BERKSHIRE HATHAWAY SPECIALTY INSURANCE COMPANY

Company Registration No. 5737531

New Zealand Branch

Financial Statements

For year ended 31 December 2017

BERKSHIRE HATHAWAY SPECIALTY INSURANCE COMPANY
NEW ZEALAND BRANCH

FINANCIAL STATEMENTS
31 DECEMBER 2017

CONTENTS PAGE

Directors' Report	3
Statement of Comprehensive Income	4
Statement of Changes in Equity	5
Statement of Financial Position	6
Statement of Cash Flows	7
Notes to and forming part of the Financial Statements	8
Independent Auditor's report to the members	29

BERKSHIRE HATHAWAY SPECIALTY INSURANCE COMPANY
NEW ZEALAND BRANCH

DIRECTORS' REPORT

The Directors present the financial statements for Berkshire Hathaway Specialty Insurance Company ('BHSI' or 'Company') – New Zealand Branch (the 'Branch') for the year ended 31 December 2017.

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 that present fairly the financial position of the Branch as at 31 December 2017 and the results of its operations and cash flows for the year ended 31 December 2017.

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 judgements and estimates, and that all applicable NZ IFRS have been followed.

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.

Principal activities
The principal activity of the branch was the underwriting of general insurance. There has been no significant change in the nature of this activity during the year.

Disclosure

With the agreement of the shareholder, no disclosure has been made in respect of s211 (a) and (e) to (j) of subsection (1) and subsection (2) 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)
Brian Gerard Snover (07 April 2010 to Present)
Ralph Tortorella III (18 November 2013 to Present)
Bruce John Byrnes (11 August 2017 to Present)
Peter Michael Shelley (30 June 2016 to Present)

Directors ceased during the financial year

Donald Frederick Wurster (18 November 2013 to 11 August 2017)

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 other item, transaction or event or a material or unusual nature likely, in the opinion of the directors, to affect significantly the operations of the branch, the results of those operations, or the state of affairs of the branch in subsequent financial years.

Signed for and on behalf of the Board of Directors who authorised the issue of these financial statements in Boston, Massachusetts, United States of America on 27th April 2018.

Sign:	Sign:
Name: RALPH TORTORELLA III	Name: PETER EASTWOOD
Director, BHSI	Director, BHSI

BERKSHIRE HATHAWAY SPECIALTY INSURANCE COMPANY
NEW ZEALAND BRANCH

STATEMENT OF COMPREHENSIVE INCOME
For the financial year ended 31 December 2017

	Note	2017 $	2016 $
Premium revenue	5	25,633,710	13,517,531
Outwards reinsurance expense	6	(20,607,726)	(10,871,424)
Net premium revenue		5,025,984	2,646,107
Claims expense		(18,504,745)	(27,802,462)
Reinsurance and other recoveries revenue		13,972,719	25,404,857
Net claims incurred	7	(4,532,026)	(2,397,605)
Acquisition costs	8	(1,514,575)	(867,930)
Reinsurance commission revenue	9	1,852,389	1,031,958
Net Commission revenue		337,814	164,028
Other reinsurance commission revenue	10	5,181,313	3,323,985
Underwriting expenses	11	(6,439,175)	(4,206,022)
Underwriting result		(426,090)	(469,507)
Interest income		220,912	192,407
Loss before income tax		(205,178)	(277,100)
Income tax benefit	12(a)	40,580	63,253
Loss after income tax attributable to owners of the Company		(164,596)	(213,847)
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 year net of tax		-	-
Total comprehensive loss for the year attributable to owners of the Company		(164,596)	(213,847)

Notes to the financial statements are included on page 8 to 28

BERKSHIRE HATHAWAY SPECIALTY INSURANCE COMPANY
NEW ZEALAND BRANCH

STATEMENT OF CHANGES IN EQUITY
For the year ended 31 December 2017

	Head Office Account	Retained Earnings	Total Equity
	$	$	$
2017			
Balance at the beginning of the financial year	15,000,000	(266,045)	14,733,955
Total comprehensive income for the year	-	(164,596)	(164,596)
Balance as at 31 December	**15,000,000**	**(430,642)**	**14,569,359**
2016			
Balance at the beginning of the financial period	15,000,000	(52,198)	14,947,802
Total comprehensive income for the year	-	(213,847)	(213,847)
Balance as at 31 December	**15,000,000**	**(266,045)**	**14,733,955**

Notes to the financial statements are included on page 8 to 28

BERKSHIRE HATHAWAY SPECIALTY INSURANCE COMPANY
NEW ZEALAND BRANCH

STATEMENT OF FINANCIAL POSITION
As at 31 December 2017

	Note	2017	2016
		$	$
Assets			
Cash and cash equivalents	13	26,396,797	18,552,940
Premium receivables		13,451,418	9,095,947
Current tax assets	12(b)	232,452	4,825
Reinsurance and other recoverables receivables	15	19,986,392	25,604,262
Deferred reinsurance premiums	22	19,649,733	12,580,079
Deferred acquisition costs	23	1,295,910	872,527
Property, plant and equipment	14	195,188	213,052
Deferred tax assets	12(b)	411,269	381,068
Total assets		81,619,157	67,304,700
Liabilities			
Trade and other payables	16	1,245,741	1,185,525
Reinsurance liabilities	18	11,942,250	4,681,433
Deferred commission liabilities	19	1,637,818	1,073,546
Current tax liabilities	12(b)	-	-
Other tax liabilities	17	2,267,841	1,314,697
Intercompany payable	28	225,782	380,033
Unearned premium reserve	24	24,562,159	15,727,559
Outstanding claims payable	20	24,950,303	28,053,370
Employee benefits provision	21	217,906	154,621
Total liabilities		67,049,798	52,570,784
Net Assets		14,569,359	14,733,916
Equity			
Head Office account	25	15,000,000	15,000,000
Retained earnings		(430,641)	(266,084)
Total equity for the Branch		14,569,359	14,733,916

Notes to the financial statements are included on page 8 to 28

BERKSHIRE HATHAWAY SPECIALTY INSURANCE COMPANY
NEW ZEALAND BRANCH

STATEMENT OF CASH FLOWS
For the financial year ended 31 December 2017

	Note	2017	2016
		$	$
Cash flows from operating activities			
Premiums received		31,114,753	16,642,854
Commission revenue received		2,416,661	1,573,590
Interest received		220,912	192,406
Claims paid		(22,976,004)	(592,251)
Acquisition costs paid		(1,937,958)	(1,317,401)
Net reinsurance paid		6,113,921	(10,714,446)
Payments to suppliers and employees		(6,720,571)	(3,746,591)
Income tax paid		(217,245)	(314,059)
Intercompany funds received		(154,251)	169,949
Net cash from operating activities	26	7,860,218	1,894,051
Cash flows from investing activities			
Payments for purchases of plant and equipment		(16,361)	(7,332)
Net cash used in investing activities		(16,361)	(7,332)
Cash flows from financing activities			
Capital funds received		-	-
Net cash from financing activities		-	-
Net increase in cash and cash equivalents		7,843,857	1,886,719
Cash and cash equivalents at the beginning of the financial year		18,552,940	16,666,221
Cash and cash equivalents at the end of the financial year		26,396,797	18,552,940

Notes to the financial statements are included on page 8 to 28

1. SUMMARY OF ACCOUNTING POLICIES

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

These general purpose financial statements cover Berkshire Hathaway Specialty Insurance Company – New Zealand Branch (the 'Branch'). Berkshire Hathaway Specialty Insurance Company (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 a FMC reporting entity under the Financial Markets Conduct Act 2013 and its financial statements comply with this Act and the Companies Act 1993.

Statement of Compliance

The Branch was incorporated on 26th June 2016 and was granted its licence to carry on Insurance Business in New Zealand on 29th June 2016 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 annual financial statements have been prepared in accordance with the Generally Accepted Accounting Practice in New Zealand ('NZ GAAP'). They fully comply with the New Zealand Equivalents of International Financial Reporting Standards ('NZ IFRS') and other applicable Financial Reporting Standards as appropriate for profit-oriented entities. The financial statements also comply with International Financial Reporting Standards ('IFRS').

The accounting policies below have been applied in preparing the financial statements for the financial year ended 31 December 2017 and comparative information presented in these financial statements for the financial year ended 31 December 2016.

These financial statements are presented in New Zealand Dollars ($), which is the branch's functional currency. All financial information presented in New Zealand Dollars, except where otherwise indicated.

These financial statements were authorised for issue by the directors on 27th April 2018.

Accounting standards and interpretations issued but not yet effective

At the date of authorisation of the financial report, the following Standards and Interpretations, including those Standards or Interpretations issued by the IASB/IFRIC where an equivalent New Zealand Standard or Interpretation has not been approved, were on issue but not yet effective, and have not been applied in preparing the company's financial statements. Assessment of the impact of the initial application of these Standards is still to be completed, and may have an impact on disclosures.

Standard	Effective for annual reporting periods beginning on or after	Expected to be initially applied in the financial year ending
NZ IFRS 9 ***Financial Statements***	1 January 2018	31 December 2018
NZ IFRS 16 ***Revenue from contracts with customers***	1 January 2018	31 December 2018
NZ IFRS ***Leases***	1 January 2019	31 December 2019
NZ IFRS 17 ***Insurance Contracts***	1 January 2021	31 December 2021

NZ IFRS 17 *Insurance Contracts* ('NZ IFRS 17') was issued during 2017 and will replace NZ IFRS 4 *Insurance Contracts* ('NZ IFRS4 4'). NZ IFRS 17 establishes principles for the recognition, measurement, presentation and disclosure of insurance contracts issued. The branch is currently assessing the impact of adopting this standard.

Except for NZ IFRS 17, the company anticipates that the application of the new standards and amendments to New Zealand Accounting Standards listed above are not likely to have a material impact on the financial statements.

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 preparation of financial statements in conformity with NZ IFRS 4 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

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.

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 34.

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. 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 tax is accounted for using the comprehensive liability method in respect of temporary differences arising from differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax base of those items. In principle, deferred tax liabilities are recognised for all taxable temporary differences.

Deferred tax assets are recognised to the extent that it is probable that sufficient taxable amounts will be available against which deductible temporary differences or unused tax losses and tax offsets can be utilised. However, deferred tax assets and liabilities are not recognised if the temporary differences giving rise to them arise from the initial recognition of assets and liabilities which affects neither taxable income nor accounting profit.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period(s) when the asset and liability giving rise to them.

(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.

(g) Reinsurance receivables

Reinsurance receivables on paid and outstanding claims are recognised as revenue. Recoveries are measured as the present value of expected future 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

The liability adequacy test (LAT) is used to assess the sufficiency of the unearned premium liability to cover all expected future cash flows relating to future claims against in-force insurance contracts. If the unearned premium liability less related deferred acquisition costs exceeds the present value (PV) of expected future cash flows plus additional risk margin then the unearned premium liability is deemed to be adequate. The LAT is carried out on each portfolio of contracts which each cover broadly similar risks.

(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 of 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 across the years are as follows:

	2017	2016
Furniture & fixtures	10.5%	10.5%
Computer equipment	40%	40%
Leasehold improvements	7%	7%

(m) Interest income

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

(n) Accounts payable

These amounts represent liabilities for goods and services provided to the branch prior to the end of the financial year and which are unpaid. The amounts are unsecured and are usually paid within thirty days of recognition

(o) Premium receivables

Premium receivables are recognised in accordance with NZ IFRS 4 "Insurance Contracts". 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 reinsurance premiums in 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 arising from claims made under insurance contracts

Provisions are made at the balance date for the estimated cost of claims incurred but not yet 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 that 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. 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, Professional and Cyber risks.

The Branch's insurance liabilities are 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 2017.

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

Actuarial Assumptions

Bornhuetter-Ferguson (BF) method – Actuarial valuation is based on the BF method with assumptions set based on the Branch'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.

Weighted Average 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 estimated giving consideration of the actual allocated claims handling expense and the Branch's budget for claims management. As the claims handling expense is largely a fixed cost, the claims handling expense as a proportion of claims paid is expected to reduce as a larger base of claims on which to spread costs is established. However, due to the settlement of a large Kaikoura earthquake claim during 2017 the claims handling expense as a percentage of gross outstanding claims has increased in the year.

Risk margin – The overall risk margin is determined with consideration to the uncertainty of the outstanding claims estimate for each class. A risk margin is applied to the net central estimate of each class of business to increase the central estimate to a level that is intended to have a 75% probability of sufficiency. Adopted risk margins are judgemental and, given the small size of the Branch's portfolio, determining a diversification discount is highly uncertain and is likely to result in spurious accuracy, therefore no diversification discount is applied. The risk margin has increased significantly from prior year due to the weight of reserves shifting from Property to Executive & Professional.

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. This has substantially increased since the previous year as the weight of the outstanding claims has shifted away from the Property class (due to settlement during the year of a large Kaikoura earthquake claim) and towards the longer tailed Executive & Professional class.

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

Assumption	**2017**	**2016**
Weighted average Discount rate	2.34%	2.92%
Claims handling expense % of gross claims cost	7.30%	2.30%
Risk margin	30.82%	15.10%
Weighted average expected term to settlement	3.29 years	1.67 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.

BERKSHIRE HATHAWAY SPECIALTY INSURANCE COMPANY
NEW ZEALAND BRANCH

31 December 2017

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

		Comprehensive Income, before tax ($'000)	Comprehensive Income, After tax ($'000)	Change in Equity
Recognised amount per Financial statements		-205	-164	14,569
Scenario base	**Sensitivity**			
Inflation rate	+1% to all future inflation rates	-308	-246	14,323
	-1% to all future inflation rates	-106	-85	14,484
Discount rate	+1% to all future discount rates	-49	-39	14,530
	-1% to all future discount rates	-370	-296	14,273
Claims handling expense	Double	-470	-376	14,193
	Half	-73	-58	14,511
Expected term of settlement	Delay payment pattern by 2 years	-204	-163	14,406
	Shorten the payment pattern by 2 years	-214	-171	14,398

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 its 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; and
- 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.

Insurance risk

Insurance risk includes underwriting risk (the risk of loss arising on underwriting activity due to underwriting decisions and prices being inappropriately determined or due to inadequate assessment and management of concentration and catastrophe exposures) and reserving risk (the risk of loss or adverse change in the value of insurance liabilities due to inadequate provisions). Underwriting risk is managed at the Branch level on a gross and net of reinsurance level against a defined risk appetite in relation to maximum exposure limits and aggregate exposure limits. Internal controls implemented at a Company level manage reserving risk, including adherence to and monitoring of reserving and IBNR policies.

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 pay amounts recoverable under reinsurance arrangements. NICO has a credit rating of AA+ from Standard and Poor's rating agency.

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 considered to be a material concern given the highly liquid nature of investment holdings and financial strength of the Company and NICO.

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 and encompasses 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. The Branch is not exposed to material foreign currency risk.

Operational risk

Operational risk is the risk from inadequate staff, processes and procedures resulting in poor or failed 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 within the Branch's risk appetite.

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), e.g. 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.

Further discussions on the application of the Risk Management practices are presented in Note 29 in relation to credit, market and liquidity risks.

	2017	2016
	$	$
5. PREMIUM REVENUE		
Gross written premium	34,468,310	21,506,299
Movement in unearned premium	(8,834,600)	(7,988,768)
Total premium revenue	25,633,710	13,517,531
6. OUTWARDS REINSURANCE EXPENSE		
Ceded written premium	(27,677,379)	(17,260,471)
Movement in ceded unearned premium	7,069,654	6,389,047
Total outwards reinsurance expense	(20,607,726)	(10,871,424)
7. NET CLAIMS INCURRED		
Gross incurred claims and related expenses		
Undiscounted – Current	(23,590,514)	(28,393,462)
Undiscounted – Prior	4,521,552	(233,159)
Discount – Current	1,299,808	806,684
Discount – Prior	(735,591)	17,475
Total claims expense	(18,504,744)	(27,802,462)
Reinsurance and other recoveries revenue		
Undiscounted – Current	18,872,411	25,938,731
Undiscounted – Prior	(4,553,760)	186,600
Discount – Current	(1,039,846)	(706,533)
Discount – Prior	693,914	(13,980)
Total reinsurance and other recoveries revenue	13,972,718	25,404,818
Net claims incurred	(4,532,026)	(2,397,605)
8. ACQUISITION COSTS		
Gross acquisition costs	(1,937,958)	(1,317,401)
Movement in deferred acquisition costs	423,383	449,471
Total acquisition costs	(1,514,575)	(867,930)

BERKSHIRE HATHAWAY SPECIALTY INSURANCE COMPANY
NEW ZEALAND BRANCH

	2017	2016
	$	$
9. REINSURANCE COMMISSION REVENUE		
Reinsurance commission revenue	2,416,660	1,573,590
Movement in deferred reinsurance commission revenue	(564,271)	(541,632)
Total reinsurance commission revenue	**1,852,389**	**1,031,958**
10.OTHER REINSURANCE COMMSSION REVENUE		
Reimbursement of direct insurance expenses from reinsurer	5,181,313	3,323,985
Total other reinsurance commission revenue	5,181,313	3,323,985
11. UNDERWRTING EXPENSES		
Employment expenses	(5,062,990)	(3,217,245)
Premises expenses	(218,091)	(227,367)
General expenses	(257,672)	(176,271)
Consulting expenses	(825,370)	(520,768)
Depreciation expense	(34,225)	(31,214)
Other underwriting expenses	(40,827)	(33,157)
Total underwriting expenses	**(6,439,175)**	**(4,206,022)**

12. INCOME TAX
(a) The income tax for the financial year reconciles to the amount calculated on the loss for the year as follows:

	2017	2016
Loss before income tax	**(205,178)**	**(277,139)**
Prima facie tax thereon at 28% (2015:28%)	(57,450)	(77,599)
Tax effect of permanent differences		
Non-deductible expenses	16,869	14,346
Income tax benefit attributable for the year	(40,581)	(63,253)
Income tax benefit recognised consists of:		
Current tax expense	(10,380)	272,590
Deferred tax benefit	(30,200)	(335,843)
	(40,580)	(63,253)
(b) Current income tax:		
Balance at the beginning of the financial year	4,825	(36,644)
Income tax paid	217,245	314,059
Current year tax provision	10,382	(272,590)
Adjustments for prior year	-	-
Balance at the end of the financial year	232,452	4,825

	2017	2016
	$	$
12. INCOME TAX (continued)		
(b) DTA Represented by:		
Non-deductible salary accruals	664,464	915,315
Net deferred acquisition costs	341,907	201,019
Non-deductible accruals	462,441	244,622
Total	1,468,812	1,360,956
Prima facie tax thereon at 28%	**411,268**	**381,068**
Movements in Deferred tax assets:		
Balance at the beginning of the financial year	381,068	45,225
Movement recognised in profit or loss	30,201	335,843
Balance at the end of the financial year	**411,269**	**381,068**

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 2017 and that the tax benefit would not be realised. On this basis, the DTA is fully recognised as at 31 December 2017.

	2017	2016
	$	$
13. CASH AND CASH EQUIVALENTS		
HSBC bank account	17,193,971	9,494,973
HSBC term deposit	9,202,826	9,057,967
Total cash & cash equivalents	**26,396,397**	**18,552,940**

14. PROPERTY, PLANT AND EQUIPMENT		
Furniture & fixtures		
At cost	109,893	109,893
Accumulated depreciation	(34,554)	(21,225)
	75,339	**88,668**
Leasehold improvements		
At cost	127,132	127,132
Accumulated depreciation	(21,840)	(12,941)
	105,292	**114,191**
Computer Equipment		
At cost	39,950	23,590
Accumulated depreciation	(25,393)	(13,397)
	14,557	**10,193**
Total property, plant and equipment	**195,188**	**213,052**

	2017	2016
	$	$
14. PROPERTY, PLANT AND EQUIPMENT (continued)		
Reconciliations of the carrying amount for each class of property, plant and equipment		
Furniture & fixtures		
Carrying amount at the beginning of the financial year	88,668	102,216
Additions	-	-
Disposals	-	
Depreciation expense	(13,329)	(13,548)
Carrying amount at the end of the financial year	75,339	88,668
Leasehold improvements		
Carrying amount at the beginning of the financial year	114,191	123,134
Additions	-	-
Disposals	-	-
Depreciation expense	(8,899)	(8,943)
Carrying amount at the end of the financial year	**105,292**	**114,191**
Computer Equipment		
Carrying amount at the beginning of the financial year	10,193	11,584
Additions	16,361	7,332
Disposals	-	-
Depreciation expense	(11,997)	(8,723)
Carrying amount at the end of the financial year	**14,557**	**10,193**
Total property, plant and equipment	195,188	213,052

15. REINSURANCE AND OTHER RECOVERIES RECEIVABLE

	2017	2016
RI recoveries - outstanding claims – undiscounted	2,569,538	16,051,339
RI recoveries - IBNR - central estimate – undiscounted	14,137,065	8,806,599
RI recoveries - IBNR - risk margin – undiscounted	4,874,269	1,533,442
RI recoveries – discount	(1,594,480)	(787,078)
Total reinsurance and other recoveries receivable	19,986,392	25,604,302
Current	16,997,190	17,251,917
Non-current	2,989,202	8,352,385
Total reinsurance and other recoverable receivables	19,986,392	25,604,302

BERKSHIRE HATHAWAY SPECIALTY INSURANCE COMPANY
NEW ZEALAND BRANCH

Reconciliation of Reinsurance and other recoveries receivable	2017	2016
	$	$
Balance at the start of the year	25,604,262	675,568
RI Recoveries - Change in discount to present value	-345,932	-720,513
RI Recoveries - Change in CHE	578,170	445,728
RI Recoveries - Change in risk margin	3,038,316	1,247,163
RI Recoveries - Claims paid	-20,958,822	-473,801
RI Recoveries - Movement in incurred claims	12,070,397	24,430,117
Balance at the end of the year	19,986,392	25,604,262

16. TRADE AND OTHER PAYABLES

	2017	2016
Technical creditors	767,525	1,146,428
FSL/EQC payable	478,216	39,097
Total trade and other payables	**1,245,741**	**1,185,525**
Current	1,245,741	1,185,525
Non-current	-	-
Total trade and other payables	**1,245,741**	**1,185,525**

17. OTHER TAX LIABILITIES

	2017	2016
GST tax payable	1,346,102	783,307
Non-resident withholding tax payable	921,739	531,390
Total other tax liabilities	**2,267,841**	**1,314,697**
Current	2,267,841	1,314,697
Non-current	-	-
Total other tax liabilities	**2,267,841**	**1,314,697**

18. REINSURANCE LIABILITIES

	2017	2016
Reinsurance creditors – NICO	11,942,250	4,681,433
Total reinsurance liabilities	**11,942,250**	**4,681,433**
Current	11,942,250	4,681,433
Non-current	-	-
Total reinsurance liabilities	**11,942,250**	**4,681,433**

BERKSHIRE HATHAWAY SPECIALTY INSURANCE COMPANY
NEW ZEALAND BRANCH

	2017	2016
19. DEFERRED COMMISSION LIABILITIES	**$**	**$**
Reinsurance DAC	1,637,818	1,073,546
Total deferred commission liabilities	**1,637,818**	**1,073,546**
Current	1,378,155	722,942
Non-current	259,663	350,604
Total deferred commission liabilities	**1,637,818**	**1,073,546**

	2017	2016
20. OUTSTANDING CLAIMS PAYABLE		
Gross - outstanding claims - undiscounted	3,151,077	17,425,696
Gross - IBNR - central estimate - undiscounted	16,314,922	9,015,473
Gross - IBNR - risk margin - undiscounted	6,022,945	1,884,648
Gross - IBNR - claims handling expense - undiscounted	1,426,631	634,900
Gross - IBNR – discount	-1,965,272	-907,347
Total outstanding claims payable	24,950,303	28,053,370
Current	21,248,869	18,745,939
Non-current	3,701,434	9,307,431
Total outstanding claims payable	24,950,303	28,053,370
Reconciliation of Outstanding Claims		
Balance at the start of the year	28,053,370	843,159
Change in discount to present value	-564,217	-824,159
Change in Claims Handling Expenses (CHE)	722,713	557,160
Change in risk margin	3,823 ,661	1,527,293
Claims paid	- 22,976,005	-592,251
Movement in incurred claims	15,890,782	26,542,167
Balance at the end of the year	24,950,303	28,053,370

	2017	2016
21. EMPLOYEE BENEFITS PROVISION		
Annual leave	116,378	91,254
Personal leave	101,528	63,367
Total employee benefits provision	217,906	154,621
Current	217,906	154,621
Non-current	-	-
Total employee benefits provision	217,906	154,621

	2017	2016
22. DEFERRED REINSURANCE PREMIUMS		
Balance at the beginning of the financial year	12,580,079	6,191,033
Movement during the financial year	7,069,654	6,389,046
Balance at the end of the financial year	19,649,733	12,580,079

BERKSHIRE HATHAWAY SPECIALTY INSURANCE COMPANY
NEW ZEALAND BRANCH

	2017	2016
23. DEFERRED ACQUISITION COSTS	**$**	**$**
Balance at the beginning of the financial year	872,527	423,056
Movement during the financial year	423,383	449,471
Balance at the end of the financial year	**1,295,910**	872,527
24. UNEARNED PREMIUM RESERVE		
Balance at the beginning of the financial year	15,727,559	7,738,791
Movement during the financial year	8,834,600	7,988,768
Balance at the end of the financial year	24,562,159	15,727,559

25. HEAD OFFICE ACCOUNT

The Company provided initial funds of $15,000,000 during 2015.

26. CASH FLOW INFORMATION

Reconciliation of cash flow from operations with loss after income tax	2017 $	2016 $
Loss after income tax	(164,597)	(213,847)
Non Cash Movements:		
Depreciation	34,225	31,214
Deferred tax assets	(30,200)	(335,843)
Cash Movements:		
(Increase) / Decrease in Premium receivables	(4,355,471)	(5,254,193)
(Increase) / Decrease in Current tax assets	(227,646)	(4,825)
(Increase) / Decrease in Reinsurance and other recoveries receivable	10,069,313	(24,928,734)
(Increase) / Decrease in Deferred reinsurance premiums	(7,069,654)	(6,389,046)
(Increase) / Decrease in Deferred acquisition costs	(423,383)	(449,471)
Increase / (Decrease) in Trade and other payables	60,215	268,316
Increase / (Decrease) in Current tax liabilities	-	(36,644)
Increase / (Decrease) in Other tax liabilities	953,144	800,371
Increase / (Decrease) in Reinsurance liabilities	7,260,817	2,341,573
Increase / (Decrease) in Deferred commission liabilities	564,271	541,631
Increase / (Decrease) in Outstanding claims payable	(7,554,470)	27,210,211
Increase / (Decrease) in Unearned premium reserve	8,834,600	7,988,768
Increase / (Decrease) in Intercompany payable	(154,251)	169,949
Increase / (Decrease) in Employee benefits provision	63,285	154,621
Net cash from operating activities	**7,860,218**	**1,894,051**

27. CAPITAL COMMITMENTS AND CONTINGENT LIABILITIES

There are no capital commitments or contingent liabilities as at 31 December 2017

28. 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, NICO. These agreements are entered into under normal commercial terms and conditions. Details of transactions are listed below:

	2017	2016
	$	$
Reinsurance premiums due	15,787,331	6,332,098
Reinsurance commissions due	(871,798)	(486,086)
Reinsurance operating expenses recovery	(2,607,354)	(895,763)
Reinsurance claims receivables due	(365,929)	(268,815)
Balance due (from)/to NICO	**11,942,250**	**4,681,434**

Intercompany related parties

Intercompany receivable/(payable) from BHSS*	-	-
Intercompany receivable/(payable) from BHILL*	-	(91,487)
Intercompany receivable/(payable) to BHSI AU*	(173,351)	(48,148)
Intercompany receivable/(payable) to BHSIC*	(52,431)	(240,398)
Net Intercompany receivable/(payable)	**(225,782)**	**(380,033)**

**Abbreviations used above refer to the following entities:*
- *BHSS refers to Berkshire Hathaway Shared Services*
- *BHIIL refers to Berkshire Hathaway International Insurance Limited*
- *BHSI AU refers to Berkshire Hathaway Specialty Insurance Company– Australian Branch*
- *BHSIC refers to Berkshire Hathaway Specialty Insurance Company*

Intercompany balances are at no interest and on demand.

Bank guarantee

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

29. FINANCIAL INSTRUMENTS

Categories of financial instruments	Note	2017 $	2016 $
Cash and cash equivalents			
Bank account	13	17,193,971	9,494,973
Term deposit	13	9,202,826	9,057,967
Financial liabilities at amortised cost			
Trade and other payables	16	1,245,741	1,185,525
Other tax liabilities	17	2,267,841	1,314,697
Intercompany payables	28	225,782	380,033

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

Financial assets or liabilities are stated in the Statement of Financial Position at the amount that best represents the credit risk exposure at balance date. The branches only concentration of credit risk is in relation to reinsurance recoveries from NICO, which has a credit rating of AA+ from Standard and Poor's rating agency.

b) Market Risk

The Branch invests in cash and cash-like investments and is not exposed to any material interest rate or foreign exchange 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 of forecast and actual cash flows. The branch has sufficient cash to meet all financial liabilities at the balance date.

30. BUSINESS ACTIVITIES

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

31. CREDIT RATING

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

32. ADDITIONAL INFORMATION

	2017	2016
Number of employees	16	12

33. DISCLOSURE OF AUDITOR

The Branch auditor is Deloitte Touché Tohmatsu, and the auditor remuneration is AUD $57,000 (2016: AUD $47,500).

34. THE COMPANY-SOLVENCY

As at 31 December 2017 the solvency reported in accordance with the State of Nebraska, USA Department of Insurance are:

	2017 $'000	2016 $'000
Actual Solvency Capital	5,283,411	4,789,236
Minimum Solvency Capital	619,987	566,538
Solvency Margin	4,663,424	4,222,698
Solvency Ratio	852%	845%

35. 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. It consists of an 80% proportional quota share element and a risk specific element which limits the aggregate limit to 3 times the Branch's net earned premium ceded during the accident year (Maximum Aggregate Accident Year Liability). A commission of 80% of the Branch's expenses are recovered plus a further 2.5% based on 100% of the Branch's Net Written Premium.

The Branch also has an XOL reinsurance programme with NICO - 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.

36. 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. If the unearned premium liability less related deferred acquisition costs exceeds the present value (PV) of expected future cash flows plus additional risk margin then the unearned premium liability is deemed to be adequate.

The LAT is carried out on each portfolio of contracts in line with APRA's reporting categories, which each cover broadly similar risks. Given that adopted risk margins are based on benchmarks and the small size of BHSI NZ's portfolio, determining a diversification discount is highly uncertain and is likely to result in spurious accuracy, therefore no diversification discount has been applied. The following table details the value of the expected future income/expenditure items arising from in-force contracts:

	2017	2016
	$000's	$000's
Central estimate of PV of expected future claims	2,979	1,687
Risk Margin	800	502
PV of expected future cash flows for future claims	**4,931**	**3,143**
Risk margin	**30.0%**	**30.9%**
At probability of sufficiency	**75.0%**	**75.0%**

The liability adequacy test identified a surplus and no write-down of deferred acquisition costs was recognised.

37. EVENTS SUBSEQUENT TO BALANCE DATE

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

Deloitte.

Independent Auditor's Report to the Members of Berkshire Hathaway Specialty Insurance Company – New Zealand Branch

Opinion

We have audited the financial statements of Berkshire Hathaway Specialty Insurance Company - New Zealand Branch (the "Branch") which comprise the statement of financial position as at 31 December 2017, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies as set out on pages 8 to 28.

In our opinion, the accompanying financial statements present fairly, in all material respects, the Branch's financial position as at 31 December 2017 and its financial performance and its cash flows for the year then ended in accordance with New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS) and International Financial Reporting Standards (IFRS).

Basis for Opinion

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

We are independent of the Branch in accordance with the ethical requirements of Professional and Ethical Standard 1 (Revised) *Code of Ethics for Assurance Practitioners* issued by the New Zealand Auditing and Assurance Standards Board (the Code) that are relevant to our audit of the financial statements, and we have fulfilled our other ethical responsibilities in accordance with the Code.

Other than in our capacity as auditor, we have no relationship with or interests in the Branch, except that partners and employees of our firm may deal with the Branch on normal terms within the ordinary course of trading activities of the business of the Branch.

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

Emphasis of Matter – New Zealand Branch

The Branch is part of Berkshire Hathaway Specialty Insurance Company, which is incorporated in the United States of America. As described in Note 1, the assets of the Branch are legally available for the satisfaction of debts of Berkshire Hathaway Specialty Insurance 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.

Other Information

The directors on behalf of the Branch are responsible for the other information. The other information comprises the information included in the directors' report for the year ended 31 December 2017, but does not include the financial statements and our auditor's report thereon.

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

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors for the Financial Statements

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

In preparing the financial statements, the directors are responsible on behalf of the Branch for assessing the ability of the Branch to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intend to liquidate the Branch or to cease operations, or has no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Statements

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

As part of an audit in accordance with ISAs (NZ), we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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 Branch's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Branch's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Branch to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with, the directors' regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Deloitte Touche Tohmatsu
DELOITTE TOUCHE TOHMATSU

Stuart Alexander
Partner
Chartered Accountants
Sydney, 27 April 2018

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Mr Cameron McLisky
Country Manager
Berkshire Hathaway Specialty Insurance Company
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30 April 2018

Berkshire Hathaway Specialty Insurance Company New Zealand Branch – Insurance (Prudential Supervision) Act 2010 Section 78 Appointed Actuary Report

Dear Cameron

Berkshire Hathaway Specialty Insurance Company New Zealand ("BHSI NZ") is the New Zealand branch of Berkshire Hathaway Specialty Insurance Company ("BHSI"). BHSI NZ was granted a license to begin writing insurance business in New Zealand by RBNZ on 29 June 2015.

BHSI NZ has appointed me, Warrick Gard, Ernst & Young to be BHSI NZ's Appointed Actuary as described by the New Zealand Insurance (Prudential Supervision) Act 2010 (the "Act").

As per Section 78 of the New Zealand Insurance (Prudential Supervision) Act 2010, I have reviewed the actuarial information contained in, or used in the preparation of, the financial statements of BHSI NZ as at 31 December 2017. This report (referred to as the "Appointed Actuary's report") documents my review.

Yours sincerely,

Warrick Gard FIAA FNZSA
Partner, Ernst & Young

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Ref.	Requirement of the Appointed Actuary's report, Section 78 of the New Zealand Insurance (Prudential Supervision) Act 2010	Comments
(a)	The actuary's name	Warrick Gard
(b)	The work done by the actuary	The prime responsibility of the Appointed Actuary is to provide advice to the Board of a general insurer on the value of its insurance liabilities and the preparation of the actuarial information contained in its financial statements. In New Zealand, the Appointed Actuary must provide written advice in accordance with the Act and the RBNZ's Solvency Standard for General Insurance Business ("Solvency Standard"). Additionally, the Appointed Actuary must provide written advice to BHSI NZ, giving an impartial assessment of the overall financial condition of the insurer as at 31 December 2017, in accordance with BHSI NZ's licence requirement and the New Zealand Society of Actuary's Professional Standard 31 (PS 31). The RBNZ has exempted BHSI NZ from certain compliance requirements with their Solvency Standard for General Insurance Business. This exemption has been granted subject to various conditions, including obligations of the Appointed Actuary, which have been described in my Financial Condition Report for BHSI NZ. It is ultimately the responsibility of the BHSI Board and BHSI NZ senior management to place an appropriate valuation on BHSI NZ's insurance liabilities, after considering actuarial and other advice. A report has been prepared and a formal recommendation of the value of the insurance liabilities at 31 December 2017 has been completed to assist BHSI NZ in meeting this responsibility, including meeting the conditions set out by the RBNZ.

Ref.	Requirement of the Appointed Actuary's report, Section 78 of the New Zealand Insurance (Prudential Supervision) Act 2010	Comments
(c)	The scope and limitations of the review	The scope of the review includes all insurance liabilities and associated reinsurance recoveries owned by BHSI NZ at 31 December 2017. There were no limitations placed on me in preparing the actuarial information.
(d)	The existence of any relationship (other than that of actuary) that the actuary has with, or any interests that the actuary has in, the licensed insurer or any of its subsidiaries;	I have no relationship with BHSI NZ other than being its Appointed Actuary.
(e)	Whether the actuary has obtained all information and explanations that he or she has required	I can confirm that I have obtained all information and explanations as required

Ref.	Requirement of the Appointed Actuary's report, Section 78 of the New Zealand Insurance (Prudential Supervision) Act 2010	Comments
(f)	Whether, in the actuary's opinion and from an actuarial perspective, (i) the actuarial information contained in the financial statements and any group financial statements has been appropriately included in those statements (and if not, the respects in which it has been inappropriately included); and (ii) the actuarial information used in the preparation of the financial statements and any group financial statements has been used appropriately (and if not, the respects in which it has been used inappropriately); and	In my opinion from an actuarial perspective: ▶ The actuarial information contained in the financial statements of BHSI NZ has been appropriately included in these statements ▶ The actuarial information used in the preparation of the financial statements of BHSI NZ has been used appropriately. I form these conclusions based on the following considerations: 1. A comparison of the liability results of my Insurance Liability Valuation Report for BHSI NZ as at 31 December 2017 with the balance sheet. All insurance liability figures and associated reinsurance recoveries used in the financial statements are sourced from the Insurance Liability Valuation Report 2. The net claims incurred in the income statement is consistent with the movement in net insurance liabilities in the balance sheet and net claim payments in the cash flow statement 3. There are minor inconsistencies in the gross claims expense and reinsurance and other recoveries revenue, however they are minor and offset each other such that the claims incurred on a net basis is consistent. Other minor inconsistencies relate to the split of the gross outstanding claims payable between current and non-current. The inconsistencies on a gross basis are not large enough to misrepresent the financial performance over the year.
(g)	Whether, in the actuary's opinion and from an actuarial perspective, the licensed insurer is maintaining the solvency margin that applies under a condition imposed under section 21(2)(b) (as at the balance date of the insurer); and	In my opinion and from an actuarial perspective, BHSI, as the legal entity covering the business in BHSI NZ is maintaining the solvency margin that applies under a condition imposed under section 21(2) (b) of the Act.

Ref.	Requirement of the Appointed Actuary's report, Section 78 of the New Zealand Insurance (Prudential Supervision) Act 2010	Comments
(h)	In the case of a life insurer, whether, in the actuary's opinion and from an actuarial perspective, the life insurer is maintaining the solvency margins that apply in respect of its statutory funds under a condition imposed undersection 21(2)(c) (as at the balance date of the insurer).	N/A