

FM Insurance Company Limited
(New Zealand Branch)

Financial statements
for the year ended 31 December 2014

FM Insurance Company Limited (New Zealand Branch)

***Financial statements
for the year ended 31 December 2014***

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FM Insurance Company Limited (New Zealand Branch)

Directors' report for the year ended 31 December 2014

The directors present their report, together with financial statements of FM Insurance Company Limited (New Zealand Branch) (the "Branch") for the financial year ended 31 December 2014.

No disclosure has been made in respect of Section 211(1)(a) and (e) to (j) of the Companies Act 1993 in accordance with Section 211(3) of the Act.

Corporate Information

The Registered Office of the Branch is:
C/-KPMG Centre
18 Viaduct Harbour Avenue
Auckland 1010

The Branch is a part of FM Insurance Company Limited (the "Company"). The Company is incorporated in the United Kingdom.

The Company is a wholly owned subsidiary of Factory Mutual Insurance Company (FMIC), the registered office of which is 270 Central Avenue, Johnston, RI 02919-4923, USA.

FMIC has a financial strength rating of A+ (Superior) issued by A M Best and AA (Very Strong) issued by Fitch Ratings.

On 28 June 2013 the Branch received a full license from the Reserve Bank of New Zealand (RBNZ) under the Insurance (Prudential Supervision) Act 2010.

Principal activities

The Branch's principal activities during the period are the underwriting of property insurance risks and the provision of related engineering and loss prevention services to large and medium sized clients.

Results

The results of the Branch's operations for the financial year are set out on page 7 and the financial position of the Branch at the end of the financial year is set out on page 8.

Dividends

The directors do not recommend the payment of a dividend.

Review of the business

Gross premium income for the year was \$18,471,764 (2013: \$31,895,877). The Branch made a profit of \$1,079,722 (2013: \$10,412,078) during the year.

Significant changes in state of affairs

There were no changes to the executive management team.

Events subsequent to reporting date

No transactions or events occurred after the reporting date which significantly affected, or may significantly affect, the results of the Branch, the operations of the Branch, or the state of affairs of the Branch.

FM Insurance Company Limited (New Zealand Branch)

Directors' report for the year ended 31 December 2014

Future developments

Insurance and investment operations are, by their nature, volatile due to the exposure to natural perils and industry cycles and thus, profit predictions are difficult.

The Branch advised the RBNZ of possible future plans to establish a branch of the Parent, FMIC, in New Zealand. This, subject to approval by the RBNZ, will result in the Branch being placed into run off.

Going concern

The directors believe the Company is able to manage its business risks successfully in any economic environment. Furthermore, the directors have a high expectation that the Company has adequate resources to continue in existence for the foreseeable future. As such, the Branch continues to adopt the going concern basis in preparing annual financial statements.

Directors

The names of the Company's directors in office at any time during or since the end of the financial year are as follows:

Director	Title	Date Changed
Rachel Cope	Executive Director	Appointed effective 1 June 2014
Omar Hameed	Executive Director	
Kevin Ingram	Executive Director	Resigned 25 July 2014
Christopher Johnson	Executive Director	
Jay Swiatek	Executive Director	Appointed effective 17 December 2014
Vincent A. Reyda	Executive Director	Appointed effective 19 March 2015
Jeffrey Burchill	Non executive Director	
Jonathan Hall	Non executive Director	
Thomas Lawson	Non executive Director	
Shivan Subramaniam	Non executive Director	
Thomas Keevil	Independent Non executive Director	
Kenneth Lever	Independent Non executive Director	
Peter Wilson	Independent Non executive Director	

Directors were in office for the entire year unless otherwise stated.

No directors had any interest in the shares of the Company during the year.

FM Insurance Company Limited (New Zealand Branch)

***Directors' report
for the year ended 31 December 2014***

Insurance of directors

Insurance is maintained for the directors in respect of their duties as directors of the Company.

Disclosure of information to the auditors

So far as each person who was a director at the date of approving this report is aware, there is no relevant audit information, being information needed by the auditor in connection with preparing its report, of which the auditor is unaware.

Non audit services


During the financial year, Ernst & Young were not engaged to perform any services with respect to the Branch, other than their statutory duties.

Re-appointment of auditors

Pursuant to a shareholders' resolution, the Company is not obliged to reappoint its auditor annually and Ernst & Young will therefore continue in office.

On behalf of the board

 Director **Dated:** 22nd May 2015

 Director **Dated:** 22nd May 2015



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Independent Auditor's Report

To the Shareholders of FM Insurance Company Ltd (New Zealand Branch)

Report on the Financial Statements

We have audited the financial statements of FM Insurance Company Ltd (New Zealand Branch) on pages 7 to 34, which comprise the statement of financial position of FM Insurance Company Ltd (New Zealand Branch) as at 31 December 2014, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

This report is made solely to the company's shareholders, as a body, in accordance with Section 19(3) of the Financial Reporting Act 1993. Our audit has been undertaken so that we might state to the company's shareholders those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the New Zealand branch of the company and the company's shareholders as a body, for our audit work, for this report, or for the opinions we have formed.

Directors' Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Other than in our capacity as auditor we have no relationship with, or interest in, the New Zealand branch of the company.

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



Opinion

In our opinion, the financial statements on pages 7 to 34:

- ▶ comply with generally accepted accounting practice in New Zealand;
- ▶ comply with International Financial Reporting Standards; and
- ▶ give a true and fair view of the financial position of the New Zealand branch of the company as at 31 December 2014 and its financial performance and cash flows for the year then ended.

Report on Other Legal and Regulatory Requirements

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

- ▶ We have obtained all the information and explanations that we have required.
- ▶ In our opinion proper accounting records have been kept the FM Insurance Company Ltd (New Zealand Branch) as far as appears from our examination of those records.

Ernst + Young

Ernst & Young
22 May 2015
Melbourne

FM Insurance Company Limited (New Zealand Branch)

***Statement of comprehensive income
for the year ended 31 December 2014***

	<i>Note</i>	2014 \$	2013 \$
Gross Premium Revenue	8	18,471,764	31,895,877
Outwards Reinsurance Expense	9	(13,200,742)	(22,586,094)
Net Premium Revenue		5,271,022	9,309,783
Gross Claims Expense	9	(9,564,248)	(36,929,891)
Reinsurance and Other Recoveries Revenue	8	6,879,137	41,685,103
Net Claims Income/(Expense)		(2,685,111)	4,755,212
Net Acquisition and Underwriting Revenue	8	789,994	1,707,372
UNDERWRITING PROFIT		3,375,905	15,772,367
General and Administration Expenses	9	(4,438,234)	(6,328,578)
Other Operating Income	8	2,142,051	968,289
OPERATING PROFIT/(LOSS) BEFORE INCOME TAX		1,079,722	10,412,078
Income Tax Expense		0	0
OPERATING PROFIT/(LOSS) AFTER INCOME TAX		1,079,722	10,412,078
Other Comprehensive Income, net of tax		0	0
TOTAL COMPREHENSIVE PROFIT/(LOSS) FOR THE YEAR		1,079,722	10,412,078
<i>Operating profit/(loss) for the year attributable to:</i>			
Owners of the Parent		1,079,722	10,412,078
Operating profit/(loss) after income tax		1,079,722	10,412,078
<i>Total comprehensive profit/(loss) for the year attributable to:</i>			
Owners of the Parent		1,079,722	10,412,078
Total comprehensive profit/(loss) after tax		1,079,722	10,412,078

The above Statement of comprehensive income should be read in conjunction with the notes to the financial statements.

FM Insurance Company Limited (New Zealand Branch)

***Statement of financial position
at 31 December 2014***

	<i>Note</i>	2014	2013
		\$	\$
Assets			
<i>Current Assets</i>			
Intercompany account	7	11,409,879	12,123,642
Trade and other receivables	12	3,532,072	3,906,849
Deferred reinsurance expense	14	5,616,058	6,630,923
Reinsurance and other recoveries on outstanding claims	13a	2,718,268	2,034,170
<i>Non-Current Assets</i>			
Reinsurance and other recoveries on outstanding claims	13a	414,733	794,340
TOTAL ASSETS		<u>23,691,010</u>	<u>25,489,924</u>
Liabilities			
<i>Current Liabilities</i>			
Trade and other payables	15	3,359,832	6,545,919
Unearned premium reserve	14	8,253,122	9,199,937
Deferred reinsurance commission		288,292	476,358
Unexpired risk liability	14	1,295,645	358,172
Outstanding claims provision	13a	4,045,953	3,057,122
<i>Non-Current Liabilities</i>			
Outstanding claims provision	13a	634,182	1,118,153
TOTAL LIABILITIES		<u>17,877,026</u>	<u>20,755,661</u>
NET ASSETS		<u>5,813,985</u>	<u>4,734,263</u>
DEEMED EQUITY: HEAD OFFICE ACCOUNT		<u>5,813,985</u>	<u>4,734,263</u>

The above Statement of financial position should be read in conjunction with the notes to the financial statements.

FM Insurance Company Limited (New Zealand Branch)

*Statement of changes in equity
for the year ended 31 December 2014*

2013	Retained Earnings	Total Deemed Equity: Head Office Account
	\$	\$
Balance at the beginning of the financial year	(5,677,815)	(5,677,815)
Profit for the year	10,412,078	10,412,078
Other comprehensive income, net of tax	0	0
Total retained earnings	<u>4,734,263</u>	<u>4,734,263</u>
Transactions with owners	0	0
Balance at the end of the financial year	<u><u>4,734,263</u></u>	<u><u>4,734,263</u></u>
2014	Retained Earnings	Total Deemed Equity: Head Office Account
	\$	\$
Balance at the beginning of the financial year	4,734,263	4,734,263
Profit for the year	1,079,722	1,079,722
Other comprehensive income, net of tax	0	0
Total retained earnings	<u>5,813,985</u>	<u>5,813,985</u>
Transactions with owners	0	0
Balance at the end of the financial year	<u><u>5,813,985</u></u>	<u><u>5,813,985</u></u>

The above Statement of changes in equity should be read in conjunction with the notes to the financial statements.

FM Insurance Company Limited (New Zealand Branch)

***Statement of cash flows
for the year ended 31 December 2014***

	<i>Note</i>	2014 \$	2013 \$
Cash flows from operating activities			
Reinsurance and other recoveries received		8,184,931	230,493,383
Premium received		16,261,286	23,671,849
Interest received		1,376,913	916,307
Other operating receipts		2,332,694	558,791
Other operating payments		(4,019,901)	(6,142,619)
Outwards reinsurance expense paid		(15,790,297)	(16,612,634)
Gross claims expense paid		(9,059,388)	(254,798,210)
<i>Net cash used in operating activities</i>	<i>21b</i>	<u>(713,762)</u>	<u>(21,913,133)</u>
Cash flows from investing activities			
Government Bonds		0	505,718
<i>Net cash used in investing activities</i>		<u>0</u>	<u>505,718</u>
Net increase / (decrease) in cash and cash equivalents		<u>(713,762)</u>	<u>(21,407,415)</u>
Cash and cash equivalents at the beginning of the reporting period		12,123,642	33,531,057
Cash and cash equivalents at the end of the reporting period	<i>21</i>	<u>11,409,880</u>	<u>12,123,642</u>

The above Statement of cash flows should be read in conjunction with the notes to the financial statements.

FM Insurance Company Limited (New Zealand Branch)

Notes to the financial statements for the year ended 31 December 2014

1 Reporting entity

The Registered Office of the Branch is:
C/-KPMG Centre
18 Viaduct Harbour Avenue
Auckland 1010

The Branch is a part of FM Insurance Company Limited (the “Company”). The Company is incorporated in the United Kingdom.

The Company is a wholly owned subsidiary of Factory Mutual Insurance Company (FMIC), the registered office of which is 270 Central Avenue, Johnston, RI 02919-4923, USA. FMIC (the “Parent”) is the largest Group in which the financial results of the Company are included. Copies of the Group accounts are available to the public either at the above address or from www.fmglobal.com.

FMIC has a financial strength rating of A+ (Superior) issued by A M Best and AA (Very Strong) issued by Fitch Ratings.

The Branch’s principal activities during the year continued to be the underwriting of property insurance risks and the provision of related engineering and loss prevention services to large and medium sized clients.

On 28 June 2013 the Branch was granted a full license with the Reserve Bank of New Zealand under the Insurance (Prudential Supervision) Act 2010.

2 Basis of preparation

(a) Statement of compliance

This financial report is a general purpose financial report which has been prepared in accordance with the requirements of the Financial Reporting Act 1993 (as amended by the Financial Reporting Amendment Act 2011).

These financial statements have been prepared in accordance with Generally Accepted Accounting Practice in New Zealand. They comply with the New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS) and other applicable Financial Reporting Standards, as appropriate for profit-oriented entities.

(b) Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis except for the following material items in the Statement of financial position:

- Measurement of investments at fair value; and
- Measurement of the outstanding claims liability and related reinsurance and other recoveries at present value.

(c) Fair value

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm’s length transaction on the measurement date.

(d) Present value

Present value is the amount of an asset or liability using appropriate risk free discount rates.

FM Insurance Company Limited (New Zealand Branch)

Notes to the financial statements for the year ended 31 December 2014

(e) Functional and presentation currency

The financial statements are presented in New Zealand dollars (\$), which is the Branch's functional currency.

(f) Use of estimates and judgements

The preparation of the financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

The areas where estimates and assumptions involve a high degree of judgement or complexity and are considered significant to the financial statements are:

- Claims; and
- Reinsurance and other recoveries on outstanding claims.

(g) Changes in accounting policies

There were no changes in accounting policies during the current reporting period.

(h) Rounding

Except as otherwise indicated, financial information presented in New Zealand dollars has not been rounded.

(i) Recently issued standards (effective for years beginning from 1 January 2015)

We are not aware of any standards in issue but not yet effective which would materially impact the amounts recognised or disclosed in the financial statements in future periods.

(j) Income tax

The income of the entity is taxed in Australia as the Branch is classified as non-resident for New Zealand tax purposes and therefore no income tax expense/benefit has been recognised in the financial statements of the New Zealand Branch.

FM Insurance Company Limited (New Zealand Branch)

Notes to the financial statements for the year ended 31 December 2014

3 Significant accounting policies

(a) Premiums

Premium revenue comprises amounts charged for insurance contracts. Premium is recognised as earned from the date of attachment of risk (generally the date a contract is agreed to but may be earlier if persuasive evidence of an arrangement exists) over the period of the related insurance contracts in accordance with the pattern of the incidence of risk accepted under the contracts. The pattern of the risks underwritten is generally matched by the passing of time. Premium for unclosed business (business written close to reporting date where attachment of risk is prior to reporting date) is recognised as revenue.

The unearned portion of premium is recognised as an unearned premium reserve on the Statement of financial position. Unearned premiums are deferred over the term of the underlying direct insurance policies.

Premium receivable is recognised as the amount due and is normally settled between 60 days and 120 days. The recoverability of premium receivable is assessed and provision is made for impairment based on objective evidence and having regards to past default experience. Premium receivable is presented on the Statement of financial position net of any provision for impairment.

(b) Outwards reinsurance

Gross reinsurance premiums are recognised as an expense on the earlier of the date when premiums are payable or when the policy becomes effective.

Gross reinsurance premiums written comprise the total payable for the whole cover provided by contracts entered into during the period and are recognised on the date on which the policy incepts. Premiums include any adjustments arising in the accounting period in respect of reinsurance contracts incepting in prior accounting periods.

Unearned reinsurance premiums are those proportions of premiums written in a period that relate to periods of risk after the reporting date. Unearned reinsurance premiums are deferred over the term of the underlying direct insurance policies.

(c) Claims

The outstanding claims liability is measured as the central estimate of the present value of expected future payments relating to claims incurred at the reporting date with an additional risk margin to allow for the inherent uncertainty in the central estimate. The liability is measured based on valuations performed by the Appointed Actuary. The expected future payments include those in relation to claims reported but not yet paid or not yet paid in full, claims incurred but not enough reported (IBNER), claims incurred but not reported (IBNR) and the anticipated direct and indirect claims handling costs. The liability is discounted to present value using a risk free rate.

The estimation of the outstanding claims liability involves a number of key assumptions and is the most critical accounting estimate. All reasonable steps are taken to ensure that the information on paid claims exposures is appropriate. However, given the uncertainty in establishing the liability, it is likely that the final outcome will be different from the original liability established. Changes in claims estimates are recognised in profit or loss in the reporting period in which the estimates are changed.

Claims expense represents claim payments adjusted for the movement in the outstanding claims liability.

FM Insurance Company Limited (New Zealand Branch)

Notes to the financial statements for the year ended 31 December 2014

(d) Reinsurance and other recoveries

Reinsurance and other recoveries received or receivable on paid claims and on outstanding claims (notified and not yet notified) are recognised as income. Reinsurance recoveries on paid claims are presented as part of receivables net of any provision for impairment based on objective evidence for individual receivables. Reinsurance and other recoveries on outstanding claims are measured as the present value of the expected future receipts calculated on the same basis as the outstanding claims liability. Reinsurance does not relieve the originating insurer of its liabilities to policyholders and is presented separately on the Statement of financial position.

(e) Liability adequacy test

The liability adequacy test is an assessment of the carrying value of the unearned premium liability and is conducted at each reporting date. If current estimates of the present value of the expected future cash flows relating to future claims arising from the rights and obligations under current general insurance contracts, plus an additional risk margin to reflect the inherent uncertainty in the central estimate, exceed the unearned premium liability (net of reinsurance) less relevant deferred acquisition costs (if any), then the unearned premium liability is deemed to be deficient. The test is performed at the level of a portfolio of contracts that are subject to broadly similar risks and that are managed together as a portfolio. In these accounts, this represents the overall New Zealand portfolio of contracts. Any deficiency arising from the test is recognised in the profit or loss with the corresponding impact on the Statement of financial position recognised first through the write down of deferred acquisition costs (if any) for the relevant portfolio of contracts, with any remaining balance being recognised on the Statement of financial position as an unexpired risk liability.

(f) Creditors and accruals

Creditors and accruals are carried at cost, which is the fair value of the consideration to be paid in the future for the goods and services received. The amounts are discounted where the effect of the time value of money is material.

(g) Investment Income

Investment income comprises of an allocation of interest and dividends received and changes in the fair value of investments held by the Company on behalf of the Branch. Investment income also includes interest received on investments held directly by the Branch. Interest and dividend income is accounted for on an accrual basis and recognised in the Statement of comprehensive income.

Changes in the fair value of investments held directly by the Branch from the previous reporting date (or cost of acquisition excluding transaction costs if acquired during the financial period) are recognised as realised or unrealised gains or losses in profit or loss.

(h) Foreign currency

Transactions in foreign currencies are translated into the functional currency of the Branch at average exchange rates for the months in which the transactions occur.

Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated into the functional currency at the exchange rate at that date. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated into the functional currency at the exchange rate at the date that the fair value was determined. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Foreign currency differences arising on translation are recognised in profit or loss.

FM Insurance Company Limited (New Zealand Branch)

Notes to the financial statements for the year ended 31 December 2014

4 Risk management

(a) Risk management framework

Group framework

The broader FMIC Group objectives and strategies are consistent worldwide with each operation conducting business the same way, regardless of location, within the constraints of local law and regulations. This applies particularly to underwriting, capacity utilization, risk engineering and claims handling, for which comprehensive standards apply group-wide. To this extent the Branch risk management framework is based on the global business model.

At the Group level, FMIC has a Business Risk Management Executive Committee. This is linked by direct participation or reporting to the strategic planning and risk management processes undertaken by the following leadership groups:

- Global Planning Committee;
- Global Integration Committee;
- FMI Board of Directors;
- FMI Risk Management Committee; and
- Individual Operations, including the Branch Risk Management sub-committee and Business Risk Team.

Company framework

The Board of FM Insurance Company Limited (FMI) has primary responsibility for oversight of the risk management framework within FMI. The Board consists of executive directors, non-executive directors and independent non-executive directors.

In order to support the Board in this responsibility, two sub committees of the Board have been established. The first is the Risk and Compliance Committee (RCC) which provides independent oversight of the Company's risks and risk management framework. The other is in the FMI Risk Management Committee (RMC) which is an executive committee and has the power to take decisions regarding the Company's risk management policies and practice.

Branch framework

The Operations Manager is primarily responsible for the risk management function in Australia and New Zealand, and the development of the risk management framework. Assistance is provided by the Australia/New Zealand Risk Management Committee. The framework is designed to address risks arising out of the Branch operations and Business Plan. Any risks which have been identified as of particular significance to the Branch would be identified in the Australia/New Zealand Risk Register.

(b) Insurance risk

Background

A key risk from operating in the general insurance industry is the exposure to insurance risk arising from underwriting general insurance contracts. The insurance contracts transfer risk to the insurer by indemnifying the policyholders against adverse effects arising from the occurrence of specified uncertain future events. There is a risk that the actual amount of claims

FM Insurance Company Limited (New Zealand Branch)

Notes to the financial statements for the year ended 31 December 2014

to be paid in relation to contracts will be different to the amount estimated at the time a product was designed and priced. The Branch is exposed to this risk because the price for a contract must be set before the losses relating to the product are known. Hence the insurance business involves inherent uncertainty.

A fundamental part of the Company's overall risk management strategy is the effective governance and management of the risks that impact the amount, timing and uncertainty of cash flows arising from insurance contracts.

Mitigating insurance risk

The insurance activities primarily involve the underwriting of risks and the management of claims.

The policies and procedures for the management of insurance risk are applied consistently across the Company with certain allowances made for local circumstances. Key policies and processes include the following:

- Reinsurance
 - Reinsurance is used to limit exposure to large single claims and accumulation of claims that arise from the same event or the accumulation of similar events;
 - While a large portion of the business ceded by the Branch is reinsured with the Parent, the Branch can, and does, purchase additional external reinsurance protection. This generally relates to facultative reinsurance covers; and
 - The use of reinsurance introduces credit risk. The management of reinsurance includes the monitoring of reinsurers' credit risk and controls the exposure to reinsurance counterparty default.
- Claims management and provisioning
 - Initial claims determination is managed by claims officers with the requisite degree of experience and competence with the assistance, where appropriate, of a loss adjustor or other party with specialist knowledge. It is the Company's policy to respond to and settle all genuine claims quickly whenever possible and to pay claims fairly, based on policyholders' full entitlements; and
 - Claims provisions are established using actuarial valuation models and include a risk margin for uncertainty (refer to the claims note).

(c) Market and investment risk

Market risk is the risk that changes in market prices, such as interest rates and foreign exchange rates will affect the Branch's interest income, claims expense or the value of its holdings of financial instruments.

Investments are held by the Company. The Company has relevant policies and procedures designed to address this risk include various measures contained within the Company's Market Risk Policy.

(d) Credit risk

Credit risk is the risk of financial loss to the Branch if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Branch's

FM Insurance Company Limited (New Zealand Branch)

Notes to the financial statements for the year ended 31 December 2014

premium receivables from brokers or policy holders, reinsurance receivables from reinsurers and investments.

Australian based personnel are responsible for maintaining credit risk for the Branch. Policies and procedures are maintained to address this risk include premium debtor follow-up and monitoring processes, reinsurer counterparty rating requirements and concentration limits, and investment counterparty rating requirements and concentration limits.

(e) Liquidity risk

Liquidity risk is the risk that the Branch will encounter difficulty in meeting obligations associated with its financial liabilities as they fall due, or can only secure such resources at a prohibitive cost.

Policies and procedures designed within the Company to address this risk including maintaining high solvency levels in excess of regulator requirements and holding of highly liquid assets. The Branch has access to capital of the Company and access to funding of reinsurance recoveries from the Parent.

(f) Operational risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes, including business processes, personnel, technology and infrastructure, and from external factors.

The Branch's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Branch's reputation with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity. The primary responsibility for the development and implementation of controls to address this risk is assigned to personnel in Australia, where it is the responsibility of senior management within each business unit. This responsibility is supported by the development of overall Company standards for the management of operational risk.

(g) Compliance risk

Compliance risk is the risk of either ineffective relationships with our insurance regulators or non-compliance with various laws, regulations and codes to which the Branch is required to adhere.

Policies and procedures designed to address this risk include regular meetings with regulators, engagement of consultants and advisors as required, filings & returns calendars, and periodic reviews undertaken by Legal & Compliance.

(h) Group risk

Group risk is the risks the Branch is exposed to as a member of the Factory Mutual Insurance Company (FMIC) Group. These may deplete or divert financial resources held by the Branch to meet liabilities arising from Group.

FM Insurance Company Limited (New Zealand Branch)

Notes to the financial statements for the year ended 31 December 2014

5 Regulatory capital

The lead regulator for the New Zealand Branch is the *Reserve Bank of New Zealand* (RBNZ). RBNZ granted the Branch a full license on 28 June 2013.

The Branch is exempt from compliance with section 55 of the Insurance (Prudential Supervision) Act 2010, in accordance with section 59 of the Act.

The Company is supervised by the *Financial Conduct Authority* (FCA), and *Prudential Regulation Authority* (PRA) in the United Kingdom.

The Company's policy is to maintain a strong capital base so as to ensure creditor and market confidence and to sustain future development of the business.

Solvency margin

Regulatory capital for the Company is made of actual capital resources and capital resources requirement, with the difference representing the solvency margin. The calculation of the solvency margin for the Company is:

	Year ended 31 December 2014 £000	Year ended 31 December 2013 £000
Actual capital resources	494,779	448,068
Capital resources requirement	59,517	71,585
Solvency margin	435,262	376,483

6 Operating segments

The whole of the Branch is considered to be an operating segment for the purposes of segment reporting.

FM Insurance Company Limited (New Zealand Branch)

***Notes to the financial statements
for the year ended 31 December 2014***

7 Financial assets & liabilities

(a) Table of financial assets and liabilities

The table below sets out the carrying amounts and fair values of the Branch's financial assets and liabilities:

2013		Fair value through profit and loss \$	Amortised cost \$	Total carrying amount \$	Fair Value \$
	<i>Note</i>				
Assets					
Intercompany account		0	12,123,642	12,123,642	12,123,642
Trade and other receivables	12	0	3,906,849	3,906,849	3,906,849
Total Assets		<u>0</u>	<u>16,030,491</u>	<u>16,030,491</u>	<u>16,030,491</u>
Liabilities					
Trade and other payables	15	0	6,545,919	6,545,919	6,545,919
Total Liabilities		<u>0</u>	<u>6,545,919</u>	<u>6,545,919</u>	<u>6,545,919</u>
2014		Fair value through profit and loss \$	Amortised cost \$	Total carrying amount \$	Fair Value \$
Assets					
Intercompany account		0	11,409,879	11,409,879	11,409,879
Trade and other receivables	12	0	3,532,072	3,532,072	3,532,072
Total Assets		<u>0</u>	<u>14,941,951</u>	<u>14,941,951</u>	<u>14,941,951</u>
Liabilities					
Trade and other payables	15	0	3,359,832	3,359,832	3,359,832
Total Liabilities		<u>0</u>	<u>3,359,832</u>	<u>3,359,832</u>	<u>3,359,832</u>

FM Insurance Company Limited (New Zealand Branch)

***Notes to the financial statements
for the year ended 31 December 2014***

8 Analysis of Income

	<i>Note</i>	2014 \$	2013 \$
Premium Revenue			
Gross written premium		17,524,949	20,772,139
Movement in unearned premium reserve		<u>946,815</u>	<u>11,123,738</u>
Premium revenue		<u>18,471,764</u>	<u>31,895,877</u>
Reinsurance Revenue			
Reinsurance and other recoveries on paid claims		6,574,646	212,251,185
Movement in reinsurance and other recoveries on outstanding claims		<u>304,491</u>	<u>(170,566,082)</u>
Reinsurance and other recoveries revenue	<i>11</i>	<u>6,879,137</u>	<u>41,685,103</u>
Net Acquisition and Underwriting Revenue			
Reinsurance commission received		2,143,876	935,791
Movement in deferred reinsurance commission		<u>188,066</u>	<u>636,605</u>
Reinsurance commission revenue		<u>2,331,942</u>	<u>1,572,396</u>
Movement in unexpired risk liability	<i>21b</i>	<u>(937,473)</u>	<u>347,749</u>
Acquisition costs		<u>(532,981)</u>	<u>(212,562)</u>
Commission expense		<u>(71,494)</u>	<u>(211)</u>
Net Acquisition and underwriting revenue		<u>789,994</u>	<u>1,707,372</u>
Other Operating Income			
Interest on government stock		0	47,460
Allocated investment income		<u>1,376,913</u>	<u>868,847</u>
Interest income		<u>1,376,913</u>	<u>916,307</u>
Engineering fee income		154,875	51,982
Foreign exchange gains		604,045	0
Other income		6,218	0
Other Operating Income		<u>2,142,051</u>	<u>968,289</u>

FM Insurance Company Limited (New Zealand Branch)

***Notes to the financial statements
for the year ended 31 December 2014***

9 Analysis of expenses

	<i>Note</i>	2014	2013
		\$	\$
Outwards Reinsurance Expense			
Outwards reinsurance paid		12,185,877	14,856,421
Movement in deferred reinsurance expense		1,014,865	7,729,673
Outwards reinsurance expense		<u>13,200,742</u>	<u>22,586,094</u>
Gross Claims Expense			
Claims paid, including external loss adjustment expense		8,951,508	254,485,821
Movement in outstanding claims		504,860	(217,868,317)
Internal loss adjustment expense		107,880	312,387
Gross claims expense	<i>11</i>	<u>9,564,248</u>	<u>36,929,891</u>
General and Administration Expense			
Auditor remuneration	<i>10</i>	26,454	33,277
Other general and administration expense		4,519,660	6,607,688
Internal loss adjustment expense		(107,880)	(312,387)
General and administration expense		<u>4,438,234</u>	<u>6,328,578</u>

FM Insurance Company Limited (New Zealand Branch)

***Notes to the financial statements
for the year ended 31 December 2014***

10 Auditor remuneration

	2014	2013
	\$	\$
Assurance Services - Ernst & Young		
Audit of the financial statements	<u>26,454</u>	<u>33,277</u>

11 Net Claims expense

	2014	2013
	\$	\$
	<i>Note</i>	
Gross claims expense - undiscounted	8,793,004	56,627,728
Discount to present value	<u>(863)</u>	<u>3,668,863</u>
Gross claims expense - discounted	8,792,141	60,296,591
Risk margin	<u>772,107</u>	<u>(23,366,699)</u>
Gross claims expense	9 <u>9,564,248</u>	<u>36,929,892</u>
Reinsurance and other recoveries revenue - undiscounted	6,366,587	57,017,245
Discount to present value	<u>(685)</u>	<u>2,958,685</u>
Reinsurance and other recoveries revenue - discounted	6,365,902	59,975,930
Risk margin	<u>513,235</u>	<u>(18,290,827)</u>
Reinsurance and other recoveries revenue	8 <u>6,879,137</u>	<u>41,685,103</u>
Net claims expense - undiscounted	2,426,417	(389,517)
Net discount to present value	<u>(178)</u>	<u>710,178</u>
Net claims expense - discounted	2,426,239	320,661
Net risk margin	<u>258,872</u>	<u>(5,075,872)</u>
Net claims expense - discounted including risk margin	<u>2,685,111</u>	<u>(4,755,211)</u>

FM Insurance Company Limited (New Zealand Branch)

***Notes to the financial statements
for the year ended 31 December 2014***

12 Trade and other receivables

The receivables are non-interest bearing and are normally settled between 30 days and 12 months. The balance has not been discounted because the effect of the time value of money is not material. The net carrying amount of the receivables is a reasonable approximation of the fair value of the assets because of the short term nature of the assets.

The following table provides the total amount of trade and other receivables at the reporting date for the relevant financial year:

	2014	2013
	\$	\$
Premium receivables		
Premium receivable	2,891,190	1,627,527
Provision for doubtful debts	<u>0</u>	<u>0</u>
Net premium receivable	<u>2,891,190</u>	<u>1,627,527</u>
Reinsurance receivables		
Reinsurance and other recoveries on paid claims	452,828	2,063,113
Provision for doubtful debts	<u>0</u>	<u>0</u>
Net reinsurance recoveries on paid claims	<u>452,828</u>	<u>2,063,113</u>
Other receivables		
Outwards reinsurance commission receivable	<u>188,054</u>	<u>216,209</u>
Total trade and other receivables	<u>3,532,072</u>	<u>3,906,849</u>

FM Insurance Company Limited (New Zealand Branch)

***Notes to the financial statements
for the year ended 31 December 2014***

13 Net outstanding claims provision

(a) Composition of net outstanding claims provision

	2014	2013
	\$	\$
Gross outstanding claims		
Gross outstanding claims	3,278,135	3,584,756
Loss adjustment expenses	136,000	130,259
Claims administration expenses	144,000	109,504
Gross outstanding claims - undiscounted	<u>3,558,135</u>	<u>3,824,519</u>
Discount to present value	(72,000)	(71,137)
Gross outstanding claims - discounted	<u>3,486,135</u>	<u>3,753,382</u>
Risk margin	<u>1,194,000</u>	<u>421,893</u>
Gross outstanding claims - discounted including risk margin	<u>4,680,135</u>	<u>4,175,275</u>
Reinsurance and other recoveries receivable on outstanding claims		
Reinsurance and other recoveries receivable on outstanding claims	2,289,001	2,502,005
Loss adjustment expenses	95,000	90,055
Claims administration expenses	0	0
Reinsurance and other recoveries receivable on outstanding claims - undiscounted	<u>2,384,001</u>	<u>2,592,060</u>
Discount to present value	(50,000)	(49,315)
Reinsurance and other recoveries receivable on outstanding claims - discounted	<u>2,334,001</u>	<u>2,542,745</u>
Risk margin	<u>799,000</u>	<u>285,765</u>
Reinsurance and other recoveries receivable on outstanding claims - discounted including risk margin	<u>3,133,001</u>	<u>2,828,510</u>
Net outstanding claims		
Net outstanding claims	989,134	1,082,751
Loss adjustment expenses	41,000	40,204
Claims administration expenses	144,000	109,504
Net outstanding claims - undiscounted	<u>1,174,134</u>	<u>1,232,459</u>
Net discount to present value	(22,000)	(21,822)
Net outstanding claims - discounted	<u>1,152,134</u>	<u>1,210,637</u>
Net risk margin	<u>395,000</u>	<u>136,128</u>
Net outstanding claims - discounted including risk margin	<u>1,547,134</u>	<u>1,346,765</u>

FM Insurance Company Limited (New Zealand Branch)

Notes to the financial statements for the year ended 31 December 2014

(b) Process to determine net outstanding claims provision

Overview

The effective date of the actuarial report on the insurance liabilities is 31 December 2014. The actuarial report was prepared by Martin Fry (Fellow of the New Zealand Society of Actuaries, Institute of Actuaries of Australia, and Institute of Actuaries (London)) of Taylor Fry Consulting Actuaries. Taylor Fry Consulting Actuaries are satisfied with the nature, sufficiency and accuracy of data provided for the purpose of estimating insurance liabilities.

The outstanding claims provision is determined based on three building blocks being:

- An estimate of future cash flows;
- Discounting for the effect of the time value of money; and
- Adding a risk margin for uncertainty.

The process for determining each of the above is described below.

Future cash flows

The estimation of the outstanding claims provision is based on actuarial techniques that analyse experience, trends and other relevant factors. The actuarial claims estimate process commences with the projection of the future payments relating to claims incurred at the reporting date. The expected future payments include those in relation to claims reported but not yet paid or not yet paid in full, claims incurred but not enough reported (IBNER), claims incurred but not reported (IBNR) and the anticipated direct and indirect claims handling costs.

The Branch's claims are characterised by low frequency and high variability in claim size. Accordingly, it is not considered appropriate to rely on aggregate payment patterns to project future claims costs. Instead, estimates are based on analysis of incurred costs, and the performance of estimates, over time.

The different components of the outstanding claims provision are subject to different levels of uncertainty. The estimation of the cost of claims reported but not yet paid or not yet paid in full is made on a case by case basis by claims personnel having regard to the facts and circumstances of the claims as reported, any information available from loss adjusters/consultants and information on the cost of settling based on past experience with the accuracy of initial claims estimates. With IBNR, the estimation is generally subject to a greater degree of uncertainty than the estimation of the cost of settling claims already notified, as no information is currently available about the claim. IBNR claims may often not be apparent until some time after the events giving rise to the claim having occurred.

Reserves are not established for catastrophes in advance of such events and so these events may cause volatility in the results for a period and in the level of the outstanding claims provision, subject to the effects of reinsurance recoveries.

The valuation of the outstanding claims provision is performed by the Appointed Actuary who does not have any role in the pricing function, so as to ensure that an objective and independent assessment of the outstanding claims liability is maintained.

Discounting

A projection of future claims payments both gross and net of reinsurance and other recoveries is undertaken. Projected future claims payments and associated claims handling costs are discounted to a present value as required, using appropriate risk free discount rates.

FM Insurance Company Limited (New Zealand Branch)

Notes to the financial statements for the year ended 31 December 2014

Risk margin

The central estimate of the outstanding claims liability is an estimate which is intended to contain no deliberate or conscious over or under estimation and is commonly described as providing the mean of the distribution. It is considered appropriate for the measurement of the claims liability to represent a higher degree of certainty regarding the sufficiency of the liability over time, and so a risk margin is added to the central estimate. The risk margin refers to the amount by which the liability recognised in the financial statements is greater than the actuarial central estimate of the liability. The risk margin added to the central estimate increases the probability that the net outstanding claims provision will ultimately prove to be adequate to 75%.

Risk margins are held to allow for uncertainty surrounding the outstanding claims provision estimation process. Potential uncertainties include those relating to the actuarial model and assumptions, the quality of the underlying data used in the model, general statistical uncertainty, and the general insurance environment.

(c) Assumptions made

Adopted assumptions

Item	2014	2013
Loss adjustment expenses rate (to net incurred claims)	3.71 %	3.71%
Indirect claim management expenses rate (to gross outstanding claims provision)	3.10 %	3.10%
Inflation rate	3.25 %	3.25%
Discount rate	2.50 %	2.50%
Risk margin rate	34.28 %	11.24%

Description of the assumptions

Loss adjustment expenses rate

- In respect of claims incurred up to the reporting date, it is known that loss adjustment expenses will be incurred in the management of claims to finalisation. An estimate of these costs is incorporated into the outstanding claims provision using the loss adjustment expense rate. The rate incorporates assumptions about the future costs to be incurred based on past experience of such costs for the business lines adopted from the Australian liability valuation.

Indirect claim management expenses rate

- In respect of claims incurred up to the reporting date, it is known that administration costs will be incurred in the management of claims to finalisation. An estimate of these costs is incorporated into the outstanding claims provision using the indirect claim management expenses rate. The rate incorporates assumptions about the future costs to be incurred based on past experience of the cost per transaction.

Inflation rate

- Insurance costs are subject to inflationary pressures. Economic inflation assumptions are set by reference to current economic indicators. When making assumptions about the future claim inflation, assumptions have been made around the causative link between the type of claim and the expected growth. Fire claims may be expected, on average, to be driven by construction costs, which in turn may be expected to be driven by some factors that increase with average weekly earnings (AWE) inflation and some that increase with the consumer price index (CPI). Business interruption claims may be expected, on average, to be driven by Company profits for which the most appropriate measure is gross operating surplus (GOS) forecasts. A weighted average of all of these measures has been adopted in determining the inflation rate.

FM Insurance Company Limited (New Zealand Branch)

Notes to the financial statements for the year ended 31 December 2014

Discount rate

- Because the outstanding claims provision represents payments that will be made in the future, they are discounted to reflect the time value of money, effectively recognising that the assets held to back insurance liabilities will earn a return during that period. Discount rates represent a risk free rate derived from market yields on Australian government securities.

Risk margin rate

- Due to the short term nature of the provisions, and the level of reinsurance cover, the approach adopted for determining the risk inherent in the provision, involved review of statistical variation in the incremental cost movement of gross incurred costs net of facultative reinsurance recoveries, allowing for additional variation in the Excess of Loss (XoL) reinsurance recoveries, loss adjustment expenses and claims handling costs.

(d) Sensitivities

Modelled sensitivities

The impact of changes in key outstanding claims variables is summarised below. Each change has been calculated in isolation of the other changes.

It is not possible to quantify the sensitivity of certain assumptions such as legislative changes or uncertainty in the estimation process.

The impact on the net outstanding claims provision is disclosed for each of the key assumptions. The movements are stated in absolute terms where the base assumption is a percentage, for example, if the base inflation rate assumption was 3.5%, a 1% increase would mean assuming a 4.5% inflation rate. All movements would be recognised directly through the Statement of comprehensive income.

Item	Effect
Increase discount rate by 0.5%	Reduce outstanding claim liabilities by \$0.006 million (0.4% of outstanding claims central estimates)
Increase inflation rate by 0.5%	Increase outstanding claim liabilities by \$0.006 million (0.4% of outstanding claims central estimates)
Increase risk margin by 5%	Increase outstanding claim liabilities by \$0.069 million (4.5% of outstanding claims central estimates)
Change incremental incurred cost movement for development quarter 2 for FMG to the average of small incurred cost qtrs (<\$10 million over 2 qtrs)	Reduce outstanding claim liabilities by \$0.066 million (4.3% of outstanding claims central estimates)
Change incremental incurred cost movement for development quarter 2 for FMG to the average of large incurred cost qtrs (>\$10 million over 2 qtrs)	Increase outstanding claim liabilities by \$0.144 million (9.3% of outstanding claims central estimates)
Reduce expected XoL recovery for FMG OSC claims to 40% for most recent two quarters	Increase outstanding claim liabilities by \$0.024 million (1.6% of outstanding claims central estimates)
Increase XoL recovery for FMG OSC claims to 60% for the most recent two quarters	Reduce outstanding claim liabilities by \$0.073 million (4.7% of outstanding claims central estimates)

FM Insurance Company Limited (New Zealand Branch)

Notes to the financial statements for the year ended 31 December 2014

Description of the sensitivities

General impact of changes

- Sensitivity analysis is conducted to quantify the exposure to changes in the key underlying variables. The valuation included in the reported results is calculated using certain assumptions about these variables as disclosed above. The movement in any key variable will impact the financial position and performance for a period. The information below describes how a change in each assumption will affect claims provisions and provides an analysis of the sensitivity of the net outstanding claims provision to changes in these assumptions.
- Impact to the outstanding claims liabilities as a consequence of any adverse scenarios will be limited by application of the stop loss provisions of the intercompany reinsurance policy with FMIC.

Incremental incurred cost movement

- These sensitivities show the significance of incurred cost development assumptions. These are assumptions that have a very significant influence on the results of the valuation.

Excess of Loss (XoL)

- These sensitivities show the significance of reinsurance assumptions. Due to the stop loss clause in the Branch's key XoL reinsurance treaty with FMIC, a significant change in the mix of estimated liabilities would be required in order to reduce the level of recoveries to 40%. Such a change in mix would likely also result in a reduction in the estimated cost net of facultative recoveries only. An increase to 70% is a more likely scenario.

Inflation rate

- Expected future payments are inflated to take account of inflationary increases. An increase or decrease in the assumed levels of inflation would have a corresponding impact on claims expense. Given the short tail nature of the Branch's provisions, the impact of a change in the inflation rate would not be material.

Discount rate

- The outstanding claims provision is calculated by reference to expected future payments. These payments are discounted to adjust for the time value of money. An increase or decrease in the assumed discount rate will have an opposing impact on total claims expense. Given the short tail nature of the Branch's provisions, the impact of a change in the inflation rate would not be material.

Risk margin

- An increase or decrease in the risk margin would have a corresponding impact on claims expense.

FM Insurance Company Limited (New Zealand Branch)

***Notes to the financial statements
for the year ended 31 December 2014***

14 Net unearned premium reserve

(a) Reconciliation of movements

	2014	2013
	\$	\$
Gross unearned premium reserve		
Gross unearned premium reserve at the beginning of the financial year	9,199,937	20,323,675
Gross deferral of premiums on contracts written	17,524,949	20,772,139
Gross earning of premiums on contracts written	<u>(18,471,764)</u>	<u>(31,895,877)</u>
Gross unearned premium reserve at the end of the financial year	<u>8,253,122</u>	<u>9,199,937</u>
Deferred reinsurance expense		
Deferred reinsurance expense at the beginning of the financial year	6,630,923	14,360,596
Deferral of reinsurance	12,185,877	14,856,421
Expensing of reinsurance	<u>(13,200,742)</u>	<u>(22,586,094)</u>
Deferred reinsurance expense at the end of the financial year	<u>5,616,058</u>	<u>6,630,923</u>
Net unearned premium reserve		
Net unearned premium reserve at the beginning of the financial year	2,569,014	5,963,079
Net deferral of premiums on contracts written	5,339,072	5,915,718
Net earning of premiums on contracts written	<u>(5,271,022)</u>	<u>(9,309,783)</u>
Net unearned premium reserve at the end of the financial year	<u><u>2,637,064</u></u>	<u><u>2,569,014</u></u>

FM Insurance Company Limited (New Zealand Branch)

Notes to the financial statements for the year ended 31 December 2014

(b) Liability adequacy test

The liability adequacy test has been conducted using the central estimate of the premium liabilities, together with an appropriate margin for uncertainty. The test is based on prospective information and so is heavily dependent on assumptions and judgements. The liability adequacy test at the reporting date resulted in a deficit for the Branch. The deficiency is recognised as an unexpired risk liability in the Statement of financial position.

The following table provides the net deficiency calculated under the liability adequacy test at the reporting date for the relevant financial year:

	2014	2013
	\$	\$
Premium reserve		
Gross unearned premium reserve	8,253,122	9,199,937
Deferred reinsurance expense	5,616,058	6,630,923
Net unearned premium reserve	<u>2,637,064</u>	<u>2,569,014</u>
Deferred acquisition costs	13,535	158
Net unearned premium reserve and DAC	<u>2,623,529</u>	<u>2,569,172</u>
Premium liability		
Gross central estimate of expected future cash flows for future claims	6,712,990	7,488,266
Reinsurance recoveries	<u>4,266,460</u>	<u>5,146,302</u>
Net central estimate of expected future cash flows for future claims	2,446,530	2,341,964
Risk margin	<u>1,472,644</u>	<u>585,380</u>
Net premium liability, including risk margin	<u>3,919,174</u>	<u>2,927,344</u>
Net deficiency	<u>(1,295,645)</u>	<u>(358,172)</u>
Assumptions		
Risk margin %	51.9%	25.0%
Probability of adequacy %	75.0%	75.0%
Policy administration % (to gross unearned premium reserve)	5.0%	5.0%

FM Insurance Company Limited (New Zealand Branch)

***Notes to the financial statements
for the year ended 31 December 2014***

15 Trade and other payables

The payables are unsecured, non-interest bearing and are normally settled between 7 days and 90 days. The balance has not been discounted because the effect of the time value of money is not material. The net carrying amount of the payables is a reasonable approximation of the fair value of the liabilities because of the short term nature of the liabilities.

The following table provides the total amount of trade and other payables at the reporting date for the relevant financial year:

	2014	2013
	\$	\$
Trade and other payables		
Reinsurance creditors	2,732,836	6,337,256
Auditor fee payable	26,487	33,157
Other payables	600,509	175,506
Total trade and other payables	<u>3,359,832</u>	<u>6,545,919</u>

FM Insurance Company Limited (New Zealand Branch)

Notes to the financial statements for the year ended 31 December 2014

16 Related parties

The Branch is a part of FM Insurance Company Limited (the “Company”).

The Company is a wholly owned subsidiary of Factory Mutual Insurance Company (FMIC), (the “Parent”).

	2014	2013
	\$	\$
Transactions with related parties:		
FM Engineering International (New Zealand) Ltd		
Engineering services	462,771	250,328
FM Insurance Company Ltd		
General and administration expenses	2,784,192	5,252,153
Allocated interest income	1,376,913	868,847
Factory Mutual Insurance Company		
Reinsurance expense	6,981,627	10,363,956
Reinsurance recoveries	8,256,154	203,025,820
Reinsurance commission received	967,782	307,395
General and administration expenses	634,498	0
Amounts receivable from and payable to related parties at balance date are:		
FM Engineering International (New Zealand) Ltd	(98,894)	(250,328)
FM Insurance Company Ltd	12,345,859	12,353,948
Factory Mutual Insurance Company	1,661,204	(459,580)

Unless otherwise stated, related parties are members of the FMIC Group.

Terms and conditions of transactions with related parties:

- Reinsurance transactions to/from related parties are made in arm's length transactions both at normal market prices and on normal commercial terms.
- Outstanding balances at year-end are unsecured and interest free.

FM Insurance Company Limited (New Zealand Branch)

Notes to the financial statements for the year ended 31 December 2014

17 Equity retained for purposes of financial soundness

The Company retains a level of equity and retained reserves which enable it to maintain an adequate solvency margin for ongoing ability to pay clients. Its assets are available to support the liabilities of the Branch.

18 Contingent liabilities

There were no known contingent liabilities as at the reporting date requiring disclosure in these financial statements.

Contingent liabilities are not recognised on the Statement of financial position but are required to be disclosed in the notes to the financial statements where the possibility of settlement is less than probable but more than remote. Provisions are not required with respect to such matters as it is not probable that a future sacrifice of economic benefits will be required or the amount cannot be reliably measured.

19 Commitments

(a) Capital commitments

The Branch has no capital expenditure contracted for at the reporting date but not recognised in the financial statements.

(b) Software license and/or rental commitments

The Branch has no current software license and/or rental commitments.

(c) Operating lease commitments

The Branch has no current non-cancellable operating lease commitments.

(d) Finance lease commitments

The Branch has no current finance lease commitments.

20 Subsequent events

No transactions or events occurred after the reporting date which significantly affected, or may significantly affect, the results of the Branch, the operations of the Branch, or state of affairs of the Branch.

FM Insurance Company Limited (New Zealand Branch)

***Notes to the financial statements
for the year ended 31 December 2014***

21 Notes to the cash flow statement

(a) Cash and cash equivalents

	2014	2013
	\$	\$
Intercompany account	11,409,879	12,123,642
Total cash and cash equivalents	<u>11,409,879</u>	<u>12,123,642</u>

(b) Reconciliation of profit for the year to net cash flows from operating activities

	2014	2013
	\$	\$
Profit for the year	1,079,722	10,412,078

Non-cash items

Net unrealised (gains) / losses on revaluation of investments	0	0
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Movement in operating assets and liabilities

Decrease / (Increase) in operating assets

Trade and other receivables	374,777	20,925,698
Deferred reinsurance expense	1,014,865	7,729,673
Reinsurance and other recoveries on outstanding claims	(304,491)	170,566,082

Increase / (Decrease) in operating liabilities

Trade and other payables	(3,186,087)	(1,570,255)
Unearned premium reserve	(946,815)	(11,123,738)
Deferred reinsurance commission	(188,066)	(636,605)
Unexpired risk liability	937,473	(347,749)
Outstanding claims provision	504,861	(217,868,317)
Net cash flows from operating activities	<u>(713,762)</u>	<u>(21,913,133)</u>



Appointed actuary's report to the Directors of FM Insurance Co., Ltd. – New Zealand Branch

Report in respect of a review of actuarial information in, or used in the preparation of, financial statements

This report is provided under section 78 of the *Insurance (Prudential Supervision) Act 2010* ("the Insurance Act"), and relates to a review of the actuarial information in, or used in the preparation of, the financial statements of FM Insurance Company Limited (New Zealand) ("FMI (NZ)") for the year ended 31 December 2014.

The financial statements were authorised for issue by the Board of Directors of FM Insurance Company Limited ("FMI (UK)") on 22 May 2015 and the accompanying independent auditors' report was issued on 22 May 2015.

Name of appointed actuary conducting the review

I, Martin Fry, of Taylor Fry Consulting Actuaries ("Taylor Fry") am a Fellow of the New Zealand Society of Actuaries. This review has been conducted by me in my role as appointed actuary to FMI (NZ).

Other than that of actuary, I confirm that I have no relationship with, or any other interests in, FMI (NZ).

Exemption from solvency standard

FMI (UK) has been granted a Section 59 exemption under the Insurance Act, which applies to overseas insurers of approved jurisdictions. This provides an exemption from compliance with the New Zealand Solvency Standard for Non-life Insurance Business and was dated 28 June 2013. I understand that under this exemption, the Reserve Bank of New Zealand considers the solvency of FMI (NZ) based on the solvency ratio of FMI (UK) under the UK Prudential Regulation Authority ("PRA") requirements. I have been provided with a Letter of Representation from the Finance Director of FMI (UK) to the independent auditors of FMI (UK), which attests that FMI (UK) has complied with the rules and requirements of the PRA for the period covered by the financial statements for the year ended 31 December 2014. I have not reviewed the calculations underlying the solvency data supplied to the PRA but have relied on the attestation of FMI (UK) and the report of the auditors as to their accuracy.

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Work done in relation to actuarial information used in the financial statements

The actuarial information used in the financial statements comprises the outstanding claims liability as at 31 December 2014 shown in the statement of financial position. This amount was determined in accordance with the New Zealand Equivalent to International Financial Reporting Standard 4 ("NZ IFRS 4"), and represents the net central estimate plus a risk margin to provide a 75% probability of sufficiency. I confirm that this amount was calculated by me and advised to FMI (NZ) in a Financial Condition Report dated 19 May 2015.

I have carried out a Liability Adequacy Test, and confirm that the unearned premium less deferred acquisition costs plus unexpired risk liability is not less than my actuarial estimate of the net premium liability.

In carrying out this review, I confirm that I have been provided with all required information and explanations from FMI (NZ).

Opinion

In my opinion:

- The actuarial information contained in the financial statements for FMI (NZ) has been appropriately included in those statements, and
- The actuarial information used in the preparation of the financial statements for FMI (NZ) has been used appropriately.

Scope and limitations of review

This report is prepared for the Directors of FMI (NZ), solely for the purposes set out in section 78 of the Insurance Act and for no other purpose.



Martin H Fry
Fellow of the New Zealand Society of Actuaries

22 May 2015