BERKSHIRE HATHAWAY INTERNATIONAL INSURANCE LIMITED

Company Registration No. 3843820

New Zealand Branch

Financial Statements

For the year ended 31 December 2013

BERKSHIRE HATHAWAY INTERNATIONAL INSURANCE LIMITED
NEW ZEALAND BRANCH

FINANCIAL STATEMENTS
31 DECEMBER 2013

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BERKSHIRE HATHAWAY INTERNATIONAL INSURANCE LIMITED
NEW ZEALAND BRANCH

DIRECTORS' REPORT

The Directors are pleased to present the financial statements for Berkshire Hathaway International Insurance Limited ("BHIIL") – New Zealand Branch ("the Branch") for the year ended 31 December 2013.

No disclosure has been made in respect of s211 (a) and (e) to (j) of the Companies Act 1993 following a unanimous decision by the shareholders in accordance with s211(3) of the Act.

The Directors are responsible for the preparation, in accordance with New Zealand Law and generally accepted accounting practice, of financial statements which give a true and fair view of the financial position of BHIIL – New Zealand Branch as at 31 December 2013 and the results of its operations for year ended 31 December 2013.

The Directors consider that the financial statements of the Branch have been prepared using accounting policies appropriate to the Branch'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 have responsibility for the maintenance of a system of internal control 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 Branch and to prevent and detect fraud and other irregularities.

Directors

Mr R A Love (Chief Executive Officer)
Mr F N Krutter (U.S.) (deceased 26th September 2013)
Mr D T Young (Non – Executive)
Mr J H Bishop (Non – Executive)
Mr A Wilson
Mr G E Finney
Mr S Michael (appointed 7th November 2013)
Mr D F Wurster (U.S.) (appointed 11th October 2013)

Events subsequent to Balance Date

There has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the Directors of the Company, to affect significantly the operations of the Company, in subsequent years.

Signed for and on behalf of the Board of Directors who authorised the issue of these financial statement in London, United Kingdom on 25th June 2014.

Robert A Love
Director

Guy E Finney
Director

London

25th June 2014

BERKSHIRE HATHAWAY INTERNATIONAL INSURANCE LIMITED
NEW ZEALAND BRANCH

STATEMENT OF COMPREHENSIVE INCOME
For the financial year ended 31 December 2013

	Note	2013 $	2012 $
Premium revenue	5(a)	303,202	-
Outward reinsurance expense		(248,625)	-
Net premiums revenue		**54,577**	**-**
Claims expense		234,617	-
Reinsurance and other recoveries	5(a)	(187,694)	-
Net claims incurred		**46,923**	**-**
Acquisition costs (including ceding commission)	5(b)	52,289	-
General and administration expenses	5(c)	(81,292)	-
Underwriting result		**(21,349)**	**-**
Net investment income		-	-
Loss from ordinary activities before income tax benefit		**(21,349)**	**-**
Income tax benefit on loss from continuing operations	6(a)	-	-
Net Loss		**(21,349)**	**-**
Other comprehensive income		-	-
Total comprehensive loss for the year attributable to the members of BHIIL		**(21,349)**	**-**

BERKSHIRE HATHAWAY INTERNATIONAL INSURANCE LIMITED
NEW ZEALAND BRANCH

STATEMENT OF CHANGES IN EQUITY
For the financial year ended 31 December 2013

For the financial year ended 31 December 2013

	Head Office Account	Retained Earnings	Total
	$	$	$
Balance at 1 January	-	-	-
Total Comprehensive Loss	-	(21,349)	(21,349)
Cash Settlements	(206,428)	-	(206,428)
Balance at 31 December	(206,428)	(21,349)	(227,777)

For the financial year ended 31 December 2012

	Head Office Account	Retained Earnings	Total
	$	$	$
Balance at 1 January	-	-	-
Total Comprehensive Loss	-	-	-
Cash Settlements	-	-	-
Balance at 31 December	-	-	-

Statement of Financial Position as at 31 December 2013

	Note	2013 $	2012 $
Assets			
Receivables arising out of direct insurance operations	7	136,434	-
Reinsurance recoverable	8	503,440	-
Other assets	9	87,002	-
Total Assets		**726,876**	-
Liabilities			
Outstanding claims payable	10	234,617	-
Unearned premium reserve	11	385,056	-
Accruals and other liabilities	12	334,980	-
Total Liabilities		**954,653**	-
Net Liabilities		**(227,777)**	-
Equity			
Head office account		(206,428)	-
Retained earnings		(21,349)	-
TOTAL EQUITY		**(227,777)**	-

BERKSHIRE HATHAWAY INTERNATIONAL INSURANCE LIMITED
NEW ZEALAND BRANCH

Statement of cashflows for the financial year ended 31 December 2013

	Note	2013 $	2012 $
Branch cash flows from operating activities	13	-	-
Branch cash flows from investing activities		-	-
Branch cash flows from financing activities		-	-
Net increase/decrease in cash and cash equivalents		-	-

	$	$
Branch cash and cash equivalent balances	-	-

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the financial year ended 31 December 2013

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of the financial statement are set out below.

These general purpose financial statements cover Berkshire Hathaway International Insurance Limited ("the Company") – New Zealand Branch ("the Branch"). The Company is an insurance company incorporated in the United Kingdom. The Branch is domiciled in New Zealand, registered address at Level 5, 33 Enfield Street, Mt Eden, Auckland, 1024, New Zealand. The Branch is a reporting entity for the purposes of the Financial Reporting Act 1993.

Statement of Compliance

As a single entity that operates in the insurance industry, the financial statements have been prepared in accordance with the Financial Reporting Act 1993, the Companies Act 1993 and New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS), and its interpretations as appropriate. The financial statements comply with NZ IFRS and other applicable Financial Reporting Standards as appropriate for profit-orientated entities and International Financial Reporting Standards (IFRS).

These financial statements were authorised for issue by the directors on 25th June 2014.

Basis of Preparation

These financial statements are prepared on the historical cost basis.

The functional and presentational currency is New Zealand Dollars.

The Branch was established on 24th May 2012 and was granted its licence to carry on Insurance Business in New Zealand on 16th October 2012 by the Reserve Bank of New Zealand pursuant to the Insurance (Prudential Supervision) Act 2010. For the purposes of preparing the financial statements the Branch is a for-profit entity.

The preparation of financial statements in conformity with NZ IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Branch's accounting policies. These estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods

A General Accounting Policies

The general accounting policies recognised as appropriate for the measurement and reporting of results and the financial position for a for-profit entity have been followed in the preparation of these financial statements.

B Branch Assets

The Branch is part of the Company. The assets of the Branch are legally available for the satisfaction of debts of the entire company, not solely those appearing on the Branch's Statement of Financial Position. The debts of the Branch may result in claims against the entire Company's assets, not solely the assets presented on the Branch's Statement of Financial Position. Any deficiency of the Branch is supported by the Company. The amount of equity to be retained to ensure financial soundness of the Branch is managed at the Company level and details of the solvency position are set out in Note 21.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the financial year ended 31 December 2013

C Specific Accounting Policies

The following specific accounting policies, which significantly affect the financial performance and financial position have been applied:

(a) Premiums

Written premiums comprise the premiums on contracts incepting in the financial year. The earned portion of premiums received and receivable is recognised as revenue. Premiums in relation to unclosed business have been brought into account and are based on latest information.

Written premiums are stated gross of commission payable to intermediaries and exclusive of taxes and duties levied on premiums.

Outwards reinsurance premiums are accounted for in the same accounting period as the premiums for the related direct or inwards reinsurance business.

(b) Unearned Premiums

A provision for unearned premiums is made which represents that part of gross, and reinsurers' share of premiums written which is estimated will be earned in the following or subsequent financial years. It is calculated separately for each insurance contract usually on the 365ths basis depending on the estimated incidence of risk throughout the period of the contract.

(c) Outstanding Claims

Provision is made for outstanding claims and settlement expenses incurred at the balance sheet date including an estimate for the cost of claims incurred but not reported at that date. Included in the provision is an estimate of the internal and external costs of handling the outstanding claims. Material salvage and other recoveries are deducted from outstanding claims. Changes in Outstanding Claims provision are recognised in the Statement of Comprehensive Income in the year in which the provision is changed.

(d) Current Tax

Current tax, including income tax and foreign tax, is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

(e) Deferred Tax

Deferred taxation is provided for using the liability method on all timing differences, arising from the different treatment of items for accounting and taxation purposes, calculated at the rates that are expected to apply in the period in which the liability is settled or the asset realised based on tax rates (and tax laws) that have been enacted or substantially enacted by the end of the reporting period. Deferred tax balances are not discounted.

(f) Foreign Currency

Foreign currency transactions are translated to New Zealand dollars at the rates of exchange prevailing at the time of the transaction. Monetary assets and liabilities are translated into New Zealand dollars at the rates of exchange prevailing at the balance sheet date. Exchange differences arising are recognised in profit or loss in the financial year in which the exchange rates change, as exchange gains or losses.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the financial year ended 31 December 2013

C Specific Accounting Policies (continued)

(g) Reinsurance Receivables

Reinsurance receivables on paid and outstanding claims are recognised as revenue. Recoveries are measured as the value of expected receipts, calculated on same basis as the liability.

(h) Deferred Acquisition Costs

The Branch adopts the practice of deferring to the following accounting period, expenses and levies directly related to premium income, in the same manner as unearned premium is calculated. These are measured at the lower of cost and recoverable amount.

(i) Liability Adequacy Test

At each reporting date, a liability adequacy test is performed on insurance liabilities less related deferred acquisition costs to ensure that the carrying value is adequate, using current estimates of future cash flows, taking into account the relevant investment returns. If that assessment shows that the carrying amount of the liabilities is inadequate, any deficiency is recognised by recording an additional liability for claims provision or a provision for unexpired risks. The provision for unexpired risks is assessed in aggregate for business classes which are managed together.

2. CRITICAL ACCOUNTING JUDGEMENTS AND ESTIMATES

The Branch makes estimates and assumptions in respect of certain key assets and liabilities. Estimates and judgements are continually evaluated and are based on historical evidence and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The key areas in which critical estimates are applied are described below.

All the Branch's assets are available to support the Branch's insurance liabilities and any deficiency is supported by the Company.

The ultimate liability rising from claims made under insurance contracts
Provision is made at the balance date for the estimated cost of claims incurred but not settled at the Statement of Financial Position date, including the cost of claims incurred but not yet reported to the Branch.

The estimated cost of claims includes direct expenses to be incurred in settling the claims gross of the expected value of salvage and other recoveries. The Branch takes all reasonable steps to ensure that it has appropriate information regarding its claims exposures. However, given the uncertainty in establishing claims provisions, it is likely that the final outcome will prove to be different from the original liability established.

The estimation of claims incurred but not reported ('IBNR') is generally subject to a greater degree of uncertainty than the estimation of the cost of settling claims already notified to the Branch, where more information about the claim event is generally available. IBNR claims may often not be apparent to the insured until many years after the event giving rise to the claims has happened. Allowance is made, however, for changes or uncertainties which may create distortions in the underlying statistics or which might cause the cost of unsettled claims to increase or reduce when compared with the cost of previously settled claims including:

- Changes in Branch processes which might accelerate or slow down the development and/or recording of paid or incurred claims, compared with the statistics of previous periods.
- Changes in the legal environment
- The effects of inflation
- Changes in the mix of business
- The impact of large losses
- Movements in industry benchmarks
- Technological developments

A component of these estimation techniques is usually the estimation of the cost of notified but not paid claims. No claims have yet been notified but in estimating the cost of such claims, the Branch will have regard to the claim circumstances as reported and information about the cost of settling claims with similar characteristics.

Large claims impacting each relevant business class are generally assessed separately, being measured on a case by case basis or projected separately in order to allow for the possible distortive effect of the development and incidence of these large claims.

Provisions are calculated gross of any reinsurance recoveries. A separate estimate is made of the amounts that will be recoverable from reinsurers based upon the gross provisions. Details of specific assumptions used in deriving the outstanding claims liability at year end are detailed in note 3.

Assets arising from reinsurance contracts are also computed using the above methods. In addition, the recoverability of these assets is assessed on a periodic basis to ensure the balance is reflective of the amounts that will ultimately be recovered.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the financial year ended 31 December 2013

3. ACTUARIAL ASSUMPTIONS AND METHODS

The Branch writes direct natural disaster cover on New Zealand property and construction business.

Actuarial Assumptions

The Branch's business is valued using the same assumptions as the Company.

Currently management use a "rules based" reserving method for its' new lines of business because there is insufficient data to support any projection based methods. These "rules based" reserving methods are agreed annually by the Company Capital and Reserving Committee, which includes the Company appointed Actuary, and reviewed for continued appropriateness periodically throughout the year.

Projection based approaches will be adopted for each line of business as and when sufficient relevant and credible data is available. The quantity of data is growing organically as the business develops; however the business is also investigating the possibility of acquiring additional historical data from third parties (i.e. brokers and reinsurers).

The method for reserving the NZ business is as follows:-

Initial Approach – Quarter 1 through to Quarter 9:

The business is reserved to an ultimate of 100% of gross premium after deductions or commission for each underwriting year until it is 9 quarters mature at which time it is adjusted to an estimate based on actual experience. This "rule" is adjusted in the event of any significant catastrophic/limit loss to reflect a loss experience outside of the expected norms when underwritten

Second Phase – Quarter 10 onwards:

At the 10th Quarter after inception of the underwriting year (so for the 2013 underwriting year (first year of the Branch business) – 30th June 2015) the reserving will be assessed on actual claims experience from that point onwards for both the attritional and large loss components.

The Appointed Actuary is Warrick Gard, Fellow of the Institute of Actuaries of Australia and Fellow of the New Zealand Society of Actuaries. The Appointed Actuary is satisfied as to the nature, sufficiency and accuracy of the data upon which policy liabilities have been determined.

4. RISK MANAGEMENT

The Company has an established governance framework and the Branch operates within this framework. This framework has the following key elements:-

- A clear organisational structure with defined authorities and responsibilities;
- Defined terms of reference for the Board of the Company and management committees; and
- Adoption of the Company risk management framework that defines risk appetite measures and sets out risk management and control standards for the Company's operations. The risk management framework also sets out the roles and responsibilities of businesses, policy owners and risk oversight committees.

4. RISK MANAGEMENT (continued)

The Company operates a risk management framework, which is a collection of processes and tools that have been put in place to ensure that the risks to which it is exposed are identified, measured, managed, monitored and reported on a continuous basis. The key instruments of this framework include the risk management policies, risk reports, the governance and oversight infrastructure and the risk appetite framework. The Branch works within this risk management framework.

The Company has a set of formal risk policies that facilitate a consistent approach to the management of all the Company's risks across all business streams and locations in which the company operates. These risk policies define the Company's appetite for different, specific risk types and set out risk management and control standards for the Company's operations. The Company sets limits to manage material risks to ensure the risks stay within risk appetite (the amount of risk the Company is willing to accept). Where risks are outside of appetite, actions are agreed to mitigate the exposure.

In addition to monitoring regulatory Solvency under applicable UK Prudential Regulatory Authority (PRA) regulations, the PRA also requires the Company to assess its economic capital requirements to ensure that it adequately reflects the risks facing the business. The main risks being faced by the Company and Branch are as follows:-

(i) Insurance Risk

Insurance risk is considered in two parts, Underwriting Risk and Reserving Risk. The Underwriting Risk relates to the inherent uncertainty around the exposures to be entered into and the Reserving Risk relates to the inherent uncertainty around the level of reserves held. Risk appetite statements quantify the Board's delegated appetite for underwriting risk at a gross and net of reinsurance level. Risks outside normal risk appetite may be separately approved by the Board. The adequacy of the Company's reserves is overseen by the Capital & Reserving Committee which is also responsible for the Capital requirements.

(ii) Credit Risk

Credit Risk is the risk of loss in the financial assets due to counterparties failing to meet all or part of their obligations. In the event of significant adverse claims experience, the Company and the Branch is highly reliant on the ability of its parental reinsurer (National Indemnity Company – "NICO") to respond. Based on year end available figures, NICO reported surplus assets of greater than US$97bn and total assets of US$152bn and is rated AA+/negative by S&P rating agency.

(iii) Market Risk

Market Risk is the risk of adverse financial impact due to changes in future cash flows of financial instruments due to fluctuations in interest rates and market prices. The Company's investment strategy is conservative and investment guidelines require funds to be invested in fixed interest securities with a credit rating of A and above held to maturity. The Company has no off-balance sheet transactions and has a policy of not investing in derivative contracts.

(iv) Operational Risk

Operational Risk is the risk of adverse financial impact due to being in business and can arise from the operation's people, processes, and systems. These risks are managed through controls that are aligned with the Board's risk appetite and monitored in a warning indicator system based on key risk indicators that is reported quarterly to the Risk Committee. Key Risks, Controls and Indicators are reviewed annually.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the financial year ended 31 December 2013

5. NET LOSS

Net loss before income tax is arrived at after crediting and charging the following specific items:

	2013 $	2012 $
(a) General insurance revenue		
Gross written premiums	688,258	-
Movement in unearned premiums	(385,056)	-
Premium revenue	303,202	-
Reinsurance and other recoveries	187,694	-
	490,896	-
(b) Acquisition costs (inc. ceding commission)		
Ceding commission	64,635	-
Acquisition costs (net of reinsurance)	(28,006)	-
Deferred acquisition costs (net of reinsurance)	15,660	-
	52,289	-
(c) General and administration expense		
Included in management expenses are:		
2013 Audit fee	25,000	-
2012 Audit fee	2,000	-
Other expenses of management	54,292	-
	81,292	-

6. INCOME TAX

(a) Income Tax benefit

The prima facie income tax benefit on the pre-tax operating loss is reconciled to the current income tax benefit shown in the Statement of Comprehensive Income as follows:

	2013 $	2012 $
Net loss before income tax	(21,349)	-
Prima facie income tax thereon @28 % (2012: 28%)	(5,978)	-
Current year unrelieved losses	5,978	-
Total Income tax benefit	-	-

(b) Deferred Tax

No provision is made for potential deferred tax assets as this is dependent upon the availability of future profits within the Branch.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the financial year ended 31 December 2013

7. RECEIVABLES ARISING OUT OF DIRECT INSURANCE OPERATIONS

	2013	2012
	$	$
Debtors arising out of insurance operations	136,434	-

8. REINSURANCE RECOVERABLE

	2013	2012
	$	$
Reinsurance recoveries arising from the unearned premium liability	315,746	-
Reinsurance receivable arising from outstanding claims liability	187,694	-
	503,440	-

9. OTHER ASSETS

	2013	2012
	$	$
Deferred acquisition costs	87,002	-

10. OUTSTANDING CLAIMS PAYABLE

	2013	2012
	$	$
Gross outstanding claims and IBNR	234,617	-

At the Balance sheet date there were no case estimates reported and consequently the claim technical reserve consists of only the projected IBNR. As a result of the lack of claims data and the fact that 2013 is the first underwriting / accident year no development triangles have been provided.

11. UNEARNED PREMIUM RESERVE

	2013	2012
	$	$
Balance as at 1 January	-	-
Deferral of premium on contracts written in the period	385,056	-
Balance as at 31 December	385,056	-

12. ACCRUALS AND OTHER LIABILITIES

	2013	2012
	$	$
Creditors arising out of reinsurance operations	238,638	-
Reinsurers' share of deferred acquisition costs	71,342	-
Audit Fee accrual	25,000	-
	334,980	-

13. NOTES TO THE STATEMENT OF CASH FLOWS

	2013	2012
	$	$
Reconciliation of net operating cashflows to operating loss:		
Operating loss after income tax	(21,349)	-
(Increase)/decrease in receivables	(136,434)	-
(Increase)/decrease in reinsurance recoverable	(503,440)	-
(Increase)/decrease in other assets	(87,002)	-
Increase /(decrease) in accruals and other liabilities	334,980	-
Increase/(decrease) in underwriting provisions:		
- unearned premium	385,056	-
- outstanding claims	234,617	-
Balance settled by Head Office	(206,428)	-
Net cash from operating activities	-	-

14. CAPITAL COMMITMENTS AND CONTINGENT LIABILITIES

There are no capital commitments or contingent liabilities as at December 2013 (2012: Nil).

15. RELATED PARTY TRANSACTIONS

The entity is a Branch of Berkshire Hathaway International Insurance Limited ("the Company"), an insurance company incorporated in the United Kingdom, a wholly owned subsidiary of National Indemnity Company, a company incorporated in the state of Nebraska.

The ultimate parent entity is Berkshire Hathaway Inc. of Omaha, Nebraska, USA.

The Branch is party to retrocessional agreements with one related party, National Indemnity Company (NICO) refer note 22. These agreements are entered into under normal commercial terms and conditions. Details of transactions are listed below:

	2013	2012
From Retrocessional Agreements in the year		
	$	$
Retrocessional premiums	564,371	-
Retrocessional commissions	(192,216)	-
Balance due to NICO as at 31 December	126,762	-

Intercompany balances are at no interest and on demand.

16. FINANCIAL INSTRUMENTS

Categories of financial instruments	Note	2013 $	2012 $
Loans and receivables at amortised cost			
Receivables arising out of direct insurance operations	7	136,434	-
Financial liabilities at amortised cost			
Creditors arising out of reinsurance operations	12	238,638	-

The carrying value of all financial assets and liabilities is considered to be a reasonable approximation of fair value.

a) Credit Risk

Credit Risk is the risk of loss in the financial assets due to counterparties failing to meet all or part of their obligations. The credit risk on financial assets of the Branch which has been recognised on the Statement of Financial Position is the carrying amount, net of any provisions for doubtful debts.

b) Market Risk

Market Risk is the risk of adverse financial impact on the financial assets due to changes in future cash flows of financial instruments due to fluctuations in interest rates and market prices. The Branch is not exposed to any interest rate risk or market price risk.

c) Liquidity Risk

Liquidity Risk is the risk that the Branch will encounter difficulty in meeting its obligations associated with the financial liabilities under the contracts it has entered into. Ultimate responsibility for liquidity risk management rests with the Board of Directors. The Company manages the liquidity risk of the Branch by maintaining appropriate levels of financial assets that are readily realisable and by continuously monitoring forecast and actual cash flows.

17. BUSINESS ACTIVITIES

The principal activity of the branch is underwriting insurance providing cover for Earthquake Construction risks.

18. CREDIT RATING

The Company has a "AA+" credit rating from Standard and Poor's rating agency.

19. ADDITIONAL INFORMATION

	2013	2012
Number of employees	-	-

20. DISCLOSURE OF AUDITOR

The Branch auditor is Deloitte, and the accrued auditor remuneration is $25k.

21. THE COMPANY - CAPITAL RESOURCES AND CAPITAL RESOURCE REQUIREMENT

As at 31 December 2013 the Capital Resources and Capital Resource Requirement reported in accordance with UK Regulatory requirements on Form 1 of the regulatory returns are:

	2013 £'000	2012 £'000
Capital Resources	196,440	94,845
Capital Resources Requirement	32,286	21,246
Excess of available Capital Resources to cover general insurance business Capital Resources Requirement	164,154	73,599

22. THE COMPANY'S REINSURANCE PROGRAMME

The Company's treaty reinsurance programme with its parental reinsurer NICO forms a fundamental part of the Company's capital structure. In respect of the Branch it consists of an 80% proportional quota share element, a risk specific element which limits the risk to any event as £5m ($10.1m) after quota share, and a stop loss element protecting the business from losses exceeding 110% loss ratio per class, protection being capped at two times net premium of all lines of business protected under the treaty.

23. LIABILITY AQEQUACY TEST

The Liability Adequacy Test (LAT) is used to assess the sufficiency of the unearned premium liability to cover all expected cash flows relating to future claims against-in force contracts. Based upon available information plus current estimates, the Company considers that the unearned premium liability held in the Branch is adequate.

24. EVENTS SUBSEQUENT TO BALANCE DATE

There are no events subsequent to balance date which materially impact the financial information disclosed herein.

Deloitte.

Independent Auditor's Report
to the Shareholders of Berkshire Hathaway International Insurance Limited – New Zealand Branch

Report on the Financial Statements

We have audited the financial statements of Berkshire Hathaway International Insurance Limited – New Zealand Branch on pages 2 to 16, which comprise the statement of financial position as at 31 December 2013, statement of comprehensive income, statement of changes in equity and statement of cashflows for the year then ended, and a summary of significant accounting policies and other explanatory information.

This report is made solely to the company's shareholders, as a body, in accordance with Section 205(1) of the Companies Act 1993. 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.

Directors' Responsibility for the Financial Statements

The Directors are responsible for the preparation of financial statements, in accordance with generally accepted accounting practice in New Zealand and that give a true and fair view of the matters to which they relate, 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.

Auditor's Responsibilities

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing and International Standards on Auditing (New Zealand). Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of financial statements that give a true and fair view of the matters to which they relate 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 entity's internal control. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates, as well as the overall presentation of the financial statements.

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

Other than in our capacity as auditor, we have no relationship with or interests in Berkshire Hathaway International Insurance Limited – New Zealand Branch.

Opinion

In our opinion, the financial statements on pages 2 to 16:

- comply with generally accepted accounting practice in New Zealand;
- comply with International Financial Reporting Standards; and
- give a true and fair view of the financial position of Berkshire Hathaway International Insurance Limited – New Zealand Branch as at 31 December 2013, and its financial performance and cashflows for the year ended on that date.

Emphasis of Matter

The New Zealand Branch is part of Berkshire Hathaway International Insurance Limited, which is incorporated in the United Kingdom. As described on page 6 the assets of the Branch are legally available for the satisfaction of debts of the entire company, not solely those appearing on the accompanying statement of financial position and its debts may result in claims against assets not appearing thereon. Our opinion is not qualified in respect of this matter.

Report on Other Legal and Regulatory Requirements

We also report in accordance with section 16 of the Financial Reporting Act 1993. In relation to our audit of the financial statements for the year ended 31 December 2013:

- we have obtained all the information and explanations we have required; and
- in our opinion proper accounting records have been kept by Berkshire Hathaway International Insurance Limited – New Zealand Branch as far as appears from our examination of those records.

Deloitte

Chartered Accountants
25 June 2014
Christchurch, New Zealand

Building a better working world

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Mr R A Love
Managing Director
Berkshire Hathaway International Insurance Limited
London Underwriting Centre
6th Floor, 3 Minster Court
Mincing Lane, London EC3R 7DD

20 June 2014

Berkshire Hathaway International Insurance Limited NZ Branch – Insurance (Prudential Supervision) Act 2010 Section 78 Appointed Actuary Report

Dear Mr Love

Berkshire Hathaway International Insurance Limited ("BHIIL") operate a New Zealand branch ("BHIILNZ") which is regulated by the Reserve Bank New Zealand ("RBNZ").

BHIILNZ has appointed me, Warrick Gard, Ernst & Young to be BHIILNZ's Appointed Actuary as described by the New Zealand Insurance (Prudential Supervision) Act 2010 (the "Act"). I have no relationship with BHIIL or BHIILNZ other than being BHIILNZ's Appointed Actuary.

BHIILNZ

As at 31 December 2013 (the "Balance Date") BHIILNZ has

- underwritten $688k of gross insurance premiums
- incurred zero reported insurance claims or notifications of insurance claims and thus zero payments and case estimates associated with reported claims
- received zero reports of incidents that would potentially lead to a claim on an insurance policy sold by BHIILNZ.

The particular type of insurance business that BHIILNZ underwrites can be characterised as "all-or-nothing" in that in any given year for a given exposure written, there are ultimately 2 outcomes that are possible:

1. Zero claims cost due to the absence of natural disasters – the most likely outcome; or

2. Claims cost equal to the full-sum insured for the locality impacted (Christchurch or Wellington), whereby one or more natural disasters have occurred and the insured risk is completely written off with no subrogation.

This methodology was applied in last year's valuation of insurance liability and, as there weren't any reported claims or known disaster events, outcome 1 above was applied. This year, a change to a more conservative methodology has been taken. Under the new methodology, an IBNR provision is established even under the circumstances of no reported claims or reported incidents that would lead to a claim against BHIILNZ. The IBNR provision is determined under the assumption that BHIILNZ's exposure to insured risks is uniformly distributed over the policy period and the full amount (100%) of the Net Earned Premium is set to be the IBNR provision. Under this new approach only the policies written in the previous 12 months will be included as part of the IBNR provision at the balance date with the IBNR provision at the policy level being released uniformly over the 12 months following the policy expiry date.

The provision for unearned premium is calculated on a pro-rata basis in which the provision at the policy level is determined by multiplying the written premium received at the beginning of the policy period to the proportion of remaining policy period beyond 31 December 2013. The underlying assumption is that premium is earned uniformly throughout the year. This assumption is consistent to the assumption of uniform exposure to insured risks applied under the calculation of the IBNR provision described above. I believe this is a reasonable approach and have advised BHIILNZ to hold a premium liability reserve at a 100% loss ratio due to the potential of high severity losses from earthquake catastrophes.

In response to the specific requirements under s78 of the Act in regards to BHIILNZ, the following points are relevant:

- The establishment of IBNR provision resulted in an outstanding claims liability of $235K under the circumstances of zero incurred insurance claims, zero notification of insurance claims and zero reports of incidents that would potentially lead to a claim. This approach, although conservative, is reasonable.
- Premium liability reserve amount at approximately $385k is the result of applying 100% loss ratio to the unearned premium as at 31 December 2013. The 100% loss ratio chosen is to reflect the high severity losses associated with low frequency catastrophic risks underwritten by BHIILNZ. I believe this approach is reasonable.
- I can confirm that I have obtained all required information and explanations in the context of the BHIILNZ's Insurance liability as at 31 December 2013, including the IBNR component of the outstanding claim liability and the unearned premium provision component for premium liability
- I can confirm that the contents relating to actuarial information in BHIILNZ's financial statement are appropriate and the information used in preparing these contents is also appropriately used and applied.
- As exempted by RBNZ under section 5 of the Insurance Regulations 2010, BHIILNZ is only required to comply with the regulatory requirements of UK (the jurisdiction of the parent company). I confirm that BHIILNZ is maintaining a healthy solvency margin with capital resources more than six times of the minimum capital requirement under UK regulations as at 31 December 2013.
- Details on reliance and limitations are outlined in section 13 of the FCR.

BHIIL

Under s78 of the Act, the Appointed Actuary of a NZ licensed insurer is also required to review the actuarial information associated with the Group financial statements.

We have been provided with, and have reviewed, the following documents:

- Statement of Actuarial Opinion for BHIIL prepared by Ronald L. Wilson of Beneficial Consultants, L.L.C. (the "Statement of Actuarial Opinion")
- BHIIL's financial statements as at 31 December 2013 (the "financial statements") which have been prepared in accordance with UK's Companies Act 2006; and applicable United Kingdom accounting standards and under the current value accounting rules

The Statement of Actuarial Opinion states that insurance liability estimates:

- Meet the requirements of the insurance laws of the United Kingdom; and
- Are computed in accordance with accepted loss reserving standards and are fairly stated in accordance with sound loss reserving principals; and
- Are based on factors relevant to policy provisions; and
- Make a reasonable provision for all unpaid loss and loss adjustment expense obligations of the Company under the terms of its policies and agreements.

I have compared the results of the Statement of Actuarial Opinion with the financial statements and as such I make the following conclusions:

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- The insurance liabilities in the financial statements have been calculated on an undiscounted basis with an allowance for claims handling expenses but without the inclusion of a risk margin to target a specified probability of sufficiency for the reserve. This is different from the basis as described under section 133 of the RBNZ's Solvency Standard for Non-Life Insurance Business which specifically states that the insurance liabilities should be discounted at a risk free rate and include a risk margin intended to target a specified probability of sufficiency
- The Reserve for Unearned Premiums as indicated in the Statement of Actuarial Opinion has been separated in the financial statements into:
    i. Provision for unearned premiums; and
    ii. Other technical provisions.
- The previous two points are an exception to the insurance liabilities being accounted for in the financial statements as prescribed by NZ IFRS 4. However, this is appropriate as the financial statements have been compiled to meet the requirements of UK accounting standards.

I have relied on the accuracy of the Statement of Actuarial Opinion in providing the above views.

Yours sincerely,

Warrick Gard, FIAA, FNZSA
Appointed Actuary, Berkshire Hathaway International Insurance Limited New Zealand branch
Partner, General Insurance