CBL corporation

Financial Summary and Financial Statements

For the Year Ended 31 December 2016

CBL Corporation Limited

Contents

31 December 2016

CBL Corporation Limited

Financial Summary

For the year ended 31 December 2016

Key metrics CBL management monitors are Gross Written Premium, Operating Profit, Underlying Profit and Combined Ratio of the business:

- Gross Written Premium (as an insurer) increased to $321.7m from $242.6m in 2015, an increase of 32.6% for the year ended 31 December 2016.
- The Operating Profit increased to $76.2m from $59.9m in 2015, an increase of 27.1% for the year ending 31 December 2016.
- The Underlying Profit increased to $46.7m from $37.7m in 2015, an increase of 23.9% for the year ended 31 December 2016.
- The Combined Ratio of 77.2% for 2016 was consistent with 79.7% for 2015.
- The final dividend for 2016 is 2.0 cents per share. The dividend will be fully imputed and will be paid on 31 March 2017 to qualifying shareholders who are on the register at the close of business on 14 March 2017. Total dividend for the 2016 financial year is therefore 5.0 cents composed of the 3.0 cent interim dividend that was paid in November 2016 and 2.0 cent final dividend.

To ensure readers of the financial statements can compare year-on-year results on a consistent basis management provide the table below which includes the reconciliation between the Reported Profit after tax and the Underlying Profit after tax for 2016 and 2015 and compares to the IPO forecast for the 2016 year.

	2016 Actual $m	2015 Actual $m	2016 PFI $m
Gross written premium	**321.7**	242.6	316.2
Total revenue	**333.5**	244.5	304.7
Net claims expense	**(86.4)**	(74.7)	(99.9)
Operating and acquisition expenses	**(170.9)**	(109.9)	(141.2)
Operating profit	**76.2**	59.9	63.6
Reported profit after tax for the year	**30.7**	35.5	40.4
Non-recurring items:			
Capital raising and business acquisition costs[1]	**4.2**	5.0	1.7
Foreign exchange translation adjustment[2]	**9.7**	(3.9)	0.0
Finance costs[3]	**6.7**	0.0	0.0
Tax effect[4]	**(4.6)**	1.1	0.0
Underlying profit tax after for the year	**46.7**	37.7	42.1
Reported profit after tax per share (cents)[5]	**13.0**	16.2	18.4
Underlying profit after tax per share (cents)[5]	**19.8**	17.2	19.2

- The Reported Profit per share for the 12 months ending 31 December 2016 decreased by 3.2 cents per share to 13.0 cents compared to 2015 of 16.2 cents, and lower than the PFI by 5.4 cents.
- The Underlying Profit per share for the 12 months ending 31 December 2016 increased by 2.6 cents to 19.8 cents compared to 2015 of 17.2 cents, and exceeded the PFI by 0.6 cents.

CBL Corporation Limited

Financial Summary

For the year ended 31 December 2016

The following adjustments have been made to show Underlying Profit for the12 month periods ended 31 December 2016 and 31 December 2015.

[1] Non-recurring costs relating to acquiring SFS business and capital raising costs associated with the share placement and share purchase plan.

[2] Unrealised FX translation adjustment in order to report our FX denominated assets and liabilities into NZD.

[3] Non-recurring costs associated with early repayment of FIIG note including accelerated amortisation of issue costs and repayment premium, and establishment costs.

[4] Tax effect of deductible costs and assessable income of the adjusting items at 28% NZ corporate tax rate.

[5] Earnings per share amount is based upon the outstanding number of shares as at 31 December 2016: 235,778,031 and 31 December 2015: 219,677,168.

CBL Corporation Limited

Directors' Declaration

The directors are responsible for the preparation, in accordance with New Zealand law and generally accepted accounting practice, of the financial statements which present fairly the financial position of CBL Corporation Limited and its consolidated subsidiary entities (the Group) as at 31 December 2016 and the results of their financial operations and cash flows for the year ended 31 December 2016.

The directors consider that the financial statements of the Group have been prepared using accounting policies appropriate to the Group's circumstances, consistently applied and supported by reasonable and prudent judgements and estimates and that all applicable New Zealand equivalents to International Financial Reporting Standards have been followed.

The directors believe that proper accounting records have been kept in accordance with the Financial Markets Conduct Act 2013.

The directors have responsibility for the maintenance of a system of internal controls designed to provide reasonable assurance as to the integrity and reliability of financial reporting. The directors consider that adequate steps have been taken to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

The directors are pleased to present the Group financial statements for the year ended 31 December 2016.

This annual report is dated 24 February 2017 and is signed in accordance with a resolution of the directors made pursuant to section 211(1)(k) of the Companies Act 1993.

The annual report is signed on behalf of the Board by

John Wells

Sir John Wells KNZM, Chairman

Peter Harris, Managing Director

CBL Corporation Limited

Statement of Profit or Loss

For the year ended 31 December 2016

	Note	Consolidated 2016 $'000	2015 $'000
Gross written premium - as insurer	2	**321,681**	242,604
Movement in gross unearned premium	2	**(24,558)**	(13,965)
Gross premiums	2	**297,123**	228,639
Premiums ceded	2	**(33,238)**	(15,091)
Net premiums	2	**263,885**	213,548
Other revenue	2	**69,575**	30,903
	2	**333,460**	244,451
Claims expense	3(b)	**(106,731)**	(102,072)
Reinsurance and other recoveries	3(b)	**20,372**	27,403
Net claims expense		**(86,359)**	(74,669)
Acquisition costs	9(a)	**(85,526)**	(69,106)
Other operating expenses	9(a)	**(85,402)**	(40,758)
Operating profit		**76,173**	59,918
Finance costs	9(a)	**(13,914)**	(6,296)
Capital raising, business combination and amortisation of acquired intangibles	9(a)	**(8,434)**	(8,755)
Foreign exchange translation adjustment	9(e)	**(9,761)**	3,863
Share of profit from associates	6(c)	**55**	810
Profit before tax		**44,119**	49,540
Income tax expense	7(d)	**(13,409)**	(14,030)
Profit for the year		**30,710**	35,510
Profit attributable to:			
Shareholders		**29,743**	35,488
Non-controlling interest		**967**	22
		30,710	35,510
Earnings per share			
Basic and diluted earnings per share (cents)	5(c)	**13.31**	20.88

The above statement should be read in conjunction with the accompanying notes of the financial statements.

CBL Corporation Limited

Statement of Comprehensive Income

For the year ended 31 December 2016

		Consolidated	
		2016	2015
	Note	**$'000**	$'000
Profit for the year		**30,710**	35,510
Other comprehensive income:			
Items that will be reclassified to profit or loss when specific conditions are met			
Exchange differences on translating foreign controlled entities		**(4,201)**	(455)
Total comprehensive income for the year		**26,509**	35,055
Total comprehensive income attributable to:			
Shareholders		**25,566**	35,036
Non-controlling interest		**943**	19

The above statement should be read in conjunction with the accompanying notes of the financial statements.

CBL Corporation Limited

Statement of Financial Position

As at 31 December 2016

	Note	2016 $'000	2015 $'000
		Consolidated	
ASSETS			
Cash and cash equivalents	3(e)	**403,894**	296,012
Other financial assets	3(e)	**67,295**	59,222
Insurance receivables	3(a)	**135,702**	101,452
Other receivables	7(b)	**214,198**	26,041
Loans	7(b)	**-**	9,219
Current tax receivable		**662**	4,870
Recoveries on outstanding claims	3(b)	**91,671**	104,925
Deferred reinsurance expense	3(c)	**15,689**	16,489
Deferred acquisition costs	3(c)	**44,833**	38,380
Deferred tax assets	7(d)	**3,351**	3,193
Property, plant and equipment		**8,609**	3,456
Investment property		**-**	10,500
Investments in associates	6(c)	**3,571**	3,511
Intangible assets	7(a)	**59,501**	13,311
Goodwill	7(a)	**154,953**	53,372
TOTAL ASSETS		**1,203,929**	743,953
LIABILITIES			
Other payables	7(c)	**322,017**	23,246
Insurance payables	7(c)	**5,952**	24,577
Current tax liabilities		**5,728**	2,872
Unearned premium liability	3(d)	**166,958**	144,061
Employee benefits provision		**4,667**	1,578
Contingent consideration	7(c)	**15,321**	3,608
Deferred tax liabilities	7(d)	**21,466**	9,558
Outstanding claims liability	3(b)	**272,291**	275,550
Borrowings	5(a)	**96,909**	65,215
TOTAL LIABILITIES		**911,309**	550,265
NET ASSETS		**292,620**	193,688
EQUITY			
Share capital	5(b)	**168,602**	110,070
Reserves	5(b)	**(5,076)**	(899)
Retained earnings	5(b)	**97,441**	84,561
Total equity attributed to shareholders		**260,967**	193,732
Non-controlling interest		**31,653**	(44)
TOTAL EQUITY		**292,620**	193,688

The financial statements were approved for issue by the Board on 24 February 2017.

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Sir John Wells KNZM, Chairman **Peter Harris, Managing Director**

The above statement should be read in conjunction with the accompanying notes of the financial statements.

CBL Corporation Limited

Statement of Changes in Equity

For the year ended 31 December 2016

2016						**Consolidated**
	Note	**Share capital $'000**	**Retained earnings $'000**	**Reserves $'000**	**Non controlling interests $'000**	**Total equity $'000**
Balance at 1 January 2016		**110,070**	**84,561**	**(899)**	**(44)**	**193,688**
Comprehensive income						
Profit for the year		**-**	**29,743**	**-**	**967**	**30,710**
Other comprehensive income						
Currency translation differences		**-**	**-**	**(4,177)**	**(24)**	**(4,201)**
Total comprehensive income		**-**	**29,743**	**(4,177)**	**943**	**26,509**
Transactions with shareholders						
Issue of shares	5(b)	**55,396**	**-**	**-**	**-**	**55,396**
Share issue costs	5(b)	**(1,643)**	**-**	**-**	**-**	**(1,643)**
Dividends provided for or paid	5(d)	**-**	**(16,863)**	**-**	**-**	**(16,863)**
Purchase of treasury shares	5(b)	**(2,673)**	**-**	**-**	**-**	**(2,673)**
Reissue of treasury shares	5(b)	**7,452**	**-**	**-**	**-**	**7,452**
Non-controlling interest on SFS acquisition	6(a)	**-**	**-**	**-**	**30,754**	**30,754**
Total transactions with shareholders		**58,532**	**12,880**	**(4,177)**	**31,697**	**98,932**
Balance at 31 December 2016		**168,602**	**97,441**	**(5,076)**	**31,653**	**292,620**

2015						**Consolidated**
	Note	Share capital $'000	Retained earnings $'000	Reserves $'000	Non controlling interests $'000	Total equity $'000
Balance at 1 January 2015		18,000	49,903	(444)	-	67,459
Comprehensive income						
Profit for the year		-	35,488	-	22	35,510
Other comprehensive income						
Currency translation differences		-	-	(455)	(3)	(458)
Total comprehensive income		-	35,488	(455)	19	35,052
Transactions with shareholders						
Issue of shares	5(b)	98,432	-	-	-	98,432
Share issue costs	5(b)	(6,362)	-	-	-	(6,362)
Other movements		-	-	-	(63)	(63)
Dividends provided for or paid	5(d)	-	(830)	-	-	(830)
Total transactions with shareholders		92,070	34,658	(455)	(44)	126,229
Balance at 31 December 2015		110,070	84,561	(899)	(44)	193,688

The above statement should be read in conjunction with the accompanying notes of the financial statements.

CBL Corporation Limited

Statement of Cash Flows

For the year ended 31 December 2016

	Note	2016 $'000	2015 $'000
		Consolidated	
CASH FLOWS FROM/(TO) OPERATING ACTIVITIES:			
Premium received		**282,661**	233,119
Reinsurance and other recoveries received		**28,656**	8,945
Claims costs paid		**(100,857)**	(56,318)
Premium ceded payments		**(34,045)**	(14,765)
Interest received		**4,188**	4,264
Finance costs		**(9,764)**	(5,820)
Movements in security deposits held		**(237)**	(2,878)
Income tax paid		**(8,448)**	(8,448)
Other operating receipts		**69,837**	29,762
Commission paid		**(86,864)**	(71,330)
Other operating payments		**(88,371)**	(41,200)
Net cash flows from operating activities	9(c)	**56,756**	75,331
CASH FLOWS FROM/(TO) INVESTING ACTIVITIES:			
Net cash flows on acquisition of subsidiaries, net of cash acquired	6(a)	**25,111**	(39,075)
Inflows/(outlays) for property and equipment, and investment property		**9,235**	(1,271)
Payments for intangible assets		**(3,174)**	(1,346)
Net receipts/(payments) for financial assets		**(8,409)**	10,679
Movements in loans with non-related parties		**(971)**	(111)
Movements in loans with related parties		**-**	4,157
Net cash flows from investing activities		**21,792**	(26,967)
CASH FLOWS FROM/(TO) FINANCING ACTIVITIES:			
Repayment of borrowings		**(57,213)**	-
Proceeds from borrowings		**65,000**	-
Dividends paid to equity holders	5(d)	**(16,863)**	(830)
Proceeds from the issue of shares	5(b)	**62,848**	88,017
Purchase of treasury shares		**(2,673)**	-
Payment of share issue transaction costs	5(b)	**(1,643)**	(8,802)
Net cash flows from financing activities		**49,456**	78,385
Net movement in cash held		**128,004**	126,749
Effects of exchange rates on balances of cash held in foreign currencies		**(20,122)**	2,969
Cash and cash equivalents at start of year	3(e)	**296,012**	166,294
Cash and cash equivalents at end of year	3(e)	**403,894**	296,012

The above statement should be read in conjunction with the accompanying notes of the financial statements.

1 Information about this report

(a) General information

CBL Corporation Limited (CBL, Parent or Company), incorporated on 18 June 2012, is a FMC Reporting Entity under the Financial Markets Conduct Act 2013 and is a company limited by shares, incorporated and domiciled in New Zealand. Its registered office is Level 8, 51 Shortland Street, Auckland 1010, New Zealand. This financial report is for the reporting year ended 31 December 2016 presenting consolidated financial statements for the Company and its subsidiaries (the Group).

The principal operating activities of the Group include:

- Underwriting of general insurance through CBL Insurance Limited (CBL Insurance). CBL Insurance is a New Zealand domiciled non-life insurer, regulated by the Reserve Bank of New Zealand (RBNZ), specialising in writing niche building and construction related credit and financial surety insurance, bonding, and reinsurance globally.

- Underwriting of general insurance through Assetinsure Pty Limited (AI). AI is an Australian domiciled non-life insurer, regulated by the Australian Prudential Regulation Authority (APRA), specialising in surety, financial risk, credit enhancement and risk.

- Underwriting of general insurance through CBL Insurance Europe DAC (CBLIE). CBLIE is an Ireland based insurance company, regulated by the Central Bank of Ireland. CBLIE specialises in niche construction related credit and financial surety insurance, professional indemnity, property and travel bonding throughout the European Union.

- Provision of insurance services as an agent through European Insurance Services Limited (EISL). EISL is a United Kingdom (UK) domiciled managing general agency (MGA) regulated by the Financial Conduct Authority (FCA), specialising in arranging builders warranty, liability insurance and other related products.

- Provision of speciality insurance services as an agent through Profession Fee Protection Limited (PFP). PFP is a leading provider of tax investigation fee protection insurance. PFP is a UK domiciled MGA and is regulated by the FCA.

- Provision of insurance services as an agent through Securities and Financial Solutions Europe S.A (SFS). SFS is a Luxembourg based MGA regulated by the Commissariat Aux Assurances (CAA), specialising in arranging builders warranty, liability insurance and other related products, operating throughout France and the French dominions. References to SFS in this annual report include IMS Expert Europe (IMS), SFS's claims management operation.

This general purpose financial report was authorised by the Board of Directors for issue on 24 February 2017.

(b) Statement of compliance

This general purpose financial report has been prepared in accordance with Generally Accepted Accounting Practice in New Zealand. The financial report complies with New Zealand equivalents to International Financial Reporting Standards (NZ IFRS), International Financial Reporting Standards (IFRS) and other applicable Financial Reporting Standards, as appropriate for profit oriented entities. The Company is a profit oriented entity. These financial statements are prepared in accordance with the Financial Markets Conduct Act 2013 (FMC Act) and the Companies Act 1993 (Companies Act), and comply with these Acts.

The financial statements also comply, where relevant, with the Insurance (Prudential Supervision) Act 2010 (IPSA) and associated regulations.

1 Information about this report (continued)

(c) Basis of preparation

The financial statements have been prepared generally on the basis of historical cost principles, as modified by certain exceptions noted in the financial report, with the principal exceptions being the measurement of the investment property, outstanding claims liability and assets backing insurance liabilities that are measured at fair value.

The presentation currency used for the preparation of this financial report is New Zealand dollars (NZD) which is the functional currency of the Company. Transactions in foreign currencies are initially recorded in the functional currency at rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the reporting date. All differences are taken to the Statement of Profit or Loss (SOPL). Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions and are not subsequently restated.

The SOPL and Statement of Financial Position (SOFP) of all the Group entities that have functional currencies different from the presentation currency are translated into the presentation currency as follows:

- Assets and liabilities are translated at the closing rate;
- Income and expenses for each SOPL item are translated at exchange rates prevailing at the dates of the transactions; and
- All resulting exchange differences are recognised in Other Comprehensive Income (OCI) as a separate component of equity. Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition are treated as assets and liabilities of the foreign operation and translated at the closing rate.

All values are rounded to the nearest thousand dollars ($'000) unless otherwise stated.

(d) Changes to comparatives

The financial statements have been streamlined in the current year with notes reordered and grouped to provide users with better access to information and understand its relevance. The explanation of the Group's accounting policies has been simplified and disclosed within the relevant notes in order to enhance the understanding of the financial statements. Key estimates and judgements have also been highlighted throughout the notes to increase transparency. No changes were made to the amounts recognised in the financial statements as a result, however the Group has made some changes to presentation as set out in note 1(e) below.

(e) Significant accounting policies

The significant accounting policies adopted in the preparation of this financial report are set out in the relevant notes. The accounting policies adopted in the preparation of this financial report have been applied consistently by all entities in the Group and are the same as those applied for the previous reporting period unless otherwise noted.

i. Adoption of new and revised accounting standards

In the current year there were no new or amended accounting standards that had a material impact on the financial statements of the Group. Information about newly issued New Zealand accounting standards that will be adopted by the Group when they become effective is set out in note 9(d).

ii. Changes to accounting policies

The Group changed its accounting policy for the presentation of Comprehensive Income and adopted the alternative

1 Information about this report (continued)

(e) Significant accounting policies (continued)

presentation allowed under NZ IAS 1 Presentation of Financial Statements to present items of Other Comprehensive Income in a separate statement. The reason for this change is to provide a clearer distinction between impacts on Profit or Loss and impacts on OCI.

(f) Significant accounting judgments, estimates and assumptions

The Group makes estimates and assumptions that affect the reported amounts of assets and liabilities. Estimates and judgements are continually evaluated and are based on historical experience and other factors.

The estimates and related assumptions are considered to be reasonable. Actual results may differ from these estimates. Revisions to accounting estimates are recognised in the periods in which the estimates are revised, and future periods if relevant.

The areas where the estimates and assumptions involve a high degree of judgement or complexity and are considered significant to the financial statements are noted below:

- Claims and claim recoveries, refer note 3(b);
- Liability adequacy test, refer to note 3(d);
- Acquired intangible assets' initial measurement and determination of useful life, refer to notes 6(a) and 7(a);
- Intangible assets and goodwill impairment testing, refer to notes 7(a) and
- The identification and fair value of identifiable assets and liabilities in a business combination, refer to note 6(a).

2 Segmental reporting

Recognition and measurement

The Group has identified its operating segments based on the internal reports that are reviewed and used by the Board of Directors (being the chief operating decision maker) in assessing performance and in determining the allocation of resources.

The reportable operating segments are based on assets and operations engaged in providing products or services that are subject to risks and returns that are different to those of other operating segments. Intra-Group transactions between segments have been accounted for on the same basis as the Group accounting policies.

2 Segmental reporting (continued)

Recognition and measurement (continued)

31 December 2016	CBL Ins. $'000	AI $'000	CBLIE $'000	EISL $'000	PFP $'000	SFS $'000	CBL $'000	ISR* $'000	Other $'000	Total $'000
Gross written premium - as insurer and MGA	**247,455**	**46,134**	**39,877**	**52,560**	**-**	**67,188**	**-**	**(18,456)**	**-**	**434,758**
Gross written premium - as insurer										
Policyholders	**12,727**	**46,144**	**39,876**	**-**	**-**	**-**	**-**	**-**	**-**	**98,747**
Reinsurers	**234,728**	**(9)**	**-**	**-**	**-**	**-**	**-**	**(11,785)**	**-**	**222,934**
Gross written premium - as insurer	**247,455**	**46,135**	**39,876**	**-**	**-**	**-**	**-**	**(11,785)**	**-**	**321,681**
Movement in gross unearned premium provision	**(17,787)**	**5,820**	**(22,728)**	**-**	**-**	**-**	**-**	**10,137**	**-**	**(24,558)**
Total gross premium earned - as insurer	**229,668**	**51,955**	**17,148**	**-**	**-**	**-**	**-**	**(1,648)**	**-**	**297,123**
Ceded premium - as insurer										
Written premium ceded	**(7,434)**	**(24,568)**	**(12,708)**	**-**	**-**	**-**	**-**	**11,785**	**-**	**(32,925)**
Movement in unearned ceded premium provision	**3,202**	**(2,788)**	**9,410**	**-**	**-**	**-**	**-**	**(10,137)**	**-**	**(313)**
Total earned premium ceded - as insurer	**(4,232)**	**(27,356)**	**(3,298)**	**-**	**-**	**-**	**-**	**-**	**-**	**(33,238)**
Total net earned premium - as insurer	**225,436**	**24,599**	**13,850**	**-**	**-**	**-**	**-**	**-**	**-**	**263,885**
Other revenue	**2,728**	**14,455**	**23**	**13,751**	**8,666**	**32,973**	**18,439**	**(21,488)**	**28**	**69,575**
Total revenue	**228,164**	**39,054**	**13,873**	**13,751**	**8,666**	**32,973**	**18,439**	**(21,488)**	**28**	**333,460**
Net claims expense	**(74,703)**	**(7,974)**	**(3,682)**	**-**	**-**	**-**	**-**		**-**	**(86,359)**
Acquisition costs	**(74,160)**	**(7,079)**	**(6,313)**	**-**	**-**	**-**	**-**		**2,026**	**(85,526)**
Underwriting and operating expenses	**(20,801)**	**(18,499)**	**(1,673)**	**(11,176)**	**(6,818)**	**(27,431)**	**(1,601)**		**2,597**	**(85,402)**
Operating profit	**58,500**	**5,502**	**2,205**	**2,575**	**1,848**	**5,542**	**16,838**		**4,651**	**76,173**
Share of profit from associate	**-**	**-**	**-**	**-**	**-**	**-**	**55**		**-**	**55**
Earnings before interest, tax, depreciation and amortisation	**58,845**	**6,655**	**2,227**	**2,620**	**1,947**	**6,125**	**12,257**		**(26,071)**	**64,605**
Interest expense	**-**	**-**	**-**	**-**	**(57)**	**(627)**	**(12,310)**		**(920)**	**(13,914)**
Depreciation and amortisation	**(347)**	**(1,140)**	**-**	**(134)**	**(99)**	**(1,400)**	**-**		**(3,452)**	**(6,572)**
Profit/(loss) before income tax	**58,498**	**5,515**	**2,227**	**2,486**	**1,791**	**4,098**	**(53)**		**(30,443)**	**44,119**
Income tax (expense)/credit	**(11,496)**	**(1,527)**	**(281)**	**135**	**17**	**(1,254)**	**(47)**		**1,044**	**(13,409)**
Profit/(loss) for the year	**47,002**	**3,988**	**1,946**	**2,621**	**1,808**	**2,844**	**(100)**		**(29,399)**	**30,710**
Segment assets	**528,485**	**136,480**	**55,244**	**9,334**	**3,585**	**384,295**	**243,215**		**(156,709)**	**1,203,929**
Segment liabilities	**372,816**	**89,669**	**36,052**	**6,091**	**2,359**	**351,666**	**64,239**		**(11,583)**	**911,309**

* ISR: Intersegment revenue

CBL Corporation Limited

Notes to the Financial Statements

For the year ended 31 December 2016

2 Segmental reporting (continued)

31 December 2015	CBL Ins. $'000	AI $'000	CBLIE $'000	EISL $'000	PFP $'000	SFS $'000	CBL $'000	ISR* $'000	Other $'000	Total $'000
Gross written premium - as insurer and MGA	**216,278**	**15,907**	**10,419**	**51,563**	**-**	**-**	**-**	**-**	**-**	**294,167**
Gross written premium - as insurer										
Policyholders	13,306	14,061	10,419	-	-	-	-	-	-	37,786
Reinsurers	202,972	1,846	-	-	-	-	-	-	-	204,818
Gross written premium - as insurer	216,278	15,907	10,419	-	-	-	-	-	-	242,604
Movement in gross unearned premium provision	(17,499)	4,746	(1,212)	-	-	-	-	-	-	(13,965)
Total gross premium earned - as insurer	198,779	20,653	9,207	-	-	-	-	-	-	228,639
Ceded premium - as insurer										
Written premium ceded	(2,657)	(7,798)	(2,114)	-	-	-	-	-	-	(12,569)
Movement in unearned ceded premium provision	233	(3,194)	439	-	-	-	-	-	-	(2,522)
Total earned premium ceded - as insurer	(2,424)	(10,992)	(1,675)	-	-	-	-	-	-	(15,091)
Total net earned premium - as insurer	196,355	9,661	7,532	-	-	-	-	-	-	213,548
Other revenue	8,988	7,147	58	16,813	676	-	7,044	(10,723)	900	30,903
Total revenue	205,343	16,808	7,590	16,813	676	-	7,044	(10,723)	900	244,451
Net claims expense	(70,343)	(2,188)	(2,138)	-	-	-	-		-	(74,669)
Acquisition costs	(66,234)	(236)	(2,636)	-	-	-	-		-	(69,106)
Underwriting and operating expenses	(18,225)	(7,143)	(984)	(11,997)	(334)	-	(1,584)		(491)	(40,758)
Operating profit	50,541	7,241	1,832	4,816	342	-	5,460		409	59,918
Share of profit from associate	340	-	-	422	-	-	48		-	810
Earnings before interest, tax, depreciation and amortisation	51,115	3,597	1,848	5,583	348	-	3,341		(5,136)	60,696
Interest expense	-	-	-	-	-	-	(5,495)		(801)	(6,296)
Depreciation and amortisation	(234)	(108)	-	(136)	(11)	-	-		(4,371)	(4,860)
Profit/(loss) before income tax	50,881	3,489	1,848	5,447	337	-	(2,154)		(10,308)	49,540
Income tax (expense)/credit	(12,148)	(1)	(232)	(773)	(60)	-	25		(841)	(14,030)
Profit/(loss) for the year	38,733	3,488	1,616	4,674	277	-	(2,129)		(11,149)	35,510
Segment assets	456,190	164,225	20,472	10,309	4,650	-	194,621		(106,514)	743,953
Segment liabilities	331,024	124,480	9,161	7,671	5,202	-	57,216		15,511	550,265

* ISR: Intersegment revenue

Refer to note 1(a) for further details on each reportable operating segment. The Other column includes Intra-Group eliminations other than revenue eliminations which are included in the ISR column.

Major Customers

The Group writes a significant amount of its business in a reinsurance capacity. Business written with the following two insurers contributed the following towards the total gross written premium:

- Business written with Elite Insurance Company Limited contributed 45.6% of the total gross written premium during the year (2015: 58.8%).

2 Segmental reporting (continued)

- Business written with Alpha Insurance A/S contributed 11.4% of the total gross written premium during the year (2015: 13.1%).

3 Insurance Business

All of the general insurance products and reinsurance products on offer, or utilised, meet the definition of an insurance contract (a contract under which one party, the insurer, accepts significant insurance risk from another party, the policyholder, by agreeing to compensate the policyholder if a specified uncertain future event, the insured event, adversely affects the policyholder) and none of the contracts contain embedded derivatives or is required to be unbundled. Insurance contracts that meet the definition of a financial guarantee contract are accounted for as insurance contracts. This means that all of the general insurance products are accounted for in the same manner.

Analysis of general insurance underwriting result:

		Consolidated
	2016	2015
	$'000	$'000
Gross premium revenue	**297,123**	228,639
Outwards reinsurance expense	**(33,238)**	(15,091)
Net premium income	**263,885**	213,548
Claims expense	**(106,731)**	(102,072)
Reinsurance and other recoveries	**20,372**	27,403
Net claims expense	**(86,359)**	(74,669)
Acquisition costs	**(85,526)**	(69,106)
Other underwriting expenses	**(29,054)**	(26,352)
Underwriting result	**62,946**	43,421

The above table is a summation of the insurance underwriting entities CBL Insurance, CBLIE and AI (see segmental note 2). The components of the insurance underwriting result are explained below.

3 Insurance Business (continued)

(a) Insurance premium revenue and other revenue

(i) Recognition and measurement

(1) Premium revenue

Premium revenue comprises amounts charged to policyholders (direct premium) or other insurers (inwards reinsurance premium) for insurance contracts. Premium is recognised as earned from the date of the attachment of risk over the period of the related insurance contracts in accordance with the pattern of the incidence of risk expected under the contracts. The pattern of the risks underwritten is generally matched by the passing of time. Premium for unclosed business (business written close to the reporting date where the attachment of risk is prior to the reporting date and there is insufficient information to identify the business accurately) is brought to account based on previous experience with due allowance for any changes in the pattern of new business and renewals.

Unearned premiums are those proportions of premiums written in a year that relate to periods of risk after the reporting date. The unearned portion of premium is recognised as an unearned premium liability (UPL) in the SOFP.

(2) Other revenue

Fee based revenue derived from SFS, EISL and PFP consists of commissions, policy fees and profit commissions associated with the placement of insurance contracts in the ordinary course of business. Revenue is shown net of VAT, returns, rebates and discounts. The Group recognises revenue when: the amount of revenue can be reliably measured; it is probable that future economic benefits will flow to the entity; and specific criteria have been met, for example the insurance policy has incepted. Profit commission is recognised when the right to such profit commission is established through a contract but only to the extent that a reliable estimate of the amount due can be made.

(3) Premium receivable

Premium receivable is recognised as the amount due at the point the insurer becomes on risk, and is normally settled between 30 days and 12 months. The recoverability of premium receivable is assessed and provision is made for impairment based on objective evidence and having regard to past default experience. Premium receivable is presented in the SOFP net of any provision for impairment.

(ii) Composition

	Consolidated	
	2016	2015
	$'000	$'000
Premium revenue and related receivables	**135,702**	101,452

3 Insurance Business (continued)

(b) Outstanding claims liability, claims expense and related reinsurance and other recoveries

(i) Recognition and measurement

(1) Outstanding claims

The outstanding claims liability is measured as the central estimate of the present value of expected future payments relating to claims incurred at the reporting date with an additional risk margin added to allow for inherent uncertainty in the central estimate. The outstanding claims liability includes claims that are expected to be reported to CBL in the future. The expected future payments include those in relation to claims reported but not yet paid or not yet paid in full, claims incurred but not reported (IBNR) and the anticipated direct and indirect claims handling costs and is estimated based on a variety of actuarial techniques that analyse experience, trends and other relevant factors. The liability is discounted to present value using a risk free rate.

The estimation process involves using the entity's specific data, relevant industry data and more general economic data.

The central estimate of the outstanding claims liability is intended to contain no deliberate or conscious over or under estimation and is commonly described as providing the mean of the distribution of future cash flows. It is considered appropriate to add a risk margin to the central estimate in order for the claims liability to have an increased probability of sufficiency.

The risk margin refers to the amount by which the liability recognised in the financial statements is greater than the central estimate of the liability.

(2) Related reinsurance and other recoveries

Reinsurance and other recoveries received or receivable on paid claims and on outstanding claims are recognised in the SOPL. Reinsurance recoveries on paid claims are presented as part of other receivables net of any provision for impairment based on objective evidence for individual receivables. Reinsurance and other recoveries on outstanding claims are measured as the present value of the expected future receipts calculated on the same basis as the outstanding claims liability, and therefore includes estimates for recoveries on claims that have not yet been notified to CBL. Reinsurance does not relieve the originating insurer of its liabilities to policyholders and is presented separately in the SOFP.

(ii) Significant areas of judgment and estimation

The estimation of the outstanding claims liability involves a number of assumptions, and it is likely that the final outcome will be different from the original liability established.

As at 31 December 2016, the outstanding claims liability for the following companies were assessed by their actuary and each actuary was satisfied as to the nature, sufficiency and accuracy of the data used to determine the outstanding claims liability. Appointed actuaries for each insurance company are as follows:

- CBL Insurance was evaluated by Paul Rhodes (Fellow of the New Zealand Society of Actuaries) of PricewaterhouseCoopers;
- AI was evaluated by Karl Marshall (Fellow of the Institute of Actuaries of Australia) of Quantium; and
- CBLIE was evaluated by Dermot Marron (Fellow of the Society of Actuaries in Ireland) of Allied Risk Management.

Uncertainties surrounding the outstanding claims liability estimation process include those relating to the claims experience and ultimate loss ratio data, actuarial models and assumptions, the statistical uncertainty associated with a general insurance claims run-off process, and risks external to the Group. Uncertainty from these sources is examined for each class of business and expressed as a volatility measure relative to the net central estimate.

3 Insurance Business (continued)

(b) Outstanding claims liability, claims expense and related reinsurance and other recoveries (continued)

(ii) Significant areas of judgment and estimation (continued)

The determination of the overall risk margin takes into account the volatility of each class of business. The current risk margin, which has been determined after assessing the inherent uncertainty in the central estimate and the prevailing market environment, results in an overall probability of adequacy for the outstanding claims liability of 75.0% for CBL Insurance (2015: 75.0%), 75.0% for CBLIE (2015: 75.0%) and 75.0% for AI (2015: 75.0%).

The measurement of reinsurance and other recoveries on outstanding claims is also an inherently uncertain process involving estimates. The amounts are generally calculated using assumptions and methods similar to those used for the outstanding claims liability described below. Where possible, the valuation of reinsurance recoveries is linked directly to the valuation of the gross outstanding claims liability. Accordingly, the valuation of outstanding reinsurance recoveries is subject to similar risks and uncertainties as the valuation of the outstanding claims liability. Significant individual losses are analysed on a case by case basis for reinsurance purposes.

The following key actuarial assumptions were used in the measurement of outstanding claims and recoveries at the reporting date.

Central estimate, risk margin and assumptions	**CBL Insurance**	**CBLIE***	**AI**
2016			
Risk margin percentage applied to the net outstanding claims liability	**25.5%**	**24.0%**	**20.14%**
The probability of adequacy of the risk margin	**75.0%**	**75.0%**	**75.0%**
Average term to settlement	**3.0 years**	**1.2 years**	**2.5 years**
Inflation rate	**1.00-2.00%**	**-**	**4.0%**
Superimposed inflation rate	**0.00-2.50%**	**-**	**2.00-2.25%**
Discount rate	**2.32%**	**0.0-1.2%**	**1.66-4.22%**
Claims handling costs ratio	**4.10%**	**-**	**2.50-3.30%**
2015			
Risk margin percentage applied to the net outstanding claims liability	20.3%	5.1%	19.5%
The probability of adequacy of the risk margin	75.0%	75.0%	75.0%
Average term to settlement	3.2 years	1 year	2.1 years
Inflation rate	2.50-3.50%	-	3.75%
Superimposed inflation rate	0.00-2.50%	-	2.00-2.25%
Discount rate	1.39%	-	1.95-3.65%
Claims handling costs ratio	5.00%	-	1.50-3.30%

* The inflation rate is not explicitly derived.

3 Insurance Business (continued)

(b) Outstanding claims liability, claims expense and related reinsurance and other recoveries (continued)

(ii) Significant areas of judgment and estimation (continued)

Process used to determine assumptions:

(1) Average term to settlement

The average term to settlement relates to the expected payment pattern for claims. It is calculated by class of business and is generally based on historical settlement patterns. The average term to settlement, while not itself an assumption, provides a summary indication of the future cash flow pattern.

The average term to settlement is calculated from the original date of underwriting a policy. A large proportion of the business underwritten by CBL has long claims notification periods, including many with 10-year notification periods. The claims settlement is therefore, on average, many years after the date of original underwriting. Actual claims settlement periods, being from the date of claims notification to the date of claims payment, would be typically less than 90 days.

(2) Inflation and superimposed inflation rates

Insurance costs are subject to inflationary pressures. Economic inflation assumptions are set by reference to current economic indicators. Superimposed inflation reflects the past tendency for some costs, such as court awards, to increase at levels in excess of economic inflation.

(3) Discount rate

The discount rate is derived from market yields on government securities appropriate to the applicable country.

(4) Claims handling costs ratio

The future claims handling costs ratio is calculated with reference to the historical experience of claims handling costs as a percentage of past payments.

(iii) Composition

(1) Net claims expense in the SOPL

Current year claims relate to claim events that occurred in the current financial year. Prior year claims relate to a reassessment of the claim events that occurred in all previous periods.

						Consolidated
	Current year	**Prior years**	**2016 Total**	Current year	Prior years	2015 Total
	$'000	**$'000**	**$'000**	$'000	$'000	$'000
Gross claims	**126,540**	**(19,809)**	**106,731**	108,897	(6,825)	102,072
Reinsurance and other recoveries	**(34,356)**	**13,984**	**(20,372)**	(35,205)	7,802	(27,403)
Net claims expense	**92,184**	**(5,825)**	**86,359**	73,692	977	74,669

3 Insurance Business (continued)

(b) Outstanding claims liability, claims expense and related reinsurance and other recoveries (continued)

The prior years movements are due to a combination of strengthening to and releases from prior years claims reserves. This is as a result of the actuarial reassessment of these reserves based upon further claims development information.

The gross claims total of $106.7 million consists of $72.7 million (2015: $74.6 million) for inwards business reinsured and the remaining balance relates to direct business.

The reinsurance and other recoveries total of $20.4 million consists of $4.8 million (2015: $17.1 million) for business reinsured and the remaining balance relates to direct business.

(2) Outstanding claims liability and related reinsurance and other recoveries recognised in the SOFP

	Consolidated	
	2016	2015
	$'000	$'000
(a) Composition of gross outstanding claims liability		
Gross central estimate - undiscounted	**247,296**	243,030
Claims handling costs	**9,180**	11,144
Risk margin	**38,696**	33,997
	295,172	288,171
Discount to present value	**(22,881)**	(12,621)
Gross outstanding claims liability - discounted	**272,291**	275,550

The outstanding claims liability includes $184.6 million (2015: $184.4 million) that is expected to be settled more than 12 months from the reporting date arising from claims (including future claims) expected to be reported over the future life of the insurance contracts (IBNR).

(b) Reinsurance and other recoveries receivable on outstanding claims

	Consolidated	
	2016	2015
	$'000	$'000
Recoveries - undiscounted	**101,473**	109,775
Discount to present value	**(9,802)**	(4,850)
Recoveries - discounted	**91,671**	104,925

Reinsurance and other recoveries includes $76.2 million (2015: $79.8 million) which is expected to be settled more than 12 months from the reporting date.

3 Insurance Business (continued)

(b) Outstanding claims liability, claims expense and related reinsurance and other recoveries (continued)

(3) Reconciliation of movements in discounted outstanding claims liability and reinsurance and other recoveries

						Consolidated
			2016			2015
	Gross	**Recoveries**	**Net**	Gross	Recoveries	Net
	$'000	**$'000**	**$'000**	$'000	$'000	$'000
Balance at the beginning of the financial year	**275,550**	**(104,925)**	**170,625**	158,761	(59,165)	99,596
Change in prior year claims reserve	**(19,809)**	**13,984**	**(5,825)**	(6,825)	7,802	977
Current year claims incurred	**126,540**	**(34,356)**	**92,184**	108,897	(35,205)	73,692
Claims paid during the year	**(92,095)**	**28,266**	**(63,829)**	(61,696)	7,090	(54,606)
Foreign exchange adjustment	**(16,671)**	**4,113**	**(12,558)**	2,866	(371)	2,495
Other	**(1,224)**	**1,247**	**23**	-	-	-
Acquisitions through business combinations	**-**	**-**	**-**	73,547	(25,076)	48,471
Balance at the end of the financial year	**272,291**	**(91,671)**	**180,620**	275,550	(104,925)	170,625

3 Insurance Business (continued)

(b) Outstanding claims liability, claims expense and related reinsurance and other recoveries (continued)

(4) Claims development

	2011 and prior $'000	2012 $'000	2013 $'000	2014 $'000	2015 $'000	2016 $'000	Total $'000
Net ultimate claims payments							
Development							
At end of underwriting year		**23,187**	**48,756**	**60,241**	**63,127**	**50,219**	**245,530**
One year later		**35,955**	**55,275**	**69,143**	**79,116**		**239,489**
Two years later		**40,946**	**57,254**	**65,896**			**164,096**
Three years later		**39,061**	**63,718**				**102,779**
Four years later		**38,143**					**38,143**
Current estimate of net ultimate claims payments	**997,346**	**38,143**	**63,718**	**65,896**	**79,116**	**50,219**	**1,294,438**
Cumulative payments made to date							**(1,148,614)**
Net undiscounted outstanding claims payments							**145,823**
Discount to present value							**(13,079)**
Net discounted outstanding claims payments							**132,744**
Claims handling costs							**9,180**
Risk margin							**38,696**
Net outstanding claims liability							**180,620**

3 Insurance Business (continued)

(b) Outstanding claims liability, claims expense and related reinsurance and other recoveries (continued)

(iv) Sensitivity analysis

The impact on the net outstanding claims liabilities before income tax to changes in key actuarial assumptions is summarised below. Each change has been calculated in isolation of the other changes and without regard to other SOFP changes that may simultaneously occur. Changes are stated net of reinsurance recoveries.

Assumption	Movement in assumption	CBL Insurance	CBLIE	AI
2016				
Average term to settlement	**+10.0%**	**(1,270)**	**-**	**(144)**
	-10.0%	**1,280**	**-**	**145**
Inflation and superimposed inflation rate	**+100 bps**	**4,475**	**-**	**752**
	-100 bps	**(4,333)**	**-**	**(675)**
Discount rate	**+100 bps**	**(4,196)**	**(35)**	**(675)**
	-100 bps	**4,416**	**36**	**752**
Claims handling costs ratio	**+100 bps**	**1,844**	**-**	**203**
	-100 bps	**(1,844)**	**-**	**(203)**
2015				
Average term to settlement	+10.0%	(94)	-	(215)
	-10.0%	94	-	217
Inflation and superimposed inflation rate	+100 bps	3,915	-	840
	-100 bps	(3,768)	-	(757)
Discount rate	+100 bps	(3,915)	(83)	757
	-100 bps	3,768	26	840
Claims handling costs ratio	+100 bps	1,968	-	279
	-100 bps	(1,968)	-	(279)

3 Insurance Business (continued)

(c) Deferred insurance assets

(i) Recognition and measurement

(1) Acquisition costs

Costs associated with obtaining and recording general insurance contracts are referred to as acquisition costs. These costs include commissions or brokerage paid to agents or brokers, premium collection costs, and risk assessment costs. Such costs are capitalised where they relate to the acquisition of new business or the renewal of existing business. These capitalised costs are presented as deferred acquisition costs, and are amortised on the same basis as the earning pattern of the premium over the period of the related insurance contracts. The balance of the deferred acquisition costs at the reporting date represents the capitalised acquisition costs relating to unearned premium.

(2) Outward reinsurance expense

Premium ceded to reinsurers is recognised as an expense in accordance with the pattern of reinsurance service received. Accordingly, a portion of outwards reinsurance premium expense is treated as a prepayment and presented as deferred outwards reinsurance expense in the SOFP at the reporting date.

(ii) Composition

(1) Deferred acquisition costs (DAC)

		Consolidated
	2016	2015
	$'000	$'000
DAC at the beginning of the financial year	**38,380**	35,718
Acquisition costs deferred	**92,311**	71,758
Charged to profit	**(85,605)**	(69,184)
Movement in unexpired risk provision*	**79**	78
Other movements	**(332)**	10
DAC at the end of the financial year	**44,833**	38,380
Analysed as:		
Current	**38,381**	33,883
Non-current	**6,452**	4,497

*For details regarding the unexpired risk provision refer to note 3(d).

3 Insurance Business (continued)

(c) Deferred insurance assets (continued)

(2) Deferred reinsurance expense (DRE)

	Consolidated	
	2016	2015
	$'000	$'000
DRE at the beginning of the financial year	**16,489**	1,747
Reinsurance expenses deferred	**32,880**	13,216
Charged to profit	**(33,238)**	(15,091)
Addition through business acquisition	**-**	17,333
Other movements	**(442)**	(716)
DRE at the end of the financial year	**15,689**	16,489
Analysed as:		
Current	**7,631**	12,003
Non-current	**8,058**	4,486

(d) Unearned premium liability and unexpired risk liability

(i) Recognition and measurement

(1) Unearned premium liability

Unearned premiums are those proportions of premiums written that relate to periods of risk after the reporting date. The unearned portion of premium is recognised as an unearned premium liability (UPL) in the SOFP.

(2) Unexpired risk liability

The liability adequacy test is an assessment of the carrying amount of the UPL and is conducted at each reporting date. If current estimates of the present value of the expected future cash flows relating to future claims arising from the rights and obligations under current general insurance contracts, plus an additional risk margin to reflect the inherent uncertainty in the central estimate, exceed the UPL (net of reinsurance) less related deferred acquisition costs, then the UPL is deemed to be deficient. The test is performed at the level of a portfolio of contracts that are subject to broadly similar risks and that are managed together as a single portfolio. Any deficiency arising from the test is recognised in the SOPL with the corresponding impact on the SOFP recognised first through the write down of deferred acquisition costs for the relevant portfolio of contracts, with any remaining balance being recognised in the SOFP as an unexpired risk liability.

The test is based on prospective information and therefore is dependent on assumptions and judgements. The risk margin used in testing individual portfolios is based on an assessment of the recent historical experience in relation to the volatility of the insurance margin.

3 Insurance Business (continued)

(d) Unearned premium liability and unexpired risk liability (continued)

(ii) Composition

(1) Reconciliation of movements in the unearned premium liability (UPL)

	Consolidated	
	2016	2015
	$'000	$'000
UPL at the start of the financial year	**144,061**	89,226
Premium written	**321,681**	242,604
Premium earned	**(297,123)**	(228,639)
Addition through business acquisition	**-**	42,696
Other movements	**(1,661)**	(1,826)
UPL at the end of the financial year	**166,958**	144,061
Analysed as:		
Current	**132,683**	131,356
Non-current	**34,275**	12,705

(2) Unexpired risk liability

The liability adequacy test as at 31 December 2016 resulted in a surplus.

The liability adequacy test as at 31 December 2015 identified a deficit of $0.1 million. The underlying components for the individual portfolios that had deficiencies are as follows:

- The unearned premium liability was $1.1 million;
- Deferred acquisition costs were $0.4 million; and
- The present value of expected future cash flows for future claims was $0.8 million comprised of the discounted central estimate of $0.7 million and a risk margin of $0.1 million.

Accordingly, at 31 December 2015 deferred acquisition costs were written down by the movement in the deficit. At 31 December 2016 the adjustment has been written back into deferred acquisition costs, refer to note 3(c)(ii).

3 Insurance Business (continued)

(e) Assets backing insurance liabilities

(i) Recognition and measurement

Financial assets at fair value

Financial assets are categorised as "fair value through profit or loss" (FVTPL) when they are held for trading for the purpose of short term profit taking, or when they are designated as such to avoid an accounting mismatch or to enable performance evaluation where a group of financial assets is managed by key management personnel on a fair value basis in accordance with a documented risk management or investment strategy.

The assets in insurance entities backing general insurance liabilities are those assets required to cover the technical insurance liabilities (outstanding claims and unearned premium) plus an allowance for solvency, and are designated as at FVTPL and include cash and cash equivalents and other financial assets. The assets in insurance entities that do not back general insurance liabilities are property, plant and equipment.

Financial assets at FVTPL are recognised when the entity becomes a party to the contractual provisions of the instrument. For financial assets, this is equivalent to the date that the Group commits itself to either the purchase or the sale of the asset. These assets are initially measured at fair value excluding transaction costs, which are expensed to the SOPL immediately. Such assets are subsequently measured at fair value (excluding interest) with changes in carrying value being included in the SOPL.

Cash and cash equivalents include cash on hand, deposits held at call with banks and other short term highly liquid investments with original maturities of three months or less that are convertible to a known amount of cash and subject to an insignificant risk of change in value. Cash equivalents include bank balances held in trust by insurers on CBL's behalf for the purpose of settling potential future claims. The fair value of cash assets reflect the face value of the amounts deposited or drawn.

All Government securities and listed shares are recognised at fair value, being the quoted bid price of the investment, and for unlisted fixed interest securities and unlisted investments determined by appropriate valuation techniques, such as comparison to peer group multiples which are adjusted for appropriate discounts.

The Group also has investments in unlisted shares that are not traded in an active market but that are also classified as Available-For-Sale financial assets (“AFS”) and stated at fair value at the end of each reporting period. Fair value is determined in the manner described in note 3(e)(iii). Changes in the carrying amount of available-for-sale financial assets are recognised in other comprehensive income and accumulated under the heading of available-for-sale revaluation reserve.

Investment income, comprising interest, is brought to account on an effective interest basis.

3 Insurance Business (continued)

(e) Assets backing insurance liabilities (continued)

(ii) Composition

(1) Cash and Cash Equivalents

	Consolidated	
	2016	2015
	$'000	$'000
Cash at bank and in hand	**366,109**	237,452
Cash equivalents held in trust as reinsurance security	**37,785**	58,560
Total cash and cash equivalents	**403,894**	296,012
Cash and cash equivalents held CBL's non-insurance entities	**(90,687)**	(22,882)
Total cash and cash equivalents backing insurance liabilities	**313,207**	273,130

Cash equivalents held in trust as reinsurance security comprises bank deposits held in trust on CBL Insurance's behalf, for the purpose of settling ongoing and potential future claims obligations that CBL Insurance may have under quota share reinsurance arrangements. These funds earn interest for the Group, and the funds are available to be withdrawn.

(2) Other financial assets

	Consolidated	
	2016	2015
	$'000	$'000
Government and fixed interest securities	**51,540**	59,222
Listed shares	**7,613**	-
Unlisted investments	**8,142**	-
Total other financial assets	**67,295**	59,222
Other financial assets held in CBL's non-insurance entities*	**(8,229)**	-
Total other financial assets backing insurance liabilities	**59,066**	59,222
Analysed as:		
Current	**59,153**	52,847
Non-current*	**8,142**	6,375

* Primarily unlisted shares in 2016

3 Insurance Business (continued)

(e) Assets backing insurance liabilities (continued)

(iii) Fair value hierarchy

The investments carried at fair value have been classified under three levels of the IFRS fair value hierarchy as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset whether directly (i.e. as prices) or indirectly (i.e. derived from prices)
- Level 3: inputs for the asset that are not based on observable market data (unobservable inputs)

	Consolidated	
	2016	2015
	$'000	$'000
Level 1	**9,232**	4,902
Level 2	**49,921**	54,320
Level 3	**8,142**	-
Total other financial assets	**67,295**	59,222

There were no transfers between levels in the current or prior year.

The Level 3 investment is a 9.0% equity interest in a private entity. The selected valuation approach is a comparison with publicly available peer group multiples. The multiples considered most relevant are the price to book value and also price to tangible book value, which are adjusted for appropriate discounts such as private company illiquidity.

(iv) Maturity analysis

	Consolidated	
	2016	2015
	$'000	$'000
Equity investments	**15,755**	-
Floating interest rate (at call)	**87**	2,221
Within 1 year or less	**51,453**	50,626
Within 1 to 3 years	**-**	6,375
Total other financial assets	**67,295**	59,222

4 Risk and capital management

(a) Insurance risk management

A key risk from operating in the general insurance industry is the exposure to insurance risk arising from underwriting general insurance contracts. The insurance contracts transfer risk to the insurer by indemnifying the policyholders against adverse effects arising from the occurrence of specified uncertain future events. There is a risk that the actual amount of claims to be paid in relation to contracts will be different from the amount estimated at the time a product was designed and priced. This is influenced by the frequency of claims, severity of claims, and subsequent development of claims. Therefore, the objective of the Group is to ensure that sufficient reserves are available to cover these liabilities.

The Group is exposed to this risk because the price for a contract must be set before the losses relating to the product are known. Hence the insurance business involves inherent uncertainty. The Group also faces other risks relating to the conduct of the general insurance business including financial risks, refer to note 4(b) and capital risks, refer to note 4(c).

The Group principally issues the following types of general insurance contracts: Decennial Liability, Dommages Ouvrage and other Builders Risk insurance products; Surety Bonds; Professional Indemnity; Credit Enhancement; and Completion Guarantees. The risk attachment periods under these products are short term and usually less than 12 months. The Builders Risk insurance products usually have a notification period of between one and ten years after the risk period and the other insurance policies are typically notified within 12 months.

A central part of the Group's overall risk management strategy is the effective management of the risks that affect the amount, timing and certainty of cash flows arising from insurance contracts.

(i) Mitigating insurance risk

The risk exposure is mitigated by diversification across a large portfolio of insurance contracts, industry sectors and geographical areas. The variability of risks is also improved by strong underwriting discipline and the implementation of underwriting strategy guidelines, as well as the use of reinsurance arrangements.

The Group purchases reinsurance as part of its risk mitigation programme. Reinsurance ceded is placed on both a proportional and non-proportional basis. The majority of proportional reinsurance is quota share reinsurance, which is taken out to reduce the overall exposure of the Group to certain classes of business. Non-proportional reinsurance is primarily excess-of-loss reinsurance designed to mitigate the Group’s net exposure to large losses.

The Group also limits its exposure by imposing maximum claim amounts on insurance contracts.

Amounts recoverable from reinsurers are estimated in a manner consistent with the outstanding claims provision and in accordance with reinsurance contracts. Although the Group has reinsurance arrangements it is not relieved of its direct obligations to its policyholders. The Group has a credit exposure to the extent that any reinsurer is unable to meet its obligations assumed under such reinsurance arrangements.

Initial claims determination is managed by the claims department of the insurance subsidiary with the assistance, where appropriate, of a loss adjuster or other parties with specialist knowledge. It is the Group's policy to respond to and settle all genuine claims in a timely manner and to pay claims fairly, based on policyholders' full entitlements. Claims provisions are established using valuation models and include a risk margin for uncertainty, refer to note 3(b).

To further reduce the risk exposure of the Group there are strict claim review policies in place to assess all new and ongoing claims and processes to review claims handling procedures regularly. Inflation risk is mitigated by taking expected inflation into account when estimating insurance contract liabilities.

(ii) Concentrations of insurance risk

The exposure to concentrations of insurance risk is mitigated by a portfolio diversified into many classes of business across different regions and by the utilisation of reinsurance.

4 Risk and capital management (continued)

(a) Insurance risk management (continued)

Concentration risk is particularly relevant in the case of catastrophes which generally result in a concentration of affected policyholders over and above the norm and that constitute the largest individual potential financial loss. Catastrophe losses are an inherent risk of the general insurance industry. Catastrophes that could affect the nature of business that the Group underwrites include financial crises and global market stresses. The nature and level of catastrophes in any period cannot be predicted accurately. The Group minimises this risk through its strong underwriting criteria, reinsurance and partnering with local experts. The Group has a history of low claims ratios, even when exposed to the abovementioned catastrophes.

Even though a large portion of the Group's business is derived from Europe, the overall spread of countries and products mitigates the concentration risk.

				Consolidated
		2016		2015
	$'000	**%**	$'000	%
GWP by region				
Australasia	**58,585**	**18.2**	29,213	12.0
Latin America	**18,012**	**5.6**	9,562	4.0
Middle East	**3,322**	**1.0**	5,186	2.1
South East Asia	**5,496**	**1.7**	5,117	2.1
Europe - France	**148,299**	**46.1**	134,269	55.4
Europe - Italy	**30,675**	**9.5**	24,691	10.2
Europe - Scandinavia	**22,583**	**7.0**	16,791	6.9
Europe - Other	**34,709**	**10.9**	17,775	7.3
Total	**321,681**		242,604	

(iii) Operational risk

Operational risk is the risk of loss arising from system failure, human error, fraud or external events. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications or lead to financial loss. The Group cannot expect to eliminate all operational risks, but by initiating a rigorous control framework and by monitoring and responding to potential risks, the Group is able to manage the risks. Controls include effective segregation of duties, access controls, authorisation and reconciliation procedures, staff education and assessment processes. Business risks such as changes in environment, technology and industry are monitored through the Group's strategic planning and budgeting processes.

The Group is subject to regulatory supervision in the jurisdictions in which it operates. The regulatory frameworks continue to evolve in a number of jurisdictions and at a minimum include requirements in relation to capital adequacy and the payment of dividends.

The Group operates a number of governance committees including an Audit and Financial Risk Committee, Governance and Remuneration Committee, and Investment and Treasury Committee, which are all committees of the Board, and also a management Underwriting Committee. In addition to oversight by the Group governance committees, various operating subsidiaries are also overseen by entity specific governance committees.

4 Risk and capital management (continued)

(a) Insurance risk management (continued)

(iv) Acquisition risk

Acquisition risks are principally managed by governance controls over the due diligence and subsequent integration process of significant acquisitions. These include performing appropriate due diligence for each target and after acquisition using a team of relevant and appropriate experts to manage the integration process.

(b) Financial risk management

The Group is exposed to a range of financial risks through its financial assets, financial liabilities, reinsurance assets and insurance liabilities.

Key aspects of the processes established to mitigate financial risks include:

- The Board convenes on a monthly basis, and the meetings include a review of the monthly management financial statements, management reports and financial risk reports. The Board comprises key executives and independent directors. The Board reviews and agrees policies for managing all the financial risks noted below;

- The delegated responsibility for the identification and control of financial risks rests with the Audit and Financial Risk Committee under the authority of the Board. Periodic meetings are held to oversee financial reporting, accounting policies, financial management, internal control systems, risk management systems, and systems for protecting assets and compliance. The Audit and Financial Risk Committee oversees the scope, performance and results of the audit work, and the independence and objectivity of the auditors; and

- The Group ensures there is an adequate and appropriate level of monitoring and management of credit quality.

The components of financial risk are market risk, credit risk and liquidity risk.

(i) Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: foreign exchange rates (currency risk), market interest rates (interest rate risk) and market prices (equity price risk).

(1) Currency risk

Nature of the risk and how it is managed:

Currency risk is the risk of loss arising from an unfavourable movement in market foreign exchange rates. The Group operates internationally so is exposed to currency risk from various activities conducted in the normal course of business.

The financial impact from exposure to currency risk is reflected in the financial statements through two mechanisms:

- Revaluation of foreign currency balances: these financial impacts relate primarily to cash, investments, receivables, loss reserves and payables. The revaluation gains and losses are directly recognised in the SOPL; and

- Translation of the financial performance and position of foreign operations: these financial impacts are recognised directly in equity in the foreign currency translation reserve so have no impact on the SOPL.

CBL's policy is to hold funds in the currency premiums are derived in so that a natural hedge is in place for future claims liabilities. As a result, the Group’s financial assets are primarily denominated in the same currencies as its insurance liabilities. This mitigates the foreign currency exchange rate risk for the overseas operations and for foreign

4 Risk and capital management (continued)

(b) Financial risk management (continued)

currency transactions for CBL Insurance. Thus, the main foreign exchange risk arises from assets and liabilities denominated in currencies other than those in which liabilities are expected to be settled. The currency risk is managed by regular reviews of the foreign currency financial positions by the Chief Financial Officer (CFO), the Audit and Financial Risk Committee and the Treasury and Investment Committee.

Exposure:

The impacts on the measurement of various financial instruments held at the reporting date of an instantaneous 10% depreciation of the NZD at the reporting date compared with selected currencies, on profit before tax and equity is provided in the table below. The sensitivity analysis demonstrates the effect of a change in one key assumption while other assumptions remain unchanged. An appreciation of the NZD would have predominantly the opposite impacts.

			2016		2015
	Changes in variables	**Impact on profit before tax**	**Impact on equity**	Impact on profit before tax	Impact on equity
Currency		**$'000**	**$'000**	$'000	$'000
Euro (EUR)	+10%	**13,313**	**17,558**	6,587	7,227
AUD	+10%	**1,769**	**6,596**	1,608	1,664

The method used for deriving sensitivity information and significant variables has not changed from the previous period.

(2) Interest rate risk

Interest rate risk is the risk that the value of the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Floating rate instruments expose the Group to cash flow interest risk, whereas fixed interest rate instruments expose the Group to fair value risk.

Interest rate risk arises primarily from investments and contingent consideration.

	2016			2015
	Impact on profit before tax	**Impact on equity**	Impact on profit before tax	Impact on equity
Change in variables	**$'000**	**$'000**	$'000	$'000
+1%	**100**	**100**	47	47
-1%	**(102)**	**(102)**	(46)	(46)

The method used for deriving sensitivity information and significant variables has not changed from the previous period.

The impact of changes in market interest rates presented here excludes insurance contract liabilities, which are also affected by the changes in market interest rates that determine the discount rates applicable to these contracts.

(3) Equity price risk

Equity price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded on the market.

4 Risk and capital management (continued)

(b) Financial risk management (continued)

The Group has exposure to equity price risk through its investments in equities. The impact on the measurement of the investments held at reporting date of a change in equity values by +10% or -10% on profit before tax is shown in the table below:

		2016		2015
Change in variables	**Impact on profit before tax $'000**	**Impact on equity $'000**	Impact on profit before tax $'000	Impact on equity $'000
+10%	**761**	**1,575**	-	-
-10%	**(761)**	**(1,575)**	-	-

(ii) Credit risk

Nature of the risk and how managed:

Credit risk is the risk of loss from a counterparty failing to meet their financial obligations. The Group has exposure to credit risk in relation to cash and cash equivalents, other financial assets, insurance receivables, loans receivable, reinsurance and other recoverables. Credit risk also arises from dealings with insurance and reinsurance intermediaries.

The following policies and procedures are in place to mitigate the Group's exposure to credit risk:

- Normal business practise is to ensure that premiums are paid for in advance of the risk inception;
- The Group structures the levels of credit risk it accepts by placing limits on its exposure to a single counterparty, or groups of counterparties, and to geographic and industry segments. Such risks are subject to annual or more frequent reviews;
- Guidelines determine when to obtain collateral and guarantees such as security deposits; and
- Reinsurance is placed with counterparties that have a good credit history and concentration of risk is avoided by following policy guidelines in respect of counterparties' limits that are set each year by senior management and are subject to regular reviews. At each reporting date, management performs an assessment of the creditworthiness of reinsurers.

Reinsurance is used to manage insurance risk. This does not, however, discharge the Group's liability as primary insurer or when acting as reinsurer itself. If a reinsurer whom the Group has purchased protection from fails to pay a claim for any reason, the Group remains liable for the payment to the policyholder. The creditworthiness of reinsurers is considered by reviewing their financial strength prior to the finalisation of any contracts.

Concentrations of credit risk exist where a number of counterparties have similar economic characteristics. At the reporting date, there are material concentrations of credit risk to the major banks in New Zealand and to reinsurance counterparties with respect to premiums receivable.

Exposure:

The maximum exposure to credit risk as at the reporting date is the carrying amount of the receivables in the SOFP.

4 Risk and capital management (continued)

(b) Financial risk management (continued)

An ageing analysis for insurance receivables balances is provided below. The amounts are aged according to their original due dates.

31 December 2016	Not overdue $'000	< 30 days $'000	30 to 120 days $'000	Overdue >120 days $'000	Total $'000
Premium receivable	121,377	7,103	5,534	1,595	135,609
Recoveries on paid claims	93	-	-	-	93
Net balance	**121,470**	**7,103**	**5,534**	**1,595**	**135,702**

31 December 2015	Not overdue $'000	< 30 days $'000	30 to 120 days $'000	Overdue >120 days $'000	Total $'000
Premium receivable	80,342	15,310	906	324	96,882
Recoveries on paid claims	4,446	99	-	25	4,570
Net balance	84,788	15,409	906	349	101,452

The total provision for impairment at the reporting date for receivables balances is nil (2015: nil).

During 2016 insurer premium receivables determined as non-recoverable amounting to $0.1 million were written-off (2015: $0.1 million).

4 Risk and capital management (continued)

(b) Financial risk management (continued)

The Group's assets are analysed in the table below using Standard & Poor's (S&P) ratings, or the equivalents when not available from S&P. The concentration of credit risk is substantially unchanged compared to the prior year.

31 December 2016 **Amounts in $'000**	**AAA**	**AA**	**A**	**BBB**	**Below BBB**	**Not rated**	**Total**
Debt securities	**1,532**	**18,098**	**18,707**	**-**	**-**	**13,203**	**51,540**
Equity securities	**-**	**-**	**-**	**-**	**-**	**15,755**	**15,755**
Loans and receivables	**-**	**19,369**	**1,356**	**89,399**	**-**	**239,776**	**349,900**
Cash and cash equivalents	**-**	**322,107**	**17,435**	**37,680**	**6,714**	**19,958**	**403,894**
Total	**1,532**	**359,574**	**37,498**	**127,079**	**6,714**	**288,692**	**821,089**

31 December 2015 Amounts in $'000	AAA	AA	A	BBB	Below BBB	Not rated	Total
Debt securities	6,651	40,387	10,560	1,624	-	-	59,222
Loans and receivables	29	12,370	1,246	626	-	122,441	136,712
Cash and cash equivalents	-	219,606	132	399	5,329	70,546	296,012
Total	6,680	272,363	11,938	2,649	5,329	192,987	491,946

4 Risk and capital management (continued)

(b) Financial risk management (continued)

(iii) Liquidity risk

Nature of the risk and how it is managed:

Liquidity risk is concerned with the risk of there being insufficient cash resources to meet payment obligations without affecting the daily operations or the financial condition of the Group. The liquidity position is derived from operating cash flows, investment portfolios and reinsurance arrangements. An additional source of liquidity risk for the Group relates to interest bearing liabilities.

Underwriting of insurance contracts exposes the Group to liquidity risk through the obligation to make payments of unknown amounts on unknown dates. The assets backing insurance liabilities consist predominantly of cash and cash equivalents held at major banks.

The following policies and procedures are in place to mitigate the Group's exposure to liquidity risk:

- Guidelines are set for asset allocations and the maturity profiles of assets, in order to ensure sufficient funding is available to meet insurance obligations; and
- Contingency funding plans are in place to meet emergency payments.

Exposure:

The table below summarises the maturity profile of the financial liabilities of the Group based on remaining undiscounted contractual obligations, except for insurance contract liabilities, which are determined based on the estimated timing of cash outflows from the recognised insurance liabilities. Unearned premiums and the reinsurers' share of unearned premiums have been excluded from the analysis as they are not contractual obligations.

		Payments due by period as of 31 December 2016				
31 December 2016						
Amounts in $'000	**Carrying amount**	**0-1 yrs**	**1-3 yrs**	**3-5 yrs**	**>5 yrs**	**Total**
Other payables	**322,017**	**320,252**	**1,765**	**-**	**-**	**322,017**
Insurance payables	**5,952**	**1,793**	**3,601**	**16**	**542**	**5,952**
Contingent consideration	**15,321**	**9,957**	**8,955**	**-**	**-**	**18,912**
Outstanding claims liability	**272,291**	**67,243**	**85,494**	**49,500**	**70,054**	**272,291**
Borrowings	**96,909**	**68,182**	**3,138**	**31,311**	**1,423**	**104,054**
Total contractual obligations	**712,490**	**467,427**	**102,953**	**80,827**	**72,019**	**723,226**

		Payments due by period as of 31 December 2015				
31 December 2015						
Amounts in $'000	Carrying amount	0-1 yrs	1-3 yrs	3-5 yrs	>5 yrs	Total
Other payables	23,246	23,246	-	-	-	23,246
Insurance payables	24,577	24,033	284	260	-	24,577
Contingent consideration	3,608	2,593	1,296	-	-	3,889
Outstanding claims liability	275,550	90,768	79,460	47,374	57,948	275,550
Borrowings	65,215	5,218	11,231	69,586	-	86,035
Total contractual obligations	392,196	145,858	92,271	117,220	57,948	413,297

4 Risk and capital management (continued)

(c) Capital management

The Board's policy is to maintain a strong capital base to protect policyholders' and creditors' interests and meet regulatory requirements whilst still creating shareholder value.

The primary sources of capital used by the Group are equity (shareholders’ funds) and borrowings.

The operations of the Group are also subject to regulatory requirements within the jurisdictions in which it operates. Such regulations not only prescribe the approval and monitoring of activities, but also impose certain restrictive provisions (such as capital adequacy) to minimise the risk of default and insolvency.

The Group’s approach to managing capital involves managing assets, liabilities and risks in a coordinated way, assessing potential shortfalls between actual and required capital levels (by each regulated entity) on a regular basis and taking appropriate actions to influence the capital position of the Group in light of changes in economic conditions and risk characteristics. An important aspect of the Group's overall capital management process is the setting of target risk adjusted rates of return, which are aligned to performance objectives and ensure that the Group is focused on the creation of value for shareholders.

During the years ended 31 December 2016 and 31 December 2015 all the regulated entities in the Group complied with all externally imposed capital requirements. The Group has embedded in its capital management framework the necessary tests to ensure continuous and full compliance with solvency requirements for regulated entities.

(i) CBL Insurance

CBL Insurance is required to maintain actual solvency capital at or above the minimum solvency capital level in accordance with the Solvency Standard for Non-life Insurance Business (the solvency standard) issued by the RBNZ.

As at 31 December 2016 the actual solvency capital exceeds the minimum requirements by $71.9 million as shown below (2015: $44.0 million).

	2016	2015
	$'000	$'000
Actual solvency capital	**153,086**	123,709
Minimum solvency capital	**81,173**	79,726
Solvency margin	**71,913**	43,983
Solvency ratio	**188.6%**	155.2%

4 Risk and capital management (continued)

(c) Capital management (continued)

(ii) AI

AI is required to maintain a minimum level of capital to meet policyholder obligations in accordance with APRA regulations (the prudential capital requirement).

As at 31 December 2016 the total capital base of AI exceeds the prudential capital requirement by A$28.1 million as shown below (2015: A$26.0 million).

	2016 A$'000	2015 A$'000
Total capital base	**42,849**	40,548
Prudential capital requirement	**14,732**	14,564
Solvency margin	**28,117**	25,984
Capital adequacy multiple	**2.91**	2.78

(iii) CBLIE

From 1 January 2016 CBLIE is required to maintain minimum capital as calculated under the European Solvency II Directive; its Solvency Capital Requirement is calculated using the Solvency II standard formula. Prior to 1 January 2016 CBLIE was required to maintain minimum capital as calculated under the European Solvency I formula. The comparative amounts in the table below are as calculated under the previous Solvency formula.

Details of CBLIE's solvency position are as follows:

	2016 €'000	2015 €'000
Actual solvency capital	**14,968**	7,109
Minimum solvency capital	**9,556**	590
Solvency margin	**5,412**	6,519
Solvency margin cover	**156.6%**	1,204.9%

(iv) EISL

In accordance with rules issued by the UK Financial Conduct Authority, EISL is required to maintain a level of capital in excess of 2.5% of regulatory income for its underwriting agency insurance business.

(v) PFP

PFP is an appointed representative of EISL. EISL has a duty to ensure PFP is solvent, in accordance with rules issued by the UK FCA.

(vi) SFS

In accordance with article 290 of the Luxembourg law applicable to the insurance industry, SFS must have a minimum paid-up capital of €125,000.

5 Funding

(a) Borrowings

(i) Recognition and measurement

Borrowings are initially recognised at fair value less directly attributable transaction costs. After initial recognition the liabilities are carried at amortised cost using the effective interest method.

Finance costs include both contracted interest and transaction costs (collectively the effective interest).

(ii) Composition

	Consolidated	
	2016	2015
	$'000	$'000
ANZ bank loan	**64,241**	-
Fixed interest note	**-**	57,253
Vendor loan note	**22,700**	-
Fixed interest loan	**7,634**	7,962
Other bank loans	**2,334**	-
Total	**96,909**	65,215
Analysed as:		
Current	**64,445**	1,882
Non-current	**32,464**	63,333

ANZ bank loan:

- The ANZ bank loan of $65.0 million was drawn down on 31 October 2016 to facilitate early repayment of the FIIG Note. Initial transaction costs of $1.7 million were capitalised and are amortised over the term of the loan. The loan interest resets periodically. The rate during the period to 31 December 2016 was 4.4%. The loan is scheduled to be repaid in instalments of $5.0 million on each repayment date of 31 March 2017, 30 April 2017, 31 May 2017 with the remaining balance due to repaid in full on 30 June 2017.

- The 31 December 2016 closing balance of $64.2 million includes $0.9 million of accrued interest.

- The loan is guaranteed by: CBL, LBC Holdings UK Limited, LBC Holdings Europe Limited, LBC Holdings New Zealand Limited, Intercede 2408 Limited and EISL.

Fixed interest loan:

- The fixed interest loan is a borrowing with Alpha Insurance A/S. The balance as at 31 December 2016 is $7.6 million (2015: $8.0 million). On 21 December 2012 Alpha Insurance A/S lent 37.5 million Danish Krone to Intercede 2408 Limited. For the period to 30 September 2015 the loan was subject to a fixed interest rate of 6.0%. From 1 October 2015 the loan is subject to a fixed interest rate of 5.0%. The loan is unsecured and is scheduled to be redeemed on 1 November 2020.

5 Funding (continued)

(a) Borrowings (continued)

Vendor loan note:

- The vendor loan note of €15.0 million is vendor financing connected to the acquisition of the SFS Group. The loan bears interest of 6.0% and is due to be repaid on 5 January 2020. The vendor loan note can be repaid early in full or in part, subject to certain conditions.

Fixed interest note (FIIG Note):

- On 17 April 2014, CBL launched an initial bond offer through FIIG Securities Limited, and raised A$55.0 million from wholesale investors. Initial transaction costs of A$2.75 million were capitalised and were being amortised over the five-year term of the fixed interest note;

- The bond paid a fixed rate of 8.25% per annum and had a final maturity of five years but could be repaid early by CBL subject to certain conditions. The FIIG Note was repaid on 31 October 2016 at a premium of 7.0% of the principal. The repayment premium of A$3.9 million, accelerated amortisation of A$1.6 million and termination fees of A$0.4 million are recognised as finance costs in the SOPL;

- The 2015 closing balance of $57.3 million included $1.0 million of accrued interest. Interest was payable six monthly on 17 April and 17 October; and

- These loan notes were guaranteed by the following companies: LBC Holdings UK Limited, LBC Holdings Europe Limited, LBC Holdings New Zealand Limited, Intercede 2408 Limited and EISL.

Covenants:

- The Group has complied with all loan covenants in place throughout the reporting period.

5 Funding (continued)

(b) Share capital and reserves

(i) Recognition and measurement

The Group has issued ordinary shares that are classified as equity. Incremental external costs that are directly attributable to the issue of these shares are recognised as a deduction from equity.

(ii) Composition

(1) Share capital

				Consolidated
Ordinary shares	**2016 Number of shares**	2015 Number of shares	**2016 $'000**	2015 $'000
Balance at the start of the financial year	**219,677,168**	26,000,000	**110,070**	18,000
Shares issued during the year	**16,100,863**	-	**55,396**	-
Purchase of treasury shares	**(2,160,000)**	-	**(2,673)**	-
Reissue of treasury shares	**2,160,000**	-	**7,452**	-
Share split 6:1	**-**	130,000,000	**-**	-
Issue of new shares: IPO	**-**	58,064,516	**-**	88,017
Transaction costs for issue of new shares	**-**	-	**(1,643)**	(6,362)
Issue of new shares: AI Group acquisition	**-**	5,612,652	**-**	10,415
Balance at the end of the financial year	**235,778,031**	219,677,168	**168,602**	110,070

On 27 October 2016 CBL issued 0.9 million new shares at $3.45 per share to existing shareholders under a share purchase plan.

On 5 October 2016 and 6 October 2016 CBL issued 15.2 million new shares at $3.45 per share under a private placement to institutional investors.

Treasury shares: on 14 January 2016 CBL acquired 2.2 million CBL shares for A$1.17 per share from a selling shareholder of the AI Group. The shares were reissued on 6 October 2016 at $3.45 per share as part of the private placement with institutional investors.

On 12 October 2015 58,064,516 ordinary shares were issued under the IPO for $1.55 per share, payable in cash. Transaction costs of $6.4 million directly related to the issue of new shares.

On 12 October 2015 5,612,652 shares were issued under the agreement between CBL and the vendors of the AI Group and others dated 10 March 2015, as part consideration for the purchase of the AI Group by CBL Insurance Australia Pty Limited.

On 11 August 2015 the ordinary shares of the Company were split, 6 for 1, resulting in an increase in the number of shares from 26,000,000 to 156,000,000.

All ordinary shares on issue are fully paid. Ordinary shares entitle the holder to a vote at a general meeting of the Company and to share in the dividends in proportion to the number of the shares held. Dividends, if declared, are subject to there being distributable profits available and satisfying the solvency test as defined in the Companies Act 1993.

5 Funding (continued)

(b) Share capital and reserves (continued)

(ii) Composition (continued)

(2) Retained earnings

The directors have reviewed the total equity of the Group and considered it to be adequate for the purpose of financial soundness. The directors review this in line with the Group's internal policies around financial soundness and liquidity levels. These policies are reviewed regularly to ensure that adequate equity levels are maintained at all times.

(3) Reserve

This reserve is a foreign currency translation reserve. It records the foreign currency differences arising from the translation of the financial position and performance of subsidiaries that have functional currencies other than NZD.

(c) Earnings per share

	Consolidated	
	2016	**2015**
	$'000	**$'000**
Profit for the year	**30,710**	35,510
Profit attributable to non-controlling interest	**(967)**	(22)
Profit attributable to shareholders of the parent	**29,743**	35,488
Weighted average number of ordinary shares for basic and diluted earnings per share (number)	**223,485,953**	169,956,640
Basic and diluted earnings per share from continuing operations (cents)	**13.31**	20.88

Numbers of shares in the above table have been adjusted to reflect the 6:1 share split that occurred on 11 August 2015.

5 Funding (continued)

(d) Dividends

(i) Recognition and measurement

Period	Cents per share	Total amount $'000	Payment date	Tax rate for imputations	Percentage imputed
Q4 2014 Dividend	0.5	830	21 April 2015	28%	100%
Special 2015 dividend	1.8	3,915	22 April 2016	28%	100%
Final 2015 dividend	2.7	5,874	22 April 2016	28%	100%
Interim 2016 dividend	3.0	7,074	4 November 2016	28%	100%

All numbers of shares in the cent per share calculations have been adjusted to reflect the 6:1 share split that occurred on 11 August 2015.

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's financial statements in the period in which the dividends are approved by the Company's Board of Directors.

6 Acquisitions and group structure

(a) Business combinations

(i) Recognition and measurement

Business combinations are accounted for using the acquisition method. Business combinations occur when control is obtained over an entity or business.

The accounting for an acquisition involves the cost of the business combination being allocated to the identifiable assets acquired (tangible and intangible) and the identifiable liabilities assumed (including contingent liabilities) based on their separate fair values determined at the acquisition date. Goodwill represents the excess of the purchase consideration over the fair value of the net identifiable assets and contingent liabilities acquired. If the cost of acquisition is less than the fair value of the net identifiable assets and contingent liabilities acquired, the difference is recognised immediately in the SOPL.

Where the settlement of any part of a cash consideration is deferred, the amounts payable in the future are discounted to their present value at the date of exchange. The discount rate used is the incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions.

Where the settlement of any part of a cash consideration is contingent upon some future event or circumstance, the estimated amounts payable in the future are discounted to their present value at the date of exchange. When the contingent consideration is classified as a liability, the impact on any subsequent changes in fair value is recognised in the SOPL.

Where the initial accounting for a business combination is determined only provisionally by the first reporting date after the acquisition date, the business combination is accounted for using those provisional values. Any subsequent adjustments to those provisional values are recognised within 12 months of the acquisition date and are applied effective from the acquisition date.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis.

6 Acquisitions and group structure (continued)

(a) Business combinations (continued)

(ii) Areas of significant estimate and judgment

The measurement of identifiable intangible assets (and non-controlling interest, if applicable) acquired in a business combination is highly subjective and there are a range of possible values that could be attributed for initial recognition. The Group uses the skills and experience of valuation specialists in establishing an initial range within which the fair value is to be recognised. Judgement is then applied in selecting the value to be recognised on the balance sheet. Judgement is also applied in determining the useful life of the intangible assets which impacts directly on the amortisation charges to be incurred following an acquisition.

(iii) Composition

(1) SFS Group acquisition

The SFS Group acquisition secures a major revenue producer for CBL, and provides CBL with the ability to secure selected lines of new products and allows geographic expansion of existing products. The acquisition provides CBL with an extensive branch network across France. CBL has been transacting business with SFS for over 12 years, and this acquisition eliminates the distribution concentration risk that SFS had come to represent.

The following table shows the provisional values of assets acquired, the liabilities assumed and the purchase consideration at the acquisition date (6 October 2016).

	Note	Fair value $'000
Purchase consideration:		
- Cash	7(c)	**73,800**
- Contingent consideration		**13,480**
- Vendor loan note		**23,417**
Total purchase consideration		**110,697**
Assets or liabilities acquired:		
Cash		**32,706**
Other receivables		**167,093**
Other assets		**2,995**
Property, plant and equipment		**8,164**
Intangible assets		**50,222**
Other payables		**(206,293)**
Tax liabilities		**(17,039)**
Borrowings		**(2,496)**
Other liabilities		**(876)**
Total net identifiable assets		**34,476**
Purchase consideration		**110,697**
Less: Identifiable net assets acquired		**(34,476)**
Plus: Non-controlling interest		**30,754**
Goodwill		**106,975**

As at 31 December 2016 the fair values of the assets and liabilities acquired in acquisition of the SFS Group

6 Acquisitions and group structure (continued)

(a) Business combinations (continued)

are provisional and pending final valuations. On completion of the final valuations the balances for the acquisition may be revised.

The goodwill of $107.0 million represents future synergies expected to arise in the combined operations, the value of new business from new distribution channels and customers going forward, and the value of the workforce and management and other future business.

Contingent consideration

Under the terms of the acquisition agreement, the Group must pay the former owners of SFS additional cash payments. The undiscounted amount of all future payments is €11.4 million.

The contingent consideration is payable in September 2017 and September 2018 subject to certain profit hurdles which are expected to be met.

The table below is a reconciliation of the amount of contingent consideration at the acquisition date to the year-end date.

Contingent consideration	2016 $'000
Contingent consideration on acquisition	**13,480**
Change in fair value	**622**
Net foreign exchange movements	**(405)**
Total contingent consideration	**13,697**

Other information

Acquisition costs of $3.6 million were recognised in the SOPL during the year ended 31 December 2016. These costs were legal and consulting fees related to the acquisition, and are included in the line Capital raising, business combination and amortisation of policies-in-force costs in the SOPL.

From the date of acquisition, during the Group's 2016 financial year, SFS has contributed $31.2 million of revenue and $5.6 million of the profit before tax of the Group. If the SFS Group was acquired on 1 January 2016, the full 2016 year contribution toward total revenue would have been $93.5 million, and full year contribution toward profit before tax would have been $9.4 million.

In determining the provisional values for identified intangible assets, being Brands names, Customer relationships and Software, valuations were performed by external and independent valuation specialists. The fair values were determined as follows:

- Brand name was valued using the relief from royalty method under the income approach. This method essentially looks at the theoretical royalty costs that are saved by owning the brand name instead of leasing it.
- Customer relationships were valued using the excess earnings method under the income approach. This approach projects revenue from existing customers into the future, adjusted for attrition or 'churn' rates. The projected revenue is then used to determine the future profits attributable to the existing customer relationships. Those future profits are adjusted downwards for profits that are attributable to contributory assets. The adjusted future profits are then discounted for the time value of money.
- Software was valued using the reconstitution cost method. This method is an estimation of the costs that would be required to build an equivalent system.

6 Acquisitions and group structure (continued)

(a) Business combinations (continued)

(2) PFP Group acquisition

The following table shows the assets acquired, the liabilities assumed and the purchase consideration at the acquisition date (1 December 2015).

	Fair value $'000
Purchase consideration:	
- Cash	**11,671**
- Contingent consideration	**5,168**
- Additional consideration*	**1,781**
Total purchase consideration	**18,620**
Assets or liabilities acquired:	
Cash	**295**
Other receivables	**3,716**
Property, plant and equipment	**568**
Other payables	**(5,448)**
Total net identifiable assets	**(869)**
Purchase consideration	**18,620**
Plus: Identifiable net liabilities acquired	**869**
Non-controlling interests	**(70)**
Goodwill	**19,419**

* Additional consideration is an adjustment to the purchase consideration based upon the fair value of the net assets at the acquisition date.

The goodwill of $19.4 million represents future synergies expected to arise in the combined operations, the value of new business from new distribution channels and customers going forward, and the value of the workforce and management and other future business.

6 Acquisitions and group structure (continued)

(a) Business combinations (continued)

Contingent consideration

Under the terms of the acquisition agreement, the Group must pay the former owners of the PFP Group additional cash payments. At the acquisition date the undiscounted amount of all future payments was £2.4 million.

As at 31 December 2016 the remaining contingent consideration is £0.6 million (2015: £1.8 million), payable in May 2017, subject to certain profit hurdles.

The table below is a reconciliation of the amount of contingent consideration at the acquisition date to the year end date.

Contingent consideration	**2016 $'000**	2015 $'000
Contingent consideration on acquisition	**5,168**	5,168
Change in fair value	**243**	26
Settlements	**(3,830)**	(1,373)
Net foreign exchange movements	**(623)**	(213)
Total contingent consideration	**958**	3,608

(3) AI Group acquisition

The AI Group was acquired on 1 September 2015 for consideration of $45.0 million, consisting of $34.6 million in cash and $10.4 million CBL ordinary shares (5,612,652 CBL shares). Goodwill of $6.9 million and a Policies-in-Force (PIF) intangible of $8.9 million were recognised, refer to the CBL Corporation 2015 Annual Report note 27(a) for further details.

(b) Subsidiaries

(i) Recognition and measurement

Where the Company has control over an investee, it is classified as a subsidiary. The Company controls an investee if all three of the following elements are present: power over the investee, exposure to variable returns from the investee, and the ability of the investor to use its power to affect those variable returns. Control is reassessed whenever facts and circumstances indicate that there may be a change in any of these elements of control.

The financial statements of all subsidiaries are prepared for consolidation for the same reporting period as the Company, using consistent accounting policies. The financial statements of entities operating outside New Zealand that maintain accounting records in accordance with overseas accounting principles are adjusted where necessary to comply with the significant accounting policies of the Group.

Where a subsidiary is less than wholly owned, the equity interests held by external parties are presented separately as non-controlling interests.

6 Acquisitions and group structure (continued)

(b) Subsidiaries (continued)

(ii) Composition

Investment in subsidiaries

Name of company	Functional currency	Country of incorporation	Principal activity	Ownership interest 2016 %	2015 %
New Zealand:					
CBL Insurance Limited	NZD	New Zealand	General insurance	**100**	100
CBL Corporate Services Limited	NZD	New Zealand	Corporate operations	**100**	100
LBC Treasury Company Limited	NZD	New Zealand	Corporate operations	**100**	-
LBC Holdings New Zealand Limited	NZD	New Zealand	Holding company	**100**	100
LBC Holdings Europe Limited	EUR	New Zealand	Holding company	**100**	100
LBC Holdings UK Limited	EUR	New Zealand	Holding company	**100**	100
LBC Holdings Australasia Limited		New Zealand	Holding company	**100**	100
LBC Holdings Americas Limited		New Zealand	Dormant	**100**	100
Deposit Power Limited	NZD	New Zealand	Dormant	**100**	100
South British Funding Limited	NZD	New Zealand	Dormant	**100**	100
Europe:					
CBL Insurance Europe DAC	EUR	Ireland	General insurance	**100**	100
European Insurance Services Limited	EUR	United Kingdom	Underwriting agent	**100**	100
EISL Iberia Limited	EUR	United Kingdom	Underwriting agent	**100**	100
Sarl ACJN	EUR	France	Underwriting agent	**100**	100
Professional Fee Protection Limited	GBP	United Kingdom	Underwriting agent	**92**	92
Intercede 2408 Limited	EUR	United Kingdom	Holding company	**100**	100
Professional Financing Limited	GBP	United Kingdom	Dormant	**92**	92
PFP Tax Services Limited	GBP	United Kingdom	Dormant	**92**	92
Antipodean European Services Limited	EUR	Ireland	Corporate operations	**100**	-
SFS Holdings SA	EUR	Luxembourg	Holding company	**71**	-
SFS Europe SA	EUR	Luxembourg	Underwriting agent	**71**	-
IMS Expert Europe	EUR	Luxembourg	Claims management	**71**	-
SFS Belgique SA	EUR	Belgium	Underwriting agent	**70**	-
Securities & Financial Solutions Gestione Italia S.R.L	EUR	Italy	Underwriting agent	**64**	-
SFS Academy	EUR	France	Corporate operations	**71**	-
IMS Expert Immobilier	EUR	France	Corporate operations	**71**	-

6 Acquisitions and group structure (continued)

(b) Subsidiaries (continued)

(ii) Composition (continued)

Name of company	Functional currency	Country of incorporation	Principal activity	Ownership interest 2016 %	2015 %
Australia:					
Assetinsure Pty Limited	AUD	Australia	General insurance	**100**	100
Assetinsure Holdings Pty Limited	AUD	Australia	Holding company	**100**	100
CBL Holdings Australia Pty Limited	AUD	Australia	Holding company	**100**	100
CBL Insurance Australia Pty Limited	AUD	Australia	Holding company	**100**	100
CBL Insurance Pty Limited	AUD	Australia	Non-operating	**100**	100
Singapore:					
PFP Holdings Pte Limited	GBP	Singapore	Holding company	**100**	100

All subsidiaries in the above table have adopted a balance date of 31 December.

During the current financial year the Group:

- Formed: SFS Holdings SA, Antipodean European Services Limited and LBC Treasury Company Limited; and
- Acquired: SFS Europe SA, IMS Expert Europe, SFS Belgique SA, Securities & Financial Solutions Gestione Italia S.R.L, Securities & Financial Solutions Academy, and IMS Expert Immobilier (collectively the SFS Group).

During the prior financial year the Group acquired:

- Assetinsure Holdings Pty Limited and AI (collectively the AI Group); and
- PFP Holdings Pte Limited, PFP, Professional Financing Limited and PFP Tax Services Limited (collectively the PFP Group).

6 Acquisitions and group structure (continued)

(c) Investment in material associates

(i) Recognition and measurement

When the Group is able to exert significant influence over an investee through its ability to participate in the financial and operating policy decisions of the investee, but does not control or jointly control those policy decisions, the investee is accounted for as an associate using the equity method. The Group's share of associates' profits or losses is recognised in the SOPL. The cumulative movements are adjusted against the carrying amount of the investment.

(ii) Composition

Associate	Principal activity	Group ownership interest 2016 %	2015 %	Balance date
Afianzadora Fiducia, S.A de C.V. (Fiducia)	Insurer	**35.0**	35.0	31 Dec
SFS AC Assurances Polynesie SARL*	Underwriting agent	**35.5**	-	31 Dec
SAR Europe*	Holding company	**24.0**	-	31 Dec
SAR France SAS*	Underwriting agent	**24.0**	-	31 Dec

* Collectively and individually not material to the results of CBL.

Fiducia

Fiducia, established in 1994, is a specialist bonding and surety insurance company that underwrites credit and surety bonds in the Mexican corporate sector. Fiducia provides a vehicle through which the Group can expand on its presence in the Mexican bonding and surety market.

In June 2015 the Group acquired, for cash consideration of US$2.5 million, a 34.99% shareholding in Fiducia.

The investment in Fiducia is as follows:

	Consolidated 2016 $'000	2015 $'000
Share of associate's financial position		
Assets	**3,862**	4,242
Liabilities	**(1,034)**	(873)
Net assets	**2,828**	3,369
Share of associate's revenue and profit		
Revenue	**1,079**	633
Profit	**55**	48
Carrying value of investment in associate	**3,571**	3,511

6 Acquisitions and group structure (continued)

(c) Investment in material associates (continued)

Fiducia's total revenue and total profit for the year ending 31 December 2016 was $3.1 million and $0.2 million respectively. Fiducia's total revenue and total profit for the period from 1 June 2015 to 31 December 2015 was $1.8 million and $0.1 million respectively.

Management considers the investment in Fiducia to be non-current.

There are no capital or other commitments or contingent liabilities arising from the associate that are significant to the Group.

(d) Related party information

(i) Related party balances

Related party receivable and payable balances at the end of the reporting periods were as follows:

			Consolidated	
			Closing balance	
		Type of	**2016**	2015
Nature of relationship	**Related party**	**transaction**	**$'000**	$'000
Key management personnel				
Carden Mulholland	Deposit Power Pty Limited (Australia)	Premium receivable	**738**	303
Carden Mulholland	Deposit Power Pty Limited (Australia)	Commission	**(304)**	-
Carden Mulholland	Deposit Power Pty Limited (Australia)	Advances	**166**	-
Alistair Hutchison	Federal Pacific Limited	Net insurance debtor	**(1)**	-
Total			**599**	303

6 Acquisitions and group structure (continued)

(d) Related party information (continued)

(ii) Related party transactions

The impacts of transactions with related parties on the financial statements were as follows:

			Consolidated Revenue/(expense)	
		Type of	**2016**	2015
Nature of relationship	**Related party**	**transaction**	**$'000**	$'000
Key management personnel				
Carden Mulholland	Deposit Power Pty Limited (Australia)	Insurance contracts premium	**9,632**	10,412
Carden Mulholland	Deposit Power Pty Limited (Australia)	Insurance contracts Costs	**(3,679)**	(4,175)
Carden Mulholland	Deposit Power Pty Limited (Australia)	Insurance contracts Commissions	**(2,214)**	(2,489)
Various	Senior management	Loan interest	**-**	56
Peter Harris	Altares Limited	Fees	**-**	(256)
Peter Harris, Alistair Hutchison	South British Nominees Limited	Other receipts	**-**	460
Alistair Hutchison	Federal Pacific Group Limited	Fees	**(100)**	(100)
Alistair Hutchison	Federal Pacific Group Limited	Insurance contracts	**11**	46
Tony Hannon	General Capital Technologies Limited	Premium	**-**	14

(iii) Compensation of key management personnel

The remuneration of key management personnel during the year was as follows:

	Consolidated	
	2016	2015
	$'000	$'000
Salaries and other short term employee benefits	**5,022**	3,247
Independent directors' fees	**708**	616
Total	**5,730**	3,863

The 2015 comparative figures have been restated to ensure comparability with current year presentation.

7 Other assets and liabilities

(a) Goodwill and intangibles

(i) Recognition and measurement

Goodwill acquired in a business combination is initially measured at cost being the excess of the purchase consideration over the fair value of the net identifiable assets, liabilities and contingent liabilities acquired and is subsequently presented net of any impairment charges. Goodwill is not amortised.

Goodwill relating to an associate is included in the carrying amount of the investment and is also not amortised. After application of the equity method, the Group determines whether it is necessary to recognise any impairment loss with respect to the Group's net investment in the associate. Refer note 6(c).

Acquired intangible assets are initially recorded at their cost at the date of acquisition being the fair value of the consideration provided and, for assets acquired separately, incidental costs directly attributable to the acquisition. Intangible assets with finite useful lives are amortised on a straight line basis (unless the pattern of usage of the benefits is significantly different) over the estimated useful lives of the assets being the periods in which the related benefits are expected to be realised (shorter of legal duration and expected economic life). Amortisation rates and residual values are reviewed annually and any changes are accounted for prospectively.

The carrying amount of intangible assets with finite useful lives is reviewed each reporting date by determining whether there is an indication that the carrying value may be impaired. If any such indication exists, the item is tested for impairment by comparing the recoverable amount of the asset or its cash generating unit to the carrying value. Where the recoverable amount is determined by the value in use, the projected net cash flows are discounted using a pre-tax discount rate. For assets with indefinite useful lives, and Goodwill, the recoverability of the carrying value of the assets is tested for impairment at each reporting date, or more frequently if events or changes in circumstances indicate that they might be impaired. An impairment charge is recognised when the carrying value exceeds the calculated recoverable amount. Impairment charges are recognised in the SOPL and, except for Goodwill, may be reversed where there has been a change in the estimates used to determine the recoverable amount.

The following classes of intangible assets have been recognised:

Brand names:

This represents the revenue generating value of acquired brands and is determined using the relief from royalty method. The Deposit Power and SFS brands are recognised as having indefinite useful lives as there is no foreseeable limit to the period over which the brands are expected to generate net cash flows. The PetroBonds brand has been assessed as having a limited life and is therefore amortised.

Computer software:

The software development expenditure asset comprises both internally generated assets and acquired assets. For CBL Insurance and the AI Group assets, they are amortised by applying a 10-year straight line. For the SFS Group they are amortised by applying a 4-year straight line. For EISL they are amortised by applying a 40% straight line. The difference in amortisation methods reflects differences in the nature of the assets, for example core operating software for an application would be amortised over a longer period than the functional aspects of an application.

Deferred profit commission:

The deferred profit commission intangible was acquired as part of the acquisition of EISL in 2011. This represents the cost to acquire an interest in policies which in the future will earn the Group profit commission. The asset will start to be amortised at the time the profit commission becomes receivable from the insurers, at which time the Group will amortise the intangible asset to match these cash flows. The deferred profit commission value represents the cost allocated to that asset.

7 Other assets and liabilities (continued)

(a) Goodwill and intangibles (continued)

(i) Recognition and measurement (continued)

Policies in force (PIF)

The PIF has been acquired as part of the AI Group business combination, refer to note 6(a). The PIF intangible is an asset which reflects the net profit embedded within the policies acquired where the premiums are unearned. The intangible asset is amortised over the expected useful life of the acquired in-force policies during which future premiums are expected, which typically varies between one and three years.

Customer relationships

The customer relationships intangible asset has been acquired as part of the SFS Group business combination, refer to note 6(a). Customer relationships were valued using the excess earnings method under the income approach. This intangible has an amortisation period of 6 years, and is being amortised using a straight line approach.

(ii) Composition

						Consolidated
	Goodwill	Brand names	Computer software	Customer relationships	Deferred profit commission	Policies in Force
	$'000	$'000	$'000	$'000	$'000	$'000
2016						
Cost*	**167,011**	**26,128**	**14,256**	**18,687**	**2,873**	**8,282**
Foreign exchange movements	**(12,058)**	**-**	**-**	**-**	**-**	**-**
Accumulated amortisation / impairment	**-**	**-**	**(2,318)**	**(802)**	**(655)**	**(6,950)**
Net carrying value	**154,953**	**26,128**	**11,938**	**17,885**	**2,218**	**1,332**
2015						
Cost*	57,495	99	7,162	-	3,010	8,464
Foreign exchange movements	(4,123)	-	-	-	-	-
Accumulated amortisation / impairment	-	-	(1,116)	-	(646)	(3,662)
Net carrying value	53,372	99	6,046	-	2,364	4,802

Goodwill has been allocated to four cash generating units, these cash generating units' carrying values are as follows:

	Consolidated	
	2016	2015
	$'000	$'000
EISL	**28,680**	30,154
AI Group	**7,088**	6,563
PFP Group	**14,983**	16,655
SFS Group	**104,202**	-
Net carrying value at the end of the year	**154,953**	53,372

7 Other assets and liabilities (continued)

(a) Goodwill and intangibles (continued)

The Brand name intangible asset has been allocated to cash generating units as follows:

	Consolidated	
	2016	2015
	$'000	$'000
SFS Group	**26,029**	-
CBL Insurance	**99**	99
Net carrying value at the end of the year	**26,128**	99

(iii) Reconciliation of movements

	Goodwill	Brand names	Computer software	Customer relationships	Deferred profit commission	Policies in force
	$'000	$'000	$'000	$'000	$'000	$'000
Year ended 31 December 2016						
Balance at the beginning of the year	**53,372**	**99**	**6,046**	**-**	**2,364**	**4,802**
Additions	**-**	**-**	**2,694**	**533**	**-**	**-**
Additions through business combinations	**109,558**	**26,851**	**4,629**	**18,741**	**-**	**-**
Amortisation	**-**	**-**	**(1,174)**	**(802)**	**-**	**(3,456)**
Foreign exchange movements	**(7,977)**	**(822)**	**(257)**	**(587)**	**(146)**	**(14)**
Closing value at 31 December 2016	**154,953**	**26,128**	**11,938**	**17,885**	**2,218**	**1,332**
Year ended 31 December 2015						
Balance at the beginning of the year	29,297	99	313	-	2,580	-
Additions	-	-	1,338	-	-	-
Additions through business combinations	24,518	-	4,937	-	-	8,873
Amortisation	-	-	(321)	-	(187)	(3,756)
Impairment loss in income	-	-	-	-	(104)	-
Foreign exchange movements	(443)	-	(221)	-	75	(315)
Closing value at 31 December 2015	53,372	99	6,046	-	2,364	4,802

(iv) Impairment

Management has determined that there is no indication of impairment and therefore no impairment testing is required in respect of the computer software, PIF and customer relationships intangible assets.

(1) Deferred profit commission

The deferred profit commission intangible is currently an indefinite life asset.

When testing for impairment the recoverable amount of the deferred profit commission intangible has been determined based on value in use (a discounted cash flow calculation). This calculation uses cash flow projections based on expected future settlements of profit commissions taking into account the latest actuarially assessed loss ratios. A discount rate of 5.4% (2015: 5.6%) is used, the reduction is largely a result of a decrease in interest rates.

7 Other assets and liabilities (continued)

(a) Goodwill and intangibles (continued)

(iv) Impairment (continued)

The impairment in 2015, which is included within the amortisation and impairment line in note 9(a), was triggered due to an increase in the loss ratio which is one of the profit commission calculation parameters. The impairment amount in 2016 was nil (2015: $0.1 million).

(2) Goodwill and brand names

When testing for impairment, the recoverable amount of a cash generating unit has been determined based on a value in use calculation. This calculation uses cash flow projections based on financial budgets approved by senior management. Projected cash flows beyond projection period are extrapolated using a steady average growth rate. The growth rate does not exceed the long term average past growth rate of the business in which the cash generating unit operates. Pre-tax entity specific risk adjusted discount rates are used in the present value calculation. Management determines budgeted profit based on past performance and its expectations for market development. The table below summarises the valuation assumptions by each cash generating unit:

Assumptions	EISL	AI Group	PFP Group	SFS Group
2016				
Cash flow period	5 years	5 years	5 years	5 years
Steady average growth rate post cash flow period	3%	3%	3%	3%
Discount rate	8.4%	10.1%	8.4%	7.7%
2015				
Cash flow period	5 years	5 years	5 years	
Steady average growth rate post cash flow period	3%	3%	3%	
Discount rate	8.6%	10.1%	8.6%	

The key assumptions used for the value in use impairment calculation are:

- Premiums, commissions and margins: premium and commission income are based on average values achieved in the three years preceding the start of the budget period. Gross margins are based on average percentages for the previous three years while taking into account anticipated efficiency improvements, known and expected expenditure, and inflation;
- Expenses: estimates are obtained from published indices of inflation (range of 0.2% to 1.7%). The financial budget plans assume that expenses will broadly increase in line with inflation; and
- Investment market conditions: investment market conditions are based on market research and published statistics.

With regard to the assessment of value in use for each cash generating unit, management does not believe a reasonably possible change in any of the above key assumptions would cause the carrying value of the unit to exceed the recoverable amount.

No impairment loss has been recognised in 2016 and 2015 as a result of the impairment reviews of the cash generating units.

7 Other assets and liabilities (continued)

(b) Loans and receivables at amortised cost

(i) Recognition and measurement

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are initially recognised at fair value plus transaction costs, and subsequently at amortised cost using the effective interest rate method, less any impairment losses.

The amortised cost of other receivables also reflects the amounts expected to be received in the future, less any impairment losses. The amounts are discounted where the effect of the time value of money is material.

The recoverability of receivables is assessed on an ongoing basis and an allowance for impairment is established where there is objective evidence of impairment.

Objective evidence that a financial asset is impaired includes default by a debtor, evidence that the debtor is likely to enter bankruptcy and adverse economic conditions impacting share prices. At the end of each reporting period, the Group assesses whether there is objective evidence that a financial asset has been impaired through the occurrence of a loss event. The impairment charge is recognised in the SOPL. Debts that are known to be uncollectable are written-off. Where a subsequent event causes the amount of the impairment loss to decrease (a payment receipt for example), the reduction in the allowance account (provision for impairment of receivables) is taken through the SOPL.

(ii) Composition

(1) Other receivables

		Consolidated
	2016	2015
	$'000	$'000
- prepayments	**1,676**	556
- related party receivables	**904**	303
- other debtors[1, 2]	**211,618**	25,182
Total other receivables	**214,198**	26,041

(2) Loans

		Consolidated
	2016	2015
	$'000	$'000
- other loans	**-**	329
- fixed interest loan[3]	**-**	8,890
Total loans	**-**	9,219
Analysed as:		
Current	**214,198**	26,041
Non-current[3]	**-**	9,219

7 Other assets and liabilities (continued)

(b) Loans and receivables at amortised cost (continued)

[1] Other debtors primarily consist of amounts receivable by MGAs on behalf of external insurers. The corresponding payables to the external insurers are included in Other payables in note 7(c).

[2] Included within other debtors is $6.0 million (2015: $13.3 million) relating to claims funds AI has deposited with an insurance counterparty. The funds are not held in the name of AI, and so are excluded from cash and cash equivalents.

[3] At 31 December 2015 the fixed interest loan was a loan with Alpha Holdings A/S. The loan was effectively repaid during the current year. The loan attracted interest at 5.0% per annum effective from 1 October 2015 and 6.0% per annum for previous periods. The Group and Alpha Holdings A/S originally entered into the arrangement on 22 December 2012. The funds were reinvested in shares in Alpha Holdings A/S, refer to Unlisted investments in note 3(e).

The estimated fair value of loans and receivables is the discounted amount of the estimated future cash flows expected to be received, which also approximates carrying value.

The related party loans are described further in note 6(d).

(c) Other financial liabilities

(i) Recognition and measurement

Other payables are initially recognised at fair value less transaction costs, and are subsequently carried at amortised cost, which is the equivalent to fair value or the face value of the consideration to be paid in the future for goods and services received. The amounts are discounted where the effect of the time value of money is material.

When the consideration transferred by the Group in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with corresponding adjustments against goodwill. Any other changes in fair value are recognised in the SOPL.

7 Other assets and liabilities (continued)

(c) Other financial liabilities (continued)

(ii) Composition

	Note	Consolidated 2016 $'000	2015 $'000
i. Insurance payables	3	**5,952**	24,577
ii. Other payables			
Related party balances		**305**	-
Security deposits		**322**	655
Accrued expenses		**8,577**	5,000
Other payables[1, 2]		**312,813**	17,591
Total other payables		**322,017**	23,246
iii. Contingent consideration		**15,321**	3,608
Total payables		**343,290**	51,431
Analysed as:			
Current		**331,351**	50,278
Non-current		**11,939**	1,153

[1] Other payables primarily consist of amounts payable by MGAs to external insurers. The MGAs collect premiums on behalf of the external insurers. The corresponding amounts receivable by MGAs, being premiums to be collected on behalf of the external insurers, are included in Other receivables in note 7(b).

[2] Other payables include €47.3 million cash consideration payable for the acquisition of the SFS Group, refer note 6(a).

The carrying amounts disclosed above reasonably approximate fair value at the reporting date.

7 Other assets and liabilities (continued)

(d) Income tax

(i) Recognition and measurement

Income tax on the result for a reporting period comprises current and deferred tax. Income tax is recognised in the SOPL except to the extent that it relates to items recognised in OCI, in which case the income tax is also recognised in OCI.

Current tax expense is the expected tax payable on the taxable income for the year, using tax rates for each jurisdiction, and any adjustment to tax payable in respect of previous financial periods. Deferred tax expense is the change in deferred tax assets and liabilities between the reporting periods.

Deferred tax assets and liabilities are recognised using the balance sheet method for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes, except in the following circumstances when no deferred tax asset or liability is recognised:

- Temporary differences if they arose in a transaction, other than a business combination, that at the time of the transaction did not affect either accounting profit or taxable profit or loss;
- Differences between the carrying amount and tax bases of investments in subsidiaries where it is probable that the differences will not reverse in the foreseeable future; and
- Temporary differences relating to the initial recognition of goodwill.

The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the reporting date. Deferred tax assets are recognised only to the extent that it is probable that future taxable profits will be available against which the assets can be utilised.

(ii) Composition

(1) Income tax expense

	Consolidated	
	2016	2015
	$'000	$'000
Current	**10,157**	9,045
Movement in deferred tax asset	**1,268**	(791)
Movement in deferred tax liability	**(210)**	5,867
Under/(over) provision in prior periods	**2,194**	(91)
Income tax expense	**13,409**	14,030

7 Other assets and liabilities (continued)

(d) Income tax (continued)

(2) Income tax reconciliation

	Consolidated	
	2016	2015
	$'000	$'000
Profit for the year before income tax	**44,119**	49,540
Income tax at the current rate of 28% (2015: 28%)	**12,353**	13,871
Amounts which are not deductible/(taxable) in calculating taxable income:		
- non-assessable income	**18**	(194)
- non-deductible expenses	**1,443**	1,809
- foreign tax adjustment	**(636)**	(335)
- other	**385**	(1,030)
Income tax expense applicable to current year	**13,563**	14,121
Adjustment relating to prior year	**(154)**	(91)
Income tax expense	**13,409**	14,030

(3) Deferred tax assets

	Consolidated	
	2016	2015
	$'000	$'000
Composition		
Tax losses	**1,171**	1,108
Provisions and accruals	**2,124**	1,810
Fixed assets	**56**	275
Total deferred tax assets	**3,351**	3,193

(4) Deferred tax liabilities

	Consolidated	
	2016	2015
	$'000	$'000
Composition		
Deferred acquisition costs	**10,845**	10,064
Employee benefits	**(590)**	(442)
Intangible assets	**10,887**	-
Other	**324**	(64)
Total deferred tax liabilities	**21,466**	9,558

7 Other assets and liabilities (continued)

(d) Income tax (continued)

(5) Imputation credits

The imputation credits available for the Group amount to $22.6 million (2015: $23.0 million). Availability is subject to shareholder continuity.

8 Unrecognised items

(a) Commitments

(i) Capital commitments

Capital expenditure contracted for at the end of the reporting period but not yet incurred is as follows:

- At 31 December 2016 the Group has capital commitments of $0.1 million related to a property leased by the AI Group.

(ii) Operating lease commitments

The Group has entered into motor vehicle, commercial office and equipment leases under non-cancellable lease arrangements. These leases have varying terms, escalation clauses and renewal rights.

The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

		Consolidated
	2016	2015
	$'000	$'000
Due within one year	**3,980**	2,574
Due between one and five years	**17,561**	7,266
Due after five years	**9,438**	167
	30,979	10,007

(b) Contingent liabilities

Contingent liabilities are not recognised in the SOFP but are disclosed where settlement is less than probable but more than remote. If settlement becomes probable, a provision is recognised. There are no contingent liabilities at year end.

(c) Events after the end of the reporting period

The following transaction occurred after the reporting date and did not relate to conditions existing at the reporting date. No account has been taken of this in the financial statements for the current reporting period ended 31 December 2016.

Final dividend:

On 24 February 2017, the Board declared a final dividend for the 2016 financial year of 2.0 cents per share and is 100% imputed.

9 Other information

(a) Analysis of expenses

		Consolidated	
		2016	2015
		$'000	$'000
(i)	**Acquisition costs**		
	Insurance related acquisition costs	**85,526**	69,106
(ii)	**Other operating expenses**		
	Employee benefits expense	**30,502**	19,398
	Directors fees	**1,036**	1,108
	Depreciation	**1,104**	492
	Amortisation and impairment	**1,199**	612
	Operating lease payments	**3,213**	1,133
	Auditors' remuneration	**1,169**	1,311
	Doubtful debts	**93**	79
	Other expenses	**47,086**	16,625
	Total other operating expenses	**85,402**	40,758
(iii)	**Capital raising, business combination and amortisation of acquired intangibles**		
	Capital raising costs	**415**	2,343
	Amortisation of policies-in-force intangible	**3,453**	3,756
	Amortisation of other acquired intangibles	**816**	-
	Business acquisition costs	**3,750**	2,656
	Total capital raising, business combination and amortisation of acquired intangibles	**8,434**	8,755
(iv)	**Finance costs**	**13,914**	6,296
	Total expenses	**193,276**	124,915

Finance costs include:

- Interest and other costs related to an A$55.0 million fixed interest note (FIIG Note) of $10.9 million (2015: $5.5 million) including once off exit cost as described in Note 5(a); and
- Interest on an $65.0 million ANZ bank loan of $1.4 million; and
- Interest on the Alpha Insurance A/S loan for the Group is $0.4 million (2015: $0.5 million).

9 Other information (continued)

(b) Remuneration of auditors

	Consolidated	
	2016	2015
	$'000	$'000
Remuneration of the auditor of the parent entity, Deloitte network firms, for:		
- auditing or reviewing the financial statements	**798**	205
- tax advisory services	**22**	4
- tax advisory in respect of acquisitions	**161**	-
- tax compliance services	**173**	-
- litigation support services	**-**	21
- regulatory assurance	**15**	-
Remuneration of the auditor of the parent entity, Crowe Horwath, for:		
- other services	**-**	321
Remuneration of other auditors of subsidiaries for:*		
- auditing or reviewing the financial statements	**-**	358
- other services	**-**	472

* The 2015 comparative numbers related to fees for PricewaterhouseCoopers, KPMG and Creaseys.

(c) Cash flow information

(i) Cash flow reconciliation

Reconciliation of net income to net cash provided by operating activities:

	Consolidated	
	2016	2015
	$'000	$'000
Profit for the period	**30,710**	35,510
Cash flows excluded from profit attributable to operating activities		
Non-cash flows in profit:		
- depreciation of property, plant and equipment	**1,105**	492
- amortisation and impairment of intangibles	**5,469**	4,368
- movements in deferred tax	**1,058**	4,027
- foreign exchange movement	**9,761**	(97)
- other	**9,478**	8,463
Movement in operating assets and liabilities:		
- increase in receivables	**(54,147)**	(36,419)
- increase in payables	**46,258**	59,532
- decrease in taxation	**7,064**	(545)
Cash flow from operations	**56,756**	75,331

9 Other information (continued)

(d) New accounting standards for application in future periods

The following standards, amendments and interpretations to existing standards have been published and are mandatory for the Group's accounting periods beginning after 1 January 2017 or later periods, and accordingly the Group has not yet adopted them. The Group expects to adopt the following new standards on 1 January after the effective date.

- NZ IFRS 9 "Financial Instruments" is effective for balance dates beginning on or after 1 January 2018. The standard replaces NZ IAS 39. NZ IFRS 9 requires the financial assets to be classified into two measurement categories, being those measured as at fair value and those measured at amortised cost. The determination is made when the instruments are initially recognised. The method of classification is dependent on the entity's business model and how it manages its financial instruments. For financial liabilities, the standard maintains most of the requirements set out in NZ IAS 39. NZ IFRS 9 introduces a new expected credit loss model for calculating the impairment of financial assets. Management has yet to perform a full assessment of the impact of this standard, however it is not expected to have a material impact on the financial statements.

- NZ IFRS 15 "Revenue from Contracts with Customers" is effective for balance dates beginning on or after 1 January 2018. The standard provides requirements for accounting for all contracts with customers, with some exemptions. Specific exemptions include lease contracts, insurance contracts and financial instruments. The standard will replace all current accounting pronouncements on revenue. Management has yet to perform a full assessment of the impact of this standard, however it is not expected to have a material impact on the financial statements.

- NZ IFRS 16 "Leases" is effective for reporting periods beginning on or after 1 January 2019. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract. NZ IFRS 16 eliminates the current dual accounting model for lessees, which distinguishes between on balance sheet finance leases and off balance sheet operating leases. Instead, there is a single, on balance sheet accounting model that is similar to current finance lease accounting. Management has yet to perform a full assessment of the impact of this standard, however it is possible that the maximum lease commitment set out in note 8(a) could be recognised on balance sheet.

(e) Foreign currency information

A substantial part of CBL Insurance's business is derived in foreign currencies. CBL Insurance retains the premium in the currency it is received in because this is the currency in which future claims and other costs will be paid, and this provides a natural currency hedge for these assets and liabilities.

At balance date, these foreign currency denominated assets and liabilities are required to be translated into NZD for reporting purposes. Any difference in the foreign exchange value when translating those balance into NZD are reported as a positive or negative translation adjustment. Generally these balances are not physically converted into NZD, the translation into NZD is calculated purely for reporting purposes.

10 Prospective financial information

Comparison against prospective financial information

(a) Statement of comprehensive income

	2016 Actual $'000	2016 Adjustment $'000	2016 Total $'000	2016 PFI $'000	Variance $'000
Gross written premium as an insurer	321,681	-	**321,681**	316,246	5,435
Gross written premium as an MGA (EISL)[1]*	50,899	-	**50,899**	81,065	(30,166)
Total gross written premium	372,580	-	**372,580**	397,311	(24,731)
Movement in gross unearned premium	(24,558)	-	**(24,558)**	(21,937)	(2,621)
Total gross premium	348,022	-	**348,022**	375,374	(27,352)
Premium ceded as an insurer	(33,238)	-	**(33,238)**	(31,118)	(2,120)
Premium ceded as an MGA (EISL)[1]*	(38,917)	-	**(38,917)**	(63,417)	24,500
Total net premium	275,867	-	**275,867**	280,839	(4,972)
Fee income[2] *	52,755	(41,537)	**11,218**	13,510	(2,292)
Investment income[2]	3,694	(101)	**3,593**	6,802	(3,209)
Other income	1,144	-	**1,144**	3,580	(2,436)
Total revenue	333,460	(41,638)	**291,822**	304,731	(12,909)
Claims expense	(106,731)	-	**(106,731)**	(134,535)	27,804
Reinsurance and other recoveries	20,372	-	**20,372**	34,590	(14,218)
Net claims expense[3]	(86,359)	-	**(86,359)**	(99,945)	13,586
Acquisition costs	(85,526)	-	**(85,526)**	(86,910)	1,384
Other operating expenses[2]	(85,402)	34,249	**(51,153)**	(54,254)	3,101
Total claims and operating expenses	(257,287)	34,249	**(223,038)**	(241,109)	18,071
Operating profit	76,173	(7,389)	**68,784**	63,622	5,162
Finance costs[4]	(13,914)	7,401	**(6,513)**	(5,998)	(515)
Other expenses[5]	(8,434)	1,231	**(7,203)**	(1,740)	(5,463)
Share of profit from associate	55	-	**55**	209	(154)
Foreign exchange translation adjustment[2]	(9,761)	9,761	**-**	-	-
Profit before tax	44,119	11,004	**55,123**	56,093	(970)
Income tax expense	(13,409)	(3,377)	**(16,786)**	(15,687)	(1,099)
Profit for the period	30,710	7,627	**38,337**	40,406	(2,069)

* To ensure consistency with the PFI the actual results have been amended from the SOPL to include EISL premium written as an MGA and EISL premium ceded as an MGA as shown in note 2, adjusted for intragroup eliminations.

[1] $5.7 million net premium difference: EISL GWP behind PFI target due to challenging market conditions.

[2] SFS and PFP acquisitions, foreign exchange translation adjustments, and repayment of the FIIG note (see point 4 below) were not contemplated at the time of the IPO, and are included in the adjustment column above. The column titled "Total" more closely reflects the actual results for the businesses which were contemplated at the time of the IPO.

[3] Combination of lower than projected net claims costs due to discontinued lines in AI, and overall conservatism in the PFI forecast.

[4] The $7.4 million adjustment is for costs associated with early repayment of the FIIG note, refer note 5(a)(ii), and also finance costs of SFS and PFP at subsidiary level.

[5] The $1.2 million adjustment represents costs not contemplated at the time of the IPO, specifically additional capital raising costs, and amortisation of acquired intangible assets in the SFS acquisition. The variance of $5.5 million includes $3.6 million for the SFS acquisition, refer note 6(a)(iii), and higher than forecast amortisation of intangible assets in the AI acquisition.

10 Prospective financial information (continued)

Comparison against prospective financial information (continued)

(b) Statement of financial position

	Note	2016 Actual $'000	2016 PFI $'000	Variance $'000
Assets				
Cash and cash equivalents		403,894	375,543	28,351
Other financial assets[1]		67,295	88,485	(21,190)
Insurance receivables[2]		135,702	85,279	50,423
Trade and other receivables[2, 3]		214,198	30,265	183,933
Current tax asset		662	105	557
Recoveries on outstanding claims (including IBNRs)		91,671	112,827	(21,156)
Deferred reinsurance expense		15,689	18,518	(2,829)
Deferred acquisition costs		44,833	52,753	(7,920)
Deferred tax assets		3,351	6,192	(2,841)
Property, plant and equipment[3]		8,609	2,889	5,720
Investment in associate		3,571	3,678	(107)
Intangible assets[3]		59,501	8,671	50,830
Goodwill[3]		154,953	38,969	115,984
Total assets		1,203,929	824,174	379,755
Liabilities				
Trade and other payables[3]		322,017	18,356	303,661
Insurance payables		5,952	18,484	(12,532)
Current tax liabilities		5,728	6,332	(604)
Unearned premium liability		166,958	161,809	5,149
Employee benefits provision		4,667	2,389	2,278
Contingent consideration[3]		15,321	-	15,321
Deferred tax liabilities[3, 4]		21,466	2,383	19,083
Outstanding claims liability (including IBNRs)[5]		272,291	323,768	(51,477)
Borrowings[3]		96,909	67,934	28,975
Total liabilities		911,309	601,455	309,854
Net assets		292,620	222,719	69,901
Equity				
Share capital[6]		168,602	117,319	51,283
Reserves		(5,076)	(756)	(4,320)
Retained earnings		97,441	106,156	(8,715)
Total equity attributed to shareholders		260,967	222,719	38,248
Non-controlling interest[3]		31,653	-	31,653
Total equity		292,620	222,719	69,901

10 Prospective financial information (continued)

Comparison against prospective financial information (continued)

(b) Statement of financial position (continued)

[1] Lower than expected funds on long term deposit due to conversion to cash.

[2] In the PFI all insurance and other receivables for AI were included in trade and other receivables. In the actual results these have been separately identified.

[3] SFS and PFP acquisitions not contemplated at time of the IPO.

[4] Revision to recognition of premium income for tax purposes.

[5] Combination of discontinued AI product lines, overall conservatism in the PFI forecast and stronger than forecast NZD.

[6] Private placement and share purchase plan not contemplated at time of the IPO.

(c) Statement of changes in equity

	Note	2016 Actual $'000	2016 PFI $'000	Variance $'000
Total equity				
Share capital		168,602	117,319	51,283
Translation reserve		(5,076)	(756)	(4,320)
Retained earnings		97,441	106,156	(8,715)
Non-controlling interest[1]		31,653	-	31,653
Balance at end of year		292,620	222,719	69,901
Represented by:				
Share capital				
Balance at start of year		110,070	117,319	(7,249)
Movement in year		58,532	-	58,532
Balance at end of year		168,602	117,319	51,283
Translation reserve				
Balance at start of year		(899)	(756)	(143)
Movement in year		(4,177)	-	(4,177)
Balance at end of year		(5,076)	(756)	(4,320)
Retained earnings				
Balance at start of year		84,561	75,144	9,417
Comprehensive income				
Profit after tax		29,743	40,407	(10,664)
Dividends		(16,863)	(9,395)	(7,468)
Balance at end of year		97,441	106,156	(8,715)
Total equity at end of year attributable to shareholders of the parent		260,967	222,719	38,248

[1] Non-controlling interest in SFS and PFP not contemplated at time of the IPO.

10 Prospective financial information (continued)

Comparison against prospective financial information (continued)

(d) Statement of cash flows

	Note	2016 Actual $'000	2016 PFI $'000	Variance $'000
Cash flows from operating activities				
Premium received[1, 2, 3 *]		335,221	385,726	(50,505)
Premium ceded payments[1, 2, 3 *]		(74,207)	(96,837)	22,630
Gross claims paid		(100,857)	(92,961)	(7,896)
Reinsurance and other recoveries received		28,656	21,678	6,978
Interest received and other income[4 *]		61,627	23,892	37,735
Finance costs paid[5]		(9,764)	(5,998)	(3,766)
Income taxes paid		(8,448)	(11,822)	3,374
Commission paid		(86,864)	(93,432)	6,568
Other operating payments[4, 6]		(88,608)	(51,621)	(36,987)
Net cash flows from operating activities		56,756	78,625	(21,869)
Cash flows from investing activities				
Net cash flows from subsidiaries and associates[4]		25,111	209	24,902
Payments for property, plant and equipment[7]		9,235	(615)	9,850
Payment for intangibles		(3,174)	(357)	(2,817)
Movements in loans with non-related parties		(971)	7,620	(8,591)
Net payments for financial assets		(8,409)	-	(8,409)
Net cash flows from investing activities		21,792	6,857	14,935
Cash flows from financing activities				
Net receipts/(payments) for borrowings		7,787	-	7,787
Dividends paid to equity holders		(16,863)	(9,395)	(7,468)
Proceeds from issue of shares[8]		58,532	-	58,532
Net cash flows from financing activities		49,456	(9,395)	58,851
Net movement in cash held		128,004	76,087	51,917
Effects of exchange rates on balances of cash held in foreign currencies		(20,122)	-	(20,122)
Cash and cash equivalents at the beginning of the financial year		296,012	299,456	(3,444)
Cash and cash equivalents at the end of the financial year		403,894	375,543	28,351

* To ensure consistency with the PFI the actual results have been amended to include receipts of EISL premium written as an MGA in premium received, and payments of EISL premium ceded as an MGA in premium ceded payments.

[1] Stronger than forecast NZD.

[2] Discontinued AI product lines.

[3] EISL GWP behind PFI target.

10 Prospective financial information (continued)

Comparison against prospective financial information (continued)

(d) Statement of cash flows (continued)

[4] SFS and PFP acquisitions not contemplated at time of the IPO.

[5] Costs associated with early repayment of FIIG note.

[6] Costs relating to SFS business acquisition. SFS acquisition not contemplated at the time of the IPO.

[7] Sale of investment property was forecast to occur in 2015, but settled in 2016.

[8] Private placement and share purchase plan not contemplated at time of the IPO.

Deloitte.

Independent Auditor's Report

To the Shareholders of CBL Corporation Limited

Opinion

We have audited the consolidated financial statements of CBL Corporation Limited and its subsidiaries (the 'Group'), which comprise the consolidated statement of financial position as at 31 December 2016, and the consolidated statement of profit or loss, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements, on pages 4 to 70, present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2016, and its consolidated financial performance and cash flows for the year then ended in accordance with New Zealand Equivalents to International Financial Reporting Standards ('NZ IFRS') and International Financial Reporting Standards ('IFRS').

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing ('ISAs') and 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 Consolidated Financial Statements* section of our report.

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

We are independent of the Group in accordance with Professional and Ethical Standard 1 (Revised) *Code of Ethics for Assurance Practitioners* issued by the New Zealand Auditing and Assurance Standards Board and the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants*, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Other than in our capacity as auditor and the provision of tax advisory services in relation to acquisitions, other matters and tax compliance, we have no relationship with or interests in the Company or any of its subsidiaries. These services have not impaired our independence as auditor of the Company and Group.

Audit materiality

We consider materiality primarily in terms of the magnitude of misstatement in the financial statements of the Group that in our judgement would make it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced (the 'quantitative' materiality). In addition, we also assess whether other matters that come to our attention during the audit would in our judgement change or influence the decisions of such a person (the 'qualitative' materiality). We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

Based on our professional judgement, we determined the quantitative materiality for the consolidated financial statements to be $2.7 million.

Key audit matters

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

Key audit matter	How our audit addressed the key audit matter and results
Outstanding claims liability The outstanding claims liability as outlined in note 3(b) is $272 million at 31 December 2016. The Group conducts insurance business in various markets globally which give rise to claims liabilities as set out in note 3(b) of the financial statements. The calculation of these liabilities is complex and is carried out by the appointed actuaries of each of the respective insurance entities. The liability is measured based on a central estimate of future cash flows from claims incurred, discounted for the time value of money and the application of an appropriate risk margin for uncertainty. We have included the outstanding claims liability as a key audit matter due to its magnitude and the significant level of judgment required to be applied. The outstanding claims liability also affects the determination of a number of other related balances in the financial statements. Note 3(b) lists the various inputs used in the determination of the liability. The inputs that are used in and have the most impact on the outstanding claims liability calculation are: • ultimate loss ratios; • risk margin assumptions;and • claims development patterns.	Our procedures included, amongst others: • Evaluating the group's process in respect of the appointed actuaries' valuation of the outstanding claims liability including its review of the valuation methodology and determination of the key valuation assumptions. • Reading the actuarial valuation reports and meeting with the appointed actuaries to understand the valuation process adopted and to identify and challenge the key inputs and significant judgments in the valuation models. • Evaluating the competence, objectivity and integrity of the appointed actuaries. This included assessing their professional qualifications and experience. • Utilising the services of our internal actuarial specialists to: o Identify the inputs into the valuation models that are considered key to the overall valuation models' results; o Assess the valuation methodologies and modelling for compliance with relevant actuarial and accounting standards, consistency with prior years and to determine if changes to prior year assumptions were appropriate; o Evaluate the adequacy and appropriateness of risk margin assumptions • In respect of the ultimate loss ratios and claims development patterns, for a sample of claim files during the period, we tested that the claim payments used in the actuarial valuation models were consistent with those recorded in the accounting records. • Involving IT specialists to perform electronic data analysis to test the arithmetical accuracy of a sample of data provided to the appointed actuaries.
Acquisitions during the year During the year, the Group acquired a controlling interest in Securities and Financial Solutions Europe S.A ('SFS') for a purchase price of $111 million as set out in note 6(a) of the financial statements. Accounting for the acquisition has involved judgment in order to: • determine the date on which control was transferred to the Group; • identify and measure the fair value of the assets and liabilities acquired (noting that these amounts are determined on a provisional basis); • measure the non-controlling interests; • allocate the purchase consideration between identifiable assets and liabilities and goodwill; and • determine whether there is any impairment between the acquisition date and balance date. This is a material acquisition for the Group and given the level of estimation and judgement required we considered it to be a key audit matter.	Our procedures included, amongst others: • Examining the terms and conditions of the sale and purchase agreement in order to challenge the Group's assessment of whether the Group obtained control of SFS and on what date. • Considering the completeness of the identified assets and liabilities acquired by comparison to the sale and purchase agreement, through discussions with the Group and internal experts, and based on our understanding of the acquired business and industry knowledge. • Assessing the Group's determinations of provisional fair values for assets and liabilities acquired and the methods used to value the underlying assets by: o Reading the provisional valuation report prepared by the appointed external valuation specialists.

Key audit matter	How our audit addressed the key audit matter and results
The group has provisionally identified the brand names, customer relationships and software as intangible assets in the acquisition and have engaged external valuation specialists to value these assets for the purpose of the purchase price allocation. These have provisionally been valued using the relief from royalty rate method (brand names), excess earnings method (customer relationships) and reconstruction method (software). The key inputs into these valuations are: • EBIT margins; • Royalty rate; • Discount rate; • Single and recurring premium attrition rates The Group has measured non-controlling interests at fair value.	○ Evaluating the competence, objectivity and integrity of the appointed external valuation specialists. ○ Involving our internal specialists in assessing the appropriateness of the methods used to provisionally determine the fair values of the brand names, customer relationships and software and the discount rates applied. ○ Agreeing EBIT margins and premium attrition rates to historical financial information in the due diligence reports. ○ Agreeing the royalty rate to comparable observable rates. • Assessing the Group's determination of the fair value of non-controlling interests by comparison to the price per share paid. • Evaluating the Group's determination that there is no impairment of SFS goodwill by comparing the forecast results in the due diligence reports to the actual results between acquisition date and balance date.
Goodwill Goodwill of $51 million (excluding SFS which is addressed above) is allocated to several cash generating units as set out in note 7(a) to the consolidated financial statements. The Group uses value in use models to assess whether goodwill allocated to a cash generating unit is impaired. These models require judgment in respect of factors such as: • budgeted future premiums, commissions and margins; • expenses; • investment market conditions; • discount rates; and • terminal growth rates. We have included the impairment assessment of Goodwill as a key audit matter given the significance of the amounts involved and level of judgement required in order to determine whether goodwill is impaired.	Our procedures included, amongst others : • Obtaining the Group's value in use models and agreeing amounts to budgets and forecasts approved by the Board. • Involving our internal valuation specialists to assess the discount rates and terminal growth rates against comparable market information for each cash generating unit as well as the overall appropriateness of methods used. • Assessing the historical accuracy of the Group's budgets. • Considering the reasonableness of management's assumptions around investment market conditions by comparing to industry information. • Performing a sensitivity analysis on management's models using alternative discount rates, cash flow assumptions and terminal growth rates.

Other information

The directors are responsible on behalf of the Group for the other information. The other information comprises the information in the Financial Summary that accompanies the consolidated financial statements and the audit report, and the Annual Report. The Annual Report is expected to be made available to us after the date of the audit report.

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

Our responsibility is to read the other information and consider whether it is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If so, we are required to report that fact. We have nothing to report in this regard.

When we read the Annual Report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to the directors and consider further appropriate actions.

Directors' responsibilities for the consolidated financial statements

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

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

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated 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 and 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 consolidated financial statements.

A further description of our responsibilities for the audit of the consolidated financial statements is located on the External Reporting Board's website at: https://www.xrb.govt.nz/Site/Auditing_Assurance_Standards/Current_Standards/Page1.aspx

This description forms part of our auditor's report.

Restriction on use

This report is made solely to the Company's shareholders, as a body. Our audit has been undertaken so that we might state to the Company's shareholders those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company's shareholders as a body, for our audit work, for this report, or for the opinions we have formed.

Deloitte Limited

Michael Wilkes, Partner
for Deloitte Limited
Auckland, New Zealand
24 February 2017

This audit report relates to the consolidated financial statements of CBL Corporation Limited (the 'Company') for the year ended 31 December 2016 included on the Company's website. The Directors are responsible for the maintenance and integrity of the Company's website. We have not been engaged to report on the integrity of the Company's website. We accept no responsibility for any changes that may have occurred to the consolidated financial statements since they were initially presented on the website. The audit report refers only to the consolidated financial statements named above. It does not provide an opinion on any other information which may have been hyperlinked to/from these consolidated financial statements. If readers of this report are concerned with the inherent risks arising from electronic data communication they should refer to the published hard copy of the audited consolidated financial statements and related audit report dated 24 February 2017 to confirm the information included in the audited consolidated financial statements presented on this website.

Glossary

AI	Assetinsure Pty Limited.
AI Group	Assetinsure Holdings Pty Limited and its wholly owned subsidiary, AI.
APRA	Australian Prudential Regulation Authority.
ASX	Australian stock exchange.
CBL	CBL Corporation Limited, or as the context requires, CBL Corporation Limited and its indirect and indirect subsidiaries.
CBL Insurance	CBL Insurance Limited.
CBLIE	CBL Insurance Europe Limited.
CFO	Chief Financial Officer of CBL.
Companies Act	Companies Act 1993.
Company	See CBL.
DAC	Deferred acquisition cost.
DRE	Deferred reinsurance expense.
EISL	European Insurance Services Limited.
ESR	European Specialty Risks Limited.
EUR or €	Euro, currency of the euro area.
FCA	Financial Conduct Authority.
Fiducia	Afianzadora Fiducia, S.A. de C.V.
FIIG Note	Medium term Australian dollar notes issued by CBL.
FMC Act	Financial Markets Conduct Act 2013.
Group	See CBL.
IBNR	Incurred but not reported.
IFRS	International Financial Reporting Standards.
IPO	The initial public offer of CBL shares on the NZX and ASX on 13 October 2015.
IPSA	Insurance (Prudential Supervision) Act 2010.
MGA	Managing general agency (an intermediary between brokers and insurers).
NZ IFRS	New Zealand equivalents to IFRS.
NZX	New Zealand stock exchange.
OCI	Other comprehensive income.
Operating profit	Profit before finance costs, capital raising costs, business combination costs, amortisation of acquired intangibles, foreign exchange movements, profit from associates, revaluations and tax.
Parent	See CBL.
PDS	Product disclosure statement issued in relation to the IPO.
PFI	Prospective financial information for CBL for years 2015 and 2016 disclosed in relation to CBL's IPO.
PFP	Professional Fee Protection Limited.
PFP Group	PFP Singapore PTE Limited and its subsidiaries, including PFP.
PIF	Policies-in-force.
RBNZ	Reserve Bank of New Zealand.
S&P	Standard and Poors (rating agency).
SOFP	Statement of financial position.
SOPL	Statement of profit or loss.
UPL	Unearned premium liability.

Corporate Directory

Date of incorporation

CBL Corporation Limited	18 June 2012

Registered office and principal place of business

Level 8, 51 Shortland Street
Auckland Central
Auckland 1010, New Zealand
Phone: +64 9 303 4770
Email: issuer@cblinsurance.com
Website: www.cblcorporation.co.nz
Secretary: Carden Mulholland

Share Registry: New Zealand

Computershare Investor Services Limited
Level 2, 159 Hurstmere Road
Takapuna, Auckland
Private Bag 92119
Auckland 1142
Phone: +64 9 488 8777
Fax: +64 9 488 8787
Email: enquiry@computershare.co.nz
Website: www.investorcentre.com/nz

Share Registry: Australia

Computershare Investor Services Pty Limited
Yarra Falls, 452 Johnston Street
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Melbourne VIC 3001
Phone: +61 3 9415 4083
Fax: +61 3 9473 2500
Email: enquiry@computershare.co.nz
Website: www.investorcentre.com/nz

Auditors

Deloitte Limited