

BERKSHIRE HATHAWAY INTERNATIONAL INSURANCE LIMITED

Company Registration No. 3843820

New Zealand Branch

Financial Statements

For the year ended 31 December 2014

**BERKSHIRE HATHAWAY INTERNATIONAL INSURANCE LIMITED
NEW ZEALAND BRANCH**

**FINANCIAL STATEMENTS
31 DECEMBER 2014**

CONTENTS	PAGE
Directors' Report	1
Statement of Comprehensive Income	2
Statement of Changes in Equity	3
Statement of Financial Position	4
Statement of Cashflows	5
Notes to and forming part of the Financial Statements	6
Independent Auditor's report to the members	17

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 ("BHIL") – New Zealand Branch ("the Branch") for the year ended 31 December 2014.

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 BHIL – New Zealand Branch as at 31 December 2014 and the results of its operations for year ended 31 December 2014.

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 D T Young (Non – Executive) (resigned 28 March 2014)
Mr J F Powell (Non – Executive) (appointed 28 March 2014)
Mr J H Bishop (Non – Executive)
Mr A Wilson (resigned 11 June 2014)
Mr G E Finney
Mr S Michael
Mr D F Wurster (U.S.)

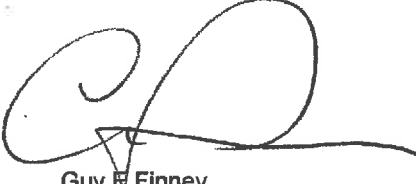
Events subsequent to Balance Date

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 June 2015.



Robert A Love
Director



Guy E Finney
Director

London

19 June 2015

**BERKSHIRE HATHAWAY INTERNATIONAL INSURANCE LIMITED
NEW ZEALAND BRANCH**

**STATEMENT OF COMPREHENSIVE INCOME
For the financial year ended 31 December 2014**

	Note	2014 \$	2013 \$
Premium revenue	5(a)	444,461	303,202
Outward reinsurance expense		<u>(364,458)</u>	<u>(248,625)</u>
Net premium revenue		<u>80,003</u>	<u>54,577</u>
Claims expense	10	148,590	234,617
Reinsurance and other recoveries	5(a)	<u>(118,872)</u>	<u>(187,694)</u>
Net claims incurred		<u>29,718</u>	<u>46,923</u>
Acquisition costs (including ceding commission)	5(b)	45,061	52,289
General and administration expenses	5(c)	<u>(78,776)</u>	<u>(81,292)</u>
Underwriting result		<u>16,570</u>	<u>(21,349)</u>
Net investment income		-	-
Profit/(Loss) from ordinary activities before income tax		<u>16,570</u>	<u>(21,349)</u>
Income tax benefit on loss from continuing operations	6(a)	-	-
Net Profit/(Loss)		<u>16,570</u>	<u>(21,349)</u>
Other comprehensive income		-	-
Total comprehensive profit/(loss) for the year attributable to the members of BHIL		<u>16,570</u>	<u>(21,349)</u>

Notes to the financial statements are included on pages 6 to 16



**BERKSHIRE HATHAWAY INTERNATIONAL INSURANCE LIMITED
NEW ZEALAND BRANCH**

**STATEMENT OF CHANGES IN EQUITY
For the financial year ended 31 December 2014**

For the financial year ended 31 December 2014

	Head Office Account	Retained Earnings	Total
	\$	\$	\$
Balance at 1 January	(206,428)	(21,349)	(227,777)
Total Comprehensive Profit	-	16,570	16,570
Cash Settlements	94,565	-	94,565
Balance at 31 December	<u>(111,863)</u>	<u>(4,779)</u>	<u>(116,642)</u>

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	<u>(206,428)</u>	<u>(21,349)</u>	<u>(227,777)</u>

Notes to the financial statements are included on pages 6 to 16

**BERKSHIRE HATHAWAY INTERNATIONAL INSURANCE LIMITED
NEW ZEALAND BRANCH**

Statement of Financial Position as at 31 December 2014

	Note	2014 \$	2013 \$
Assets			
Receivables arising out of direct insurance operations	7	31,958	136,434
Reinsurance recoverable	8	343,250	503,440
Other assets	9	<u>10,737</u>	<u>87,002</u>
Total Assets		<u>385,945</u>	<u>726,876</u>
Liabilities			
Outstanding claims payable	10	383,207	234,617
Unearned premium reserve	11	44,737	385,056
Accruals and other liabilities	12	<u>74,643</u>	<u>334,980</u>
Total Liabilities		<u>502,587</u>	<u>954,653</u>
Net Liabilities		<u>(116,642)</u>	<u>(227,777)</u>
Equity			
Head office account		(111,863)	(206,428)
Retained earnings		<u>(4,779)</u>	<u>(21,349)</u>
TOTAL EQUITY		<u>(116,642)</u>	<u>(227,777)</u>

Notes to the financial statements are included on pages 6 to 16



**BERKSHIRE HATHAWAY INTERNATIONAL INSURANCE LIMITED
NEW ZEALAND BRANCH**

Statement of cashflows for the financial year ended 31 December 2014

	Note	2014 \$	2013 \$
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 the financial statements are included on pages 6 to 16



BERKSHIRE HATHAWAY INTERNATIONAL INSURANCE LIMITED NEW ZEALAND BRANCH

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS For the financial year ended 31 December 2014

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 financial statements comply with New Zealand equivalents to International Financial Reporting Standards (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 June 2015.

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.



**BERKSHIRE HATHAWAY INTERNATIONAL INSURANCE LIMITED
NEW ZEALAND BRANCH**

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the financial year ended 31 December 2014**

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 temporary 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 substantively enacted by the end of the reporting period. Deferred tax balances are not discounted. Deferred tax assets are not recognised if it is not probable that sufficient taxable income will be available to utilise it against.

(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.

**BERKSHIRE HATHAWAY INTERNATIONAL INSURANCE LIMITED
NEW ZEALAND BRANCH**

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the financial year ended 31 December 2014**

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 the 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.

**BERKSHIRE HATHAWAY INTERNATIONAL INSURANCE LIMITED
NEW ZEALAND BRANCH**

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the financial year ended 31 December 2014**

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.

BERKSHIRE HATHAWAY INTERNATIONAL INSURANCE LIMITED NEW ZEALAND BRANCH

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS For the financial year ended 31 December 2014

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 in the current underwriting year is as follows:-

IBNR in respect of attritional losses is set such that the ultimate attritional loss ratio on the premium (net of commissions) is 60%. IBNR in respect of atypical losses is set equal to 40% of the premium (net of commissions) earned over the previous 6 months.

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.

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

**BERKSHIRE HATHAWAY INTERNATIONAL INSURANCE LIMITED
NEW ZEALAND BRANCH**

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the financial year ended 31 December 2014**

4. RISK MANAGEMENT (continued)

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\$94bn and total assets of US\$170bn and is rated AA+ 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.

**BERKSHIRE HATHAWAY INTERNATIONAL INSURANCE LIMITED
NEW ZEALAND BRANCH**

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the financial year ended 31 December 2014**

5. NET PROFIT/(LOSS)

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

	2014 \$	2013 \$
(a) General insurance revenue		
Gross written premiums	104,142	688,258
Movement in unearned premiums (Note 11)	<u>340,319</u>	<u>(385,056)</u>
Premium revenue	444,461	303,202
Reinsurance and other recoveries	<u>118,872</u>	<u>187,694</u>
	<u>563,333</u>	<u>490,896</u>
(b) Acquisition costs (inc. ceding commission)		
Ceding commission income	63,021	64,635
Acquisition costs (net of reinsurance)	(4,232)	(28,006)
Deferred acquisition costs (net of reinsurance)	<u>(13,728)</u>	<u>15,660</u>
	<u>45,061</u>	<u>52,289</u>
(c) General and administration expense		
Included in management expenses are:		
2014 Audit fee	20,000	-
Over accrual of 2013 Audit fee	(5,000)	-
2013 Audit fee	-	25,000
2012 Audit fee	-	2,000
Other expenses of management	<u>63,776</u>	<u>54,292</u>
	<u>78,776</u>	<u>81,292</u>

6. INCOME TAX

(a) Income Tax benefit

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

	2014 \$	2013 \$
Net profit/(loss) before income tax	<u>16,570</u>	<u>(21,349)</u>
Prima facie income tax thereon @28 % (2013: 28%)	4,640	(5,978)
Prior/current year unrelieved losses	<u>(4,640)</u>	<u>5,978</u>
Total Income tax benefit	<u>-</u>	<u>-</u>

(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.

**BERKSHIRE HATHAWAY INTERNATIONAL INSURANCE LIMITED
NEW ZEALAND BRANCH**

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the financial year ended 31 December 2014**

7. RECEIVABLES ARISING OUT OF DIRECT INSURANCE OPERATIONS

	2014	2013
	\$	\$
Debtors arising out of insurance operations	<u>31,958</u>	<u>136,434</u>

8. REINSURANCE RECOVERABLE

	2014	2013
	\$	\$
Reinsurance recoveries arising from the unearned premium liability	36,685	315,746
Reinsurance receivable arising from outstanding claims liability	306,565	187,694
	<u>343,250</u>	<u>503,440</u>

9. OTHER ASSETS

	2014	2013
	\$	\$
Deferred acquisition costs	<u>10,737</u>	<u>87,002</u>

10. OUTSTANDING CLAIMS PAYABLE

	2014	2013
	\$	\$
Opening gross outstanding claims and IBNR	234,617	-
Claims Expense	148,590	234,617
	<u>383,207</u>	<u>234,617</u>
Closing gross outstanding claims and IBNR	<u>383,207</u>	<u>234,617</u>

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 the business has only operated for two years. See Note 3 for further information.

11. UNEARNED PREMIUM RESERVE

	2014	2013
	\$	\$
Balance as at 1 January	385,056	-
Net (Release)/Deferral of premium on contracts written	(340,319)	385,056
Balance as at 31 December	<u>44,737</u>	<u>385,056</u>

12. ACCRUALS AND OTHER LIABILITIES

	2014	2013
	\$	\$
Creditors arising out of reinsurance operations	45,839	238,638
Reinsurers' share of deferred acquisition costs	8,804	71,342
Audit Fee accrual	20,000	25,000
	<u>74,643</u>	<u>334,980</u>

**BERKSHIRE HATHAWAY INTERNATIONAL INSURANCE LIMITED
NEW ZEALAND BRANCH**

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the financial year ended 31 December 2014**

13. NOTES TO THE STATEMENT OF CASH FLOWS

	2014	2013
	\$	\$
Reconciliation of net operating cashflows to operating profit/(loss):		
Operating profit/(loss) after income tax	16,570	(21,349)
(Increase)/decrease in receivables	104,476	(136,434)
(Increase)/decrease in reinsurance recoverable	160,190	(503,440)
(Increase)/decrease in other assets	76,265	(87,002)
Increase /(decrease) in accruals and other liabilities	(260,337)	334,980
Increase/(decrease) in underwriting provisions:		
- unearned premium	(340,319)	385,056
- outstanding claims	148,590	234,617
Balance paid to/(settled by) Head Office	94,565	(206,428)
Net cash from operating activities	<u>-</u>	<u>-</u>

14. CAPITAL COMMITMENTS AND CONTINGENT LIABILITIES

There are no capital commitments or contingent liabilities as at December 2014 (2013: 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, and 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:

	2014	2013
	\$	\$
<u>From Retrocessional Agreements in the year</u>		
Retrocessional premiums	85,396	564,371
Retrocessional commissions	(82,301)	(192,216)
Balance due (from)/to NICO as at 31 December	(33,572)	126,762

Intercompany balances are at no interest and on demand.

**BERKSHIRE HATHAWAY INTERNATIONAL INSURANCE LIMITED
NEW ZEALAND BRANCH**

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the financial year ended 31 December 2014**

16. FINANCIAL INSTRUMENTS

<u>Categories of financial instruments</u>	Note	2014 \$	2013 \$
Loans and receivables at amortised cost			
Receivables arising out of direct insurance operations	7	31,958	136,434
Financial liabilities at amortised cost			
Creditors arising out of reinsurance operations	12	45,839	238,638
Audit Fee		20,000	25,000

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 any material foreign exchange 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

	2014	2013
Number of employees	-	-

20. DISCLOSURE OF AUDITOR

The Branch auditor is Deloitte, and the accrued auditor remuneration is \$20k.

**BERKSHIRE HATHAWAY INTERNATIONAL INSURANCE LIMITED
NEW ZEALAND BRANCH**

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the financial year ended 31 December 2014**

21. THE COMPANY - CAPITAL RESOURCES AND CAPITAL RESOURCE REQUIREMENT

As at 31 December 2014 the Capital Resources and Capital Resource Requirement reported in accordance with UK Regulatory requirements on Form 1 of the regulatory returns are:

	2014 £'000	2013 £'000
Capital Resources	211,482	196,440
Capital Resources Requirement	<u>32,286</u>	<u>32,286</u>
Excess of available Capital Resources to cover general insurance business Capital Resources Requirement	<u>179,196</u>	<u>164,154</u>

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 ADEQUACY 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.

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 2014, and the statement of comprehensive income, statement of changes in equity and statement of cash flows 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.

Board of Directors' Responsibility for the Financial Statements

The Board of 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 Board of 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 2014, and its financial performance and its cash flows 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 in Note 1B, 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 2014:

- 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.



