

CBL Corporation Limited

2017 Technical Session

4th December 2017 - Auckland

5th December 2017 - Sydney



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Glossary

A.M. Best	A.M. Best Rating Agency, an internationally recognised independent ratings agency which specialises in insurance
APRA	Australian Prudential Regulation Authority
Binder, Binding Agreement	A contract given by an Insurer to an MGA which sets out the boundaries of authority of the MGA, and the underwriting criteria within which the MGA is authorised to "bind" that insurer to insurance policies issued by the MGA
Ceding, Cedent	An insurer which passes off a share of risk and premium to a reinsurer
DAC	Deferred Acquisition Costs which are commissions / brokerage applying to the portion of premium deferred and brought to account in future periods
DL	Decennial Liability insurance, a 12 month renewable liability policy covering the work of a contractor on building sites during that 12 month policy period and recognising claims lodged against the contractor for up to 10 years
DO	Dommages Ouvrages insurance (literally "insurance of the works") is insurance taken out on a specific building project (residential in CBL's case) which covers the home owner from workmanship defects. The policy is a no-fault insurance, and the insurer of a DO policy must immediately remedy the defect, and is then able to recover in full from the DL liability insurer of the contractor which caused the workmanship defect
GWP	Gross Written Premium
IBNR	Claims Incurred But Not Reported i.e. losses which have occurred but which have not been reported to the insurer by the insured policyholder
MGA	Managing General Agency (an intermediary between brokers and insurers)
RBNZ	Reserve Bank of New Zealand
Regulatory Capital	A term used in insurance regulations which calculates how much capital a regulated insurer should have
Reinsurer	An insurance company that agrees to accept risk and premium from an insurer which wants to share or reduce its own risk
UPL	Unearned Premium Liability

Presenters

- Carden Mulholland, Group Chief Financial Officer
- Dean Finlay, Director of International Business
- Henry Ray, Group Financial Controller
- Carl Griffiths, Corporate Finance Director

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CBL Group

Operating Subsidiaries and Strategic Investments

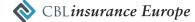
	Underwriting				Distribution			
	& CBLinsurance	CBL insurance Europe	asset	FIDUCIA	EISL EUROPEAN FROMWACE SERVICES LTD	PfP	SFS © tourite à Percot Sature	୍ଧ୍ର AlliedRiskManagement
Activity	Risk taker	Risk taker	Risk taker	Risk taker	MGA	MGA	MGA	Insurance Manager
Ownership %	100%	100%	100%	35%	100%	92%	71%	40%
Revenue Type	Premiums	Premiums	Premiums	Premiums	Commissions and Fees	Commissions and Fees	Commissions and Fees	Fees
FY2016 GWP (NZ\$m)	247.5	39.9	46.1	n/a	n/a	n/a	n/a	n/a
Regulator	Reserve Bank of New Zealand	Central Bank of Ireland	Australian Prudential Regulation Authority	Insurance Commission Mexico	UK Financial Conduct Authority	UK Financial Conduct Authority	Commissariat aux Assurances Luxembourg	Central Bank of Ireland

CBL Group Global Reach

Eight offices, four continents, writing business in 25 countries





















Section 1: Acquiring, servicing clients and underwriting the insurance risk

Acquisition and servicing of clients

Identify potential business partners	 CBL does not look to advertise or market its services – its business typically comes by referral or word of mouth, or new product lines launched by existing clients. Opportunities are directed into CBL London or CBL NZ for evaluation This involves face to face meetings with the key stakeholders of the new client before agreeing to proceed 			
Due diligence process undertaken on potential partners	 Due diligence process undertaken with the objective of seeing that business relationships are established with committed, long-term clients, with strong distribution channels, and quality reporting abilities, who share common goals with CBL and are focused on good-quality, long-term and profitable underwriting Due diligence can take up to six months to complete with multiple face to face meetings before any new business is written, and the relationship is then built over years 			
Due diligence process undertaken on new product and client opportunities	 CBL seeks to apply strict criteria to assess a new line of business including: the quality of the distribution and acquisition ability being of acceptable standard to CBL and having an understanding of the new market and new client's motivations; the levels of production must be proved up as much as possible so that CBL is allocating capital and management resource to what should be productive profitable new markets; the history of the product must show strong, consistent profits; the new market is expected to also show potential for CBL to grow the opportunity to an agreed minimum level including the introduction of other appropriate CBL core products to its business partners; and CBL takes a long term view to new market entry with a view to seeing that the new market opportunity makes sense 			
Relationships consolidated / new products developed	 Once the new market or product line has reached a certain scale, the client is handed over to its existing key client service and revenue team These relationships provide the platform for CBL to identify new innovative products in existing markets, grow existing product lines and to open new markets Profit shares are built into contracts so that all interests are aligned with writing profitable business 			

Underwriting and binding assessment

- Underwriting can be split into two categories
- Delegated Underwriting Risks
 - o The underwriting criteria is agreed to by the Underwriting Committee of CBL Insurance (in Auckland) or CBLIE (in Dublin), and then the actual risk by risk is delegated to the MGA pursuant to the Binder
- Direct Written Risks
 - o Individual risks underwritten by the Underwriting Committee of CBL Insurance (in Auckland) or CBLIE (in Dublin)

Delegated underwriting risk process (MGA)

Fact gathering from industry partners

Data analysis: e.g. history of claim/recovery ratios

Assessment of financial criteria of the customer

Risk Assessment

- Conversations with industry participants
- Access to policy information from quota share arrangements
- Analysis of financial accounts of the insured
- Benchmarking against similar industries offshore for new products

Illustrative binder terms

- 12 month renewable
- Set limits on sums insured
- Set rating (pricing) regime
- Identified underwriting protocols
- Monthly premium reporting protocols
- Monthly premium payment terms
- Agreed deductibles (commissions)

Price risk

- Based on estimated claim and recovery ratios, what premium levels should be charged to the end customer (assuming level of risk is acceptable)
- Sets the minimum pricing level for MGA's

Draft underwriting quidelines for a binder

- Provides parameters under which insurers and MGA's (eg. EISL) can bind CBL Insurance to risk
- Extensive and onerous process which can take up to 3 months
- Compliance with binders is monitored on a six monthly basis
- Ability to 'fine tune' binders in early stages of a product to reflect new information on claims etc.
- Binders are highly sought after by MGAs. Fear of removal drives compliance

Consider reinsurance

 CBL considers outward reinsurance so as to mitigate risk to the company or its earnings

Extracts from underwriting submission:

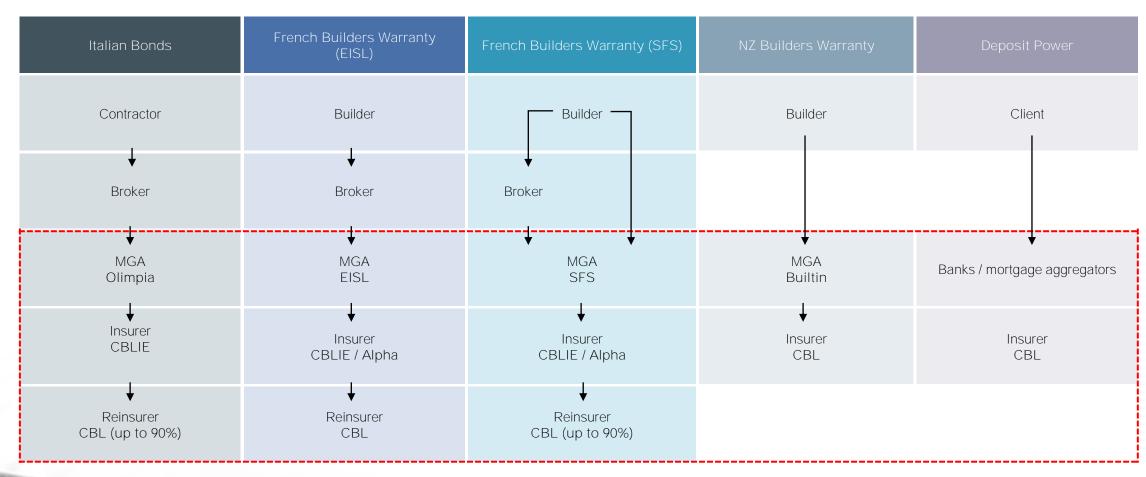


Indian JV with SREI Infrastructure



- India is a completely new market for guarantees indemnified by an insurance company
- In the past India has only ever had bank guarantees as an option to guarantee infrastructure projects, which requires cash collateral
- CBL does not require cash collateral to provide a guarantee, instead it accepts corporate indemnities as security
- Infrastructure investment in India is forecast at US\$500 billion US\$600 billion over the next 5 years Guarantees will be required for all of this infrastructure
- SREI/CBL JV Progress to date:
 - Official JV signing ceremony completed at the NZ High Commission in New Delhi in October 2017
 - o Inaugural Guarantees and Sureties Conference delivered in New Delhi to 120 Business and Government delegates hosted by SREI and CBL
 - CEO appointed Vikash Khandelwal
 - o Two Business Development Managers appointed Mr Mohit Gupta (New Delhi) and Akash Saini (Mumbai)
 - Operations Manager appointed Shaveta Alwadi
 - Offices opened in New Delhi and Mumbai
 - o Business production expected to slowly ramp up over 2018

CBL's business and premium flows

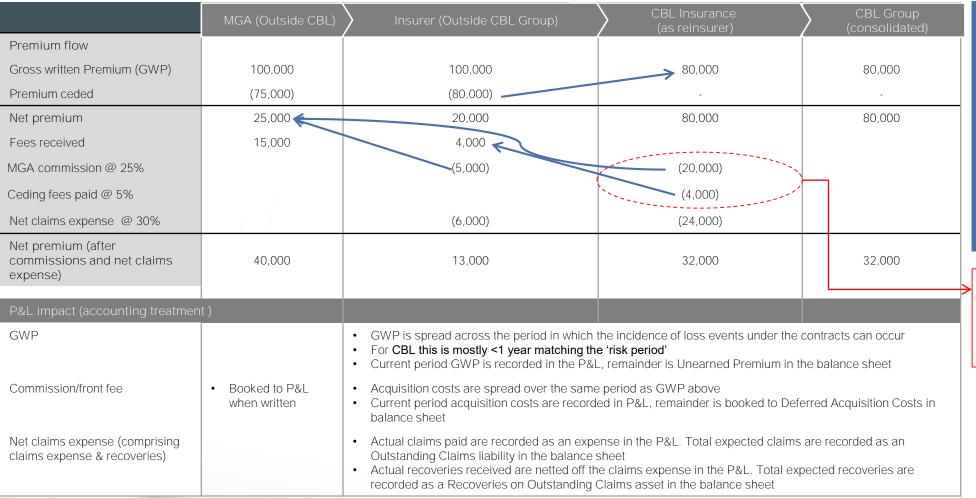




Transaction flow – typical builders warranty policy

	MGA (eg EISL)	Insurer – CBLIE or Alpha	CBL Insurance	CBL Group (consolidated)
Activity	 Customer interaction Collect gross premium Forward premium (net of commission) to insurer 	Underwrites insurance riskReinsures an agreed proportion to CBL	 Underwrites agreed proportion of risk Pays proportional share of broker/MGA commission Pays a fronting fee to the insurer 	
Risk sharing	No risk typically taken	Risk takerLimited by the level of reinsurance	Risk takerLimited by the level of reinsurance (if any)	
P&L	 Commission – from insurer Fee income – from client External brokerage expenses Operating expenses 		 Gross written premium Acquisition cost (proportional share of MGA/broker commission and a fronting fee) 	 Gross written premium Fee income – from client Acquisition cost Claims costs
BS (non- cash)	Accounts receivablePayable to insurers		Outstanding claims provision & IBNRUnearned premiumDeferred acquisition costs	 Outstanding claims provision & IBNR Unearned premium Deferred acquisition costs
Cash	Gross written premium receivedNet premium paid		Net premium receivedPay claims	Net premium retainedPay claims

Example: Premium flow and P&L treatment



- Premium: \$100,000
- Commission payable to broker/MGA: 25%
- Reinsurance level: 80%
- Ceding fee: 5% of GWP
- Net claims ratio: 30%

Reinsurer pays a proportion of MGA's commission plus a ceding fee to the insurer based on a % of total GWP

Accounting provisions

CBL provision	Definition	Treatment
Unearned Premium Liability (UPL)	 Premium revenue (GWP) comprises amounts charged to policyholders (direct premium) or other insurers (inwards reinsurance premium) for insurance contracts UPL is the proportion of premium written in a year that relate to periods of risk after the reporting date 	 Premium (GWP) 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 unearned portion of premium is recognised as an UPL in the Statement of Financial Position. This is essentially 'income received in advance'.
Deferred Acquisition Costs (DAC)	 Costs associated with obtaining and recording insurance contracts For example, commissions or brokerage paid to agents or brokers The DAC is the portions of costs incurred that relate to periods of risk after the reporting date 	 Costs are capitalised and presented as DAC The DAC is amortised on the same basis as the earnings profile of the premium over the period of the related insurance contract The balance of the DAC at the reporting date represents the capitalised acquisition costs relating to unearned premium The DAC is intrinsically linked to the UPL (accounting matching principle)

Example: UPL & DAC

UPL and DAC calculation (NZD'000s)

Profit and Loss Extract	Year 1 Year 2
GWP	A 12.0
Earned Premium	B 7.0 F 5.0
Acquisition Cost	C 1.4 G 1.0
Balance Sheet Extract	
UPL	D 5.0
DAC	E 1.0

Assumptions

- \$12m Gross Written Premium (GWP) written on 1st June
- Earning profile of 12 months
- Commission Cost 20% of GWP

- 100% GWP written on the 1st June
- 7/12 of GWP written is earned through the Profit and Loss by the year 1 reporting date
- 7/12 of commission costs incurred is expensed through the Profit and Loss by the year 1 reporting date
- 5/12 of GWP written but unearned is recorded on the Balance Sheet at the year 1 reporting date
- 5/12 of commission costs incurred but yet to be expensed is recorded on the
 Balance Sheet at the year 1 reporting date
- F Year 1 UPL is earned during year 2
- Year 1 DAC is expensed during year 2

Actual and actuarial provisions

• All claims liability is assessed on a case-by-case basis other than business with long-tail IBNR liability which is set using actuarial based assumptions and projections

CBL provision	Definition	Treatment
Actuarially projected outstanding claims liability (IBNR)	 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 to allow for the inherent uncertainty in the central estimate. This is set using actuarial based loss modelling projections 	 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. The liability is discounted to present value using a risk free rate
Recoveries on outstanding claims	 Recoveries are any recoveries received or receivable from the indemnifying party either directly or via their insurer once the claim is paid 	 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 Recoveries on all claims paid apart from IBNR claims are not recognised as recoveries until received
Actual claims provision liability	 The outstanding claims liability is measured at the value at which the CBL claims management team expect to settle the claim at, plus an allowance for risk margin and loss adjustment expense 	expenses and fees are totalled claim by claim, product by product and

Example: Claims liability and recoveries

Claims Liability and Recoveries Calculation (NZD millions)

Profit and Loss Extract	Claim Reserved	Claim Paid
Earned Premium	A 25.0	
Premium Ceded / Reinsurance	B (5.0)	
Total Revenue	20.0	
Claims Expense (Provision)	(10.0)	10.0
Claims Expense (Paid)	0.0	(10.0)
Reinsurance and Other Recoveries (Receivable)	2.0	(2.0)
Reinsurance and Other Recoveries (Received)	0.0	2.0
Operating Profit	12.0	0.0
Balance Sheet Extract	=-1/	
Cash	E 20.0	H 12.0
Outstanding Claims Liability (Incl. IBNR)	(10.0)	0.0
Recoveries on Outstanding Claims (Incl. IBNR)	>G 2.0 ′	0.0
Net Assets	12.0	12.0

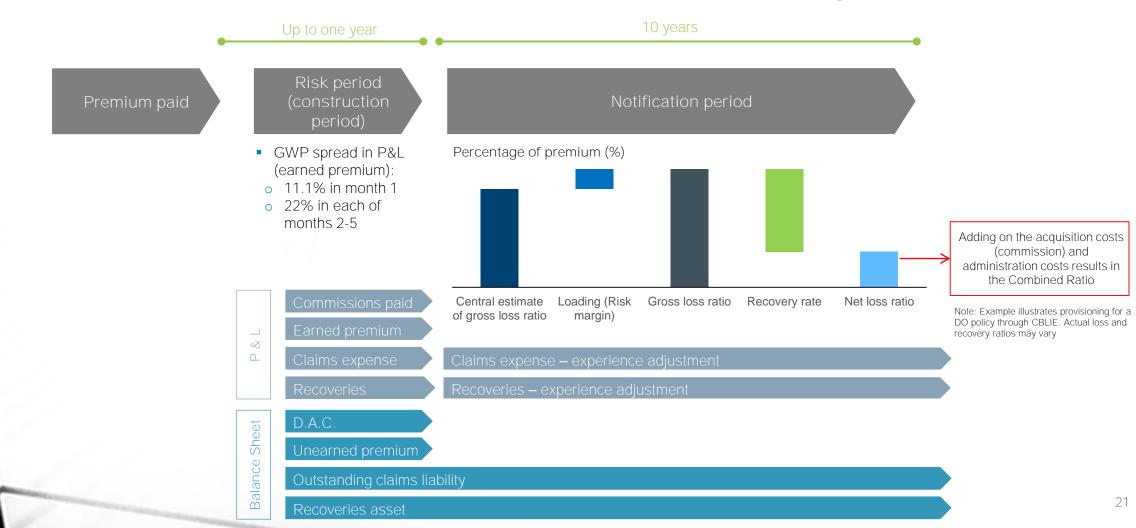
\$25m earned premium (cash) 20% of earned premium ceded as reinsurance 40% earned premium expensed as claims provision and reversed when paid 20% of claims expense recorded as reinsurance recovery and reversed when received Earned premium net of reinsurance ceded received 40% of earned premium recorded as a claims provision on the balance sheet 20% of claims provision recorded as a reinsurance

Net claim liability is paid from cash and claim is settled

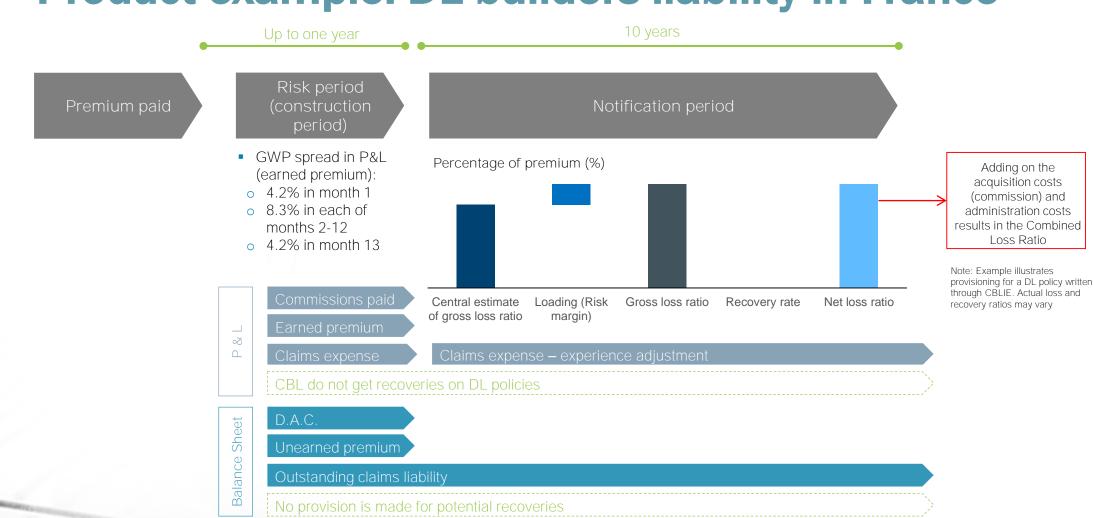
recovery on the balance sheet

- \$25m premium earned (cash)
- 40% claims reserve
- 20% reinsurance

Product example: D0 builders warranty in France



Product example: DL builders liability in France



Product example: Surety bond

Up to 18 months

Premium paid

Risk period (construction period

- GWP spread in P&L (unearned premium) in equal portions up to 18 months (5.6% per month)
- Actual claims incurred = Gross losses reported, less any actual recoveries

__ ⊗ __ Commissions paid

Earned premium

Actual claims expense

Balance

DAC

Unearned premium

Outstanding claims liability (as reported)

Foreign exchange translation

- Foreign currency translation adjustment records increases and decreases on the revaluations of assets and liabilities carried in foreign currencies
- Initially, all foreign currency transactions are translated to the reporting currency by applying the spot exchange rate between the reporting currency and the foreign currency at the date of the transaction
- Subsequently, at the end of each reporting period:
 - o All monetary items in foreign currency are converted using the closing rate; and
 - All non-monetary items measured in terms of historical cost using the exchange rate at the date of transaction (historical rate)
- Exchange differences on translating foreign controlled entities, such as EISL and SFS, is achieved by translating the foreign currency financial statements to NZD presentation currency in the CBL Group financial statements
 - o Balance Sheet: Assets & liabilities of the foreign subsidiaries are translated at closing rate;
 - P&L: Income and expenses translated at transaction date.
 - The resulting exchange differences are recognised in Statement of other comprehensive income on the line "Exchange differences on translating foreign controlled entities"

Foreign currency translation adjustment:

		COI	NSOLIDATED
	NOTE	2016 \$'000	2015 \$'000
Operating profit		76,173	59,918
Finance costs	9(a)	(13,914)	(6,29
Foreign exchange translation adjustment	9(e)	(9,761)	3,86
Share of profit from associates	6(c)	55	810
Profit before tax ncome tax expense	7(d)	44,119 (13,409)	49,540 (14,030
Profit for the year		30,710	35,510

Exchange differences on translating foreign controlled entities:

	CONSOLIDA	
	2016 S'000	2015 \$'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



IFRS 15 Revenue from contracts with customers

- The new revenue recognition standard will be effective from 1 January 2018
- IFRS 15 prescribes the accounting requirements for all contracts to provide goods or services to customers, unless the contract is in the scope of another IFRS
- There are two options for transitioning: full retrospective and modified transitional
- CBL will be adopting the modified transitional approach.
- First accounts that will report under this new standard will be the 30 June 2018 interim financial statements
- The main impact on the CBL Group will be the new revenue recognition treatment for fee and commission income generated by the MGA entities (EISL, SFS, IMS and PFP) and Assetinsure for revenue generated from IT software services

IFRS 16 Leases

- IFRS 16 Leases replaces IAS 17, and will take effect from 1 January 2019
- IFRS 16 removes the distinction between operating ("off balance sheet") and finance ("on balance sheet") leases for lessees
- Under IAS 17 lessees needed to classify the lease as either finance or operating. If the lease was classified as operating, then the lessees did not show neither asset nor liability in their balance sheets – just the lease payments as an expense in profit or loss. This liability was hidden from the readers of the financial statements, as it was not presented anywhere.
- New IFRS 16 removes this discrepancy and puts most leases on balance sheet. This will result in significant changes for lessees' financial statements, including:
 - All leases being recorded on balance sheet (except (optional) for low value and short-term leases)
 - o Increased disclosure about the entity's leasing activities including tables for the types of assets leased

IAS 17



IFRS 16



IFRS 17 Insurance contracts

- IFRS 17 is a complex set of accounting principles that will impact the liability measurement and profit recognition for insurance companies
- The key changes and impacts of the new IFRS 17 insurance contracts accounting standard:
 - o Greater comparability across insurers and across jurisdictions
 - Greater transparency on insurers' profitability
 - o Consistent accounting treatment as a result of the prescription of the valuation method for insurance liabilities and the recognition of revenue
 - New presentation and disclosure requirements
 - o Easier for investors and analysts to compare and evaluate the insurer's financial position and performance
- Full retrospective application of the new requirements is required, unless this is impracticable.
- This new, complex and comprehensive accounting standard is 20 years in the making and replaces IFRS 4
- Effective date is on 1 January 2021 For CBL Group the first reporting under new standard will be for half year reporting 30 June 2021 and then full year 31 December 2021



CBL's claims and exposures

Short-tail direct insurance lines

- Managed by CBL's claims department with the assistance, where appropriate, of a loss adjustor or other specialists as required
- CBL aims to respond and settle all genuine claims in a timely manner and to pay claims fairly, based on policyholders' full entitlements

Inwards reinsurance lines

- CBL utilises the claims management processes of TPAs (third party administrators) for small/routine claims, and in-house expertise for large claims (along with external specialists as appropriate)
- CBL aims to jointly control these processes under the respective reinsurance agreements for each line of business
- CBL audits the claims management processes of ceding companies on a six monthly basis or as required basis

Claims reviews and provisioning

- To further reduce the risk exposure of the Group, there are claims review policies in place to assess all new and on-going claims and to regularly review claims handling procedures
- Claims provisions are established using valuation models and include a risk margin for uncertainty

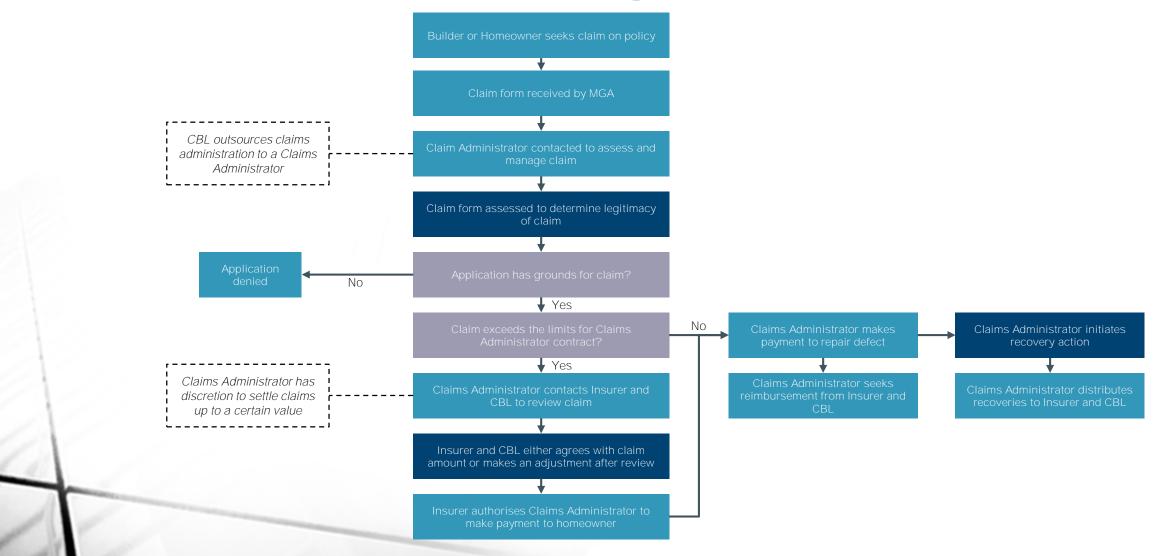
Average claims exposure

- The Group has sought to limit its exposure by focusing on small-to-medium risks
- It is the Group's policy that DO risk is only written by it in respect of a contract where all the main contractors to the project have DL (against which CBL Insurance can recover its DO losses) from French insurers on CBL's approved DL insurer panel

Policy numbers

• CBL Insurance seeks to mitigate its risk exposure by being spread across a significant number of policies with low average value risk exposures in a number of countries across a relatively wide range of products

CBL's claims process diagram



Recoveries process - builders warranty

- After the claim has been settled, CBL will endeavour to recover any relevant share of reimbursement through either the Company's reinsurer or from any
 personal guarantors or other security that was established under the conditions of the policy
- In the case of D/O recoveries all of these are carried out by Third Party Administrators

D/O recovery example



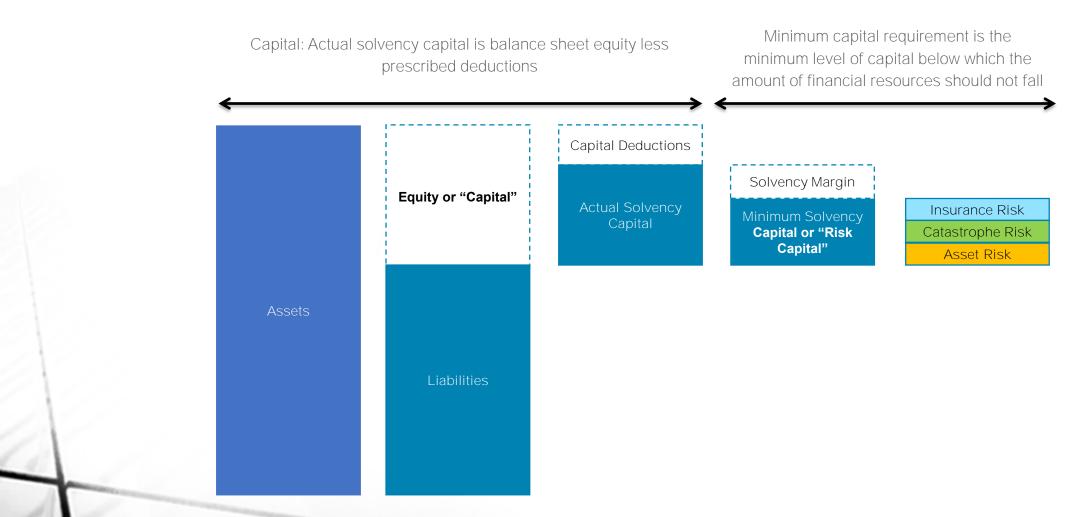
• Recoveries are not able to be initiated until claim payments are made and as such, there is a lag in the time period between notification, acceptance and cash settlement of the claim, and subsequent settlement of any recovery



Internal and external controls

Review process		Key people
Internal review process	 Detailed internal management accounts built up by individual product geographically Significant senior management buy-in and forecasts ultimately signed off by the Board Provisioning and ultimate loss ratio assumptions made with significant input at this stage from Appointed Actuary Risk underwriting done by internal underwriters with delegated authority, and submitted for approval by CBL Underwriting Committee Regular reporting – at least monthly – with input from partners and budget versus actual analysis Ongoing review of actual claims versus reserving 	Carden Mulholland (Group CFO) Henry Ray (Group Financial Controller) Peter Harris (CEO) Bernie Niehaus (Claims Manager) CBL Board Paul Rhodes (PwC)
Appointed Actuary review process	 Independent Appointed Actuary review of management accounts (historic) and provides input into budget assumptions, particularly ultimate loss ratios by product, earnings profiles and asset risk charges for appropriate regulatory capital calculation Appointed Actuary produces reports required by prudential regulators (RBNZ for CBL Insurance) – including, for CBL Insurance, Liability Valuation Report and annual Financial Condition Report, and signing off on six monthly regulatory solvency return 	Paul Rhodes (PwC) – CBL Insurance Karl Marshall (Quantium) – Assetinsure Dermot Marron (Allied Risk) - CBLIE
Audit process	 Annual independent audits of CBL accounts (Deloitte: appointed auditors) and interim review – includes view on compliance with accounting standards and fair view on financial position Appointed Actuary signs off on actuarial information in audited accounts 	Michael Wilkes (Deloitte) Paul Rhodes (PwC)
Regulatory review process	 Ongoing supervision and reporting review by prudential regulators Regular communication with the regulators Annual review with regulator 	RBNZ (CBL Insurance) APRA (Assetinsure) Central Bank of Ireland (CBLIE)

Regulatory Capital calculation visualisation



Regulatory Capital calculation

Issued Share Capital
Preference shares
Foreign currency trans res
Retained earnings

Goodwill & Intangible assets
Future tax benefits
Equity investments in related parties
Loans to related parties
Dividends declared



Accounting Capital

Deductions

Actual solvency capital

Minimum solvency capital

∑ Risk Capital Charges

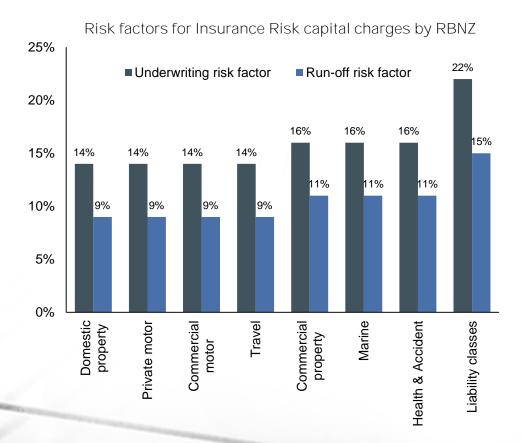
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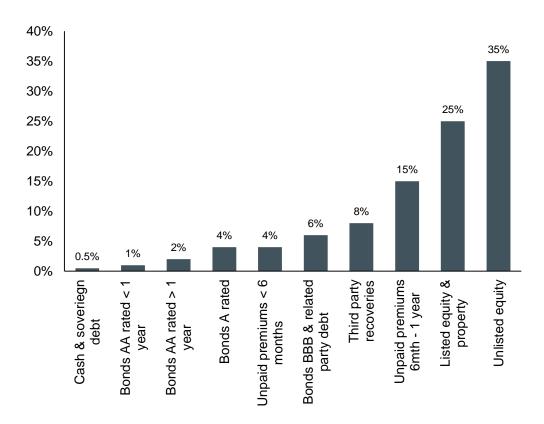
Insurance risk capital charge
Catastrophe risk capital charge
Asset risk capital charge
Reinsurance recovery risk capital charge
Off balance sheet exposures capital charge
Foreign currency risk capital charge
Interest rate risk capital charge
Asset Concentration risk capital charge

RBNZ risk charges

- The charts below outline the relevant risk factor charges used by CBL to calculate Solvency Margin as outlined by RBNZ requirements
- These impact the Insurance Risk and Asset Risk items in the solvency capital calculation



Risk factors for Asset Risk capital charges by RBNZ



Regulatory Capital – CBL Insurance

CBL Reported Solvency Margin (Dec-16, NZD'000s)

	Risk capital charges	
A	Insurance risk	28,600
В	Catastrophic risk	8,000
C	Asset risk	35,199
D	Foreign currency risk	0
E	Interest rate risk	8,983
F	Reinsurance recovery risk	391
	Regulatory Capital	81,173

	Capital	
	Ordinary shares	43,405
	Retained earnings	112,264
G	Deductions from capital	(2,584)
	Actual Capital	153,086
	Solvency Margin	71,913

- A This is a combination of underwriting risk and run-off risk
 - Underwriting risk is the risk to the licensed insurer of writing unprofitable insurance business.
 Calculated by multiplying the Net Premium Liability by the relevant underwriting risk capital factors (see next page)
 - Run-off risk is the risk to the licensed insurer of inadequate provision being made for outstanding claim liabilities. Calculated by multiplying the Net Outstanding Claims Provision by the relevant runoff risk capital factors (see next page)
- This is CBL Insurance's potential exposure to extreme events (e.g. earthquake, flooding, pandemic, etc.). CBL has no exposure to such extreme physical events but it is still required to hold an actuarially determined 'extreme event' risk charge.
- This is the exposure of CBL Insurance to losses on investment assets. It includes credit risk in respect
 of the relevant assets as well as asset concentration risk calculated by multiplying specific asset
 values by a risk charge (see next page)
- CBL has a natural foreign currency hedge in place and an internal currency swap, mitigating foreign currency risk
- This is the risk of losses in asset values or increases in liabilities arising from the mismatching of assets and liabilities in terms of interest rates and durations
 - Calculated by applying a 175 basis point change to any fixed interest bearing assets and liabilities
- This is the exposure of CBL Insurance to losses arising from failure to fully recover on reinsurance contracts
 - Due to the quality of CBL Insurance's counterparties, reinsurance risk is low
- G Can include intangibles, related party assets and deferred tax assets



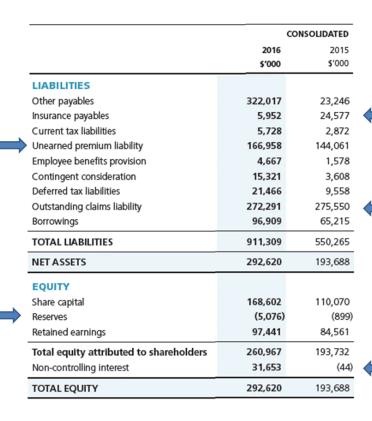
Financial statements explained

Unearned premium liability

Unearned portion of the gross premium underwritten. Balance is reduced as the premium is earned over the period of risk, and recognised as earned premium in the P&L. Balance is increased as new premium is written.

Foreign currency translation reserve (FCTR)

Consolidation of foreign entities and translation of financial statements to a presentation currency. Assets & liabilities translated at closing rate; Income and expenses translated at transaction date. The reserve is the summation of all the exchange differences recognised in other comprehensive income (movement in the foreign currency translation reserve).



Insurance payables

Payables for where there are insurance contracts eg reinsurance and commissions payable

Outstanding claims liability

The outstanding claims liability is 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 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.

Non-controlling interest

The share of our profits that belongs to our co-investors. This relates to PfP and SFS subsidiaries in which we have a minority interest of 8% and 29% respectively. Non-controlling interest (NCI) is the portion of equity ownership in a subsidiary not attributable to the parent company.

Financial statements explained (cont.)

Reinsurance and other recoveries on outstanding claims
Reinsurance and other recoveries on outstanding claims is
the present value of the expected future receipts calculated on
the same basis as the outstanding claims liability.

Deferred acquisition costs

Unearned portion of the acquisition costs incurred. Balance is reduced in line with how the premium is earned over the period of risk, and recognised as an expense in the P&L. Balance is increased as new acquisition cost are incurred as new policies are written.

		CONSOLIDATED
	2016	2015
	\$'000	\$'000
ASSETS		
Cash and cash equivalents	403,894	296,012
Other financial assets	67,295	59,222
Insurance receivables	135,702	101,452
Other receivables	214,198	26,041
Loans	-	9,219
Current tax receivable	662	4,870
Recoveries on outstanding claims	91,671	104,925
Deferred reinsurance expense	15,689	16,489
Deferred acquisition costs	44,833	38,380
Deferred tax assets	3,351	3,193
Property, plant and equipment	8,609	3,456
Investment property	-	10,500
Investments in associates	3,571	3,511
Intangible assets	59,501	13,311
Goodwill	154,953	53,372
TOTAL ASSETS	1,203,929	743,953

Insurance receivables

Receivables for where there are insurance contracts eg premium debtors and reinsurance recoveries

Deferred reinsurance expense

Unearned portion of the reinsurance written. Balance is reduced in line with how the premium is earned over the period of risk, and recognised as an expense in the P&L. Balance is increased when new reinsurance is written.

Goodwill

Difference between the purchase price and the fair value of the net assets acquired for the acquisitions: EISL, AI, SFS and PfP

Financial statements explained (cont.)

Gross Written Premium (GWP)

This is the total amount of policies we sold during the 12 month period. A sales measure.

Net Earned Premium (NEP)

This is the premium we recognise as income for the insurance we have provided over the financial year, after allowing for any reinsurance expense.

Other revenue

Includes: Fee/Commission income from MGAs (EISL, PFP, SFS); interest, IT income and investment interest earned on cash and bonds. Profit commissions and other fees earned.

Acquisition costs

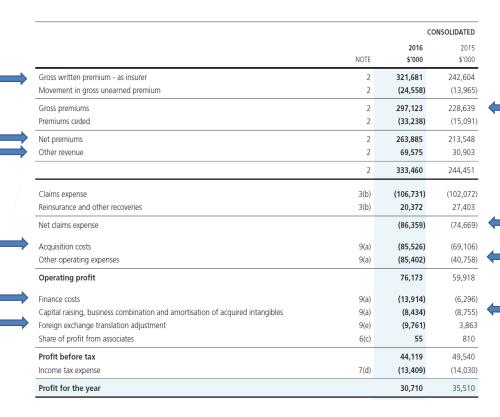
This is the commissions paid to our MGAs, brokers and business partners

Finance costs

This includes interest on our borrowings

Foreign exchange

Revaluations of assets and liabilities carried in foreign currencies.



Gross Earned Premium (GEP)

A customer purchases an insurance policy on 1 August 2016 for 12 months. We include this amount in Gross Written Premium (sales) for our 2016 full year results. However, we only calculate a portion of their annual premium (i.e. from 1 August 2016 to 31 December 2016) as Earned Premium, which represents the portion of the premium we have 'earned' in that period. The remainder of the premium will be recognised as income over the next period. We treat this amount as a liability – a service we are still to provide to our customers. Until then, we call this income Unearned Premium - reported on the Balance Sheet as "Unearned premium liability"

Claims expense

This is the claims costs we have incurred over the 12 month period. This is the amount paid out during the period, as well as an estimate of how much we need to pay future claims. On top of this, it includes costs for investigating and handling the claims. Recoveries represent the amount of the gross claims recognised that we can reclaim of reinsurers or third parties

Other operating expenses

Includes administrative costs of underwriting and administering our insurance business. These are costs associated with researching risk and determining appropriate premiums, administering policy information, costs of financial and regulatory compliance requirements and reporting, and all other staff and overhead costs

Other expenses

Capital raising costs - IPO expenses charged to the P&L Business combination costs - legal and professional costs incurred in acquiring subsidairies eg SFS

PIF costs - Amortisation of AI unearned insurance profit on policies underwritten at acquisition date.

Financial statements explained (cont.)

Earnings per share

Earnings Per Share is calculated by dividing Net Profit After Tax by the average number of shares on issue.

		(CONSOLIDATED	
	NOTE	2016 \$*000	2015 \$'000	
Profit attributable to:	HOIL	, 000	\$ 000	
Shareholders		29,743	35,488	
Non-controlling interest		967	22	
Earnings per share				
Basic and diluted earnings per share (cents)	5(c)	13.31	20.88	

	C	CONSOLIDATED	
	2016 \$'000	2015 \$'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	

Non-controlling interest

The share of our profits that belongs to our co-investors. This relates only to PFP and SFS in which there is a minority interest of 8% and 29% respectively.

Non-controlling interest (NCI) is the portion of equity ownership in a subsidiary not attributable to the parent company.

Movement in foreign currency translation reserve (FCTR)

Consolidation of foreign entities and translation of financial statements to a presentation currency. Assets & liabilities translated at closing rate; Income and expenses translated at transaction date. The resulting exchange differences are recognised in other comprehensive income (movement in the foreign currency translation reserve).