FMG INSURANCE LIMITED

ANNUAL REPORT
2022

Contents

DIRECTORS' REPORT

The Directors have pleasure in presenting FMG Insurance Limited's Annual Report and Financial Statements for the year ended 31 March 2022.

Financial Results

The Company's financial results for the year reflect the following:
- Increase in Gross Written Premium from continuing operations to $458.5m from $406.4m
- Decrease in Net Investment income from continuing operations to $1.3m from $34.3m
- Increase in Net Claims incurred from continuing operations to $256.7m from $210.3m
- Decrease in profit from continuing operations after tax to $23.9m from $57.4m

	2022 $000	2021 $000
Profit/(loss) from continuing operations before taxation	**32,227**	71,787
Taxation	**(8,314)**	(14,410)
Profit/(loss) for the year	**23,913**	57,377

Dividends

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

Share Capital

At 31 March 2022 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 ("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 overall culture and conduct, business risks, the integrity of management information systems and reporting to policyholders and members.

While the Board acknowledges that it is responsible for the overall control framework of the 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 2022

The Company's Directors are Mr. Tony Cleland (Chair), Mr. Geoff Copstick, Mr. Steve Allen, Mr. Murray Taggart, Ms. Sinead Horgan, Ms. Sarah Smith, Mrs. Sarah von Dadelszen and Mrs. Debbie Hewitt.

The following are the Directors' qualifications and expertise:

Tony Cleland

Tony heads the Board as Chairman and has extensive experience in the rural sector. Tony has several dairy farming businesses in Southland and a vineyard in Central Otago. A founder of FarmRight which manages Agriculture and Viticulture assets through NZ and Australia. Tony's been a director on FMG's board since 2007 and has also held a range of other governance roles, including Director of several large-scale farming businesses.

Geoff Copstick

Geoff was CFO of Gallagher Group in Hamilton for nine years. He is now on Gallagher's board. Geoff also serves as a Director on Northland Inc Ltd. Geoff is a previous Chair of ChildFund NZ 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.

DIRECTORS' REPORT (continued)

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 is a past director of CRT Society and Ballance Agri-Nutrients. Murray is experienced in corporate governance and is currently chairman of Alliance Group and Taumata Plantations.

Sinead Horgan

Sinead trained as a Chartered Accountant and has over 20 years consulting and financial services experience. Sinead has held senior roles in accounting, private equity and commercial banking across Europe, the Americas, Asia, Australia, and New Zealand. Sinead is a Director and Chair of the Audit & Risk Committees for Bank of China and EcoCentral. Sinead is also a Director of Rakon and Taggart Earthmoving.

Sarah Smith

Sarah is an insurance and banking professional with over 30 years' experience, 15 of which have been in senior management, and is proud to have learnt insurance from the 'ground-up'. Sarah's more recent positions have included Chief Technology Officer, Heartland Bank, CEO MARAC Insurance and General Manager of Insurance for ANZ. Sarah has a strong working knowledge of the regulatory requirements and conduct and culture expectations of the industry.

Sarah von Dadelszen

Sarah has spent the last 21 years in a variety of agricultural and energy related governance and leadership roles. These positions have been with organisations that are committed to maintaining strong communities, particularly in the rural sector including the NZ Beef Council, Fonterra Shareholders Council and NZ Young Farmers. Currently, she sits on the Ballance Agri-Nutrients Board (and is Chair of the Remuneration Committee). Sarah is also a Director of Centralines Ltd. and owns a large farming business with sheep and beef and dairy interests.

Debbie Hewitt

Debbie has a strong primary sector background, with extensive governance experience in agribusiness, civil engineering, infrastructure, project management, and regulatory environment sectors. Alongside being a co-founder of her family business Hewitt Livestock Ltd., Debbie is currently Deputy Chair on the Cranford Foundation Trust, and a Rockit Global appointed Director for ROP2, licensed growers of Rockit apples. Debbies' previous governance roles include serving as a Hawke's Bay Regional Councillor and holding Director positions for the Hawke's Bay Regional Investment Company and Horticulture New Zealand.

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 Member Election & Special Director Appointment Policy which articulates the process for the election and appointment of prospective Directors, as well as the evaluation of Member 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 be 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 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 the Group's 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' REPORT (continued)

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

(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	2022 $000	2021 $000
General insurance activities			
Gross written premium		**458,459**	406,361
Movement in unearned premium		**(23,899)**	(20,926)
Gross earned premium	1	**434,560**	385,435
Outwards reinsurance premium expense		**(50,236)**	(45,409)
Net premium revenue		**384,324**	340,026
Claims expense	8	**(270,629)**	(238,015)
Reinsurance and other recoveries revenue	1, 8	**13,907**	27,703
Net claims incurred		**(256,722)**	(210,312)
Other income	1	**13,849**	12,304
Operating expenses	2	**(110,506)**	(104,498)
General insurance underwriting result		**30,945**	37,520
Investment income/(loss)	1	**1,282**	34,267
Profit/(loss) before taxation		**32,227**	71,787
Income tax (expense)/benefit	3	**(8,314)**	(14,410)
Net profit/(loss)		**23,913**	57,377
Profit/(loss) from continuing operations for the year attributable to shareholders		**23,913**	57,377
Total comprehensive income/(loss) for the year, net of tax, attributable to shareholders		**23,913**	57,377

The financial statements should be read in conjunction with the accounting policies and notes on pages 8 to 26.

STATEMENT OF CHANGES IN EQUITY
for the year ended 31 March

	Notes	2022 $000	2021 $000
Share capital			
Share capital at the beginning of the year		**145,000**	145,000
Total contributions by and distributions to shareholders		-	-
Share capital at the end of the year	**12**	**145,000**	145,000
Retained earnings			
Retained earnings at the beginning of the year		**149,815**	92,438
Total profit/(loss) and comprehensive income		**23,913**	57,377
Retained earnings at the end of the year		**173,728**	149,815
Total equity at the end of the year		**318,728**	294,815
Attributable to:			
Shareholders		**318,728**	294,815
		318,728	294,815

The financial statements should be read in conjunction with the accounting policies and notes on pages 8 to 26.

EY

BALANCE SHEET
as at 31 March

	Notes	2022 $000	2021 $000
Assets			
Cash and cash equivalents	4	**44,558**	45,572
Trade and other receivables	6	**156,917**	138,782
Insurance recoveries	7, 8	**17,982**	22,257
Investments	5	**457,137**	413,202
Related party receivable	14	**1,517**	-
Deferred acquisition costs	9	**3,667**	3,667
Deferred tax assets	10	**-**	32
Total assets		**681,778**	623,512
Liabilities			
Trade and other liabilities	11	**16,691**	14,755
Related party payable	14	**-**	905
Current tax liability		**4,241**	8,353
Underwriting provisions	7	**342,057**	304,684
Deferred tax liabilities	10	**61**	-
Total liabilities		**363,050**	328,697
Net assets		**318,728**	294,815
Equity			
Share capital	12	**145,000**	145,000
Retained earnings		**173,728**	149,815
Total equity		**318,728**	294,815

Signed on behalf of the Board of Directors, who authorised the issue of these financial statements on 23 June 2022.

T D Cleland
Chairman
23 June 2022

S Horgan
Director
23 June 2022

The financial statements should be read in conjunction with the accounting policies and notes on pages 8 to 26.

STATEMENT OF CASH FLOWS

for the year ended 31 March

	Notes	2022 $000	2021 $000
Cash flows from operating activities			
Premium and other receipts from clients		**462,597**	416,049
Reinsurance recoveries		**14,583**	20,456
Interest received		**3,054**	2,656
Other income		**84**	45
Claims paid		**(257,920)**	(227,131)
Reinsurance premium paid		**(48,801)**	(46,348)
Cash paid to suppliers and employees		**(114,729)**	(107,158)
Tax (paid)/recovered		**(12,281)**	(8,837)
Net cash flows from operating activities	**4**	**46,587**	49,732
Cash flows from investing activities			
Proceeds from the sale of investment securities		**20,773**	-
Investment dealings with fund managers		**(65,951)**	(27,656)
Net cash flows from investing activities		**(45,178)**	(27,656)
Cash flows from financing activities			
Cash flow (to)/from related entities		**(2,423)**	652
Net cash flows from financing activities		**(2,423)**	652
Net (decrease)/increase in cash and cash equivalents		**(1,014)**	22,728
Cash and cash equivalents at the beginning of the year		**45,572**	22,844
Cash and cash equivalents at the end of the year	**4**	**44,558**	45,572

The financial statements should be read in conjunction with the accounting policies and notes on pages 8 to 26.

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 1, PwC Centre, 10 Waterloo 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 the requirements of the Financial Markets Conduct Act 2013 and 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. Certain comparatives have been changed to ensure consistency with the current 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.

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 client.

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

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

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

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets backing insurance contracts. The Company has equity, debt securities and units in unlisted funds that are recognised at fair value through profit or loss. These assets are carried in the Balance Sheet at fair value with net changes in fair value presented as investment loss (negative net changes in fair value) or investment 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 financial assets at amortised cost 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 in the case of loans and borrowings and payables, net of directly attributable transaction costs. Financial liabilities 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.

Cash and cash equivalents

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

Trade and other receivables

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

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

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

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

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

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.

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

CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

There have been no signficant changes in accounting policies during the current period. Accounting policies have been applied on a basis consistent with the prior year, where applicable.

NEW STANDARDS AND INTERPRETATIONS NOT YET ADOPTED

The following standards and interpretations have been issued but are not yet effective for the period ending 31 March 2022.

Standard	Requirement	Effective for annual reporting periods beginning on or after:
NZ IFRS 17 Insurance Contracts	NZ IFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects. The core of NZ IFRS 17 is the General (building block) Model, supplemented by: • 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 • 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 NZ IFRS 9 Financial Instruments and NZ IFRS 15 Revenue from Contracts with Customers on or before the date it first applies NZ IFRS 17.	1 January 2023

Work continues to be completed on the transition requirements for NZ IFRS 17 overseen by a Project Steering Group. A detailed assessment of the impact began in the 2020/21 financial year. During the current financial year, a substantial portion of the core systems development has been completed by the NZ IFRS 17 project team which was primarily focused on data extraction and reporting. Significant work on application of the NZ IFRS 17 accounting standard has been performed and several key decisions and assumptions have been worked through. The Company intends to apply the Premium Allocation Approach to all direct insurance contracts issued and reinsurance contracts held, and intends to expense acquisition costs as incurred. The adoption of NZ IFRS 17 is expected to have a significant impact on the disclosures included in the financial statements of the Company. The Company does not intend to adopt any of this standard early.

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.

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 March

1 REVENUE

	2022 $000	2021 $000
General insurance revenue		
Gross earned premiums	**434,560**	385,435
Reinsurance and other recoveries revenue	**13,907**	27,703
Investment revenue		
Interest income	**3,122**	2,656
Realised investment gain/(loss)	**2,036**	-
Movement in financial assets at fair value through profit and loss	**(3,876)**	31,611
Total Investment revenue	**1,282**	34,267
Other income		
Other premium income	**12,179**	10,681
Other revenue	**1,670**	1,623
Total Other income	**13,849**	12,304
Total revenue	**463,598**	459,709

2 OPERATING EXPENSES

	2022 $000	2021 $000
Operating expenses includes:		
Auditors' remuneration – audit of financial statements	**89**	82
Auditors' remuneration – solvency returns	**20**	19

3 INCOME TAX

	2022 $000	2021 $000
a) Income tax expense/(benefit) from continuing operations		
Current tax expense/(benefit)	**8,221**	14,182
Deferred tax expense/(benefit)	**93**	228
Income tax expense/(benefit) for the year from continuing operations	**8,314**	14,410
b) Analysis of taxation expense - continuing and discontinued operations		
Continuing operations	**8,314**	14,410
Income tax expense/(benefit) for the year	**8,314**	14,410
c) Numerical reconciliation of income tax expense to prima facie tax payable		
Profit before taxation		
Continuing operations	**32,227**	71,787
Total profit/(loss) before taxation	**32,227**	71,787
Prima facie income tax @ 28%	**9,024**	20,100
Tax effect of amounts which are non-deductible expenses/non-assessable revenue:		
Non-assessable investment (income)/loss and other items	**(446)**	(5,479)
Imputation credits on dividends	**(82)**	(63)
Foreign tax credit	**(182)**	(148)
Income tax expense/(benefit) for the year	**8,314**	14,410

The imputation credit account is held at the Group level and are disclosed in the Group Annual Report.

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

4 CASH AND CASH EQUIVALENTS

	2022 $000	2021 $000
Cash at bank and in hand	**44,558**	45,572
Total cash and cash equivalents	**44,558**	45,572

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

	2022 $000	2021 $000
Profit/(loss) for the year	**23,913**	57,377
Adjustments for non-cash items		
Movement in deferred tax	**93**	228
Movement in unearned premium	**24,664**	21,614
Movement in outstanding claims	**12,709**	10,884
Movement in bad debts provision	**(155)**	(793)
Unrealised investment (gain)/loss	**3,280**	(32,195)
	40,591	(262)
Movements in other working capital items		
Movement in accounts receivable and reinsurance recoveries	**(13,903)**	(12,468)
Movement in accounts payable	**2,134**	(69)
Movement in taxation payable	**(4,112)**	5,154
	(15,881)	(7,383)
Items classified as investing activities		
Realised investment (gain)/loss	**(2,036)**	-
Net cash flows from operating activities	**46,587**	49,732

5 INVESTMENTS UNDER MANAGEMENT

	2022 $000	2021 $000
Equity securities		
Investments in unlisted New Zealand companies	**-**	18,737
Total equity securities	**-**	18,737
Unit trust investments		
New Zealand equities	**15,617**	16,141
Offshore equities	**77,847**	75,272
Fixed interest investments - New Zealand	**184,233**	157,001
Fixed interest investments - Offshore	**65,921**	57,756
Total unit trust investments	**343,618**	306,170
Fixed interest investments		
Fixed interest investments - New Zealand	**113,519**	88,295
Total fixed interest investments	**113,519**	88,295
Total investments	**457,137**	413,202

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

5 INVESTMENTS UNDER MANAGEMENT *(continued)*

Determination of fair value hierarchy 2022

	Level 1 $000	Level 2 $000	Level 3 $000	Total fair value $000
Financial assets at fair value through profit and loss:				
Equity securities	-	-	-	-
Unit trust investments	-	343,618	-	343,618
Fixed interest investments	-	113,519	-	113,519
Total financial assets	-	457,137	-	457,137

Determination of fair value hierarchy 2021

	Level 1 $000	Level 2 $000	Level 3 $000	Total fair value $000
Financial assets at fair value through profit and loss:				
Equity securities	-	-	18,737	18,737
Unit trust investments	-	306,170	-	306,170
Fixed interest investments	-	88,295	-	88,295
Total financial assets	-	394,465	18,737	413,202

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 Company'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. 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.

During the year there were no transfers between categories.

Reconciliation of movements in level 3 instruments measured at fair value

	As at 1 April 2021 $000	Sale of shares $000	Total gain in profit and loss $000	As at 31 March 2022 $000
Equity securities	18,737	(20,773)	2,036	-
	18,737	(20,773)	2,036	-

	As at 1 April 2020 $000	Sale of shares $000	Total gain in profit and loss $000	As at 31 March 2021 $000
Equity securities	18,613	-	124	18,737
	18,613	-	124	18,737

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 2022 $000	**Effect of reasonably possible alternate assumptions (+/-) $000**
Equity securities	-	-
	-	-

	Carrying value at 31 March 2021 $000	Effect of reasonably possible alternate assumptions (+/-) $000
Equity securities	18,737	1,662
	18,737	1,662

For equities, the Company adjusted the share price by $10 per share, which was considered by the Company to be within a range of reasonably possible alternatives.

6 TRADE AND OTHER RECEIVABLES

	Notes	**2022 $000**	2021 $000
Trade debtors		**153,818**	137,278
Reinsurance debtors		**2,674**	1,035
Other receivables		**42**	69
Uninsured third party recoveries		**3,832**	4,004
Allowance for collective impairment	**13**	**(3,449)**	(3,604)
		156,917	138,782

There are no past due or impaired trade debtors, reinsurance debtors or other receivable as at 31 March 2022. The allowance for collective impairment relates specifically to uninsured third party recoveries when amounts are past due.

7 UNDERWRITING PROVISIONS AND REINSURANCE AND OTHER RECOVERIES

	2022 $000	2021 $000
Underwriting provisions comprise:		
Liability for outstanding claims		
Expected future claim payments (undiscounted)	**118,252**	104,531
Discount to present value	**(1,450)**	(438)
	116,802	104,093
Provision for unearned premiums	**225,255**	200,591
Underwriting provisions	**342,057**	304,684
Current	**324,243**	287,625
Non-current	**17,814**	17,059
	342,057	304,684
Provision for reinsurance and other recoveries comprise:		
Expected future recoveries (undiscounted)	**(18,225)**	(22,345)
Discount to present value	**243**	88
Net insurance recoveries	**(17,982)**	(22,257)
Current	**(13,549)**	(16,543)
Non-current	**(4,433)**	(5,714)
	(17,982)	(22,257)

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

8 GENERAL INSURANCE CONTRACTS

(a) Net general insurance claims incurred

	2022			2021		
	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	**282,860**	**(11,218)**	**271,642**	228,960	9,296	238,256
Discount	**(1,150)**	**137**	**(1,013)**	(230)	(11)	(241)
Gross claims expense	**281,710**	**(11,081)**	**270,629**	228,730	9,285	238,015
Reinsurance and other recoveries						
Reinsurance and other recoveries revenue - undiscounted	**(14,752)**	**689**	**(14,063)**	(18,770)	(8,980)	(27,750)
Discount	**53**	**103**	**156**	24	23	47
Reinsurance and other recoveries	**(14,699)**	**792**	**(13,907)**	(18,746)	(8,957)	(27,703)
Net claims incurred	**267,011**	**(10,289)**	**256,722**	209,984	328	210,312

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						
	2017 $000	**2018 $000**	**2019 $000**	**2020 $000**	**2021 $000**	**2022 $000**	**Total $000**
Ultimate claims cost estimate							
At end of accident year	243,860	178,886	177,007	212,499	230,811	274,844	
One year later	277,987	178,348	179,875	211,517	224,577		
Two years later	285,783	178,916	179,405	211,622			
Three years later	288,362	179,776	179,250				
Four years later	289,206	180,100					
Five years later	289,213						
Current estimate of ultimate claims cost	289,213	180,100	179,250	211,622	224,577	274,844	
Cumulative payments	286,174	179,769	178,835	208,928	218,608	189,035	
Undiscounted central estimate	3,039	331	415	2,694	5,969	85,809	98,257
Discount to present value	(25)	(6)	(12)	(97)	(135)	(871)	(1,146)
Discounted central estimate	3,014	325	403	2,597	5,834	84,938	97,111
Prior years (2016 and prior)							9,911
Risk margin							9,780
Gross outstanding claims liabilities							116,802
Reinsurance recoveries on outstanding claims and other recoveries							(17,982)
Net outstanding claims liabilities							98,820

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

8 GENERAL INSURANCE CONTRACTS *(continued)*

(c) Analysis of outstanding claims	**2022**	2021
	$000	$000
Gross central estimate of present value of future claims payment	**107,022**	95,648
Risk margin	**9,780**	8,445
Total outstanding claims liability	**116,802**	104,093

The expected settlement pattern of the outstanding claims liability is as follows:

Current	**98,988**	87,034
Non-current	**17,814**	17,059
Total outstanding claims liability	**116,802**	104,093

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 2022. The previous assessment of the Insurance Liabilities was performed at 31 March 2021.

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

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

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

Process for determining Risk Margin

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

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

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

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

The Risk Margins for the Liability Adequacy Test at the same probability of sufficency 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:

	2022	2021
Inflation Rate	**Implicit**	Implicit
Discount Rate	**2.03%**	0.35%
Claims Handling Expense ratio - outstanding claims liabilities	**5.0%**	5.0%
Claims Handling Expense ratio - premium liabilities	**6.3%**	6.3%
Risk Margin - outstanding claims liabilities	**11.0%**	11.6%
Risk Margin - premium liabilities	**13.8%**	13.9%
Weighted average expected term to settlement	**234 days**	220 days

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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	2022	2021
	$000	$000
Outstanding claims liability		
Gross outstanding claims at the beginning of the year	**104,093**	93,209
Claims incurred during the year	**270,629**	238,015
Claims payments made during the year	**(257,920)**	(227,131)
Gross outstanding claims at the end of the year	**116,802**	104,093
Reinsurance and other recoveries receivable		
Reinsurance and other recoveries receivable at the beginning of the year	**(22,257)**	(19,347)
Reinsurance and other recoveries incurred during the year	**(13,907)**	(27,703)
Reinsurance and other recoveries received during the year	**18,182**	24,793
Reinsurance and other recoveries receivable at the end of the year	**(17,982)**	(22,257)

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.

		2022		2021	
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 profit after tax (gross of reinsurance) $000
Discount rate	Increase of 1%	**389**	**469**	222	368
	Decrease of 1%	**(399)**	**(481)**	(295)	(378)
Claims handling expense ratio	Increase of 1%	**(652)**	**(652)**	(582)	(582)
	Decrease of 1%	**652**	**652**	582	582
Risk margin	Increase of 1%	**(640)**	**(640)**	(558)	(558)
	Decrease of 1%	**640**	**640**	558	558
Weighted average expected term to settlement	Increase 0.5 years	**709**	**841**	472	603
	Decrease 0.5 years	**(716)**	**(849)**	(475)	(608)

(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 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.

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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 estimated losses from a 1 in 1,000 year event.

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

(e) Liability Adequacy Test

The probability of adequacy adopted in performing the Liability Adequacy Test is 75%.

The Liability Adequacy Test has identified a surplus for each portfolio of contracts that are subject to broadly similar risks and are managed together as a single portfolio.

	2022	2021
	$000	$000
Net central estimate of the present value of expected future cash flows from future claims	**167,609**	150,360
Risk margin of the present value of expected future cash flows	**23,221**	20,933

(f) Insurer financial strength rating

The Company has a financial strength rating of A (Excellent) as accorded by the international rating agency AM Best Group on 2 March 2022 (2021: A (Excellent)).

9 DEFERRED ACQUISITION COSTS

	2022	2021
	$000	$000
Balance at the beginning of the year	**3,667**	3,667
Deferred acquisition costs recognised during the year	**(3,667)**	(3,667)
Acquisition costs deferred during the year	**3,667**	3,667
Balance at the end of the year	**3,667**	3,667
Current	**3,667**	3,667

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

10 DEFERRED TAX

	Opening balance at 1 April 2021	Charged/ (credited) to profit and loss	Closing balance at 31 March 2022
2022			
Movements in deferred tax assets			
Provisions and accruals	**1,059**	**(93)**	**966**
Total deferred tax assets	**1,059**	**(93)**	**966**
Movement in deferred tax liabilities			
Deferred acquistion costs	**(1,027)**	**-**	**(1,027)**
Total deferred tax liabilities	**(1,027)**	**-**	**(1,027)**
Deferred tax liability, net	**32**	**(93)**	**(61)**

	Opening balance at 1 April 2020	Charged/ (credited) to profit and loss	Closing balance at 31 March 2021
2021			
Movements in deferred tax assets			
Provisions and accruals	1,287	(228)	1,059
Total deferred tax assets	1,287	(228)	1,059
Movement in deferred tax liabilities			
Deferred acquistion costs	(1,027)	-	(1,027)
Total deferred tax liabilities	(1,027)	-	(1,027)
Deferred tax asset, net	260	(228)	32

11 TRADE AND OTHER LIABILITIES

	2022	2021
	$000	$000
Trade creditors	**390**	437
Reinsurance creditors	**2,647**	1,212
Other liabilities	**13,654**	13,106
	16,691	14,755
Current	**16,691**	14,755

12 CONTRIBUTED EQUITY

	2022	2021
	$000	$000
Fully paid ordinary shares at the beginning of the year	**145,000**	145,000
Fully paid ordinary shares at the end of the year	**145,000**	145,000

As at 31 March 2022 there were 14,500,000 ordinary shares (2021: 14,500,000 ordinary shares). Ordinary shares have no par value.

13 ALLOWANCES FOR IMPAIRED ASSETS

	Total
	$000
At 1 April 2020	4,397
Utilised	(4,397)
Additional provision	3,604
As at 31 March 2021	**3,604**
Utilised	**(3,604)**
Additional provision	**3,449**
As at 31 March 2022	**3,449**

There was no interest income on impaired financial assets accrued for the current year (2021: $nil). The allowance is entirely for collectively impaired assets. There is no specific impairment.

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

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 2022 was $125.197m (2021: $116.552m).

The Company has advances from the Parent. As at 31 March 2022 $1.517m was receivable (2021 $0.905m payable). 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.

Directors hold various policies and accounts with FMG. These are operated in the normal course of business on normal customer terms.

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.

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 unit trust investments at fair value through the profit and loss.

Unit price risk sensitivity analysis

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

	Impact on profit	Impact on equity
	$000	$000
2022		
10% increase in unit prices	**34,362**	**34,362**
10% decrease in unit prices	**(34,362)**	**(34,362)**
2021		
10% increase in unit prices	30,617	30,617
10% decrease in unit prices	(30,617)	(30,617)

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 Company's exposure to directly held fixed interest investments interest rate risk and 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 unit fund 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.

Fair value interest rate sensitivity analysis - fixed interest investments

	Impact on profit after tax	Impact on equity
	$000	$000
2022		
0.25% increase in interest rates	**(539)**	**(539)**
0.25% decrease in interest rates	**539**	**539**
2021		
0.25% increase in interest rates	(444)	(444)
0.25% decrease in interest rates	444	444

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

16 MARKET RISK *(continued)*

Interest rate cash flows risk analysis - bank balances

	Impact on profit after tax $000	Impact on equity $000
2022		
0.25% increase in interest rates	**108**	**108**
0.25% decrease in interest rates	**(108)**	**(108)**
2021		
0.25% increase in interest rates	111	111
0.25% decrease in interest rates	(111)	(111)

17 LIQUIDITY RISK

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

	Weighted average interest rate	0-6 months $000
2022		
Bank deposits	**0.48%**	**44,558**
Trade and other current receivables		**156,917**
Related party receivable		**1,517**
Total financial assets		**202,992**
Trade and other current liabilities		**16,691**
Total financial liabilities		**16,691**
Net financial position		**186,301**
2021		
Bank deposits	0.25%	45,572
Trade and other current receivables		138,584
Total financial assets		184,156
Trade and other current liabilities		14,755
Related party payable		905
Total financial liabilities		15,660
Net financial position		168,496

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.

	2022 **$000**	2021 $000
Actual Solvency Capital	**317,762**	293,755
Minimum Solvency Capital	**135,599**	128,772
Solvency Margin	**182,163**	164,983
Solvency Ratio	**2.34**	2.28

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.

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

17 LIQUIDITY RISK *(continued)*

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.

18 FINANCIAL INSTRUMENTS

2022

	At fair value through profit or loss $000	Other financial assets at amortised cost $000	Total carrying amount $000	Fair value $000
Bank deposits	-	44,558	44,558	44,558
Investments	457,137	-	457,137	457,137
Trade and other current receivables	-	156,917	156,917	156,917
Related party receivable	-	1,517	1,517	1,517
Total assets	457,137	202,992	660,129	660,129

	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	-	16,691	16,691	16,691
Total liabilities	-	16,691	16,691	16,691

2021

	At fair value through profit or loss $000	Other financial assets at amortised cost $000	Total carrying amount $000	Fair value $000
Bank deposits	-	45,572	45,572	45,572
Investments	413,202	-	413,202	413,202
Trade and other current receivables	-	138,782	138,782	138,782
Total assets	413,202	184,354	597,556	597,556

	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	-	14,755	14,755	14,755
Related party payable	-	905	905	905
Total liabilities	-	15,660	15,660	15,660

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

- For receivavbles where the applicable interest rate is fixed, fair value is estimated using discounted cash flow models based on the repayment profile. Discount rates applied in these calculations are based on current market interest rates for receivables with similar credit and maturity profiles;
- The fair value calculation of assets at amortised cost 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.

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

19 COMMITMENTS

There are no capital commitments at 31 March 2022 (2021: $Nil).

20 CONTINGENCIES

During the course of the year the Company exercised its minority buyout rights under section 110 of the Companies Act 1993 to dispose of its holding in an unlisted New Zealand company. This is now subject to an arbitration process to determine a fair and reasonable price. At 31 March 2022 we are unable to quantify the value of the contingent asset.
There are no other contingent liabilities or assets at 31 March 2022 (2021: $Nil).

21 SUBSEQUENT EVENTS

There are no subsequent events.

Building a better working world

Independent auditor's report to the shareholder of FMG Insurance Limited

Opinion

We have audited the financial statements of FMG Insurance Limited ("the company") on pages 4 to 26, which comprise the balance sheet of the company as at 31 March 2022, 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 4 to 26 present fairly, in all material respects, the financial position of the company as at 31 March 2022 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 *International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand)* 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. 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. We have no other relationship with, or interest in, the company.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current year. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, but we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the financial statements* section of the audit report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial statements.

Valuation of outstanding claims liabilities

Why significant	How our audit addressed the key audit matter
The company's liability for outstanding claims represents 32% of total liabilities. The estimation of the value of outstanding claims involves significant judgement and is based on an actuarial model of the expected cost of claims incurred on, or prior to, balance date. Assumptions included in the model can generally be categorised as either economic assumptions such as inflation and discount rates or non-economic assumptions relating to claims development and cost. Non-economic assumptions are often based on historical data relating to the volume, amount and pattern of claims settlement. Disclosures relating to outstanding claims liabilities, including key assumptions, are included in Notes 7 and 8 of the financial statements.	Our audit procedures over the valuation of the outstanding claims liabilities included: ▶ Evaluating and testing key controls over the claims assessment and settlement process; ▶ Validating, on a sample basis, the cost associated with claims recorded in the year; ▶ Comparing the claims data used by the in-house appointed actuary to the company's underlying claims system; ▶ Utilising our actuarial specialists to review the outstanding claims liabilities valuation report prepared by the appointed actuary and to evaluate the appropriateness of the methodologies and assumptions used in the valuation; ▶ Evaluating the objectivity and expertise of the appointed actuary; and ▶ Considering the adequacy of disclosures in the financial statements related to the outstanding claims liabilities.

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, 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 company 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 the auditor's responsibilities for the audit of the financial statements is located at the External Reporting Board's website: https://www.xrb.govt.nz/standards-for-assurance-practitioners/auditors-responsibilities/audit-report-2/. 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
23 June 2022

Appointed Actuary's review of actuarial information for FMG Insurance Limited in respect of 31 March 2022 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.

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.

I have reviewed the actuarial information contained in, or used to prepare the financial statements as at 31 March 2022. FMG has supplied me with all the information and explanations necessary to allow me to undertake this review. There were no limitations placed on the scope of my review.

In summary, I can confirm that from an actuarial perspective:

- The actuarial information contained in the 31 March 2022 financial statements has been appropriately included in those statements.
- The actuarial information used in the preparation of the 31 March 2022 financial statements has been used appropriately.
- That in my opinion, as at 31 March 2022, 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.

Cantwell

Margaret Cantwell
Appointed Actuary
FMGIL

Dated: 22 June 2022