



**REPORTS AND FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2010**

**CONTENTS**

	<b><u>PAGE</u></b>
Directors' Report	2
Auditors' Report	3
Statement of Comprehensive Income	5
Statement of Changes in Head Office Account	6
Statement of Financial Position	7
Notes to the Financial Statements	8 – 17



## DIRECTORS' REPORT

The Directors present their annual report together with the audited Financial Statements for the year ended 31 December 2010.

**RESULT:** The loss for the period after tax was \$(1,342,028).

**DIVIDEND:** The Directors recommend that no dividend be paid.

**AUDITORS:** In terms of the Companies Act 1993, Ernst & Young are to continue in office as the Branch's auditors.

<b><u>APPROPRIATIONS:</u></b>	Surplus after tax for the twelve months	(1,342,028)
	Less: Net Repatriations,	
	Unrealised Gain / (Loss) on Investments	Nil
	Accumulated surplus brought forward	<u>(377,063)</u>
		<u>(1,719,091)</u>

**ACTIVITIES:** The principal activities during the year were those of insurance underwriting and investment.

**DIRECTORS INTERESTS  
IN TRANSACTIONS:**

Directors have no interests to declare in the transactions of the twelve months ended 31 December 2010.

**ON BEHALF OF THE BOARD**



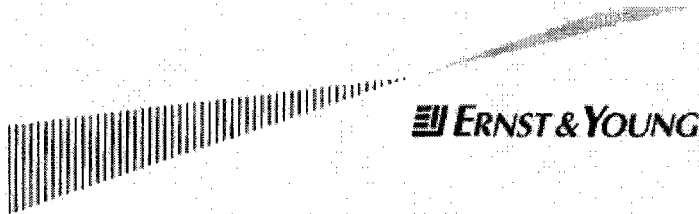
Director

Date 26 May 2011



Director

Date 26 May 2011



Ernst & Young Building  
8 Exhibition Street  
Melbourne VIC 3000 Australia  
GPO Box 67 Melbourne VIC 3001  
Tel: +61 3 9288 8000  
Fax: +61 3 8650 7777  
www.ey.com/au

#### **Independent Auditor's Report**

**To the Directors of FM Insurance Company Limited**

#### **Report on the Financial Statements**

We have audited the financial statements of the New Zealand branch of FM Insurance Company Limited on pages 5 to 17, which comprise the statement of financial position of the New Zealand branch of FM Insurance Company Limited as at 31 December 2010, and the statement of comprehensive income, and statement of changes in head office account 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 directors, 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 directors 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 directors 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 judgment, 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.

Liability limited by a scheme approved  
under Professional Standards Legislation



**Opinion**

In our opinion, the financial statements on pages 5 to 17:

- ▶ 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 2010 and its financial performance for the year then ended.

*Ernst & Young*

Ernst & Young  
Melbourne  
26 May 2011

**FM INSURANCE COMPANY LTD - NEW ZEALAND**

**STATEMENT OF COMPREHENSIVE INCOME**

**FOR THE YEAR ENDED 31 DECEMBER 2010**

	<b>Notes</b>	<b>2010</b> <b>\$</b>	<b>6 months</b> <b>ended</b> <b>2009</b> <b>\$</b>
Gross written premiums		<b>16,325,497</b>	11,399,750
Movements in unearned premiums		<u><b>(217,446)</b></u>	<u>(6,590,134)</u>
<b>Gross earned premium</b>		<b>16,108,051</b>	<b>4,809,616</b>
Reinsurance expense		<u><b>(11,207,231)</b></u>	<u>(3,367,487)</u>
<b>Net premium revenue</b>		<b>4,900,820</b>	<b>1,442,129</b>
Claims expense	3	<b>(67,225,695)</b>	(1,419,971)
Reinsurance recoveries		<u><b>62,145,008</b></u>	<u>180,583</u>
<b>Net claims expense</b>		<b>(5,080,687)</b>	<b>(1,239,388)</b>
<b>Acquisition costs</b>		<u><b>Nil</b></u>	<u><b>Nil</b></u>
<b>Underwriting result</b>		<b>(179,867)</b>	<b>202,741</b>
Operating expenses	4	<b>(1,045,338)</b>	(774,534)
Investment income	5	<u><b>44,775</b></u>	<u>33,132</u>
<b>Net surplus / (loss) before tax</b>		<b>(1,180,430)</b>	<b>(538,661)</b>
Taxation benefit / (expense)	6	<u><b>(161,598)</b></u>	<u>161,598</u>
<b>Profit / (loss)</b>		<u><b>(1,342,028)</b></u>	<u><b>(377,063)</b></u>
<b>Total comprehensive income attributable to parent</b>		<u><b>(1,719,091)</b></u>	<u><b>(377,063)</b></u>

*The attached notes on pages 8 to 17 form part of, and should be read in conjunction with, these financial statements.*

**FM INSURANCE COMPANY LTD - NEW ZEALAND**

**STATEMENT OF CHANGES IN HEAD OFFICE ACCOUNT**

**FOR THE YEAR ENDED 31 DECEMBER 2010**

	<b>2010</b>
	<b>\$</b>
<b>Deemed Equity as at 31 December 2009</b>	(377,063)
<b>Profit/(Loss) for the year</b>	<u>(1,342,028)</u>
<b>Deemed Equity as at 31 December 2010</b>	<u>(1,719,091)</u>

*The attached notes on pages 8 to 17 form part of, and should be read in conjunction with, these financial statements, together with the Auditors' Report on page 3.*

# FM INSURANCE COMPANY LTD - NEW ZEALAND

## STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2010

	Notes	2010 \$	2009 \$
<b>Current Assets</b>			
Insurance Receivables	7	12,819,946	2,051,547
Unearned Premium R/I		4,785,700	4,612,338
Outstanding Claims R/I	12	50,861,076	103,057
Tax Assets	6	-	161,598
Investments	8	525,473	523,052
<b>TOTAL ASSETS</b>		<u>68,992,195</u>	<u>7,451,592</u>
<b>Current Liabilities</b>			
Bank / Intercompany A/C		(1,057,175)	449,828
Insurance and Other Payables	9	(2,173,777)	(785,215)
Outstanding Claims	12	(60,672,754)	(903,134)
Unearned Premium	13	(6,807,580)	(6,590,134)
<b>TOTAL LIABILITIES</b>		<u>(70,711,286)</u>	<u>(7,828,655)</u>
<b>NET ASSETS</b>		<u>(1,719,091)</u>	<u>(377,063)</u>
<b>DEEMED EQUITY: HEAD OFFICE ACCOUNT</b>		<u>(1,719,091)</u>	<u>(377,063)</u>

The attached notes on pages 8 to 17 form part of, and should to be read in conjunction with, these financial statements

## **FM INSURANCE COMPANY LTD - NEW ZEALAND**

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010

### **NOTES TO THE FINANCIAL STATEMENTS**

#### **1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

These financial statements have been prepared for the New Zealand operations of FM Insurance Company Ltd (Australian Branch), which is incorporated in the United Kingdom.

##### **Corporate Information**

FM Insurance Company Ltd incorporated in the United Kingdom, is the Branch's immediate parent company. Factory Mutual Insurance Company incorporated in United States of America, is the Branch's ultimate holding company.

##### **Financial Reporting Framework**

The financial report has been prepared in accordance with the Companies Act 1993 and the Financial Reporting Act 1993.

##### **Statement of Compliance**

The financial report has been prepared in accordance with NZ GAAP. It complies with the New Zealand equivalents to International Financial Reporting Standards (NZ IFRS) and other applicable Financial Reporting Standards as appropriate for profit oriented entities that qualify for and apply differential reporting concessions. The branch is a profit oriented entity.

##### **Differential Reporting**

The Branch qualifies for differential reporting exemptions as described in the Framework for Differential Reporting issued by the Institute of Chartered Accountants New Zealand because the Branch is not publicly accountable and there is no separation between the shareholders and the governing body. The Branch has elected to apply all available exemptions except those available under IAS 12 Income Taxes and IAS 18 which allows revenue and expenses to be recognised inclusive of goods and services tax.

##### **Registered Office**

C/- KPMG Centre  
18 Viaduct Harbour Avenue  
Auckland 1010

##### **Insurance Contract**

All of the insurance products offered or utilised by the Branch meet the definition of insurance contracts under the New Zealand equivalents to International Financial Reporting Standards, and are accounted for and reported in accordance with these standards.

These products do not contain embedded derivatives or deposits that are required to be unbundled.

##### **Basis of Preparation**

The financial statements have been prepared in accordance with generally accepted accounting practice in New Zealand and the requirements of the Companies Act 1993 and the Financial Reporting Act 1993 on a historical cost basis.

The financial statements have been prepared on a going concern basis.

The financial statements are presented in New Zealand dollars.



## FM INSURANCE COMPANY LTD - NEW ZEALAND

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010

The following particular accounting policies have been applied:

a) Significant Accounting Judgements, Estimates & Assumptions

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts in the financial statements. Management continually evaluates its judgements and estimates in relation to assets, liabilities, contingent liabilities, revenue and expenses. Management bases its judgements and estimates on historical experience and on other various factors it believes to be reasonable under the circumstances, the result of which form the basis of the carrying values of assets and liabilities that are not readily apparent from other sources.

b) s.211 Disclosures

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

c) Foreign Currency Translation

*(i) Functional and presentation currency*

Both the functional currency and presentation currency of FM Insurance Company Ltd – New Zealand Branch is New Zealand dollars (\$).

*(ii) Transactions & balances*

Transactions in foreign currencies are initially recorded in the functional currency by applying the exchange rates ruling at the date of the transaction. Monetary and non-monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date.

d) Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks, and other short term highly liquid investments with original maturities of three months or less.

e) Investments

Both investments and deposits have been designated at fair value through profit and loss. Fair value of government bonds is established by reference to quoted bid prices. Changes in the fair value from the previous reporting date are recognised as realised or unrealised investment gains or losses in profit or loss.

f) Trade and Other Receivables

Premium receivable is recognised as the amount due and is normally settled between 2 months and 12 months. The recoverability of premium receivable is assessed and provision is made for impairment based on objective evidence and having regard to past default experience. Premium receivable is presented on the balance sheet net of any provision for impairment. As at 31 December 2010, there were no provisions required.

g) Acquisition Costs

There were no acquisition costs during the year ended 31 December 2010. Policy acquisition costs comprise the costs of acquiring new business including commission. Where policy acquisition costs are incurred in obtaining general insurance contracts, they are deferred and recognised as assets where they can be reliably measured and where it is probable that they will give rise to premium revenue that will be recognised in subsequent reporting periods.

h) Trade and Other Payables

Trade and other payables are recognised when the Branch becomes obliged to make future payments resulting from the purchase of goods and services. Payables are recognised initially at fair value net of transaction costs.

## FM INSURANCE COMPANY LTD - NEW ZEALAND

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010

#### i) Unearned Premium

Provisions in respect of the proportion of premiums relating to risk in future periods of account are calculated on the straight-line basis over the period of risk.

#### j) Outstanding Claims

The Outstanding Claims provision comprises the estimated costs of claims incurred including indirect claims settlement costs, whether reported or not, and claims not settled at balance date. Reported claims have been assessed in the light of the information available at balance date and after taking account of present value of the expected future payments with an additional risk margin to allow for inherent uncertainty in future settlements. The provision for claims incurred but not reported has been assessed having regard for the Branch's claim performance. The expected future payments include claims handling costs which are to be incurred in settling the insured claims.

#### k) 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 as 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 in the test is recognised in the profit or loss with the corresponding impact on the balance sheet 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 balance sheet as an unexpired risk liability.

#### l) Premium Revenue

Premium revenue for insurance comprises amounts charged to policyholders. The earned portion of premium received and receivable, including unclosed business, is recognised as revenue. The pattern of recognition of income over the policy or indemnity periods is based on time, which closely approximates the pattern of risks underwritten. Unearned premium is determined by apportioning the premiums written over the period of risk from the date of attachment of risk.

#### m) Claims Expense

Claims expenses in respect of general insurance contracts are recognised in profit and loss either as claims are incurred or as movements in outstanding claims owing.

#### n) Investment Income

Interest is accounted for on an accrual basis and recognised in the Statement of Comprehensive Income.

#### o) Taxation

Income tax on the result for a reporting period comprises current and deferred tax. Income tax is recognised in profit or loss except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is calculated by reference to the amount of income taxes payable or recoverable in respect of the taxable profit or tax loss for the period. It is calculated using tax rates and tax laws that have been enacted or substantively enacted by reporting date. Current tax for current and prior periods is recognised as a liability (or asset) to the extent that it is unpaid (or refundable).

Deferred tax is accounted for using the comprehensive balance sheet liability method in respect of temporary differences arising from differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax base of those items.

# FM INSURANCE COMPANY LTD - NEW ZEALAND

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010

In principle, deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets are recognised to the extent that it is probable that sufficient taxable amounts will be available against which deductible temporary differences or unused tax losses and tax offsets can be utilised. However, deferred tax assets and liabilities are not recognised if the temporary differences giving rise to them arise from the initial recognition of assets and liabilities (other than as a result of a business combination) which affects neither taxable income nor accounting profit.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period(s) when the asset and liability giving rise to them are realised or settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by reporting date. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Branch expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Current and deferred tax is recognised as an expense or income in the income statement, except when it relates to items credited or debited directly to equity, in which case the deferred tax is also recognised directly in equity.

### 2. RELATED PARTY TRANSACTIONS

The following table provides the total amount of transactions that were entered into with related parties for the relevant financial year (for information regarding outstanding balances on related party trade receivables and payables at year-end, refer to notes 7 and 9 respectively):

		R/I Premium Paid/Payable to Related Parties	RI Recoverable on Outstanding Claims from Related Parties	R/I Receivable on Paid Claims from Related Parties	Other Transactions with related parties
		\$		\$	\$
FM Insurance Company (Australia) Ltd	2009	-	-	-	1,351,385
- expenses paid for on behalf of the NZ branch	2010	-	-	-	2,194,354
Factory Mutual Insurance Company	2009	4,628,298	-	-	-
- Treaty Reinsurer of the NZ branch	2010	5,707,447	22,017,972	6,247,988	-

Unless otherwise stated, related parties are members of the Factory Mutual Insurance Company 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, interest free and settlement occurs in cash.

**FM INSURANCE COMPANY LTD - NEW ZEALAND**

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010**

**3. CLAIMS EXPENSE**

Current year claims relate to risks borne in the current financial year. Prior year claims relate to a reassessment of the risks borne in all previous financial periods.

	<b>2010</b>	<b>2009</b>
	<b>\$</b>	<b>\$</b>
Current Year	66,716,087	1,419,971
Prior Years	509,608	-
	<u>67,225,695</u>	<u>1,419,971</u>

**4. OPERATING AND ADMINISTRATION EXPENSES**

**Operating and administration expenses comprise:**

	<b>2010</b>	<b>2009</b>
	<b>\$</b>	<b>\$</b>
Allocation of Expenses from the Head Office and Australian Branches	2,194,354	1,351,385
Revaluation of Government Bond	(2,421)	20,040
Commission on Reinsurance	(1,146,595)	(596,891)
	<u>1,045,338</u>	<u>774,534</u>

**Auditor Remuneration:**

	<b>2010</b>	<b>2009</b>
	<b>\$</b>	<b>\$</b>
Audit Fee	20,000	20,000
Other Services	-	-
Tax Compliance	-	-
	<u>20,000</u>	<u>20,000</u>

**5. INVESTMENT INCOME**

	<b>2010</b>	<b>2009</b>
	<b>\$</b>	<b>\$</b>
Interest on Government Stock	32,500	33,132
Other Interest	12,275	-
	<u>44,775</u>	<u>33,132</u>

**FM INSURANCE COMPANY LTD - NEW ZEALAND**

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010

**6. TAXATION**

	<b>2010</b>	<b>2009</b>
	<b>\$</b>	<b>\$</b>
<u>Taxation Expense:</u>		
Profit / ( Loss) before Taxation	(1,180,430)	(538,661)
Current tax benefit @ 30%	-	161,598
Adjustments recognised in the current period in relation to the current tax of prior periods	(161,598)	-
<b>Total Taxation benefit / (expense)</b>	<u>(161,598)</u>	<u>161,598</u>
<u>Taxation Benefit comprises:</u>		
Current tax benefit	-	161,598
Adjustments to current tax relating to prior years	(161,598)	-
<b>Deferred tax Benefit</b>	<u>-</u>	<u>161,598</u>
<u>Current Tax Assets and Liabilities:</u>		
Tax Receivable	-	161,598
Tax Payable	-	-
<b>Deferred Tax Asset / (Liability)</b>	<u>-</u>	<u>161,598</u>

**7. INSURANCE RECEIVABLES**

	<b>Note</b>	<b>2010</b>	<b>2009</b>
		<b>\$</b>	<b>\$</b>
Premium Debtors		1,441,399	1,974,021
Claims R/I Receivable		5,130,559	77,526
Related Party Receivable*	2	<u>6,247,988</u>	<u>-</u>
		<u>12,819,946</u>	<u>2,051,547</u>

\*Related party receivable - All intercompany balances are with Factory Mutual Insurance Company and are due and payable on demand. No interest rates apply to the outstanding amounts.

# FM INSURANCE COMPANY LTD - NEW ZEALAND

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010

## 8. INVESTMENTS

	2010	2009
	\$	\$
<u>Non Current</u>		
Government Bonds	525,473	523,052
	<u>525,473</u>	<u>523,052</u>

## 9. INSURANCE AND OTHER PAYABLES

	Note	2010	2009
		\$	\$
Reinsurance Creditors		(2,153,777)	(785,215)
Audit Fee Payable	4	(20,000)	-
		<u>(2,173,777)</u>	<u>(785,215)</u>

## 10. FINANCIAL INSTRUMENTS

### a) Categories of Financial Instruments

Financial assets carried at fair value through profit or loss has been designated as such upon initial recognition.

	Note	2010	2009
		\$	\$
Cash / Inter company A/C		(1,057,175)	449,828
Receivables	7	12,819,946	2,051,547
Payables	9	(2,173,777)	(785,215)

### b) Foreign Exchange

Monetary and non-monetary assets and liabilities denominated in foreign currencies are translated at exchange rate ruling at the end of the financial year. Exchange differences arising from transactions are taken to the profit and loss account.

### c) Credit Risk

Credit risk refers to the risk that a counter party will default on its contractual obligations resulting in financial loss to the branch.

The Branch has a credit risk exposure to Factory Mutual Insurance Company, the ultimate holding company. The Branch does not have any significant credit risk exposure to any single external counterparty or any group of counterparties having similar characteristics. The maximum exposure to credit risk is the amounts shown in the balance sheet and notes. The maximum credit risk to the Branch is the carrying value of the assets.

# FM INSURANCE COMPANY LTD - NEW ZEALAND

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010

### d) Liquidity Risk

Ultimate responsibility for liquidity risk management rests with the board of directors, who have built an appropriate liquidity risk management framework for the management of the Australian Branch's short, medium and long term funding and liquidity management requirements. The Australian Branch manages liquidity risk by maintaining adequate reserves, banking facilities and other funding facilities by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities. The New Zealand operations of FM Insurance Company Ltd are included within the Australian Branch.

### e) Interest Rate Risk

The Branch is exposed to interest rate risk in that future interest rates movements will affect cash flows:

	Weighted <u>Average</u> %	<u>Total</u> \$	<u>Within</u> <u>1 Year</u> \$	<u>Between</u> <u>3-4 Years</u> \$
Bank / Inter Company				
2009	0%	449,828	449,828	-
2010	1.25%	(1,077,175)	(1,057,175)	-
Government Securities				
2009	6.5%	523,052	-	523,052
2010	6.5%	525,473	-	525,473

### f) Fair Value of Financial Instruments

The carrying value of all financial assets and liabilities approximate to their fair value.

## 11. CAPITAL COMMITMENTS

As at 31 December 2010 there were no capital commitments.

## 12. CLAIMS PROVISIONS

Estimate of Expected Future Payments for Claims Reported including:

	<u>2010</u> \$	<u>2009</u> \$	<u>2010</u> \$	<u>2009</u> \$
	<u>Gross</u>	<u>Gross</u>	<u>Net</u>	<u>Net</u>
Central Estimates	54,081,754	753,944	8,092,678	661,367
Discount	(2,982,000)	(50,514)	(444,000)	(44,311)
Loss Adjustment Expenses	2,003,000	36,039	272,000	31,614
Claims Administration Expenses	2,054,000	56,244	999,000	56,244
Risk Margin	5,516,000	107,421	892,000	95,163
	<u>60,672,754</u>	<u>903,134</u>	<u>9,811,678</u>	<u>800,077</u>

# FM INSURANCE COMPANY LTD - NEW ZEALAND

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010

<u>CLAIMS RESERVE</u>	<u>2010</u>	<u>2009</u>
	\$	\$
At Beginning of the Period	(903,134)	Nil
Claims Incurred	(67,225,695)	(1,419,971)
Claims Settled	7,456,075	516,837
At End of Year	<u>(60,672,754)</u>	<u>(903,134)</u>

## 13. UNEARNED PREMIUM RESERVE

	<u>2010</u>	<u>2009</u>
	\$	\$
At Beginning of Year	(6,590,134)	Nil
Premium Earned	16,108,051	4,809,616
Recognised in Gross Written Premium	<u>(16,325,497)</u>	<u>(11,399,750)</u>
At End of Year	<u>(6,807,580)</u>	<u>(6,590,134)</u>

## 14. LIABILITY ADEQUACY TEST

A liability adequacy test was carried out on the FM Insurance Company Ltd, New Zealand insurance portfolio in the current year in accordance with NZ IFRS 4.

The liability adequacy test identified surpluses; therefore there was no write down of any asset balances.

## 15. INSURER FINANCIAL STRENGTH RATING

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

## 16. EQUITY RETAINED FOR THE PURPOSES OF FINANCIAL SOUNDNESS

The Australian branch retains a level of equity and retained reserves which enable it to maintain an adequate solvency margin for ongoing ability to pay clients. These statements relate to a branch of an overseas company. Its assets are available to support the liabilities of the company outside of New Zealand. The New Zealand operations of FM Insurance Company Ltd are included within the Australian Branch.

## 17. CONTINGENT LIABILITIES

As at 31 December 2010 (and 31 December 2009), there were no contingent liabilities existing at balance date not otherwise provided for in these financial statements.

## 18. SUBSEQUENT EVENTS

No event has arisen since 31 December 2010 which has significantly affected, or may significantly affect, the operations of the branch in future financial years, the results of those operations, or the state of affairs of the company in future financial years.



**FM INSURANCE COMPANY LTD - NEW ZEALAND**

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010**

**19. OPERATING LEASE OBLIGATIONS**

As at 31 December 2010, the Branch had no obligations payable after balance date on non-cancellable operating leases.

**20. FINANCE LEASE LIABILITY**

As at 31 December 2010, the Branch had no obligations payable after balance date on finance leases.

# ***FM Insurance Company Limited***

***Consolidated financial statements  
for the year ended 31 December 2010***

*Registered number: 755780*

*Regulated by the Financial Services Authority*

BUSINESS & REGISTRIES  
BRANCH, AUCKLAND.

27 JUN 2011

RECEIVED

***FM Insurance Company Limited***

***Consolidated financial statements  
for the year ended 31 December 2010***

**Contents**

Directors' report	2 - 5
Auditor's report	6 - 7
Consolidated profit and loss account: technical account - general business	8
Consolidated profit and loss account: non-technical account	9
Consolidated statement of total recognised gains and losses	9
Consolidated balance sheet	10 - 11
Company balance sheet	12 - 13
Notes to the consolidated financial statements	14 - 41

## ***FM Insurance Company Limited***

Registered number: 755780

### ***Directors' report for the year ended 31 December 2010***

The directors present their annual financial statements for the year ended 31 December 2010.

#### **Results and dividends**

The results of the group's operations for the financial year are set out on pages 8 and 9 and the financial position of the group at the end of the financial year is set out on pages 10 and 11.

The directors do not recommend the payment of a dividend (2009: £Nil).

The profit for the year retained in the group is £19,363,000 (2009 profit: £65,966,000).

#### **Principal activities and review of the business**

The Group'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 of the UK and various international branches. The Group is wholly owned by, and places reinsurance with, Factory Mutual Insurance Company located in Johnston, Rhode Island, USA (the "Parent").

Gross premiums written decreased to £766,184,000 from £769,584,000 (0.4%) during the year. The Group made a post tax profit of £19,363,000 during the year. There was a higher frequency of natural catastrophe claims which contributed to a net loss ratio of 92.9% (2009: 52.9%). The expense ratio was 29.4% (2009: 32.7%), including a foreign exchange gain of £7,418,000 (2009: loss of £22,026,000). Realised and unrealised gains on investments amounted to £43,329,000 (2009: gain of £66,904,000) as a result of the general movements in the stock markets.

The profit for the year and other movements described in the Consolidated Statement of Total Recognised Gains and Losses resulted in an overall increase in shareholder's funds of £22,512,000, resulting in total shareholder's funds of £402,347,000 as at 31 December 2010.

A new Spain branch of FM Insurance Company Limited received its insurance licence on 8 June 2010. The branch was registered on 23 September 2010 and commenced trading on 1 January 2011. A new UAE branch of FM Engineering International Limited was registered on 1 September 2010.

The current ratings of the Group are AA (Very Strong) from Fitch Ratings and A+ (Superior) from A.M. Best.

#### **Principal risks and uncertainties**

The Group monitors various risks throughout its international operations including insurance risk, operational risk, credit risk and market risk on an ongoing basis. The principal risks facing the Group are discussed and reviewed regularly at management meetings and meetings of the Board of Directors.

Insurance risk is limited through strict underwriting disciplines, and reinsurance arrangements which limit the maximum possible loss to the Group.

## **FM Insurance Company Limited**

Registered number: 755780

### ***Directors' report for the year ended 31 December 2010 (continued)***

#### **Principal risks and uncertainties (continued)**

The Group invests in US and Australian government bonds, US stock exchange traded equities and with highly-rated banks. Reinsurance is placed with highly rated counterparties.

Operational risk is monitored through the risk register review process. As risks are identified they are included on the risk register, assigned an owner and a score taking into account likelihood, impact, controls and mitigation. They are reviewed and discussed regularly at Risk Management Committee meetings and the Risk Management Committee findings are discussed with the Board.

The Group pro-actively engages in matching the currency denominations of assets to the currencies of known liabilities.

The Group does not consider liquidity and cash-flow to be a major risk given the relatively short-term nature of the investments and the availability of cash from the parent company.

#### **Future developments**

The Group anticipate that market conditions will be such during 2011 that premiums will decrease slightly from 2010 premium levels. The Group expects a relatively consistent geographical mix to 2010. Due to the magnitude of the natural catastrophe events that have occurred in 2011 prior to the date of this report, the Group expects to incur a slight underwriting loss for the year.

#### **Going concern**

The directors believe the Group is able to manage their business risks successfully in any economic environment. Furthermore, the directors have a high expectation that the Group 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 and employees**

The directors who held office during the year and to the date of this report were as follows:

Kenneth W. Davey	Managing Director
Carol Barton	
Ian R. Berg	
Dennis J. Bessant	
Antonius R. H. Bosman	
Jeffrey Burchill	
Omar F. Hameed	
Kevin S. Ingram	
Michael Lebovitz	
Shivan S. Subramaniam	
Stefano Tranquillo	(Resigned 31 March 2010)

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

Details of employees are set out in note 9 to the financial statements.

#### **Political and charitable contributions**

The group made no political contributions during the year. Charitable donations amounted to £30,299 (2009: £34,153).

## **FM Insurance Company Limited**

Registered number: 755780

### **Directors' report for the year ended 31 December 2010 (continued)**

#### **Employee note**

It is the group's policy to treat all employees in the same way, regardless of their sex, sexual orientation, religion or belief, marital status, age, race, ethnic origin or disability, as is stated in our Equal Opportunities Policy. The policy provides for consideration of reasonable adjustments the group might take in the event that an employee becomes disabled, which would include any training that may be needed. Our performance management process includes discussion and agreement with respect to training for career development purposes for all employees, irrespective of sex, sexual orientation, religion or belief, marital status, age, race, ethnic origin or disability.

#### **Insurance of directors**

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

#### **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. Having made enquiries of fellow directors and the group's auditor, each director has taken all the steps that he/she is obliged to take as a director in order to make himself/herself aware of any relevant audit information and to establish that the auditor is aware of that information.

#### **Statement of Directors' responsibilities**

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). The financial statements are required by law to give a true and fair view of the state of affairs of the group and the company and the profit or loss of the group for that period. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable United Kingdom Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the group and the company and to enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the group and company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

***FM Insurance Company Limited***

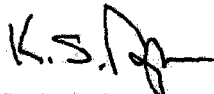
***Registered number: 755780***

***Directors' report  
for the year ended 31 December 2010 (continued)***

**Re-appointment of auditors**

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

**On behalf of the board**



**Kevin S. Ingram  
Finance Director**

*28 March 2011*

## ***FM Insurance Company Limited***

*Registered number: 755780*

### **INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF FM INSURANCE COMPANY LIMITED**

We have audited the financial statements of FM Insurance Company Limited for the year ended 31 December 2010 which comprise the Consolidated Profit and Loss Account, Consolidated Statement of Total Recognised Gains and Losses, Consolidated Balance Sheet, Company Balance Sheet and the related notes 1 to 27. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), having regard to the statutory requirement for insurance companies to maintain equalisation provisions. The nature of the equalisation provision, the amount set aside at the balance sheet date, and the effect of the movement in the provisions during the year on shareholders' funds, the balance on the general business technical account and profit before tax, are disclosed in note 21.

This report is made solely to the Group's member, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Group's member 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 Group and the Group's members as a body, for our audit work, for this report, or for the opinions we have formed.

#### **Respective responsibilities of directors and auditors**

As explained more fully in the Statement of Directors' responsibilities set out on page 4, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

#### **Scope of the audit of the financial statements**

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements.

#### **Opinion on financial statements**

In our opinion the financial statements:

- give a true and fair view of the state of the group's and the parent company's affairs as at 31 December 2010 and of the group's profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

#### **Opinion on other matter prescribed by the Companies Act 2006**

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.



***FM Insurance Company Limited***

*Registered number: 755780*

**INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF FM INSURANCE COMPANY LIMITED (continued)**

**Matters on which we are required to report by exception**

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

*Ernst & Young LLP*

**John Headley (Senior statutory auditor)  
for and on behalf of Ernst & Young LLP, Statutory Auditor  
London**

28 March 2011

**FM Insurance Company Limited**

Registered number: 755780

**Consolidated profit and loss account: technical account – general business  
for the year ended 31 December 2010**

	Notes	2010		2009	
		£000	£000	£000	£000
Gross premiums written	3	766,184		769,584	
Outward reinsurance premiums		(593,052)		(588,436)	
			173,132		181,148
Change in the gross provision for unearned premiums	21	(6,914)		5,114	
Change in the provision for unearned premiums, reinsurers' share	21	4,596		(12,205)	
			(2,318)		(7,091)
<b>Earned premiums, net of reinsurance</b>			<b>170,814</b>		<b>174,057</b>
Other technical income			8,749		8,474
Claims paid					
Gross amount		(378,737)		(336,873)	
Reinsurers' share		248,869		228,091	
		(129,868)		(108,782)	
Change in the provision for claims					
Gross amount	21	(63,050)		65,588	
Reinsurers' share	21	34,145		(48,963)	
		(28,905)		16,625	
<b>Claims incurred, net of reinsurance</b>			<b>(158,773)</b>		<b>(92,157)</b>
Net operating expenses	5		(58,931)		(65,391)
Change in equalisation provision	21		7,024		(5,475)
<b>Balance on the technical account</b>					
- general business			<b>(31,117)</b>		<b>19,508</b>

**FM Insurance Company Limited**

Registered number: 755780

**Consolidated profit and loss account: non-technical account  
for the year ended 31 December 2010**

	Note	2010	2009
		£000	£000
Balance on the technical account - general business		(31,117)	19,508
Other finance income	24	1,399	294
Investment income	4	21,597	13,577
Interest expense	4	—	(8)
Unrealised gains on investments	4	30,964	62,213
<b>Profit on ordinary activities before taxation</b>	6	<b>22,843</b>	<b>95,584</b>
Tax on profit on ordinary activities	10	(3,480)	(29,618)
<b>Retained profit for the financial year transferred to reserves</b>		<b>19,363</b>	<b>65,966</b>

The movements in the year are all in respect of continuing operations.

**Consolidated statement of total recognised gains and losses  
for the year ended 31 December 2010**

	Note	2010	2009
		£000	£000
Profit for the financial year		19,363	65,966
Actuarial (loss)/gain (FRS17)	24	(513)	1,320
Deferred tax on actuarial loss/(gain)		58	(370)
Net currency differences on retranslation of net investments in foreign branches		3,604	10,625
<b>Total recognised profit relating to the year</b>		<b>22,512</b>	<b>77,541</b>

**FM Insurance Company Limited**

Registered number: 755780

**Consolidated balance sheet  
at 31 December 2010**

		2010		2009	
		£000	£000	£000	£000
	Note				
<b>Assets</b>					
<i>Investments</i>					
Other financial investments	12	<u>428,071</u>		<u>344,326</u>	
			428,071		344,326
<i>Reinsurers' share of technical provisions</i>					
Provision for unearned premiums	21	193,594		181,753	
Claims outstanding	21	<u>262,693</u>		<u>225,145</u>	
			456,287		406,898
<i>Debtors</i>					
Debtors arising out of direct insurance operations	13	104,831		83,883	
Debtors arising out of reinsurance operations		41,844		18,195	
Other debtors:	14				
Amounts falling due within one year		10,474		10,181	
Amounts falling due after one year		<u>2,494</u>		<u>1,424</u>	
			159,643		113,683
<i>Other assets</i>					
Tangible fixed assets	16	6,661		6,459	
Cash at bank and in hand	17	<u>140,929</u>		<u>207,850</u>	
			147,590		214,309
<i>Prepayments and accrued income</i>					
Accrued interest and rent		1,107		1,354	
Deferred acquisition costs	21	5,199		5,666	
Other prepayments and accrued income		<u>732</u>		<u>337</u>	
			7,038		7,357
<i>Total assets excluding net pension asset</i>			1,198,629		1,086,573
<i>Net pension asset</i>	24		7,668		4,433
<i>Total assets</i>			<u>1,206,297</u>		<u>1,091,006</u>

**FM Insurance Company Limited**

Registered number: 755780

**Consolidated balance sheet  
at 31 December 2010**

		2010		2009	
		£000	£000	£000	£000
	Note				
<b>Liabilities</b>					
<i>Capital and reserves</i>					
Called up share capital	18	325,000		325,000	
Share premium account	19	978		978	
Profit and loss account	19	76,369		53,857	
Shareholder's funds attributable to equity interests			402,347		379,835
<i>Technical provisions</i>					
Provision for unearned premiums	21	264,094		246,590	
Claims outstanding	21	407,790		340,034	
Equalisation provision	21	—		7,024	
			671,884		593,648
<i>Creditors</i>					
Creditors arising out of direct insurance operations		78,842		60,044	
Other creditors including taxation and social security	22	27,616		33,110	
			106,458		93,154
<i>Accruals and deferred income</i>	23		25,608		24,369
<i>Total liabilities</i>			1,206,297		1,091,006

These financial statements were approved by the board of directors on 22 March 2011 and were signed on its behalf by:

  
**Kevin S. Ingram**  
 Finance Director

**FM Insurance Company Limited**

Registered number: 755780

**Company balance sheet  
at 31 December 2010**

		2010		2009	
	Note	£000	£000	£000	£000
<b>Assets</b>					
<i>Investments</i>					
Other financial investments	12	428,071		344,326	
Investments in subsidiary undertakings	11	50		51	
			428,121		344,377
<i>Reinsurers' share of technical provisions</i>					
Provision for unearned premiums	21	193,594		181,753	
Claims outstanding	21	262,693		225,145	
			456,287		406,898
<i>Debtors</i>					
Debtors arising out of direct insurance operations	13	104,831		83,883	
Debtors arising out of reinsurance operations		41,844		18,195	
Other debtors:	14				
Amounts falling due within one year		9,494		9,702	
Amounts falling due after one year		2,326		1,298	
			158,495		113,078
<i>Other assets</i>					
Tangible fixed assets	16	5,818		6,220	
Cash at bank and in hand	17	139,055		205,473	
			144,873		211,693
<i>Prepayments and accrued income</i>					
Accrued interest and rent		1,107		1,347	
Deferred acquisition costs	21	5,199		5,666	
Other prepayments and accrued income		350		327	
			6,656		7,340
<i>Total assets excluding net pension asset</i>			1,194,432		1,083,386
<i>Net pension asset</i>	24		7,668		4,433
<i>Total assets</i>			1,202,100		1,087,819

**FM Insurance Company Limited**

Registered number: 755780

**Company balance sheet  
at 31 December 2010**

		2010		2009	
	Note	£000	£000	£000	£000
<b>Liabilities</b>					
<i>Capital and reserves</i>					
Called up share capital	18	325,000		325,000	
Share premium account	19	978		978	
Profit and loss account	19	74,373		50,944	
Shareholder's funds attributable to equity interests			400,351		376,922
<i>Technical provisions</i>					
Provision for unearned premiums	21	264,094		246,590	
Claims outstanding	21	407,790		340,034	
Equalisation provision	21	—		7,024	
			671,884		593,648
<i>Creditors</i>					
Creditors arising out of direct insurance operations		78,842		60,044	
Other creditors including taxation and social security	22	26,069		33,548	
			104,911		93,592
<i>Accruals and deferred income</i>	23		24,954		23,657
<i>Total liabilities</i>			1,202,100		1,087,819

These financial statements were approved by the board of directors on 22 March 2011 and were signed on its behalf by:

  
**Kevin S. Ingram**  
 Finance Director

28 March 2011

## ***FM Insurance Company Limited***

### ***Notes to the consolidated financial statements for the year ended 31 December 2010***

#### **1 Basis of preparation**

The consolidated financial statements have been prepared in accordance with the accounting policies set out below and comply with the special provisions relating to insurance companies in accordance with Paragraph 9 and Part 1 of Schedule 6 (as modified by Part 3) of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008, made under Companies Act 2006, relating to insurance groups. The recommendations of the Statement of Recommended Practice on Accounting for Insurance Business issued by the Association of British Insurers in December 2005 as amended in December 2006 have been adopted. The financial statements are prepared in accordance with the applicable UK accounting standards.

Consolidated financial statements have been prepared. These financial statements therefore present information about the company and its subsidiaries as set out in note 11.

No profit and loss account is presented for the company as permitted by section 408 of the Companies Act 2006.

The Group has taken advantage of the exemption under FRS 8 Related Party Disclosures not to disclose transactions with companies in the Factory Mutual Insurance Company (FMIC) group as it is a wholly owned subsidiary of FMIC which publishes consolidated financial statements. The group has taken advantage of the exemption under FRS 1 Cash Flow Statements (Revised) not to prepare a cash flow statement.

#### **2 Accounting policies**

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the group's financial statements.

##### ***Premiums***

Written premiums, gross of commission, comprise the premiums receivable for the period of cover provided by contracts incepting during the financial year, and are stated before commissions, taxes and duties levied on premiums.

Premiums written are accounted for in the year in which the risk incepts and include adjustments to premiums written in prior accounting periods and estimates for binder premiums. Outward reinsurance premiums are accounted for in the same accounting period as the premiums for the related inwards direct insurance business.

##### ***Unearned premiums***

The provision for unearned premiums comprises the amount representing that part of gross premiums written which is estimated to be earned in the following or subsequent financial years, computed separately for each insurance contract using the daily pro rata method.



## ***FM Insurance Company Limited***

### ***Notes to the consolidated financial statements for the year ended 31 December 2010***

#### **2 Accounting policies (continued)**

##### ***Acquisition costs***

Acquisition costs comprise the expenses, both direct and indirect, of acquiring insurance policies incepting during the financial year. Acquisition costs which relate to a subsequent financial year are deferred and charged to the accounting periods in which the related premiums are earned. Deferred acquisition costs represent the proportion of acquisition costs incurred which corresponds to the proportion of gross premiums written which are unearned at the balance sheet date.

##### ***Claims***

Claims incurred includes all claims payments made in respect of the financial period, claims handling expenses and the movement in provision for outstanding claims and claims handling expenses.

##### ***Claims outstanding***

Outstanding claims comprise provisions for the estimated costs of settling all claims incurred up to but not paid at the balance sheet date whether reported or not, together with related claims handling expenses.

The provision for claims outstanding is based on information available at the balance sheet date. Significant delays can be experienced in the notification and settlement of certain claims. Accordingly, the ultimate cost of such claims cannot be known with certainty at the balance sheet date. Subsequent information and events may result in the ultimate liability being different than the amount provided. Any differences between provisions and subsequent settlements are dealt with in the technical account – general business of later years.

##### ***Investment income***

Investment income is accounted for on an accruals basis.

##### ***Gains and losses on investments***

Realised gains or losses represent the difference between net sales proceeds and purchase price. They are reported under Investment income.

Unrealised gains and losses represent the difference between the valuation of investments at the balance sheet date and their purchase price or, if they have been previously revalued, their valuation at the last balance sheet date, together with the reversal of unrealised gains and losses recognised in earlier accounting periods in respect of investment disposals in the current period.

All realised and unrealised gains and losses are taken to the non-technical account in the profit and loss account.

##### ***Equalisation provision***

The equalisation provision is required to be maintained by INSPRU 1.4. The provision is established in addition to the provisions required to meet the estimated costs of settling outstanding claims.

## ***FM Insurance Company Limited***

### ***Notes to the consolidated financial statements for the year ended 31 December 2010***

#### **2 Accounting policies (continued)**

##### ***Investments***

All investments are stated at their current value. Listed investments are stated at mid market value. Investments in subsidiary undertakings are held at cost. Investments are reviewed at each reporting date to assess whether there are any circumstances that might indicate that they are impaired. If such circumstances exist, impairment testing is performed and any resulting impairment losses are charged to the profit and loss account and the carrying value adjusted to the recoverable amount.

##### ***Fixed assets***

Depreciation is provided by the Group to write off the cost less the estimated residual value of tangible fixed assets by instalments over their estimated useful economic lives as follows:

Office equipment	20% of cost per annum
Office furniture	10% of cost per annum
Computer equipment	33.3% or 50% of cost per annum
Motor vehicles	25% of net book value per annum
Leasehold improvements	Over the life of the lease

##### ***Leases***

No leases entail taking substantially all of the risks and rewards of ownership of an asset. Therefore all leases are accounted for as 'operating leases' and the rental charges are charged to the profit and loss account on a straight line basis over the life of the lease.

##### ***Foreign currencies***

Monetary assets and liabilities denominated in foreign currencies are retranslated at exchange rates ruling at the end of the financial year. Non-monetary assets are converted at historical rates. Transactions in foreign currencies are recorded at average rates. Exchange differences arising from transactions are taken to the profit and loss account.

Differences on exchange arising from the retranslation of the opening net investment in overseas branches are taken to reserves.

##### ***Pensions***

The Group operates a number of defined benefit pension schemes. Pension scheme assets are measured at fair value and liabilities are measured on an actuarial basis using the projected unit method and are discounted at the current rate of return of a high quality corporate bond of equivalent term and currency to the liabilities. The increase in the present value of the liabilities of the Group's defined benefit pension schemes expected to arise from employee service in the period is charged to the profit and loss account. The expected return on scheme's assets and the increase during the year in the present value of the scheme's liabilities arising from the passage of time are included in the profit and loss account. Actuarial gains and losses are recognised in the consolidated statement of total recognised gains and losses.

Any pension scheme surplus, to the extent it is considered recoverable, or deficit is recognised in full and presented on the balance sheet.

## ***FM Insurance Company Limited***

### ***Notes to the consolidated financial statements for the year ended 31 December 2010***

#### **2 Accounting policies (continued)**

##### ***Taxation***

Current tax expense is charged or credited to operations based upon amounts estimated to be payable or recoverable as a result of taxable operations for the current year. To the extent that losses of an individual UK company are not offset in any one year, they can be carried back for one year or carried forward indefinitely to be offset against profits arising from the same company.

Deferred tax assets and liabilities are recognised in accordance with the provisions of FRS 19. The Group has chosen not to apply the option available of recognising such assets and liabilities on a discounted basis to reflect the time value of money. Except as set out in FRS 19, deferred tax is recognised in respect of all timing differences that have originated but not reversed by the balance sheet date. Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered.

The Group's UK subsidiaries each file separate tax returns. In accordance with UK tax legislation, where one domestic UK company is a 75 per cent owned subsidiary of another UK company or both are 75 per cent owned subsidiaries of a common parent, the companies are considered to be within the same UK tax group. For companies within the same tax group, trading profits and losses arising in the same accounting period may be offset for the purposes of determining current and deferred taxes.

##### ***Unexpired Risk Provision***

Provision for unexpired risks is made when the estimated costs of future claims and related deferred acquisition costs are expected to exceed the unearned premium provision. In determining the need for an unexpired risk provision the different classes of business have been regarded as business that is managed together. Based on information available at the balance sheet date, before taking into account investment income but including previous claims experience, the Group has assessed that no provision is required.

# FM Insurance Company Limited

## Notes to the consolidated financial statements for the year ended 31 December 2010

### 3 Segmental information

#### Analysis of premiums, profit before taxation and net assets

	2010			2009		
	Gross premium written £000	Profit/(Loss) before taxation £000	Net assets £000	Gross premium written £000	Profit/(Loss) before taxation £000	Net assets £000
<i>By geographical segment</i>						
United Kingdom	403,687	27,751	349,345	398,231	85,615	314,824
Australia	112,401	155	66,179	109,185	15,435	71,810
Belgium	5,656	(29)	6,287	7,283	4,682	7,042
France	70,302	(11,326)	5,696	80,166	2,769	18,542
Germany	74,681	1,391	(7,315)	80,133	(4,404)	(11,433)
Hong Kong	2,997	(363)	(1,327)	3,336	804	(1,051)
Italy	7,498	(196)	1,093	10,733	3,215	1,791
Labuan	546	10	10	—	—	—
Netherlands	22,034	557	(528)	18,757	(1,304)	(1,083)
Singapore	14,553	1,233	151	8,125	61	(733)
Sweden	44,655	3,243	(17,571)	53,635	(11,289)	(19,874)
Switzerland	7,174	417	327	—	—	—
<b>Total</b>	<b>766,184</b>	<b>22,843</b>	<b>402,347</b>	<b>769,584</b>	<b>95,584</b>	<b>379,835</b>

Subsidiaries are included in the United Kingdom segment. The regional offices are funded for their operational and capital requirements through inter-office accounts.

	2010			2009		
	Gross premium written £000	Profit before taxation £000	Net assets £000	Gross premium written £000	Loss before taxation £000	Net assets £000
<i>By class of business:</i>						
Direct	601,013	17,919	315,611	608,470	75,573	300,316
Assumed	165,171	4,924	86,736	161,114	20,011	79,519
<b>Total</b>	<b>766,184</b>	<b>22,843</b>	<b>402,347</b>	<b>769,584</b>	<b>95,584</b>	<b>379,835</b>

#### Analysis of gross written premiums

	2010 £000	2009 £000
Resulting from contracts concluded by the company:		
In the EU member state of its head office	403,687	398,231
In the other EU member states	224,826	250,707
In other countries	137,671	120,646
	<b>766,184</b>	<b>769,584</b>

# FM Insurance Company Limited

## Notes to the consolidated financial statements for the year ended 31 December 2010

### 3 Segmental information (continued)

Analysis of gross premiums written, gross premiums earned, gross claims incurred, gross operating expenses, reinsurance balance and the technical provisions

	Gross premiums written	Gross premiums earned	Gross claims incurred	2010 Gross operating expenses	Reinsurance balance	Total	Net assets
	£000	£000	£000	£000	£000	£000	£000
Goods in transit	2,552	2,317	(4,795)	(472)	3,411	461	1,340
Commercial property	468,698	456,480	(198,499)	(86,620)	(227,012)	(55,651)	246,128
General liability	—	—	(131)	—	131	—	—
Consequential loss	129,763	128,888	(91,068)	(23,982)	(17,124)	(3,286)	68,143
Assumed	165,171	171,585	(147,294)	(30,526)	17,822	11,587	86,736
Total	<u>766,184</u>	<u>759,270</u>	<u>(441,787)</u>	<u>(141,600)</u>	<u>(222,772)</u>	<u>(46,889)</u>	<u>402,347</u>

	Gross premiums written	Gross premiums earned	Gross claims incurred	2009 Gross operating expenses	Reinsurance balance	Total	Net assets
	£000	£000	£000	£000	£000	£000	£000
Goods in transit	2,092	2,525	(1,136)	(394)	368	1,363	1,033
Commercial property	464,311	511,716	(130,164)	(87,427)	(288,211)	5,914	229,165
General liability	—	—	(1,286)	—	1,286	—	—
Consequential loss	142,067	154,965	(45,474)	(26,750)	(72,086)	10,655	70,118
Assumed	161,114	105,492	(93,225)	(30,337)	16,647	(1,423)	79,519
Total	<u>769,584</u>	<u>774,698</u>	<u>(271,285)</u>	<u>(144,908)</u>	<u>(341,996)</u>	<u>16,509</u>	<u>379,835</u>

### 4 Investment return and charges

	2010	2009
	£000	£000
Net income from investments	7,806	7,219
Net interest received from bank accounts and fixed deposits	1,426	1,667
Realised gain on investments	<u>12,365</u>	<u>4,691</u>
Investment income	21,597	13,577
Net interest payable	—	(8)
Unrealised gains on investments	<u>30,964</u>	<u>62,213</u>
	<u>52,561</u>	<u>75,782</u>

# FM Insurance Company Limited

## Notes to the consolidated financial statements for the year ended 31 December 2010

### 5 Net operating expenses

	2010	2009
	£000	£000
Acquisition costs	27,089	24,796
Change in gross deferred acquisition costs	545	(288)
	27,634	24,508
Administrative expenses	113,966	120,400
Gross operating expenses	141,600	144,908
Reinsurance commissions	(82,917)	(81,364)
Change in deferred reinsurance commission	248	1,847
	58,931	65,391

A foreign exchange gain of £7,418,000 (2009: £22,026,000 loss) is included within administrative expenses.

### 6 Profit/(Loss) on ordinary activities before tax

	2010	2009
	£000	£000
<i>Profit on ordinary activities before tax is stated after charging the following:</i>		
(Gain)/loss on foreign exchange	(7,418)	22,026
Loss/(profit) on sale of fixed assets	5	(19)
Depreciation	1,594	2,125
Rentals under operating leases on land and buildings	8,554	7,843
Rentals under other operating leases	2,307	2,509
Auditors' remuneration	410	375

### 7 Auditors' remuneration

	2010	2009
	£000	£000
<i>The remuneration of the auditors is further analysed as follows:</i>		
Audit of the financial statements – current year	183	168
	183	168
Other fees to auditors		
Audits of subsidiaries and branches – current year	188	154
– prior year	—	12
Other services pursuant to legislation – current year	39	37
Other services	—	4
	227	207
	410	375

# **FM Insurance Company Limited**

## **Notes to the consolidated financial statements for the year ended 31 December 2010**

### **8 Remuneration of directors**

	2010	2009
	£000	£000
Directors' emoluments	1,245	1,138
Amounts payable under long term incentive scheme	300	328
	<u>1,545</u>	<u>1,466</u>

The aggregate of emoluments and amounts payable under long term incentive schemes of the highest paid director was £553,565 (2009: £491,571), paid by the Group and the Parent for qualifying director's services. This includes amounts receivable under long term incentive schemes of £168,975 (2009: £190,179).

	2010	2009
Retirement benefits are accruing to the following number of directors under defined benefit schemes.	<u>4</u>	<u>4</u>

Two directors have outstanding car loans at 31 December 2010 (2009: Three). The car loans are interest free, no non payment is anticipated and payments are taken at source. The amounts outstanding are as follows:

As at 1 January 2010 the brought forward outstanding amount was £13,098 and as at 31 December 2010 the carried forward outstanding amount was £5,234.

As at 1 January 2010 the brought forward outstanding amount was £10,267 and as at 31 December 2010 the carried forward outstanding amount was £4,666.

### **9 Staff numbers and costs**

The average number of employees of the group during the year ended 31 December 2010 was 1,172 (2009: 1,160) and can be categorised as follows:

	2010	2009
Engineering	582	574
Administration and Professional	322	323
Operations	154	148
Underwriting	114	115
	<u>1,172</u>	<u>1,160</u>

# **FM Insurance Company Limited**

## **Notes to the consolidated financial statements for the year ended 31 December 2010**

### **9 Staff numbers and costs (continued)**

Staff costs consist of:

	2010	2009
	£000	£000
Wages and salaries	69,349	66,946
Social security costs	12,048	11,772
Other pension costs	9,057	7,329
	<u>90,454</u>	<u>86,047</u>

### **10 Tax on profit on ordinary activities**

(a) Tax on profit on ordinary activities

The charge/(credit) to taxation is made up as follows:

	2010		2009	
	£000	£000	£000	£000
Current tax:				
UK corporation tax on profits/losses of the period	4,530		7,761	
Withholding tax relief	—		(334)	
Overseas relief	(1,379)		(7,147)	
Foreign tax	1,910		10,085	
	<u>5,061</u>		<u>10,365</u>	
Adjustments in respect of affiliated undertaking	24		—	
Adjustments in respect of prior periods	(2,189)		930	
Total current tax		<u>2,896</u>		<u>11,295</u>
Deferred tax:				
Decelerated capital allowances	(309)		(155)	
Losses	—		12,190	
Timing difference in respect of pension	1,473		4,041	
Adjustment in respect of prior year	(280)		(1,372)	
Adjustment in respect of rate change	(161)		—	
Other timing differences	(139)		3,619	
Total deferred tax		<u>584</u>		<u>18,323</u>
Taxation on profit on ordinary activities		<u><u>3,480</u></u>		<u><u>29,618</u></u>



## **FM Insurance Company Limited**

### **Notes to the consolidated financial statements for the year ended 31 December 2010**

#### **10 Tax on profit on ordinary activities (continued)**

(b) Tax included in the statement of total recognised gains and losses

The charge to taxation is made up as follows:

	2010	2009
	£000	£000
Deferred tax:		
Actuarial gain/(loss) on pension scheme	58	370
Total tax charge/(credit)	<u>58</u>	<u>370</u>

(c) Factors affecting tax charge for the period:

The tax assessed for the period is lower than the standard rate of corporation tax in the UK. The differences are explained below:

	2010	2009
	£000	£000
Profit on ordinary activities before tax	<u>22,843</u>	<u>95,584</u>
Profit/(Loss) on ordinary activities multiplied by the standard rate of corporation tax in the UK of 28%	6,396	26,764
Effects of:		
Expenses not deductible for tax purposes	(832)	607
Short term timing differences	(1,035)	(7,420)
Tax payable on overseas profits	(423)	2,126
Tax related to affiliated undertaking	275	—
Unrelieved foreign tax	—	101
Withholding tax not relieved	704	377
Adjustments in respect of prior years	(2,189)	930
Losses utilised	—	(12,190)
	<u>2,896</u>	<u>11,295</u>

#### **Factors that may affect future tax charges**

The group earns income in many different countries and, on average, pays taxes at rates higher than the UK statutory rate. The overall impact of these higher taxes is subject to changes in enacted tax rates and the country mix of the group's income.

With effect from the 1 April 2011, the rate for UK Corporation Tax will reduce from 28% to 27%.

## ***FM Insurance Company Limited***

### ***Notes to the consolidated financial statements for the year ended 31 December 2010***

#### **10 Tax on profit on ordinary activities (continued)**

In addition, the UK Government announced other proposed changes to the future rates of Corporation Tax and Capital allowances which have not yet been enacted:

- corporation tax will progressively reduce to 24% by financial year 2014.
- the annual capital allowance for general pool plant and machinery will reduce from 20% to 18% and the annual allowance for longer life assets will reduce from 10% to 8% with effect from 1 April 2012.

None of these changes require the adjustment of disclosures in the current period. The impact of these changes are not expected to significantly affect either the current or deferred tax charges in future periods.

#### **11 Company – Investment in subsidiary undertakings**

	2010	2009
	£000	£000
At 1 January	51	813
Disposal of subsidiary	—	(762)
Exchange adjustments	(1)	—
At 31 December	<u>50</u>	<u>51</u>

Particulars of subsidiary undertakings (ordinary shares) included in these consolidated financial statements are as follows:

Subsidiary	Country of Incorporation	Percentage ownership	Nature of business
FM Engineering International Limited	UK	100%	Engineering Services
FM Engineering Consulting (Shanghai) Co., Limited (wholly owned by FM Engineering International Limited)	China	100%	Engineering Services

#### **12 Consolidated and Company – Other financial investments**

	2010	2009
	£000	£000
<b>Market value</b>		
Debt securities	60,528	72,257
Equities	367,543	267,573
Deposits with credit institutions	—	4,496
	<u>428,071</u>	<u>344,326</u>
<b>Cost</b>		
Debt securities	59,469	69,149
Equities	329,487	251,483
Deposits with credit institutions	—	4,496
	<u>388,956</u>	<u>325,128</u>

The debt securities and equities are all listed investments.

# **FM Insurance Company Limited**

## **Notes to the consolidated financial statements for the year ended 31 December 2010**

### **13 Consolidated and Company – Debtors arising out of direct insurance operations**

	2010	2009
	£000	£000
Amounts owed by policyholders	104,831	83,883

### **14 Consolidated – Other debtors**

	2010	2009
	£000	£000
<i>Amounts falling due within one year:</i>		
Corporation tax	5,119	6,114
Amounts owed by affiliated undertakings	2,372	1,914
Sundry debtors	2,983	2,153
	10,474	10,181
<i>Amounts falling due after one year:</i>		
Deferred tax asset (see note 15)	2,494	1,424

### **Company – Other debtors**

	2010	2009
	£000	£000
<i>Amounts falling due within one year:</i>		
Corporation tax	5,068	6,040
Amounts owed by affiliated undertakings	2,614	2,450
Sundry debtors	1,812	1,212
	9,494	9,702
<i>Amounts falling due after one year:</i>		
Deferred tax asset (see note 15)	2,326	1,298

### **15 Consolidated – Deferred tax asset**

	2010	2009
	£000	£000
Deferred tax asset at the start of the year	1,424	15,713
Movement during the year	1,070	(14,289)
Deferred tax asset at the end of the year	2,494	1,424
Deferred tax asset at the end of the year is made up of:		
	2010	2009
	£000	£000
Excess depreciation over capital allowances	843	592
Deferred tax on pension movements	659	58
Other timing differences	992	774
Deferred tax asset at the end of the year	2,494	1,424

# **FM Insurance Company Limited**

## **Notes to the consolidated financial statements for the year ended 31 December 2010**

### **15 Deferred tax asset (continued)**

#### **Company – Deferred tax asset**

	2010	2009
	£000	£000
Deferred tax asset at the start of the year	1,298	15,581
Movement during the year	1,028	(14,283)
Deferred tax asset at the end of the year	<u>2,326</u>	<u>1,298</u>
Deferred tax asset at the end of the year is made up of:	2010	2009
	£000	£000
Excess depreciation over capital allowances	764	531
Deferred tax on pension movements	591	—
Other timing differences	971	767
Deferred tax asset at the end of the year	<u>2,326</u>	<u>1,298</u>

Deferred tax has been calculated at 27.25% (2009: 28%). This is due to the rate of corporation tax reducing from 28% to 27% on 1 April 2011.

### **16 Consolidated – Tangible fixed assets**

	Equipment furniture and computers	Motor vehicles	Total
	£000	£000	£000
<b>Cost</b>			
At beginning of year	23,719	81	23,800
Additions	1,932	25	1,957
Disposals	(1,069)	(18)	(1,087)
Exchange adjustments	(180)	9	(171)
At end of year	<u>24,402</u>	<u>97</u>	<u>24,499</u>
<b>Depreciation</b>			
At beginning of year	17,280	61	17,341
Charge for year	1,572	22	1,594
Disposals	(1,061)	(13)	(1,074)
Exchange adjustments	(23)	—	(23)
At end of year	<u>17,768</u>	<u>70</u>	<u>17,838</u>
<b>Net book value</b>			
At 31 December 2010	<u>6,634</u>	<u>27</u>	<u>6,661</u>
At 31 December 2009	<u>6,439</u>	<u>20</u>	<u>6,459</u>

# **FM Insurance Company Limited**

## **Notes to the consolidated financial statements for the year ended 31 December 2010**

### **16 Tangible fixed assets (continued)**

#### **Company – Tangible fixed assets**

	Equipment furniture and computers	Motor vehicles	Total
	£000	£000	£000
<b>Cost</b>			
At beginning of year	22,398	59	22,457
Additions	1,206	25	1,231
Disposals	(981)	—	(981)
Exchange adjustments	(133)	9	(124)
At end of year	22,490	93	22,583
<b>Depreciation</b>			
At beginning of year	16,189	48	16,237
Charge for year	1,454	22	1,476
Disposals	(981)	—	(981)
Exchange adjustments	33	—	33
At end of year	16,695	70	16,765
<b>Net book value</b>			
At 31 December 2010	5,795	23	5,818
At 31 December 2009	6,209	11	6,220

### **17 Collateral deposits**

Included in cash at bank are amounts totalling £6,738,000 (2009: £2,374,000) relating to the Group and £6,627,000 (2009: £2,253,000) relating to the Company which have been deposited with third parties to secure certain liabilities.

### **18 Consolidated and Company – Share capital**

	2010	2009
	£000	£000
<b>Authorised</b>		
500,000,000 Ordinary shares of £1 each	500,000	500,000
<b>Allotted, called up and fully paid</b>		
325,000,000 Ordinary shares of £1 each	325,000	325,000

# **FM Insurance Company Limited**

## **Notes to the consolidated financial statements for the year ended 31 December 2010**

### **19 Consolidated – Reserves**

	Share Premium Account	Profit and loss account	Total
	£000	£000	£000
At beginning of year	978	53,857	54,835
Profit for the year	—	19,363	19,363
Actuarial loss (FRS17)	—	(513)	(513)
Deferred tax on actuarial loss	—	58	58
Net currency translation differences in foreign branches	—	3,604	3,604
At end of year	<u>978</u>	<u>76,369</u>	<u>77,347</u>

### **Company – Reserves**

	Share Premium Account	Profit and loss account	Total
	£000	£000	£000
At beginning of year	978	50,944	51,922
Profit for the year	—	19,187	19,187
Actuarial loss (FRS17)	—	(631)	(631)
Deferred tax on actuarial loss	—	76	76
Net currency translation differences in foreign branches	—	4,797	4,797
At end of year	<u>978</u>	<u>74,373</u>	<u>75,351</u>

**FM Insurance Company Limited**

**Notes to the consolidated financial statements  
for the year ended 31 December 2010**

**20 Consolidated – Reconciliation of movements in shareholder's funds**

	2010	2009
	£000	£000
Opening shareholder's funds	379,835	302,294
Profit for the financial year	19,363	65,966
FRS17 Actuarial (loss)/gain	(513)	1,320
Deferred tax on actuarial loss/(gain)	58	(370)
Net currency translation differences in foreign branches	3,604	10,625
Closing shareholder's funds	<u>402,347</u>	<u>379,835</u>

**Company – Reconciliation of movements in shareholder's funds**

	2010	2009
	£000	£000
Opening shareholder's funds	376,922	300,301
Profit for the financial year	19,187	65,548
FRS17 Actuarial (loss)/gain	(631)	1,320
Deferred tax on actuarial loss/(gain)	76	(370)
Net currency translation differences in foreign branches	4,797	10,123
Closing shareholder's funds	<u>400,351</u>	<u>376,922</u>

# **FM Insurance Company Limited**

## **Notes to the consolidated financial statements for the year ended 31 December 2010**

### **21 Consolidated and Company – Technical provisions and deferred acquisition costs**

	Provision for Unearned Premiums £000	Claims Outstanding £000	Equalisation Provision £000	Total Technical Provisions £000	Deferred Acquisition Costs £000	Net Insurance Funds £000
<i>Gross amount:</i>						
At beginning of year	246,590	340,034	7,024	593,648	5,666	587,982
Exchange movements	10,590	4,706	—	15,296	78	15,218
Movement in the provision	6,914	63,050	(7,024)	62,940	(545)	63,485
At end of year	264,094	407,790	—	671,884	5,199	666,685
<i>Reinsurance amount:</i>						
At beginning of year	181,753	225,145	—	406,898	11,943	394,955
Exchange movements	7,245	3,403	—	10,648	(285)	10,933
Movement in the provision	4,596	34,145	—	38,741	247	38,494
At end of year	193,594	262,693	—	456,287	11,905	444,382
Net balance at end of year	70,500	145,097	—	215,597	(6,706)	222,303
At beginning of year	64,837	114,889	7,024	186,750	(6,277)	193,027

Net claims incurred in the Consolidated Profit and Loss Account includes £18,158,000 of savings related to losses that occurred prior to the current financial year (2009: £37,732,000 savings).

An equalisation provision is established as explained in the accounting policies. In 2010 the equalisation provision was released resulting in a cumulative impact of £nil to group and company shareholder's funds (2009: £7,024,000 decrease).

The movement in the provision increased the balance on the technical account – general business by £7,024,000 (2009: £5,475,000 decrease).



# **FM Insurance Company Limited**

## **Notes to the consolidated financial statements for the year ended 31 December 2010**

### **22 Consolidated – Other creditors including taxation and social security**

	2010	2009
	£000	£000
Corporation taxation payable	3,511	1,806
Social security	6,242	5,787
Engineering fee income	7,187	6,356
Amounts owed to affiliated undertakings	2,802	12,063
Other sundry creditors	7,874	7,098
	<u>27,616</u>	<u>33,110</u>

### **Company – Other creditors including taxation and social security**

	2010	2009
	£000	£000
Corporation taxation payable	3,346	1,604
Social security	6,088	5,670
Engineering fee income	7,187	6,356
Amounts owed to affiliated undertakings	2,706	13,321
Other sundry creditors	6,742	6,597
	<u>26,069</u>	<u>33,548</u>

### **23 Consolidated – Accruals and deferred income**

	2010	2009
	£000	£000
Deferred reinsurance commissions (note 21)	11,905	11,943
Salary and incentive accruals	11,005	9,736
Other accruals and deferred income	2,698	2,690
	<u>25,608</u>	<u>24,369</u>

### **Company – Accruals and deferred income**

	2010	2009
	£000	£000
Deferred reinsurance commissions (note 21)	11,905	11,943
Salary and incentive accruals	10,532	9,389
Other accruals and deferred income	2,517	2,325
	<u>24,954</u>	<u>23,657</u>

## **FM Insurance Company Limited**

### **Notes to the consolidated financial statements for the year ended 31 December 2010**

#### **24 Pensions**

Substantially all of the employees are covered through either state-type schemes or schemes provided by the group. Most of the employees not included in state-type schemes are covered through final salary defined benefit schemes in the UK, Australia and Germany. The Japan defined benefit scheme is not considered material to the Group and is disclosed within the FM Engineering International Limited financial statements.

For the UK and Australia the pension scheme assets are held in separate trustee administered funds to meet long-term pension liabilities to past and present employees. The defined benefit obligation arises wholly from funded plans. Germany's obligations are covered by an insurance contract with a third party, for which premiums are paid annually. Accordingly, subject to the timing of funding payments around year end, any movement in the obligations under the pension scheme will be fully offset by the expected return on the insurance contract.

Full actuarial valuations were carried out by a qualified independent actuary for the three major schemes on 1 January 2008 for UK, 31 December 2009 for Australia and 31 December 2010 for Germany. The disclosures required under FRS17 'Retirement Benefits' have been calculated based on the most recent full actuarial valuations updated to 31 December 2010 and are applicable to both the Group and the Company.

#### **Scheme assets**

The fair value of the scheme's assets, which are not intended to be recognised in the short term and may be subject to significant change before they are recognised, and the present value of the scheme's liabilities, which are derived from cash flow projections over long periods and thus inherently uncertain, were:

2010	UK £000	Australia £000	Germany £000	Total £000
Equities	58,254	8,743	—	66,997
Bonds	31,816	3,060	—	34,876
Property	—	583	—	583
Other – Insurance Contracts	—	—	12,378	12,378
Other – Cash	188	2,186	—	2,374
Fair value of scheme assets	90,258	14,572	12,378	117,208
Present value of scheme liabilities	79,676	12,957	13,583	106,216
Surplus in the scheme	10,582	1,615	(1,205)	10,992
Related deferred tax liability	(2,884)	(440)	—	(3,324)
Net pension asset	7,698	1,175	(1,205)	7,668

# **FM Insurance Company Limited**

## **Notes to the consolidated financial statements for the year ended 31 December 2010**

### **24 Pensions (continued)**

2009	UK £000	Australia £000	Germany £000	Total £000
Equities	50,019	7,598	—	57,617
Bonds	25,604	3,070	—	28,674
Property	—	533	—	533
Other – Insurance Contracts	—	—	15,931	15,931
Other – Cash	423	1,484	—	1,907
Fair value of scheme assets	76,046	12,685	15,931	104,662
Present value of scheme liabilities	71,445	11,129	15,931	98,505
Surplus in the scheme	4,601	1,556	—	6,157
Related deferred tax liability	(1,288)	(436)	—	(1,724)
Net pension asset	3,313	1,120	—	4,433

### **Analysis of other pension costs charged in arriving at the balance on the technical account – general business for 2010:**

	UK £000	Australia £000	Germany £000	Total £000
Expected return on insurance contracts	—	—	(868)	(868)
Current service cost	3,158	831	868	4,857
	3,158	831	—	3,989

### **Analysis of amounts included in other finance income for 2010:**

	UK £000	Australia £000	Germany £000	Total £000
Expected return on pension scheme assets / insurance contracts	5,609	997	811	7,417
Interest on pension scheme liabilities	(4,325)	(882)	(811)	(6,018)
	1,284	115	—	1,399

### **Analysis of other pension costs charged in arriving at the balance on the technical account – general business for 2009:**

	UK £000	Australia £000	Germany £000	Total £000
Expected return on insurance contracts	—	—	(1,029)	(1,029)
Current service cost	2,957	926	1,029	4,912
	2,957	926	—	3,883

# **FM Insurance Company Limited**

## **Notes to the consolidated financial statements for the year ended 31 December 2010**

### **24 Pensions (continued)**

#### **Analysis of amounts included in other finance income for 2009:**

	2009			
	UK £000	Australia £000	Germany £000	Total £000
Expected return on pension scheme assets / insurance contracts	3,918	532	891	5,341
Interest on pension scheme liabilities	(3,497)	(659)	(891)	(5,047)
	<u>421</u>	<u>(127)</u>	<u>—</u>	<u>294</u>

The amounts above in respect of the German pension scheme have been fully offset by expected recoveries under an insurance contract on a line by line basis. All items in the profit and loss account and statement of total recognised gains and losses are shown net of the expected return on the insurance contract.

#### **Analysis of amount recognised in statement of total recognised gains and losses 2010:**

	2010			
	UK £000	Australia £000	Germany £000	Total £000
Actual return on pension scheme assets	9,298	494	—	9,792
Less: Expected return on pension scheme assets	5,609	997	—	6,606
	<u>3,689</u>	<u>(503)</u>	<u>—</u>	<u>3,186</u>
Experience gains and losses arising on scheme liabilities	11	594	62	667
Changes in assumptions underlying the present value of scheme assets / liabilities	(3,890)	(392)	2,330	(1,952)
Expected return on pension scheme assets / insurance contracts	—	—	(2,392)	(2,392)
Actuarial gain/(loss) recognised in statement of total recognised gains and losses	<u>(190)</u>	<u>(301)</u>	<u>—</u>	<u>(491)</u>

# **FM Insurance Company Limited**

## **Notes to the consolidated financial statements for the year ended 31 December 2010**

### **24 Pensions (continued)**

#### **Analysis of amount recognised in statement of total recognised gains and losses 2009:**

	2009			
	UK £000	Australia £000	Germany £000	Total £000
Actual return on pension scheme assets	11,116	1,892	—	13,008
Less; Expected return on pension scheme assets	3,918	532	—	4,450
	<u>7,198</u>	<u>1,360</u>	<u>—</u>	<u>8,558</u>
Experience gains and losses arising on scheme liabilities	134	(588)	(472)	(926)
Changes in assumptions underlying the present value of scheme assets / liabilities	(10,275)	3,491	1,513	(5,271)
Expected return on pension scheme assets / insurance contracts	—	—	(1,041)	(1,041)
	<u>(2,943)</u>	<u>4,263</u>	<u>—</u>	<u>1,320</u>
Actuarial gain/(loss) recognised in statement of total recognised gains and losses				

#### **Cumulative amount recognised since 1 January 2002 in statement of total recognised gains and losses:**

	UK £000	Australia £000	Germany £000	Total £000
At end of year	<u>(16,631)</u>	<u>(1,236)</u>	<u>—</u>	<u>(17,867)</u>

	2010			
Changes in the present value of the defined benefit obligation during 2010	UK £000	Australia £000	Germany £000	Total £000
At beginning of year	71,445	11,129	15,931	98,505
Exchange adjustments	—	1,158	(1,375)	(217)
Current service cost	3,158	831	868	4,857
Interest cost	4,325	882	811	6,018
Benefits paid	(3,131)	(1,321)	(260)	(4,712)
Contributions from plan participants	—	480	—	480
Actuarial loss/(gain)	<u>3,879</u>	<u>(202)</u>	<u>(2,392)</u>	<u>1,285</u>
At end of year	<u>79,676</u>	<u>12,957</u>	<u>13,583</u>	<u>106,216</u>

# FM Insurance Company Limited

## Notes to the consolidated financial statements for the year ended 31 December 2010

### 24 Pensions (continued)

Changes in the present value of the defined benefit obligation during 2009	2009			Total
	UK	Australia	Germany	
	£000	£000	£000	£000
At beginning of year	55,754	9,641	14,259	79,654
Exchange adjustments	—	3,096	1,104	4,200
Current service cost	2,957	926	1,029	4,912
Interest cost	3,497	659	891	5,047
Benefits paid	(904)	(669)	(311)	(1,884)
Contributions from plan participants	—	379	—	379
Actuarial loss/(gain)	10,141	(2,903)	(1,041)	6,197
At end of year	<u>71,445</u>	<u>11,129</u>	<u>15,931</u>	<u>98,505</u>

Changes in the fair value of plan assets during 2010	2010			Total
	UK	Australia	Germany	
	£000	£000	£000	£000
At beginning of year	76,046	12,685	15,931	104,662
Exchange adjustments	—	1,319	(1,375)	(56)
Expected return on plan assets	5,609	997	—	6,606
Contributions paid	8,045	915	—	8,960
Actuarial gain/(loss)	3,689	(503)	—	3,186
Benefits paid	(3,131)	(1,321)	(260)	(4,712)
Contributions from plan participants	—	480	—	480
Expected return on insurance contracts	—	—	(1,918)	(1,918)
At end of year	<u>90,258</u>	<u>14,572</u>	<u>12,378</u>	<u>117,208</u>

Changes in the fair value of plan assets during 2009	2009			Total
	UK	Australia	Germany	
	£000	£000	£000	£000
At beginning of year	50,127	7,008	14,259	71,394
Exchange adjustments	—	2,250	1,104	3,354
Expected return on plan assets	3,918	532	—	4,450
Contributions paid	15,707	1,825	—	17,532
Actuarial gain/(loss)	7,198	1,360	—	8,558
Benefits paid	(904)	(669)	(311)	(1,884)
Contributions from plan participants	—	379	—	379
Expected return on insurance contracts	—	—	879	879
At end of year	<u>76,046</u>	<u>12,685</u>	<u>15,931</u>	<u>104,662</u>

The total contributions to the defined benefit schemes in 2011 are expected to be £4,348,000.

# FM Insurance Company Limited

## Notes to the consolidated financial statements for the year ended 31 December 2010

### 24 Pensions (continued)

The major assumptions used in these valuations were:

	2010			2009		
	UK %	Australia %	Germany %	UK %	Australia %	Germany %
Rate of increase in salaries	5.1	5.0	2.0	5.25	5.0	3.2
Rate of increase in pensions in payment and deferred pensions	3.4	3.0	2.0	3.55	3.0	2.0
Discount rate applied to scheme liabilities	5.6	7.2	5.32	5.9	7.5	5.62
Inflation assumption	3.6	2.75	N/A	3.75	2.75	N/A
Long term rate of Return:						
Equities	7.9	7.7	N/A	8.45	7.9	N/A
Bonds	5.5	5.2	N/A	5.65	5.4	N/A
Index-linked gilts	4.3	N/A	N/A	4.45	N/A	N/A
Cash	0.5	5.2	N/A	0.5	5.4	N/A
Property	N/A	7.4	N/A	N/A	7.5	N/A

The assumptions used by the actuary are the best estimates chosen from a range of possible actuarial assumptions which, due to the timescale covered, may not necessarily be borne out in practice.

	2010			
History of experience gains and losses 2010	UK £000	Australia £000	Germany £000	Total £000
Fair value of scheme assets	90,258	14,572	12,378	117,208
Present value of defined benefit obligation	(79,676)	(12,957)	(13,583)	(106,216)
Surplus/(Deficit) in the scheme	10,582	1,615	(1,205)	10,992
Experience gain/(loss) arising on plan liabilities	11	594	62	667
Experience gain/(loss) arising on plan assets	3,689	(503)	(62)	3,124
	2009			
History of experience gains and losses 2009	UK £000	Australia £000	Germany £000	Total £000
Fair value of scheme assets	76,046	12,685	15,931	104,662
Present value of defined benefit obligation	(71,445)	(11,129)	(15,931)	(98,505)
Surplus/(Deficit) in the scheme	4,601	1,556	—	6,157
Experience gain/(loss) arising on plan liabilities	134	(588)	(472)	(926)
Experience gain/(loss) arising on plan assets	7,198	1,360	472	9,030

# **FM Insurance Company Limited**

## **Notes to the consolidated financial statements for the year ended 31 December 2010**

### **24 Pensions (continued)**

History of experience gains and losses 2008	2008			
	UK £000	Australia £000	Germany £000	Total £000
Fair value of scheme assets	50,127	7,008	14,259	71,394
Present value of defined benefit obligation	(55,754)	(9,641)	(14,259)	(79,654)
Surplus/(Deficit) in the scheme	(5,627)	(2,633)	—	(8,260)
Experience gain/(loss) arising on plan liabilities	(565)	12	301	(252)
Experience gain/(loss) arising on plan assets	(13,343)	(1,930)	(301)	(15,574)

History of experience gains and losses 2007	2007			
	UK £000	Australia £000	Germany £000	Total £000
Fair value of scheme assets	52,753	7,767	12,090	72,610
Present value of defined benefit obligation	(50,652)	(6,921)	(12,090)	(69,663)
Surplus/(Deficit) in the scheme	2,101	846	—	2,947
Experience gain/(loss) arising on plan liabilities	(357)	(114)	(162)	(633)
Experience gain/(loss) arising on plan assets	(61)	131	162	232

History of experience gains and losses 2006	2006			
	UK £000	Australia £000	Germany £000	Total £000
Fair value of scheme assets	47,775	6,739	11,594	66,108
Present value of defined benefit obligation	(55,305)	(6,092)	(11,594)	(72,991)
Surplus/(Deficit) in the scheme	(7,530)	647	—	(6,883)
Experience gain/(loss) arising on plan liabilities	1,942	292	810	3,044
Experience gain/(loss) arising on plan assets	218	(414)	(810)	(1,006)



## ***FM Insurance Company Limited***

### ***Notes to the consolidated financial statements for the year ended 31 December 2010***

#### **25 Capital Commitments**

The company has the following annual commitments under non-cancellable operating leases:

	<b>2010</b>		<b>2009</b>	
	<b>Buildings</b>	<b>Other</b>	<b>Buildings</b>	<b>Other</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
Operating leases which expire:				
Within 1 year	976	391	683	345
Within 2 to 5 years	2,084	1,740	3,915	2,003
More than 5 years	4,961	—	2,537	—
	<u>8,021</u>	<u>2,131</u>	<u>7,135</u>	<u>2,348</u>

#### **26 Parent Company & Ultimate controlling party**

The company is a wholly owned subsidiary of Factory Mutual Insurance Company (FMIC), the registered office of which is 270 Central Avenue, Johnston, RI 02919-4949, USA. FMIC is the largest group in which the financial results of FMI are included. Copies of the group accounts are available to the public either at the above address or from [www.fmglobal.com](http://www.fmglobal.com).

#### **27 Reconciliation to US GAAP**

The financial statements have been prepared in accordance with United Kingdom Generally Accepted Accounting Practice (UK GAAP), which differs in certain respects from accounting principles generally accepted in the United States (US GAAP). Whilst there are numerous differences between the two bases of accounting, there are only a limited number that are applicable to the Group. The following is a reconciliation of UK GAAP shareholders funds attributable to equity interests and UK GAAP loss for the year to the equivalent measures under US GAAP. A description of the relevant differences follows the reconciliation.

##### **Shareholder's Equity Reconciliation:**

	<b>2010</b>	<b>2009</b>
	<b>£000</b>	<b>£000</b>
UK GAAP shareholder's funds attributable to equity interests	402,347	379,835
Equalisation provision	—	7,024
Defined benefit pension asset	(355)	(288)
US GAAP shareholder's equity	<u>401,992</u>	<u>386,571</u>

## ***FM Insurance Company Limited***

### ***Notes to the consolidated financial statements for the year ended 31 December 2010***

#### **27 Reconciliation to US GAAP (continued)**

##### **Profit and Loss Reconciliation:**

	2010	2009
	£000	£000
UK GAAP profit for the year	19,363	65,966
Equalisation provision	(7,024)	5,475
Provision for bad debts	—	(5,062)
Defined benefit pension asset	(390)	(374)
Unrealised gain on investments	(30,964)	(93,612)
Foreign exchange revaluations of investments	(4,080)	5,877
US GAAP loss for the year	<u>(23,095)</u>	<u>(21,730)</u>

##### ***Equalisation Provision***

Under UK GAAP, an equalisation provision is required to be included within technical provisions based on a specified calculation. The requirement is in place to help smooth fluctuations in loss ratios in future years for business where claims in any future year may be subject to significant deviations from recent or average claims experience, or where trends in experience may be subject to change. Such volatile claims experience may arise in the case, for example, of insurance against losses caused by major catastrophes such as hurricanes or earthquakes. Under US GAAP, loss reserves are required to be recorded at management's best estimate of the ultimate amount required to settle the claims. Smoothing mechanisms such as the equalisation provision are prohibited under US GAAP.

##### ***Provision for Bad Debts***

Under UK and US GAAP, the Company applies the accounting policy of its parent company which is to provide for a bad debt provision when there is evidence that an asset is impaired. Previously under UK GAAP the Company made an additional provision for debtors greater than 90 days past due, however this additional provision was considered unnecessary based upon historical debtor recoverability trends.

##### ***Defined Benefit Pension Asset***

Under UK GAAP, retirement benefits are accounted for under FRS 17 "Retirement Benefits" (FRS 17). For US GAAP, the Company follows the accounting policy of its parent company, the Statement of Financial Accounting Standard No. 158 "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans" (SFAS 158). Under both FRS 17 and SFAS 158, the funded status of defined benefit plans are recorded on the balance sheet. The basic principles of the two standards are similar, however there are differences in the underlying calculations of the funded status.

##### ***Unrealised (gains)/losses on investments***

Under UK GAAP, unrealised gains and losses on investments are recognised in the profit and loss account. For US GAAP purposes, unrealised gains and losses on investments are recognised within Shareholder's Equity as a component of Other Comprehensive Income.

***FM Insurance Company Limited***

***Notes to the consolidated financial statements  
for the year ended 31 December 2010***

**27 Reconciliation to US GAAP (continued)**

***Foreign exchange revaluations of investments***

Under UK GAAP foreign exchange revaluations on investments are recognised in the profit and loss account. For US GAAP purposes, foreign exchange revaluations on investments are recognised directly in Shareholder's Equity as a component of Other Comprehensive Income, as long as the related investments are held at the Balance sheet date.