CBL insurance

Financial Statements

For the Year Ended 31 December 2016

CBL Insurance Limited

Contents

31 December 2016

CBL Insurance Limited

Directors' Declaration

The directors are responsible for the preparation, in accordance with New Zealand law and generally accepted accounting practice of the financial statements which present fairly the financial position of CBL Insurance Limited as at 31 December 2016 and the results of the financial operations and cash flows for the year ended 31 December 2016.

The directors consider that the financial statements of CBL Insurance Limited have been prepared using accounting policies appropriate to the Company's circumstances, consistently applied and supported by reasonable and prudent judgements and estimates and that all applicable New Zealand equivalents to International Financial Reporting Standards have been followed.

The directors believe that proper accounting records have been kept in accordance with the Financial Markets Conduct Act 2013.

The directors have responsibility for the maintenance of a system of internal controls designed to provide reasonable assurance as to the integrity and reliability of financial reporting. The directors consider that adequate steps have been taken to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

The directors are pleased to present the financial statements for the year ended 31 December 2016.

These financial statements are dated 30 March 2017 and are signed in accordance with a resolution of the directors made pursuant to section 211(1)(k) of the Companies Act 1993.

These financial statements are signed on behalf of the Board by

John Wells

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Sir John Wells KNZM
Chairman

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Peter Harris
Managing Director

Deloitte.

Independent Auditor's Report

To the Shareholders of CBL Insurance Limited

Opinion

We have audited the financial statements of CBL Insurance Limited (the 'Company'), which comprise the statement of financial position as at 31 December 2016, and the statement of profit or loss, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements, on pages 4 to 40, present fairly, in all material respects, the financial position of the Company as at 31 December 2016, and its financial performance and cash flows for the year then ended in accordance with New Zealand Equivalents to International Financial Reporting Standards ('NZ IFRS') and International Financial Reporting Standards ('IFRS').

Basis for opinion

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

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

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

Other than in our capacity as auditor and the provision of tax compliance services and other assurance services, we have no relationship with or interests in the Company. These services have not impaired our independence as auditor of the Company.

Other information

The directors are responsible for the other information. The other information comprises the information in the Annual Report that accompanies the financial statements and the audit report.

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

Our responsibility is to read the other information and consider whether it is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If so, we are required to report that fact. We have nothing to report in this regard.

Directors' responsibilities for the financial statements

The directors are responsible on behalf of the Company for the preparation and fair presentation of the financial statements in accordance with NZ IFRS and IFRS, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible on behalf of the Company 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 directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

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

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

https://www.xrb.govt.nz/Site/Auditing_Assurance_Standards/Current_Standards/Page6.aspx

This description forms part of our auditor's report.

Restriction on use

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

Deloitte Limited

Michael Wilkes, Partner
for Deloitte Limited
Auckland, New Zealand
30 March 2017

This audit report relates to the financial statements of CBL Insurance Limited (the 'Company') for the year ended 31 December 2016 included on the Company's website. The Directors are responsible for the maintenance and integrity of the Company's website. We have not been engaged to report on the integrity of the Company's website. We accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website. The audit report refers only to the financial statements named above. It does not provide an opinion on any other information which may have been hyperlinked to/from these financial statements. If readers of this report are concerned with the inherent risks arising from electronic data communication they should refer to the published hard copy of the audited financial statements and related audit report dated 30 March 2017 to confirm the information included in the audited financial statements presented on this website.

CBL Insurance Limited

Statement of Profit or Loss
For the Year Ended 31 December 2016

	Note	2016 $'000	2015 $'000
Gross written premium		**247,455**	216,277
Movement in gross unearned premium		**(17,788)**	(17,499)
Gross premiums	2(a)	**229,667**	198,778
Premiums ceded	2(c)	**(4,232)**	(2,424)
Net premiums		**225,435**	196,354
Other revenue	2(a)	**2,728**	8,991
		228,163	205,345
Claims expense	2(b)	**(80,087)**	(88,292)
Reinsurance and other recoveries	2(b)	**5,385**	17,949
Net claims expense		**(74,702)**	(70,343)
Acquisition costs	2(c)	**(74,160)**	(66,234)
Other operating expenses	8(a)	**(20,802)**	(18,225)
Operating profit		**58,499**	50,543
Fair value adjustment on derivatives		**6,437**	(3,850)
Foreign exchange translation adjustment	8(e)	**(6,437)**	3,850
Share of profit from associates		**-**	340
Profit before tax		**58,499**	50,883
Income tax expense	6(d)	**(11,496)**	(12,149)
Profit for the year		**47,003**	38,734

The above statement should be read in conjunction with the accompanying notes of the financial statements.

CBL Insurance Limited

Statement of Financial Position

As at 31 December 2016

	Note	2016 $'000	2015 $'000
ASSETS			
Cash and cash equivalents	2(e)	**281,809**	248,014
Other financial assets	2(e)	**9,145**	4,902
Insurance receivables	2(a)	**114,575**	77,274
Other receivables	6(b)	**3,999**	4,843
Current tax receivable		**546**	4,806
Recoveries on outstanding claims	2(b)	**71,688**	74,711
Deferred reinsurance expense	2(c)	**5,688**	2,486
Deferred acquisition costs	2(c)	**36,782**	35,943
Property, plant and equipment		**1,668**	1,885
Intangible assets	6(a)	**2,584**	1,331
TOTAL ASSETS		**528,484**	456,195
LIABILITIES			
Other payables	6(c)	**4,109**	4,471
Insurance payables	6(c)	**5,855**	4,143
Unearned premium liability	2(d)	**123,596**	105,808
Employee benefits provision		**834**	454
Deferred tax liabilities	6(d)	**9,857**	9,558
Outstanding claims liability	2(b)	**222,507**	206,595
Borrowings	4(a)	**6,057**	-
TOTAL LIABILITIES		**372,815**	331,029
NET ASSETS		**155,669**	125,166
EQUITY			
Share capital	4(b)	**43,405**	43,405
Retained earnings	4(b)	**112,264**	81,761
TOTAL EQUITY		**155,669**	125,166

The financial statements were approved for issue by the Board on 30 March 2017.

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Sir John Wells KNZM, Chairman Peter Harris, Managing Director

The above statement should be read in conjunction with the accompanying notes of the financial statements.

Statement of Changes in Equity

For the year ended 31 December 2016

2016

	Note	Share Capital $'000	Retained Earnings $'000	Total Equity $'000
Balance at 1 January 2016		**43,405**	**81,761**	**125,166**
Comprehensive income				
Profit for the year		**-**	**47,003**	**47,003**
Total comprehensive income		**-**	**47,003**	**47,003**
Transactions with shareholders				
Dividends provided for or paid	4(c)	**-**	**(16,500)**	**(16,500)**
		-	**30,503**	**30,503**
Balance at 31 December 2016		**43,405**	**112,264**	**155,669**

2015

	Note	Share Capital $'000	Retained Earnings $'000	Total Equity $'000
Balance at 1 January 2015		23,405	48,856	72,261
Comprehensive income				
Profit for the year		-	38,734	38,734
Total comprehensive income		-	38,734	38,734
Transactions with shareholders				
Issue of shares	4(b)	20,000	-	20,000
Dividends provided for or paid	4(c)	-	(5,829)	(5,829)
		20,000	32,905	52,905
Balance at 31 December 2015		43,405	81,761	125,166

The above statement should be read in conjunction with the accompanying notes of the financial statements.

Statement of Cash Flows
For the year ended 31 December 2016

	Note	2016 $'000	2015 $'000
CASH FLOWS FROM/(TO) OPERATING ACTIVITIES:			
Premium received		**210,891**	205,873
Reinsurance and other recoveries received		**4,862**	2,022
Claims costs paid		**(49,112)**	(41,151)
Reinsurance premium expense paid		**(6,620)**	(4,227)
Dividends received		**-**	3,756
Interest received		**1,584**	2,633
Movements in security deposits held		**-**	(3,918)
Income tax paid		**(6,938)**	(7,551)
Other operating receipts		**1,144**	2,601
Commission paid		**(74,121)**	(66,437)
Other operating payments		**(20,328)**	(15,069)
Net cash flows from operating activities	8(c)	**61,362**	78,532
CASH FLOWS FROM/(TO) INVESTING ACTIVITIES:			
Outlays for property and equipment		**20**	(1,094)
Payments for intangible assets		**(1,402)**	(1,039)
Net (payments)/receipts for financial assets		**(4,243)**	23,916
Movements in loans with related parties		**6,057**	(1,466)
Net cash flows from investing activities		**432**	20,317
CASH FLOWS FROM/(TO) FINANCING ACTIVITIES:			
Dividends paid to equity holders	4(c)	**(16,500)**	(5,828)
Issue of shares	4(b)	**-**	20,000
Net cash flows from financing activities		**(16,500)**	14,172
Net movement in cash held		**45,294**	113,021
Effects of exchange rates on balances of cash held in foreign currencies		**(11,499)**	(386)
Cash and cash equivalents at the start of the year	2(e)	**248,014**	135,379
Cash and cash equivalents at the end of the year	2(e)	**281,809**	248,014

The above statement should be read in conjunction with the accompanying notes of the financial statements.

Notes to the Financial Statements
For the year ended 31 December 2016

1 Information about this report

(a) General information

CBL Insurance Limited (CBL Insurance or the Company) incorporated on 19 April 1973, is a FMC Reporting Entity under the Financial Markets Conduct Act 2013 and is a company limited by shares, incorporated and domiciled in New Zealand. Its registered office is Level 8, 51 Shortland Street, Auckland 1010, New Zealand. This financial report is for the reporting year ended 31 December 2016 presenting financial statements for the Company as an individual entity.

The Company is wholly owned by LBC Holdings New Zealand Limited. The ultimate parent entity is CBL Corporation Limited (CBL, or together with its subsidiaries the CBL Group), an entity incorporated in New Zealand.

CBL Insurance is a New Zealand domiciled non-life insurer, regulated by the Reserve Bank of New Zealand (RBNZ), specialising in writing niche building and construction related credit and financial surety insurance, bonding, and reinsurance globally.

This general purpose financial report was authorised by the Board of Directors for issue on 30 March 2017.

(b) Statement of compliance

This general purpose financial report has been prepared in accordance with Generally Accepted Accounting Practice in New Zealand. The financial report complies with New Zealand equivalents to International Financial Reporting Standards (NZ IFRS), International Financial Reporting Standards (IFRS) and other applicable Financial Reporting Standards, as appropriate for profit oriented entities. The Company is a profit oriented entity. These financial statements are prepared in accordance with the Financial Markets Conduct Act 2013 (FMC Act) and the Companies Act 1993 (Companies Act), and comply with these Acts.

The financial statements also comply, where relevant, with the Insurance (Prudential Supervision) Act 2010 (IPSA) and associated regulations.

(c) Basis of preparation

The financial statements have been prepared generally on the basis of historical cost principles, as modified by certain exceptions noted in the financial report, with the principal exceptions being the measurement of the outstanding claims liability and assets backing insurance liabilities that are measured at fair value.

The presentation currency used for the preparation of this financial report is New Zealand dollars (NZD) which is the functional currency of the Company. Transactions in foreign currencies are initially recorded in the functional currency at rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the reporting date. All differences are taken to the Statement of Profit or Loss (SOPL). Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions and are not subsequently restated.

All values are rounded to the nearest thousand dollars ($'000) unless otherwise stated.

(d) Changes to comparatives

The financial statements have been streamlined in the current year with notes reordered and grouped to provide users with better access to information and to help them to understand its relevance. The explanation of the Company's accounting policies has been simplified and disclosed within the relevant notes in order to enhance the understanding of the financial statements. Key estimates and judgements have also been highlighted throughout the notes to increase transparency. No changes were made to the amounts recognised in the financial statements as a result of the reordering.

1 Information about this report

(e) Significant accounting policies

The significant accounting policies adopted in the preparation of this financial report are set out in the relevant notes. The accounting policies adopted in the preparation of this financial report have been applied consistently and are the same as those applied for the previous reporting period unless otherwise noted.

Adoption of new and revised accounting standards

In the current year there have been no new or amended accounting standards that had a material impact on the financial statements of the Company. Information about newly issued New Zealand accounting standards that will be adopted by the Company when they become effective is set out in Note 8(d).

(f) Significant accounting judgments, estimates and assumptions

The Company makes estimates and assumptions that affect the reported amounts of assets and liabilities. Estimates and judgements are continually evaluated and based on historical experience and other factors.

The estimates and related assumptions are considered to be reasonable. Actual results may differ from these estimates. Revisions to accounting estimates are recognised in the periods in which the estimates are revised, and future periods if relevant.

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

- Claims and claim recoveries, refer note 2(b); and
- Liability adequacy test, refer to note 2(d).

2 Insurance Business

All of the general insurance products and reinsurance products on offer, or utilised, meet the definition of an insurance contract (a contract under which one party, the insurer, accepts significant insurance risk from another party, the policyholder, by agreeing to compensate the policyholder if a specified uncertain future event, the insured event, adversely affects the policyholder) and none of the contracts contain embedded derivatives or are required to be unbundled. Insurance contracts that meet the definition of a financial guarantee contract are accounted for as insurance contracts. This means that all of the general insurance products are accounted for in the same manner.

Analysis of general insurance underwriting result:

	2016	2015
	$'000	$'000
Gross premium revenue	**229,667**	198,778
Outwards reinsurance expense	**(4,232)**	(2,424)
Net premium income	**225,435**	196,354
Claims expense	**(80,087)**	(88,292)
Reinsurance and other recoveries	**5,385**	17,949
Net claims expense	**(74,702)**	(70,343)
Acquisition costs	**(74,160)**	(66,234)
Other underwriting expenses	**(20,802)**	(18,225)
Underwriting result	**55,771**	41,552

2 Insurance Business

(a) Insurance premium revenue and other revenue

(i) Recognition and measurement

(1) Premium revenue

Premium revenue comprises amounts charged to policyholders (direct premium) or other insurers (inwards reinsurance premium) for insurance contracts. Premium is recognised as earned from the date of the attachment of risk over the period of the related insurance contracts in accordance with the pattern of the incidence of risk expected under the contracts. The pattern of the risks underwritten is generally matched by the passing of time. Premium for unclosed business (business written close to the reporting date where the attachment of risk is prior to the reporting date and there is insufficient information to identify the business accurately) is brought to account based on previous experience with due allowance for any changes in the pattern of new business and renewals.

Unearned premiums are those proportions of premiums written in a year that relate to periods of risk after the reporting date. The unearned portion of premium is recognised as an unearned premium liability (UPL) in the Statement of Financial Position (SOFP).

(2) Other revenue

Other revenue consists of investment income and ceding fee income generated in the ordinary course of the Company’s activities. Revenue is shown net of GST, returns, rebates and discounts where applicable. The Company recognises revenue when: the amount of revenue can be reliably measured and it is probable that future economic benefits will flow to the entity.

(3) Premium receivable

Premium receivable is recognised as the amount due at the point the insurer becomes on risk, and is normally settled between 30 days and 12 months. The recoverability of premium receivable is assessed and provision is made for impairment based on objective evidence and having regard to past default experience. Premium receivable is presented in the SOFP net of any provision for impairment.

(ii) Composition

	2016 $'000	2015 $'000
Premium revenue and related receivables	**114,575**	77,274

(b) Outstanding claims liability, claims expense and related reinsurance and other recoveries and revenue

(i) Recognition and measurement

(1) Outstanding claims

The outstanding claims liability is measured as the central estimate of the present value of expected future payments relating to claims incurred at the reporting date with an additional risk margin added to allow for inherent uncertainty in the central estimate. The outstanding claims liability includes claims that are expected to be reported to CBL Insurance in the future. The expected future payments include those in relation to claims reported but not yet paid or not yet paid in full, claims incurred but not reported (IBNR) and the anticipated

2 Insurance Business

(b) Outstanding claims liability, claims expense and related reinsurance and other recoveries and revenue

(i) Recognition and measurement

direct and indirect claims handling costs and is estimated based on a variety of actuarial techniques that analyse experience, trends and other relevant factors. The liability is discounted to present value using a risk free rate.

The estimation process involves using the entity's specific data, relevant industry data and more general economic data.

The central estimate of the outstanding claims liability is intended to contain no deliberate or conscious over or under estimation and is commonly described as providing the mean of the distribution of future cash flows. It is considered appropriate to add a risk margin to the central estimate in order for the claims liability to have an increased probability of sufficiency.

The risk margin refers to the amount by which the liability recognised in the financial statements is greater than the central estimate of the liability.

(2) Reinsurance and other recoveries

Reinsurance and other recoveries received or receivable on paid claims and on outstanding claims are recognised in the Statement of Profit or Loss (SOPL). Reinsurance recoveries on paid claims are presented as part of other receivables net of any provision for impairment. Reinsurance and other recoveries on outstanding claims are measured as the present value of the expected future receipts calculated on the same basis as the outstanding claims liability, and therefore includes estimates for recoveries on claims that have not yet been notified to CBL Insurance. Reinsurance does not relieve the originating insurer of its liabilities to policyholders and is presented separately in the SOFP.

(ii) Significant areas of judgment and estimation

The estimation of the outstanding claims liability involves a number of assumptions, and it is likely that the final outcome will be different from the original liability established.

At 31 December 2016 the outstanding claims liability was assessed by the appointed actuary and the appointed actuary was satisfied as to the nature, sufficiency and accuracy of the data used to determine the outstanding claims liability. The appointed actuary for CBL Insurance is Paul Rhodes (Fellow of the New Zealand Society of Actuaries) of PricewaterhouseCoopers.

Uncertainties surrounding the outstanding claims liability estimation process include those relating to the claims experience and ultimate loss ratio, actuarial models and assumptions, the statistical uncertainty associated with a general insurance claims run-off process, and risks external to the Company. Uncertainty from these sources is examined for each class of business and expressed as a volatility measure relative to the net central estimate.

The determination of the overall risk margin takes into account the volatility of each class of business. The current risk margin, which has been determined after assessing the inherent uncertainty in the central estimate and the prevailing market environment, results in an overall probability of adequacy for the outstanding claims liability of 75.0% (2015: 75.0%).

The measurement of reinsurance and other recoveries on outstanding claims is also an inherently uncertain process involving estimates. The amounts are generally calculated using assumptions and methods similar to those used for the outstanding claims liability as described below. Where possible, the valuation of reinsurance recoveries is linked directly to the valuation of the gross outstanding claims liability. Accordingly, the valuation of outstanding reinsurance recoveries is subject to risks and uncertainties similar to those for the valuation of

2 Insurance Business

(b) Outstanding claims liability, claims expense and related reinsurance and other recoveries and revenue

(ii) Significant areas of judgment and estimation

the outstanding claims liability. Significant individual losses are analysed on a case by case basis for reinsurance purposes.

The following key actuarial assumptions were used in the measurement of outstanding claims and recoveries at the reporting date.

Central estimate, risk margin and assumptions	**CBL Insurance**
2016	
Risk margin percentage applied to the net outstanding claims liability	**25.5%**
The probability of adequacy of the risk margin	**75.0%**
Average term to settlement	**3.0 years**
Inflation rate	**1.00-2.00%**
Superimposed inflation rate	**0.00-2.50%**
Discount rate	**2.32%**
Claims handling costs ratio	**4.10%**
2015	
Risk margin percentage applied to the net outstanding claims liability	20.3%
The probability of adequacy of the risk margin	75.0%
Average term to settlement	3.2 years
Inflation rate	2.50-3.50%
Superimposed inflation rate	0.00-2.50%
Discount rate	1.39%
Claims handling costs ratio	5.00%

Process used to determine assumptions:

(1) Average term to settlement

The average term to settlement relates to the expected payment pattern for claims. It is calculated by class of business and is generally based on historical settlement patterns. The average term to settlement, while not itself an assumption, provides a summary indication of the future cash flow pattern.

The average term to settlement is calculated from the original date of underwriting a policy. A large proportion of the business underwritten by CBL Insurance has long claims notification periods, including many with 10-year notification periods. The claims settlement is therefore, on average, many years after the date of original underwriting. Actual claims settlement periods, being from the date of claims notification to the date of the claims payment, would be typically less than 90 days.

2 Insurance Business

(b) Outstanding claims liability, claims expense and related reinsurance and other recoveries and revenue

(ii) Significant areas of judgment and estimation

(2) Inflation and superimposed inflation rates

Insurance costs are subject to inflationary pressures. Economic inflation assumptions are set by reference to current economic indicators. Superimposed inflation reflects the past tendency for some costs, such as court awards, to increase at levels in excess of economic inflation.

(3) Discount rate

The discount rate is derived from market yields on government securities appropriate to the applicable country.

(4) Claims handling costs ratio

The future claims handling costs ratio is calculated with reference to the historical experience of claims handling costs as a percentage of past payments.

(iii) Composition

(1) Net claims expense in the SOPL

Current year claims relate to claim events that occurred in the current financial year. Prior year claims relate to a reassessment of the claim events that occurred in all previous periods.

	Current year $'000	**Prior years $'000**	**2016 Total $'000**	Current year $'000	Prior years $'000	2015 Total $'000
Gross claims	**86,807**	**(6,720)**	**80,087**	82,638	5,654	88,292
Reinsurance and other recoveries	**(14,365)**	**8,980**	**(5,385)**	(18,297)	348	(17,949)
Net claims expense	**72,442**	**2,260**	**74,702**	64,341	6,002	70,343

The prior years movements are due to a combination of strengthening to and releases from prior years claims reserves. This is as a result of the actuarial reassessment of these reserves based upon further claims development information.

The gross claims total of $80.1 million consists of $74.2 million (2015: $76.6 million) for business reinsured and the remaining balance relates to direct business.

The reinsurance and other recoveries total of $5.4 million consists of $4.5 million (2015: $17.1 million) connected to inwards reinsurance business and the remaining balance relates to direct business.

2 Insurance Business

(b) Outstanding claims liability, claims expense and related reinsurance and other recoveries and revenue

(2) Outstanding claims liability and related reinsurance and other recoveries recognised in the SOFP

	2016 $'000	2015 $'000
(a) Composition of gross outstanding claims liability		
Gross central estimate - undiscounted	**200,893**	182,288
Claims handling costs	**8,192**	9,837
Risk margin	**33,386**	23,883
	242,471	216,008
Discount to present value	**(19,964)**	(9,413)
Gross outstanding claims liability - discounted	**222,507**	206,595

The outstanding claims liability includes $176.8 million (2015: $152.5 million) that is expected to be settled more than 12 months from the reporting date arising from claims (including future claims) expected to be reported over the future life of the insurance contracts (IBNR claims).

(b) Reinsurance and other recoveries receivable on outstanding claims

	2016 $'000	2015 $'000
Recoveries - undiscounted	**81,050**	78,939
Discount to present value	**(9,362)**	(4,228)
Recoveries - discounted	**71,688**	74,711

The carrying value of reinsurance recoveries and other recoveries includes $60.5 million (2015: $66.6 million) which is expected to be settled more than 12 months from the reporting date.

2 Insurance Business

(b) Outstanding claims liability, claims expense and related reinsurance and other recoveries and revenue

(3) Reconciliation of movements in discounted outstanding claims liability and reinsurance and other recoveries

			2016			2015
	Gross	**Recoveries**	**Net**	Gross	Recoveries	Net
	$'000	**$'000**	**$'000**	$'000	$'000	$'000
Balance at the beginning of the financial year	**206,595**	**(74,711)**	**131,884**	153,594	(57,174)	96,420
Change in prior year claims reserve	**(6,720)**	**8,980**	**2,260**	5,654	348	6,002
Current year claims incurred	**86,807**	**(14,365)**	**72,442**	82,638	(18,297)	64,341
Claims paid during the year	**(49,131)**	**4,862**	**(44,269)**	(40,996)	1,965	(39,031)
Foreign exchange adjustment	**(15,044)**	**3,546**	**(11,498)**	5,705	(1,553)	4,152
Balance at the end of the financial year	**222,507**	**(71,688)**	**150,819**	206,595	(74,711)	131,884

(4) Claims development

	2011 and prior	**2012**	**2013**	**2014**	**2015**	**2016**	**Total**
	$'000	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
Net ultimate claims payments							
Development							
At the end of the first year		**17,007**	**42,743**	**50,372**	**51,634**	**42,319**	**204,075**
One year later		**20,569**	**41,880**	**48,160**	**61,707**		**172,316**
Two years later		**23,507**	**42,581**	**45,591**			**111,679**
Three years later		**23,156**	**49,856**				**73,012**
Four years later		**22,851**					**22,851**
Five years later	**67,262**						**67,262**
Current estimate of net ultimate claims payments	**67,262**	**22,851**	**49,856**	**45,591**	**61,707**	**42,319**	**289,586**
Cumulative payments made to date							**(169,743)**
Net undiscounted outstanding claims payments							**119,843**
Discount to present value							**(10,602)**
Net discounted outstanding claims payments							**109,241**
Claims handling costs							**8,192**
Risk margin							**33,386**
Net outstanding claims liability							**150,819**

(iv) Sensitivity analysis

The impact on the net outstanding claims liabilities before income tax to changes in key actuarial assumptions is summarised below. Each change has been calculated in isolation of the other changes and without regard to other SOFP changes that may simultaneously occur. Changes are stated net of reinsurance recoveries.

Notes to the Financial Statements
For the year ended 31 December 2016

2 Insurance Business

(b) Outstanding claims liability, claims expense and related reinsurance and other recoveries and revenue

(iv) Sensitivity analysis

Assumption	Movement in assumption	
2016		
Average term to settlement	**+10.0%**	**(1,270)**
	-10.0%	**1,280**
Inflation and superimposed inflation rate	**+100 bps**	**4,475**
	-100 bps	**(4,333)**
Discount rate	**+100 bps**	**(4,196)**
	-100 bps	**4,416**
Claims handling costs ratio	**+100 bps**	**1,844**
	-100 bps	**(1,844)**
2015		
Average term to settlement	+10.0%	(94)
	-10.0%	94
Inflation and superimposed inflation rate	+100 bps	3,915
	-100 bps	(3,768)
Discount rate	+100 bps	(3,915)
	-100 bps	3,768
Claims handling costs ratio	+100 bps	1,968
	-100 bps	(1,968)

(c) Deferred insurance assets

(i) Recognition and measurement

(1) Acquisition costs

Costs associated with obtaining and recording general insurance contracts are referred to as acquisition costs. These costs include commissions or brokerage paid to agents or brokers, premium collection costs and risk assessment costs. Such costs are capitalised where they relate to the acquisition of new business or the renewal of existing business. These capitalised costs are presented as deferred acquisition costs, and are amortised on the same basis as the earning pattern of the premium over the period of the related insurance contracts. The balance of the deferred acquisition costs at the reporting date represents the capitalised acquisition costs relating to unearned premium.

(2) Outward reinsurance expense

Premium ceded to reinsurers is recognised as an expense in accordance with the pattern of reinsurance service received. Accordingly, a portion of outwards reinsurance premium expense is treated as a prepayment and presented as deferred outwards reinsurance expense in the SOFP at the reporting date.

2 Insurance Business

(c) Deferred insurance assets

(ii) Composition

(1) Deferred acquisition costs (DAC)

	2016 $'000	2015 $'000
DAC at the beginning of the financial year	**35,943**	35,488
Acquisition costs deferred	**74,999**	66,688
Charged to profit	**(74,239)**	(66,311)
Movement in unexpired risk provision *	**79**	78
DAC at the end of the financial year	**36,782**	35,943
Analysed as:		
Current	**34,856**	32,772
Non-current	**1,926**	3,171

*For details regarding the unexpired risk provision refer to note 2(d).

(2) Deferred reinsurance expense (DRE)

	2016 $'000	2015 $'000
DRE at the beginning of the financial year	**2,486**	1,605
Reinsurance expenses deferred	**7,434**	3,305
Charged to profit	**(4,232)**	(2,424)
DRE at the end of the financial year	**5,688**	2,486
Analysed as:		
Current	**4,616**	1,713
Non-current	**1,072**	773

(d) Unearned premium liability and unexpired risk liability

(i) Recognition and measurement

(1) Unearned premium liability

Unearned premiums are those proportions of premiums written in a year that relate to periods of risk after the reporting date. The unearned portion of premium is recognised as an unearned premium liability (UPL) in the SOFP.

(2) Unexpired risk liability

The liability adequacy test is an assessment of the carrying amount of the UPL and is conducted at each reporting date. If current estimates of the present value of the expected future cash flows relating to future claims arising from the rights and obligations under current general insurance contracts, plus an additional risk

2 Insurance Business

(d) Unearned premium liability and unexpired risk liability

(i) Recognition and measurement

margin to reflect the inherent uncertainty in the central estimate, exceed the UPL (net of reinsurance) less related deferred acquisition costs, then the UPL is deemed to be deficient. The test is performed at the level of a portfolio of contracts that are subject to broadly similar risks and that are managed together as a single portfolio. Any deficiency arising from the test is recognised in the SOPL with the corresponding impact on the SOFP recognised first through the write down of deferred acquisition costs for the relevant portfolio of contracts, with any remaining balance being recognised in the SOFP as an unexpired risk liability.

The test is based on prospective information and therefore is dependent on assumptions and judgements. The risk margin used in testing individual portfolios is based on an assessment of the recent historical experience in relation to the volatility of the insurance margin.

(ii) Composition

(1) Reconciliation of movements in the unearned premium liability (UPL)

	2016	2015
	$'000	$'000
UPL at the start of the financial year	**105,808**	88,309
Premium written	**247,455**	216,277
Premium earned	**(229,667)**	(198,778)
UPL at the end of the financial year	**123,596**	105,808
Analysed as:		
Current	**114,730**	101,496
Non-current	**8,866**	4,312

(2) Unexpired risk liability

The liability adequacy test as at 31 December 2016 resulted in a surplus.

The liability adequacy test as at 31 December 2015 identified a deficit of $0.1 million. The underlying components for the individual portfolios that had deficiencies were as follows:

- The unearned premium liability was $1.1 million;
- Deferred acquisition costs were $0.4 million; and
- The present value of expected future cash flows for future claims was $0.8 million comprised of the discounted central estimate of $0.7 million and a risk margin of $0.1 million.

Accordingly, at 31 December 2015 deferred acquisition costs were written down by the movement in the deficit. At 31 December 2016 the adjustment has been written back into deferred acquisition costs, refer to note 2(c)(ii).

2 Insurance Business

(e) Assets backing insurance liabilities

(i) Recognition and measurement

Financial assets at fair value through profit or loss

Financial assets are categorised as "fair value through profit or loss" (FVTPL) when they are held for trading for the purpose of short term profit taking, or derivatives not held for hedging purposes, or when they are designated as such to avoid an accounting mismatch or to enable performance evaluation where a group of financial assets is managed by key management personnel on a fair value basis in accordance with a documented risk management or investment strategy.

The assets backing general insurance liabilities are those assets required to cover the technical insurance liabilities (outstanding claims and unearned premium) plus an allowance for solvency. The assets held to back general insurance activities are designated as at FVTPL and include cash and cash equivalents and other financial assets. Assets that do not back general insurance liabilities comprise property, plant and equipment.

Financial assets at FVTPL are recognised when the Company becomes a party to the contractual provisions of the instrument. For financial assets, this is equivalent to the date that the Company commits itself to either the purchase or the sale of the asset. These assets are initially measured at fair value excluding transaction costs, which are expensed to SOPL immediately. Such assets are subsequently measured at fair value (excluding interest) with changes in carrying value being included in the SOPL.

Cash and cash equivalents include cash on hand, deposits held at call with banks and other short term highly liquid investments with original maturities of three months or less that are convertible to a known amount of cash and subject to an insignificant risk of change in value. Cash equivalents comprise bank balances held in trust by insurers on CBL's behalf for the purpose of settling potential future claims. The fair value of cash assets and bank overdrafts also reflect the face value of the amounts deposited or drawn.

Government securities and listed shares are initially recognised at fair value, being the quoted bid price of the investment.

Investment income, comprising interest, is brought to account on an effective interest basis.

(ii) Composition

(1) Cash and Cash Equivalents

	2016	2015
	$'000	$'000
Cash at bank and in hand	**244,024**	198,347
Cash equivalents held in trust as reinsurance security	**37,785**	49,667
Total cash and cash equivalents	**281,809**	248,014

Cash equivalents held in trust as reinsurance security comprises bank deposits held in trust on CBL Insurance's behalf, for the purpose of settling ongoing and potential future claims obligations that CBL Insurance may have under quota share reinsurance arrangements. These funds earn interest for the Company, and the funds are available to be withdrawn.

2 Insurance Business

(e) Assets backing insurance liabilities

(2) Other financial assets

	2016 $'000	2015 $'000
Government and fixed interest securities	**1,532**	4,902
Listed shares	**7,613**	-
Total	**9,145**	4,902
Analysed as:		
Current	**9,145**	4,902

(iii) Fair value hierarchy

The investments carried at fair value have been classified under three levels of the IFRS fair value hierarchy as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset whether directly (i.e. as prices) or indirectly (i.e. derived from prices)
- Level 3: inputs for the asset that are not based on observable market data (unobservable inputs)

	2016 $'000	2015 $'000
Level 1	**9,145**	4,902
Level 2	**-**	-
Level 3	**-**	-
Total investments	**9,145**	4,902

There were no transfers between levels in the current or prior year.

(iv) Maturity analysis

	2016 $'000	2015 $'000
Equity investments	**7,613**	-
Within 1 year or less	**1,532**	4,902
Total	**9,145**	4,902

3 Risk and capital management

(a) Insurance risk management

A key risk from operating in the general insurance industry is the exposure to insurance risk arising from underwriting general insurance contracts. The insurance contracts transfer risk to the insurer by indemnifying the policyholders against adverse effects arising from the occurrence of specified uncertain future events. There is a risk that the actual amount of claims to be paid in relation to contracts will be different from the amount estimated at the time a product was designed and priced. This is influenced by the frequency of claims, severity of claims, and subsequent development of claims. Therefore, the objective of the Company is to ensure that sufficient reserves are available to cover these liabilities.

The Company is exposed to this risk because the price for a contract must be set before the losses relating to the product are known. Hence the insurance business involves inherent uncertainty. The Company also faces other risks relating to the conduct of the general insurance business including financial risks, refer to note 3(b) and capital risks, refer to note 3(c).

The Company principally issues the following types of general insurance contract: Decennial Liability, Dommages Ouvrage and other Builders' Risk insurance products; Surety Bonds; Professional Indemnity; Credit Enhancement; and Completion Guarantees. The risks under these products are short term and usually less than 12 months. The Builders' Risk insurance products usually have a notification period of between one and ten years after the risk period and the other insurance policies are typically notified within 12 months.

A central part of the Company's overall risk management strategy is the effective management of the risks that affect the amount, timing and certainty of cash flows arising from insurance contracts.

(i) Mitigating insurance risk

The risk exposure is mitigated by diversification across a large portfolio of insurance contracts, industry sectors and geographical areas. The variability of risks is also improved by careful selection and the implementation of underwriting strategy guidelines, as well as the use of reinsurance arrangements.

The Company purchases reinsurance as part of its risk mitigation programme. Reinsurance ceded is placed on both a proportional and non-proportional basis. The Company also limits its exposure by imposing maximum claim amounts on insurance contracts. Amounts recoverable from reinsurers are estimated in a manner consistent with the outstanding claims provision and in accordance with reinsurance contracts.

Initial claims determination is managed by the claims department with the assistance, where appropriate, of a loss adjuster or other parties with specialist knowledge. It is the Company's policy to respond to and settle all genuine claims in a timely manner and to pay claims fairly, based on policyholders' full entitlements. Claims provisions are established using valuation models and include a risk margin for uncertainty, refer to note 2(b).

To further reduce the risk exposure of the Company there are strict claim review policies in place to assess all new and ongoing claims and to review claims handling procedures regularly. Inflation risk is mitigated by taking expected inflation into account when estimating insurance contract liabilities.

(ii) Concentrations of insurance risk

The exposure to concentrations of insurance risk is mitigated by a portfolio diversified into many classes of business across different regions and by the utilisation of reinsurance.

Concentration risk is particularly relevant in the case of catastrophes which generally result in a concentration of affected policyholders over and above the norm and that constitute the largest individual potential financial loss. Catastrophe losses are an inherent risk of the general insurance industry. Catastrophes that could affect the nature of business that the Company underwrites include financial crises and global market stresses. The nature and level of catastrophes in any period cannot be predicted accurately. The Company minimises this risk through its strong

3 Risk and capital management

(a) Insurance risk management

underwriting criteria and partnering with local experts. The Company has a history of low claims ratios, even when exposed to the abovementioned catastrophes.

Even though a large portion of the Company's business is derived from Europe, the overall spread of countries and products mitigates the concentration risk.

	2016		2015	
	$'000	**%**	**$'000**	**%**
GWP by region				
Australasia	14,819	6.0%	13,306	6.1%
Latin America	18,012	7.3%	9,562	4.4%
Middle East	3,322	1.3%	5,186	2.4%
South East Asia	5,496	2.2%	5,117	2.4%
Europe - France	151,678	61.3%	134,041	62.0%
Europe - Italy	29,373	11.9%	24,691	11.4%
Europe - Scandinavia	13,369	5.4%	14,728	6.8%
Europe - Other	11,386	4.6%	9,646	4.5%
Total	**247,455**		216,277	

(iii) Operational risk

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

The Company is subject to regulatory supervision in the jurisdictions in which it operates. The regulatory frameworks continue to evolve in a number of jurisdictions and at a minimum include requirements in relation to capital adequacy and the payment of dividends.

CBL operates a number of governance committees including an Audit and Financial Risk Committee, Governance and Remuneration Committee, and Investment and Treasury Committee, all committees of the Board, and also a management Underwriting Committee.

(b) Financial risk management

The Company is exposed to a range of financial risks through its financial assets, financial liabilities, reinsurance assets and insurance liabilities.

Key aspects of the processes established to mitigate financial risks include:

3 Risk and capital management

(b) Financial risk management

- The Board convenes on a monthly basis, and the meetings include a review of the monthly management financial statements, management reports and financial risk reports. The Board is comprised of key executives and independent directors. The Board reviews and agrees policies for managing all the financial risks noted below;

- Delegated responsibility for the identification and control of financial risks rests with the Audit and Financial Risk Committee under the authority of the Board. Periodic meetings are held to oversee financial reporting, accounting policies, financial management, internal control systems, risk management systems, systems for protecting assets and compliance. The Audit and Financial Risk Committee oversees the scope and results of the audit work, the cost effectiveness and performance of the audit work, and the independence and objectivity of the auditors; and

- The Company ensures there is an adequate and appropriate level of monitoring and management of credit quality.

The components of financial risk are market risk, credit risk and liquidity risk.

(i) Market risk

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

Nature of the risk and how it is managed:

(1) Currency risk

Currency risk is the risk of loss arising from an unfavourable movement in market foreign exchange rates. The Company operates internationally so is exposed to currency risk from various activities conducted in the normal course of business.

The financial impact from exposure to currency risk is reflected in the financial statements through the revaluation of foreign currency balances. These financial impacts relate primarily to cash, investments, receivables, loss reserves and payables. The revaluation gains and losses are directly recognised in the SOPL.

The Company’s financial assets are primarily denominated in the same currencies as its insurance liabilities. This mitigates the foreign currency exchange rate risk for the overseas operations. Thus, the main foreign exchange risk arises from assets and liabilities denominated in currencies other than those in which liabilities are expected to be settled. The currency risk is managed by regular reviews of the foreign currency financial positions by the Chief Financial Officer (CFO) and the Audit and Financial Risk Committee.

Exposure:

CBL Insurance's foreign exchange exposure is offset to nil through the use of a swap arrangement entered into with CBL Corporate Services Limited, a CBL Group company. The swap arrangement is entered into monthly and is cash settled within 90 days.

(2) Interest rate risk

Interest rate risk is the risk that the value of the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Floating rate instruments expose the Company to cash flow interest risk, whereas fixed interest rate instruments expose the Company to fair value risk. The Company has no material interest rate risks.

3 Risk and capital management

(b) Financial risk management

(3) Equity price risk

Equity price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded on the market.

The Company has exposure to equity price risk through its investments in equities. The impact on the measurement of the investments held at reporting date of a change in equity values by +10% or -10% on profit before tax is shown in the table below:

		2016		2015
	Impact on profit before tax	**Impact on equity**	Impact on profit before tax	Impact on equity
Change in variables	**$'000**	**$'000**	$'000	$'000
+10%	**761**	**761**	-	-
-10%	**(761)**	**(761)**	-	-

(ii) Credit risk

Nature of the risk and how it is managed:

Credit risk is the risk of loss from a counterparty failing to meet their financial obligations. The Company has exposure to credit risk in relation to cash and cash equivalents, other financial assets, insurance receivables, loans receivable and reinsurance and trade and other recoverables. Credit risk also arises from dealings with insurance and reinsurance intermediaries.

The following policies and procedures are in place to mitigate the Company's exposure to credit risk:

- Normal business practise is to ensure that premiums are paid in advance of the risk inception;
- The Company structures the levels of credit risk it accepts by placing limits on its exposure to a single counterparty, or groups of counterparties, and to geographic and industry segments. Such risks are subject to annual or more frequent reviews;
- Guidelines determine when to obtain collateral and guarantees such as security deposits; and
- Reinsurance is placed with counterparties that have a good credit history and concentration of risk is avoided by following policy guidelines in respect of counterparties' limits that are set each year by senior management and are subject to regular reviews. At each reporting date, management performs an assessment of the creditworthiness of reinsurers.

Reinsurance is used to manage insurance risk. This does not, however, discharge the Company's liability as primary insurer or when acting as reinsurer itself. If a reinsurer whom the Company has purchased protection from fails to pay a claim for any reason, the Company remains liable for the payment to the policyholder. The creditworthiness of reinsurers is considered on an annual basis by reviewing their financial strength prior to the finalisation of any contracts.

3 Risk and capital management

(b) Financial risk management

Concentrations of credit risk exist where a number of counterparties have similar economic characteristics. At the reporting date, there are material concentrations of credit risk to the major banks in New Zealand and to reinsurance counterparties with respect to premiums receivable.

Exposure:

The maximum exposure to credit risk as at the reporting date is the carrying amount of the receivables in the SOFP.

An ageing analysis for insurance receivables balances is provided below. The amounts are aged according to their original due dates.

31 December 2016	**Not overdue $'000**	**<30 days $'000**	**30 to 120 days $'000**	**Overdue >120 days $'000**	**Total $'000**
Premium receivable	101,745	5,929	5,306	1,570	114,550
Recoveries on paid claims	25	-	-	-	25
Net balance	**101,770**	**5,929**	**5,306**	**1,570**	**114,575**

31 December 2015	Not overdue $'000	< 30 days $'000	30 to 120 days $'000	Overdue >120 days $'000	Total $'000
Premium receivable	63,915	12,136	672	248	76,971
Recoveries on paid claims	180	98	-	25	303
Net balance	64,095	12,234	672	273	77,274

The total provision for impairment at the reporting date for receivables balances is $nil (2015: $nil).

During 2016 no receivables determined as non-recoverable were written off (2015: $0.1 million).

3 Risk and capital management

(b) Financial risk management

The Company's assets are analysed in the table below using Standard & Poor's (S&P) ratings, or the equivalents when not available from S&P. The concentration of credit risk is substantially unchanged compared to the prior year.

31 December 2016 **Amounts in $'000**	**AAA**	**AA**	**A**	**BBB**	**Below BBB**	**Not rated**	**Total**
Debt securities	**1,532**	**-**	**-**	**-**	**-**	**-**	**1,532**
Equity securities	**-**	**-**	**-**	**-**	**-**	**7,613**	**7,613**
Loans and receivables	**-**	**-**	**1,117**	**89,331**	**-**	**28,126**	**118,574**
Cash and cash equivalents	**-**	**224,660**	**-**	**37,392**	**-**	**19,757**	**281,809**
Total	**1,532**	**224,660**	**1,117**	**126,723**	**-**	**55,496**	**409,528**

31 December 2015 Amounts in $'000	AAA	AA	A	BBB	Below BBB	Not rated	Total
Debt securities	4,902	-	-	-	-	-	4,902
Loans and receivables	-	-	-	-	-	82,117	82,117
Cash and cash equivalents	-	177,680	-	-	-	70,334	248,014
Total	4,902	177,680	-	-	-	152,451	335,033

(iii) Liquidity risk

Nature of the risk and how it is managed:

Liquidity risk is concerned with the risk of there being insufficient cash resources to meet payment obligations without affecting the daily operations or the financial condition of the Company. The liquidity position is derived from operating cash flows, investment portfolios and reinsurance arrangements.

Underwriting of insurance contracts exposes the Company to liquidity risk through the obligation to make payments of unknown amounts on unknown dates. The assets backing insurance liabilities consist predominantly of cash and cash equivalents held at major banks.

The following policies and procedures are in place to mitigate the Company's exposure to liquidity risk:

- Guidelines are set for asset allocations and the maturity profiles of assets, in order to ensure sufficient funding is available to meet insurance obligations; and

- Contingency funding plans are in place to meet emergency payments.

Exposure:

The table below summarises the maturity profile of the financial liabilities of the Company based on remaining undiscounted contractual obligations, except for insurance contract liabilities, which are net of the related reinsurance assets, and are determined based on the estimated timing of net cash outflows from the recognised insurance

3 Risk and capital management

(b) Financial risk management

liabilities. Unearned premiums and the reinsurers' share of unearned premiums have been excluded from the analysis as they are not contractual obligations.

31 December 2016 Amounts in $'000	**Carrying amount**	**Payments due by period as of 31 December 2016**				
		0-1 yrs	**1-3 yrs**	**3-5 yrs**	**>5 yrs**	**Total**
Other payables	**4,109**	**4,109**	**-**	**-**	**-**	**4,109**
Insurance payables	**5,855**	**3,926**	**1,372**	**16**	**541**	**5,855**
Outstanding claims liability	**222,507**	**45,699**	**70,133**	**44,555**	**62,120**	**222,507**
Borrowings	**6,057**	**6,057**	**-**	**-**	**-**	**6,057**
Total contractual obligations	**238,528**	**59,791**	**71,505**	**44,571**	**62,661**	**238,528**

31 December 2015 Amounts in $'000	Carrying amount	Payments due by period as of 31 December 2015				
		0-1 yrs	1-3 yrs	3-5 yrs	>5 yrs	Total
Other payables	4,471	4,471	-	-	-	4,471
Insurance payables	4,143	3,600	284	259	-	4,143
Outstanding claims liability	206,595	54,060	58,996	41,749	51,790	206,595
Total contractual obligations	215,209	62,131	59,280	42,008	51,790	215,209

(c) Capital management

The Board's policy is to maintain a strong capital base to protect policyholders' and creditors' interests and meet regulatory requirements whilst still creating shareholder value.

The primary source of capital used by the Company is equity shareholders' funds.

The operations of the Company are also subject to regulatory requirements. Such regulations not only prescribe the approval and monitoring of activities, but also impose certain restrictive provisions (such as capital adequacy) to minimise the risk of default and insolvency on the part of the Company to meet unforeseen liabilities as these arise. The Company has met all of these requirements throughout the financial year.

The Company's approach to managing capital involves managing assets, liabilities and risks in a coordinated way, assessing potential shortfalls between actual and required capital levels on a regular basis and taking appropriate actions to influence the capital position of the Company in light of changes in economic conditions and risk characteristics. An important aspect of the Company's overall capital management process is the setting of target risk adjusted rates of return, which are aligned to performance objectives and ensure that the Company is focused on the creation of value for shareholders.

3 Risk and capital management

(c) Capital management

CBL Insurance is required to maintain actual solvency capital at or above the minimum solvency capital level in accordance with the Solvency Standard for Non-life Insurance Business (the solvency standard) issued by the RBNZ. The Company has embedded in its capital management framework the necessary tests to ensure continuous and full compliance with solvency requirements for regulated entities. During the years ended 31 December 2016 and 31 December 2015 the Company complied with all externally imposed capital requirements.

As at 31 December 2016 the actual solvency capital exceeds the minimum requirements by $71.9 million as shown below (2015: $44.0 million).

	2016	2015
	$'000	$'000
Actual solvency capital	**153,086**	123,709
Minimum solvency capital	**81,173**	79,726
Solvency margin	**71,913**	43,983
Solvency ratio	**188.6%**	155.2%

4 Funding

(a) Borrowings

(i) Recognition and measurement

Borrowings are initially recognised at fair value less directly attributable transaction costs. After initial recognition the liabilities are carried at amortised cost using the effective interest method.

Finance costs include both contracted interest and transaction costs (collectively the effective interest).

(ii) Composition

	2016	2015
	$'000	$'000
Related party loan	**6,057**	-
Total	**6,057**	-
Analysed as:		
Current	**6,057**	-

Related party loan:

On 23 December 2016 CBL Insurance Europe DAC, a company wholly owned by CBL, loaned €4.0 million to the Company. The balance as at 31 December 2016 is $6.1 million (2015: $nil). The loan is subject to interest at the 12 month Euribor rate, plus a margin. The loan is unsecured and is repayable on demand.

4 Funding

(b) Share capital and reserves

(i) Recognition and measurement

The Company has issued ordinary shares that are classified as equity.

(ii) Composition

(1) Share capital

Ordinary shares	**2016 Number of shares in '000**	2015 Number of shares in '000	**2016 $'000**	2015 $'000
Balance at the start of the financial year	**38,600**	28,000	**43,405**	23,405
Shares issued during the year	**-**	10,600	**-**	20,000
Balance at the end of the financial year	**38,600**	38,600	**43,405**	43,405

All ordinary shares on issue are fully paid. Ordinary shares entitle the holder to a vote at a general meeting of the Company and to share in the dividends in proportion to the number of the shares held. Dividends, if declared, are subject to there being distributable profits available and their satisfying the solvency test as defined in the Companies Act 1993.

CBL Insurance issued 10,600,000 ordinary shares in 2015 for a total consideration of $20.0 million, to its parent LBC Holdings New Zealand Limited, paid in cash.

(2) Retained earnings

The directors have reviewed the total equity of the Company and considered it adequate for the purpose of financial soundness. The directors review this in line with the Company's internal policies around financial soundness and liquidity levels. These policies are reviewed on a half-yearly basis to ensure that adequate equity levels are maintained at all times.

(c) Dividends

Payment date	Total amount $'000	Tax rate for imputations	Percentage imputed
April 2015	829	28%	100%
May 2015	5,000	28%	100%
April 2016	10,000	28%	100%
September 2016	6,500	28%	100%

Dividend distribution to the Company's shareholders is recognised as a liability in the Company's financial statements in the period in which the dividends are approved by the Company's Board of Directors.

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5 Group structure

(a) Subsidiaries

(i) Recognition and measurement

Where the Company has control over an investee, it is classified as a subsidiary. The Company controls an investee if all three of the following elements are present: power over the investee, exposure to variable returns from the investee, and the ability of the investor to use its power to affect those variable returns. Control is reassessed whenever facts and circumstances indicate that there may be a change in any of these elements of control.

On 19 September 2016 as part of a restructure of the CBL Group, CBL Insurance made an in specie distribution of all of its shares in Intercede 2408 Limited to CBL Insurance's parent LBC Holdings New Zealand Limited.

(b) Related party information

(i) Related party balances

Related party receivable and payable balances at the end of the reporting periods were as follows:

Nature of relationship	Related party	Type of transaction	Closing balance 2016 $'000	Closing balance 2015 $'000
CBL Group entities				
	CBL Corporate Services Limited	Other debtor	**2,659**	3,380
	Intercede 2408 Limited	Other debtors	**488**	-
	CBL Corporation Limited	Other creditors	**(885)**	-
	CBL Corporation Limited	Other debtors	**45**	-
	Assetinsure Pty Limited	Premium	**1,029**	-
	CBL Insurance Europe DAC	Premium	**4,427**	-
	CBL Insurance Europe DAC	Commission	**(99)**	-
	CBL Insurance Europe DAC	Borrowing	**(6,057)**	-
Key management personnel				
Carden Mulholland	Deposit Power Pty Limited (Australia)	Premium	**738**	303
Carden Mulholland	Deposit Power Pty Limited (Australia)	Commission	**(305)**	-
Carden Mulholland	Deposit Power Pty Limited (Australia)	Advances	**166**	-
Alistair Hutchison	Federal Pacific Limited	Net insurance creditor	**(1)**	-
Total			**2,205**	3,683

5 Group structure

(b) Related party information

(ii) Related party transactions

The impacts of transactions with related parties on the financial statements were as follows:

Nature of relationship	Related party	Type of transaction	Transaction amount 2016 $'000	2015 $'000
CBL Group entities				
	CBL Corporate Services Limited	Foreign exchange transaction	**6,437**	(3,850)
	European Insurance Services Limited	Profit commission	**-**	(639)
	LBC Holdings New Zealand Limited	Dividends	**(16,500)**	(5,830)
	Assetinsure Pty Limited	Insurance contracts Premium	**1,185**	-
	Assetinsure Pty Limited	Insurance contracts Commissions	**(365)**	-
	CBL Insurance Europe DAC	Insurance contracts Premium	**10,263**	-
	CBL Insurance Europe DAC	Insurance contracts Commissions	**(3,229)**	-
Key management personnel				
Carden Mulholland	Deposit Power Pty Limited (Australia)	Insurance contracts Premium	**9,632**	10,412
Carden Mulholland	Deposit Power Pty Limited (Australia)	Insurance contracts Costs	**(3,679)**	(4,175)
Carden Mulholland	Deposit Power Pty Limited (Australia)	Insurance contracts Commissions	**(2,214)**	(2,489)
Peter Harris	Altares Limited	Fees	**-**	(256)
Alistair Hutchison	Federal Pacific Group Limited	Fees	**(100)**	(100)
Alistair Hutchison	Federal Pacific Group Limited	Insurance contracts	**11**	46
Tony Hannon	General Capital Technologies Limited	Premium	**-**	14

(iii) Compensation of key management personnel

	2016 $'000	2015 $'000
Salaries and other short term employee benefits	**6,171**	4,077
Independent directors' fees	**351**	405
Total	**6,522**	4,482

6 Other assets and liabilities

(a) Intangibles

(i) Recognition and measurement

Acquired intangible assets are initially recorded at their cost at the date of acquisition being the fair value of the consideration provided and, for assets acquired separately, incidental costs directly attributable to the acquisition. Intangible assets with finite useful lives are amortised on a straight line basis (unless the pattern of usage of the benefits is significantly different) over the estimated useful lives of the assets being the periods in which the related benefits are expected to be realised (shorter of legal duration and expected economic life). Amortisation rates and residual values are reviewed annually and any changes are accounted for prospectively.

The following classes of intangible assets have been recognised:

Brand name:

This represents the revenue generating value of the acquired brand and is determined using the relief from royalty method. The Deposit Power brand is recognised as having an indefinite useful life as there is no foreseeable limit to the period over which the brand is expected to generate net cash flows.

Computer software:

The software development expenditure asset comprises both internally generated assets and acquired assets. Computer software is amortised by applying a 10-year straight line approach.

(ii) Composition

	Brand names $'000	Computer software $'000
2016		
Cost	**99**	**3,554**
Accumulated amortisation	**-**	**(1,069)**
Net carrying value	**99**	**2,485**
2015		
Cost	99	2,152
Accumulated amortisation	-	(920)
Net carrying value	99	1,232

6 Other assets and liabilities

(a) Intangibles

(iii) Reconciliation of movements

	Brand names $'000	Computer software $'000	Total $'000
Year ended 31 December 2016			
Balance at the beginning of the year	**99**	**1,232**	**1,331**
Additions	**-**	**1,402**	**1,402**
Amortisation	**-**	**(149)**	**(149)**
Closing value at 31 December 2016	**99**	**2,485**	**2,584**
Year ended 31 December 2015			
Balance at the beginning of the year	99	313	412
Additions	-	1,039	1,039
Amortisation	-	(120)	(120)
Closing value at 31 December 2015	99	1,232	1,331

(iv) Impairment

Impairment testing

Management has determined that there is no indication of impairment and therefore no impairment testing is required in respect of the computer software.

(b) Loans and receivables at amortised cost

(i) Recognition and measurement

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are initially recognised at fair value plus transaction cost, and subsequently at amortised cost using the effective interest rate method, less any impairment losses.

The amortised cost of other receivables also reflects the amounts expected to be received in the future, less any impairment losses. The amounts are discounted where the effect of the time value of money is material.

The recoverability of receivables is assessed on an ongoing basis and an allowance for impairment is established where there is objective evidence of impairment.

Objective evidence that a financial asset is impaired includes default by a debtor, evidence that the debtor is likely to enter bankruptcy and adverse economic conditions affecting share prices. At the end of each reporting period, the Company assesses whether there is objective evidence that a financial asset has been impaired through the occurrence of a loss event. The impairment charge is recognised in SOPL. Debts that are known to be uncollectable are written off. Where a subsequent event causes the amount of the impairment loss to decrease (a payment receipt for example), the reduction in the allowance account (provision for impairment of receivables) is taken through SOPL.

6 Other assets and liabilities

(b) Loans and receivables at amortised cost

(ii) Composition

	2016 $'000	2015 $'000
Other receivables		
- prepayments	**98**	79
- related party receivables	**3,358**	3,683
- other debtors	**543**	1,081
Total other receivables	**3,999**	4,843
Analysed as:		
Current	**3,999**	4,843

The estimated fair value of loans and receivables is the discounted amount of the estimated future cash flows expected to be received. The related party amounts are described further in note 5(b).

(c) Other financial liabilities at amortised cost

(i) Recognition and measurement

Other payables are initially recognised at fair value less transaction costs, and are subsequently carried at amortised cost, which is the equivalent to fair value or the face value of the consideration to be paid in the future for goods and services received. The amounts are discounted where the effect of the time value of money is material.

(ii) Composition

	2016 $'000	2015 $'000
Insurance payables	**5,855**	4,143
Other payables		
Related party balances	**1,191**	245
Accrued expenses	**1,442**	1,591
Other payables	**1,476**	2,635
Total other payables	**4,109**	4,471
Total payables	**9,964**	8,614
Analysed as:		
Current	**9,964**	6,825
Non-current	**-**	1,789

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

6 Other assets and liabilities

(d) Income tax

(i) Recognition and measurement

Income tax on the result for a reporting period comprises current and deferred tax. Income tax is recognised in the SOPL except to the extent that it relates to items recognised in Other Comprehensive Income (OCI), in which case the income tax is also recognised in OCI.

Current tax expense is the expected tax payable on the taxable income for the year, using tax rates for each jurisdiction, and any adjustment to tax payable in respect of previous financial periods. Deferred tax expense is the change in deferred tax assets and liabilities between the reporting periods.

Deferred tax assets and liabilities are recognised using the balance sheet method for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the reporting date. Deferred tax assets are recognised only to the extent that it is probable that future taxable profits will be available against which the assets can be utilised.

(ii) Composition

Income tax expense

	2016	2015
	$'000	$'000
Current	**11,197**	5,066
Movement in deferred tax liability	**299**	7,220
Over provision in prior periods	**-**	(137)
Income tax expense	**11,496**	12,149

6 Other assets and liabilities

(d) Income tax

Income tax reconciliation

The income tax for the financial year differs from the amount calculated in the SOPL before income tax, the difference is reconciled as follows:

	2016 $'000	2015 $'000
Profit for the year before income tax	**58,499**	50,883
Income tax at the current rate of 28% (2015: 28%)	**16,380**	14,247
Amounts which are not deductible/(taxable) in calculating taxable income:		
- non-assessable income	**-**	(1,146)
- non-deductible expenses	**56**	170
- tax losses offset from CBL Group companies	**(4,940)**	(987)
Income tax expense applicable to current year	**11,496**	12,284
Adjustment relating to prior year	**-**	(135)
Income tax expense	**11,496**	12,149

Deferred tax liabilities

	2016 $'000	2015 $'000
Composition		
Deferred acquisition costs	**10,299**	10,064
Employee benefits	**(590)**	(442)
Other	**148**	(64)
Total deferred tax liabilities	**9,857**	9,558

7 Unrecognised items

(a) Commitments

(i) Capital commitments

The Company has no capital commitments at the reporting date (2015: $0.7 million for enhancing the insurance administration system).

Notes to the Financial Statements
For the year ended 31 December 2016

7 Unrecognised items

(a) Commitments

(ii) Operating lease commitments

The Company has entered into commercial office and equipment leases under non-cancellable lease arrangements. These leases have varying terms, escalation clauses and renewal rights.

The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	2016	2015
	$'000	$'000
Due within one year	**970**	869
Due between one and five years	**3,509**	3,651
Due after five years	**-**	167
	4,479	4,687

(b) Contingent liabilities

Contingent liabilities are not recognised in the SOFP but are disclosed where settlement is less than probable but more than remote. If settlement becomes probable, a provision is recognised. There are no contingent liabilities at year end.

(c) Events after the end of the reporting period

As at the date of adoption of these financial statements there have been no reportable events occurring after the balance sheet date.

Notes to the Financial Statements
For the year ended 31 December 2016

8 Other information

(a) Analysis of expenses

	2016 $'000	2015 $'000
(i) Acquisition costs		
Acquisition costs	**74,160**	66,234
(ii) Other operating expenses		
Employee benefits expense	**9,016**	5,989
Directors fees	**523**	459
Depreciation	**197**	114
Amortisation	**149**	120
Operating lease payments	**374**	290
Auditors' remuneration	**420**	505
Doubtful debts	**-**	79
Other expenses	**10,123**	10,669
Total other operating expenses	**20,802**	18,225
Total expenses	**94,962**	84,459

(b) Remuneration of auditors

	2016 $'000	2015 $'000
Remuneration of the auditor of the parent entity, Deloitte, for:		
- auditing or reviewing the financial statements	**262**	175
- taxation advisory and compliance services	**140**	4
- litigation support services	**-**	21
- other assurance services	**17**	-
Remuneration of the auditor of the parent entity, Crowe Horwath, for:		
- auditing or reviewing the financial statements	**-**	305

8 Other information

(c) Cash flow information

(i) Cash flow reconciliation

Reconciliation of net income to net cash provided by operating activities:

	2016 $'000	2015 $'000
Profit for the period	**47,003**	38,734
Cash flows excluded from profit attributable to operating activities		
Non-cash flows in profit:		
- depreciation of property, plant and equipment	**197**	114
- amortisation of software	**149**	120
- movements in deferred tax	**299**	7,220
- other	**-**	(340)
Movement in operating assets and liabilities:		
- increase in receivables	**(37,477)**	(34,646)
- increase in payables	**35,433**	69,568
- increase/(decrease) in taxation	**4,260**	(2,623)
- foreign exchange movement in non-operating cash balances	**11,498**	385
Cash flow from operations	**61,362**	78,532

(d) New accounting standards for application in future periods

The following standards, amendments and interpretations to existing standards have been published and are mandatory for the Company's accounting periods beginning after 1 January 2017 or later periods, and accordingly the Company has not yet adopted them. The Company expects to adopt the following new standards on 1 January after the effective date.

- NZ IFRS 9 "Financial Instruments" is effective for balance dates beginning on or after 1 January 2018. The standard replaces NZ IAS 39. NZ IFRS 9 requires the financial assets to be classified into two measurement categories, being those measured as at fair value and those measured at amortised cost. The determination is made when the instruments are initially recognised. The method of classification is dependent on the entity's business model and how it manages its financial instruments. For financial liabilities, the standard maintains most of the requirements set out in NZ IAS 39. NZ IFRS 9 introduces a new expected credit loss model for calculating the impairment of financial assets. Management has yet to perform a full assessment of the impact of this standard, however it is not expected to have a material impact on the financial statements.

- NZ IFRS 15 "Revenue from Contracts with Customers" is effective for balance dates beginning on or after 1 January 2018. The standard provides requirements for accounting for all contracts with customers, with some exceptions. Specific exemptions include lease contracts, insurance contracts and financial instruments. The standard will replace all current accounting pronouncements on revenue. Management has yet to perform a full assessment of the impact of this standard, however it is not expected to have a material impact on the financial statements.

8 Other information

(d) New accounting standards for application in future periods

- NZ IFRS 16 "Leases" is effective for reporting periods beginning on or after 1 January 2019. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract. NZ IFRS 16 eliminates the current dual accounting model for lessees, which distinguishes between on balance sheet finance leases and off balance sheet operating leases. Instead, there is a single, on balance sheet accounting model that is similar to current finance lease accounting. Management has yet to perform a full assessment of the impact of this standard, however it is possible that the maximum lease commitment set out on note 7(a)(ii) could be recognised in the SOFP.

(e) Foreign currency information

A substantial part of CBL Insurance's business is derived in foreign currencies. CBL Insurance retains the premium in the currency it is received in because this is the currency in which future claims and other costs will be paid, and this provides a natural currency hedge for these assets and liabilities.

At balance date, these foreign currency assets and liabilities need to be translated into NZD for reporting purposes. Any difference in the foreign exchange value when translating those balances into NZD are reported as a positive or negative translation adjustment. Generally these balances are not physically converted into NZD, the translation into NZD is calculated purely for reporting purposes.

Corporate Directory

Date of incorporation

CBL Insurance Limited	19 April 1973

Director	**Position**	**Appointed**
Sir John Wells KNZM	Independent Chairman	27 September 2012
Alistair Hutchison	Deputy Chairman	14 December 2008
Peter Harris	Executive Director	13 December 2006
Anthony (Tony) Hannon	Independent Director	25 August 2011
Ian Marsh	Independent Director	19 December 2012
Norman (Paul) Donaldson	Independent Director	9 June 2015

Registered office and principal place of business

Level 8, 51 Shortland Street
Auckland Central
Auckland 1010, New Zealand
Phone: +64 9 303 4770
Website: www.cblinsurance.com

Auditors

Deloitte Limited

The Board of Directors
CBL Insurance Limited
Tower One, Level 8, Shortland Centre
51 Shortland Street
Auckland 1010

30 March 2017

Appointed actuary's review of actuarial information for CBL Insurance Limited

To the Directors of CBL Insurance Limited

This letter has been prepared for CBL Insurance Limited (CBL) to meet the requirements of Section 78 of the Insurance (Prudential Supervision) Act 2010 (the Act) in respect of Section 77 of the Act, which requires that each licensed insurer must ensure that the actuarial information contained in, or used in preparation of, the financial statements of the insurer is reviewed by the appointed actuary.

I have reviewed the following actuarial information to be included in the audited accounts for CBL Insurance as at 31 December 2016:

- outstanding claims liability
- reinsurance and other recoveries
- unearned premium liability
- solvency information, including the actual solvency capital, minimum solvency capital and solvency margin amounts.

I have been provided with all the information and explanations that I have required to complete my review.

I am the appointed actuary to CBL Insurance and am a Partner at PricewaterhouseCoopers New Zealand. I am independent of CBL Insurance.

In my opinion:

- the actuarial information contained in the financial statements has been appropriately included in those statements; and
- the actuarial information used in the preparation of the financial statements and solvency position has been used appropriately; and
- CBL Insurance is maintaining a solvency margin as required under Solvency Standard for Non-life Insurance Business issued by the Reserve Bank of New Zealand.

Reliances and limitations

This letter has been prepared for CBL Insurance Limited (CBL Insurance) and is provided in accordance with the terms set out in our engagement letter dated 1 December 2015.

No distribution of this letter to third parties, other than as required by law is permitted by us. There may be requests for our letter to be copied to third parties. We will be happy to consider these requests, as and when they arise.

Our responsibilities and liabilities are limited to CBL Insurance and exist only in the context of their use of our letter. No liability or responsibility will be accepted by us in relation to the use of our letter for any other purpose. We will not accept any liability or responsibility to any third party recipients.

We have relied on information provided to us in the course of carrying out our work. We perform some data validation checks but we have not verified all of the information provided to us, nor have we carried out anything in the nature of an audit. Accordingly, we express no opinion on the total reliability, accuracy or completeness of the information provided to us and upon which we have relied. We have no reason to believe that the information provided to us is inaccurate or misleading.

This letter must be read in its entirety. Individual sections of this letter could be misleading if considered in isolation from each other. If distributed, this letter must be distributed in its entirety.

This letter is not considered an actuarial report under Professional Standard 90 of the New Zealand Society of Actuaries.

Yours sincerely

Paul Rhodes FNZSA
Appointed Actuary, CBL Insurance Limited