

# ANNUAL REPORT 2013



# CORPORATE DIRECTORY

FOR THE YEAR ENDED 31 DECEMBER 2013

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EUROPE

\$190.0m

▲ 44.0% \$131.9m  
2013 2012

MEMSA

\$4.8m

▲ 37.1% \$3.5m  
2013 2012

SOUTHEAST ASIA

\$3.8m

▲ 35.7% \$2.8m  
2013 2012

AUSTRALASIA

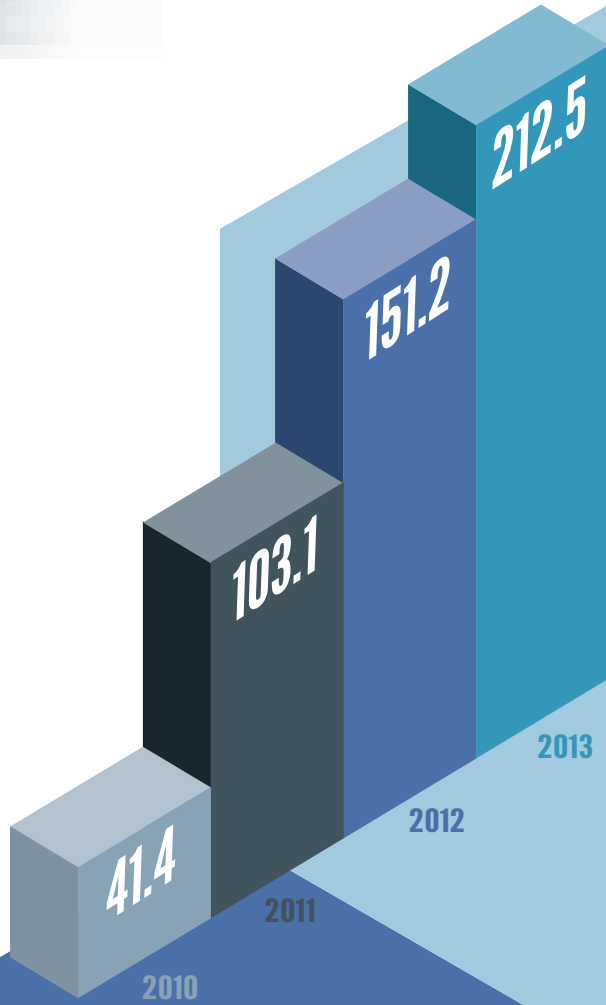
\$12.8m

▲ 141.5% \$5.3m  
2013 2012

TOTAL

\$212.5m

▲ 40.5% \$151.2m  
2013 2012



# GROSS WRITTEN PREMIUM

\$ MILLIONS

## 2013 LOSS RATIO

# 37.9 %

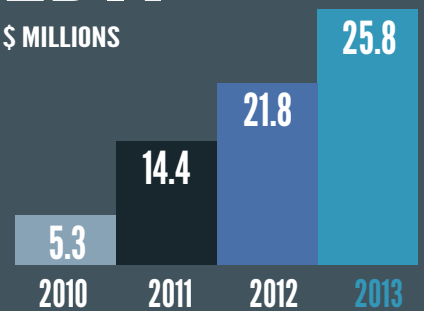
32.3%  
2010

33.9%  
2011

30.5%  
2012

## EBIT

\$ MILLIONS





# 2013 WAS ANOTHER OUTSTANDING YEAR, WITH CONTINUED CONTROLLED GROWTH IN REVENUE AND AN INCREASED PROFIT MARGIN OBTAINED.

## GROSS WRITTEN PREMIUM

Group underwriting revenue increased 40.5% to \$212.5 million from \$151.2 million in 2012. Operating profits grew by 18.3% to \$25.8 million. This was achieved by the company's continuing focus on its strict underwriting criteria, continuing close relationships with its international network of trusted producers, and high quality operating team.

Although on the face of it business growth could be seen as quite rapid, some of the increased revenue streams in 2013 are a combination of new growth and a high renewal rate. CBL also benefited from a full year's ownership of Deposit Power.

The economic indicators coming out of the regions in which we do business appear to be improving and international business confidence seems slowly to be improving. The high value of the New Zealand dollar (NZD) in the markets in which we operate continues to affect revenue and profits. Over 95% of our revenue is earned in foreign currencies, and the strong NZD continues to be an area that affects our operating results, as we report our results in NZD. Since 2009 the Euro / NZD cross rate has decreased by around 18% and the USD / NZD by around 13%, but despite the material drag on our numbers this cross rate has caused, we continue to grow business and profits. This impact on revenue is offset by the major cost components, being commissions, future claims and reinsurance, are all incurred in the same currency as the revenue, this provides us with a unique ability to control foreign exchange risk at zero cost, something other New Zealand exporters are less able to achieve.

The improving market conditions come with challenges as players try to enter markets to obtain business by dropping rates or writing risks they don't fully understand. We continue to focus on building and nurturing the close relationships with our proven worldwide producers, as well as ensuring that our underwriting criteria remain tight.

We avoid the typical insurance model of writing high volumes of broker driven revenue at low margin rates in order to produce cash flow for investment returns that no longer exist.

Our conservative underwriting approach means that we turn down a lot of insurance business opportunities, but our model has produced strong results for the business and we continue to use this approach to underpin our future plans.

2014 will see the Group continue to focus on the existing relationships as well as grow the businesses we have acquired in the past two years. We will also continue to close out opportunities on which we have been working during 2013. The continual focus will remain, though, on growth in line with our underwriting criteria, and strengthening our asset base. We expect to see good managed growth in top line revenue and bottom line profit in 2014, although not at the rates we have experienced in the past five years.

The acquisition of CBLIE into the CBL Group in 2013 resulted in only one month's post-acquisition earnings being recognised in 2013. In 2014 a full 12 months of results will be taken to account and we look forward to seeing how this business develops in the next financial year.

We will continue to look for acquisition opportunities in 2014 and beyond where they fit within our longer term strategic plan, which will help us to grow our business without increasing the risk to the Group.

## CLAIMS

CBL's losses continue to remain well within internal benchmarks and the results underpin our strategy of writing for profit and not volume.

The low loss ratios illustrated on page 8, over an extended period of years, are an excellent achievement and continue to underline the strength of our management team and conservative underwriting processes. They also reflect the quality of the business offered by our long term trusted partners, a good understanding of the risks taken, and a robust claims management approach. Our underwriting model and the results achieved should be considered in light of the unpredictable world environment in which we work.

## CBL SEES AN INCREASING DEMAND FOR THE PRODUCTS IT OFFERS, ESPECIALLY THROUGH EISL AND ITS STRONG NETWORK OF MORE THAN 900 BROKERS THROUGHOUT FRANCE, AND ITS MAJOR PRODUCERS OLIMPIA AGENCY ITALY AND SFS IN FRANCE.

Our focus on conservative underwriting, high levels of underwriting profits, and the avoidance of writing for top line revenue continues to serve us well. Our business model of carrying out this business with highly competent and trusted insurance partners, supported by regular external audits of procedures and processes, means that oversight and governance are optimised.

### FOREIGN CURRENCY ADJUSTMENT

The Group has cash reserves that continue to be kept in foreign currencies to avoid any exchange losses between earning the premium and paying claims. At the reporting date these foreign currency reserves need to be calculated into NZD so that we can express annual financial statements in NZD. The calculation is not an actual conversion of currencies, and any upwards or downwards adjustment is not an actual realised profit or loss.

### PROFIT

The increase in Group underwriting revenue and continued tight management of overheads resulted in an underwriting profit of \$25.8 million (2012: \$21.8 million), an increase of \$4.0 million (18.3%). Net profit before tax was \$24.9 million, up from \$18.0 million in 2012.

The Group carries an unearned premium reserve of \$73.9 million (2012: \$46.6 million), which will flow into future year profits as the business is earned.

### REGULATION

CBL was granted its full licence by the RBNZ in 2013 under new insurance prudential supervision regulations that apply to all licensed insurance companies.

CBL continues to work within the robust regulations with a continual focus on prudential management and regulatory capital, and with regulators globally that affect CBL's business writing capabilities.

### INTERNATIONAL FINANCIAL RATING

In July 2013 A.M. Best rating agency reconfirmed CBL's investment grade financial strength rating as B+ (Good), and reconfirmed its rating outlook of Positive. CBL is currently one of the few insurers in the world with an international financial strength rating that carries with it a Positive outlook. CBL is confident that its successful results of the past year, and the outlook for its planned growth and increased equity, will mean a further upgrade in its rating in the near future. The growth we continue to see does provide a drag on short term profits and rating calculations. However, as predicted organic growth slows in 2014, these considerations will be reflected in future rating considerations.

### ORGANISATION STRUCTURE

CBL's permanent staff turnover remains at nil. CBL is looking to expand the senior executive team in 2014 to ensure that the long term plans of the Group can be put in place. The current worldwide headcount for the Group is 87, split 17 at CBL, 55 within EISL and 15 within Deposit Power.

### BOARD OF DIRECTORS

The Group had its first full year under the Chairmanship of Sir John Wells KNZM, and the new focus and independence have further strengthened the performance of the Board.

A number of enhancements have been made to ensure that the Group continues to perform as well as it has historically.

In 2013 a Remuneration Committee was formed to supplement the Audit and Financial Risk Committee and Underwriting Credit Committee, which provides the Board with a further level of governance.

## 2013 HIGHLIGHTS

- In April 2013 the company celebrated its 40th anniversary with a function in Auckland that was attended by staff and clients. These celebrations continued in September 2013 when we were fortunate to host two days of events at Montechiari Winery in Tuscany. These celebrations were attended by a number of our senior business partners and producers with whom we have long term relationships. A number of our New Zealand partners also made the trip, which further emphasised the relationships we have built. We were then hosted by EISL in London, where we were able to extend the celebrations with our staff and UK based partners who had been unable to attend the other functions.
- In June 2013 CBL agreed to become the major sponsor of the New Zealand Sports Journalism Awards, supporting the celebration of outstanding media achievements in New Zealand sport and culminating in an annual awards ceremony in November 2013.
- In November 2013 CBL acquired the company Achmea Insurance Ireland Limited from Achmea Insurance, Holland and rebranded it as CBLIE. As a result of the acquisition, the Group acquired a fully licensed and regulated insurance company in the European market, an important jurisdiction for us. This acquisition will allow us to write business directly in the European market, although it is a long term plan to grow this business slowly with profitable short tail lines of business to ensure it remains strongly capitalised.
- In December 2013 we exceeded \$200 million in gross annual revenue, double what we achieved in 2011, when we celebrated achieving \$100 million for the first time at an evening function at which we were privileged to have the Hon John Key, Prime Minister of New Zealand attend.

## BUSINESS OUTLOOK

CBL continues to see strong demand for its products and services, and businesses around the world still require what we offer: financial assurance and the ability to approach problems and provide solutions to them.

The international market continues to see a slow improvement and we are well placed to take advantage of these positives that started emerging in 2013 and that we think will continue.

CBL, like all insurers in our industry, will have a continually increasing level of prudential monitoring and regulatory compliance. However, we see this as a positive for the industry, and we are well placed to ensure we meet and exceed all requirements. We now have a European underwriting presence and we continue to work with our partners to ensure that the regulatory changes coming up are well understood and sufficient planning is put in place to exceed their requirements.

CBL sees an increasing demand for the products it offers, especially through EISL and its strong network of more than 900 brokers throughout France, and its major producers Olimpia Agency Italy and SFS in France. EISL focused on its broker network in 2013 and reduced it to allow it to focus on proven business producers with a major emphasis on high performing brokers.

CBL will continue to ensure that risks are fully understood and mitigated where possible, and will retain its "niche and nimble" competitive advantage over other insurers in its market, which remain focused on generic, volume driven, commodity type risk. This has been further enhanced by the appointment of a new underwriter, who also has the responsibilities of risk mitigation and focus.

The Group continues to be highly liquid, with cash and cash equivalents increasing from \$65.0 million to \$97.8 million, an increase of 50%. A new treasury and investment policy is before the Board and the Group expects to see investment returns improve in 2014 and beyond.

The Group will continue to consider further acquisition and synergy opportunities in the year ahead that meet and fit within its overall business objectives. The right opportunities will further strengthen the Group and take advantage of fair priced assets that become available.

The directors would like to thank its key business producers, its professional advisers, and in particular its loyal and highly capable staff for the outstanding support given to the Group throughout the year.

**Peter Harris**  
Managing Director

# DIRECTORS' REPORT

For the year ended 31 December 2013

The directors present their report, together with the financial statements of the Group, being the company and its controlled entities, for the financial year ended 31 December 2013.

## PRINCIPAL ACTIVITIES

The principal activities during the financial year of entities within the Group were:

- (a) Underwriting of general insurance through CBL. CBL is a licensed non-life insurer, regulated by the RBNZ, specialising in writing niche building and construction related credit and financial surety insurance, bonding and reinsurance;
- (b) The provision of insurance services as an agent through EISL. EISL is a licensed underwriting agent, regulated by the Financial Conduct Authority, specialising in arranging builders warranty, liability insurance and other related products; and
- (c) Underwriting of general insurance through CBLIE. CBLIE is a Dublin based insurance company, regulated by the Central Bank of Ireland. From 2011 to 2013 CBLIE did not underwrite any insurance contracts; the company is in run-off as at 31 December 2013.

## SIGNIFICANT CHANGES

The total equity increased to \$51.5 million from \$45.1 million, an increase of \$6.4 million. The movement was largely the result of retained profits partially offset by shares bought back. Refer to note 22 for further information on movements in equity.

## DIRECTORS' INTERESTS IN TRANSACTIONS

There were no directors' interests in transactions during the financial year, or directors' interests as at the date of this report and at 31 December 2013.

## DONATIONS

Donations made during the year ended 31 December 2013 by the company totalled \$27,000 (2012: \$11,000) and Group totalled \$28,000 (2012: \$28,000).

## EVENTS SUBSEQUENT TO THE REPORTING DATE

Detail of matters subsequent to the end of the financial year are set out in note 33; these include the directors declaring to pay a final dividend.

## INDEMNITY AND INSURANCE

In accordance with section 162 of the Companies Act 1993 the company has provided insurance for directors and employees of the Group for losses from actions undertaken in the course of their duties.

## DIVIDENDS

The directors of CCL have not declared a dividend in 2013. Details of dividends paid and declared to be paid by the company are set out in note 25.

	2013 \$'000	2012 \$'000
<b>REMUNERATION OF DIRECTORS</b>		
Alain Couard <sup>2</sup>	176	-
Alan Clarke <sup>2</sup>	-	319
Alistair Hutchison <sup>1</sup>	19	-
Harvey Wetherill <sup>2</sup>	31	370
Ian Marsh <sup>1 2</sup>	180	-
Kevin O'Brien <sup>3</sup>	2	-
Michel Cornet <sup>2</sup>	346	421
Peter Harris <sup>1</sup>	-	-
Sir John Wells <sup>1</sup>	100	23
Todd Campbell <sup>2</sup>	1,131	-
Tom Barry <sup>3</sup>	2	-
Tony Hannon <sup>1</sup>	49	45
<b>Total</b>	<b>2,036</b>	<b>1,178</b>

<sup>1</sup> Directors of CBL and CCL; the remuneration related wholly to directors' fees.

<sup>2</sup> Directors of EISL; the remuneration related wholly to employee remuneration.

<sup>3</sup> Directors of CBLIE the remuneration related wholly to directors' fees.

## EMPLOYEE REMUNERATION

Set out in the following table are the number of employees or former employees of the Group, not being directors or former directors, who received remuneration and other benefits valued at or exceeding \$100,000 for the year ended 31 December 2013.

	GROUP	COMPANY
\$100,001 - \$110,001	5	-
\$110,001 - \$120,001	2	-
\$170,001 - \$180,001	1	-
\$190,001 - \$200,001	1	1
\$250,001 - \$260,001	1	1
\$300,001 - \$310,001	1	-
\$340,001 - \$350,001	1	-
\$450,001 - \$460,001	1	1
\$640,001 - \$650,001	1	1
\$1,130,001 - \$1,140,001	1	-

# DIRECTORS' DECLARATION

The directors are responsible for the preparation, in accordance with New Zealand law and generally accepted accounting practice, of financial statements which give a true and fair view of the financial position of CBL Corporation Limited (the "Parent") and its consolidated subsidiary entities (the "Group") as at 31 December 2013 and the results of their financial operations and cash flows for the year ended 31 December 2013.

The directors consider that the financial statements of the Parent and Group have been prepared using accounting policies appropriate to the Parent's and 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 have responsibility for ensuring that proper accounting records have been kept which enable, with reasonable accuracy, the determination of the financial

position of the Parent and Group and enable them to ensure that the financial statements comply with the Financial Reporting Act 1993.

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 Parent and Group and to prevent and detect fraud and other irregularities.

The directors are pleased to present the Parent and Group financial statements for the year ended 31 December 2013.

This annual report is dated 3 April 2014 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:



**Sir John Wells KNZM**  
Chairman



**Peter Harris**  
Director



# FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2013

# INDEPENDENT AUDITOR'S REPORT

To the Shareholders of CBL Corporation Limited

## REPORT ON THE FINANCIAL STATEMENTS

We have audited the financial statements of CBL Corporation Limited and Group on pages 16 to 65 which comprise the consolidated and separate statements of financial position as at 31 December 2013, the consolidated and separate statements of comprehensive income, and statements of changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

## DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The directors are responsible for the preparation of these financial statements in accordance with generally accepted accounting practice in New Zealand and that give a true and fair view of the matters to which they relate and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

## AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing (New Zealand). Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the entity's preparation of the financial statements that give a true and fair view of the matters to which they relate in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates, as well as evaluating the presentation of the financial statements.

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

Our firm provides taxation services to the company and group. We have no other relationship with, or interests in, the company or its subsidiaries.

## OPINION

In our opinion, the financial statements on pages 16 to 65:

- Comply with generally accepted accounting practice in New Zealand; and
- Give a true and fair view of the financial position of CBL Corporation Limited and group as at 31 December 2013 and the results of their financial performance and cash flows for the year ended on that date.

## REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

In accordance with sections 16(1)(d) and 16(1)(e) of the Financial Reporting Act 1993 we report that;

- We have obtained all the information and explanations that we have required; and
- In our opinion proper accounting records have been kept by CBL Corporation Limited as far as appears from our examination of those records.



**Crowe Horwath New Zealand Audit Partnership**  
CHARTERED ACCOUNTANTS

3 April 2014

# STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2013

	NOTE	CONSOLIDATED		PARENT	
		2013 \$'000	2012 \$'000	2013 \$'000	2012 \$'000
Gross written premium	3	212,507	151,225	-	-
Movement in gross unearned premium	3	(27,308)	(18,673)	-	-
Gross premium		185,199	132,552	-	-
Premium ceded	3	(53,362)	(49,227)	-	-
<b>Net premium</b>		<b>131,837</b>	<b>83,325</b>	<b>-</b>	<b>-</b>
Other revenue	3	9,062	5,669	-	-
<b>Total revenue</b>		<b>140,899</b>	<b>88,994</b>	<b>-</b>	<b>-</b>
Claims expense	4	(53,994)	(37,738)	-	-
Reinsurance and other recoveries	4	8,219	15,684	-	-
<b>Net claims expense</b>		<b>(45,775)</b>	<b>(22,054)</b>	<b>-</b>	<b>-</b>
Acquisition costs	5	(43,085)	(25,629)	-	-
Other operating expenses	5	(26,207)	(19,534)	-	-
<b>Total claims and operating expenses</b>		<b>(115,067)</b>	<b>(67,217)</b>	<b>-</b>	<b>-</b>
<b>Operating profit before income tax</b>		<b>25,832</b>	<b>21,777</b>	<b>-</b>	<b>-</b>
Finance costs	5	(1,195)	(1,076)	-	-
Other expenses	5	(64)	(2,442)	-	-
Share of profit from associate		323	190	-	-
Subvention payment	5	-	(466)	-	-
<b>Profit before tax</b>		<b>24,896</b>	<b>17,983</b>	<b>-</b>	<b>-</b>
Income tax expense	7	(6,933)	(5,105)	-	-
<b>Profit for the period</b>		<b>17,963</b>	<b>12,878</b>	<b>-</b>	<b>-</b>
<b>Other comprehensive income</b>					
Currency translation differences		121	(13)	-	-
<b>Other comprehensive income net of tax</b>		<b>121</b>	<b>(13)</b>	<b>-</b>	<b>-</b>
<b>Total comprehensive income for the period</b>		<b>18,084</b>	<b>12,865</b>	<b>-</b>	<b>-</b>




# STATEMENT OF FINANCIAL POSITION

As at 31 December 2013

	Note	CONSOLIDATED		PARENT	
		2013 \$'000	2012 \$'000	2013 \$'000	2012 \$'000
<b>ASSETS</b>					
Cash and cash equivalents	8	97,837	65,034	-	-
Other financial assets	9	12	12	-	-
Insurance receivables	10	66,905	24,315	-	-
Trade and other receivables	10	10,095	15,115	-	-
Loans	10	1,852	2,334	-	-
Current tax receivable		1,182	-	-	-
Recoveries on outstanding claims	11	26,708	24,050	-	-
Deferred reinsurance expense	12	2,002	7,121	-	-
Deferred acquisition costs	12	34,314	13,441	-	-
Deferred tax assets	7	-	3,861	-	-
Property, plant and equipment	13	1,110	1,271	-	-
Investments in subsidiaries	15	-	-	52,914	-
Investments in associates	14	738	447	-	-
Intangible assets	16	3,747	3,990	-	-
Goodwill	17	31,745	30,371	-	-
<b>Total assets</b>		<b>278,247</b>	191,362	<b>52,914</b>	-
<b>LIABILITIES</b>					
Trade and other payables	18	12,468	7,460	-	-
Insurance payables	18	13,216	9,619	-	-
Current tax liabilities		957	4,439	-	-
Unearned premium liability	19	73,923	46,615	-	-
Employee benefits' provision	20	383	317	-	-
Contingent consideration	18	2,726	5,094	-	-
Deferred tax liabilities	7	2,878	3,767	-	-
Outstanding claims liability	4	93,087	47,435	-	-
Borrowings	21	27,088	21,512	-	-
<b>Total liabilities</b>		<b>226,726</b>	146,258	-	-
<b>NET ASSETS</b>		<b>51,521</b>	45,104	<b>52,914</b>	-
<b>EQUITY</b>					
Share capital	22	18,000	26,700	52,914	-
Reserves	22	87	(34)	-	-
Retained earnings	22	33,434	18,438	-	-
<b>Total equity</b>		<b>51,521</b>	45,104	<b>52,914</b>	-

The financial statements were approved for issue by the Board on 3 April 2014.



**Sir John Wells KNZM**  
Chairman



**Peter Harris**  
Director

# STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2013

2013	NOTE	PARENT			
		SHARE CAPITAL \$'000	RETAINED EARNINGS \$'000	RESERVES \$'000	TOTAL EQUITY \$'000
<b>BALANCE AT 1 JANUARY 2013</b>		-	-	-	-
<b>Comprehensive income</b>					
Profit for the year		-	-	-	-
<b>Total comprehensive income</b>		-	-	-	-
<b>Transactions with shareholders</b>					
Issue of shares	22	52,914	-	-	52,914
<b>Total transactions with shareholders</b>		52,914	-	-	52,914
<b>Balance at 31 December 2013</b>		52,914	-	-	52,914

2012	NOTE	PARENT			
		SHARE CAPITAL \$'000	RETAINED EARNINGS \$'000	RESERVES \$'000	TOTAL EQUITY \$'000
<b>BALANCE AT 1 JANUARY 2012</b>		-	-	-	-
<b>Comprehensive income</b>					
Profit for the year		-	-	-	-
<b>Total comprehensive income</b>		-	-	-	-
<b>Transactions with shareholders</b>					
<b>Total transactions with shareholders</b>		-	-	-	-
<b>Balance at 31 December 2012</b>		-	-	-	-

# STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2013

	NOTE	CONSOLIDATED			
		SHARE CAPITAL \$'000	RETAINED EARNINGS \$'000	RESERVES \$'000	TOTAL EQUITY \$'000
<b>2013</b>					
<b>BALANCE AT 1 JANUARY 2013</b>		<b>26,700</b>	<b>18,438</b>	<b>(34)</b>	<b>45,104</b>
<b>Comprehensive income</b>					
Profit for the year		-	-	-	<b>17,963</b>
<b>Other comprehensive income</b>			<b>17,963</b>	-	-
Currency translation differences		-	-	<b>121</b>	<b>121</b>
<b>Total comprehensive income</b>		-	<b>17,963</b>	<b>121</b>	<b>18,084</b>
<b>Transactions with shareholders</b>					
Shares bought back during the year	22	<b>(8,700)</b>	<b>(1,040)</b>	-	<b>(9,740)</b>
Dividends provided for or paid	25	-	<b>(1,929)</b>	-	<b>(1,929)</b>
Other		-	<b>2</b>	-	<b>2</b>
<b>Total transactions with shareholders</b>		<b>(8,700)</b>	<b>14,996</b>	<b>121</b>	<b>6,417</b>
<b>Balance at 31 December 2013</b>		<b>18,000</b>	<b>33,434</b>	<b>87</b>	<b>51,521</b>

	NOTE	CONSOLIDATED			
		SHARE CAPITAL \$'000	RETAINED EARNINGS \$'000	RESERVES \$'000	TOTAL EQUITY \$'000
<b>2012</b>					
<b>BALANCE AT 1 JANUARY 2012</b>		<b>24,200</b>	<b>6,644</b>	<b>(21)</b>	<b>30,823</b>
<b>Comprehensive income</b>					
Profit for the year		-	<b>12,878</b>	-	<b>12,878</b>
<b>Other comprehensive income</b>					
Currency translation differences		-	-	<b>(13)</b>	<b>(13)</b>
<b>Total comprehensive income</b>		-	<b>12,878</b>	<b>(13)</b>	<b>12,865</b>
<b>Transactions with shareholders</b>					
Issue of shares	22	<b>2,500</b>	-	-	<b>2,500</b>
Dividends provided for or paid	25	-	<b>(1,084)</b>	-	<b>(1,084)</b>
<b>Total transactions with shareholders</b>		<b>2,500</b>	<b>11,794</b>	<b>(13)</b>	<b>14,281</b>
<b>Balance at 31 December 2012</b>		<b>26,700</b>	<b>18,438</b>	<b>(34)</b>	<b>45,104</b>

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

# STATEMENT OF CASH FLOWS

For the year ended 31 December 2013

	NOTE	CONSOLIDATED		PARENT	
		2013 \$'000	2012 \$'000	2013 \$'000	2012 \$'000
<b>CASH FLOWS FROM / (TO) OPERATING ACTIVITIES:</b>					
Premium received		172,361	143,769	-	-
Reinsurance and other recoveries received		3,641	5,676	-	-
Claims costs paid		(15,481)	(14,606)	-	-
Premium ceded payments		(48,506)	(51,488)	-	-
Interest received		2,071	1,466	-	-
Finance costs		(1,196)	(1,115)	-	-
Movements in security deposits held		383	2,183	-	-
Income tax paid		(8,621)	(2,953)	-	-
Other operating receipts		3,556	5,141	-	-
Commission paid		(45,100)	(31,228)	-	-
Other operating payments		(28,876)	(17,733)	-	-
Net cash flows from operating activities	8	34,232	39,112	-	-
<b>CASH FLOWS FROM / (TO) INVESTING ACTIVITIES:</b>					
Net cash flows on acquisition of subsidiaries		707	(2,692)	-	-
Outlays for property and equipment		(168)	(239)	-	-
Payments for intangible assets		(69)	(1,064)	-	-
Movements in loans with non-related parties		2,245	(5,020)	-	-
Movements in loans with related parties		590	(2,051)	-	-
Net cash flows from investing activities		3,305	(11,066)	-	-
<b>CASH FLOWS FROM / (TO) FINANCING ACTIVITIES:</b>					
Proceeds / (Repayments) from borrowings		5,576	2,954	-	-
Dividends paid to equity holders		(1,929)	(1,084)	-	-
Issue / (Repurchase) of shares	22	(9,740)	2,500	-	-
Net cash flows from financing activities		(6,093)	4,370	-	-
Net movement in cash held		31,444	32,416	-	-
Effects of exchange rates on balances of cash held in foreign currencies		1,359	95	-	-
Cash and cash equivalents at the start of the year	8	65,034	32,523	-	-
Cash and cash equivalents at the end of the year	8	97,837	65,034	-	-

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2013

## 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### (A) GENERAL INFORMATION

CBL Corporation Limited (CCL, Parent or Company) is a company limited by shares, incorporated and domiciled in New Zealand. Its registered office is 51 Shortland Street, Auckland 1010, New Zealand. This financial report is for the reporting period ended 31 December 2013 and includes separate financial statements for the Company as an individual entity and consolidated financial statements for the Company and its subsidiaries (referred to as Consolidated entity and Group).

This general purpose financial report was authorised by the Board of Directors for issue on 3 April 2014.

### (B) STATEMENT OF COMPLIANCE

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

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

### (C) BASIS OF PREPARATION OF THE FINANCIAL REPORT

The significant accounting policies adopted in the preparation of this financial report are set out below. 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. The financial statements have been prepared 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 outstanding claims liability and related reinsurance and other recoveries at present value.

The presentation currency used for the preparation of this financial report is New Zealand dollars.

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

CCL was incorporated on 18 June 2012 and there were no balances as at 31 December 2012; therefore no Parent comparatives disclosed. The three subsidiary holding companies under CCL were incorporated on 12 November 2013; refer to note 15. LBC Holdings Europe Limited acquired Achmea Insurance Ireland Limited (renamed CBL Insurance Europe Limited (CBLIE)) on 25 November 2013; refer to note 26.

CCL Group acquired the CBL Insurance Group on 25 November 2013. This was an acquisition under common control that fell outside the scope of IFRS 3 Business Combinations. The acquisition has been treated as a continuation of the previous CBL Insurance Limited consolidated financial statements.

In the Statement of Comprehensive Income and the associated notes the current year amounts include the full year amounts for CBL Insurance Group plus for all other companies in the Group; their amounts are from their dates of acquisition or incorporation.

The consolidated share capital in the Statement of Financial Position reports \$18.0 million rather than the Parent company's \$52.9 million. This presentational difference is as a result of reporting the amounts in the Statement of Comprehensive Income as a full year rather than from the date of acquisition and control of the CBL Insurance Group. Owing to this presentation, NZ IFRS requires that within equity the consolidated share capital mirrors the amount in the CBL Insurance Group of \$18.0 million. The overall impact does not affect the total equity, it is an allocation between share capital and retained earnings.

The 2012 Group comparative amounts represent audited results reported in the 2012 CBL Insurance Group Annual Report.

The Statement of Financial Position is prepared using the liquidity format in which the assets and liabilities are presented broadly in order of liquidity.

The assets and liabilities comprise both current amounts (expected to be recovered or settled within 12 months after the reporting date) and non-current amounts (expected to be recovered or settled more than 12 months after the reporting date). For those assets and liabilities that comprise both current and non-current amounts, information regarding the amount of an item that is expected to be outstanding longer than 12 months is included within the relevant note to the financial statements.

### (D) PRINCIPLES OF CONSOLIDATION

#### (i) Subsidiaries

Consolidation is the inclusion of the assets and liabilities of the Parent and all subsidiaries as at the reporting date and the results of the Parent and all subsidiaries for the period then ended as if they had operated as a single entity. The balances and effects of intragroup transactions are eliminated from the consolidation. Subsidiaries are those entities controlled by the Parent.

Where the Group has control over an investee, it is classified as a subsidiary. The Group 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 Parent, 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 Consolidated entity.

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

In the Company's financial statements, investments in subsidiaries and associated companies are recognised at cost, unless there has been an impairment.

### (ii) Associates

Associates are entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights.

The equity method of accounting is applied to the results of associated companies.

## SIGNIFICANT ACCOUNTING POLICIES RELATED TO GENERAL INSURANCE CONTRACTS

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 contains 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.

### (E) 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 in the Statement of Financial Position.

Premium receivable is recognised as the amount due at the point the insurer becomes on risk, and is normally settled between 30 days and four 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 Statement of Financial Position net of any provision for impairment.

### (F) OUTWARD REINSURANCE

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 Statement of Financial Position at the reporting date. Accordingly, a portion of outwards reinsurance premium expense is treated as a prepayment and presented as a deferred outwards reinsurance expense in the Statement of Financial Position at the reporting date.

### (G) 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 to allow for the 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. The liability is discounted to present value using a risk free rate.

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. Changes in claims estimates are recognised in the Statement of Comprehensive Income in the reporting period in which the estimates are changed.

The claims expense represents claim payments adjusted for the movement in the outstanding claims liability.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2013

### (H) REINSURANCE AND OTHER RECOVERIES

Reinsurance and other recoveries received or receivable on paid claims and on outstanding claims are recognised as income. Reinsurance recoveries on paid claims are presented as part of trade and 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. Reinsurance does not relieve the originating insurer of its liabilities to policyholders and is presented separately in the Statement of Financial Position.

### (I) ACQUISITION COSTS

Costs associated with obtaining and recording general insurance contracts are referred to as acquisition costs. These costs include advertising expenses, commissions or brokerage paid to agents or brokers, premium collection costs, risk assessment costs and other administrative 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.

### (J) LIABILITY ADEQUACY TEST

The liability adequacy test is an assessment of the carrying amount of the unearned premium liability 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 unearned premium liability (net of reinsurance) less related deferred acquisition costs, then the unearned premium liability 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 Statement of Comprehensive Income, with the corresponding impact on the Statement of Financial Position recognised first through the write down of deferred acquisition costs for the relevant portfolio of contracts, with any remaining balance being recognised in the Statement of Financial Position as an unexpired risk liability.

### (K) ASSETS BACKING INSURANCE BUSINESS

All assets within the Group are held to back general insurance liabilities, with the exception of property, plant and equipment and long term receivables. Initial recognition is at cost in the Statement of Financial Position and subsequent measurement is at fair value, with any resultant fair value gains and losses recognised through the Statement of Comprehensive Income.

## SIGNIFICANT ACCOUNTING POLICIES APPLICABLE TO OTHER ACTIVITIES

### (L) FEE AND OTHER INCOME

Fee based revenue is accounted for on an accruals basis and is recognised as revenue on a straight line basis in accordance with the passage of time as the services are provided. Other income is recognised on an accruals basis..

### (M) LEASES

The leases entered into are operating leases, where the lessor retains substantially all the risks and benefits of ownership of the leased items. The lease payments are recognised as an expense in the Statement of Comprehensive Income on a straight line basis over the term of the leases. Operating lease incentives received are initially recognised as a liability, are presented as trade and other payables, and are subsequently reduced through recognition in the Statement of Comprehensive Income as an integral part of the total lease expense (lease payments are allocated between rental expense and reduction of the liability) on a straight line basis over the period of the lease.

### (N) INCOME TAX

#### (i) Income tax

Income tax on the result for a reporting period comprises current and deferred tax. Income tax is recognised in the Statement of Comprehensive Income except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

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 Statement of Financial Position 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;
- Temporary 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) Goods and services tax

Revenue, expenses and assets are recognised net of the amount of GST except:

- When the GST incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- Receivables and payables, which are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the Statement of Financial Position.

Cash flows are included in the Statement of Cash Flows on a gross basis.

### (O) CASH AND CASH EQUIVALENTS

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 and cash equivalents include bank balances held by insurers on CBL's behalf for the purpose of settling potential future claims.

### (P) INVESTMENTS

Investments are held to maturity type financial assets. They are initially recorded at fair value (being the cost of acquisition excluding transaction costs) and are subsequently remeasured at amortised cost.

Purchases and sales of investments are recognised on a trade date basis, being the date on which a commitment is made to purchase or sell an asset. Transaction costs for purchases of investments are expensed as incurred and presented in the Statement of Comprehensive Income. Investments are no longer recognised when the rights to receive future cash flows from the assets have expired, or have been transferred, and substantially all the risks and rewards of ownership have transferred.

Investment revenue, comprising interest, is brought to account on an accruals basis.

### (Q) INVESTMENTS IN SUBSIDIARIES

Investments in subsidiaries are initially recognised at cost (fair value of consideration provided plus directly attributable costs) and are subsequently carried at the lower of cost and recoverable amount by the Parent entity. Costs incurred in investigating and evaluating the acquisition up to the point of formal commitment to the acquisition are expensed as incurred. Where the carrying value exceeds the recoverable amount, an impairment charge is recognised in the Statement of Comprehensive Income that can subsequently be reversed in certain conditions.

Where an additional interest is purchased in an existing subsidiary, the acquisition is treated as a transaction between owners and has no impact on the Statement of Comprehensive Income.

Dividend income from these investments is brought to account on an accruals basis. Dividend revenue is accrued on the date the dividends are declared.

### (R) INVESTMENT IN ASSOCIATES

The Group's investment in associates is accounted for using the equity method of accounting in the financial statements. Associates are entities over which the Group has significant influence and that are neither subsidiaries nor joint ventures.

Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

Under the equity method, investments in associates are carried in the consolidated Statement of Financial Position at cost plus post-acquisition changes in the Group's share of the net assets of the associates. Goodwill relating to an associate is included in the carrying amount of the investment and is 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. If an impairment is recognised, the amount is not allocated to the goodwill of the associate.

The Group's share of associates' profits or losses is recognised in the Statement of Comprehensive Income. The cumulative movements are adjusted against the carrying amount of the investment.

### (S) TRADE AND OTHER RECEIVABLES

Trade and other receivables are stated at the amounts to be received in the future, less any impairment losses.

The recoverability of debts is assessed on an ongoing basis and an allowance for impairment is established where there is objective evidence that the Parent and Group will not be able to collect all amounts due according to the original terms of the receivable. The impairment charge is recognised in the Statement of Comprehensive Income. Debts that are known to be uncollectable are written off.

Receivables with short durations are not discounted.



## (T) PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are initially recorded at cost, which is the fair value of consideration provided plus incidental costs directly attributable to the acquisition. All items of property and equipment are carried at cost less accumulated depreciation and accumulated impairment charges.

For CBL, property and equipment are depreciated using the diminishing value method and applying the rates prescribed by the Income Tax Act 2007. Depreciation is calculated on a diminishing value basis for the following classes of assets:

- Furniture, fixtures and fittings 12.0% to 30.0%.
- Computer equipment 39.6% to 80.4%.

Artwork is not depreciated due to its estimated unlimited useful life.

For the other subsidiaries, all property and equipment are depreciated on a straight line basis over four years.

The carrying amount of property and equipment is reviewed each reporting date by determining whether there is an indication for impairment. If any such indication exists, the item is tested for impairment by comparing the recoverable amount of the asset to the carrying value. An impairment charge is recognised whenever the carrying value exceeds the recoverable amount. Impairment charges are recognised in the Statement of Comprehensive Income.

The net gain or loss on disposal of items of property, plant and equipment is recognised in the Statement of Comprehensive Income and is calculated as the difference between the carrying amounts of the assets at the time of disposal and the net proceeds on disposal, including transaction costs and other expenses associated with the disposal.

Depreciation methods, rates and useful lives are reviewed annually.

## (U) INTANGIBLES

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.

Internally generated intangible assets are recorded at cost, which includes all the directly attributable costs necessary to create, produce and prepare the assets so that they are capable of operating in the manner intended by management. Amortisation of internally generated intangible assets begins when the assets are available for use.

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, the recoverability of the carrying value of the assets is reviewed 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 Statement of Comprehensive Income and may be reversed where there has been a change in the estimates used to determine the recoverable amount.

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 and contingent liabilities acquired, and is subsequently presented net of any impairment charges.

Goodwill is allocated to cash generating units of a business combination for the purpose of impairment testing. The recoverability of the carrying value of the goodwill allocated to each cash generating unit is tested for impairment at each reporting date, or more frequently if events or changes in circumstances indicate that it might be impaired, by determining the present value of projected net cash flows. Where the carrying value exceeds the recoverable amount, an impairment charge is recognised in the Statement of Comprehensive Income and cannot subsequently be reversed.

At the date of disposal of a business, attributed goodwill is included in the share of net assets used in the calculation of the gain or loss on disposal.

## (V) TRADE AND OTHER PAYABLES

Trade and other payables are carried at cost, which is the fair 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.

## (W) EMPLOYEE BENEFITS

Employee benefits that the Group expects to be settled within 12 months of the reporting date are measured at nominal value based on accrued entitlements at current rates of pay. These include salaries and wages accrued up to the reporting date, annual leave earned but not yet taken at the reporting date, and non-accumulating sick leave.

The Group recognises a liability for sick leave. The amount is calculated based on the unused sick leave entitlements that can be carried forward at the reporting date, to the extent that the Group anticipates that it will be used by staff to cover those future absences.

The Group recognises a liability and expense for bonuses where they are contractually obliged or where there is a past practice that has created a constructive obligation.

## (X) INTEREST BEARING LIABILITIES AND FINANCE COSTS

Interest bearing liabilities are initially recognised at fair value less transaction costs that are directly attributable to the transactions.

After initial recognition the liabilities are carried at amortised cost using the effective interest rate method.

Finance costs include interest, which is accrued at the contracted rate and included in payables, amortisation of transaction costs, which are capitalised, presented together with the borrowings, and amortised over the life of the borrowings or a shorter period if appropriate, and amortisation of discounts or premiums (the difference between the original proceeds, net of transaction costs, and the settlement or redemption value of borrowings) over the term of the liabilities.

## (Y) PROVISIONS

### (i) General

A provision is recognised for a liability when the settlement amount or timing is uncertain; there is a present legal or constructive obligation as a result of a past event; it is probable that expenditure will be required to settle the obligation; and a reliable estimate of the potential settlement can be made.

Provisions are measured at the estimated expenditure required to settle the present obligation, based on the most reliable evidence available at the reporting date, including the risks and uncertainties associated with the present obligation.

Where the Group expects some or all of a provision to be reimbursed, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the Statement of Comprehensive Income net of any reimbursement.

Provisions are discounted to their present values where the time value of money is material. Where discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

### (ii) Onerous contracts

A provision for onerous contracts is recognised when the expected benefits to be derived by the Group from a contract are lower than the unavoidable cost of meeting its obligation under the contract. The unavoidable costs reflect the least net cost of exiting the contract, which is the lower of the cost of fulfilling it and any compensation or penalties arising from failure to fulfil it.

## (Z) EQUITY INSTRUMENTS

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.

Dividends on ordinary shares are recognised as a liability and deducted from equity when they are approved by the Group's Board of Directors and ratified by the shareholders.

## (AA) FINANCIAL INSTRUMENTS

Financial instruments comprise trade debtors and other receivables, cash and cash equivalents, other financial assets, trade creditors and other payables, borrowings, and other financial liabilities.

### (i) Initial recognition and measurement

Financial assets and financial liabilities are recognised when the entity becomes a party to the contractual provisions of an instrument. For financial assets, this is equivalent to the date that the company commits itself to either the purchase or the sale of the asset.

### (ii) Measurement used: Fair value

Financial instruments are initially measured at fair value plus transaction costs, except where an instrument is classified "at fair value through profit or loss", in which case transaction costs are expensed to the Statement of Comprehensive Income immediately.

### (iii) Classification and subsequent measurement

Financial instruments are subsequently measured at fair value, amortised cost using the effective interest rate method, or cost. Fair value represents the amount for which an asset could be exchanged or a liability settled, between knowledgeable, willing parties in an arm's length transaction. Where available, quoted prices in an active market are used to determine fair value. In other circumstances, valuation techniques are adopted.

Amortised cost is calculated as:

- The amount at which a financial asset or financial liability is measured at initial recognition;
- Less principal repayments;
- Plus or minus the cumulative amortisation of the difference, if any, between the amount initially recognised and the maturity amount calculated using the effective interest rate method; and
- Less any reduction for impairment.

The effective interest rate method is used to allocate interest income or interest expense over the relevant period and is equivalent to the rate that exactly discounts estimated future cash payments or receipts (including fees, transaction costs and other premiums or discounts) through the expected life (or when this cannot be reliably predicted, the contractual term) of the financial instrument to the net carrying amount of the financial asset or financial liability. Revisions to expected future net cash flows will necessitate an adjustment to the carrying value, with a consequential recognition of an income or expense in the Statement of Comprehensive Income.

The classification of financial instruments depends on the purpose for which the investments were acquired.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2013

Management determines the classification of its investments at initial recognition and at the end of each reporting period for held to maturity assets.

### *(i) Financial assets at fair value through profit or loss*

Financial assets are classified at "fair value through profit or loss" when they are held for trading for the purpose of short term profit taking or derivatives not held for hedging purposes, 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. Such assets are subsequently measured at fair value, with changes in carrying value being included in profit or loss.

### *(ii) Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are subsequently measured at amortised cost. Loans and receivables are included in current assets, except for those that are not expected to mature within 12 months after the end of the reporting period.

### *(iii) Held to maturity investments*

Held to maturity investments are non-derivative financial assets that have fixed maturities and fixed or determinable payments, and it is the Group's intention to hold these investments to maturity. They are subsequently measured at amortised cost. Held to maturity investments are included in non-current assets, except for those that are expected to be realised within 12 months after the end of the reporting period, which will be classified as current assets. If during the period the Group sold or reclassified more than an insignificant amount of the held to maturity investments before maturity, the entire held to maturity investments category would be tainted and reclassified as available for sale.

### *(iv) Available for sale financial assets*

Available for sale financial assets are non-derivative financial assets that are either not suitable to be classified into other categories of financial asset due to their nature, or designated as such by management. They comprise investments in the equity of other entities where there is neither a fixed maturity nor fixed or determinable payments. Available for sale financial assets are included in non-current assets, except for those that are expected to be realised within 12 months after the end of the reporting period.

### *(v) Financial liabilities*

Non-derivative financial liabilities (excluding financial guarantees) are subsequently measured at amortised cost. Fees payable on the establishment of loan facilities are recognised as transaction costs of the loans. Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of a liability for at least 12 months after the reporting date.

### **(iv) Fair value**

Fair value is determined based on current bid prices for all quoted investments. Valuation techniques are applied to determine the fair value of all unlisted securities, including recent arm's length transactions, reference to similar instruments and option pricing models.

### **(v) 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 in the stock exchange. 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. In the case of available for sale financial instruments, a significant or prolonged decline in the value of an instrument is considered to indicate that an impairment has arisen.

Where a subsequent event causes the amount of the impairment loss to decrease (e.g. payment received), the reduction in the allowance account (provision for impairment of receivables) is taken through the Statement of Comprehensive Income.

However, any reversal in the value of an impaired available for sale asset is taken through other comprehensive income rather than profit and loss.

Impairment losses are recognised through an allowance account for loans and receivables in the Statement of Comprehensive Income.

### **(vi) Offsetting financial instruments**

Financial assets and liabilities are offset and the net amount reported in the Statement of Financial Position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the assets and settle the liabilities simultaneously.

### **(vii) Derecognition**

A financial asset is no longer recognised where the contractual rights to receipt of cash flows expire or the asset is transferred to another party whereby the entity no longer has any significant continuing involvement in the risks and benefits associated with the asset. Financial liabilities are no longer recognised where the related obligations are discharged, cancelled or expired. The difference between the carrying value of a financial liability extinguished or transferred to another party and the fair value of consideration paid, including the transfer of non-cash assets or liabilities assumed, is recognised in the Statement of Comprehensive Income. When available for sale investments are sold, the accumulated fair value adjustments recognised in other comprehensive income are reclassified to the Statement of Comprehensive Income.

## (AB) FOREIGN CURRENCY TRANSACTIONS AND BALANCES

### (i) Functional and presentation currency

The financial statements are presented in New Zealand dollars, which is the presentation currency of the Group. Each company in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

### (ii) Transactions and balances

Transactions in foreign currencies are initially recorded at the functional currency 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 Comprehensive Income.

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. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the dates when the fair value was determined.

### (iii) Group companies

The results and financial positions 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 for each Statement of Financial Position presented are translated at the closing rate at the date of that Statement of Financial Position;
- Income and expenses for each Statement of Comprehensive Income are translated at exchange rates prevailing at the dates of the transactions; and
- All resulting exchange differences are recognised 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.

## (AC) ADOPTION OF NEW AND REVISED ACCOUNTING STANDARDS

The accounting policies adopted are consistent with those of the previous financial year except for standards, amendments and interpretations effective in the current period.

The Group has adopted the following new and amended NZ IFRS and interpretations as of 1 January 2013.

- NZ IFRS 10 "Consolidated Financial Statements" (effective from 1 January 2013). The standard requires a parent to present consolidated financial statements as those of a single economic entity, replacing the requirements previously contained in NZ IAS 27 Consolidated and Separate Financial Statements.

NZ IFRS 10 supersedes the consolidation requirements in NZ IAS 27 Consolidated and Separate Financial Statements and NZ SIC 12 Consolidation Special Purpose Entities.

It provides a revised definition of control together with accompanying guidance to identify when a controlling interest in another entity exists. The new definition of control contains three key elements: power over an investee; exposure, or rights, to variable returns from its involvement with the investee; and the ability to use power over the investee to affect the amount of the investor returns. However, the new standards do not result in any change to the mechanics of consolidation and the accounting for any controlling interests and changes in control remains the same. The standard did not have a material impact on the financial statements.

- NZ IFRS 12 "Disclosure of Interests in Other Entities" (effective from 1 January 2013). The standard requires extensive disclosure of information that enables users of the financial statements to evaluate the nature of, and risks associated with, interests in other entities. The standard did not have a material impact on the financial statements.
- NZ IFRS 13 "Fair Value Measurement" (effective from 1 January 2013). The standard replaces the guidance on fair value measurement in existing IFRS literature with a single standard. The standard did not have a material impact on the financial statements.
- NZ IAS 28 Investments in Associates and Joint Ventures (effective from 1 January 2013). The standard has been amended to ensure consistency with the new requirements of NZ IFRS 10 Consolidated Financial Statements and NZ IFRS 11 Joint Arrangements. The standard sets out how the equity method of accounting is to be applied, defines "significant influence", and describes how impairment is to be tested for investments in associates and joint ventures. Some joint ventures that were previously accounted for under the proportionate consolidation method must now be accounted for as associates. The standard did not have a material impact on the financial statements.
- ED 2012 1 Framework Tier 1 and Tier 2 For Profit Entities (NZ IFRS) (effective from 1 July 2013). This exposure draft creates a second tier of general purpose financial statements with reduced disclosure requirements for those entities that do not have public accountability. CBL will fall under Tier 1, which does not qualify for this reduced disclosure.

## (AD) NEW ACCOUNTING STANDARDS FOR APPLICATION IN FUTURE PERIODS

The following standards, amendments and interpretations of existing standards have been published and are mandatory for the Group's accounting periods beginning after 1 January 2014 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.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2013

- NZ IFRS 9 “Financial Instruments” (effective from 1 January 2015). The standard partly replaces NZ IAS 39 and introduces requirements for classifying and measuring financial assets and liabilities. The standard is not expected to have a material impact on the financial statements.
- Amendment to IAS 32 “Financial Instruments: Presentation” (effective from 1 January 2014). Amendments to IAS 32 added guidance in applying the criteria for offsetting financial assets and financial liabilities. The amendment is not expected to have a material impact on the financial statements.

### **(AE) BUSINESS COMBINATIONS**

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 individual assets acquired (tangible and intangible) and the individual 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 profit.

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 as profit or loss in the Statement of Comprehensive Income.

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.

## 2 SIGNIFICANT ACCOUNTING JUDGEMENTS, 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 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:

### (A) THE ULTIMATE LIABILITY ARISING FROM CLAIMS MADE UNDER INSURANCE CONTRACTS

The estimation of the ultimate liability arising from claims made under insurance contracts is the Group's most critical accounting estimate. There are several sources of uncertainty that need to be considered in the estimate of the amounts that the Group will ultimately pay to settle such claims.

Significant areas requiring estimation and judgement include:

- Estimates of the amount of any liability in respect of claims notified but not settled and IBNR included within provisions for insurance and reinsurance contracts;
- The corresponding estimate of the amount of reinsurance and other recoveries that will become due as a result of these estimated claims;
- The recoverability of amounts due from reinsurers; and
- The assessment of adequacy of provisions for unearned premium.

The assumptions used and the manner in which these estimates and judgements are made are set out below:

- Past claims development experience is used to project future claims development and hence ultimate claims;
- The projections are discussed with experienced underwriting and claims personnel and claims provision recommendations made to an internal reserving committee consisting of underwriting and claims staff;
- Large claims are usually separately addressed by being reserved at the face value of the loss adjuster estimates;
- Claims provisions are subject to independent external actuarial review at least annually; and

- Some classes of business have characteristics that do not necessarily lend themselves easily to statistical estimation techniques. In these cases reviews are carried out on a policy by policy basis to support the estimates.

Overall the objectives of the estimates and judgements applied to claims provisions seek to report these provisions on a best estimate and undiscounted basis.

In addition to claims provisions, the reserve for future loss adjustment expenses is subject to estimation. In arriving at this estimate, regard is had to the levels of internal and third party loss adjusting expenses incurred annually.

Further judgements are made as to the recoverability of amounts due from reinsurers. Provisions for bad debts are made specifically, based on the solvency of reinsurers, payment experience with them and any disputes of which the Group is aware.

The carrying value at the date of the Statement of Financial Position of gross claims reported and loss adjustment expenses and IBNR claims was \$93.1 million (2012: \$47.4 million) as set out in note 4 to the accounts. The amount of recoveries estimated at that date is \$26.7 million (2012: \$24.0 million).

### (B) IMPAIRMENT OF GOODWILL

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the recoverable amount of the cash generating units to which goodwill is allocated. Details of the key assumptions used in the estimation of the recoverable amounts are contained in note 17.

The carrying value of goodwill at the reporting date is \$31.7 million (2012: \$30.4 million).

### (C) INCOME TAXES

The Group is subject to income taxes in numerous jurisdictions. Significant judgement is required in determining the provisions for income taxes. There are many transactions and calculations for which the ultimate tax determinations are uncertain.

Given the wide range of international business relationships, differences arising between the actual results and the assumptions made, or future changes to such assumptions, could necessitate future adjustments to the tax income and expense already recorded.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2013

### 3 ANALYSIS OF INCOME

	CONSOLIDATED		PARENT	
	2013 \$'000	2012 \$'000	2013 \$'000	2012 \$'000
<b>(A) GROSS PREMIUM</b>				
Policyholders	59,802	53,517	-	-
Reinsurers	152,705	97,708	-	-
<b>Gross written premium</b>	<b>212,507</b>	151,225	-	-
Movement in gross unearned premium provision	(27,308)	(18,673)	-	-
<b>Total gross premium earned</b>	<b>185,199</b>	132,552	-	-
<b>(B) TOTAL EARNED PREMIUM CEDED</b>				
Premium ceded	48,244	51,903	-	-
Movement in unearned ceded premium provision	5,118	(2,676)	-	-
<b>Total earned premium ceded</b>	<b>53,362</b>	49,227	-	-
<b>Total net earned premium</b>	<b>131,837</b>	83,325	-	-
<b>(C) OTHER REVENUE</b>				
Fees and commission income	746	2,115	-	-
Investment income	901	717	-	-
Gain on exchange differences	3,204	187	-	-
Other operating revenue	4,211	2,650	-	-
<b>Other revenue</b>	<b>9,062</b>	5,669	-	-
<b>Total revenue</b>	<b>140,899</b>	88,994	-	-

The consolidated gross written premium includes an amount of \$22.8 million (2012: \$19.9 million) recorded in the subsidiary European Insurance Services Limited (EISL) and this premium was initially underwritten by a non-related insurer and then reinsured to CBL.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2013

### 4 CLAIMS

#### (A) NET CLAIMS EXPENSE IN THE STATEMENT OF COMPREHENSIVE INCOME

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 \$'000	PRIOR YEARS \$'000	2013 TOTAL \$'000	CURRENT YEAR \$'000	PRIOR YEARS \$'000	2012 TOTAL \$'000
Gross claims	45,174	8,820	53,994	31,724	6,014	37,738
Reinsurance and other recoveries	(7,064)	(1,155)	(8,219)	(12,860)	(2,824)	(15,684)
<b>Net claims expense</b>	<b>38,110</b>	<b>7,665</b>	<b>45,775</b>	18,864	3,190	22,054

#### (B) OUTSTANDING CLAIMS LIABILITY RECOGNISED IN THE STATEMENT OF FINANCIAL POSITION

	CONSOLIDATED	
	2013 \$'000	2012 \$'000
<b>(I) COMPOSITION OF GROSS OUTSTANDING CLAIMS LIABILITY</b>		
Gross central estimate – undiscounted	85,501	45,869
Claims handling costs	2,061	559
Risk margin	13,042	7,380
	<b>100,604</b>	53,808
Discount to present value	(7,517)	(6,373)
<b>Gross outstanding claims liability – discounted</b>	<b>93,087</b>	47,435

The outstanding claims liability includes \$47.9 million (2012: \$32.7 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).

#### (II) RECONCILIATION OF MOVEMENTS IN DISCOUNTED OUTSTANDING CLAIMS LIABILITY

	CONSOLIDATED					
	GROSS \$'000	RECOVERIES \$'000	2013 NET \$'000	GROSS \$'000	RECOVERIES \$'000	2012 NET \$'000
Balance at the beginning of the financial year	47,435	(24,050)	23,385	24,358	(12,906)	11,452
Change in prior year claims reserve	8,820	(1,155)	7,665	6,014	(2,824)	3,190
Current year claims incurred	45,117	(7,001)	39,741	31,724	(12,860)	18,864
Claims paid during the year	(16,451)	9,519	(7,316)	(14,428)	4,462	(9,966)
Foreign exchange adjustment	(6)	-	(6)	(233)	78	(155)
Reserves on acquisition*	7,845	(4,935)	2,910	-	-	-
<b>Balance at the end of the financial year</b>	<b>93,087</b>	<b>(26,708)</b>	<b>66,379</b>	47,435	(24,050)	23,385

\* Reserves on acquisition relate to the acquisition of Achmea Insurance Ireland Limited; refer to note 26.



## 4 CLAIMS (CONTINUED)

### (III) CENTRAL ESTIMATE AND RISK MARGIN

	CONSOLIDATED	
	2013 %	2012 %
Risk margin percentage applied to the net outstanding claims liability	<b>18.2%</b>	16.7%
The probability of adequacy of the risk margin	<b>75.0%</b>	75.0%

### (IV) PROCESS

The outstanding claims liability is determined based on three building blocks, being:

- A central estimate of the future cash flows;
- Discounting for the effect of the time value of money; and
- A risk margin for uncertainty.

#### (i) Future cash flows

The estimation of the outstanding claims liability is based on a variety of actuarial techniques that analyse experience, trends and other relevant factors. The expected future payments include those in relation to claims reported but not yet paid or not yet paid in full, IBNR and the anticipated direct and indirect claims handling costs.

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

#### (ii) Discounting

Projected future claims payments, both gross and net of reinsurance and other recoveries, and associated claims handling costs are discounted to a present value using appropriate risk free discount rates.

#### (iii) Risk margin

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.

As at 31 December 2013, the CBL outstanding claims liability was evaluated by Peter Davies (Fellow of the New Zealand Society of Actuaries). The actuary was satisfied as to the nature, sufficiency and accuracy of the data used to determine the outstanding claims liability.

As at 31 December 2013, the CBLIE outstanding claims liability was evaluated by Noel Garvey (Fellow of the Society of Actuaries in Ireland). The actuary was satisfied as to the nature, sufficiency and accuracy of the data used to determine the outstanding claims liability.

Uncertainties surrounding the outstanding claims liability estimation process include those relating to the data, actuarial models and assumptions, the statistical uncertainty associated with a general insurance claims runoff process, and risks external to CBL and CBLIE, for example the impact of future legislative reform. Uncertainty from these sources is examined for each class of business and expressed as a volatility measure relative to the net central estimate.

The determination of the overall CBL 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%.

## 4 CLAIMS (CONTINUED)

### (C) ACTUARIAL ASSUMPTIONS

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

ASSUMPTION	2013	2012
Average term to settlement*	<b>Within 6 months</b>	Within 6 months
Inflation rate	<b>2.5%-3.5%</b>	2.5%-3.5%
Discount rate	<b>3.5%</b>	3.5%
Claims handling costs ratio	<b>2.4%</b>	2.6%

\* The average term to settlement relates to a payment period of claims that have been notified. IBNR have a period of up to ten years for claims to be notified; this has been incorporated into the calculation of the outstanding claims liability.

Process used to determine assumptions:

*(i) Discounted average term to settlement*

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

*(ii) Economic 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.

*(iii) Discount rate*

The discount rate is derived from market yields on government securities.

*(iv) 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.

The effect of changes in assumptions:

*(i) Discounted average term to settlement*

A decrease in the discounted average term to settlement would reflect claims being paid sooner than anticipated and so increase the claims expense. Note that this sensitivity test only extends or shortens the term of the payments assumed in the valuation, without changing the total nominal amount of the payments.

*(ii) Inflation and superimposed inflation rates*

Expected future payments are inflated to take account of inflationary increases. An increase or decrease in the assumed levels of either economic or superimposed inflation will lead to a corresponding decrease or increase in profit.

*(iii) Discount rate*

The outstanding claims liability is calculated by reference to expected future payments. These payments are discounted to adjust for the time value of money. An increase or decrease in the assumed discount rate will lead to a corresponding increase or decrease in profit.

*(iv) Claims handling costs ratio*

An increase in the ratio reflects an increase in the estimate for the internal costs of administering claims. An increase or decrease in the ratio assumption will lead to a corresponding decrease or increase in profit.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2013

### 5 ANALYSIS OF EXPENSES

	NOTE	CONSOLIDATED		PARENT	
		2013 \$'000	2012 \$'000	2013 \$'000	2012 \$'000
<b>(A) ACQUISITION COSTS</b>					
Acquisition costs		<b>43,085</b>	25,629	-	-
<b>(B) OTHER OPERATING EXPENSES</b>					
Employee benefits expense		<b>9,590</b>	8,373	-	-
Directors' fees		<b>232</b>	68	-	-
Management fees		<b>1,362</b>	1,140	-	-
Depreciation		<b>239</b>	350	-	-
Amortisation		<b>450</b>	116	-	-
Operating lease payments		<b>888</b>	769	-	-
Auditors' remuneration	6	<b>395</b>	207	-	-
Doubtful debts		<b>173</b>	651	-	-
Consulting fees		<b>1,215</b>	1,707	-	-
Other expenses		<b>11,663</b>	6,153	-	-
<b>Total other operating expenses</b>		<b>26,207</b>	19,534	-	-
<b>(C) OTHER EXPENSES</b>					
Warranty Direct Limited charges		<b>58</b>	285	-	-
Amortisation of borrowing costs		-	808	-	-
Loss on exchange differences		-	1,346	-	-
Loss on disposal of assets		<b>6</b>	3	-	-
<b>Total other expenses</b>		<b>64</b>	2,442	-	-
<b>(D) FINANCE COSTS</b>		-	1,076	-	-
<b>(E) SUBVENTION PAYMENT</b>		<b>1,195</b>	466	-	-
<b>Total expenses</b>		<b>70,551</b>	49,147	-	-

Finance costs include interest on the bank loan, contingent consideration and the Alpha Insurance A/S loan. The bank loan interest for the Group is \$448,000 (2012: \$765,000). The interest on contingent consideration for the Group is \$187,000 (2012: \$298,000). The interest on the Alpha Insurance A/S loan for the Group is \$489,000 (2012: \$13,000).

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2013

### 6 REMUNERATION OF AUDITORS

	CONSOLIDATED		PARENT	
	2013 \$'000	2012 \$'000	2013 \$'000	2012 \$'000
<b>Remuneration of the auditor of the parent entity, Crowe Horwath, for:</b>				
– auditing or reviewing the financial statements	149	132	-	-
– taxation services	75	22	-	-
<b>Remuneration of other auditors of subsidiaries for:</b>				
– auditing or reviewing the financial statements of subsidiaries*	121	53	-	-
– taxation and accounting services	50	-	-	-

\* Includes the audit of statutory returns in accordance with regulatory requirements.

### 7 INCOME TAX

#### (A) INCOME TAX EXPENSE

	CONSOLIDATED		PARENT	
	2013 \$'000	2012 \$'000	2013 \$'000	2012 \$'000
Current	3,961	5,060	-	-
Movement in deferred tax asset	3,861	(3,792)	-	-
Movement in deferred tax liability	(889)	3,147	-	-
Under / (Over) provision in prior periods	-	690	-	-
<b>Income tax expense</b>	<b>6,933</b>	<b>5,105</b>	<b>-</b>	<b>-</b>

EISL Iberia Limited has estimated losses of \$0.3 million available to carry forward against future trading profits (2012: \$0.3 million).

#### (B) INCOME TAX RECONCILIATION

The income tax for the financial year differs from the amount calculated in the Statement of Comprehensive Income before income tax; the difference is reconciled as follows:

	CONSOLIDATED		PARENT	
	2013 \$'000	2012 \$'000	2013 \$'000	2012 \$'000
Profit for the year before income tax	24,896	17,983	-	-
Income tax at the current rate of 28% (2012: 28%)	6,971	5,035	-	-
Amounts that are not deductible / (taxable) in calculating taxable income:				
– non-assessable income	(294)	(40)	-	-
– non-deductible expenses	422	262	-	-
– foreign tax adjustment	(123)	(80)	-	-
– other	(43)	(17)	-	-
Income tax expense applicable to current year	6,933	5,160	-	-
Adjustment relating to prior year	-	(55)	-	-
<b>Income tax expense</b>	<b>6,933</b>	<b>5,105</b>	<b>-</b>	<b>-</b>

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2013

### 7 INCOME TAX (CONTINUED)

#### (C) DEFERRED TAX ASSETS

	CONSOLIDATED		PARENT	
	2013 \$'000	2012 \$'000	2013 \$'000	2012 \$'000
<b>Composition</b>				
Insurance provisions	-	3,698	-	-
Employee benefits	-	143	-	-
Other	-	20	-	-
<b>Total deferred tax assets</b>	-	3,861	-	-

#### (D) DEFERRED TAX LIABILITIES

	CONSOLIDATED		PARENT	
	2013 \$'000	2012 \$'000	2013 \$'000	2012 \$'000
<b>Composition</b>				
Deferred acquisition costs	9,767	3,764	-	-
Insurance provisions	(6,521)	-	-	-
Employee benefits	(336)	-	-	-
Other	(32)	3	-	-
<b>Total deferred tax liabilities</b>	2,878	3,767	-	-

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2013

### 8 CASH FLOW INFORMATION

#### (A) COMPOSITION OF CASH

	CONSOLIDATED		PARENT	
	2013 \$'000	2012 \$'000	2013 \$'000	2012 \$'000
Cash at bank and in hand	59,058	29,641	-	-
Short term bank deposits	4,625	4,118	-	-
Other cash and cash equivalents	34,154	31,275	-	-
Total cash and cash equivalents	97,837	65,034	-	-

Other cash and cash equivalents include bank balances held by insurers on CBL's behalf, for the purpose of settling potential future claims. These funds earn interest for the Group.

Short term bank deposits consist of security deposits held by CBL on the agents' behalf. The majority of these funds are maintained in separate bank accounts from the normal trading accounts. Interest earned on these security deposits is payable to the agents, along with the principal, when the policies are off risk.

#### (B) CASH FLOW RECONCILIATION

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

	CONSOLIDATED		PARENT	
	2013 \$'000	2012 \$'000	2013 \$'000	2012 \$'000
Profit for the period	17,963	12,878	-	-
Cash flows excluded from profit attributable to operating activities				
<b>Non cash flows in profit:</b>				
– amortisation of borrowing costs	-	808	-	-
– depreciation of property, plant and equipment	232	350	-	-
– amortisation of software	450	116	-	-
– movements in deferred tax	2,972	(610)	-	-
– other	(852)	-	-	-
<b>Movement in operating assets and liabilities:</b>				
– (increase) / decrease in receivables	(53,157)	(22,477)	-	-
– increase / (decrease) in payables	72,648	45,285	-	-
– increase / (decrease) in taxation	(4,665)	2,762	-	-
– foreign exchange movement in non-operating cash	(1,359)	-	-	-
Cash flow from operations	34,232	39,112	-	-

### 9 INVESTMENTS

	CONSOLIDATED		PARENT	
	2013 \$'000	2012 \$'000	2013 \$'000	2012 \$'000
Government and fixed interest securities	12	12	-	-

All investments are categorised as held to maturity financial assets.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2013

### 10 LOANS AND RECEIVABLES

	CONSOLIDATED		PARENT	
	2013 \$'000	2012 \$'000	2013 \$'000	2012 \$'000
<b>(A) INSURANCE RECEIVABLES</b>				
Revenue due from direct insurance business	1,218	1,699	-	-
Revenue due from reinsurance business	64,586	22,136	-	-
Reinsurance recoveries	1,101	475	-	-
Other recoveries	-	5	-	-
<b>Total insurance receivables</b>	<b>65,905</b>	<b>24,315</b>	<b>-</b>	<b>-</b>
<b>(B) TRADE AND OTHER RECEIVABLES</b>				
Fixed interest security	8,407	14,170	-	-
Prepayments	269	155	-	-
Related party receivables	326	434	-	-
Other debtors	1,093	356	-	-
<b>Total trade and other receivables</b>	<b>10,095</b>	<b>15,115</b>	<b>-</b>	<b>-</b>
<b>(C) LOANS</b>				
Related party loans	1,852	2,334	-	-
<b>Total loans</b>	<b>1,852</b>	<b>2,334</b>	<b>-</b>	<b>-</b>
<b>Total loans and receivables</b>	<b>78,852</b>	<b>41,764</b>	<b>-</b>	<b>-</b>
Analysed as:				
Current	70,444	29,717	-	-
Non-current	8,408	12,047	-	-

Reinsurance recoveries comprise of reinsurance recoveries on paid claims.

The estimated fair value of loans and receivables is the discounted amount of the estimated future cash flows expected to be received. Expected cash flows are discounted at current market rates to determine fair value. The carrying value of the loans and receivables approximates the fair value.

Included within the heading fixed interest loan are two assets, one with Risk Management SEA Pte Limited (RMSEA) and the other with Alpha Holdings A/S.

- The RMSEA fixed interest loan was amended in 2012 by removing the early repayment discount. The security attracted interest at 3% per annum. The loan was fully settled during the 2013 financial year by RMSEA; and
- The Alpha Holdings A/S fixed interest loan attracts interest at 6% per annum. CBL and Alpha Holdings A/S entered into an arrangement on 22 December 2012 and the receivable is repayable in five years.

## 11 RECOVERIES ON OUTSTANDING CLAIMS

### (A) REINSURANCE AND OTHER RECOVERIES RECEIVABLE ON OUTSTANDING CLAIMS

	CONSOLIDATED	
	2013 \$'000	2012 \$'000
Recoveries – undiscounted	29,085	28,077
Discount to present value	(2,377)	(4,027)
<b>Recoveries – discounted</b>	<b>26,708</b>	24,050

The carrying value of reinsurance recoveries and other recoveries includes \$16.4 million (2012: \$19.4 million), which is expected to be settled more than 12 months from the reporting date.

### (B) ACTUARIAL ASSUMPTIONS

The measurement of reinsurance and other recoveries on outstanding claims is an inherently uncertain process involving estimates. The amounts are generally calculated using assumptions and methods similar to those used for the outstanding claims liability as disclosed in note 4. 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.

### (C) THE EFFECT OF CHANGES IN ASSUMPTIONS

The effect of changes in assumptions on the net outstanding claims liability, which incorporates the reinsurance recoveries on outstanding claims and other recoveries receivable, is disclosed in note 4.



## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2013

### 12 DEFERRED INSURANCE ASSETS

#### (A) DEFERRED ACQUISITION COSTS (DAC)

	CONSOLIDATED		PARENT	
	2013 \$'000	2012 \$'000	2013 \$'000	2012 \$'000
DAC at the beginning of the financial year	13,441	7,842	-	-
Costs deferred during the year	63,731	31,164	-	-
Amortisation charged to profit for the year	(42,291)	(25,565)	-	-
Unexpired risk provision*	(567)	-	-	-
<b>DAC at the end of the financial year</b>	<b>34,314</b>	<b>13,441</b>	<b>-</b>	<b>-</b>

\* For details regarding the unexpired risk provision refer to note 19(b).

Analysed as:				
Current	25,847	12,721	-	-
Non-current	8,467	720	-	-

On 30 June 2013 RMSEA and CBL entered into an agreement to cancel their reinsurance contract. The agreement resulted in a DAC of \$15.5 million on 30 June 2013, which is amortised straight line over 36 months. Included within the line "Amortisation charged to profit for the year" is \$2.6 million relating to the amortisation of this DAC.

#### (B) DEFERRED REINSURANCE EXPENSE (DRE)

	CONSOLIDATED		PARENT	
	2013 \$'000	2012 \$'000	2013 \$'000	2012 \$'000
DRE at the beginning of the financial year	7,120	4,445	-	-
Costs deferred during the year	11,983	19,475	-	-
Amortisation charged to profit for the year	(17,101)	(16,799)	-	-
<b>DRE at the end of the financial year</b>	<b>2,002</b>	<b>7,121</b>	<b>-</b>	<b>-</b>
Analysed as:				
Current	1,969	6,915	-	-
Non-current	33	206	-	-

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2013

### 13 PROPERTY, PLANT AND EQUIPMENT

#### (A) MOVEMENTS IN CARRYING AMOUNTS

CONSOLIDATED	FURNITURE, FIXTURES AND FITTINGS \$'000	COMPUTER EQUIPMENT \$'000	ARTWORK \$'000	TOTAL \$'000
<b>Year ended 31 December 2013</b>				
Balance at the beginning of the year	514	284	473	1,271
Additions	81	101	-	182
Disposals – written down value	(7)	-	-	(7)
Depreciation expense	(133)	(106)	-	(239)
Foreign exchange movements	(37)	(60)	-	(97)
<b>Balance at 31 December 2013</b>	<b>418</b>	<b>219</b>	<b>473</b>	<b>1,110</b>
<b>Year ended 31 December 2012</b>				
Balance at the beginning of the year	728	165	490	1,383
Additions	23	256	4	283
Disposals – written down value	(24)	-	(21)	(45)
Depreciation expense	(213)	(137)	-	(350)
<b>Balance at 31 December 2012</b>	<b>514</b>	<b>284</b>	<b>473</b>	<b>1,271</b>

#### (B) COST AND ACCUMULATED DEPRECIATION

	CONSOLIDATED		PARENT	
	2013 \$'000	2012 \$'000	2013 \$'000	2012 \$'000
<b>Furniture, fixtures and fittings</b>				
At cost	1,196	1,129	-	-
Accumulated depreciation	(779)	(615)	-	-
Total furniture, fixtures and fittings	417	514	-	-
<b>Computer equipment</b>				
At cost	918	861	-	-
Accumulated depreciation	(698)	(577)	-	-
Total computer equipment	220	284	-	-
<b>Artwork</b>				
At cost	473	473	-	-
Total property, plant and equipment	1,110	1,271	-	-

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2013

### 14 INVESTMENT IN ASSOCIATES

NAME OF COMPANY	PRINCIPAL ACTIVITY	GROUP OWNERSHIP INTEREST		PARENT OWNERSHIP INTEREST		BALANCE DATE
		2013 %	2012 %	2013 %	2012 %	
European Specialty Risks Limited (ESR)	Broker	46.1	46.1	23.1	23.1	30 June

ESR is an independent, London based insurance and reinsurance broker and a Lloyds coverholder. It is a private entity that is not listed on any public exchange and there are no published price quotations for the fair value of this investment.

ESR does not have a 31 December financial year end and CBL accounts for this associate using ESR financial information for the reporting period to 31 December, which includes, at least in part, unaudited management results.

The investment in ESR is as follows:

	CONSOLIDATED		PARENT	
	2013 \$'000	2012 \$'000	2013 \$'000	2012 \$'000
<b>Share of associate's financial position</b>				
Assets	1,183	530	-	-
Liabilities	(445)	(83)	-	-
Net assets	738	447	-	-
<b>Share of associate's revenue and profit</b>				
Revenue	1,573	989	-	-
Profit / (Loss)	267	64	-	-
<b>Carrying value of investment in associate</b>	<b>738</b>	<b>447</b>	<b>-</b>	<b>-</b>

Management considers the investment in ESR to be non-current. There are no capital or other commitments or contingent liabilities arising from the associate that are significant to the Group.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2013

### 15 INVESTMENT IN SUBSIDIARIES

	2013 \$'000	2012 \$'000
Investments in subsidiaries carried at cost	52,914	-

The table below lists subsidiaries of CBL Corporation Limited.

NAME OF COMPANY	BALANCE DATE	COUNTRY OF INCORPORATION	PRINCIPAL ACTIVITY	OWNERSHIP INTEREST	
				2013 %	2012 %
LBC Holdings Europe Limited	31 December	New Zealand	Holding company	100	-
LBC Holdings New Zealand Limited	31 December	New Zealand	Holding company	100	-
LBC Holdings UK Limited	31 December	New Zealand	Holding company	100	-
CBL Insurance Europe Limited	31 December	Ireland	General insurance	100	-
CBL Insurance Limited	31 December	New Zealand	General insurance	100	-
Contractors Bonding Pty Limited	31 December	Australia	Non-operating	100	100
South British Funding Limited	31 December	New Zealand	Holding company	100	100
Intercede 2408 Limited	31 December*	United Kingdom	Holding company	100	100
European Insurance Services Limited	31 December *	United Kingdom	Underwriting agent	100	100
EISL Iberia Limited	31 December *	United Kingdom	Underwriting agent	100	80
ACJN Limited	31 December	France	Underwriting agent	100	100

\* During the 2012 financial year these companies changed their reporting dates from 30 June to 31 December to come into line with the Group's reporting date. The previous reporting dates were 30 June and were inherited at acquisition.

During the 2013 financial year the Group acquired:

- CBLIE Ltd (refer to note 26); and
- The 20% minority interest in EISL Iberia Limited for net zero value consideration.

Euro is the functional currency for the above subsidiaries except for:

- Contractors Bonding Pty Limited which is in Australian dollars; and
- CBL Insurance Limited and LBC Holdings NZ Limited, which are in New Zealand dollars.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2013

### 16 INTANGIBLE ASSETS

#### (A) COMPOSITION

	CONSOLIDATED		PARENT	
	2013 \$'000	2012 \$'000	2013 \$'000	2012 \$'000
<b>Brand names</b>				
Cost	99	99	-	-
Accumulated amortisation and impairment	-	-	-	-
<b>Net carrying value</b>	<b>99</b>	<b>99</b>	<b>-</b>	<b>-</b>
<b>Computer software</b>				
Cost	1,034	965	-	-
Accumulated amortisation and impairment	(566)	(116)	-	-
<b>Net carrying value</b>	<b>468</b>	<b>849</b>	<b>-</b>	<b>-</b>
<b>Deferred profit commission</b>				
Cost	3,180	3,042	-	-
Accumulated amortisation and impairment	-	-	-	-
<b>Net carrying value</b>	<b>3,180</b>	<b>3,042</b>	<b>-</b>	<b>-</b>
<b>Total intangibles net carrying value</b>	<b>3,747</b>	<b>3,990</b>	<b>-</b>	<b>-</b>

#### (B) RECONCILIATION OF MOVEMENTS

	CONSOLIDATED			
	BRAND NAMES \$'000	COMPUTER SOFTWARE \$'000	DEFERRED PROFIT COMMISSION \$'000	TOTAL \$'000
<b>Year ended 31 December 2013</b>				
Balance at the beginning of the year	99	849	3,042	3,990
Additions	-	69	-	69
Amortisation	-	(450)	-	(450)
Foreign exchange movements	-	-	138	138
<b>Closing value at 31 December 2013</b>	<b>99</b>	<b>468</b>	<b>3,180</b>	<b>3,747</b>
<b>Year ended 31 December 2012</b>				
Balance at the beginning of the year	-	-	3,173	3,173
Additions	99	965	-	1,064
Amortisation	-	(116)	-	(116)
Foreign exchange movements	-	-	(131)	(131)
<b>Closing value at 31 December 2012</b>	<b>99</b>	<b>849</b>	<b>3,042</b>	<b>3,990</b>

#### (C) EXPLANATORY NOTES FOR INTANGIBLE ASSETS

As at 31 December 2013, these assets were tested for impairment, and management has determined that no impairment is required in respect of these intangible assets. The net foreign exchange movements arise as a result of the translation of the foreign denominated assets into the presentation currency of the Group.

## 16 INTANGIBLE ASSETS (CONTINUED)

### Brand names:

This represents the revenue generating value of the acquired brand and is determined using the relief from royalty method. The Deposit Power brand is recognised as having an indefinite useful life as there is no foreseeable limit to the period over which the brand is expected to generate net cash flows. This asset is not subject to amortisation but is subject to impairment testing annually, or more frequently when indicators of impairment are identified.

### Computer software:

The software development expenditure asset comprises both internally generated assets and acquired assets. The asset is amortised by applying a 50% diminishing value approach.

### Deferred profit commission:

The deferred profit commission becomes receivable in 2016. Until this time the asset is not amortised. The asset will be amortised at the time the profit share becomes payable by the insurers to EISL, at which time the Group will amortise the intangible asset to match these cash flows. The profit commission value represents the cost allocated to that asset, being part of the purchase price of EISL in June 2011.

## 17 GOODWILL

### (A) COMPOSITION

	CONSOLIDATED	
	2013 \$'000	2012 \$'000
Cost	32,977	32,977
Accumulated impairment losses	-	-
Foreign exchange movements	(1,232)	(2,606)
<b>Net carrying value</b>	<b>31,745</b>	<b>30,371</b>

### (B) RECONCILIATION OF MOVEMENTS

	CONSOLIDATED	
	2013 \$'000	2012 \$'000
Net carrying value at the start of the year	30,371	31,681
Additional through business combinations	-	-
Net foreign exchange movements	1,374	(1,310)
<b>Net carrying value at the end of the year</b>	<b>31,745</b>	<b>30,371</b>

Goodwill has been allocated to one cash generating unit, which is the subsidiary EISL.

### (C) IMPAIRMENT ASSESSMENT

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 covering a ten year period. Projected cash flows beyond the ten years have been extrapolated using a steady average growth rate of 3.0% (2012: 3.5%). The growth rate does not exceed the long term average past growth rate of the business in which the cash generating unit operates. A pre-tax, Group specific, risk adjusted discount rate of 11.5% (2012: 12.5%) is used. Management determines budgeted profit based on past performance and its expectations for market development.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2013

### 17 GOODWILL (CONTINUED)

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

- Premiums, commissions and margins: Premium and commission income is 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 expected expenditure and inflation;
- Expenses: Estimates are obtained from published indices of inflation. 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. Management plans assume investment growth of 5%.

With regard to the assessment of value in use for the 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 2013 and 2012 as a result of the impairment reviews of the cash generating unit.

### 18 TRADE AND OTHER PAYABLES

	CONSOLIDATED		PARENT	
	2013 \$'000	2012 \$'000	2013 \$'000	2012 \$'000
<b>(A) INSURANCE PAYABLES</b>				
Payable on direct insurance business	6,199	5,006	-	-
Payable on reinsurance business	7,017	4,613	-	-
<b>Total insurance payables</b>	<b>13,216</b>	9,619	-	-
<b>B) TRADE AND OTHER PAYABLES</b>				
Related party balances	63	2	-	-
Deposits	4,501	4,118	-	-
Accrued expenses	3,201	2,460	-	-
Other payables	4,703	880	-	-
<b>Total trade and other payables</b>	<b>12,468</b>	7,460	-	-
<b>C) CONTINGENT CONSIDERATION</b>				
Contingent consideration	2,726	5,094	-	-
<b>Total contingent consideration</b>	<b>2,726</b>	5,094	-	-
<b>Total trade and other payables</b>	<b>28,410</b>	22,173	-	-
Analysed as:				
Current	24,050	16,289	-	-
Non-current	4,360	5,884	-	-

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

Included within "Other payables" is an amount of \$4.3 million payable to RMSEA, which relates to the cancellation of a reinsurance contract on 30 June 2013 between CBL and RMSEA.

For details regarding the contingent consideration refer to note 26.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2013

### 19 UNEARNED PREMIUM LIABILITY

#### (A) RECONCILIATION OF MOVEMENTS IN THE UNEARNED PREMIUM LIABILITY (UPL)

	CONSOLIDATED		PARENT	
	2013 \$'000	2012 \$'000	2013 \$'000	2012 \$'000
UPL at the start of the financial year	46,615	27,943	-	-
Premium written	165,284	107,683	-	-
Premium earned	(137,976)	(89,011)	-	-
UPL at the end of the financial year	73,923	46,615	-	-
Analysed as:				
Current	71,348	43,724	-	-
Non-current	2,575	2,891	-	-

#### (B) LIABILITY ADEQUACY TEST

The liability adequacy test has been conducted using the central estimate of the premium liabilities together with an appropriate margin for uncertainty. The test is based on prospective information and therefore is heavily 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.

The liability adequacy test as at 31 December 2013 identified a deficit of \$0.6 million. Accordingly, deferred acquisition costs have been written down by this amount; refer to note 12(a). For the year ended 31 December 2012 a surplus was identified.

### 20 EMPLOYEE BENEFITS

	CONSOLIDATED		PARENT	
	2013 \$'000	2012 \$'000	2013 \$'000	2012 \$'000
Annual leave	325	267	-	-
Sick leave	58	50	-	-
	383	317	-	-

The employee benefit provision is expected to be settled within 12 months from the reporting date.



## 21 BORROWINGS

	CONSOLIDATED		PARENT	
	2013 \$'000	2012 \$'000	2013 \$'000	2012 \$'000
Bank loans	18,667	13,462	-	-
Fixed interest loan	8,421	8,050	-	-
<b>Total</b>	<b>27,088</b>	<b>21,512</b>	<b>-</b>	<b>-</b>
Analysed as:				
Current	4,128	3,846	-	-
Non-current	22,960	17,666	-	-

The borrowings are initially measured at fair value, net of transaction costs, but are subsequently measured at amortised cost. It is assumed that the carrying value approximates fair value for these loans.

### Bank loans

On 22 November 2013 all of the bank loans were repaid; previously the bank loans were for a period of five years commencing 1 June 2011 and were referenced to EUROBOR plus 3.75%.

- Bank of New Zealand (BNZ) Loan: On 31 March 2012 CBL repaid this loan and a new equivalent loan was raised with South British Funding Limited. During the year the interest rate ranged between 3.9% and 4.3% (2012: 4.3% and 5.3%). The carrying value of the loan at 31 December 2013 is nil (2012: \$6.7 million); and
- Clydesdale Loan: Intercede 2408 Limited services this loan. During the year the interest rate ranged between 3.9% and 4.0% (2012: 4.0% and 5.1%). The carrying value of the loan at 31 December 2013 is nil (2012: \$6.7 million).

At the same time that the above bank loans were repaid, the following new bank loans were arranged:

- BNZ Loan with LBC Holdings UK Limited: The term of the loan is five years and it is repayable in quarterly instalments of €330,000. During the year the interest rate was initially set at 3.67%. The carrying value of the loan at 31 December 2013 is \$11.1 million); and
- BNZ Loan with LBC Holdings Europe Limited: The term of the loan it is five years and is repayable in quarterly instalments of €275,000. During the year the interest rate was initially set at 3.67%. The carrying value of the loan at 31 December 2013 is \$7.6 million).

### Security

Loans prior to 22 November 2013:

- As at 31 December 2013 there are no general security agreements over CBL's assets or guarantees given by CBL; and
- As at 31 December 2012 CBL had a guarantee in place to cover the bank loan obligations of South British Funding Limited, and BNZ had a charge over the shares and a debenture in Intercede 2408 Limited.

Loans after 22 November 2013:

- As at 31 December 2013 the two bank loans are secured by the following: i) first ranking and only composite specific security deed in favour of BNZ from LBC Holdings UK Limited, LBC Holdings Europe Limited, LBC Holdings New Zealand Limited, CCL and South British Funding Limited; and ii) share of mortgage granted by Intercede 2408 Limited in respect of the issued shares in EISL in favour of BNZ.

### Bank covenants

The Group has complied with all the loan covenants in place throughout the reporting period. For the loans prior to 22 November 2013, these loan covenants, in respect of bank debt funding for the acquisition of EISL, were with BNZ and Clydesdale Bank. For loans after 22 November 2013, these loan covenants, in respect of bank debt funding for the acquisition of Achmea Insurance Ireland Limited (renamed CBL Insurance Europe Limited (CBLIE)) and repayment of the previous bank loans, were with BNZ.

### Fixed interest loan

Included within the heading fixed interest loan is a borrowing with Alpha Insurance A/S. The balance as at 31 December 2013 is \$8.4 million (2012: \$8.1 million). On 21 December 2012 Alpha Insurance A/S lent 37.5 million Danish Krone to Intercede 2408 Limited. The loan is subject to a fixed interest rate of 6.0%. The loan is unsecured and is scheduled to be redeemed on 21 December 2017.

## 22 NOTES TO THE STATEMENT OF CHANGES IN EQUITY

### (A) SHARE CAPITAL

ORDINARY SHARES	PARENT AND CONSOLIDATED			
	2013 NUMBER OF SHARES IN '000	2012 NUMBER OF SHARES IN '000	2013 \$'000	2012 \$'000
Balance at the start of the financial year	30,000	29,000	26,700	24,200
Shares issued / (purchased) during the year	(4,000)	1,000	(8,700)	2,500
<b>Balance at the end of the financial year</b>	<b>26,000</b>	30,000	<b>18,000</b>	26,700

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 their satisfying the solvency test as defined in the Companies Act 1993.

CBL issued 1,000,000 ordinary shares in 2012 for a total consideration of \$2.5 million, to key executives payable in cash.

CBL purchased back 4,000,000 ordinary shares in 2013 for a total consideration of \$9.7 million. The original issued cost of \$8.7 million has been deducted from share capital and the residual balance of \$1.0 million has been deducted from retained earnings.

The Company issued 26,000,000 ordinary shares in 2013 for a total consideration of \$52.9 million.

The consolidated share capital in the Statement of Financial Position reports \$18.0 million rather than the above \$52.9 million. This presentational difference is as a result of reporting the amounts in the Statement of Comprehensive Income as a full year rather than from the date of the acquisition and control of the CBL Insurance Group. Owing to this presentation, NZ IFRS requires that within equity the consolidated share capital mirrors the amount in the CBL Insurance Group of \$18.0 million. The overall impact does not affect the total equity, it is an allocation between share capital and retained earnings.

### (B) RETAINED EARNINGS

The directors have reviewed the total equity of the Parent of \$52.9 million and the Group of \$51.5 million and consider them both adequate for the purpose of financial soundness. The directors review this in line with the Company's internal policies around financial soundness and liquidity levels. These policies are reviewed on a half yearly basis to ensure that adequate equity levels are maintained at all times.

### (C) RESERVE

This reserve relates to the foreign currency translation reserve; it records the foreign currency differences arising from the translation of the financial position and the performance of subsidiaries that have functional currencies other than New Zealand dollars.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2013

### 23 COMMITMENTS

#### (A) CAPITAL COMMITMENTS

The Group and the Parent have no capital commitments at the reporting date.

#### (B) OPERATING LEASE COMMITMENTS

The Group have entered into 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		PARENT	
	2013 \$'000	2012 \$'000	2013 \$'000	2012 \$'000
Due within one year	653	533	-	-
Due between one and five years	1,330	1,654	-	-
Due after five years	408	612	-	-
	<b>2,391</b>	2,799	-	-

### 24 CONTINGENT LIABILITIES

Contingent liabilities are not recognised in the Statement of Financial Position but are disclosed in this note where settlement is less than probable but more than remote. If settlement becomes probable, a provision is recognised. The best estimate of the settlement is used in measuring a contingent liability for disclosure.

In the normal course of business, the Group is exposed to contingent liabilities in relation to claims litigation arising out of its insurance and reinsurance transactions and may be exposed to the possibility of contingent liabilities in relation to non-insurance litigation.

#### GUARANTEES

At 31 December 2012 CBL had a contingent liability to guarantee settlement of the future claims incurred by Warranty Direct Limited. As at 31 December 2013 all the remaining risks had expired. The claims settlements have been recorded as an expense in the Statement of Comprehensive Income; for charges incurred by CBL refer to note 5.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2013

### 25 DIVIDENDS

A 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.

The holders of ordinary shares receive dividends in the percentage of their holdings. The Company only has ordinary shares on issue.

There were no dividends paid by CCL during the 2013 year. After the reporting date, a dividend of \$698,507 was declared at the Board meeting held on 18 February 2014. This amount has not been recognised as a liability as at 31 December 2013 but will be brought to account during the 2014 financial year.

The dividends paid during the 2013 year by the Group to shareholders are illustrated in the table below. They represent dividends paid by CBL of \$1.929 million (2012: \$1.084 million).

PERIOD	CENTS PER SHARE	TOTAL AMOUNT \$'000	PAYMENT DATE	TAX RATE FOR IMPUTATIONS %	PERCENTAGE IMPUTED %
Q4 2012 dividend	1.3	403	14 January 2013	28	100
Q1 2013 dividend	1.5	484	9 April 2013	28	100
Q2 2013 dividend	1.5	484	23 September 2013	28	100
Q3 2013 dividend	2.0	558	10 December 2013	28	100
		1,929			

### 26 BUSINESS COMBINATIONS

#### (A) ACQUISITION OF ACHMEA INSURANCE IRELAND LIMITED

The following table shows the assets acquired, the liabilities assumed and the purchase consideration at the acquisition date. LBC Holdings Europe Limited acquired Achmea Insurance Ireland Limited from Achmea Insurance, Holland on 25 November 2013 and the acquired company was renamed CBL Insurance Europe Limited.

	ACQUIREE'S CARRYING AMOUNT \$'000	FAIR VALUE \$'000
Purchase consideration:		
– cash	8,315	8,315
<b>Total purchase consideration</b>	<b>8,315</b>	<b>8,315</b>
Assets or liabilities acquired:		
Cash	11,548	11,548
Insurance and other receivables	115	115
Recoveries on outstanding claims	4,935	4,935
Outstanding claims liability	(7,845)	(7,845)
<b>Total net identifiable assets</b>	<b>8,753</b>	<b>8,753</b>
Purchase consideration		8,315
Less: Identifiable net assets acquired		(8,753)
<b>Negative goodwill</b>		<b>(438)</b>

The negative goodwill of \$438,000 represents a gain on purchase. This resulting gain, in accordance with IFRS, has been recognised in the Statement of Comprehensive Income at the acquisition date.

### 26 BUSINESS COMBINATIONS (CONTINUED)

#### (B) CONTINGENT CONSIDERATION RELATING TO THE EISL ACQUISITION

Under the terms of the EISL acquisition agreement, the Group must pay the former owners of EISL additional cash payments. The undiscounted amount of all future payments is €1.67 million.

The remaining contingent consideration is payable in July 2014 subject to certain terms being adhered to.

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

CONTINGENT CONSIDERATION	2013 \$'000	2012 \$'000
Contingent consideration on acquisition	7,571	7,571
Changes in fair value	707	519
Settlements	(5,534)	(2,740)
Net foreign exchange movements	(18)	(256)
<b>Total contingent consideration</b>	<b>2,726</b>	<b>5,094</b>

#### (C) OTHER INFORMATION

Acquisition costs of \$0.6 million were recognised in the Statement of Comprehensive Income. These costs were legal and consulting fees related to the acquisition.

From the date of acquisition, during the Group's 2013 financial year, CBLIE has contributed no revenue and \$0.2 million to the net loss before tax of the Group.

There were no acquisitions in the year ended 31 December 2012.

## 27 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 long term 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 28) and capital risks (refer to note 29).

The Group principally issues the following types of general insurance contract: Builders Risk products, Contractors and Construction Bonds, Travel Bonding, Lifestyle Protection, Lender Protection, Solicitors Professional Indemnity, Motor and Rental Guarantee Bonds. The risks under the Builders Risk insurance products usually covers a duration of between one and ten years and the other insurance policies typically cover up to 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.

### (A) 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 careful selection 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 has also limited its exposure by imposing maximum claim amounts on certain contracts.

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

Initial claims determination is managed by the claims department 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 the claims note 4.

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 to review claims handling procedures regularly. Inflation risk is mitigated by taking expected inflation into account when estimating insurance contract liabilities.

## 27 INSURANCE RISK MANAGEMENT (CONTINUED)

### (B) 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.

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 that have contributed, and will continue to contribute, to potentially material year to year fluctuations in the results of operations and financial position. Catastrophes that affect the nature of business that CBL underwrites include financial crises and global market stresses. The nature and level of catastrophes in any period cannot be predicted accurately. CBL minimises this risk through its strong underwriting criteria, reinsurance and partnering with local experts. CBL has a history of low claims ratios, even when exposed to the catastrophes as listed above.

Each year, the Group sets its tolerance for concentration risk and purchases reinsurance in excess of this tolerance.

Even though a large portion of the Group's business is derived from Europe, the spread of countries and products in this area mitigates the concentration risk that may occur, as does the concentration of CBL on niche, low risk, highly profitable business.

	CONSOLIDATED			
	2013		2012	
	\$'000	%	\$'000	%
<b>Analysis by region</b>				
Australasia	<b>12,809</b>	<b>6.0</b>	5,298	3.5
Latin America	<b>1,146</b>	<b>0.5</b>	7,655	5.1
MEMSA	<b>4,818</b>	<b>2.3</b>	3,472	2.3
Southeast Asia	<b>3,751</b>	<b>1.8</b>	2,863	1.9
Europe	<b>189,983</b>	<b>89.4</b>	131,937	87.2
<b>Total</b>	<b>212,507</b>		151,225	

### (C) 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 process.

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 reserving capital and the payment of dividends.

Throughout the current reporting period the Group has conformed to the requirements of its debt agreements, including all financial and non-financial covenants.

### (D) ACQUISITION RISK

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

## 28 FINANCIAL RISK MANAGEMENT

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

The Group manages its exposure to key financial risks in accordance with the Group's financial risk policy. The objective of the policy is to support the delivery of the Group's financial targets while protecting future financial security.

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

- The Board convenes on a bimonthly basis, and the meetings include a review of the monthly accounts, management reports and financial risk reports. The Board comprises of key executives and independents with relevant oversight responsibilities. The Board reviews and agrees policies for managing all the financial risks noted below;
- Primary 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, systems for protecting assets and compliance. The committee keeps under review the scope and results of the audit work, the cost effectiveness and performance of the audit work, and the independence and objectivity of the auditors; and
- Regular Underwriting Credit Committee meetings review the framework and procedures in place to ensure there is an adequate and appropriate level of monitoring and management of credit quality throughout the Group.

The components of financial risk are market risk, credit risk and liquidity risk. These risks are explained in the notes below.

### (A) 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).

#### (i) 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 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 report through three mechanisms:

- Translation of foreign currency transactions: These financial impacts relate primarily to cash, investments and receivables. The revaluation gains and losses are directly recognised in the Statement of Comprehensive Income;
- Translation of the financial performance of foreign operations: These financial impacts are directly recognised in Statement of Comprehensive Income; and
- Translation of the financial position of foreign operations: These financial impacts are recognised directly in equity in the foreign currency translation reserve so have no impact on profit.

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. 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 and the Audit and Financial Risk Committee.

*Exposure:*

The following tables provide information regarding the exposure of the Group to foreign currency risk. The sensitivity analysis provided in the following table demonstrates the effect of a change in one key assumption while other assumptions remain unchanged.

The impacts on the measurement of various financial instruments held at the reporting date of an instantaneous 10% depreciation of the New Zealand dollar at the reporting date compared with selected currencies, on profit before tax and equity, are provided in the table below. An appreciation of the New Zealand dollar would have predominantly the opposite impacts. All movements noted below would be unrealised.



## 28 FINANCIAL RISK MANAGEMENT (CONTINUED)

CURRENCY	CHANGE IN VARIABLES	2013		2012	
		IMPACT ON PROFIT BEFORE TAX \$'000	IMPACT ON EQUITY \$'000	IMPACT ON PROFIT BEFORE TAX \$'000	IMPACT ON EQUITY \$'000
Euro	+10%	5,951	5,951	2,025	2,025
US dollar	+10%	253	253	402	402
Euro	-10%	(7,273)	(7,273)	(2,475)	(2,475)
US dollar	-10%	(309)	(309)	(492)	(492)

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

### (ii) 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 interest risk.

Interest rate risk arises primarily from interest payable on bank loans and interest receivable on cash and cash equivalents. The interest rate risk on bank loans is mitigated by the Group fixing the interest rate reset dates at between three and six months in duration.

CHANGE IN VARIABLES	2013		2012	
	IMPACT ON PROFIT BEFORE TAX \$'000	IMPACT ON EQUITY \$'000	IMPACT ON PROFIT BEFORE TAX \$'000	IMPACT ON EQUITY \$'000
+50 basis points	312	312	186	186
-50 basis points	(312)	(312)	(186)	(186)

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.

### (iii) 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.

The Group has no exposure to equity price risk.

## (B) CREDIT RISK

Nature of the risk and how it is managed:

Credit risk is the risk of loss from a counterparty failing to meet financial obligations. The Group credit risk arises predominantly from reinsurance activities and dealings with intermediaries.

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

- A Group credit risk policy that sets out the assessment and determination of what constitutes credit risk for the Group. Compliance with the policy is monitored and exposures and breaches are reported to the Group's risk committee. The policy is regularly reviewed for relevance and for changes in the risk environment;
- The Group further restricts its credit risk exposure by entering into master netting arrangements with counterparties with which it enters into significant volumes of transactions. However, such arrangements do not generally result in offsetting the Statement of Financial Position assets and liabilities, as transactions are usually settled on a gross basis. The credit risk, however, associated with such balances is reduced in the event of a default, when such balances are settled on a net basis;
- Guidelines determine when to obtain collateral and guarantees e.g. security deposits, refer to note 8; and

## 28 FINANCIAL RISK MANAGEMENT (CONTINUED)

- 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.

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 geographical and industry segments. Such risks are subject to annual or more frequent reviews.

Reinsurance is used to manage insurance risk. This does not, however, discharge the Group's liability as primary insurer. If a reinsurer fails to pay a claim for any reason, the Group remains liable for the payment to the policyholder. The creditworthiness of reinsurers is considered on an annual basis 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, premium receivables and funds held on behalf of CBL from intermediaries, and to reinsurers in relation to the reinsurance recoverables. The level of reinsurance cover entered into with individual reinsurers is diversified so as to avoid a concentration charge in the regulatory capital calculation; refer to note 29.

*Exposure:*

### (i) Premium and reinsurance recoveries on paid claims receivable

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

An ageing analysis for certain receivables balances is provided below. The other receivables balances not included below have either no overdue amounts or an immaterial portion of overdue amounts. The amounts are aged according to their original due dates.

31 DECEMBER 2013	NOT OVERDUE \$'000	<30 DAYS \$'000	30 TO 120 DAYS \$'000	OVERDUE >120 DAYS \$'000	TOTAL \$'000
Premium receivable	62,314	679	1,147	1,663	65,803
Recoveries on paid claims	1,033	-	37	32	1,102
<b>Net balance</b>	<b>63,347</b>	<b>679</b>	<b>1,184</b>	<b>1,695</b>	<b>66,905</b>

31 DECEMBER 2012	NOT OVERDUE \$'000	<30 DAYS \$'000	30 TO 120 DAYS \$'000	OVERDUE >120 DAYS \$'000	TOTAL \$'000
Premium receivable	19,560	1,611	1,379	389	22,939
Recoveries on paid claims	189	6	125	160	480
<b>Net balance</b>	<b>19,749</b>	<b>1,617</b>	<b>1,504</b>	<b>549</b>	<b>23,419</b>

The late payment of amounts due under such arrangements allows for the cancellation of the related insurance contracts eliminating both the credit risk and the insurance risk for the unpaid amounts. Upon the cancellation of a policy the outstanding premium receivable and revenue are reversed.

The total provision for impairment at the reporting date for receivables balances totals \$nil (2012: \$nil).

During 2013 receivables determined as non-recoverable amounting to \$173,000 were written off (2012: \$651,000).

### (ii) Reinsurance recoveries receivable on outstanding claims

Reinsurance arrangements mitigate insurance risk but expose the Group to credit risk. Reinsurance is placed with companies based on evaluations of the financial strength of the reinsurers, terms of coverage and price. The Group monitors the financial condition of its reinsurers on an ongoing basis and periodically reviews the reinsurers' ability to fulfil their obligations to the Group under respective, existing and future reinsurance contracts.

Having reinsurance protection with solid reinsurers also benefits the Group insurance entities in their regulatory capital calculations. The risk charges vary with the grade of the reinsurers such that higher credit quality reinsurance counterparties incur lower regulatory capital charges.

## 28 FINANCIAL RISK MANAGEMENT (CONTINUED)

### (iii) Cash and cash equivalents

The Group is exposed to credit risk from investments in third parties and cash held by third parties.

The credit risk relating to cash and investments is monitored and assessed, and maximum exposures are limited. The maximum exposure to credit risk loss as at the reporting date is the carrying amount of the cash and investments in the Statement of Financial Position as they are measured at fair value.

The investments are restricted to investment grade securities.

### (iv) Total assets bearing credit risk

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 2013 AMOUNTS IN \$'000	AAA	AA	A	BBB	BELOW BBB	NOT RATED	TOTAL
Debt securities	-	12	-	-	-	-	12
Loans and receivables	-	-	-	-	-	77,751	77,751
Reinsurance contracts	-	695	-	-	-	406	1,101
Cash and cash equivalents	-	89,624	6,361	173	1,679	-	97,837
<b>Total</b>	-	90,331	6,361	173	1,679	78,157	176,701

31 DECEMBER 2012 AMOUNTS IN \$'000	AAA	AA	A	BBB	BELOW BBB	NOT RATED	TOTAL
Debt securities	-	12	-	-	-	-	12
Loans and receivables	-	-	13,824	-	-	27,878	41,702
Reinsurance contracts	-	-	-	-	-	62	62
Cash and cash equivalents	-	64,887	147	-	-	-	65,034
<b>Total</b>	-	64,899	13,971	-	-	27,940	106,810

### (C) 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. Liquidity facilitates the ability to meet expected and unexpected requirements for cash. The liquidity position is derived from operating cash flows, investment portfolios and reinsurance arrangements.

Liquidity risk is concerned with the risk that sufficient cash resources will not be available to meet payment obligations as they become due, without incurring significant additional costs.

Underwriting 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.

An additional source of liquidity risk for the Group relates to interest bearing liabilities, specifically the bank loans. The management of this risk, as determined by the Underwriting Credit Committee, allows interest rates to be fixed for up to 12 months.

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

- A Group liquidity risk policy that sets out the assessment and determination of what constitutes liquidity risk for the Group. Compliance with the policy is monitored and exposures and breaches are reported to the Group risk committee. The policy is regularly reviewed for appropriateness and for changes in the risk environment;
- Guidelines are set for asset allocations and the maturity profiles of assets, in order to ensure that sufficient funding is available to meet insurance obligations; and
- Contingency funding plans are in place to meet emergency payments.

## 28 FINANCIAL RISK MANAGEMENT (CONTINUED)

*Exposure:*

The table below summarises the maturity profile of the financial liabilities of the Group based on remaining undiscounted contractual obligations.

For insurance contract liabilities, net of the related reinsurance assets, maturity profiles are determined based on the estimated timing of net 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.

31 DECEMBER 2013 AMOUNTS IN \$'000	PAYMENTS DUE BY PERIOD AS OF 31 DECEMBER 2013					
	CARRYING AMOUNT	0-1 YR	1-3 YRS	3-5 YRS	>5 YRS	TOTAL
Insurance liabilities	13,216	9,711	3,505	-	-	13,216
Contingent consideration	2,726	2,792	-	-	-	2,792
Borrowings	27,088	4,128	8,107	14,853	-	27,088
Other liabilities and payables	12,468	11,613	855	-	-	12,468
<b>Total contractual obligations</b>	<b>55,498</b>	<b>28,244</b>	<b>12,467</b>	<b>14,853</b>	<b>-</b>	<b>55,564</b>

31 DECEMBER 2012 AMOUNTS IN \$'000	PAYMENTS DUE BY PERIOD AS OF 31 DECEMBER 2012					
	CARRYING AMOUNT	0-1 YR	1-3 YRS	3-5 YRS	>5 YRS	TOTAL
Insurance liabilities	9,619	9,619	-	-	-	9,619
Contingent consideration	5,094	2,671	2,671	-	-	5,342
Borrowings	21,512	3,846	7,692	1,924	8,050	21,512
Other liabilities and payables	7,460	7,460	-	-	-	7,460
<b>Total contractual obligations</b>	<b>43,685</b>	<b>23,596</b>	<b>10,363</b>	<b>1,924</b>	<b>8,050</b>	<b>43,933</b>

## 29 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 source of capital used by the Group is 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 (e.g. capital adequacy) to minimise the risk of default and insolvency on the part of the companies to meet unforeseen liabilities as these arise. The Group and regulated entities within it have met all of these requirements throughout the financial year.

The Group's approach to managing capital involves managing assets, liabilities and risks in a coordinated way, assessing shortfalls between reported 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.

The Company manages its capital by considering both regulatory and economic capital. The primary source of capital used by the Company is the total equity attributable to owners. The total equity attributable to owners equates to "capital" as defined in the solvency standard - see below.

### (A) CBL

Since 14 February 2012 CBL has been required to comply with the Solvency Standard for Non-life Insurance Business, "the solvency standard", issued by the Reserve Bank of New Zealand (RBNZ).

CBL is required to maintain a solvency margin of \$0, i.e. since 14 February 2012 actual solvency capital as determined under the solvency standard should be at or above the minimum solvency capital level.

As at 31 December 2013 the actual solvency capital exceeds the minimum requirements by \$6.7 million as shown below.

	2013 \$'000	2012 \$'000
Actual solvency capital	39,494	38,613
Minimum solvency capital	32,747	31,749
<b>Solvency margin</b>	<b>6,747</b>	6,864

The methodology for determining the solvency margin is in accordance with the requirements of the Solvency Standard for Non-life Insurance Business published by the RBNZ and under the Insurance (Prudential Supervision) Act 2010.

The impact on the solvency margin as a result of CBL purchasing back the ordinary shares as reported in note 22 was \$9.7 million.

During the years ended 31 December 2013 and 31 December 2012 the Company complied with all externally imposed capital requirements.

The Company has embedded in its capital management framework the necessary tests to ensure continuous and full compliance with the solvency standard.

### 29 CAPITAL MANAGEMENT (CONTINUED)

#### (B) EISL

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

During the years ended 31 December 2013 and 31 December 2012 EISL complied with all externally imposed capital requirements.

#### (C) CBLIE

CBLIE is required to maintain minimum capital requirements as calculated under the EU Solvency 1 formula. Regulations stipulate that the company should maintain capital, allowable for solvency purposes, at 150% of the calculated threshold amount. In addition, CBLIE policy dictates that this level be maintained at 200% of the threshold amount. At no time in the year has CBLIE failed to meet this requirement, and details of the company's solvency position are as follows:

	2013 \$'000
Actual solvency capital	5,143
Minimum solvency capital	449
<b>Solvency margin</b>	<b>4,694</b>
<b>Solvency margin cover</b>	<b>1,145%</b>

During the years ended 31 December 2013 and 31 December 2012 CBLIE complied with all externally imposed capital requirements.

### 30 INSURER FINANCIAL STRENGTH RATING

As at the date of this report CBL has an insurer financial strength rating of B+ by A.M. Best, with a Positive outlook (2012: B+).

## 31 RELATED PARTY DISCLOSURES

The ultimate parent entity in the Consolidated entity is CBL Corporation Limited, which is incorporated in New Zealand.

The Consolidated entity consists of CCL and its subsidiaries. Information in relation to ownership interests is provided in the subsidiaries note 15.

All intragroup transactions are charged to the relevant entities on arm's length, normal commercial terms and conditions, and on a direct and actual cost recovery basis or time allocation basis. Certain entities are economically dependent on other entities in the Group. There are also loans between entities in the Group. All transactions that have occurred among the subsidiaries within the Group have been eliminated for consolidation purposes.

### (A) RELATED PARTY BALANCES

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

NATURE OF RELATIONSHIP	RELATED PARTY	TYPE OF TRANSACTION	CONSOLIDATED		PARENT	
			CLOSING BALANCE		CLOSING BALANCE	
			2013 \$'000	2012 \$'000	2013 \$'000	2012 \$'000
<b>Key management personnel</b>						
	Senior management	Loan <sup>1</sup>	<b>1,605</b>	1,924	-	-
<b>Other related parties</b>						
Common director	Altares Limited	Fees payable	<b>(63)</b>	-	-	-
Common director	Dominion 114 Limited	Debtor / (Payable)	<b>300</b>	-	-	-
Common director and shareholder	Federal Pacific Limited	Net insurance debtor	<b>26</b>	13	-	-
Common director	G&T Brokers Limited	Other debtor	-	234	-	-
Common director	G&T Brokers Limited	Premium debtor	-	188	-	-
Common shareholder	Madopu Consultores	Fees payable	<b>(2)</b>	(2)	-	-
Common shareholder	Oceanic Securities Inc	Loan <sup>1</sup>	<b>246</b>	410	-	-
Common shareholder	Todd Campbell	Other debtor	<b>164</b>	-	-	-
<b>Total</b>			<b>2,276</b>	2,767	-	-

<sup>1</sup> Interest rates on the senior management loans range between 5.0% and 5.9% (2012: 5.0% and 5.9%). The loans are repayable in 2014 (2012: two to five years). These loans were taken out by senior management to acquire shares in CBL and are secured over the shares.

During the 2013 financial year CBL transferred to Intercede 2408 Limited profit commission liabilities at fair value of \$3.4 million. These funds were offset against the intergroup loan between CBL and Intercede 2408 Limited.

All related party balances are unsecured and current except where indicated otherwise.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2013

### 31 RELATED PARTY DISCLOSURES (CONTINUED)

#### (B) RELATED PARTY TRANSACTIONS

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

NATURE OF RELATIONSHIP	RELATED PARTY	TYPE OF TRANSACTION	CONSOLIDATED		PARENT	
			TRANSACTION AMOUNT		TRANSACTION AMOUNT	
			2013 \$'000	2012 \$'000	2013 \$'000	2012 \$'000
<b>Key management personnel</b>						
	Senior management	Loan interest	101	63	-	-
	Senior management	Dividends	(1,795)	(1,028)	-	-
<b>Other related parties</b>						
Common director	Altares Limited	Fees	(1,375)	(1,190)	-	-
Common director	Dominion 114 Limited	Subvention	-	(466)	-	-
Common director and shareholder	Federal Pacific Group Limited	Committee fees	(150)	(100)	-	-
Common director and shareholder	Federal Pacific Group Limited	Premium and recoveries	38	20	-	-
Common director	Brutus Management Limited	Fees	(379)	(334)	-	-
Common director	G&T Brokers Limited	Premium	-	433	-	-
Common director	G&T Brokers Limited	Commission	-	(133)	-	-
Common shareholder	Madopu Consultores	Fees and expenses	(77)	(340)	-	-
Common shareholder	Oceanic Securities Inc	Loan interest	21	12	-	-

#### (C) COMPENSATION OF KEY MANAGEMENT PERSONNEL

Key management personnel of the Group include all directors, executives and non-executives, and senior management.

The totals of remuneration paid to key management personnel are as follows:

	CONSOLIDATED		PARENT	
	2013 \$'000	2012 \$'000	2013 \$'000	2012 \$'000
Salaries and other short term employee benefits	5,644	4,460	-	-
Independent directors' fees	217	68	-	-
<b>Total</b>	<b>5,861</b>	<b>4,528</b>	<b>-</b>	<b>-</b>



## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2013

### 32 FINANCIAL INSTRUMENTS

The analysis of financial assets and liabilities into their categories and classes is set out in the following tables.

<b>CONSOLIDATED</b> 31 DECEMBER 2013 AMOUNTS IN \$'000	<b>AVAILABLE FOR SALE</b>	<b>LOANS AND RECEIVABLES</b>	<b>HELD TO MATURITY</b>	<b>FINANCIAL LIABILITIES AT AMORTISED COST</b>	<b>TOTAL</b>
Cash and cash equivalents	-	97,837	-	-	97,837
Other financial assets	-	-	12	-	12
Insurance receivables	-	66,905	-	-	66,905
Trade and other receivables	-	9,829	-	-	9,829
Loans	-	1,852	-	-	1,852
Investment in associate	738	-	-	-	738
Trade and other payables	-	-	-	(9,267)	(9,267)
Insurance payables	-	-	-	(13,216)	(13,216)
Borrowings	-	-	-	(27,088)	(27,088)
<b>Total</b>	<b>738</b>	<b>176,423</b>	<b>12</b>	<b>(49,571)</b>	<b>127,602</b>

<b>CONSOLIDATED</b> 31 DECEMBER 2012 AMOUNTS IN \$'000	<b>AVAILABLE FOR SALE</b>	<b>LOANS AND RECEIVABLES</b>	<b>HELD TO MATURITY</b>	<b>FINANCIAL LIABILITIES AT AMORTISED COST</b>	<b>TOTAL</b>
Cash and cash equivalents	-	65,034	-	-	65,034
Other financial assets	-	-	12	-	12
Insurance receivables	-	24,315	-	-	24,315
Trade and other receivables	-	14,960	-	-	14,960
Loans	-	2,334	-	-	2,334
Investment in associate	447	-	-	-	447
Trade and other payables	-	-	-	(5,000)	(5,000)
Insurance payables	-	-	-	(9,619)	(9,619)
Borrowings	-	-	-	(21,512)	(21,512)
<b>Total</b>	<b>447</b>	<b>106,643</b>	<b>12</b>	<b>(36,131)</b>	<b>70,971</b>

### 33 EVENTS AFTER THE END OF THE REPORTING PERIOD

As 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 them in the financial statements for the current reporting period ended 31 December 2013.

On 18 February 2014 the Board declared a final dividend for the 2013 financial year of \$698,507, which is 2.50 cents per share and is 100% imputed; refer to note 25.

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