



FM Insurance Europe S.A., Luxembourg, Bern Branch

Financial Condition Report for the year ended 31 December 2022

April 2023

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Management Summary

FM Insurance Europe S.A. ("FMIE"), an insurance company headquartered in the Grand Duchy of Luxembourg and authorized by the Commissariat aux Assurances to underwrite policies throughout the European Economic Area via various branches, established a branch in Switzerland, under the name of FM Insurance Europe S.A., Luxembourg, Bern Branch ("FMIE Bern Branch") in 2019.

FMIE is wholly owned by Factory Mutual Insurance Company ("FMIC"), which is located in Johnston, Rhode Island, USA.

The FMIE Bern Branch is engaged in the business of underwriting property insurance risks and the provision of related engineering and loss prevention services to large and medium sized clients domiciled in Switzerland and to Swiss branches of FM Global's multinational clients.

Total premium written in 2022 were CHF 33,855,000 (2021: CHF 33,245,000). Gross claims outstanding (excluding incurred but not reported loss provision and unallocated loss adjustment expenses) at the end of 2022 were CHF 1,272,000 (2021: CHF 19,628,000). The result of the year after tax was a profit amounting to CHF 5,071,000 (2021: a profit of CHF 2,599,000). The profit for the year recognised in the 2022 FMIE Bern Branch financial statements resulted in voluntary retained earnings of CHF 5,705,000 as at 31 December 2022.

The performance of the FMIE Bern Branch is in line with management's expectations.

A. Business Activities

Strategy, objectives and essential business sectors

The business model of the FM Global group of companies, of which the FMIE Bern Branch is an integral part, is based on a belief that the majority of property loss and associated business interruption is preventable through advanced loss prevention and risk management solutions. Deploying loss prevention engineering, based on scientific research, is the basis for the belief that the majority of property loss is preventable and continues to unite the mutual company and its policyholders.

FM Global's capital, scientific research capability and engineering expertise are solely dedicated to property risk management and the resilience of its client-owners. These owners, who represent many of the world's largest organisations, work with FM Global to better understand the hazards that can impact their business continuity in order to make cost-effective risk management decisions, combining property loss prevention with insurance protection.

The FMIE Bern branch has a stable book of business and there are no plans to expand into any new lines of business. FMIE will continue to provide insurance business using the current model, however, the business is constantly looking to improve the service to its customers and thereby retain its clients. The parent company, FMIC, is a mutual company which is owned by and accountable to its policyholders. This structure allows FM Global to take a long-term strategic view, helping FMIE, and the FMIE Bern Branch to absorb and withstand volatility in operating results, which enables FM Global to provide clients with a large, stable insurance capacity.

External auditors according to art. 28 ISA

The financial statements of the FMIE Bern Branch are audited by Ernst & Young AG, Zurich.

Market Situation and Exceptional Events

There were no exceptional claims related events incurred during 2022.

2022 was the second consecutive year clients and insurance markets were faced with very large Natural Hazard losses. These losses in combination with higher loss costs driven by inflation, increase of construction costs and supply chain issues as well as increased reinsurance costs led to the property market continuing to act disciplined during the year ended 31 December 2022. This trend is expected to continue during 2023, leading to a further reduction in available capacity on the market and an increase in insurance coverage restrictions.

Business Development

Per 1 January 2023, 200 policies were issued by the FMIE Bern Branch and were in-force.

Total premium written in 2022 was CHF 33,855,000 (2021: CHF 33,245,000), with a total of CHF 27,735,000 (2021: CHF 26,219,000) of the premium ceded to reinsurers. The increase in gross written premium is driven primarily by new business and the increase in rates.

Overall, the development of the business of the Branch is considered as satisfactory. Continuous high client satisfaction is weighed higher than market growth. The Branch added new business in combination with continuing the approach to not engage in an aggressive acquisition strategy to grow its Swiss book, rather striving for sustainable, long-term relationships with its insureds.

A profit amounting to CHF 5,071,000 (2021: loss of CHF 2,599,000) was recorded for the year ended 31 December 2022. The profit is primarily due to the underwriting performance and the investment income allocated from FMIE.

B. Performance

The key components driving the performance of the Branch during the year have been outlined below: Premium, losses, other expenses from underwriting business and other income/expenses. Further analysis and information is contained within the appendices (Section C).

Premium

As per 1 January 2023, premium in-force, issued by the FMIE Bern Branch contained 200 policies. As per 1 January 2022, premium in-force contained 209 policies. The premium reserve on the balance sheet at 31 December 2022 is CHF 16,919,000 (2021: CHF 17,889,000). The total technical income from the underwriting business was CHF 6,850,000 in 2022 (2021: CHF 6,132,000).

In addition, see the Business Development section of this report for details on gross written premium.

Losses

The loss ratio was 2.8% for the year ended 31 December 2022 (2021: 55.6%). This is primarily driven by the limited number of losses incurred during the year as well as net positive loss developments on

prior year losses. The increase in net earned premium compared to last year also generated a positive impact on the loss ratio for the year ended 31 December 2022.

At the end of the year, eight claims for an expected gross amount of CHF 17,866,000 (2021: CHF 19,628,000) were outstanding. There were no disputes over reported losses in 2022 or in prior years.

The largest gross loss outstanding at the end of 2022 was a loss incurred during the year 2021 and for which, at the end of year 2022, the gross reserve for claims outstanding amounted to CHF 11,414,000 and the net reserve for claims outstanding amounted to CHF 1,649,000.

Claims outstanding net of reinsurance, excluding IBNR and ULAE, totalled CHF 3,530,000 (2021: CHF 3,077,000).

Other expenses from underwriting business

Total net expenses from the underwriting business are CHF 1,206,000 (2021: CHF 704,000).

The expense ratio was 17.5% (2021: 11.1%) for the year ended 31 December 2022.

Other income/expenses

Equities and bonds are held by the parent company on behalf of FMIE. FMIE invests primarily in equities and bonds, the majority of which are held in the US market, but some additional deposits are held in local currencies as required by local regulatory authorities.

Other income/expenses represent the charges from these investments, which are allocated across the FMIE business units based on the average net earned premium of the past three years.

Net investment income results of FMIE amounted to EUR 53,042,000 for the year ended 31 December 2022 compared to a net investment income amounting to EUR 43,548,000 in prior year.

The FMIE investments are split as follows:

- 24% of government bonds
- 14% of collateralised bonds
- 22% of corporate bonds
- 11% of investment funds
- 29% of equities

Looking ahead, FMIE's investment strategy remains unchanged, and the Company continues to hold a diversified portfolio. The management of FMIE's investments is outsourced to FMIC, with oversight by the FMIE Finance Manager, with the objective of strengthening FMIE's and FM Global's financial position and thereby, the capacity to provide for the insurance needs of policyholders.

These needs include stability and growth of policyholder surplus as well as liquidity to cover losses. FMIE's investment strategy is to hold a diversified portfolio of investments to provide a good balance between higher risk items and lower risk items. FMIE is a total return investor and believes over the longer-term, equity investments will generate higher returns than fixed income securities. The Swiss Branch is aware this investment approach will generate short term volatility and accepts this risk.

The other income amounted to CHF 1,173,000 (2021: CHF 957,000) for the year ended 31 December 2022. There were no other expenses (2021: nil) for the year ended 31 December 2022.

Result after tax for the year

As a result of the above factors, a profit amounting to CHF 5,071,000 (2021: CHF 2,599,000) was recorded for the year.

C. Appendices

- Financial situation report: quantitative template "Performance Solo NL"
- The external auditor's summary report to the annual financial statements
- The annual financial statements

To the General Manager of
FM Insurance Europe S.A., Luxembourg, Bern Branch, Bern

Zurich, 26 April 2023

Report of the independent auditor



Opinion

As an audit firm under state supervision, we have audited the financial statements of FM Insurance Europe S.A., Luxembourg, Bern Branch, which comprise the balance sheet as at 31 December 2022, the income statement for the year then ended, and the notes to the financial statements, including a summary of significant accounting policies, pursuant to Art. 28 (2) of the Insurance Supervision Act (ISA) and with reference to the supplementary information for audit reporting of insurance companies in Annex 19 to FINMA Circular 13/3 concerning the “Preparation and audit of the financial statements of branches of foreign insurance companies” of 4 November 2020 (Annex 19 to FINMA Circular 13/3).

In our opinion, the accompanying financial statements of FM Insurance Europe S.A., Luxembourg, Bern Branch comply in all material respects with the financial reporting provisions of Annex 19 to FINMA Circular 13/3.



Basis for opinion

We conducted our audit in accordance with the Swiss Standards on Auditing (SA-CH) as well as the framework for the audit of the financial statements as set out in section 3.2 of Annex 19 to FINMA Circular 13/3. Our responsibilities under those provisions and standards are further described in the “Independent Auditor’s Responsibilities for the Audit of the Financial Statements” section of our report. We are independent of the Company in accordance with the requirements of the Swiss audit profession, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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



Other information

The General Manager is responsible for the other information. The other information comprises the information included in the annual report but does not include the financial statements and our auditor’s report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements, or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.



General Manager's responsibilities for the financial statements

The General Manager is responsible for the preparation of the financial statements in accordance with the financial reporting provisions of Annex 19 to FINMA Circular 13/3 and for such internal control as the General Manager determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the General Manager is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable matters related to going concern, and using the going concern basis of accounting unless the General Manager either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.



Independent Auditor's responsibilities for the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with SA-CH and Annex 19 to FINMA Circular 13/3 will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with SA-CH, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- ▶ Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- ▶ Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- ▶ Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made.
- ▶ Conclude on the appropriateness of the General Manager's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

We communicate with the General Manager regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Ernst & Young Ltd

Licensed audit expert
(Auditor in charge)

Licensed audit expert

Enclosure

- ▶ Financial statements (balance sheet, income statement and notes)

**FM Insurance Europe S.A., Luxembourg,
Bern Branch**

**Financial Statements for
the year ended 31 December 2022**

Registered address: Morgenstrasse 129, 3018 Bern

FM Insurance Europe S.A., Luxembourg, Bern Branch

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FM Insurance Europe S.A., Luxembourg, Bern Branch

Balance sheet

As at 31 December 2022

ASSETS

	Note	CHF k 31.12.2022	CHF k 31.12.2021
Cash and cash equivalents		49,721	52,944
Reinsurers' share of technical provisions		27,937	30,877
Provision for unearned premium	4	13,562	13,853
Claims outstanding	5	14,375	17,024
Tangible fixed assets		574	764
Insurance receivables	2, 9	10,794	10,872
Debtors arising out of direct insurance		8,999	9,122
Debtors arising out of reinsurance		1,795	1,750
Other receivables	7, 9	20,226	13,064
Prepayments and accrued income		-	6
Total assets		109,252	108,527

LIABILITIES AND EQUITY

	Note	CHF k 31.12.2022	CHF k 31.12.2021
Technical provisions		35,454	38,743
Provision for unearned premium	4	16,919	17,889
Claims outstanding	5	17,926	20,429
Equalisation provision	6	609	425
Insurance payables	3, 9	11,655	10,580
Other liabilities	8, 9	5,256	6,271
Accruals and deferred income		1,177	1,247
Total liabilities		53,542	56,841
Voluntary retained earnings		5,705	634
Profit brought forward		634	(1,965)
Profit for the period		5,071	2,599
Organizational fund		400	800
Head office account	12	49,605	50,252
Total equity	15	55,710	51,686
Total liabilities and equity		109,252	108,527

FM Insurance Europe S.A., Luxembourg, Bern Branch

Income statement for the year ended 31 December 2022

	Note	CHF k 2022	CHF k 2021
Gross premium written	4	<u>33,855</u>	<u>33,245</u>
Premium ceded to reinsurers	4	<u>(27,735)</u>	<u>(26,219)</u>
Net premium written	4	<u>6,120</u>	<u>7,026</u>
Change in unearned premium reserves	4	<u>1,038</u>	<u>(1,700)</u>
Change in reinsurers' share of unearned premium reserves	4	<u>(313)</u>	<u>778</u>
Net premium earned	4	<u>6,845</u>	<u>6,104</u>
Other insurance income		<u>5</u>	<u>28</u>
Total technical income		<u>6,850</u>	<u>6,132</u>
Gross claims and claim expenses paid	5	<u>(2,332)</u>	<u>(6,360)</u>
Reinsurer's share of claims and claim expenses	5	<u>2,359</u>	<u>4,746</u>
Change in technical provisions	5	<u>1,692</u>	<u>(14,855)</u>
Change in reinsurers' share of technical provisions	5	<u>(1,909)</u>	<u>13,076</u>
Net claims and claim expenses incurred	5	<u>(190)</u>	<u>(3,393)</u>
Acquisition costs and administrative expenses		<u>(2,611)</u>	<u>(1,525)</u>
Reinsurers' share of acquisition costs and administrative		<u>1,405</u>	<u>821</u>
Net acquisition costs and administrative expenses		<u>(1,206)</u>	<u>(704)</u>
Other technical expenses own business	6	<u>(184)</u>	<u>(203)</u>
Total technical expenses		<u>(1,580)</u>	<u>(4,300)</u>
Operating result		<u>5,270</u>	<u>1,832</u>
Other income	13	<u>1,173</u>	<u>957</u>
Other expenses	14	<u>-</u>	<u>-</u>
Profit before tax		<u>6,443</u>	<u>2,789</u>
Income tax expense		<u>(1,372)</u>	<u>(190)</u>
Profit/(Loss) after tax		<u>5,071</u>	<u>2,599</u>

FM Insurance Europe S.A., Luxembourg, Bern Branch

Notes to the financial statements

for the year ended 31 December 2022

Disclosures, breakdowns and explanations

1. Branch information

FM Insurance Europe S.A., Luxembourg, Bern Branch (the "Branch"), is a branch of FM Insurance Europe S.A. incorporated in Luxembourg. The branch was established in Switzerland on 20 February 2019 and obtained the license on 6 September 2019 to establish insurance activities and underwrite policies in Switzerland. FM Insurance Europe S.A. is wholly owned by Factory Mutual Insurance Company, which is located in Johnston, Rhode Island, USA (the "Parent").

The registered office of the Branch is Morgenstrasse 129, 3018 Bern, Switzerland.

The largest group in which the results of the Branch are consolidated is that of the ultimate parent company, Factory Mutual Insurance Company. The consolidated accounts are available to the public and may be obtained from Factory Mutual Insurance Company, 270 Central Avenue, Johnston, RI 02919, USA, or from www.fmglobal.com.

2. Insurance receivables

	CHF k 31.12.2022	CHF k 31.12.2021
Receivables from policyholders	8,999	9,122
Receivables from (re)insurance companies	1,795	1,750
Total	10,794	10,872

3. Insurance payables

	CHF k 31.12.2022	CHF k 31.12.2021
Liabilities to (re)insurance companies	10,431	8,915
Total	10,431	8,915

4. Technical provisions - Unearned premium reserve

	Gross		Reinsurer's share		Net	
	CHF k 31.12.2022	CHF k 31.12.2021	CHF k 31.12.2022	CHF k 31.12.2021	CHF k 31.12.2022	CHF k 31.12.2021
At 1 January	17,889	15,927	13,853	12,861	4,036	3,066
Premium written in the year	33,855	33,245	27,735	26,219	6,120	7,026
Premium earned in the year	(34,893)	(31,545)	(28,048)	(25,441)	(6,845)	(6,104)
Change in unearned	(1,038)	1,700	(313)	778	(725)	922
Foreign exchange	68	262	22	214	46	48
At 31 December	16,919	17,889	13,562	13,853	3,357	4,036

FM Insurance Europe S.A., Luxembourg, Bern Branch

Notes to the financial statements

for the year ended 31 December 2022

Disclosures, breakdowns and explanations

5. Technical provisions - Claims outstanding

	Gross		Reinsurer's share		Net	
	CHF k 31.12.2022	CHF k 31.12.2021	CHF k 31.12.2022	CHF k 31.12.2021	CHF k 31.12.2022	CHF k 31.12.2021
At 1 January	20,429	6,277	17,024	4,558	3,405	1,719
Claims incurred during the year	640	21,215	(450)	17,822	1,090	3,393
Claims paid during the year	(2,332)	(6,360)	2,359	(4,746)	(4,691)	(1,614)
Change in unpaid claims	(1,692)	14,855	1,909	13,076	(3,601)	1,779
Foreign exchange	(811)	(703)	(4,558)	(610)	3,747	(93)
At 31 December	17,926	20,429	14,375	17,024	3,551	3,405

6. Technical provisions - Equalisation reserves

	CHF k 31.12.2022	CHF k 31.12.2021
At 1 January	425	222
Increase of reserves	184	203
At 31 December	609	425

7. Other receivables

	CHF k 31.12.2022	CHF k 31.12.2021
Amounts due from affiliated undertakings	18,683	13,037
Other receivables	1,543	27
	20,226	13,064

8. Other liabilities

	CHF k 31.12.2022	CHF k 31.12.2021
Amounts due to affiliated undertakings	2,356	5,422
Other creditors	1,385	676
Corporation tax	1,515	173
	5,256	6,271

FM Insurance Europe S.A., Luxembourg, Bern Branch

Notes to the financial statements

for the year ended 31 December 2022

Disclosures, breakdowns and explanations

9. Analysis of receivables and payables

31.12.2022	CHF k Other Insurance companies	CHF k Policy Holders	CHF k Related Parties	CHF k Other	CHF k Total
Insurance receivables	1,795	8,999	-	-	10,794
Other receivables	-	-	18,683	1,543	20,226
Insurance payables	7,998	-	2,433	1,224	11,655
Other liabilities	-	-	2,356	2,900	5,256

31.12.2021	CHF k Other Insurance companies	CHF k Policy Holders	CHF k Related Parties	CHF k Other	CHF k Total
Insurance receivables	1,750	9,122	-	-	10,872
Other receivables	-	-	13,037	27	13,064
Insurance payables	7,081	-	1,834	1,665	10,580
Other liabilities	-	-	5,422	849	6,271

10. Amounts owed from related parties

	Location	CHF k 31.12.2022	CHF k 31.12.2021
Affiliated FM Insurance Company	USA	89	43
Factory Mutual Insurance Company	USA	2,763	766
FM Insurance Company Limited	UK	7,248	7,292
FM Insurance Company Limited	Switzerland	168	384
FM Insurance Europe S.A.	Germany	2,494	2,722
FM Insurance Europe S.A.	France	1,464	1,696
FM Insurance Europe S.A.	Italy	4,210	134
FM Insurance Europe S.A.	Sweden	247	-
		18,683	13,037

FM Insurance Europe S.A., Luxembourg, Bern Branch

Notes to the financial statements for the year ended 31 December 2022

Disclosures, breakdowns and explanations

11. Amounts owed to related parties

	<u>Location</u>	<u>CHF k</u> <u>31.12.2022</u>	<u>CHF k</u> <u>31.12.2021</u>
Factory Mutual Insurance Company	USA	2,433	4,957
FM Insurance Europe S.A.	Belgium	7	7
FM Insurance Europe S.A.	The Netherlands	2,349	2,250
FM Insurance Europe S.A.	Sweden	-	42
		<u>4,789</u>	<u>7,256</u>

12. Head office account balance

	<u>Location</u>	<u>CHF k</u> <u>31.12.2022</u>	<u>CHF k</u> <u>31.12.2021</u>
FM Insurance Europe S.A.	Luxembourg		
At 1 January		50,252	26,701
Fund transfer		400	20,400
Business recharges		2,150	762
Intercompany settlement		(3,197)	2,389
At 31 December		<u>49,605</u>	<u>50,252</u>

13. Other income

Equities and bonds are held by the parent company on behalf of FM Insurance Europe S.A. The net investment result is allocated across the branches of the group based on the average net earned premium of the past three years. The net investment result is allocated accordingly as other income or other expenses.

For the year ended 31 December 2022 the other income amounting to CHF 1,173,000 (2021: CHF 957,000) corresponded to the allocated net investment results.

FM Insurance Europe S.A., Luxembourg, Bern Branch

Notes to the financial statements

for the year ended 31 December 2022

Disclosures, breakdowns and explanations

14. Other expenses

Equities and bonds are held by the parent company on behalf of FM Insurance Europe S.A. The net investment result is allocated across the branches of the group based on the average net earned premium of the past three years. The net investment result is allocated accordingly as other income or other expenses.

15. Statement of changes in equity

	CHF k	CHF k
	Total Equity	Total Equity
	31.12.2022	31.12.2021
At the beginning of the year	51,686	25,936
Profit/(loss) for the period	5,071	2,599
Organizational fund	(400)	(400)
Head office account	(647)	23,551
At 31 December	<u>55,710</u>	<u>51,686</u>

16. Audit fees

	CHF k	CHF k
	31.12.2022	31.12.2021
Audit services	<u>52</u>	<u>47</u>

17. Staff number

The average number of employees of the Company during the year ended 31 December 2022 was 9.

18. Off balance sheet commitments

The Company has minimum lease payments under non-cancellable operating leases amounting to CHF 263,000 (2021: CHF 225,000). All the leases have a duration from one to five years.

19. Events after the reporting date

No subsequent events occurred after year-end that could materially impact the financial statements as of and for the year ended 31 December 2022.

FM Insurance Europe S.A., Luxembourg, Bern Branch

Accounting policies

Statement of compliance

The financial statements have been prepared in compliance with the provisions on commercial accounting of the Swiss Code of Obligations (CO) (Art.957-963b CO, applicable as of 1 January 2013). Apart from the Swiss Code of Obligations, the provisions of the Swiss Ordinance of the Supervision of Private Insurance Companies (Art. 5-6a AVO-FINMA, applicable as of 15 December 2015) have been applied.

Foreign currencies

The annual financial statements of FM Insurance Europe S.A., Luxembourg, Bern Branch are prepared in Swiss Franc. Transactions in foreign currencies are recorded at average rates ruling for the month of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at exchange rates ruling at the balance sheet date. Non-monetary assets are converted at historical rates. Exchange differences arising from transactions are taken to the profit and loss account.

The main exchange rates used are presented below:

	2022	2021
EUR	0.9853	1.0416
USD	0.9514	0.9254

Valuation principles

Technical provisions

These are obligations due to insured parties determined based on an individual insurance agreement. They are calculated based on the business plan agreed with FINMA.

Technical provisions comprise claims outstanding, provisions for unearned premium, equalisation provisions and provision for unexpired risk, when required.

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. 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.

IBNR

The liabilities that are in place at the year-end are based on the best estimate of current claims outstanding with an additional element for claims incurred but not reported (IBNR). The IBNR is based on historical data patterns to provide a reasonable estimate of the future development of current claims.

Unearned premium

The provision for unearned premium comprises the amount representing that part of gross premium 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. The proportion attributable to subsequent periods are deferred as a provision for unearned premium.

The provision for reinsurers' share of unearned premium comprises the amount representing the part of reinsurers' share of written premium which is estimated to be earned in the following or subsequent financial years. Unearned reinsurance premium are deferred over the term of the underlying direct insurance policies for both risk attaching contracts and loss occurring contracts.

FM Insurance Europe S.A., Luxembourg, Bern Branch

Accounting policies

Equalisation provision

An equalisation provision is recognised for the purpose of mitigating exceptionally high loss ratios in future years. The amounts provided are not liabilities because they are in addition to the provisions required to meet the anticipated ultimate cost of settlement of outstanding claims at the balance sheet date. The movement in the equalisation provision is included in other technical expenses.

Reinsurance

In the normal course of business, the Branch seeks to reduce losses that may arise from catastrophes or other events that cause unfavourable underwriting results by reinsuring certain levels of risk with other insurance enterprises. Amounts recoverable from reinsurers are accounted for in a manner consistent with the underlying contract liabilities, outstanding claims provisions or settled claims associated with the reinsured policies and in accordance with the relevant reinsurance contract.