



Factory Mutual Insurance Company

New Zealand Branch

Financial Statements

For the year ended 31 December 2018



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Director's Report

The Directors present their report, together with financial statements of Factory Mutual Insurance Company New Zealand Branch for the year ended 31 December 2018.

Corporate Information

Factory Mutual Insurance Company New Zealand Branch ("the Branch") is licensed by the Bank of New Zealand under the Insurance (Prudential Supervision) Act 2010.

The principal activity of the Branch is the underwriting of property insurance risks to large and medium sized clients.

The Branch is a part of Factory Mutual Insurance Company (the "Company"). The Company is incorporated in the United States of America. The registered office of the Company is 270 Central Avenue, Johnston, RI, USA.

Results

The results of the Branch's operations for the year are set out on page 5 and the financial position of the Branch at the end of the year is set out on page 7.

Review of the business

Revenue was \$23,100,528 (2017: \$20,200,631) during the year. The Branch made a profit/(loss) of (\$808,064) (2017: \$9,084,065) during the year.

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.

Going concern

The Directors have a reasonable expectation that the Company has adequate resources to continue in existence for the foreseeable future. As such, they continue to adopt the going concern basis in preparing the annual financial statements.

Directors

The names of the Company's Directors in office during the year is as follows:

<i>Director</i>	<i>Title</i>	<i>Date changed</i>
Francis Thomas Connor	Non-Executive Director	
Colin Richard Day	Non-Executive Director	
Michel Serge Giannuzzi	Non-Executive Director	
Daniel Lee Knotts	Non-Executive Director	
Glenn Rodney Landau	Non-Executive Director	
Thomas Alan Lawson	Executive Director	
John Anderson Luke Jnr	Non-Executive Director	
Gracia Catherine Martore	Non-Executive Director	
Christine Mary McCarthy	Non-Executive Director	
Stuart Blain Parker	Non-Executive Director	
Edward Joseph Rapp	Non-Executive Director	(Ceased 12 April 2018)
Israel Ruiz	Non-Executive Director	
Shivan Sivaswamy Subramaniam	Non-Executive Director	(Ceased 11 April 2018)
David Thomas Walton	Non-Executive Director	(Appointed 12 April 2018)

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

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 year, EY were not engaged to perform any services with respect to the Branch, other than their statutory duties.

On behalf of the board


 Thomas Alan Lawson 11 April 2019
 Director Dated


 Gracia Catherine Martore 11 April 2019
 Director Dated

Independent auditor's report to the Shareholders of Factory Mutual Insurance Company

Report on the audit of the financial statements

Opinion

We have audited the financial statements of the New Zealand Branch of Factory Mutual Insurance Company (the "company") on pages 6 to 50, which comprise the statement of financial position of the New Zealand Branch of Factory Mutual Insurance Company as at 31 December 2018, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended of the New Zealand Branch of Factory Mutual Insurance Company, and the notes to the financial statements including a summary of significant accounting policies.

In our opinion, the financial statements on pages 6 to 50 present fairly, in all material respects, the financial position of the New Zealand Branch of Factory Mutual Insurance Company as at 31 December 2018 and its financial performance and cash flows for the year then ended in accordance with New Zealand Equivalents to International Financial Reporting Standards and International Financial Reporting Standards.

This report is made solely to the company's shareholder's, as a body. Our audit has been undertaken so that we might state to the company's shareholders those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's shareholder's, as a body, 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 New Zealand Branch of the company in accordance with Professional and Ethical Standard 1 (revised) *Code of Ethics for Assurance Practitioners* issued by the New Zealand Auditing and Assurance Standards Board, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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

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

Directors' responsibilities for the financial statements

The directors are responsible, on behalf of the entity, for the preparation and fair presentation of the financial statements in accordance with New Zealand Equivalents to International Financial Reporting Standards and International Financial Reporting Standards, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

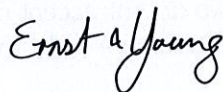
In preparing the financial statements, the directors are responsible for assessing on behalf of the entity the New Zealand Branch of the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless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

Auditor's responsibilities for the audit of the financial statements

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

A further description of our responsibilities for the audit of the financial statements is located at the External Reporting Board website: <https://www.xrb.govt.nz/standards-for-assurance-practitioners/auditors-responsibilities/audit-report-5/>. This description forms part of our auditor's report.

The engagement partner on the audit resulting in this independent auditor's report is T M Dring.



Ernst & Young

Melbourne
11th April, 2019

Factory Mutual Insurance Company
New Zealand Branch
Financial Statements
For the year-ended 31 December 2018

Financial statements

Statement of profit or loss

	Notes	2018 \$	2017 \$
Gross premiums	6	23,100,528	20,200,631
Premiums ceded to reinsurers	6	(11,147,982)	(9,541,111)
Net premiums		11,952,546	10,679,520
Fees and commission income	7	1,369,784	1,233,662
Other revenue		1,369,784	1,233,662
Total revenue		13,322,330	11,913,182
Gross claims paid	8	40,456,938	32,049,211
Claims ceded to reinsurers	8	(26,936,667)	(23,429,869)
Change in insurance contract liabilities	8	(34,154,752)	(35,426,280)
Change in insurance contract liabilities ceded to reinsurers	8	29,121,547	25,077,596
Net claims expenses		8,487,066	(1,729,342)
Other expenses	9	5,643,328	4,558,459
Total claims and other expenses		14,130,394	2,829,117
Profit/(Loss) before tax		(808,064)	9,084,065
Income tax expenses	4J	-	-
Profit/(Loss) after tax		(808,064)	9,084,065

The accompanying notes are an integral part of these financial statements.

Factory Mutual Insurance Company
New Zealand Branch
Financial Statements
For the year-ended 31 December 2018

Statement of other comprehensive income

	Notes	2018 \$	2017 \$
Profit/(Loss) for the year		(808,064)	9,084,065
Other comprehensive income to be reclassified to profit or loss in subsequent periods		-	-
Other comprehensive income not to be reclassified to profit or loss in subsequent periods		-	-
Other comprehensive income for the year, net of tax		-	-
Total comprehensive income for the year, net of tax		(808,064)	9,084,065

The accompanying notes are an integral part of these financial statements.

Factory Mutual Insurance Company
New Zealand Branch
Financial Statements
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Statement of financial position

	Notes	2018 \$	2017 \$
Assets			
Reinsurance assets	10	4,822,671	32,826,312
Intercompany receivables		-	2,187,285
Deferred acquisition costs	11	-	-
Insurance receivables	12	7,936,384	3,693,344
Cash and short-term deposits	13	41,045,455	37,339,564
Total assets		53,804,510	76,046,505
Equity and Liabilities			
Equity			
Head Office Account		6,000,000	6,000,000
Retained earnings		7,052,422	7,860,486
Total Equity		13,052,422	13,860,486
Liabilities			
Insurance contract liabilities	14	26,331,923	58,342,046
Intercompany payables		9,443,874	-
Insurance payables	15	3,730,144	2,809,494
Trade and other payables	16	457,015	346,903
Liability for contracts with customers	17	148,151	112,711
Deferred commission income	18	640,981	575,865
Total Liabilities		40,752,088	62,186,109
Total Equity and Liabilities		53,804,510	76,046,505

The accompanying notes are an integral part of these financial statements.

Factory Mutual Insurance Company
New Zealand Branch
Financial Statements
For the year-ended 31 December 2018

Statement of changes in Equity

For the year ended 31 December 2017

	Head Office Account \$	Retained earnings \$	Total \$
As at 1 January 2017	1,000,000	(1,223,579)	(223,579)
Profit for the year	-	9,084,065	9,084,065
Other comprehensive income	-	-	-
Total comprehensive income	1,000,000	7,860,486	8,860,486
Contributed capital	5,000,000	-	5,000,000
As at 31 December 2017	6,000,000	7,860,486	13,860,486

For the year ended 31 December 2018

	Head Office Account \$	Retained earnings \$	Total \$
As at 1 January 2018	6,000,000	7,860,486	13,860,486
Profit for the year	-	(808,064)	(808,064)
Other comprehensive income	-	-	-
Total comprehensive income	6,000,000	7,052,422	13,052,422
Contributed capital	-	-	-
As at 31 December 2018	6,000,000	7,052,422	13,052,422

The accompanying notes are an integral part of these financial statements.

Factory Mutual Insurance Company
New Zealand Branch
Financial Statements
For the year-ended 31 December 2018

Statement of cashflows

	Notes	2018 \$	2017 \$
Cashflows from operating activities:			
Profit before taxation		(808,064)	9,084,065
Adjustments for non-cash items included in profit before tax:			
Provision for doubtful debts		80,667	(134,388)
Changes in operating assets and liabilities:			
Reinsurance assets		28,003,641	25,439,208
Insurance receivables		(4,323,704)	18,372,098
Intercompany account		11,631,159	(6,825,161)
Insurance contract liabilities		(32,010,123)	(35,886,776)
Deferred fee and commission income		65,116	(103,037)
Insurance payables		920,648	(17,224)
Trade and other payables		96,329	32,431
Accrued expenses		14,783	16,400
Liabilities for contracts with customer		35,440	5,206
Cash generated from operating activities		3,705,891	9,982,822
Income taxes paid		-	-
Net cash from operating activities		3,705,891	9,982,822
Cashflows from investing activities:			
Purchase of plant & equipment		-	-
Cashflows from financing activities:			
Capital contributions from owner / (repatriations to owner)		-	5,000,000
Net increase / (decrease) in cash and cash equivalents		3,705,891	14,982,822
Cash and cash equivalents at beginning of period		37,339,564	22,356,742
Cash and cash equivalents at end of period	13	41,045,455	37,339,564

The accompanying notes are an integral part of these financial statements.

Factory Mutual Insurance Company
New Zealand Branch
Financial Statements
For the year-ended 31 December 2018

Notes to financial statements

Corporate and business information

1. Reporting entity

Factory Mutual Insurance Company, New Zealand Branch ("the Branch") was registered with the New Zealand Companies Office on 1 October 2015 and was licensed by the Reserve Bank of New Zealand on 1 January 2016.

The registered office of the Branch is:

C/-KPMG Centre
18 Viaduct Harbour Avenue
Auckland NZ 1010

The principal activity of the Branch is the underwriting of property insurance risks to large and medium sized clients.

2. Group information

The Branch is a part of Factory Mutual Insurance Company (the "Company"). The Company is incorporated in the United States of America. The registered office of the Company is 270 Central Avenue, Johnston, RI, USA.

The Company has a financial strength rating of A+ (Superior) issued by A M Best, A+ issued by S&P Global and AA (Very Strong) issued by Fitch Ratings.

3. Segment information

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

Significant accounting policies, judgements, estimates & assumptions

4. Significant accounting policies

(a) Basis of preparation

The financial statements of the Branch comply with New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS).

The financial statements have been prepared in accordance with generally accepted accounting practice in New Zealand (NZ GAAP) and the requirements of the Financial Markets Conduct Act 2013.

For the purposes of complying with NZ GAAP the Branch is a for-profit entity.

The financial statements have been prepared on an historical cost basis, except for financial assets that have been measured at fair value.

The financial statements are presented in New Zealand Dollars, unless otherwise stated.

The Branch presents its statement of financial position broadly in order of liquidity.

The comparative year amounts have been re-grouped and re-classified wherever necessary in line with current year disclosure presentation.

(b) Product classification

Insurance contracts are those contracts where the Branch (the insurer) has accepted significant insurance risk from another party (the policyholders) by agreeing to compensate the policyholders if a specified uncertain future event (the insured event) adversely affects the policyholders. As a general guideline, the Branch determines whether it has significant insurance risk by comparing benefits paid with benefits payable if the insured event did not occur. Insurance contracts can also transfer financial risks.

Once a contract has been classified as an insurance contract, it remains an insurance contract for the remainder of its lifetime, even if the insurance risk reduces significantly during this period, unless all rights and obligations are extinguished or expire.

(c) Deferred acquisition expenses (DAC)

Those direct costs incurred during the financial period arising from acquiring or renewing of insurance contracts are deferred to the extent that they are recoverable out of future premiums from insurance contracts. Indirect acquisition costs are recognised as an expense when incurred.

Subsequent to initial recognition, the DAC asset is amortised over twelve months, the period in which the related revenues are earned.

(d) Financial instruments

i. Overview

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.

ii. Financial assets

Initial recognition and measurement

Financial assets are recognised when, and only when, the branch becomes party to the contractual provisions of the instruments.

The branch's financial assets are classified as loans and receivables. They consist of cash and short-term deposits, insurance receivables, amounts due from related companies and other receivables.

Financial assets are recognised initially at fair value.

Subsequent measurement

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, loans and receivables are measured at amortised cost, less allowance for impairment. Gains and losses are recognised in the statement of profit or loss when the amounts are derecognised or impaired, as well as through the amortisation process.

Derecognition

A financial asset (or, when applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- The rights to receive cash flows from the asset have expired; or
- The branch has transferred its right 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 under a 'pass-through arrangement; and either: (a) the branch has transferred substantially all the risk and rewards of the asset or (b) the branch has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

On derecognition of a financial asset, the difference between the carrying amount and the sum of the consideration received is recognised in the statement of profit or loss.

Impairment

The branch assesses at each reporting date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, there is objective evidence of impairment as a result of one or more events that has occurred since the initial recognition of the asset (an incurred 'loss event') and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that a debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

For financial assets carried at amortised cost, the branch first assesses whether impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the branch determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for assessment of impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

The amount of any impairment loss identified is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows (excluding future expected credit losses that have not yet been incurred).

The carrying amount of the asset is reduced through the use of an allowance account and the loss is recognised in the statement of profit or loss. Loans and receivables, together with the associated allowance, are written off when there is no realistic prospect of future recovery and all collateral has been realized or has been transferred to the Branch. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to finance costs in the statement of profit or loss.

iii. Financial liabilities

Initial recognition and measurement

Financial liabilities are recognised when, and only when, the branch become party to the contractual provisions of the instruments.

All financial liabilities are recognised initially at fair value.

The branch's financial liabilities are classified as trade and other payables, including insurance payables.

Subsequent measurement

After initial recognition, financial liabilities are subsequently measured at amortised cost using the effective interest method, unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in profit or loss when liabilities are derecognised, and through the amortisation process.

Derecognition

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

(e) Offsetting financial instruments

Financial assets and financial liabilities are offset, and the net amount is reported in the statement of financial position, if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, to realise the assets and settle the liabilities simultaneously.

(f) Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability; OR
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible by the Branch.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming market participants act in their economic best interest.

A fair value measurement of a non-financial asset considers a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Branch uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

(g) Reinsurance ceded to reinsurance counterparties

The Branch cedes reinsurance risk in the normal course of business. Reinsurance assets represent balances due from reinsurance companies. Amounts recoverable from reinsurers are estimated in a manner consistent with the outstanding claim 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 period. Impairment occurs when there is objective evidence because of an event that occurred after initial recognition of the reinsurance asset that the Branch 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 Branch will receive from the reinsurer. The impairment loss is recorded in the statement of profit or loss.

Ceded reinsurance arrangements do not relieve the Branch from its obligations to policy holders.

(h) Insurance receivables

Insurance receivables are recognised when due and measured on initial recognition at the fair value of the consideration receivable. Subsequent to initial recognition, insurance receivables are measured at amortised cost, using the effective interest rate (EIR) method. The carrying value of insurance receivables is reviewed for impairment whenever events or circumstances indicate that the carrying amount may not be recoverable, with the impairment loss recorded in the statement of profit or loss.

Insurance receivables are derecognised when the derecognition criteria for financial assets have been met.

(i) Cash and short-term deposits

Cash and short-term deposits 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, which are subject to an insignificant risk of changes in value.

(j) Taxes

The income of the Branch 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.

(k) Foreign currency translation

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

Transactions in foreign currencies are initially recorded at the functional currency spot rate prevailing at the date the transaction first qualifies for recognition. Revenue and expense transactions are then retranslated at the end of the month in which they are initially recorded using the monthly average rate for that month.

Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency spot rate of exchange at the reporting date.

All differences arising on settlement or translation of monetary items are taken to the statement of profit or loss.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the date of the initial transaction and are not subsequently restated. Non-monetary assets and liabilities that are measured in terms of fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined.

The gain or loss arising on translation of non-monetary items measured at fair value is treated in line with the recognition of a gain or loss on change in fair value of the item (i.e. translation differences on items whose fair value gain or loss is recognised in OCI or profit or loss are also recognised in OCI or profit or loss, respectively).

(l) Insurance contract liabilities

Insurance contract liabilities include the outstanding claims provision, the provision for unearned premium and the provision for premium deficiency. The outstanding claims provision is based on the estimated ultimate cost of all claims incurred but not settled at the reporting date, whether reported or not, together with related claims handling costs and a reduction for the expected value of salvage and other recoveries. Delays can be experienced in the notification and settlement of certain types of claims. Therefore, the ultimate cost of these cannot be known with certainty at the reporting date. The liability is calculated at the reporting date using a range of standard actuarial claim projection techniques, based on empirical data and current assumptions that may include a margin for adverse deviation. No provision for equalisation or catastrophe reserves is recognised. The liabilities are derecognised when the obligation to pay a claim expires, is discharged or is cancelled. The liability is discounted for the time value of money.

The provision for unearned premiums represents that portion of premiums received or receivable that relates to risks that have not yet expired at the reporting date. The provision is recognised when contracts are entered into and premiums are charged and is brought to account as premium income over the term of the contract in accordance with the pattern of insurance service provided under the contract.

At each reporting date, the Branch reviews its unexpired risk and a liability adequacy test is performed in accordance with local IFRS equivalent accounting requirements to determine whether there is any overall excess of expected claims and deferred acquisition costs over unearned premiums. This calculation uses current estimates of future contractual cash flows after taking account of the investment return expected to arise on assets relating to the relevant insurance technical provisions. If these estimates show that the carrying amount of the unearned premiums (less related deferred acquisition costs) is inadequate, the deficiency is recognised in the statement of profit or loss by setting up a provision for premium deficiency.

(m) Insurance payables

Insurance payables include amounts owing to reinsurers and are recognised when due and measured on initial recognition at fair value of the consideration received less directly attributable transaction costs. Subsequent to initial recognition, they are measured at amortised cost using the EIR method.

(n) Deferred fee and commission income

Initial and other front-ended reinsurance commissions and fees received for rendering future engineering services relating to insurance contracts, are deferred and recognised as revenue when the related services are rendered.

(o) Revenue recognition

i. Gross premiums

Gross written premiums comprise the total premiums receivable for the whole period of cover provided by contracts entered into during the reporting period. They are recognised on the date on which the policy commences. Premiums include any adjustments arising in the reporting period for premiums receivable in respect of business written in prior accounting periods. Membership credits are deducted from gross premiums.

Unearned premiums are those proportions of premiums written in a year that relate to periods of risk after the reporting date. Unearned premiums are calculated on a pro rata basis. The proportion attributable to subsequent periods is deferred as a provision for unearned premiums.

ii. Reinsurance premiums

Gross outward reinsurance premiums ceded comprise the total premiums payable for the whole cover provided by contracts entered into in the period and are recognised on the date on which the reinsurance 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 ceded in a year that relate to periods of risk after the reporting date. Unearned reinsurance premiums are deferred over the term of the underlying direct insurance policies for risks-attaching contracts and over the term of the reinsurance contract for losses-occurring contracts, with the exception of the intercompany stop loss reinsurance treaty, which is recognised as a period cost for the accounting year in which cover is provided with no unearned premiums recognised at the end of the year.

iii. Fee and commission income

Revenue from contracts with customers

In certain circumstances, insurance policyholders may be separately charged for loss prevention engineering services. These fees are recognised as revenue over the period in which the related services are performed. If fees are for services provided in future periods, then they are deferred and recognised over those future periods.

Reinsurer commission income

In certain circumstances, commission income is received in respect of premiums ceded to reinsurers. Commission income is recognised as revenue on the date on which the reinsurance policy incepts. Unearned commission income is deferred and recognised over the term of the related reinsurance policies.

(p) Claims and expense recognition

i. Gross claims

Gross claims include all claims occurring during the year, whether reported or not, related to internal and external claims handling costs that are directly related to the processing and settlement of claims, a reduction for the value if salvage and other recoveries, and any adjustments to claims from previous years.

ii. Reinsurance claims

Reinsurance claims are recognised when the related gross insurance claim is recognised according to the terms of the relevant contract.

(q) Changes in accounting policy and disclosures

The Branch has not changed any accounting policy during the reporting period.

The Branch has applied for the first-time certain standards, interpretations and amendments that became effective during the reporting period as described below.

<i>Standard</i>	<i>Effective</i>	<i>Description</i>
NZ IFRS 15	1 Jan 2018	Revenue from Contracts with Customers

NZ IFRS 15 *Revenue from Contracts with Customers*

NZ IFRS 15 supersedes NZ IAS 11 *Construction Contracts*, NZ IAS 18 *Revenue* and related interpretations and it applies, with limited exceptions, to all revenue arising from contracts with customers. NZ IFRS 15 establishes a five-step model to account for revenue arising from contracts with customers and requires that revenue be recognised at an amount that reflect the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

NZ IFRS 15 requires entities to exercise judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers. The standard also specifies the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract. In addition, the standard requires extensive disclosures.

The Branch adopted NZ IFRS 15 using the modified retrospective method of adoption with the date of initial application of 1 January 2018. Under this method, the standard can be applied either to all contracts at the date of initial application or only to contracts that are not completed at this date. The Company elected to apply the standard to all contracts as at 1 January 2018.

The cumulative effect of initially applying NZ IFRS 15 is recognised at the date of initial application as an adjustment to the opening balance of retained earnings. The impact of the application of NZ IFRS 15 and the subsequent restatement of the items in the statement of financial position in 2017 is illustrated in the table below.

Statement of financial position – trade payables

	2017	Adjustments	2017
	(NZ IAS 18)	(NZ IFRS 15)	(NZ IFRS 15)
	\$	\$	\$
Liabilities			
Trade payables	398,139	(112,711)	285,428
Liability for contracts with customers	-	112,711	112,711
Total	398,139	-	398,139

5. Significant accounting judgements, estimates & assumptions

(a) General

The preparation of the Branch's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the accompanying disclosures, and the disclosures of contingent liabilities.

Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future reporting periods.

Other disclosures relating to the Branch's exposure to risks and uncertainties include:

- Capital management
- Financial risk management and policies
- Sensitivity analysis disclosures

(b) Valuation of insurance contract liabilities

For insurance contracts, estimates have to be made both for the expected ultimate cost of claims reported at the reporting date and for the expected ultimate cost of claims incurred, but not yet reported, at the reporting date (IBNR).

The ultimate cost of outstanding claims is estimated by using a range of standard actuarial claims projection techniques, such as Chain Ladder and Bornheutter-Ferguson methods.

The main assumption underlying these techniques is that the Branch's past claims development experience can be used to project future claims development and hence ultimate claims costs. As such, these methods extrapolate the development of paid and incurred losses, average costs per claim and claim numbers based on the observed development of earlier years and expected loss ratios. Historical claims development is mainly analysed by accident years but can also be further analysed by claim types. Large claims are usually separately addressed, either by being reserved at the face value of loss adjuster estimates or separately projected in order to reflect their future development. In most cases, no explicit assumptions are made regarding future rates of claims inflation or loss ratios. Instead, the assumptions used are those implicit in the historical claims' development data on which the projections are based.

Additional qualitative judgement is used to assess the extent to which past trends may not apply in future, (e.g. to reflect one-off occurrences, changes in external or market factors such as public attitudes to claiming, economic conditions, levels of claims inflation, judicial decisions and legislation, as well as internal factors such as portfolio mix, policy features and claims handling procedures) in order to arrive at the estimated ultimate cost of claims that present the likely outcome from the range of possible outcomes, taking account of all the uncertainties involved.

Similar judgements, estimates and assumptions are employed in the assessment of adequacy of provisions for unearned premium.

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Detailed information on statement of profit or loss and OCI items

6. Net premiums

	2018 \$	2017 \$
Gross premiums written	25,347,595	20,489,645
Movement in unearned premium	(2,247,067)	(269,014)
Gross premiums earned	23,100,528	20,220,631
Premiums ceded to reinsurers written	12,265,888	9,179,500
Movement in deferred premiums ceded to reinsurers	(1,117,906)	361,611
Premiums ceded to reinsurers	11,147,982	9,541,111
Net premiums	11,952,546	10,679,520

7. Fees and commission income

	2018 \$	2017 \$
Revenue from contracts with customers	188,380	185,246
Commission income received	1,246,520	945,379
Movement in deferred commission income	(65,116)	103,037
Commission Income	1,181,404	1,048,416
Total Other Revenue	1,369,784	1,233,662

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8. Net claims

	2018 \$	2017 \$
Claims paid	39,081,409	30,604,801
External loss adjustment expenses	581,186	470,964
Internal loss adjustment expenses	794,343	973,446
Gross claims paid	40,456,938	32,049,211
Reinsurers share of claims paid	(26,836,359)	(23,429,869)
Reinsurers share of external loss adjustment expenses	(100,308)	-
Claims ceded to reinsurers	(26,936,667)	(23,429,869)
Change in insurance contract outstanding claims provision	(34,154,752)	(35,426,280)
Change in insurance contract liabilities	(34,154,192)	(35,426,280)
Change in insurance contract liabilities ceded to reinsurers	29,121,547	25,077,596
Net claims expenses	8,487,066	(1,729,342)

9. Other expenses

	2018 \$	2017 \$
Premium taxes	714,540	577,618
Commissions paid	64,665	78,518
Change in unexpired risk liability	(102,440)	(729,508)
Net acquisition costs	676,765	(73,372)
Impairment losses on loans and receivables	(80,677)	134,388
Auditor's remuneration	22,863	22,190
Other administration expenses	5,840,066	5,624,762
Net foreign exchange adjustments	(21,355)	(176,062)
Net internal loss adjustment expenses	(794,344)	(973,446)
Administration expenses and other adjustments	4,966,563	4,631,831
Other expenses	5,643,328	4,558,459

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10. Reinsurance assets

	2018 \$	2017 \$
Reinsurance of provision for unearned premiums	3,928,660	2,810,754
Reinsurance of outstanding claims provision	894,011	30,015,558
Reinsurance assets	4,822,671	32,826,312

11. Deferred acquisition costs (DAC)

	2018 \$	2017 \$
At 1 January	-	-
Expenses deferred	20,764	23,674
Expenses amortised	(20,764)	(23,674)
At 31 December	-	-

12. Insurance receivables

	2018 \$	2017 \$
Due from policyholders	5,139,770	3,827,733
Less: Allowance for impairment	(53,722)	(134,389)
Sub-total	5,086,048	3,693,344
Due from reinsurers – unrelated parties	6,011,933	-
Due from reinsurers – related parties	(3,161,597)	-
Less: Allowance for impairment	-	-
Sub-total	2,850,336	-
Total insurance receivables	7,936,384	3,693,344

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13. Cash and short-term deposits

	2018 \$	2017 \$
Cash on hand and at call	41,045,455	37,339,564
Short-term deposits	-	-
Total cash and short-term deposits	41,045,455	37,339,564

Short-term deposits are made for varying periods of up to 3 months, depending on the immediate cash requirements of the Branch.

The carrying amounts disclosed above reasonably approximate fair value at the reporting date.

14. Insurance contract liabilities

(a) Gross amount

	2018 \$	2017 \$
Outstanding claims provision	9,654,840	43,809,592
Provision for unearned premiums	13,774,528	11,527,461
Provision for premium deficiency	2,902,555	3,004,993
Insurance contract liabilities	26,331,923	58,342,046

(b) Net amount

i. Overview

For the year ended 31 December 2017

	Gross insurance contract liabilities \$	Reinsurance assets \$	Net insurance contract liabilities \$
Outstanding claims provision	43,809,592	30,015,558	13,794,034
Provision for unearned premiums	11,527,461	2,810,754	8,716,707
Provision for premium deficiency	3,004,993	-	3,004,993
Total insurance contract liabilities	58,342,046	31,826,312	25,515,734

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For the year ended 31 December 2018

	Gross insurance contract liabilities	Reinsurance assets	Net insurance contract liabilities
	\$	\$	\$
Outstanding claims provision	9,654,840	894,011	8,760,829
Provision for unearned premiums	13,774,528	3,928,660	9,845,868
Provision for premium deficiency	2,902,555	-	2,902,555
Total insurance contract liabilities	26,331,923	4,822,671	20,722,632

ii. Outstanding claims movement

For the year ended 31 December 2017

	Gross insurance contract liabilities	Reinsurance assets	Net insurance contract liabilities
	\$	\$	\$
At 1 January 2017	79,235,873	55,093,154	24,142,719
Claims incurred in current year	(4,868,809)	(1,647,727)	(3,221,082)
Claims paid during the year	(30,604,801)	(23,429,869)	(7,174,932)
Foreign exchange rate adjustment	47,329	-	47,329
At 31 December 2017	43,809,592	30,015,558	13,794,034

For the year ended 31 December 2018

	Gross insurance contract liabilities	Reinsurance assets	Net insurance contract liabilities
	\$	\$	\$
At 1 January 2018	43,809,592	30,015,558	13,794,034
Claims incurred in current year	4,947,684	(2,285,188)	7,232,872
Claims paid during the year	(39,081,409)	(26,836,359)	(12,245,050)
Foreign exchange rate adjustment	(21,027)	-	(21,027)
At 31 December 2018	9,654,840	894,011	8,760,829

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iii. Outstanding claims provision

For the year ended 31 December 2017

	Gross insurance contract liabilities	Reinsurance assets	Net insurance contract liabilities
	\$	\$	\$
Reported claims	33,233,350	23,118,839	10,114,511
IBNR/IBNER	990,000	1,433,496	(443,496)
Claims administration expenses	1,679,654	-	1,679,654
Loss adjustment expenses	1,522,311	1,107,053	415,257
Gross outstanding claims – undiscounted	37,425,315	25,659,388	11,765,927
Discount to present value	(555,563)	(398,569)	(156,994)
Gross outstanding claims – discounted	36,869,752	25,620,819	11,608,033
Risk margin	6,939,840	4,754,739	2,185,101
Gross outstanding claims – discounted, including risk margin	43,809,592	30,015,558	13,794,034

For the year ended 31 December 2018

	Gross insurance contract liabilities	Reinsurance assets	Net insurance contract liabilities
	\$	\$	\$
Reported claims	5,776,779	244,246	5,532,533
IBNR/IBNER	1,484,509	459,651	1,024,858
Claims administration expenses	349,650	-	349,650
Loss adjustment expenses	320,803	31,346	289,457
Gross outstanding claims – undiscounted	7,931,741	735,243	7,196,498
Discount to present value	(181,010)	(17,547)	(163,463)
Gross outstanding claims – discounted	7,750,731	717,696	7,033,035
Risk margin	1,904,109	176,315	1,727,794
Gross outstanding claims – discounted, including risk margin	9,654,840	894,011	8,760,829

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iv. Unearned premium provision

For the year ended 31 December 2017

	Gross insurance contract liabilities \$	Reinsuranc e assets \$	Net insurance contract liabilities \$
At 1 January 2017	11,258,447	3,172,366	8,086,081
Premiums written during the year	20,489,645	9,179,500	11,310,145
Premiums earned during the year	(20,220,631)	(9,541,112)	(10,679,519)
At 31 December 2017	11,527,461	2,810,754	8,716,707

For the year ended 31 December 2018

	Gross insurance contract liabilities \$	Reinsurance assets \$	Net insurance contract liabilities \$
At 1 January 2018	11,527,461	2,810,754	8,716,707
Premiums written during the year	25,347,595	12,265,888	13,081,707
Premiums earned during the year	(23,100,528)	(11,147,982)	(11,952,546)
At 31 December 2018	13,774,528	3,928,660	9,845,868

v. Premium deficiency provision

	2018 \$	2017 \$
Premium Reserve		
Gross unearned premium reserve	13,774,528	11,527,461
Deferred reinsurance expense	3,928,660	2,810,754
Net unearned premium reserve	9,845,868	8,716,707
Deferred acquisition costs (DAC)	20,764	23,674
Net unearned premium reserve less DAC	9,825,104	8,693,033

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	2018 \$	2017 \$
Premium Liability		
Gross central estimate of expected future cash flows for future claims	11,276,086	9,708,205
Reinsurance recoveries	2,167,791	1,545,694
Net central estimate of expected future cash flows for future claims	9,108,295	8,162,511
Risk Margin	3,619,364	3,535,515
Net premium liability, including risk margin	12,727,658	11,698,026
Net Deficiency	(2,902,555)	(3,004,993)

15. Insurance payables

	2018 \$	2017 \$
Due to policyholders	-	-
Due to reinsurers – unrelated parties	2,489,971	1,619,843
Due to reinsurers – related parties	1,237,638	1,189,156
Due to brokers	2,535	495
Total insurance payables	3,730,144	2,809,494

The carrying amounts disclosed above approximate fair value at the reporting date.

All amounts are payable within one year.

16. Trade and other payables

	2018 \$	2017 \$
Trade payables	-	-
Accrued expenses	75,256	61,475
Other	381,759	285,428
Total trade and other payables	457,015	346,903

The carrying amounts disclosed above approximate fair value at the reporting date.

All amounts are payable within one year.

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17. Liability for contracts with customers

	2018 \$	2017 \$
Deferred engineering fee income	148,151	112,711
Total liability for contracts with customers	148,151	112,711

18. Deferred commission income

	2018 \$	2017 \$
At 1 January	575,865	678,902
Commission revenue deferred	133,475	(209,572)
Commission revenue earned	(68,359)	106,535
At 31 December	640,981	575,865

Risk management and other disclosures

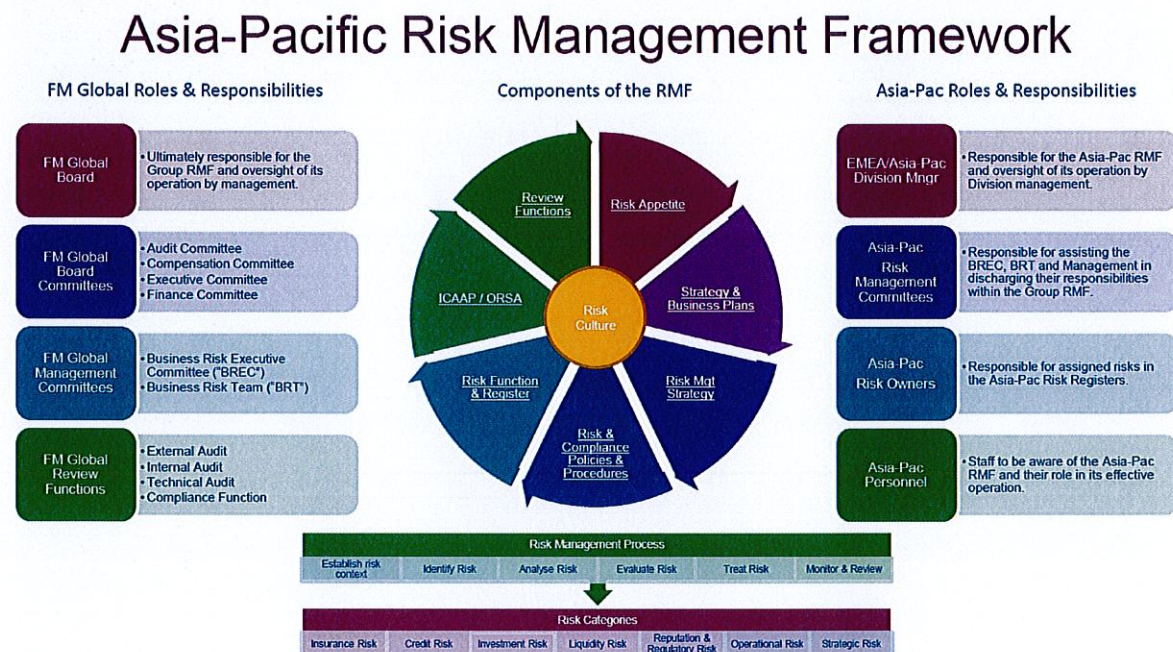
19. Risk management framework

(a) Governance framework

The risk management framework enables FMIC in the Asia-Pacific region, including the Branch, to appropriately develop and implement strategies, policies, procedures and controls to manage different types of material risks. The risk management framework encompasses the systems, structures, policies, processes and people within the operations that identify, measure, monitor, report and control or mitigate all internal and external sources of material risk. Material risks are those that could have a material impact, both financial and non-financial, on operations or the interests of policyholders. The risk management framework provides reasonable assurance that each material risk to operations is being prudently and soundly managed, having regard to the size, business mix and complexity of operations.

The Asia-Pacific risk management framework covers all entities within the region and is summarised in Figure 1 below.

Figure 1



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(b) Capital management

The Reserve Bank of New Zealand (RBNZ) is the prudential regulator of the Branch in New Zealand. The RBNZ has exempted the Branch from the need to comply with local solvency requirements described in section 55 of the Insurance (Prudential Supervision) Act 2010, in accordance with section 59 of the Act. These exemptions mean that reliance is placed on the prudential supervision, capital management practices and solvency outcomes of the Company in its home jurisdiction, rather than of the Branch.

The regulatory solvency position of the Company is as follows:

	2018 \$'000	2017 \$'000
Actual capital resources	16,745,518	17,615,580
Capital resources requirement	(2,536,203)	(2,525,296)
Solvency margin	<u>14,209,315</u>	<u>15,090,284</u>
Solvency ratio	<u>660%</u>	<u>698%</u>

The solvency position reported above is converted from the Company's functional currency of USD to NZD using the spot rate published by the RBNZ as at the reporting date.

(c) Regulatory framework

A key consideration for the prudential regulator is in protecting the rights of policyholders and monitoring the activities of the Branch to ensure that the Branch is satisfactorily managing affairs for their benefit. The prudential regulator is also interested in ensuring an appropriate solvency position is maintained to meet losses arising from economic shocks or natural disasters.

(d) Asset liability management

Financial risks may arise from interest rate and currency exposures. The Branch manages these risks within an asset liability management framework by ensuring that net technical reserves are approximately matched by backing cash and investments.

20. Insurance and financial risk

(a) Insurance risk

i. Overview

The Branch issues only commercial property general insurance contracts. Risks associated with such contracts may vary in relation to the location of the risk, type of risk insured and by industry. Such risks may arise from exposures to fire or natural disasters such as windstorm, flood or earthquake.

The principal risk the Branch faces under insurance contracts is that the actual claims and benefit payments or timing thereof, differ from expectations. This is influenced by the frequency of claims, severity of claims and actual benefits paid. Therefore, an objective of the Branch is to ensure that sufficient reserves are available to cover these liabilities

The risk exposure is mitigated by careful selection and implementation of underwriting guidelines, as well as reinsurance arrangements. A key purpose of these underwriting and reinsurance strategies is to limit exposure to large losses or catastrophe event losses based on the Branch's risk appetite and tolerances. The Branch has a tolerance limit to restrict the impact of large losses or catastrophe event losses such that the combined ratio of the Branch does not exceed 125% in any given year.

Reinsurance includes participation in the Group's worldwide Excess of Loss programme, various automatic facilities, facultative reinsurance, client captive reinsurance and the Branch's intercompany stop loss reinsurance treaty with related party entity Affiliated FM Insurance Company. Amounts recoverable from reinsurers are estimated in a manner consistent with the outstanding claims provision and are in accordance with the reinsurance contracts. Although the Branch has reinsurance arrangements, it is not relieved of its direct obligations to its policy holders and thus credit exposure exists with respect to ceded insurance, to the extent that any reinsurer is unable to meet its obligations assumed under such reinsurance agreements. With the exception of the intercompany stop loss reinsurance treaty, the placement of reinsurance is diversified such that it is not dependent on a single reinsurer.

Risk exposure is also mitigated by claim assessment policies for all new and ongoing claims, regular detailed review of claims handling procedures, active management of claims and prompt settlement of liabilities. Inflation risk is mitigated by taking expected inflation into account when estimating insurance contract liabilities.

ii. [Process to determine outstanding claims liabilities](#)

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.

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.

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iii. Key assumptions

The table below summarises a number of the key assumptions made by the appointed actuary in determining the outstanding claims liability.

	2018 %	2017 %
Loss adjustment expenses rate (to net incurred claims)	4.53%	4.52%
Indirect claim management expenses rate (to gross outstanding claims provision)	4.94%	4.99%
Inflation rate	2.67%	2.51%
Discount rate	1.99%	1.92%
Risk margin rate	24.57%	18.82%

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.

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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.

iv. Sensitivities

The claim liabilities are sensitive to the key assumptions in the tables below. It has not been possible to quantify the sensitivity of certain assumptions such as legislative changes or uncertainty in the estimation process. The following analysis is performed for reasonably possible movements in key assumptions with all other assumptions held constant, showing the impact on gross and net liabilities. The correlation of assumptions will have a significant effect in determining the ultimate claims liabilities, but to demonstrate the impact due to changes in assumptions, each assumption has been changed on a stand-alone basis. It should be noted that movements in these assumptions are non-linear. 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 Profit or Loss.

Item	Effect
Increase discount rate by 0.3%	Reduce outstanding claim liabilities by \$0.030 million (0.3% of outstanding claims central estimates)
Increase inflation rate by 2%	Increase outstanding claim liabilities by \$0.188 million (2.1% of outstanding claims central estimates)
Increase risk margin by 5%	Increase outstanding claim liabilities by \$0.352 million (4.0% of outstanding claims central estimates)
Change incremental incurred cost movement for development quarter 2 for FMG to \$2.5 million	Increase outstanding claim liabilities by \$2.513 million (28.7% of outstanding claims central estimates)
Change incremental incurred cost movement for development quarter 2 for FMG to \$0.015 million	Reduce outstanding claim liabilities by \$0.613 million (7.0% of outstanding claims central estimates)
Change incremental incurred cost movement for development quarter 2 for AFM to \$1 million	Increase outstanding claim liabilities by \$0.765 million (8.7% of outstanding claims central estimates)
Change incremental incurred cost movement for development quarter 2 for AFM to \$0.05 million	Reduce outstanding claim liabilities by \$0.419 million (4.8% of outstanding claims central estimates)
Approximate impact of a 25% adverse movement in exchange rates (approx 15% claims impacted)	Increase outstanding claim liabilities by \$0.329 million (3.8% of outstanding claims central estimates)

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v. Claims development table

The following tables show the estimates of cumulative incurred claims at central estimate (including claims notified and IBNR, inflated and discounted), for each successive accident year at each reporting date, together with cumulative payments to date.

Gross outstanding claims provision

Accident year	Before						Total
	2014 \$000	2014 \$000	2015 \$000	2016 \$000	2017 \$000	2018 \$000	
At end of accident year	-	-	-	63,402	4,682	9,436	
One year later	-	-	-	60,199	5,809		
Two years later	-	-	-	61,754			
Three years later	-	-	-				
Four years later	-	-					
Five or more years later	-						
Current estimate of cumulative claims incurred	-	-	-	61,754	5,809	9,436	77,000
Cumulative payments	-	-	-	61,676	5,807	2,256	69,739
Outstanding claims (Inflated and Undiscounted)				78	2	7,181	7,261
Discount							(0.081)
Loss adjustment expense							0.321
Claims handling expense							0.350
Outstanding claims (Inflated and Discounted)	-	-	-	-	-	-	7,751
% Surplus / (deficiency) of initial gross reserve	-	-	-	-	-	-	9.43%

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Net outstanding claims provision

	Before						
Accident year	2014	2014	2015	2016	2017	2018	Total
	\$000	\$000	\$000	\$000	\$000	\$000	\$000
At end of accident year	-	-	-	16,975	3,146	7,998	
One year later	-	-	-	13,728	2,853		
Two years later	-	-	-	15,154			
Three years later	-	-	-				
Four years later	-	-					
Five or more years later	-						
Current estimate of cumulative claims incurred	-	-	-	15,154	2,853	7,998	26,005
Cumulative payments	-	-	-	15,000	2,850	1,597	6,557
Outstanding claims (Inflated and Undiscounted)				154	3	6,401	6,557
Discount							(163)
Loss adjustment expense							289
Claims handling expense							350
Prudential Margin							1,728
Outstanding claims (Inflated and Discounted)	-	-	-	-	-	-	8,761
% Surplus / (deficiency) of initial net reserve	-	-	-	-	-	-	25.21%

(b) Financial risk

i. Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

The Branch is primarily exposed to credit risk via premium receivables from policy holders, reinsurance receivables from reinsurers, and deposit accounts with financial institutions.

Various policies and procedures are in place to prevent, minimise or mitigate exposure to credit risk, including:

- Premium receivables ageing analysis is performed regularly with overdue premiums actively pursued; and

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- Reinsurance is placed with counterparties that have good credit rating and concentration of risk is avoided by following guidelines in respect of counterparty limits that are set and reviewed annually by the reinsurance committee. Reinsurance placed with client captive reinsurers, which are unrated, is subject to policy clause conditions that prevent settlement of a claim by the Branch until the client captive reinsurer has settled its share of the loss to the Branch. Reinsurance placed with related party reinsurer Affiliated FM Insurance Company, which enjoys the same rating of the parent, may give rise to concentration of risk from time to time in the event the stop loss attachment point is reached; and
- Deposit accounts are all held with highly rated financial institutions.

The tables below provide information regarding the credit risk exposure of the Branch by classifying reinsurance receivables and deposit accounts by counterparty rating as published by rating agency Fitch. All amounts are shown before any allowance for impairment.

For the year ended 31 December 2017

	AAA \$	AA \$	BBB \$	BB \$	Not rated \$	Total \$
Reinsurance receivables	-	-	-	-	-	-
Deposit accounts	-	37,339,565	-	-	-	37,339,565
Total	-	37,339,565	-	-	-	37,339,565

For the year ended 31 December 2018

	AAA \$	AA \$	BBB \$	BB \$	Not rated \$	Total \$
Reinsurance receivables	-	2,385,381	-	464,955	-	2,850,336
Deposit accounts	-	41,045,455	-	-	-	41,045,455
Total		43,430,836	-	464,955	-	43,895,791

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The tables below provide information regarding the credit risk exposure of the Branch by classifying premium and reinsurance receivables by age. All amounts are shown before any allowance for impairment.

For the year ended 31 December 2017

	< 90 days	90 – 120 days	120 – 150 days	150 – 180 days	>180 days	Total
	\$	\$	\$	\$	\$	\$
Premium receivables	3,134,796	456,494	45,247	12,151	44,656	3,693,344
Reinsurance receivables	-	-	-	-	-	-
Total	3,134,796	456,494	45,247	12,151	44,656	3,693,344

For the year ended 31 December 2018

	< 90 days	90 – 120 days	120 – 150 days	150 – 180 days	>180 days	Total
	\$	\$	\$	\$	\$	\$
Premium receivables	4,722,658	166,630	150,839	(4,061)	49,982	5,086,048
Reinsurance receivables	2,443,159	-	-	-	407,177	2,850,336
Total	7,165,817	166,630	150,839	(4,061)	457,159	7,935,384

The table below provides information regarding impairment allowances for premium receivables and reinsurance receivables. No collateral is held as security for any premium or reinsurance receivable balances.

	2018 \$	2017 \$
At 1 January	134,389	-
Charge for the year	(80,667)	134,389
Amounts recovered	-	-
Amounts written off	-	-
At 31 December	53,722	134,389

ii. Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset. In respect of catastrophe claim events there is also a liquidity risk associated with the timing differences between gross cash outflows and expected reinsurance recoveries.

Various policies and procedures are in place to prevent, minimise or mitigate exposure to liquidity risk, including:

- An Asia-Pacific region liquidity risk policy. The policy includes guidelines for asset allocations and maturity profiles of assets. The policy is reviewed annually for relevance and changes in the risk environment. The policy is approved by the Risk Management Committee (RMC) and forms part of the Risk Management Framework of the region. Any liquidity risk breaches are reported to the RMC;
- The intercompany stop loss reinsurance treaty with Affiliated FM Insurance Company provides for quarterly (or more frequent) settlement in the event the combined ratio of the Branch exceeds the attachment point of 125%; and
- Contingency funding plans are in place, including access to the capital of the Company.

iii. Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: currency risk, interest rate risk and price risk.

Various policies and procedures are in place to prevent, minimize or mitigate exposure to market risk, including an Asia-Pacific region market and investment risk policy. The policy is reviewed annually for relevance and changes in the risk environment. The policy is approved by the Risk Management Committee (RMC) and forms part of the Risk Management Framework of the region. Any market risk breaches are reported to the RMC.

Currency risk

Currency risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Branch's principal transactions are carried out in NZD and its exposure to foreign exchange risk arise primarily with respect to the US dollar (USD). In order to ensure that assets and liabilities are highly correlated with changes in currency movements, deposits that match technical provisions shall generally be held in the typical currency profile of the Branch's technical provisions, except where required to match specific short-term liabilities in another currency. Deposits held in excess of those required to match technical provisions may be converted into USD in order to limit the currency risk of the FM Global group. In doing so, it is acknowledged that the business may therefore be exposed to residual currency risk at a local level. This risk is tolerated subject to the ongoing requirement to ensure adequate regulatory solvency

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levels are maintained. The Branch will not use derivatives, hedging or other financial transactions to reduce this residual currency risk exposure at a local level.

The tables below provide information regarding the currency risk exposure of the Branch by classifying the Branch's assets and liabilities by major currencies. All amounts are unhedged. All amounts have been converted to NZD at the rate of exchange prevailing for the financial year ended.

For the year ended 31 December 2017

	NZD	USD	Other	Total
	\$	\$	\$	\$
Assets				
Deferred tax assets	-	-	-	-
Plant & Equipment	-	-	-	-
Reinsurance assets	30,800,331	1,745,441	280,540	32,826,312
Current tax assets	-	-	-	-
Deferred reinsurance expense	-	-	-	-
Insurance receivables	2,521,428	890,063	281,853	3,693,344
Other receivables	2,146,965	(832,609)	872,929	2,187,285
Accrued income	-	-	-	-
Prepaid Expenses	-	-	-	-
Cash and short-term deposits	28,955,459	6,745,799	1,638,306	37,339,564
Total assets	64,424,183	8,548,694	3,073,628	76,046,505
Liabilities				
Deferred tax liabilities	-	-	-	-
Insurance contract liabilities	54,646,709	2,790,398	904,939	58,342,046
Deferred fee and commission income	470,774	34,989	70,102	575,865
Current tax liabilities	-	-	-	-
Insurance payables	2,357,764	299,388	152,342	2,809,494
Trade payables and accruals	377,835	20,306	60,473	458,614
Total liabilities	58,853,082	3,145,081	1,187,856	62,186,109

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For the year ended 31 December 2018

	NZD	USD	Other	Total
\$	\$	\$	\$	\$
Assets				
Deferred tax assets	-	-	-	-
Plant & Equipment	-	-	-	-
Reinsurance assets	3,795,001	814,711	212,959	4,822,671
Current tax assets	-	-	-	-
Deferred reinsurance expense	-	-	-	-
Insurance receivables	7,117,296	1,025,953	(206,865)	7,936,384
Other receivables	-	-	-	-
Accrued income	-	-	-	-
Prepaid Expenses	-	-	-	-
Cash and short-term deposits	21,630,438	8,016,237	11,398,780	41,045,455
Total assets	32,542,735	9,856,901	11,404,874	53,804,510
Liabilities				
Deferred tax liabilities	-	-	-	-
Intercompany payable	23,522,074	1,693,664	1,116,185	26,331,923
Deferred fee and commission income	544,014	45,692	51,274	640,981
Current tax liabilities	-	-	-	-
Intercompany payables	5,195	100,389	9,338,290	9,443,874
Trade and other payables	2,877,385	727,901	124,858	3,730,144
Accrued expenses	373,950	80,206	151,010	605,166
Total liabilities	27,322,618	2,647,852	10,781,617	40,752,088

The table below demonstrates the Branch's sensitivity to reasonably possible movements in the exchange rate for USD to NZD, showing the impact on profit before tax, with all other variables held constant.

Currency	Change in ROE %	2018 \$	2017 \$
USD	+10%	720,905	540,361
USD	- 10%	(655,368)	(491,237)

Interest rate risk

Interest rate risk is the risk that the fair value or future cashflows of a financial instrument will fluctuate because of changes in market interest rates. In order to ensure that assets and liabilities are highly correlated with changes in interest rate movements, deposits that match technical provisions shall generally be held in at call or short duration term deposits (of no more than twelve months duration), broadly consistent with the short tail settlement profile of the Branch's technical provisions.

Head Office Account price risk

Head Office Account price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in Head Office Account prices (other than those arising from interest rate or foreign exchange rate risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or by factors affecting all similar financial instruments traded in the market. The Branch may not hold equities, thus avoiding Head Office Account price risk. The Branch may only hold financial instruments of the following types:

- Bonds (national and/or local government or utility bonds);
- Term deposits; and
- At call accounts.

(c) Operational risks

Operational risk is the risk of loss arising from system failure, human error, fraud or external events. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications or can lead to financial loss. The Branch cannot expect to eliminate all operational risks, but by maintaining a rigorous risk management and control framework and by monitoring and responding to potential risks, the Branch is able to effectively manage those risks. Controls include segregation of duties, access controls, authorisation and reconciliation procedures, staff training and assessment processes, including the use of internal audit. Business risks such as changes in environment, technology and the industry are monitored through the Branch's risk register.

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21. Cash generated from operating activities

	2018 \$	2017 \$
Net change in operational assets:		
Net change in reinsurance assets	28,003,641	25,439,208
Net change in insurance receivables	(4,323,704)	18,372,098
Net change in other operational assets	-	-
Total	23,679,937	43,811,306
Net change in operational liabilities:		
Net change in insurance contract liabilities	(31,945,008)	(35,989,913)
Net change in insurance payables	1,016,976	36,813
Net change in other operational liabilities	11,681,383	(6,803,555)
Total	(19,246,649)	(42,778,161)

22. Contingencies and commitments

(a) Legal proceedings and regulations

The Branch operates in the insurance industry and may be subject to legal proceedings in the normal course of business. There are no current contingencies associated with legal proceedings.

The Branch is also subject to insurance solvency regulations with the prudential regulator. There are no current contingencies associated with the Branch's compliance or lack of compliance with such regulations.

(b) Capital commitments

The Branch has no capital commitments at the reporting date.

23. Related party disclosures

(a) Transactions with related parties

The Branch enters into transactions with related party entities in the normal course of business. Transactions with related parties are made on terms equivalent to those that prevail in arm's length transactions.

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Details of transactions carried out during the year with related parties are, as follows:

		2018 \$	2017 \$
Income from related parties:			
Reinsurance Recoveries	AFFILIATED FM INS. CO.	-	-
Reinsurance Recoveries	RISK ENGINEERING INSURANCE COMPANY LTD.	-	-
Reinsurance Recoveries	NEW PROVIDENT MUTUAL LTD.	-	-
Sub-Total Reinsurance Recoveries		-	-
Expense Recovery	FACTORY MUTUAL INSURANCE COMPANY	-	-
Expense Recovery	Other Group related parties	-	-
Sub-Total Expense Recoveries		-	-
Total income		-	-
Expenses to related parties:			
Ceded Premium	AFFILIATED FM INS. CO.	(3,349,428)	(3,024,948)
Ceded Premium	RISK ENGINEERING INSURANCE COMPANY LTD.	(1,110,099)	(1,136,681)
Ceded Premium	NEW PROVIDENT MUTUAL LTD.	(25,679)	(16,345)
Sub-Total Ceded Premium		(4,485,206)	(4,177,974)
Expense Allocation	FACTORY MUTUAL INSURANCE COMPANY	(5,736,999)	(5,575,919)
Expense Allocation	Other Group related parties	-	-
Sub-Total Expense Allocation		(5,736,999)	(5,575,919)
Total expenses		(10,222,205)	(9,753,893)

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(b) Balances with related parties

Head Office related party balances are no more than 12 months old and carrying value approximates fair value. Details of receivables from and payables to related parties are, as follows:

		2018 \$	2017 \$
Receivables from related parties:			
Insurance receivables	AFFILIATED FM INS. CO.	(3,161,597)	-
Insurance receivables	RISK ENGINEERING INSURANCE COMPANY LTD.	-	-
Insurance receivables	NEW PROVIDENT MUTUAL LTD.	-	-
Sub-Total Insurance Receivables		(3,161,597)	-
Insurance contract assets	AFFILIATED FM INS. CO.	-	-
Insurance contract assets	RISK ENGINEERING INSURANCE COMPANY LTD.	456,549	432,138
Insurance contract assets	NEW PROVIDENT MUTUAL LTD.	5,853	4,033
Sub-Total Insurance Contract Assets		462,402	436,171
Expense Recovery	FACTORY MUTUAL INSURANCE COMPANY	-	-
Expense Recovery	Other Group related parties	-	-
Sub-Total Expense Recoveries		-	-
Total receivables		(2,699,195)	436,171

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Payables to related parties:

Insurance payables	AFFILIATED FM INS. CO.	(931,801)	(868,368)
Insurance payables	RISK ENGINEERING INSURANCE COMPANY LTD.	(306,336)	(324,804)
Insurance payables	NEW PROVIDENT MUTUAL LTD.	-	4,016
Sub-Total Insurance Payables		(1,237,637)	(1,189,156)
Expense Allocation	FACTORY MUTUAL INSURANCE COMPANY	(1,786,222)	(420,458)
Expense Allocation	Other Group related parties	-	-
Sub-Total Expense Allocation		(1,786,222)	(420,458)
Intercompany charges	FACTORY MUTUAL INSURANCE COMPANY	(7,695,953)	2,600,595
Intercompany charges	Other Group related parties	-	-
Sub-Total Intercompany charges		(7,695,953)	2,600,595
Total payables		(10,719,812)	990,981

(c) Compensation of key management personnel

[The Branch did not bear the remuneration of key management personnel in respect of their services rendered during the financial year. Key management personnel are employed by other reporting entities in the FMIC Group]

24. Standards issued but not yet effective

The Branch has not adopted the following standards applicable to the Branch that have been issued but not yet effective:

<i>Description</i>	<i>Effective for annual periods beginning on or after</i>
NZ IFRS 17 Insurance Contracts	1 January 2022

The nature of the impending changes in accounting policy on adoption of the standards above are described below:

(a) IFRS 17 Insurance contracts

Contracts, a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. NZ IFRS 17 provides a comprehensive model (the general model) for insurance contracts, supplemented by the variable fee approach for contracts with direct participation features that are substantially investment-related service contracts, and the premium allocation approach mainly for short duration which typically applies to certain non-life insurance contracts.

The overall objective of NZ IFRS 17 is to provide an accounting model for insurance contracts that is more useful and consistent for insurers. In contrast to the requirements in NZ IFRS 4, which are largely based on grandfathering previous local accounting policies, NZ IFRS 17 provides a comprehensive model, supplemented by:

- a specific adaptation for contracts with direct participation features (the variable fee approach); and
- a simplified approach (the premium allocation approach) mainly for short-duration contracts.

NZ IFRS 17 is effective for annual reporting periods beginning on or after 1 January 2022, with comparative figures required. Early application is permitted, provided the entity also applies NZ IFRS 9 and NZ IFRS 15 on or before the date it first applies NZ IFRS 17. Retrospective application is required. However, if full retrospective application for a group of insurance contracts is impracticable, then the entity is required to choose either a modified retrospective approach or a fair value approach.

The Branch is evaluating the impact of the new standard on its financial statements and related disclosures and plans to adopt the new standard on the required effective date together with NZ IFRS 9.

Appointed actuary's report to the Directors of Factory Mutual Insurance Company – 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 Factory Mutual Insurance Company (New Zealand) ("FMIC (NZ)") for the year ended 31 December 2018.

The financial statements were authorised for issue by the Board of Directors of Factory Mutual Insurance Company ("FMIC (US)") on 11 April 2019 and the accompanying independent auditors' report was issued on 11 April 2019.

Name of appointed actuary conducting the review

I, Daniel Smith, 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 FMIC (NZ).

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

Exemption from solvency standard

FMIC (US) 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 5 October 2015. I understand that under this exemption, the Reserve Bank of New Zealand considers the solvency of FMIC (NZ) based on the solvency requirements of FMIC (US) under the regulatory requirements of the State of Rhode Island. I have been provided with a Letter of Representation from the Chairman of FMIC (US) to the independent auditors of FMIC (US), which attests that FMIC (US) has complied with the rules and requirements of the State of Rhode Island and Providence Plantations Department of Business Regulation relating to statutory-basis financial information for the period covered by the financial statements for the year ended 31 December 2018. I have not reviewed the calculations underlying the solvency data supplied to the State of Rhode Island but have relied on the attestation of FMIC (US) and the report of the auditors as to their accuracy.

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 2018 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 FMIC (NZ) in a Financial Condition Report dated 8 April 2019.

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 FMIC (NZ).

Opinion

In my opinion:

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

Scope and limitations of review

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



Daniel Smith

Fellow of the New Zealand Society of Actuaries

11 April 2019

