Company Registration number: 5817931

Factory Mutual Insurance Company

New Zealand Branch

Financial Statements

For the year ended 31 December 2023

CONTENTS

DIRECTORS' REPORT

The Directors present their report, together with financial statements of Factory Mutual Insurance Company New Zealand Branch) for the year ended 31 December 2023.

Corporate Information

Factory Mutual Insurance Company, New Zealand Branch (the "Branch") is licensed by the Reserve Bank New Zealand (RBNZ) under the Insurance (Prudential supervision) Act 2010.

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

The Branch is a part of Factory Mutual Insurance Company (the "Company"). The Company is incorporated in the United States of America. The registered office of the Company is 270 Central Avenue, Johnston, RI, 02919-4923, USA.

Results

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

Review of the business

Revenue was $32,160,486 (2022 restated: $30,515,163) during the year. The Branch made a post-tax profit / (loss) of ($4,116,242) (2022 restated: $14,889,882).

Events subsequent to reporting date

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

Going concern

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

Directors

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

Director	Title	Date changed
Thomas Alan Lawson	Non-Executive Director	
Frank John Dellaquila	Non-Executive Director	
Malcolm Craig Roberts	Executive Director	
John Anderson Luke Jnr	Non-Executive Director	
Gracia Catherine Martore	Non-Executive Director	
Christine Mary McCarthy	Non-Executive Director	
Francis Thomas Connor	Non-Executive Director	
Glenn Rodney Landau	Non-Executive Director	
David Thomas Walton	Non-Executive Director	
Colin Richard Day	Non-Executive Director	
Michel Serge Giannuzzi	Non-Executive Director	
Thomas J. Quinlan III	Non-Executive Director	
Israel Ruiz	Non-Executive Director	Resigned 13 April 2023
Christine K. McCoy	Non-Executive Director	Appointed 12 October 2023

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

Insurance of Directors

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

Disclosure of information to the auditors

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

Non-audit services

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

On behalf of the board

Malcolm Craig Roberts

Director

11 April 2024

Gracia Catherine Martore

Director

11 April 2024

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

Report on the audit of the financial statements

Opinion

We have audited the financial statements of the New Zealand Branch of Factory Mutual Insurance Company (the "Entity") on pages 7 to 52, which comprise the statement of financial position of the Entity as at 31 December 2023, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended of the Entity, and the notes to the financial statements including a summary of material accounting policy information.

In our opinion, the financial statements on pages 7 to 52 present fairly, in all material respects, the financial position of the Entity as at 31 December 2023 and its financial performance and cash flows for the year then ended in accordance with New Zealand Equivalents to International Financial Reporting Standards and International Financial Reporting Standards.

This report is made solely to those charged with governance. Our audit has been undertaken so that we might state to the Entity'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 Entity and the Entity's shareholder, for our audit work, for this report, or for the opinions we have formed.

Basis for opinion

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

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

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

Other than in our capacity as auditor we have no relationship with, or interest in, the Entity.

Key audit matters

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

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

Valuation of Liability for Incurred Claims

Why significant	How our audit addressed the key audit matter
As at 31 December 2023, the Branch recorded a Liability for Incurred Claims amount of \$6.2m (Note 11). The Branch applied NZ IFRS 17 *Insurance Contracts* ("NZ IFRS 17") for the first time on 1 January 2023. This standard brought changes to the accounting for the Branch's insurance and reinsurance contracts. On transition net assets as at 1 January 2022 increased by \$4.1m. Details on the transition approach are disclosed in Note 4.11.1. The valuation of the Liability for Incurred Claims constitutes a significant risk due to the high degree of uncertainty that is inherent in estimating expected future cash flows. The Branch's actuarial specialist calculated the liability by considering relevant model, inputs and assumptions applicable to the Branch. We considered the valuation of the Liability for Incurred Claims to be a key audit matter because of the: • financial significance of the Liability for Incurred Claims • degree of judgement in developing assumptions and the complexity of valuation models. The key inputs and judgements involved in estimating the Liability for Incurred Claims include: – discount rates – assumed rates of inflation – assumptions in relation to future claim handling expenses – assumptions as to the timing and amount of reported claim payments	Our audit procedures included the following: • with the assistance of our actuarial specialist we: – assessed the qualifications, competence and objectivity of the Branch's actuary – obtained an understanding of the work of the Branch's actuary and evaluated the appropriateness of their work, including their models – considered the Branch's accounting policies to evaluate its compliance with the requirements of NZ IFRS 17 – assessed the valuation methods and approach used by the Branch's actuary against the requirements of NZ IFRS 17 and consistency with industry practice and the underlying claims exposure – assessed the assumption setting process, including data for completeness on the Branch's obligations to policyholders/ beneficiaries and claims payment information used as inputs into the valuation models – assessed the results of the experience investigations carried out by the Branch's actuary, to determine how they inform the key assumptions adopted – assessed the calculations of the insurance contract liabilities via inquiry of the calculation methods and assumptions or via independent recalculations. • assessed the adequacy of the Liability for Incurred Claims disclosures, including new disclosures required by NZ IFRS 17, within the Notes to the financial statements.

Why significant	How our audit addressed the key audit matter
– assumptions in relation to the number and size of claims incurred but not reported – allowance for risk in estimating future cash flows through the inclusion of a risk adjustment • The change in disclosures relating to the introduction and application of NZ IFRS 17 Details on the valuation techniques, inputs and assumptions used are disclosed in Note 5.	

Directors' responsibilities for the financial statements

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

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

Auditor's responsibilities for the audit of the financial statements

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

A further description of the auditor's responsibilities for the audit of the financial statements is located at the External Reporting Board's website: https://www.xrb.govt.nz/standards-for-assurance-practitioners/auditors-responsibilities/audit-report-2/. This description forms part of our auditor's report.

The engagement partner on the audit resulting in this independent auditor's report is Kieren Cummings.

Ernst & Young

Ernst & Young
Sydney
11 April 2024

FINANCIAL STATEMENTS

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

for the year ended 31 December 2023

	Notes	2023 NZD	2022 (Restated) NZD
Insurance revenue		32,160,486	30,515,163
Insurance service expense	6	(34,434,732)	(4,238,422)
Insurance service result before reinsurance contracts held		**(2,274,246)**	**26,276,741**
Allocation of reinsurance premiums		(12,794,610)	(12,481,275)
Amounts recoverable from reinsurers for incurred claims		10,438,336	660,173
Net expense from reinsurance contracts held		**(2,356,274)**	**(11,821,102)**
Insurance service result		**(4,630,520)**	**14,455,639**
Other interest and similar income		332,564	-
Net foreign exchange income		176,279	414,353
Net investment result	7	**508,843**	**414,353**
Insurance finance expenses for insurance contracts issued		(18,472)	(130,882)
Reinsurance finance (expenses) / income for reinsurance contracts held		(39,738)	77,115
Net insurance financial result	7	**(58,210)**	**(53,767)**
Other operating income	8	63,645	73,657
Other income and expense		**63,645**	**73,657**
(Loss) / Profit before income tax		**(4,116,242)**	**14,889,882**
Income tax expense		-	-
(Loss) / Profit after income tax		**(4,116,242)**	**14,889,882**
Other comprehensive income for the year, net of tax		-	-
Total comprehensive (loss) / income for the year, net of tax		**(4,116,242)**	**14,889,882**

The accompanying policies and explanatory notes form an integral part of the financial statements.

STATEMENT OF FINANCIAL POSITION

	Notes	As at 31 December 2023 NZD	2022 (Restated) NZD	As at 1 January 2022 (Restated) NZD
Assets				
Cash and cash equivalents	10	49,288,920	49,440,800	45,616,695
Reinsurance contract assets	11	-	2,422,336	2,479,135
Total assets		**49,288,920**	**51,863,136**	**48,095,830**
Equity and liabilities				
Liabilities				
Liabilities for contracts with customers		-	-	(11,544)
Insurance contract liabilities	11	(16,605,380)	(15,151,117)	(19,262,149)
Reinsurance contract liabilities	11	(5,087,763)	-	-
Total liabilities		**(21,693,143)**	**(15,151,117)**	**(19,273,693)**
Equity				
Head office account		(6,000,000)	(6,000,000)	(6,000,000)
Retained earnings		(21,595,777)	(30,712,019)	(22,822,137)
Total equity		**(27,595,777)**	**(36,712,019)**	**(28,822,137)**
Total equity and liabilities		**(49,288,920)**	**(51,863,136)**	**(48,095,830)**

The accompanying policies and explanatory notes form an integral part of the financial statements.

STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2023

2023	Notes	Head office account	Retained earnings	Total
		NZD	NZD	NZD
As at 31 December 2021, as previously reported		**6,000,000**	**18,678,886**	**24,678,886**
Impact of initial application of IFRS 17	4.11.1	-	4,143,251	4,143,251
Restated balance as at 1 January 2022		**6,000,000**	**22,822,137**	**28,822,137**
Profit / (loss) for the year restated		-	14,889,882	14,889,882
Other comprehensive income		-	-	-
Total comprehensive income		**-**	**14,889,882**	**14,889,882**
Capital repatriations		-	(7,000,000)	(7,000,000)
Restated balance as at 31 December 2022		**6,000,000**	**30,712,019**	**36,712,019**
(Loss) / profit for the year		-	(4,116,242)	(4,116,242)
Other comprehensive income		-	-	-
Total comprehensive income		-	**(4,116,242)**	**(4,116,242)**
Capital repatriations		-	(5,000,000)	(5,000,000)
Balance as at 31 December 2023		**6,000,000**	**21,595,777**	**27,595,777**

STATEMENT OF CASH FLOWS

for the year ended 31 December 2023

	Notes	2023 NZD	2022 (Restated) NZD
Operating activities:			
(Loss) / profit before taxation		**(4,116,242)**	**14,889,882**
Adjustments to reconcile profit before tax to net cash flows:			
Interest income		(332,564)	-
Decrease in reinsurance contract assets		-	56,799
Increase in reinsurance contract liabilities		7,510,100	-
Increase / (decrease) in insurance contract liabilities		1,454,262	(4,111,032)
Working capital adjustments:			
Decrease in liabilities for contracts with customers		-	(11,544)
Cash flows from operations		**4,515,556**	**10,824,105**
Interest received		332,564	-
Net cash flows from operating activities		**4,848,120**	**10,824,105**
Investing activities:			
Net cash flows from / (used in) investing activities		**-**	**-**
Financing activities:			
Capital repatriations to Head office		(5,000,000)	(7,000,000)
Net cash flows used in financing activities		**(5,000,000)**	**(7,000,000)**
Net increase / (decrease) in cash and cash equivalents		(151,880)	3,824,105
Cash and cash equivalents at 1 January		49,440,800	45,616,695
Cash and cash equivalents at 31 December	10	**49,288,920**	**49,440,800**

The accompanying policies and explanatory notes form an integral part of the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

CORPORATE AND BUSINESS INFORMATION

1 Reporting entity

Factory Mutual Insurance Company, New Zealand Branch (the “Branch”) was registered with the New Zealand Companies Office on 1 October 2015 and was licensed by the Reserve Bank New Zealand (RBNZ) on 1 January 2016 to carry out general insurance business.

The registered office of the Branch is C/-KPMG Centre, 18 Viaduct Harbour Avenue, Auckland, New Zealand.

The principal activity of the Branch is the insurance of commercial property risks held by corporate clients.

2 Corporate information

The Branch is an insurance branch of Factory Mutual Insurance Company (“FMIC” or the “Company”). The Company is incorporated in the United States of America.

The registered office of the Company is 270 Central Avenue, P.O. Box 7500, Johnston, RI, 02919-4923, USA.

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

3 Segment information

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

MATERIAL ACCOUNTING POLICIES, JUDGEMENTS, ESTIMATES & ASSUMPTIONS

4 Material accounting policy information

4.1 Basis of preparation

The financial statements comply with the New Zealand Equivalents to International Financial Reporting Standards (NZIFRS), International Financial Reporting Standards (IFRS) and other applicable Financial Reporting Standards.

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

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

The financial statements have been prepared on a historical cost basis, except for insurance contracts that have been measured on a discounted cashflow basis.

The financial statements are presented in NZD, unless otherwise stated.

The Branch presents its statement of financial position broadly in order of liquidity on the basis that it provides information that is more reliable and relevant for the Branch.

The comparative year amounts have been re-grouped, re-classified and re-stated wherever necessary in line with current year disclosure presentation. There were material re-groupings, re-classifications and re-statements during the year arising from the application of IFRS 17.

4.2 Fair value measurement

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

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

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

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

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

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

4.3 Foreign currency translation

The Branch's financial statements are presented in NZD which is also the Branch's functional currency.

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

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

Differences arising on settlement or translation of monetary items are recognised in profit or loss.

4.4 Other income

4.4.1 Revenue from contracts with customers

In certain circumstances, insurance policyholders may be separately charged for loss prevention engineering services.

These fees are recognised as revenue over the period in which the related services are performed. If fees are for services provided in future periods, then they are deferred and recognised over those future periods.

A contract asset is initially recognised for revenue earned from engineering services because the receipt of consideration is conditional on successful completion of the services. Upon completion of the services, the amount recognised as contract assets is reclassified to receivables. Contract assets are subject to impairment assessment.

A receivable is recognised if an amount of consideration that is unconditional is due from the customer (i.e., only the passage of time is required before payment of the consideration is due).

A contract liability is recognised if a payment is received or a payment is due (whichever is earlier) from a customer before the Branch performs the services. Liabilities for contracts with customers are recognised as revenue when the Branch performs under the contract (i.e., performs the services to the customer).

4.5 Cash and cash equivalents

Cash and cash equivalents in the statement of financial position comprise cash at bank and where applicable, cash on hand and cash in short-term deposits with a maturity of three months or less, which are subject to an insignificant risk of changes in value.

4.6 Provisions

4.6.1 General

Provisions are recognised when the Branch has a present obligation (legal or constructive) where as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. When the Branch expects some or all of a provision to be reimbursed, for example, under an insurance contract the reimbursement is recognised as a separate asset, but only when the reimbursement is virtually certain. The expense relating to a provision is presented in the statement of profit or loss net of any reimbursement.

If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. When discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

4.6.2 Onerous contracts

If the Branch has a contract that is onerous, the present obligation under the contract is recognised and measured as a provision. However, before a separate provision for an onerous contract is established, the Branch recognises any impairment loss that has occurred on assets dedicated to that contract.

An onerous contract is a contract under which the unavoidable costs (i.e., the costs that the Branch cannot avoid because it has the contract) of meeting the obligations under the contract exceed the economic benefits expected to be received under it. The unavoidable costs under a contract reflect the least net cost of exiting from the contract, which is the lower of the cost of fulfilling it and any compensation or penalties arising from failure to fulfil it. The cost of fulfilling a contract comprises the costs that relate directly to the contract (i.e., both incremental costs and an allocation of costs directly related to contract activities).

4.7 Taxes

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

4.8 Insurance contracts classification

The Branch issues insurance contracts in the normal course of business, under which it accepts significant insurance risk from its policyholders. As a general guideline, the Branch determines whether it has significant insurance risk by comparing benefits payable after an insured event with benefits payable if the insured event did not occur. Insurance contracts can also transfer financial risk. The Branch issues insurance to companies. Insurance products offered cover commercial property, including business interruption and burglary & theft.

The Branch does not issue any contracts with direct participating features.

4.9 Insurance and reinsurance contracts accounting treatment

4.9.1 Separating components from insurance and reinsurance contracts

The Branch assesses its insurance and reinsurance products to determine whether they contain distinct components which must be accounted for under another NZ IFRS instead of under NZ IFRS 17. After separating any distinct components, the Branch applies NZ IFRS 17 to all remaining components of the (host) insurance contract. Currently, the Branch's products do not include any distinct components that require separation.

4.9.2 Level of aggregation

IFRS 17 requires an entity to determine the level of aggregation for applying its requirements. The Branch previously applied aggregation levels under NZ IFRS 4, which is the same as the level of aggregation required by NZ IFRS 17. The level of aggregation for the Branch is determined firstly by dividing the business written into portfolios. Portfolios comprise groups of contracts with similar risks which are managed together. Portfolios are further divided based on expected profitability at inception into three categories: onerous contracts, contracts with no significant risk of becoming onerous, and the remainder. This means that, for determining the level of aggregation, the Branch identifies a contract as the smallest 'unit', i.e., the lowest common denominator. However, the Branch makes an evaluation of whether a series of contracts need to be treated together as one unit based on reasonable and supportable information, or whether a single contract contains components that need to be separated and treated as if they were stand-alone contracts. As such, what is treated as a contract for accounting purposes may differ from what is considered as a contract for other purposes (i.e., legal or management). NZ IFRS 17 also requires that no group for level of aggregation purposes may contain contracts issued more than one year apart.

Insurance contracts issued by the Branch are subject to similar risks and are managed together. Accordingly, all insurance contracts are regarded as forming a single portfolio.

The Branch applied a full retrospective approach for transition to NZ IFRS 17. The portfolio is further divided by year of issue and profitability for recognition and measurement purposes. Hence, within each year of issue, the portfolio of contracts is divided into three groups, as follows:

- A group of contracts that are onerous at initial recognition (if any);
- A group of contracts that, at initial recognition, have no significant possibility of becoming onerous subsequently (if any);
- A group of the remaining contracts in the portfolio (if any).

The profitability of groups of contracts is assessed by the Branch, including having regard to actuarial valuation models that take into consideration existing and new business. The Branch assumes that no contracts in the portfolio are onerous at initial recognition unless facts and circumstances indicate otherwise. For contracts that are not onerous, the Branch assesses, at initial recognition, that there is no significant possibility of becoming onerous subsequently by assessing the likelihood of changes in applicable facts and circumstances. The Branch considers facts and circumstances to identify whether a group of contracts are onerous based on:

- Pricing information;
- Results of similar contracts it has recognised; and
- Environmental factors, e.g., a change in market experience or regulations.

The Branch divides the portfolio of reinsurance contracts held applying the same principles set out above, except that the references to onerous contracts refer to contracts on which there is a net gain on initial recognition. For some groups of reinsurance contracts held, a group can comprise a single contract.

4.9.3 Recognition

The Branch recognises groups of insurance contracts it issues from the earliest of the following:

- The beginning of the coverage period of the group of contracts;
- The date when the first payment from a policyholder in the group is due or when the first payment is received if there is no due date; or
- For a group of onerous contracts, if facts and circumstances indicate that the group is onerous.

The Branch recognises a group of reinsurance contracts held from the earlier of the following:

- The beginning of the coverage period of the group of reinsurance contracts held. However, the Branch delays the recognition of a group of reinsurance contracts held that provide proportionate coverage until the date any underlying insurance contract is initially recognised, if that date is later than the beginning of the coverage period of the group of reinsurance contracts held; and
- The date the Branch recognises an onerous group of underlying insurance contracts if the Branch entered into the related reinsurance contract held in the group of reinsurance contracts held at or before that date.

The Branch adds new contracts to the group in the reporting period in which that contract meets one of the criteria set out above.

4.9.4 *Contract boundary*

The Branch includes in the measurement of a group of insurance contracts all the future cash flows within the boundary of each contract in the group. Cash flows are within the boundary of an insurance contract if they arise from substantive rights and obligations that exist during the reporting period in which the Branch can compel the policyholder to pay the premiums, or in which the Branch has a substantive obligation to provide the policyholder with insurance contract services. A substantive obligation to provide insurance contract services ends when:

- The Branch has the practical ability to reassess the risks of the particular policyholder and, as a result, can set a price or level of benefits that fully reflects those risks; or
- Both of the following criteria are satisfied:
  - The Branch has the practical ability to reassess the risks of the portfolio of insurance contracts that contain the contract and, as a result, can set a price or level of benefits that fully reflects the risk of that portfolio; and
  - The pricing of the premiums up to the date when the risks are reassessed does not take into account the risks that relate to periods after the reassessment date.

A liability or asset relating to expected premiums or claims outside the boundary of the insurance contract is not recognised. Such amounts relate to future insurance contracts.

4.9.5 *Measurement*

Accounting policy choices

Category	*IFRS 17 Options*	*Adopted approach*
Premium Allocation Approach (PAA) Eligibility	Subject to specified criteria, the PAA can be adopted as a simplified approach to the IFRS 17 general model.	The PAA will be adopted. Coverage period for insurance contracts issued may include some contracts with coverage period greater than one year. However, there is no material difference in the measurement of the liability for remaining coverage between PAA and the general model, therefore all of the Branch's insurance contracts qualify for PAA.
Insurance acquisition cash flows for insurance contracts issued	Where the coverage period of all contracts within a group is not longer than one year, insurance acquisition cash flows can either be expensed as incurred, or allocated, using a systematic and rational method, to groups of insurance contracts (including future groups containing insurance contracts that are expected to arise from renewals) and then amortised over the coverage period of the related group. For groups containing contracts longer than one year, insurance acquisition cash flows must be allocated to related groups of insurance contracts and amortised over the coverage period of the related group.	Insurance acquisition cash flows are expensed as incurred.

Category	*IFRS 17 Options*	*Adopted approach*
Liability for Remaining Coverage (LFRC), adjusted for financial risk and time value of money	Where there is no significant financing component in relation to the LFRC, or where the time between providing each part of the services and the related premium due date is no more than a year, an entity is not required to make an adjustment for accretion of interest on the LFRC.	There is no allowance made for accretion of interest on the LFRC as the premiums are received within one year of the coverage period.
Liability for Incurred Claims, (LFIC) adjusted for time value of money	Where claims are expected to be paid within a year of the date that the claim is incurred, it is not required to adjust these amounts for the time value of money.	The LFIC is adjusted for the time value of money, even where the incurred claims are expected to be paid out in less than one year.
Insurance finance income and expense	There is an option to disaggregate part of the movement in LFIC resulting from changes in discount rates and present this in OCI.	The change in LFIC as a result of changes in discount rates will be captured within profit or loss.

Insurance contracts – initial measurement

The Branch applies PAA to all the insurance contracts that it issues and reinsurance contracts that it holds, as:

- The coverage period of each contract in the group is one year or less, including insurance contract services arising from all premiums within the contract boundary; or
- For contracts longer than one year, the Branch has modelled possible future scenarios and reasonably expects that the measurement of the liability for remaining coverage for the group containing those contracts under the PAA does not differ materially from the measurement that would be produced applying the general model. In assessing materiality, the Branch has also considered qualitative factors such as the nature of the risk.

The Branch would not apply the PAA if, at the inception of the group of contracts, it expects significant variability in the fulfilment cash flows that would affect the measurement of the liability for the remaining coverage during the period before a claim is incurred. Variability in the fulfilment cash flows increases with, for example:

- The extent of future cash flows related to any derivatives embedded in the contracts; and
- The length of the coverage period of the group of contracts.

The liability for remaining coverage is not discounted to reflect the time value of money and the effect of financial risk as the premiums are received within one year of the coverage period.

Where facts and circumstances indicate that contracts are onerous at initial recognition, the Branch performs additional analysis to determine if a net outflow is expected from the contract. Such onerous contracts are separately grouped from other contracts and the Branch recognises a loss in profit or loss for the net outflow, resulting in the carrying amount of the liability for the group being equal to the fulfilment cash flows. A loss component is established by the Branch for the liability for remaining coverage for such onerous group depicting the losses recognised.

Reinsurance contracts held – initial measurement

The Branch measures its reinsurance assets for a group of reinsurance contracts that it holds on the same basis as insurance contracts that it issues. However, they are adapted to reflect the features of reinsurance contracts held that differ from insurance contracts issued, for example the generation of expenses or reduction in expenses rather than revenue.

Where the Branch recognises a loss on initial recognition of an onerous group of underlying insurance contracts or when further onerous underlying insurance contracts are added to a group, the Branch establishes a loss-recovery component of the asset for remaining coverage for a group of reinsurance contracts held depicting the recovery of losses.

The Branch calculates the loss-recovery component by multiplying the loss recognised on the underlying insurance contracts and the percentage of claims on the underlying insurance contracts the Branch expects to recover from the group of reinsurance contracts held. The Branch uses a systematic and rational method to determine the portion of losses recognised on the group to insurance contracts covered by the group of reinsurance contracts held where some contracts in the underlying group are not covered by the group of reinsurance contracts held.

The loss-recovery component adjusts the carrying amount of the asset for remaining coverage.

Insurance contracts – subsequent measurement

The Branch measures the carrying amount of the liability for remaining coverage at the end of each reporting period as the liability for remaining coverage at the beginning of the period:

- Plus premiums received in the period;
- Minus the amount recognised as insurance revenue for the services provided in the period.

The Branch estimates the LFIC as the fulfilment cash flows related to incurred claims. The fulfilment cash flows incorporate, in an unbiased way, all reasonable and supportable information available without undue cost or effort about the amount, timing and uncertainty of those future cash flows. They reflect current estimates from the perspective of the Branch, and include an explicit adjustment for non-financial risk (the risk adjustment). The Branch adjusts the future cash flows for the time value of money and the effect of financial risk for the measurement of liability for incurred claims, even where they are expected to be paid more than one year of being incurred.

Where, during the coverage period, facts and circumstances indicate that a group of insurance contracts is onerous, the Branch recognises a loss in profit or loss for the net outflow, resulting in the carrying amount of the liability for the group being equal to the fulfilment cash flows. A loss component is established by the Branch for the liability for remaining coverage for such onerous group depicting the losses recognised.

Reinsurance contracts held – subsequent measurement

The subsequent measurement of reinsurance contracts held follows the same principles as those for insurance contracts issued and has been adapted to reflect the specific features of reinsurance held.

Where the Branch has established a loss-recovery component, the Branch subsequently reduces the loss-recovery component to zero in line with reductions in the onerous group of underlying insurance contracts in order to reflect that the loss-recovery component shall not exceed the portion of the carrying amount of the loss component of the onerous group of underlying insurance contracts that the entity expects to recover from the group of reinsurance contracts held.

Insurance acquisition cash flows

Insurance acquisition cash flows arise from the costs of selling, underwriting and starting a group of insurance contracts (issued or expected to be issued) that are directly attributable to the portfolio of insurance contracts to which the group belongs.

The Branch chooses to expense insurance acquisition cash flows as they occur.

Insurance contracts – modification and derecognition

The Branch derecognises insurance contracts when:

- The rights and obligations relating to the contract are extinguished (i.e., discharged, cancelled or expired); or
- The contract is modified such that the modification results in a change in the measurement model or the applicable standard for measuring a component of the contract, substantially changes the contract boundary, or requires the modified contract to be included in a different group. In such cases, the Branch derecognises the initial contract and recognises the modified contract as a new contract.

When a modification is not treated as a derecognition, the Branch recognises amounts paid or received for the modification of the contract as an adjustment to the relevant liability for remaining coverage.

4.9.6 Presentation

The Branch disaggregates the total amount recognised in the statement of profit or loss and other comprehensive income into an insurance service result, comprising insurance revenue and insurance service expense, and insurance finance income or expenses.

The Branch does not disaggregate the change in risk adjustment for non-financial risk between a financial and non-financial portion and includes the entire change as part of the insurance service result.

The Branch separately presents income or expenses from reinsurance contracts held from the expenses or income from insurance contracts issued.

Insurance revenue

The insurance revenue for the period is the amount of expected premium receipts (excluding any investment component, if applicable) allocated to the period. The Branch allocates the expected premium receipts to each period of insurance contract services on the basis of the passage of time.

Loss components

The Branch assumes that no contracts are onerous at initial recognition unless facts and circumstances indicate otherwise. Where this is not the case, and if at any time during the coverage period, facts and circumstances indicate that a group of insurance contracts is onerous, the Branch establishes a loss component as the excess of the fulfilment cash flows that relate to the remaining coverage of the group over the carrying amount of the liability for remaining coverage of the group. Accordingly, by the end of the coverage period of the group of contracts the loss component will be zero.

Loss-recovery components

Where the Branch recognises a loss on initial recognition of an onerous group of underlying insurance contracts, or when further onerous underlying insurance contracts are added to a group, the Branch establishes a loss-recovery component of the asset for remaining coverage for a group of reinsurance contracts held depicting the expected recovery of the losses.

A loss-recovery component is subsequently reduced to zero in line with reductions in the onerous group of underlying insurance contracts in order to reflect that the loss-recovery component shall not exceed the portion of the carrying amount of the loss component of the onerous group of underlying insurance contracts that the entity expects to recover from the group of reinsurance contracts held.

Insurance finance income and expense

Insurance finance income or expenses comprise the change in the carrying amount of the group of insurance contracts arising from:

- The effect of the time value of money and changes in the time value of money; and
- The effect of financial risk and changes in financial risk.

The Branch does not disaggregate insurance finance income or expenses on insurance contracts issued between profit or loss and OCI.

Net income or expense from reinsurance contracts held

The Branch presents separately on the face of the statement of profit or loss and OCI, the amounts expected to be recovered from reinsurers, and an allocation of the reinsurance premiums paid. The Branch treats reinsurance cash flows that are contingent on claims on the underlying contracts as part of the claims that are expected to be reimbursed under the reinsurance contract held, and excludes investment components and commissions from an allocation of reinsurance premiums presented on the face of the statement of profit or loss and OCI.

4.10 Financial assets and liabilities

4.10.1 Financial Assets

Initial recognition

The classification of financial assets at initial recognition depends on their contractual terms and the business model for managing the instruments.

Financial assets are initially recognised on the trade date measured at their fair value. Except for financial assets and financial liabilities recorded at fair value through profit or loss (FVPL), transaction costs are added to this amount.

Measurement categories

The Branch classifies all of its financial assets based on the business model for managing the assets and the asset's contractual terms. The categories include the following:

- Amortised cost;
- Fair value through other comprehensive income (FVOCI); and
- FVPL.

The Branch's financial assets are classified as debt instruments, are held at amortised cost and consist of receivables and cash and cash equivalents.

Reclassification of financial assets

The Branch does not reclassify its financial assets subsequent to their initial recognition.

Derecognition

Derecognition other than for substantial modification

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

- The rights to receive cash flows from the asset have expired; or
- The Branch has transferred its right to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either: (a) the Branch has transferred substantially all the risks and rewards of the asset; or (b) the Branch has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

The Branch considers control to be transferred if and only if, the transferee has the practical ability to sell the asset in its entirety to an unrelated third party and is able to exercise that ability unilaterally and without imposing additional restrictions on the transfer.

Derecognition due to substantial modification of terms and conditions

The Branch derecognises a financial asset when the terms and conditions have been renegotiated to the extent that, substantially, it becomes a new instrument, with the difference recognised as a derecognition gain or loss. In the case of debt instruments at amortised cost, the newly recognised loans are classified as Stage 1 for expected credit loss ("ECL") measurement purposes.

Impairment of financial assets

The Branch recognises an allowance for ECLs for all debt instruments not held at FVPL. The ECL model requires an expected credit loss, if any, be reflected in profit or loss immediately after a financial asset is acquired and at each subsequent reporting date to reflect any changes in credit risk. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Branch expects to receive, discounted at the appropriate effective interest rate.

The Branch applies the ECL impairment model to its cash and cash equivalents and receivables. For these financial assets, the Branch applies a simplified approach in calculating expected credit losses. Therefore, the Branch does not track changes in credit risk, but instead recognizes a loss allowance based on lifetime expected credit losses at each reporting date. The Branch considers a financial asset to be in default (credit impaired) when contractual payments are 90 days past due. However, in certain cases, the Branch may also consider a financial asset to be in default when internal or external information indicates that the Branch is unlikely to receive the outstanding contractual amounts.

Forward looking information

In its ECL models, the Branch relies on forward-looking information as economic inputs.

Write-offs

Financial assets are written off either partially or in their entirety only when the Branch has stopped pursuing the recovery. If the amount to be written off is greater than the accumulated loss allowance, the difference is first treated as an addition to the allowance that is then applied against the gross carrying amount. Any subsequent recoveries are credited to credit loss expense.

There were no write-offs over the periods reported in these financial statements.

4.10.2 Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at FVPL, loans and borrowings or payables, as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

The Branch's financial liabilities are classified as financial liabilities at amortised cost and consist of payables, accruals, and lease liabilities.

Subsequent measurement

For purposes of subsequent measurement, financial liabilities are classified in two categories:

- Financial liabilities at FVPL; and
- Financial liabilities at amortised cost (loans and borrowings)

After initial recognition and measurement, such financial liabilities are subsequently measured at amortised cost using the EIR method. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the EIR amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included as finance costs in the statement of profit or loss.

Derecognition

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

4.10.3 Offsetting of financial instruments

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

4.11 Changes in material accounting policy and disclosures

The Branch has not changed any material accounting policy during the reporting period, except for the below.

The Branch has applied for the first time certain standards, interpretations and amendments that became effective during the reporting period as described below. In particular, the Branch has applied NZ IFRS 17 for the first time.

The Branch has not early adopted any standard, interpretation or amendment that has been issued but is not yet effective.

4.11.1 Transition IFRS 17 Insurance Contracts

NZ IFRS 17 replaces NZ IFRS 4 Insurance Contracts for annual periods on or after 1 January 2023.

The Branch has restated comparative information for 2022 applying the transitional provisions in Appendix C to NZ IFRS 17. The nature of the changes in accounting policies are summarised below.

Changes to classification and measurement

The adoption of NZ IFRS 17 did not change the classification of the Branch's insurance contracts.

Under NZ IFRS 17, the Branch's insurance contracts issued, and reinsurance contracts held are all eligible to be measured by applying the PAA. The PAA simplifies the measurement of insurance contracts in comparison with the general model in NZ IFRS 17.

The measurement principles of the PAA differ from the 'earned premium approach' used by the Branch under NZ IFRS 4 in the following key areas:

- The liability for remaining coverage reflects premiums received less insurance acquisition cash flows (unless expensed immediately) less amounts recognised in revenue for insurance services provided;
- Measurement of the liability for remaining coverage involves an explicit evaluation of risk adjustment for non-financial risk when a group of contracts is onerous in order to calculate a loss component (previously these may have formed part of the unexpired risk reserve provision);
- Measurement of the liability for incurred claims and other expenses (previously claims outstanding and incurred-but-not-reported (IBNR) claims is determined on a discounted probability-weighted expected value basis and includes an explicit risk adjustment for non-financial risk. The liability includes the Branch's obligation to pay other incurred insurance expenses; and
- Measurement of the asset for remaining coverage (reflecting reinsurance premiums paid for reinsurance held) is adjusted to include a loss-recovery component to reflect the expected recovery of onerous contract losses where such contracts reinsure onerous direct contracts.

The Branch expenses its insurance acquisition cash flows immediately upon payment.

There is no group of contracts within the portfolio of insurance contracts issued that has been assessed as onerous on transition and as of 31 December 2023.

The Branch's classification and measurement of insurance and reinsurance contracts is explained in Note 4.9.

Changes to presentation and disclosure

For presentation in the statement of financial position, the Branch aggregates insurance contracts issued and reinsurance contracts held, respectively and presents separately:

- Portfolios of insurance issued; and
- Portfolios of reinsurance contracts held.

The portfolios referred to above are those established at initial recognition in accordance with the NZ IFRS 17 requirements.

The line item descriptions in the statement of profit or loss have been changed significantly compared with last year. Previously, the Branch reported the following line items:

- Gross Earned Premium;
- Net Earned Premium;
- Gross Incurred Claims; and
- Net Incurred Claims.

Instead, IFRS 17 requires separate presentation of:

- Insurance revenue;
- Insurance service expenses;
- Insurance and reinsurance finance income or expenses for insurance and reinsurance contracts held; and
- Income and expenses from reinsurance contracts held.

The Branch provides disaggregated qualitative and quantitative information about:

- Amounts recognised in its financial statements from insurance; and
- Material judgements, and changes in those judgements, when applying the standard.

Transition

On the transition date, 1 January 2022, the Branch:

- Has identified, recognised and measured each group of insurance contracts as if NZ IFRS 17 had always applied;
- Derecognised any existing balances that would not exist had NZ IFRS 17 always applied; and
- Recognised any resulting net difference in equity.

5 Material accounting judgements, estimates & assumptions

5.1 General

The preparation of the Branch's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the accompanying disclosures, and the disclosures of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future reporting periods.

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

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

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. The Branch based its assumptions and estimates on parameters available when the financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising that are beyond the control of the Branch. Such changes are reflected in the assumptions when they occur.

5.2 Insurance and reinsurance contracts

The Branch applies the PAA to simplify the measurement of insurance contracts. When measuring liabilities for remaining coverage, the PAA is broadly similar to the Branch's previous accounting treatment under NZ IFRS 4. However, when measuring liabilities for incurred claims, the Branch includes an explicit risk adjustment for non-financial risk.

5.2.1 Liability for remaining coverage

Onerous groups

For groups of contracts that are onerous, the liability for remaining coverage is determined by the fulfilment cash flows. Any loss-recovery component is determined with reference to the loss component recognised on underlying contracts and the recovery expected on such claims from reinsurance contracts held.

Insurance acquisition cashflows

The Branch chooses to recognise insurance acquisition cash flows as an expense immediately as incurred. The effect of electing to recognise insurance acquisition cash flows as an expense when incurred for a group of insurance contracts is to increase the liability for remaining coverage and reduce the likelihood of any subsequent onerous contract loss. There would be an increased charge to profit or loss on incurring the expense, offset by an increase in profit released over the coverage period.

Time value of money

The Branch does not adjust the carrying amount of the liability for remaining coverage to reflect the time value of money and the effect of financial risk.

5.2.2 Liability for incurred claims

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

The main assumption underlying these techniques is that the Branch's past claims development experience can be used to project future claims development and hence ultimate claims costs. These methods extrapolate the development of paid and incurred losses, average costs per claim (including claims handling costs), and claim numbers based on the observed development of earlier years and expected loss ratios. Historical claims development is mainly analysed by accident years. Large claims are usually separately addressed, either by being reserved at the face value of loss adjuster estimates or separately projected in order to reflect their future development. In most cases, no explicit assumptions are made regarding future rates of claims inflation or loss ratios. Instead, the assumptions used are those implicit in the historical claims development data on which the projections are based. Additional qualitative judgement is used to assess the extent to which past trends may not apply in future, (e.g., to reflect one-off occurrences, changes in external or market factors such as public attitudes to claiming, economic conditions, levels of claims inflation, judicial decisions and legislation, as well as internal factors such as portfolio mix, policy features and claims handling procedures) in order to arrive at the estimated ultimate cost of claims that present the probability weighted expected value outcome from the range of possible outcomes, taking account of all the uncertainties involved.

Insurance contracts that have been written by the Branch permit the Branch to sell property acquired in settling a claim. The Branch also has the right to pursue third parties for payment of some or all costs. Estimates of salvage recoveries and subrogation reimbursements are considered as an allowance in the measurement of ultimate claims costs.

Other key circumstances affecting the reliability of assumptions include variation in interest rates, delays in settlement and changes in foreign currency exchange rates.

Discount rates

Insurance contract liabilities are calculated by discounting expected future cash flows at a risk free rate. Risk free rates are determined by reference to the yields of highly liquid AAA-rated sovereign securities in the currency of the insurance contract liabilities.

Discount rates applied for discounting of future cash flows are listed below:

	1 year		*2 years*		*3 years*	
	2023	**2022**	**2023**	**2022**	**2023**	**2022**
AUD	3.76%	3.70%	3.76%	3.70%	3.76%	3.70%

Risk adjustment for non-financial risk

The risk adjustment for non-financial risk is the compensation that the Branch requires for bearing the uncertainty about the amount and timing of the cash flows of groups of insurance contracts. The risk adjustment reflects an amount that an insurer would rationally pay to remove the uncertainty that future cash flows will exceed the expected value amount.

The Branch has estimated the risk adjustment using a Cost of Capital approach. This equates to a confidence level (probability of sufficiency) approach at the 62nd percentile. That is, the Branch has assessed its indifference to uncertainty (as an indication of the compensation that it requires for bearing non-financial risk) as being equivalent to the 62nd percentile confidence level less the mean of an estimated probability distribution of the future cash flows. The Branch has estimated the probability distribution of the future cash flows, and the additional amount above the expected present value of future cash flows required to meet the target percentiles.

DETAILED INFORMATION ON STATEMENT OF PROFIT OR LOSS AND OCI ITEMS

6 Insurance service expense

	Notes	2023 NZD	2022 (Restated) NZD
Incurred claims and other directly attributable expenses		24,772,532	2,254,318
Changes to liabilities for incurred claims		5,496,300	(1,393,246)
Acquisition cashflows recognised when incurred	9	4,165,900	**3,377,**350
Total insurance service expense	9	**34,434,732**	**4,238,422**

7 Net investment result and net insurance financial result

2023

	Insurance related NZD	Non-Insurance related NZD	Total NZD
Investment Income			
Amounts recognised in the profit or loss			
Other interest and similar income	-	332,564	332,564
Net foreign exchange income	-	176,279	176,279
Total amounts recognised in the profit or loss	**-**	**508,843**	**508,843**
Total investment income	**-**	**508,843**	**508,843**
Insurance finance income/(expenses) from insurance contracts issued			
Interest accreted to insurance contracts using current financial assumptions	(81,301)	-	(81,301)
Net foreign exchange income	62,829	-	62,829
Total insurance finance expenses from insurance contracts issued	**(18,472)**	**-**	**(18,472)**
Represented by:			
Amounts recognised in profit or loss	(18,472)	-	(18,472)
Reinsurance finance income/(expenses) from reinsurance contracts held			
Interest accreted to reinsurance contracts using current financial assumptions	(15,881)	-	(15,881)
Net foreign exchange expenses	(23,857)	-	(23,857)
Reinsurance finance expenses from reinsurance contracts held	**(39,738)**	**-**	**(39,738)**
Represented by:			
Amounts recognised in profit or loss	(39,738)	-	(39,738)
Total net investment income, insurance finance expenses and reinsurance finance expenses			
Represented by:			
Amounts recognised in profit or loss	(58,210)	508,843	450,633

The Branch does not have any gains or losses arising from the derecognition of financial assets measured at amortised cost.

2022

	Insurance related NZD	Non-Insurance related NZD	Total NZD
Investment Income			
Amounts recognised in the profit or loss			
Other interest and similar income	-	-	-
Net foreign exchange income	-	414,353	414,353
Total amounts recognised in the profit or loss	**-**	**414,353**	**414,353**
Total investment income	**-**	**414,353**	**414,353**
Insurance finance (expenses)/income from insurance contracts issued			
Interest accreted to insurance contracts using current financial assumptions	88,822	-	88,822
Net foreign exchange expenses	(219,704)	-	(219,704)
Insurance finance expenses from insurance contracts issued	(130,882)	-	(130,882)
Represented by:			
Amounts recognised in profit or loss	**(130,882)**	**-**	**(130,882)**
Reinsurance finance (expenses)/income from reinsurance contracts held			
Interest accreted to reinsurance contracts using current financial assumptions	(1,848)	-	(1,848)
Net foreign exchange income	78,963	-	78,963
Reinsurance finance income from reinsurance contracts held	**77,115**	**-**	**77,115**
Represented by:			
Amounts recognised in profit or loss	77,115	-	77,115
Total net investment income, insurance finance expenses and reinsurance finance income			
Represented by:			
Amounts recognised in profit or loss	(53,767)	414,353	360,586

8 Other operating income

	2023 NZD	2022 (Restated) NZD
Engineering fee income	63,645	73,657
Total other operating income	**63,645**	**73,657**

9 Other operating expense

	Notes	2023 NZD	2022 (Restated) NZD
Paid Claims		23,018,405	824,902
Changes to liabilities for incurred claims		5,496,300	(1,393,247)
Incurred claims and benefits		**28,514,705**	**(568,345)**
Losses on onerous contracts and reversals of those losses		-	-
Transaction taxes		1,021,458	773,518
Broker expenses		131,171	120,697
External acquisition cashflows recognised when incurred		**1,152,629**	**894,215**
Auditor's remuneration fees		55,300	44,533
Miscellaneous expenses		100,685	70,091
Related party service agreement charges	16	4,611,413	3,797,928
Other administration expenses		**4,767,398**	**3,912,552**
Administration expenses		**4,767,398**	**3,912,552**
Total		**34,434,732**	**4,238,422**
Represented by:			
Acquisition expense	6	4,165,900	3,377,350
Claims expense		28,990,930	(177,842)
Other directly attributable expenses		1,277,902	1,038,914
Insurance service expense	6	**34,434,732**	**4,238,422**
Other operating expense		-	-
Total		**34,434,732**	**4,238,422**

DETAILED INFORMATION ON STATEMENT OF FINANCIAL POSITION ITEMS

10 Cash and cash equivalents

For the purpose of the statement of cash flows, cash and cash equivalents comprise the following at 31 December:

	2023 NZD	2022 NZD
Cash at bank	49,288,920	49,440,800
Total cash and cash equivalents	**49,288,920**	**49,440,800**

Cash at bank represents current accounts that are interest bearing. Cash at bank for prior year represents accounts that were non-interest bearing.

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

11 Insurance and reinsurance contracts

11.1 Summary

The breakdown of groups of insurance contracts issued, and reinsurance contracts held, that are in an asset position and those in a liability position is set out in the table below:

2023

	Assets NZD	Liabilities NZD	Net NZD
Total insurance contracts issued	-	(16,605,380)	(16,605,380)
Total reinsurance contracts held	-	(5,087,763)	(5,087,763)
	-	**(21,693,143)**	**(21,693,143)**

2022

	Assets NZD	Liabilities NZD	Net NZD
Total insurance contracts issued	-	(15,151,117)	(15,151,117)
Total reinsurance contracts held	2,422,336	-	2,422,336
	2,422,336	**(15,151,117)**	**(12,728,781)**

11.2 Roll-Forward – insurance contracts issued

The Branch aggregates information to provide disclosure in respect of a single product line portfolio. This aggregation has been determined on the nature of the insurance contracts issued and how the Branch is managed.

The roll-forward of the net asset or liability for insurance contracts issued, showing the liability for remaining coverage and the liability for incurred claims, is disclosed in the table below:

2023

		Liabilities for remaining coverage		Liabilities for incurred claims		Total
		Excluding loss component NZD	Loss component NZD	Estimates of the present value of future cash flows NZD	Risk adjustment NZD	NZD
Insurance contract liabilities as at 1 January		**(7,098,668)**	**-**	**(7,501,412)**	**(551,037)**	**(15,151,117)**
Insurance revenue		32,160,486	-	-	-	32,160,486
Insurance service expenses						
Incurred claims and other expense		-	-	(24,772,532)	-	(24,772,532)
Changes to liabilities for incurred claims		-	-	(5,030,460)	(465,840)	(5,496,300)
Insurance service result		**32,160,486**	**-**	**(29,802,992)**	**(465,840)**	**1,891,654**
Insurance Finance expenses	a	-	-	(81,301)	-	(81,301)
Effects of movements in exchange rates		(5,237)	-	68,066	-	62,829
Total changes in the statement of comprehensive income		**32,155,249**	**-**	**(29,816,227)**	**(465,840)**	**1,873,182**
Premiums received	b	(34,332,417)	-	-	-	(34,332,417)
Claims and other expenses paid		-	-	31,088,051	-	31,088,051
Total cash flows		**(34,332,417)**	**-**	**31,088,051**	**-**	**(3,244,366)**
Other movements		(83,079)	-	-	-	(83,079)
Insurance contract liabilities as at 31 December		**(9,358,915)**	**-**	**(6,229,588)**	**(1,016,877)**	**(16,605,380)**

2022

		Liabilities for remaining coverage		Liabilities for incurred claims		Total
		Excluding loss component	Loss component	Estimates of the present value of future cash flows	Risk adjustment	
		NZD	NZD	NZD	NZD	NZD
Insurance contract liabilities as at 1 January		**(9,960,787)**	**-**	**(8,785,392)**	**(515,970)**	**(19,262,149)**
Insurance revenue		30,515,163	-	-	-	30,515,163
Insurance service expenses						
Incurred claims and other expense		-	-	(2,254,318)	-	(2,254,318)
Changes to liabilities for incurred claims		-	-	1,428,314	(35,067)	1,393,247
Investment components		-	-	-	-	-
Insurance service result		**30,515,163**	**-**	**(826,004)**	**(35,067)**	**29,654,092**
Insurance Finance expenses	a	-	-	88,822	-	88,822
Effects of movements in exchange rates		(253,357)	-	33,653	-	(219,704)
Total changes in the statement of comprehensive income		**30,261,806**	**-**	**(703,529)**	**(35,067)**	**29,523,210**
Premiums received	b	(27,423,576)	-	-	-	(27,423,576)
Claims and other expenses paid		-	-	1,987,509	-	1,987,509
Total cash flows		**(27,423,576)**	**-**	**1,987,509**	**-**	**(25,436,067)**
Other movements		23,889	-	-	-	23,889
Insurance contract liabilities as at 31 December		**(7,098,668)**	**-**	**(7,501,412)**	**(551,037)**	**(15,151,117)**

Notes:

a. The Branch has made accounting policy choice to recognise net insurance finance expense in profit or loss only. Insurance finance income or expenses comprise the change in the carrying amount of the group of insurance contracts arising from the effect of the time value of money and changes in the time value of money, as well as the effect of financial risk and changes in financial risk (including those arising from the movement in exchange rates and the risk of non-performance by policy holders / brokers.

b. Any refunds of premiums have been included in this line.

11.3 Roll-Forward – reinsurance contracts held

The roll-forward of the net asset or liability for reinsurance contracts held showing assets for remaining coverage and amounts recoverable on incurred claims arising on marine insurance ceded to reinsurers is disclosed in the table below:

2023

		Assets for remaining coverage		Assets recoverable on incurred claims		Total
		Excluding loss recovery component	Loss recovery component	Estimates of the present value of future cash flows	Risk adjustment	
		NZD	NZD	NZD	NZD	NZD
Reinsurance contract assets/(liabilities) as at 1 January		**(450,970)**	**-**	**2,347,321**	**525,985**	**2,422,336**
An allocation of reinsurance premiums	a	(12,794,610)	-	-	-	(12,794,610)
Amounts recoverable from reinsurers for incurred claims						
Amounts recoverable for incurred claims and other expenses	*b*	-	-	1,592,887	-	1,592,887
Changes to amounts recoverable for incurred claims		-	-	9,352,763	(507,314)	8,845,449
Net income or expense from reinsurance contracts held		**(12,794,610)**	**-**	**10,945,650**	**(507,314)**	**(2,356,274)**
Reinsurance finance income	c	-	-	(15,881)	-	(15,881)
Effects of movements in exchange rates		11,505	-	(35,362)	-	(23,857)
Total changes in the statement of comprehensive income		**(12,783,105)**	**-**	**10,894,407**	**(507,314)**	**(2,396,012)**
Premiums paid	a	12,397,523	-	-	-	12,397,523
Amounts received	b	-	-	(17,511,610)	-	(17,511,610)
Total cash flows		**12,397,523**	**-**	**(17,511,610)**	**-**	**(5,114,087)**
Other movements		-	-	-	-	-
Reinsurance contract assets/(liabilities) as at 31 December		**(836,552)**	**-**	**(4,269,882)**	**18,671**	**(5,087,763)**

2022

		Assets for remaining coverage		Assets recoverable on incurred claims		Total
		Excluding loss recovery component	Loss recovery component	Estimates of the present value of future cash flows	Risk adjustment	
		NZD	NZD	NZD	NZD	NZD
Reinsurance contract assets/(liabilities) as at 1 January		**(561,569)**	**-**	**2,709,963**	**330,742**	**2,479,136**
An allocation of reinsurance premiums	a	(12,481,275)	-	-	-	(12,481,275)
Amounts recoverable from reinsurers for incurred claims						
Amounts recoverable for incurred claims and other expenses	*b*	-	-	549,097	-	549,097
Changes to amounts recoverable for incurred claims		-	-	(84,168)	195,244	111,076
Net income or expense from reinsurance contracts held		**(12,481,275)**	**-**	**464,929**	**195,244**	**(11,821,102)**
Reinsurance finance income	c	-	-	(1,847)	-	(1,847)
Effects of movements in exchange rates		56,926	-	22,037	-	78,963
Total changes in the statement of comprehensive income		**(12,424,349)**	**-**	**485,119**	**195,244**	**(11,743,986)**
Premiums paid	a	12,534,948	-	-	-	12,534,948
Amounts received	b	-	-	(847,762)	-	(847,762)
Total cash flows		**12,534,948**	**-**	**(847,762)**	**-**	**11,687,186**
Other movements						
Reinsurance contract assets/(liabilities) as at 31 December		**(450,970)**	**-**	**2,347,320**	**525,986**	**2,422,336**

Notes:

a. Includes ceding commissions from reinsurers not contingent on claims reported.

b. Includes ceding commissions from reinsurers contingent on claims reported.

c. The Branch has made accounting policy choice to recognise net reinsurance finance income in profit or loss only. Reinsurance finance income or expenses comprise the change in the carrying amount of the group of insurance contracts arising from the effect of the time value of money and changes in the time value of money, as well as the effect of financial risk and changes in financial risk (including those arising from the movement in exchange rates and the risk of non-performance by policy holders / brokers.

RISK MANAGEMENT AND OTHER DISCLOSURES

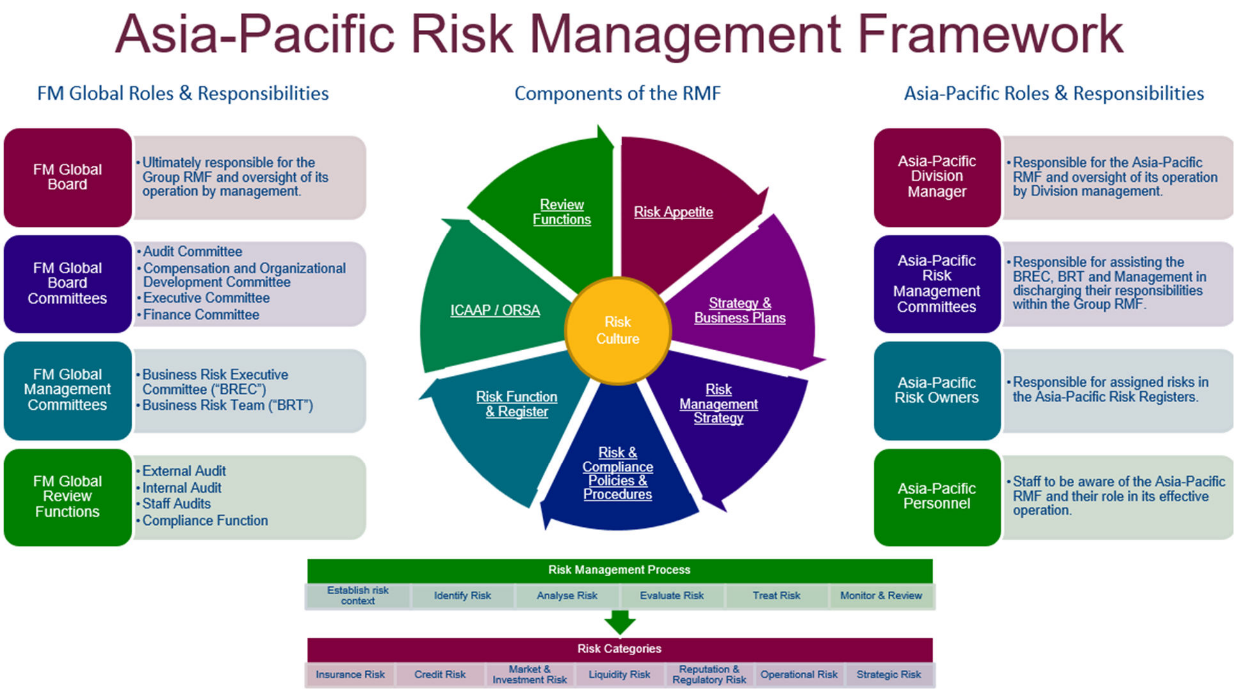
12 Risk management framework ("RMF")

12.1 Governance framework

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

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

Figure 1



12.2 Capital management

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

	2023 NZD '000	2022 NZD '000
Actual capital resources	33,659,463	27,719,713
Capital resources requirement	(4,125,911)	(3,574,561)
Solvency margin	**29,533,552**	**24,145,152**
Solvency ratio	**816%**	**775%**

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

12.3 Regulatory framework

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

12.4 Asset liability management

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

13 Insurance and financial risks

13.1 Insurance risk

13.1.1 Overview

The Branch issues commercial property general insurance contracts.

Insurance contracts predominantly cover a twelve-month duration and are predominately concentrated in New Zealand.

Risks associated with such contracts vary in relation to the location of the risk, type of risk insured and by industry. Such risks may arise from exposures to fire or natural disasters such as windstorm, flood or earthquake. Actual claims and benefit payments, or timing thereof, may differ from expectations. This is influenced by the frequency of claims, severity of claims and actual benefits paid. For claims that take some years to settle, there is also inflation risk.

A key objective of the Branch is to ensure that sufficient reserves are available to cover the liabilities associated with these contracts that it issues. The variability of risks is also improved by careful selection and implementation of underwriting guidelines, as well as the use of reinsurance arrangements. Furthermore, strict claim review policies to assess all new and ongoing claims are established to reduce the risk exposure of the Branch. The Branch actively manages and promptly settles claims, in order to reduce its exposure to unpredictable future developments that can negatively impact the business. Inflation risk is further mitigated by taking expected inflation into account when estimating insurance contract liabilities.

The Branch purchases reinsurance as part of its risk mitigation programme. Reinsurance held is typically placed on a non–proportional basis. Retention limits for non-proportional excess–of–loss reinsurance vary according to the reinsurance contract and particular circumstances of individual underlying insurance contracts issued.

Amounts recoverable from reinsurers are estimated in a manner consistent with the outstanding claims provision and are in accordance with the reinsurance contracts. Although the Branch has reinsurance arrangements, it is not relieved of its direct obligations to its policy holders and thus credit exposure exists with respect to ceded insurance, to the extent that any reinsurer is unable to meet its obligations assumed under such reinsurance agreements.

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

Reinsurance includes participation in the Group's worldwide Excess of Loss programme, various automatic facilities, facultative reinsurance, client captive reinsurance and the Branch's intercompany stop loss reinsurance treaty with related party entity Affiliated FM Insurance Company.

The Branch's placement of reinsurance is diversified such that, with the exception of the intercompany stop loss reinsurance contract with related party reinsurer Affiliated FM insurance Company, it is neither dependent on a single reinsurer nor are the operations of the Branch substantially dependent upon any single reinsurance contract.

13.1.1.2 Sensitivities

The liability for incurred claims is sensitive to the key assumptions in the table below. It has not been possible to quantify the sensitivity of certain assumptions such as legislative changes or uncertainty in the estimation process.

The following sensitivity analysis shows the impact on gross and net liabilities, profit before tax and equity for reasonably possible movements in key assumptions with all other assumptions (refer Note 5) held constant. The correlation of assumptions will have a significant effect in determining the ultimate impacts, but to demonstrate the impact due to changes in each assumption, assumptions had to be changed on an individual basis. It should be noted that movements in these assumptions are non–linear. The method used for deriving sensitivity information and significant assumptions did not change from the previous period. Unless specified otherwise, the movements are stated in absolute terms where the base assumption is a percentage, for example, if the base inflation rate assumption was 3.5%, a 1% increase would mean assuming a 4.5% inflation rate. All movements would be recognised directly through the statement of profit or loss.

2023

Assumption	Change in assumptions %	Increase / (decrease) in gross liabilities NZD	Increase / (decrease) in net liabilities NZD
Claims development pattern	Change to $2.5 million	2,896,285	2,189,382
Foreign exchange rate	+10% (multiplicative)	(283,623)	(275,273)
Inflation rate	+5%	509,990	498,613
Initial Expected Loss Ratio	+15%	3,073,062	2,324,827
Risk Adjustment	+5%	526,063	516,403
Claims development pattern	Change to $0.015 million	(620,177)	(466,602)
Foreign exchange rate	-10% (multiplicative)	283,623	275,273
Inflation rate	-5%	(490,142)	(479,326)
Initial Expected Loss Ratio	-15%	(3,084,093)	(2,324,827)
Risk Adjustment	-5%	(526,063)	(516,403)

2022

Assumption	Change in assumptions %	Increase / (decrease) in gross liabilities NZD	Increase / (decrease) in net liabilities NZD
Claims development pattern	Change to $2.5 million	3,754,144	2,530,290
Foreign exchange rate	+10% (multiplicative)	(169,084)	(113,913)
Inflation rate	+5%	292,881	268,720
Initial Expected Loss Ratio	+15%	3,001,507	2,269,326
Risk Adjustment	+5%	264,225	246,264
Claims development pattern	Change to $0.015 million	(830,364)	(559,971)
Foreign exchange rate	-10% (multiplicative)	169,084	113,913
Inflation rate	-5%	(279,111)	(256,037)
Initial Expected Loss Ratio	-15%	(2,942,927)	(2,198,406)
Risk Adjustment	-5%	(264,225)	(246,264)

13.1.1.3 Claims development table

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

As required by NZ IFRS 17, in setting claims provisions, the Branch gives consideration to the probability and magnitude of future experience being more adverse than assumed which is reflected in the risk adjustment. In general, the uncertainty associated with the ultimate cost of settling claims is greatest when the claim is at an early stage of development. As claims develop, the ultimate cost of claims becomes more certain.

Gross undiscounted liabilities for incurred claims for 2023

Accident year	Note	Before 2019 NZD' 000	2019 NZD' 000	2020 NZD' 000	2021 NZD' 000	2022 NZD' 000	2023 NZD' 000	Total NZD' 000
At end of accident year		14,118	5,616	16,940	7,481	2,788	25,125[8]	-
One year later		14,003	4,369	12,058	4,200	1,346	-	-
Two years later		14,038	3,504	11,996	3,752	-	-	-
Three years later		14,053	3,483	11,823	-	-	-	-
Four years later		13,516	3,483	-	-	-	-	-
Five or more years later		13,388	-	-	-	-	-	-
Gross estimates of the undiscounted amount of the claims		**13,388**	**3,483**	**11,823**	**3,752**	**1,346**	**25,125**	**58,916**
At end of accident year		2,314	97	1,988	1,480	322	20,125[9]	-
One year later		11,666	2,100	11,154	1,626	322	-	-
Two years later		13,909	2,227	11,823	3,752	-	-	-
Three years later		14,011	3,483	11,823	-	-	-	-
Four years later		13,516	3,483	-	-	-	-	-
Five or more years later		13,388	-	-	-	-	-	-
Cumulative payments to date		**13,388**	**3,483**	**11,823**	**3,752**	**322**	**20,125**	**52,892**
Gross undiscounted liabilities for incurred claims		-	-	-	-	**1,023**	**5,001**	**6,024**
Effect of discounting on outstanding claims		-	-	-	-	-	-	(385)
Direct CHC		-	-	-	-	-	-	338
Discount on Direct CHC		-	-	-	-	-	-	(13)
Indirect CHC		-	-	-	-	-	-	268
Discount on Indirect CHC		-	-	-	-	-	-	(2)
Total gross liabilities for incurred claims	11.2	-	-	-	-	-	-	**6,230**

[8] There are several non-insurance related items within the LFIC which are not directly applicable to any given accident year. For the purpose of reconciling with the LFIC the items are allocated to the 2023 accident year.
[9] Cumulative payments do not include those from non-insurance related items.

Net undiscounted liabilities for incurred claims for 2023

Accident year	Before 2019 NZD' 000	2019 NZD' 000	2020 NZD' 000	2021 NZD' 000	2022 NZD' 000	2023 NZD' 000	Total NZD' 000
At end of accident year	11,144	4,568	13,011	6,951	2,187	29,460[10]	-
One year later	6,716	3,612	9,348	4,144	1,044	-	-
Two years later	6,800	3,091	9,239	3,696	-	-	-
Three years later	6,816	2,881	10,747	-	-	-	-
Four years later	6,544	2,882	-	-	-	-	-
Five or more years later	6,416	-	-	-	-	-	-
Net estimates of the undiscounted amount of the claims	**6,416**	**2,882**	**10,747**	**3,696**	**1,044**	**29,460**	**54,245**
At end of accident year	1,631	30	1,816	1,462	21	20,065[11]	-
One year later	5,504	1,700	10,364	1,570	21	-	-
Two years later	6,670	1,808	10,872	3,696	-	-	-
Three years later	6,775	2,881	10,872	-	-	-	-
Four years later	6,544	2,882	-	-	-	-	-
Five or more years later	6,416	-	-	-	-	-	-
Cumulative payments to date	**6,416**	**2,882**	**10,872**	**3,696**	**21**	**20,065**	**43,952**
Net undiscounted liabilities for incurred claims	**-**	**-**	**(126)**	**-**	**1,023**	**9,635**	**10,292**
Effect of discounting on outstanding claims	-	-	-	-	-	-	(378)
Direct CHC	-	-	-	-	-	-	332
Discount on Direct CHC	-	-	-	-	-	-	(13)
Indirect CHC	-	-	-	-	-	-	268
Discount on Indirect CHC	-	-	-	-	-	-	(2)
Total net liabilities for incurred claims	**-**	**-**	**-**	**-**	**-**	**-**	**10,499**

	Estimates of the present value of future cash flows	Risk Adjustment	Total
Gross liabilities for incurred claims	(6,229,586)	(1,016,878)	(7,246,464)
Amount recoverable / (payable) from / to reinsurers	(4,269,884)	18,673	(4,251,211)
Total net liabilities for incurred claims	**(10,499,470)**	**(998,205)**	**(11,497,675)**

[10] There are several non-insurance related items within the LFIC which are not directly applicable to any given accident year. For the purpose of reconciling with the LFIC the items are allocated to the 2023 accident year.
[11] Cumulative payments do not include those from non-insurance related items.

13.2 Financial risk

The Branch's financial objective is to ensure that it maintains adequate levels of solvency capital in accordance with local regulatory capital requirements and have sufficient financial resources available in cash to meet its obligations, in particular those relating to policy holders, as they fall due.

13.2.1 Liquidity risk

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

The major liquidity risk confronting the Branch is the daily calls on its available cash resources in respect of claim payments arising from insurance contracts.

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

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

The effectiveness of these policies and procedures have enabled the Branch to avoid entering into any bank overdrafts, bank loans, convertible bonds and other interest-bearing loans during the year.

14 Maturity profiles

The table below summarises the expected utilisation or settlement of assets and liabilities:

	2023			2022		
	No more than 12 months	More than 12 months	Total	No more than 12 months	More than 12 months	Total
Financial assets						
Cash and cash equivalents	49,288,920	-	49,288,920	49,440,800	-	49,440,800
Insurance contract liabilities						
Insurance issued	(8,875,877)	(7,729,503)	(16,605,380)	(9,643,207)	(5,507,910)	(15,151,117)
Reinsurance contract assets						
Reinsurance held	-	-	-	1,695,186	727,150	2,422,336
Reinsurance contract liabilities						
Reinsurance held	(3,289,432)	(1,798,331)	(5,087,763)	-	-	-

14.1.1 Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument, insurance contract issued or reinsurance contract held will fluctuate because of changes in market prices. Market risk comprises three types of risk: foreign exchange rates (currency risk), market interest rates (interest rate risk), and market prices (price risk).

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

Guidelines are set for asset allocation to ensure that assets back policyholders' liabilities to meet the Branch's contractual requirements.

The nature of the Branch's exposure to market risks and its objectives, policies and processes used to manage and measure the risks have not changed from the previous period.

<u>Currency risk</u>

Currency risk is the risk that the fair value of future cash flows of a financial instrument, insurance contract assets and/or liabilities will fluctuate because of changes in foreign exchange rates.

The Branch's principal transactions are carried out in NZD in New Zealand and its exposure to foreign exchange risk arises primarily with respect to the US dollar.

Currency risk is managed through risk limits and polices approved by the Branch. In order to ensure that assets and liabilities are highly correlated with changes in currency movements, deposits with financial institutions that match insurance contract liabilities are generally held in the typical currency profile of the Branch's insurance contract liabilities, except where required to match specific short-term liabilities in another currency. Deposits held in excess of those required to match insurance contract liabilities may be converted into US dollars in order to limit the currency risk of the Company. In doing so, it is acknowledged that the Branch may therefore be exposed to residual currency risk at a local level. This risk is tolerated subject to the ongoing requirement to ensure adequate regulatory solvency levels are maintained. The Branch does not use derivatives, hedging or other financial transactions to reduce this residual currency risk exposure at a local level.

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

2023

	NZD	USD	AUD	Other	Total
Assets					
Cash and cash equivalents	36,553,940	1,789,701	10,945,279	-	49,288,920
Reinsurance contract assets	-	161,078	951,773	20,421	1,133,272
Assets	**36,553,940**	**1,950,779**	**11,897,052**	**20,421**	**50,422,192**
Liabilities					
Insurance contract liabilities	(8,114,086)	(3,472,715)	(4,838,499)	(180,080)	(16,605,380)
Reinsurance contract liabilities	(6,221,035)	-	-	-	(6,221,035)
Liabilities	**(14,335,121)**	**(3,472,715)**	**(4,838,499)**	**(180,080)**	**(22,826,415)**

2022

	NZD	USD	AUD	Other	Total
Assets					
Cash and cash equivalents	33,964,131	1,563,514	13,913,155	-	49,440,800
Reinsurance contract assets	-	1,907,215	913,643	15,265	2,836,123
Assets	**33,964,131**	**3,470,729**	**14,826,798**	**15,265**	**52,276,923**
Liabilities					
Insurance contract liabilities	(7,978,782)	(2,538,901)	(4,692,840)	59,406	(15,151,117)
Reinsurance contract liabilities	(413,787)	-	-	-	(413,787)
Liabilities	**(8,392,569)**	**(2,538,901)**	**(4,692,840)**	**59,406**	**(15,564,904)**

The following analysis is performed for reasonably possible movements in key variables, with all other variables held constant, showing the impact on profit before tax and equity due to changes in the fair value of currency-sensitive monetary assets and liabilities, including those relating to insurance and reinsurance contracts. The correlation of variables will have a significant effect in determining the ultimate impact of currency risk, but to demonstrate the impact due to changes in variables, variables had to be changed on an individual basis. The method used for deriving sensitivity information and significant variables did not change from the previous period.

Category	**Change in exchange rate**	**2023**		**2022**	
	%	**$**		**$**	
		Impact On Profit (Before Tax)	**Impact On Equity (After Tax)**	**Impact On Profit (Before Tax)**	**Impact On Equity (After Tax)**
Insurance and reinsurance contracts	+ 10%	(719,836)	(719,836)	(441,088)	(441,088)
Financial assets	+ 10%	1,273,498	1,273,498	1,547,667	1,547,667
Insurance and reinsurance contracts	- 10%	719,836	719,836	441,088	441,088
Financial assets	- 10%	(1,273,498)	(1,273,498)	(1,547,667)	(1,547,667)

The Branch has no significant exposure to changes in interest rates due to the short tail nature of insurance contracts issued and reinsurance contracts held as well as to the nature of the duration of other financial assets.

Price risk

Price risk is the risk that the fair value or future cash flows of financial instruments or insurance contract assets and/or liabilities will fluctuate because of changes in market prices (other than those arising from interest rate or foreign exchange rate risk), whether those changes are caused by factors specific to the individual financial instrument or contract, or by factors affecting all similar contracts or financial instruments traded in the market.

The Branch has no significant exposure to price risk.

14.1.2 Operational risks

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

14.1.3 Credit risk

Credit risk is the risk that one party to a financial instrument, insurance contract issued in an asset position or reinsurance contract held will cause a financial loss for the other party by failing to discharge an obligation.

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

- Premium receivables ageing analysis is performed regularly, with overdue premiums actively pursued;
- Reinsurance is placed with external reinsurers that have good credit rating and concentration of risk is avoided by following guidelines in respect of counterparty limits that are set and reviewed annually by the Reinsurance Committee;
- Reinsurance placed with client captive reinsurers, which are unrated, is subject to policy clause conditions that prevent settlement of a claim by the Branch until the client captive reinsurer has settled its share of the loss to the Branch.
- Reinsurance is placed with related party reinsurers Affiliated FM Insurance Company and Risk Engineering Insurance Company Ltd., which enjoy the same rating of the parent; and
- Deposit accounts are all held with highly rated financial institutions with no recent history of default.

The nature of the Branch's exposure to credit risk and its objectives, policies and processes used to manage and measure the risks have not changed from the previous period.

Credit exposure

The tables below provide information regarding the credit risk exposure of the Branch by classifying assets by counterparty rating as published by rating agency **AM Best**. All amounts are shown before any allowance for impairment.

2023

	AA+, AA, AA- NZD	A+, A, A- NZD	BBB+, BBB, BBB- NZD	Not rated NZD	Total NZD
Cash and cash equivalents	-	49,288,920	-	-	49,288,920
Reinsurance contract assets	(3,960,479)	529,079	(41,565)	(1,614,798)	(5,087,763)
Total credit risk exposure	**(3,960,479)**	**49,817,999**	**(41,565)**	**(1,614,798)**	**44,201,157**

2022

	AA+, AA, AA- NZD	A+, A, A- NZD	BBB+, BBB, BBB- NZD	Not rated NZD	Total NZD
Cash and cash equivalents	49,440,800	-	-	-	49,440,800
Reinsurance contract assets	144,416	2,820,087	6,029	(548,196)	2,422,336
Total credit risk exposure	**49,585,216**	**2,820,087**	**6,029**	**(548,196)**	**51,863,136**

15 Contingencies and commitments

15.1 Legal proceedings and regulations

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

There are no current contingencies associated with the Branch's compliance or lack of compliance with such regulations.

15.2 Commitments

The Branch has no capital commitments at the reporting date.

The Branch has no lease commitments relating to lease contracts that have not yet commenced as at year-end.

15.3 Guarantees

The Branch has no guarantees at the reporting date.

15.4 Contingent liabilities

The Branch has no contingent liabilities at the reporting date.

16 Related party disclosures

Note 2 provides information about the Company's structure. The following tables provide the total amount of transactions and balances with related parties for the relevant year.

16.1 Transactions with related parties

The Branch enters into transactions with related party entities in the normal course of business. Transactions with related parties are made on terms agreed between the parties.

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

Expenses from related parties:		Relationship	2023 NZD	2022 (Restated) NZD
Allocation of reinsurance premiums	Affiliated FM Insurance Company	Subsidiary	(4,427,288)	(4,712,061)
	Risk Engineering Insurance Company Ltd.	Subsidiary	(1,233,123)	479,225
	New Providence Mutual Ltd.	Subsidiary	(3,561)	(7,734)
	WatchHill Insurance Company	Subsidiary	(7,599)	(2,316)
Sub-total allocation of reinsurance premiums			**(5,671,571)**	**(4,242,886)**
Service agreement charges	Factory Mutual Insurance Company	Company	(4,611,413)	(3,797,928)
Sub-total insurance service expenses			**(4,611,413)**	**(3,797,928)**
Total net income / (expenses)			**(10,282,984)**	**(8,040,814)**

During the financial years ended 31 December 2023 and 31 December 2022, the Branch received services including engineering, underwriting, compliance and finance for which no costs have been charged by the Company to the Branch.

16.2 Balances with related parties

Outstanding balances with related parties at the year-end are unsecured, interest free and repayable on demand, with settlement typically occurring on a quarterly basis. The carrying value of balances with related companies as at year-end approximates fair value. There have been no guarantees provided or received for any balances with related companies.

Details of all balances with related parties are, as follows:

Balances with related parties:			Relationship	2023 NZD	2022 (Restated) NZD
Reinsurance contract (liability) / asset	(Liabilities) / assets for incurred claims	Affiliated FM Ins.Co	Subsidiary	(15,965,588)	-
	(Liabilities) / assets for remaining coverage	Risk Engineering Insurance Company Ltd.	Subsidiary	743,314	517,745
		New Providence Mutual Ltd.	Subsidiary	492	1,571
		Watchill Ins.Co	Subsidiary	(1,249)	-
		Risk Engineering Insurance Company Ltd.	Subsidiary	(568,156)	(152,041)
		Affiliated FM Ins. Co.	Subsidiary	(1,202,493)	(1,214,699)
Total reinsurance contract (liability) / asset balances with related parties				**(16,993,680)**	**(847,424)**
Insurance contract (liability) / asset	(Liabilities) / assets for incurred claims	Other related parties	Subsidiary	(133,022)	111,029
		Factory Mutual Insurance Company.	Company	4,248,081	(2,380,072)
Total insurance contract (liability) / asset balances with related parties				**4,115,059**	**(2,269,043)**

16.3 Compensation of key management personnel

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

17 Standards issued but not yet effective

17.1 Amendments to NZ IAS 1 Classification of Liabilities as Current or Non-current

In January 2020, the NZASB issued amendments to paragraphs 69 to 76 of NZ IAS 1 to specify the requirements for classifying liabilities as current or non-current. The amendments clarify:

- What is meant by a right to defer settlement;
- That a right to defer must exist at the end of the reporting period;
- That classification is unaffected by the likelihood that an entity will exercise its deferral right; and
- That only if an embedded derivative in a convertible liability is itself an equity instrument would the terms of a liability not impact its classification.

The amendments are effective for annual reporting periods beginning on or after 1 January 2024 and must be applied retrospectively. The amendments are not expected to have a material impact on the Branch.

11 April 2024

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Appointed actuary's report to the Directors of Factory Mutual Insurance Company – New Zealand Branch

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

This report is provided under section 78 of the *Insurance (Prudential Supervision) Act 2010* ("the Insurance Act"), and relates to a review of the actuarial information in, or used in the preparation of, the financial statements of Factory Mutual Insurance Company (New Zealand) ("FMIC (NZ)") for the year ended 31 December 2023.

The financial statements were authorised for issue by the Board of Directors of Factory Mutual Insurance Company ("FMIC (US)") on 11 April 2024 and the accompanying independent auditors' report was issued on 11 April 2024.

Name of appointed actuary conducting the review

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

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

Exemption from solvency standard

FMIC (US) has been granted a Section 59 exemption under the Insurance Act, which applies to overseas insurers of approved jurisdictions. This provides an exemption from compliance with the New Zealand Solvency Standard for Non-life Insurance Business and was dated 5 October 2015. I understand that under this exemption, the Reserve Bank of New Zealand considers the solvency of FMIC (NZ) based on the solvency requirements of FMIC (US) under the regulatory requirements of the State of Rhode Island. I have been provided with a Letter of Representation from the Chairman of FMIC (US) to the independent auditors of FMIC (US), which attests that FMIC (US) has complied with the rules and requirements of the State of Rhode Island, Department of Business Regulation relating to statutory-basis financial information for the period covered by the financial statements for the year ended 31 December 2023. I have not reviewed the calculations underlying the solvency data supplied to the State of Rhode Island but have relied on the attestation of FMIC (US) and the report of the auditors as to their accuracy.

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

The actuarial information used in the financial statements comprises the outstanding claims liability as at 31 December 2023 shown in the statement of financial position. This amount was determined in accordance with the New Zealand Equivalent to International Financial Reporting Standard 17 ("NZ IFRS 17"), and represents the net central estimate plus a risk adjustment reflecting the non-financial risk as at the report date. I confirm that this amount was calculated by me and advised to FMIC (NZ) in a Financial Condition Report dated 22 March 2024.

We have carried out an onerous contract assessment and an assessment of Premium Allocation Approach (PAA) eligibility, confirming that:

- The policies in-force are not onerous, and
- FMIC (NZ) is eligible to use the PAA approach when estimating the Liability for Remaining Coverage for policies with coverage greater than 12 months.

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

Opinion

In my opinion:

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

Scope and limitations of review

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

Kevin Gomes
Fellow of the New Zealand Society of Actuaries