CBL AGM 2017 - Managing Director's Address

2016 has been another record year for CBL. Our revenue growth has continued as we have identified and created opportunities across our key regions.

Our gross written premium has increased by 32.6 percent and operating profit has increased by 27.2 percent. These results are a clear indication of the successful strategy we have adopted over the past 15 years, based on a balance of disciplined underwriting, a focus on profitable revenue growth; choosing good distribution and intermediation partners in our markets; and tightly managing claims and recoveries. We have always taken a long-term approach to business and focus on long term maintainable profits – this approach has remained the same since we listed in 2015.

While our Gross Written Premium and operating profit has increased, our reported after tax profit for the year decreased due to two one-off or non-operating items in the 2016 financial statements.

The first of these was the one-off purchase cost of buying and financing SFS, and costs incurred in repaying our existing debt early.

The second item was the foreign exchange translation adjustment made in order to express our balance sheet assets and liabilities in a single reporting currency - New Zealand dollars. The foreign exchange translation adjustment is not a realised expense, and not a cash item, (which is why it is added back to net reported profit after tax when we calculate dividends). The adjustment in 2016 was a negative $9.8 million, compared with a positive adjustment of $3.9 million in 2015. Neither the positive adjustment nor the negative adjustment mean anything insofar as measuring our underlying operating performance. This $9.8m foreign exchange translation negative adjustment in 2016 is required to flow through our Statement of Profit or Loss, and reduced our net profit after tax to $30.7 million, which is a reduction of 13.5% compared to 2015 net profit after tax.

CBL is an exporter of financial services, transacting business across multiple countries and in different currencies. We hold premiums in the currencies that they are earned in, because that is the currency in which future claims and expenses will be paid. This means that we are naturally hedged. This also means that our reporting and translations into NZ$ will always be susceptible to currency adjustments.

To help explain this, we released to the market some supplementary information to our annual results presentation to show underlying operations in constant currency to take the NZ$ translation noise out of it.

We have continued to achieve our growth targets despite the continued weakness in the Euro spot rate and the Australian dollar over the 2016 year, but it is interesting to note the recent strengthening in the Euro.

Brexit

2016 has been a strong year for CBL, despite the uncertain global political environment. The British decision to exit the European Union in June presented CBL Insurance Europe with new opportunities as customers look for more clarity and certainty than British and Gibraltar insurance providers are currently able to offer, about where they will be domiciled and pay claims from in the future.

Capitalising on these opportunities also requires a focus on our regulatory requirements, including with respect to the Solvency II regime, which came into effect in January 2016. A commitment to the highest levels of corporate governance and strong solvency capital alignment throughout the group has always been a key feature of our business. We have moved quickly to respond to these opportunities and are working with a number of new clients as a result.

We are also in the process of transitioning the majority of our European business into CBL Insurance Europe, rather than through the current provider which is based in Gibraltar. This transition process will continue during 2017, and once completed in 2018, is expected to add both revenue and profit to CBL Insurance Europe, and to CBL Insurance, by way of reinsurance.

A key objective for 2017/18 is to gain a financial strength credit rating for CBL Insurance Europe.

CBL Insurance Europe is based in Dublin, and it was recently reported that the Central Bank of Ireland has 38 insurance companies currently making an application to obtain a EU insurance operating licence.

Innovation in our product portfolio

We launched several new programs in 2016, in France, Spain, Mexico and in Australia. In Q1 of 2017, we have launched others in France, USA, and Australia, and are working on others in Asia which are expected to start in H2 2017. Some will start small and take a year or two to ramp up, but we expect every one of them to be profitable.

Maximising the opportunities of digital technology

All industries today are having to adapt or face digital technology disruption. Insurance is no different. We see this is as an opportunity and have a number of initiatives underway in this area.

This first is a new smartphone app, which delivers building warranty products direct to pre-qualified and pre-approved residential builders in Victoria, Australia, via mobile phone. The project went live in January 2017, and is expected to ramp up this year and next. It was developed by our own inhouse team and is an industry-first. We will look to take this into other markets in the future.

We are also developing another digital strategy with Assetinsure in Australia and one in Mexico which will be delivered later this year.

Our Group

CBL Corporation is the parent of the Group, providing oversight and alignment of group strategy to all of its operating entities.

I am now going to taking each of these entities in turn, to provide an overview for 2016.
Firstly the insurance risk-taking entities in the Group:

CBL Insurance

CBL Insurance is the largest contributor to the Group, with its global insurance and reinsurance business continuing to grow strongly. A key highlight of 2016 has been our ratings upgrade to A- (Excellent), as mentioned by Sir John. This has allowed us to develop new product lines and programmes, particularly in Australia with our PetroBond program and South East Asia. We expect to introduce our PetroBond program into other countries in 2017/2018.

Our Deposit Power product continues to lead the market in Australia, with a new online strategy and increased distribution channels through the major bank and resi-mortgage lenders. In Europe, our business also continues to grow, with a particularly strong performance across Scandinavia and Italy.

CBL Insurance Europe

CBL Insurance Europe has had another year of strong gross written premium growth, which moved from $10.4 million in 2015 to $39.9 million in 2016. This growth is largely due to the transitioning of our European book into CBL Insurance Europe, which will continue into 2017.

CBL Insurance and CBL Insurance Europe are being strengthened with additional resource and senior management appointments to successfully execute this exciting step-change in our business and brand. We plan to announce a new Head of Europe for CBL Corporation in the very near future which is a new appointment and a result of our growth in this market and our long term planning for the future.

Assetinsure

2016 was Assetinsure's first full year of operation within the CBL Group following its acquisition in September 2015. Our focus has been on ensuring closer alignment with CBL's strategy on profitable specialist products. As a result, we have exited some non-core business lines, - in particular Aviation, Property, and other Speciality lines. This process is now nearly complete. Although we have carved off nearly 30% of our gross revenue, we expect underlying profit will increase. In particular, we expect to see growth in 2017 from our core Surety and Credit products and new Builders' Warranty and PetroBond payment bonds products.

I will now take us through our other three businesses – our Managing General Agents…

European Insurance Services Limited

2016 was a challenging year for EISL.

Aggressive discounting from two smaller insurer competitors saw EISL at times cutting its commissions as it sought to maintain insurer gross premium rates. Despite the challenge to its own income, EISL managed to generate insurer gross premium levels for CBL in line with the previous year. One of those competitors has since ceased operations as it could not comply with Solvency II, and as a result, EISL is now growing its pipeline and is seeing a flight back to Insurer quality from builders. EISL has invested into a new senior management team with an added focus on revenue growth.

Professional Fee Protection

In its first full year as part of the CBL Group, Professional Fee Protection has delivered a strong performance with 6 percent growth in insurance premiums and is working on two new products for launch later in 2017. PfP now places its insurance risk with CBL Insurance Europe, providing additional growth to the Group.

PfP has increased its market position by developing strong relationships with its partner firms. On the back of three significant new partner wins in 2016, PfP now works with 44 of the UK's 'Top 100' accountancy firms.

SFS

In January 2017, we completed the acquisition of a majority stake in Securities and Financial Solutions Europe (SFS), France's largest specialist producer of construction-sector insurance, and IMS Europe which is SFS' claims management operation.

SFS produces Euro 140 million in annual insurance premium. As a leading managing agent it does not carry any risk, earning revenue from brokerage and fees. SFS operates in 13 markets including France, Luxembourg, Belgium, Italy and French Overseas Departments and Territories, and has 37 branches throughout France. CBL has worked with SFS for more than 10 years and it was our biggest client globally.

SFS delivers us substantial strategic benefits, it removes the distribution concentration risk that SFS represented as CBL's largest client. It also provides added vertical integration within the Group, and further consolidates our market position in Europe. The acquisition is complementary to our existing UK-based EISL business which also distributes building-sector insurance products in France. The acquisition increases staff numbers in the CBL Group from 182 to 550.

We now have real scale in France in the builder market, and we are looking forward to leveraging that scale by utilising the specialist skills and resources within SFS and IMS across the wider CBL group.

Board

We have seven boards of directors in our group companies including our parent board here today. They bring a wealth of international business expertise and experience to the group and their input and guidance is invaluable. All of our subsidiary companies are businesses in their own right, with senior management teams and boards that are looked to and relied upon by central government regulators. Alignment is crucial and, I am pleased to say, works well. That is why we place 1-2 directors of the CBL Corporation directors on our subsidiary boards, for clarity of message upwards and downwards.

Our parent board provides strategic oversight to the Group. We are extremely fortunate to have such a strong and experienced group of Directors, led by Sir John Wells, one of New Zealand's most able and respected Chairs. CBL's success is testament to the strength of the board, and Sir John's chairmanship; the hard work of our exceptionally talented team of employees; our loyal partners and advisers.

Finally, and most importantly, I would like to close by thanking you, our shareholders, for investing in CBL Corporation. During 2016, we have continued to build momentum across the business, and we expect to consolidate and lock in that momentum into further international and profitable growth in 2017 and out into the future.

Thank you