

Press Release - JUNE 26, 2007

## A.M. Best Affirms Ratings of Farmers' Mutual Insurance Association and FMG Insurance Limited

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### FOR IMMEDIATE RELEASE

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**A.M. Best Co.** has affirmed the financial strength rating (FSR) of A- (Excellent) and the issuer credit ratings (ICR) of "a-" of **Farmers' Mutual Insurance Association** (FMIA) (New Zealand) and its core subsidiary, **FMG Insurance Limited** (FMGIL) (New Zealand), collectively known as Farmers' Mutual Group (FMG). The outlook for these ratings is stable. Concurrently, A.M. Best has withdrawn the FSR of A- (Excellent) and the ICR of "a-" of **Farmers' Mutual Insurance Limited** (FMIL) (New Zealand) and assigned a category NR-3 (Rating Procedure Inapplicable).

The ratings reflect the group's strong and improving capitalization, well established presence in provincial New Zealand and its broad distribution capabilities. The ratings also consider the impact of FMG's business re-organization.

FMG's risk-adjusted capitalization exhibited positive growth during the year due mainly to a reduction in underwriting risk and an increase in capital and surplus, both of which resulted from the sale of subsidiary operations. The Australian risk business was sold to Australian Unity, and 50% of FMIL was retained as an underwriting agency. The sale of Farmers' Mutual Life Limited (FMLL) to Fidelity Life Assurance Limited (Fidelity) provided FMG with a new business partner.

FMG has established a strong presence in the rural New Zealand market as a result of its long operating history. The group's commitment to self distribution of insurance products in these rural communities has resulted in relatively stable business growth. The group's gross premiums written increased 7.2% in 2007.

These positive factors are partially offset by FMG's exposure to catastrophic risks and intense market competition.

Similar to other general insurers in New Zealand, FMG is exposed to catastrophic perils such as flooding, and being a specialist rural insurer magnifies this risk. Weather-related events raised FMG's loss ratio by approximately 10% in fiscal year 2007. However, the group is reasonably well protected by its reinsurance programs.

Increasing competition in rural insurance markets continues to exert pressure on FMG's profits. Nonetheless, the group's continued premium growth amid strong competition demonstrates its resilience within its market and reflects the success of its strategy of concentrating on its core strength.

For Best's Ratings, an overview of the rating process and rating methodologies, please visit [Best's Rating Center](#).

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