

BERKSHIRE HATHAWAY SPECIALTY INSURANCE COMPANY

Company Registration No. 5737531

New Zealand Branch

Financial Statements

For the period ended 31 December 2015

**BERKSHIRE HATHAWAY SPECIALTY INSURANCE COMPANY
NEW ZEALAND BRANCH**

**FINANCIAL STATEMENTS
31 DECEMBER 2015**

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BERKSHIRE HATHAWAY SPECIALTY INSURANCE COMPANY NEW ZEALAND BRANCH

DIRECTORS' REPORT

The Directors are pleased to present the financial statements for Berkshire Hathaway Specialty Insurance Company ("BHSI") – New Zealand Branch ("the Branch") for the period from 26 June to 31 December 2015.

The Directors are responsible for the preparation, in accordance with New Zealand Law and New Zealand equivalents to International Financial Reporting Standards (NZ IFRS), of financial statements which give a true and fair view of the financial position of BHSI – New Zealand Branch as at 31 December 2015 and the results of its operations for the period from 26 June to 31 December 2015.

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.

Disclosure

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 Companies Act 1993.

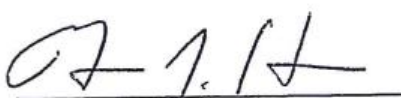
Directors

Peter James EASTWOOD (18 November 2013 to Present)
David Neil FIELDS (18 November 2013 to Present)
Ajit JAIN (18 November 2013 to Present)
Kara Lee RAIGUEL (18 November 2013 to Present)
Brian Gerard SNOVER (07 April 2010 to Present)
Ralph TORTORELLA III (18 November 2013 to Present)
Donald Frederick WURSTER (18 November 2013 to Present)

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 Branch, in subsequent years.

Signed for and on behalf of the Board of Directors who authorised the issue of these financial statement in Boston, Massachusetts, United States of America on 22 April 2016



Peter J. Eastwood
Director



Ralph Tortorella III
Director

22 April 2016

**BERKSHIRE HATHAWAY SPECIALTY INSURANCE COMPANY
NEW ZEALAND BRANCH**

STATEMENT OF COMPREHENSIVE INCOME
For the period ended 31 December 2015

	<u>Note</u>	Period ended 31 December 2015 \$
Premium revenue	5	2,311,957
Outwards reinsurance expense	6	(1,858,813)
Net premium revenue		<u>453,144</u>
Claims expense		(846,061)
Reinsurance and other recoveries revenue		675,568
Net claims incurred	7	<u>(170,494)</u>
Acquisition costs	8	(150,149)
Reinsurance commission revenue	9	177,918
Net Commission revenue		<u>27,769</u>
Other reinsurance commission revenue	10	2,297,515
Underwriting expenses	11	(2,756,024)
Underwriting result		<u>(148,091)</u>
Investment income		87,312
Loss before income tax		<u>(60,779)</u>
Income tax benefit	12(a)	8,581
Loss after income tax attributable to owners of the Company		<u><u>(52,198)</u></u>
Items that may be reclassified subsequently to profit/loss, net of tax		-
Items that will not be reclassified subsequently to profit/loss, net of tax		-
Other comprehensive income for the period, net of tax		-
Total comprehensive loss for the period attributable to owners of the Company		<u><u>(52,198)</u></u>

Notes to the financial statements are included on page 6 to 23

**BERKSHIRE HATHAWAY SPECIALTY INSURANCE COMPANY
NEW ZEALAND BRANCH**

STATEMENT OF CHANGES IN EQUITY
For the period ended 31 December 2015

	Head Office Account	Retained Earnings	Total Equity
	\$	\$	\$
2015			
Balance at the beginning of the financial period	-	-	-
Changes recognised in total comprehensive income			
Loss for the year	-	(52,198)	(52,198)
Other comprehensive income	-	-	-
Transactions with the Branch			
Head Office account	15,000,000	-	15,000,000
Balance at the end of the financial period	<u>15,000,000</u>	<u>(52,198)</u>	<u>14,947,802</u>

Notes to the financial statements are included on page 6 to 23

**BERKSHIRE HATHAWAY SPECIALTY INSURANCE COMPANY
NEW ZEALAND BRANCH**

**STATEMENT OF FINANCIAL POSITION
As at 31 December 2015**

	<u>Note</u>	As at 31 December 2015 \$
Assets		
Cash and cash equivalents	13	16,666,221
Trade and other receivables		3,841,754
Reinsurance and other recoverables receivable	15	675,568
Deferred reinsurance premiums		6,191,033
Deferred acquisition costs		423,056
Property, plant and equipment	14	236,934
Deferred tax assets	12(b)	45,225
Total assets		28,079,790
Liabilities		
Trade and other payables	16	917,209
Reinsurance liabilities	18	2,339,860
Deferred commission liabilities	19	531,915
Current tax liabilities	12(b)	36,644
Other tax liabilities	17	514,326
Intercompany payable	24	210,084
Unearned premium reserve		7,738,791
Outstanding claims payable	20	843,159
Total liabilities		13,131,988
Net Assets		14,947,802
Equity		
Head Office account	21	15,000,000
Retained earnings		(52,198)
Total equity for the Branch		14,947,802

Notes to the financial statements are included on page 6 to 23

**BERKSHIRE HATHAWAY SPECIALTY INSURANCE COMPANY
NEW ZEALAND BRANCH**

**STATEMENT OF CASH FLOWS
For the period ended 31 December 2015**

	<u>Note</u>	2015 \$
Cash flows from operating activities		
Premiums received		6,421,550
Commission revenue received		469,833
Other commission revenue received		1,637,515
Interest received		87,312
Claims paid		(2,902)
Acquisition costs paid		(354,106)
Outwards reinsurance premiums paid		(4,682,939)
Payments to suppliers and employees		(1,866,843)
Income tax paid		-
Intercompany funds received		210,084
Net cash from operating activities	22	1,919,504
Cash flows from investing activities		
Payments for purchases of plant and equipment		(253,283)
Net cash used in investing activities		(253,283)
Cash flows from financing activities		
Capital funds received		15,000,000
Net cash from financing activities		15,000,000
Net increase in cash and cash equivalents		16,666,221
Cash and cash equivalents at the beginning of the financial period		-
Cash and cash equivalents at the end of the financial period		16,666,221

Notes to the financial statements are included on page 6 to 23

BERKSHIRE HATHAWAY SPECIALTY INSURANCE COMPANY NEW ZEALAND BRANCH

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

These financial statements cover Berkshire Hathaway Specialty Insurance Company ("the Company") – New Zealand Branch ("the Branch"). The Company is an insurance company incorporated in the United States of America. The Branch is domiciled in New Zealand, registered address at Level 19, HSBC House, 1 Queen Street, Auckland, New Zealand. The Branch is FMC reporting entity under the Financial Markets Conduct Act 2013.

Statement of Compliance

As a large overseas company that operates in the insurance industry, the financial statements have been prepared in accordance with the Financial Markets Conduct Act 2013. 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 22 April 2016.

Basis of Preparation

These financial statements are prepared on the historical cost basis unless the application of fair value measurements are required by the relevant accounting standards.

The functional and presentational currency is New Zealand Dollars.

The Branch was incorporated on 26th June 2015 and was granted its licence to carry on Insurance Business in New Zealand on 29th June 2015 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 ongoing 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 28.

BERKSHIRE HATHAWAY SPECIALTY INSURANCE COMPANY NEW ZEALAND BRANCH

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 that incept 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.

(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 balance sheet 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 SPECIALTY INSURANCE COMPANY
NEW ZEALAND BRANCH**

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 outstanding claims 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.

(j) Cash and cash equivalents

Cash and cash equivalents in the statement of financial position comprise cash at banks and on-hand and short-term deposits with maturity of three months or less.

(k) Property, plant and equipment

Items of property, plant and equipment are measured at cost less accumulated depreciation. Costs include all associated expenditures that are directly attributable to the acquisition of the asset.

(l) Depreciation

Depreciation is calculated using the straight line method. The estimated depreciation rates for the current periods are as follows:

Furniture & fixtures	10.5%
Computer equipment	40%
Leasehold improvements	7%

(m) Interest income

The effective interest method is used to measure the interest income recognised in the income statement by allocating the interest income over the relevant periods to provide a constant yield to maturity.

(n) Trade and other payables

Trade and other payables are initially recognised at their fair value. Subsequent recognition is at the amortised cost using the effective interest method.

BERKSHIRE HATHAWAY SPECIALTY INSURANCE COMPANY NEW ZEALAND BRANCH

C Specific Accounting Policies (continued)

(o) Trade and other receivables

Trade and other receivables recognised at their fair value. Subsequent recognition is at the amortised cost using the effective interest method. The collectability of debts is assessed on an ongoing basis and a provision for impairment is made based on objective evidence and past default experience.

(p) Outwards reinsurance

Premiums ceded to the reinsurer under reinsurance contracts are recorded as an outwards reinsurance expense and are recognised over the period of the reinsurance contract. Accordingly, a portion of outwards reinsurance premium expense is treated as a prepayment and presented as deferred outwards reinsurance expense on the Statement of Financial Position at the reporting date.

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

BERKSHIRE HATHAWAY SPECIALTY INSURANCE COMPANY NEW ZEALAND BRANCH

2. CRITICAL ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

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.

3. ACTUARIAL ASSUMPTIONS AND METHODS

The Branch commenced writing business in June 2015 and solely focuses on commercial businesses. The portfolio is composed of Property, Marine, Casualty and Executive and Professional risks.

The Branch's business is valued in accordance with the New Zealand Society of Actuaries Professional Standard 30, Valuations of General Insurance Claims (PS 30) and New Zealand equivalent to International Financial Reporting Standard 4: Insurance Contracts (NZ IFRS 4) as at 31 December 2015.

The Appointed Actuary is Warrick Gard of Ernst & Young, Fellow of the New Zealand Society of Actuaries and Fellow of the Institute of Actuaries of Australia.

Actuarial Assumptions

Bornhuetter-Ferguson (BF) method – Actuarial valuation is based on the BF method with assumptions set based on BHSI NZ's pricing loss ratios, industry benchmarking and the Appointed Actuary's experience. The BF method is applied to Accident Quarter cohorts of claims with quarterly development periods.

Inflation – Economic inflation is based on economic indicators such as the consumer price index and increases in average weekly earnings.

Discount rate – The future discount rates adopted are the risk-free no-arbitrage forward rates derived from the yield curve for fixed interest securities issued by the New Zealand government at the valuation date. This is a standard actuarial approach for deriving future discount rates.

Claims handling expense allowance – An estimate of outstanding claims liability will incorporate an allowance for the future cost of administering the claims. The allowance is determined after analysing the claims management budget and policy administration respectively, with a reasonableness check performed using benchmarks.

BERKSHIRE HATHAWAY SPECIALTY INSURANCE COMPANY NEW ZEALAND BRANCH

3. ACTUARIAL ASSUMPTIONS AND METHODS (continued)

Risk margin – The overall risk margin is determined with consideration to the uncertainty of the outstanding claims estimate for each class. The risk margin is applied to the net central estimate and together with the central estimate is intended to have a 75% probability of sufficiency. Given the elevated uncertainty at the current time in all portfolios, the fact that the adopted risk margins are judgemental, the small size of BHSI NZ's portfolio and the dominance of the Property class, determining a diversification discount is highly uncertain and is likely to result in spurious accuracy. This assumption will be reassessed at the next valuation as the mix of the business changes and the amount of data increases.

Weighted average expected term to settlement – The average weighted term to settlement is calculated by class of business and is based on the expected future claim payments net of reinsurance and third party recoveries.

The following table below provides the key assumptions adopted in calculation of general insurance provisions:

Assumption	2015
Weighted average Discount rate	2.79%
Claims handling expense	7.5% of gross claims costs
Risk margin	32.9%
Weighted average expected term to settlement	3.26 years

Impact of changes in assumptions

The Appointed Actuary conducts sensitivity analysis to quantify the exposure to the risk of changes in the key underlying actuarial assumptions. The table below describes how a change in each assumption affects the net provision of outstanding claims liabilities provision.

Table 1: Sensitivity analysis on net inflated and discounted outstanding claims liabilities provision

Scenario base	Sensitivity	Net provision (\$'000)	Change (\$'000)	Change (%)
Inflation rate	+1% to all future inflation rates	173	6	3.30%
	-1% to all future inflation rates	162	-5	-3.20%
Discount rate	+1% to all future discount rates	162	-5	-3.20%
	-1% to all future discount rates	173	6	3.30%
Claims handling expense	Double	179	12	7%
	Half	162	-6	-3.50%
Expected term of settlement	Delay payment pattern by 2 years	167	-1	-0.40%
	Shorten the payment pattern by 2 years	168	0	0%

The Appointed Actuary is satisfied as to the nature, sufficiency and accuracy of the data upon which insurance liabilities have been determined.

BERKSHIRE HATHAWAY SPECIALTY INSURANCE COMPANY NEW ZEALAND BRANCH

4. RISK MANAGEMENT

The Company has an established governance framework and the Branch operates within this framework. The Branch's Risk Management Framework is outlined in the Risk Management Program (RMP). The purpose of the RMP is to integrate risk management within overall operations and provides principles and requirements relating to the key pillars of risk management for the Branch, these are:

- Policies and Related Frameworks
- Risk Management Processes
- Organisational Structure, Governance and Roles and Responsibilities
- Risk Categories
- Systems and Data
- People and Culture.

The Branch operates within this 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 Company is regulated by the State of Nebraska, USA Department of Insurance and is required to comply with standard and requirements that relate to the same or similar matters that are covered by New Zealand solvency standards.

The Branch's RMP outlines the procedures used for the effective identification and management of the following risks: -

(i) Insurance Risk

Insurance risk includes underwriting risk: the risk of loss arising from the insurance of general insurance products including both catastrophe risk and attritional risk and reserving risk: the risk of loss or adverse change in the value of insurance liabilities due to inadequate provisions. Risk appetite quantifying the Company's delegated appetite for underwriting risk at a gross and net of reinsurance level are in place at the Branch level, including defined risk appetite in relation to maximum exposure limits and aggregate exposure. The Branch has adopted internal controls at a Company level to manage reserving risk which includes adherence and monitoring of reserving and IBNR policies.

(ii) Credit Risk

Credit Risk is the risk of loss due to unexpected default, or deterioration in the credit standing of counterparties and debtors. Payment default will result in the termination of the insurance contract with the policy holders, eliminating the credit risk on the unpaid balance. 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.

(iii) Liquidity Risk

Liquidity Risk is the risk of not being able to meet all financial obligations as and when they fall due. In managing this risk all investments for the Branch are held in cash and cash like instruments. Liquidity Risk is not seen as a material concern given the highly liquid nature of investment holdings and financial strength of the Company and parental reinsurer.

4. RISK MANAGEMENT (continued)

(iv) Market Risk

Market Risk is the risk of possible losses due to unexpected changes in financial markets, resulting in volatility in the value of invested funds, encompassing interest-rate risk, equity risk, spread risk, property risk and currency risk. The Branch's investment strategy is conservative with all investments to be held in cash or cash-like instruments and invested in banks with strong credit ratings.

(v) Operational Risk

Operational Risk is the risk from inadequate staff, processes and procedures resulting in poor or fails execution. The Branch has adopted various internal controls, defined at a Company level along with developing its own operationally specific internal controls to manage operational risks, with the Branch's risk appetite. .

(vi) Concentration of Insurance Risk

Insurance Risk is described above and includes catastrophe and concentration risks. Concentrations are considered firstly at the level of the type of insured event (class of insurance business), eg. Casualty vs Property. Then, for Property only, concentrations are further considered based on geographical location. The exposure to concentration risk is mitigated by a portfolio diversified across different business classes, strong aggregate monitoring, strict exposure limits and reinsurance.

**BERKSHIRE HATHAWAY SPECIALTY INSURANCE COMPANY
NEW ZEALAND BRANCH**

	2015
	\$
5. PREMIUM REVENUE	
Gross written premium	10,050,748
Movement in unearned premium	<u>(7,738,791)</u>
Total premium revenue	<u>2,311,957</u>
6. OUTWARDS REINSURANCE EXPENSE	
Ceded written premium	(8,049,846)
Movement in ceded unearned premium	<u>6,191,033</u>
Total outwards reinsurance expense	<u>(1,858,813)</u>
7. NET CLAIMS INCURRED	
Gross incurred claims and related expenses	
Undiscounted	(929,249)
Discount	<u>83,188</u>
Total claims expense	<u>(846,061)</u>
Reinsurance and other recoveries revenue	
Undiscounted	742,131
Discount	<u>(66,564)</u>
Total reinsurance and other recoveries revenue	<u>675,568</u>
Net claims incurred	<u>(170,494)</u>
8. ACQUISITION COSTS	
Gross acquisition costs	(573,205)
Movement in deferred acquisition costs	<u>423,056</u>
Total acquisition costs	<u>(150,149)</u>
9. REINSURANCE COMMISSION REVENUE	
Reinsurance commission revenue	709,833
Movement in deferred reinsurance commission revenue	<u>(531,915)</u>
Total reinsurance commission revenue	<u>177,918</u>
10. OTHER REINSURANCE COMMISSION REVENUE	
Reimbursement of direct insurance expenses from reinsurer	<u>2,297,515</u>
Total other income	<u>2,297,515</u>

**BERKSHIRE HATHAWAY SPECIALTY INSURANCE COMPANY
NEW ZEALAND BRANCH**

	2015 \$
11. Underwriting Expenses	
Employment expenses	(2,285,857)
Premises expenses	(164,845)
General expenses	(106,241)
Consulting expenses	(182,732)
Depreciation expense	(16,349)
Total underwriting expenses	<u><u>(2,756,024)</u></u>
12. INCOME TAX	
(a) The income tax for the financial period reconciles to the amount calculated on the loss for the year as follows:	
Loss before income tax	<u>(60,779)</u>
Prima facie tax thereon at 28%	(17,018)
<i>Tax effect of differences:</i>	
Non-deductible differences	<u>8,437</u>
Income tax benefit attributable for the year	<u><u>(8,581)</u></u>
(b) Current income tax payable:	
Opening tax payable	-
Income tax paid during the year	-
<i>Change in deferred tax balances</i>	
Deferred tax asset (DTA) - timing differences	(45,225)
Current income tax payable	<u>36,644</u>
Tax benefit	<u><u>(8,581)</u></u>
DTA Represented by:	
Non-deductible leave accruals	64,354
Net Deferred acquisition costs	<u>97,164</u>
	<u>161,518</u>
Prima facie tax thereon at 28%	<u><u>45,225</u></u>
Recognition of DTA:	
The DTA does not incorporate any carried forward tax losses. The DTA comprises only of operational timing adjustments, i.e. non-deductible accruals and deferred acquisition costs. There is no evidence which suggests that these items will not be reversed during 2016 and that the tax benefit would not be realised. On this basis, the DTA is fully recognised as at 31 December 2015.	
13. CASH AND CASH EQUIVALENTS	
HSBC bank account	4,616,592
HSBC term deposit	<u>12,049,629</u>
Total cash and cash equivalents	<u><u>16,666,221</u></u>

**BERKSHIRE HATHAWAY SPECIALTY INSURANCE COMPANY
NEW ZEALAND BRANCH**

	2015 \$
14. PROPERTY, PLANT AND EQUIPMENT	
Furnitures & fixtures	
At cost	109,893
Accumulated depreciation	(7,677)
	102,216
Leasehold improvements	
At cost	127,132
Accumulated depreciation	(3,998)
	123,134
Computer Equipment	
At cost	16,258
Accumulated depreciation	(4,674)
	11,584
Total Property, plant and equipment	236,934
15. REINSURANCE AND OTHER RECOVERABLES RECEIVABLE	
RI recoveries - outstanding claims - undiscounted	4
RI recoveries - IBNR - central estimate - undiscounted	557,479
RI recoveries - IBNR - risk margin - undiscounted	184,649
RI recoveries - discounted	(66,564)
Total Reinsurance and other recoverables receivable	675,568
Current	187,221
Non-current	488,347
Total Reinsurance and other recoverables receivable	675,568
16. TRADE AND OTHER PAYABLES	
Technical creditors	872,832
FSL payable	44,377
Total Trade and other payables	917,209
Current	917,209
Non-current	-
Total Trade and other payables	917,209
17. OTHER TAX LIABILITIES	
GST tax payable	387,279
Non-resident withholding tax payable	127,047
Total other tax liabilities	514,326
Current	514,326
Non-current	-
Total other tax liabilities	514,326

**BERKSHIRE HATHAWAY SPECIALTY INSURANCE COMPANY
NEW ZEALAND BRANCH**

	2015 \$
18. REINSURANCE LIABILITIES	
Reinsurance creditors - NICO	2,339,860
Total reinsurance liabilities	<u>2,339,860</u>
Current	2,339,860
Non-current	-
Total reinsurance liabilities	<u>2,339,860</u>
19. DEFERRED COMMISSION LIABILITIES	
Reinsurance DAC	531,915
Total deferred commission liabilities	<u>531,915</u>
Current	297,551
Non-current	234,364
Total deferred commission liabilities	<u>531,915</u>
20. OUTSTANDING CLAIMS PAYABLE	
Gross - outstanding claims - undiscounted	5
Gross - IBNR - central estimate - undiscounted	647,241
Gross - IBNR - risk margin - undiscounted	230,558
Gross - IBNR - claims handling expense - undiscounted	48,543
Gross - IBNR - discounted	(83,188)
Total outstanding claims payable	<u>843,159</u>
Current	232,835
Non-current	610,324
Total outstanding claims payable	<u>843,159</u>
21. HEAD OFFICE ACCOUNT	

The initial funds provided from BHSI was NZ 15m during 2015.

**BERKSHIRE HATHAWAY SPECIALTY INSURANCE COMPANY
NEW ZEALAND BRANCH**

2015

\$

22. CASH FLOW INFORMATION

Reconciliation of cash flow from operations with loss after income tax

Loss after income tax	(52,198)
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Non Cash Movements:

Depreciation	16,349
Deferred tax assets	(45,225)

Cash Movements:

(Increase) / Decrease in Trade and other receivables	(3,841,754)
(Increase) / Decrease in Reinsurance and other recoverables receivable	(675,568)
(Increase) / Decrease in Deferred reinsurance premiums	(6,191,033)
(Increase) / Decrease in Deferred acquisition costs	(423,056)
Increase / (Decrease) in Trade and other payables	917,209
Increase / (Decrease) in Current tax liabilities	36,644
Increase / (Decrease) in Other tax liabilities	514,326
Increase / (Decrease) in Reinsurance liabilities	2,339,860
Increase / (Decrease) in Deferred commission liabilities	531,915
Increase / (Decrease) in Outstanding claims payable	843,159
Increase / (Decrease) in Unearned premium reserve	7,738,791
Increase / (Decrease) in Intercompany payable	210,084

Net cash from operating activities	<u>1,919,504</u>
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23. CAPITAL COMMITMENTS AND CONTINGENT LIABILITIES

There are no capital commitments or contingent liabilities as at December 2015.

**BERKSHIRE HATHAWAY SPECIALTY INSURANCE COMPANY
NEW ZEALAND BRANCH**

24. RELATED PARTY TRANSACTIONS

The entity is a Branch of Berkshire Hathaway Specialty Insurance Company (the "Company"), a company incorporated in the state of Nebraska, USA. The Company is a wholly owned subsidiary of National Indemnity Company, also incorporated in the state of Nebraska, USA.

The Company's ultimate parent company is Berkshire Hathaway Inc., domiciled in the state of Delaware, USA and with its principal place of business in Omaha, Nebraska, USA.

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

From Reinsurance agreements in the year

	2015 \$
Reinsurance premiums due	3,373,170
Reinsurance commissions due	(246,373)
Reinsurance direct insurance expenses recovery	(786,937)
Balance due (from)/to NICO as at 31 December 2015	<u>2,339,860</u>

Intercompany related parties

Intercompany receivable from BHSS	16,898
Intercompany receivable from BHILL	36,469
Intercompany payable to BHSI AU	(57,433)
Intercompany payable to BHSIC	(206,018)
Net Intercompany payable as at 31 December 2015	<u>(210,084)</u>

**BHSS refers to Berkshire Hathaway Shared Services*

**BHILL refers to Berkshire Hathaway International Insurance Limited*

**BHSI AU refers to Berkshire Hathaway Specialty Insurance (Australian Branch)*

**BHSIC refers to Berkshire Hathaway Specialty Insurance Company*

Intercompany balances are at no interest and on demand.

Bank guarantee

BHSI AU currently provides for an off-balance sheet bank guarantee of NZ 110,000 for the office lease premises of BHSI NZ.

**BERKSHIRE HATHAWAY SPECIALTY INSURANCE COMPANY
NEW ZEALAND BRANCH**

25. FINANCIAL INSTRUMENTS

<u>Categories of financial instruments</u>	<u>Note</u>	2015 \$
Cash and cash equivalents		
Bank account	13	4,616,592
Term deposit	13	12,049,629
Financial liabilities at amortised cost		
Trade and other payables	16	917,209
Other tax liabilities	17	514,326
Intercompany payables	24	210,084

The term deposit is subject to a one month maturity.

All financial liabilities are due within 12 months.

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

a) Credit Risk

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

The Branch invests in cash and cash-like investments and is not exposed to any material interest rate risk.

c) Liquidity Risk

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.

26. BUSINESS ACTIVITIES

The Branch commenced writing business in June 2015. It only writes commercial business with its portfolio comprising of Property, Marine, Casualty and Executive and Professional risks.

27. CREDIT RATING

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

28. ADDITIONAL INFORMATION

Number of employees

2015
9

29. DISCLOSURE OF AUDITOR

The Branch auditor is Deloitte Touche Tohmatsu, and the auditor remuneration is \$32,000.

BERKSHIRE HATHAWAY SPECIALTY INSURANCE COMPANY NEW ZEALAND BRANCH

30. THE COMPANY - CAPITAL RESOURCES AND CAPITAL RESOURCE REQUIREMENT

As at 31 December 2015 the Capital Resources and Capital Resource Requirement reported in accordance with the State of Nebraska, USA Department of Insurance are:

	2015
	\$'000
Capital Resources	4,442,089
Capital Resource Requirement	<u>552,871</u>
Excess of available Capital Resources to cover general insurance business Capital Resources Requirement	<u><u>3,889,218</u></u>

31. 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 aggregate limit to 3 times the Branch's subject net earned premium ceded during the accident year "Maximum Aggregate Accident Year Liability". A commission of 80% of the Branch's expenses are allowed plus a further 2.5% based on 100% of the Branch's Subject Net Written Premium.

The Branch also has an XOL reinsurance programme with NICO consisting of a reinsurance premium equal to 2% of the gross net earned premium for the term. No claims will be made unless the Branch has sustained Ultimate Net Loss of amounts in excess of US \$1m retention subject to a maximum aggregate limit of US \$100m.

32. 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.

33. 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 Specialty Insurance – New Zealand Branch

We have audited the accompanying financial statements of Berkshire Hathaway Specialty Insurance – New Zealand Branch, which comprise the statement of financial position as at 31 December 2015, the statement of comprehensive income, the statement of cash flows and the statement of changes in equity for the period from 26 June 2015 to 31 December 2015, notes comprising a summary of significant accounting policies and other explanatory information as set out on pages 4 to 23.

The Directors' Responsibility for the Financial Statements

The directors are responsible for the preparation and fair presentation of the financial statements in accordance with New Zealand Equivalents to International Financial Reporting Standards, International Financial Reporting Standards and generally accepted accounting practice in New Zealand and for such internal control as the directors determine is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing (New Zealand). Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance 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 and fair presentation of the financial statements 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 accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating 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.

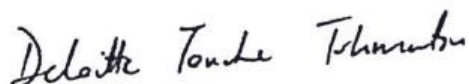
Other than in our capacity as auditor we have no relationship with, or interests in, Berkshire Hathaway Specialty Insurance – New Zealand Branch.

Opinion

In our opinion the financial statements present fairly, in all material respects, the financial position of Berkshire Hathaway Specialty Insurance – New Zealand Branch as at 31 December 2015 and its financial performance and cash flows for the period from 26 June 2015 to 31 December 2015 in accordance with New Zealand Equivalents to International Financial Reporting Standards, International Financial Reporting Standards and generally accepted accounting practice in New Zealand.

Emphasis of Matter

The New Zealand Branch is part of Berkshire Hathaway Specialty Insurance, which is incorporated in the United States of America. 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.



DELOITTE TOUCHE TOHMATSU



Stuart Alexander
Partner
Chartered Accountants
Sydney, 26 April 2016

