		**66,583**	54,697
Total equity		**211,583**	199,697

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

T D Cleland
Chairman
28 June 2018

M L James
Director
28 June 2018

The financial statements should be read in conjunction with the accounting policies and notes on pages 7 to 25.

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STATEMENT OF CASH FLOWS

for the year ended 31 March

	Notes	2018 $000	2017 $000
Cash flows from operating activities			
Premium and other receipts from clients		**270,389**	244,428
Reinsurance recoveries		**68,361**	11,988
Interest received		**-**	45
Other income		**1,991**	-
Claims paid		**(241,133)**	(155,111)
Reinsurance premium paid		**(31,587)**	(24,695)
Cash paid to suppliers and employees		**(86,507)**	(75,205)
Income tax (paid)/recovered		**1,220**	(2,212)
Net cash flows from operating activities	**4**	**(17,266)**	(762)
Cash flows from investing activities			
Net proceeds from (purchase)/sale of investment securities		**-**	(24,163)
Investment dealings with fund managers		**10,000**	5,000
Dividends received		**499**	-
Net cash flows from investing activities		**10,499**	(19,163)
Cash flows from financing activities			
Intercompany (payments)/receipts		**2,669**	(1,112)
Capital transfer from parent		**-**	25,000
Net cash flows from financing activities		**2,669**	23,888
Net increase/(decrease) in cash and cash equivalents		**(4,098)**	3,963
Cash and cash equivalents at the beginning of the year		**18,239**	14,276
Cash and cash equivalents at the end of the year	**4**	**14,141**	18,239

The financial statements should be read in conjunction with the accounting policies and notes on pages 7 to 25.

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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 a FMC reporting entity under the Financial Markets Conduct Act 2013.

The Company is primarily involved in the underwriting of general insurance.

The Company's registered office is Level 5, Grant Thornton House, 215 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 insurance operations of the Company comprise the underwriting, administration and claims management of insurance contracts. These contracts transfer significant insurance risk by agreeing to compensate the insured on the occurrence of a specified insured event, such as damage to property or the crystallisation of a third party liability (or the reinsurance thereof), within a given timeframe.

Under accounting standards, such contracts are defined as *general insurance contracts.*

General insurance liabilities

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

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

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

Assets backing general insurance contract liabilities

These assets are measured on a basis that is consistent with the measurement of the liabilities, to the extent permitted under accounting standards. The 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.

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

Policy acquisition costs

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

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

Outwards reinsurance

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

Reinsurance recoveries

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

Reinsurance assets are reviewed for impairment at each reporting date or more frequently when an indication of impairment arises during the reporting year. Impairment occurs when there is objective evidence as a result of an event that occurred after initial recognition of the reinsurance asset that the 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.

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.

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

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, loans and receivables and available-for-sale categories.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition at fair value through profit or loss. The 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 balance sheet at fair value with net changes in fair value presented as finance costs (negative net changes in fair value) or finance income (positive net changes in fair value) in the income statement.

Derecognition of financial assets

A financial asset is derecognised (i.e. removed from the Company's balance sheet) 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), where changes in value are reflected in the income statement, are not subject to impairment testing. Other assets such 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.

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 of financial liabilities

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

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

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, earning multiple valuation method and comparison to quoted market prices or dealer quotes for similar instruments. Inputs to the models are market observable.

Cash and cash equivalents

Cash and cash equivalents in the statement of financial position comprise cash at banks and on hand and short-term deposits with a maturity of three months or less.

Trade and other receivables

Trade and other receivables are initially recognised at their fair value. Subsequent recognition is at the amortised cost using the effective interest method. Receivables are subject to impairment testing with an allowance for collective impairment recognised.

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 initially recognised at fair value and subsequently measured at amortised cost. They are not discounted due to their short term nature.

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 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.

CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

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

NEW STANDARDS AND INTERPRETATIONS NOT YET ADOPTED

The following standards and interpretations have been issued but are not yet effective for the period ending 31 March 2018.

Standard	Requirement	Effective for annual reporting periods beginning on or after:
NZ IFRS 9 (2014) Financial Instruments	The final version of NZ IFRS 9 Financial Instruments, brings together the classification and measurement, impairment and hedge accounting phases of the International Accounting Standards Board's project. The standard will replace NZ IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of NZ IFRS 9. Early application is only permitted if the complete version of NZ IFRS 9 is adopted in its entirety for reporting periods beginning after 4 September 2014.The transition to NZ IFRS 9 differs by requirements and is partly retrospective and partly prospective. Despite the requirement to apply NZ IFRS 9 in its entirety, entities may elect to early apply only the requirements for the presentation of gains and losses on financial liabilities designated as at fair value through profit or loss without applying the other requirements in the standard. An entity that elects to do so is required to disclose that fact and provide the related disclosures set out in paragraphs 10-11 of NZ IFRS 7 Financial Instruments: Disclosures.	1 January 2018

NZ IFRS 15 Revenue from Contracts with Customers	NZ IFRS 15 establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. NZ IFRS 15 supersedes: (a) NZ IAS 11 Construction Contracts (b) NZ IAS 18 Revenue (c) NZ IFRIC 13 Customer Loyalty Programmes (d) NZ IFRIC 15 Agreements for the Construction of Real Estate (e) NZ IFRIC 18 Transfers of Assets from Customers (f) NZ SIC-31 Revenue – Barter transactions Involving Advertising Services The core principle of NZ IFRS 15 is that an entity recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. An entity recognises revenue in accordance with that core principle by applying the following steps: (a) Step 1: Identify the contract(s) with a customer (b) Step 2: Identify the performance obligations in the contract (c) Step 3: Determine the transaction price (d) Step 4: Allocate the transaction price to the performance obligations in the contract (e) Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation.	1 January 2018
IFRS 17 Insurance Contracts	IFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects. The core of IFRS 17 is the General (building block) Model, supplemented by: • A specific adaptation for contracts with direct participation features (the Variable Fee Approach) • A simplified approach (Premium Allocation Approach) mainly for short-duration contracts The main features of the new accounting model for insurance contracts are: • A measurement of the present value of future cash flows, incorporating an explicit risk adjustment, remeasured every reporting period (the fulfilment cash flows) • A Contractual Service Margin (CSM) that is equal and opposite to any day one gain in the fulfilment cash flows of a group of contracts, representing the unearned profitability of the insurance contract to be recognised in profit or loss over the service period (i.e., coverage period) • Certain changes in the expected present value of future cash flows are adjusted against the CSM and thereby recognised in profit or loss over the remaining contract service period • The effect of changes in discount rates will be reported in either profit or loss or other comprehensive income (OCI), determined by an accounting policy choice • A presentation of insurance revenue and insurance service expenses in the statement of comprehensive income based on the concept of services provided during the period • Amounts that the policyholder will always receive regardless of whether an insured event happens (non-distinct investment components) are not presented in the income statement, but are recognised directly in the balance sheet • Insurance services results (earned revenue less incurred claims) are presented separately from the insurance finance income or expense • Extensive disclosures to provide information on the recognised amounts from insurance contracts and the nature and extent of risks arising from these contracts Early application is permitted, provided the entity also applies IFRS 9 Financial Instruments and IFRS 15 Revenue from Contracts with Customers on or before the date it first applies IFRS 17.	1 January 2021

Adopting the above Standards and Interpretations is not expected to have a material impact on the numbers presented in the Company financial statements. The Company derives the significant majority of its revenue from Insurance Contracts and Investment Income which are scoped out of NZ IFRS 15; the recognition of the balance of the revenue is not expected to change materially however the Company is currently assessing the impact of the standard on all relevant revenue streams.

A full assessment of the impact of NZ IFRS 17 has not yet been performed by the Company. The Company does not intend to adopt any of these standards early.

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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:

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

In calculating the estimated cost of unpaid claims the 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. Claims are separated into classes of business with broadly similar reporting and settlement behaviour and the results from each class combined to determine the value of unpaid claims. Gross claims costs are established with a separate assessment of reinsurance and other recoveries.

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

Further information is contained in Notes 7 and 8.

Recovery of deferred tax assets

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

Investment in Fidelity Life Limited

The shares in Fidelity Life Limited are not listed and are not traded in an active market. The shares have been valued based on the share price of a significant off market transaction i.e. the recent New Zealand Superannuation Fund investment of $100m to acquire a 41.1% cornerstone stake in Fidelity Life. Previously the shares had been valued by an independent third party using a valuation based on a price earnings multiple (using comparable companies) and the estimated future maintainable earnings of the company.

Further information is contained in Note 5.

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NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 March

1 REVENUE

	2018 $000	2017 $000
General insurance revenue		
Gross earned premiums	**265,747**	235,582
Reinsurance and other recoveries revenue	**57,551**	106,352
Investment revenue		
Movement in financial assets at fair value through profit and loss	12,486	10,910
Dividends - other entities	499	-
Total investment revenue	**12,985**	10,910
Fee income and other revenue	**9,699**	6,503
Total revenue	**358,966**	359,347

2 OTHER EXPENSES

	2018 $000	2017 $000
Operating expenses includes:		
Auditors' remuneration – audit of financial statements	**82**	80
Auditors' remuneration – solvency returns	**17**	17

3 INCOME TAX

	2018 $000	2017 $000
a) Income tax expense/(benefit) from continuing operations		
Current tax expense/(benefit)	**1,765**	(59)
Deferred tax expense/(benefit)	**1,150**	(1,978)
Income tax expense/(benefit) for the year from continuing operations	**2,915**	(2,037)
b) Analysis of taxation expense - continuing and discontinued operations		
Continuing operations	**2,915**	(2,037)
Income tax expense/(benefit) for the year	**2,915**	(2,037)
c) Numerical reconciliation of income tax expense to prima facie tax payable		
Profit before taxation		
Continuing operations	**14,801**	(3,962)
Total profit/(loss) before taxation	**14,801**	(3,962)
Prima facie income tax @ 28%	**4,144**	(1,109)
Tax effect of amounts which are non-deductible expenses/non-assessable revenue:		
Non-assessable income and other items	**(1,123)**	(744)
Imputation credits on dividends	**(104)**	(125)
Foreign tax credit	**(3)**	(1)
(Over)/under provided in prior years	-	(58)
Income tax expense/(benefit) for the year	**2,915**	(2,037)

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

4 CASH AND CASH EQUIVALENTS

	2018 $000	2017 $000
Cash at bank and in hand	**14,141**	18,239
Total cash and cash equivalents	**14,141**	18,239

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

	2018 $000	2017 $000
Profit/(loss) for the year	**11,886**	(1,925)
Adjustments for non-cash items		
Movement in deferred tax	**1,150**	(1,978)
Movement in unearned premium	**17,924**	10,999
Movement in outstanding claims	**(21,641)**	102,981
Movement in bad debts provision	**1,710**	564
Movement in deferred acquisition costs	**295**	388
Unrealised investment (gain)/loss	**(13,820)**	(11,732)
	(14,382)	101,222
Movements in other working capital items		
Movement in accounts receivable	**(15,618)**	(106,578)
Movement in accounts payable	**(1,195)**	7,549
Movement in taxation payable	**2,043**	(1,030)
	(14,770)	(100,059)
Net cash flows from operating activities	**(17,266)**	(762)

5 INVESTMENTS UNDER MANAGEMENT

	2018 $000	2017 $000
Equity securities		
Investments in unlisted New Zealand companies	**19,111**	20,773
Total equity securities	**19,111**	20,773
Unit trust investments		
New Zealand equities	**10,384**	10,604
Offshore equities	**49,902**	49,648
Fixed interest investments - New Zealand	**167,614**	163,858
Fixed interest investments - Offshore	**41,738**	40,545
Total unit trust investments	**269,638**	264,655
Total other financial assets	**288,749**	285,428

EY

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

5 INVESTMENTS UNDER MANAGEMENT *(continued)*

Determination of fair value hierarchy 2018

	Level 1 $000	Level 2 $000	Level 3 $000	Total fair value $000
Financial assets designated as fair value through profit and loss:				
Equity securities	-	-	19,111	19,111
Unit trust investments	-	269,638	-	269,638
Total financial assets	-	269,638	19,111	288,749

Determination of fair value hierarchy 2017

	Level 1 $000	Level 2 $000	Level 3 $000	Total fair value $000
Financial assets designated as fair value through profit and loss:				
Equity securities	-	-	20,773	20,773
Unit trust investments	-	264,655	-	264,655
Total financial assets	-	264,655	20,773	285,428

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

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

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

During the year there were no transfers between categories.

Reconciliation of movements in level 3 instruments measured at fair value

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

	As at 1 April 2016 $000	Purchases $000	Total loss in profit and loss $000	As at 31 March 2017 $000
Equity securities	-	24,163	(3,390)	20,773
	-	24,163	(3,390)	20,773

EY

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

5 INVESTMENTS UNDER MANAGEMENT *(continued)*

Sensitivity of level 3 financial instruments to changes in key assumptions

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

	Carrying value at 31 March 2017 $000	Effect of reasonably possible alternate assumptions (+/-) $000
Equity securities	**20,773**	**415**
	20,773	**415**

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

6 TRADE AND OTHER RECEIVABLES

	Notes	2018 $000	2017 $000
Trade debtors		**95,037**	81,297
Reinsurance debtors		**6,538**	3,777
Other receivables		**16,094**	3,104
Allowance for collective impairment	**13**	**(3,719)**	(2,009)
		113,950	86,169

There are no past due or impaired trade debtors or reinsurance debtors as at 31 March 2018. The allowance for collective impairment relates to other receivables where there are past due amounts.

7 UNDERWRITING PROVISIONS AND REINSURANCE AND OTHER RECOVERIES

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

EY

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

8 GENERAL INSURANCE CONTRACTS

(a) Net general insurance claims incurred

	2018			2017		
	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	112,293	107,010	219,303	241,608	17,419	259,027
Discount	(745)	934	189	(1,340)	405	(935)
Gross claims expense	111,548	107,944	219,492	240,268	17,824	258,092
Reinsurance and other recoveries						
Reinsurance and other recoveries revenue - undiscounted	(14,069)	(43,405)	(57,474)	(94,457)	(12,805)	(107,262)
Discount	140	(217)	(77)	934	(24)	910
Reinsurance and other recoveries	(13,929)	(43,622)	(57,551)	(93,523)	(12,829)	(106,352)
Net claims incurred	97,619	64,322	161,941	146,745	4,995	151,740

Current year amounts relate to risks borne in the current financial year. Prior period amounts relate to a reassessment of the risks borne in all previous financial years.

(b) Development of claims

The following table shows the development of net undiscounted outstanding claims relative to the current estimate of ultimate claims costs for the five most recent years.

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

EY

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

8 GENERAL INSURANCE CONTRACTS *(continued)*

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

The total liability relates to direct insurance.

Assumptions adopted in calculation of general insurance provisions

The effective date of the actuarial report on the Insurance Liabilities is 31 March 2018. The previous assessment of the Insurance Liabilities was performed at 31 March 2017.

The actuarial report was prepared by Margaret Cantwell, the 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 30 governing technical liability valuations for general insurance business.

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

Process for determining risk margin

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

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

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

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

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

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

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

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

8 GENERAL INSURANCE CONTRACTS *(continued)*

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

Sensitivity analysis

The impact of change in key variables on the outstanding claims liability is set out below. Each change has been calculated in isolation to other changes. The impact on net profit after tax is the same as the impact on equity.

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

(d) Risk management policies and procedures

The general insurance business of the 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 15 to 17.

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

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

The key policies in place to mitigate risk arising from writing general insurance contracts include:

- comprehensive management information systems and actuarial models using historical information to calculate premiums and monitor claims;
- the use of reinsurance to limit the Company's exposure;
- prudent investment management to match the Company's liabilities.

(ii) Terms and conditions of insurance contracts that have a material effect on amount, timing and uncertainty of cash flows

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

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

8 GENERAL INSURANCE CONTRACTS *(continued)*

(iii) Concentration of reinsurance risk

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

Reinsurance is placed to cover losses in excess of the Company's agreed retention for each class of business, using both automatic treaties and facultative (one-off) placements. Dependent upon the class of business either excess of loss or proportional reinsurance is used. The catastrophe programme provides cover up to the expected losses from a 1 in 1,000 year event.

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

(e) Liability adequacy test

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

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

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

(f) Insurer financial strength rating

The Company has a financial strength rating of A (Excellent) as accorded by the international rating agency A.M. Best Group on 26 January 2018 (2017: A (Excellent)).

9 DEFERRED ACQUISITION COSTS

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

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

10 DEFERRED TAX

	Opening balance at 1 April 2017	Charged/ (credited) to profit and loss	Closing balance at 31 March 2018
2018			
Movements in deferred tax assets			
Provisions and accruals	563	478	1,041
Tax losses	1,710	(1,710)	-
Total deferred tax assets	2,273	(1,232)	1,041
Movement in deferred tax liabilities			
Deferred revenue liability	(1,065)	82	(983)
Total deferred tax liabilities	(1,065)	82	(983)
Deferred tax asset, net	1,208	(1,150)	58

	Opening balance at 1 April 2016	Charged/ (credited) to profit and loss	Closing balance at 31 March 2017
2017			
Movements in deferred tax assets			
Provisions and accruals	404	159	563
Tax losses	-	1,710	1,710
Total deferred tax assets	404	1,869	2,273
Movement in deferred tax liabilities			
Deferred revenue liability	(1,174)	109	(1,065)
Total deferred tax liabilities	(1,174)	109	(1,065)
Deferred tax liabilities, net	(770)	1,978	1,208

11 TRADE AND OTHER LIABILITIES

	2018 $000	2017 $000
Trade creditors	13	646
Reinsurance creditors	4,110	8,118
Other liabilities	9,050	5,605
	13,173	14,369
Current	13,173	14,369

12 CONTRIBUTED EQUITY

	2018 $000	2017 $000
Fully paid ordinary shares at the beginning of the year	145,000	120,000
Additional capital investment	-	25,000
Fully paid ordinary shares at the end of the year	145,000	145,000

As at 31 March 2018 there were 14,500,000 ordinary shares (2017: 14,500,000 ordinary shares). Ordinary shares have no par value.

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

13 ALLOWANCES FOR IMPAIRED ASSETS

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

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

14 RELATED PARTY TRANSACTIONS

The Parent, Farmers' Mutual Group provides underwriting, accounting, management and secretarial services for which it charges a management fee. The fee charged for the period ended 31 March 2018 was $91.072m (2017: $77.615m).

The Company has advances from the Parent. As at 31 March 2018 $2.882m was payable (2017: $0.212m). No interest is payable on current account balances. These balances are repayable on demand.

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

15 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.

Other financial assets

With respect to credit risk arising from the other financial assets of the Company, which comprise cash and cash equivalents and financial assets, 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.

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

16 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. The exposure is not considered material.

Unit price risk

Unit price risk is the risk that the fair value of investments in unit trusts will decrease as a result of changes in unit prices. The 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	Impact on equity
	$000	$000
2018		
10% increase in unit prices	**26,964**	**26,964**
10% decrease in unit prices	**(26,964)**	**(26,964)**
2017		
10% increase in unit prices	26,466	26,466
10% decrease in unit prices	(26,466)	(26,466)

Interest rate risk

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

Interest rate cash flows risk analysis

	Impact on profit after tax	Impact on equity
	$000	$000
2018		
0.25% increase in interest rates	**31**	**31**
0.25% decrease in interest rates	**(31)**	**(31)**
2017		
0.25% increase in interest rates	43	43
0.25% decrease in interest rates	(43)	(43)

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

17 LIQUIDITY RISK

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

	Weighted average interest rate %	0-6 months $000
2018		
Bank deposits	**1.75%**	**14,141**
Trade and other current receivables		**102,661**
Total financial assets		**116,802**
Undrawn lending facilities		**-**
Trade and other current liabilities		**10,291**
Related party payable		**2,882**
Total financial liabilities		**13,173**
Net financial position		**103,629**
2017		
Bank deposits	1.99%	18,239
Trade and other current receivables		85,283
Total financial assets		103,522
Undrawn lending facilities		-
Trade and other current liabilities		14,157
Related party payable		212
Total financial liabilities		14,369
Net financial position		89,153

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

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.

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

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

The allocation of capital between 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 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

18 FINANCIAL INSTRUMENTS

2018

	Designated at fair value through profit or loss $000	Loans and receivables $000	Total carrying amount $000	Fair value $000
Bank deposits	-	14,141	14,141	14,141
Investments	288,749	-	288,749	288,749
Trade and other current receivables	-	113,950	113,950	113,950
Total assets	**288,749**	**128,091**	**416,840**	**416,840**

	Designated at fair value through profit or loss $000	Other financial liabilities at amortised cost $000	Total carrying amount $000	Fair value $000
Trade and other current liabilities	-	13,173	13,173	13,173
Related party payable	-	2,882	2,882	2,882
Total liabilities	-	**16,055**	**16,055**	**16,055**

2017

	Designated at fair value through profit or loss $000	Loans and receivables $000	Total carrying amount $000	Fair value $000
Bank deposits	-	18,239	18,239	18,239
Investments	285,428	-	285,428	285,428
Trade and other current receivables	-	86,169	86,169	86,169
Total assets	285,428	104,408	389,836	389,836

	Designated at fair value through profit or loss $000	Other financial liabilities at amortised cost $000	Total carrying amount $000	Fair value $000
Trade and other current liabilities	-	14,369	14,369	14,369
Related party payable	-	212	212	212
Total liabilities	-	14,581	14,581	14,581

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 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 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.

19 COMMITMENTS

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

20 CONTINGENCIES

There are no contingent liabilities at 31 March 2018 (2017: $Nil).

21 SUBSEQUENT EVENTS

There are no subsequent events.

EY

Independent auditor’s report to the Shareholder of FMG Insurance Limited
Report on the audit of the financial statements

Opinion

We have audited the financial statements of FMG Insurance Limited (“the Company”) on pages 3 to 25, which comprise the balance sheet of the Company as at 31 March 2018, and the income statement, statement of changes in equity and statement of cash flows for the year then ended of the Company, and the notes to the financial statements including a summary of significant accounting policies.

In our opinion, the financial statements on pages 3 to 25 present fairly, in all material respects, the financial position of the Company as at 31 March 2018 and its financial performance and cash flows for the year then ended in accordance with New Zealand Equivalents to International Financial Reporting Standards and International Financial Reporting Standards.

This report is made solely to the Company's shareholder. Our audit has been undertaken so that we might state to the Company's shareholder 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 shareholder, for our audit work, for this report, or for the opinions we have formed.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (New Zealand). Our responsibilities under those standards are further described in the Auditor’s Responsibilities for the Audit of the Financial Statements section of our report.

We are independent of the Company in accordance with Professional and Ethical Standard 1 (revised) Code of Ethics for Assurance Practitioners issued by the New Zealand Auditing and Assurance Standards Board, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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

We provide assurance services in relation to the company’s solvency return. We have no other relationship with, 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.

Information other than the financial statements and auditor’s report

The directors of the Company are responsible for the Annual Report, which includes information other than the financial statements and auditor’s report.

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

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

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

Directors' responsibilities for the financial statements

The directors are responsible, on behalf of the Company, for the preparation and fair presentation of the financial statements in accordance with New Zealand Equivalents to International Financial Reporting Standards and International Financial Reporting Standards, 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.

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

Auditor's responsibilities for the audit of the financial statements

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

A further description of our responsibilities for the audit of the financial statements is located at the External Reporting Board website: https://www.xrb.govt.nz/standards-for-assurance-practitioners/auditors-responsibilities/audit-report-6/. This description forms part of our auditor's report.

The engagement partner on the audit resulting in this independent auditor's report is David Borrie.

Ernst + Young

Chartered Accountants
Wellington
28 June 2018

Appointed Actuary's review of actuarial information for FMG Insurance Limited in respect of 31 March 2018 Financial Statements

This report is prepared under section 78 of the Insurance (Prudential Supervision) Act 2010 ("the Act") for inclusion in the financial statements of FMG Insurance Limited (FMGIL).

It reports on the review by the Appointed Actuary, required under section 77 of the Act, of actuarial information in, or used in the preparation of, the financial statements.

The report has been prepared by Margaret Cantwell ; BSc, FIAA, FNZSA Appointed Actuary to, FMGIL. I am an employee of FMG and a policyholder of FMGIL. I have no other financial or ownership interest in FMGIL.

It is FMGIL'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.

I was involved in the preparation of the liability valuation, liability adequacy test and related disclosures in the financial statements. I have reviewed the actuarial information contained in, or used to prepare, the financial statements 31 March 2018. There were no limitations placed on the scope of my review.

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

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 from an actuarial perspective:

- The actuarial information contained in the 31 March 2018 financial statements has been appropriately included in those statements.
- The actuarial information used in the preparation of the 31 March 2018 financial statements has been used appropriately.
- That in my opinion, as at 31 March 2018, FMGIL is maintaining an appropriate solvency margin as defined in The Solvency Standard for Non-Life Insurance Business issued by the Reserve Bank of New Zealand.

Margaret Cantwell
Appointed Actuary
FMGIL

Dated: 28 June 2018