Berkshire Hathaway
Specialty Insurance

8 July 2019

The Registrar

RE: Certification

Berkshire Hathaway Specialty Insurance Company ("BHSIC") is relying on the *Financial Markets Conduct* (*Berkshire Hathaway Specialty Insurance Company) Exemption Notice 2017* for the 31 December 2018 reporting period.

Signed:
Abbas Choker
New Zealand Chief Financial Officer

Berkshire Hathaway Specialty Insurance Company

Statutory-Basis Financial Statements as of and for the Years Ended December 31, 2018 and 2017, Supplemental Schedules as of and for the Year Ended December 31, 2018, and Independent Auditors' Report

BERKSHIRE HATHAWAY SPECIALTY INSURANCE COMPANY

TABLE OF CONTENTS

Deloitte.

Deloitte & Touche LLP
First National Tower
1601 Dodge Street
Suite 3100
Omaha, NE 68102-1640
USA

Tel: +1 402 346 7788
www.deloitte.com

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Berkshire Hathaway Specialty Insurance Company
Omaha, Nebraska

We have audited the accompanying statutory-basis financial statements of Berkshire Hathaway Specialty Insurance Company (the "Company"), a wholly owned subsidiary of National Indemnity Company, which is a wholly owned subsidiary of Berkshire Hathaway Inc., which comprise the statutory-basis statements of admitted assets, liabilities, and capital and surplus as of December 31, 2018 and 2017, the related statutory-basis statements of operations, changes in capital and surplus, and cash flows for the years then ended, and the related notes to the statutory-basis financial statements.

Management's Responsibility for the Statutory-Basis Financial Statements

Management is responsible for the preparation and fair presentation of these statutory-basis financial statements in accordance with the accounting practices prescribed or permitted by the Insurance Department of the State of Nebraska. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these statutory-basis financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the statutory-basis financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the statutory-basis financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the statutory-basis financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of the statutory-basis 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 Company's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the statutory-basis financial statements.

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

Basis for Adverse Opinion on Accounting Principles Generally Accepted in the United States of America

As described in Note 1 to the statutory-basis financial statements, the statutory-basis financial statements are prepared by the Company using the accounting practices prescribed or permitted by the Insurance Department of the State of Nebraska, which is a basis of accounting other than accounting principles generally accepted in the United States of America, to meet the requirements of the Insurance Department of the State of Nebraska.

The effects on the statutory-basis financial statements of the variances between the statutory-basis of accounting described in Note 1 to the statutory-basis financial statements and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

Adverse Opinion on Accounting Principles Generally Accepted in the United States of America

In our opinion, because of the significance of the matter described in the Basis for Adverse Opinion on Accounting Principles Generally Accepted in the United States of America paragraph, the statutory-basis financial statements referred to above do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the Company as of December 31, 2018 and 2017 or the results of its operations or its cash flows for the years then ended.

Opinion on Statutory-Basis of Accounting

In our opinion, the statutory-basis financial statements referred to above present fairly, in all material respects, the admitted assets, liabilities, and capital and surplus of the Company as of December 31, 2018 and 2017 and the results of its operations and its cash flows for the years then ended in accordance with the accounting practices prescribed or permitted by the Insurance Department of the State of Nebraska as described in Note 1 to the statutory-basis financial statements.

Report on Supplemental Schedules

Our 2018 audit was conducted for the purpose of forming an opinion on the 2018 statutory-basis financial statements as a whole. The summary investment schedule, the supplemental schedule of reinsurance interrogatories, and the supplemental investment risks interrogatories as of and for the year ended December 31, 2018 are presented for purposes of additional analysis and are not a required part of the 2018 statutory-basis financial statements. These schedules are the responsibility of the Company's management and were derived from and relate directly to the underlying accounting and other records used to prepare the statutory-basis financial statements. Such schedules have been subjected to the auditing procedures applied in our audit of the 2018 statutory-basis financial statements and certain additional procedures, including comparing and reconciling such schedules directly to the underlying accounting and other records used to prepare the statutory-basis financial statements or to the statutory-basis financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, such schedules are fairly stated in all material respects in relation to the 2018 statutory-basis financial statements as a whole.

Deloitte + Touche LLP

May 14, 2019

BERKSHIRE HATHAWAY SPECIALTY INSURANCE COMPANY

STATUTORY-BASIS STATEMENTS OF ADMITTED ASSETS, LIABILITIES, AND CAPITAL AND SURPLUS AS OF DECEMBER 31, 2018 AND 2017 (Dollars in thousands, except share amounts)

	2018	2017
ADMITTED ASSETS:		
Bonds	$ 120,388	$ 146,585
Unaffiliated common stocks	1,766,037	2,828,426
Cash, cash equivalents, and short-term investments	2,426,759	1,541,089
Receivables for securities	2	5
Amounts recoverable from reinsurers	100,412	56,473
Funds held by or deposited with reinsured companies	16,578	27,001
Agents' balances or uncollected premiums	301,849	297,141
Accrued investment income	3,687	2,969
Receivables from parent, subsidiaries, and affiliates	8,098	49,234
Current federal and foreign income tax recoverable	1,611	1,479
Other assets	10,544	65
TOTAL	$ 4,755,965	$ 4,950,467
LIABILITIES AND CAPITAL AND SURPLUS:		
LIABILITIES:		
Losses and loss adjustment expenses	$ 567,010	$ 425,318
Retroactive reinsurance reserve ceded	(103,907)	(97,495)
Unearned premiums	241,836	209,114
Ceded reinsurance premiums payable	240,578	218,517
Reinsurance balances payable	25,473	1,067
Funds held under reinsurance treaties	814	851
Provision for reinsurance	839	2,042
Net deferred tax liability	62,075	222,370
Payable to affiliate	175,414	165,368
Current federal and foreign income taxes	12,176	10,395
Other liabilities	53,259	43,282
Total liabilities	1,275,567	1,200,829
Commitments and Contingencies (Note 6 and Note 9)		
CAPITAL AND SURPLUS:		
Common stock, $50 par value; 100,000 shares authorized, issued, and outstanding	5,000	5,000
Surplus:		
Gross paid-in and contributed surplus	3,324,938	3,324,938
Special surplus from retroactive reinsurance account	46,847	34,684
Unassigned surplus (deficit)	103,613	385,016
Total capital and surplus	3,480,398	3,749,638
TOTAL LIABILITIES AND CAPITAL AND SURPLUS	$ 4,755,965	$ 4,950,467

See accompaning notes to statutory-basis financial statements.

BERKSHIRE HATHAWAY SPECIALTY INSURANCE COMPANY

STATUTORY-BASIS STATEMENTS OF OPERATIONS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017
(Dollars in thousands)

	2018	2017
UNDERWRITING:		
Premiums earned net of reinsurance	$ 451,755	$ 307,162
LOSSES AND EXPENSES INCURRED:		
Losses	303,088	225,666
Loss adjustment expenses	43,479	34,103
Underwriting expenses	133,858	93,213
Total losses and expenses incurred	480,425	352,982
Net underwriting income (loss)	(28,670)	(45,820)
INVESTMENT INCOME:		
Net interest and dividends	86,399	70,779
Net realized investment (losses) gains, less tax expense (benefit) of $60,230 and $(8,215) for 2018 and 2017, respectively	68,315	24,622
Net investment income (loss)	154,714	95,401
OTHER INCOME — NET	13,492	1,536
INCOME (LOSS) BEFORE FEDERAL INCOME TAXES	139,536	51,117
FEDERAL AND FOREIGN INCOME TAX EXPENSE	14,175	4,831
NET INCOME (LOSS)	$ 125,361	$ 46,286

See accompanying notes to statutory-basis financial statements.

BERKSHIRE HATHAWAY SPECIALTY INSURANCE COMPANY

STATUTORY-BASIS STATEMENTS OF CHANGES IN CAPITAL AND SURPLUS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017
(Dollars in thousands)

	2018	2017
CAPITAL STOCK - beginning and end of year	$ 5,000	$ 5,000
GROSS PAID-IN AND CONTRIBUTED SURPLUS - beginning and end of year	3,324,938	3,324,938
UNASSIGNED SURPLUS (DEFICIT) AND SPECIAL SURPLUS FROM RETROACTIVE REINSURANCE ACCOUNT:		
Balance at beginning of year	385,016	(26,103)
Balance special surplus from retroactive reinsurance at beginning of year	34,684	33,305
Net income (loss)	125,361	46,286
Change in net deferred income tax, excluding deferred taxes on unrealized investment gains and losses	(1,956)	2,966
Change in net unrealized gains (net of deferred taxes of $(159,557) and $(10,064) in 2018 and 2017, respectively)	(437,299)	359,127
Change in net unrealized foreign exchange capital (loss) gain (net of deferred taxes of $(508) and $2,069 in 2018 and 2017, respectively)	(1,910)	4,249
Change in provision for reinsurance	1,203	2,355
Change in non-admitted assets	45,361	(2,485)
Balance at end of year	150,460	419,700
TOTAL CAPITAL AND SURPLUS	$ 3,480,398	$ 3,749,638

See accompanying notes to statutory-basis financial statements.

BERKSHIRE HATHAWAY SPECIALTY INSURANCE COMPANY

STATUTORY-BASIS STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017
(Dollars in thousands)

	2018	2017
CASH PROVIDED (USED) BY OPERATING ACTIVITIES:		
Premiums collected — net of reinsurance	$ 502,934	$ 306,437
Losses paid	(192,601)	(94,888)
Loss adjustment expenses and underwriting expenses paid	(143,743)	(98,168)
Net investment income received	86,211	70,845
Federal income taxes (paid) received	(72,755)	4,329
Miscellaneous income	11,649	1,536
Net cash provided (used) by operating activities	191,695	190,091
CASH PROVIDED (USED) BY INVESTING ACTIVITIES:		
Proceeds from sales and maturities of investments	924,246	665,784
Purchases of investments	(269,220)	(510,382)
Net cash provided (used) by investing activities	655,026	155,402
CASH PROVIDED (USED) BY FINANCING AND MISCELLANEOUS ACTIVITIES:		
Other	38,949	256,728
Net cash provided (used) by financing and miscellaneous activities	38,949	256,728
NET CHANGE IN CASH, CASH EQUIVALENTS AND SHORT-TERM INVESTMENTS	885,670	602,221
CASH, CASH EQUIVALENTS AND SHORT-TERM INVESTMENTS:		
Beginning of year	1,541,089	938,868
CASH, CASH EQUIVALENTS AND SHORT-TERM INVESTMENTS:		
End of year	$ 2,426,759	$ 1,541,089
Supplemental disclosures of cash flow information for non-cash transactions:		
Common stocks acquired through surrender of preferred stocks and accrued dividend receivable, and exercise of common stock warrant	$ -	$ 32,984
Dissolution of LLC - Realized Loss	34,642	-
Dissolution of LLC - Assets Received in Excess of Liabilities Assumed	6,967	-

See accompanying notes to statutory-basis financial statements.

(Dollars in thousands)

1. NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

Berkshire Hathaway Specialty Insurance Company (the "Company") is a multi-line property and casualty insurance company domiciled in the State of Nebraska. All outstanding shares of the Company are directly owned by National Indemnity Company ("NICO"), an insurance company domiciled in the State of Nebraska. All outstanding shares of NICO are owned by Berkshire Hathaway Inc. ("BHI"), a Delaware corporation.

Prior to 2011, the Company was in run-off having discontinued writing commercial lines of business in 1990 and completed its withdrawal from the personal lines automobile market in 1995. The Company is engaged in the property liability insurance business in the United States, Australia, Dubai, Hong Kong, Labuan, Macau, New Zealand, and Singapore. The table shown below provides further information regarding the licensing of the Company's foreign branch operations:

International Licensing

Branch	License Date	Licensing Body	License Type
Australia	April 22, 2015	Australian Prudential Regulation Authority	General Insurer
Dubai	February 7, 2018	Dubai Financial Services Authority	General Reinsurance
Hong Kong	December 31, 2014	Hong Kong Office of the Commissioner of Insurance	General Insurer
Labuan	December 16, 2016	Labuan Financial Services Authority	General Reinsurance
Macau	September 19, 2016	Monetary Authority of Macau	General Insurer
New Zealand	June 29, 2015	Reserve Bank of New Zealand	General Insurer
Singapore	December 5, 2014	Monetary Authority of Singapore	General Insurer

These branch results are included in the Company's statutory-basis financial statements.

Summary of Significant Accounting Policies

Basis of Reporting
The accompanying statutory-basis financial statements of the Company have been prepared in conformity with the National Association of Insurance Commissioners' ("NAIC") Accounting Practices and Procedures manual subject to any deviations prescribed or permitted by the Insurance Department of the State of Nebraska (the "Insurance Department").

The Company has a retroactive reinsurance agreement with NICO, where the Company cedes asbestos and environmental liabilities to NICO, and all ceded recoverables on ceded losses billed after the inception date of the agreement are covered and reimbursed by NICO. The agreement meets the requirements listed in Statutory Statement of Accounting Principle ("SSAP") No. 62R, *Property and Casualty Reinsurance - Revised,* paragraphs 66(a) through 66(e); therefore, the Company recorded the benefit from the retroactive reinsurance agreement as another allowed offset item in the calculation of the provision for reinsurance and such treatment was approved by the Insurance Department.

Use of Estimates

The preparation of the financial statements in conformity with statutory accounting principles ("SAP") requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the statutory-basis financial statements and the reported amounts of income and expenses during the reporting period. Actual results may differ from those estimates and assumptions. Material estimates susceptible to significant change include liabilities for unpaid losses and loss adjustment expenses ("LAE"), investment valuation, and federal income taxes.

The U.S. Tax Cuts and Jobs Act of 2017 ("TCJA") was enacted on December 22, 2017. In February 2018, the NAIC issued INT 18-01: Updated Tax Estimates under the Tax Cuts and Jobs Act, an Interpretation of the Statutory Accounting Principles (E) Working Group ("SAPWG"), to provide clarification in the reporting and updating of estimates from the effect of implementing the TCJA when reporting entities may not have all of the necessary information available, prepared, or analyzed to fully complete an estimate of certain tax effects under the TCJA. In computing the tax effects under the TCJA at December 31, 2017, management made estimates when certain information was not yet fully available. During 2018, management subsequently finalized its accounting analysis based on guidance, interpretations, and data available. Adjustments were made in the 2018 financial statements upon finalization of the accounting analysis were not material.

Cash, Cash Equivalents, and Short-Term Investments

Cash equivalents, if any, include securities purchased with an original maturity of three months or less and are stated at amortized cost.

Short-term investments include investments whose maturities at the time of acquisition are one year or less, excluding those investments classified as a cash equivalent, and are stated at amortized cost.

Investments

Bonds are carried at the lower of amortized cost or fair value based on their NAIC rating and any adjustments to fair value are reported directly in unassigned surplus. The Company uses the constant yield method to amortize bond premium and discount.

Unaffiliated common stocks, including common stock warrants, are carried at fair value.

The Company owns all outstanding shares of Berkshire Hathaway Global Insurance Services, LLC ("BHGIS, LLC"), which is valued at December 31, 2018 GAAP equity adjusted for unamortized goodwill. Goodwill is amortized under the ten year amortization rule in compliance with SSAP No. 68. BHGIS, LLC is not audited under GAAP, and therefore non-admitted pursuant to SSAP No. 97.

The Company owned all outstanding shares of Berkshire Hathaway Specialty Concierge, LLC ("BHSC, LLC"), which was valued at December 31, 2017 GAAP equity. BHSC, LLC was not audited under GAAP, and therefore non-admitted pursuant to SSAP No. 97. On December 31, 2018, Concierge was legally dissolved. Prior to its dissolution, Concierge conveyed its remaining assets and liabilities to its parent BHSIC in a liquidating distribution. BHSIC recorded a realized capital loss of $34,642 and an offsetting increase in unrealized capital gains and losses in surplus.

Investment gains and losses arise when investments are sold (as determined on a specific identification basis) or are other than temporarily impaired. If, in management's judgment, a decline in the value of an investment other than a loan-backed or structured security below cost is other than temporary, the amortized cost of the investment is written down to fair value with a corresponding charge to earnings. Factors considered in judging whether an impairment is other than temporary include: the financial condition, business prospects, and creditworthiness of the issuer; the opinions of investment managers; the length of time that fair value has been less than cost; the relative significance of the decline; the Company's intent to sell; and the ability and intent to hold the investment until the fair value recovers.

For loan-backed or structured security investments, the Company first assesses whether it intends to sell any loan-backed or structured security in an unrealized loss position. If the determination is made to sell a particular investment in an unrealized loss position, the security's decline in fair value is other than temporary and the amortized cost of the investment is written down to fair value with a corresponding charge to earnings. If management has not made the decision to sell the loan-backed or structured security investment, then an evaluation of whether there is the intent and ability to retain the security for a period of time sufficient to recover amortized cost is required. If management does not have the intent and ability to retain the loan-backed and structured security for the time sufficient to recover the amortized cost basis, an other than temporary impairment ("OTTI") has occurred. If management intends to hold the security, an evaluation of whether the entire amortized cost is expected to be recovered is needed. To determine if the amortized cost will be recovered, the discounted estimated future cash flows are compared to the current book value and if they are less than the current book value, the cost of the loan-backed or structured security is written down to the discounted estimated future cash flows with the write-down as a charge to earnings.

Investment income consists primarily of interest and dividends. Interest is recognized on an accrual basis and dividends are recorded as earned on the ex-dividend date. The Company does not anticipate investment income as a factor in premium deficiency calculations.

Losses and Loss Adjustment Expenses

Unpaid losses and LAE are comprised of 1) amounts directly determined from individual case estimates and loss reports on unsettled claims and 2) amounts determined based on reports from reinsureds, past experience and consideration of the exposure base and assessment of economic and legal trends, for a) loss development of reported unpaid claims and b) losses incurred but not reported ("IBNR"). The Company does not anticipate salvage and subrogation when estimating unpaid losses and LAE. Such liabilities are necessarily based on assumptions and estimates and while management believes the amount is adequate, the ultimate liability may be in excess of or less than the amount provided. The methods for making such estimates and for establishing the resulting liability are continually reviewed and any changes to estimates of ultimate prior period losses are recognized in the period of redetermination.

Revenue Recognition

Premiums are earned pro rata reflecting the underlying exposure. Unearned premium reserves are established to cover the unexpired portion of premiums written. Premiums received in advance of the policy's effective date are recorded as advance premiums and are included in other liabilities.

Expenses incurred in connection with acquiring new insurance business, including such acquisition costs as commissions, are charged to operations as incurred. Expenses incurred are reduced for ceding allowances received or receivable.

Reinsurance
In the normal course of business, the Company seeks to reduce the loss that may arise from events that cause unfavorable underwriting results by reinsuring certain levels of risk with unaffiliated insurers.

Prospective reinsurance premiums, commissions, expense reimbursements, and reserves relating to reinsured business are accounted for on bases consistent with those used in accounting for the original policies issued and the terms of the reinsurance contracts. Premiums ceded to other companies, which are primarily calculated based on direct earned premiums, are reported as a reduction of direct written premiums. Amounts applicable to reinsurance ceded for losses and LAE are reported as a reduction of this item on the statutory-basis statements of operations. Amounts applicable to reinsurance ceding commissions are reported as a reduction of underwriting expenses on the statutory-basis statements of operations.

Gains from retroactive reinsurance contracts are reported as a segregated surplus account and are not reported as earned surplus until the Company has recovered amounts in excess of the consideration paid.

Concentrations
Financial instruments that potentially subject the Company to concentrations of credit risk are primarily cash, cash equivalents and short-term investments, bonds, unaffiliated common stocks, and reinsurance recoverables. Cash equivalents and short-term investments include investments in money market securities and securities backed by the U.S. government. The Company monitors the amount of credit exposure with any one financial institution and believes that no significant concentration of credit risk exists.

The Company has a retroactive reinsurance agreement with its parent, NICO, where the Company cedes asbestos and environmental liabilities to NICO and all ceded recoverables on ceded losses billed after the inception date of the agreement are covered and reimbursed by NICO. The agreement meets the requirements listed in SSAP No. 62R, paragraphs 66 (a) through 66 (e), therefore, the Company recorded the benefit from the retroactive reinsurance agreement as an other allowed offset item in Schedule F, Part 3, as prescribed in SSAP No. 62R, paragraphs 67 and 100 (c), and approved by the Insurance Department as a permitted accounting practice. This accounting practice differs from NAIC statutory accounting practices and procedures and the result is an increase of $5,839 and $7,160 for December 31, 2018 and 2017, respectively, to surplus when compared to NAIC standards.

The Company's balance of reinsurance recoverable on paid and unpaid losses at December 31, 2018 and 2017 was $1,395,342 (97.7%) and $1,045,101 (97.8%), respectively, from affiliated companies, specifically NICO.

Fair Value of Financial Instruments
Fair values of financial instruments have been determined by the Company using available market information and valuation methodologies. However, judgment is necessarily required in interpreting market data to develop the estimates of fair value. Accordingly, the estimates presented herein are not necessarily indicative of the amounts that the Company could realize in a current market exchange. The use of different valuation methodologies or market assumptions may have an effect on the fair value amounts presented.

The following methods and assumptions were used by the Company in estimating its fair value disclosures for statutory-basis financial instruments:

Bonds and Short-Term Investments — For publicly traded bonds, the fair value is based upon observable market quotations or observable market data or are derived from such quotations and observable market data. For non-publicly traded bonds, fair value is based on inputs, including quoted market prices for identical or similar assets in markets that are active or not active or non-binding broker quotes and models that are widely accepted in the financial services industry and that use internally assigned credit ratings as inputs and instrument-specific inputs. Instrument-specific inputs used in internal fair value determinations include coupon rate, coupon type, weighted average life, sector of the issuer, and call provisions.

Unaffiliated Common Stocks — The fair values for unaffiliated common stocks, including common stock warrants, are based on quotations from independent pricing services, applicable stock exchanges or received from other reliable sources when available, or on valuation models, including discounted cash flow models, or other valuation techniques that are believed to be used by market participants.

SAP vs. GAAP

Accounting practices and procedures of the SAP as prescribed or permitted by the Insurance Department comprise a comprehensive basis of accounting other than GAAP. The more significant differences are as follows:

(a) Investments in bonds are generally carried at amortized cost; while under GAAP, they are carried at either amortized cost or estimated fair value based on their classification according to the Company's ability and intent to hold or trade securities;

(b) SAP requires unrealized gains and losses on investments in equity securities to be recorded directly to surplus, while under GAAP such unrealized gains and losses are included in earnings beginning January 1, 2018, and in accumulated other comprehensive income prior to that date;

(c) Acquisition costs, such as commissions and other costs related to acquiring new business, are expensed as incurred; while under GAAP, they may be deferred when attributable to the successful acquisition of new or renewal business and are subject to recoverability and are amortized to income as premiums are earned;

(d) SAP requires a provision for deferred taxes based upon the temporary differences between SAP and tax bases of certain assets and liabilities. Under SAP, there are limitations as to the amount of deferred tax assets that may be reported as "admitted assets." All deferred taxes are charged (or credited) directly to unassigned surplus; whereas certain elements of GAAP deferred taxes are included in net income. A federal income tax provision is required on a current basis only for the statutory-basis statement of operations. Under GAAP, deferred taxes are provided on temporary differences between the GAAP and tax bases of assets and liabilities, including amounts related to unrealized investment gains, net of a valuation allowance, if required;

(e) Assets are reported under SAP at "admitted asset" value and "non-admitted assets" are excluded through a charge against unassigned surplus; while under GAAP, "non-admitted assets" are reinstated to the balance sheet, net of any valuation allowance;

(f) The change in provision for reinsurance is charged, or credited, directly through unassigned surplus under SAP; while this provision is not recognized for GAAP purposes;

(g) Certain items in the statutory-basis statements of admitted assets, liabilities, and capital and surplus under SAP are reported net of reinsurance; while under GAAP, the balance sheet reports reinsurance recoverables, including amounts related to losses, IBNR, and pre-paid reinsurance premiums, as assets;

(h) Under SAP, comprehensive income and its components are not presented in the statutory-basis financial statements;

(i) Under SAP, if the Company has the intent to sell an impaired security or the Company does not have the intent and ability to retain the investment for a period of time sufficient to recover the amortized cost basis, the cost basis of the security is typically written down to fair value. If the Company does not have the intent to sell and it is determined that a decline in fair value is other than temporary, the cost basis of the security is written down to the discounted estimated future cash flows. Under GAAP, if the Company has the intent to sell or will more likely than not be required to sell before recovery of its cost basis of a fixed maturity security, the cost basis must typically be written down to fair value. If the Company does not have the intent to sell and it is not more likely than not to be required to sell before recovery of its cost basis, the cost basis must be written down to the discounted estimated future cash follows with the remaining unrealized loss, if applicable, recognized in other comprehensive income;

(j) Under SAP, the estimated liabilities and claim costs in excess of the consideration paid ("gains") with respect to ceded retroactive property and casualty reinsurance contracts that provide for indemnification of insurance risk are expensed at the inception of such contracts; while under GAAP, the Company defers these gains and subsequently amortizes them using the interest method over the expected claim settlement periods;

(k) Under SAP, cash, cash equivalents, and short-term investments represent cash balances and investments with initial maturities of one year or less. Under GAAP, cash and cash equivalents balances include investments with initial maturities of three months or less and short-term investments are reported as a component of fixed maturity balances;

(l) Specific to the gain on the exercise of the Bank of America Corporation warrants discussed below in Note 2, under SAP, the exercise of the warrants resulted in a reciprocal non-monetary transaction with commercial substance. Therefore, the gain is recognized in realized capital gains on the statutory-basis statement of operations. Under GAAP in 2017, the gain on the exercise of the warrants is included in accumulated other comprehensive income as unrealized investment gains on the balance sheet. In 2018, due to an adopted change in GAAP accounting guidance, there is no longer a balance sheet difference between SAP and GAAP. The 2017 gain related to the Bank of America Corporation non-cumulative perpetual preferred stock discussed below in Note 2 is recognized as realized capital gains under both SAP and GAAP.

Accounting Pronouncements

There were no new accounting pronouncements adopted by the NAIC during 2018 or 2017 that had a material effect on the Company's statutory-basis financial statements.

2. INVESTMENTS

The carrying value, cost or amortized cost, gross unrealized gains, gross unrealized losses, and fair value of the Company's bonds, perpetual preferred stock and other invested assets were as follows:

At December 31, 2018	Carrying Value	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Bonds:					
U.S. government	$ 7,014	$ 7,014	$ 31	$ (21)	$ 7,024
All other governments	111,133	113,615	-	(2,594)	111,021
U.S. states, territories, and possessions	923	923	16	-	939
Industrial and miscellaneous	1,000	1,001	17	-	1,018
Mortgage-backed securities	318	318	5	(2)	321
Total bonds	$ 120,388	$ 122,871	$ 69	$ (2,617)	$ 120,323
Other Invested Assets:					
Investments in limited liability companies (Note 1)	$ -	$ 13,728	$ -	$ -	$ 13,728
At December 31, 2017					
Bonds:					
U.S. government	$ 5,651	$ 5,651	$ -	$ (23)	$ 5,628
All other governments	135,625	134,666	1,329	(506)	135,489
U.S. states, territories, and possessions	1,528	1,528	57	-	1,585
Industrial and miscellaneous	3,137	3,137	122	-	3,259
Mortgage-backed securities	644	644	31	(2)	673
Total bonds	$ 146,585	$ 145,626	$ 1,539	$ (531)	$ 146,634
Other Invested Assets:					
Investments in limited liability companies (Note 1)	$ -	$ 58,391	$ -	$ -	$ 58,391

At December 31, 2018 and 2017, the Company held no bonds with NAIC designations of 3 to 6.

The carrying value, cost, and fair value of the Company's unaffiliated common stocks were as follows:

At December 31, 2018	**Carrying Value**	**Cost**	**Fair Value**
Unaffiliated Common Stocks:			
Apple Inc	$ 217,839	$ 152,967	$ 217,839
Bank of America Corp	159,889	182,991	159,889
Bank of New York Mellon	510,192	499,998	510,191
Goldman Sachs Group, Inc.	317,395	335,255	317,395
Phillips 66	95,477	84,248	95,478
US Bancorp	418,230	370,824	418,230
Wells Fargo & Company	47,015	46,464	47,015
Total unaffiliated common stocks	$ 1,766,037	$ 1,672,747	$ 1,766,037
At December 31, 2017			
Unaffiliated Common Stocks:			
Apple Inc	$ 233,707	$ 152,967	$ 233,707
Bank of America Corp	41,328	32,984	41,328
Bank of New York Mellon	583,788	499,998	583,788
Goldman Sachs Group, Inc.	484,044	335,255	484,044
Phillips 66	132,911	100,015	132,911
US Bancorp	490,344	370,824	490,344
Wells Fargo & Company	862,304	647,261	862,304
Total unaffiliated common stocks	$ 2,828,426	$ 2,139,304	$ 2,828,426

The Company's investment securities restricted or pledged as collateral were as follows:

	December 31, 2018					
	Gross Restricted				Percentage	
	Total Current Year	Total Prior Year	Increase/ (Decrease)	Total Current Year Admitted Restricted	Gross Restricted to Total Assets	Admitted Restricted to Total Admitted Assets
Restricted Asset Category:						
On deposit with states	$ 6,410	$ 6,549	$ (139)	$ 6,410	0.1%	0.1%
On deposit with other regulatory bodies	4,387	-	4,387	4,387	0.1%	0.1%
Total restricted assets	$ 10,797	$ 6,549	$ 4,248	$ 10,797	0.2%	0.2%

	December 31, 2017					
	Gross Restricted				Percentage	
	Total Current Year	Total Prior Year	Increase/ (Decrease)	Total Current Year Admitted Restricted	Gross Restricted to Total Assets	Admitted Restricted to Total Admitted Assets
Restricted Asset Category:						
Letter stock or securities restricted as to sale	$ -	$ 39,781	$ (39,781)	$ -	0.0%	0.0%
On deposit with states	6,549	6,675	(126)	6,549	0.1%	0.1%
On deposit with other regulatory bodies	-	-	-	-	0.0%	0.0%
Total restricted assets	$ 6,549	$ 46,456	$ (39,907)	$ 6,549	0.1%	0.1%

The cost or amortized cost and fair value of bonds at December 31, 2018, by contractual maturity, are shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Cost or Amortized Cost	Fair Value
Maturity:		
Due in one year or less	$ 117,131	$ 114,547
After one year through five years	5,422	5,454
After five years through ten years	-	-
After ten years	-	-
Mortgage backed securities	318	321
Total	$ 122,871	$ 120,322

Proceeds from the sale of bonds in 2018 totaled $144,054, resulting in a foreign exchange gain of $2,594, realized gain of $10, and total gain of $2,604. Proceeds from the sale of bonds in 2017 totaled $42,156, resulting in a foreign exchange gain of $0, realized gain of $95, and total gain of $95.

In August 2017, the Company exercised all of its Bank of America (“BAC”) warrants. The Company surrendered all of its BAC preferred as payment of the $10,000 cost to exercise the BAC warrants and acquire BAC common stock at $7.142857 per share. The Company recognized statutory realized capital gains of $20,984 and $2,000 on the exercise of the BAC warrants and surrender of the BAC preferred, respectively. These realized capital gains are deferred for federal income tax purposes until BAC common stock shares are disposed.

Proceeds from the sale of common stocks in 2018 totaled $777,138, resulting in a realized gain (loss) of $160,574. Proceeds from the sale of stocks in 2017, including the BAC warrants disclosed above, totaled $646,861, resulting in a realized gain (loss) of $14,562.

The following table shows the gross unrealized losses and fair values aggregated by investment category and length of time that bonds and common stocks have been in a continuous unrealized loss position at December 31, 2018 and 2017:

	December 31, 2018					
	Less than 12 months		12 months or more		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Description of Securities:						
Bonds:						
U.S. governement	$ 122	$ -	$ 1,976	$ (21)	$ 2,098	$ (21)
All other governments	111,020	(2,594)	-	-	111,020	(2,594)
Mortgage backed securities	-	-	152	(2)	152	(2)
Subtotal	111,142	(2,594)	2,128	(23)	113,270	(2,617)
Stocks:						
Unaffiliated common stocks	550,547	(42,587)	-	-	550,547	(42,587)
Subtotal	550,547	(42,587)	-	-	550,547	(42,587)
Total temporarily impaired securities	$ 661,689	$ (45,181)	$ 2,128	$ (23)	$ 663,817	$ (45,204)

	December 31, 2017					
	Less than 12 months		12 months or more		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Description of Securities:						
Bonds:						
U.S. governement	$ 4,978	$ (20)	$ 650	$ (3)	$ 5,628	$ (23)
All other governments	44,833	(324)	90,657	(182)	135,490	(506)
Mortgage backed securities	-	-	157	(2)	157	(2)
Subtotal	49,811	(344)	91,464	(187)	141,275	(531)
Stocks:						
Unaffiliated common stocks	-	-	-	-	-	-
Subtotal	-	-	-	-	-	-
Total temporarily impaired securities	$ 49,811	$ (344)	$ 91,464	$ (187)	$ 141,275	$ (531)

The Company has not pledged any of its assets as collateral for repurchase agreements.

The Company regularly reviews its investment portfolio for factors that may indicate that a decline in fair value of an investment is other than temporary. Based on an evaluation, the Company had concluded that the declines in the fair values of the Company's investments for the years ended December 31, 2018 and 2017 were temporary.

3. INCOME TAXES

The components of the Company's net deferred tax assets (liabilities) are as follows as of December 31:

	2018		
	Ordinary	**Capital**	**Total**
Gross deferred tax assets	$ 27,196	$ 294	$ 27,490
Statutory valuation allowance adjustment	-	-	-
Adjusted gross deferred tax assets	27,196	294	27,490
Deferred tax liabilities	903	88,662	89,565
Subtotal net deferred tax assets (liabilities)	26,293	(88,368)	(62,075)
Deferred tax assets non-admitted	-	-	-
Net admitted deferred tax assets (liabilities)	$ 26,293	$ (88,368)	$ (62,075)

	2017		
	Ordinary	**Capital**	**Total**
Gross deferred tax assets	$ 23,796	$ -	$ 23,796
Statutory valuation allowance adjustment	-	-	-
Adjusted gross deferred tax assets	23,796	-	23,796
Deferred tax liabilities	1,434	244,732	246,166
Subtotal net deferred tax assets (liabilities)	22,362	(244,732)	(222,370)
Deferred tax assets non-admitted	-	-	-
Net admitted deferred tax assets (liabilities)	$ 22,362	$ (244,732)	$ (222,370)

The amount of admitted adjusted gross deferred tax assets under each component of Statements of Statutory Accounting Principles ("SSAP") No. 101, *Income Taxes, A Replacement of SSAP No. 10R and SSAP No. 10,* is as follows as of December 31:

	2018		
	Ordinary	**Capital**	**Total**
Admission calculation components:			
a. Federal income taxes paid in prior years recoverable through loss carrybacks	$ -	$ -	$ -
b. Adjusted gross deferred tax assets expected to be realized (excluding the amount of deferred tax assets from (a) above) after application of the threshold limitation			
1. Adjusted gross deferred tax assets expected to be realized following the balance sheet date	-	-	-
2. Adjusted gross deferred tax assets allowed per limitation threshold	XXX	XXX	522,060
c. Adjusted gross deferred tax assets (excluding the amount of deferred tax assets from above) offset by gross deferred tax liabilities	27,196	294	27,490
d. Total deferred tax assets admitted	$ 27,196	$ 294	$ 27,490
Ratio percentage used to determine recovery period and threshold limitation amount			1022%
Amount of adjusted capital and surplus used to determine recovery period and threshold limitation amount			$ 3,480,398

	2017		
	Ordinary	**Capital**	**Total**
Admission calculation components:			
a. Federal income taxes paid in prior years recoverable through loss carrybacks	$ -	$ -	$ -
b. Adjusted gross deferred tax assets expected to be realized (excluding the amount of deferred tax assets from (a) above) after application of the threshold limitation			
1. Adjusted gross deferred tax assets expected to be realized following the balance sheet date	-	-	-
2. Adjusted gross deferred tax assets allowed per limitation threshold	XXX	XXX	562,446
c. Adjusted gross deferred tax assets (excluding the amount of deferred tax assets from above) offset by gross deferred tax liabilities	23,796	-	23,796
d. Total deferred tax assets admitted	$ 23,796	$ -	$ 23,796
Ratio percentage used to determine recovery period and threshold limitation amount			852%
Amount of adjusted capital and surplus used to determine recovery period and threshold limitation amount			$ 3,749,638

	2018		
	Ordinary	Capital	Total
Impact of Tax Planning Strategies:			
Adjusted gross deferred tax assets	0.00%	0.00%	0.00%
Net admitted adjusted gross deferred tax assets	0.00%	0.00%	0.00%

	2017		
	Ordinary	Capital	Total
Impact of Tax Planning Strategies:			
Adjusted gross deferred tax assets	0.00%	0.00%	0.00%
Net admitted adjusted gross deferred tax assets	0.00%	0.00%	0.00%

The Company’s tax planning strategies did not include the use of reinsurance.

The Company does not carry any deferred tax assets or deferred tax liabilities on unrealized gains or losses related to investments in affiliates. There are no temporary differences for which a deferred tax liability has not been established.

Current income taxes consist of the following major components as of December 31:

	2018	2017
Federal	$ 13,535	$ 3,615
Foreign	640	1,216
Subtotal	14,175	4,831
Federal income tax on net capital gains (losses)	60,230	(8,215)
Federal and foreign income taxes incurred	$ 74,405	$ (3,384)

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities are as follows as of December 31:

	2018	2017	Change
Deferred Tax Assets:			
Ordinary:			
Discounting of unpaid losses	$ 4,698	$ 3,372	$ 1,326
Unearned premium reserve	10,098	8,467	1,631
Deferred acquisition costs	1,047	-	1,047
Fixed assets	3,169	3,369	(200)
Compensation and benefits accrual	4,420	3,270	1,150
Non-admitted assets	1,427	-	1,427
Net operating loss carryforward	1,942	3,516	(1,574)
Other	395	1,802	(1,407)
Subtotal	27,196	23,796	3,400
Statutory valuation allowance adjustment	-	-	-
Non-admitted	-	-	-
Admitted ordinary deferred tax assets	27,196	23,796	3,400
Capital:			
Investments	294	-	294
Subtotal	294	-	294
Statutory valuation allowance adjustment	-	-	-
Non-admitted	-	-	-
Admitted capital deferred tax assets	294	-	294
Total Admitted deferred tax assets	$ 27,490	$ 23,796	$ 3,694

	2018	2017	Change
Deferred Tax Liabilities:			
Ordinary:			
Accrued dividends	$ 444	$ 360	$ 84
Amounts recoverable from reinsurers	459	457	2
Ceded retroactive reinsurance	-	617	(617)
Subtotal	903	1,434	(531)
Capital:			
Investments	88,662	244,732	(156,070)
Subtotal	88,662	244,732	(156,070)
Deferred tax liabilities	$ 89,565	$ 246,166	$ (156,601)

	2017	2016	Change
Deferred Tax Assets:			
Ordinary:			
Discounting of unpaid losses	$ 3,372	$ 3,024	$ 348
Unearned premium reserve	8,467	11,108	(2,641)
Fixed assets	3,369	2,588	781
Compensation and benefits accrual	3,270	4,923	(1,653)
Non-admitted assets	-	8,754	(8,754)
Net operating loss carryforward	3,516	-	3,516
Other	1,802	140	1,662
Subtotal	23,796	30,537	(6,741)
Statutory valuation allowance adjustment	-	-	-
Non-admitted	-	-	-
Admitted ordinary deferred tax assets	23,796	30,537	(6,741)
Capital:			
Investments	-	1,855	(1,855)
Subtotal	-	1,855	(1,855)
Statutory valuation allowance adjustment	-	-	-
Non-admitted	-	-	-
Admitted capital deferred tax assets	-	1,855	(1,855)
Admitted deferred tax assets	$ 23,796	$ 32,392	$ (8,596)

	2017	2016	Change
Deferred Tax Liabilities:			
Ordinary:			
Accrued dividends	$ 360	$ 384	$ (24)
Amounts recoverable from reinsurers	457	762	(305)
Ceded retroactive reinsurance	617	999	(382)
Subtotal	1,434	2,145	(711)
Capital:			
Investments	244,732	263,578	(18,846)
Subtotal	244,732	263,578	(18,846)
Deferred tax liabilities	$ 246,166	$ 265,723	$ (19,557)

The adjustment to deferred tax assets and liabilities for the effect of enacted changes in U.S. federal tax laws or rates during 2017 included in the amounts disclosed above is a reduction of $148,035 in the net deferred tax liability at December 31, 2017.

	2018	2017	Change
Total deferred tax assets	$ 25,304	$ 23,796	$ 1,508
Total deferred tax liabilities	89,565	246,166	(156,601)
Net deferred tax liabilities	$ (64,261)	$ (222,370)	158,109
Tax effect of unrealized gains (losses)			(160,065)
Net deferred taxes from dissolution of subsidiary			2,186
Change in net deferred income tax			$ 230

	2017	2016	Change
Total deferred tax assets	$ 23,796	$ 32,392	$ (8,596)
Total deferred tax liabilities	246,166	265,723	(19,557)
Net deferred tax liabilities	$ (222,370)	$ (233,331)	10,961
Tax effect of unrealized gains (losses)			(7,995)
Change in net deferred income tax			$ 2,966

The provision for federal income taxes incurred is different from that which would be obtained by applying the statutory-basis federal income tax rate to income before taxes. The significant items causing this difference are as follows:

	December 31, 2018		December 31, 2017	
	Tax Effect	Effective Tax Rate	Tax Effect	Effective Tax Rate
Income before taxes	$ 41,951	21.0 %	$ 15,016	35.0 %
Dividends received deduction	(5,740)	(2.9)	(14,168)	(33.0)
Accrued dividends	34	0.0	(7)	0.0
Proration	1,435	0.7	2,125	5.0
Change in nonadmitted assets	147	0.1	2,763	6.4
Sale of contributed stock	34,432	17.2	(5,913)	(13.8)
Realized loss on LLC dissolution	7,275	3.6	-	0.0
Foreign tax credit	(640)	(0.3)	(1,216)	(2.8)
Foreign taxes	640	0.3	1,216	2.8
Effect of enacted changes in tax laws or rate	-	0.0	(9,810)	(22.9)
Other	(3,174)	(1.5)	3,644	8.5
Total	$ 76,360	38.2 %	$ (6,350)	(14.8)%
Federal income taxes incurred	$ 14,175	7.1 %	$ 4,831	11.3 %
Tax on capital gains (losses)	60,230	30.2	(8,215)	(19.2)
Change in net deferred income taxes	1,956	0.9	(2,966)	(6.9)
Total statutory income taxes	$ 76,361	38.2 %	$ (6,350)	(14.8)%

At December 31, 2018 and 2017, the Company had no net operating loss, capital loss, or tax carryforwards to offset against future U.S. taxable income and at December 31, 2018, had approximately $6,050 unused non-capital loss carryforwards available to offset against future taxable income in foreign jurisdictions. The foreign non-capital loss carryforwards expire ranging from 2019 to being available indefinitely.

The following is income tax expense for 2018 and 2017 that is available for recoupment in the event of future losses:

Year	Total
2018	$ 73,936
2017	-
Total	$ 73,936

The Company did not have any protective tax deposits under Section 6603 of the Internal Revenue Code, no repatriation tax liability, and no Alternative Minimum Tax credit refunds as of December 31, 2018.

The Company joins with a group of approximately 800 affiliated companies in the filing of a consolidated federal income tax return by BHI, common parent company of the group. The consolidated tax liability is allocated among affiliates in the ratio that each affiliate's separate return tax liability bears to the sum of the separate return tax liabilities of all affiliates that are members of the consolidated group. In addition, a complementary method is used which results in reimbursement by profitable affiliates to loss affiliates for tax benefits generated by loss affiliates. In the event this Company incurs a net operating loss in a future year in which the group reports consolidated taxable income, this Company will be entitled to reimbursement (from other profitable members of the group) for the income tax benefits attributable to the loss. All federal income taxes allocated to this Company for the current and preceding year may be recoverable in the event future net operating losses are reported for both this Company and on a consolidated basis, depending upon the magnitude of such losses.

The Company generally classifies all interest and penalties related to tax contingencies as a component of income tax expense. As of December 31, 2018, there were no accruals for interest and penalties recorded as an income tax liability on the statutory-basis statement of admitted assets, liabilities, and capital and surplus, nor recognized as income tax incurred on the statutory-basis statement of operations.

As of December 31, 2018, there were no positions for which management believes it is reasonably possible that the total amounts of tax contingencies will significantly increase or decrease within 12 months of the reporting date. Certain tax returns in which the Company is included are under examination by the taxing authorities in the respective jurisdictions. The Company has settled income tax liabilities with U.S. federal taxing authorities for years through 2011. The Internal Revenue Service ("IRS") continues to audit BHI's consolidated U.S. federal income tax returns for the 2012 and 2013 tax years.

4. INFORMATION CONCERNING PARENT, SUBSIDIARIES, AND AFFILIATES

On December 27, 2013, the Company received a gross capital contribution from its parent, NICO, of $3,253,971, consisting of unaffiliated common stock shares. The Company assumed the net deferred tax liability of $233,867 related to the net unrealized gains associated with the common stock shares as of the date of the contribution. Therefore, the net increase to policyholders' surplus due to the contribution was $3,020,104. Since the contribution, the Company sold a portion of the common stock shares contributed by NICO, resulting in a decrease to the net deferred tax liability assumed as part of the contribution. As of December 31, 2017, the remaining deferred tax liability assumed as part of the contribution was $90,185, which included a reduction of $60,123 due to the 2017 change in U.S. tax laws. As of December 31, 2018, the remaining deferred tax liability assumed as part of the contribution was $65,394.

The Company held a junior subordinated debenture dated November 12, 2014 ("Debenture") issued by an affiliate, Berkshire Hathaway Energy Company ("BHEC"), with an aggregate cost and principal amount of $12,587 at December 31, 2016. During 2017, BHEC redeemed the remaining $12,587 of the Debenture and the Company reported no cost or principal amount for the Debenture at December 31, 2018 or 2017.

The Company has an investment services agreement with NICO, where NICO is appointed as investment manager, subject at all times to the investment policy approved by the Company's Board of Directors and such other direction given by the Board of the Company.

The Company has an inter-company service agreement with NICO, where NICO may perform certain administrative and special services to the Company and makes available to the Company certain property, equipment, and facilities for a fee as specified in the agreement.

The Company has a management agreement with NICO, which is designed to allocate a proportionate share of operating expenses to affiliated companies effective September 9, 2010. The amount due to (from) NICO by the Company totaled $1,116 and $(24,047) at December 31, 2018 and December 31, 2017, respectively. The agreement has received approval of the parties' state of domicile. The terms require that amounts related to these agreements be settled within 60 days.

The Company has an inter-company service agreement with National Liability & Fire Insurance Company ("NL&F"), where NL&F may provide certain administrative and special services to the Company and makes available to the Company certain property, equipment, and facilities for a fee as specified in the agreement. The agreement has received approval of the parties' state of domicile. The terms require that amounts related to these agreements be settled within 60 days. All amounts per agreement were immaterial.

The Company has a management agreement with NL&F, which is designed to allocate a proportionate share of operating expenses to affiliated companies. The agreement has received approval of the parties' state of domicile. The terms require that amounts related to these agreements be settled within 60 days. All amounts per agreement were immaterial.

The Company has an inter-company service agreement with National Fire & Marine Insurance Company ("NF&M"), where BHSIC may perform certain underwriting, advisory, and claims services for NF&M in connection with its insurance business. The agreement has received approval of the parties' state of domicile. The terms require that amounts related to these agreements, including service costs and amounts collected on behalf of NF&M, be settled within 45 days of each calendar quarter. The amount due to NFM by the Company totaled $173,115 and $140,521 at December 31, 2018 and December 31, 2017, respectively.

The Company and BHI have an agreement for BHI to provide certain investment management services to the Company. The agreement has been reported to the Insurance Department and received deemed approval. All amounts per agreement were immaterial.

The Company and General Reinsurance Corporation ("GRC") entered into an agreement for GRC to provide certain internal audit services to the Company. The agreement has been reported to the Insurance Department and received deemed approval. All amounts per agreement were immaterial.

The Company has an agreement with its affiliates, Berkshire Hathaway International Insurance Limited ("BHIIL") and Resolute Management Limited ("RML"), where the Company may provide various administrative and special services to BHIIL and RML. The agreement has been reported to the Insurance Department and received deemed approval. All amounts per agreement were immaterial

5. CAPITAL AND SURPLUS AND DIVIDEND RESTRICTIONS

The maximum amount of dividends which can be paid by the Company to its parent without prior approval from the Nebraska Insurance Director is subject to statutory-basis restriction. The maximum dividend which can be made without prior approval is limited to the greater of (a) 10% of capital and surplus at December 31, 2018 or (b) 2018 net income, excluding realized investment gains, net of taxes, plus allowable dividends not previously paid during the immediately preceding two years, provided that any ordinary dividends must be paid from earned surplus excluding unrealized gains. The maximum dividend payout that may be made in 2019 without prior approval is $31,876.

The portion of unassigned surplus represented by each item below at December 31 is as follows:

	2018	2017
Non-admitted assets	$ (30,247)	$ (75,608)
Provision for reinsurance	(839)	(2,042)
Unrealized gains, net of DTL, of $47,567 and $207,124 in 2018 and 2017, respectively	44,641	481,940
Unrealized foreign exchange net of DTL (DTA), of ($294) and $214 in 2018 and 2017, respectively	(1,106)	804

6. COMMITMENTS AND CONTINGENCIES

The Company is contingently liable for certain annuities purchased from life insurance companies in connection with structured claim settlements.

Any other contingent liabilities arising from litigation, income taxes, and other matters are not considered material in relation to the statutory-basis financial statements of the Company at December 31, 2018 or 2017.

7. FAIR VALUE MEASUREMENTS

Included in various investment-related line items in the statutory-basis financial statements are certain financial instruments carried at fair value. Other financial instruments are periodically carried at fair value, such as when impaired, or, for certain bonds and preferred stock, when carried at the lower of cost or fair value. The carrying values of cash and cash equivalents are considered to be reasonable estimates of their fair values.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants as of the measurement date. Fair value measurements assume the asset or liability is exchanged in an orderly manner; the exchange is in the principal market for that asset or liability (or in the most advantageous market when no principal market exists); and the market participants are independent, knowledgeable, able, and willing to transact an exchange.

Fair values for substantially all of the Company's financial instruments were measured using market or income approaches. Considerable judgment may be required in interpreting market data used to develop the estimates of fair value. Accordingly, the estimates presented herein are not necessarily indicative of the amounts that could be realized in an actual current market exchange. The use of different market assumptions and/or estimation methodologies may have a material effect on the estimated fair value.

The fair value measurement of the Company's financial assets carried has been classified, for disclosure purposes, based on a hierarchy defined by SSAP No. 100, *Fair Value Measurements*. The hierarchy consists of three levels, ranging from the category deemed to be most reliable to a category where fair value is measured using significant unobservable inputs because of the lack of observable market prices for the instruments, or Levels 1 through 3, respectively. A further description of the inputs used in the valuation of assets under the three levels is as follows:

Level 1 – Inputs represent unadjusted quoted prices for identical assets exchanged in active markets. Substantially all of the Company's equity investments in unaffiliated entities are traded on an exchange in active markets and fair value is based on the closing price as of the balance sheet date.

Level 2 – Inputs include directly or indirectly observable inputs other than Level 1 inputs, such as quoted prices for similar assets exchanged in active or inactive markets; quoted prices for identical assets exchanged in inactive markets; other inputs that are considered in fair value determinations of the assets, such as interest rates and yield curves that are observable at commonly quoted intervals, volatilities, pre-payment speeds, loss severities, credit risks, and default rates; and inputs that are derived principally from or corroborated by observable market data by correlation or other means. Fair values for the Company's investments in bonds are primarily based on market prices and market data available for instruments with similar characteristics since active markets are not common for many instruments. Pricing evaluations are based on yield curves for instruments with similar characteristics, such as credit rating, estimated duration, and yields for other instruments of the issuer or entities in the same industry sector.

Level 3 – Inputs include unobservable inputs used in the measurement of assets. Management is required to use its own assumptions regarding unobservable inputs because there is little, if any, market activity in the assets or related observable inputs that can be corroborated at the measurement date. Fair value measurements of certain investments are based primarily on valuation models, discounted cash flow models, or other valuation techniques that are believed to be used by market participants. Unobservable inputs require management to make certain projections and assumptions about the information that would be used by market participants in pricing assets.

The following tables provide information as of December 31, 2018 and 2017 about the Company's financial assets measured and reported at fair value.

	December 31, 2018			
	Level 1	Level 2	Level 3	Total
Assets at Fair Value:				
Unaffiliated common stocks:				
Industrial & miscellaneous	$ 1,766,037	$ -	$ -	$ 1,766,037
Total unaffiliated common stocks	1,766,037	-	-	1,766,037
Total assets at fair value	$ 1,766,037	$ -	$ -	$ 1,766,037

	December 31, 2017			
	Level 1	Level 2	Level 3	Total
Assets at Fair Value:				
Unaffiliated common stocks:				
Industrial & miscellaneous	$ 2,828,426	$ -	$ -	$ 2,828,426
Total unaffiliated common stocks	2,828,426	-	-	2,828,426
Total assets at fair value	$ 2,828,426	$ -	$ -	$ 2,828,426

At the end of each reporting period, the Company evaluates whether or not any event has occurred or circumstances have changed that would cause an instrument to be transferred between Levels 1 and 2. This policy also applies to transfers into or out of Level 3. Gains and losses in income, if any, only reflect activity for the period an instrument was classified in Level 3.

As disclosed in Note 2, the Company exercised all of its BAC warrants. The Company surrendered all of its BAC preferred as payment of the cost to exercise the BAC warrants. The valuation of BAC warrants were transferred from Level 3 to Level 2 measurements as of June 30, 2017.

There were no financial instruments measured or carried at fair value for which the Company used significant unobservable inputs (Level 3) at December 31, 2018 or 2017.

The Company has no financial liabilities carried at fair value as of December 31, 2018 or 2017. There were no other transfers of assets carried at fair value into or out of Levels 1, 2 or 3 during 2018 or 2017.

The following table summarize changes to financial instruments for the year ended December 31, 2017 carried at fair value for which the Company used significant unobservable inputs (Level 3) to determine fair value measurements:

	Balance at 1/1/2017	Transfers Into Level 3	Transfers Out of Level 3	2017 Total Gains / (Losses) Included in Net Income	Total Gains / (Losses) Included in Surplus	Purchases / (Sales)	Balance at 12/31/2017
Common Stock							
Warrants:							
Industrial and miscellaneous	$ 19,194	$ -	$ (23,964)	$ -	$ 4,770	$ -	$ -
Total	$ 19,194	$ -	$ (23,964)	$ -	$ 4,770	$ -	$ -

The Company classifies certain newly issued, privately-placed, complex, or illiquid securities in Level 3. Fair values for the fixed maturity and equity securities classified in Level 3 are derived principally using inputs described above. Gains and losses in income, if any, reflect activity for the period an instrument was classified in Level 3.

The following table presents the aggregate admitted value and fair value of financial instruments reported on the Company's statutory-basis statements of admitted assets, liabilities, and capital and surplus as of December 31, 2018 and 2017, including financial instruments which are not carried at fair value. There were no assets or liabilities for which fair value was not practicable to estimate as of December 31, 2018 or 2017.

	December 31, 2018				
	Admitted Assets	Level 1	Level 2	Level 3	Aggregate Fair Value
Types of Financial Instrument					
Assets					
Bonds	$ 120,388	$ 118,044	$ 2,277	$ -	$ 120,321
Common stock	1,766,036	1,766,036	-	-	1,766,036
Short-term investments	989,062	989,321	-	-	989,321
Cash Equivalents	599,928	599,963	-	-	599,963

	December 31, 2017				
	Admitted Assets	Level 1	Level 2	Level 3	Aggregate Fair Value
Types of Financial Instrument					
Assets					
Bonds	$ 146,585	$ 96,285	$ 50,349	$ -	$ 146,634
Common stock	2,828,426	2,828,426	-	-	2,828,426
Short-term investments	997,491	997,156	-	-	997,156

The assets classified in Level 1 consist of actively traded exchange listed equity securities and short-term money market mutual funds. Unadjusted quoted prices for these securities are provided to the Company by independent pricing services. Fair values of bonds reported in Level 2 are also provided by independent pricing services when applicable.

8. SUBSEQUENT EVENTS

Type I – Recognized Subsequent Events

Subsequent events have been considered through May 14, 2019 for the audited statutory-basis financial statements available to be issued on that date. No events occurred subsequent to December 31, 2018 through May 14, 2019 which would have a material effect on the Company's statutory-basis financial statements.

Type II – Non-Recognized Subsequent Events

Subsequent events have been considered through May 14, 2019 for the audited statutory-basis financial statements available to be issued on that date. No other events have occurred subsequent to December 31, 2018 through May 14, 2019 which would have a material effect on the Company's statutory-basis financial statements.

9. REINSURANCE

In the normal course of business, the Company assumes and cedes business with other insurance companies. To the extent that any reinsuring companies are unable to meet obligations under the agreements covering reinsurance ceded, the Company would remain liable. Any uncollectible reinsurance recoverable that is subject to the retroactive reinsurance agreement with NICO is subject to the sufficiency of the remaining contract limit.

The effect of reinsurance on premiums written and earned for 2018 and 2017, respectively, is as follows:

	2018		2017	
	Written	Earned	Written	Earned
Direct	$ 890,858	$ 794,405	$ 565,244	$ 483,974
Assumed:				
Affiliates	2	12	128	153
Non-affiliates	356,462	389,173	391,287	353,719
Ceded:				
Affiliates	(735,151)	(710,188)	(600,004)	(529,995)
Non-affiliates	(27,694)	(21,647)	(691)	(689)
Net	$ 484,477	$ 451,755	$ 355,964	$ 307,162

The effect of ceded reinsurance transactions on the Company's losses and LAE reserves is $921,521 and $637,403, respectively, and loss and LAE incurred is $614,969 and $458,810, respectively, for 2018 and 2017.

The following table summarizes the 2018 and 2017 assumed and ceded unearned premiums and the related commission equity:

	Assumed Reinsurance		Ceded Reinsurance		Net	
At December 31, 2018	**Premium Reserve**	**Commission Equity**	**Premium Reserve**	**Commission Equity**	**Premium Reserve**	**Commission Equity**
Affiliate	$ -	$ -	$ 399,861	$ 111,226	$ (399,861)	$ (111,226)
All other	207,959	31,736	6,339	3,454	201,620	28,282
Totals	$ 207,959	$ 31,736	$ 406,200	$ 114,680	$ (198,241)	$ (82,944)
Direct unearned premium reserve					$ 440,078	

	Assumed Reinsurance		Ceded Reinsurance		Net	
At December 31, 2017	**Premium Reserve**	**Commission Equity**	**Premium Reserve**	**Commission Equity**	**Premium Reserve**	**Commission Equity**
Affiliates	$ 10	$ 3	$ 374,898	$ 94,756	$ (374,888)	$ (94,753)
All other	240,670	36,134	292	85	240,378	36,049
Totals	$ 240,680	$ 36,137	$ 375,190	$ 94,841	$ (134,510)	$ (58,704)
Direct unearned premium reserve					$ 343,624	

The Company has aggregate unsecured reinsurance recoverables that exceed 3% of the Company's surplus as follows:

	2018	2017
National Indemnity Company	$ 1,158,063	$ 826,781

The Company had no other unsecured reinsurance recoverables that exceed 3% of the Company's total capital and surplus at December 31, 2018 or 2017.

The Company has entered into various reinsurance agreements with its parent NICO as shown in the table below:

Region	Agreement	Effective Date	Most Recent Amendment Date	Limit per Occurrence	Max Limit - All Occurences
United States	50% Quota-Share	2/28/2014	11/1/2014	N/A	N/A
Singapore	80% Quota-Share	11/1/2014	N/A	N/A	N/A
Singapore	Excess of Loss	7/1/2014	7/1/2016	USD 1,000,000	USD 100,000,000
Hong Kong	80% Quota-Share	12/31/2014	N/A	N/A	N/A
Hong Kong	Excess of Loss	7/1/2014	9/19/2018	USD 1,000,000	USD 100,000,000
Australia	60% Quot- Share	2/1/2015	N/A	N/A	N/A
Australia	Excess of Loss	4/1/2015	5/14/2018	*See Table	*See Table
New Zealand	80% Quota-Share	6/29/2015	N/A	N/A	N/A
New Zealand	Excess of Loss	6/29/2015	9/12/2018	USD 1,000,000	NZD 250,000,000
Macau	60% Quota-Share	9/3/2016	N/A	N/A	N/A
Macau	Excess of Loss	9/3/2016	3/31/2017	USD 1,000,000	USD 100,000,000
Labuan	100% Quota-Share	11/1/2016	N/A	N/A	N/A
Dubai	100% Quota-Share	2/7/2018	N/A	N/A	N/A

Australia Limits and Retention

Loss Occurrence	Retention	Maximum Liability
1	$5,000,000	$195,000,000
2	$4,000,000	$196,000,000
3	$3,000,000	$197,000,000
4	$2,000,000	$198,000,000

The quota-share agreements include all subject premiums, losses, LAEs, and associated underwriting expenses subject to an aggregate limit on losses and LAEs for any calendar-accident year equal to three times that year's net calendar-accident year earned premium ceded to NICO. All quota-share agreements have been deemed approved by the Insurance Department.

In each of the Excess of Loss reinsurance agreements set forth in the tables above NICO has agreed to indemnity the Company for actual loss or losses paid or payable by the Company in respect of business covered for claims or losses in excess of the limit per occurrence disclosed above, subject to a maximum limit of liability to NICO disclosed above in respect of all occurrences per the Excess of Loss reinsurance agreements.

The Company purchased an aggregate retrocessional agreement from NICO effective May 1, 2000, which provides for $240,000 of reinsurance coverage for the Company's run-off business. This reinsurance contract has been accounted for as retroactive reinsurance and, consistent with statutory-basis accounting guidance, recoverables are excluded from net losses and LAE reserves. A schedule summarizing activity related to this agreement is shown below:

	2018	2017
Reserves Transferred:		
Initial reserves	$ 108,859	$ 108,859
Adjustments - prior years	51,825	50,446
Adjustment - current year	12,163	1,379
Current total	$ 172,847	$ 160,684
Consideration Paid:		
Initial consideration	$ 126,000	$ 126,000
Adjustments - prior years	-	-
Adjustment - current year	-	-
Current total	$ 126,000	$ 126,000
Amounts Recovered:		
Prior years	$ 63,189	$ 64,591
Current year	5,750	(1,402)
Current total	$ 68,939	$ 63,189
Special Surplus from Retroactive Reinsurance:		
Initial surplus (gain)/loss	$ (17,141)	$ (17,141)
Adjustments - prior years	51,080	49,700
Adjustment - current year	12,163	1,379
Current year restricted surplus	$ 46,847	$ 34,684
Cumulative total transferred to unassigned funds	$ -	$ -

10. LOSSES AND LOSS ADJUSTMENT EXPENSES

	2018	2017
Balance at January 1	$ 1,062,721	$ 564,878
Less reinsurance recoverables	637,403	327,183
Net balance at January 1	425,318	237,695
Incurred related to:		
Current year	$ 347,276	$ 250,999
Prior year	(710)	8,770
Total incurred	$ 346,566	$ 259,769
Paid related to:		
Current year	$ 82,230	$ 36,166
Prior year	122,644	35,980
Total paid	$ 204,874	$ 72,146
Net balance at December 31	$ 567,010	$ 425,318
Plus reinsurance recoverables	921,520	637,403
Balance at December 31	$ 1,488,530	$ 1,062,721

During 2018 the Company reported favorable development of prior period ultimate loss and loss expense reserves totaling $710. During 2017, the Company reported unfavorable development of prior period ultimate loss and expense reserves totaling $8,770. Both the 2018 favorable development and 2017 unfavorable development was primarily the result of re-estimation of ultimate liability losses primarily on other liability and property lines of insurance. The Company's prior period loss and loss expense development is not materially affected by the retrospectively rated contract activity. Estimates of ultimate prior period loss and loss expenses are increased or decreased as described in Note 1.

11. ASBESTOS/ENVIRONMENTAL RESERVES

The Company had exposure to asbestos- and environmental-related claims as a result of having historically written product liability and general liability insurance.

The Company estimates the full impact of the asbestos and environmental exposures by establishing full case basis reserves, including legal and other LAE for all known unresolved claims and by establishing IBNR reserves. IBNR reserves are determined considering the Company's historic liability exposure base and policy language used; the Company's previous asbestos- and environmental-related loss and LAE development; and the Company's assessment of current trends of environmental law, environmental cleanup costs, asbestos liability law, and judgment and settlements of asbestos liabilities.

The Company's asbestos-related losses and LAE activity (including potential coverage dispute costs) at December 31, 2018 and 2017 was as follows:

	Direct	
	2018	2017
Beginning reserves	$ 72,135	$ 79,873
Incurred losses and loss adjustment expenses	7,151	(595)
Calendar year payments for losses and loss adjustment expenses	6,247	7,143
Ending reserves	$ 73,039	$ 72,135

	Assumed	
	2018	2017
Beginning reserves	$ 15,090	$ 13,908
Incurred losses and loss adjustment expenses	(2)	2,264
Calendar year payments for losses and loss adjustment expenses	45	1,082
Ending reserves	$ 15,043	$ 15,090

	Net of Reinsurance	
	2018	2017
Beginning reserves	$ 76,298	$ 73,012
Incurred losses and loss adjustment expenses	5,806	3,028
Calendar year payments for losses and loss adjustment expenses	5,118	(258)
Ending reserves	$ 76,986	$ 76,298

The amounts in the tables above are subject to the retroactive reinsurance agreement with NICO discussed previously in Note 1.

The Company recorded asbestos-related bulk and IBNR reserves for unreported loss and LAE claims totaling $44,309 on a direct basis, $12,622 on an assumed basis, and $50,909, net of reinsurance, at December 31, 2018. The Company recorded asbestos-related bulk and IBNR reserves of $24,644 on a direct basis, $12,656 on an assumed basis, and $34,858, net of reinsurance, at December 31, 2017.

The Company recorded asbestos-related case, bulk, and IBNR reserves for future LAE (including potential coverage dispute costs) totaling $20,030 and $9,629 on a direct basis, $1,898 and $1,899 on an assumed basis, and $18,794 and $10,916, net of reinsurance, at December 31, 2018 and 2017, respectively.

The Company's environmental-related losses and LAE activity (including potential coverage dispute costs) at December 31, 2018 and 2017 was as follows:

	Direct			
	2018		2017	
Beginning reserves	$	14,615	$	14,834
Incurred losses and loss adjustment expenses		5,733		1,376
Calendar year payments for losses and loss adjustment expenses		859		1,595
Ending reserves	$	19,489	$	14,615

	Assumed			
	2018		2017	
Beginning reserves	$	4,405	$	6,840
Incurred losses and loss adjustment expenses		1		(2,431)
Calendar year payments for losses and loss adjustment expenses		2		4
Ending reserves	$	4,404	$	4,405

	Net of Reinsurance			
	2018		2017	
Beginning reserves	$	17,333	$	19,376
Incurred losses and loss adjustment expenses		5,113		(799)
Calendar year payments for losses and loss adjustment expenses		611		1,244
Ending reserves	$	21,835	$	17,333

The amounts in the tables above are subject to the retroactive reinsurance agreement with NICO discussed previously in Note 1.

The Company recorded environmental-related bulk and IBNR reserves for unreported loss and LAE claims totaling $9,228 on a direct basis, $3,695 on an assumed basis, and $12,149, net of reinsurance, at December 31, 2018. The Company recorded environmental bulk and IBNR reserves of $3,984 on a direct basis, $3,694 on an assumed basis, and $7,344, net of reinsurance, at December 31, 2017.

The Company recorded environmental-related case, bulk, and IBNR reserves for future LAE (including potential coverage dispute costs) totaling $555 and $623 on a direct basis, $556 and $554 on an assumed basis, and $1,069 and $1,135 net of reinsurance, at December 31, 2018 and 2017, respectively.

* * * * * *

SUMMARY INVESTMENT SCHEDULE

Investment Categories	Gross Investment Holdings 1 Amount	2 Percentage	Admitted Assets as Reported in the Annual Statement 3 Amount	4 Securities Lending Reinvested Collateral Amount	5 Total (Col. 3 + 4) Amount	6 Percentage
1. Bonds:						
1.1 U.S. treasury securities	7,014,109	0.2	7,014,109		7,014,109	0.2
1.2 U.S. government agency obligations (excluding mortgage-backed securities):						
1.21 Issued by U.S. government agencies		0.0			0	0.0
1.22 Issued by U.S. government sponsored agencies		0.0			0	0.0
1.3 Non-U.S. government (including Canada, excluding mortgage-backed securities)	111,132,625	2.6	111,132,625		111,132,625	2.6
1.4 Securities issued by states, territories and possessions and political subdivisions in the U.S.:						
1.41 States, territories and possessions general obligations	517,545	0.0	517,545		517,545	0.0
1.42 Political subdivisions of states, territories and possessions and political subdivisions general obligations	405,000	0.0	405,000		405,000	0.0
1.43 Revenue and assessment obligations		0.0			0	0.0
1.44 Industrial development and similar obligations		0.0			0	0.0
1.5 Mortgage-backed securities (includes residential and commercial MBS):						
1.51 Pass-through securities:						
1.511 Issued or guaranteed by GNMA		0.0			0	0.0
1.512 Issued or guaranteed by FNMA and FHLMC	313,281	0.0	313,281		313,281	0.0
1.513 All other		0.0			0	0.0
1.52 CMOs and REMICs:						
1.521 Issued or guaranteed by GNMA, FNMA, FHLMC or VA	4,612	0.0	4,612		4,612	0.0
1.522 Issued by non-U.S. Government issuers and collateralized by mortgage-based securities issued or guaranteed by agencies shown in Line 1.521		0.0			0	0.0
1.523 All other		0.0			0	0.0
2. Other debt and other fixed income securities (excluding short-term):						
2.1 Unaffiliated domestic securities (includes credit tenant loans and hybrid securities)	1,000,843	0.0	1,000,843		1,000,843	0.0
2.2 Unaffiliated non-U.S. securities (including Canada)		0.0			0	0.0
2.3 Affiliated securities		0.0			0	0.0
3. Equity interests:						
3.1 Investments in mutual funds		0.0			0	0.0
3.2 Preferred stocks:						
3.21 Affiliated		0.0			0	0.0
3.22 Unaffiliated		0.0			0	0.0
3.3 Publicly traded equity securities (excluding preferred stocks):						
3.31 Affiliated		0.0			0	0.0
3.32 Unaffiliated	1,766,036,737	40.8	1,766,036,737		1,766,036,737	40.9
3.4 Other equity securities:						
3.41 Affiliated		0.0			0	0.0
3.42 Unaffiliated		0.0			0	0.0
3.5 Other equity interests including tangible personal property under lease:						
3.51 Affiliated		0.0			0	0.0
3.52 Unaffiliated		0.0			0	0.0
4. Mortgage loans:						
4.1 Construction and land development		0.0			0	0.0
4.2 Agricultural		0.0			0	0.0
4.3 Single family residential properties		0.0			0	0.0
4.4 Multifamily residential properties		0.0			0	0.0
4.5 Commercial loans		0.0			0	0.0
4.6 Mezzanine real estate loans		0.0			0	0.0
5. Real estate investments:						
5.1 Property occupied by company		0.0			0	0.0
5.2 Property held for production of income (including $..........0 of property acquired in satisfaction of debt)		0.0			0	0.0
5.3 Property held for sale (including $.........0 property acquired in satisfaction of debt)		0.0			0	0.0
6. Contract loans		0.0			0	0.0
7. Derivatives		0.0			0	0.0
8. Receivables for securities	1,656	0.0	1,656		1,656	0.0
9. Securities lending (Line 10, Asset Page reinvested collateral)		0.0		XXX	XXX	XXX
10. Cash, cash equivalents and short-term investments	2,426,758,783	56.1	2,426,758,783		2,426,758,783	56.3
11. Other invested assets	13,728,345	0.3			0	0.0
12. Total invested assets	4,326,913,536	100.0	4,313,185,191	0	4,313,185,191	100.0

BERKSHIRE HATHAWAY SPECIALTY INSURANCE COMPANY

SUPPLEMENTAL SCHEDULE OF REINSURANCE INTERROGATORIES

For reinsurance contracts entered into, renewed or amended on or after January 1, 1994.

7.1 Has this reporting entity reinsured any risk with any other entity under a quota share reinsurance contract that includes a provision that would limit the reinsurer's losses below the stated quota share percentage (e.g., a deductible, a loss ratio corridor, a loss cap, an aggregate limit or any similar provisions)?

Yes [ ] No [X]

7.2 If 7.1 is yes, indicate the number of reinsurance contracts containing such provisions:

7.3 If 7.1 is yes, does the amount of reinsurance credit taken reflect the reduction in quota share coverage caused by any applicable limiting provision(s)?

Yes [ ] No [X]

9.1 Has the reporting entity ceded any risk under any reinsurance contract (or under multiple contracts with the same reinsurer or its affiliates) for which during the period covered by the statement: (i) it recorded a positive or negative underwriting result greater than 5% of prior year-end surplus as regards policyholders or it reported calendar year written premium ceded or year-end loss and loss expense reserves ceded greater than 5% of prior year-end surplus as regards policyholders; (ii) it accounted for that contract as reinsurance and not as a deposit; and (iii) the contract(s) contain one or more of the following features or other features that would have similar results:

(a) A contract term longer than two years and the contract is noncancellable by the reporting entity during the contract term;

(b) A limited or conditional cancellation provision under which cancellation triggers an obligation by the reporting entity, or an affiliate of the reporting entity, to enter into a new reinsurance contract with the reinsurer, or an affiliate of the reinsurer;

(c) Aggregate stop loss reinsurance coverage;

(d) A unilateral right by either party (or both parties) to commute the reinsurance contract, whether conditional or not, except for such provisions which are only triggered by a decline in the credit status of the other party;

(e) A provision permitting reporting of losses, or payment of losses, less frequently than on a quarterly basis (unless there is no activity during the period); or

(f) Payment schedule, accumulating retentions from multiple years or any features inherently designed to delay timing of the reimbursement to the ceding entity

Yes [ ] No [X]

9.2 Has the reporting entity during the period covered by the statement ceded any risk under any reinsurance contract (or under multiple contracts with the same reinsurer or its affiliates), for which, during the period covered by the statement, it recorded a positive or negative underwriting result greater than 5% of the prior year-end surplus as regards policy holders or it reported calendar year written premium ceded or year-end loss and loss expense reserves ceded greater than 5% of prior year-end surplus as regards policy holders; excluding cessions to approved pooling arrangements or to captive insurance companies that are directly or indirectly controlling, controlled by, or under common control with (i) one or more unaffiliated policyholders of the reporting entity, or (ii) an association of which one or more unaffiliated policyholders of the reporting entity is a member where:

(a) The written premium ceded to the reinsurer by the reporting entity or its affiliates represents fifty percent (50%) or more of the entire direct and assumed premium written by the reinsurer based on its most recently available financial statement; or

(b) Twenty-five percent (25%) or more of the written premium ceded to the reinsurer has been retroceded back to the reporting entity or its affiliates in a separate reinsurance contract.

Yes [ ] No [X]

9.3 If yes to 9.1 or 9.2, please provide the following information in the Reinsurance Summary Supplemental Filing for General Interrogatory 9:

(a) The aggregate financial statement impact gross of all such ceded reinsurance contracts on the balance sheet and statement of income;

(b) A summary of the reinsurance contract terms and indicate whether it applies to the contracts meeting the criteria in 9.1 or 9.2; and

(c) A brief discussion of management’s principle objectives in entering into the reinsurance contract including the economic purpose to be achieved.

BERKSHIRE HATHAWAY SPECIALTY INSURANCE COMPANY

SUPPLEMENTAL SCHEDULE OF REINSURANCE INTERROGATORIES

9.4 Except for transactions meeting the requirements of paragraph 31 of SSAP No. 62R, Property and Casualty Reinsurance, has the reporting entity ceded any risk under any reinsurance contract (or multiple contracts with the same reinsurer or its affiliates) during the period covered by the financial statement, and either:

(a) Accounted for that contract as reinsurance (either prospective or retroactive) under statutory accounting principles ("SAP") and as a deposit under generally accepted accounting principles ("GAAP"); or

(b) Accounted for that contract as reinsurance under GAAP and as a deposit under SAP?

Yes [ ] No [X]

9.5 If yes to 9.4, explain in the Reinsurance Summary Supplemental Filing for General Interrogatory 9 (Section D) why the contract(s) is treated differently for GAAP and SAP.

SUPPLEMENTAL INVESTMENT RISKS INTERROGATORIES

For the year ended December 31, 2017
(To be filed by April 1)
Of BERKSHIRE HATHAWAY SPECIALTY INSURANCE COMPANY
Address (City, State, Zip Code): Omaha NE 68102-1944
NAIC Group Code.....0031 NAIC Company Code.....22276 Employer's ID Number.....63-0202590

The Investment Risks Interrogatories are to be filed by April 1. They are also to be included with the Audited Statutory Financial Statements.
Answer the following interrogatories by reporting the applicable U.S. dollar amounts and percentages of the reporting entity's total admitted assets held in that category of investments.

1. Reporting entity's total admitted assets as reported on Page 2 of this annual statement. $....4,755,964,739

2. Ten largest exposures to a single issuer/borrower/investment.

	1 Issuer	2 Description of Exposure	3 Amount	4 Percentage of Total Admitted Assets
2.01	BANK OF NEW YORK MELLON CORP	COMMON STOCK	$.....510,191,730	10.7 %
2.02	US BANCORP	COMMON STOCK	$.....418,229,308	8.8 %
2.03	GOLDMAN SACHS GROUP INC	COMMON STOCK	$.....317,395,000	6.7 %
2.04	APPLE INC	COMMON STOCK	$.....217,838,940	4.6 %
2.05	BANK OF AMERICA CORPORATION	COMMON STOCK	$.....159,888,960	3.4 %
2.06	SINGAPORE GOVERNMENT	SOVEREINGS	$.....111,132,625	2.3 %
2.07	PHILLIPS 66	COMMON STOCK	$.......95,477,374	2.0 %
2.08	WELLS FARGO & CO	COMMON STOCK	$.......47,015,424	1.0 %
2.09	EMORY UNIVERSITY	CORPORATES	$.........1,000,843	0.0 %
2.10	MICHIGAN ST	MUNI TAX	$............517,545	0.0 %

3. Amounts and percentages of the reporting entity's total admitted assets held in bonds and preferred stocks by NAIC designation.

	Bonds	1	2
3.01	NAIC 1	$..1,709,377,042	35.9 %
3.02	NAIC 2	$	0.0 %
3.03	NAIC 3	$	0.0 %
3.04	NAIC 4	$	0.0 %
3.05	NAIC 5	$	0.0 %
3.06	NAIC 6	$	0.0 %
	Preferred Stocks	3	4
3.07	P/RP-1	$	0.0 %
3.08	P/RP-2	$	0.0 %
3.09	P/RP-3	$	0.0 %
3.10	P/RP-4	$	0.0 %
3.11	P/RP-5	$	0.0 %
3.12	P/RP-6	$	0.0 %

4. Assets held in foreign investments:

4.01 Are assets held in foreign investments less than 2.5% of the reporting entity's total admitted assets? Yes [X] No [ ]
If response to 4.01 above is yes, responses are not required for interrogatories 5-10.

4.02	Total admitted assets held in foreign investments	$.....111,132,625	2.3 %
4.03	Foreign-currency-denominated investments	$.....111,132,625	2.3 %
4.04	Insurance liabilities denominated in that same foreign currency	$.......77,267,191	1.6 %

5. Aggregate foreign investment exposure categorized by NAIC sovereign designation:

		1	2
5.01	Countries designated NAIC 1	$ 0	0.0 %
5.02	Countries designated NAIC 2	$	0.0 %
5.03	Countries designated NAIC 3 or below	$	0.0 %

6. Largest foreign investment exposures by country, categorized by the country's NAIC sovereign designation:

		1	2
	Countries designated NAIC 1:		
6.01	Country 1:	$ 0	0.0 %
6.02	Country 2:	$ 0	0.0 %
	Countries designated NAIC 2:		
6.03	Country 1:	$	0.0 %
6.04	Country 2:	$	0.0 %
	Countries designated NAIC 3 or below:		
6.05	Country 1:	$	0.0 %
6.06	Country 2:	$	0.0 %

		1	2
7.	Aggregate unhedged foreign currency exposure	$ 0	0.0 %

8\. Aggregate unhedged foreign currency exposure categorized by NAIC sovereign designation:

		1	2
8.01	Countries designated NAIC 1	$ 0	0.0 %
8.02	Countries designated NAIC 2	$	0.0 %
8.03	Countries designated NAIC 3 or below	$	0.0 %

9\. Largest unhedged foreign currency exposures by country, categorized by the country's NAIC sovereign designation:

		1	2
	Countries designated NAIC 1:		
9.01	Country 1:	$ 0	0.0 %
9.02	Country 2:	$ 0	0.0 %
	Countries designated NAIC 2:		
9.03	Country 1:	$	0.0 %
9.04	Country 2:	$	0.0 %
	Countries designated NAIC 3 or below:		
9.05	Country 1:	$	0.0 %
9.06	Country 2:	$	0.0 %

10\. Ten largest non-sovereign (i.e. non-governmental) foreign issues:

	1 Issuer	2 NAIC Designation	3	4
10.01			$	0.0 %
10.02			$	0.0 %
10.03			$	0.0 %
10.04			$	0.0 %
10.05			$	0.0 %
10.06			$	0.0 %
10.07			$	0.0 %
10.08			$	0.0 %
10.09			$	0.0 %
10.10			$	0.0 %

11\. Amounts and percentages of the reporting entity's total admitted assets held in Canadian investments and unhedged Canadian currency exposure:

11.01 Are assets held in Canadian investments less than 2.5% of the reporting entity's total admitted assets? Yes [X] No [ ]

If response to 11.01 is yes, detail is not required for the remainder of Interrogatory 11.

11.02	Total admitted assets held in Canadian Investments	$	0.0 %
11.03	Canadian currency-denominated investments	$	0.0 %
11.04	Canadian-denominated insurance liabilities	$	0.0 %
11.05	Unhedged Canadian currency exposure	$	0.0 %

12\. Report aggregate amounts and percentages of the reporting entity's total admitted assets held in investments with contractual sales restrictions.

12.01 Are assets held in investments with contractual sales restrictions less than 2.5% of the reporting entity's total admitted assets? Yes [X] No [ ]

If response to 12.01 is yes, responses are not required for the remainder of Interrogatory 12.

	1	2	3
12.02	Aggregate statement value of investments with contractual sales restrictions	$	0.0 %
	Largest three investments with contractual sales restrictions:		
12.03		$	0.0 %
12.04		$	0.0 %
12.05		$	0.0 %

13\. Amounts and percentages of admitted assets held in the ten largest equity interests:

13.01 Are assets held in equity interest less than 2.5% of the reporting entity's total admitted assets? Yes [ ] No [X]

If response to 13.01 above is yes, responses are not required for the remainder of Interrogatory 13.

	1 Name of Issuer	2	3
13.02	BANK OF NEW YORK MELLON CORP	$ 510,191,730	10.7 %
13.03	US BANCORP	$ 418,229,308	8.8 %
13.04	GOLDMAN SACH GROUP INC	$ 317,395,000	6.7 %
13.05	APPLE INC	$ 217,838,940	4.6 %
13.06	BANK OF AMERICA	$ 159,888,960	3.4 %
13.07	PHILLIPS 66	$ 95,477,374	2.0 %
13.08	WELLS FARGO & CO	$ 47,015,424	1.0 %
13.09		$	0.0 %
13.10		$	0.0 %
13.11		$	0.0 %

14\. Amounts and percentages of the reporting entity's total admitted assets held in nonaffiliated, privately placed equities:

14.01 Are assets held in nonaffiliated, privately placed equities less than 2.5% of the reporting entity's total admitted assets? Yes [X] No [ ]

If response to 14.01 above is yes, responses are not required for the remainder of Interrogatory 14.

	1	2	3
14.02	Aggregate statement value of investments held in nonaffiliated, privately placed equities	$	0.0 %
	Largest three investments held in nonaffiliated, privately placed equities:		
14.03		$	0.0 %

		2	3
14.04	....	$........................	.... 0.0 %
14.05	....	$........................	.... 0.0 %

15. Amounts and percentages of the reporting entity's total admitted assets held in general partnership interests:

15.01 Are assets held in general partnership interests less than 2.5% of the reporting entity's total admitted assets? Yes [X] No [ ]

If response to 15.01 above is yes, responses are not required for the remainder of Interrogatory 15.

	1	2	3
15.02	Aggregate statement value of investments held in general partnership interests........	$........................	.... 0.0 %
	Largest three investments in general partnership interests:		
15.03	....	$........................	.... 0.0 %
15.04	....	$........................	.... 0.0 %
15.05	....	$........................	.... 0.0 %

16. Amounts and percentages of the reporting entity's total admitted assets held in mortgage loans:

16.01 Are mortgage loans reported in Schedule B less than 2.5% of the reporting entity's total admitted assets? Yes [X] No [ ]

If response to 16.01 above is yes, responses are not required for the remainder of Interrogatory 16 and Interrogatory 17.

	1 Type (Residential, Commercial, Agricultural)	2	3
16.02	....	$........................	.... 0.0 %
16.03	....	$........................	.... 0.0 %
16.04	....	$........................	.... 0.0 %
16.05	....	$........................	.... 0.0 %
16.06	....	$........................	.... 0.0 %
16.07	....	$........................	.... 0.0 %
16.08	....	$........................	.... 0.0 %
16.09	....	$........................	.... 0.0 %
16.10	....	$........................	.... 0.0 %
16.11	....	$........................	.... 0.0 %

Amount and percentage of the reporting entity's total admitted assets held in the following categories of mortgage loans:

		Loans	
16.12	Construction loans........	$........................	.... 0.0 %
16.13	Mortgage loans over 90 days past due........	$........................	.... 0.0 %
16.14	Mortgage loans in the process of foreclosure........	$........................	.... 0.0 %
16.15	Mortgage loans foreclosed........	$........................	.... 0.0 %
16.16	Restructured mortgage loans........	$........................	.... 0.0 %

17. Aggregate mortgage loans having the following loan-to-value ratios as determined from the most current appraisal as of the annual statement date:

Loan-to-Value	Residential		Commercial		Agricultural	
	1	2	3	4	5	6
17.01 above 95%........	$........................	.... 0.0 %	$........................	.... 0.0 %	$........................	.... 0.0 %
17.02 91% to 95%........	$........................	.... 0.0 %	$........................	.... 0.0 %	$........................	.... 0.0 %
17.03 81% to 90%........	$........................	.... 0.0 %	$........................	.... 0.0 %	$........................	.... 0.0 %
17.04 71% to 80%........	$........................	.... 0.0 %	$........................	.... 0.0 %	$........................	.... 0.0 %
17.05 below 70%........	$........................	.... 0.0 %	$........................	.... 0.0 %	$........................	.... 0.0 %

18. Amounts and percentages of the reporting entity's total admitted assets held in each of the five largest investments in real estate:

18.01 Are assets held in real estate reported less than 2.5% of the reporting entity's total admitted assets? Yes [X] No [ ]

If response to 18.01 above is yes, responses are not required for the remainder of Interrogatory 18.

Largest five investments in any one parcel or group of contiguous parcels of real estate:

	Description	2	3
18.02	....	$........................	.... 0.0 %
18.03	....	$........................	.... 0.0 %
18.04	....	$........................	.... 0.0 %
18.05	....	$........................	.... 0.0 %
18.06	....	$........................	.... 0.0 %

19. Report aggregate amounts and percentages of the reporting entity's total admitted assets held in investments held in mezzanine real estate loans.

19.01 Are assets held in investments held in mezzanine real estate loans less than 2.5% of the reporting entity's admitted assets? Yes [X] No [ ]

If response to 19.01 is yes, responses are not required for the remainder of Interrogatory 19.

	1	2	3
19.02	Aggregate statement value of investments held in mezzanine real estate loans	$........................	.... 0.0 %
	Largest three investments held in mezzanine real estate loans:		
19.03	....	$........................	.... 0.0 %
19.04	....	$........................	.... 0.0 %
19.05	....	$........................	.... 0.0 %

20. Amounts and percentages of the reporting entity's total admitted assets subject to the following types of agreements:

	At Year-End		At End of Each Quarter		
			1st Qtr	2nd Qtr	3rd Qtr
	1	2	3	4	5
20.01 Securities lending agreements (do not include assets held as collateral for such transactions)........	$........................	.... 0.0 %	$........................	$........................	$........................
20.02 Repurchase agreements........	$........................	.... 0.0 %	$........................	$........................	$........................
20.03 Reverse repurchase agreements........	$........................	.... 0.0 %	$........................	$........................	$........................
20.04 Dollar repurchase agreements........	$........................	.... 0.0 %	$........................	$........................	$........................
20.05 Dollar reverse repurchase agreements........	$........................	.... 0.0 %	$........................	$........................	$........................

21. Amounts and percentages of the reporting entity's total admitted assets for warrants not attached to other financial instruments, options, caps and floors:

	Owned		Written	
	1	2	3	4
21.01 Hedging	$	0.0 %	$	0.0 %
21.02 Income generation	$	0.0 %	$	0.0 %
21.03 Other	$	0.0 %	$	0.0 %

22. Amounts and percentages of the reporting entity's total admitted assets of potential exposure for collars, swaps, and forwards:

	At Year-End		At End of Each Quarter		
			1st Qtr	2nd Qtr	3rd Qtr
	1	2	3	4	5
22.01 Hedging	$	0.0 %	$	$	$
22.02 Income generation	$	0.0 %	$	$	$
22.03 Replications	$	0.0 %	$	$	$
22.04 Other	$	0.0 %	$	$	$

23. Amounts and percentages of the reporting entity's total admitted assets of potential exposure for futures contracts:

	At Year-End		At End of Each Quarter		
			1st Qtr	2nd Qtr	3rd Qtr
	1	2	3	4	5
23.01 Hedging	$	0.0 %	$	$	$
23.02 Income generation	$	0.0 %	$	$	$
23.03 Replications	$	0.0 %	$	$	$
23.04 Other	$	0.0 %	$	$	$

Cameron McLisky
New Zealand CEO
Berkshire Hathaway Specialty Insurance Company
Level 19 HSBC House
1 Queen Street
Auckland NZ 1010

3 July 2019

Dear Cameron,

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

BHSIC has appointed me, Daniel Vaughan, 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 BHSIC as at 31 December 2018. This report (referred to as the "Appointed Actuary's report") documents my review.

Should you have any questions or require any further information please do not hesitate to contact me on +61 (2) 8002 2113.

Yours sincerely

Daniel Vaughan

Fellow of the New Zealand Society of Actuaries (FNZSA)
Appointed Actuary, Berkshire Hathaway Specialty Insurance Company (New Zealand Branch).

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	Daniel Vaughan
(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 2018, 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 BHSIC 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 2018 has been completed to assist BHSIC 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 BHSIC at 31 December 2018. 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 BHSIC other than being an employee and the Appointed Actuary for the BHSI NZ.
(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 – the information used is detailed in Appendix A.

(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).	In my opinion from an actuarial perspective: • the actuarial information contained in the financial statements of BHSIC has been appropriately included in these statements • the actuarial information used in the preparation of the financial statements of BHSIC has been used appropriately. I form these conclusions based on a comparison of the results within the Statement of Actuarial Opinion and BHSIC's financial statements. I note however, that the insurance liabilities in the financial statements have been calculated on an undiscounted basis with an allowance for claims handling expenses but without the inclusion of a risk margin to target a specified probability of sufficiency for the reserve. This is different from the basis as described under section 115 of the RBNZ's Solvency Standard which specifically states that the insurance liabilities should be discounted at a risk free rate and include a risk margin intended to target a specified probability of sufficiency. However there exists an implicit risk margin in the booked reserves due to the lack of discounting in the reserves, although I have not assessed whether this implicit margin is higher or lower than what would be required under RBNZ's Solvency Standard.
(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, BHSIC, 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.
(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

Appendix A – Information Used

I have made use of the following documents:

- Statement of Actuarial Opinion for BHSIC prepared by Chuan Cao, Chief Reserving Actuary for BHSIC for the year ended 31 December 2018;
- BHSIC Annual Statement for the year ended 31 December 2018; and
- Financial Statements of BHSIC titled "Statutory-Basis Financial Statements as of and for the Years Ended December 31, 2018 and 2017, Supplemental Schedules as of and for the Year Ended December 31, 2018, and Independent Auditors' Report".

Berkshire Hathaway
Specialty Insurance

BERKSHIRE HATHAWAY SPECIALTY INSURANCE COMPANY

New Zealand Branch

Company Registration No. 5737531

Financial Statements
For year ended 31 December 2018

A Berkshire Hathaway Company

Contents

Financial Statements
For year ended 31 December 2018

PAGE

CONTENTS

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 2018.

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 2018 and the results of its operations and cash flows for the year ended 31 December 2018.

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 year

None

Events subsequent to Statement of Financial Position date

There has not arisen in the interval between the end of the 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 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 30 April 2019.

Sign:	Sign:
Name: David N. Fields	Name: Peter J. Eastwood.
Director, BHSI	Director, BHSI

STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31st December 2018

	Note	2018	2017
		$	$
Premium revenue	5	41,753,940	25,633,710
Outwards reinsurance expense	6	(33,570,242)	(20,607,726)
Net premium revenue		**8,183,698**	**5,025,984**
Claims expense		(15,234,187)	(18,504,745)
Reinsurance and other recoveries revenue		12,703,417	13,972,719
Net claims incurred	**7**	**(2,530,770)**	**(4,532,026)**
Acquisition costs	8	(2,170,451)	(1,514,575)
Reinsurance commission revenue	9	2,780,210	1,852,389
Net commission revenue		**609,759**	**337,814**
Other reinsurance commission revenue	10	5,452,099	5,181,313
Underwriting expenses	11	(6,819,129)	(6,439,175)
Underwriting result		**4,895,657**	**(426,090)**
Investment income		404,181	220,912
Profit/(Loss) before income tax		**5,299,838**	**(205,178)**
Income tax (expense)/benefit	12(a)	(1,296,025)	40,581
Profit/(Loss) for the year, net of tax		**4,003,813**	**(164,597)**
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/(loss) for the year net of tax		4,003,813	(164,597)
Total comprehensive income/(loss) for the year attributable to owners of the Company		**4,003,813**	**(164,597)**

This Statement of Comprehensive Income is to be read in conjunction with the notes to and forming part of the financial statements.

STATEMENT OF CHANGES IN EQUITY
For the year ended 31st December 2018

	Head Office Account $	Retained Earnings $	Total Equity $
Balance at the beginning of the year	15,000,000	(430,641)	**14,569,359**
Changes recognised in total comprehensive income			
Profit for the year	-	4,003,813	**4,003,813**
Other comprehensive income	-	-	-
Transactions with the Branch			
Head office account	-	-	-
Balance at the end of the year	**15,000,000**	**3,573,172**	**18,573,172**

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

	Head Office Account $	Retained Earnings $	Total Equity $
Balance at the beginning of the year	15,000,000	(266,044)	**14,733,956**
Changes recognised in total comprehensive income			
Loss for the year	-	(164,597)	**(164,597)**
Other comprehensive income	-	-	-
Transactions with the Branch			
Head office account	-	-	-
Balance at the end of the year	**15,000,000**	**(430,641)**	**14,569,359**

This Statement of Changes in Equity is to be read in conjunction with the notes to and forming part of the financial statements.

STATEMENT OF FINANCIAL POSITION

As at 31 December 2018

	Note	2018 $	2017 $
Assets			
Cash and cash equivalent	13	27,056,934	26,396,797
Premium receivables		22,556,467	13,451,418
Current tax assets	12(a)	-	232,452
Reinsurance recoverable	15	27,800,187	19,986,392
Deferred reinsurance premiums	22	29,852,955	19,649,733
Deferred acquisition costs	23	1,878,094	1,295,910
Property, plant and equipment	14	183,353	195,187
Deferred tax assets	12(b)	426,193	411,268
Total assets		**109,754,183**	**81,619,157**
Liabilities			
Trade and other payables	16	1,012,957	1,245,740
Reinsurance liabilities	18	11,409,795	11,942,250
Deferred commission liabilities	19	2,420,155	1,637,818
Current tax liabilities	12(a)	1,333,254	-
Other tax liabilities	17	1,897,459	2,267,841
Intercompany payable	28	875,955	225,782
Unearned premium reserve	24	37,316,171	24,562,159
Outstanding claims payable	20	34,636,746	24,950,303
Employee benefits provision	21	278,519	217,906
Total liabilities		**91,181,011**	**67,049,798**
Net assets		**18,573,172**	**14,569,359**
Equity			
Head office account	25	15,000,000	15,000,000
Retained earnings		3,573,172	(430,641)
Total equity for the Branch		**18,573,172**	**14,569,359**

This Statement of Financial Position is to be read in conjunction with the notes to and forming part of the financial statements.

STATEMENT OF CASH FLOWS
For the year ended 31st December 2018

	Note	2018	2017
		$	$
Cash flows from operating activities			
Premiums received		44,146,334	31,114,753
Commission revenue received		3,562,547	2,416,661
Interest received		404,181	220,912
Claims paid		(6,915,954)	(22,976,004)
Acquisition costs paid		(2,752,635)	(1,937,958)
Net reinsurance paid		(31,844,126)	6,113,921
Payments to suppliers and employees		(6,672,883)	(6,720,571)
Income tax paid		254,757	(217,245)
Intercompany funds received		503,884	(154,251)
Net cash from operating activities	26	**686,105**	**7,860,218**
Cash flows from investing activities			
Payments for purchases of plant and equipment		(25,968)	(16,361)
Net cash used in investing activities		**(25,968)**	**(16,361)**
Cash flows from financing activities			
Capital funds received		-	-
Net cash from financing activities		-	-
Net increase in cash and cash equivalents		**660,137**	**7,843,857**
Cash and cash equivalents at the beginning of the year		**26,396,797**	**18,552,940**
Cash and cash equivalents at the end of the year		**27,056,934**	**26,396,797**

This Statement of Cash Flows is to be read in conjunction with the notes to and forming part of the financial statements.

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 26 June 2015 and was granted its licence to carry on Insurance Business in New Zealand on 29 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 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 for-profit 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 year ended 31 December 2018 and comparative information presented in these financial statements for the year ended 31 December 2017.

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

These financial statements were authorised for issue by the Directors on 30 April 2019.

Accounting standards and interpretations issued but not yet effective

At the date of authorisation of the financial statements, the following standards and interpretations, including those standards or interpretations issued by the IASB/IFRIC where an equivalent New Zealand standard or interpretations has not been approved, were on issue but not yet effective, and have not been applied in preparing the Branch'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 year ending
NZ IFRS 16 **Leases**	1-Jan-19	31-Dec-19
NZ IFRS 17 **Insurance Contracts**	1-Jan-21	31-Dec-21

NZ IFRS 16 Leases

NZ IFRS 16 was issued in January 2016 and it replaces NZ IAS 17 Leases, NZ IFRIC 4 Determining whether an Arrangment contains a Lease, NZ SIC-15 Operating Leases - Incentives and NZ SIC - 27 Evaluating the Substance of Transactions Involving Legal Form of a Lease. NZ IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under NZ IAS 17. The standard includes two recognition exemptions for lessees - leases of 'low-value' assets (e.g. personal computers) and short-term leases (i.e. leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e. the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e. the right-of-use asset). Lessees will be required to separately reconise the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

Lessees will also be required to remeasure the lease liability upon the occurrence of certain events (e.g. a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

Lessor accounting under NZ IFRS 16 is substantially unchanged from today's accounting under NZ IAS 17. Lessors will continue to classify all leases using the same classification principle as in NZ IAS 17 and distinguish between two types of leases: operating and finance leases.

NZ IFRS 16, which is effective for annual periods beginning on or after 1 January 2019, requires lessees and lessors to make more extensive disclosures than under NZ IAS 17.

Transition to NZ IFRS 16
The Branch plans to adopt NZ IFRS 16 in 2019 and will elect to apply the standard to contracts that were previously identified as leases applying NZ IAS 17. The Branch will elect to use the exemptions proposed by the standard on lease contracts for which the lease terms ends within 12 months as of the date of application, and lease contracts for which the underlying asset is of low value.

NZ IFRS 17 Insurance Contracts

In August 2017, the NZA SB issued NZ IFRS 17 Insurance Contracts (NZ IFRS 17), a comprehensive new accounting standard for insurance contracts covering recognition, measurement, presentation and disclosure. Once effective, NZ IFRS 17 will replace NZ IFRS 4 that was issued in 2012. NZ IFRS 17 applies to all types of insurance contracts, regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features. A few scope exceptions will apply. The overall objective of NZ IFRS 17 is the general model, supplemented by:
- A specific adaptation for contracts with direct participation features (the variable fee approach)
- A simplified approach (the premium allocation approach) mainly for short-duration contracts

NZ IFRS 17 is effective for reporting periods beginning on or after 1 January 2021, with comparative figures required.

Accounting standards and interpretations issued which are effective from 2018

NZ IFRS 9 Financial Instruments

In the current year, the Branch has applied NZ IFRS 9 Financial Instruments (NZ IFRS 9) and the related consequential amendments to other NZ IFRS Standards that are effective for an annual period that begins on or after 1 January 2018. The Branch applied NZ IFRS 9 prospectively, with an initial application date of 1 January 2018.

IFRS 9 introduced new requirements for:
1) The classification and measurement of financial assets and financial liabilities;
2) Impairment of financial assets; and
3) General hedge accounting.

The application of NZ IFRS 9 has had no impact on the classification and measurement of the Branch's financial assets and liabilities. The financial assets which were previously classified as loans and receivables are now classified at amortised cost. The financial liabilities continue to be classified as amortised cost. The Branch does not enter into hedging contracts.

In relation to the impairment of financial assets, NZ IFRS 9 requires an expected credit loss model as opposed to an incurred credit loss model under NZ IAS 39. The expected credit loss model requires the Branch to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition of the financial assets. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised. The change from an incurred credit loss model to an expected credit loss model has had no impact on the Branch's financial instruments classified as amortised cost.

NZ IFRS 15 Revenue from Contracts with Customers

The NZ IFRS has issued a new standard for the recognition of revenue. This replaces NZ IAS 18 which covers contracts for goods and services and NZ IAS 11 which covers construction contracts. The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer - so the notion of control replaces the existing notion of risks and rewards.

The Branch's main sources of income is Revenue from contracts under NZ IFRS 4 Insurance Contracts and interest. All of these are outside of the scope of the new revenue standard.

Except for NZ IFRS 17, the Branch 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 year in which the estimate is revised if the revision affects only that year, or in the year of the revision and future years if the revision affects both current and future years.

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 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 premiums which is estimated will be earned in the subsequent years. It is calculated separately for each insurance contract depending on the estimated incidence of risk throughout the year of the contract.

(c) Outstanding claims

Provision is made for outstanding claims and settlement expenses incurred at the Statement of Financial Position 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 has 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 Statement of Financial Position 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 ("DTA") 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 year(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 Statement of Financial Position date. Exchange differences arising are recognised in Statement of Comprehensive Income in the 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 year, 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 maturities 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 depreciation rates for the year are as follows:

	2018	2017
Furniture & fixtures	10.50%	10.50%
Computer equipment	40%	40%
Leasehold improvements	7%	7%

(m) Interest income
Interest income is recognised in the Statement of Comprehensive Income as Interest accrues.

(n) Accounts payable

These amounts represent liabilities for goods and services provided to the Branch prior to the end of the 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 premiums 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 year 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.

Reinsurance commission from the reinsurer under reinsurance contracts are recognised as income over the life of the reinsurance contract. Accordingly, a portion of reinsurance commission is treated as a liability and presented as deferred commission liabilities 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 Statement of Financial Position 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, and for the purpose of the premium liability adequacy test refer Note 36.

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 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 years;
- Changes in the legal environment;
- The effects of inflation;
- Changes in the mix of business;
- The impact of large losses;
- Movements in industry benchmarks; and
- 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.

All reinsurance contracts are with the Company and the recoverability of such assets is not considered to be impaired by any counterparty or credit risk.

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 2018.

The Appointed Actuary is Daniel Vaughan, 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.

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 reduced slightly from prior year due to the weight of reserves shifting from Executive & Professional to Property and Marine classes which have a lower risk margin.

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 decreased since the previous year as the weight of the outstanding claims has shifted away from the Executive & Professional class and towards shorter tailed lines.

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

Assumption	2018	2017
Weighted average Discount rate	1.90%	2.34%
Claims handling expense % of gross claims cost	6.93%	7.30%
Risk margin	26.36%	30.82%
Weighted average expected term to settlement	2.77 years	3.29 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

December 31, 2018		**Comprehensive Income before tax ($000)**	**Comprehensive Income after tax ($000)**	**Total Equity ($000)**
Recognised amount per Financial Statements		5,300	4,004	18,573
Scenario base	**Sensitivity**			
BF Model Loss Ratios	+15% to all selections	-591	-417	18,157
	-15% to all selections	603	425	18,998
BF Model Development Patterns	Faster - 25% reduction in gap to full development	999	705	19,278
	Slower - 25% increase in gap to full development	-988	-697	17,877
Discount rate	+1% to all future discount rates	186	131	18,704
	-1% to all future discount rates	-184	-130	18,443
Claims handling expense	200% of selection	-341	-240	18,333
	75% of selection	94	66	18,639
Risk Margins	+5% to all selections	-248	-175	18,398
	-5% to all selections	262	185	18,758
December 31, 2017				
Recognised amount per Financial Statements		-205	-165	14,569
Scenario base	**Sensitivity**			
BF Model Loss Ratios	+15% to all selections	-349	-246	14,324
	-15% to all selections	349	246	14,815
BF Model Development Patterns	Faster - 25% reduction in gap to full development	582	410	14,979
	Slower - 25% increase in gap to full development	-581	-409	14,160
Discount rate	+1% to all future discount rates	152	107	14,677
	-1% to all future discount rates	-160	-113	14,456
Claims handling expense	200% of selection	-338	-239	14,331
	75% of selection	85	60	14,629
Risk Margins	+5% to all selections	-189	-133	14,436
	-5% to all selections	190	134	14,703

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 Poors 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.

	2018 $	2017 $
5. PREMIUM REVENUE		
Gross written premium	54,507,953	34,468,310
Movement in unearned premium	(12,754,013)	(8,834,600)
Total premium revenue	**41,753,940**	**25,633,710**
6. OUTWARDS REINSURANCE EXPENSE		
Ceded written premium	(43,773,464)	(27,677,379)
Movement in ceded unearned premium	10,203,222	7,069,654
Total outwards reinsurance expense	**(33,570,242)**	**(20,607,726)**

7. NET CLAIMS INCURRED

December 31, 2018	**CY**	**PY**	**Total**
Gross claims incurred	(21,208,908)	8,010,859	(13,198,048)
Claims handling expenses	(1,071,077)	644,937	(426,140)
RI and other recoveries	17,891,715	(6,507,965)	11,383,750
Net claims incurred undiscounted	**(4,388,270)**	**2,147,831**	**(2,240,438)**
Gross discount movement	801,358	(763,622)	37,736
RI discount movement	(641,813)	632,957	(8,856)
Net discount movement	**159,545**	**(130,665)**	**28,880**
Gross risk margin movement	(4,193,176)	2,545,441	(1,647,735)
RI risk margin movement	3,365,435	(2,036,912)	1,328,523
Net risk margin movement	**(827,741)**	**508,529**	**(319,212)**
Net claims incurred	**(5,056,466)**	**2,525,695**	**(2,530,770)**

December 31, 2017	**CY**	**PY**	**Total**
Gross claims incurred	(17,062,748)	(3,150,573)	(20,213,321)
Claims handling expenses	(1,080,408)	1,348,343	267,935
RI and other recoveries	14,540,180	1,195,611	15,735,791
Net claims incurred undiscounted	**(3,602,976)**	**(606,619)**	**(4,209,595)**
Gross discount movement	1,137,026	(310,923)	826,103
RI discount movement	(909,814)	272,994	(636,820)
Net discount movement	**227,212**	**(37,929)**	**189,283**
Gross risk margin movement	(4,207,498)	4,822,036	614,538
RI risk margin movement	3,307,940	(4,434,193)	(1,126,253)
Net risk margin movement	**(899,558)**	**387,843**	**(511,715)**
Net claims incurred	**(4,275,322)**	**(256,705)**	**(4,532,027)**

	2018	2017
8. ACQUISITION COSTS	**$**	**$**
Gross acquisition costs	(2,752,635)	(1,937,958)
Movement in deferred acquisition costs	582,184	423,383
Total acquisition costs	**(2,170,451)**	**(1,514,575)**
9. REINSURANCE COMMISSION REVENUE		
Reinsurance commission revenue	3,562,547	2,416,660
Movement in deferred reinsurance commission revenue	(782,337)	(564,271)
Total reinsurance commission revenue	**2,780,210**	**1,852,389**
10. OTHER REINSURANCE COMMISSION REVENUE		
Reimbursement of operating expenses from reinsurer	5,452,099	5,181,313
Total other reinsurance commission revenue	**5,452,099**	**5,181,313**
11. UNDERWRITING EXPENSES		
Employment expenses	(5,551,544)	(5,062,990)
Premises expenses	(229,487)	(218,091)
General expenses	(326,837)	(257,672)
Consulting expenses	(866,538)	(825,370)
Depreciation expense	(37,802)	(34,225)
Other underwriting expenses	193,079	(40,827)
Total underwriting expenses	**(6,819,129)**	**(6,439,175)**

	2018 $	2017 $
12. INCOME TAX		
(a) The income tax for the year reconciles to the amount calculated on the loss for the year as follows:		
Profit/(Loss) before income tax	5,299,838	(205,178)
Prima facie tax thereon at 28% (2017:28%)	1,483,955	(57,450)
Tax effect of permanent differences		
Non-deductible expenses	3,258	16,869
Prior period adjustment	(191,188)	-
Income tax benefit attributable for the year	1,296,024	(40,581)
Income tax benefit recognised consists of:		
Current tax expense	1,562,627	(10,380)
Deferred tax benefit	(14,925)	(30,200)
Prior period adjustment (current tax)	(251,678)	-
	1,296,024	(40,580)
(a) Current income tax:		
Balance at the beginning of the year	232,452	4,825
Income tax paid	-	217,247
Current year tax provision	(1,562,627)	10,380
RWT credits	12,509	-
Adjustments for prior year	(15,588)	-
Balance at the end of the year	**(1,333,254)**	**232,452**
(b) DTA represented by:		
Non-deductible salary accruals	701,534	664,464
Net deferred acquisition costs	542,060	341,907
Non-deductible accruals	278,520	462,441
Total	**1,522,114**	**1,468,812**
Prima facie tax thereon at 28%	426,192	411,267
Movements in deferred tax assets:		
Balance at the beginning of the year	411,269	381,068
Movement recognised in profit or loss	14,924	30,201
Balance at the end of the year	**426,193**	**411,269**

	2018 $	2017 $
13. CASH AND CASH EQUIVALENTS		
HSBC bank account	17,713,272	17,193,971
HSBC term deposit	9,343,662	9,202,826
Total cash and cash equivalents	**27,056,934**	**26,396,797**
14. PROPERTY, PLANT AND EQUIPMENT		
Furniture & fixtures at cost	110,593	109,893
Accumulated depreciation	(45,688)	(34,554)
	64,905	**75,339**
Leasehold improvements at cost	127,132	127,132
Accumulated depreciation	(30,740)	(21,840)
	96,392	**105,292**
Computer equipment at cost	65,218	39,950
Accumulated depreciation	(43,162)	(25,393)
	22,056	**14,557**
Total property, plant and equipment	**183,353**	**195,188**
Reconciliations of the carrying amount for each class of property, plant and equipment		
Furniture & fixtures		
Carrying amount at the beginning of the year	75,339	88,668
Additions	700	-
Disposals	-	-
Depreciation expense	(11,134)	(13,329)
Carrying amount at the end of the year	**64,905**	**75,339**
Leasehold improvements		
Carrying amount at the beginning of the year	105,292	114,191
Additions	-	-
Disposals	-	-
Depreciation expense	(8,900)	(8,899)
Carrying amount at the end of the year	**96,392**	**105,292**
Computer equipment		
Carrying amount at the beginning of the year	14,557	10,193
Additions	25,268	16,361
Disposals	-	-
Depreciation expense	(17,769)	(11,997)
Carrying amount at the end of the year	**22,056**	**14,557**
Total property, plant and equipment	**183,353**	**195,188**

	2018	2017
	$	$
15. REINSURANCE RECOVERABLE		
Reinsurance recoverable on paid losses	2,557,757	365,929
Reinsurance recoverable on unpaid losses	27,800,187	19,986,392
Total reinsurance recoveries	**30,357,944**	**20,352,321**
Reconciliation of reinsurance recoverable on unpaid losses		
Balance at start of year	19,986,392	25,604,302
Change in discount to present value	(8,856)	(636,820)
Change in risk margin	1,328,523	3,038,316
Claims paid	(5,155,334)	(21,164,710)
Movement in incurred claims	11,649,462	13,145,303
Balance at end of year	**27,800,187**	**19,986,392**
Reinsurance recoverable at 31 December		
Expected to be realised within 12 months	6,729,471	3,888,703
Expected to be realised in more than 12 months	21,070,716	16,097,689
	27,800,187	**19,986,392**
16. TRADE AND OTHER PAYABLES		
Technical creditors	815,354	767,524
FSL payable	197,603	478,216
Total trade and other payables	**1,012,957**	**1,245,740**
Current	1,012,957	1,245,741
Non current	-	-
Total trade and other payables	**1,012,957**	**1,245,741**
17. OTHER TAX LIABILITIES		
GST tax payable	370,149	1,346,102
Non-resident withholding tax payable	1,527,311	921,739
Total other tax liabilities	**1,897,459**	**2,267,841**
Current	1,897,459	2,267,841
Non current	-	-
Total other tax liabilities	**1,897,459**	**2,267,841**
18. REINSURANCE LIABILITIES		
Reinsurance creditors - NICO	11,409,795	11,942,250
Total reinsurance liabilities	**11,409,795**	**11,942,250**
Current	11,409,795	11,942,250
Non current	-	-
Total reinsurance liabilities	**11,409,795**	**11,942,250**
Non-resident withholding tax payable Working		
Non-resident withholding tax payable	1,567,212	950,638
Other foreign levy payable/recoverable	(39,901)	(28,899)
	1,527,311	**921,739**
19. DEFERRED COMMISSION LIABILITIES		
Reinsurance DAC	2,420,155	12,308,180
Total deferred commission liabilities	**2,420,155**	**12,308,180**
Current	2,420,155	1,378,155
Non current	-	259,663
Total deferred commission liabilities	**2,420,155**	**1,637,818**

	2018 $	2017 $
20. OUTSTANDING CLAIMS PAYABLE		
Gross outstanding claims	28,791,129	20,892,630
Discount to present value	(1,360,477)	(1,398,213)
Risk margin	7,206,094	5,558,359
Liability for outstanding claims	**34,636,746**	**25,052,776**
Reconciliation of outstanding claims		
Balance at start of year	25,052,776	28,053,370
Change in discount to present value	37,736	(929,020)
Change in risk margin	1,647,735	3,823,661
Claims paid	(5,813,455)	(23,181,893)
Movement in incurred claims	13,711,954	17,286,658
Balance at end of year	**34,636,746**	**25,052,776**
Outstanding claims liabilities at 31 December		
Expected to be paid within 12 months	8,384,367	4,874,457
Expected to be paid in more than 12 months	26,252,379	20,178,319
	34,636,746	**25,052,776**

Net undiscounted central estimate of ultimate claims	2015 $	2016 $	2017 $	2018 $
At end of accident year	127,716	2,138,814	3,388,172	4,177,565
One year later	79,121	2,428,395	2,124,379	-
Two years later	39,125	1,811,801	-	-
Three years later	16,707	-	-	-
Current estimate	**16,707**	**1,811,801**	**2,124,379**	**4,177,565**
Cumulative net payments	1,756	1,508,858	356,955	926,766
Current outstanding claims	**14,951**	**302,943**	**1,767,424**	**3,250,799**

	2018 $
Net undiscounted central estimate	5,336,117
Discount to present value	(270,973)
Claims handling expenses	345,247
Risk margin	1,426,168
Net outstanding claims liability	**6,836,559**

Maturity profile of net outstanding claims liability	2018 $	2017 $
1 year or less	2,183,430	1,199,127
Within 1 to 5 years	3,241,976	2,403,471
Over 5 years	1,411,154	1,361,312
Total net outstanding claims liability	**6,836,560**	**4,963,910**

	2018 $	2017 $
21. EMPLOYEE BENEFITS PROVISION		
Annual leave	136,381	116,378
Personal leave	142,138	101,528
Total employee benefits provision	**278,519**	**217,906**
Current	278,519	217,906
Non current	-	-
Total employee benefits provision	**278,519**	**217,906**
22. DEFERRED REINSURANCE PREMIUMS		
Balance at the beginning of the year	19,649,733	12,580,079
Foreign currency revaluations	-	-
Deferral of premiums on contracts written in the year	26,594,387	16,609,538
Earning of premiums written in previous years	(16,391,165)	(9,539,885)
Balance at the end of the year	**29,852,955**	**19,649,733**
23. DEFERRED ACQUISITION COSTS		
Balance at the beginning of the year	1,295,910	872,527
Acquisition costs deferred	1,648,546	1,084,688
Amortisation charged to profit or loss	(1,066,362)	(661,305)
Movement in LAT write-down	-	-
Foreign currency revaluation	-	-
Balance at the end of the year	**1,878,094**	**1,295,910**
24. UNEARNED PREMIUM RESERVE		
Balance at the beginning of the year	24,562,159	15,727,559
Foreign currency revaluations	-	-
Deferral of premiums on contracts written in the year	33,242,969	20,761,917
Earning of premiums written in previous years	(20,488,956)	(11,927,316)
Balance at the end of the year	**37,316,171**	**24,562,159**

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

	2018	2017
	$	$
Profit/(Loss) after income tax	4,003,813	(164,597)
Non cash movements:		
Depreciation	37,802	34,225
Deferred tax assets	(14,925)	(30,201)
Cash movements:		
(Increase) in trade and other receivables	(9,105,049)	(4,355,471)
(Increase) in current tax assets	-	(227,627)
(Increase) / Decrease in reinsurance and other recoverable/receivable	(7,813,795)	5,617,870
(Increase) in Deferred reinsurance premiums	(10,203,222)	(7,069,654)
(Increase) in deferred acquisition costs	(582,184)	(423,383)
(Decrease) / Increase in trade and other payables	(232,783)	60,215
Increase in current tax liabilities	1,565,706	-
(Decrease) / Increase in other tax liabilities	(370,382)	953,144
(Decrease) / Increase in reinsurance liabilities	(532,455)	7,260,817
Increase in Deferred commission liabilities	782,337	564,271
Increase / (Decrease) in outstanding claims payable	9,686,444	(3,103,025)
Increase in unearned premium reserve	12,754,012	8,834,600
Increase / (Decrease) in intercompany payable	650,174	(154,251)
Increase in employee benefits provision	60,613	63,285
Net cash from operating activities	**686,107**	**7,860,218**

27. CAPITAL COMMITMENTS AND CONTINGENT LIABILITIES

There are no capital commitments or contingent liabilities as at 31 December 2018.

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 its immediate parent entity, NICO. These agreements are entered under normal commercial terms and conditions. Details of transactions and balances at year end are listed below:

	2018 $	2017 $
<u>Related party balances</u>		
Intercompany receivable from NICO*	16,244,101	8,044,142
- Reinsurance premiums (payable)	(16,916,828)	(15,787,331)
- Reinsurance commissions receivable	1,413,414	871,798
- Reinsurance operating expenses receivable	1,389,572	2,607,354
- Reinsurance recoverable on paid losses	2,557,757	365,929
- Reinsurance recoverable on unpaid losses	27,800,187	19,986,392
Intercompany (payable) to BHSI AU*	(629,547)	(173,351)
Intercompany (payable) to BHSIC*	(100,118)	(52,430)
Related party payable	**(729,665)**	**(225,782)**
<u>Related party transactions</u>		
Transactions with NICO*		
- Outwards Reinsurance Expense	(33,570,242)	(20,607,726)
- Claim recoveries	12,703,417	13,972,719
- Reinsurance commission revenue	8,232,309	7,033,702
Transactions with BHSI AU*	(1,820,158)	(732,679)
Transactions with BHSIC*	(270,109)	(415,832)

**Abbreviations used above refer to the following entities:*

- *NICO refers to National Indemnity Company*
- *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 are due on demand.

<u>Bank guarantee</u>

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	2018 $	2017 $
Cash and cash equivalents			
Bank account	13	17,713,272	17,193,971
Term deposit	13	9,343,662	9,202,826
Financial liabilities at amortised cost			
Trade and other payables	16	1,012,957	1,245,741
Intercompany payables	28	875,955	225,782

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 Statement of Financial Position date. The Branch's only concentration of credit risk is in relation to reinsurance recoveries from NICO, which has a credit rating of AA+ from Standard and Poors 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 Statement of Financial Position date.

30. BUSINESS ACTIVITIES

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

31. CREDIT RATING

The Company has an AA+ credit rating from Standard and Poors rating agency.

32. ADDITIONAL INFORMATION	2018	2017
Number of employees	21	16

33. DISCLOSURE OF AUDITOR

The Branch auditor is Deloitte Touche Tohmatsu, and the auditor remuneration is AUD $58,500 (2017: AUD $57,000).

34. THE COMPANY - SOLVENCY

As at 31 December 2018 the solvency reported in accordance with the State of Nebraska, USA Department of Insurance are:

	2018 $'000	2017 $'000
Actual Solvency Capital	5,184,564	5,283,411
Minimum Solvency Capital	507,114	619,987
Solvency Margin	4,677,450	4,663,424
Solvency Ratio	1022%	852%

35. THE COMPANY'S REINSURANCE PROGRAMME

The Company's treaty reinsurance programme with its immediate parent NICO forms a fundamental part of the Company's capital structure. It consists of an 80% proportional quota share 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% 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 year. No claims will be made unless the Branch has sustained ultimate net loss amounts in excess of NZD $1m retention subject to a maximum aggregate limit of NZD $250m.

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 RBNZ'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:

	2018	2017
	$'000	$'000
Central estimate of PV of expected future claims	4,504	2,979
Risk margin	1,247	800
PV of expected future cash flows for future claims	**5,751**	**3,779**
Risk margin	27.69%	26.85%
At probability of sufficiency	75.00%	75.00%

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

37. EVENTS SUBSEQUENT TO BALANCE DATE

There are no events subsequent to Statement of Financial Position date that materially impact the financial information disclosed herein.

Deloitte.

Deloitte Touche Tohmatsu
ABN 74 490 121 060
Grosvenor Place
225 George Street
Sydney, NSW, 2000
Australia

Phone: +61 2 9322 7000
www.deloitte.com.au

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 2018, and the statement of financial performance, 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 4 to 30.

In our opinion, the accompanying financial statements present fairly, in all material respects, the Branch's financial position as at 31 December 2018 and it's financial performance and it's cash flows for the year then ended in accordance with New Zealand 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 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.

Responsibilities of the Directors for the Financial Statements

The Directors of Berkshire Hathaway Speciality Insurance Company are responsible on behalf of the Branch for the preparation and fair presentation of the financial statements in accordance with New Zealand International Financial Reporting Standards (NZ IFRS) and International Financial Reporting Standards (IFRS), 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.

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.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report for the current period. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

<table>
<tr><th>Key Audit Matter</th><th>How the scope of our audit responded to the Key Audit Matter</th></tr>
<tr><td>Actuarial Valuations

As at 31 December 2018 the Branch's outstanding claims payable were NZ$34 million. Outstanding claims payable include:
• case reserves for future payments of reported claims determined on a claim by claim basis; and
• actuarial estimates of future payments on claims incurred but not reported (IBNR) determined using actuarial methodologies and methods as disclosed in note 3.

Actuarially determined loss reserves involved a high degree of subjectivity and complexity with significant judgement involved in selection of certain assumptions.

Significant management judgement is involved in determining actuarial reserves for claims incurred but not reported and in performing the premium liability adequacy test. Key assumptions that have been identified as having high estimation uncertainty include loss ratios, discount and inflation rates and risk margin.</td><td>In conjunction with our actuarial specialists our procedures included, but were not limited to:
• assessing the appropriateness of key controls in relation to the application of actuarial valuation methodology, selection of key assumptions and the collection and analysis of data;
• evaluating the appropriateness and the actuarial methodology with respect to actuarial standards;
• assessing the appropriateness of key assumptions;
• reviewing the mathematical accuracy of a sample of calculations in the actuarial model and performing sensitivity analysis to assess impact of changes to key assumptions;
• re-performance of reconciliation of actuarial data to source documentation; and
• assessing the appropriateness of the disclosures in notes 3 and 20 to the financial statements.</td></tr>
</table>

Auditor's Responsibilities for the Audit of the Financial Statements

Deloitte.

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 Accountant
Sydney, 30 April 2019

Cameron McLisky
New Zealand CEO
Berkshire Hathaway Specialty Insurance Company
Level 19 HSBC House
1 Queen Street
Auckland NZ 1010

29 April 2019

Dear Cameron,

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 ("BHSIC"). 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, Daniel Vaughan, 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 2018. This report (referred to as the "Appointed Actuary's report") documents my review.

Should you have any questions or require any further information please do not hesitate to contact me on +61 (2) 8002 2113.

Yours sincerely

Daniel Vaughan

Fellow of the New Zealand Society of Actuaries (FNZSA)
Appointed Actuary, Berkshire Hathaway Specialty Insurance Company (New Zealand Branch).

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	Daniel Vaughan
(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 2018, 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 BHSIC 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 2018 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 2018. 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.
(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).	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 2018 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

Ref.	Requirement of the Appointed Actuary's report, Section 78 of the New Zealand Insurance (Prudential Supervision) Act 2010	Comments
(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, BHSIC, 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.
(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