FM Insurance Company Limited
New Zealand Branch

Financial statements
for the year ended 31 December 2017

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New Zealand Branch

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for the year ended 31 December 2017

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FM Insurance Company Limited
New Zealand Branch

Directors' Report
for the year ended 31 December 2017

The Directors present their report, together with financial statements of FM Insurance Company Limited New Zealand Branch (the "Branch") for the year ended 31 December 2017.

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

Corporate Information

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

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

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

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

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

Principal activities

The principal activities of the Branch are the underwriting of property insurance risks and the provision of related engineering and loss prevention services to large and medium sized entities.

The Branch ceased writing new and renewal business in New Zealand from 1 January 2016.

Results

The results of the Branch's operations for the year are set out on page 6 and the financial position of the Branch at the end of the year is set out on page 7.

Dividends

The Directors do not recommend the payment of a dividend.

Review of the business

Gross premium income for the year was $30,597 (2016: $11,171,543). The Branch made a post tax loss of ($22,313) (2016: $7,093,167 profit) during the year.

FM Insurance Company Limited
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Directors' Report (cont'd)
for the year ended 31 December 2017

Significant changes in state of affairs

There were no changes to the executive management team.

Events subsequent to reporting date

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

Future Developments

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

As approved by RBNZ, from 1 January 2016 the Branch continued to be on run-off whilst writing of new and renewal business transitioned to the new branch of FMIC NZ.

Going concern

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

Directors

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

Director	Title	Date changed
Rachel Cope	Executive Director	
Omar Hameed	Non Executive Director	
Christopher Johnson	Non Executive Director	
Vincent A. Reyda	Executive Director	Resigned 31 July 2017
Philip Johnson	Executive Director	Appointed 31 July 2017
Kevin Ingram	Non Executive Director	
Natalie Spotswood	Executive Director	
Jonathan Hall	Non Executive Director	
Thomas Lawson	Non Executive Director	
Thomas Keevil	Independent Non Executive Director	
Kenneth Lever	Independent Non Executive Director	
Peter Wilson	Independent Non Executive Director	
Stefano Tranquillo	Non Executive Director	Appointed 1 April 2018

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

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

FM Insurance Company Limited
New Zealand Branch

Directors' Report (cont'd)
for the year ended 31 December 2017

Insurance of Directors

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

Disclosure of information to the auditors

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

Non audit services

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

Re-appointment of auditors

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

On behalf of the board

Scott W. Hall **Director**	26 April 2018 Dated
[signature] **Director**	26 April 2018 Dated

Ernst & Young
8 Exhibition Street
Melbourne VIC 3000 Australia
GPO Box 67 Melbourne VIC 3001

Tel: +61 3 9288 8000
Fax: +61 3 8650 7777
ey.com/au

Independent Auditor's Report to the Shareholders of FM Insurance Company Limited

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of the New Zealand Branch of FM Insurance Company Limited (the "company") on pages 6 to 37, which comprise the statement of financial position of the New Zealand Branch of FM Insurance Company Limited as at 31 December 2017, and the statement of comprehensive income and statement of changes in equity for the year then ended of the New Zealand Branch of FM Insurance Company Limited, and the notes to the financial statements including a summary of significant accounting policies.

In our opinion, the financial statements on pages 6 to 37 present fairly, in all material respects, the financial position of the New Zealand Branch of FM Insurance Company Limited as at 31 December 2017 and its financial performance for the year then ended in accordance with New Zealand Equivalents to International Financial Reporting Standards and International Financial Reporting Standards.

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

Basis for Opinion

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

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

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

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

Directors' Responsibilities for the Financial Statements

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

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

Auditor’s Responsibilities for the Audit of the Financial Statements

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

A further description of our responsibilities for the audit of the financial statements is located at the External Reporting Board website:

https://www.xrb.govt.nz/Site/Auditing_Assurance_Standards/Current_Standards/Page6.aspx. This description forms part of our auditor’s report.

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

Ernst & Young

Ernst & Young
Melbourne
26 April 2018

FM Insurance Company Limited
New Zealand Branch

Statement of Comprehensive Income
for the year ended 31 December 2017

	Note	2017 $	2016 $
Gross Premium Revenue	8	30,597	11,171,543
Outwards Reinsurance Expense	9	58,325	(7,900,442)
Net Premium Revenue		**88,922**	**3,271,101**
Gross Claims Expense	9	(119,006)	2,913,017
Reinsurance and Other Recoveries Revenue	8	213,053	(1,564,785)
Net Claims Expense		**94,047**	**1,348,232**
Net Acquisition and Underwriting Revenue	8	**40,346**	**4,494,759**
UNDERWRITING PROFIT		**223,315**	**9,114,092**
General and Administration Expense	9	(7,446)	(2,195,407)
Other Operating Income	8	(51,013)	174,482
OPERATING PROFIT BEFORE INCOME TAX		**164,856**	**7,093,167**
Income Tax Expense	2j	-	-
OPERATING PROFIT AFTER INCOME TAX		**164,856**	**7,093,167**
Other Comprehensive Income, net of tax		-	-
TOTAL COMPREHENSIVE PROFIT FOR THE YEAR		**164,856**	**7,093,167**
Operating profit for the year attributable to:			
Owners of the Parent		164,856	7,093,167
Operating profit after income tax		**164,856**	**7,093,167**
Total comprehensive profit for the year attributable to:			
Owners of the Parent		164,856	7,093,167
Total comprehensive profit after tax		**164,856**	**7,093,167**

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

FM Insurance Company Limited
New Zealand Branch

Statement of Financial Position
for the year ended 31 December 2017

	Note	2017 $	2016 $
Assets			
Current Assets			
Intercompany account	*7*	14,362,876	14,330,690
Trade and other receivables	*12*	-	143,192
Deferred reinsurance expense	*14a*	-	1,029
Reinsurance and other recoveries on outstanding claims	*13a*	36,018	58,457
Non-Current Assets			
Reinsurance and other recoveries on outstanding claims	*13a*	18,283	29,673
TOTAL ASSETS		**14,417,177**	**14,563,041**
Liabilities			
Current Liabilities			
Trade and other payables	*15*	102,595	80,774
Unearned premium reserve	*14a*	-	1,758
Deferred reinsurance commission		-	10
Unexpired risk liability	*14b*	-	956
Outstanding claims provision	*13a*	53,001	266,463
Non-Current Liabilities			
Outstanding claims provision	*13a*	28,891	145,246
TOTAL LIABILITIES		**184,487**	**495,207**
NET ASSETS		**14,232,690**	**14,067,834**
DEEMED EQUITY: HEAD OFFICE ACCOUNT		**14,232,690**	**14,067,834**

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

FM Insurance Company Limited
New Zealand Branch

Statement of Changes in Equity
for the year ended 31 December 2017

2016	**Retained Earnings**	**Total Deemed Equity: Head Office Account**
	$	**$**
Balance at the beginning of the financial year	**6,974,666**	**6,974,666**
Profit for the year	7,093,167	7,093,167
Other comprehensive income, net of tax	-	-
Total retained earnings	**14,067,834**	**14,067,834**
Transactions with owners	-	-
Balance at the end of the financial year	**14,067,834**	**14,067,834**

2017	**Retained Earnings**	**Total Deemed Equity: Head Office Account**
Balance at the beginning of the financial year	**14,067,834**	**14,067,834**
Profit for the year	164,856	164,856
Other comprehensive income, net of tax	-	-
Total retained earnings	**14,232,690**	**14,232,690**
Transactions with owners	-	-
Balance at the end of the financial year	**14,232,690**	**14,232,690**

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

FM Insurance Company Limited
New Zealand Branch

Statement of Cash Flows
for the year ended 31 December 2017

	Note	2017 $	2016 $
Cash flows from operating activities			
Reinsurance and other recoveries received		246,882	168,225
Premium received		16,326	3,459,803
Interest received		-	-
Other operating receipts		(11,634)	992,532
Other operating payments		(63,202)	(4,236,164)
Outwards reinsurance expense paid		292,636	(3,004,131)
Gross claims expense paid		(448,822)	(925,386)
Net cash used in operating activities	*21b*	**32,186**	**(3,545,121)**
Net increase / (decrease) in cash and cash equivalents		**32,186**	**(3,545,121)**
Cash and cash equivalents at the beginning of the reporting period		14,330,690	17,875,811
Effect of exchange rate fluctuations on cash and cash equivalents held		-	-
Cash and cash equivalents at the end of the reporting period	*21a*	**14,362,876**	**14,330,690**

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

1 Reporting Entity

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

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

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

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

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

The principal activities of the Branch are the underwriting of property insurance risks and the provision of related engineering and loss prevention services to large and medium sized entities.

The Branch ceased writing new and renewal business in New Zealand from 1 January 2016.

2 Basis of preparation

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

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

(a) Statement of compliance

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

2 Basis of preparation (cont'd)

(b) Basis of measurement

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

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

(c) Fair Value

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

(d) Present Value

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

(e) Functional and presentation currency

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

(f) Use of estimates and judgements

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

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

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

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

(g) Changes in accounting policies

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

(h) Rounding

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

2 Basis of preparation (cont'd)

(i) Recently issued standards

Standards recently issued but not yet effective, which may materially impact the amounts recognised or disclosed in the financial statements in future periods are disclosed below:

Standards issued but not yet effective	*Effective for annual periods beginning on or after*
IFRS 17 *Insurance contracts*	1 January 2021

(j) Income tax

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

3 Significant accounting policies

(a) Premiums

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

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

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

(b) Outwards reinsurance

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

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

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

3 Significant accounting policies (cont'd)

(c) Claims

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

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

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

(d) Reinsurance and other recoveries

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

(e) Liability adequacy test

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

3 Significant accounting policies (cont'd)

(f) Creditors and accruals

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

(g) Investment income

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

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

(h) Foreign currency

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

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

i) Cash & cash equivalents

Cash and cash equivalents in the statement of financial position comprises cash at bank and on hand which are subject to an insignificant risk of changes in value.

4 Risk management

(a) Risk management framework

<u>Group Framework</u>

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

4 Risk management (cont'd)

(a) Risk management framework (cont'd)

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

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

Company Framework

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

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

Branch Framework

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

(b) Insurance risk

Background

A key risk from operating in the general insurance industry is the exposure to insurance risk arising from underwriting general insurance contracts. The insurance contracts transfer risk to the insurer by indemnifying the policyholders against adverse effects arising from the occurrence of specified uncertain future events. There is a risk that the actual amount of claims to be paid in relation to contracts will be different to the amount estimated at the time a product was designed and priced. The Branch is exposed to this risk because the price for a contract must be set before the losses relating to the product are known. Hence the insurance business involves inherent uncertainty.

4 Risk management (cont'd)

(b) Insurance risk (cont'd)

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

Mitigating insurance risk

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

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

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

(c) Market and investment risk

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

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

4 Risk management (cont'd)

(d) Credit risk

Credit risk is the risk of financial loss to the Branch if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Branch's premium receivables from brokers or policy holders, reinsurance receivables from reinsurers and investments.

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

(e) Liquidity risk

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

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

(f) Operational risk

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

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

(g) Compliance risk

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

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

(h) Group risk

Group risk is the risks the Branch is exposed to as a member of the FMIC Group. These may deplete or divert financial resources held by the Branch to meet liabilities arising from Group. The Group risk is addressed and managed through the Group's Global Risk Management Arrangements.

5 Regulatory capital

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

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

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

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

Solvency Margin

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

	Year ended 31 December 2017 NZD '000	Year ended 31 December 2016 NZD '000
Actual capital resources	1,151,726	1,003,382
Capital resources requirement	749,132	679,531
Solvency margin	402,594	323,851
Solvency Ratio	154%	148%

The solvency margin reported is converted from the Company's functional currency of GBP to NZD, using the spot rate published by RBNZ at 29 December 2017.

6 Operating segments

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

FM Insurance Company Limited
New Zealand Branch

Notes to the financial statements
for the year ended 31 December 2017

7 Financial assets and liabilities

2016	Note	Amortised cost	Total carrying amount	Fair Value
	Note	$	$	$
Assets				
Intercompany account		14,330,690	14,330,690	14,330,690
Trade and other receivables	*12*	143,192	143,192	143,192
Total Assets		**14,473,882**	**14,473,882**	**14,473,882**
Liabilities				
Trade and other payables	*15*	80,774	80,774	80,774
Total Liabilities		**80,774**	**80,774**	**80,774**

2017	Note	Amortised cost	Total carrying amount	Fair Value
	Note	$	$	$
Assets				
Intercompany account		14,362,876	14,362,876	14,362,876
Trade and other receivables	*12*	-	-	-
Total Assets		**14,362,876**	**14,362,876**	**14,362,876**
Liabilities				
Trade and other payables	*15*	102,595	102,595	102,595
Total Liabilities		**102,595**	**102,595**	**102,595**

FM Insurance Company Limited
New Zealand Branch

Notes to the financial statements
for the year ended 31 December 2017

8 Analysis of income

	Note	2017 $	2016 $
Premium Revenue			
Gross written premium		28,839	1,027,312
Movement in unearned premium reserve		1,758	10,144,231
Premium revenue		30,597	11,171,543
Reinsurance Revenue			
Reinsurance and other recoveries on paid claims		246,882	168,225
Movement in reinsurance and other recoveries on outstanding claims		(33,829)	(1,733,010)
Reinsurance and other recoveries revenue	*11*	213,053	(1,564,785)
Net Acquisition and Underwriting Revenue			
Reinsurance commission received		39,386	799,353
Movement in deferred reinsurance commission		10	467,948
Reinsurance commission revenue		39,396	1,267,301
Movement in unexpired risk liability	*21b*	956	3,208,764
Acquisition costs		(5)	29,896
Commission expense		(1)	(11,202)
Net Acquisition and underwriting revenue		40,346	4,494,759
Other Operating Income			
Allocated interest income		-	-
Interest income		-	-
Engineering fee income		-	146,163
Foreign exchange gains		(51,013)	28,319
Other income		-	-
Other operating income		(51,013)	174,482
Total Income		**232,983**	**14,275,999**

9 Analysis of expenses

	Note	2017 $	2016 $
Outwards Reinsurance Expense			
Outwards reinsurance paid		(59,354)	1,157,563
Movement in deferred reinsurance expense		1,029	6,742,879
Outwards reinsurance expense		**(58,325)**	**7,900,442**
Gross Claims Expense			
Claims paid, including external loss adjustment expense		448,821	855,403
Movement in outstanding claims		(329,816)	(3,838,403)
Internal loss adjustment expense		1	69,983
Gross claims expense	*11*	**119,006**	**(2,913,017)**
General and Administration Expense			
Auditor remuneration	*10*	17,074	23,369
Other general and administration expense		(9,627)	2,242,021
Internal loss adjustment expense		(1)	(69,983)
General and administration expense		**7,446**	**2,195,407**

10 Auditor remuneration

	2017 $	2016 $
Assurance Services - Ernst & Young		
Audit of the financial statements	**17,074**	**23,369**

11 Net Claims expense

	Note	2017 $	2016 $
Gross claims expense - undiscounted		201,606	(2,091,700)
Discount to present value		2,980	52,254
Gross claims expense - discounted		204,586	(2,039,446)
Risk margin		(85,581)	(873,569)
Gross claims expense	*9*	**119,005**	**(2,913,015)**
Reinsurance and other recoveries revenue - undiscounted		225,923	(1,195,933)
Discount to present value		426	23,804
Reinsurance and other recoveries revenue - discounted		226,349	(1,172,129)
Risk margin		(13,296)	(392,656)
Reinsurance and other recoveries revenue	*8*	**213,053**	**(1,564,785)**
Net claims expense - undiscounted		(24,317)	(895,767)
Net discount to present value		2,554	28,450
Net claims expense - discounted		(21,763)	(867,317)
Net risk margin		(72,285)	(480,913)
Net claims expense - discounted including risk margin		**(94,048)**	**(1,348,230)**

12 Trade and other receivables

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

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

	2017 $	2016 $
Premium receivables		
Premium receivable	-	(12,513)
Provision for doubtful debts	-	-
Net premium receivable	-	(12,513)
Reinsurance receivables		
Reinsurance and other recoveries on paid claims	-	-
Provision for doubtful debts	-	-
Net reinsurance recoveries on paid claims	-	-
Other receivables		
Outwards reinsurance commission receivable	-	155,705
Total trade and other receivables	-	143,192

FM Insurance Company Limited
New Zealand Branch

Notes to the financial statements
for the year ended 31 December 2017

13 Net outstanding claims provision

(a) Composition of net outstanding claims provision

	2017 $	2016 $
Gross outstanding claims		
Gross outstanding claims	56,122	280,502
Loss adjustment expenses	2,496	12,535
Claims administration expenses	2,754	15,551
Gross outstanding claims - undiscounted	61,372	308,588
Discount to present value	(911)	(3,891)
Gross outstanding claims - discounted	60,461	304,697
Risk margin	21,431	107,012
Gross outstanding claims - discounted including risk margin	**81,892**	**411,709**
Reinsurance and other recoveries receivable on outstanding claims		
Reinsurance and other recoveries receivable on outstanding claims	39,796	59,094
Loss adjustment expenses	1,662	3,323
Claims administration expenses	-	-
Reinsurance and other recoveries receivable on outstanding claims - undiscounted	41,458	62,417
Discount to present value	(598)	(1,024)
Reinsurance and other recoveries receivable on outstanding claims - discounted	40,860	61,393
Risk margin	13,441	26,737
Reinsurance and other recoveries receivable on outstanding claims - discounted including risk margin	**54,301**	**88,130**
Net outstanding claims		
Net outstanding claims	16,326	221,408
Loss adjustment expenses	834	9,212
Claims administration expenses	2,754	15,551
Net outstanding claims - undiscounted	19,914	246,171
Net discount to present value	(313)	(2,867)
Net outstanding claims - discounted	19,601	243,304
Net risk margin	7,990	80,275
Net outstanding claims - discounted including risk margin	**27,591**	**323,579**

13 Net outstanding claims provision (cont'd)

(b) Process to determine net outstanding claims provision

Overview

The effective date of the actuarial report on the insurance liabilities is 31 December 2017. The actuarial report was prepared by Martin Fry (Fellow of the New Zealand Society of Actuaries, Institute of Actuaries of Australia, and Institute of Actuaries (London)) of Taylor Fry Consulting Actuaries. Taylor Fry Consulting Actuaries are satisfied with the nature, sufficiency and accuracy of data provided for the purpose of estimating insurance liabilities.

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

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

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

Future cash flows

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

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

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

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

13 Net outstanding claims provision (cont'd)

(b) Process to determine net outstanding claims provision (cont'd)

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

Discounting

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

Risk Margin

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

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

(c) Assumptions made

Adopted assumptions

Item	**2017**	**2016**
Loss adjustment expenses rate (to net incurred claims)	4.52%	4.53%
Indirect claim management expenses rate (to gross outstanding claims provision)	4.99%	5.62%
Inflation rate	2.51%	2.46%
Discount rate	1.92%	1.55%
Risk margin rate	35.40%	35.12%

13 Net outstanding claims provision (cont'd)

(c) Assumptions made (cont'd)

Description of assumptions

Loss adjustment expenses rate

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

Indirect claim management expenses rate

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

Inflation rate

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

Discount rate

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

Risk margin rate

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

13 Net outstanding claims provision (cont'd)

(d) Sensitivities

Modelled sensitivities

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

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

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

Item	Effect
Increase discount rate by 0.3%	Reduce outstanding claim liabilities by $0.034 million (0.2% of outstanding claims central estimates)
Increase inflation rate by 2%	Increase outstanding claim liabilities by $0.233 million (1.7% of outstanding claims central estimates)
Increase risk margin by 5%	Increase outstanding claim liabilities by $0.582 million (4.2% of outstanding claims central estimates)
Change incremental incurred cost movement for development quarter 2 for FMG to $2.5 million	Increase outstanding claim liabilities by $2.529 million (18.3% of outstanding claims central estimates)
Change incremental incurred cost movement for development quarter 2 for FMG to $0.015 million	Reduce outstanding claim liabilities by $0.529 million (3.8% of outstanding claims central estimates)
Change incremental incurred cost movement for development quarter 2 for AFM to $1 million	Increase outstanding claim liabilities by $0.757 million (5.5% of outstanding claims central estimates)
Change incremental incurred cost movement for development quarter 2 for AFM to $0.05million	Reduce outstanding claim liabilities by $0.457 million (3.3% of outstanding claims central estimates)
Approximate impact of 25% adverse movement in exchange rates (approx 20% claims impacted)	Increase outstanding claim liabilities by $0.691 million (5.0% of outstanding claims central estimates)

13 Net outstanding claims provision (cont'd)

(d) Sensitivities (cont'd)

<u>Description of the sensitivities</u>

General impact of changes

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

Incremental incurred cost movement

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

Excess of Loss (XoL)

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

Inflation rate

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

Discount rate

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

Risk margin

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

13 Net outstanding claims provision (cont'd)

(d) Sensitivities (cont'd)

Claims Development Table

The gross and net claims development tables show that average development has been broadly in line with the models adopted for the Actuarial Valuation.

Gross Claims Development Table

Accident year	2011	2012	2013	2014	2015	2016	2017	Total
	$m	$m	$m	$m	$m	$m	$m	$m
Est'd Ultimate claims cost								
At end of accident year	358.997	4.031	0.537	2.497	2.752	0.322	0.029	
One year later	393.156	0.333	0.480	0.616	1.311	0.491		
Two years later	428.575	0.679	0.379	0.616	1.319			
Three years later	468.703	0.786	0.379	0.616				
Four years later	468.713	0.786	0.379					
Five years later	468.713	0.786						
Six years later	468.713							
Current estimate of cumulative claims costs	**468.713**	**0.786**	**0.379**	**0.616**	**1.319**	**491.0**	**0.029**	**472.334**
Cumulative payments	468.713	0.786	0.379	0.616	1.319	463.0	0.000	472.277
Outstanding claims (Inflated & Discounted)						0.027	0.029	0.056
Discount								(0.001)
2008 & prior (Discounted)								
Loss Adjustment Expenses								0.002
Claims handling expense								0.003
Outstanding claims (Inflated & Discounted)								0.060

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Notes to the financial statements
for the year ended 31 December 2017

13 Net outstanding claims provision (cont'd)

(d) Sensitivities (cont'd)

Claims Development Table (cont'd)

Net Claims Development Table

Accident year	2011	2012	2013	2014	2015	2016	2017	Total
	$m	$m	$m	$m	$m	$m	$m	$m
Est'd Ultimate claims cost								
At end of accident year	77.576	3.310	0.538	0.980	2.094	0.216	0.014	
One year later	76.720	0.333	0.429	0.405	1.228	0.469		
Two years later	77.744	0.736	0.379	0.413	1.219			
Three years later	76.308	0.786	0.379	0.413				
Four years later	76.316	0.786	0.379					
Five years later	76.316	0.786						
Six years later	76.316							
Current estimate of cumulative claims costs	**76.316**	**0.786**	**0.379**	**0.413**	**1.219**	**0.469**	**0.014**	**79.595**
Cumulative payments	76.316	0.786	0.379	0.413	1.219	0.463	0.000	79.576
Outstanding claims (Inflated & Discounted)						0.005	0.014	0.019
Discount								0.000
2008 & prior (Discounted)								0.000
Loss Adjustment Expenses								0.001
Claims handling expense								0.003
Prudential margin								0.000
Outstanding claims (Inflated & Discounted)								**0.031**

14 Net unearned premium reserve

(a) Reconciliation of movements

	2017	2016
	$	$
Gross unearned premium reserve		
Gross unearned premium reserve at the beginning of the financial year	1,758	10,145,989
Gross deferral of premiums on contracts written	28,839	1,027,312
Gross earnings of premiums on contracts written	(30,597)	(11,171,543)
Gross unearned premium reserve at the end of the financial year	-	**1,758**
Deferred reinsurance expense		
Deferred reinsurance expense at the beginning of the financial year	1,029	6,743,908
Deferral of reinsurance	(59,354)	1,157,563
Expensing of reinsurance	58,325	(7,900,442)
Deferred reinsurance expense at the end of the financial year	-	**1,029**
Net unearned premium reserve		
Net unearned premium reserve at the beginning of the financial	729	3,402,081
Net deferral of premiums on contracts written	88,193	(130,251)
Net earnings of premiums on contracts written	(88,922)	(3,271,101)
Net unearned premium reserve at the end of the financial year	-	**729**

14 Net unearned premium reserve (cont'd)

(b) Liability adequacy test

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

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

	2017 $	2016 $
Premium reserve		
Gross unearned premium reserve	-	1,758
Deferred reinsurance expense	-	1,029
Net unearned premium reserve	-	729
Deferred acquisition costs	-	268
Net unearned premium reserve less DAC	-	461
Premium liability		
Gross central estimate of expected future cash flows for future claims	-	1,559
Reinsurance recoveries	-	705
Net central estimate of expected future cash flows for future claims	-	854
Risk margin	-	563
Net premium liability, including risk margin	-	1,417
Net deficiency	-	(956)
Assumptions		
Risk margin %	0.0%	0.0%
Probability of adequacy %	75.0%	75.0%
Policy administration % (to gross unearned premium reserve)	17.1%	17.1%

15 Trade and other payables

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

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

	2017	2016
	$	$
Trade and other payables		
Reinsurance creditors	73,008	(4,569)
Auditor fee payable	17,592	20,987
Other payables	11,995	64,356
Total trade and other payables	**102,595**	**80,774**

16 Related parties

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

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

	2017 $	2016 $
Transactions with related parties:		
Factory Mutual Insurance Company		
Reinsurance expense	1,774	(1,364,909)
Reinsurance commission received	44,718	849,360
General and administration expenses	(204)	2,191,374
Amounts receivable from and payable to related parties at balance date are:		
FM Insurance Company Ltd	10,452,683	10,907,763
Factory Mutual Insurance Company	(57,108)	49,280

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

- Reinsurance transactions to/from related parties are made in arm's length transactions both at normal market prices and on normal commercial terms.
- Outstanding balances at year-end are unsecured and interest free. Balances are settled on a quarterly basis, and therefore provision for bad or doubtful debts have been considered.

17 Equity retained for purposes of financial soundness

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

18 Commitments

(a) Capital commitments

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

(b) Software license and/or rental commitments

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

(c) Operating lease commitments

The Branch has no current finance lease commitments.

(d) Finance lease commitments

The Branch has no current finance lease commitments.

19 Contingent liabilities

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

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

20 Subsequent events

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

21 Notes to the cash flow statement

(a) Cash and cash equivalents

	2017	2016
	$	$
Intercompany account	14,362,876	14,330,690
Total cash and cash equivalents	14,362,876	14,330,690

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

	2017	2016
	$	$
Profit for the year	164,856	7,093,167
Non-cash items		
Net unrealised (gains) / losses on revaluation of investments	-	-
Movement in operating assets and liabilities		
Decrease / (Increase) in operating assets		
Trade and other receivables	143,193	2,557,018
Deferred reinsurance expense	1,029	6,742,879
Reinsurance and other recoveries on outstanding claims	33,829	1,733,010
Increase / (Decrease) in operating liabilities		
Trade and other payables	21,820	(4,011,851)
Unearned premium reserve	(1,758)	(10,144,231)
Deferred reinsurance commission	(10)	(467,948)
Unexpired risk liability	(956)	(3,208,764)
Outstanding claims provision	(329,817)	(3,838,401)
Net cash flows from operating activities	32,186	(3,545,121)

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

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

This report is provided under section 78 of the *Insurance (Prudential Supervision) Act 2010* ("the Insurance Act"), and relates to a review of the actuarial information in, or used in the preparation of, the financial statements of FM Insurance Company Limited (New Zealand) ("FMI (NZ)") for the year ended 31 December 2017.

The financial statements were authorised for issue by the Board of Directors of FM Insurance Company Limited ("FMI (UK)") on 26 April 2018 and the accompanying independent auditors' report was issued on 26 April 2018.

Name of appointed actuary conducting the review

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

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

Exemption from solvency standard

FMI (UK) has been granted a Section 59 exemption under the Insurance Act, which applies to overseas insurers of approved jurisdictions. This provides an exemption from compliance with the New Zealand Solvency Standard for Non-life Insurance Business and was dated 28 June 2013. I understand that under this exemption, the Reserve Bank of New Zealand considers the solvency of FMI (NZ) based on the solvency ratio of FMI (UK) under the UK Prudential Regulation Authority ("PRA") requirements. I have been provided with a Letter of Representation from the Finance Director of FMI (UK) to the independent auditors of FMI (UK), which attests that FMI (UK) has complied with the rules and requirements of the PRA for the period covered by the financial statements for the year ended 31 December 2017. I have not reviewed the calculations underlying the solvency data supplied to the PRA but have relied on the attestation of FMI (UK) and the report of the auditors as to their accuracy.

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

The actuarial information used in the financial statements comprises the outstanding claims liability as at 31 December 2017 shown in the statement of financial position. This amount was determined in accordance with the New Zealand Equivalent to International Financial Reporting Standard 4 ("NZ IFRS 4"), and represents the net central estimate plus a risk margin to provide a 75% probability of sufficiency. I confirm that this amount was calculated by me and advised to FMI (NZ) in a Financial Condition Report dated 6 April 2018.

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

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

Opinion

In my opinion:

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

Scope and limitations of review

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

Martin H Fry

Martin H Fry
Fellow of the New Zealand Society of Actuaries

26 April 2018