

# ***FM Insurance Company Limited***

## ***Consolidated financial statements for the year ended 31 December 2009***

*Registered number 755780*



*Regulated by the Financial Services Authority*

***FM Insurance Company Limited***

***Consolidated financial statements  
for the year ended 31 December 2009***

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

*Registered number 755780*

### ***Directors' report for the year ended 31 December 2009***

The directors present their annual financial statements for the year ended 31 December 2009

#### **Results and dividends**

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

The directors do not recommend the payment of a dividend (2008 £Nil)

The profit for the year retained in the group is £65,966,000 (2008 loss £34,935,000)

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

The Group's principal activities during the year continued to be the underwriting of property insurance risks and the provision of related engineering and loss prevention services to large and medium sized clients of the UK and various international branches. The Group is wholly owned by, and places reinsurance with, Factory Mutual Insurance Company located in Johnston, Rhode Island, USA (the "Parent")

Gross premiums written increased to £769,584,000 from £629,592,000 (22.2%) during the year. The increase was mainly due to exchange movements during the year, in particular the strengthening of the Euro and the Dollar against Sterling.

The Group made a post tax profit of £65,966,000 during the year. There were a lower number of larger value claims which contributed to a net loss ratio of 52.9% (2008 98.3%). The expense ratio (net of other income) was 32.7% (2008 3.2%), including a foreign exchange loss of £22,026,000 (2008 gain of £91,143,000). Realised and unrealised gains on investments amounted to £66,904,000 (2008 loss of £59,714,000) as a result of the general movements in the stock markets.

The profit for the year and other movements described in the Statement of Total Recognised Gains and Losses resulted in an overall increase in shareholder's funds of £77,541,000, resulting in total shareholder's funds of £379,835,000 as at 31 December 2009.

A new Switzerland insurance branch of FM Insurance Company Limited received its licence on 17 December 2009. A new Labuan branch of FM Insurance Company Limited was registered on 9 September 2009 and received its reinsurance licence effective 1 January 2010.

A subsidiary of FM Insurance Company Limited, FM do Brasil Servicos de Prevencao de Perdas Limited, was sold at book value during the year to FM Global Services LLC with an effective date of 31 May 2009.

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

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

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

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

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

*Registered number 755780*

### ***Directors' report for the year ended 31 December 2009 (continued)***

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

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

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

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

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

#### **Future developments**

The Group anticipates that market conditions will be such during 2010 that premiums will decrease approximately 4% from 2009 premium levels. The Group expects a relatively consistent geographical mix to 2009, and to maintain profitability during 2010.

#### **Going concern**

The directors believe the Group is able to manage their business risks successfully despite the current uncertain economic outlook. Furthermore, the directors have a reasonable expectation that the Group has adequate resources to continue in existence for the foreseeable future. As such, they continue to adopt the going concern basis in preparing the annual financial statements.

#### **Directors and employees**

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

|                       |                              |
|-----------------------|------------------------------|
| Kenneth W. Davey      | Managing Director            |
| Carol Barton          |                              |
| Ian R. Berg           |                              |
| Dennis J. Bessant     |                              |
| Antonius R. H. Bosman |                              |
| Jeffrey Burchill      |                              |
| Omar F. Hameed        |                              |
| Michael Lebovitz      | (Appointed 19 November 2009) |
| Shivan S. Subramaniam |                              |
| Stefano Tranquillo    |                              |
| Kevin S. Ingram       | (Appointed 12 February 2010) |
| Ciaran O'Donnell      | (Resigned 31 December 2009)  |

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

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

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

The group made no political contributions during the year. Charitable donations amounted to £34,153 (2008: £41,676).

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

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### ***Directors' report for the year ended 31 December 2009 (continued)***

#### **Employee note**

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

#### **Insurance of directors**

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

#### **Disclosure of information to the auditors**

So far as each person who was a director at the date of approving this report is aware, there is no relevant audit information, being information needed by the auditor in connection with preparing its report, of which the auditor is unaware. Having made enquiries of fellow directors and the group's auditor, each director has taken all the steps that he/she is obliged to take as a director in order to make himself/herself aware of any relevant audit information and to establish that the auditor is aware of that information.

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

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

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

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

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

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

***FM Insurance Company Limited***

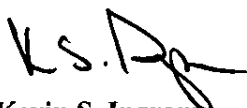
*Registered number 755780*

***Directors' report  
for the year ended 31 December 2009 (continued)***

**Re-appointment of auditors**

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

**On behalf of the board**

A handwritten signature in black ink, appearing to read 'K.S. Ingram', with a stylized flourish at the end.

**Kevin S. Ingram  
Finance Director**

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

*Registered number 755780*

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

We have audited the financial statements of FM Insurance Company Limited for the year ended 31 December 2009 which comprise the Consolidated Profit and Loss Account, Consolidated Statement of Total Recognised Gains and Losses, Consolidated Balance Sheet, Company Balance Sheet and the related notes 1 to 27. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

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

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

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

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

#### **Equalisation provision**

Our evaluation of the presentation of information in the financial statements has had regard to the statutory requirement for insurance companies to maintain an equalisation provision. The nature of the equalisation provision, the amount set aside at 31 December 2009, and the effect of the movement in the provision during the year on shareholders' funds, the technical account – general business and the profit or loss on ordinary activities before tax, is disclosed in note 21.

***FM Insurance Company Limited***

*Registered number 755780*

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

**Opinion on financial statements**

In our opinion the financial statements

- give a true and fair view of the state of the group's and the parent company's affairs as at 31 December 2009 and of the group's profit for the year then ended,
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006

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

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

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

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

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

*Ernst & Young LLP*

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

30 March 2010



**FM Insurance Company Limited**

Registered number 755780

**Consolidated profit and loss account: technical account – general business  
for the year ended 31 December 2009**

|  |       | 2009      |           | 2008      |           |
|--|-------|-----------|-----------|-----------|-----------|
|  | Notes | £000      | £000      | £000      | £000      |
| Gross premiums written   | 3     | 769,584   |           | 629,592   |           |
| Outward reinsurance premiums                                     |       | (588,436) |           | (496,917) |           |
|  |       |           | 181,148   |           | 132,675   |
| Change in the gross provision for unearned premiums              | 21    | 5,114     |           | (7,270)   |           |
| Change in the provision for unearned premiums, reinsurers' share | 21    | (12,205)  |           | 6,706     |           |
|  |       |           | (7,091)   |           | (564)     |
| <b>Earned premiums, net of reinsurance</b>                       |       |           | 174,057   |           | 132,111   |
| Other technical income   |       |           | 8,474     |           | 5,939     |
| Claims paid  |       |           |           |           |           |
| Gross amount   |       | (336,873) |           | (451,072) |           |
| Reinsurers' share  |       | 228,091   |           | 307,852   |           |
|  |       |           | (108,782) |           | (143,220) |
| Change in the provision for claims                               |       |           |           |           |           |
| Gross amount   | 21    | 65,588    |           | 67,843    |           |
| Reinsurers' share  | 21    | (48,963)  |           | (54,481)  |           |
|  |       |           | 16,625    |           | 13,362    |
| <b>Claims incurred, net of reinsurance</b>                       |       |           | (92,157)  |           | (129,858) |
| Net operating expenses   | 5     |           | (65,391)  |           | (10,120)  |
| Change in equalisation provision                                 | 21    |           | (5,475)   |           | 7,760     |
| <b>Balance on the technical account</b>                          |       |           |           |           |           |
| - general business   |       |           | 19,508    |           | 5,832     |

**FM Insurance Company Limited**

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**Consolidated profit and loss account: non-technical account  
for the year ended 31 December 2009**

|  | Note | 2009          | 2008            |
|--|------|---------------|-----------------|
|  |      | £000          | £000            |
| Balance on the technical account - general business                          |      | 19,508        | 5,832           |
| Other finance income   | 24   | 294           | 1,087           |
| Investment income  | 4    | 13,577        | 17,186          |
| Interest expense   | 4    | (8)           | (23)            |
| Unrealised gains/(losses) on investments                                     | 4    | 62,213        | (60,067)        |
| <b>Profit/(Loss) on ordinary activities before taxation</b>                  | 6    | <b>95,584</b> | <b>(35,985)</b> |
| Tax on profit/loss on ordinary activities                                    | 10   | (29,618)      | 1,050           |
| <b>Retained profit/(loss) for the financial year transferred to reserves</b> |      | <b>65,966</b> | <b>(34,935)</b> |

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

**Consolidated statement of total recognised gains and losses  
for the year ended 31 December 2009**

|  | Note | 2009          | 2008            |
|--|------|---------------|-----------------|
|  |      | £000          | £000            |
| Profit/(Loss) for the financial year   |      | 65,966        | (34,935)        |
| Actuarial gain/(loss) (FRS17)  | 24   | 1,320         | (17,774)        |
| Deferred tax on actuarial (gain)/loss  |      | (370)         | 4,977           |
| Net currency differences on retranslation of net investments in foreign branches |      | 10,625        | 2,979           |
| <b>Total recognised profit/(loss) relating to the year</b>                       |      | <b>77,541</b> | <b>(44,753)</b> |

**FM Insurance Company Limited**  
Registered number 755780

**Consolidated balance sheet  
at 31 December 2009**

|   | Note | 2009           |                         | 2008           |                         |
|---|------|----------------|-------------------------|----------------|-------------------------|
|   |      | £000           | £000                    | £000           | £000                    |
| <b>Assets</b>   |      |                |                         |                |                         |
| <i><b>Investments</b></i>                               |      |                |                         |                |                         |
| Other financial investments                             | 12   | <u>344,326</u> |                         | <u>270,157</u> |                         |
|   |      |                | 344,326                 |                | 270,157                 |
| <i><b>Reinsurers' share of technical provisions</b></i> |      |                |                         |                |                         |
| Provision for unearned premiums                         | 21   | <u>181,753</u> |                         | <u>188,580</u> |                         |
| Claims outstanding                                      | 21   | <u>225,145</u> |                         | <u>265,055</u> |                         |
|   |      |                | 406,898                 |                | 453,635                 |
| <i><b>Debtors</b></i>                                   |      |                |                         |                |                         |
| Debtors arising out of direct insurance operations      | 13   | <u>83,883</u>  |                         | <u>94,291</u>  |                         |
| Debtors arising out of reinsurance operations           |      | <u>18,195</u>  |                         | <u>23,010</u>  |                         |
| Other debtors   | 14   |                |                         |                |                         |
| Amounts falling due within one year                     |      | <u>10,181</u>  |                         | <u>6,440</u>   |                         |
| Amounts falling due after one year                      |      | <u>1,424</u>   |                         | <u>15,713</u>  |                         |
|   |      |                | 113,683                 |                | 139,454                 |
| <i><b>Other assets</b></i>                              |      |                |                         |                |                         |
| Tangible fixed assets                                   | 16   | <u>6,459</u>   |                         | <u>7,377</u>   |                         |
| Cash at bank and in hand                                | 17   | <u>207,850</u> |                         | <u>181,166</u> |                         |
|   |      |                | 214,309                 |                | 188,543                 |
| <i><b>Prepayments and accrued income</b></i>            |      |                |                         |                |                         |
| Accrued interest and rent                               |      | <u>1,354</u>   |                         | <u>1,133</u>   |                         |
| Deferred acquisition costs                              | 21   | <u>5,666</u>   |                         | <u>5,497</u>   |                         |
| Other prepayments and accrued income                    |      | <u>337</u>     |                         | <u>563</u>     |                         |
|   |      |                | 7,357                   |                | 7,193                   |
| <i><b>Total assets excluding net pension asset</b></i>  |      |                | 1,086,573               |                | 1,058,982               |
| <i><b>Net pension asset</b></i>                         | 24   |                | <u>4,433</u>            |                | <u>—</u>                |
| <i><b>Total assets</b></i>                              |      |                | <u><u>1,091,006</u></u> |                | <u><u>1,058,982</u></u> |

**FM Insurance Company Limited**

Registered number 755780

**Consolidated balance sheet  
at 31 December 2009**

|  |      | 2009    |           | 2008     |           |
|--|------|---------|-----------|----------|-----------|
|  |      | £000    | £000      | £000     | £000      |
|  | Note |         |           |          |           |
| <b>Liabilities</b>                                       |      |         |           |          |           |
| <i>Capital and reserves</i>                              |      |         |           |          |           |
| Called up share capital                                  | 18   | 325,000 |           | 325,000  |           |
| Share premium account                                    | 19   | 978     |           | 978      |           |
| Profit and loss account                                  | 19   | 53,857  |           | (23,684) |           |
| Shareholder's funds attributable to equity interests     |      |         | 379,835   |          | 302,294   |
| <i>Technical provisions</i>                              |      |         |           |          |           |
| Provision for unearned premiums                          | 21   | 246,590 |           | 244,714  |           |
| Claims outstanding                                       | 21   | 340,034 |           | 391,214  |           |
| Equalisation provision                                   | 21   | 7,024   |           | 1,549    |           |
|  |      |         | 593,648   |          | 637,477   |
| <i>Creditors</i>   |      |         |           |          |           |
| Creditors arising out of direct insurance operations     |      | 60,044  |           | 54,601   |           |
| Other creditors including taxation and social security   | 22   | 33,110  |           | 35,287   |           |
|  |      |         | 93,154    |          | 89,888    |
| <i>Accruals and deferred income</i>                      | 23   |         | 24,369    |          | 23,376    |
| <i>Total liabilities excluding net pension liability</i> |      |         | 1,091,006 |          | 1,053,035 |
| <i>Net pension liability</i>                             | 24   |         | —         |          | 5,947     |
| <i>Total liabilities</i>                                 |      |         | 1,091,006 |          | 1,058,982 |

These financial statements were approved by the board of directors on 29 March 2010 and were signed on its behalf by

  
**Kevin S. Ingram**  
 Finance Director

**FM Insurance Company Limited**

Registered number 755780

**Company balance sheet**

at 31 December 2009

|  |      | 2009    |           | 2008    |           |
|--|------|---------|-----------|---------|-----------|
|  | Note | £000    | £000      | £000    | £000      |
| <b>Assets</b>                                      |      |         |           |         |           |
| <i>Investments</i>                                 |      |         |           |         |           |
| Other financial investments                        | 12   | 344,326 |           | 269,808 |           |
| Investments in subsidiary undertakings             | 11   | 51      |           | 813     |           |
|  |      |         | 344,377   |         | 270,621   |
| <i>Reinsurers' share of technical provisions</i>   |      |         |           |         |           |
| Provision for unearned premiums                    | 21   | 181,753 |           | 188,580 |           |
| Claims outstanding                                 | 21   | 225,145 |           | 265,055 |           |
|  |      |         | 406,898   |         | 453,635   |
| <i>Debtors</i>                                     |      |         |           |         |           |
| Debtors arising out of direct insurance operations | 13   | 83,883  |           | 94,291  |           |
| Debtors arising out of reinsurance operations      |      | 18,195  |           | 23,010  |           |
| Other debtors                                      | 14   |         |           |         |           |
| Amounts falling due within one year                |      | 9,702   |           | 5,097   |           |
| Amounts falling due after one year                 |      | 1,298   |           | 15,581  |           |
|  |      |         | 113,078   |         | 137,979   |
| <i>Other assets</i>                                |      |         |           |         |           |
| Tangible fixed assets                              | 16   | 6,220   |           | 6,693   |           |
| Cash at bank and in hand                           | 17   | 205,473 |           | 178,781 |           |
|  |      |         | 211,693   |         | 185,474   |
| <i>Prepayments and accrued income</i>              |      |         |           |         |           |
| Accrued interest and rent                          |      | 1,347   |           | 1,133   |           |
| Deferred acquisition costs                         | 21   | 5,666   |           | 5,497   |           |
| Other prepayments and accrued income               |      | 327     |           | 528     |           |
|  |      |         | 7,340     |         | 7,158     |
| <i>Total assets excluding net pension asset</i>    |      |         | 1,083,386 |         | 1,054,867 |
| <i>Net pension asset</i>                           | 24   |         | 4,433     |         | —         |
| <i>Total assets</i>                                |      |         | 1,087,819 |         | 1,054,867 |

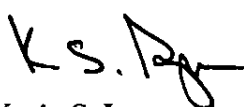
**FM Insurance Company Limited**

Registered number 755780

**Company balance sheet  
at 31 December 2009**

|  |      | 2009    |           | 2008     |           |
|--|------|---------|-----------|----------|-----------|
|  | Note | £000    | £000      | £000     | £000      |
| <b>Liabilities</b>                                       |      |         |           |          |           |
| <i>Capital and reserves</i>                              |      |         |           |          |           |
| Called up share capital                                  | 18   | 325,000 |           | 325,000  |           |
| Share premium account                                    | 19   | 978     |           | 978      |           |
| Profit and loss account                                  | 19   | 50,944  |           | (25,677) |           |
| Shareholder's funds attributable to equity interests     |      |         | 376,922   |          | 300,301   |
| <i>Technical provisions</i>                              |      |         |           |          |           |
| Provision for unearned premiums                          | 21   | 246,590 |           | 244,714  |           |
| Claims outstanding                                       | 21   | 340,034 |           | 391,214  |           |
| Equalisation provision                                   | 21   | 7,024   |           | 1,549    |           |
|  |      |         | 593,648   |          | 637,477   |
| <i>Creditors</i>   |      |         |           |          |           |
| Creditors arising out of direct insurance operations     |      | 60,044  |           | 54,601   |           |
| Other creditors including taxation and social security   | 22   | 33,548  |           | 34,651   |           |
|  |      |         | 93,592    |          | 89,252    |
| <i>Accruals and deferred income</i>                      | 23   |         | 23,657    |          | 21,890    |
| <i>Total liabilities excluding net pension liability</i> |      |         | 1,087,819 |          | 1,048,920 |
| <i>Net pension liability</i>                             | 24   |         | —         |          | 5,947     |
| <i>Total liabilities</i>                                 |      |         | 1,087,819 |          | 1,054,867 |

These financial statements were approved by the board of directors on 29 March 2010 and were signed on its behalf by

  
**Kevin S. Ingram**  
 Finance Director

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

### ***Notes to the consolidated financial statements for the year ended 31 December 2009***

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

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

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

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

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

#### **2 Accounting policies**

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

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

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

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

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

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

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

### ***Notes to the consolidated financial statements for the year ended 31 December 2009***

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

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

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

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

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

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

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

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

##### ***Investment income and gains on realisation of investments***

Investment income is accounted for on an accruals basis. Realised gains or losses represent the difference between net sales proceeds and purchase price. All realised gains and losses are taken to the non-technical account.

##### ***Unrealised gains and losses on investments***

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

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

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



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

### ***Notes to the consolidated financial statements for the year ended 31 December 2009***

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

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

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

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

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

|                    |                                 |
|--------------------|---------------------------------|
| Office equipment   | 20% of cost per annum           |
| Office furniture   | 10% of cost per annum           |
| Computer equipment | 33.3% or 50% of cost per annum  |
| Motor vehicles     | 25% of net book value per annum |

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

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

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

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

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

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

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

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

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

### ***Notes to the consolidated financial statements for the year ended 31 December 2009***

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

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

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

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

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

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

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

## **FM Insurance Company Limited**

### **Notes to the consolidated financial statements for the year ended 31 December 2009**

#### **3 Segmental information**

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

|                                | 2009                                |   |                       | 2008                                |   |                       |
|--------------------------------|-------------------------------------|---|-----------------------|-------------------------------------|---|-----------------------|
|                                | Gross<br>premium<br>written<br>£000 | Profit/(Loss)<br>before<br>taxation<br>£000 | Net<br>assets<br>£000 | Gross<br>premium<br>written<br>£000 | Profit/(Loss)<br>before<br>taxation<br>£000 | Net<br>assets<br>£000 |
| <b>By geographical segment</b> |                                     |   |                       |                                     |   |                       |
| United Kingdom                 | 398,231                             | 85,615                                      | 314,824               | 340,064                             | (45,021)                                    | 254,633               |
| Germany                        | 80,133                              | (4,404)                                     | (11,433)              | 71,792                              | 5,573                                       | (6,523)               |
| France                         | 80,166                              | 2,769                                       | 18,542                | 66,683                              | 5,065                                       | 15,662                |
| Belgium                        | 7,283                               | 4,682                                       | 7,042                 | 18,890                              | (618)                                       | 3,538                 |
| Sweden                         | 53,635                              | (11,289)                                    | (19,874)              | 45,599                              | (331)                                       | (8,034)               |
| Australia                      | 109,185                             | 15,435                                      | 71,810                | 67,763                              | 6,100                                       | 46,642                |
| Italy                          | 10,733                              | 3,215                                       | 1,791                 | 12,792                              | (4,620)                                     | (1,194)               |
| Singapore                      | 8,125                               | 61  | (733)                 | 2,169                               | (823)                                       | (782)                 |
| Hong Kong                      | 3,336                               | 804   | (1,051)               | 311                                 | (1,568)                                     | (1,845)               |
| Netherlands                    | 18,757                              | (1,304)                                     | (1,083)               | 3,529                               | 258   | 197                   |
| <b>Total</b>                   | <b>769,584</b>                      | <b>95,584</b>                               | <b>379,835</b>        | <b>629,592</b>                      | <b>(35,985)</b>                             | <b>302,294</b>        |

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

|                             | 2009                                |                                      |                       | 2008                                |                                    |                       |
|-----------------------------|-------------------------------------|--------------------------------------|-----------------------|-------------------------------------|------------------------------------|-----------------------|
|                             | Gross<br>premium<br>written<br>£000 | Profit<br>before<br>taxation<br>£000 | Net<br>assets<br>£000 | Gross<br>premium<br>written<br>£000 | Loss<br>before<br>taxation<br>£000 | Net<br>assets<br>£000 |
| <b>By class of business</b> |                                     |                                      |                       |                                     |                                    |                       |
| Direct                      | 608,470                             | 75,573                               | 300,316               | 495,623                             | (28,328)                           | 237,970               |
| Assumed                     | 161,114                             | 20,011                               | 79,519                | 133,969                             | (7,657)                            | 64,324                |
| <b>Total</b>                | <b>769,584</b>                      | <b>95,584</b>                        | <b>379,835</b>        | <b>629,592</b>                      | <b>(35,985)</b>                    | <b>302,294</b>        |

##### **Analysis of gross written premiums**

|   | 2009<br>£000   | 2008<br>£000   |
|---|----------------|----------------|
| Resulting from contracts concluded by the company |                |                |
| In the EU member state of its head office         | 398,231        | 340,064        |
| In the other EU member states                     | 250,706        | 219,285        |
| In other countries                                | 120,647        | 70,243         |
|   | <b>769,584</b> | <b>629,592</b> |

## FM Insurance Company Limited

### Notes to the consolidated financial statements for the year ended 31 December 2009

#### 3 Segmental information (continued)

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

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

|                        | Gross<br>premiums<br>written | Gross<br>premiums<br>earned | Gross<br>claims<br>incurred | 2008<br>Gross<br>operating<br>expenses | Reinsurance<br>balance | Total          | Net assets     |
|------------------------|------------------------------|-----------------------------|-----------------------------|--|------------------------|----------------|----------------|
|                        | £000                         | £000                        | £000                        | £000                                   | £000                   | £000           | £000           |
| Goods in transit       | 3,006                        | 2,112                       | (1,720)                     | (188)                                  | (2,514)                | (2,310)        | 1,443          |
| Commercial<br>property | 386,555                      | 384,270                     | (150,382)                   | (24,224)                               | (234,571)              | (24,907)       | 185,602        |
| General liability      | —                            | —                           | (2,247)                     | —                                      | 2,247                  | —              | —              |
| Consequential loss     | 106,062                      | 105,833                     | (120,810)                   | (6,647)                                | 21,091                 | (533)          | 50,925         |
| Assumed                | 133,969                      | 130,107                     | (108,070)                   | (8,396)                                | 6,242                  | 19,883         | 64,324         |
| Total                  | <u>629,592</u>               | <u>622,322</u>              | <u>(383,229)</u>            | <u>(39,455)</u>                        | <u>(207,505)</u>       | <u>(7,867)</u> | <u>302,294</u> |

#### 4 Investment return and charges

|   | 2009          | 2008            |
|---|---------------|-----------------|
|   | £000          | £000            |
| Net income from investments                                 | 7,219         | 11,417          |
| Net interest received from bank accounts and fixed deposits | 1,667         | 5,416           |
| Realised gain on investments                                | 4,691         | 353             |
| Investment income   | <u>13,577</u> | <u>17,186</u>   |
| Net interest payable  | (8)           | (23)            |
| Unrealised gains/(losses) on investments                    | <u>62,213</u> | <u>(60,067)</u> |
|   | <u>75,782</u> | <u>(42,904)</u> |

# **FM Insurance Company Limited**

## **Notes to the consolidated financial statements for the year ended 31 December 2009**

### **5 Net operating expenses**

|  | 2009           | 2008          |
|--|----------------|---------------|
|  | £000           | £000          |
| Acquisition costs                          | 24,796         | 32,757        |
| Change in gross deferred acquisition costs | (288)          | (160)         |
|  | <u>24,508</u>  | <u>32,597</u> |
| Administrative expenses                    | 120,400        | 6,858         |
| Gross operating expenses                   | <u>144,908</u> | <u>39,455</u> |
| Reinsurance commissions                    | (81,364)       | (31,223)      |
| Change in deferred reinsurance commission  | 1,847          | 1,888         |
|  | <u>65,391</u>  | <u>10,120</u> |

A foreign exchange loss of £22,026,000 (2008 £91,143,000 gain) is included within administrative expenses

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

|   | 2009       | 2008       |
|---|------------|------------|
|   | £000       | £000       |
| <i>Profit/(Loss) on ordinary activities before tax is stated after charging the following</i> |            |            |
| Loss/(gain) on foreign exchange   | 22,026     | (91,143)   |
| Profit on sale of fixed assets  | (19)       | (31)       |
| Depreciation  | 2,125      | 2,104      |
| Rentals under operating leases on land and buildings  | 7,843      | 7,991      |
| Rentals under other operating leases  | 2,509      | 2,200      |
| Auditors' remuneration  | <u>375</u> | <u>399</u> |

### **7 Auditors' remuneration**

|  | 2009       | 2008       |
|--|------------|------------|
|  | £000       | £000       |
| <i>The remuneration of the auditors is further analysed as follows</i> |            |            |
| Audit of the financial statements – current year                       | 168        | 172        |
| – prior year   | —          | 11         |
|  | <u>168</u> | <u>183</u> |
| Other fees to auditors   |            |            |
| Audits of subsidiaries and branches – current year                     | 154        | 135        |
| – prior year   | 12         | 27         |
| Other services pursuant to legislation – current year                  | 37         | 37         |
| – prior year   | —          | 3          |
| Other services   | <u>4</u>   | <u>14</u>  |
|  | <u>207</u> | <u>216</u> |
|  | <u>375</u> | <u>399</u> |

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

### ***Notes to the consolidated financial statements for the year ended 31 December 2009***

#### **8 Remuneration of directors**

|  | 2009         | 2008         |
|--|--------------|--------------|
|  | £000         | £000         |
| Directors' emoluments                            | 1,138        | 1,126        |
| Amounts payable under long term incentive scheme | 328          | 347          |
|  | <u>1,466</u> | <u>1,473</u> |

The aggregate of emoluments and amounts payable under long term incentive schemes of the highest paid director was £491,571 (2008 £482,695). This includes amounts receivable under long term incentive schemes of £190,179 (2008 £186,553).

The directors' emoluments and long term incentives disclosed above are in respect of payments made by FM Insurance Company Limited and the Parent, Factory Mutual Insurance Company, for qualifying director's services.

|   | 2009     | 2008     |
|---|----------|----------|
| Retirement benefits are accruing to the following number of directors under defined benefit schemes | <u>4</u> | <u>4</u> |

Three directors have outstanding car loans at 31 December 2009 (2008 Three). The car loans are interest free, no non payment is anticipated and payments are taken at source. The amounts outstanding are as follows:

As at 1 January 2009 the brought forward outstanding amount was £20,962 and as at 31 December 2009 the carried forward outstanding amount was £13,098.

As at 1 January 2009 the brought forward outstanding amount was £15,866 and as at 31 December 2009 the carried forward outstanding amount was £10,267.

As at 1 January 2009 the brought forward outstanding amount was £14,560 and as at 31 December 2009 the carried forward outstanding amount was £9,962.

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

The average number of employees of the group during the year ended 31 December 2009 was 1,160 (2008 1,086) and can be categorised as follows:

|                                 | 2009         | 2008         |
|---------------------------------|--------------|--------------|
| Engineering                     | 574          | 533          |
| Administration and Professional | 323          | 321          |
| Operations                      | 148          | 116          |
| Underwriting                    | 115          | 116          |
|                                 | <u>1,160</u> | <u>1,086</u> |

# ***FM Insurance Company Limited***

## ***Notes to the consolidated financial statements for the year ended 31 December 2009***

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

Staff costs consist of

|                       | 2009          | 2008          |
|-----------------------|---------------|---------------|
|                       | £000          | £000          |
| Wages and salaries    | 66,946        | 50,947        |
| Social security costs | 11,772        | 10,344        |
| Other pension costs   | 7,329         | 6,746         |
|                       | <u>86,047</u> | <u>68,037</u> |

### **10 Tax on profit/(loss) on ordinary activities**

(a) Tax on profit/(loss) on ordinary activities

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

|  | 2009          |               | 2008         |                |
|--|---------------|---------------|--------------|----------------|
|  | £000          | £000          | £000         | £000           |
| Current tax  |               |               |              |                |
| UK corporation tax on profits/losses of the period | 7,761         |               | 209          |                |
| Withholding tax relief                             | (334)         |               | —            |                |
| Overseas relief                                    | (7,147)       |               | (209)        |                |
| Foreign tax  | 10,085        |               | 7,208        |                |
|  | <u>10,365</u> |               | <u>7,208</u> |                |
| Adjustments in respect of prior periods            | 930           |               | 1,480        |                |
| Total current tax                                  |               | 11,295        |              | 8,688          |
| Deferred tax                                       |               |               |              |                |
| Decelerated capital allowances                     | (155)         |               | (101)        |                |
| Losses   | 12,190        |               | (11,618)     |                |
| Timing difference in respect of pension            | 4,041         |               | 1,755        |                |
| Adjustment in respect of prior year                | (1,372)       |               | 123          |                |
| Other timing differences                           | 3,619         |               | 103          |                |
| Total deferred tax                                 |               | 18,323        |              | (9,738)        |
| Taxation on profit/(loss) on ordinary activities   |               | <u>29,618</u> |              | <u>(1,050)</u> |

# *FM Insurance Company Limited*

## *Notes to the consolidated financial statements for the year ended 31 December 2009*

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

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

The charge to taxation is made up as follows

|   | 2009       | 2008           |
|---|------------|----------------|
|   | £000       | £000           |
| Deferred tax                            |            |                |
| Actuarial gain/(loss) on pension scheme | 370        | (4,977)        |
| Total tax charge/(credit)               | <u>370</u> | <u>(4,977)</u> |

(c) Factors affecting tax charge for the period

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

|  | 2009          | 2008            |
|--|---------------|-----------------|
|  | £000          | £000            |
| Profit/(Loss) on ordinary activities before tax  | <u>95,584</u> | <u>(35,985)</u> |
| Profit/(Loss) on ordinary activities multiplied by the standard rate of corporation tax in the UK of 28% (2008: 28.5%) | 26,764        | (10,256)        |
| Effects of   |               |                 |
| Expenses not deductible for tax purposes   | 607           | 552             |
| Short term timing differences  | (7,420)       | (1,772)         |
| Tax payable on overseas profits  | 2,126         | 6,502           |
| Unrelieved foreign tax   | 101           | —               |
| Withholding tax not relieved   | 377           | 351             |
| Adjustments in respect of prior years  | 930           | 1,480           |
| Losses utilised  | (12,190)      | 11,827          |
| Other  | —             | 4               |
|  | <u>11,295</u> | <u>8,688</u>    |

The group earns income in many different countries and, on average, pays taxes at rates higher than the UK statutory rate. The overall impact of these higher taxes is subject to changes in enacted tax rates and the country mix of the group's income. However, it is not expected to change significantly in the short term.

All prior year losses have been utilised against current year profit. The group has no unrelieved UK tax losses available for offset against future taxable profits (note 15).



# ***FM Insurance Company Limited***

## ***Notes to the consolidated financial statements for the year ended 31 December 2009***

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

|                        | 2009      | 2008       |
|------------------------|-----------|------------|
|                        | £000      | £000       |
| At 1 January           | 813       | 778        |
| Disposal of subsidiary | (762)     | —          |
| Exchange adjustments   | —         | 35         |
| At 31 December         | <u>51</u> | <u>813</u> |

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

| Subsidiary   | Country of Incorporation | Percentage ownership | Nature of business   |
|--|--------------------------|----------------------|----------------------|
| FMI Services Venezuela CA  | Venezuela                | 97%                  | Engineering Services |
| FM Engineering International Limited   | UK                       | 100%                 | Engineering Services |
| FM Engineering Consulting (Shanghai) Co , Limited (wholly owned by FM Engineering International Limited) | China                    | 100%                 | Engineering Services |

FM do Brasil Servicos de Prevencao de Perdas Limited was sold at book value during the year to FM Global Services LLC with an effective date of 31 May 2009

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

|                                   | 2009           | 2008           |
|-----------------------------------|----------------|----------------|
|                                   | £000           | £000           |
| <b>Market value</b>               |                |                |
| Debt securities                   | 72,257         | 104,853        |
| Equities                          | 267,573        | 165,304        |
| Deposits with credit institutions | 4,496          | —              |
|                                   | <u>344,326</u> | <u>270,157</u> |
| <b>Cost</b>                       |                |                |
| Debt securities                   | 69,149         | 94,010         |
| Equities                          | 251,483        | 228,800        |
| Deposits with credit institutions | 4,496          | —              |
|                                   | <u>325,128</u> | <u>322,810</u> |

# ***FM Insurance Company Limited***

## ***Notes to the consolidated financial statements for the year ended 31 December 2009***

### **12 Other financial investments (continued)**

The debt securities and equities are all listed investments

| <b>Company – Other financial investments</b> |                |                |
|--|----------------|----------------|
|  | <b>2009</b>    | <b>2008</b>    |
|  | <b>£000</b>    | <b>£000</b>    |
| <i>Market value</i>                          |                |                |
| Debt securities                              | 72,257         | 104,504        |
| Equities                                     | 267,573        | 165,304        |
| Deposits with credit institutions            | 4,496          | —              |
|  | <u>344,326</u> | <u>269,808</u> |
| <i>Cost</i>                                  |                |                |
| Debt securities                              | 69,149         | 93,686         |
| Equities                                     | 251,483        | 228,800        |
| Deposits with credit institutions            | 4,496          | —              |
|  | <u>325,128</u> | <u>322,486</u> |

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

|                               | <b>2009</b>   | <b>2008</b>   |
|-------------------------------|---------------|---------------|
|                               | <b>£000</b>   | <b>£000</b>   |
| Amounts owed by policyholders | <u>83,883</u> | <u>94,291</u> |

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

|  | <b>2009</b>   | <b>2008</b>   |
|--|---------------|---------------|
|  | <b>£000</b>   | <b>£000</b>   |
| <i>Amounts falling due within one year</i> |               |               |
| Corporation tax                            | 6,114         | 1,480         |
| Amounts owed by affiliated undertakings    | 1,914         | 1,468         |
| Sundry debtors                             | 2,153         | 3,492         |
|  | <u>10,181</u> | <u>6,440</u>  |
| <i>Amounts falling due after one year</i>  |               |               |
| Deferred tax asset (see note 15)           | <u>1,424</u>  | <u>15,713</u> |

# ***FM Insurance Company Limited***

## ***Notes to the consolidated financial statements for the year ended 31 December 2009***

### **14 Other debtors (continued)**

#### **Company – Other debtors**

|  | 2009         | 2008          |
|--|--------------|---------------|
|  | £000         | £000          |
| <i>Amounts falling due within one year</i> |              |               |
| Corporation tax                            | 6,040        | 1,351         |
| Amounts owed by affiliated undertakings    | 2,450        | 1,159         |
| Sundry debtors                             | 1,212        | 2,587         |
|  | <u>9,702</u> | <u>5,097</u>  |
| <i>Amounts falling due after one year</i>  |              |               |
| Deferred tax asset (see note 15)           | <u>1,298</u> | <u>15,581</u> |

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

|  | 2009            | 2008          |
|--|-----------------|---------------|
|  | £000            | £000          |
| Deferred tax asset at the start of the year              | 15,713          | 4,129         |
| Movement during the year                                 | <u>(14,289)</u> | <u>11,584</u> |
| Deferred tax asset at the end of the year                | <u>1,424</u>    | <u>15,713</u> |
| Deferred tax asset at the end of the year is made up of, | 2009            | 2008          |
|  | £000            | £000          |
| Excess depreciation over capital allowances              | 592             | 444           |
| Deferred tax on pension deficit                          | 58              | 83            |
| Deferred tax asset on losses                             | —               | 15,069        |
| Other timing differences                                 | 774             | 117           |
| Deferred tax asset at the end of the year                | <u>1,424</u>    | <u>15,713</u> |

#### **Company – Deferred tax asset**

|  | 2009            | 2008          |
|--|-----------------|---------------|
|  | £000            | £000          |
| Deferred tax asset at the start of the year              | 15,581          | 4,101         |
| Movement during the year                                 | <u>(14,283)</u> | <u>11,480</u> |
| Deferred tax asset at the end of the year                | <u>1,298</u>    | <u>15,581</u> |
| Deferred tax asset at the end of the year is made up of, | 2009            | 2008          |
|  | £000            | £000          |
| Excess depreciation over capital allowances              | 531             | 395           |
| Deferred tax asset on losses                             | —               | 15,069        |
| Other timing differences                                 | 767             | 117           |
| Deferred tax asset at the end of the year                | <u>1,298</u>    | <u>15,581</u> |

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

### ***Notes to the consolidated financial statements for the year ended 31 December 2009***

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

The group has fully utilised tax losses against current year profit. A deferred tax asset is no longer recognised in relation to these losses.

Deferred tax has been calculated at 28% (2008: 28%)

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

|                       | Equipment<br>furniture and<br>computers | Motor<br>vehicles | Total         |
|-----------------------|---|-------------------|---------------|
|                       | £000                                    | £000              | £000          |
| <b>Cost</b>           |   |                   |               |
| At beginning of year  | 21,640                                  | 658               | 22,298        |
| Additions             | 1,348                                   | —                 | 1,348         |
| Disposals             | (624)                                   | (649)             | (1,273)       |
| Exchange adjustments  | 1,355                                   | 72                | 1,427         |
| At end of year        | <u>23,719</u>                           | <u>81</u>         | <u>23,800</u> |
| <b>Depreciation</b>   |   |                   |               |
| At beginning of year  | 14,574                                  | 347               | 14,921        |
| Charge for year       | 2,086                                   | 39                | 2,125         |
| Disposals             | (404)                                   | (347)             | (751)         |
| Exchange adjustments  | 1,024                                   | 22                | 1,046         |
| At end of year        | <u>17,280</u>                           | <u>61</u>         | <u>17,341</u> |
| <b>Net book value</b> |   |                   |               |
| At 31 December 2009   | <u>6,439</u>                            | <u>20</u>         | <u>6,459</u>  |
| At 31 December 2008   | <u>7,066</u>                            | <u>311</u>        | <u>7,377</u>  |

# ***FM Insurance Company Limited***

## ***Notes to the consolidated financial statements for the year ended 31 December 2009***

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

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

|                       | <b>Equipment<br/>furniture and<br/>computers</b> | <b>Motor<br/>vehicles</b> | <b>Total</b>  |
|-----------------------|--|---------------------------|---------------|
|                       | <b>£000</b>                                      | <b>£000</b>               | <b>£000</b>   |
| <i>Cost</i>           |  |                           |               |
| At beginning of year  | 19,940   | 326                       | 20,266        |
| Additions             | 1,281  | —                         | 1,281         |
| Disposals             | (46)   | (267)                     | (313)         |
| Exchange adjustments  | 1,223  | —                         | 1,223         |
| At end of year        | <u>22,398</u>                                    | <u>59</u>                 | <u>22,457</u> |
| <i>Depreciation</i>   |  |                           |               |
| At beginning of year  | 13,325   | 248                       | 13,573        |
| Charge for year       | 1,923  | 4                         | 1,927         |
| Disposals             | —  | (204)                     | (204)         |
| Exchange adjustments  | 941  | —                         | 941           |
| At end of year        | <u>16,189</u>                                    | <u>48</u>                 | <u>16,237</u> |
| <i>Net book value</i> |  |                           |               |
| At 31 December 2009   | <u>6,209</u>                                     | <u>11</u>                 | <u>6,220</u>  |
| At 31 December 2008   | <u>6,615</u>                                     | <u>78</u>                 | <u>6,693</u>  |

### **17 Collateral deposits**

Included in cash at bank are amounts totalling £2,374,000 (2008 £1,819,000) relating to the Group and £2,253,000 (2008 £1,666,000) relating to the Company which have been deposited with third parties to secure certain liabilities.

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

|   | <b>2009</b>    | <b>2008</b>    |
|---|----------------|----------------|
|   | <b>£000</b>    | <b>£000</b>    |
| <i>Authorised</i>                         |                |                |
| 500,000,000 Ordinary shares of £1 each    | <u>500,000</u> | <u>500,000</u> |
| <i>Allotted, called up and fully paid</i> |                |                |
| 325,000,000 Ordinary shares of £1 each    | <u>325,000</u> | <u>325,000</u> |

# ***FM Insurance Company Limited***

## ***Notes to the consolidated financial statements for the year ended 31 December 2009***

### **19 Consolidated – Reserves**

|   | Share<br>Premium<br>Account | Profit and<br>loss<br>account | Total    |
|---|-----------------------------|-------------------------------|----------|
|   | £000                        | £000                          | £000     |
| At beginning of year  | 978                         | (23,684)                      | (22,706) |
| Profit for the year   | —                           | 65,966                        | 65,966   |
| Actuarial gain (FRS17)                                      | —                           | 1,320                         | 1,320    |
| Deferred tax on actuarial gain                              | —                           | (370)                         | (370)    |
| Net currency translation differences in<br>foreign branches | —                           | 10,625                        | 10,625   |
| At end of year  | 978                         | 53,857                        | 54,835   |

### **Company – Reserves**

|   | Share<br>Premium<br>Account | Profit and<br>loss<br>account | Total    |
|---|-----------------------------|-------------------------------|----------|
|   | £000                        | £000                          | £000     |
| At beginning of year  | 978                         | (25,677)                      | (24,699) |
| Profit for the year   | —                           | 65,548                        | 65,548   |
| Actuarial gain (FRS17)                                      | —                           | 1,320                         | 1,320    |
| Deferred tax on actuarial gain                              | —                           | (370)                         | (370)    |
| Net currency translation differences in<br>foreign branches | —                           | 10,123                        | 10,123   |
| At end of year  | 978                         | 50,944                        | 51,922   |

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

### ***Notes to the consolidated financial statements for the year ended 31 December 2009***

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

|  | 2009           | 2008           |
|--|----------------|----------------|
|  | £000           | £000           |
| Opening shareholder's funds                              | 302,294        | 347,047        |
| Profit/(Loss) for the financial year                     | 65,966         | (34,935)       |
| FRS17 Actuarial gain/(loss)                              | 1,320          | (17,774)       |
| Deferred tax on actuarial (gain)/loss                    | (370)          | 4,977          |
| Net currency translation differences in foreign branches | 10,625         | 2,979          |
| Closing shareholder's funds                              | <u>379,835</u> | <u>302,294</u> |

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

|  | 2009           | 2008           |
|--|----------------|----------------|
|  | £000           | £000           |
| Opening shareholder's funds                              | 300,301        | 345,664        |
| Profit/(Loss) for the financial year                     | 65,548         | (35,286)       |
| FRS17 Actuarial gain/(loss)                              | 1,320          | (17,774)       |
| Deferred tax on actuarial (gain)/loss                    | (370)          | 4,977          |
| Net currency translation differences in foreign branches | 10,123         | 2,720          |
| Closing shareholder's funds                              | <u>376,922</u> | <u>300,301</u> |

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

### ***Notes to the consolidated financial statements for the year ended 31 December 2009***

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

|                                   | Provision<br>for<br>Unearned<br>Premiums<br>£000 | Claims<br>Outstanding<br>£000 | Equalisation<br>Provision<br>£000 | Total<br>Technical<br>Provisions<br>£000 | Deferred<br>Acquisition<br>Costs<br>£000 | Net<br>Insurance<br>Funds<br>£000 |
|-----------------------------------|--|-------------------------------|-----------------------------------|--|--|-----------------------------------|
| <b><i>Gross amount:</i></b>       |  |                               |                                   |  |  |                                   |
| At beginning of year              | 244,714  | 391,214                       | 1,549                             | 637,477                                  | 5,497                                    | 631,980                           |
| Exchange movements                | 6,990  | 14,408                        | —                                 | 21,398                                   | (119)                                    | 21,517                            |
| Movement in the provision         | (5,114)  | (65,588)                      | 5,475                             | (65,227)                                 | 288                                      | (65,515)                          |
| At end of year                    | 246,590  | 340,034                       | 7,024                             | 593,648                                  | 5,666                                    | 587,982                           |
| <b><i>Reinsurance amount:</i></b> |  |                               |                                   |  |  |                                   |
| At beginning of year              | 188,580  | 265,055                       | —                                 | 453,635                                  | 9,316                                    | 444,319                           |
| Exchange movements                | 5,378  | 9,053                         | —                                 | 14,431                                   | 780                                      | 13,651                            |
| Movement in the provision         | (12,205)   | (48,963)                      | —                                 | (61,168)                                 | 1,847                                    | (63,015)                          |
| At end of year                    | 181,753  | 225,145                       | —                                 | 406,898                                  | 11,943                                   | 394,955                           |
| Net balance at end of year        | 64,837   | 114,889                       | 7,024                             | 186,750                                  | (6,277)                                  | 193,027                           |
| At beginning of year              | 56,134   | 126,159                       | 1,549                             | 183,842                                  | (3,819)                                  | 187,661                           |

Net claims incurred in the Consolidated Profit and Loss Account includes £37,732,000 of savings related to losses that occurred prior to the current financial year (2008 £10,695,000 savings)

An equalisation provision has been established as explained in the accounting policies. This has the cumulative effect of reducing group and company shareholder's funds by £7,024,000 at the year end (2008 £1,549,000). The change in equalisation provision during the year comprised of a decrease of £5,475,000 (2008 £7,760,000 increase) in the balance on the technical account – general business and thereby decreasing the profit on ordinary activities before tax.



# ***FM Insurance Company Limited***

## ***Notes to the consolidated financial statements for the year ended 31 December 2009***

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

|   | 2009          | 2008          |
|---|---------------|---------------|
|   | £000          | £000          |
| Corporation taxation payable            | 1,806         | 3,352         |
| Social security                         | 5,787         | 3,816         |
| Engineering fee income                  | 6,356         | 5,698         |
| Amounts owed to affiliated undertakings | 12,063        | 6,283         |
| Other sundry creditors                  | 7,098         | 16,138        |
|   | <u>33,110</u> | <u>35,287</u> |

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

|   | 2009          | 2008          |
|---|---------------|---------------|
|   | £000          | £000          |
| Corporation taxation payable            | 1,604         | 3,142         |
| Social security                         | 5,670         | 3,614         |
| Engineering fee income                  | 6,356         | 5,698         |
| Amounts owed to affiliated undertakings | 13,321        | 7,299         |
| Other sundry creditors                  | 6,597         | 14,898        |
|   | <u>33,548</u> | <u>34,651</u> |

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

|  | 2009          | 2008          |
|--|---------------|---------------|
|  | £000          | £000          |
| Deferred reinsurance commissions (note 21) | 11,943        | 9,316         |
| Salary and incentive accruals              | 9,736         | 7,493         |
| Other accruals and deferred income         | 2,690         | 6,567         |
|  | <u>24,369</u> | <u>23,376</u> |

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

|  | 2009          | 2008          |
|--|---------------|---------------|
|  | £000          | £000          |
| Deferred reinsurance commissions (note 21) | 11,943        | 9,316         |
| Salary and incentive accruals              | 9,389         | 6,654         |
| Other accruals and deferred income         | 2,325         | 5,920         |
|  | <u>23,657</u> | <u>21,890</u> |

# FM Insurance Company Limited

## Notes to the consolidated financial statements for the year ended 31 December 2009

### 24 Pensions

Substantially all of the employees are covered through either state-type schemes (for example in France), or schemes provided by the group. Most of the employees not included in state-type schemes are covered through final salary defined benefit schemes in the UK, Australia and Germany.

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

Full actuarial valuations were carried out by a qualified independent actuary for the three major schemes on 1 January 2008 for UK, 31 December 2006 for Australia and 31 December 2005 for Germany. The disclosures required under FRS17 'Retirement Benefits' have been calculated based on the most recent full actuarial valuations updated to 31 December 2009 and are applicable to both the Group and the Company.

#### Scheme assets

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

| 2009                                | UK<br>£000 | Australia<br>£000 | Germany<br>£000 | Total<br>£000 |
|-------------------------------------|------------|-------------------|-----------------|---------------|
| Equities                            | 50,019     | 7,598             | —               | 57,617        |
| Bonds                               | 25,604     | 3,070             | —               | 28,674        |
| Property                            | —          | 533               | —               | 533           |
| Other – Insurance Contracts         | —          | —                 | 15,931          | 15,931        |
| Other – Cash                        | 423        | 1,484             | —               | 1,907         |
| Fair value of scheme assets         | 76,046     | 12,685            | 15,931          | 104,662       |
| Present value of scheme liabilities | 71,445     | 11,129            | 15,931          | 98,505        |
| Surplus in the scheme               | 4,601      | 1,556             | —               | 6,157         |
| Related deferred tax liability      | (1,288)    | (436)             | —               | (1,724)       |
| Net pension asset                   | 3,313      | 1,120             | —               | 4,433         |
| 2008                                | UK<br>£000 | Australia<br>£000 | Germany<br>£000 | Total<br>£000 |
| Equities                            | 32,092     | 3,714             | —               | 35,806        |
| Bonds                               | 17,845     | 1,815             | —               | 19,660        |
| Property                            | —          | 231               | —               | 231           |
| Other – Insurance Contracts         | —          | —                 | 14,259          | 14,259        |
| Other – Cash                        | 190        | 1,248             | —               | 1,438         |
| Fair value of scheme assets         | 50,127     | 7,008             | 14,259          | 71,394        |
| Present value of scheme liabilities | 55,754     | 9,641             | 14,259          | 79,654        |
| Deficit in the scheme               | (5,627)    | (2,633)           | —               | (8,260)       |
| Related deferred tax asset          | 1,576      | 737               | —               | 2,313         |
| Net pension liability               | (4,051)    | (1,896)           | —               | (5,947)       |

# FM Insurance Company Limited

## Notes to the consolidated financial statements for the year ended 31 December 2009

### 24 Pensions (continued)

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

|  | 2009         |                   |                 |               |
|--|--------------|-------------------|-----------------|---------------|
|  | UK<br>£000   | Australia<br>£000 | Germany<br>£000 | Total<br>£000 |
| Expected return on insurance contracts | —            | —                 | (1,029)         | (1,029)       |
| Current service cost                   | 2,957        | 926               | 1,029           | 4,912         |
|  | <u>2,957</u> | <u>926</u>        | <u>—</u>        | <u>3,883</u>  |

Analysis of amounts included in other finance income for 2009

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

Analysis of other pension costs charged in arriving at the balance on the technical account – general business for 2008

|  | 2008         |                   |                 |               |
|--|--------------|-------------------|-----------------|---------------|
|  | UK<br>£000   | Australia<br>£000 | Germany<br>£000 | Total<br>£000 |
| Expected return on insurance contracts | —            | —                 | (1,004)         | (1,004)       |
| Current service cost                   | 2,446        | 411               | 1,004           | 3,861         |
|  | <u>2,446</u> | <u>411</u>        | <u>—</u>        | <u>2,857</u>  |

Analysis of amounts included in other finance income for 2008

|  | 2008       |                   |                 |               |
|--|------------|-------------------|-----------------|---------------|
|  | UK<br>£000 | Australia<br>£000 | Germany<br>£000 | Total<br>£000 |
| Expected return on pension scheme assets / insurance contracts | 4,036      | 593               | 779             | 5,408         |
| Interest on pension scheme liabilities                         | (3,082)    | (460)             | (779)           | (4,321)       |
|  | <u>954</u> | <u>133</u>        | <u>—</u>        | <u>1,087</u>  |

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

# **FM Insurance Company Limited**

## **Notes to the consolidated financial statements for the year ended 31 December 2009**

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

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

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

#### **Analysis of amount recognised in statement of total recognised gains and losses 2008:**

|  | 2008            |                   |                 |                 |
|--|-----------------|-------------------|-----------------|-----------------|
|  | UK<br>£000      | Australia<br>£000 | Germany<br>£000 | Total<br>£000   |
| Actual return on pension scheme assets   | (9,307)         | (1,337)           | —               | (10,644)        |
| Less, Expected return on pension scheme assets                                     | 4,036           | 593               | —               | 4,629           |
|  | <u>(13,343)</u> | <u>(1,930)</u>    | <u>—</u>        | <u>(15,273)</u> |
| Experience gains and losses arising on scheme liabilities                          | (565)           | 12                | 301             | (252)           |
| Changes in assumptions underlying the present value of scheme assets / liabilities | 173             | (2,121)           | 1,398           | (550)           |
| Expected return on pension scheme assets / insurance contracts                     | —               | —                 | (1,699)         | (1,699)         |
|  | <u>(13,735)</u> | <u>(4,039)</u>    | <u>—</u>        | <u>(17,774)</u> |
| Actuarial gain/(loss) recognised in statement of total recognised gains and losses | <u>(13,735)</u> | <u>(4,039)</u>    | <u>—</u>        | <u>(17,774)</u> |

# *FM Insurance Company Limited*

## *Notes to the consolidated financial statements for the year ended 31 December 2009*

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

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

|                | UK<br>£000 | Australia<br>£000 | Germany<br>£000 | Total<br>£000 |
|----------------|------------|-------------------|-----------------|---------------|
| At end of year | (16,441)   | (935)             | —               | (17,376)      |

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

|  | 2008       |                   |                 |               |
|--|------------|-------------------|-----------------|---------------|
| Changes in the present value of the defined benefit obligation during 2008 | UK<br>£000 | Australia<br>£000 | Germany<br>£000 | Total<br>£000 |
| At beginning of year   | 50,652     | 6,921             | 12,090          | 69,663        |
| Exchange adjustments   | —          | (68)              | 2,319           | 2,251         |
| Current service cost   | 2,446      | 411               | 1,004           | 3,861         |
| Interest cost  | 3,082      | 460               | 779             | 4,321         |
| Benefits paid  | (818)      | (498)             | (234)           | (1,550)       |
| Contributions from plan participants                                       | —          | 306               | —               | 306           |
| Actuarial loss/(gain)  | 392        | 2,109             | (1,699)         | 802           |
| At end of year   | 55,754     | 9,641             | 14,259          | 79,654        |

# **FM Insurance Company Limited**

## **Notes to the consolidated financial statements for the year ended 31 December 2009**

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

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

| Changes in the fair value of plan assets<br>during 2008 | 2008          |              |               |               |
|---|---------------|--------------|---------------|---------------|
|   | UK            | Australia    | Germany       | Total         |
|   | £000          | £000         | £000          | £000          |
| At beginning of year                                    | 52,753        | 7,767        | 12,090        | 72,610        |
| Exchange adjustments                                    | —             | (76)         | 2,319         | 2,243         |
| Expected return on plan assets                          | 4,036         | 593          | —             | 4,629         |
| Contributions paid                                      | 7,499         | 846          | —             | 8,345         |
| Actuarial gain/(loss)                                   | (13,343)      | (1,930)      | —             | (15,273)      |
| Benefits paid   | (818)         | (498)        | —             | (1,316)       |
| Contributions from plan participants                    | —             | 306          | —             | 306           |
| Expected return on insurance contracts                  | —             | —            | (150)         | (150)         |
| At end of year  | <u>50,127</u> | <u>7,008</u> | <u>14,259</u> | <u>71,394</u> |

The total contributions to the defined benefit schemes in 2010 are expected to be £3,923,000

# FM Insurance Company Limited

## Notes to the consolidated financial statements for the year ended 31 December 2009

### 24 Pensions (continued)

The major assumptions used in these valuations were:

|   | 2009    |                |              | 2008    |                |              |
|---|---------|----------------|--------------|---------|----------------|--------------|
|   | UK<br>% | Australia<br>% | Germany<br>% | UK<br>% | Australia<br>% | Germany<br>% |
| Rate of increase in salaries                                  | 5.25    | 5.0            | 3.2          | 4.5     | 5.0            | 3.9          |
| Rate of increase in pensions in payment and deferred pensions | 3.55    | 3.0            | 2.0          | 2.9     | 3.0            | 2.25         |
| Discount rate applied to scheme liabilities                   | 5.9     | 7.5            | 5.62         | 6.0     | 5.2            | 5.85         |
| Inflation assumption  | 3.75    | 2.75           | N/A          | 3.0     | 2.5            | N/A          |
| Long term rate of Return                                      |         |                |              |         |                |              |
| Equities  | 8.45    | 7.9            | N/A          | 7.7     | 6.3            | N/A          |
| Bonds   | 5.65    | 5.4            | N/A          | 6.7     | 4.4            | N/A          |
| Index-linked gilts  | 4.45    | N/A            | N/A          | 3.7     | N/A            | N/A          |
| Cash  | 0.5     | 5.4            | N/A          | 2.0     | 3.8            | N/A          |
| Property  | N/A     | 7.5            | N/A          | N/A     | 5.9            | N/A          |

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

|  | 2009       |                   |                 |               |
|--|------------|-------------------|-----------------|---------------|
| History of experience gains and losses 2009        | UK<br>£000 | Australia<br>£000 | Germany<br>£000 | Total<br>£000 |
| Fair value of scheme assets                        | 76,046     | 12,685            | 15,931          | 104,662       |
| Present value of defined benefit obligation        | (71,445)   | (11,129)          | (15,931)        | (98,505)      |
| Surplus/(Deficit) in the scheme                    | 4,601      | 1,556             | —               | 6,157         |
| Experience gain/(loss) arising on plan liabilities | 134        | (588)             | (472)           | (926)         |
| Experience gain/(loss) arising on plan assets      | 7,198      | 1,360             | 472             | 9,030         |
|  |            |                   |                 |               |
|  | 2008       |                   |                 |               |
| History of experience gains and losses 2008        | UK<br>£000 | Australia<br>£000 | Germany<br>£000 | Total<br>£000 |
| Fair value of scheme assets                        | 50,127     | 7,008             | 14,259          | 71,394        |
| Present value of defined benefit obligation        | (55,754)   | (9,641)           | (14,259)        | (79,654)      |
| Surplus/(Deficit) in the scheme                    | (5,627)    | (2,633)           | —               | (8,260)       |
| Experience gain/(loss) arising on plan liabilities | (565)      | 12                | 301             | (252)         |
| Experience gain/(loss) arising on plan assets      | (13,343)   | (1,930)           | (301)           | (15,574)      |

# **FM Insurance Company Limited**

## **Notes to the consolidated financial statements for the year ended 31 December 2009**

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

| <b>History of experience gains and losses 2007</b> | <b>2007</b>        |                           |                         | <b>Total<br/>£000</b> |
|--|--------------------|---------------------------|-------------------------|-----------------------|
|  | <b>UK<br/>£000</b> | <b>Australia<br/>£000</b> | <b>Germany<br/>£000</b> |                       |
| Fair value of scheme assets                        | 52,753             | 7,767                     | 12,090                  | 72,610                |
| Present value of defined benefit obligation        | (50,652)           | (6,921)                   | (12,090)                | (69,663)              |
| Surplus/(Deficit) in the scheme                    | 2,101              | 846                       | —                       | 2,947                 |
| Experience gain/(loss) arising on plan liabilities | (357)              | (114)                     | (162)                   | (633)                 |
| Experience gain/(loss) arising on plan assets      | (61)               | 131                       | 162                     | 232                   |
|  |                    |                           |                         |                       |
| <b>History of experience gains and losses 2006</b> | <b>2006</b>        |                           |                         | <b>Total<br/>£000</b> |
|  | <b>UK<br/>£000</b> | <b>Australia<br/>£000</b> | <b>Germany<br/>£000</b> |                       |
| Fair value of scheme assets                        | 47,775             | 6,739                     | 11,594                  | 66,108                |
| Present value of defined benefit obligation        | (55,305)           | (6,092)                   | (11,594)                | (72,991)              |
| Surplus/(Deficit) in the scheme                    | (7,530)            | 647                       | —                       | (6,883)               |
| Experience gain/(loss) arising on plan liabilities | 1,942              | 292                       | 810                     | 3,044                 |
| Experience gain/(loss) arising on plan assets      | 218                | (414)                     | (810)                   | (1,006)               |
|  |                    |                           |                         |                       |
| <b>History of experience gains and losses 2005</b> | <b>2005</b>        |                           |                         | <b>Total<br/>£000</b> |
|  | <b>UK<br/>£000</b> | <b>Australia<br/>£000</b> | <b>Germany<br/>£000</b> |                       |
| Fair value of scheme assets                        | 43,795             | 5,744                     | 10,216                  | 59,755                |
| Present value of defined benefit obligation        | (51,308)           | (5,916)                   | (10,216)                | (67,440)              |
| Surplus/(Deficit) in the scheme                    | (7,513)            | (172)                     | —                       | (7,685)               |
| Experience gain/(loss) arising on plan liabilities | (4,591)            | 591                       | 611                     | (3,389)               |
| Experience gain/(loss) arising on plan assets      | 3,765              | 196                       | (611)                   | 3,350                 |



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

### ***Notes to the consolidated financial statements for the year ended 31 December 2009***

#### **25 Capital Commitments**

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

|                               | 2009         |              | 2008         |              |
|-------------------------------|--------------|--------------|--------------|--------------|
|                               | Buildings    | Other        | Buildings    | Other        |
|                               | £000         | £000         | £000         | £000         |
| Operating leases which expire |              |              |              |              |
| Within 1 year                 | 683          | 345          | 435          | 239          |
| Within 2 to 5 years           | 3,915        | 2,003        | 4,702        | 1,507        |
| More than 5 years             | 2,537        | —            | 2,040        | —            |
|                               | <u>7,135</u> | <u>2,348</u> | <u>7,177</u> | <u>1,746</u> |

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

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

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

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

##### **Shareholder's Equity Reconciliation.**

|  | 2009           | 2008           |
|--|----------------|----------------|
|  | £000           | £000           |
| UK GAAP shareholder's funds attributable to equity interests | 379,835        | 302,294        |
| Equalisation provision                                       | 7,024          | 1,549          |
| Provision for bad debts                                      | —              | 4,276          |
| Defined benefit pension asset                                | (288)          | (277)          |
| US GAAP shareholder's equity                                 | <u>386,571</u> | <u>307,842</u> |

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

### ***Notes to the consolidated financial statements for the year ended 31 December 2009***

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

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

|  | 2009            | 2008            |
|--|-----------------|-----------------|
|  | £000            | £000            |
| UK GAAP profit/(loss) for the year           | 65,966          | (34,935)        |
| Equalisation provision                       | 5,475           | (7,760)         |
| Provision for bad debts                      | (5,062)         | 1,411           |
| Defined benefit pension asset                | (374)           | (165)           |
| Unrealised (gain)/loss on investments        | (93,612)        | 19,831          |
| Foreign exchange revaluations of investments | 5,877           | (13,535)        |
| US GAAP loss for the year                    | <u>(21,730)</u> | <u>(35,153)</u> |

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

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

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

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

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

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

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

Under UK GAAP, unrealised gains and losses on investments are recognised in the profit and loss account. For US GAAP purposes, unrealised gains and losses on investments are recognised within Shareholder's Equity to the extent that any unrealised losses are not permanent impairments.

***FM Insurance Company Limited***

***Notes to the consolidated financial statements  
for the year ended 31 December 2009***

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

***Foreign exchange revaluations of investments***

Under UK GAAP foreign exchange revaluations on investments are recognised in the profit and loss account. For US GAAP purposes, foreign exchange revaluations on investments are recognised directly in Shareholder's Equity, to the extent that the related investments are still held by the group at the end of the year.