CBL insurance

Financial Statements

For the Year Ended 31 December 2015

CBL Insurance Group

Contents

31 December 2015

Directors' Declaration

The directors of CBL Insurance Limited present the financial statements for the Company and Group for the year ended 31 December 2015.

The directors are responsible for the preparation, in accordance with New Zealand law and generally accepted accounting practice, of the financial statements which present fairly the financial position of CBL Insurance Limited and its consolidated subsidiary entities (the Group) as at 31 December 2015 and the results of their financial operations and cash flows for the year ended 31 December 2015.

The directors consider that the financial statements of the Company and Group have been prepared using accounting policies appropriate to the Company and Group's circumstances, are consistently applied and supported by reasonable and prudent judgements and estimates, and that all applicable New Zealand equivalents to International Financial Reporting Standards have been followed. The directors believe that proper accounting records have been kept in accordance with the Financial Markets Conduct Act 2013.

No disclosure has been made in respect of section 211(1)(a) and (e) to (j) of the Companies Act 1993 following a unanimous decision by the shareholders in accordance with section 211(3) of the Companies 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 Company and Group and to prevent and detect fraud and other irregularities.

These financial statements are dated 24 March 2016 and are signed in accordance with a resolution of the directors made pursuant to section 211(1)(k) of the Companies Act 1993.

These financial statements are signed on behalf of the Board by

John Wells

....
Sir John Wells KNZM
Chairman

....
Peter Harris
Managing Director

Deloitte.

INDEPENDENT AUDITOR'S REPORT
TO THE SHAREHOLDER OF
CBL INSURANCE LIMITED

Report on the Consolidated and Separate Financial Statements

We have audited the accompanying consolidated and separate financial statements of CBL Insurance Limited and its subsidiaries ('the Group') on pages 3 to 58, which comprise the consolidated and separate statements of financial position as at 31 December 2015, and the consolidated and separate statements of comprehensive income, statements of changes in equity and statements of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

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

Board of Directors' Responsibility for the Consolidated and Separate Financial Statements

The Board of Directors are responsible on behalf of the company for the preparation and fair presentation of these consolidated and separate financial statements, in accordance with New Zealand Equivalents to International Financial Reporting Standards and International Financial Reporting Standards, and for such internal control as the Board of Directors determine is necessary to enable the preparation of consolidated and separate financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibilities

Our responsibility is to express an opinion on these consolidated and separate financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing and 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 consolidated and separate financial statements are free from material misstatement.

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

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

Other than in our capacity as auditor and the provision of taxation advice and litigation support services prior to our appointment as auditors, we have no relationship with or interests in CBL Insurance Limited or any of its subsidiaries. These services have not impaired our independence as auditor of the Company and Group.

Opinion

In our opinion, the consolidated and separate financial statements on pages 3 to 58 present fairly, in all material respects, the financial position of CBL Insurance Limited and its subsidiaries as at 31 December 2015, and their financial performance and cash flows for the year then ended in accordance with New Zealand Equivalents to International Financial Reporting Standards and International Financial Reporting Standards.

Deloitte

Chartered Accountants
24 March 2016
Auckland, New Zealand

Statement of Comprehensive Income

For the year ended 31 December 2015

		Consolidated		Parent	
		2015	2014	2015	2014
	Note	$'000	$'000	$'000	$'000
Gross written premium		**216,277**	185,897	**216,277**	185,897
Movement in gross unearned premium		**(17,499)**	(14,386)	**(17,499)**	(14,386)
Gross premiums		**198,778**	171,511	**198,778**	171,511
Premiums ceded		**(2,424)**	(3,193)	**(2,424)**	(3,193)
Net premiums		**196,354**	168,318	**196,354**	168,318
Other revenue		**22,071**	18,369	**8,991**	2,022
	3	**218,425**	186,687	**205,345**	170,340
Claims expense	4	**(88,292)**	(109,731)	**(88,292)**	(109,731)
Reinsurance and other recoveries	4	**17,949**	40,192	**17,949**	40,192
Net claims expense		**(70,343)**	(69,539)	**(70,343)**	(69,539)
Acquisition costs	5	**(66,234)**	(57,615)	**(66,234)**	(57,615)
Other operating expenses	5	**(30,594)**	(26,000)	**(18,225)**	(14,578)
Operating profit		**51,254**	33,533	**50,543**	28,608
Finance costs	5	**(1,614)**	(1,163)	**-**	-
Other expenses	5	**-**	(4)	**-**	-
Foreign exchange gains/(losses)		**4,253**	(5,158)	**3,850**	(4,989)
Foreign exchange intergroup transfer	30	**(3,850)**	4,989	**(3,850)**	4,989
Share of profit from associate	13	**762**	384	**340**	178
Profit before tax		**50,805**	32,581	**50,883**	28,786
Income tax expense	7	**(12,939)**	(6,767)	**(12,149)**	(5,977)
Profit for the year		**37,866**	25,814	**38,734**	22,809
Other comprehensive income:					
Items that may be reclassified subsequently to profit or loss					
Net movement in foreign currency translation reserve		**228**	(452)	**-**	-
Other comprehensive income net of tax		**228**	(452)	**-**	-
Total comprehensive income for the year		**38,094**	25,362	**38,734**	22,809

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

Statement of Financial Position
As at 31 December 2015

		Consolidated		Parent	
		2015	2014	2015	2014
	Note	$'000	$'000	$'000	$'000
ASSETS					
Cash and cash equivalents	8	**257,103**	145,214	**248,014**	135,379
Other financial assets	9	**4,902**	19,323	**4,902**	19,323
Insurance receivables	10	**77,274**	62,389	**77,274**	62,389
Other receivables	10	**5,979**	12,243	**4,843**	11,146
Loans	10	**329**	-	**-**	-
Current tax receivable		**4,806**	2,183	**4,806**	2,183
Recoveries on outstanding claims	11	**74,711**	57,174	**74,711**	57,174
Deferred reinsurance expense	12	**2,486**	1,605	**2,486**	1,605
Deferred acquisition costs	12	**35,943**	35,488	**35,943**	35,488
Property, plant and equipment		**2,230**	1,156	**1,885**	901
Investments in subsidiaries and associates	13,14	**-**	992	**-**	496
Intangible assets	15	**3,695**	2,992	**1,331**	412
Goodwill	16	**30,154**	29,297	**-**	-
TOTAL ASSETS		**499,612**	370,056	**456,195**	326,496
LIABILITIES					
Other payables	17	**26,395**	25,347	**4,471**	5,586
Insurance payables	17	**10,678**	12,791	**4,143**	4,115
Current tax liabilities		**672**	440	**-**	-
Unearned premium liability	18	**105,808**	88,309	**105,808**	88,309
Employee benefits provision	19	**538**	345	**454**	294
Deferred tax liabilities	7	**9,558**	2,338	**9,558**	2,338
Outstanding claims liability	4	**206,596**	153,593	**206,595**	153,593
Borrowings	20	**7,962**	7,753	**-**	-
TOTAL LIABILITIES		**368,207**	290,916	**331,029**	254,235
NET ASSETS		**131,405**	79,140	**125,166**	72,261
EQUITY					
Share capital	21	**43,405**	23,405	**43,405**	23,405
Reserves	21	**(144)**	(372)	**-**	-
Retained earnings	21	**88,144**	56,107	**81,761**	48,856
TOTAL EQUITY		**131,405**	79,140	**125,166**	72,261

The financial statements were approved for issue by the Board on 24 March 2016.

....

Sir John Wells KNZM

Chairman

....

Peter Harris

Managing Director

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

Statement of Changes in Equity

For the year ended 31 December 2015

2015		Parent			
	Note	Share Capital $'000	Retained Earnings $'000	Reserves $'000	Total Equity $'000
Balance at 1 January 2015		**23,405**	**48,856**	**-**	**72,261**
Comprehensive income					
Profit for the year		**-**	**38,734**	**-**	**38,734**
Other comprehensive income					
Total comprehensive income		**-**	**38,734**	**-**	**38,734**
Transactions with shareholders					
Issue of shares	21	**20,000**	**-**	**-**	**20,000**
Dividends provided for or paid	24	**-**	**(5,829)**	**-**	**(5,829)**
Total transactions with shareholders		**20,000**	**32,905**	**-**	**52,905**
Balance at 31 December 2015		**43,405**	**81,761**	**-**	**125,166**

2014		Parent			
	Note	Share Capital $'000	Retained Earnings $'000	Reserves $'000	Total Equity $'000
Balance at 1 January 2014		18,000	28,970	-	46,970
Comprehensive income					
Profit for the year		-	22,809	-	22,809
Other comprehensive income					
Total comprehensive income		-	22,809	-	22,809
Transactions with shareholders					
Issue of shares	21	5,405	-	-	5,405
Dividends provided for or paid	24	-	(2,923)	-	(2,923)
Total transactions with shareholders		5,405	19,886	-	25,291
Balance at 31 December 2014		23,405	48,856	-	72,261

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

Statement of Changes in Equity

For the year ended 31 December 2015

2015		Consolidated			
	Note	Share Capital $'000	Retained Earnings $'000	Reserves $'000	Total Equity $'000
Balance at 1 January 2015		**23,405**	**56,107**	**(372)**	**79,140**
Comprehensive income					
Profit for the year		**-**	**37,866**	**-**	**37,866**
Other comprehensive income					
Currency translation differences		**-**	**-**	**228**	**228**
Total comprehensive income		**-**	**37,866**	**228**	**38,094**
Transactions with shareholders					
Issue of shares	21	**20,000**	**-**	**-**	**20,000**
Dividends provided for or paid	24	**-**	**(5,829)**	**-**	**(5,829)**
Total transactions with shareholders		**20,000**	**32,037**	**228**	**52,265**
Balance at 31 December 2015		**43,405**	**88,144**	**(144)**	**131,405**

2014		Consolidated			
	Note	Share Capital $'000	Retained Earnings $'000	Reserves $'000	Total Equity $'000
Balance at 1 January 2014		18,000	33,216	80	51,296
Comprehensive income					
Profit for the year		-	25,814	-	25,814
Other comprehensive income					
Currency translation differences		-	-	(452)	(452)
Total comprehensive income		-	25,814	(452)	25,362
Transactions with shareholders					
Issue of shares	21	5,405	-	-	5,405
Dividends provided for or paid	24	-	(2,923)	-	(2,923)
Total transactions with shareholders		5,405	22,891	(452)	27,844
Balance at 31 December 2014		23,405	56,107	(372)	79,140

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

Statement of Cash Flows

For the year ended 31 December 2015

		Consolidated		Parent	
		2015	2014	2015	2014
	Note	$'000	$'000	$'000	$'000
CASH FLOWS FROM/(TO) OPERATING ACTIVITIES:					
Premium received		**205,873**	189,146	**205,873**	189,146
Reinsurance and other recoveries received		**2,022**	900	**2,022**	900
Claims costs paid		**(41,151)**	(32,491)	**(41,151)**	(32,491)
Reinsurance premium expense paid		**(4,227)**	(2,213)	**(4,227)**	(2,213)
Dividends received		**-**	-	**3,756**	-
Interest received		**2,619**	1,421	**2,633**	1,532
Finance costs		**(726)**	(1,163)	**-**	-
Movements in security deposits held		**(3,918)**	(1,256)	**(3,918)**	(1,256)
Income tax paid		**(8,117)**	(8,892)	**(7,551)**	(7,518)
Other operating receipts		**18,381**	17,639	**2,601**	490
Commission paid		**(66,437)**	(60,146)	**(66,437)**	(62,501)
Other operating payments		**(27,079)**	(25,574)	**(15,069)**	(13,937)
Net cash flows from operating activities	8	**77,240**	77,371	**78,532**	72,152
CASH FLOWS FROM/(TO) INVESTING ACTIVITIES:					
Settlement of contingent consideration		**-**	(2,813)	**-**	-
Outlays for property and equipment		**(1,317)**	(240)	**(1,094)**	(33)
Payments for intangible assets		**(1,039)**	(79)	**(1,039)**	(79)
Net receipts/(payments) for financials assets		**23,929**	(19,311)	**23,916**	(19,311)
Movements in loans to non-related parties		**270**	-	**-**	-
Movements in loans with related parties		**(1,466)**	7,356	**(1,466)**	6,972
Net cash flows from investing activities		**20,377**	(15,087)	**20,317**	(12,451)
CASH FLOWS FROM/(TO) FINANCING ACTIVITIES:					
Repayments from borrowings		**-**	(668)	**-**	-
Dividends paid to equity holders		**(5,828)**	(2,924)	**(5,828)**	(2,924)
Issue of shares	21	**20,000**	5,405	**20,000**	5,405
Net cash flows from financing activities		**14,172**	1,813	**14,172**	2,481
Net movement in cash held		**111,789**	64,097	**113,021**	62,182
Effects of exchange rates on balances of cash held in foreign currencies		**99**	(4,989)	**(386)**	(4,181)
Cash and cash equivalents at start of year	8	**145,215**	86,107	**135,379**	77,378
Cash and cash equivalents at end of year	8	**257,103**	145,215	**248,014**	135,379

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

Notes to the Financial Statements
For the year ended 31 December 2015

1 Summary of significant accounting policies

(a) General information

CBL Insurance Limited (CBL Insurance, Parent or Company) incorporated on 19 April 1973, is a FMC Reporting Entity under the Financial Markets Conduct Act 2013 and is a company limited by shares, incorporated and domiciled in New Zealand. Its registered office is Level 8, 51 Shortland Street, Auckland 1010, New Zealand. This financial report is for the reporting year ended 31 December 2015 presenting separate financial statements for the Company as an individual entity and consolidated financial statements for the Company and its subsidiaries (the Group).

The Company is wholly owned by LBC Holdings New Zealand Limited. The ultimate parent entity is CBL Corporation Limited (CBL, or together with its subsidiaries the CBL Group) an entity incorporated in New Zealand.

The principal operating activities of the Group include:

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

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

This general purpose financial report was authorised by the Board of Directors for issue on 24 March 2016.

(b) Statement of compliance

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

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

(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 Group changed the classification of revenue earned by EISL in its capacity as a MGA where it does not take on insurance risk, to present revenue as the net amount of commissions earned. The reclassification was made as it is considered to better reflect the substance of the revenue earned by EISL in its capacity as an agent. The reclassification has no impact on reported profit for current or prior years however prior periods have been restated to ensure consistency of presentation. 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 (NZD). All values are rounded to the nearest thousand dollars ($'000) unless otherwise stated.

1 Summary of significant accounting policies (continued)

(c) Basis of preparation of the financial report (continued)

The Statement of Financial Position (SOFP) 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 noncurrent 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 noncurrent amounts, information regarding the amount of the 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 all subsidiaries as at the reporting date and the results of all subsidiaries for the period then ended as if the Group 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 Company has control over an investee, it is classified as a subsidiary. The Company controls an investee if all three of the following elements are present: power over the investee, exposure to variable returns from the investee, and the ability of the investor to use its power to affect those variable returns. Control is reassessed whenever facts and circumstances indicate that there may be a change in any of these elements of control.

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

Where a subsidiary is less than wholly owned, the equity interests held by external parties are presented separately as non-controlling interests in the consolidated SOFP and Statement of Comprehensive Income (SOCI).

(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 contain embedded derivatives or are 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.

1 Summary of significant accounting policies (continued)

(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. For practical purposes a proxy date for the date of the attachment of risk is, in some circumstances, the written date. The pattern of the risks underwritten is generally matched by the passing of time. Premium for unclosed business (business written close to the reporting date where the attachment of risk is prior to the reporting date and there is insufficient information to identify the business accurately) is brought to account based on previous experience with due allowance for any changes in the pattern of new business and renewals.

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

Premium receivable is recognised as the amount due at the point the insurer becomes on risk, and is normally settled between 30 days and 4 months. The recoverability of premium receivable is assessed and provision is made for impairment based on objective evidence and having regard to past default experience. Premium receivable is presented in the SOFP net of any provision for impairment.

(f) Outward reinsurance and premiums ceded

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

(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 added to allow for inherent uncertainty in the central estimate.

The expected future payments include those in relation to claims reported but not yet paid or not yet paid in full, claims incurred but not reported (IBNR) and the anticipated direct and indirect claims handling costs. 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 SOCI 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.

(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 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 SOFP.

1 Summary of significant accounting policies (continued)

(i) Acquisition costs

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

(k) Assets backing insurance business

The assets in the insurance entity backing general insurance liabilities are those assets required to cover the technical insurance liabilities (outstanding claims and unearned premium) plus an allowance for solvency. The assets held to back general insurance activities are carried at fair value through Profit or Loss. Assets in the insurance entity that do not back general insurance liabilities comprise property, plant and equipment.

SIGNIFICANT ACCOUNTING POLICIES APPLICABLE TO OTHER ACTIVITIES

(l) Fee and other income

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

Other income is recognised on an accrual 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 Profit or Loss on a straight line basis over the term of the leases. Operating lease incentives received are initially recognised as a liability, are presented as other payables, and are subsequently reduced through recognition in the Profit or Loss 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.

1 Summary of significant accounting policies (continued)

(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 Profit or Loss except to the extent that it relates to items recognised in Other Comprehensive Income (OCI), in which case the income tax is also recognised in OCI.

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

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

- Temporary differences if they arose in a transaction, other than a business combination, that at the time of the transaction did not affect either accounting profit or taxable profit or loss;

- 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 any Goods and Services Tax (GST) or Valued Added Tax (VAT) except:

- When the GST or VAT incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the GST or VAT 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 or VAT included.

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

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.

1 Summary of significant accounting policies (continued)

(o) Cash and cash equivalents (continued)

Cash and cash equivalents include bank balances held in trust by insurers on behalf of CBL Insurance for the purpose of settling potential future claims.

(p) Other financial assets

The valuation methodology for financial assets valued at fair value is summarised below:

- Cash assets and bank overdrafts are carried at face value of the amounts deposited or drawn;
- Fixed interest securities are initially recognised at cost, including transaction costs, on the date the Group commits to purchase the investment. The subsequent fair value is taken as the quoted bid price of the investment; and
- Unlisted fixed interest securities are recorded at fair value determined by appropriate valuation techniques.

The fair value of financial instruments classified as fair value through Profit or Loss is their quoted bid price at reporting date. Purchases and sales are accounted for on the trade date, and any realised net gains or losses upon sale are recognised in Profit or Loss excluding any interest or dividend income.

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. Costs incurred in investigating and evaluating an 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 SOCI.

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 SOFP 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.

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

1 Summary of significant accounting policies (continued)

(s) Other receivables

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

The recoverability of receivables is assessed on an ongoing basis and an allowance for impairment is established where there is objective evidence of impairment. Objective evidence that a financial asset is impaired includes default by a debtor, evidence that the debtor is likely to enter bankruptcy and adverse economic conditions in the stock exchange. Where a subsequent event causes the amount of the impairment loss to decrease (a payment receipt for example), the reduction in the allowance account (provision for impairment of receivables) is taken through Profit or Loss.

At the end of each reporting period, the Group assesses whether there is objective evidence that a financial asset has been impaired through the occurrence of a loss event. The impairment charge is recognised in Profit or Loss. Debts that are known to be uncollectable are written off.

Receivables with short durations are not discounted.

(t) 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.

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 tested for impairment at each reporting date, or more frequently if events or changes in circumstances indicate that they might be impaired. An impairment charge is recognised when the carrying value exceeds the calculated recoverable amount. Impairment charges are recognised in Profit or Loss 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, liabilities and contingent liabilities acquired and is subsequently presented net of any impairment charges.

Goodwill is allocated to cash generating units 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 Profit or Loss 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.

1 Summary of significant accounting policies (continued)

(u) Other payables

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

(v) Employee benefits

Employee benefits that the Parent and 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 Parent and Group recognise 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 Parent and Group anticipates that it will be used by staff to cover those future absences.

The Parent and 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.

(w) 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 method.

Finance costs include both contracted interest and amortisation of capitalised transaction costs - collectively the effective interest. Capitalised transaction costs are amortised over the life of the borrowings, or a shorter period if appropriate.

(x) 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 Parent or Group's Board of Directors.

1 Summary of significant accounting policies (continued)

(y) Financial instruments

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

Initial recognition and measurement

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

Initial 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 Profit or Loss immediately.

Classification and subsequent measurement

Financial instruments are subsequently measured at fair value or amortised cost using the effective interest method. Fair value represents the amount for which an asset could be sold or a liability transferred, 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 repayments;
- Plus 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 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 the adjustment recognised in Profit or Loss.

The classification of financial instruments depends on the purpose for which the instruments were acquired. Management determines the classification of its instruments at initial recognition and at the end of each reporting period.

(i) 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.

1 Summary of significant accounting policies (continued)

(y) Financial instruments (continued)

(ii) 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. 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.

(iii) Financial assets and liabilities at fair value through profit or loss

Financial assets and liabilities 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 and liabilities are subsequently measured at fair value with changes in carrying value being included in Profit or Loss.

(iv) Other financial liabilities

Non-derivative financial liabilities (excluding financial guarantees) are measured at amortised cost. Fees payable on the establishment of the loan facilities are initially capitalised and are amortised to Profit or Loss over the period of the loan.

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.

Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the SOFP 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.

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 Profit or Loss.

(z) Foreign currency transactions and balances

(i) Functional and presentation currency

The financial statements are presented in NZD, which is the presentation currency of the Parent and 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.

1 Summary of significant accounting policies (continued)

(z) Foreign currency transactions and balances (continued)

(ii) Transactions and balances

Transactions in foreign currencies are initially recorded in the functional currency at rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the reporting date. All differences are taken to Profit or Loss. 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 SOCI and SOFP of all the Group entities that have functional currencies different from the presentation currency are translated into the presentation currency as follows:

- Assets and liabilities are translated at the closing rate;
- Income and expenses for each SOCI item are translated at exchange rates prevailing at the dates of the transactions; and
- All resulting exchange differences are recognised in OCI as a separate component of equity.

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition are treated as assets and liabilities of the foreign operation and translated at the closing rate.

(aa) Adoption of new and revised accounting standards

In the current year, the Parent and Group have adopted all mandatory new and amended standards. The application of these new and amended standards has had no material impact on the amounts recognised or disclosed in the financial statements. The Parent and Group are not aware of any standards at issue but not yet effective (other than those listed below in accounting policy note (ab)) which would materially impact on the amounts recognised or disclosed in the financial statements. The Parent and Group intend to adopt when they become mandatory.

(ab) New accounting standards for application in future periods

The following standards, amendments and interpretations to existing standards have been published and are mandatory for the Parent and Group's accounting periods beginning after 1 January 2016 or later periods, and accordingly the Parent and Group have not yet adopted them. The Parent and Group expect to adopt the following new standards on the effective dates.

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

1 Summary of significant accounting policies (continued)

(ab) New accounting standards for application in future periods (continued)

statements.

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

- NZ IFRS 16 "Leases" is effective for reporting periods beginning on or after 1 January 2019. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract. NZ IFRS 16 eliminates the current dual accounting model for lessees, which distinguishes between on-balance sheet finance leases and off-balance sheet operating leases. Instead, there is a single, on-balance sheet accounting model that is similar to current finance lease accounting. Management has yet to perform a full assessment of the impact of this standard, however it is not expected to have a material impact on the financial statements.

(ac) 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 identifiable assets acquired (tangible and intangible) and the identifiable liabilities assumed (including contingent liabilities) based on their separate fair values determined at the acquisition date. Goodwill represents the excess of the purchase consideration over the fair value of the net identifiable assets and contingent liabilities acquired. If the cost of acquisition is less than the fair value of the net identifiable assets and contingent liabilities acquired, the difference is recognised immediately in Profit or Loss.

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

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

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 judgments, estimates and assumptions

The Parent and Group make 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.

2 Significant accounting judgments, estimates and assumptions (continued)

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

- Claims and claim recoveries, refer note 4;
- Liability adequacy test, refer to note 18(b);
- Acquired intangible assets' initial measurement and determination of useful life, refer to note 15; and
- Intangible assets and goodwill impairment testing, refer to notes 15 and 16.

Notes to the Financial Statements
For the year ended 31 December 2015

3 Analysis by key operating entities

31 December 2015	CBL Insurance $'000	EISL $'000	Other $'000	Total $'000
Gross written premium - as insurer				
Policyholders	13,306	-	-	13,306
Reinsurers	202,971	-	-	202,971
Gross written premium	216,277	-	-	216,277
Movement in gross unearned premium provision	(17,499)	-	-	(17,499)
Total gross premium earned - as insurer	198,778	-	-	198,778
Ceded premium - as insurer				
Written premium ceded	(2,657)	-	-	(2,657)
Movement in unearned ceded premium provision	233	-	-	233
Total earned premium ceded - as insurer	(2,424)	-	-	(2,424)
Total net earned premium - as insurer	196,354	-	-	196,354
Premium written and premium ceded - as MGA				
Gross written premium	-	51,563	-	51,563
Gross written premium ceded to insurers	-	(40,103)	-	(40,103)
Commission income	-	11,460	-	11,460
Investment income	2,633	40	-	2,673
Other operating revenue	6,358	5,313	(3,733)	7,938
Other revenue	8,991	5,353	(3,733)	10,611
Total revenue	205,345	16,813	(3,733)	218,425
Net claims expense	(70,343)	-	-	(70,343)
Acquisition costs	(66,234)	-	-	(66,234)
Underwriting and operating expenses	(18,225)	(11,997)	(372)	(30,594)
Operating profit/(loss)	50,543	4,816	(4,105)	51,254

Notes to the Financial Statements

For the year ended 31 December 2015

3 Analysis by key operating entities (continued)

31 December 2014	CBL Insurance $'000	EISL $'000	Other $'000	Total $'000
Gross written premium - as insurer				
Policyholders	12,264	-	-	12,264
Reinsurers	173,633	-	-	173,633
Gross written premium	185,897	-	-	185,897
Movement in gross unearned premium provision	(14,386)	-	-	(14,386)
Total gross premium earned - as insurer	171,511	-	-	171,511
Ceded premium - as insurer				
Written premium ceded	(2,795)	-	-	(2,795)
Movement in unearned ceded premium provision	(398)	-	-	(398)
Total earned premium ceded - as insurer	(3,193)	-	-	(3,193)
Total net earned premium - as insurer	168,318	-	-	168,318
Premium written and premium ceded - as MGA				
Gross written premium	-	53,982	3	53,985
Gross written premium ceded to insurers	-	(41,549)	-	(41,549)
Commission income	-	12,433	3	12,436
Investment income	1,532	2	(113)	1,421
Other operating revenue	490	3,406	616	4,512
Other revenue	2,022	3,408	503	5,933
Total revenue	170,340	15,841	506	186,687
Net claims expense	(69,539)	-	-	(69,539)
Acquisition costs	(57,615)	-	-	(57,615)
Underwriting and operating expenses	(14,578)	(10,757)	(665)	(26,000)
Operating profit/(loss)	28,608	5,084	(159)	33,533

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.

4 Claims (continued)

	Parent and Consolidated					
	Current year $'000	Prior years $'000	2015 Total $'000	Current year $'000	Prior years $'000	2014 Total $'000
Gross claims	**82,638**	**5,654**	**88,292**	72,372	37,359	109,731
Reinsurance and other recoveries	**(18,297)**	**348**	**(17,949)**	(13,674)	(26,518)	(40,192)
Net claims expense	**64,341**	**6,002**	**70,343**	58,698	10,841	69,539

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

The gross claims total of $88.3 million consists of $76.6 million (2014: $103.4 million) for business reinsured to CBL Insurance and the remaining balance relates to direct business.

The reinsurance and other recoveries total of $18.0 million consists of $17.1 million (2014: $39.7 million) for business reinsured to CBL Insurance and the remaining balance relates to direct business.

(b) Outstanding claims liability recognised in the SOFP

	Parent and Consolidated	
	2015 $'000	2014 $'000
(i) Composition of gross outstanding claims liability		
Gross central estimate - undiscounted	**182,288**	138,818
Claims handling costs	**9,838**	10,519
Risk margin	**23,883**	15,675
	216,009	165,012
Discount to present value	**(9,413)**	(11,419)
Gross outstanding claims liability - discounted	**206,596**	153,593

The outstanding claims liability includes $152.5 million (2014: $125.7 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).

Notes to the Financial Statements

For the year ended 31 December 2015

4 Claims (continued)

(ii) Reconciliation of movements in discounted outstanding claims liability

	Parent and Consolidated					
			2015			2014
	Gross	Recoveries	Net	Gross	Recoveries	Net
	$'000	$'000	$'000	$'000	$'000	$'000
Balance at the beginning of the financial year	**153,594**	**(57,174)**	**96,420**	84,915	(22,687)	62,228
Change in prior year claims reserve	**5,654**	**348**	**6,002**	37,359	(26,518)	10,841
Current year claims incurred	**82,638**	**(18,297)**	**64,341**	72,372	(13,674)	58,698
Claims paid during the year	**(40,996)**	**1,965**	**(39,031)**	(31,864)	1,175	(30,689)
Foreign exchange adjustment	**5,706**	**(1,553)**	**4,153**	(9,189)	4,530	(4,659)
Balance at the end of the financial year	**206,596**	**(74,711)**	**131,885**	153,593	(57,174)	96,419

(iii) Claims development

	2010 and prior	2011	2012	2013	2014	2015	Total
	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Net ultimate claims payments							
Development							
At end of underwriting year		10,880	17,007	42,743	50,372	51,634	172,636
One year later		11,379	20,569	41,880	48,160		121,988
Two years later		13,558	23,507	42,581			79,646
Three years later		15,505	23,156				38,661
Four years later		15,258					15,258
Five years later	48,034						48,034
Current estimate of net ultimate claims payments	48,034	15,258	23,156	42,581	48,160	51,634	228,823
Cumulative payments made to date							(125,474)
Net undiscounted outstanding claims payments							103,349
Discount to present value							(5,185)
Net discounted outstanding claims payments							98,164
Claims handling costs							9,838
Risk margin							23,883
Net outstanding claims liability							131,885

4 Claims (continued)

(iv) Central estimate and risk margin

	Consolidated	
	2015	**2014**
CBL Insurance	**%**	**%**
Risk margin percentage applied to the net outstanding claims liability	**20.30%**	18.40%
The probability of adequacy of the risk margin	**75.00%**	75.00%

(v) 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 claims and the anticipated direct and indirect claims handling costs.

The estimation process involves using the 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 2015, the outstanding claims liability for CBL Insurance was assessed by the appointed actuary and the appointed actuary was satisfied as to the nature, sufficiency and accuracy of the data used to determine the outstanding claims liability. The appointed actuary for CBL Insurance at 31 December 2015 is Paul Rhodes (Fellow of the New Zealand Society of Actuaries) of PricewaterhouseCoopers.

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 run-off

4 Claims (continued)

process, and risks external to the Group, 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 risk margin takes into account the volatility of each class of business. The current risk margin, which has been determined after assessing the inherent uncertainty in the central estimate and the prevailing market environment, results in an overall probability of adequacy for the outstanding claims liability of 75.0% for CBL Insurance (2014: 75.0%).

(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	CBL Insurance
2015	
Average term to settlement	**3.2 years**
Inflation rate	**2.50-3.50%**
Superimposed inflation rate	**0.00-2.50%**
Discount rate	**1.39%**
Claims handling costs ratio	**5.0%**
2014	
Average term to settlement	3.6 years
Inflation rate	2.50-3.50%
Superimposed inflation rate	0.00-2.50%
Discount rate	1.75%
Claims handling costs ratio	6.70%

Process used to determine assumptions:

(i) Average term to settlement

The 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 average term to settlement, while not itself an assumption, provides a summary indication of the future cash flow pattern.

(ii) Inflation and superimposed inflation rates

Insurance costs are subject to inflationary pressures. 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 appropriate for the applicable country.

4 Claims (continued)

(c) Actuarial Assumptions (continued)

(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 effects of changes in assumptions:

(i) Average term to settlement

A decrease in the 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.

(d) Sensitivity analysis of changes

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

Assumption	Movement in assumption	CBL Insurance Limited
2015		
Average term to settlement	**+10.0%**	**(94)**
	-10.0%	**94**
Inflation and superimposed inflation rate	**+1.0%**	**3,915**
	-1.0%	**(3,768)**
Discount rate	**+1.0%**	**(3,915)**
	-1.0%	**3,768**
Claims handling costs ratio	**+1.0%**	**1,968**
	-1.0%	**(1,968)**

Notes to the Financial Statements

For the year ended 31 December 2015

5 Analysis of expenses

		Consolidated		Parent	
		2015	2014	2015	2014
		$'000	$'000	$'000	$'000
(a) Acquisition costs					
Acquisition costs		**66,234**	57,615	**66,234**	57,615
(b) Other operating expenses					
Employee benefits expense		**15,159**	10,339	**5,989**	2,828
Directors fees		**459**	364	**459**	364
Depreciation		**250**	209	**114**	78
Amortisation and impairment	15	**411**	589	**120**	234
Operating lease payments		**669**	816	**290**	305
Auditors' remuneration	6	**912**	545	**505**	380
Doubtful debts		**79**	-	**79**	-
Other expenses		**12,655**	13,138	**10,669**	10,389
Total other operating expenses		**30,594**	26,000	**18,225**	14,578
(c) Other expenses					
Loss on disposal of assets		**-**	4	**-**	-
(d) Finance costs		**1,614**	1,163	**-**	-
Total expenses		**98,442**	84,782	**84,459**	72,193

Finance costs include:

- Interest on the Alpha Insurance A/S loan of $0.8 million (2014: $0.5 million);
- Interest on a loan from CBL of $0.4 million (2014: $0.2 million); and
- Interest on a loan from LBC Holdings UK Limited of $0.4 million (2014: $0.4 million).

6 Remuneration of auditors

	Consolidated		Parent	
	2015	2014	2015	2014
	$'000	$'000	$'000	$'000
Remuneration of the auditor of the parent entity, Deloitte, for:				
- auditing or reviewing the financial statements	**175**	-	**175**	-
- taxation services	**4**	-	**4**	-
- litigation support services	**21**	-	**21**	-
Remuneration of the auditor of the parent entity, Crowe Horwath, for:				
- auditing or reviewing the financial statements	**-**	147	**-**	147
- other services	**305**	233	**305**	233
Remuneration of the auditor of subsidiaries, Creaseys, for:				
- auditing or reviewing the financial statements*	**102**	136	**-**	-
- other services	**305**	29	**-**	-
- Total	**912**	545	**505**	380

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

7 Income tax

(a) Income tax expense

	Consolidated		Parent	
	2015	2014	2015	2014
	$'000	$'000	$'000	$'000
Current	**5,856**	7,113	**5,066**	6,323
Movement in deferred tax liability	**7,220**	(380)	**7,220**	(380)
(Over)/under provision in prior periods	**(137)**	34	**(137)**	34
Income tax expense	**12,939**	6,767	**12,149**	5,977

Notes to the Financial Statements
For the year ended 31 December 2015

7 Income tax (continued)

(b) Income tax reconciliation

	Consolidated		Parent	
	2015	2014	2015	2014
	$'000	$'000	$'000	$'000
Profit for the year before income tax	**50,805**	32,581	**50,883**	28,786
Income tax at the current rate of 28% (2014: 28%)	**14,226**	9,123	**14,247**	8,061
Amounts which are not deductible/ (taxable) in calculating taxable income:				
- non-assessable income	**(181)**	(183)	**(1,146)**	(78)
- non-deductible expenses	**225**	135	**170**	96
- foreign tax adjustment	**(335)**	(192)	**-**	-
- other	**126**	(14)	**-**	-
- tax losses offset from group companies	**(987)**	(2,136)	**(987)**	(2,136)
Income tax expense applicable to current year	**13,074**	6,733	**12,284**	5,943
Adjustment relating to prior year	**(135)**	34	**(135)**	34
Income tax expense	**12,939**	6,767	**12,149**	5,977

(c) Deferred tax liabilities

	Consolidated		Parent	
	2015	2014	2015	2014
	$'000	$'000	$'000	$'000
Composition				
Deferred acquisition costs	**10,064**	9,937	**10,064**	9,937
Insurance provisions	**-**	(7,280)	**-**	(7,280)
Employee benefits	**(442)**	(288)	**(442)**	(288)
Other	**(64)**	(31)	**(64)**	(31)
Total deferred tax liabilities	**9,558**	2,338	**9,558**	2,338

(d) Imputation credits

The imputation credits available for the Group amount to $21.0 million (2014: $16.0 million). Availability is subject to shareholder continuity.

Notes to the Financial Statements

For the year ended 31 December 2015

8 Cash flow information

(a) Composition of cash

		Consolidated		Parent	
		2015	2014	2015	2014
		$'000	$'000	$'000	$'000
Cash at bank and in hand		**203,754**	104,002	**194,665**	94,167
Short term bank deposits	17	**-**	899	**-**	899
Cash held in trust by insurers		**53,349**	40,313	**53,349**	40,313
Total cash and cash equivalents		**257,103**	145,214	**248,014**	135,379

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

Short term bank deposits consist of security deposits held by the Group on agents behalf. These funds are maintained in accounts that are separate from the normal trading accounts. Interest earned on these security deposits are 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	
	2015	2014	2015	2014
	$'000	$'000	$'000	$'000
Profit for the year	**37,866**	25,814	**38,734**	22,809
Cash flows excluded from profit attributable to operating activities				
Non-cash flows in profit:				
- depreciation of property, plant and equipment	**250**	209	**114**	78
- amortisation and impairment of intangibles	**411**	589	**120**	234
- movements in deferred tax	**7,220**	(380)	**7,220**	(380)
- Other	**(340)**	(414)	**(340)**	(287)
Movement in operating assets and liabilities:				
- increase in receivables	**(35,232)**	(32,155)	**(34,646)**	(31,525)
- increase in payables	**69,020**	80,303	**69,568**	78,036
- decrease in taxation	**(2,391)**	(1,585)	**(2,623)**	(1,001)
- foreign exchange movement in non-operating cash balances	**436**	4,990	**385**	4,188
Cash flow from operations	**77,240**	77,371	**78,532**	72,152

9 Other financial assets

	Consolidated		Parent	
	2015	2014	2015	2014
	$'000	$'000	$'000	$'000
Government and fixed interest securities	**4,902**	19,323	**4,902**	19,323
Total	**4,902**	19,323	**4,902**	19,323

At the prior year end term deposit investments included a term deposit of $19.3 million carrying interest at 6.0% per annum with an expiry date of 21 October 2019. The term deposit was withdrawn during the current year, with the agreement of the provider, and funds were subsequently deposited in an on-call account.

Fair value hierarchy

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

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

	Consolidated		Parent	
	2015	2014	2015	2014
	$'000	$'000	$'000	$'000
Level 1	**4,902**	-	**4,902**	-
Level 2	**-**	-	**-**	-
Level 3	**-**	-	**-**	-
Total investments carried at fair value through the profit and loss	**4,902**	-	**4,902**	-
Held to maturity	**-**	19,323	**-**	19,323
Total investments	**4,902**	19,323	**4,902**	19,323

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

Maturity analysis

	Consolidated		Parent	
	2015	2014	2015	2014
	$'000	$'000	$'000	$'000
Within 1 year or less	**4,902**	-	**4,902**	-
Within 3 to 5 years	**-**	19,323	**-**	19,323
Total	**4,902**	19,323	**4,902**	19,323

Notes to the Financial Statements

For the year ended 31 December 2015

10 Loans and receivables

	Note	Consolidated 2015 $'000	Consolidated 2014 $'000	Parent 2015 $'000	Parent 2014 $'000
(a) Insurance receivables		**77,274**	62,389	**77,274**	62,389
(b) Other receivables					
Fixed interest loan		**-**	8,407	**-**	8,407
Prepayments		**382**	288	**79**	94
Related party receivables	30	**3,683**	2,215	**3,683**	2,215
Other debtors		**1,914**	1,333	**1,081**	430
Total other receivables		**5,979**	12,243	**4,843**	11,146
(c) Loans					
Other loans		**329**	-	**-**	-
Total loans		**329**	-	**-**	-
Total loans and receivables		**83,582**	74,632	**82,117**	73,535
Analysed as:					
Current		**83,582**	66,226	**82,117**	65,128
Non-Current		**-**	8,407	**-**	8,407

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

11 Recoveries on outstanding claims

(a) Reinsurance and other recoveries receivable on outstanding claims

	Parent and Consolidated 2015 $'000	Parent and Consolidated 2014 $'000
Recoveries - undiscounted	**78,939**	62,225
Discount to present value	**(4,228)**	(5,051)
Recoveries - discounted	**74,711**	57,174

The carrying value of reinsurance recoveries and other recoveries includes $66.6 million (2014: $52.4 million) which is expected to be settled more than 12 months from the reporting date.

11 Recoveries on outstanding claims (continued)

(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.

12 Deferred insurance assets

(a) Deferred acquisition costs (DAC)

	Consolidated		Parent	
	2015	2014	2015	2014
	$'000	$'000	$'000	$'000
DAC at the beginning of the financial year	**35,488**	34,314	**35,488**	34,314
Acquisition costs deferred	**66,688**	58,789	**66,688**	58,789
Charged to profit	**(66,311)**	(58,025)	**(66,311)**	(58,025)
Movement in unexpired risk provision*	**78**	410	**78**	410
DAC at the end of the financial year	**35,943**	35,488	**35,943**	35,488
Analysed as:				
Current	**32,772**	31,968	**32,772**	31,968
Non-current	**3,171**	3,520	**3,171**	3,520

* For details regarding the unexpired risk provision refer to note 18(b).

On 30 June 2013 CBL Insurance entered into an agreement to acquire a book of reinsurance business from Risk Management South East Asia Pte Limited (RMSEA). The agreement resulted in a DAC of $15.5 million on 30 June 2013 which is charged straight line over 36 months. Included within the line Charged to profit is $5.2 million (2014: $5.2 million) relating to the charging of this DAC. At 31 December 2015 RMSEA DAC of $2.6 million is included within deferred acquisition costs in the SOFP and will be fully charged to Profit and Loss during the 2016 financial year.

Notes to the Financial Statements

For the year ended 31 December 2015

(b) Deferred reinsurance expense (DRE)

	Consolidated		Parent	
	2015	2014	2015	2014
	$'000	$'000	$'000	$'000
DRE at the beginning of the financial year	**1,605**	2,003	**1,605**	2,003
Reinsurance expenses deferred	**3,305**	2,795	**3,305**	2,795
Charged to profit	**(2,424)**	(3,193)	**(2,424)**	(3,193)
DRE at the end of the financial year	**2,486**	1,605	**2,486**	1,605
Analysed as:				
Current	**1,713**	1,349	**1,713**	1,349
Non-current	**773**	256	**773**	256

13 Investment in associates

		Group ownership interest		Parent ownership interest		
		2015	2014	2015	2014	
Name of company	**Principal Activity**	%	%	%	%	**Balance Date**
European Specialty Risks Limited (ESR)	Broker	-	46.1	-	23.1	30 June

ESR is an independent, London based insurance and reinsurance broker and a Lloyd's 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. In March 2015 the Group fully disposed of the 46.1% shareholding it had in ESR. The Group recorded a gain on this sale of $0.8 million, and the Parent recorded a gain on this sale of $0.3 million. The investment in ESR is as follows:

	Consolidated		Parent	
	2015	2014	2015	2014
	$'000	$'000	$'000	$'000
Share of associate's financial position				
Assets	-	1,659	-	829
Liabilities	-	(667)	-	(333)
Net assets	-	992	-	496
Share of associate's revenue and profit				
Revenue	**871**	2,115	**436**	1,058
Profit	**9**	384	**5**	178
Dividends received during the year	-	(91)	-	(45)
Carrying value of investment in associate	-	992	-	496

There are no capital or other commitments or contingent liabilities arising from the associate.

14 Investment in subsidiaries

The cost of investment in subsidiaries totals NZD $100 (one hundred dollars only).

The table below lists subsidiaries of CBL Insurance.

Name of company	Functional currency	Country of incorporation	Principal activity	Ownership interest 2015 %	Ownership interest 2014 %
CBL Insurance Pty Limited	AUD	Australia	Non-operating	**100**	100
Intercede 2408 Limited	EUR	United Kingdom	Holding Company	**100**	100
European Insurance Services Limited	EUR	United Kingdom	Underwriting Agent	**100**	100
EISL Iberia Limited	EUR	United Kingdom	Underwriting Agent	**100**	100
Sarl ACJN	EUR	France	Underwriting Agent	**100**	100

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

15 Intangible assets

(a) Composition

	Consolidated		Parent	
	2015 $'000	2014 $'000	2015 $'000	2014 $'000
Brand name				
Cost	**99**	99	**99**	99
Accumulated amortisation	**-**	-	**-**	-
Net carrying value	**99**	99	**99**	99
Computer software				
Cost	**2,152**	1,113	**2,152**	1,113
Accumulated amortisation	**(920)**	(800)	**(920)**	(800)
Net carrying value	**1,232**	313	**1,232**	313
Deferred profit commission				
Cost	**3,020**	2,935	**-**	-
Accumulated amortisation and impairment	**(656)**	(355)	**-**	-
Net carrying value	**2,364**	2,580	**-**	-
Total intangibles net carrying value	**3,695**	2,992	**1,331**	412

Notes to the Financial Statements

For the year ended 31 December 2015

15 Intangible assets (continued)

(b) Reconciliation of movements

	Consolidated			
	Brand names	Computer software	Deferred Profit Commission	Total
	$'000	$'000	$'000	$'000
Year ended 31 December 2015				
Balance at the beginning of the year	**99**	**313**	**2,580**	**2,992**
Additions	**-**	**1,039**	**-**	**1,039**
Amortisation	**-**	**(120)**	**(187)**	**(307)**
Impairment	**-**	**-**	**(104)**	**(104)**
Foreign exchange movements	**-**	**-**	**75**	**75**
Closing value at 31 December 2015	**99**	**1,232**	**2,364**	**3,695**
Year ended 31 December 2014				
Balance at the beginning of the year	99	468	3,180	3,747
Additions	-	79	-	79
Amortisation	-	(234)	-	(234)
Impairment	-	-	(355)	(355)
Foreign exchange movements	-	-	(245)	(245)
Closing value at 31 December 2014	99	313	2,580	2,992

	Parent		
	Brand names	Computer software	Total
	$'000	$'000	$'000
Year ended 31 December 2015			
Balance at the beginning of the year	**99**	**313**	**412**
Additions	**-**	**1,039**	**1,039**
Amortisation	**-**	**(120)**	**(120)**
Closing value at 31 December 2015	**99**	**1,232**	**1,331**
Year ended 31 December 2014			
Balance at the beginning of the year	99	468	567
Additions	-	79	79
Amortisation	-	(234)	(234)
Closing value at 31 December 2014	99	313	412

15 Intangible assets (continued)

(c) Explanatory notes for intangible assets

As at 31 December 2015, intangible assets were tested for impairment, and management has determined that no impairment is required in respect of the brand name and computer software intangible assets. For the deferred profit commission intangible an impairment has been calculated and the value of the asset has reduced.

The net foreign exchange movements arise as a result of the translation of the foreign denominated asset into the presentation currency of the Group.

Brand name:

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. This intangible asset is amortised by applying a 40% straight line approach.

Deferred profit commission:

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

When testing for impairment the recoverable amount of the deferred profit commission intangible has been determined based on a discounted cash flow calculation. This calculation uses cash flow projections based on expected future settlements of profit commissions taking into account the latest actuarially assessed loss ratios. A discount rate of 5.6% (2014: 5.7%) is used, the reduction is largely a result of a decrease in interest rates.

The impairment was triggered due to an increase in the loss ratio which is one of the profit commission calculation parameters. The impairment amount of $0.1 million (2014: $0.4 million) is included within the amortisation and impairment line in note 5.

.

16 Goodwill

(a) Composition

	Consolidated 2015 $'000	Consolidated 2014 $'000
Cost	**32,977**	32,977
Accumulated impairment losses	**-**	-
Foreign exchange movements	**(2,823)**	(3,680)
Net carrying value	**30,154**	29,297

(b) Reconciliation of movements

	Consolidated 2015 $'000	Consolidated 2014 $'000
Net carrying value at the start of the year	**29,297**	31,745
Additional through business combinations	**-**	-
Net foreign exchange movements	**857**	(2,448)
Net carrying value at the end of the year	**30,154**	29,297

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 5 year period which incorporates a 5% growth rate (2014: 10 year period, 5% growth rate). The previous year's cash flow period was for 10 years, however this has been adjusted in the current year to 5 years to align the cash flow period with other impairment assessments in the CBL Group. This change had no material impact on the impairment assessment.

Projected cash flows beyond the 5 years have been extrapolated using a steady average growth rate of 3.0% (2014: 3.0%). The growth rate does not exceed the long term average past growth rate of the business in which the cash-generating unit operates. Management determines budgeted profit based on past performance and its expectations for market development. A post-tax Group specific risk adjusted discount rate of 8.6% (2014: 8.7%) is used.

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;

16 Goodwill (continued)

- 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.

With regard to the assessment of value in use for the cash generating unit, management does not believe it is probable that a realistic adverse 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 2015 or 2014, as a result of the impairment reviews of the cash generating unit.

17 Payables

		Consolidated		Parent	
		2015	**2014**	**2015**	**2014**
	Note	**$'000**	**$'000**	**$'000**	**$'000**
(a) Insurance payables		**10,678**	12,791	**4,143**	4,115
(b) Other payables					
Related party balances	30	**19,042**	17,685	**245**	62
Security deposits	8(a)	**-**	899	**-**	899
Accrued expenses		**4,531**	2,593	**1,623**	1,273
Other payables		**2,822**	4,170	**2,603**	3,352
Total other payables		**26,395**	25,347	**4,471**	5,586
Total payables		**37,073**	38,138	**8,614**	9,701
Analysed as:					
Current		**16,014**	33,825	**6,824**	8,560
Non-current		**21,059**	4,315	**1,789**	1,142

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

Included within 'Related party balances' is an amount of $12.0 million (2014: $11.3 million) lent by LBC Holdings UK Ltd to Intercede 2408 Ltd and $6.8 million (2014: $6.4 million) lent by CBL to Intercede 2408 Ltd (refer to note 30).

18 Unearned premium liability

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

	Consolidated		Parent	
	2015	2014	2015	2014
	$'000	$'000	$'000	$'000
UPL at the start of the financial year	**88,309**	73,923	**88,309**	73,923
Premium written	**216,277**	185,897	**216,277**	185,897
Premium earned	**(198,778)**	(171,511)	**(198,778)**	(171,511)
UPL at the end of the financial year	**105,808**	88,309	**105,808**	88,309
Analysed as:				
Current	**101,496**	84,911	**101,496**	84,911
Non-current	**4,312**	3,398	**4,312**	3,398

(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 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 2015 identified a deficit of $0.1 million (2014: $0.2 million). The underlying components for the individual portfolios that have deficiencies are as follows:

- The unearned premium liability is $1.1 million (2014: $1.3 million);
- Deferred acquisition costs are $0.4 million (2014: $0.5 million); and
- The present value of expected future cash flows for future claims is $0.8 million (2014: $1.0 million) comprises the discounted central estimate of $0.7 million (2014: $0.9 million) and a risk margin of $0.1 million (2014: $1.0 million).

Accordingly, deferred acquisition costs have been written down by the movement in the deficit, refer to note 12(a).

19 Employee benefits

	Consolidated		Parent	
	2015	2014	2015	2014
	$'000	$'000	$'000	$'000
Annual leave	**510**	262	**454**	211
Other benefits	**28**	83	**-**	83
	538	345	**454**	294

Notes to the Financial Statements

For the year ended 31 December 2015

20 Borrowings

	Consolidated		Parent	
	2015	2014	2015	2014
	$'000	$'000	$'000	$'000
Fixed interest loan	**7,962**	7,753	**-**	-
Total	**7,962**	7,753	**-**	-
Analysed as:				
Current	**-**	-	**-**	-
Non-current	**7,962**	7,753	**-**	-

The borrowings are initially measured at fair value, net of transaction costs, but are subsequently measured at amortised cost.

The fixed interest loan is a loan from Alpha Insurance A/S. The balance as at 31 December 2015 is $8.0 million (2014: $7.8 million). On 21 December 2012 Alpha Insurance A/S lent 37.5 million Danish Krone to Intercede 2408 Limited. For the period to 30 September 2015 the loan was subject to a fixed interest rate of 6.0%. From 1 October 2015 the loan is subject to a fixed interest rate of 5.0%. The loan is unsecured and is scheduled to be redeemed on 1 November 2020.

21 Notes to the statement in changes in equity

(a) Share capital

Ordinary shares	2015 Number of shares in '000	2014 Number of shares in '000	2015 $'000	2014 $'000
	Parent and Consolidated			
Balance at the start of the financial year	**28,000**	26,000	**23,405**	18,000
Shares issued during the year	**10,600**	2,000	**20,000**	5,405
Balance at the end of the financial year	**38,600**	28,000	**43,405**	23,405

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

CBL Insurance issued 10,600,000 ordinary shares in 2015 for a total consideration of $20.0 million, to its parent LBC Holdings New Zealand Limited paid in cash.

CBL Insurance issued 2,000,000 ordinary shares in 2014 for a total consideration of $5.4 million, to its parent LBC Holdings New Zealand Limited paid in cash.

(b) Retained earnings

The directors have reviewed the total equity of the Parent and Group and considered it 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.

(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.

22 Commitments

(a) Capital commitments

The Group has entered into a contract amounting to $0.7 million (2014: $0.2 million) for enhancing the current insurance administration system.

(b) Operating lease commitments

The Group and Parent 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	
	2015	**2014**	**2015**	**2014**
	$'000	**$'000**	**$'000**	**$'000**
Due within one year	**1,067**	496	**869**	319
Due between one and five years	**3,850**	1,245	**3,651**	1,085
Due after five years	**167**	185	**167**	185
	5,084	1,926	**4,687**	1,589

(c) Security

On 17 April 2014, CBL, the ultimate parent of the Group, launched an initial bond offer through FIIG Securities Limited (FIIG), and raised A$55 million from wholesale investors. These loan notes are guaranteed by a number of members of the CBL Group, including Intercede 2408 Limited and EISL.

For the CBL issued fixed rate notes there are covenants with regards to group dividends. The Group has complied with all covenants in place throughout the reporting period.

As at 31 December 2015 there are no general security agreements over CBL Insurance's assets or guarantees given by CBL Insurance.

23 Contingent liabilities

Contingent liabilities are not recognised in the SOFP but are disclosed where settlement is less than probable but more than remote. If settlement becomes probable, a provision is recognised. The best estimate of the settlement is used in measuring a contingent liability for disclosure. At the year end there were no contingent liabilities (2014: nil).

Notes to the Financial Statements

For the year ended 31 December 2015

24 Dividends

Total amount $'000	Payment date	Tax rate for imputations	Percentage imputed
698	4 March 2014	28 %	100%
698	6 May 2014	28 %	100%
698	26 August 2014	28 %	100%
829	3 December 2014	28 %	100%
829	21 April 2015	28 %	100%
5,000	26 May 2016	28 %	100%

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 percentages of their holdings. The Company has one class of ordinary shares on issue.

25 General insurance business

Analysis of general insurance operating result

	Consolidated		Parent	
	2015	2014	2015	2014
	$'000	$'000	$'000	$'000
Premium revenue	**198,778**	171,511	**198,778**	171,511
Outwards reinsurance expense	**(2,424)**	(3,193)	**(2,424)**	(3,193)
Net premium income	**196,354**	168,318	**196,354**	168,318
Claims expense	**(88,292)**	(109,730)	**(88,292)**	(109,730)
Reinsurance recoveries	**17,949**	40,192	**17,949**	40,192
Net claims incurred	**(70,343)**	(69,538)	**(70,343)**	(69,538)
Acquisition costs	**(66,234)**	(57,615)	**(66,234)**	(57,615)
Underwriting expenses	**(18,225)**	(14,578)	**(18,225)**	(14,578)
Underwriting result	**41,552**	26,587	**41,552**	26,587

26 Insurance risk management

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

The Group is exposed to this risk because the price for a contract must be set before the losses relating to the product are known. Hence the insurance business involves inherent uncertainty. The Group also faces other risks relating to the conduct of the general insurance business including financial risks (note 27) and capital risks (note 28).

26 Insurance risk management (continued)

The Group principally issues the following types of general insurance contract: Builders' Risk products, Contractors and Construction Bonds, Travel Bonding, Lifestyle Protection, Lender Protection, Professional Indemnity, Motor and Rental Guarantee Bonds. The risks under these products are short term and usually less than 12 months. The Builders Risk insurance products usually have a notification period of between one and ten years after the risk period and the other insurance policies are typically notified within 12 months.

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

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

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

Initial claims determination is managed by the claims department, with the assistance, where appropriate, of a loss adjuster or other parties with specialist knowledge. It is the Group's policy to respond to and settle all genuine claims in a timely manner and to pay claims fairly, based on policyholders' full entitlements. Claims provisions are established using valuation models and include a risk margin for uncertainty, refer to note 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 recognised by taking expected inflation into account when estimating insurance contract liabilities.

(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. Catastrophe losses constitute the largest potential financial loss event. 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 of the insurance industry. Catastrophes that could affect the nature of business that the Group underwrites include financial crises and global market stresses. The nature and level of catastrophes in any period cannot be predicted accurately. The Group minimises this risk through its strong underwriting criteria, reinsurance and partnering with local experts. The Group has a history of low claims ratios, even when exposed to catastrophes such as financial crises and global market stresses.

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

26 Insurance risk management (continued)

	Consolidated				Parent			
	2015		2014		2015		2014	
	$'000	%	$'000	%	$'000	%	$'000	%
Gross Written Premium by region								
Australasia	13,306	6.1%	12,359	5.2%	13,306	6.1%	12,359	6.6%
Latin America	9,562	4.4%	(74)	- %	9,562	4.4%	(74)	- %
Middle East	5,186	2.4%	3,149	1.3%	5,186	2.4%	3,149	1.7%
South East Asia	5,117	2.4%	4,542	1.9%	5,117	2.4%	4,542	2.4%
Europe	183,106	84.7%	165,921	91.6%	183,106	84.7%	165,921	89.3%
Total	**216,277**		185,897		**216,277**		185,897	

(c) Operational risk

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

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

The CBL Group operates a number of governance committees including an Audit & Financial Risk Committee and a Governance and Remuneration Committee, both committees of the CBL Board, and also a management Underwriting Committee. In additional to oversight by the CBL Group governance committees, operating subsidiaries are also overseen by entity specific Boards and governance committees.

(d) Acquisition risk

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

27 Financial risk management

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

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

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

27 Financial risk management (continued)

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

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

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

(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 two types of risk: foreign exchange rates (currency risk), and market interest rates (interest rate 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 statements through two mechanisms:

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

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

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.

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 by the Group at the reporting date of an instantaneous 10.0% depreciation of the NZD at the reporting date compared with selected currencies, on profit before tax and equity is provided in the table below. An appreciation of the NZD would have predominantly the opposite impacts.

27 Financial risk management (continued)

	2015		2014	
	Impact on profit before tax	Impact on equity	Impact on profit before tax	Impact on equity
Currency	**$'000**	**$'000**	**$'000**	**$'000**
Euro +10%	**6,587**	**5,955**	5,339	5,339

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 risk, whereas fixed interest rate instruments expose the Group to fair value risk.

Interest rate risk arises primarily from related party loans.

	2015		2014	
	Impact on profit before tax	Impact on equity	Impact on profit before tax	Impact on equity
Change in variables	**$'000**	**$'000**	**$'000**	**$'000**
+1%	**735**	**735**	-	-

A decrease in the interest rate would have predominantly the opposite impact. 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.

(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 their financial obligations. The Group has exposure to credit risk in relation to cash and cash equivalents, other financial assets, insurance receivables, loans receivable and reinsurance and other recoverables. Credit risk also arises from dealings with insurance and reinsurance intermediaries.

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

- The Group restricts its credit risk exposure by entering into netting arrangements with counterparties with which it enters into significant volumes of transactions. The credit risk associated with such balances is reduced in the event of a default, when such balances are settled on a net basis;

- Underwriting guidelines determine when to obtain collateral and guarantees such as security deposits; and

27 Financial risk management (continued)

- Reinsurance is placed with counterparties that have a good credit history and concentration of risk is avoided by following guidelines in respect of counterparties' limits that are set by senior management and are subject to regular reviews. Management performs regular assessments 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 geographic 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 or when acting as reinsurer itself. If a reinsurer whom the Group has purchased protection from fails to pay a claim for any reason, the Group remains liable for the payment to the policyholder. The creditworthiness of reinsurers is considered by reviewing their financial strength prior to the finalisation of any contracts.

Concentrations of credit risk can exist where a number of counterparties have similar economic characteristics. At the reporting date, there are material concentrations of credit risk to the major banks in New Zealand and insurance counterparties. The level of reinsurance cover entered into with individual reinsurers is diversified to limit concentration risks.

Exposure:

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

(i) Premium and reinsurance recoveries on paid claims receivable

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 2015	Not overdue $'000	< 30 days $'000	30 to 120 days $'000	Overdue >120 days $'000	Total $'000
Premium receivable	63,915	12,136	672	248	76,971
Recoveries on paid claims	180	98	-	25	303
Net balance	**64,095**	**12,234**	**672**	**273**	**77,274**

31 December 2014	Not overdue $'000	< 30 days $'000	30 to 120 days $'000	Overdue >120 days $'000	Total $'000
Premium receivable	58,145	2,344	1,258	283	62,030
Recoveries on paid claims	34	147	70	108	359
Net balance	58,179	2,491	1,328	391	62,389

The total provision for impairment at the reporting date for receivables balances is nil (2014: nil).

During 2015 receivables determined as non-recoverable amounting to $0.1 million were written off (2014: nil).

27 Financial risk management (continued)

(ii) Reinsurance and other 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 both existing and future reinsurance contracts.

Having reinsurance protection with reputable reinsurers has benefits for the regulated insurers in terms of regulatory capital adequacy calculations. The risk charges vary with the grade of the reinsurer such that higher credit quality reinsurance counterparties incur lower regulatory capital charges.

Other recoveries are largely subrogation rights with respect to third parties whereby CBL Insurance has the right to recover in respect of insurance claims. Credit risk in respect of other recoveries is spread across a large number of third parties.

(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. The maximum exposure to credit risk loss as at the reporting date is the carrying amount of the cash and investments in the SOFP.

(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 2015 **Amounts in $'000**	**AAA**	**AA**	**A**	**BBB**	**Below BBB**	**Not rated**	**Total**
Other financial assets	**4,902**	**-**	**-**	**-**	**-**	**-**	**4,902**
Loans and receivables	**-**	**-**	**-**	**-**	**-**	**83,582**	**83,582**
Cash and cash equivalents	**-**	**214,557**	**21,090**	**363**	**-**	**21,093**	**257,103**
Total	**4,902**	**214,557**	**21,090**	**363**	**-**	**104,675**	**345,587**

31 December 2014 **Amounts in $'000**	**AAA**	**AA**	**A**	**BBB**	**Below BBB**	**Not rated**	**Total**
Other financial assets	-	-	-	-	-	19,323	19,323
Loans and receivables	-	-	-	-	-	74,633	74,633
Cash and cash equivalents	-	104,489	32,873	7,617	-	235	145,214
Total	-	104,489	32,873	7,617	-	94,191	239,170

(c) Liquidity risk

Nature of the risk and how it is managed:

27 Financial risk management (continued)

Liquidity risk is concerned with the risk of there being insufficient cash resources to meet payment obligations as they become due without affecting the daily operations or the financial condition of the Group. The liquidity position is derived from operating cash flows, investment portfolios and reinsurance arrangements.

Underwriting of insurance and reinsurance contracts exposes the Group to liquidity risk through the obligation to make payments of unknown amounts on unknown dates.

An additional source of liquidity risk for the Group relates to interest bearing liabilities.

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

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

- Contingency funding plans are in place to meet emergency payments.

Exposure:

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

		Payments due by period as of 31 December 2015				
31 December 2015 Amounts in $'000	**Carrying amount**	**0-1 yrs**	**1-3 yrs**	**3-5 yrs**	**>5 yrs**	**Total**
Other payables	**26,395**	**7,598**	**-**	**18,797**	**-**	**26,395**
Insurance liabilities	**10,678**	**10,135**	**284**	**259**	**-**	**10,678**
Outstanding claims liability	**206,596**	**54,061**	**58,996**	**41,749**	**51,790**	**206,596**
Borrowings	**7,962**	**398**	**796**	**8,759**	**-**	**9,953**
Total contractual obligations	**251,631**	**72,192**	**60,076**	**69,564**	**51,790**	**253,622**

		Payments due by period as of 31 December 2014				
31 December 2014 Amounts in $'000	**Carrying amount**	**0-1 yrs**	**1-3 yrs**	**3-5 yrs**	**>5 yrs**	**Total**
Other payables	25,349	25,347	-	-	-	25,347
Insurance liabilities	12,791	8,475	4,316	-	-	12,791
Outstanding claims liability	153,593	27,878	41,778	29,893	54,044	153,593
Borrowings	7,753	465	8,683	-	-	9,148
Total contractual obligations	199,486	62,165	54,777	29,893	54,044	200,879

28 Capital management

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

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

The operations of the Group are also subject to regulatory requirements within the jurisdictions in which it operates. Such regulations not only prescribe the approval and monitoring of activities, but also impose certain restrictive provisions (such as capital adequacy) to minimise the risk of default and insolvency on the part of the companies to meet unforeseen liabilities. 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 potential shortfalls between actual and required capital levels (by each regulated entity) on a regular basis and taking appropriate actions to influence the capital position of the Group in light of changes in economic conditions and risk characteristics.

(a) CBL Insurance

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

As at 31 December 2015 the actual solvency capital exceeds the minimum requirements by $44.0 million as shown below (2014: $19.1 million).

	2015 **$'000**	**2014** **$'000**
Actual solvency capital	**123,709**	68,274
Minimum solvency capital	**79,726**	49,203
Solvency margin	**43,983**	19,071
Solvency ratio	**155.2%**	138.8%

During the years ended 31 December 2015 and 31 December 2014 CBL Insurance complied with all regulatory capital requirements.

CBL Insurance has embedded in its capital management framework the necessary tests to ensure continuous compliance with the solvency standard.

(b) EISL

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

During the years ended 31 December 2015 and 31 December 2014 EISL complied with all regulatory capital requirements.

29 Insurer financial strength rating

As at the date of this report CBL Insurance has an insurer financial strength rating of B++ from A.M. Best, with a stable outlook (2014: B+, positive).

Notes to the Financial Statements

For the year ended 31 December 2015

30 Related party disclosures

(a) Related party balances

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

			Consolidated		Parent	
			Closing balance		Closing balance	
			2015	2014	2015	2014
Nature of relationship	Related party	Type of transaction	$'000	$'000	$'000	$'000
CBL Group entities						
	CBL Corporation Limited	Loan[1]	**(6,783)**	(6,359)	**-**	-
	LBC Holdings UK Limited	Loan[2]	**(12,014)**	(11,264)	**-**	-
	CBL Corporate Services Limited	Other Debtor[3]	**3,380**	2,206	**3,380**	2,206
Key management personnel						
Carden Mulholland	Deposit Power Pty Limited (Australia)	Premium	**303**	-	**303**	-
Adam Massingham	Brutus Management Limited	Fees payable	**(245)**	-	**(245)**	-
Other related parties (common shareholder or director)						
Alistair Hutchison	Federal Pacific Group Limited	Fees Payable	**-**	(62)	**-**	(62)
Alistair Hutchison	Federal Pacific Group Limited	Net insurance debtor	**-**	9	**-**	9

[1] Intercede 2408 Limited loan from CBL: Interest rate is aligned to the New Zealand OCR interest rates plus a margin. During the year the interest rate ranged between 6.5% to 7.0% (2014: 6.1% to 6.9%).

[2] Intercede 2408 Limited loan from LBC Holdings UK Limited: Interest rate is aligned to the Euro Libor interest rates plus a margin. During the year the interest rate ranged between 3.7% to 3.8% (2014: 3.7% to 3.9%). LBC Holdings UK Limited is 100% owned subsidiary of the ultimate parent of the CBL Group.

[3] The receivable from CBL Corporate Services Limited is a receivable within 90 days. The balance is non-interest bearing.

Notes to the Financial Statements

For the year ended 31 December 2015

30 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 Revenue / (expense) 2015 $'000	Consolidated Revenue / (expense) 2014 $'000	Parent Revenue / (expense) 2015 $'000	Parent Revenue / (expense) 2014 $'000
CBL Group entities						
	Intercede 2408 Limited	Loan interest	**-**	-	**-**	113
	CBL Corporation Limited	Loan interest	**(419)**	(174)	**-**	-
	LBC Holdings UK Limited	Loan interest	**(420)**	(444)	**-**	-
	CBL Corporate Services Limited	Foreign exchange transaction[1]	**(3,850)**	4,989	**(3,850)**	4,989
	European Insurance Services Limited	Profit commission	**-**	-	**(639)**	-
	LBC Holdings NZ Limited	Dividends paid	**(5,830)**	(2,924)	**(5,830)**	(2,942)
Key management personnel						
Carden Mulholland	Deposit Power Pty Limited (Australia)	Insurance contracts - premium	**10,412**	-	**10,412**	-
Carden Mulholland	Deposit Power Pty Limited (Australia)	Insurance contracts - costs	**(4,175)**	-	**(4,175)**	-
Adam Massingham	Brutus Management Limited	Fees	**(651)**	(370)	**(651)**	(370)
Other related parties (common shareholder or director)						
Peter Harris	Altares Limited	Fees	**(256)**	(1,594)	**(256)**	(1,594)
Peter Harris, Alistair Hutchison and Carden Mulholland	Dominion 114 Limited	Tax loss purchase	**-**	(584)	**-**	(584)
Alistair Hutchison	Federal Pacific Group Limited	Fees	**(100)**	(100)	**(100)**	(100)
Alistair Hutchison	Federal Pacific Group Limited	Insurance contracts	**46**	34	**46**	34
Peter Harris, Alistair Hutchison and Tony Hannon	General Capital Technologies Limited	Premium[2]	**14**	-	**14**	-

[1] During the year ended 31 December 2015 CBL Insurance entered into monthly agreements with CBL Corporate Services Limited (CCS) to manage its exposure to foreign exchange. Each month CBL Insurance's foreign exchange gain or loss is transferred to CCS and cash settled within 90 days. CCS is a wholly owned member of the CBL Group.

[2] During the year ended 31 December 2015 CBL Insurance issued a security bond with a $0.8 million limit on behalf of General Capital Technologies Limited (General Capital). Tony Hannon is a director of General Capital, and both Peter Harris and Alistair Hutchison have beneficial interests in General Capital

30 Related party disclosures (continued)

(all of whom are directors of CBL Insurance). Peter Harris, Alistair Hutchison and Tony Hannon provided security in favour of CBL Insurance in respect to the bond. The bond expires on 23 November 2018.

(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	
	2015	2014	2015	2014
	$'000	$'000	$'000	$'000
Salaries and other short term employee benefits	**6,569**	5,006	**4,077**	3,397
Independent directors fees	**574**	497	**405**	364
Total	**7,143**	5,503	**4,482**	3,761

31 Financial instruments

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

Consolidated **31 December 2015** **Amounts in $'000**	**Fair value through profit or loss**	**Loans and receivables**	**Held to maturity**	**Financial liabilities at amortised cost**	**Total**
Cash and cash equivalents	**257,103**	**-**	**-**	**-**	**257,103**
Other financial assets	**4,902**	**-**	**-**	**-**	**4,902**
Insurance receivables	**-**	**77,274**	**-**	**-**	**77,274**
Other receivables	**-**	**5,979**	**-**	**-**	**5,979**
Loans	**-**	**329**	**-**	**-**	**329**
Other payables	**-**	**-**	**-**	**(26,395)**	**(26,395)**
Insurance payables	**-**	**-**	**-**	**(10,678)**	**(10,678)**
Borrowings	**-**	**-**	**-**	**(7,962)**	**(7,962)**
Total	**262,005**	**83,582**	**-**	**(45,035)**	**300,552**

Consolidated **31 December 2014** **Amounts in $'000**	Fair value through profit or loss	Loans and receivables	Held to maturity	Financial liabilities at amortised cost	Total
Cash and cash equivalents	145,214	-	-	-	145,214
Other financial assets	-	-	19,323	-	19,323
Insurance receivables	-	62,389	-	-	62,389
Other receivables	-	12,243	-	-	12,243
Other payables	-	-	-	(25,347)	(25,347)
Insurance payables	-	-	-	(12,791)	(12,791)
Borrowings	-	-	-	(7,753)	(7,753)
Total	145,214	74,632	19,323	(45,891)	193,278

31 Financial instruments (continued)

Parent
31 December 2015

Amounts in $'000	Fair value through profit or loss	Loans and receivables	Held to maturity	Financial liabilities at amortised cost	Total
Cash and cash equivalents	**248,014**	**-**	**-**	**-**	**248,014**
Other financial assets	**4,902**	**-**	**-**	**-**	**4,902**
Insurance receivables	**-**	**77,274**	**-**	**-**	**77,274**
Other receivables	**-**	**4,843**	**-**	**-**	**4,843**
Other payables	**-**	**-**	**-**	**(4,471)**	**(4,471)**
Insurance payables	**-**	**-**	**-**	**(4,143)**	**(4,143)**
Total	**252,916**	**82,117**	**-**	**(8,614)**	**326,419**

Parent
31 December 2014

Amounts in $'000	Fair value through profit or loss	Loans and receivables	Held to maturity	Financial liabilities at amortised cost	Total
Cash and cash equivalents	135,379	-	-	-	135,379
Other financial assets	-	-	19,323	-	19,323
Insurance receivables	-	62,389	-	-	62,389
Other receivables	-	11,146	-	-	11,146
Other payables	-	-	-	(5,586)	(5,586)
Insurance payables	-	-	-	(4,115)	(4,115)
Total	135,379	73,535	19,323	(9,701)	218,536

32 Events after the end of the reporting period

As at the date of adoption of these financial statements there have been no reportable events occurring after the balance sheet date.

Corporate Directory
For the year ended 31 December 2015

Date of incorporation
19 April 1973

Director	Position	Appointed
Sir John Wells KNZM	Independent Chairman	27 September 2012
Alistair Hutchison	Deputy Chairman, Director	24 December 2008
Peter Harris	Executive Director	13 December 2006
Anthony (Tony) Hannon	Independent Director	25 August 2011
Ian Marsh	Independent Director	19 December 2012
Norman (Paul) Donaldson	Independent Director	9 June 2015

Registered office and principal place of business
Level 8, Tower 1
Shortland Centre
51 Shortland Street
Auckland 1010
New Zealand

Auditors
Deloitte (New Zealand)
Creaseys (United Kingdom)